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# Annual Securities Report

Fiscal year	From March 1, 2022
(The 65th)	to February 28, 2023

MORESCO Corporation

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[Document Filed]	Annual Securities Report (“Yukashoken Hokokusho”)
[Applicable Law]	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Submit to]	Director, Kinki Local Finance Bureau
[Reporting Date]	May 30, 2023
[Fiscal Year]	The 65th Term (from March 1, 2022 to February 28, 2023)
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## Part I. Company Information

### I. Company Overview

#### 1. Key Financial Data and Trends

##### (1) Consolidated Management Indicators

Fiscal year		61st	62nd	63rd	64th	65th
Year end		February 2019	February 2020	February 2021	February 2022	February 2023
Net sales	(Millions of yen)	28,806	27,064	24,479	27,300	30,333
Ordinary profit	(Millions of yen)	2,202	1,568	1,030	2,011	1,046
Profit attributable to owners of parent	(Millions of yen)	1,438	776	518	1,808	615
Comprehensive income	(Millions of yen)	1,172	953	683	2,848	1,353
Net assets	(Millions of yen)	17,775	18,209	18,163	20,551	21,240
Total assets	(Millions of yen)	28,256	28,129	27,707	29,008	32,017
Net assets per share	(Yen)	1,637.29	1,659.74	1,695.81	1,914.94	2,008.49
Earnings per share	(Yen)	148.85	80.91	54.09	192.76	66.19
Diluted earnings per share	(Yen)	—	—	—	—	—
Capital adequacy ratio	(%)	55.6	56.6	57.4	61.9	57.9
Rate of return on equity	(%)	9.3	4.9	3.3	10.7	3.4
Price-earnings ratio	(Times)	10.4	13.7	20.9	5.8	17.4
Cash flows from operating activities	(Millions of yen)	2,599	1,771	2,088	2,333	515
Cash flows from investing activities	(Millions of yen)	(2,060)	(1,589)	(660)	603	(1,172)
Cash flows from financing activities	(Millions of yen)	(949)	78	(1,019)	(2,937)	1,227
Cash and cash equivalents at the end of period	(Millions of yen)	2,930	3,213	3,675	3,654	4,186
Number of employees	(Persons)	765	777	791	787	784

- Notes:
1. Diluted earnings per share are not stated as there are no dilutive shares.
  2. Starting from the beginning of the consolidated fiscal year under review, the Company has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. Therefore, the major management indicators of the consolidated fiscal year under review are the figures after the said accounting standard has been applied.

## (2) Non-consolidated Management Indicators

Fiscal year		61st	62nd	63rd	64th	65th
Year end		February 2019	February 2020	February 2021	February 2022	February 2023
Net sales	(Millions of yen)	17,813	16,874	14,961	16,288	17,162
Ordinary profit	(Millions of yen)	1,268	961	642	1,284	1,004
Profit (loss)	(Millions of yen)	1,048	719	(63)	1,650	856
Capital stock	(Millions of yen)	2,118	2,118	2,118	2,118	2,118
Total number of issued shares	(Thousands of shares)	9,697	9,697	9,697	9,697	9,697
Net assets	(Millions of yen)	11,329	11,578	10,904	12,138	12,474
Total assets	(Millions of yen)	19,551	19,666	18,614	17,955	20,200
Net assets per share	(Yen)	1,181.15	1,206.19	1,163.00	1,294.05	1,351.83
Dividend per share (Interim dividend per share)	(Yen)	50.00 (25.00)	50.00 (25.00)	40.00 (15.00)	40.00 (20.00)	40.00 (20.00)
Earnings (loss) per share	(Yen)	108.46	74.95	(6.63)	175.92	92.15
Diluted earnings per share	(Yen)	—	—	—	—	—
Capital adequacy ratio	(%)	57.9	58.9	58.6	67.6	61.8
Rate of return on equity	(%)	9.4	6.3	—	14.3	7.0
Price-earnings ratio	(Times)	14.3	14.7	—	6.3	12.5
Payout ratio	(%)	46.1	66.7	—	22.7	43.4
Number of employees	(Persons)	375	377	391	384	381
Total shareholder return (Comparison: Dividend-included TOPIX)	(%) (%)	85.7 (92.9)	64.6 (89.5)	68.1 (113.2)	69.3 (117.0)	73.4 (127.0)
Highest share price	(Yen)	2,026	1,557	1,271	1,282	1,279
Lowest share price	(Yen)	1,331	1,102	730	1,050	1,021

- Notes:
1. Diluted earnings per share are not stated as there are no dilutive shares.
  2. Dividend per share for the 61st term includes a commemorative dividend (the 60th anniversary of the company) of 5 yen.
  3. Rate of return on equity of the 63rd term is not stated because a net loss was recorded for the year.
  4. Price-earnings ratio and payout ratio for the 63rd term are not stated because net loss per share was recorded for the year.
  5. Highest and lowest share prices are those on the Tokyo Stock Exchange (Prime Market) from April 4, 2022, and those on the Tokyo Stock Exchange (First Section) before that.
  6. Starting from the beginning of the fiscal year under review, the Company has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. Therefore, the major management indicators of the fiscal year under review are the figures after the said accounting standard has been applied.

## 2. Corporate History

Date	Event
November 1995	Research laboratory (origin of the Company) established in the Shinkawa Plant of Matsumura Oil Corporation.
October 1958	The research laboratory separated from Matsumura Oil Corporation to establish the Company.
December 1959	Head Office and Nishinomiya Plant constructed in Nishinomiya City, Hyogo, to develop and manufacture specialty lubricants, such as high vacuum pump oil, and synthetic lubricants
March 1962	Developed water glycol fire-resistant hydraulic fluid HYDOL H-200 and 300
December 1965	Chiba Plant built in Ichihara City, Chiba, to start mass production of liquid paraffin and petroleum sulfonates
March 1971	Tokyo Sales Office opened in Chuo-ku, Tokyo
March 1973	MATSUKEN CO., LTD. (currently consolidated subsidiary) established
November 1980	Nagoya Sales Office opened in Higashi-ku, Nagoya City
September 1986	Akoh Plant built in Akoh City, Hyogo, to start mass production of hot melt adhesives
November 1990	Akoh Plant second construction: lubricating oil production line completed
March 1992	MORESCO TECHNO CO., LTD. (now consolidated subsidiary) established
March 1994	MORESCO SERVICE Co., Ltd. established
June 1995	MORESCO (Thailand) Co., Ltd. (now consolidated subsidiary) established in Chonburi, Thailand
September 1998	Acquired ISO 9001 international quality standard certification
January 2001	Head Office and Research Center relocated to Chuo-ku, Kobe
March 2001	Akoh Plant third construction: lubricant distillation equipment and other facilities transferred from Nishinomiya Plant (Nishinomiya plant site was sold due to expropriation)
March 2001	Wuxi More Tex Technology Co., Ltd. (now equity method affiliate) established in Wuxi City, China, as a joint venture with a Taiwanese firm
November 2001	MORESCO Hommachi Bldg. built in Chuo-ku, Osaka, to which Osaka Branch relocated
February 2003	MORESCO Holding (Thailand) Co., Ltd. (now consolidated subsidiary) established in Chonburi, Thailand
November 2003	Stock registered with the Japan Securities Dealers Association
December 2004	Cancelled over-the-counter registration with the Japan Securities Dealers Association, and listed on JASDAQ market
September 2005	Nagoya Sales Office relocated to Naka-ku, Nagoya City
February 2006	Acquired ISO 14001 international environmental standard certification
May 2006	MORESCO USA Inc. (now consolidated subsidiary) established in Michigan, USA
July 2008	Listed on the Tokyo Stock Exchange Second Section
May 2009	Moresco Cn. Trustexporter. Com. established in Wuxi City, China
August 2009	Acquired business related to manufacturing and sales of die casting lubricants from HANANO Corporation
September 2009	Changed trade name from Matsumura Oil Research Corp. to MORESCO Corporation
September 2009	Succeeded the lubricant business of MATSUKEN CO., LTD. (now consolidated subsidiary) through an absorption-type company split
February 2010	Made MORESCO HANANO DIE-CASTING COATING (SHANGHAI) CO., LTD. (now consolidated subsidiary) in Shanghai, China, a consolidated subsidiary
March 2010	Made Ethylene Chemical Co., Ltd. (now consolidated subsidiary) an equity method affiliate
February 2011	Listed on the Tokyo Stock Exchange First Section
June 2011	PT.MORESCO INDONESIA (now consolidated subsidiary) established in Karawang, Indonesia
September 2011	Made Ethylene Chemical Co., Ltd.(now consolidated subsidiary) a consolidated subsidiary from an equity method affiliate
January 2012	PT.MORESCO MACRO ADHESIVE (now consolidated subsidiary) established in Jakarta, Indonesia
August 2013	Acquired business related to manufacturing and sales of die casting fluids and lubricants for hot forging from NICCA Chemical Co., Ltd.
March 2014	TIANJIN MORESCO TECHNOLOGY CO., LTD. (now consolidated subsidiary) established in Tianjin, China

Date	Event
August 2015	Tokyo Branch relocated to Minato-ku, Tokyo
October 2015	Second R&D building constructed at the Head Office Research Center site
November 2015	Changed trade name of Moresco. Cn. Trustexporter. Com. to WUXI MORESCO TRADING CO., LTD. (now consolidated subsidiary)
February 2017	MORESCO HM&LUB INDIA PRIVATE LIMITED (now consolidated subsidiary) established in Ahmedabad, Gujarat, India
September 2017	Absorbed MORESCO SERVICE Co., Ltd., a consolidated subsidiary
November 2017	Nagoya Sales Office relocated to Naka-ku, Nagoya City
May 2020	Became a company with an audit and supervisory committee
April 2021	Sold MORESCO Hommachi Bldg.
May 2021	Tokyo Branch relocated to Minato-ku, Tokyo
March 2022	MORESCO (ZHEJIANG) FUNCTION MATERIAL CO., LTD. (now consolidated subsidiary) established in Haining, China
April 2022	Listed on the Tokyo Stock Exchange Prime Market
November 2022	MORESCO TRADING (ZHEJIANG) CO., LTD. (now consolidated subsidiary) established in Haining, China

### 3. Business Line

The MORESCO Group consists of the Company (MORESCO Corporation), 14 consolidated subsidiaries, and two equity method affiliates. The main business is manufacture and sales of chemical products (specialty lubricants, synthetic lubricants, liquid paraffin & sulfonates, hot melt adhesives, energy device materials), and the major products are as follows:

[Specialty Lubricants]

High vacuum pump oil, fire-resistant hydraulic fluid, die casting fluids, lubricant for hot forging, cutting fluids, brake fluids and antifreeze for automobiles, heat transfer medium

[Synthetic Lubricants]

High temperature lubricating oil, hard disk surface lubricant, radiation resistant lubricating oil

[Liquid Paraffin & Sulfonates]

Liquid paraffin, sulfonate

[Hot melt adhesives]

Hot melt adhesives

[Energy device materials]

Organic EL sealant, gas & water vapor transmittance measurement device

The Group consists of four reportable segments organized by region, based on manufacturing and sales structures: Japan, China, Southeast/South Asia, and North America.

In Japan, the Company is engaged in manufacture and sales of major products. Ethylene Chemical Co., Ltd. is engaged in manufacture and sales of brake fluids and antifreeze for automobiles.

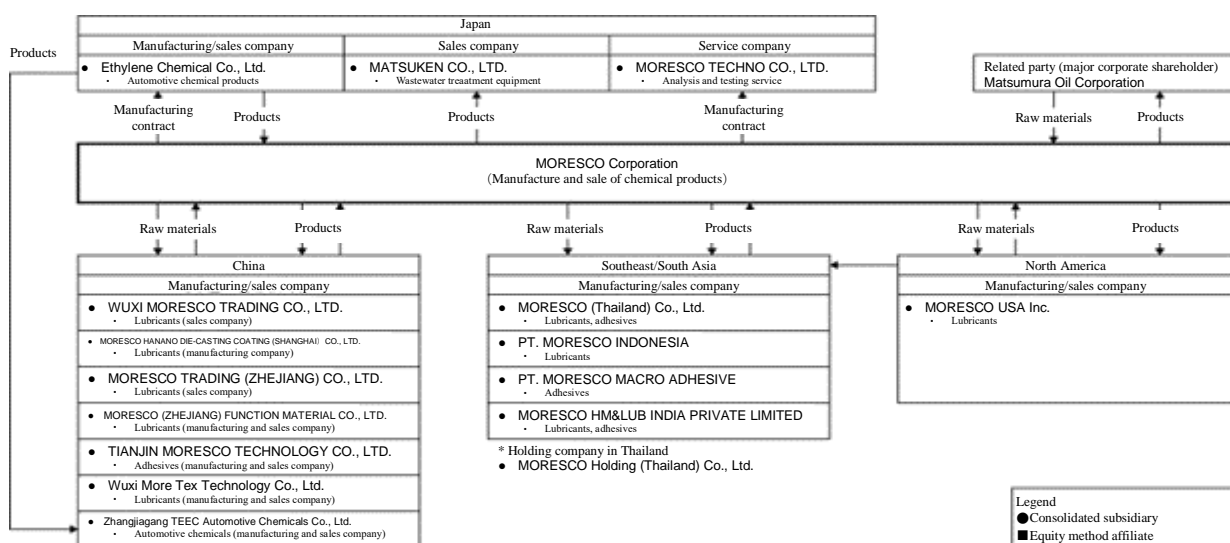
In China, Wuxi More Tex Technology Co., Ltd. and MORESCO HANANO DIE-CASTING COATING (SHANGHAI) CO., LTD. manufacture specialty lubricants, and WUXI MORESCO TRADING CO., LTD. and MORESCO TRADING (ZHEJIANG) CO., LTD. sell them. TIANJIN MORESCO TECHNOLOGY CO., LTD. manufactures and sells hot melt adhesives. MORESCO (ZHEJIANG) FUNCTION MATERIAL CO., LTD. is building a plant for manufacture and sales of specialty lubricants.

In Southeast/South Asia, MORESCO (Thailand) Co., Ltd. manufactures and sells specialty lubricants and imports and sells hot melt adhesives. In Indonesia, PT.MORESCO INDONESIA manufactures and sells specialty lubricants, and PT.MORESCO MACRO ADHESIVE manufactures and sells hot melt adhesives. In India, MORESCO HM&LUB INDIA PRIVATE LIMITED manufactures and sells specialty lubricants and hot melt adhesives.

In North America, MORESCO USA Inc. manufactures and sells specialty lubricants and synthetic lubricants in the United States.

[Business organization diagram]

The business organization diagram below shows the Group's businesses described above.





#### 4. Information on Subsidiaries and Affiliates

Name	Address	Capital stock	Main business	Ownership of voting rights (%)	Relationship
(Consolidated subsidiaries)					
MATSUKEN CO., LTD.	Chuo-ku, Osaka	20 million yen	Sales and export of wastewater treatment equipment and agents	100.0	Selling the wastewater treatment agents manufactured by the Company. Concurrent officers Officers of the Company: 2 Renting the office.
MORESCO TECHNO CO., LTD	Chuo-ku, Kobe	10 million yen	Analysis and testing	100.0	Conducting lubricant control (testing and analysis) of fluids manufactured and sold by the Company Concurrent officers Officers of the Company: 1 Employees of the Company: 2 Renting a part of the office and analytical equipment
Ethylene Chemical Co., Ltd.	Ichihara, Chiba	90 million yen	Manufacture, sales, and export of heat transfer media and automotive chemical products	60.9	Producing the Company's heat transfer media and lubricants for hot forging Concurrent officers None
MORESCO(Thailand) Co.,Ltd.	Thailand Chonburi	17.5 million Thai baht	Manufacture, sales, and import/export of lubricants, and import and sales of hot melt adhesives	99.2 (51.2) (Note 1)	Engaging in licensed production and sales of the Company's lubricants Concurrent officers Officers of the Company: 1 Employees of the Company: 1
MORESCO Holding (Thailand)Co.,Ltd.	Thailand Chonburi	2 million Thai baht	Investment	90.6 (9.2) (Note 1)	Holding company in Thailand Concurrent officers Officers of the Company: 1 Employees of the Company: 1
MORESCO USA Inc.	United States Fountain Inn, South Carolina	10 USD	Manufacture, sales, and import/export of lubricants	100.0	Engaging in licensed production and sales of the Company's lubricants Concurrent officers Officers of the Company: 1 Employees of the Company: 1
WUXI MORESCO TRADING CO., LTD. (Note 5)	China Wuxi, Jiangsu Province	100 million yen	Sales and import/export of lubricants, and import/export of materials for the products	100.0	Engaging in sales of the Company's lubricants under license by MORESCO HANANO DIE-CASTING COATING (SHANGHAI) CO., LTD. and Wuxi More Tex Technology Co., Ltd. Concurrent officers Employees of the Company: 3
MORESCO HANANO DIE-CASTING COATING (SHANGHAI) CO., LTD.	China Shanghai	1 million USD	Manufacture of die casting fluids	78.0	Engaging in licensed production of the Company's die casting fluids Concurrent officers Employees of the Company: 3
MORESCO TRADING (ZHEJIANG) CO., LTD. (Note 3)	China Haining	—	Sales and import/export of lubricants and sealants, and import/export of materials for the products	100.0	Engaging in sales of the Company's lubricants under license by MORESCO HANANO DIE-CASTING COATING (SHANGHAI) CO., LTD. and Wuxi More Tex Technology Co., Ltd. Concurrent officers Employees of the Company: 3
MORESCO (ZHEJIANG) FUNCTION MATERIAL CO., LTD. (Notes 2, 4)	China Haining	6 million USD	Development, manufacture, sales, and import/export of lubricants and sealants	100.0	Planned to be engaged in licensed production and sales of lubricants of the Company Concurrent officers Employees of the Company: 3
TIANJIN MORESCO TECHNOLOGY CO., LTD. (Note 2)	China Tianjin	10 million USD	Manufacture, sales, and import/export of hot melt adhesives	100.0	Engaging in licensed production and sales of the Company's hot melt adhesives Concurrent officers Officers of the Company: 1 Employees of the Company: 2
PT.MORESCO INDONESIA (Note 2)	Indonesia Karawang	3.5 million USD	Manufacture, sales, and import/export of lubricants	51.0	Engaging in licensed production and sales of the Company's lubricants Concurrent officers Officers of the Company: 2
PT.MORESCO MACRO ADHESIVE (Note 2)	Indonesia Jakarta	3 million USD	Manufacture, sales, and import/export of hot melt adhesives	51.0	Engaging in licensed production and sales of the Company's hot melt adhesives Concurrent officers Officers of the Company: 1 Employees of the Company: 2

Name	Address	Capital stock	Main business	Ownership of voting rights (%)	Relationship
MORESCO HM&LUB INDIA PRIVATE LIMITED (Note 2)  (Equity method affiliates)	India Ahmedabad, Gujarat	600 million Indian rupee	Manufacture, sales, and import/export of hot melt adhesives and lubricants	100.0 (10.0) (Note 1)	Engaging in licensed production and sales of the Company's lubricants and hot melt adhesives Concurrent officers Officers of the Company: 1 Employees of the Company: 1
Wuxi More Tex Technology Co., Ltd.	China Wuxi, Jiangsu Province	3 million USD	Manufacture of lubricants	50.0	Engaging in licensed production and sales of the Company's lubricants and hot melt adhesives Concurrent officers Officers of the Company: 2 Employees of the Company: 1
Zhangjiagang TEEC Automotive Chemicals Co., Ltd.	China Zhangjiagang, Jiangsu Province	5 million USD	Manufacture and sales of automotive chemical products	25.0 (25.0) (Note 1)	—

- (Notes)
- Figures in brackets represent the percentage of indirect ownership included in Ownership of voting rights.
  - Indicates companies classified as specified subsidiaries.
  - MORESCO TRADING (ZHEJIANG) CO., LTD. was established on November 30, 2022. Although it had no paid-up capital as of February 28, 2023, its registered capital is 10 million Chinese yuan.
  - MORESCO (ZHEJIANG) FUNCTION MATERIAL CO., LTD. was established on March 23, 2022. The figure presented for Capital of the company is the amount of paid-up capital as of February 28, 2023, and the amount of its registered capital is USD 12 million.
  - Net sales of WUXI MORESCO TRADING CO., LTD. (excluding internal sales between consolidated companies) account for over 10% of consolidated net sales. Major profit and loss figures are as follows:
    - Net sales: 3,186 million yen
    - Ordinary profit: 358 million yen
    - Profit: 260 million yen
    - Net assets: 1,341 million yen
    - Total assets: 2,127 million yen

## 5. Employees

### (1) Consolidated companies

As of February 28, 2023

Segment	Number of employees (persons)
Japan	466
China	107
Southeast/South Asia	201
North America	10
Total	784

(Notes) 1. The number of employees represents the number of full-time employees.

### (2) Information on the reporting company

As of February 28, 2023

Number of employees (persons)	Average age (years old)	Average length of service (years)	Average annual salary (yen)
381	43.5	14.0	6,973,544

(Notes) 1. The number of employees represents the number of full-time employees.

2. Average annual salary includes bonuses and non-standard wages.

3. All of the above employees belong to the Japan segment.

### (3) Labor unions

The MORESCO Group's labor unions in Japan are MORESCO Labor Union and MATSUKEN Labor Union. Employees of MORESCO Corporation (including those seconded to subsidiaries or affiliates) belong to MORESCO Labor Union, and employees of MATSUKEN CO., LTD. belong to MATSUKEN Labor Union. MORESCO Labor Union has branches at all business locations, and the union's headquarters is located at the Head Office of the Company. As of February 28, 2023, MORESCO Labor Union had 271 members and MATSUKEN Labor Union had 16 members. None of the MORESCO Group's labor unions are members of any superior body. Some of the overseas consolidated companies have labor unions. The labor-management relationship is stable and there are no special matters to be noted.

## II Business Overview

### 1. Management Policy, Business Environment, Issues to Be Addressed, etc.

Matters discussed in relation to the future reflect the judgment of the MORESCO Group as of the end of the consolidated fiscal year under review.

#### (1) Management policy

Under the management philosophy of “R&D for users,” the MORESCO Group has contributed to our society by satisfying customer needs in the field of interface science (friction, abrasion, etc. that occurs at contact points between things). The current Medium-Term Management Plan (FY2021 to FY2023) upholds the five Medium-Term Corporate Policies below:

1. Make the best use of the Group’s resources and contribute to the realization of a sustainable society.
2. Leverage our strength in both sales and development to increase the added value of our business and to accelerate expansion to new business areas.
3. Strengthen our manufacturing competitiveness through continuous technological innovation, reducing manufacturing costs and improving quality.
4. Improve operational efficiency through drastic business process re-engineering in the back office and promote MORESCO’s working style reforms.
5. Have a high awareness of compliance risks and increase the trust of stakeholders.

#### (2) Business environment, management strategy, and priority business and financial issues to be addressed

In Japan, as the spread of COVID-19 is coming to an end, recovery can be expected in social and economic activities. In the world, on the other hand, the Russian invasion of Ukraine, which broke out in February last year, has shown no signs of settlement after more than a year, and the future outlook remains uncertain. The instability in the financial conditions of the U.S. and Europe, as well as the significant rising trend of prices in Japan, make the economic situation unclear, requiring careful attention.

Prices of raw materials, which had continued to rise since the second half of the year before last, are becoming stable at the moment. We will continue to reflect material price rises in selling prices with the aim of securing profits.

Aiming for improving the added value of its business and realizing a sustainable society, under the MORESCO Group Sustainability Policy established in 2022, as well as the Management Vision below, the Company expressed its endorsement of the TCFD recommendations in November 2022 and has actively disclosed information on activities toward realization of a carbon-neutral society.

### **MORESCO Group delivers sustainable one-of-a-kind products Contributing to a Bright Future as a Specialist in Interface Science**

In the environment-related field, as part of the efforts to promote a circular economy, we promote initiatives for new businesses tailored to a sustainable society, such as increasing the recovery/recycling rate of fire-resistant hydraulic fluids and extending product life by introducing monitoring systems. We are advancing the development of hot melt adhesives containing plant-derived resin, which have been certified as biomass products, and low VOC Hot Melt Adhesive, which contributes to reducing environmental impact, thereby contributing to realization of a sustainable society.

In the energy device field, we are promoting the development of gas & water vapor transmittance measurement devices for the food packaging and hydrogen energy fields. By the end of fiscal 2023, we are planning to launch a transmittance measurement device specialized in hydrogen, as a contribution to realization of a hydrogen-based society. Organic Photovoltaics (OPV) are flexible and a light film-type solar battery. Because OPV are semi-transparent and excellent in design, we are promoting their installation at commercial facilities, research institutes, public organizations and government offices. Energy stored in OPV is clean renewable energy with CO<sub>2</sub> emissions substantially reduced. We also engage in material development with universities and are working to increase sales of OPV mainly for companies as an environment-friendly device.

In the life science field, taking advantage of organic synthetic technology, our strength, we are advancing joint research and development of new chemicals that control autophagy. We also have the technique to make poorly water-soluble active ingredients water-soluble using our patented nano-emulsification technology so as to promote absorption of the ingredients from skins and the intestine. We are continuously working to have the technology employed by major cosmetic companies, etc.

Overseas, in addition to the Executive Officer in charge of China, we have appointed Executive Officers in charge of North America and Southeast/South Asia, with the aim of enhancing capabilities to capture the needs and develop new products in each region.

In research and development, we have established a structure for product development to promptly respond to customer needs in each market. For the future, we will promote “ambidexterity” research and development, capable of responding to social issues by synchronizing existing technologies and new technologies, through collaborations across Divisions and partnerships with overseas subsidiaries and universities.

The Company has been recognized as a Certified Health and Productivity Management Organization (in the large enterprise category) for three consecutive years from 2021 to 2023. Considering the employees’ health as a part of the company’s assets, we will continue to provide the maximum possible support for promotion of health, placing the highest priority on a good work-life balance and the mental health of employees.

(3) Objective indicators for determining achievement status of management goals

In fiscal 2023, the final year of the 9th Medium-Term Management Plan (FY2021 to FY2023), the targets have been set as follows.

	FY2022 (Result)	FY2023 (Plan)
Net sales (millions of yen)	30,333	34,500
Operating profit (millions of yen)	523	1,400
Ordinary profit (millions of yen)	1,046	1,600
Profit attributable to owners of parent (millions of yen)	615	700
Ordinary profit margin (%)	3.4%	4.6%

## 2. Business and Other Risks

Of the matters concerning the business overview and accounting condition, etc. stated in the Annual Securities Report, the matters that the management recognizes as major risks that may have a significant impact on the financial position, operating results, and cash flows of consolidated companies are as follows:

Matters discussed in relation to the future reflect the judgment of the MORESCO Group as of the end of the consolidated fiscal year under review.

(1) Business expansion in overseas market

The MORESCO Group has established overseas subsidiaries in China, Thailand, Indonesia, the United States, and India as production and sales bases to promote overseas businesses. The Group's overseas sales, mainly from the Asian region, such as China and Southeast Asia, are 10,484 million yen in fiscal year ended February 2022 and 11,492 million yen in fiscal year ended February 2023, with a ratio to the consolidated net sales of 38.4% and 37.9%, respectively. Fluctuations in the economic condition and the value of currencies, occurrence of disasters and infectious diseases, changes in laws and regulations, and other variable factors in these overseas markets may have an impact on the business performance and financial position of the Group.

(2) Climate change

The MORESCO Group sees climate change as an important issue in management and recognizes that the risks and opportunities associated with climate change have a significant impact on its business strategies.

Regarding climate-related risks, we recognize the transition risks, such as the rise in costs and changes in market, and the physical risks, such as supply chain-related risk, as the risks with a high degree of materiality and probability.

Meanwhile, the Group also sees climate change not only as a risk but also as an opportunity. We will operate our businesses while balancing the realization of a sustainable society and the improvement of our corporate value in the medium to long term, and we will further contribute to solving social issues and environmental issues, thereby proactively tackling the sustainability issues.

(3) Risks related to manufacturing of products

i) Risks associated with natural disasters, pandemics, accidents, etc.

The MORESCO Group has production sites both inside and outside Japan and is therefore greatly responsible for ensuring stable supply. If a large-scale natural disaster, a pandemic, or an accident occurs and makes it difficult for these sites to supply products, it may affect the Group's business performance and financial condition.

ii) Concentration on specific production sites

[Synthetic Lubricants]

The Company owns the synthesis equipment for production of high-temperature lubricating oils at the Akoh Plant and the equipment for production of hard disk surface lubricants at the Head Office and Research Center. If a serious trouble occurs at the plant or the Head Office and then the operation of the equipment is suspended for a long period of time, it may temporarily stop the supply of products. The amount of stock is for about 1.0 months.

(Liquid Paraffin & Sulfonates)

The Company produces liquid paraffin and its joint product sulfonate by the sulfuric acid refining method. The advantage of the sulfuric acid refining method is that sulfonate can be produced as a joint product, while the disadvantage is that waste sulfuric acid is generated in the production process. The Company has established an integrated production line (closed system) covering all processes, including disposal of waste sulfuric acid, in which the plant is directly connected by a pipeline to an adjacent waste sulfuric acid recycling company. However, since disposal of waste sulfuric acid is performed with equipment of another company, any change in the plant of the said company, such as transfer or downsizing of the plant or modification of equipment, may have an impact on the production capacity of our Liquid Paraffin & Sulfonates division.

In addition, the Company produces liquid paraffin and sulfonate only at the Chiba Plant. If a serious problem occurs at the plant and then the plant's operation is suspended for a long period of time, the supply of products may temporarily stop. The amount of stock at the plant is for about 1.0 months.

In response to these risks related to manufacturing of products, the MORESCO Group has taken initiatives to avoid the occurrence of the risks and minimize the damage if they occur, such as formulating a business continuity plan for each site, carrying out periodic maintenance and inspection of equipment, and conducting disaster drills.

- (4) **Product quality**  
 The MORESCO Group strives to maintain and improve the quality and reliability of its products in accordance with strict internal quality assurance criteria, including acquisition of ISO 9001 certification. However, it is impossible to completely eliminate all the risks related to quality defects, and there is a risk of a lawsuit, etc. if an unexpected defect arises. In the event that a quality assurance problem arises with a product of the Group, it will generate costs for compensation and undermine the reliability of the product, leading to a loss of customers, which may eventually affect the business performance of the Group. Although the MORESCO Group has insurance against product liability claims, there is no guarantee that the final amount of compensation to be paid will be completely covered. Therefore, product defects may affect the business performance and financial position of the Group.
- (5) **Risks associated with purchase of raw materials**  
 The MORESCO Group's products are mainly made from lubricants, petrochemicals, and chemical products. These materials are affected by fluctuations in prices of crude oil and naphtha. The crude oil and naphtha prices may continue to significantly fluctuate due to the supply-demand trends in Japan or overseas. In the Great East Japan Earthquake, the manufacturing plants of the raw materials were damaged, which affected our production. Similarly, there is a possibility in the future that a disaster or an accident resulting in supply disruption or consolidation/elimination of businesses on the supplier side may interrupt our procurement of raw materials.  
 The Group has responded to the impact of fluctuations of raw material prices by revising prices of the products linked to crude oil and naphtha prices through negotiations with the major customers of specialty lubricants. We will continue to reflect the price rises in the product prices while also working to reduce costs and promote a shift to high value-added products. To secure necessary raw materials, we will take measures such as securing suppliers on a global level and diversifying the materials we use. However, if these measures do not sufficiently work, it may affect the business performance of the Group.
- (6) **Risks related to research and development**  
 The MORESCO Group believes that the development of new products contribute to the improvement of profitability and the future growth of the Group, under which we have been investing a large amount of our resources in new product development. In particular, the 9th Medium-Term Management Plan, which started in FY2021, declares "contributing to the realization of a sustainable society" and "increasing the added value of our business and accelerating expansion to new business areas" in the Corporate Policies, and it focuses on the environment, information, energy devices, and life science as the four priority fields for the Group's research and development.  
 Under these policies, the R&D department and sales divisions keep close contact with each other and work to properly identify the market needs and achieve research results as soon as possible by using internal and external networks (people, technologies, etc.). However, if we fail to obtain appropriate profits in return for the investment made, it may affect the business performance and financial position of the Group.
- (7) **Patent application**  
 Our basic policy is to apply for patents for all new technologies that the Group has developed. However, for patents related to a production method, etc. of which infringement is difficult to find or patents related to specialty lubricants, etc. of which blending know-how may be leaked to competitors if the composition is disclosed in patents, we may refrain from filing an application to protect confidentiality. This means that if a competitor applies for a patent on any of the matters above, the patent may be granted. In preparation for such a situation, the Company has decided to keep records of the implementation of such matters within the company so that we will be able to claim a non-exclusive license based on the right of prior use.
- (8) **Legal regulations**  
 Major legal regulations and administrative guidance that regulate products and business sites of the Company are as follows. New laws, regulations, ordinances, etc. or revisions thereto may have an impact on the business performance of the Group.
- Act on the Regulation of Manufacture and Evaluation of Chemical Substances
  - Industrial Safety and Health Act
  - Fire Service Act
  - Water Pollution Prevention Act
  - Act on Waste Management and Public Cleansing
  - Act on the Prevention of Disaster at Petroleum Industrial Complexes and Other Petroleum Facilities
- Due to the growing public awareness of environmental issues, additional revisions to the Water Pollution Prevention Act and the Act on Waste Management and Public Cleansing are likely. If regulations on disposal of waste and water from our plants are tightened, the development of a method for internal treatment within plants and the investment in equipment for waste water treatment will become necessary, which may affect the business performance and the financial position of the Group.

(9) Risks related to compliance

The MORESCO Group has established the Compliance Policy, aiming to ensure that all the employees and executives engage in corporate activities in accordance with the Management Philosophy and the MORESCO Corporate Behavior Charter and thereby become a company supported by its stakeholders. Based on this Policy, systems to ensure compliance have been developed and promoted. We also work to maintain and improve the compliance systems by conducting internal audits on our Group companies.

If a serious violation of a law or regulation occurs despite these efforts, it may deteriorate our social credibility, etc. and affect the business performance and financial position of the Group

(10) Information security

In recent years, many cases of leakage of information owned by companies have occurred due to cyber attacks, unauthorized access, computer virus infection, etc. The Company is working to prevent the leakage by implementing measures such as establishing the Information Security Policy and related regulations, introducing products with information security measures applied, and providing information security education programs for both executives and regular employees.

However, if leakage of information occurs due to an unexpected situation, it may deteriorate our social credibility, etc. and affect the business performance and financial position of the Group.

(11) Risks related to valuation of inventories

The Company applies the Accounting Standard for Measurement of Inventories. If we determine that our profitability has declined due to a rapid change in the market environment or other reason and record a valuation loss on the inventories we hold, it may affect the business performance and financial position of the Group.

(12) Risks related to impairment loss on fixed assets

The Company applies the Accounting Standard for Impairment of Fixed Assets. If an impairment loss is recorded on our fixed assets due to a decline in profitability as a result of significant deterioration of the business environment or a fall of market prices, etc., it may affect the business performance and the financial position of the Group.

3. Analysis of Financial Position, Operating Results, and Cash Flows by Management

(1) Overview of operation results

The overview of the financial position, operating results, and cash flows (hereinafter, “the operating results, etc.”) of the MORESCO GROUP (the Company and its consolidated subsidiaries and equity method affiliates) of the consolidated fiscal year under review is as follows:

i) Financial position and operating results

During the consolidated fiscal year under review, the Japanese economy was on a recovery trend due to recovery in consumer spending and other factors. In the world economy, amid rising inflationary pressures, the United States and European countries shifted to tightening their monetary policies. Under such financial condition, the dollar-yen exchange rate wildly fluctuated. In China, the economy was depressed by the strict restrictions on movement under the zero-COVID policy and the confusion due to the rapid spread of infection after the end of the policy.

Under these circumstances, our financial position and operating results of the fiscal year under review are as follows.

a. Financial position

Total assets as of the end of the fiscal year under review were 32,017 million yen, an increase of 3,009 million yen from the end of the previous consolidated fiscal year. This was mainly due to increases of 752 million yen in trade receivables, 979 million yen in inventories, and 537 million yen in investments and other assets.

Liabilities increased by 2,321 million yen from the end of the previous consolidated fiscal year to 10,778 million yen. This was mainly due to increases of 836 million yen in trade payables and 1,822 million yen in short-term borrowings and a decrease of 244 million yen in income taxes payable.

Net assets increased by 688 million yen from the end of the previous consolidated fiscal year to 21,240 yen. This was mainly due to increases of 242 million yen in retained earnings and 373 million yen in foreign currency translation adjustment.

b. Operating results

Net sales of the consolidated fiscal year under review were 30,333 million yen, a 11.1% increase year on year, due to the adjustment of selling prices in line with the soaring raw material prices. However, due to a time lag in adjustment of selling prices, both operating profit and ordinary profit decreased to 523 million yen (down 63.5% year on year) and 1,046 million yen (down 48.0% year on year), respectively. In addition, partly due to the non-existence of an extraordinary income item of the previous fiscal year (gain on sale of non-current assets of 833 million yen), profit attributable to owners of parent decreased by 66.0% year on year to 615 million yen.

Operating results by segment are as follows.

#### Japan

Overall, revenues increased due to the correction of selling prices. The status of sales by business sector is as follows.

In the Specialty Lubricants sector, although the volume of automobile production in Japan exceeded the level of the previous year, our sales volume decreased from the previous year due to the impact of a decrease in production volume of major customers. In the Hot Melt Adhesive sector, sales volume increased from the previous year due to acquisition of new orders for adhesive applications, in addition to the stable performance of the mainstay products for hygiene materials. In the Liquid Paraffin & Sulfonates sector, the sales volume of products for polystyrene plasticizers decreased due to the impact of a large-scale periodic repair, etc. at customer plants. In the Synthetic Lubricants sector, sales of both high-temperature lubricating oils and hard disk surface lubricants declined from the previous year due to the impact of inventory adjustment at customers and the impact of a slowdown in investment at data centers, respectively.

As a result of the above, net sales to external customers of this segment were 19,637 million yen (up 6.8% year on year), but segment profit was 33 million yen (down 96.0% year on year) due to the impact of soaring raw material prices, etc.

#### China

Sales of Specialty Lubricants increased due to the correction of selling prices and the weakening of the yen. Sales of Hot Melt Adhesive decreased as demand for use for air purifier filters slowed down.

As a result, net sales to external customers of this segment were 3,814 million yen (up 5.2% year on year), but segment profit was 311 million yen (down 28.2% year on year) due mainly to the impact of soaring raw material prices.

#### Southeast/South Asia

The sales volume of Specialty Lubricants increased from the previous fiscal year due to recovery in demand, and revenues also increased due to the correction of selling prices and the weakening of the yen. Sales of Hot Melt Adhesive increased due to increases in the volume in India and Indonesia.

As a result, net sales to external customers of this segment were 5,870 million yen (up 30.4% year on year) with segment profit of 123 million yen (up 42.7% year on year).

#### North America

Although the volume decreased due mainly to the impact of a decline in the operating rate of Japanese automobile manufacturers in Mexico, sales increased due to the correction of selling prices and the weakening of the yen.

As a result, net sales to external customers of this segment were 1,011 million yen (up 28.1% year on year), but segment profit was 87 million yen (down 18.6%) due to the impact of soaring raw material prices, etc.

#### ii) Cash flows

Cash and cash equivalents at the end of the consolidated fiscal year under review increased by 532 million yen from the end of the previous consolidated fiscal year to 4,186 million yen. Cash flow conditions are as follows.

Net cash provided by operating activities was 515 million yen (net cash provided of 2,333 million yen in the previous year). This is mainly due to profit before income taxes.

Net cash used in investing activities was 1,172 million yen (net cash provided of 603 million yen in the previous year). This is mainly due to purchase of property, plant and equipment.

Net cash provided by financing activities was 1,227 million yen (net cash used of 2,937 million yen in the previous year). This is mainly due to a net increase in short-term borrowings.

#### iii) Production, orders, and sales results

##### a. Production results

Production results for the consolidated fiscal year under review by segment are as follows:

Segment	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)	Year-on-year change (%)
Japan (millions of yen)	18,366	108.7
China (millions of yen)	2,754	90.4
Southeast/South Asia (millions of yen)	6,870	118.9
North America (millions of yen)	272	123.0
Total (millions of yen)	28,261	108.9

(Note) Amounts are calculated based on selling prices.

##### b. Order results

Since the MORESCO Group's chemicals business is mainly make-to-stock production, order results are not stated.

##### c. Sales results

Sales results for the consolidated fiscal year under review by segment are as follows:



Segment	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)	Year-on-year change (%)
Japan (millions of yen)	19,637	106.8
China (millions of yen)	3,814	105.2
Southeast/South Asia (millions of yen)	5,870	130.4
North America (millions of yen)	1,011	128.1
Total (millions of yen)	30,333	111.1

- (Notes) 1. Previously, net sales by segment were stated including intersegment sales. Starting from this fiscal year, however, we have changed the method to state only net sales to external customers.
2. Sales results by our major customer and their ratio to total sales results in the previous consolidated fiscal year and the consolidated fiscal year under review are as follows.

Major customer	Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)		Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)	
	Value (millions of yen)	Ratio (%)	Value (millions of yen)	Ratio (%)
Matsumura Oil Corporation	4,354	15.9	4,809	15.9

(2) Analysis and discussion on operating results by management

The following is a summary of the MORESCO Group's awareness, analysis, and discussion on its operating results from the management's perspective.

Matters discussed in relation to the future reflect the judgment as of the end of the consolidated fiscal year under review.

i) Awareness, analysis, and discussion on financial position and operating results

Regarding the Group's operating results for the consolidated fiscal year under review, net sales were 30,333 yen (up 11.1% year on year). This was mainly due to the rise in overall selling prices, an increase in sales of hot melt adhesives in Indonesia, and a recovery in demand for specialty lubricants in Southeast Asia. In terms of profit, due to a rise in the cost rate resulting from the soaring raw material prices, operating profit decreased 63.5% from the previous year to 523 million yen and ordinary profit decreased 48.0% from the previous year to 1,046 million yen. In addition, partly due to the non-existence of an extraordinary income item of the previous fiscal year (gain on sale of non-current assets of 833 million yen), profit attributable to owners of parent decreased by 66.0% year on year to 615 million yen.

Analysis on the financial position is as described in "II Business Overview 3. Analysis of Financial Position, Operating Results, and Cash Flows by Management (1) Overview of operation results i) Financial position and operating results a. Financial position."

ii) Analysis and discussion on cash flows and information on capital resources and liquidity of funds

During the consolidated fiscal year under review, we purchased property, plant and equipment using the income obtained from operating activities and financial activities as the financial resources. Details are stated in "II Business Overview 3. Analysis of Financial Position, Operating Results, and Cash Flows by Management (1) Overview of operation results ii) Cash flows."

Regarding the Group's capital resources and liquidity of funds, necessary funds are secured with funds on hand and borrowings from financial institutions. Regarding funds on hand, in addition to acquiring cash continuously and stably from operating activities, we work to promote efficient fund management by consolidating funds of the Group companies. As for borrowings from financial institutions, we have concluded overdraft agreements with major partner financial institutions to ensure the liquidity of funds.

iii) Significant accounting estimates and assumptions used therein

The significant accounting estimates and assumptions used therein that we used in preparing the consolidated financial statements are as stated in "V. Financial Information, 1. Consolidated Financial Statements, etc., (1) Notes to the consolidated financial statements (Significant accounting estimates)."

The impact of the spread of COVID-19 is as described in "V. Financial Information, 1. Consolidated Financial Statements, etc., (1) Notes to the consolidated financial statements (Additional information)."

- iv) Management policy, management strategy, and objective indicators for determining achievement status of management goals  
The consolidated fiscal year under review was the second year of the 9th Medium-Term Management Plan (FY2021 to FY2023). The achievement status of the consolidated fiscal year under review for the target figures at the beginning of the Plan is as follows.

	FY ended February 2023 (Target)	FY ended February 2023 (Result)	Achievement rate (%)
Net sales (millions of yen)	27,700	30,333	109.5%
Operating profit (millions of yen)	1,670	523	31.3%
Ordinary profit (millions of yen)	1,870	1,046	55.9%
Profit attributable to owners of parent (millions of yen)	1,070	615	57.4%
Ordinary profit margin (%)	6.8%	3.4%	—

(Note) Targets are the figures released on February 22, 2021.

The target figures for FY2023 are as stated in “II Business Overview, 1. Management Policy, Business Environment, Issues to be Addressed, etc., (3) Objective indicators for determining achievement status of management goals,” and the issues to be addressed for their achievement are as stated in “II Business Overview, 1. Management Policy, Business Environment, Issues to be Addressed, etc., (2) Business environment, management strategy, and priority business and financial issues to be addressed.”

4. Material Business Agreements, etc.  
Not applicable.

## 5. Research and Development Activities

The MORESCO Group actively engages in research and development activities in order to respond to the increasingly diversifying customer needs and contribute to the realization of a sustainable society, as well as to create businesses in new fields. Based on the technologies to add advanced functions through refining, synthesis, modification, and blending of raw materials and to evaluate product characteristics that satisfy customer requirements, the Group is promoting research and development in each field of specialty lubricants, synthetic lubricants, hot melt adhesives, and new business development with a view to a carbon neutral society. Our R&D bases are placed in Japan. Engineers are sent from Japan to China, Southeast Asia, and the U.S. to conduct local-based product development while encouraging collaborations between segments. We have established a system that promotes improvement of local development capabilities and enables prompt development at each site.

Mainly at our Head Office Research Center, we have an R&D Department related to each business division and the Corporate R&D Department in charge of new business development, and we promote development of new materials, new technologies, and new products and improvement development for existing products in each of the fields of environment, information and electronics, energy device, and life science. We have 101 research and development staff members, which account for 12.9% of all employees.

The main themes, results, and expenses for research and development of each segment for the consolidated fiscal year under review are as follows. The total amount spent for research and development for the consolidated fiscal year under review was 1,246 million yen.

### (1) Japan

#### [Specialty Lubricants]

Mainly in the development section of each field placed within the Functional Fluids Division, research and development is conducted on die casting fluids, fire-resistant hydraulic fluids, lubricant for hot forging, metal working fluids, etc.

Efforts are focused on development of new products that can contribute to reducing environmental impact, resources saving and recycling toward realizing a sustainable society, establishment of basic technologies using IoT/AI and sensors, and the development of peripheral equipment capable of extending life or reducing the amount of use of fluids.

For die casting fluids, we have completed the development of products that can be used with minimum quantity spray to improve the environment in plants and can improve the quality and productivity. In the future, we will promote the development of new products of minimum quantity spray type, which can contribute to the shift to EVs and weight reduction of automobile manufacturers. We will also advance the development of the spray simulation technologies to realize and support efficient minimum quantity spray.

In the field of fire-resistant hydraulic fluids, as the top manufacturer of water-glycol hydraulic fluids in Japan, we are accelerating initiatives to protect the environment. In addition to brushing up the recycling system for collecting main elements from deteriorated hydraulic fluids and reusing them, we are promoting the development of an automatic monitoring system to extend the life of hydraulic fluids to reduce waste, thereby contributing to the reduction of environmental impact.

In the field of lubricants for hot forging, we promote the development of white-type lubricants, which can replace graphite, and have succeeded in the development of lubricants that can be used in processes with particularly short cycle times. We are promoting initiatives in the aluminum forging field, to which application is expected due to the ongoing trend of weight reduction of automobiles.

For metal working fluids, we are working to sophisticate the core technologies for water soluble cutting fluids, which can contribute to raising environment-friendliness and improving productivity. At the same time, we are working on the development of an automatic monitoring system to realize long-life working fluids, with the aim of stabilizing the metal working performance and contributing to reducing waste and then to reducing environmental impact.

#### [Synthetic Lubricants]

In the R&D Department, Synthetic Lubricants, we conduct research and development on hard disk surface lubricants, grease base oils for hard disk drive internal parts, specialty fluids for semiconductor manufacturing equipment, etc. With our unique molecular structure design and synthesis/refining know-how, we focus on developing one-of-a-kind products.

In the field of hard disk surface lubricants, major disk manufacturers are beginning to introduce new chemical compounds that can achieve lower floating level (smaller gap) necessary to further increase the recording density. While working to enhance the basic manufacturing technologies to stabilize the quality, we are also focusing efforts on molecular design of new compounds that satisfy the required characteristics of the next-generation hard disk. Specifically, we are continuing the development of lubricants with new structures that have excellent durability and heat resistance required for microwave-assisted magnetic recording (MAMR) and heat-assisted magnetic recording (HAMR), which are expected to be high-capacity magnetic recording media.

For specialty fluids for hard disk drive internal parts and semiconductor manufacturing equipment, we are working on the development of highly refined fluids by thoroughly eliminating low-volatility components, which are disliked as the cause of outgassing, and their market evaluation is now advancing.

In addition, aiming to build new businesses, we have ventured to the field of material development and synthesis of additives using biomass materials. We will develop highly unique, high-performance additives in line with the market trends and requirements, such as lubricity and conductivity, contributing to a sustainable society. At the same time, we will continue to focus efforts on the design of new raw materials and additives and development of new products, which have functions different from commercially available materials, through collaboration with other divisions and Group companies using the synthesis technologies.

## Hot Melt Adhesive

The R&D Department placed within the Hot Mel Adhesive Division conducts development of low-odor adhesives with no volatile organic compounds (VOC), which are friendly to the environment and human health, as well as the development of new products, such as low-temperature coating-type adhesives that can realize energy saving and adhesives that may overcome the lack of heat resistance, a weak point of hot melt adhesives.

For the hygiene products industry, one of our major markets, along with our customers' business expansion overseas, we promote the development of new products using locally procurable materials while continuing to provide technical support for local production sites. For products in the hygiene products market, such as disposal diapers, we have developed the technology to reduce the odor of hot melt adhesives, to respond to the need for low-odor products, and the technology of low-quantity application-type hot-melt adhesives, which can have sufficient adhesion with a small amount of application, by improving the adhesive interface analysis technology. We have thus made efforts to develop new products that can bring a greater sense of security to users.

Furthermore, in response to the growing global awareness of environmental issues in recent years, as well as the active discussions on effective utilization of biomass, which is considered to be useful in the effective use of resources or the creation of a recycling-oriented society, we have increased products that can contribute to achieving carbon neutrality and have unique functional features so as to offer a product lineup in line with the diversity in customers. We have also succeeded in improving the performance of reactive-type hot-melt adhesives for automobile interiors, which were adopted by our new customer automobile manufacturers. Hot-melt adhesives do not contain organic solvents and are friendly to human health and the environment. In addition to that, we are planning to develop adhesives that are made of biomass-derived raw materials.

## New Business Development

Focusing on the environment, information and electronics, energy devices, and life science as keywords, we continue to conduct various kinds of research and development with the aim of creating new businesses.

In the energy device field, we develop and sell products centering on organic EL device sealants. We are also promoting the development of sealants for flexible-type devices, micro LEDs, and perovskite solar cells, which are expected to be next-generation organic devices, and they are undergoing customer evaluation. In addition, we continue to be engaged in sales and contract analysis of gas & vapor transmittance measurement devices for films, etc. used for flexible-type devices, and we have increased achievements mainly in Japan. Furthermore, we are also advancing the development of new equipment capable of measuring hydrogen transmittance.

Regarding organic photovoltaics (OPV), through cooperation with overseas manufacturers on products or materials, we have started sales, taking advantage of roll-to-roll processing that enables our own trial production.

In the life science sector, in cooperation with multiple universities and research institutions, we are advancing drug discovery research on an activating agent of autophagy, a homeostatic function inside cells, which is considered to have a relationship with various lifestyle-related diseases that worsen with aging. Moreover, we have developed our unique nanoemulsion technology, which can significantly increase absorbability of various types of drugs. It was first applied to cosmetics ingredients, and research and development are advancing toward commercialization. As for development of other new businesses, besides the above development themes, we are advancing development for manufacturing of non-petroleum/coal-derived oils from biogas, based on a long-term management plan. We are also conducting various kinds of research and information analysis activities, continuously incubating new projects.

The amount spent for research and development related to the Japan segment is 1,146 million yen.

## (2) China, Southeast/South Asia, and North America

Mainly regarding die casting fluids and metal working fluids, we are focusing efforts on development of products that meet local needs. Our R&D staff members are stationed to help enhance the local development systems. For die casting fluids, we promote sharing of our development know-how of a leading company and advance product development tailored to local needs in a timely manner, with the aim of increasing market share, including local users. For metal working fluids, we promote sharing of our core technologies we have cultivated in Japan in the development of water-soluble cutting fluids, thereby advancing the development of new products that meet local needs.

The amount spent for research and development related to the China, Southeast/South Asia, and North America segments is 100 million yen.

### III Equipment and Facilities

#### 1. Capital Expenditures

The MORESCO Group makes capital investment mainly for the purpose of streamlining and maintenance of production equipment and enhancing research and development capacity. In the consolidated fiscal year under review, capital expenditures (including property, plant and equipment, and intangible assets) totaled 1,318 million yen.

Major capital expenditures of the MORESCO Group are as follows:

##### Japan

At Ethylene Chemical Co., Ltd., 425 million yen was spent mainly for construction of a new administration building.

##### China

At MORESCO (ZHEJIANG) FUNCTION MATERIAL CO., LTD., 459 million yen was spent for the construction of a plant for production of specialty lubricants.

#### 2. Major Equipment and Facilities

Major equipment and facilities of the MORESCO Group (the Company and its consolidated subsidiaries) are as follows.

##### (1) The Company (reporting company)

As of February 28, 2023

Business site (Location)	Segment	Type of equipment/facility	Book value (millions of yen)						Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area m <sup>2</sup> )	Leased assets	Other	Total	
Head Office and Research Center (Chuo-ku, Kobe)	Japan	R&D equipment Office equipment	957	8	252 (5,000.03)	9	211	1,436	164
Chiba Plant (Ichihara, Chiba)	Japan	Production equipment	457	239	297 (28,492.20)	—	58	1,053	55
Akoh Plant (Akoh, Hyogo)	Japan	Production equipment	446	306	779 (39,863.38)	—	43	1,574	96

(Note) Book value for “Other” represents the total amount of tools, furniture and fixtures; construction in progress; and software, etc.

##### (2) Subsidiaries in Japan

As of February 28, 2023

Company name	Business site (Location)	Segment	Type of equipment/f acility	Book value (millions of yen)						Number of employees (Persons)
				Buildings and structures	Machinery, equipment and vehicles	Land (Area m <sup>2</sup> )	Leased assets	Other	Total	
Ethylene Chemical Co., Ltd.	Head Office Plant (Ichihara, Chiba)	Japan	Productio n equipmen t	755	380	470 (22,733.15)	76	49	1,730	50

(Note) Book value for “Other” represents the total amount of tools, furniture and fixtures; and software, etc.

## (3) Subsidiaries outside Japan

As of February 28, 2023

As of February 28, 2023											
Company name	Business site (Location)	Segment	Type of equipment/f acility	Book value (millions of yen)							Number of employees (Persons)
				Buildings and structures	Machinery, equipment and vehicles	Land		Leased assets	Other	Total	
						Area (㎡)	Value				
MORESCO (Thailand) Co.,LTD.	Head Office Plant (Chonburi, Thailand)	Southeast/ South Asia	Production equipment	167	33	8,700	60	37	39	336	81
PT.MORESCO INDONESIA	Head Office Plant (Karawang, Indonesia)	Southeast/ South Asia	Production equipment	95	67	11,000	45	—	2	208	49
PT.MORESCO MACRO ADHESIVE	Plant (Serang, Indonesia)	Southeast/ South Asia	Production equipment	3	124	— [5,000]	—	—	15	142	41
TIANJIN MORESCO TECHNOLOGY CO., LTD.	Head Office Plant (Tianjin, China)	China	Production equipment	513	249	— [25,012]	—	3	187	953	38
MORESCO HM&LUB INDIA PRIVATE LIMITED	Head Office Plant Ahmedabad, Gujarat, India	Southeast/ South Asia	Production equipment	444	364	— [25,651]	—	—	203	1,011	30

- (Notes) 1. Book value for “Other” represents the total amount of tools, furniture and fixtures; construction in progress; software; and leasehold rights.
2. Figures in brackets [ ] indicate the areas leased from lenders other than consolidated companies.

## 3. Plans for Additions and Disposals of Facilities

Plans for building, etc. of important equipment and facilities as of the end of the consolidated fiscal year under review are as follows.

There are no plans for disposal of important equipment and facilities.

Name of company/business site	Location	Segment	Type of equipment/facility	Planned investment amount		Funding method	Scheduled start and completion		Capacity to be added upon completion (%)
				Total (Millions of yen)	Amount already paid (Millions of yen)		Start	Completion	
MORESCO Corporation Head Office and Research Center	Chuo-ku, Kobe	Japan	R&D equipment	109	—	Funds on hand	March 2023	February 2024	—
MORESCO Corporation Chiba Plant	Ichihara, Chiba	Japan	Streamlining, maintenance and renewal of production equipment for liquid paraffin and sulfonate	308	—	Funds on hand	March 2023	August 2024	—
MORESCO Corporation Akoh Plant	Akoh, Hyogo	Japan	Streamlining, maintenance and renewal of hot melt adhesive production equipment	62	—	Funds on hand	March 2023	February 2024	—
			Streamlining, maintenance and renewal of lubricant production equipment	71	—	Funds on hand	March 2023	May 2024	—
MORESCO (ZHEJIANG) FUNCTION MATERIAL CO., LTD.	Haining, Jiaxing, Zhejiang, China	China	Plant construction	1,860	479	Funds on hand and loans	December 2022	November 2023	20,000 t/year

## IV. Information on the Reporting Company

### 1. Information on the Company's Shares, etc.

#### (1) Total number of shares, etc.

##### i) Total number of shares

Type	Total number of shares authorized to be issued
Common shares	20,000,000
Total	20,000,000

##### ii) Issued shares

Type	Number of issued shares as of the end of fiscal year (February 28, 2023)	Number of issued shares as of the reporting date (May 30, 2023)	Stock exchange on which the Company is listed or financial instruments association where the Company is licensed	Description
Common shares	9,696,500	9,696,500	Tokyo Stock Exchange Prime Market	Number of shares constituting one unit of stock 100
Total	9,696,500	9,696,500	—	—

#### (2) Information on share acquisition rights, etc.

##### i) Details of stock option program Not applicable.

##### ii) Details of rights plan Not applicable.

##### iii) Information on other share acquisition rights, etc. Not applicable.

#### (3) Information on exercise of moving strike convertible bonds with share acquisition rights Not applicable.

##### iv) Changes in the total number of issued shares, capital stock, etc.

Date	Increase/decrease in total number of issued shares (shares)	Shares issued and outstanding (shares)	Increase/decrease in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Increase/decrease in legal capital surplus (Millions of yen)	Balance of legal capital surplus (Millions of yen)
June 28, 2018 (Note)	20,700	9,696,500	20	2,118	20	1,906

#### (Note) Third-party allocation as restricted stock-based compensation

Allocation to: Six Directors (excluding Outside Directors)

Issue price: 1,928 yen

Capital incorporation: 964 yen

Total paid-in amount: 40 million yen (contribution in kind of monetary compensation claim)

## (5) Composition of issued shares by type of shareholder

As of February 28, 2023

As of February 28, 2023

Category	Status of shares (one unit of stock: 100 shares)								Less-than-one-unit shares (shares)
	Governments and municipalities	Financial institutions	Financial instruments business operators	Other corporations	Foreign corporations, etc.		Individuals and others	Total	
					Non-individuals	Individuals			
Number of shareholders	—	10	14	111	52	14	13,840	14,041	—
Shares held (units)	—	9,611	1,004	29,533	3,113	72	53,546	96,879	8,600
Percentage of shares held (%)	—	9.92	1.03	30.48	3.21	0.07	55.27	100.00	—

(Note) 468,970 shares of treasury stock are included in the listings of 4,689 units in “Individuals and others” and 70 shares in “Less-than-one-unit shares.”

## (6) Major shareholders

As of February 28, 2023

Name	Address	Shares held (Thousands of shares)	Percentage of shares held to the total number of issued shares (excluding treasury shares) (%)
Matsumura Oil Corporation	2-8-5 Nishitenma, Kita-ku, Osaka	1,067	11.5
COSMO Oil Lubricants Co., Ltd.	1-1-1 Shibaura, Minato-ku, Tokyo	503	5.4
MORESCO Employee Stock Ownership Plan	5-5-3 Minatojimaminamimachi, Chuo-ku, Kobe	410	4.4
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	394	4.2
STARLITE Co., Ltd.	4-23-7 Ohmiya, Asahi-ku, Osaka	326	3.5
Nippon Soda Co., Ltd.	2-2-1 Otemachi, Chiyoda-ku, Tokyo	323	3.5
Mizuho Bank, Ltd. (Standing proxy: Custody Bank of Japan, Ltd.)	1-5-5 Otemachi, Chiyoda-ku, Tokyo (1-8-12 Harumi, Chuo-ku, Tokyo)	250	2.7
MUFG Bank, Ltd.	2-7-1 Marunouchi, Chiyoda-ku, Tokyo	250	2.7
Osaka Small and Medium Business Investment & Consultation Co., Ltd.	3-3-23 Nakanoshima, Kita-ku, Osaka	209	2.2
Shima Trading Co., Ltd.	2-12-14 Ginza, Chuo-ku, Tokyo	165	1.7
Total	—	3,898	42.2

(Note) Of the number of shares held by The Master Trust Bank of Japan, Ltd. (trust account) above, 394,000 shares are related to trust business.



## (7) Information on voting rights

## i) Issued shares

As of February 28, 2023

Category	Number of shares	Number of voting rights	Description
Shares without voting rights	—	—	—
Shares with restricted voting rights (treasury shares, etc.)	—	—	—
Shares with restricted voting rights (others)	—	—	—
Shares with full voting rights (treasury shares, etc.)	Common shares 468,900	—	—
Shares with full voting rights (others)	Common shares 9,219,000	92,190	—
Less-than-one-unit shares	Common shares 8,600	—	—
Total number of issued shares	9,696,500	—	—
Total number of voting rights held by all shareholders	—	92,190	—

(Note) Common shares of “Less-than-one-unit shares” include 70 shares of treasury stock held by the Company.

## ii) Treasury shares, etc.

As of February 28, 2023

Shareholder name	Shareholder address	Number of shares held under own name (shares)	Number of shares held under another name (shares)	Total number of shares held (shares)	Percentage of shares held to the total number of issued shares (%)
MORESCO Corporation	5-5-3 Minatojimaminamimachi, Chuo-ku, Kobe	468,900	—	468,900	4.8
Total	—	468,900	—	468,900	4.8

## 2. Information on Acquisition of Treasury Shares, etc.

Type of shares Acquisition of common stock under Article 155, Item 3 of the Companies Act

- (1) Acquisition by resolution of General Meeting of Shareholders  
Not applicable.

- (2) Acquisition by resolution of Board of Directors  
Acquisition of treasury shares in accordance with the provision of the Articles of Incorporation under Article 459, Paragraph 1 of the Companies Act

Category	Number of shares	Total price (yen)
Status of resolution at the Board of Directors meeting (July 13, 2022) (Acquisition period: July 14, 2022 to July 14, 2022)	180,000	216,000,000
Treasury shares acquired before the fiscal year under review	—	—
Treasury shares acquired during the fiscal year under review	162,000	194,400,000
Total number and price of remaining resolved shares	18,000	21,600,000
Unexercised ratio as of the end of the fiscal year under review (%)	10.0	10.0
Treasury shares acquired during the current period	—	—
Unexercised ratio as of the reporting date (%)	10.0	10.0

- (3) Acquisition not based on resolution of the General Meeting of Shareholders or of the Board of Directors  
Not applicable.

- (4) Status of the disposition and holding of acquired treasury shares

Category	Fiscal year under review		Current period	
	Number of shares	Total amount disposed (Yen)	Number of shares	Total amount disposed (Yen)
Acquired treasury shares for which subscribers were solicited	—	—	—	—
Acquired treasury shares that were disposed of	—	—	—	—
Acquired treasury shares transferred due to merger, share exchange, share delivery or split	—	—	—	—
Other (disposal of treasury shares as restricted stock-based compensation)	9,600	12,201,600	—	—
Total number of treasury shares held	468,970	—	468,970	—

(Note) The number of treasury shares held during the current period does not include less-than-one-unit shares purchased from May 1, 2023 to the reporting date of this Annual Securities Report.

### 3. Dividend Policy

The Company's basic policy for profit distribution is to secure necessary internal reserves for future business expansion and enhancement of management structure while returning profits to its shareholders in consideration of business performance, etc.

In principle, the Company pays dividends from surplus twice a year: interim dividend and year-end dividend.

The decision-making bodies for these dividends from surplus are the General Meeting of Shareholders for the year-end dividend and the Board of Directors for the interim dividend.

The Articles of Incorporation stipulate that the Company may pay dividends from surplus by resolution of the Board of Directors in accordance with the provision of Article 459, Paragraph 1 of the Companies Act.

Based on the above policy, we have decided to pay a dividend per share of 40.00 yen (including 20 yen for interim dividend) for the fiscal year under review. As a result, dividends from surplus for the fiscal year under review amounted to 369 million yen.

Internal reserves will be used for responding to changes in the economic environment and market, capital investment to enhance cost competitiveness, reinforcing technology and production structures to respond to market needs, launching overseas strategies, and active promotion of research and development.

Dividends from surplus for the fiscal year under review are as follows.

Date of resolution	Total dividend amount (Millions of yen)	Dividend per share (Yen)
October 13, 2022 Resolution of the Board of Directors	185	20
May 30, 2023 Resolution of the Ordinary General Meeting of Shareholders	185	20

#### 4. Corporate Governance, etc.

##### (1) Overview of corporate governance

##### i) Basic policy on corporate governance

- I. The Company will always pursue the best corporate governance and make continuous efforts for the enhancement thereof.
- II. The Company believes that the basis of corporate governance is that communication in all directions within the Company is in a good condition and/or active. In other words, corporate governance functions effectively when policies, strategies, plans, instructions, etc. are communicated accurately, properly, and smoothly, while results and the implementation status are reported correctly. Based on this belief, the MORESCO Group recognizes the strengthening of corporate governance as an important management issue. By developing and enhancing the systems therefor, we will ensure the soundness and transparency of management while making decisions in a prompt and dynamic manner in response to changes in the environment. We believe this is the key to our corporate governance and will work to enhance corporate governance in line with the basic policy below.
  - i. We respect the rights of shareholders and ensure their equality.
  - ii. We consider the interests of not only our shareholders but also the Company's employees, customers, business partners, creditors, local communities, and various other stakeholders, and we work in cooperation with these stakeholders in an appropriate manner.
  - iii. We properly disclose information of the company and ensure transparency in the company's decision making.
  - iv. We have constructive dialogue with shareholders who have investment policies consistent with the interests of shareholders over the medium to long term.

##### ii) Overview of the current corporate governance structure and reasons for adopting the current structure

##### A. Overview of corporate governance structure

The Company adopts the system of a company with an Audit and Supervisory Committee and appointed five directors (total includes one Outside Director; directors on the Audit and Supervisory Committee are excluded) and four directors who are Audit and Supervisory Committee members (total includes three outside directors).

The Board of Directors meets once a month in principle, and in addition to monitoring and supervising the execution of business by the company, it also makes decisions on important matters related to management of the company. Regarding analysis of differences between monthly budgets and actual results, the Board of Directors gives instructions and guidance based on reports toward achieving planned goals.

The Executive Committee, consisting of executive directors, meets once a month in principle. The committee discusses the decisions of the President and Representative Director in order to facilitate the smooth execution of business while avoiding excessive concentration of authority.

Additionally, the Company has established a Nomination and Compensation Committee as an advisory body to the Board of Directors and has established a system to further strengthen corporate governance. Specifically, the appointment of director candidates and the allocation of remuneration are determined by resolution of the Board of Directors after deliberation and reporting by the Nomination and Compensation Committee, which includes all independent Outside Directors.

Furthermore, the Company has introduced an executive officer system with the purpose of realizing more efficient management and swifter decision-making. Management Committee meetings with executive directors, full-time Audit and Supervisory Committee members, executive officers, etc. are held once a month in principle. These meetings are held to report on and discuss important matters relating to corporate management and to promote mutual understanding of the current state of corporate management. The contents of these meetings are disclosed and communicated to all employees.

The Compliance and Risk Management Committee is composed of executive directors, full-time Audit and Supervisory Committee members, executive officers, etc., and meets when meetings of the Management Committee are held in order to establish systems for compliance and risk management and check progress in this regard.

In March 2022, we established the "Sustainability Committee" in order to operate our business based on the "realization of a sustainable society" and "improvement of corporate value in the medium to long term." In addition, we established the Sustainability Promotion Office as a dedicated department to oversee the Group's promotion of sustainability. The Sustainability Committee is chaired by the Representative Director and President and consists of members such as the Executive Directors, Audit and Supervisory Committee members, and Executive Officers. The Committee meets semi-annually to discuss a wide range of risks and opportunities, including social and environmental issues related to sustainability, and reflect them in business strategies and policies in a timely manner.

The structure of each institution and committee is as follows. (◎: Chairperson)

Title	Name	Outside	Board of Directors	Executive Committee	Nomination and Compensation Committee	Management Committee	Compliance and Risk Management Committee	Sustainability Committee
Representative Director, President CEO	Motohisa Morozumi		◎	◎	◎	○	◎	◎
Director Senior Management Executive Officer COO	Nobuhiro Sewaki		○	○		◎	○	○
Director Managing Executive Officer CTO	Yasuo Sakane		○	○		○	○	○
Director Senior Executive Officer CFO	Hirofumi Fujimoto		○	○		○	○	○
Director	Hiroko Fuji	○	○		○			
Director (Full-time Audit and Supervisory Committee Member)	Mikio Honda		○			○	○	○
Director (Audit and Supervisory Committee Member)	Kazuo Machigaki	○	○		○			
Director (Audit and Supervisory Committee Member)	Mikio Nakajo	○	○		○			
Director (Audit and Supervisory Committee Member)	Hidetoshi Nakatsuka	○	○		○			

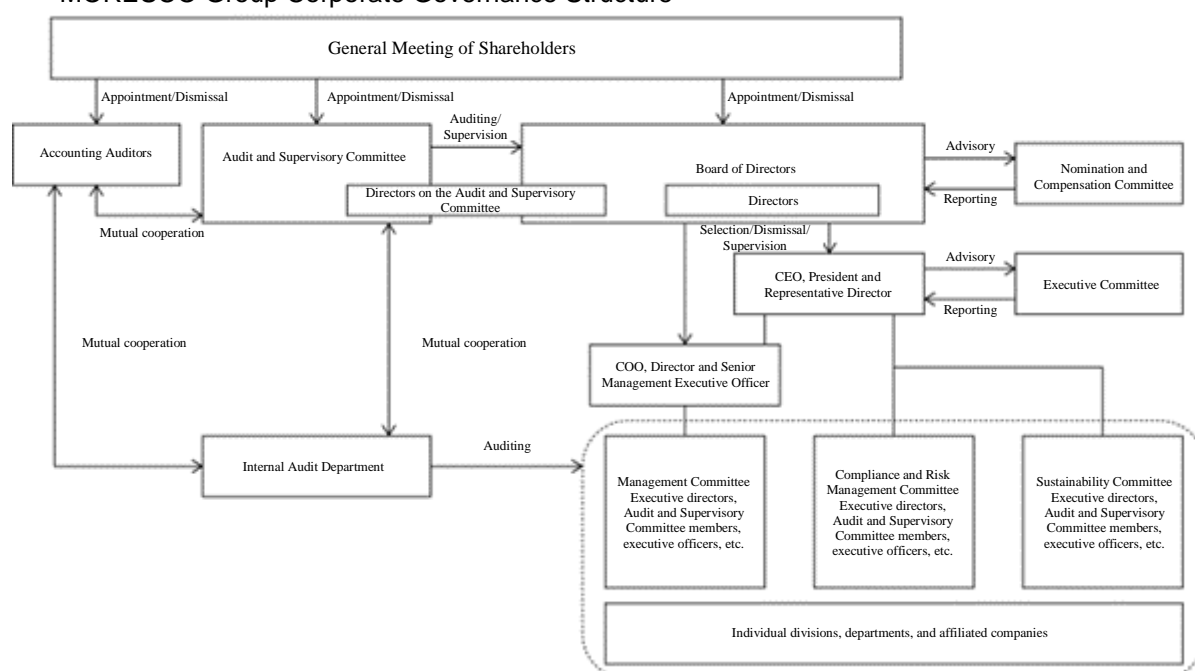
B. Reasons for adopting the current structure

The Company has adopted the Company with Audit Committee System for the following reasons.

- In order to establish a structure that is capable of properly responding to expectations of our stakeholders both inside and outside Japan, the Audit and Supervisory Committee, the majority of whose members are Outside Directors, is responsible for auditing and supervising the legality and appropriateness of business execution, while the Nomination and Compensation Committee is formed to ensure higher transparency in management.
- In order to make prompt and decisive decisions, the authority of the Board of Directors to make business decisions shall be delegated to the directors, thereby speeding up management decision-making and execution under the appropriate supervision of the Board of Directors and creating a system that allows the Board of Directors to focus on discussions of corporate strategy and other issues.

The MORESCO Group's corporate governance structure is as illustrated below.

### MORESCO Group Corporate Governance Structure



### iii) Other matters related to corporate governance

#### A. Status of establishment of internal control system

The Company has resolved the Basic Policy Regarding Establishment of Internal Control Systems below by the Board of Directors. According to this policy, the Company has been establishing the systems, and the after-mentioned Compliance and Risk Management Committee Secretariat is responsible for progress management thereof.

- a) System to ensure that execution of duties by directors and employees complies with laws, regulations, and the Company's articles of incorporation
  - a. We will establish the MORESCO Corporate Behavior Charter as the basis of our compliance systems and will continue to ensure that responding to social requirements, including legal compliance, is the basis of all corporate activities.
  - b. We will establish a Compliance and Risk Management Committee (chaired by the President and Representative Director and composed of executive directors, full-time Audit and Supervisory Committee members, executive officers, etc.) to oversee overall compliance and promote the establishment of compliance systems.
  - c. In order to promote compliance, we will provide training and other guidance so that directors and employees can each perceive compliance as a personal responsibility and conduct business operations accordingly.
  - d. The Audit and Supervisory Committee and the Internal Audit Department will work together to examine compliance systems, identify any problems with laws and regulations, the company's articles of incorporation, and/or internal regulations, and report to the Compliance and Risk Management Committee. The Compliance and Risk Management Committee will regularly review compliance systems and will endeavor to identify problems and make improvements.
  - e. An internal reporting system has been established, with "Internal Reporting System Regulations" that clearly state that employees of the Company or its subsidiaries will not be treated unfairly if they become aware of and report an act that is suspected to be improper under laws, regulations, the Company's articles of incorporation, or internal regulations. Employees, etc. who treat such reporters unfavorably will be handled in accordance with the Employment Regulations. Additionally, the presence or absence of any such reports will be reported to the Compliance and Risk Management Committee.
- b) System for storing and managing information related to execution of duties by Directors
  - a. We will appropriately store and manage the following documents (including electromagnetic records) related to execution of duties by directors in accordance with laws and regulations and the Regulations for Management of Important Documents.
    - i. Minutes of General Meetings of Stockholders and related materials
    - ii. Minutes of meetings of the Board of Directors and related materials
    - iii. Minutes of Management Committee meetings and related materials
    - iv. Other important documents related to execution of duties by directors
  - b. Information management will be handled in accordance with the Information Security Policy, Regulations for Management of Confidential Information, and Basic Policy on Protection of Personal Information.
- c) Regulations and other systems for managing the risk of loss
  - a. We will promote the establishment of systems based on the Risk Management Policy, with the aforementioned Compliance and Risk Management Committee as the primary promoting body, identify risks concerning the Company and its subsidiaries, and take appropriate risk countermeasures.
  - b. To prepare for risks that may seriously affect the management of the Company, we will establish an emergency response headquarters under the direction of the President and Representative Director, in accordance with the Crisis

- Management Regulations, and take the necessary measures to minimize losses due to the occurrence of such risks.
- d) System to ensure efficient execution of duties by directors
    - a. Regular meetings of the Board of Directors will take place once a month in principle, with the purpose of making decisions on important matters and supervising the execution of business by directors.
    - b. In order to further strengthen the functions of the Board of Directors and improve the efficiency of management, we will introduce a system of executive officers responsible for business execution functions, with Management Committee meetings held once a month in principle. These meetings will be attended by executive directors, full-time Audit and Supervisory Committee members, executive officers, etc., who will discuss basic matters and important matters regarding execution of business.
    - c. Regarding business operations, we will formulate Medium-Term Management Plans and plans for each fiscal year based on the future business environment outlook, and we will set company-wide goals. In each business division, we will formulate and execute concrete plans to achieve these goals.
  - e) System to ensure proper business operations in the corporate group, i.e. the Company and its subsidiaries
    - a. Management items outlined by periodic reports and prior consultations on important projects will be defined by the Management Regulations for Affiliated Companies, and departments with jurisdiction over management of subsidiary companies will exercise overall management of these companies.
    - b. The Company's executive directors, executive officers, and members of the Audit and Supervisory Committee, etc. will be dispatched as directors or auditors of subsidiary companies. Directors will monitor and supervise the execution of duties by the directors of subsidiaries. Members of the Audit and Supervisory Committee will audit the business execution of subsidiaries. Additionally, the Internal Audit Department will conduct regular audits of subsidiaries.
    - c. As a fundamental rule, subsidiaries will autonomously establish internal control systems based on the size, business characteristics, institutional specifications, and other company characteristics or distinguishing features, while also maintaining cooperation and information sharing with the Company.
    - d. The directors of subsidiaries will, regularly or as needed, report monthly and quarterly business results and other information about business execution at the Company's Management Committee meetings.
  - f) System concerning directors and employees who should assist with the duties of the Audit and Supervisory Committee, and matters regarding independence from other directors for such directors and employees
    - a. If the Audit and Supervisory Committee requests the placement of employees to assist the Committee with its duties, this shall be arranged within reason following consultation with the Committee. No directors to assist the Audit and Supervisory Committee will be placed.
    - b. Independence from directors when making decisions on matters concerning personnel rights, such as appointments or transfers of such employees, will be ensured by obtaining the prior consent of the Audit and Supervisory Committee.
  - g) System for directors and employees to report to the Audit and Supervisory Committee, system for other reports to the Audit and Supervisory Committee, and other systems to ensure that audits by the Audit and Supervisory Committee are conducted effectively
    - a. Directors, employees, subsidiary directors/employees, and those who receive reports from them must immediately report any important matters that affect the business or performance of the Company to the Audit and Supervisory Committee. In accordance with the Internal Reporting System Regulations, employees who make such reports must not be treated unfavorably on the grounds of having made such reports.
    - b. In order for full-time Audit and Supervisory Committee members to fully understand important decision-making processes and the status of business execution outside of meetings of the Board of Directors, these committee members are permitted to attend other important meetings, such as Management Committee meetings and meetings of the Compliance and Risk Management Committee, view key approval documents, contracts, and other important documents related to execution of business, and ask directors and/or employees for explanations of these as necessary.
    - c. Under the independence and authority asserted through the "Audit and Supervisory Committee Regulations" and "Auditing/Supervision Standards of the Audit and Supervisory Committee," the Audit and Supervisory Committee will work to achieve audit results in close cooperation with the Internal Audit Department and accounting auditors while also ensuring the effectiveness of audits.
    - d. If the Audit and Supervisory Committee or a member of the Committee requests advance payment or redemption of expenses necessary to perform audits, directors, etc. will comply unless the contents of the audit and/or funds required are unreasonable.
    - e. The Company will establish other necessary systems to ensure the effectiveness of audits by the Audit and Supervisory Committee.
  - h) System for ensuring the reliability of financial reports
    - a. The Company will establish and operate internal control systems under the direction of the President and Director and establish relevant regulations to ensure the reliability of financial reports and effectively and appropriately submit internal control reports as stipulated by the Financial Instruments and Exchange Act.
    - b. The Company will ensure compliance with the Financial Instruments and Exchange Act and related laws and regulations through continuous evaluation of the proper functioning of internal control systems and making of necessary improvements.
  - i) Basic systems for eliminating antisocial forces
    - a. Under the MORESCO Corporate Behavior Charter, the basic policy of the Company is to have no relationships of any kind with antisocial forces or groups that threaten the order and safety of civil society. The Company aims to spread awareness of this basic policy among all directors and employees via the internal network, etc.
    - b. We will respond resolutely to unreasonable demands and efforts by antisocial forces and groups in line with the Regulations for Countermeasures Against Antisocial Forces.
    - c. The General Affairs Department will be the department responsible for responses to antisocial forces and groups. Any unreasonable demands or efforts by antisocial forces and groups will be immediately reported to this department,

- with organizational measures taken to centralize the response.
- d. The above department will maintain close cooperation with the police and other such bodies and will promptly contact them in the event of any unreasonable demands or efforts by antisocial forces and groups in order to request appropriate guidance and support in a timely manner.
- B. Status of establishment of risk management system
- The Company has established a Compliance and Risk Management Committee that consists of members including executive directors, full-time Audit and Supervisory Committee members, and executive officers, with the General Affairs Department and Legal Department serving as the secretariat. In this system, initiatives to enhance risk management and compliance are promoted.
- a) Risk management
 

Regarding the 17 risk items that should be addressed by the Company, which were extracted from the total 235 risk items listed up at all business sites, each of the four function-specific meetings, namely, the sales meeting, production engineering meeting, R&D meeting, and Head Office division meeting, identifies the risk items that each function should address. We are working to establish and review the systems for checking and management to prevent such risks from emerging and to enhance the operation thereof. In case of a risk arising, we promote the preparation of an emergency countermeasures manual for each risk in accordance with the Crisis Management Regulations.

Deliberations and progress at each function-specific meeting are monitored by the secretariat and reported to the Compliance and Risk Management Committee to be properly managed.

As the initiatives to prevent leakage of confidential information, in accordance with laws and regulations and the Information Security Policy, we have established the Regulations for Management of Confidential Information and the Electronic Information Management Guidelines and promote operation management to prevent leakage of both written and electronic information through such measures as controlling viewing authority, ID/password management, and restricting data transfer to external memory media or external cloud services. In addition, we work to ensure that employees are aware of the importance of information management through internal training and other opportunities.
  - b) Compliance system
 

Regarding compliance, we have established the Compliance Regulations, Compliance Promotion Guidelines, and Internal Reporting System Regulations.

Each organization formulates a list of laws and regulations that it should observe, and the status of compliance with the listed laws and regulations are checked twice a year. The results are gathered by the secretariat and reported to the Compliance and Risk Management Committee. If any problem is found regarding the compliance status, the relevant business site shall prepare an improvement plan and report it to the Compliance and Risk Management Committee. Discussions and conclusions at the Compliance and Risk Management Committee meeting are reported at the Board of Directors meeting held in the same month, where Outside Directors give advice as necessary. To prepare for non-compliance with laws and regulations if found, an internal reporting system has been established and operated in which the company lawyer, full-time Audit and Supervisory Committee members, and General Manager of the Internal Audit Department will accept reports. Employees are familiarized with the system.

In promoting compliance, we believe that the employees' awareness of compliance with laws and regulations is crucial. We therefore provide various education programs, including an e-learning program on insider trading, training on practical operations for contracts, training programs based on job ranks, such as new employees, mid-career employees, and management, and training programs based on job functions, such as sales, production, and R&D. We also conduct education through company newsletters. Compliance awareness surveys for all employees are also conducted on a regular basis to grasp the Group's status of compliance. Furthermore, during the fiscal year under review, we invited an outside lawyer to conduct training on the theme of "prevention of bribery and corruption," and we also provided an e-learning program on "handling of trade secrets" as a measure to prevent leakage of trade secrets, with the aim of raising the compliance awareness of the Group's employees.

Regarding the protection of personal information, including Specific Personal Information (My Number), we have established a management system under the Basic Policy on Protection of Personal Information and the Basic Policy on Proper Handling of Personal Numbers and Specific Personal Information, and we promote operation thereof by conducting training, etc. on the Act on the Protection of Personal Information for all employees.
- C. Overview of content of limited liability contracts
- Pursuant to the provisions of the Articles of Incorporation, the Company has entered into a limited liability contract with the Outside Directors and the Audit and Supervisory Committee members in accordance with the provision of Article 427, Paragraph 1 of the Companies Act to limit their liability for indemnity under Article 423, Paragraph 1 of the Act to the maximum amount stipulated in Article 425, Paragraph 1 of the Act.



- D. Overview of the content of the directors and officers liability insurance contract  
The Company has entered into a directors and officers liability insurance (D&O Insurance) contract prescribed in Article 430-3, Paragraph 1 of the Companies Act with an insurance company. The scope of the insured parties of the insurance contract is directors, corporate auditors, executive officers, and employees in managerial or supervisory positions. The insurance premiums are not paid by the insured. The insurance contract will cover any damage that may be incurred in association with any liability that directors of the insured bear with regard to the execution of their duties or any claim filed with regard to such liability. However, in order to ensure that the appropriateness of the execution of duties by the insured is not impaired, damage attributable to any act conducted with awareness that it is violating any law or regulation will not be covered.
- E. Director membership  
The Company's Articles of Incorporation stipulate that the number of Directors (excluding Directors on the Audit and Supervisory Committee) shall be no more than eight, and the number of Directors on the Audit and Supervisory Committee shall be no more than five.
- F. Requirements for director appointment  
The Company's Articles of Incorporation stipulate that resolutions for the appointment of directors shall be approved by a majority of the voting rights of shareholders present at the meeting with attendance of shareholders holding at least one-third of eligible voting rights.  
The Articles of Incorporation also stipulate that cumulative voting shall not be used in the appointment of directors.
- G. Matters for resolution of the General Meeting of Shareholders that may be resolved by the Board of Directors
- a) Decision-making body for distribution of surplus, etc.  
The Company's Articles of Incorporation stipulate that, unless otherwise stipulated in laws and regulations, distribution of surplus and other matters specified in the items of Article 459, Paragraph 1 of the Companies Act may be decided by resolution of the Board of Directors instead of resolution of the General Meeting of Shareholders. The purpose of this is to allow flexible return of profits to shareholders. However, year-end dividends shall be decided by resolution of the General Meeting of Shareholders.
  - b) Exemption of directors from liability  
The Company's Articles of Incorporation stipulate that pursuant to the provision of Article 426, Paragraph 1 of the Companies Act, liability of directors (including former directors) as stipulated in Article 423, Paragraph 1 of the Act may be exempted within the legal limit. The purpose of this is to enable directors to fully perform their expected roles.
- H. Requirements for special resolution of the General Meeting of Shareholders  
The Company's Articles of Incorporation stipulate that special resolutions as provided for in Article 309, Paragraph 2 of the Companies Act shall be approved by two-thirds of the voting rights of shareholders present at the meeting with attendance of shareholders holding at least one-third of eligible voting rights. This is intended to facilitate the smooth operation of the General Meeting of Shareholders by relaxing the quorum for special resolutions of the General Meeting of Shareholders.

(2) Officers

i) List of officers

Male: 8, Female: 1 (Female officers accounting for 11.1%)

Title	Name	Date of birth	Career summary	Term of office	Shares held (shares)
Representative Director President CEO	Motohisa Morozumi	April 23, 1962	<p>April 1987 Joined HBF Japan (currently Sekisui Fuller Company, Ltd.)</p> <p>March 1999 Joined the Company. Section Manager, Tokyo Sales, Sales Department III</p> <p>March 2007 General Manager, Sales Department, Hot Melt Adhesive of the Company</p> <p>May 2008 Executive Officer General Manager, Sales Department, Hot Melt Adhesive of the Company</p> <p>March 2011 Executive Officer Division Manager, Hot Melt Adhesive and General Manager, Sales Department, Hot Melt Adhesive of the Company</p> <p>May 2011 Director and Executive Officer Division Manager, Hot Melt Adhesive and General Manager, Sales Department, Hot Melt Adhesive of the Company</p> <p>January 2012 Representative Director, President of PT.MORESCO MACRO ADHESIVE</p> <p>May 2014 Director and Managing Executive Officer Division Manager, Hot Melt Adhesive and General Manager, Sales Department, Hot Melt Adhesive of the Company</p> <p>March 2015 Director and Executive Officer Division Manager, Hot Melt Adhesive of the Company</p> <p>May 2017 Director and Senior Managing Executive Officer Division Manager, Hot Melt Adhesive and Division Manager, Metal Working Fluids of the Company</p> <p>May 2018 Representative Director, President and Executive Officer, COO</p> <p>May 2021 Representative Director, President, CEO of the Company (current position)</p>	(Note 2)	29,131
Director Senior Managing Executive Officer, COO	Nobuhiro Sewaki	March 23, 1964	<p>April 1982 Joined the Company</p> <p>March 2008 General Manager, Sales Department, Functional Fluids Division of the Company</p> <p>May 2010 Executive Officer General Manager, Sales Department, Functional Fluids Division of the Company</p> <p>March 2015 Representative Director, President of MORESCO (Thailand) Co.,Ltd.</p> <p>May 2015 Executive Officer in charge of Southeast Asia of the Company</p> <p>May 2016 Senior Executive Officer in charge of Southeast Asia of the Company</p> <p>February 2017 Representative Director, President of MORESCO HM&amp;LUB INDIA PRIVATE LIMITED</p> <p>May 2017 Director, Senior Executive Officer in charge of Southeast Asia of the Company</p> <p>May 2018 Director, Senior Executive Officer in charge of overseas of the Company</p> <p>November 2020 Chairman, Wuxi More Tex Technology Co., Ltd. (current position)</p> <p>May 2021 Director, Senior Managing Executive Officer, COO (current position)</p>	(Note 2)	17,730
Director Managing Executive Officer, CTO	Yasuo Sakane	June 7, 1958	<p>October 2003 Joined the Company, Special Manager, SS Group, Corporate R&amp;D Department of the Company</p> <p>March 2004 General Manager, Corporate R&amp;D Department of the Company</p> <p>April 2006 Komag, Inc. Technical Director</p> <p>October 2007 Western Digital Media Operations (currently Western Digital Corporation) Technologist</p> <p>March 2016 Rejoined the Company. Executive Officer Division Manager, Synthetic Lubricants of the Company</p> <p>March 2016 Executive Officer Division Manager, Synthetic Lubricants and General Manager, R&amp;D Department, Synthetic Lubricants of the Company</p> <p>June 2016 Executive Officer Division Manager, Synthetic Lubricants of the Company</p> <p>May 2018 Director and Senior Executive Officer, CTO Division Manager, Synthetic Lubricants and General Manager, Corporate R&amp;D Department of the Company</p> <p>March 2021 Director and Senior Executive Officer, CTO General Manager, Life Science R&amp;D Department of the Company</p> <p>May 2021 Director and Managing Executive Officer, CTO General Manager, Life Science R&amp;D Department of the Company</p> <p>March 2022 Director and Managing Executive Officer, CTO (current position) of the Company</p>	(Note 2)	9,050

Title	Name	Date of birth	Career summary		Term of office	Shares held (shares)
Director Senior Executive Officer, CFO	Hirofumi Fujimoto	July 14, 1966	April 2010 July 2012 April 2015 May 2017 March 2019 March 2020 January 2021 March 2021 May 2021 March 2022	Syndication Promotion Manager, Products Distribution Department, Mizuho Corporate Bank, Ltd. (currently, Mizuho Bank, Ltd.) Deputy General Manager, Shinjuku Corporate Banking Department, Mizuho Corporate Bank, Ltd. General Manager, Investors Service Department, Trust & Custody Services Bank, Ltd. (currently, Custody Bank of Japan, Ltd.) Senior Manager, Internal Audit Department, Mizuho Bank, Ltd. Joined the Company. Deputy General Manager, Strategy Planning Department General Manager, Overseas Sales Department, Hot Melt Adhesive of the Company Executive Officer in charge of Administrative Division, CFO of the Company Executive Officer in charge of Administrative Division and Safety, CFO of the Company CFO Director and Senior Executive Officer, CFO in charge of Administrative Division and Safety of the Company Director and Senior Executive Officer, CFO, (current position) of the Company	(Note 2)	4,742
Director	Hiroko Fuji	September 27, 1960	April 1981 May 2011  September 2011  April 2013 January 2017 January 2020 January 2021 June 2021 May 2022	Joined Daimaru Co., Ltd. (currently, Daimaru Matsuzakaya Department Stores Co., Ltd.) Executive Officer and General Manager, MD Promotion Department 2, MD Strategy Promotion Office, Daimaru Matsuzakaya Department Stores Co., Ltd. Executive Officer and General Manager, MD Strategy Promotion Office, Independent Business Unit, Daimaru Matsuzakaya Department Stores Co., Ltd. Executive Officer and Store Manager, Daimaru Osaka Umeda, Daimaru Matsuzakaya Department Stores, Co., Ltd. Executive Officer and Store Manager, Daimaru Kobe, Daimaru Matsuzakaya Department Stores, Co., Ltd. Executive Officer and Store Manager, Daimaru Sapporo, Daimaru Matsuzakaya Department Stores, Co., Ltd. Executive Officer in charge of Special Assignments from President, Daimaru Matsuzakaya Department Stores, Co., Ltd. General Manager, Ad Tele-support Division, AD DAISEN Co., Ltd. (current position) Director of the Company (current position)	(Note 2)	784
Director (Full-time Audit and Supervisory Committee Member)	Mikio Honda	June 21, 1962	April 1986 March 2007 March 2010 March 2012 March 2017 May 2022	Joined the Company Section Manager of General Affairs, General Affairs Department of the Company Section Manager of Human Resources, Human Resources Department, Administration Division of the Company Section Manager of Operations, Akoh Plant of the Company General Manager, General Affairs Department of the Company Director of the Company (Audit and Supervisory Committee Member) (current position)	(Note 3)	4,368
Director (Audit and Supervisory Committee Member)	Kazuo Machigaki	May 11, 1951	July 1995 September 1999 April 2005 June 2005 June 2007 April 2013 June 2013 June 2019 May 2020	Manager of Tokyo Plant, Tocalo Co., Ltd. Manager of Akashi Plant, Tocalo Co., Ltd. General Manager of Manufacturing Division, Tocalo Co., Ltd. Director, Deputy General Manager of Manufacturing Division, Tocalo Co., Ltd. Representative Director and President, Tocalo Co., Ltd. President, Tocalo & Han Tai TW Co., Ltd. Representative Director and Chairman, Tocalo Co., Ltd. Advisor, Tocalo Co., Ltd. Director of the Company (Audit and Supervisory Committee Member) (current position)	(Note 3)	3,903
Director (Audit and Supervisory Committee Member)	Mikio Nakajo	March 19, 1963	April 1998  April 2005 June 2010 June 2011 May 2019 June 2019 May 2020 April 2022	Registered as attorney, joined the Sawada and Kikui Law Office (now Sawada, Nakajo and Mori Law Office) Partner attorney, Sawada and Nakajo Law Office (now Sawada, Nakajo and Mori Law Office) External auditor, Nishishiba Electric, Co., Ltd. External auditor, Glory Ltd. Representative attorney, Sawada, Nakajo and Mori Law Office (current position) External auditor, Yamato Kogyo Co., Ltd. (current position) Director of the Company (Audit and Supervisory Committee Member) (current position) President, Hyogo Bar Association	(Note 3)	—

Title	Name	Date of birth	Career summary	Term of office	Shares held (shares)
Director (Audit and Supervisory Committee Member)	Hidetoshi Nakatsuka	October 26, 1964	<p>April 1983      Hired by the Osaka Regional Taxation Bureau</p> <p>July 2000      Company Split PT (in charge of notification of organizational restructuring taxation systems), Corporation Taxation Division, Taxation Department, and Large Enterprise Examination Division, Large Enterprise Examination and Criminal Investigation Department, National Tax Agency</p> <p>January 2002    Corporate Planning Office, Tax Bureau, Ministry of Finance (in charge of consolidated taxation laws) and Large Enterprise Examination Division, Large Enterprise Examination and Criminal Investigation Department, National Tax Agency</p> <p>July 2009      International Investigation Director, Examination Division, First Examination Department, Osaka Regional Taxation Bureau</p> <p>July 2012      Assistant Director, Comprehensive Investigation Division, First Examination Department, Osaka Regional Taxation Bureau</p> <p>August 2013    Registered as tax accountant, opened Hidetoshi Nakatsuka Tax Accountant Office, representative (current position)</p> <p>April 2014      Special Professor, Graduate School and Faculty of Law, Himeji Dokkyo University</p> <p>December 2018   External auditor, Tiger Corporation (current position)</p> <p>May 2020      Director of the Company (Audit and Supervisory Committee Member) (current position)</p>	(Note 3)	784
Total					70,492

- (Notes) 1. Directors Hiroko Fuji, Kazuo Machigaki, Mikio Nakajo and Hidetoshi Nakatsuka are Outside Directors.
2. The term of office is until the conclusion of the General Meeting of Shareholders for the last fiscal year that ends within a year after the appointment on May 30, 2023.
3. The term of office is until the conclusion of the General Meeting of Shareholders for the last fiscal year that ends within two years after the appointment on May 27, 2022.
4. As an initiative to enhance corporate governance, the Company has introduced the executive officer system since May 30, 2006 for the purpose of expediting decision making and strengthening the functions of the Board of Directors.

Currently, the Company has 12 executive officers.

Senior Managing Executive Officer, COO: Nobuhiro Sewaki

Managing Executive Officer, CTO: Yasuo Sakane

Senior Executive Officer, CFO: Hirofumi Fujimoto

Senior Executive Officer in charge of Production and Safety Division Manager, Liquid Paraffin & Sulfonates: Eijiro Oda

Executive Officer in charge of North America, President of MORESCO USA Inc.: Hidenori Amaki

Executive Officer in charge of Southeast/South Asia    President of MORESCO (Thailand) Co., Ltd. and President of PT.MORESCO MACRO ADHESIVE: Keiichi Matsutani

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

Executive Officer in charge of China

President of WUXI MORESCO TRADING CO., LTD., President of MORESCO HANANO DIE-CASTING COATING (SHANGHAI) CO., LTD., President of MORESCO (ZHEJIANG) FUNCTION MATERIAL CO., LTD., and President of MORESCO TRADING (ZHEJIANG) CO., LTD.

Liu Yingjin

Executive Officer    Division, Manager, Functional Fluids and Representative Director and President of MORESCO TECHNO CO., LTD.: Jiro Hosomi

Executive Officer    Division Manager, Hot Melt Adhesive: Kazuyoshi Fujita

Executive Officer    Division Manager, Device Materials and General Manager, R&D Department, Device Materials: Yasushi Hosooka

Executive Officer in charge of Circular Products    General Manager, R&D Department, Functional Fluids: Naohiro Kanematsu

ii) Outside Officers

A. Relationship with Outside Directors

The Company has four Outside Directors (including three Outside Directors who are Audit and Supervisory Committee members). All of these Outside Directors are independent officers as defined in the Securities Listing Regulations of the Tokyo Stock Exchange.

Outside Director Hiroko Fuji served as an executive officer for 10 years at a major department store which is a group company of a listed corporation and was deeply involved in management of the company through working as the store manager of several flagship stores of the department store. She thus has abundant experience and knowledge with regard to management. By making use of her experience and knowledge, she has provided us with guidance and advice for management of the Company and has contributed to career development of female employees and female managers of the Company. She used to be an executive officer of Daimaru Matsuzakaya Department Stores Co., Ltd. in the past, but there

is no relationship that should be disclosed between the Company and Daimaru Matsuzakaya Department Stores Co., Ltd.

Kazuo Machigaki, Outside Director who is an Audit and Supervisory Committee Member, has served for many years as Representative Director, President and Representative Director, Chairman of Tokalo Co., Ltd., a top manufacturer in the field of surface modification, and possesses abundant experience and extensive knowledge as a manager. By making use of his experience and knowledge, he has properly performed auditing and supervision. He is from Tokalo Co., Ltd., and the Company has a relationship with Tokalo Co., Ltd. of jointly conducting research and development.

Mikio Nakajo, Outside Director who is an Audit and Supervisory Committee Member, has professional knowledge and extensive experience gained over many years as an attorney. By making use of his experience and knowledge, he has properly performed auditing and supervision. He is the representative attorney of the Sawada, Nakajo and Mori Law Office and also serves as an external auditor of Yamato Kogyo Co., Ltd. However, there is no relationship that should be disclosed between the Company and the Law Office or Yamato Kogyo Co., Ltd.

Hidetoshi Nakatsuka, Outside Director who is an Audit and Supervisory Committee Member, has experience of being involved in tax administration for many years. He is also familiar with corporate taxation as a tax accountant and thus has acquired professional knowledge about finance, accounting and taxation. By making use of his experience and knowledge, he has properly performed auditing and supervision. He is a representative of the Hidetoshi Nakatsuka Tax Accountant Office and also serves as an external auditor of Tiger Corporation. However, there is no relationship that should be disclosed between the Company and the Office or Tiger Corporation.

As stated above, there are no personal, capital, trading or any other relationships between the Company and its Outside Directors that may cause conflicts of interest with general shareholders

#### B. Policy on independence of Outside Directors

In appointing Outside Directors, the Company has not established any particular criteria or policy concerning their independence. However, when appointing an Outside Director, we determine for each candidate, based on his/her career history and relationship with Company, whether sufficient independence can be ensured so that the candidate will be able to perform his/her duties as an Outside Director in a standpoint independent from management of the Company.

#### iii) Mutual cooperation between supervision or audits by Outside Directors and internal audits, audits by Audit and Supervisory Committee Members and accounting audits, and relationship with internal control department

All of the Outside Directors of the Company supervise or audit business management from a standpoint independent from the Company's management. They receive reports on the status of development and operation of internal control systems, including compliance and risk management, and express opinions as appropriate.

The Audit and Supervisory Committee, of which a majority of members are Outside Directors, exchange opinions and information with directors in charge of internal control whenever necessary, and work to improve effectiveness of supervision and auditing in cooperation with the internal control department, accounting auditors, etc. Through these measures, the Company strives to ensure the soundness and appropriateness of its business management.

### (3) Status of Audits

#### i) Status of audits by the Audit and Supervisory Committee

##### A. Organization and personnel of the Audit and Supervisory Committee

The Audit and Supervisory Committee consists of four members, including three independent Outside Directors, and one of them has been appointed as a full-time Audit and Supervisory Committee Member.

Director Hidetoshi Nakatsuka, who is an Audit and Supervisory Committee Member, has experience of being involved in tax administration and is also familiar with corporate taxation as a tax accountant, thus having professional knowledge about finance, accounting and taxation.

The Audit and Supervisory Committee conducts systematic audits and gives opinions based on reports it receives from the Internal Audit Department and through other internal control systems. The Internal Audit Department and accounting auditors keep close contact through reporting to each other on audit plans and the status of implementation, results, etc. on a regular basis and exchanging opinions, with the aim of improving the effectiveness of audits.

##### B. The Audit and Supervisory Committee meetings

The Audit and Supervisory Committee meetings are held in conjunction with the Board of Directors' meetings and also on a quarterly basis. During the fiscal year under review, 17 meetings were held, of which eight meetings were held online due to COVID-19. The meeting time was about 1.5 hours for regular meetings and about two hours for quarterly meetings.

The status of attendance of the Audit and Supervisory Committee Members is as follows.

Name	Number of meetings held	Number of meetings attended (%)
Mikio Honda	13	13 (100%)
Kazuo Machigaki	17	17 (100%)
Mikio Nakajo	17	17 (100%)
Hidetoshi Nakatsuka	17	17 (100%)

(Note) For Director (full-time Audit and Supervisory Committee Member) Mikio Honda, the number of meetings attended is the number after he was appointed at the 64th Ordinary General Meeting of Shareholders held on May 27, 2022.

C. Major matters examined by the Audit and Supervisory Committee

Major matters examined by the Audit and Supervisory Committee are as follows.

- Revision of the regulations, etc. for Audit and Supervisory Committee
- Audit policy and audit plan of the Audit and Supervisory Committee
- Evaluation of the committee activities for the Audit and Supervisory Committee audit reports
- Evaluation of accounting auditors
- Formation of opinions on nomination and remuneration of directors who are not a member of the Audit and Supervisory Committee
- Exchange of opinions with directors, including Representative Directors
- Individual interviews with executive officers, etc.
- Exchange of opinions with General Manager, Internal Audit Department
- Exchange of opinions with the Compliance and Risk Management Committee secretariat
- Status of compliance with the Corporate Governance Code

D. Major activities of full-time Audit and Supervisory Committee Members

Major activities of the full-time Audit and Supervisory Committee Members are as follows.

- Attendance at important meetings, such as the meetings of the Management Committee, Compliance and Risk Management Committee, and Sustainability Committee
- Viewing approval documents, contracts, and minutes of meetings
- Regular meetings with the Internal Audit Department
- Investigation on the status of operations and property of business sites of the Company and its subsidiaries in Japan
- Auditing of overseas subsidiaries using online meetings
- Monitoring the status of deliberations of the Nomination and Compensation Committee

ii) Status of internal audits

A. Internal audits

The Company has an internal audit system in which the Internal Audit Department consisting of three members checks and provides guidance for all departments, including subsidiaries, regarding compliance with laws and regulations, the effectiveness of internal control, etc.

The Internal Audit Department conducts internal control audits, accounting audits, operational audits, and special audits assigned by the Director and President to check whether the business activities in each department are appropriate and effective in compliance with laws and regulations, the Articles of Incorporation, and other company regulations and standards, thereby contributing to improving management efficiency and proper business management of the Company.

Besides reporting the details of audits to the Compliance and Risk Management Committee, the Internal Audit Department exchanges and coordinates opinions with the Audit and Supervisory Committee and accounting auditors, with the aim of improving efficiency and effectiveness of internal audits.

B. Mutual cooperation between internal audits, audits by Audit and Supervisory Committee, and accounting audits, and relationship between these audits and the internal control department

In order to make audits by the Audit and Supervisory Committee systematic and efficient, the Company has established a system to ensure close cooperation between the Internal Audit Department and the Audit and Supervisory Committee. The Internal Audit Department is positioned as the core of the internal control function that the executive sector centered around the Director and President is forming. At the same time, the Internal Audit Department regularly reports to the Audit and Supervisory Committee on audit plans and results. Upon receiving the reports, the Audit and Supervisory Committee, when it deems necessary, may request the Internal Audit Department to conduct an investigation or give specific instructions regarding the execution of its duties. With these measures, the effectiveness of the systematic audits by the Audit and Supervisory Committee is ensured.

iii) Status of accounting audits

A. Name of auditing firm  
Grant Thornton Taiyo LLC

B. Continuous audit period  
4 years

C. Certified public accountants performing audit work  
Iwao Arai  
Kenji Furuta

D. Composition of assistants involved in audit work  
Assistants who are involved in the accounting audit work of the Company are seven certified public accountants and 15 others.

E. Policy and reason for selecting accounting auditors

As a result of considering comprehensively the quality management system, independence, expertise, the system for auditing activities, and the level of audit compensation in accordance with the Criteria for Selecting Accounting Auditor Candidates, the Company has determined that Grant Thornton Taiyo LLC has a system to ensure that the Company's accounting audit is conducted properly and adequately, and thus it appointed the firm as its accounting auditor. If the accounting auditor is deemed to fall under any of the items of Article 340, Paragraph 1 of the Companies Act, the Audit and Supervisory Committee will dismiss the accounting auditor with the consent of all of the Audit and Supervisory Committee Members. In such a case, an Audit and Supervisory Committee Member selected by the Committee will report the dismissal of the accounting auditor and the reason therefor at the first General Meeting of Shareholders convened after the dismissal.

In addition, the Audit and Supervisory Committee will determine whether it is appropriate to submit a proposal for dismissal or refusal of reappointment of the accounting auditor for the General Meeting of Shareholders when:

- a) the accounting auditor has received disciplinary treatment or disposition by the supervisory authorities due to a serious violation of the Certified Public Accountants Act or other important law or regulation, and the Committee has judged that there is no prospect of improvement thereto;
- b) as a result of comprehensive examination, the Committee has judged that the audit quality, quality management, independence, efficiency, comprehensive abilities, etc., of the accounting auditor are insufficient;
- c) the continuous audit period of the accounting auditor exceeds 10 years in principle; or
- d) the Committee has judged that replacement of the accounting auditor will enable the Company to establish a more appropriate audit system.

F. Evaluation of the accounting auditor by the Audit and Supervisory Committee

The Company's Audit and Supervisory Committee examined the evaluation items of the accounting auditor, including its quality management system, details of the audit plan, audit operations (audit items, audit time, etc.), communication with management and the Audit and Supervisory Committee, and response to the Group audits. As a result, no significant items to be pointed out were found, and therefore the Committee has reappointed the accounting auditor.

iv) Details of audit fees, etc.

A. Remuneration to auditing certified public accountants, etc.

Category	Previous consolidated fiscal year		Consolidated fiscal year under review	
	Fees for audit certification (millions of yen)	Fees for non-audit services (millions of yen)	Fees for audit certification (millions of yen)	Fees for non-audit services (millions of yen)
The Company (reporting company)	27	—	28	—
Consolidated subsidiaries	—	—	—	—
Total	27	—	28	—

B. Remuneration to the network of the auditing certified public accountants, etc. (excluding remuneration from A.)

Category	Previous consolidated fiscal year		Consolidated fiscal year under review	
	Fees for audit certification (millions of yen)	Fees for non-audit services (millions of yen)	Fees for audit certification (millions of yen)	Fees for non-audit services (millions of yen)
The Company (reporting company)	—	1	—	—
Consolidated subsidiaries	2	0	2	0
Total	2	1	2	0

Non-audit services at the Company are taxation advisory services by Grant Thornton Taiyo Tax Corporation.

Non-audit services at consolidated subsidiaries are taxation-related services by GRANT THORNTON INDIA LLP for both the previous consolidated fiscal year and the consolidated fiscal year under review.

C. Policy for determining audit fees

The fees are determined properly by the Representative Director with consent of the Audit and Supervisory Committee in accordance with the Articles of Incorporation, taking into consideration the audit plan, audit content, audit schedule, etc. of the accounting auditor.

- D. Reasons for the Audit and Supervisory Committee's consent to fees, etc. of the accounting auditor  
The Audit and Supervisory Committee, based on the draft of the audit policy for the relevant fiscal year submitted by the accounting auditor and the hearing of executive employees on their recognition and intention, examined the analysis/evaluation of audit results of the previous fiscal year, analysis on the difference between the audit plan and results, the appropriateness of the audit time, staffing plan and the remuneration estimate, and the reasonable rate of audit remuneration, etc. As a result, no problems were found with these matters, and the Committee judged the fees, etc. as appropriate and thus provided consent as prescribed in Article 399, Paragraph 1 of the Companies Act.

(4) Remuneration, etc. for officers

i) Policies for determining the amount and calculation method of remuneration, etc. of officers

A. Policy for determining remuneration of Directors (excluding Directors who are Audit and Supervisory Committee Members)

The remuneration of the Company's Directors is determined according to the Regulations for Remuneration of Directors, etc., and the improvement (revision) of the regulations is determined by the Board of Directors after deliberation and reporting by the Nomination and Compensation Committee.

In determining remuneration of Directors, our policy is to consider the balance with business performance results, duties, position, general level, and the employee salaries.

Remuneration of a director consists of base remuneration, which is fixed compensation calculated based on his/her position and performance of the previous fiscal year, and restricted stock compensation, which is non-monetary compensation to provide incentives for improving medium- to long-term corporate value. For Outside Directors, base remuneration calculated based only on their positions are paid.

The amount of each type of remuneration is calculated as described below and paid at the time as indicated, though the ratio of each type of remuneration has not been determined.

a) Base remuneration

i) Amount calculated according to position

ii) Amount calculated according to performance of the previous year

The total amount of i) and ii) is paid in a fixed amount every month from June each year to May the following year.

b) Non-monetary remuneration (restricted stock compensation)

The number of shares equivalent to the amount calculated according to the position is paid in June each year.

When a director concurrently serves as an executive officer, no remuneration is paid for the duties of the executive officer.

At the 62nd Ordinary General Meeting of Shareholders held on May 26, 2020, it was decided that remuneration of Directors (excluding directors who are Audit and Supervisory Committee Members) should be no more than 180 million yen annually (including an annual amount of no more than 10 million yen for Outside Directors), and remuneration of Directors who are Audit and Supervisory Committee Members should be no more than 36 million yen annually. As of the conclusion of the said General Meeting of Shareholders, the number of Directors (excluding Directors who are Audit and Supervisory Committee Members) was six (including one Outside Director), and the number of Directors who are Audit and Supervisory Committee Members was four. As of the reporting date of the annual securities report, the Company has five Directors (excluding Directors who are Audit and Supervisory Committee Members, including one Outside Directors) and four Directors who are Audit and Supervisory Committee Members, who are eligible for the remuneration. In addition, separately from the monetary remuneration, it was also decided at the same General Meeting of Shareholders that the amount of restricted stock compensation for Directors (excluding Directors who are Audit and Supervisory Committee Members, and Outside Directors) should be no more than 50 million yen annually and the total number of common shares of the Company to be issued or disposed of should be no more than 40,000 shares annually. As of the conclusion of the said General Meeting of Shareholders, the number of Directors (excluding Directors who are Audit and Supervisory Committee Members, and Outside Directors) was five. As of the reporting date of the annual securities report, the Company has four Directors (excluding Directors who are Audit and Supervisory Committee Members, and Outside Directors), who are eligible for the remuneration.

B. Procedure for determining remuneration of Directors (excluding Directors who are Audit and Supervisory Committee Members)

Remuneration of Directors is determined determined by the Board of Directors, within the limit for the amount of remuneration decided at the General Meeting of Shareholders, after deliberation and reporting by the Nomination and Compensation Committee.

The Nomination and Compensation Committee, upon consultation with the Board of Directors, discusses the base remuneration and non-monetary remuneration, in comparison with executive compensation of Japanese listed companies of the same scale as the Company in terms of sales and the number of employees, using survey data of external organizations, in consideration of the Company's performance results, etc., and reports the total remuneration amount and the remuneration amount of each individual to the Board of Directors. Remuneration of Directors who are Audit and Supervisory Committee Members is decided through deliberation by the Audit and Supervisory Committee.

C. Activities of the Board of Directors and the Nomination and Compensation Committee

During the fiscal year under review, the Nomination and Compensation Committee met four times, on April 12 and May 27, 2022, and January 13 and February 14, 2023, to discuss mainly the matters related to the election of the director candidates, based on the status of skills of the Board of Directors.



ii) Total remuneration by officer category, remuneration amount by type, and number of eligible officers

Officer category	Amount of remuneration etc. (Millions of yen)	Total amount of remuneration, etc. by type (millions of yen)			Number of eligible officers
		Base remuneration		Restricted stock compensation	
		Position-based remuneration	Performance-linked remuneration		
Director (excluding Directors on Audit and Supervisory Committee, and Outside Directors )	162	118	32	12	4
Director (Audit and Supervisory Committee Member) (excluding Outside Directors) )	13	13	—	—	2
Outside Directors	24	24	—	—	5
Total	199	155	32	12	11

- (Notes) 1. The number of eligible officers includes an Outside Director and a Director who was an Audit and Supervisory Committee Member, who resigned upon conclusion of the 64th Ordinary General Meeting of Shareholders held on May 27, 2022.
2. Regarding remuneration, etc. of each individual for the fiscal year under review, the Board of Directors has confirmed that the method of determining the content of remuneration, etc. and the content of the determined remuneration, etc. are consistent with the above-mentioned policy and that reports from the Nomination and Compensation Committee are respected, and thus it judged that the remuneration etc. complies with the said policy.
3. The Audit and Supervisory Committee of the Company has expressed their opinion that remuneration etc., of Directors (excluding Directors who are Audit and Supervisory Committee Members) has been determined by the Board of Directors after deliberation and reporting by the Nomination and Compensation Committee and that the amount of individual remuneration and the process for determining the amount are appropriate.

(5) Information on shareholdings

i) Standards and approach toward classification of investment shares

The Company classifies its equity securities into investment shares held for pure investment, which are held purely for the purpose of receiving profits from stock price fluctuations or stock dividends, and investment shares held for purposes other than pure investment, which are deemed strategically necessary. In principle, our policy is not to hold investment shares for pure investment

ii) investment shares held for purposes other than pure investment

A. Shareholding policy and method of verifying rationale of holding, and details of verification by Board of Directors, etc. concerning holding of individual issues

The Company's policy is to examine whether to hold or sell the investment shares each year at the Board of Directors' meeting, based on awareness of the capital cost of the Company, as well as dividends, capital gains, and profits from transactions, also in consideration of the rationale of the purposes of holding, such as business partnerships, maintaining or enhancing transactions, and stabilizing the shares.

In light of this policy, the Company regularly determines the necessity of holding at the Board of Directors' meetings, based on the purpose of holding, status of transactions, benefits associated with the holding, etc.

B. Number of issues and balance sheet amount

	Number of issues	Total balance sheet amount (millions of yen)
Unlisted shares	5	265
Shares other than unlisted shares	3	161

(Issues whose number of shares increased during the fiscal year under review)

	Number of issues	Total acquisition cost for increased shares (millions of yen)	Reason for increase in number of shares
Unlisted shares	1	100	To maintain and enhance business relationships
Shares other than unlisted shares	—	—	—

(Issues whose number of shares decreased during the fiscal year under review)

Not applicable.

C. Information on number of shares and balance sheet amount of specified investment shares

Specified investment shares

Issue	Fiscal year under review	Previous fiscal year	Purpose of holding, quantitative effects of holding, and reason for the increase in the number of shares	Holding of the Company's shares
	Number of shares	Number of shares		
	Balance sheet amount (Millions of yen)	Balance sheet amount (Millions of yen)		
Nippon Soda Co., Ltd.	20,152	20,152	The Company's Chiba Plant has business relationships with several consolidated subsidiaries of this company for product sales, purchase of subsidiary materials, disposal of waste sulfuric acid, etc. The shareholding is for the purpose of maintaining and enhancing these business relationships.	Yes
	93	68		
Mizuho Financial Group, Inc.	23,600	23,600	The shareholding is for the purpose of maintaining and enhancing the business relationships, mainly for fund procurement both inside and outside Japan, with this company as a major partner financial institution.	Yes
	50	36		
Mitsubishi UFJ Financial Group, Inc.	18,400	18,400	The shareholding is for the purpose of maintaining and enhancing the business relationships, mainly for fund procurement both inside and outside Japan, with this company as a major partner financial institution.	Yes
	18	13		

(Note) Quantitative effects of holding are not stated as they are difficult to describe. The rationale of holding is verified by the Board of Directors every year according to the method described in B. above.

- iii) Investment shares held for pure investment  
Not applicable.

## V. Financial Information

1. Basis of preparation of consolidated and non-consolidated financial statements
  - (1) The consolidated financial statements of the Company are prepared in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976).
  - (2) The non-consolidated financial statements of the Company are prepared in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Order No. 59 of 1963, hereinafter referred to as the “Financial Statement Regulations”).

As the Company qualifies as a company submitting non-consolidated financial statements prepared in accordance with special provisions, the Company prepares its non-consolidated financial statements pursuant to Article 127 of the Financial Statements Regulations.

2. Audit certification

Pursuant to the provisions of Article 193-2, Paragraph 1, of the Financial Instruments and Exchange Act, the Company’s consolidated and non-consolidated financial statements for the fiscal year (March 1, 2022 to February 28, 2023) were audited by Grant Thornton Taiyo LLC.
3. Special efforts to ensure the appropriateness of consolidated financial statements, etc.

The Company makes special efforts to ensure the appropriateness of its consolidated financial statements, etc. Specifically, in order to accurately ascertain the content of the accounting standards and appropriately address changes in these accounting standards, the Company maintains membership in the Financial Accounting Standards Foundation and regularly participates in seminars held by the Foundation.

## 1. Consolidated Financial Statements, etc.

## (1) Consolidated Financial Statements

## i) Consolidated balance sheet

(Millions of yen)

	Previous consolidated fiscal year (as of February 28, 2022)	Consolidated fiscal year under review (February 28, 2023)
<b>Assets</b>		
Current assets		
Cash and deposits	4,001	4,256
Notes and accounts receivable - trade	6,844	—
Notes receivable - trade	—	1,235
Accounts receivable - trade	—	6,360
Merchandise and finished goods	2,935	3,276
Raw materials and supplies	2,391	3,030
Other	461	675
Allowance for doubtful accounts	(25)	(22)
Total current assets	16,607	18,810
Non-current assets		
Property, plant and equipment		
Buildings and structures	*3 6,867	7,402
Accumulated depreciation	(3,327)	(3,516)
Buildings and structures, net	*3 3,540	3,886
Machinery, equipment and vehicles	*3 10,513	10,793
Accumulated depreciation	(8,478)	(8,978)
Machinery, equipment and vehicles, net	*3 2,035	1,815
Land	*3 1,954	1,963
Leased assets	189	230
Accumulated depreciation	(134)	(148)
Leased assets, net	55	82
Construction in progress	294	491
Other	*3, *4 3,004	*4 3,143
Accumulated depreciation	(2,579)	(2,770)
Other, net	*3, *4 425	*4 373
Total property, plant and equipment	8,304	8,610
Intangible assets		
Goodwill	219	92
Leased assets	1	45
Other	412	452
Total intangible assets	633	589
Investments and other assets		
Investment securities	*1 367	*1 520
Investments in capital	*2 1,915	*2 2,078
Deferred tax assets	29	75
Net defined benefit asset	976	1,160
Other	179	168
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	3,465	4,002
Total non-current assets	12,401	13,202
Deferred assets		
Business commencement expenses	—	6
Total deferred assets	—	6
Total assets	29,008	32,017

(Millions of yen)

	Previous consolidated fiscal year (as of February 28, 2022)	Consolidated fiscal year under review (February 28, 2023)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	4,308	5,144
Contract liability	—	94
Short-term borrowings	560	2,381
Income taxes payable	427	183
Provision for bonuses	529	464
Other	1,437	1,334
Total current liabilities	7,260	9,599
Non-current liabilities		
Long-term borrowings	350	472
Net defined benefit liability	531	498
Other	316	208
Total non-current liabilities	1,197	1,179
Total liabilities	8,457	10,778
<b>Net assets</b>		
Shareholders' equity		
Capital stock	2,118	2,118
Capital surplus	1,976	1,976
Retained earnings	13,517	13,760
Treasury shares	(384)	(567)
Total shareholders' equity	17,227	17,287
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	38	74
Foreign currency translation adjustment	505	879
Remeasurements of defined benefit plans	191	293
Total accumulated other comprehensive income	735	1,246
Non-controlling interests	2,589	2,706
Total net assets	20,551	21,240
Total liabilities and net assets	29,008	32,017

ii) Consolidated statement of income and consolidated statement of comprehensive income  
Consolidated statement of income

	(Millions of yen)	
	Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
Net sales	27,300	*1 30,333
Cost of sales	*2 18,575	*2 22,204
Gross profit	8,725	8,129
Selling, general and administrative expenses	*3, *4 7,291	*3, *4 7,606
Operating profit	1,434	523
Non-operating income		
Interest income	23	21
Dividend income	14	19
Foreign exchange gains	247	295
Share of profit of entities accounted for using equity method	239	148
Other	79	76
Total non-operating income	602	559
Non-operating expenses		
Interest expenses	12	13
Loss on retirement of non-current assets	5	5
Other	9	18
Total non-operating expenses	26	36
Ordinary profit	2,011	1,046
Extraordinary income		
Gain on sale of non-current assets	*5 833	—
Total extraordinary income	833	—
Profit before income taxes	2,844	1,046
Income taxes - current	653	587
Income taxes - deferred	178	(267)
Total income taxes	831	320
Profit	2,013	726
Profit attributable to non-controlling interests	205	112
Profit attributable to owners of parent	1,808	615

Consolidated statement of comprehensive income

(Millions of yen)

	Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
Profit	2,013	726
Other comprehensive income		
Valuation difference on available-for-sale securities	17	36
Foreign currency translation adjustment	731	470
Remeasurements of defined benefit plans, net of tax	41	103
Share of other comprehensive income of entities accounted for using equity method	47	17
Total other comprehensive income	*1 836	*1 627
Comprehensive income	2,848	1,353
Comprehensive income attributable to		
Owners of parent	2,480	1,126
Non-controlling interests	368	227

iii) Consolidated statement of changes in equity  
Previous consolidated fiscal year (from March 1, 2021 to February 28, 2022)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,118	1,976	12,132	(390)	15,836
Changes during period					
Dividends of surplus			(422)		(422)
Profit attributable to owners of parent			1,808		1,808
Disposal of treasury shares		(0)		5	5
Net changes in items other than shareholders' equity					
Total changes during period	—	(0)	1,386	5	1,391
Balance at end of period	2,118	1,976	13,517	(384)	17,227

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	27	(117)	152	63	2,264	18,163
Changes during period						
Dividends of surplus						(422)
Profit attributable to owners of parent						1,808
Disposal of treasury shares						5
Net changes in items other than shareholders' equity	11	622	39	672	326	998
Total changes during period	11	622	39	672	326	2,389
Balance at end of period	38	505	191	735	2,589	20,551



Consolidated fiscal year under review (from March 1, 2022 to February 28, 2023)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,118	1,976	13,517	(384)	17,227
Changes during period					
Dividends of surplus			(372)		(372)
Profit attributable to owners of parent			615		615
Purchase of treasury shares				(194)	(194)
Disposal of treasury shares		1		12	12
Net changes in items other than shareholders' equity					
Total changes during period	—	1	242	(183)	60
Balance at end of period	2,118	1,976	13,760	(567)	17,287

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	38	505	191	735	2,589	20,551
Changes during period						
Dividends of surplus						(372)
Profit attributable to owners of parent						615
Purchase of treasury shares						(194)
Disposal of treasury shares						12
Net changes in items other than shareholders' equity	36	373	102	511	117	628
Total changes during period	36	373	102	511	117	688
Balance at end of period	74	879	293	1,246	2,706	21,240

## iv) Consolidated statement of cash flows

(Millions of yen)

	Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
Cash flows from operating activities		
Profit before income taxes	2,844	1,046
Depreciation	1,210	1,236
Share of loss (profit) of entities accounted for using equity method	(239)	(148)
Loss (gain) on sale of property, plant and equipment	(842)	(10)
Decrease (increase) in net defined benefit asset	(103)	(225)
Increase (decrease) in provision for bonuses	85	(66)
Increase (decrease) in allowance for doubtful accounts	(3)	(4)
Interest and dividend income	(37)	(40)
Interest expenses	12	13
Decrease (increase) in trade receivables	75	(570)
Decrease (increase) in inventories	(900)	(798)
Increase (decrease) in trade payables	191	727
Other	144	81
Subtotal	2,437	1,242
Interest and dividends received	241	123
Interest paid	(12)	(13)
Income taxes paid	(333)	(837)
Cash flows from operating activities	2,333	515
Cash flows from investing activities		
Net decrease (increase) in time deposits	101	282
Purchase of property, plant and equipment	(934)	(1,283)
Proceeds from sale of property, plant and equipment	1,511	10
Purchase of intangible assets	(31)	(60)
Purchase of investment securities	(3)	(104)
Other	(40)	(16)
Cash flows from investing activities	603	(1,172)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(1,955)	1,884
Proceeds from long-term loans payable	—	500
Repayments of long-term borrowings	(469)	(443)
Purchase of treasury shares	—	(194)
Dividends paid	(424)	(372)
Dividends paid to non-controlling interests	(59)	(111)
Other	(30)	(36)
Cash flows from financing activities	(2,937)	1,227
Effect of exchange rate change on cash and cash equivalents	(20)	(38)
Net increase (decrease) in cash and cash equivalents	(21)	532
Cash and cash equivalents at beginning of period	3,675	3,654
Cash and cash equivalents at end of period	*1 3,654	*1 4,186

## Notes

(Important matters that are the basis for preparation of consolidated financial statements)

### 1. Scope of consolidation

Number of consolidated subsidiaries: 14

Names of consolidated subsidiaries

MATSUKEN CO., LTD.

MORESCO TECHNO CO., LTD

Ethylene Chemical Co., Ltd.

MORESCO(Thailand)Co.,Ltd.

MORESCO Holding(Thailand)Co.,Ltd.

MORESCO USA Inc.

WUXI MORESCO TRADING CO., LTD.

MORESCO HANANO DIE-CASTING COATING (SHANGHAI) CO., LTD.

MORESCO (ZHEJIANG) FUNCTION MATERIAL CO., LTD.

MORESCO TRADING (ZHEJIANG) CO., LTD.

TIANJIN MORESCO TECHNOLOGY CO., LTD.

PT.MORESCO INDONESIA

PT.MORESCO MACRO ADHESIVE

MORESCO HM&LUB INDIA PRIVATE LIMITED

Of the above subsidiaries, MORESCO (ZHEJIANG) FUNCTION MATERIAL CO., LTD. and MORESCO TRADING (ZHEJIANG) CO., LTD. were newly established during the consolidated fiscal year under review and are therefore included in the scope of consolidation.

### 2. Application of equity method

(1) Number of affiliates accounted for using equity method: 2

Names of affiliates

Wuxi More Tex Technology Co., Ltd.

Zhangjiagang TEEC Automotive Chemicals Co., Ltd.

(2) Wuxi More Tex Technology Co., Ltd. and Zhangjiagang TEEC Automotive Chemicals Co., Ltd. settled their accounts on December 31, but the consolidated financial statements are prepared using the non-consolidated financial statements as of that date.

### 3. Fiscal years, etc. of consolidated subsidiaries

Among the consolidated subsidiaries,

MORESCO(Thailand)Co.,Ltd.

MORESCO Holding(Thailand)Co.,Ltd.

MORESCO USA Inc.

WUXI MORESCO TRADING CO., LTD.

MORESCO HANANO DIE-CASTING COATING (SHANGHAI) CO., LTD.

MORESCO (ZHEJIANG) FUNCTION MATERIAL CO., LTD.

MORESCO TRADING (ZHEJIANG) CO., LTD.

TIANJIN MORESCO TECHNOLOGY CO., LTD.

PT.MORESCO INDONESIA

PT.MORESCO MACRO ADHESIVE

MORESCO HM&LUB INDIA PRIVATE LIMITED

settle their accounts on December 31,

In preparing the consolidated financial statements, non-consolidated financial statements as of their settlement date are used. However, for important transactions that took place during the period from the settlement date to the consolidated settlement date, adjustments necessary for consolidated accounting have been made.

#### 4. Information on accounting policies

##### (1) Standards and methods for evaluating important assets

- i) Securities
  - Available-for-sale securities
  - Securities other than shares without a market price
  - Fair value method (unrealized gain and loss, net of tax are recorded in net assets, and the moving average method is used to calculate the cost of securities sold)
  - Shares without a market price
  - Moving average cost method
- ii) Derivatives
  - Fair value method
- iii) Inventories
  - Mainly gross average cost method
  - (The balance sheet values are calculated by writing down the book values in response to decreased profitability)

##### (2) Depreciation methods for important depreciable assets

- i) Property, plant and equipment (excluding leased assets)
  - The Company and its consolidated subsidiaries in Japan adopt mainly the declining-balance method and overseas consolidated subsidiaries adopt the straight-line method.
  - However, the Company and its consolidated subsidiaries in Japan adopt the straight-line method for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016.
  - Major useful lives are as follows.
  - Buildings and structures: 3 to 60 years
  - Machinery, equipment and vehicles: 4 to 15 years
- ii) Intangible assets (excluding leased assets)
  - The straight-line method is adopted.
  - Useful life of software used in-house is based on the usable period inside the company (5 years).
- iii) Leased assets
  - Leased assets relating to finance lease without transfer of ownership
  - The straight-line method is used with a useful life of the lease period and with a residual value of zero.

##### (3) Accounting standards for important reserves and allowances

- i) Allowance for doubtful accounts
  - In order to prepare for possible losses on uncollectible receivables held, estimated uncollectible amounts are posted: for general receivables, according to the historical percentage of uncollectibles, and for doubtful receivables, considering the probability of collection.
- ii) Provision for bonuses
  - In order to prepare for payment of bonuses to employees, a provision is made based on the estimated bonus payments, which are attributable to the consolidated fiscal year under review.

##### (4) Accounting standards for important income and expenses

The main business of the MORESCO Group is manufacture and sale of chemical products (specialty lubricants, synthetic lubricants, liquid paraffin & sulfonates, hot melt adhesives, and energy device materials). With regard to sale of such goods and products, the Group determines that control of goods is transferred to customers at the time of delivery. As the period between shipment and delivery is a normal period of time, the Group applies alternative treatment based on importance, etc., and recognizes revenue at the time of shipment of goods and products for inside Japan. For overseas, based on the terms of trade stipulated by Incoterms, etc., the Group determines that control of goods and products is transferred to customers and its performance obligations are satisfied when risks are transferred to customers. Therefore, the Group recognizes revenue at the time of shipment of goods and products in principle.

##### (5) Accounting treatment for retirement benefits

- i) Method to attribute the estimated retirement benefits to the periods
  - To calculate retirement benefit obligations, the benefit formula method is adopted as a method to attribute the estimated retirement benefits to the periods up to the end of the consolidated fiscal year under review.
- ii) Method of amortization of actuarial gains and losses
  - The actuarial differences are recognized in the following consolidated fiscal year by the straight-line method over a certain period (mainly 14 years) that are not more than the average remaining service period of employees at the time of the accrual of a difference.

##### (6) Standards for translation of important foreign currency-denominated assets or liabilities into Japanese yen

Foreign currency receivables/payables are translated into Japanese yen using the spot foreign exchange rate on the consolidated closing date, and translation differences are treated as income or loss. The assets and liabilities of subsidiaries overseas are translated into Japanese yen using the spot foreign exchange rate on the closing date; income and expenses are translated into yen using an average market rate during the period, and translation differences are included in "Foreign currency translation adjustment" and "Noncontrolling interests" of the "Net assets".

##### (7) Important hedge accounting methods

- i) Hedge accounting method
  - Exceptional accounting is adopted for interest-rate swaps that meet the requirements for exceptional accounting.

- ii) Means of hedging and hedged items  
Means of hedging: interest-rate swaps  
Hedged items: borrowings
  - iii) Hedging policy  
Hedging is conducted within the range of the target obligations for the purpose of reducing interest rate risks and improving the financial account balance.
  - iv) Method for evaluating the effectiveness of hedges  
The evaluation of hedge effectiveness is omitted for interest-rate swaps for which exceptional accounting is used.
- (8) Method and period of amortization of goodwill  
Goodwill is regularly amortized using the straight-line method over an effective period up to 20 years. However, minor goodwill is entirely amortized all at once.
- (9) Scope of cash and cash equivalents in consolidated statement of cash flows  
Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.
- (10) Other important matters that are the basis for preparation of consolidated financial statements  
Treatment of deferred assets  
Business commencement expenses  
Amortized using the straight-line method over an effective period up to five years
- (11) Accounting principles and procedures that were adopted when relevant accounting standards, etc. were unclear  
Restricted stock compensation system  
Remuneration, etc. paid to directors of the Company based on the Company's restricted stock compensation system is treated as expenses over the applicable service period.

(Important accounting estimates)

1. Valuation of inventories

(1) Amount recorded in the consolidated financial statements for the consolidated fiscal year under review  
(Millions of yen)

	Previous consolidated fiscal year	Consolidated fiscal year under review
Merchandise and finished goods	2,935	3,276
Raw materials and supplies	2,391	3,030
Cost of sales	(49)	38

For loss on valuation of inventories (reversal), net amount after reversal is stated.

(2) Information on the details of accounting estimates

i) Calculation method

The balance sheet values of merchandise and finished goods, and raw materials and supplies, are calculated by writing down the book values in response to decreased profitability. If the net sales value or replacement cost of merchandise and finished goods, or raw materials and supplies, is lower than their book value, said net sales value or replacement cost is stated as the carrying value of the consolidated balance sheet. For inventories that fall out of the normal operating cycle, those that have passed a certain period of time or have exceeded a certain turnover period as of the end of the fiscal year are judged as slow-moving stock, excluding those judged to have the potential to be sold as a result of individual examination in light of the future sales prospect based on past sales performance, etc., and the fact of decreased profitability is reflected by using a regular write-down method of book values.

ii) Major assumptions

Calculation of the net sales value or replacement cost of inventories is based on the actual result of sales or purchases before the final date of the consolidated fiscal year. The net sales value or replacement cost of inventories that have not been sold or purchased for a certain period of time is estimated considering past sales or purchase records. The sales potential of slow-moving stock is examined individually in light of the future sales prospect based on past sales performance, etc.

iii) Impact on the consolidated financial statements for the following consolidated fiscal year

If the net sales value or replacement cost significantly declines due to changes in the market environment, it may have a serious impact on income of the following consolidated fiscal year.

2. Impairment losses on non-current assets

(1) Amount recorded in the consolidated financial statements for the consolidated fiscal year under review  
(Millions of yen)

	Previous consolidated fiscal year	Consolidated fiscal year under review
Property, plant and equipment	8,304	8,610
Intangible assets	633	589

(2) Information on the details of accounting estimates

i) Calculation method

The Company classified assets into the smallest cash-generating groups. For the asset groups that may be impaired, if the total amount of cash before discount that would be received from such asset groups is lower than their book value, the book value is reduced to the recoverable amount, and the reduced amount is recorded as an impairment loss.

ii) Major assumptions

The future cash to be generated from continuous use of asset groups are estimated based on the business plan approved by the Board of Directors. Major assumption in these estimates is sales forecast, which is made based on the market trends, recent business performance, etc.

- iii) Impact on the consolidated financial statements for the following consolidated fiscal year  
If the estimated future cash flows significantly decline due to deterioration of the business environment, etc., it may have a serious impact on income of the following consolidated fiscal year.

(Changes in accounting policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company has applied the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020; hereinafter, the “Revenue Recognition Accounting Standard”), etc., effective from the beginning of the consolidated fiscal year under review, and recognizes revenue in the amount expected to be received in exchange for promised goods or services at the time when control of these goods or services is transferred to customers.

The application of the Revenue Recognition Accounting Standard, etc. is subject to the transitional treatment provided for in the proviso to Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effect of the retroactive application of the new accounting policy, assuming that it has been applied to periods prior to the beginning of the consolidated fiscal year under review, is added to or subtracted from retained earnings at the beginning of the consolidated fiscal year under review, and the new accounting policy is applied from the beginning balance. However, by applying the method stipulated in Paragraph 86 of the Revenue Recognition Accounting Standard, the new accounting policy has been retroactively applied to contracts in which nearly all amounts of revenue were recognized in accordance with the previous treatment before the beginning of the consolidated fiscal year under review. This has no impact on the beginning balance.

Details of changes due to the application of this accounting standard are as follows.

- Sales of products to customers  
The Company has changed its method to recognize revenue when risks are transferred to customers in accordance with the terms of trade stipulated by Incoterms, etc., for contracts of export sales to which the shipment standard was conventionally applied but risks are not transferred at the time of shipment.
- Paid receipt transactions  
For paid receipt transactions, in which the Company purchases raw materials, etc. from its customers and sells them back to the same customers after processing them, the Company has changed its method to recognize revenue by the net amount of the consideration less the purchase prices of the raw materials, from the conventional method of recognizing revenue by the total amount of consideration including the purchase prices of the raw materials, etc. The ending inventory of raw materials, which was included in inventories, is now included in “Other” under current assets.
- Paid supply transactions  
For paid supply transactions, we conventionally recognized extinguishment with regard to the goods supplied with payment. But when we are obliged to buy back the supplied goods, we now continue to recognize such supplied goods and also recognize liabilities related to paid supply transactions for the ending inventory of the supplied goods remaining at recipients thereof.
- Agent transactions  
For transactions with agents, the amount of consideration that customers pay less the commission fees paid to agents was conventionally recognized as revenue. But the Company has changed the method for some agents to recognize the total amount of consideration that customers pay as revenue and recognize fees to agents as expenses.

“Notes and accounts receivable - trade,” which had been presented under “Current assets” in the consolidated balance sheet of the previous fiscal year, has been included in “Notes receivable - trade” and “Accounts receivable - trade” from the consolidated fiscal year under review. “Other,” which had been presented under “Current liabilities,” has been included in “Contract liabilities” and “Other” from the consolidated fiscal year under review. In accordance with the transitional treatment provided for in Paragraph 89-2 of the Revenue Recognition Accounting Standard, the Company has not reclassified financial statements for the previous fiscal year using the new presentation method.

As a result, the impact on the consolidated financial statements of the consolidated fiscal year under review is minor. In accordance with the transitional treatment provided for in Paragraph 89-3 of the Revenue Recognition Accounting Standard, notes to “Revenue recognition” relating to the previous fiscal year are not presented.

(Application of the Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter, the “Fair Value Measurement Accounting Standard”), etc., effective from the beginning of the consolidated fiscal year under review. And, in accordance with the transitional treatment provided for in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the Company will apply the new accounting policy prescribed by the Fair Value Measurement Accounting Standard, etc. into the future. However, this application has no impact on the consolidated financial statements.

In addition, the Company includes notes on matters relating to breakdown, etc. of fair values of financial instruments by level in the notes to “Financial instruments.” However, in accordance with the transitional treatment prescribed in Paragraph 7-4 of the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, July 4, 2019), notes relating to the previous fiscal year are not presented.

(Accounting standards not yet applied)

Not applicable.

(Changes in presentation)

(Consolidated balance sheet)

“Lease obligations” under “Current liabilities” and “Lease obligations” under “Non-current liabilities,” which were presented independently in the previous fiscal year, have been included in “Other” under “Current liabilities” and “Other” under “Non-current liabilities,” respectively, from the consolidated fiscal year under review due to the decreased materiality. To reflect this change in the presentation method, consolidated financial statements for the previous fiscal year have been reclassified. As a result, 36 million yen presented in “Lease obligations” under “Current liabilities” and 22 million yen presented in “Lease obligations” under “Non-current liabilities” in the consolidated balance sheet for the previous fiscal year are included in “Other” under “Current liabilities” and “Other” under “Non-current liabilities,” respectively.

(Supplementary information)

(Accounting estimates relating to the impact of the spread of COVID-19)

The MORESCO Group makes accounting estimates of the recoverability of deferred tax assets, impairment accounting for non-current assets, etc., based on the information available at the time of preparation of consolidated financial statements. Regarding the impact of COVID-19, the Group has made accounting estimates based on the assumption that although it will last for a certain period of time, the situation will gradually recover. However, there are many uncertainties regarding the impact of COVID-19. If the timing of settlement or the impact on the economic environment changes, it may affect the Group’s financial position and operating results.



(Consolidated balance sheet)

\*1 Investments in unconsolidated subsidiaries are as follows.

	Previous consolidated fiscal year (as of February 28, 2022)	Consolidated fiscal year under review (February 28, 2023)
Investment securities (stocks)	3million yen	3million yen

\*2 Investments in affiliates are as follows.

	Previous consolidated fiscal year (as of February 28, 2022)	Consolidated fiscal year under review (February 28, 2023)
Investments in capital	1,914million yen	2,077million yen

\*3 Pledged assets and secured liabilities  
Pledged assets are as follows.

	Previous consolidated fiscal year (as of February 28, 2022)		Consolidated fiscal year under review (February 28, 2023)	
Buildings and structures	23 <sup>million</sup> yen	( 23 <sup>million</sup> yen)	— <sup>million</sup> yen	( — <sup>million</sup> yen)
Machinery, equipment and vehicles	1	( 1 )	—	( — )
Land	470	( 470 )	—	( — )
Property, plant and equipment; Other	0	( 0 )	—	( — )
Total	494	( 494 )	—	( — )

Figures in parentheses above indicate factory foundation mortgages.

There are no liabilities corresponding to pledged assets.

\*4 Reduction entry

Total reduction entries due to acquisition of government subsidies, etc. for property, plant and equipment are as follows.

	Previous consolidated fiscal year (as of February 28, 2022)	Consolidated fiscal year under review (February 28, 2023)
Property, plant and equipment; Other	11million yen	11million yen

(Consolidated statement of income)

\*1 Revenue arising from contracts with customers

With respect to net sales, the Company does not disaggregate revenue arising from contracts with customers and other revenues. The amount of revenue arising from contracts with customers is presented in “Notes to consolidated Financial Statements (Revenue recognition), 1. Information regarding disaggregated revenue arising from contracts with customers.”

\*2 The ending inventory is the amount after write-down in response to decreased profitability, and loss on valuation of inventories below is included in cost of sales.

Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
(49)million yen	38million yen

\*3 Major components of selling, general and administrative expenses and their amounts are as follows.

	Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
Salaries	2,062million yen	2,097million yen
Provision for bonuses	387	346
Retirement benefit expenses	146	131
Provision of allowance for doubtful accounts	(1)	1
Depreciation	637	585
Freightage expenses	868	949

\*4 Research and development expenses included in general and administrative expenses

Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
1,359million yen	1,246million yen

\*5 Details of gain on sales of non-current assets are as follows.

	Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
Land, buildings and structures, etc.	833million yen	— million yen

## (Consolidated statement of comprehensive income)

## \*1 Reclassification adjustments and tax effects relating to other comprehensive income

	Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
Valuation difference on available-for-sale securities:		
Amount arising during the period	19million yen	48million yen
Reclassification adjustments	—	—
Before tax-effect adjustment	19	48
Amount of tax effects	(2)	(12)
Valuation difference on available-for-sale securities	17	36
Foreign currency translation adjustment:		
Amount arising during the period	731	470
Reclassification adjustments	—	—
Before tax-effect adjustment	731	470
Amount of tax effects	—	—
Foreign currency translation adjustment	731	470
Remeasurements of defined benefit plans:		
Amount arising during the period	57	164
Reclassification adjustments	2	(15)
Before tax-effect adjustment	58	149
Amount of tax effects	(18)	(45)
Remeasurements of defined benefit plans, net of tax	41	103
Share of other comprehensive income of entities accounted for using equity method:		
Amount arising during the period	47	17
Reclassification adjustments	—	—
Share of other comprehensive income of entities accounted for using equity method	47	17
Total other comprehensive income	836	627

(Consolidated statement of changes in equity)

Previous consolidated fiscal year (from March 1, 2021 to February 28, 2022)

1. Issued shares and treasury shares

	Shares at the beginning of period	Increase during period	Decrease during period	Shares at the end of period
Issued shares				
Common shares	9,696,500	—	—	9,696,500
Total	9,696,500	—	—	9,696,500
Treasury shares				
Common shares (Note 1)	321,070	—	4,500	316,570
Total	321,070	—	4,500	316,570

(Notes) 1. The decrease of 4,500 common shares held as treasury shares is due to disposal of treasury shares as restricted stock compensation.

2. Share acquisition rights and treasury share acquisition rights

Not applicable.

3. Dividends

(1) Amount of dividends paid

Resolution	Types of shares	Total dividend amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on May 28, 2021	Common shares	234	25.00	February 28, 2021	May 31, 2021
Board of Directors meeting on October 13, 2021	Common shares	188	20.00	August 31, 2021	November 11, 2021

(2) Dividend for which the record date falls in the consolidated fiscal year under review but the effective date comes after the end of that consolidated fiscal year

Resolution	Types of shares	Source of dividend	Total dividend amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on May 27, 2022	Common shares	Retained earnings	188	20.00	February 28, 2022	May 30, 2022

Consolidated fiscal year under review (from March 1, 2022 to February 28, 2023)

1. Issued shares and treasury shares

	Shares at the beginning of period	Increase during period	Decrease during period	Shares at the end of period
Issued shares				
Common shares	9,696,500	—	—	9,696,500
Total	9,696,500	—	—	9,696,500
Treasury shares				
Common shares (Notes) 1, 2	316,570	162,000	9,600	468,970
Total	316,570	162,000	9,600	468,970

(Notes) 1. The increase of 162,000 common shares held as treasury shares is due to repurchase of treasury shares through off-auction treasury share repurchase trading (ToSTNeT-3).

2. The decrease of 9,600 common shares held as treasury shares is due to disposal of treasury shares as restricted stock compensation.

2. Share acquisition rights and treasury share acquisition rights  
Not applicable.

3. Dividends  
(1) Amount of dividends paid

Resolution	Types of shares	Total dividend amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on May 27, 2022	Common shares	188	20.00	February 28, 2022	May 30, 2022
Board of Directors meeting on October 13, 2022	Common shares	185	20.00	August 31, 2022	November 11, 2022

(2) Dividend for which the record date falls in the consolidated fiscal year under review but the effective date comes after the end of that consolidated fiscal year

Resolution	Types of shares	Source of dividend	Total dividend amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on May 30, 2023	Common shares	Retained earnings	185	20.00	February 28, 2023	May 31, 2023

(Consolidated statement of cash flows)

\*1 Reconciliation of cash and cash equivalents at end of period and the amount recorded in the consolidated balance sheet

	Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
Cash and deposits	4,001million yen	4,256million yen
Time deposits with maturities of more than three months	(347)	(70)
Cash and cash equivalents	3,654	4,186

(Leases)

(Borrower side)

1. Finance lease transactions

Finance lease transactions without transfer of ownership

i) Details of leased assets

Vehicles, tools, furniture and fixtures, and software

ii) Depreciation method of leased assets

As described in “4. Information on accounting policies (2) Depreciation methods for important depreciable assets” under “Important matters that are the basis for preparation of consolidated financial statements.”

2. Operating lease transactions

Future minimum lease payments required under non-cancellable operating lease transactions

(Millions of yen)

	Previous consolidated fiscal year (as of February 28, 2022)	Consolidated fiscal year under review (February 28, 2023)
Due within one year	41	41
Due after one year	41	—
Total	83	41

(Financial instruments)

1. Overview of financial instruments

(1) Policy to manage financial instruments

The MORESCO Group's policy is to limit its fund management to short-term deposits, etc. and to raise its funds mainly through borrowings from banks. The Group uses derivative instruments to hedge the risks below and does not enter into any speculative transactions.

(2) Description of financial instruments, related risks, and risk management structure

Notes and accounts receivable - trade, which are operating receivables, are exposed to customers' credit risks. For credit risks, we have a system in which due dates and balances of operating receivables are managed for each business partner in accordance with the credit management regulations, and the credit status of all business partners is reviewed once a year. In addition, the Company receives advances or guarantee deposits as necessary, with the aim of reducing credit risks. Moreover, due to the Group's global business development, part of accounts receivable are exposed to exchange rate fluctuation risks. However, these risks are hedged using forward exchange contracts as necessary.

Investment securities are mainly shares of companies with which the Company has business relationships and are exposed to market price fluctuation risks. However, we regularly check the market price and financial position of each issuing company and review the holding status.

All of the notes and accounts payable - trade, which are operating payables, are due within one year.

Among borrowings, short-term borrowings are mainly for operating transactions and long-term borrowings are mainly for capital expenditures. Variable-rate borrowings are exposed to interest rate fluctuation risks. The Company uses fixed-rate borrowings for long-term borrowings in principle. For borrowings with variable interest rates, the Company uses derivative transactions (interest rate swaps) for each individual contract as necessary to hedge the interest rate fluctuation risks and fix the interest rates payable. The evaluation of hedge effectiveness is omitted as requirements for exceptional accounting of interest-rate swaps are met.

Derivative transactions are executed and managed in the Accounting Department in accordance with the internal regulations that specify transaction responsibilities. In using derivatives, the Company uses only major financial institutions with high social credibility.

Operating payables and borrowings are exposed to liquidity risks. However, the Group manages the liquidity risks by such measures as having each company prepare a monthly financing plan.

(3) Supplemental explanation on the fair value, etc. of financial instruments

The fair value of financial instruments includes the value based on their market prices, or the value reasonably calculated if market prices are not available. Since the calculation of fair value of financial instruments reflects variable factors, it is subject to change depending on different assumptions used.

2. fair value, etc. of financial instruments

Amounts posted on the consolidated balance sheet, fair values, and the corresponding differences between the two are as follows. Instruments that do not have market prices (see Note 1) are not included.

	Previous consolidated fiscal year (as of February 28, 2022)		
	Balance sheet amount (*10 (Millions of yen)	Fair value (*1) (Millions of yen)	Difference (Millions of yen)
i) Notes and accounts receivable - trade	6,844		
Allowance for doubtful accounts (*3)	(25)		
	6,819	6,819	—
ii) Investment securities			
Available-for-sale securities	199	199	—
iii) Long-term borrowings (including current portion)	(775)	(772)	(3)
iv) Derivative transactions	(1)	(1)	—

	Consolidated fiscal year under review (as of February 28, 2023)		
	Balance sheet amount (*10 (Millions of yen)	Fair value (*1) (Millions of yen)	Difference (Millions of yen)
i) Notes receivable - trade	1,235		
ii) Accounts receivable - trade	6,360		
Allowance for doubtful accounts (*3)	(22)		
	7,573	7,573	—
iii) Investment securities			
Available-for-sale securities	252	252	—
iv) Long-term borrowings (including current portion)	(832)	(826)	(5)
v) Derivative transactions	(1)	(1)	—

(\*1) Items recorded as liabilities are presented in parentheses.

(\*2) Notes to cash and deposits, notes and accounts payable - trade, income taxes payable, contract liability, and short-term borrowings are omitted, as these are settled within a short time frame and therefore have a fair value almost equal to their book value.

(\*3) Allowance for doubtful accounts for notes and accounts receivable - trade is excluded.

(\*4) Net receivables and payables, which were derived from derivative transactions, are presented in net amounts.

(Note 1) The instruments below are not included as they do not have market prices.

Category	(Millions of yen)	
	Previous consolidated fiscal year (as of February 28, 2022)	Consolidated fiscal year under review (February 28, 2023)
Unlisted shares	165	265
Shares of affiliated companies	3	3
Investments in capital	1,915	2,078



These are not included in “ii) Investment securities” of the previous consolidated fiscal year and “iii) Investment securities” of the consolidated fiscal year under review, as they do not have market prices.

(Note 2) Redemption schedule after the balance sheet date for monetary receivables

	Previous consolidated fiscal year (as of February 28, 2022)			
	Due within 1 year (Millions of yen)	Due after 1 year but within 5 years (Millions of yen)	Due after 5 years but within 10 years (Millions of yen)	Due after 10 years (Millions of yen)
Cash and deposits	4,001	—	—	—
Notes and accounts receivable - trade	6,844	—	—	—
Total	10,845	—	—	—

	Consolidated fiscal year under review (as of February 28, 2023)			
	Due within 1 year (Millions of yen)	Due after 1 year but within 5 years (Millions of yen)	Due after 5 years but within 10 years (Millions of yen)	Due after 10 years (Millions of yen)
Cash and deposits	4,256	—	—	—
Notes receivable - trade	1,235	—	—	—
Accounts receivable - trade	6,360	—	—	—
Total	11,851	—	—	—

(Note 3) Redemption schedule after the balance sheet date for borrowings

	Previous consolidated fiscal year (as of February 28, 2022)					
	Due within 1 year (Millions of yen)	Due after 1 year but within 2 years (Millions of yen)	Due after 2 years but within 3 years (Millions of yen)	Due after 3 years but within 4 years (Millions of yen)	Due after 4 years but within 5 years (Millions of yen)	Due after 5 years (Millions of yen)
Short-term borrowings	135	—	—	—	—	—
Long-term borrowings	425	280	70	—	—	—
Total	560	280	70	—	—	—

	Consolidated fiscal year under review (as of February 28, 2023)					
	Due within 1 year (Millions of yen)	Due after 1 year but within 2 years (Millions of yen)	Due after 2 years but within 3 years (Millions of yen)	Due after 3 years but within 4 years (Millions of yen)	Due after 4 years but within 5 years (Millions of yen)	Due after 5 years (Millions of yen)
Short-term borrowings	2,021	—	—	—	—	—
Long-term borrowings	360	150	80	80	80	82
Total	2,381	150	80	80	80	82

3. Matters relating to breakdown, etc. of fair values of financial instruments by level

fair values of financial instruments are classified into the following three levels based on the observability and materiality of inputs used to calculate fair values.

Level 1 fair value: Fair value calculated using observable inputs, i.e., quoted prices in active markets for assets or liabilities that are the subject of the fair value measurement

Level 2 fair value: Fair value calculated using observable inputs other than Level 1 inputs

Level 3 fair value: Fair value calculated using unobservable inputs

When multiple inputs that have a significant impact on the calculation of fair value are used, the fair value is classified in the level with the lowest priority in the calculation of fair value among the levels to which those inputs belong.

i) Financial instruments recorded in the consolidated balance sheet at fair value

Consolidated fiscal year under review (as of February 28, 2023)

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities	252	—	—	252
Total assets	252	—	—	252
Derivative transactions				
Currency-related	—	1	—	1
Total liabilities	—	1	—	1

ii) Financial instruments other than those recorded in the consolidated balance sheet at fair value

Consolidated fiscal year under review (as of February 28, 2023)

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Notes receivable - trade	—	1,235	—	1,235
Accounts receivable - trade	—	6,360	—	6,360
Allowance for doubtful accounts	—	(22)	—	(22)
Total assets	—	7,573	—	7,573
Long-term borrowings (including current portion)	—	826	—	826
Total liabilities	—	826	—	826

(Note) Valuation methods used for the measurement of fair value and a description of inputs

i) Notes and accounts receivable - trade

Since these are settled in a short period of time, their fair value reflects the credit risk by deducting the allowance for doubtful accounts. It is classified as Level 2 fair value.

ii) Investment securities

For investment securities, listed shares are valued using quoted prices. Since listed shares are traded in active markets, their fair value is classified as Level 1 fair value.

iii) Long-term borrowings

The fair value of long-term borrowings is calculated by discounting the total amount of principal and interest by the assumed interest rate that would be applied when new borrowings are conducted. It is classified as Level 2 fair value.

iv) Derivative transactions

The fair value of derivative transactions are calculated based on the prices, etc. presented by relevant financial institutions, etc. It is classified as Level 2 fair value.

## (Securities)

## 1. Available-for-sale securities

Previous consolidated fiscal year (as of February 28, 2022)

	Type	Balance sheet amount (Millions of yen)	Acquisition price (Millions of yen)	Difference (Millions of yen)
Securities whose B/S amount exceeds their acquisition price	(1) Stocks	199	131	67
	(2) Bonds			
	i) National/local government bonds	—	—	—
	ii) Corporate bonds	—	—	—
	iii) Other	—	—	—
	(3) Other	—	—	—
	Subtotal	199	131	67
Securities whose B/S amount does not exceed their acquisition price	(1) Stocks	0	1	(0)
	(2) Bonds			
	i) National/local government bonds	—	—	—
	ii) Corporate bonds	—	—	—
	iii) Other	—	—	—
	(3) Other	—	—	—
	Subtotal	0	1	(0)
Total		199	132	67

(Note) Unlisted shares (consolidated balance sheet amount: 165 million yen) are not included in the above table because they have no market price and therefore it is deemed extremely difficult to ascertain their fair value.

Consolidated fiscal year under review (as of February 28, 2023)

	Type	Balance sheet amount (Millions of yen)	Acquisition price (Millions of yen)	Difference (Millions of yen)
Securities whose B/S amount exceeds their acquisition price	(1) Stocks	251	136	115
	(2) Bonds			
	i) National/local government bonds	—	—	—
	ii) Corporate bonds	—	—	—
	iii) Other	—	—	—
	(3) Other	—	—	—
	Subtotal	251	136	115
Securities whose B/S amount does not exceed their acquisition price	(1) Stocks	0	1	(0)
	(2) Bonds			
	i) National/local government bonds	—	—	—
	ii) Corporate bonds	—	—	—
	iii) Other	—	—	—
	(3) Other	—	—	—
	Subtotal	0	1	(0)
Total		252	137	115

(Note) Unlisted shares (consolidated balance sheet amount: 265 million yen) are not included in the above table because they are shares without a market price.

2. Available-for-sale securities sold

Previous consolidated fiscal year (from March 1, 2021 to February 28, 2022)

Description is omitted due to its low materiality.

Consolidated fiscal year under review (from March 1, 2022 to February 28, 2023)

Description is omitted due to its low materiality.

(Derivative transactions)

1. Derivative transactions for which hedge accounting is not applied  
Currency-related  
Previous consolidated fiscal year (as of February 28, 2022)

Category	Transaction type	Notional amounts (Millions of yen)	Of notional amounts, over 1 year (Millions of yen)	Fair value (Millions of yen)	Valuation gain or loss (Millions of yen)
Non-market transactions	Forward foreign exchange contracts				
	Sell:  USD	133	—	(1)	(1)
Total		133	—	(1)	(1)

(Note) Calculation method of fair value

Calculated based on prices, etc. presented by relevant financial institutions, etc.

Consolidated fiscal year under review (as of February 28, 2023)

Category	Transaction type	Notional amounts (Millions of yen)	Of notional amounts, over 1 year (Millions of yen)	Fair value (Millions of yen)	Valuation gain or loss (Millions of yen)
Non-market transactions	Forward foreign exchange contracts				
	Sell:  USD	68	—	(1)	(1)
Total		68	—	(1)	(1)

2. Derivative transactions for which hedge accounting is applied  
Not applicable.

(Retirement benefits)

1. Outline of adopted retirement benefit plans

The Company and some of its consolidated subsidiaries in Japan use both a retirement lump-sum plan and a defined benefit pension plan as the defined benefit-type systems and a defined contribution pension plan as the defined contribution-type system. Some consolidated subsidiaries in Japan use both a retirement lump-sum plan and the Smaller Enterprise Retirement Allowance Mutual Aid Scheme, and some overseas consolidated subsidiaries adopt both the defined benefit-type and defined contribution-type plans. Some consolidated subsidiaries apply the simplified method for calculation of net defined benefit liability and retirement benefit expenses by treating the required amount of payment at the end of fiscal year relating to retirement benefits as retirement benefit obligations.

2. Defined-benefit plan

(1) Adjustments between the beginning and ending balances of retirement benefit obligations (except for plans using a simplified method presented in (3))

	Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
Retirement benefit obligations at the beginning of the period	2,890million yen	3,021million yen
Service cost	208	205
Interest cost	16	15
Actuarial gains and losses generated	(16)	(193)
Retirement benefits paid	(77)	(156)
Retirement benefit obligations at the end of the period	3,021	2,892

(2) Adjustments between the beginning and ending balances of pension assets (except for plans using a simplified method presented in (3))

	Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
Pension assets at the beginning of the period	3,351million yen	3,584million yen
Expected return	84	90
Actuarial gains and losses generated	37	(34)
Contribution from employers	155	159
Retirement benefits paid	(43)	(134)
Pension assets at the end of the period	3,584	3,665

(3) Adjustments between the beginning and ending balances of net defined benefit liability for plans using a simplified method

	Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
Net defined benefit liability at the beginning of the period	115million yen	118million yen
Retirement benefit expenses	15	17
Retirement benefits paid	(11)	(25)
Net defined benefit liability at the end of the period	118	111

- (4) Adjustments between the ending balances of retirement benefit obligations and pension assets and the net defined benefit liability and net defined benefit asset reported on the consolidated balance sheet (including plans using a simplified method presented in (3))

	Previous consolidated fiscal year (as of February 28, 2022)	Consolidated fiscal year under review (February 28, 2023)
Retirement benefit obligations for funded plans	2,608million yen	2,505million yen
Pension assets	(3,584)	(3,665)
	(976)	(1,160)
Retirement benefit obligations for unfunded plans	531	498
Net defined liability and asset reported on the consolidated balance sheet	(445)	(662)
Net defined benefit liability	531	498
Net defined benefit asset	(976)	(1,160)
Net defined liability and asset reported on the consolidated balance sheet	(445)	(662)

- (5) The amounts of components of retirement benefit expenses

	Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
Service cost	208million yen	205million yen
Interest cost	16	15
Expected return	(84)	(90)
Amortization of actuarial gains and losses	5	(11)
Retirement benefit expenses calculated using the simplified method	15	17
Retirement benefit expenses related to defined benefit plan	160	137

- (6) Remeasurements of defined benefit plans reported under “Other comprehensive income”  
Remeasurements of defined benefit plans (reported under “Other comprehensive income” in the statements of comprehensive income) (before tax effects) are as follows:

	Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
Actuarial gains and losses	58million yen	149million yen

- (7) Remeasurements of defined benefit plans reported under “Accumulated other comprehensive income”  
Remeasurements of defined benefit plans (reported under “Accumulated other comprehensive income” in the net assets section in the consolidated balance sheets) (before tax effects) are as follows:

	Previous consolidated fiscal year (as of February 28, 2022)	Consolidated fiscal year under review (February 28, 2023)
Unrecognized actuarial gains and losses	275million yen	423million yen

(8) Pension assets

i) Major components of pension assets

Ratio of each major component of pension assets is as follows:

	Previous consolidated fiscal year (as of February 28, 2022)	Consolidated fiscal year under review (February 28, 2023)
Bonds	62.3%	61.2%
Stocks	35.2	36.4
Other	2.5	2.4
Total	100.0	100.0

ii) Method of setting the long-term expected return rate

To determine the long-term expected return rate on pension assets, we consider the current and expected allocation of pension assets and the current and expected future long-term rates of return from the various assets that make up pension assets.

(9) Actuarial assumptions used

Principal actuarial assumptions

	Previous consolidated fiscal year (as of February 28, 2022)	Consolidated fiscal year under review (February 28, 2023)
Discount rate	Mainly 0.5%	Mainly 1.1%
Long-term expected return rate	2.5%	2.5%
Expected salary increase rate	Mainly 2.8%	Mainly 2.8%

3. Defined contribution plans

The required amounts of contribution to the defined contribution plans of the Company and its consolidated subsidiaries were 42 million yen for the previous fiscal year (from March 1, 2021 to February 28, 2022) and 43 million yen for the consolidated fiscal year under review (from March 1, 2022 to February 28, 2023).

(Stock options)

Not applicable.



(Tax effect accounting)

1. Major components of deferred tax assets and liabilities

	Previous consolidated fiscal year (as of February 28, 2022)	Consolidated fiscal year under review (February 28, 2023)
Deferred tax assets		
Provision for bonuses	155million yen	137million yen
Net defined benefit liability	137	142
Tax loss carried forward (Note 1)	163	320
Enterprise tax payable	33	15
Other	105	59
Subtotal deferred tax assets	592	673
Valuation allowance for tax loss carried forward (Note 1)	(163)	(240)
Valuation allowance for the sum of deductible temporary differences, etc.	(70)	(69)
Subtotal valuation allowance	(232)	(309)
Total deferred tax assets	360	365
Deferred tax liabilities		
Reserve for reduction entry of replaced property	(6)	(6)
Reserve for special account for advanced depreciation of non-current assets	(204)	—
Net defined benefit asset	(198)	(224)
Other	(170)	(142)
Total deferred tax liabilities	(578)	(372)
Net deferred tax assets (liabilities)	(218)	(8)

(Note 1) Amounts of tax losses carried forward and deferred tax assets by carry-forward period

Previous consolidated fiscal year (as of February 28, 2022)

	Due within 1 year (Millions of yen)	Due after 1 year but within 2 years (Millions of yen)	Due after 2 years but within 3 years (Millions of yen)	Due after 3 years but within 4 years (Millions of yen)	Due after 4 years but within 5 years (Millions of yen)	Due after 5 years (Millions of yen)	Total (Millions of yen)
Tax loss carried forward (*1)	—	4	6	0	1	152	163
Valuation allowance	—	(4)	(6)	(0)	(1)	(152)	(163)
Deferred tax assets	—	—	—	—	—	—	—

(\*1) Tax loss carried forward represents the amount after being multiplied by the statutory tax rate.

Consolidated fiscal year under review (as of February 28, 2023)

	Due within 1 year (Millions of yen)	Due after 1 year but within 2 years (Millions of yen)	Due after 2 years but within 3 years (Millions of yen)	Due after 3 years but within 4 years (Millions of yen)	Due after 4 years but within 5 years (Millions of yen)	Due after 5 years (Millions of yen)	Total (Millions of yen)
Tax loss carried forward (*2)	5	6	0	0	35	273	320
Valuation allowance	(5)	(6)	(0)	(0)	(35)	(193)	(240)
Deferred tax assets	—	—	—	—	—	80	(*) 80

(\*2) Tax loss carried forward represents the amount after being multiplied by the statutory tax rate.

(\*3) For tax loss carried forward of 236 million yen (the amount after being multiplied by the statutory tax rate), deferred tax assets of 80 million yen were recognized. Valuation allowance has not been recognized for the portion of the said deferred tax assets that is deemed to be recoverable, due to factors such as taxable income expected to be generated in the future.

2. Net deferred tax assets (liabilities) for the previous fiscal year and the fiscal year under review are included in the following accounts in the consolidated balance sheet:

	Previous consolidated fiscal year (as of February 28, 2022)	Consolidated fiscal year under review (February 28, 2023)
Deferred tax assets - non-current assets	29million yen	75million yen
Other - non-current liabilities	(246)	(83)

2. The reconciliation of significant differences between the statutory tax rate and effective income tax rate after application of tax effect accounting

	Previous consolidated fiscal year (as of February 28, 2022)	Consolidated fiscal year under review (February 28, 2023)
Statutory tax rate	30.6%	Description is omitted because the difference between the statutory tax rate and effective income tax rate after application of tax effect accounting is 5/100 or lower.
(Reconciliations)		
Permanently non-deductible amount (entertainment expenses, etc.)	0.2	
Permanently non-taxable amount (dividend income, etc.)	(5.7)	
Special deduction of income taxes	(2.9)	
Per capita tax	0.4	
Increase (decrease) in valuation allowance	0.1	
Difference in effective tax rate with consolidated subsidiaries	(1.6)	
Share of profit of entities accounted for using equity method	(2.6)	
Elimination of dividend income from consolidated subsidiaries	6.2	
Amortization of goodwill	1.4	
Other	3.1	
Actual effective income tax rate after application of tax-effect accounting	29.2	

(Business combinations, etc.)

Not applicable.

(Asset retirement obligations)

Description is omitted due to its low materiality.

(Lease property)

Description is omitted due to its low materiality.

(Revenue recognition)

1. Information regarding disaggregated revenue arising from contracts with customers

Consolidated fiscal year under review (from March 1, 2022 to February 28, 2023)

(Millions of yen)

Category	Reported segment				Total
	Japan	China	Southeast/South Asia	North America	
Specialty Lubricants	8,706	2,919	2,746	733	15,105
Hot melt adhesives	4,228	759	2,617	59	7,664
Other	6,462	136	506	219	7,323
Revenue arising from contracts with customers	19,396	3,814	5,870	1,011	30,092
Other revenue	241	—	—	—	241
Revenues from external customers	19,637	3,814	5,870	1,011	30,333

(Note) “Other” includes Liquid Paraffin & Sulfonates, Synthetic Lubricants, Energy Device Materials, and equipment sales.

2. Useful information in understanding revenue

As described in “Important matters that are the basis for preparation of consolidated financial statements) 4. Information on accounting policies, (4) Accounting standards for important income and expenses.”

3. Relationship between satisfaction of performance obligations based on contracts with customers and cash flows arising from such contracts, and information on the amount and timing of revenue arising from contracts with customers that exist at the end of the fiscal year under review, which is expected to be recognized in and after the following fiscal year.

i) Balance, etc. of contract liabilities

(Millions of yen)

	Consolidated fiscal year under review
Receivables arising from contracts with customers (balance at the beginning of the year)	6,844
Receivables arising from contracts with customers (balance at the end of the year)	7,595
Contract liabilities (balance at the beginning of the year)	4
Contract liabilities (balance at the end of the year)	94

Balance at the end of the year of contract assets is mainly related to advances received from customers with regard to equipment sales contracts, for which revenue is recognized at the time of delivery. Contract liabilities are reversed in line with revenue recognition.

Of the amount of revenue recognized in the fiscal year under review, the amount included in the balance of contract liabilities at the beginning of the fiscal year was 4 million yen.

The reason for the increase of 89 million yen in contract liabilities in the consolidated fiscal year under review is due to an increase in advances received.

ii) Transaction prices allocated to remaining performance obligations

Since the Group has no important transactions with expected term of more than one year, the practical expedient is applied and description of information on remaining performance obligations is omitted.

There are no material transactions in consideration arising from contracts with customers that are not included in the transaction price.

# Segment Information, etc.

## Segment information

### 1. Outline of the reported segments

The Company's reported segments are business units of the Company for which discrete financial information is available and for which the Board of Directors regularly conducts a review for the purpose of making decisions about management resources to be allocated to the segments and assessing the segment's performance.

The Company manufactures and sells mainly chemical products (specialty lubricants, synthetic lubricants, liquid paraffin & sulfonates, hot melt adhesives). The Company is responsible for businesses in Japan, and local subsidiaries in China, Southeast/South Asia, and North America are responsible for businesses in respective regions overseas. Overseas subsidiaries are independent business management units, which formulate comprehensive strategies on products they deal with for their respective areas and conduct business activities.

In view of this, the Company is comprised of four reportable segments organized by region based on manufacturing and sales structures: Japan, China, Southeast/South Asia, and North America. The "Japan" segment is engaged in a rental building business besides the chemical products business.

### 2. Explanation of measurements of sales, profit (loss), asset, liability, and other items for each reporting segment

The accounting method for the reported segments is mostly the same as described in "Important matters that are the basis for preparation of consolidated financial statements."

Profit figures of the reported segments are based on operating profit.

Intersegment sales or transfers are based on prevailing market prices.

As described in "Changes in accounting policies," the Company has applied the Accounting Standard for Revenue Recognition, etc. since the beginning of the consolidated fiscal year under review and changed the accounting treatment method regarding revenue recognition. Accordingly, the method of measurement of profits or losses of business segments has also been changed. The impact of this change is minor.

### 3. Disclosure of sales, profit (loss), asset, liability, and other items for each reporting segment

Previous consolidated fiscal year (from March 1, 2021 to February 28, 2022)

(Millions of yen)

	Reported segment					Adjustments (Notes) 1, 2	Consolidated total (Note 3)
	Japan	China	Southeast/South Asia	North America	Total		
Net sales							
Revenues from external customers	18,385	3,625	4,501	789	27,300	—	27,300
Intersegment sales or transfers	1,405	383	269	24	2,081	(2,081)	—
Total	19,790	4,008	4,770	813	29,381	(2,081)	27,300
Segment profit	805	432	86	107	1,431	4	1,434
Segment assets	20,766	4,164	5,902	570	31,402	(2,393)	29,008
Other items							
Depreciation	753	91	218	9	1,070	—	1,070
Amortization of goodwill	127	—	—	—	127	—	127
Investment in equity method affiliates	1,914	—	—	—	1,914	—	1,914
Increase in property, plant and equipment, and intangible assets	1,181	37	58	3	1,279	—	1,279

- (Notes) 1. Adjustments to segment profit of 4 million yen include 19 million yen for elimination of intersegment transactions, - 16 million yen for adjustment of inventories and - 0 million yen for adjustment of allowance for doubtful accounts.
2. Adjustments to segment assets of -2,393 million yen include -3,279 million yen for intersegment elimination and 885 million yen for company-wide assets. Company-wide assets refer to the Company's financial assets (cash and deposits, and investment securities) that do not belong to reporting segments.
3. Segment profit has been adjusted for alongside operating profit on the consolidated financial statements.

Consolidated fiscal year under review (from March 1, 2022 to February 28, 2023)

(Millions of yen)

	Reported segment					Adjustments (Notes) 1, 2	Consolidated total (Note 3)
	Japan	China	Southeast/South Asia	North America	Total		
Net sales							
Revenues from external customers	19,637	3,814	5,870	1,011	30,333	—	30,333
Intersegment sales or transfers	1,444	439	156	34	2,073	(2,073)	—
Total	21,081	4,254	6,026	1,045	32,406	(2,073)	30,333
Segment profit	33	311	123	87	553	(30)	523
Segment assets	23,054	5,166	6,236	706	35,163	(3,146)	32,017
Other items							
Depreciation	754	109	226	9	1,099	—	1,099
Amortization of goodwill	127	—	—	—	127	—	127
Investment in equity method affiliates	2,077	—	—	—	2,077	—	2,077
Increase in property, plant and equipment, and intangible assets	757	478	84	0	1,318	—	1,318

- (Notes)
1. Adjustments to segment profit of -30 million yen include 1 million yen for elimination of intersegment transactions, -30 million yen for adjustment of inventories and - 1 million yen for adjustment of allowance for doubtful accounts.
  2. Adjustments to segment assets of -3,146 million yen include -3,779 million yen for intersegment elimination and 633 million yen for company-wide assets. Company-wide assets refer to the Company's financial assets (cash and deposits, and investment securities) that do not belong to reporting segments.
  3. Segment profit has been adjusted for alongside operating profit on the consolidated financial statements.

Information associated with reported segments

Previous consolidated fiscal year (from March 1, 2021 to February 28, 2022)

1. Information for each product or service

(Millions of yen)

	Specialty Lubricants	Synthetic Lubricants	Liquid Paraffin & Sulfonates	Hot melt adhesives	Energy device materials	Other chemical products	Rental building business	Total
Revenues from external customers	13,021	1,974	3,480	6,785	237	1,794	8	27,300

2. Information for each region

(1) Net sales

(Millions of yen)

Japan	China	Asia (excluding China)	North America	Other	Total
16,816	3,977	5,456	918	134	27,300

(Note) Net sales are classified by country or region based on the geographic location of the customers.

(2) Property, plant and equipment

(Millions of yen)

Japan	China	Asia (excluding China)	North America	Total
5,826	893	1,568	18	8,304

3. Information for each of main customers

(Millions of yen)

Name	Net sales	Relevant segment
Matsumura Oil Corporation	4,354	Japan

Consolidated fiscal year under review (from March 1, 2022 to February 28, 2023)

1. Information for each product or service

(Millions of yen)

	Specialty Lubricants	Synthetic Lubricants	Liquid Paraffin & Sulfonates	Hot melt adhesives	Energy device materials	Other chemical products	Rental building business	Total
Revenues from external customers	15,105	1,703	3,793	7,664	209	1,859	—	30,333

2. Information for each region

(1) Net sales

(Millions of yen)

Japan	China	Asia (excluding China)	North America	Other	Total
18,841	3,969	6,327	1,026	171	30,333

(Note) Net sales are classified by country or region based on the geographic location of the customers.

(2) Property, plant and equipment

(Millions of yen)

Japan	China	Asia (excluding China)	North America	Total
5,788	1,285	1,523	14	8,610

3. Information for each of main customers

(Millions of yen)

Name	Net sales	Relevant segment
Matsumura Oil Corporation	4,809	Japan

Disclosure of impairment loss on non-current assets for each reported segment  
 Previous consolidated fiscal year (from March 1, 2021 to February 28, 2022)  
 Not applicable.

Consolidated fiscal year under review (from March 1, 2022 to February 28, 2023)  
 Not applicable.

Amortization and unamortized balance of goodwill for each reported segment  
 Previous consolidated fiscal year (from March 1, 2021 to February 28, 2022)

(Millions of yen)

	Japan	China	Southeast/South Asia	North America	Total
Amortization of goodwill	127	—	—	—	127
Balance at end of period	219	—	—	—	219

Consolidated fiscal year under review (from March 1, 2022 to February 28, 2023)

(Millions of yen)

	Japan	China	Southeast/South Asia	North America	Total
Amortization of goodwill	127	—	—	—	127
Balance at end of period	92	—	—	—	92

Information about gain on bargain purchase for each reported segment  
 Not applicable.

# Related parties

## 1. Transactions with related parties

### Transactions of the Company with related parties

#### Parent company and major shareholders, etc. of the Company

Previous consolidated fiscal year (from March 1, 2021 to February 28, 2022)

Type	Name	Location	Capital (Millions of yen)	Business	Holding (held) ratio of voting rights (%)	Relation	Transactions	Amount (Millions of yen)	Account item	Year-end balance (Millions of yen)
Major shareholder	Matsumura Oil Corporation	Kita-ku, Osaka	70	Manufacture and sale of industrial lubricants, etc.	(Holding) Direct 2.1 (Held) Direct 11.3	Sales of the Company's products and purchase of materials	Sales of products (Note 1)	4,186	Accounts receivable - trade	1,106

Consolidated fiscal year under review (from March 1, 2022 to February 28, 2023)

Type	Name	Location	Capital (Millions of yen)	Business	Holding (held) ratio of voting rights (%) Ratio (%)	Relation	Transactions	Amount (Millions of yen)	Account item	Year-end balance (Millions of yen)
Major shareholder	Matsumura Oil Corporation	Kita-ku, Osaka	70	Manufacture and sale of industrial lubricants, etc.	(Holding) Direct 2.1 (Held) Direct 11.5	Sales of the Company's products and purchase of materials	Sales of products (Note 1)	4,645	Accounts receivable - trade	1,214

(Note 1)

Transaction terms and policies to determine them

The terms for sales of the Company's products are determined in light of market prices, considering the economic rationality, and in accordance with the basic sales agreement.



(Per-share information)

	Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
Net assets per share	1,914.94	2,008.49
Earnings per share	192.76	66.19
Diluted earnings per share	Not provided because there are no dilutive shares.	Not provided because there are no dilutive shares.

(Note 1) Calculation basis of earnings per share is as follows.

	Previous consolidated fiscal year (From March 1, 2021 to February 28, 2022)	Consolidated fiscal year under review (From March 1, 2022 to February 28, 2023)
Profit attributable to owners of parent (millions of yen)	1,808	615
Amount not attributable to common shareholders (Millions of yen)	—	—
Profit attributable to owners of parent pertaining to common stock (Millions of yen)	1,808	615
Average number of shares of common stock outstanding during the period (Shares)	9,378,512	9,284,344

(Note 2) Calculation basis of net assets per share is as follows.

	Previous consolidated fiscal year (as of February 28, 2022)	Consolidated fiscal year under review (February 28, 2023)
Total net assets (Millions of yen)	20,551	21,240
Amount deducted from total net assets (Millions of yen)	2,589	2,706
(Of which, non-controlling interests (Millions of yen))	(2,589)	(2,706)
Net assets at the end of the fiscal year related to common shares (Millions of yen)	17,962	18,533
The number of common shares at the end of the fiscal year used to calculate net assets per share (Shares)	9,379,930	9,227,530

(Significant subsequent events)

(Expropriation of the plant site of a Chinese affiliate)

Wuxi More Tex Technology Co., Ltd., an equity method affiliate of the Company, resolved at the extraordinary general meeting of shareholders held on April 13, 2023 to accept the expropriation of its plant site by the Wuxi City authorities.

1. Background of the expropriation

Wuxi More Tex Technology Co., Ltd. is located in the Xinwu District, Wuxi, Jiangsu, P.R. China, which is an area undergoing land readjustment due to rapid urbanization and commercialization, and it has become difficult to continue production activities in this area. Recently, the Wuxi City government requested the company to leave the current location by December 31, 2023, and the company resolved to accept this request.

2. Overview of the company subject to expropriation

(1) Name	Wuxi More Tex Technology Co., Ltd.	
(2) Location	No. 28, Changjiang Road, Xinwu District, Wuxi, Jiangsu, P.R. China	
(3) Title and name of representative	Nobuhiro Sewaki, President	
(4) Business line	Manufacture of specialty lubricants and hot melt adhesives	
(5) Investment in capital	USD 3 million	
(6) Date of establishment	March 2001	
(7) Shareholders and ownership ratio	The Company: 50%, Tex Year Industries, Inc.: 50%	
(8) Relationship with the Company	Capital relationship	It is an equity method affiliate of the Company.
	Personal relationship	Two officers and one regular employee of the Company serve as officers.
	Business relationship	The Company provides materials.

3. Future outlook

Production of specialty lubricants in China will be transferred to MORESCO (ZHEJIANG) FUNCTION MATERIAL CO., LTD., which is now under construction in Haining, Zhejiang, by the end of November 2023.

For the above expropriation, compensation will be paid by the municipal authorities. On the other hand, costs are expected to arise in association with the transfer of production site. We are currently examining the specific amount of the costs. As the impact of this on consolidated business performance, “share of profit of entities accounted for using equity method” will be recorded for the fiscal year ending February 2025.

- v) Consolidated supplemental schedules  
Detailed schedule of bonds payable  
Not applicable.

Detailed schedule of borrowings

Category	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%)	Maturity date
Short-term borrowings	135	2,021	0.8	—
Current portion of long-term borrowings	425	360	0.4	—
Current portion of lease obligations	36	37	—	—
Long-term borrowings (excluding current portion )	350	472	0.4	2024 - 2032
Lease obligations (excluding current portion )	22	98	—	2024 - 2028
Total	968	2,988	—	—

- (Notes)
1. The average interest rate represents the weighted-average rate applicable to the year-end balance of borrowings.
  2. Current portion of long-term borrowings is included in “Short-term borrowings” on the consolidated balance sheet.
  3. The average interest rate of lease obligations is not provided because lease obligations are recorded on the consolidated balance sheet before deducting the amount equivalent to interest included in the total lease payment.
  4. The aggregate annual maturities of long-term borrowings and lease obligations (excluding the current portion) within five years after the consolidated balance sheet date are as follows.

	Due after 1 year but within 2 years (Millions of yen)	Due after 2 years but within 3 years (Millions of yen)	Due after 3 years but within 4 years (Millions of yen)	Due after 4 years but within 5 years (Millions of yen)
Long-term borrowings	150	80	80	80
Leased obligations	39	24	19	14

Detailed schedule of asset retirement obligations

The amounts of asset retirement obligations at the beginning and the end of the current fiscal year are one percent or less of the total liabilities and net assets at the beginning and the end of the current fiscal year. Accordingly, the preparation of the schedules has been omitted pursuant to the provision of Article 92-2 of the Regulations on Consolidated Financial Statements.

## (2) Other

Quarterly financial information and others for the fiscal year under review

(Cumulative period)		First quarter	Second quarter	Third quarter	Consolidated fiscal year under review
Net sales	(Millions of yen)	7,050	14,523	22,479	30,333
Profit before income taxes	(Millions of yen)	471	846	1,144	1,046
Profit attributable to owners of parent	(Millions of yen)	317	504	719	615
Earnings per share	(Yen)	33.84	53.94	77.24	66.19

(Accounting period)		First quarter	Second quarter	Third quarter	Fourth quarter
Earnings (loss) per share	(Yen)	33.84	20.04	23.27	(11.27)

## 2. Non-Consolidated Financial Statements, etc.

### (1) Non-Consolidated Financial Statements

#### i) Non-consolidated balance sheet

(Millions of yen)

	Previous fiscal year (as of February 28, 2022)	Fiscal year under review (February 28, 2023)
<b>Assets</b>		
Current assets		
Cash and deposits	836	565
Notes receivable - trade	801	*1 835
Accounts receivable - trade	*1 3,439	*1 3,550
Merchandise and finished goods	1,651	1,942
Raw materials and supplies	940	1,306
Other	*1 706	*1 1,199
Allowance for doubtful accounts	(8)	(9)
Total current assets	8,364	9,389
Non-current assets		
Property, plant and equipment		
Buildings	1,944	1,845
Structures	59	61
Machinery and equipment	662	553
Vehicles	0	0
Tools, Furniture and fixtures	*2 248	*2 206
Land	1,328	1,328
Leased assets	1	9
Construction in progress	7	44
Total property, plant and equipment	4,250	4,046
Intangible assets		
Goodwill	219	92
Software	50	65
Other	26	4
Total intangible assets	295	160
Investments and other assets		
Investment securities	282	426
Shares of affiliated companies	839	839
Investments in capital of subsidiaries and associates	1,526	2,329
Deferred tax assets	—	73
Long-term loans receivable	*1 1,671	*1 2,137
Long-term prepaid expenses	15	8
Prepaid pension cost	616	696
Other	97	96
Total investments and other assets	5,046	6,604
Total non-current assets	9,590	10,810
Total assets	17,955	20,200

(Millions of yen)

	Previous fiscal year (as of February 28, 2022)	Fiscal year under review (February 28, 2023)
<b>Liabilities</b>		
Current liabilities		
Notes payable - trade	*1 481	*1 572
Accounts payable - trade	*1 2,171	*1 2,724
Short-term borrowings	425	2,080
Leased obligations	1	2
Accounts payable - other	*1 498	*1 552
Accrued expenses	97	90
Income taxes payable	327	78
Provision for bonuses	448	387
Other	*1 619	*1 585
Total current liabilities	5,067	7,071
Non-current liabilities		
Long-term borrowings	350	310
Leased obligations	—	8
Deferred tax liabilities	65	—
Provision for retirement benefits	308	333
Other	27	5
Total non-current liabilities	750	655
Total liabilities	5,816	7,726
<b>Net assets</b>		
Shareholders' equity		
Capital stock	2,118	2,118
Capital surplus		
Legal capital surplus	1,906	1,906
Other capital surplus	67	68
Total capital surplus	1,973	1,974
Retained earnings		
Legal retained earnings	75	75
Other retained earnings		
Reserve for reduction entry of replaced property	15	14
Reserve for special account for advanced depreciation of non-current assets	463	—
General reserve	5,550	6,050
Retained earnings brought forward	2,305	2,752
Total retained earnings	8,407	8,891
Treasury shares	(384)	(567)
Total shareholders' equity	12,115	12,416
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	23	58
Total valuation and translation adjustments	23	58
Total net assets	12,138	12,474
Total liabilities and net assets	17,955	20,200

## ii) Non-consolidated statement of income

(Millions of yen)

	Previous fiscal year (From March 1, 2021 to February 28, 2022)	Fiscal year under review (From March 1, 2022 to February 28, 2023)
Net sales	*2 16,288	*2 17,162
Cost of sales	*2 10,958	*2 12,407
Gross profit	5,330	4,756
Selling, general and administrative expenses	*1, *2 4,673	*1, *2 4,677
Operating profit	656	79
Non-operating income		
Interest and dividend income	*2 511	*2 677
Foreign exchange gains	94	235
Other	*2 38	*2 27
Total non-operating income	643	938
Non-operating expenses		
Interest expenses	*2 10	*2 10
Loss on retirement of non-current assets	3	2
Other	3	2
Total non-operating expenses	16	13
Ordinary profit	1,284	1,004
Extraordinary income		
Gain on sale of non-current assets	*3 833	—
Total extraordinary income	833	—
Profit before income taxes	2,117	1,004
Income taxes - current	363	296
Income taxes - deferred	103	(147)
Total income taxes	467	149
Profit	1,650	856

iii) Non-consolidated statement of changes in equity  
Previous fiscal year (from March 1, 2021 to February 28, 2022)

(Millions of yen)

	Shareholders' equity						
	Capital stock	Capital surplus			Retained earnings		
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	
						Reserve for reduction entry of replaced property	Reserve for special account for advanced depreciation of non-current assets
Balance at beginning of period	2,118	1,906	68	1,974	75	318	—
Changes during period							
Reversal of reserve for reduction entry of replaced property				—		(303)	
Provision for reserve for special account for advanced depreciation of non-current assets				—			463
Dividends of surplus				—			
Profit				—			
Disposal of treasury shares			(0)	(0)			
Net changes in items other than shareholders' equity				—			
Total changes during period	—	—	(0)	(0)	—	(303)	463
Balance at end of period	2,118	1,906	67	1,973	75	15	463

	Shareholders' equity					Valuation and translation adjustments		Total net assets
	Retained earnings			Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
	Other retained earnings		Total retained earnings					
	General reserve	Retained earnings brought forward						
Balance at beginning of period	5,550	1,236	7,179	(390)	10,882	22	22	10,904
Changes during period								
Reversal of reserve for reduction entry of replaced property		303	—		—			—
Provision for reserve for special account for advanced depreciation of non-current assets		(463)	—		—			—
Dividends of surplus		(422)	(422)		(422)			(422)
Profit		1,650	1,650		1,650			1,650
Disposal of treasury shares			—	5	5			5
Net changes in items other than shareholders' equity			—		—	2	2	2
Total changes during period	—	1,069	1,228	5	1,233	2	2	1,234
Balance at end of period	5,550	2,305	8,407	(384)	12,115	23	23	12,138



Fiscal year under review (from March 1, 2022 to February 28, 2023)

(Millions of yen)

	Shareholders' equity						
	Capital stock	Capital surplus			Retained earnings		
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	
						Reserve for reduction entry of replaced property	Reserve for special account for advanced depreciation of non-current assets
Balance at beginning of period	2,118	1,906	67	1,973	75	15	463
Changes during period							
Reversal of reserve for reduction entry of replaced property				—		(1)	
Reversal of reserve for special account for advanced depreciation of non-current assets				—			(463)
Provision for general reserve				—			
Dividends of surplus				—			
Profit				—			
Purchase of treasury shares				—			
Disposal of treasury shares			1	1			
Net changes in items other than shareholders' equity				—			
Total changes during period	—	—	1	1	—	(1)	(463)
Balance at end of period	2,118	1,906	68	1,974	75	14	—

	Shareholders' equity					Valuation and translation adjustments		Total net assets
	Retained earnings			Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
	Other retained earnings		Total retained earnings					
	General reserve	Retained earnings brought forward						
Balance at beginning of period	5,550	2,305	8,407	(384)	12,115	23	23	12,138
Changes during period								
Reversal of reserve for reduction entry of replaced property		1	—		—			—
Reversal of reserve for special account for advanced depreciation of non-current assets		463	—		—			—
Provision for general reserve	500	(500)	—		—			—
Dividends of surplus		(372)	(372)		(372)			(372)
Profit		856	856		856			856
Purchase of treasury shares			—	(194)	(194)			(194)
Disposal of treasury shares			—	12	12			12
Net changes in items other than shareholders' equity			—		—	35	35	35
Total changes during period	500	447	483	(183)	301	35	35	336
Balance at end of period	6,050	2,752	8,891	(567)	12,416	58	58	12,474

## Notes

### (Significant accounting policies)

1. Standards and methods for evaluating assets
  - (1) Standards and methods for evaluating securities
    - Shares in subsidiaries and affiliates
      - Moving average cost method
    - Available-for-sale securities
      - Securities other than shares without a market price
        - Fair value method (unrealized gain and loss, net of tax are recorded in net assets, and the moving average method is used to calculate the cost of securities sold)
      - Shares without a market price
        - Moving average cost method
  - (2) Standards and methods for evaluating derivatives
    - Fair value method
  - (3) Standards and methods for evaluating inventories
    - Mainly gross average cost method
    - (The balance sheet values are calculated by writing down the book values in response to decreased profitability)
2. Depreciation method of non-current assets
  - (1) Property, plant and equipment (excluding leased assets)
    - The declining-balance method is adopted. (However, the straight-line method is used for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016.) Major useful lives are as follows.
      - Buildings: 3 to 50 years
      - Machinery and equipment: 4 to 15 years
  - (2) Intangible assets
    - The straight-line method is adopted. For software used in-house, the straight-line method is adopted based on the usable period inside the company (5 years).
  - (3) Leased assets
    - Leased assets relating to finance lease without transfer of ownership
      - The straight-line method is used with a useful life of the lease period and with a residual value of zero.
3. Accounting standards for important reserves and allowances
  - (1) Allowance for doubtful accounts
    - In order to prepare for possible losses on uncollectible receivables held, estimated uncollectible amounts are posted: for general receivables, according to the historical percentage of uncollectibles, and for doubtful receivables, considering the probability of collection.
  - (2) Provision for bonuses
    - In order to prepare for payment of bonuses to employees, a provision is made based on the estimated bonus payments, which are attributable to the fiscal year under review.

(3) Provision for retirement benefits

In order to prepare for payment of retirement benefits to employees, a provision is made based on the estimated amounts of retirement benefit obligations and pension assets at the end of the fiscal year under review.

i) Method to attribute the estimated retirement benefits to the periods

To calculate retirement benefit obligations, the benefit formula method is adopted as a method to attribute the estimated retirement benefits to the periods up to the end of the fiscal year under review.

ii) Method of amortization of actuarial gains and losses

The actuarial differences are recognized in the following fiscal year by the straight-line method over a certain period (mainly 14 years) that are not more than the average remaining service period of employees at the time of the accrual of a difference.

4. Accounting standards for important income and expenses

The main business of the Company is manufacture and sale of chemical products (specialty lubricants, synthetic lubricants, liquid paraffin & sulfonates, hot melt adhesives, and energy device materials). With regard to sale of such goods and products, the Group determines that control of goods is transferred to customers at the time of delivery. As the period between shipment and delivery is a normal period of time, the Group applies alternative treatment based on importance, etc., and recognizes revenue at the time of shipment of goods and products for inside Japan. For overseas, based on the terms of trade stipulated by Incoterms, etc., the Group determines that control of goods and products is transferred to customers and its performance obligations are satisfied when risks are transferred to customers. Therefore, the Group recognizes revenue at the time of shipment of goods and products in principle.

5. Other important matters that are the basis for preparation of non-consolidated financial statements

(1) Method and period of amortization of goodwill

Goodwill is regularly amortized using the straight-line method over an effective period up to 20 years. However, minor goodwill is entirely amortized all at once.

(2) Accounting treatment for retirement benefits

The method of accounting treatment for unrecognized actuarial gains and losses on retirement benefits is different from the method of accounting treatment used in the consolidated financial statements.

(3) Accounting principles and procedures that were adopted when relevant accounting standards, etc. were unclear

Restricted stock compensation system

Remuneration, etc. paid to directors of the Company based on the Company's restricted stock compensation system is treated as expenses over the applicable service period.

(Important accounting estimates)

1. Valuation of inventories

- (1) Amount recorded in the non-consolidated financial statements for the fiscal year under review  
(Millions of yen)

	Previous fiscal year	Fiscal year under review
Merchandise and finished goods	1,651	1,942
Raw materials and supplies	940	1,306
Cost of sales	(62)	34

For loss on valuation of inventories (reversal), net amount after reversal is stated.

- (2) Information on the details of accounting estimates

Notes are omitted because the same information is provided in “Notes (Important accounting estimates)” to consolidated financial statements.

2. Impairment losses on non-current assets

- (1) Amount recorded in the non-consolidated financial statements for the fiscal year under review  
(Millions of yen)

	Previous fiscal year	Fiscal year under review
Property, plant and equipment	4,250	4,046
Intangible assets	295	160

- (2) Information on the details of accounting estimates

Notes are omitted because the same information is provided in “Notes (Important accounting estimates)” to consolidated financial statements.

(Changes in accounting policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company has applied the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020; hereinafter, the “Revenue Recognition Accounting Standard”), etc., effective from the beginning of the fiscal year under review, and recognizes revenue in the amount expected to be received in exchange for promised goods or services at the time when control of these goods or services is transferred to customers.

The application of the Revenue Recognition Accounting Standard, etc. is subject to the transitional treatment provided for in the proviso to Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effect of the retroactive application of the new accounting policy, assuming that it has been applied to periods prior to the beginning of the fiscal year under review, is added to or subtracted from retained earnings at the beginning of the fiscal year under review, and the new accounting policy is applied from the beginning balance. However, by applying the method stipulated in Paragraph 86 of the Revenue Recognition Accounting Standard, the new accounting policy has been retroactively applied to contracts in which nearly all amounts of revenue were recognized in accordance with the previous treatment before the beginning of the fiscal year under review. This has no impact on the beginning balance.

Details of changes due to the application of this accounting standard are as follows.

- Sales of products to customers

The Company has changed its method to recognize revenue when risks are transferred to customers in accordance with the terms of trade stipulated by Incoterms, etc., for contracts of export sales to which the shipment standard was conventionally applied but risks are not transferred at the time of shipment.

- Paid receipt transactions

For paid receipt transactions, in which the Company purchases raw materials, etc. from its customers and sells them back to the same customers after processing them, the Company has changed its method to recognize revenue by the net amount of the consideration less the purchase prices of the raw materials, from the conventional method of recognizing revenue by the total amount of consideration including the purchase prices of the raw materials, etc. The ending inventory of raw materials, which was included in inventories, is now included in “Other” under current assets.

- Paid supply transactions

For paid supply transactions, we conventionally recognized extinguishment with regard to the goods supplied with payment. But when we are obliged to buy back the supplied goods, we now continue to recognize such supplied goods and also recognize liabilities related to paid supply transactions for the ending inventory of the supplied goods remaining at recipients thereof.

- Agent transactions

For transactions with agents, the amount of consideration that customers pay less the commission fees paid to agents was conventionally recognized as revenue. But the Company has changed the method for some agents to recognize the total amount of consideration that customers pay as revenue and recognize fees to agents as expenses.

As a result, the impact on the non-consolidated financial statements of the fiscal year under review is minor. In accordance with the transitional treatment provided for in Paragraph 89-3 of the Revenue Recognition Accounting Standard, notes to “Revenue recognition” relating to the previous fiscal year are not presented.

(Application of the Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter, the “Fair Value Measurement Accounting Standard”), etc., effective from the beginning of the fiscal year under review. And, in accordance with the transitional treatment provided for in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the Company will apply the new accounting policy prescribed by the Fair Value Measurement Accounting Standard, etc. into the future. However, this application has no impact on the non-consolidated financial statements.

(Changes in presentation)

Not applicable.

(Supplementary information)

(Accounting estimates relating to the impact of the spread of COVID-19)

Note on accounting estimates relating to the impact of the spread of COVID-19 is omitted because the same information is provided in “Notes (Additional Information)” to the consolidated financial statements.

## (Non-consolidated balance sheet)

## \*1 Receivables from and payables to subsidiaries and associates

	Previous fiscal year (as of February 28, 2022)	Fiscal year under review (February 28, 2023)
Short-term receivables	1,056million yen	1,399million yen
Short-term payables	747	817
Long-term receivables	1,671	2,137

## \*2 Reduction entry

Total reduction entries due to acquisition of government subsidies, etc. for property, plant and equipment are as follows.

	Previous fiscal year (as of February 28, 2022)	Fiscal year under review (February 28, 2023)
Tools, Furniture and fixtures	11million yen	11million yen

## 3. Guarantee obligations

We provide guarantees on borrowings, etc. of subsidiaries and associates below.

## Borrowings

	Previous fiscal year (as of February 28, 2022)	Fiscal year under review (February 28, 2023)
TIANJIN MORESCO TECHNOLOGY CO., LTD.	135million yen	170million yen
PT.MORESCO MACRO ADHESIVE	—	95

## (Non-consolidated statement of income)

- \*1 Selling expenses account for 36% in the previous fiscal year and 35% in the fiscal year under review. General and administrative expenses account for 64% in the previous fiscal year and 65% in the fiscal year under review.  
Major components and amounts are as follows.

	Previous fiscal year (From March 1, 2021 to February 28, 2022)	Fiscal year under review (From March 1, 2022 to February 28, 2023)
Salaries	1,308million yen	1,307million yen
Provision for bonuses	327	286
Retirement benefit expenses	109	96
Provision of allowance for doubtful accounts	(0)	0
Depreciation	414	341
Freightage expenses	516	561

## \*2 Transactions with subsidiaries and associates

	Previous fiscal year (From March 1, 2021 to February 28, 2022)	Fiscal year under review (From March 1, 2022 to February 28, 2023)
Net sales	1,492million yen	1,550million yen
Purchase of goods	1,059	1,094
Selling, general and administrative expenses	34	13
Non-operating transactions	514	676

\*3 Details of gain on sales of non-current assets are as follows.

	Previous fiscal year (From March 1, 2021 to February 28, 2022)	Fiscal year under review (From March 1, 2022 to February 28, 2023)
Land, buildings and structures, etc.	833million yen	—million yen

(Securities)

Shares in subsidiaries (839 million yen recorded for fiscal year under review and 839 million yen recorded for previous fiscal year on the balance sheet) are not presented because they are shares without a market price.

(Tax effect accounting)

1. Major components of deferred tax assets and liabilities

	Previous fiscal year (as of February 28, 2022)	Fiscal year under review (February 28, 2023)
Deferred tax assets		
Provision for bonuses	137million yen	118million yen
Provision for retirement benefits	94	102
Loss on valuation of inventories	31	42
Loss on valuation of shares of subsidiaries and associates	28	28
Other	108	76
Subtotal deferred tax assets	399	365
Valuation allowance	(55)	(54)
Total deferred tax assets	344	311
Deferred tax liabilities		
Reserve for reduction entry of replaced property	(6)	(6)
Reserve for special account for advanced depreciation of non-current assets	(204)	—
Prepaid pension cost	(188)	(213)
Other	(10)	(19)
Total deferred tax liabilities	(409)	(238)
Net deferred tax assets (liabilities)	(65)	73

2. The reconciliation of significant differences between the statutory tax rate and effective income tax rate after application of tax effect accounting

	Previous fiscal year (as of February 28, 2022)	Fiscal year under review (February 28, 2023)
Statutory tax rate	30.6%	30.6%
(Reconciliations)		
Permanently non-deductible amount (entertainment expenses, etc.)	0.3	1.3
Permanently non-taxable amount (dividend income, etc.)	(6.6)	(18.5)
Special deduction of income taxes	(3.9)	(7.6)
Per capita tax	0.5	1.0
Withholding tax on dividends from foreign subsidiaries	2.1	6.3
Amortization of goodwill	1.8	3.9
Other	(2.7)	(2.3)
Actual effective income tax rate after application of tax-effect accounting	22.1	14.8

(Business combinations, etc.)

Not applicable.

## (Revenue recognition)

Note to useful information in understanding revenue arising from contracts with customers is omitted because the same information is provided in “Notes (Revenue recognition)” to consolidated financial statements.

## (Significant subsequent events)

Not applicable.

## iv) Non-consolidated supplemental schedules

## Detailed schedule of fixed assets

(Millions of yen)

Category	Types of assets	Balance at beginning of period	Increase in the fiscal year under review	Decrease in the fiscal year under review	Amortization of goodwill	Balance at end of period	Accumulated depreciation
Property, plant and equipment	Buildings	3,737	22	3	121	3,756	1,911
	Structures	462	10	2	9	470	410
	Machinery and equipment	7,287	113	41	221	7,360	6,807
	Vehicles	37	—	2	0	35	35
	Tools, Furniture and fixtures	2,205	94	19	136	2,281	2,075
	Land	1,328	—	—	—	1,328	—
	Leased assets	24	10	—	2	34	25
	Construction in progress	7	327	290	—	44	—
	Total	15,088	577	357	489	15,309	11,263
Intangible assets	Goodwill	1,467	—	—	127	1,467	1,375
	Software	668	46	—	31	714	649
	Other	26	24	46	0	4	0
	Total	2,161	70	46	158	2,185	2,025

(Notes) 1. Balance at beginning of period and balance at end of period are indicated by the acquisition prices.

2. Major components of the increase in the fiscal year under review are as follows.

(Millions of yen)

Types of assets	Site	Value
Machinery and equipment	Chiba Plant	65
Machinery and equipment	Akoh Plant	44
Tools, furniture and fixtures	Kobe Head Office	60

3. Major components of the decrease in the fiscal year under review are as follows.

(Millions of yen)

Types of assets	Site	Value
Machinery and equipment	Chiba Plant	26

## Detailed schedule of allowances

(Millions of yen)

Account item	Balance at beginning of period	Increase in the fiscal year under review	Decrease in the fiscal year under review	Balance at end of period
Allowance for doubtful accounts	8	9	8	9
Provision for bonuses	448	387	448	387



- (2) Details of major assets and liabilities  
This information is omitted because the Company prepares consolidated financial statements.
- (3) Other  
Not applicable.

## VI. Outline of Share-related Administration of Reporting Company

Fiscal year	From March 1 to the end of February						
Ordinary general meeting of shareholders	May						
Record date	Last day of February						
Record dates for dividend of surplus	Last day of February August 31						
Number of shares constituting one unit of stock	100						
Repurchase of less-than-one-unit shares							
Place for repurchase processing	Special account Osaka Corporate Agency Division, Mitsubishi UFJ Trust and Banking Corporation 3-6-3 Fushimi-cho, Chuo-ku, Osaka						
Administrator of shareholders' register	Special account Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo						
Contact place	_____						
Repurchase charge	Free						
Method of public notice	Public notice by the Company shall be given by electronic means; provided, however, that in the event an accident or any other unavoidable reason prevents public notice by electronic means, the notice can be given in the Nihon Keizai Shimbun. URL for public notice: <a href="https://www.moresco.co.jp/">https://www.moresco.co.jp/</a>						
Special benefits for shareholders	<p>(From the record date in February 2023)</p> <table border="1"> <thead> <tr> <th>Number of shares held and continued holding period</th><th>Details of benefit</th></tr> </thead> <tbody> <tr> <td>300 shares or more, and continued holding period of less than 3 years</td><td>Quo card 3,000 yen</td></tr> <tr> <td>300 shares or more, and continued holding period of 3 years or more</td><td>Quo card 4,000 yen</td></tr> </tbody> </table> <p>Eligible shareholders are those listed or recorded on the shareholders' register as of the last day of February each year and holding 300 shares or more of the Company's stock.</p> <p>* Continued holding period of 3 years or more means that the same shareholder number is listed or recorded on the shareholders' register as of the end of February and the end of August for at least seven consecutive times.</p> <p>* If a shareholder holding less than 300 shares later purchases additional shares to hold 300 shares or more as of the end of February, the period of holding less than 300 shares is included in the consecutive holding period.</p>	Number of shares held and continued holding period	Details of benefit	300 shares or more, and continued holding period of less than 3 years	Quo card 3,000 yen	300 shares or more, and continued holding period of 3 years or more	Quo card 4,000 yen
Number of shares held and continued holding period	Details of benefit						
300 shares or more, and continued holding period of less than 3 years	Quo card 3,000 yen						
300 shares or more, and continued holding period of 3 years or more	Quo card 4,000 yen						

## VII Reference Information of Reporting Company

### 1. Information on parent company, etc. of the reporting company

The Company has no parent company, etc. as prescribed in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

### 2. Other reference information

The Company filed the following documents between the beginning of the fiscal year under review and the date when this Annual Securities Report (Yukashoken-Hokokusho) was filed.

- (1) Annual securities report and attached documents, and confirmation note  
Fiscal year (the 64th) (from March 1, 2021 to February 28, 2022)  
Submitted to the director of the Kinki Local Finance Bureau on May 27, 2022
- (2) Internal Control Report and its attached documents  
Submitted to the director of the Kinki Local Finance Bureau on May 27, 2022
- (3) Quarterly reports and confirmation notes  
(The 1st quarter of 65th term) (from March 1, 2022 to May 31, 2022)  
Submitted to the director of the Kinki Local Finance Bureau on July 13, 2022  
(The 2nd quarter of 65th term) (from June 1, 2022 to August 31, 2022)  
Submitted to the director of the Kinki Local Finance Bureau on October 13, 2022  
(The 3rd quarter of 65th term) (from September 1, 2022 to November 30, 2022)  
Submitted to the director of the Kinki Local Finance Bureau on January 13, 2023
- (4) Extraordinary Report  
Submitted to the director of the Kinki Local Finance Bureau on June 1, 2022  
An extraordinary report according to the provision of Article 19, Paragraph 2, Item 9-2 (Matters that require a resolution of a general meeting of shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.
- (5) Share Buyback Report  
A share buyback report on purchase of treasury shares according to Article 24-6, Paragraph 1 of the Financial Instruments and Exchange Act of Japan  
(Reporting period: from July 1, 2022 to July 31, 2022)  
Submitted to the director of the Kinki Local Finance Bureau on August 8, 2022

Part II Information on the Reporting Company's Guarantor, etc.

Not applicable.

# Independent Auditors' Audit Report and Internal Control Audit Report

May 30, 2023

MORESCO Corporation  
The Board of Directors

Grant Thornton Taiyo LLC

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Osaka Office

Designated Limited  
Partner  
Engagement Partner

Certified Public Accountant Iwao Arai Seal

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Designated Limited  
Partner  
Engagement Partner

Certified Public Accountant Kenji Furuta Seal

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## <Financial statements audit>

### Opinion

In order to provide the audit certification in accordance with the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, we have audited the accompanying consolidated financial statements presented under “Financial Information” of MORESCO Corporation for the period from March 1, 2022 to February 28, 2023, which comprise the consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows, important matters that are the basis for preparation of consolidated financial statements, other Notes, and consolidated supplemental schedules.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MORESCO Corporation and its consolidated subsidiaries as of February 28, 2023, and their financial performance and cash flows for the consolidated fiscal year then ended in accordance with accounting principles generally accepted in Japan.

### Basis of Opinion

We conducted our audit in accordance with the auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor’s opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of inventories of MORESCO Corporation	
Description of Key Audit Matters and the Reasons for the Description	Auditor's Response
<p>In the consolidated balance sheet for the consolidated fiscal year ended February 28, 2023 of MORESCO Corporation, "Merchandise and finished goods" of 3,276 million yen and "Raw materials and supplies" of 3,030 million yen are reported.</p> <p>As described in Notes (Important accounting estimates), the Company calculates the balance sheet values of inventories by writing down the book values in response to decreased profitability, and those that have passed a certain period of time or have exceeded a certain turnover period as of the end of the fiscal year are judged as slow-moving stock, excluding those judged to have the potential to be sold as a result of individual examination in light of the future sales prospect based on past sales performance, etc., and the fact of decreased profitability is reflected by using a regular write-down method of book values.</p> <p>Determination of a certain period of time or a certain turnover period, which is the basis of judgment of slow-moving stock, includes judgment by management. Also, individual examination in light of the future sales prospect is conducted using order estimates based on past sales performance, etc., which is associated with a high degree of uncertainty because the order estimates may fluctuate due to factors beyond management's control.</p> <p>As such, we determined valuation of inventories held by the Company as a Key Audit Matter.</p>	<p>In order to examine the adequacy of the valuation of inventories, we performed the following audit procedures.</p> <ul style="list-style-type: none"> <li>• Evaluated the effectiveness of the design and operation of internal control related to the valuation of inventories. In particular, we focused on internal control to conduct individual examination of future sales prospect of slow-moving stock.</li> <li>• Discussed with management, etc. on whether the standards for evaluating inventories adopted by the Company are appropriate for the Company's businesses and comply with the Accounting Standard for Measurement of Inventories," and examined their rationality.</li> <li>• Questioned management, etc. about the basis of a certain period and a certain turnover period set by management and whether or not to review the valuation policy. Also analyzed the trends in subsequent sales results of the slow-moving stock in the past and verified the rationality of the valuation policy.</li> <li>• Checked the accuracy of the data of receipt/payment dates, which is the basis of calculation of a certain period, by verifying the consistency with the dates on the daily manufacturing report. Also, checked the accuracy of the quantity of inventories consumed during the current period, which is the basis of calculation of a certain turnover period, by verifying the consistency with the output data of the inventory management system.</li> <li>• Checked the accuracy of sales results data of the preceding fiscal year, which is the basis of calculation of future sales prospect, by verifying the consistency with the output data of the sales management system.</li> <li>• To confirm the rationality of the results of the individual examination of sales prospect, questioned management, etc. whether the future sales prospect calculated based on the results, etc. of the preceding fiscal year involves any other matters to be considered in estimation.</li> <li>• Confirmed that internal approval procedure was followed for the individual examination of sales prospect.</li> </ul>

#### Other Statements

Other statements comprise the information included in the Annual Securities Report other than the consolidated financial statements and non-consolidated financial statements, as well as our auditor's report thereon. Management is responsible for the preparation and disclosure of other statements. The Audit and Supervisory Committee is responsible for monitoring the execution of the duties of directors related to designing and operating the process of reporting other statements.

Other statements are not included in the scope of our audit opinion regarding the consolidated financial statements, and we do not express our opinion on the other statements.

Our responsibility with regard to the audit of the consolidated financial statements is to read through other statements and consider whether there are any material differences between the other statements and the consolidated financial statements or the knowledge we have obtained through our audit. Furthermore, it is our responsibility to pay attention to whether or not there are signs of material errors in other statements, in addition to such material differences.

When we determine that there are material errors in other statements through our audit work, we are required to report such fact.

We have found no matters to report regarding other statements.

#### Management's and the Audit and Supervisory Committee's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles for consolidated financial statements generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The Audit and Supervisory Committee is responsible for overseeing the directors' performance of their duties, including the design, implementation and maintenance of the Group's financial reporting process.

## Auditor's Responsibility for the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, based on our audit and to issue an auditor's report that includes our opinion from an independent standpoint. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement, whether due to fraud or error, design and perform audit procedures responsive to those risks. The audit procedures are selected and performed depending on the auditor's judgment. Also, obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies and the method of their application, and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to express our opinion with exclusions in the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit, and other matters required by the audit standards.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence in Japan and report all relationships and other matters that may reasonably be thought to affect our independence, and where applicable, related safeguards.

Of matters discussed with the Audit and Supervisory Committee, we determine the ones we judge to be of particular importance to our audit of the consolidated financial statements for the fiscal year under review and identify them as Key Audit Matters. We describe these matters in our auditor's report unless laws or regulations prohibit public disclosure regarding the matters, or when, in extremely rare circumstances, we determine that a matter should not be reported because disadvantages of doing so would reasonably be expected to outweigh the public interests of such communication.

<Internal control audit>

Opinion

We have audited, pursuant to the provisions of Article 193-2, paragraph 2 of the Financial Instruments and Exchange Act of Japan, the internal control report as of February 28, 2023 of MORESCO Corporation.

In our opinion, the above internal control report, in which MORESCO Corporation indicated that internal control over financial reporting as at February 28, 2023 was effective, fairly represents, in all material respects, evaluation results of internal control over financial reporting in accordance with evaluation standards for internal control over financial reporting generally accepted in Japan.

Basis of Opinion

We conducted our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Internal Control Report section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's and the Audit and Supervisory Committee's Responsibility for the Internal Control Report

Management is responsible for the design and operation of internal control over financial reporting and the preparation and fair presentation of the internal control report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

The Audit and Supervisory Committee is responsible for overseeing and examining the design and operation of internal control over financial reporting.

Internal control over financial reporting may not completely prevent or detect misstatements in financial reports.



#### Auditor's Responsibility for the Internal Control Report

Our objectives are to obtain reasonable assurance about whether the internal control report is free from material misstatement based on our audit of the internal control report and to issue an auditor's report that includes our opinion from an independent standpoint.

As part of our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. The procedures for the internal control audit are selected and performed, depending on the auditor's judgment, based on the significance of effect on the reliability of financial reporting.
- Evaluate the overall presentation of the internal control report, including the appropriateness of the scope, procedures and results of the assessments of internal control over financial reporting that management presents.
- Obtain sufficient appropriate audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. We are responsible for the direction, supervision and performance of the audit of the internal control report.

We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding the planned scope and timing of our internal control audit, the results thereof, material weaknesses in internal control identified that should be disclosed and those that were remediated, and other matters required by the standards for internal control audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence in Japan and report all relationships and other matters that may reasonably be thought to affect our independence, and where applicable, related safeguards.

#### Conflicts of Interest

Our firm or its engagement partners have no interest in the Company and its consolidated subsidiaries which should be disclosed in compliance with the Certified Public Accountants Act.

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- (Notes)
1. The document presented above is a digitized copy of the original version of the Independent Auditors' Audit Report and Internal Control Audit Report. The original report is kept separately by the Company (the reporting company of the Annual Securities Report).
  2. XBRL data is not included in the scope of the audit.

## Independent Auditor's Audit Report

May 30, 2023

MORESCO Corporation  
The Board of Directors

Grant Thornton Taiyo LLC

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Osaka Office

Designated Limited  
Partner  
Engagement Partner

Certified Public Accountant

Iwao Arai

Seal

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Designated Limited  
Partner  
Engagement Partner

Certified Public Accountant

Kenji Furuta

Seal

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### Opinion

In order to provide the audit certification in accordance with the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, we have audited the accompanying non-consolidated financial statements presented under “Financial Information” of MORESCO Corporation for the period from March 1, 2022 to February 28, 2023, which comprise the non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in equity, significant accounting policies and other Notes, and the non-consolidated supplemental schedules.

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of MORESCO Corporation as at February 28, 2023, and its financial performance and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in Japan.

### Basis of Opinion

We conducted our audit in accordance with the auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the non-consolidated financial statements of the current period. These matters were addressed in the context of the audit of the non-consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of inventories
Statement is omitted because it is the same information as the Key Audit Matters presented in the audit report of the consolidated financial statements.

#### Other Statements

Other statements comprise the information included in the Annual Securities Report other than the consolidated financial statements and non-consolidated financial statements, as well as our auditor's report thereon. Management is responsible for the preparation and disclosure of other statements. The Audit and Supervisory Committee is responsible for monitoring the execution of the duties of directors related to designing and operating the process of reporting other statements.

Other statements are not included in the scope of our audit opinion regarding the non-consolidated financial statements, and we do not express our opinion on the other statements.

Our responsibility with regard to the audit of the non-consolidated financial statements is to read through other statements and consider whether there are any material differences between the other statements and the non-consolidated financial statements or the knowledge we have obtained through our audit. Furthermore, it is our responsibility to pay attention to whether or not there are signs of material errors in other statements, in addition to such material differences.

When we determine that there are material errors in other statements through our audit work, we are required to report such fact.

We have found no matters to report regarding other statements.

#### Management's and the Audit and Supervisory Committee's Responsibility for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements in accordance with accounting principles for non-consolidated financial statements generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The Audit and Supervisory Committee is responsible for overseeing the directors' performance of their duties, including the design, implementation and maintenance of the Group's financial reporting process.

#### Auditor's Responsibility for the Non-Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the non-consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, based on our audit and to issue an auditor's report that includes our opinion from an independent standpoint. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these non-consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement, whether due to fraud or error, design and perform audit procedures responsive to those risks. The audit procedures are selected and performed depending on the auditor's judgment. Also, obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies and the method of their application, and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the non-consolidated financial statements or, if such disclosures are inadequate, to express our opinion with exclusions in the non-consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the non-consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit and Supervisory Committee regarding the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit, and other matters required by the audit standards.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence in Japan and report all relationships and other matters that may reasonably be thought to affect our independence, and where applicable, related safeguards.

Of matters discussed with the Audit and Supervisory Committee, we determine the ones we judge to be of particular importance to our audit of the non-consolidated financial statements for the fiscal year under review and identify them as Key Audit Matters. We describe these matters in our auditor's report unless laws or regulations prohibit public disclosure regarding the matters, or when, in extremely rare circumstances, we determine that a matter should not be reported because disadvantages of doing so would reasonably be expected to outweigh the public interests of such communication.

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