

Summary of Consolidated Financial Results [Japanese GAAP] For the First Quarter of the Fiscal Year Ending March 31, 2022

July 30, 2021

Listed company: Nippon Kayaku Co., Ltd. (URL <https://www.nipponkayaku.co.jp/english/>)
Listed stock exchange: First Section, Tokyo Stock Exchange
Code No.: 4272

Representative (name, position): Atsuhiro Wakumoto, President
Director in charge of inquiries: Tsutomu Kawamura, Executive Director, General Manager of Finance & Accounting Division, Financial Group

Filing date of quarterly securities report: August 6, 2021
Scheduled date for start of dividend payments: –
Preparation of supplementary materials for quarterly financial results: Yes
Quarterly results presentation meeting: Yes (for securities analysts and institutional investors)

1. Consolidated Business Results for the First Quarter of Fiscal Year Ending March 31, 2022 (April 1, 2021– June 30, 2021)

(Figures shown are rounded down to the nearest million yen.)

(1) Consolidated Operating Results

(Percentages indicate amount of change from the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First quarter of fiscal year ending March 31, 2022	46,447	26.1	5,938	114.1	6,399	114.4	5,295	202.9
First quarter of fiscal year ended March 31, 2021	36,825	(14.1)	2,773	(41.5)	2,984	(35.1)	1,748	(44.0)

Note: Comprehensive income

First quarter of fiscal year ending March 31, 2022: 5,923 million yen (36.9%)

First quarter of fiscal year ended March 31, 2021: 4,326 million yen (-%)

	Profit attributable to owners of parent per share—primary	Profit attributable to owners of parent per share—diluted
	Yen	Yen
First quarter of fiscal year ending March 31, 2022	31.05	31.05
First quarter of fiscal year ended March 31, 2021	10.24	—

Note 1: The percentage year-on-year change in comprehensive income for the first quarter of the fiscal year ended March 31, 2021 exceeds 1,000% and is therefore indicated with a dash (–).

Note 2: Profit attributable to owners of parent per share-diluted for the first quarter of the fiscal year ended March 31, 2021 is indicated with a dash (–) because the dilutive shares that do exist do not have a significant dilutive effect.

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(2) Consolidated Financial Position

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
As of June 30, 2021	297,619		230,812		77.3	
As of March 31, 2021	294,535		228,273		77.2	

Reference: Equity As of June 30, 2021: 230,029 million yen
As of March 31, 2021: 227,506 million yen

2. Status of Dividends

	Dividend amount per share				
	End of first quarter	End of second quarter	End of third quarter	End of year	Year
	Yen				
Fiscal year ended March 31, 2021	-	15.00	-	15.00	30.00
Fiscal year ending March 31, 2022	-				
Fiscal year ending March 31, 2022 (forecast)		15.00	-	15.00	30.00

Note: Changes to the most recent dividend forecast: None

3. Consolidated Business Results Forecasts for the Fiscal Year Ending March 31, 2022 (April 1, 2021– March 31, 2022)

(Percentages indicate amount of change from the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit attributable to owners of parent per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	91,300	13.4	9,800	40.5	10,400	41.7	8,000	63.8	46.91
Full year	184,800	6.6	17,400	14.5	18,400	11.3	14,000	11.3	82.10

Note: Changes to the most recent forecast for consolidated business results: Yes

Notes

- (1) Significant changes in subsidiaries during the first quarter (changes in designated subsidiaries that result in changes in scope of consolidation): None
- (2) Adoption of special accounting methods for presenting the quarterly consolidated financial statements: None
- (3) Changes to accounting policies and estimates and restatement
 - [1] Changes to accounting policies associated with revision of accounting standards or similar items: Yes
 - [2] Changes other than [1]: None
 - [3] Changes to accounting estimates: None
 - [4] Restatements: None
- (4) Number of shares issued (common stock)
 - [1] Number of shares issued at end of the fiscal period (including treasury stock)
 - As of June 30, 2021: 177,503,570 shares
 - As of March 31, 2021: 177,503,570 shares
 - [2] Number of treasury stock at end of the fiscal period
 - As of June 30, 2021: 7,504,250 shares
 - As of March 31, 2021: 6,710,650 shares
 - [3] Average number of shares during the fiscal period (cumulative)
 - First quarter of fiscal year ending March 31, 2022: 170,528,346 shares

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First quarter of fiscal year ended March 31, 2021: 170,793,776 shares

* Quarterly summary financial statements are not subject to audit by a certified public accountant or audit firm.

* Analysis related to appropriate use of the business forecasts, and other notes

(Disclaimer concerning forward-looking statements)

The information in this report constitutes forward-looking statements regarding future events and performance. This information is based on the beliefs and assumptions of management in light of information currently available to it at the time of announcement and subject to a number of uncertainties that may affect future results. Actual business results may differ substantially from the forecasts herein due to various factors. For matters pertaining to business forecasts, please refer to “(3) Analysis of Forward-looking Statements, Including Consolidated Business Forecasts” on page 3 of the Supplementary Information.

(How to obtain the materials for the briefing on quarterly financial results)

We have scheduled a teleconference for securities analysts and institutional investors on Friday, July 30, 2021. The materials for the briefing will be posted on the corporate website.

Supplementary Information

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1. Qualitative Information Concerning Results for the First Quarter

(1) Analysis of Operating Results

During the first quarter of this consolidated fiscal year (April 1 to June 30, 2021), the global economy saw economic activity begin to return to normal and signs of economic recovery, due in part to progress on vaccinations for the novel coronavirus (COVID-19). While the Japanese economy continues to experience a slump in consumer spending and other domestic demand relative to Europe and the U.S., business sentiment has improved due to growth in demand accompanying the rebound in overseas economies. However, a sense of uncertainty remains due to concerns about the resurgence of COVID-19 and deterioration in profitability from the steep rise in raw material prices. The semiconductor shortage has also impacted the automotive industry domestically and overseas.

Amid these conditions, the Nippon Kayaku Group worked to implement the key themes and resolve the mid- and long-term key issues outlined in “KAYAKU Next Stage,” the mid-term business plan launched in the fiscal year ended March 31, 2020, while also making active use of flextime, telecommuting, and other systems to accommodate the partial restrictions on corporate activity. We took these steps to ensure the safety of employees working in the Company and at Group companies while also implementing a new lifestyle and promote efficient workstyles aimed at minimizing the impact on our business.

As a result, net sales for the first quarter of this consolidated fiscal year totaled 46,447 million yen, an increase of 9,622 million yen (26.1%) year-on-year. Sales in the functional chemicals, the pharmaceuticals, the safety systems, and other businesses outperformed the first quarter of the previous fiscal year in all segments.

Operating income totaled 5,938 million yen, an increase of 3,164 million yen (114.1%) year-on-year.

Ordinary income totaled 6,399 million yen, an increase of 3,414 million yen (114.4%) year-on-year.

Profit attributable to owners of parent was 5,295 million yen, an increase of 3,546 million yen (202.9%) year-on-year.

Regarding changes in accounting policies, the Company implemented the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, revised March 31, 2020) and other guidance from the beginning of the first quarter of this consolidated fiscal year. We have therefore used numbers based on calculation methods subject to different standards than in the same period of the previous fiscal year. See 2. Quarterly Consolidated Financial Statements and Notes to Quarterly Consolidated Financial Statements, (3) Notes to Quarterly Consolidated Financial Statements (Changes to Accounting Policies) for further details.

Performance by business segment is as described below.

[Functional Chemicals Business]

Sales stood at 20,089 million yen, an increase of 4,256 million yen (26.9%) year-on-year.

The functional materials business as a whole outperformed the first quarter of the previous fiscal year. The outperformance resulted from strong sales of epoxy resins used in semiconductor encapsulation, circuit boards, and LCD cleaners from increased demand for IT equipment due to teleworking, in addition to the proliferation of high-speed (5G) communications devices and IoT, and the increasingly sophisticated electronic equipment in vehicles.

The color materials business as a whole outperformed the first quarter of the previous fiscal year. This outperformance was due to a rebound in demand for colorants for inkjet printers in industrial applications and developer for thermal paper, in addition to strong sales of colorants for inkjet printers for consumer use.

The catalyst business outperformed the first quarter of the previous fiscal year, both in Japan and exports overseas.

In the Polatechno business, a rebound in demand for polarizing films for LCD projectors and dye-type polarizing films, in addition to strong sales of components for X-ray analysis systems resulted in outperformance of the Polatechno business as a whole, compared with the first quarter of the previous fiscal year.

Segment profit totaled 3,449 million yen, an increase of 1,945 million yen (129.3%) year-on-year. This increase resulted from growth in net sales in each business.

[Pharmaceuticals Business]

Sales stood at 12,773 million yen, an increase of 82 million yen (0.6%) year-on-year.

Pharmaceuticals in Japan underperformed the first quarter of the previous fiscal year due to the impact from drug price revisions, despite market penetration of Portrazza[®], a biomedicine; the switch to antibody biosimilars, TRASTUZUMAB BS and INFLIXIMAB BS; and growth in sales of a cancer-related generic, APREPITANT capsule.

Exports and sales of active pharmaceutical ingredients for the Japanese domestic market underperformed while sales of contract production and diagnostic drugs outperformed the same period of the previous fiscal year.

Segment profit totaled 1,925 million yen, a decrease of 225 million yen (10.5%) year-on-year. This resulted from the impact of drug price revisions, in addition to increased expenses related to sales activities adjusted to the new life style and progress on R&D activities.

[Safety Systems Business]

Sales reached 11,382 million yen, an increase of 5,081 million yen (80.6%) year-on-year.

During the first quarter of this consolidated fiscal year, the automobile market continued to rebound from the slump in global demand caused by the global spread of the novel coronavirus, with the exception of a few regions. While decrease in the pace of automobile production was seen from the latter half of the period owing to the impact of the semiconductor shortage, sales of airbag inflators, micro gas generators for seatbelt pretensioners, and squibs outperformed the first quarter of the previous fiscal year in both the domestic and overseas businesses, due to strong demand for the period.

The increase in sales led to segment profit of 1,799 million yen, an increase of 1,536 million yen (584.2%) from the same period of the previous fiscal year.

[Other]

Sales stood at 2,202 million yen, an increase of 202 million yen (10.1%) year-on-year.

The agrochemicals business overall saw a year-on-year increase in domestic sales and exports.

Sales in real estate and other business increased compared to the same period of the previous fiscal year.

Segment profit totaled 444 million yen, a decrease of 62 million yen (12.4%) year-on-year.

(2) Analysis of Financial Position

Total assets were 297,619 million yen, an increase of 3,084 million yen from the end of the previous consolidated fiscal year. The main increases were in raw materials and stores, an increase of 3,087 million yen; goodwill, an increase of 1,305 million yen; and securities, an increase of 1,241 million yen. The main decreases were in notes and accounts receivable-trade, a decrease of 1,167 million yen; and investment securities, a decrease of 1,021 million yen.

Liabilities were 66,807 million yen, an increase of 545 million yen compared to the end of the previous consolidated fiscal year. The main increase was in notes and accounts payable-trade, an increase of 1,121 million yen. The main decrease was in accounts payable-other, a decrease of 1,165 million yen.

Net assets were 230,812 million yen, an increase of 2,538 million yen compared to the end of the previous consolidated fiscal year. The main increases were in retained earnings, an increase of 2,745 million yen; and translation adjustments, an increase of 1,465 million yen.

(3) Analysis of Forward-looking Statements, Including Consolidated Business Forecasts

The future business environment surrounding the Nippon Kayaku Group is expected to bring further economic rebound as economic activities in Japan and overseas return to normal, owing to progress on vaccination for the novel coronavirus. However, uncertainty over the impact of a change in interest rate policies in different countries and U.S.-China trade friction poses the risk of an economic downswing.

Under these conditions, the Nippon Kayaku Group aims to respond flexibly to changes in the business environment and pursue optimal use of operating capital to increase the shareholder value, as well as expand existing businesses in global growth markets, accelerate the development of new businesses and new products, and enhance profits.

Consolidated business results forecasts for the first half and full year consolidated business results forecasts of fiscal year ending March 31, 2022 announced on May 11, 2021 have been revised. See the disclosure today entitled, Notice Concerning Revision of Consolidated Business Results Forecasts for the Fiscal Year Ending March 31, 2022 for further details.

2. Quarterly Consolidated Financial Statements and Notes to Consolidated Financial Statements

(1) Consolidated Balance Sheets

	As of March 31, 2021	As of June 30, 2021
	Million yen	
Assets		
Current assets		
Cash and deposits	33,306	32,350
Notes and accounts receivable-trade	56,893	55,725
Electronically recorded monetary claims-operating	1,930	2,066
Securities	14,811	16,053
Merchandise and finished goods	28,996	29,716
Work in process	926	667
Raw materials and stores	15,305	18,393
Other	4,748	4,318
Allowance for doubtful accounts	(66)	(63)
Total current assets	156,852	159,228
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	42,925	43,016
Machinery, equipment and vehicles, net	27,405	27,898
Other, net	18,650	17,499
Total property, plant and equipment	88,980	88,414
Intangible assets		
Goodwill	2,543	3,848
Other	4,294	4,220
Total intangible assets	6,837	8,069
Investments and other assets		
Investment securities	33,651	32,629
Net defined benefit asset	4,246	4,297
Other	3,991	5,036
Allowance for doubtful accounts	(23)	(56)
Total investments and other assets	41,864	41,907
Total non-current assets	137,683	138,390
Total assets	294,535	297,619

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	As of March 31, 2021	As of June 30, 2021
	Million yen	
Liabilities		
Current liabilities		
Notes and accounts payable-trade	17,631	18,753
Short-term loans payable	3,632	3,724
Accounts payable-other	8,115	6,949
Income taxes payable	871	1,001
Other	7,240	6,888
Total current liabilities	37,491	37,317
Non-current liabilities		
Bonds payable	12,000	12,000
Long-term loans payable	3,770	3,751
Net defined benefit liability	419	416
Other	12,579	13,322
Total non-current liabilities	28,769	29,490
Total liabilities	66,261	66,807
Net assets		
Shareholders' equity		
Common stock	14,932	14,932
Additional paid-in capital	15,754	15,759
Retained earnings	191,606	194,351
Treasury stock	(7,872)	(8,704)
Total shareholders' equity	214,420	216,339
Accumulated other comprehensive income		
Unrealized holding gains on other securities	10,096	9,245
Translation adjustments	1,694	3,159
Remeasurements of defined benefit plans	1,294	1,284
Total accumulated other comprehensive income	13,085	13,689
Non-controlling interests	767	782
Total net assets	228,273	230,812
Total liabilities and net assets	294,535	297,619

This document is an English translation of the Japanese-language original.
All financial information has been prepared in accordance with generally accepted accounting principles in Japan.

(2) Consolidated Statements of Income & Consolidated Statements of Comprehensive Income
Consolidated Statements of Income

	First quarter of fiscal year ended March 31, 2021	First quarter of fiscal year ending March 31, 2022
	Million yen	
Net sales	36,825	46,447
Cost of sales	24,676	30,319
Gross profit on sales	12,148	16,128
Selling, general and administrative expenses	9,375	10,189
Operating income	2,773	5,938
Non-operating income		
Interest income	61	29
Dividend income	331	413
Equity in earnings of affiliates	42	149
Other	184	203
Total non-operating income	618	796
Non-operating expenses		
Interest expense	50	28
Foreign exchange losses	288	253
Other losses	68	53
Total non-operating expenses	407	335
Ordinary income	2,984	6,399
Extraordinary income		
Gain on sales of non-current assets	0	1,371
Total extraordinary income	0	1,371
Extraordinary loss		
Loss on disposal of non-current assets	104	111
Loss on valuation of investment securities	-	4
Total extraordinary loss	104	115
Profit before income taxes	2,879	7,655
Income taxes-current	124	1,342
Income taxes-deferred	1,006	1,003
Total income taxes	1,131	2,346
Profit	1,748	5,309
Profit attributable to non-controlling interests	0	14
Profit attributable to owners of parent	1,748	5,295

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Consolidated Statements of Comprehensive Income

	First quarter of fiscal year ended March 31, 2021	First quarter of fiscal year ending March 31, 2022
	Million yen	
Profit	1,748	5,309
Other comprehensive income		
Unrealized holding gains on other securities	1,943	(851)
Translation adjustments	586	1,476
Remeasurements of defined benefit plans	47	(10)
Share of other comprehensive income of companies accounted for by the equity-method	0	1
Total other comprehensive income	2,577	614
Comprehensive income	4,326	5,923
Comprehensive income attributable to:		
Owners of parent	4,330	5,899
Non-controlling interests	(4)	24

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(3) Notes to Quarterly Consolidated Financial Statements

(Notes Regarding Assumptions for the Going Concern)

No items to report

(Notes in Case of Significant Change in Shareholders' Equity)

No items to report

(Changes to Accounting Policies)

(Implementation of the Accounting Standard for Revenue Recognition and related guidance)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, revised March 31, 2020; hereafter, the "Revenue Recognition Accounting Standard") and related guidance were implemented from the beginning of the first quarter of consolidated fiscal year ending March 31, 2022. Under this standard, the amount the company expects to receive in exchange for goods and services is recognized as revenue when control over the promised goods or services is transferred to the customer. Nippon Kayaku and its domestic consolidated subsidiaries previously recognized revenue at the time of shipment, with the exception of consigned goods. Under this revised standard, the fulfillment obligation will be deemed satisfied and revenue will be recognized when the products are delivered to the customer, for domestic sales, and when the products arrive at the location agreed upon with the customer, for export sales.

The implementation of the Revenue Recognition Accounting Standards and related guidance follows the transitional treatment in the exception clause of Paragraph 84 of the Revenue Recognition Accounting Standard. The new accounting standard was applied to the balance of retained earnings from the beginning of the period and retained earnings were adjusted for the cumulative impact assuming application of the new accounting standard retroactively before the beginning of the accounting period for the first quarter of consolidated fiscal year ending March 31, 2022. However, we have applied the method specified in Paragraph 86 of the Revenue Recognition Accounting Standard and have not retroactively applied the new accounting policy to contracts for which nearly all of the revenue recognized prior to the beginning of the first quarter of consolidated fiscal year ending March 31, 2022 was handled according to the previous accounting method.

The impact of these changes on the balance of retained earnings at the beginning of the period, consolidated profit and loss for the first quarter of consolidated fiscal year ending March 31, 2022 was minor.

(Implementation of the Accounting Standard for Fair Value Measurement)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereafter, "Fair Value Accounting Standard") and related guidance were implemented from the beginning of the first quarter of consolidated fiscal year ending March 31, 2022. In accordance with the transitional treatment specified in Paragraph 19 of the Fair Value Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy specified in the Fair Value Accounting Standard and related guidance will be applied in the future. The change did not have any impact on the quarterly consolidated financial statements.

(Segment Information and Other Items)

First quarter of the fiscal year ended March 31, 2021 (April 1, 2020–June 30, 2020)

1. Information on sales and profit (loss) by reportable segment

	Reportable segments				Other (Note 1)	Total	Adjust- ments (Note 2)	Consoli- dated (Note 3)
	Functional chemicals business	Pharma- ceuticals business	Safety systems business	Total				
Million yen								
Sales								
Sales to third parties	15,833	12,690	6,301	34,825	1,999	36,825	–	36,825
Intersegment sales and transfers	34	0	–	34	23	58	(58)	–
Total	15,867	12,690	6,301	34,860	2,023	36,884	(58)	36,825
Segment profit	1,504	2,151	262	3,918	507	4,426	(1,652)	2,773

Note 1: “Other” indicates a business segment that is not included in the reportable segments, including the agrochemicals business and real estate business.

Note 2: The 1,652 million yen downward adjustment to segment profit reflects a negative 1,664 million yen in corporate expense not allocable to the reportable segments and 11 million yen in eliminations for intersegment transactions. The corporate expense is mainly a general and administrative expense that is not attributed to the reportable segments.

Note 3: Segment profit has been adjusted to correspond with the total operating income as shown in the consolidated statements of income.

2. Information concerning impairment losses on non-current assets, goodwill, etc. by reportable segment
(Material change in the amount of goodwill)

The acquisition of a business from Henkel AG & Co. KGaA in the functional chemicals business resulted in goodwill. This event resulted in an increase in goodwill of 2,602 million yen in the first quarter of the consolidated fiscal year ended March 31, 2021.

First quarter of the fiscal year ending March 31, 2022 (April 1, 2021–June 30, 2021)

1. Information on sales and profit (loss) by reportable segment

	Reportable segments				Other (Note 1)	Total	Adjust- ments (Note 2)	Consoli- dated (Note 3)
	Functional chemicals business	Pharma- ceuticals business	Safety systems business	Total				
Million yen								
Sales								
Sales to third parties	20,089	12,773	11,382	44,245	2,202	46,447	–	46,447
Intersegment sales and transfers	40	0	–	40	25	66	(66)	–
Total	20,130	12,773	11,382	44,286	2,227	46,513	(66)	46,447
Segment profit	3,449	1,925	1,799	7,174	444	7,619	(1,681)	5,938

Note 1: “Other” indicates a business segment that is not included in the reportable segments, including the agrochemicals business and real estate business.

Note 2: The 1,681 million yen downward adjustment to segment profit reflects a negative 1,690 million yen in corporate expense not allocable to the reportable segments and 9 million yen in eliminations for intersegment transactions. The corporate expense is mainly a general and administrative expense that is not attributed to the reportable segments.

Note 3: Segment profit has been adjusted to correspond with the total operating income as shown in the consolidated statements of income.

2. Information concerning impairment losses on non-current assets, goodwill, etc. by reportable segment
(Material change in the amount of goodwill)

The acquisition of shares of Teikoku Taping System Co., Ltd. resulted in recognition of goodwill in the functional chemicals business. This resulted in a 1,448-million-yen increase in goodwill in the first quarter of consolidated

fiscal year ending March 31, 2022. The amount of goodwill was calculated provisionally because the allocation for acquisition cost was not completed as of the end of the first quarter of consolidated fiscal year ending March 31, 2022.

(Significant Subsequent Events)

(Allocation of treasury stock for restricted stock compensation)

The Company approved the following allocation of treasury stock (hereafter, “treasury stock allocation” or “allocation”) at the Board of Directors meeting held on July 19, 2021.

1. Summary of allocation

(1) Pay-in date: August 17, 2021

(2) Type and number of shares allocated: 88,067 common shares in Nippon Kayaku Co., Ltd.

(3) Allocation price: 1,090 yen per share

(4) Total investment value at allocation price: 95,993,030 yen

(5) Investment execution method: By investment of cash compensation rights in restricted stock

(6) Intended allocation recipients:

45,412 shares to six Company board members (excluding outside directors)

42,655 shares to 12 Company executive directors (excluding directors concurrently serving in other positions and those stationed overseas)

(7) Others:

A securities notice of this allocation of treasury stock was submitted according to the Financial Instruments & Exchange Act.

2. Allocation purpose and reason

At the Board of Directors meeting held on May 21, 2021, the Company approved the introduction of a restricted stock compensation plan (hereafter, “the Plan”). Under the Plan, restricted stock is allocated to Company directors (excluding outside directors; hereafter, “covered directors”) and executive directors (hereafter, “covered executive directors”; collectively referred to as “covered directors, etc.” The purpose of the system is to ensure that restricted stock functions well as an incentive for recipients to continuously enhance corporate value and benefit from that value along with shareholders. At the Annual Shareholders Meeting held on June 25, 2021, a resolution was approved setting a cash compensation limit of 100 million yen or less a year for covered directors to be used to purchase restricted stock under the Plan. This resolution also established the restricted period for the restricted stock as the time period extending from the date on which the restricted stock is allocated to the date on which the Company director or executive director concerned resigns from his or her position.