

65th Business Report

Mar. 1, 2022 - Feb. 28, 2023

CEO Interview

The way forward

MORESCOの「製品たち」

地球にやさしいオンリーワンを
世界に届けるMORESCOグループ
Moresco Group delivers sustainable one-of-a-kind products to the world

Accelerate further development of high value-added products that contribute to environmental responsiveness and improved functionality.

While net sales for the 65th reporting period reached a record high in part because of price corrections, earnings declined due to soaring raw material prices, transport and energy costs, and other factors. And though there are unknowns along the way forward, the current raw material prices have stabilized, while the price correction time lag issue is gradually being resolved. In our Functional Fluids Division, the products of which are chiefly used in automobiles, sales in Southeast and South Asia and China have been solid by virtue of the recovered market, while quantities sold in North America and Japan were on a par with the previous year due to production adjustments by major customers. In the Hot Melt Adhesive Division, there has proven to be a solid foundation for demand for hygiene products and adhesive applications, with sales increasing significantly, especially in India. In the Synthetic Lubricants Division, quantities were down due to slowing investment in data center applications, while in the Liquid Paraffin & Sulfonates Division, effects were felt from the decline in demand for liquid paraffin. In terms of the overseas sales ratio, the figure was 37.9%, down 0.5 percentage points from the previous year, but up 2 percentage points in terms of sales volume.

Under the MORESCO Group Sustainability Policy and the new management vision established last year, in FY2023 we will improve business value and realize a sustainable society by accelerating the development and deployment of high-value-added products unique to MORESCO that provide both environmental benefits and functionality. With efforts already underway toward that objective, other work is also in progress. Our efforts to grow the automotive field include the development of a system that visualizes and quantifies the coating state of small-quantity application release agents, allowing the simulation of optimal usage conditions. Development of the market for new energy vehicles includes the promotion of market expansion of release agents suitable for various lightweight materials, cutting fluids for aluminum in eAxsles and battery cases, lubricants for new processing methods such as Gigacast and impact molding. And we will steadily advance the development of materials in areas such as the expansion of recycled oil usage that contributes to resource reuse, power generation materials for organic thin-film solar cells (OPV), and sealing materials for perovskite solar cells. Our overseas strategy will include the assigning of executive officers in charge of three areas (China, Southeast/South Asia, and North America) to strengthen our sales, development, and production systems, while also actively engaging in M&A and alliances. Regarding the creation of new business, we will collaborate within the group while also deepening ties of cooperation with universities and other external institutions to focus on the development of new products capable of addressing social issues by fusing existing technologies with new technological developments.

FY2023 marks the final year of the current medium-term management plan. During this fiscal year of the plan, we at MORESCO will forge our way to the next stage of growth by recovering our profitability, strengthening our overseas strategies, and further following through on efforts to address environmental and social issues.

MORESCO Corporation

CEO, Representative Director, President

Motohisa Morozumi

New System Launched to Further Strengthen Presence in Overseas Markets

Be more global, MORESCO!



COO, Director, Senior Managing Executive Officer
Nobuhiro Sewaki

Enhancing autonomy and agility in management decision-making and execution across each market.

Significant changes in the economic environment and market trends took place in each country throughout the pandemic. These circumstances have necessitated the formulation and implementation of business strategies suited to regional characteristics.

In FY2023, we integrated the Functional Fluids Division's Functional Material Business and Metal working Fluids Business, and at our overseas bases assigned executive officers to take charge of three areas: China, Southeast/South Asia, and North America. We will move forward with business operations based on prompt decision-making and strengthen our sales, development, and production system in each area to promote business development that caters to the needs of each market. We will continue to make contributions as the MORESCO Group, delivering to the world one-of-a-kind products that are environmentally friendly.

China

Strengthening basic technology and research capabilities based on expertise in the development of environmentally friendly products.

Liu Yingjin, Executive Officer in charge of China



In China, nearly 30% of new car sales are EVs, a trend that will continue to accelerate. As new components for EVs are being developed, should MORESCO fail to keep up with the impending technological evolution and resulting changes in product demand, we have every reason to believe that we will lose our place in the market in the blink of an eye. With environmental regulations in China becoming more and more stringent by the year, the many environmentally friendly products we offer take on an advantage – products such as small-quantity application release agents, low VOC hot melt adhesives, and non-chlorine, PRTF free cutting fluids. Leveraging this strength to firm up our basic technology and research capabilities and enhancing our ability to develop new products, we will meet the needs of the market as it evolves by the day to aim to become an entity that China's automotive manufacturing industry cannot live without.



MORESCO TRADING (ZHEJIANG) CO., LTD.

Southeast/South Asia

Strengthening production and development systems to promote business expansion that taps into area growth.

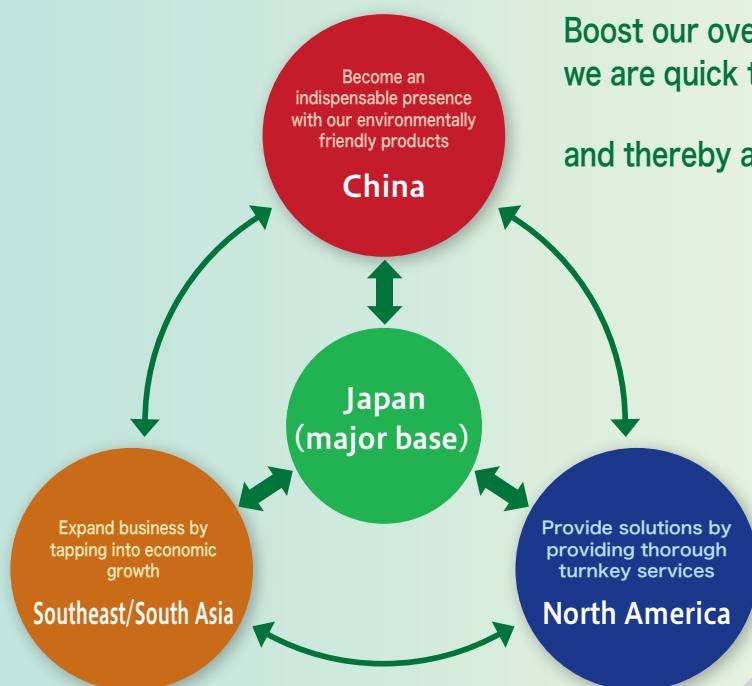
Keiichi Matsutani, Executive Officer in charge of Southeast/South Asia



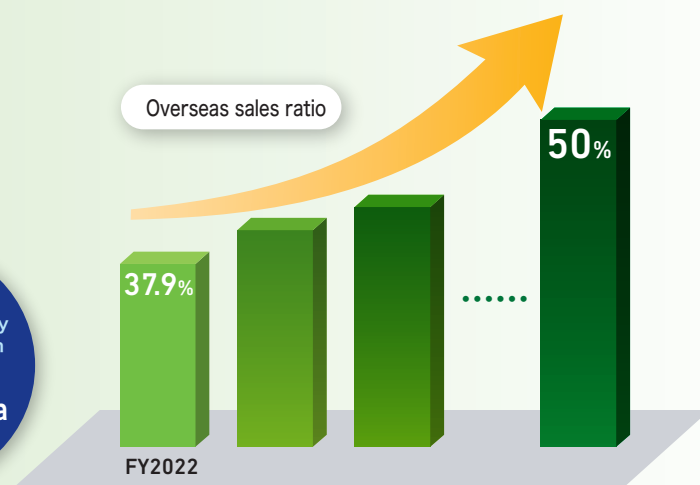
Southeast and South Asia are energetic areas where the populations continue to grow. We will tap into the expansion of the markets by virtue of economic growth to increase the number and variety of products we sell. In Thailand, we will increase our production capacity while also strengthening the system we have in place as a development center for Southeast and South Asia. In Indonesia, we will increase our production capacity for hot melt adhesives, and in India we will promote localization. We will also promote cooperation with distributors and other companies to further expand our business to neighboring countries such as Malaysia and Vietnam, where we do not currently have bases, so that Southeast and South Asia become a growth driver for MORESCO.



MORESCO HM&LUB INDIA PRIVATE LIMITED



Boost our overseas bases so that we are quick to grasp the needs of each area and thereby achieve the goal of **50%** overseas sales ratio



North America

Developing business as a partner that solves customers' problems.

Hidenori Amaki, Executive Officer in charge of North America



In an environment of heightened geopolitical risk and concern about social turmoil, ever more strict regulations continue to be imposed on countries of origin in North America. This inevitably necessitates companies to determine how to quickly respond to demand based on the characteristics of the North American region. We will actively pursue M&A and partnerships with other companies in the industry to further strengthen our development, production, and sales system. In the US in particular, the relative superiority or inferiority of work environments in plants is a driver of employee attrition, while a company's commitment to environmental initiatives can assure job retention. It is therefore essential that we continue the development of environmentally friendly products that can significantly reduce oil consumption and the disposal of fluids. On top of that, we will continue to develop our business as a partner who provides solutions to the issues faced by our customers by improving our turnkey services, including new ideas for peripheral equipment such as hydraulic equipment and instantaneous property analysis equipment.



MORESCO USA Inc.

MORESCO Highlights of the Year

Sept. | Exhibited at Inter DieCast 2022 in India

MORESCO participated in an Indian domestic die-casting exhibition for the first time. Our main focus was on promoting die casting lubricants, hydraulic fluid, and aluminum processing oils. We were able to conduct business negotiations with over 60 companies, making it a very meaningful opportunity.



Sept. | Participated in the MATSURI project

MORESCO took part as a corporate partner in MATSURI, a project run by the Chitose Group to build an "algae-based society." Through the fusion of MORESCO technology with microalgae-derived resources, we will promote the development of new products that are eco-friendly.



MORESCO R&D NEWS

Project for Generating Petrochemical Materials from Biomass



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



Biomass Plant



Synthesis Equipment

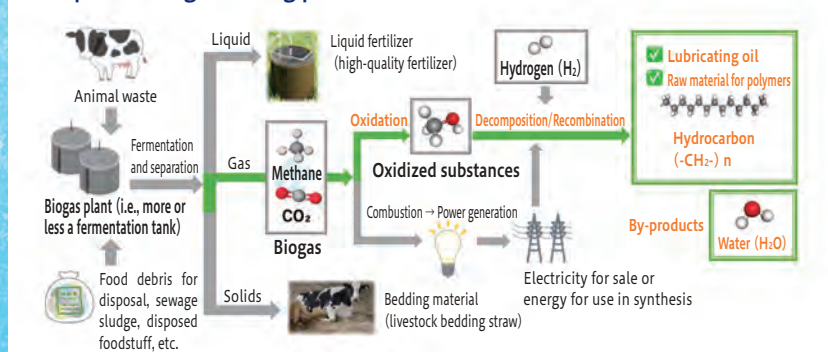
We are exploring ways of utilizing biomethane for both sustainable economic development and better lives.

We are currently conducting joint research with multiple universities. This project involves the synthesis of hydrocarbons from the biomethane produced by livestock manure, and currently laboratory verification is underway for the synthesis of oils for lubricants and polymers for hot melt adhesives from these hydrocarbons. Even as a shift away from petroleum and coal is taking place the world over, petrochemicals are still indispensable to all industries. Since the production of non-petrochemical materials made from neither petroleum nor coal is a challenge of critical importance for both the Company's business and our daily lives, we are committed to realizing robust solutions to make this possible. By setting for ourselves milestones to meet every three years, our aim is to establish a prototype production line for the consistent generation of lubricants and polymer raw materials from biomethane by the year 2030.

Making new synthetic technology that leads the way in the era of decarbonization will be a strength of MORESCO.

MORESCO's strength in this project is our ability to utilize conventional compounding and synthesis know-how from the hydrocarbon synthesis stage. Since the generation of a completely new compound is not the objective, we believe that this project is sufficiently achievable as a business. And though the production of synthetics requires considerable cost at present, we feel we can make ourselves competitive enough for a pair of reasons. It is a given that we will improve the manufacturing process through technological advancement, while we will also reap the benefits of the anticipated scarcity of petrochemical materials caused by refinery closures and declining oil production. This research is intriguing due to the very nature of biomethane, a substance that is generated throughout all facets of economic activity, including even in food debris for disposal. This is why the research holds the potential to evolve into a technology that creates resources from the very course of our daily lives. With laser focus, we are committed to perfecting and disseminating this technology so that it becomes part and parcel of the life in the carbon-neutral era.

The process of generating petrochemical materials from biomass



Nov. | Endorsement of the TCFD Recommendations

MORESCO both expressed our support for the TCFD recommendations and disclosed the impact of climate change on our business. This year, we plan to disclose about our due diligence regarding human rights.



↑ Details here

Nov. | Exhibited at METALEX in Thailand

MORESCO set up a booth of our own within that of Yamazen (Thailand) Co., Ltd. to display offerings such as new Die casting lubricant products. A massive success, the event attracted over 80,000 visitors in four days, including Minister of Economy, Trade and Industry, Yasutoshi Nishimura.

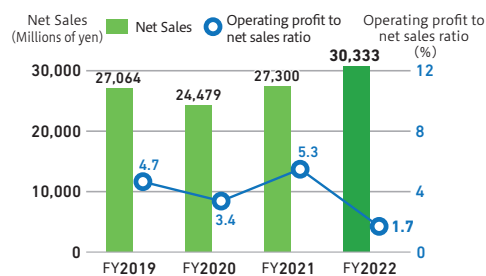


Major Consolidated Financial Indicators

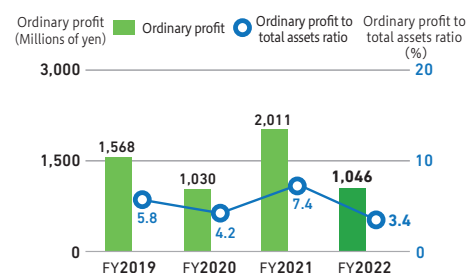
During the fiscal year, the Japanese economy transitioned into a phase of recovery due to factors including revived personal consumption. With inflationary pressures descending on the world economy, European countries and the United States have pivoted toward the tightening of monetary policy. Amid this financial situation, the USD/JPY exchange rate has seen volatile fluctuations. China's economy has been compromised by disruptions brought on by the strict restrictions of its zero-COVID policy and a resulting rapid spread of the disease in the wake of the termination of that policy.

Under these circumstances, the MORESCO Group had to adjust sales prices in response to factors such as the surge in raw material prices, resulting in net sales of 30,333 million yen (up 11.1% YoY). However, the time lag in transferring the price increases to sales prices led to operating profit falling to 523 million yen (down 63.5% YoY) and ordinary profit dipping to 1,046 million yen (down 48.0% YoY).

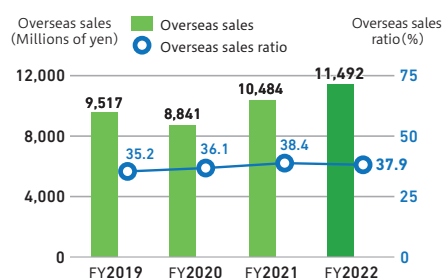
Net Sales and Operating Profit to Net Sales Ratio



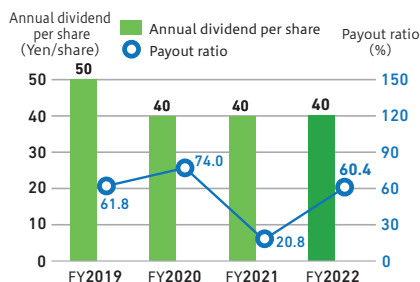
Ordinary Profit and Ordinary Profit to Total Assets Ratio



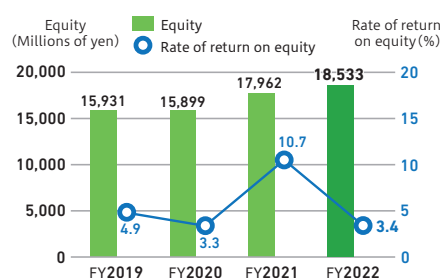
Overseas Sales and Overseas Sales Ratio



Annual Dividend per Share and Payout Ratio

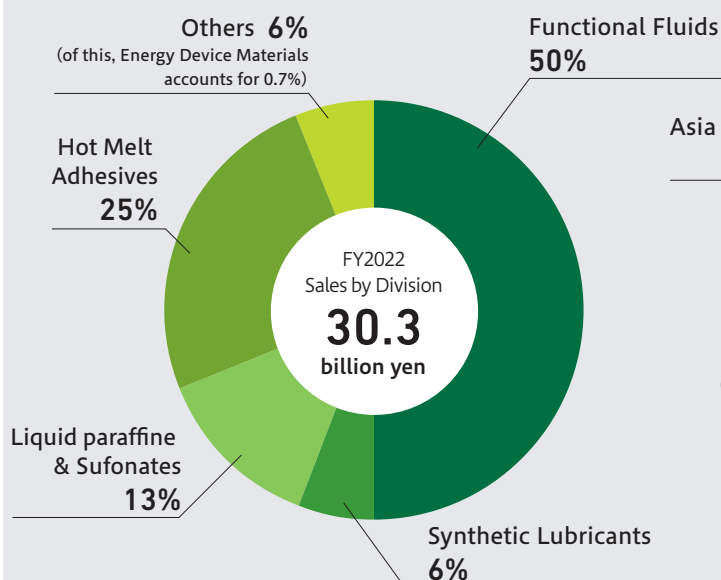


Equity and Rate of Return on Equity (ROE)

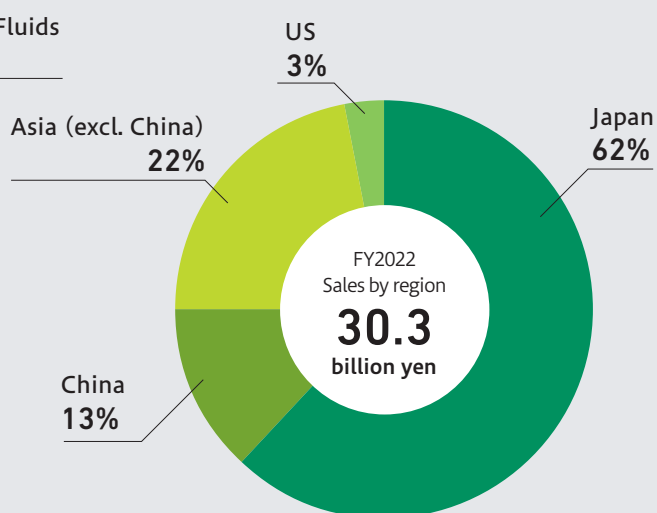


Segment Information

By Division



By Region



Information on Shareholder Benefits

We at MORESCO would like to extend our sincerest thanks to all of our shareholders. In order to increase the attractiveness of this investment and to encourage more shareholders to maintain ownership over the medium to long term, we have made the following changes to our shareholder benefits, which are available to those who are shareholders as of February 28, 2023. We hope this clarifies the new arrangement.

Shareholder Benefits

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

Benefits are available to shareholders who hold three units (300 shares) or more of the Company's stock and are listed or recorded in the shareholders' register as of the last day of February every year. A continuous holding period of three years or longer is contingent on the same shareholder number being listed or recorded in the shareholders' register as of the last day of February and the last day of August seven or more times consecutively.

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

Timing of Benefit Delivery

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

* There are benefits enclosed in this business report.

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

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

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

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

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

Company Profile and Stock Information (As of February 28, 2023)

Company Profile

Company name : MORESCO Corporation
Establishment : October 27, 1958
Capital : 2,118,294,000 yen
Number of employees : 381

Head Office and Business Offices

Head Office & R&D Center: 5-5-3, Minatojimmaminami-machi, Chuo-ku, Kobe-city, Hyogo 650-0047 Japan
Branch : Tokyo Branch, Osaka Branch
Sales Office : Nagoya Sales Office
Plants : Chiba Plant, Akoh Plant

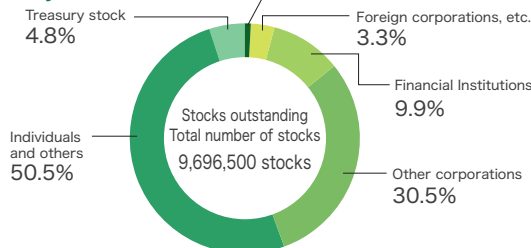
Directors (As of May 30, 2023)

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

Situation of Stock

Total number of authorized stocks : 20,000,000
Total number of stocks outstanding: 9,696,500
Number of shareholders : 15,938

Distribution of Shares by Shareholder



Major Shareholders

Name of shareholders	Number of stocks	Investment ratio
MATSUMURA OIL Co., Ltd.	1,067,000	11.5%
COSMO OIL LUBRICANTS CO., LTD.	503,000	5.4%
MORESCO Employee Stock Ownership Plan	410,020	4.4%
The Master Trust Bank of Japan, Ltd. (Trust Account)	394,600	4.2%
STARLITE Co., Ltd.	326,000	3.5%
NIPPON SODA CO., LTD.	323,300	3.5%
Mizuho Bank, Ltd.	250,000	2.7%
MUFG Bank, Ltd.	250,000	2.7%
Osaka Small and Medium Business Investment & Consultation Co., Ltd.	209,600	2.2%
Shima Trading Co., LTD.	165,000	1.7%

Note: The investment ratio is computed by excluding 468,970 shares of treasury stock.

Shareholder Memo

Fiscal year

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

Shareholder Fixed Date for Year-end Dividend Receipt

End of Feb.

(In the case of interim dividends)

August 31

Ordinary General Meeting of Shareholders

May every year

Administrator of shareholder registry and account management institution for special accounts

Mitsubishi UFJ Trust and Banking Corporation

Contact information

Mitsubishi UFJ Trust and Banking Corporation
Osaka Corporate Agency Division

3-6-3 Fushimi-cho, Chuo-ku, Osaka-shi, Osaka 541-8502 Japan
Telephone: 0120-094-777 (toll free)

Listed Stock Exchanges

Tokyo Stock Exchange

Method of Public Notice

Public notice will be made electronically.

URL for public notice:

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

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

Caveats

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