MORESCO Corporation

MORESCO Group delivers sustainable one-of-a-kind products

The 64th Term Financial Report

(From March 1, 2021 to February 28, 2022)

Tokyo Stock Exchange Prime Market 5018 (Petroleum and Coal Products)

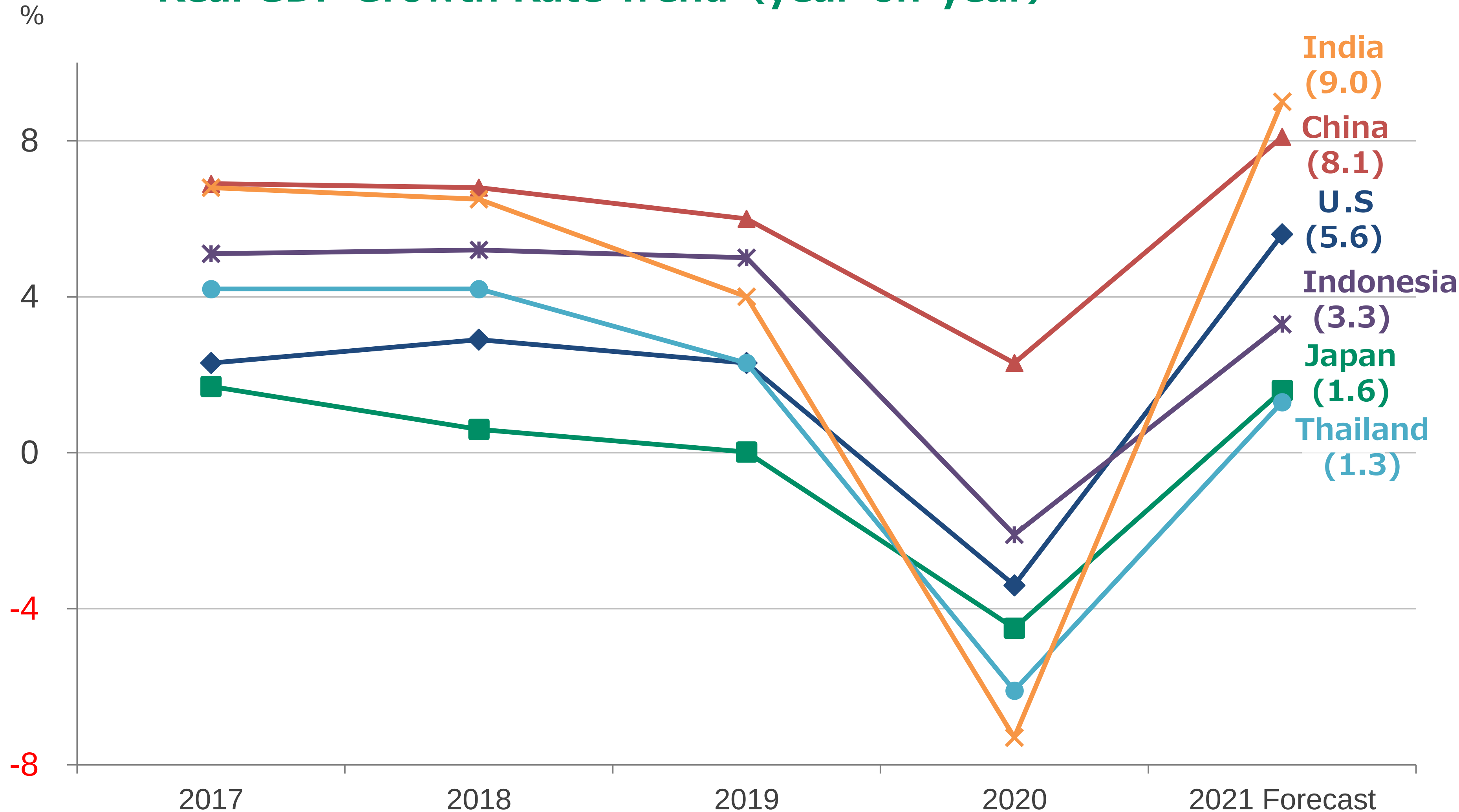
April, 2022

Business environment for the current period (1)

MORESCO

Real GDP Growth Rate Trend（year-on-year)

Source: IMF World Economic Outlook Databases

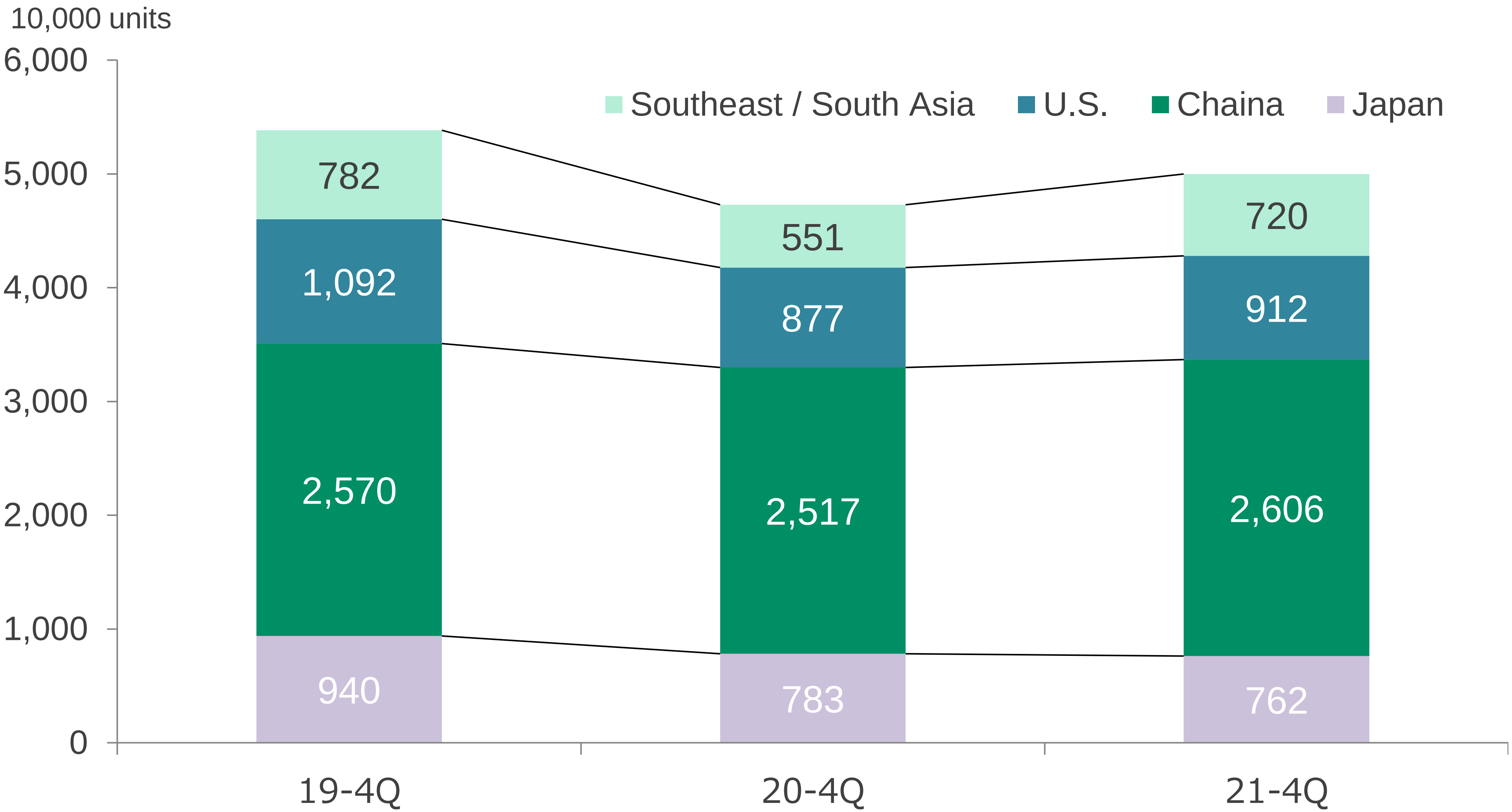


Business environment for the current period (2)

MORESCO

Car Production in The Area where Our Base is Located

Source: MarkLines Co., Ltd.



Notes:
① Japan is from March to February, and overseas is from January to December.
② Southeast / South Asia aggregates Thailand, Indonesia, and India.
(Location of our manufacturing and sales base)

Business environment for the current period (3)

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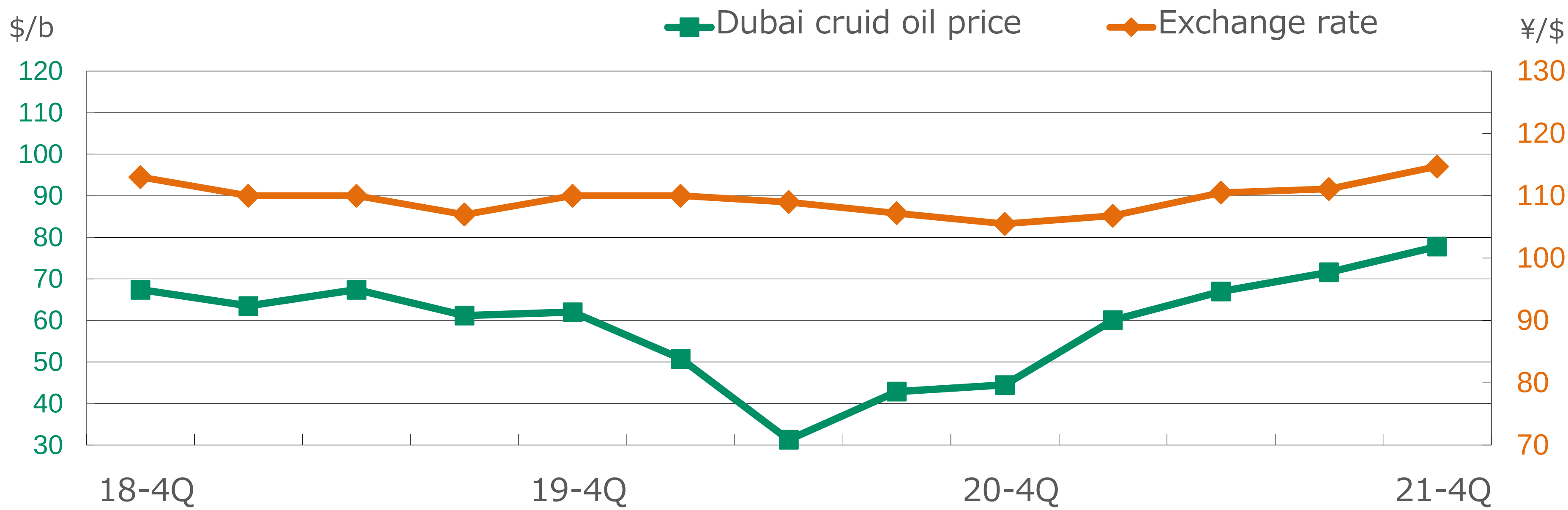

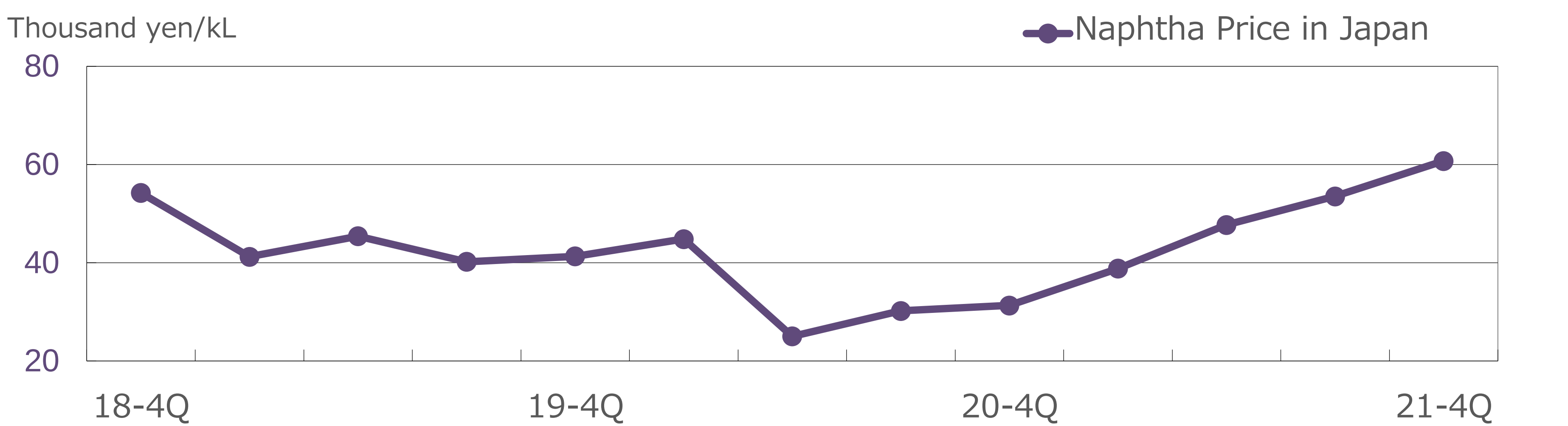

Consolidated Income Statement

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- Increased sales due to recovery in automobile production and rising product selling prices, and recording of foreign exchange gains. Increase in non-operating income. Recorded gain on sale of real estate for rent as extraordinary profit.

Millions of yen

Account title	FY2020	FY2021	Year-on-year change
Net Sales	24,479	27,300	+11.5%
Gross Profit	7,838	8,725	+11.3%
Selling, General and Administrative Expenses	6,996	7,291	+4.2%
Operating Income	842	1,434	+70.3%
Non-operating profit & loss	187	577	+208.0%
Ordinary Income	1,030	2,011	+95.3%
Extraordinary profit & loss	△119	833	–
Income before Income Tax	911	2,844	+212.3%
Net Income *	518	1,808	+249.1%

* Net income attributable to owners of parent. The same applies hereafter.

Breakdown of Sales by Division

Millions of yen

Account title	FY2020	FY2021	Year-on-year change
Functional Fluids	10,566	13,021	+23.2%
Synthetic Lubricants	1,872	1,974	+5.5%
(HD Surface Lub)	869	678	△21.9%
Liquid Paraffin & Sulfonates	3,385	3,480	+2.8%
Hot Melt Adhesive	6,807	6,785	△0.3%
Other	1,795	2,031	+13.1%
Chemical Products TTL	24,425	27,292	+11.7%
Rental Building Business	53	8	△84.2%
Total Net Sales	24,479	27,300	+11.5%

Division Performance - Functional Fluids

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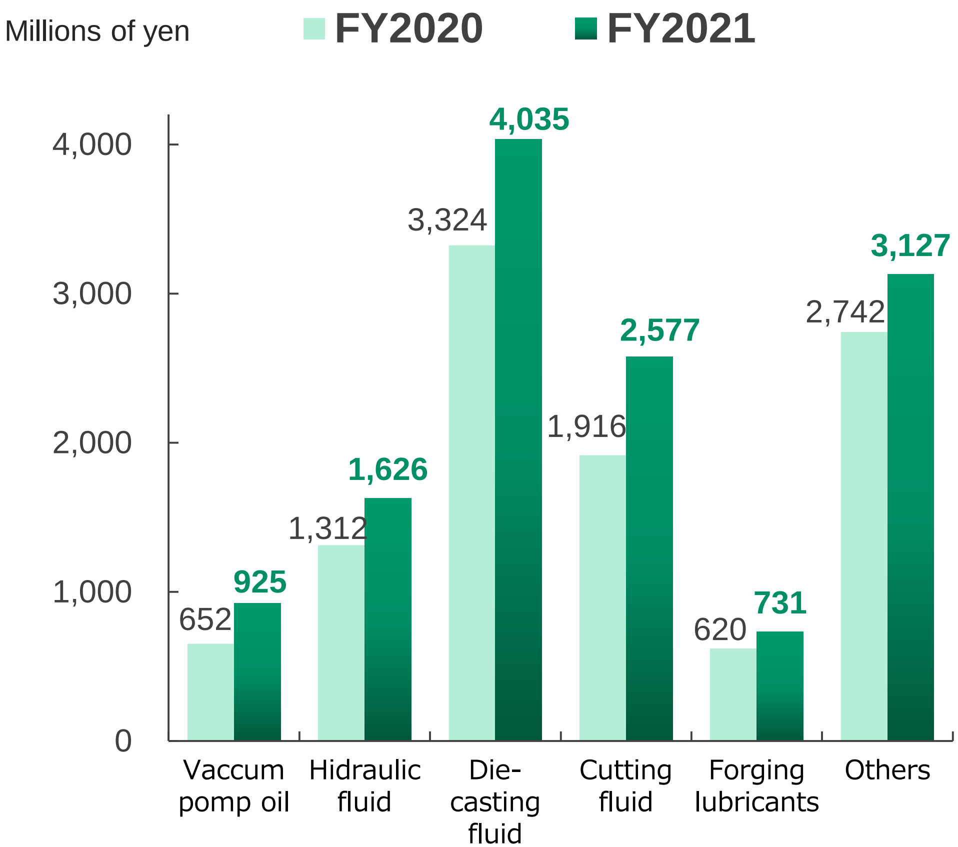
➢ Sales **increased by 23.2% year-on-year (13,021 million yen)**
Sales volume increased by 17.0%

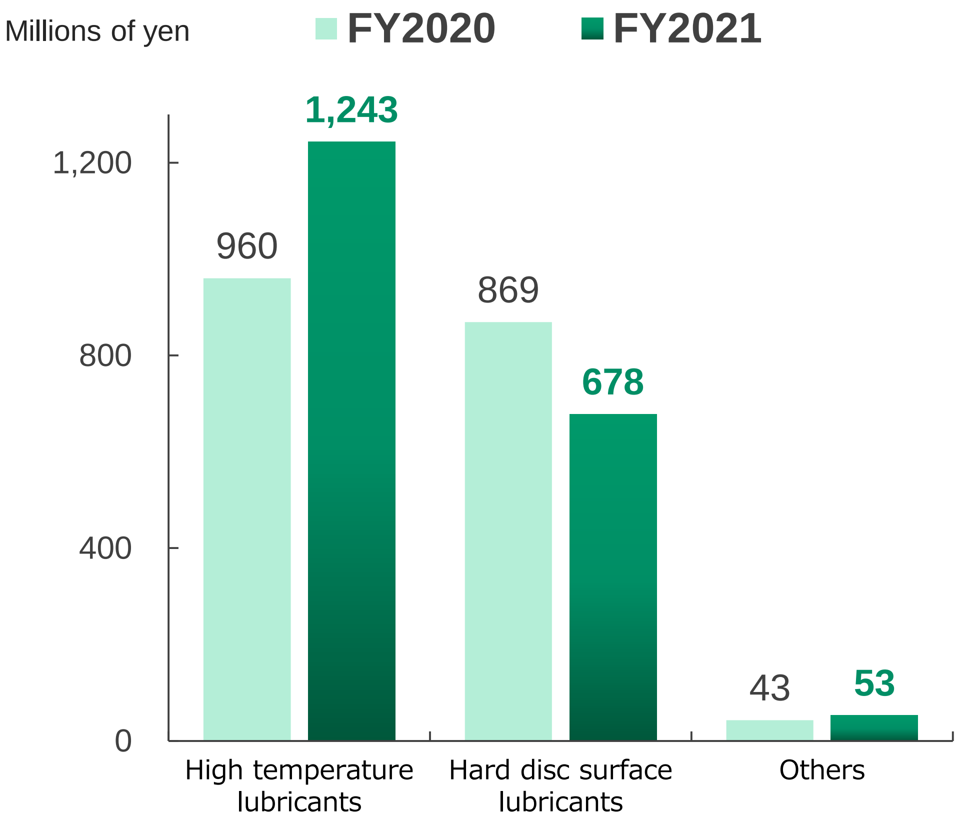


➢**General**

- Sales increased overall due to the recovery trend in automobile production in each country and region.
- Sales of small-quantity die-cast mold release agents that contribute to improving customer productivity and reducing environmental impact are steadily increasing in Japan and overseas.
- Expansion of sales of cutting fluids is progressing.

Division Performance - Synthetic Lubricants

➢ **Sales increased by 5.5% year-on-year (1,794 million yen)**

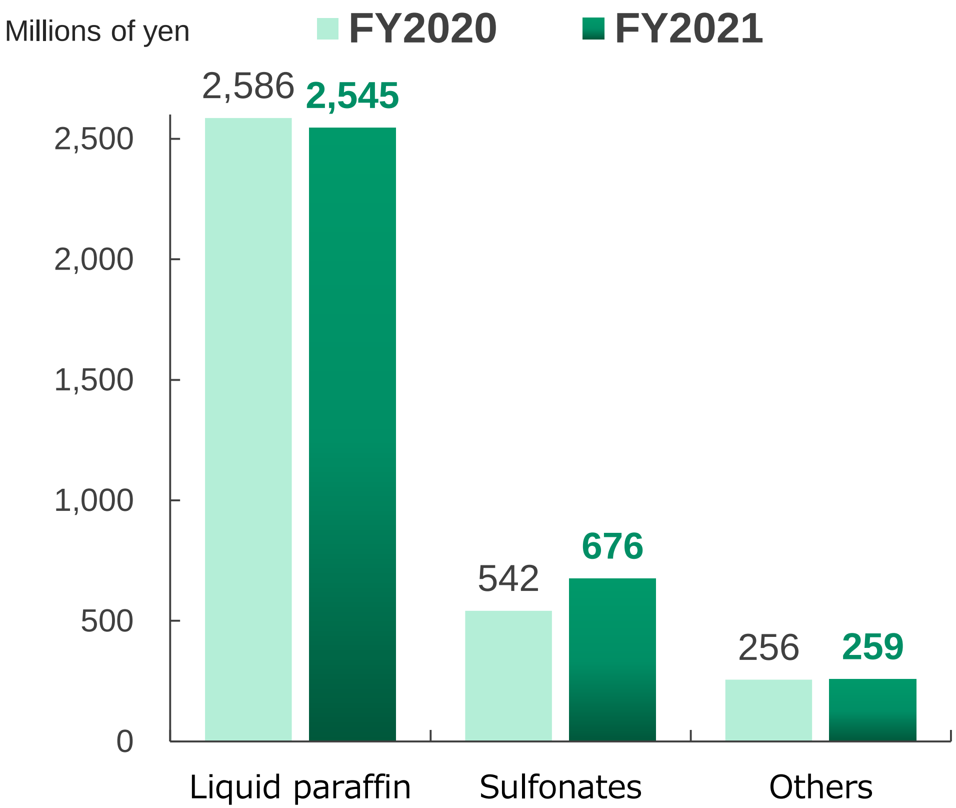


➢ **High temperature**
Sales increased against the backdrop of recovery in domestic demand and strong demand in China.

➢ **Hard disc surface Lubricants**
Sales declined due to the impact of replacement with SSDs in the personal computer field (in the medium term, demand for HDDs for data center applications is expected to increase).

Division Performance - Liquid Paraffin & Sulfonate

- **Sales increased by 2.8% year-on-year (3,480 million yen)**
  Sales volume decreased by 7.7%



- **Liquid Paraffin**
  While sales of polystyrene plasticizers and cosmetics increased, there was a slight decrease due to a review of some transactions based on profitability.

- **Sulfonates**
  Sales increased due to recovery of shipments for metalworking oil additives.

Division Performance - Hot Melt Adhesive

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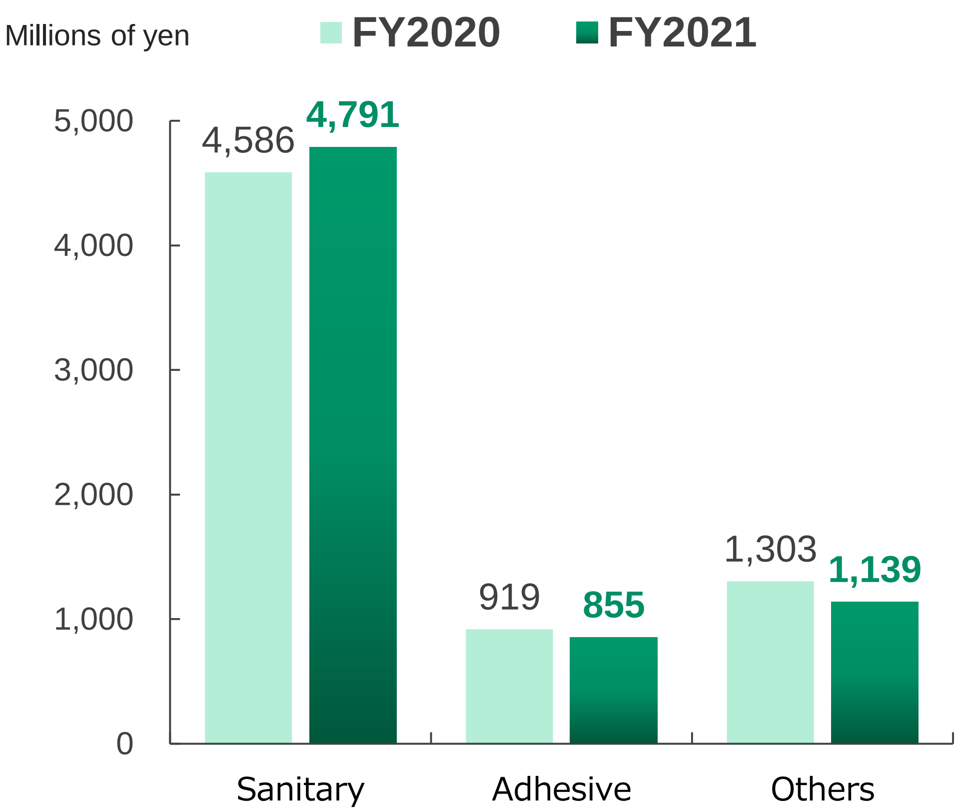
- **Sales decreased by 0.3% year-on-year (6,785 million yen)**
  Sales volume decreased by 1.5%



- **Sanitary**
  Although it decreased slightly in Japan, sales increased due to an increase in sales in India.

- **Others**
  In China, the use of filters for air purifiers decreased in reaction to the strong performance in the previous fiscal year.

Overseas Sales (Consolidated)

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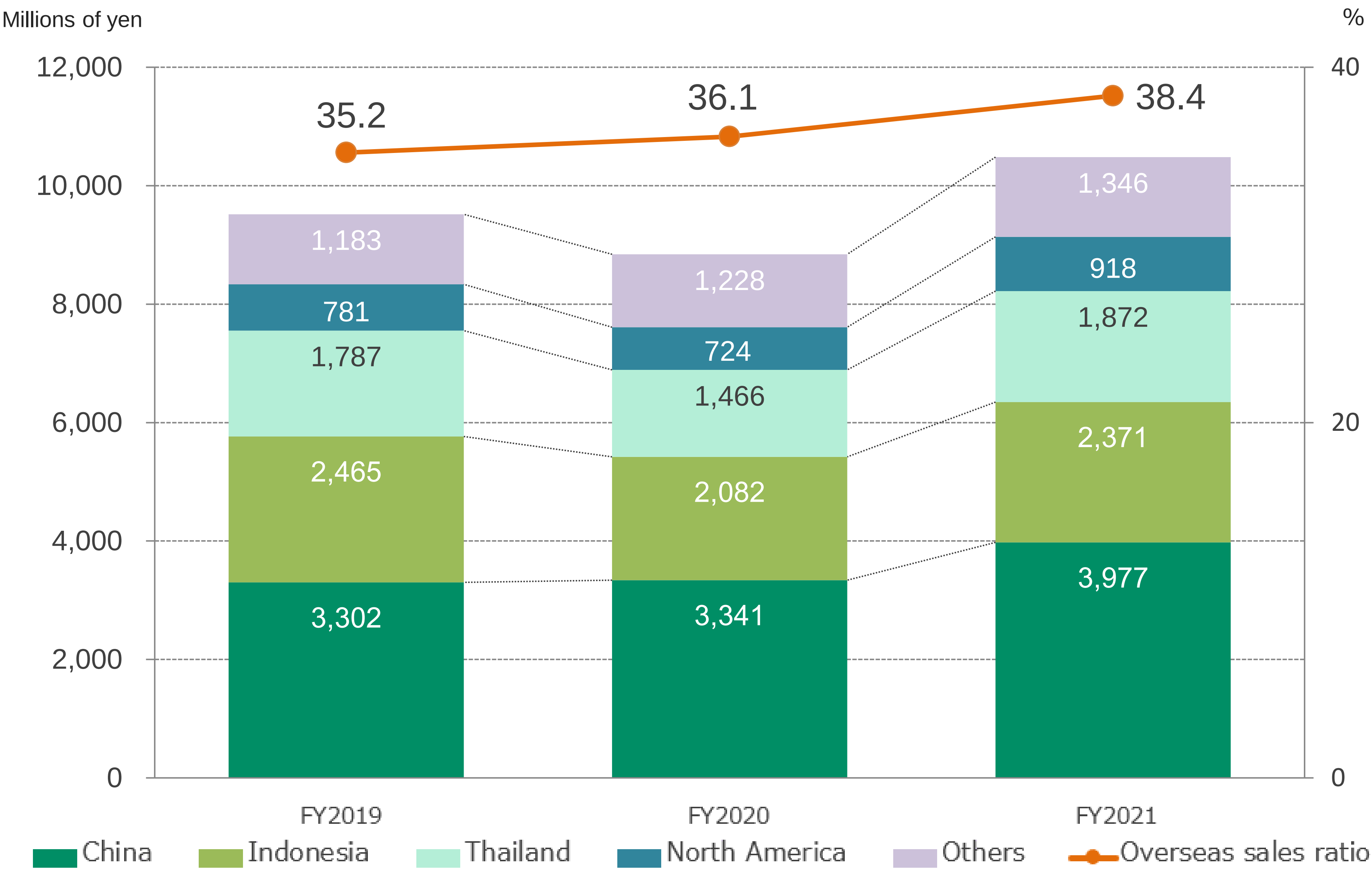

Consolidated Income Statement

MORESCO

Millions of yen

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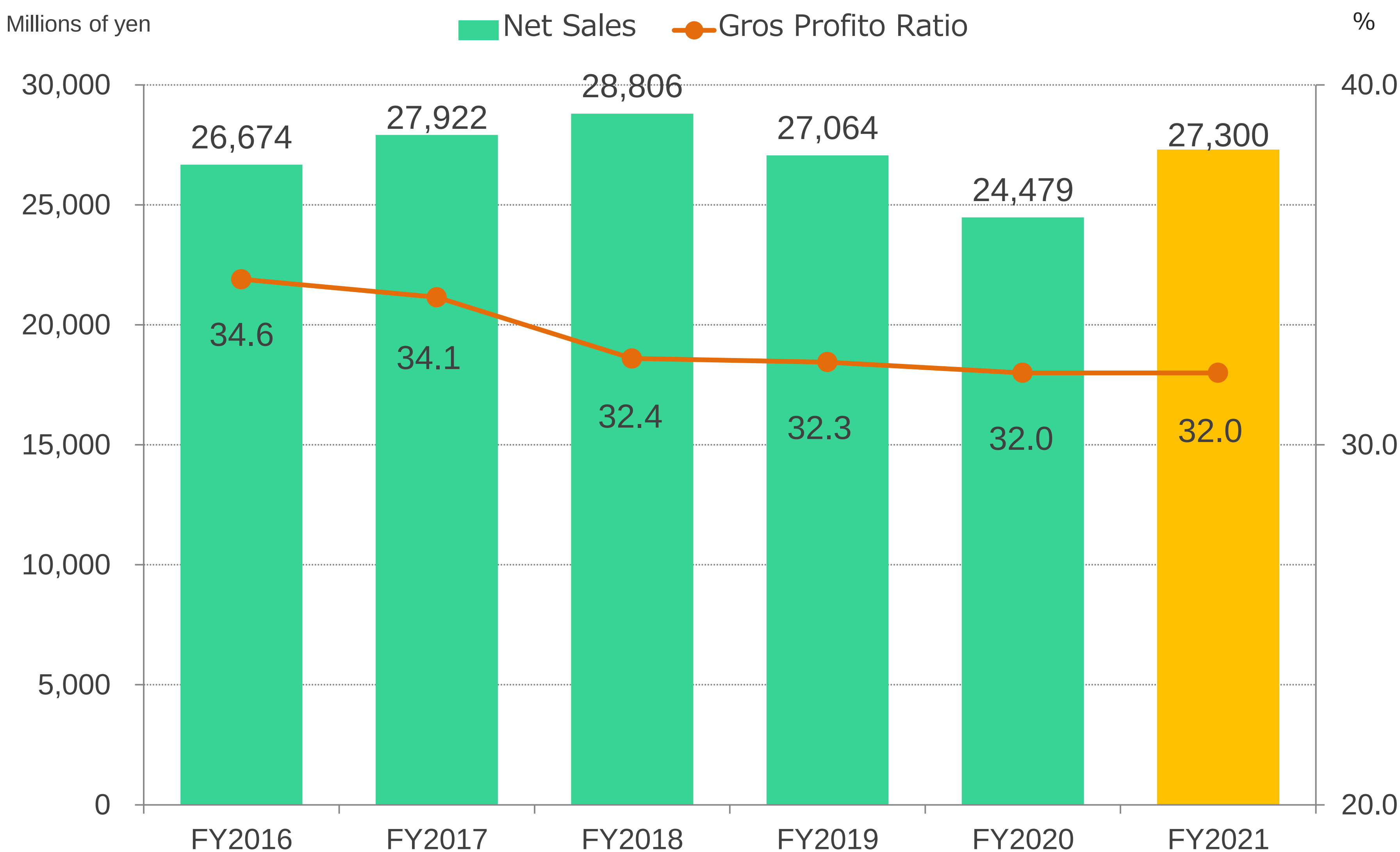
Net Sales and Gross Profit Ratio



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Selling, General and Administrative Expenses

Millions of yen

	FY2020	FY2021	Increase / Decrease	Year-on-year change
Selling, General and Administrative Expenses (include R&D Expenses)	6,996	7,291	+295	+4.2%
R&D Expenses	1,360	1,359	△1	△0.1%
SGA Ratio	28.6%	26.7%		
Ratio of R&D Expenses to Sales	5.6%	5.0%		

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Millions of yen

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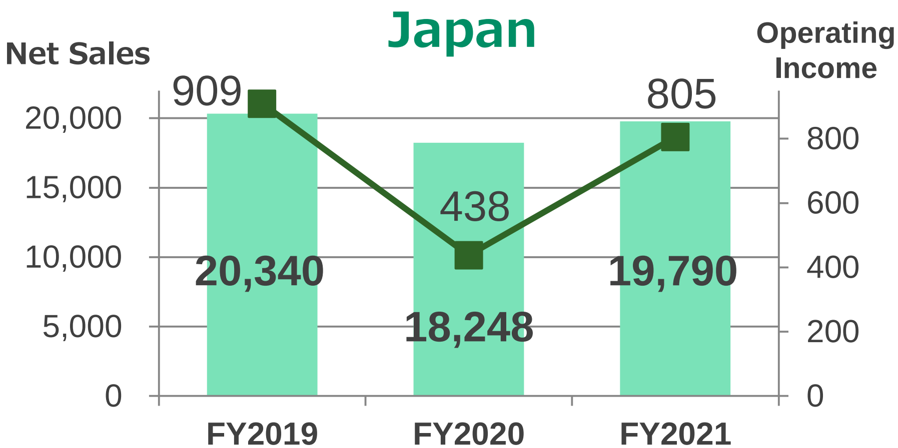
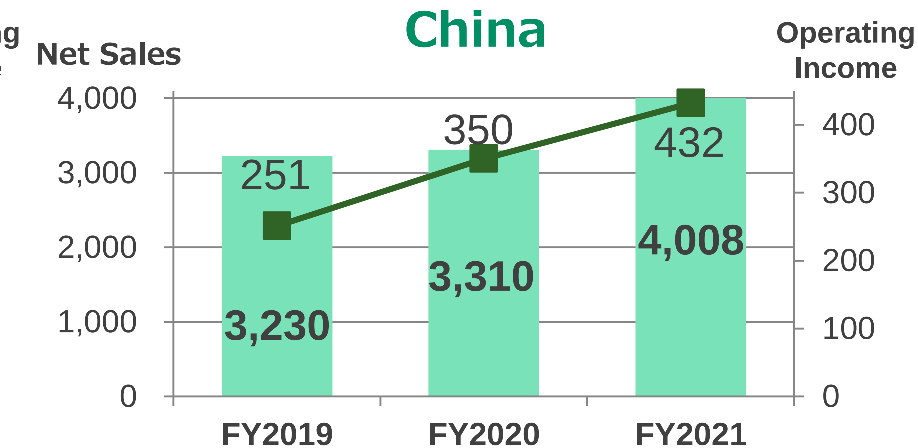
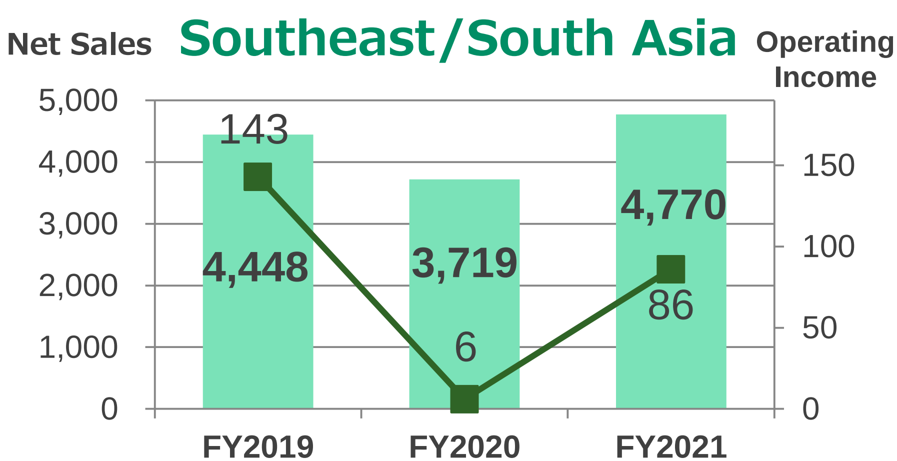
Profit and Loss by Country (Consolidated)

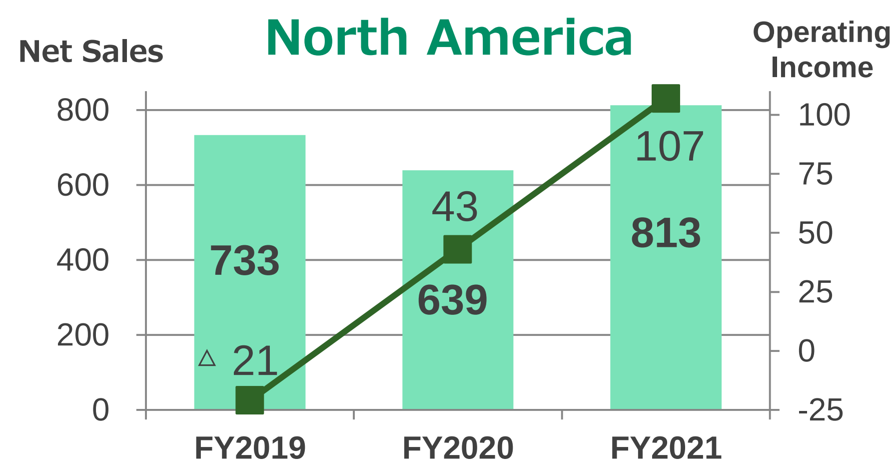
Net Sales ■ Operating Income

Millions of yen









Consolidated Income Statement

Millions of yen

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Balance Sheet (Consolidated)

Millions of yen

Account title	FY2021	Increase/ Decrease	Account title	FY2021	Increase/ Decrease
Cash & Deposit	4,001	△107	Trade Payable	4,308	333
Notes and Accounts Receivable-trade	6,844	200	Interests bearing debt (Current)	910	△2,409
Inventories	5,326	1,085	Other Current Liabilities	2,393	790
Other	436	125	Other Noncurrent Liabilities	847	198
Current Assets	16,607	1,303	Total Liabilities	8,457	△1,088
Property, Plant and Equipment	8,304	△215	Capital Stock · Capital Surplus	4,094	△0
Intangible Assets	633	△159	Retained Earnings	13,517	1,386
Investments and Others	3,465	372	Treasury Stock	△384	5
Fixed Assets	12,401	△2	Accumulated Other Comprehensive Income	735	672
			Non-Controlling Interest	2,589	326
			Total Net Assets	20,551	2,389
Total Assets	29,008	1,301	Total Liability & Assets	29,008	1,301

Note: Increase / Decrease vs. FY2020

Capital Investment・Depreciation

Millions of yen

Account title	FY2020	FY2021	Increase / Decrease
Total Capital Investment	725	1,279	+554
MORESCO	474	340	△133
Consolidated Subsidiary	251	939	+688
Depreciation	1,328	1,210	△118

➢ **Major Capital Investment (acquisition base)**

Ethylene Chemical CO., LTD.

- Renewal of wastewater treatment equipment and utility equipment
- Office building (under construction)

Interest-bearing Debt

Millions of yen

Account title	FY2020	FY2021	Increase / Decrease
Short-term Borrowing *	2,544	560	△1,984
Long-term Borrowing	775	350	△425
Total Borrowing	3,319	910	△2,409

Interest-bearing Debt Ratio	12.0%	3.1%

* Includes long-term loans payable within one year.

Cash Flow for FY2021

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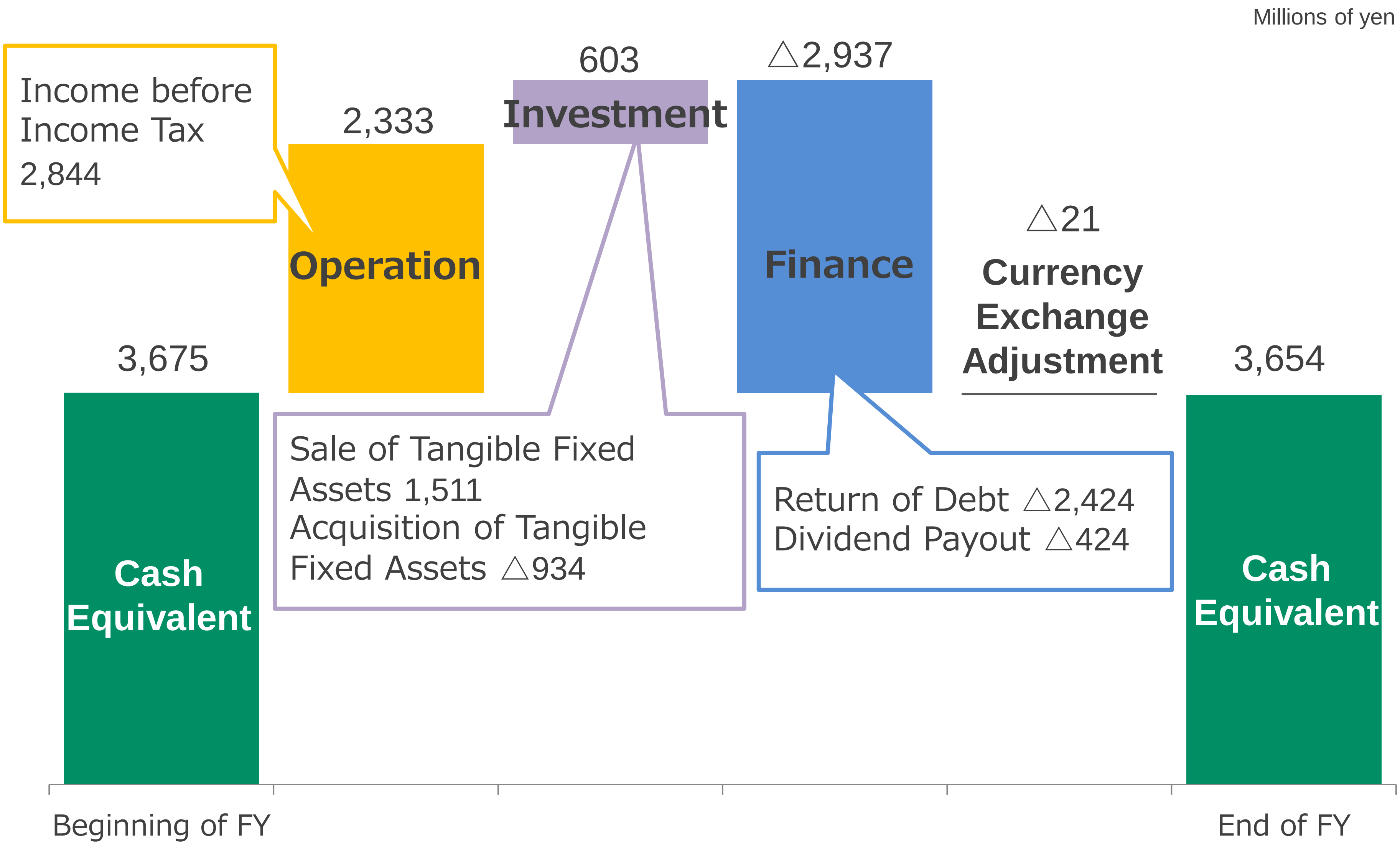

FY2022 Consolidated Earnings Forecast

Millions of yen

Account title	FY2021	FY2022 Forecast
Net Sales	27,300	30,500
Operating Income	1,434	1,850
Ordinary Income	2,011	2,200
Net Income	1,808	1,300

The FY2021 results include a gain on sales of fixed assets of 833 million yen as extraordinary income.

Medium-Term Management Plan

Automobile Market Forecast and its impact

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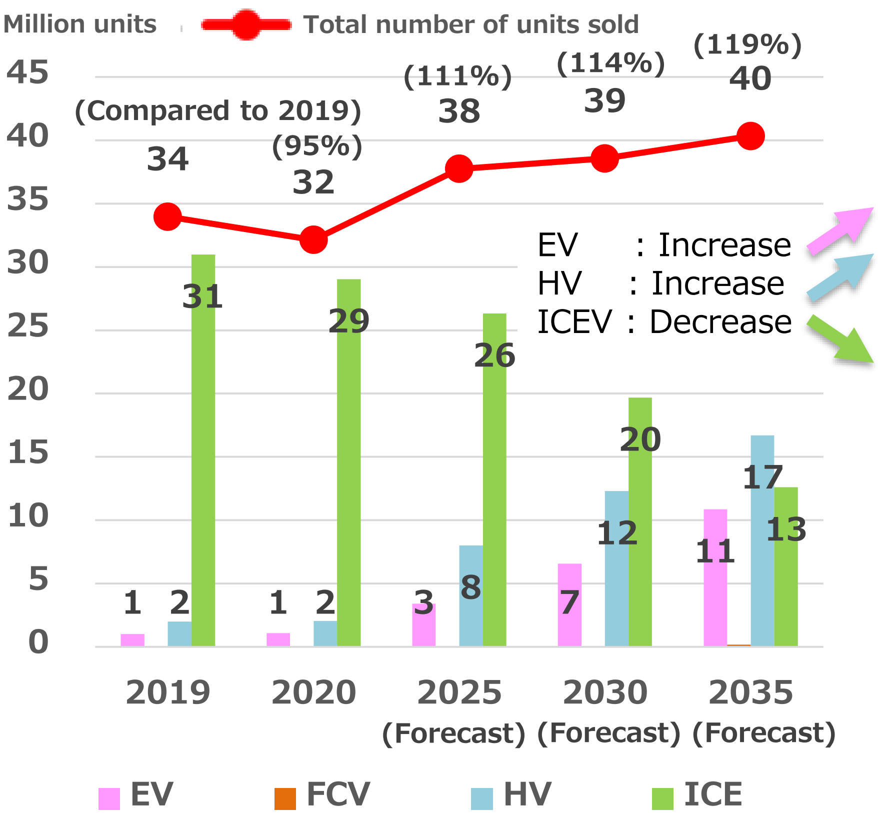
➢Auto sales forecast and impact on our products

Auto sales results / Forecast by power source (Japan, China, ASEAN・South Asia)



Source: Fuji Keizai Co., Ltd.
2021 version HEV, EV related market thorough analysis survey

Changes in the amount of our products used (If 2019 is 1.0)

【 Car sales forecast by power source 】(Left forecast)

×

【 Our products usage ratio by power source 】(Internal Estimate)

	DC・Cutting fluid, etc.	Hot melt
2019	1.00	1.00
2020	0.95	0.95
2025	1.10	1.11
2030	1.10	1.14
2035	1.13	1.19

- Overall auto sales are on the rise towards 2035.
- Sales of ICEV are on a downward trend.
- On the contrary, Sales of EV and HV are on the rise.
- The amount of Die casting lubricants, Cutting fluid, Hot melt, etc. used is on the rise toward 2035 (calculation results above).

Business Results and 9th Medium-Term Management Plan

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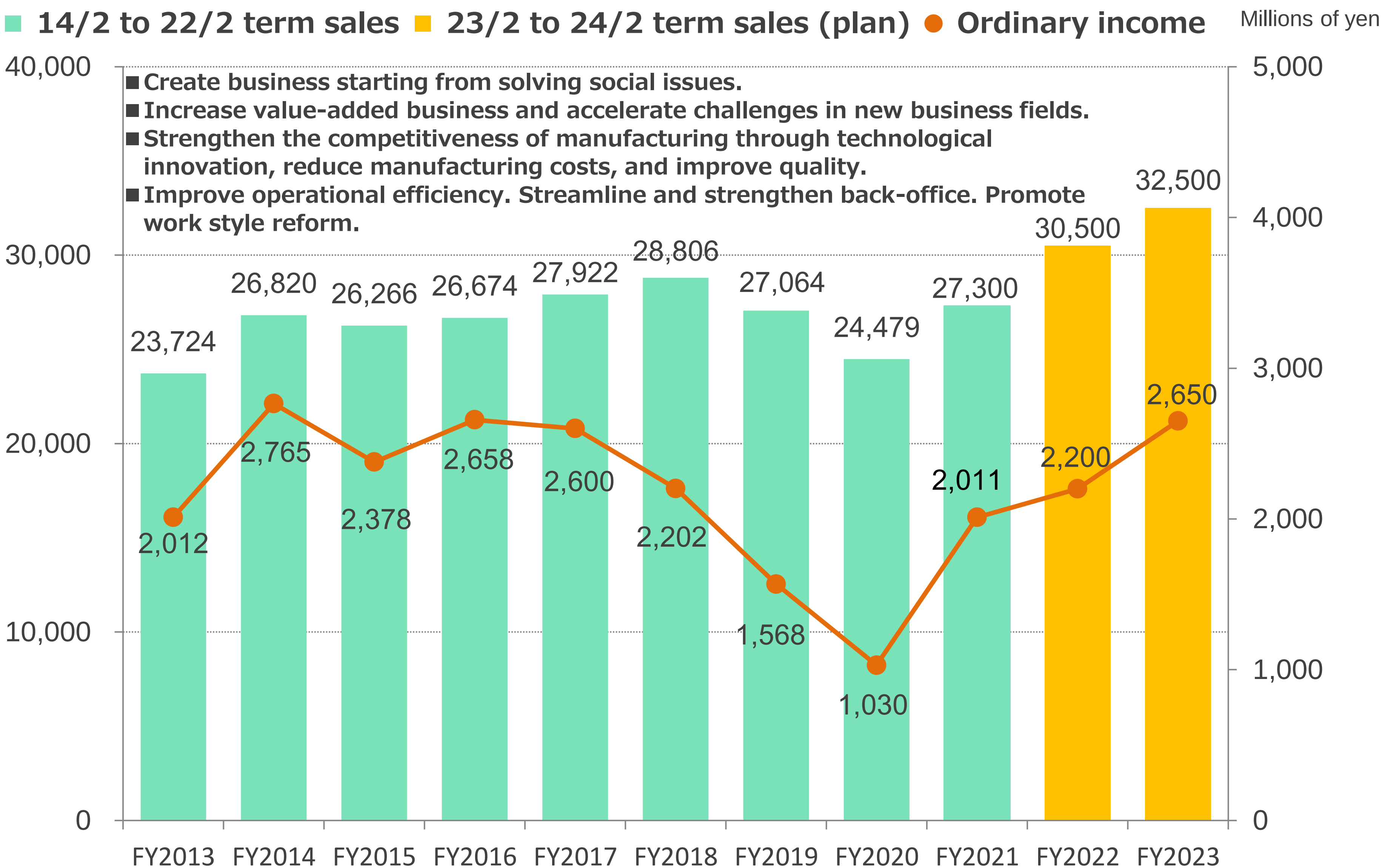
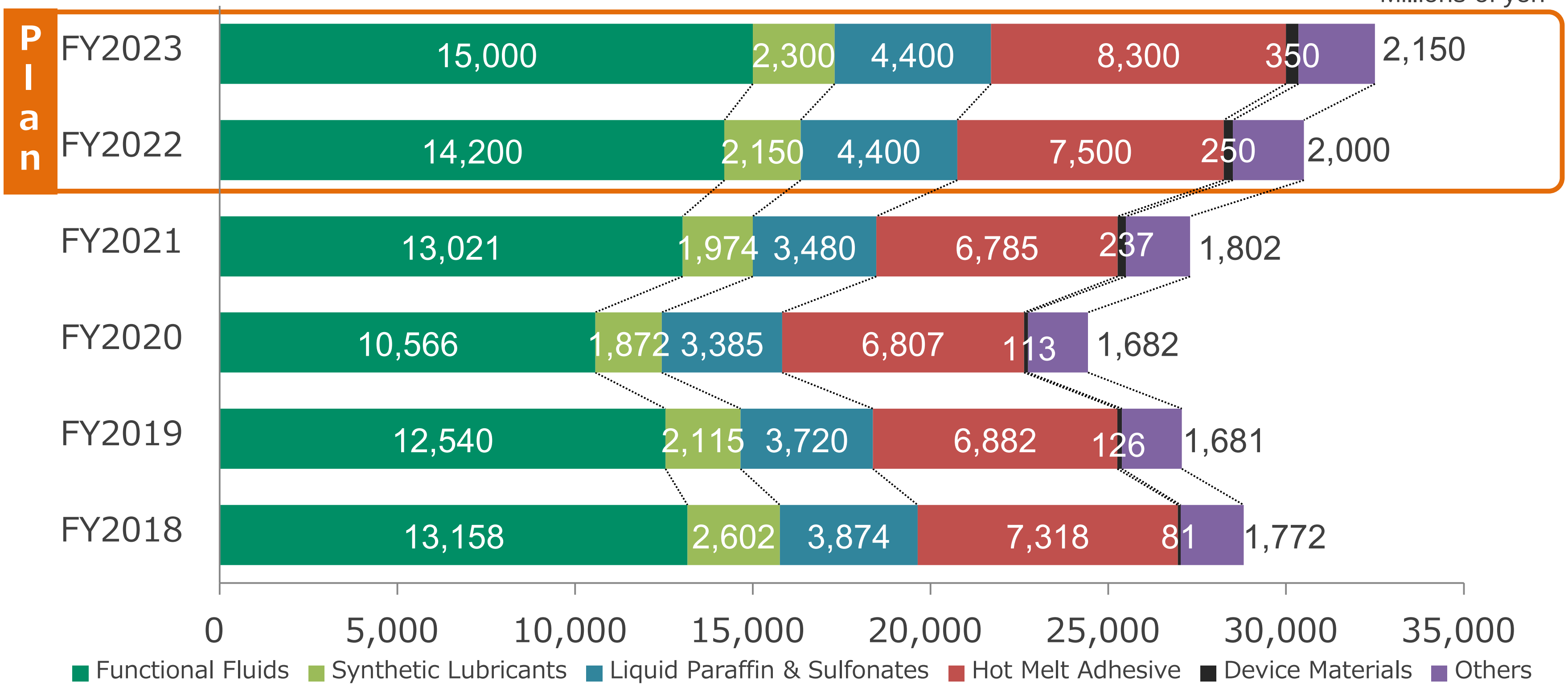


Medium-Term Plan and Sales by Division (Consolidated)

- **Functional Fluids : Expand sales of water-soluble minimum quantity spray type lubricant, increase market share of cutting fluids and lubricant for hot forging.**
- **Synthetic Lubricants : Development of applications for high temperature lubricants, overseas expansion, development of surface lubricants for hard disk in next generation.**
- **Hot Melt Adhesive : Promote the development of environment-friendly products that meet customer needs, such as low odor and low VOC types.**
- **Device Materials : Accelerating overseas expansion of sealants for organic EL.**
- **Development of Indian market.**
- **Creating new business in the life science field.**



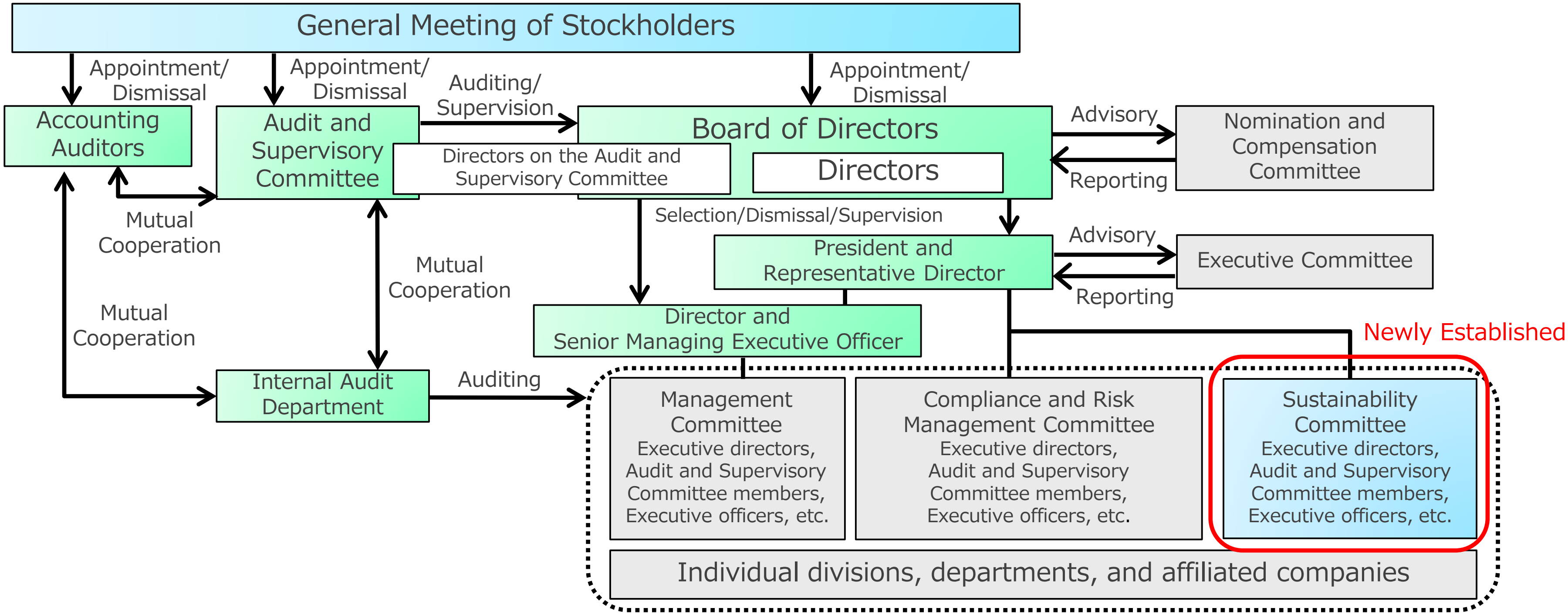
Realization of a Sustainable Society

Towards a sustainable society

① MORESCO Group Sustainability Policy

The MORESCO Group, as a specialist in the interface science stated in its management philosophy, will actively promote sustainability activities to further contribute to solving social and environmental issues. We strive to raise the trust of stakeholders by balancing the "realization of a sustainable society" and the "improvement of corporate value throughout the medium and long term" while operating business.

② System to Promote Sustainability



Towards a sustainable society

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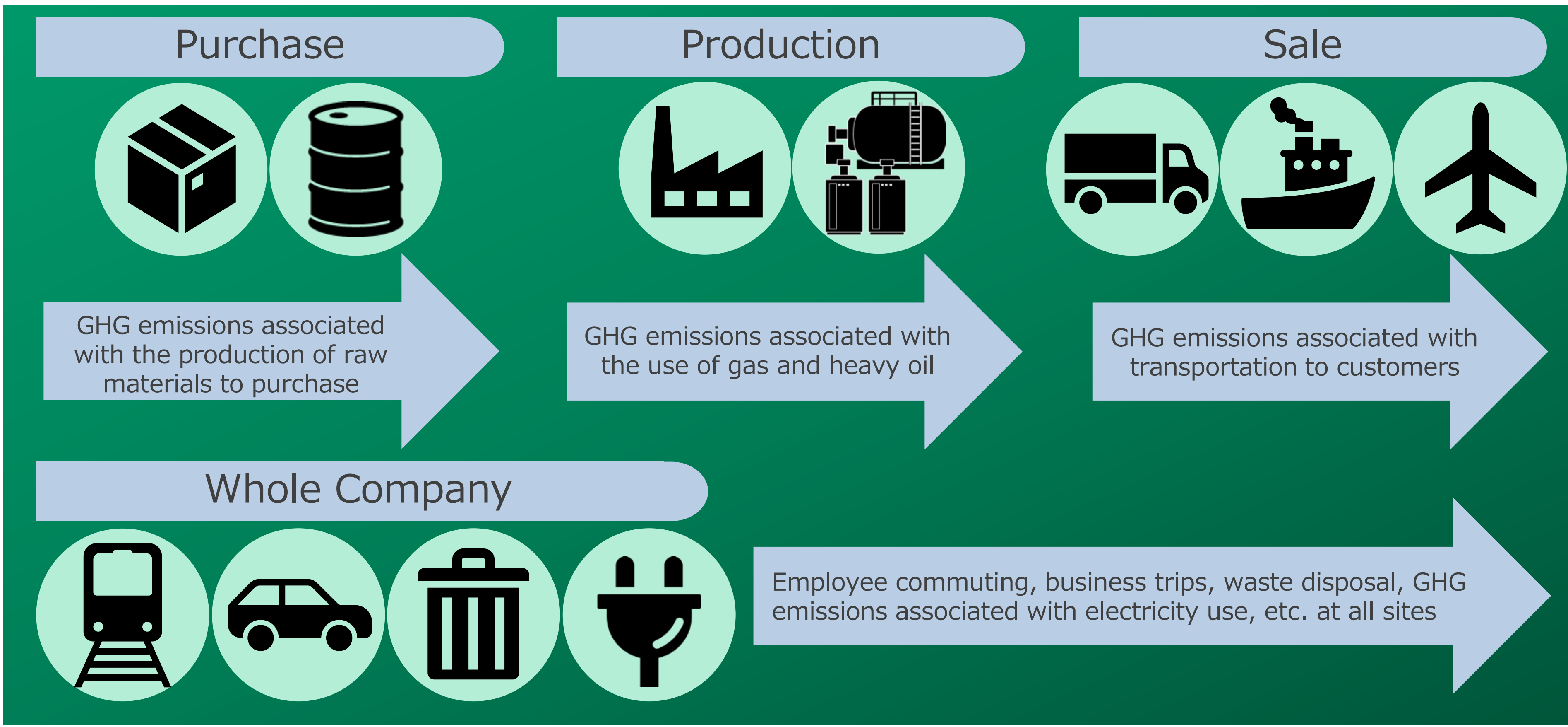
③ Seven Materialities

	Task	SDGs-Related	The Initiative
Critical Issues related to business activities	Reduce environmental risks	7 Affordable and Clean Energy; 12 Responsible Consumption and Production; 13 Climate Action; 6 Clean Water and Sanitation	• Develop long-lasting products that generate less wastage with and limiting impact to the environment • Establish a "reduce- reuse- recycle" culture at workplace • Reduce CO_2 emissions and wastewater in manufacturing processes • Develop and deliver eco-friendly products • Invest in and adopt renewable energy sources and implement energy savings practices
	Develop innovative products and services	9 Industry, Innovation and Infrastructure; 3 Good Health and Well-Being	• Invest in innovations and new technologies in existing business to help reduce the cost and make them affordable for all • Identify and develop new business opportunities
	Transform business focusing on long-term values for sustainable growth	9 Industry, Innovation and Infrastructure; 8 Decent Work and Economic Growth; 12 Responsible Consumption and Production	• Create long-term, sustainable impact across employees, customers, suppliers, communities, and shareholders by utilizing data analysis • Optimize production efficiency and minimize environmental impact using digital technology • Make the workplace safer by promoting machine automation in the factories and conducting regular safety checks
	Supply chain management	11 Sustainable Cities and Communities; 12 Responsible Consumption and Production; 8 Decent Work and Economic Growth	• Ensure sustainable and stable procurement of raw materials • Select suppliers having good socially conscious vision and capability of navigating change/disruption • Reinforce supply chain network and resilience • Strengthen BCP system
	Strengthen business partnerships	17 Partnerships for the Goals	• Create innovation through joint research with research institutions, etc. • Form partnerships with key customers and suppliers for competitive advantages and technology advancements • Co-create values with local communities and promote CSR activities
Critical Issues related to corporate management	Strengthen human capital by developing and promoting diverse human resources	4 Quality Education; 5 Gender Equality; 8 Decent Work and Economic Growth	• Develop global talent to meet business needs • Ensure fair hiring practices and equal pay for equal work • Promote career advancements for female employees • Provide career development and leadership training to accelerate the growth of employees
	Build a better workplace	3 Good Health and Well-Being; 8 Decent Work and Economic Growth; 16 Peace, Justice and Strong Institutions	• Improve employees' work-life balance • Uphold human and labor rights • Establish a corporate culture that emphasizes diversity, equity, and inclusiveness (DE&I) • Ensure competitive compensation and benefits to attract and retain talent • Ensure harassment-free working environment • Promote Business Process Reengineering (BPR) to make changes for the better

Initiatives for decarbonization

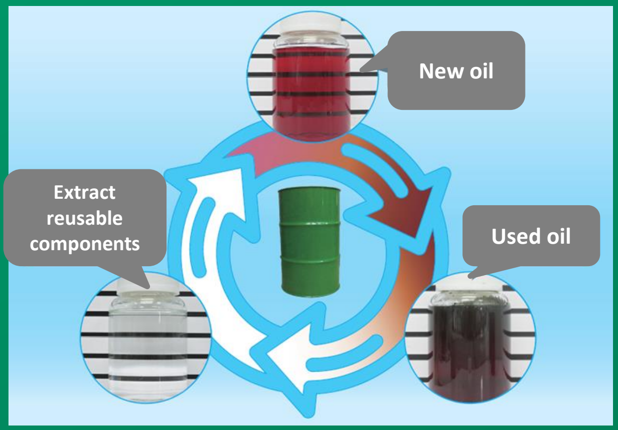
➢Greenhouse gas reduction across the supply chain

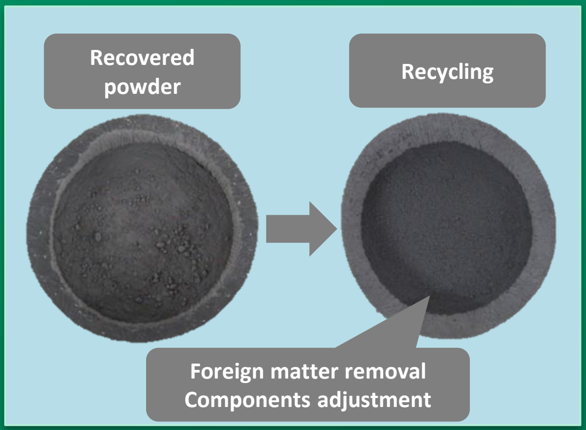
- By 2030, we aim to reduce GHG emissions by 46% from our own energy consumption (compared to 2013), grasp emissions in the entire supply chain, and achieve carbon neutrality by 2050. ＊GHG…Greenhouse Gas



➢Recycling of Functional Fluids

Water-glycol hydraulic fluid	Powder releasing agent	Water soluble cutting fluids





[Conventional efforts]

・Only non-deteriorated components are extracted from old Water-glycol hydraulic fluid and effectively used as raw materials for the product.

[Future efforts]

・Collect and recycle the used powder releasing agent.

・Expand the use of recycled raw materials as raw materials for lubricants.

Efforts to promote biomass conversion

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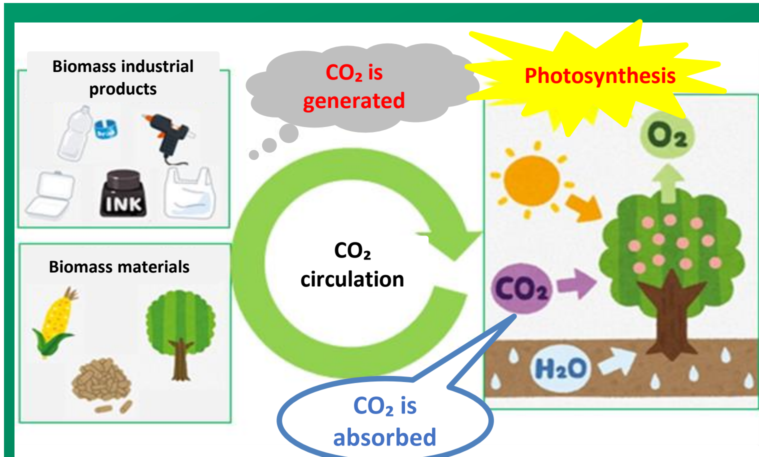
➢Hot Melt Adhesives that contain plant-based resin

➢ **Products made from biomass such as plants do not affect the increase or decrease of carbon dioxide even when burned (carbon neutral).**

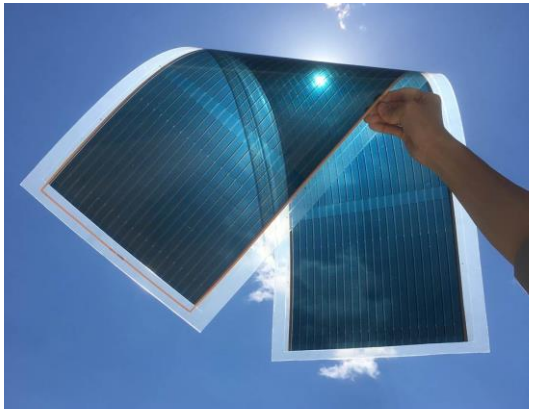


Product number	BM-546Z	BM-105	BM-568Z
Biomass percentage (%)	30 バイオマス No.200115	30 バイオマス No.200116	25 バイオマス No.200114
Main component	Synthetic rubber	Synthetic rubber	Synthetic rubber
Characteristics	Label for general products, strong adhesion and low bleeding	Compliant with FDA175.125(can be directly affixed to food items)	Can be affixed to frozen and refrigerated products

- Three hot melt adhesive product numbers have been certified as biomass mark products by the Japan Organics Recycling Association.
- We have also developed a hot-melt adhesive for sanitary products used in disposable diapers, etc., which contains 20-40% of plant-derived resin.

➢Organic Photovoltaics (OPV)

- OPV is a more eco-friendly solar cell because it generates about 1/5 of CO_2 during production compared to silicon solar cells.
- Currently, we are the only company in Japan that manufactures OPV modules for continuous printing.



Flexible OPV module

OPV is installed in the office of a commercial building.

Designing by printing on the OPV surface

Free design is given by laser technology that can handle continuous film.
Various designs are given by printing on the OPV surface.
→It contributes to the realization of a low-carbon society by obtaining electricity more closely.

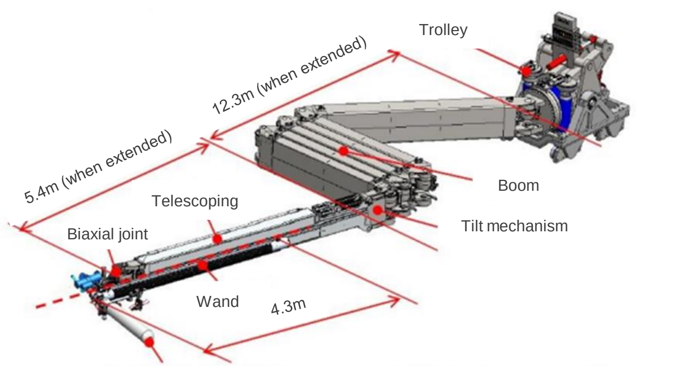
➤Radiation resistant lubricants

➤ Demonstrates stable lubrication performance for a long period of time in nuclear facilities.

NEW The first step in the decommissioning of the Fukushima Daiichi Nuclear Power Station, the world's highest level radiation-resistant lubricants "MORESCO-HIRAD" was installed in all drive parts of the fuel debris * extraction equipment.

- A nuclear fuel rod in a furnace that melts and falls during an accident and then cools and resolidifies. It emits the highest radioactive rays in the residue.

- Arm total length about 22m
- Can be equipped with survey equipment up to 10 kg



Robot arm (= arm type access device)

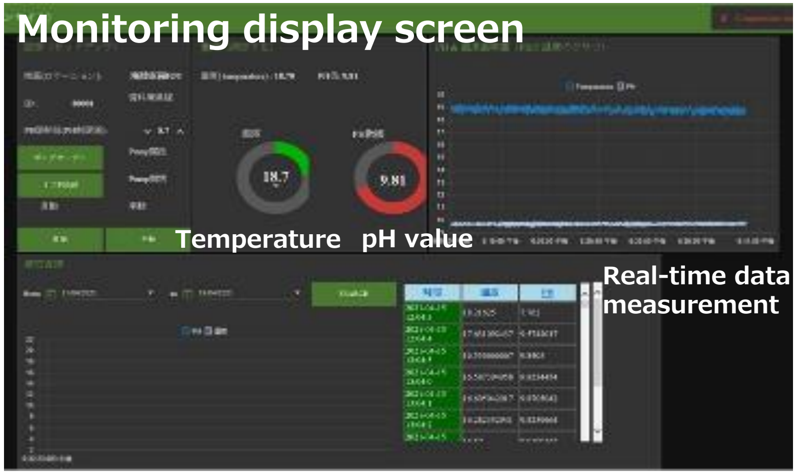
Source: International Research Institute for Nuclear Decommissioning

・Radiation generated in nuclear reactors accelerates the deterioration of lubricants used in their peripheral equipment (evaporation / solidification).
→In order to operate the equipment continuously, a lubricant with extremely high radiation resistance is required.

MORESCO's radiation-resistant lubricants plays an important role and contributes to the decommissioning of the Fukushima nuclear power station.

New Products・New Business

➢Cutting fluid monitoring system



- Remotely manage the status of cutting fluid used by customers using an IoT monitoring device.
- The pH value is constantly monitored and automatically adjusted so that it falls within the appropriate value (connectable from a PC or smartphone).
- It is expected to extend the life of cutting fluids and suppress rotting odors and discoloration.

➢Hydraulic fluid immediate analysis system “Dr. HYDOL”

Display at the top of the device

Measurement accuracy that can only be achieved by a hydraulic fluid manufacturer !

- By constantly monitoring kinematic viscosity, cleanliness, pH, and moisture, abnormalities can be detected quickly.
- Understand the deterioration tendency of hydraulic fluid and optimize the maintenance time.
- It also contributes to the reduction of equipment troubles and the extension of equipment life.

MORESCO

➢Multi-chamber type gas & water vapor transmittance measurement device

➢ **Newly developed multi-chamber type suitable for measuring multiple samples.**

New 4-chamber type device

Performance	**New equipment**	Existing equipment
Number of sample chambers	◎ **(4 chambers)**	○ (1 chamber)
Measurement sensitivity	○ (～3×10^{-5})	◎ **(～1×10^{-6})**
Measurement efficiency (10^{-3} order)	◎ **(4 samples/4 days)**	○ (2 samples/4 days)
Result analysis	◎ **(Easy)**	○ (Advanced)
Use	Production process Quality control process	R & D

Comparison table of new equipment and existing equipment

・The new device is equipped with multiple sample chambers to improve work efficiency related to sample replacement.

・Simplified operation and automated result analysis so that anyone can use it easily.

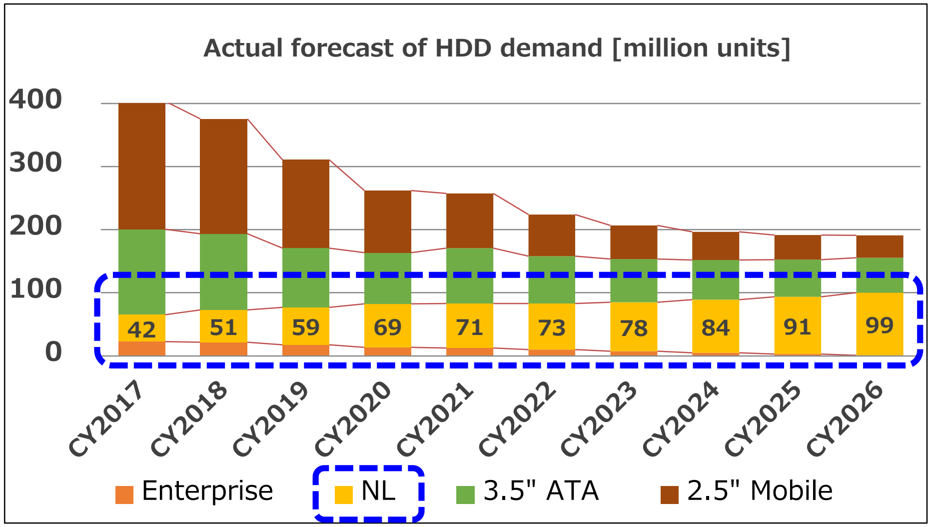
→**Reduces the burden on operators in production processes and quality control processes in the fields of electronic parts / equipment, food / medical product packaging, etc.**

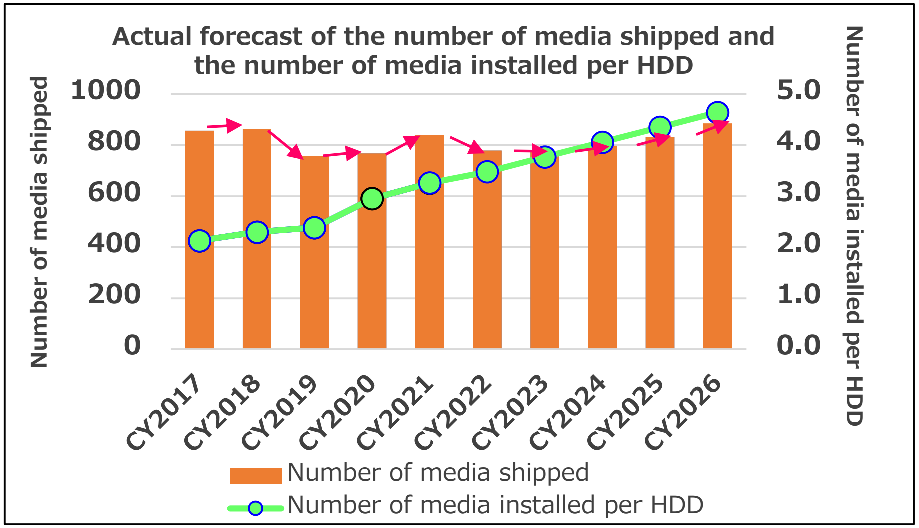
・**We will further strengthen our development in hydrogen permeability measurement and contribute to the development of materials for the realization of a hydrogen society.**

Synthetic Lubricants Division

MORESCO

➢Surface Lubricants for Hard Disk in Next Generation





Source: Techno Systems Research Co., Ltd.

- Demand for HDDs is declining year by year, but near-line drives (NL) for data centers are expected to grow.

- Since the number of media installed in the near-line drive is large, the number of media produced is small but tends to increase.

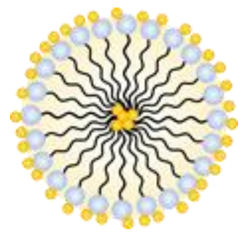
→We have already sold more than 90% of our HD lube products for the near line.

- **Two new products that improve storage density and save energy by making the film thinner than before have been adopted for new HDDs for near-line HDD manufacturers.**

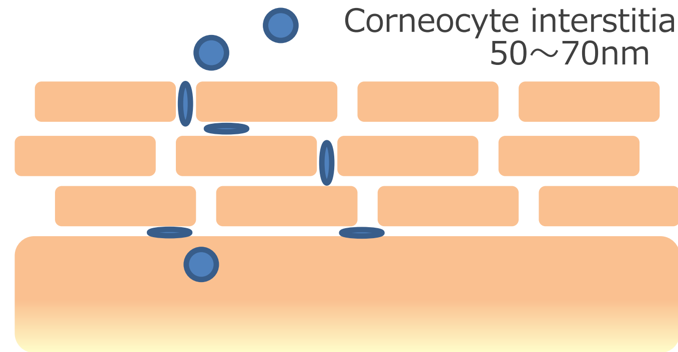
➢Nanoemulsion Technology

Dissolves functional materials in a much smaller size than before.

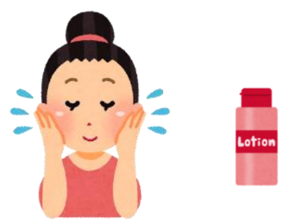
MORESCO
Single nanomicelle
12 nm



Conventional
single layer micelle
55 nm



Nano-sized emulsification greatly improves the oral / transdermal absorption rate of poorly water-soluble drugs.



A major healthcare company, progressing evaluation toward adoption in lotion.

Life Science Division

MORESCO

➢Joint research and development aimed at drug discovery

Promote joint research and development by investing in AutoPhagyGO Inc., a university-based start-up company.

Promote drug discovery activities targeting autophagy, which is expected to improve lifestyle-related diseases.
Obtained an important compound with improved pharmacological activity.

The first patent application is scheduled for 2022.

MORE 'S' COMPANY
MORESCO

APGO
AutoPhagyGO Inc.

Autophagy research is research that leads to the prevention and treatment of various phenomena and diseases related to aging.

Promote joint research and development of new allergy treatments with Ehime University.

This new medication is expected to be effective in treating a wide range of allergy diseases, such as bronchial asthma and allergic rhinitis.
We are developing synthetic compounds with the aim of acquiring compounds with activity, water absorption, and safety.

MORE 'S' COMPANY
MORESCO

愛媛大学大学院医学系研究科
愛媛大学医学部

Other Initiatives

MORESCO

➢Established a subsidiary in Haining City, China

March 23, 2022 establishing a new company

<u>Overview of the subsidiary</u>
Name: 莫莱斯柯（浙江）功能材料有限公司
Business contents: Development, manufacture, sale and import / export of lubricants and sealant
Capital: US $ 12,000,000
Capital structure: Wholly-owned subsidiary

<u>Purpose of establishment / future prospects</u>
①Improvement of production capacity and production efficiency by consolidating functional fluids production bases.
②Improving operational efficiency by supervising the management department of a Chinese subsidiary.
③Development of products that contribute to reducing the environmental burden by strengthening the R&D system.

➢ MORESCO were certified as Health Management Excellent Corporation 2022 (Large-scale Corporate Division).

2022
健康経営優良法人
Health and productivity

・This is a system that recognizes corporations that are practicing particularly good health management.（Ministry of Economy, Trade and Industry）

"Health and productivity Management" … The company thinks about the health management of employees from a management perspective and puts it into practice strategically.

——— MORESCO Health Management Declaration ———

MORESCO believes that physical and mental health of employees is essential to the sustainable development of the company. In order to make **"a company where everyone can grow in a rich environment and cultivate new value"** a reality, we are promoting the development of employee health.

Head Office / R&D Center

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