

4. Notes

(1) Changes in significant consolidated subsidiaries
(Changes in specified subsidiaries involving changes in scope of consolidation) : Yes
Newly Included: 1 company (Company name:NC Agro Hakodate Corporation)

(2) Application of special accounting treatment to preparation of quarterly financial statements : None

(3) Changes of accounting policies and accounting estimates, and restatement
1. Changes of accounting policies due to revisions of accounting standards : Yes
2. Changes of accounting policies other than the above : None
3. Changes in accounting estimates : None
4. Restatements : None

(Note)Please refer to [2. Consolidated Financial Statements (4) Notes to Consolidated Financial Statements "(Changes in Accounting Policies)"] on page 10 for further details.

(4) Number of shares outstanding (common shares)
1. Number of shares outstanding (including treasury shares)
As of September 30, 2024 : 137,800,000 shares
As of March 31, 2024 : 138,800,000 shares

2. Number of treasury shares
As of September 30, 2024 : 243,174 shares
As of March 31, 2024 : 186,649 shares

3. Average number of shares outstanding
As of September 30, 2024 : 137,933,538 shares
As of September 30, 2023 : 139,713,151 shares

(Note) The Company has introduced "Board Benefit Trust (BBT)" based on the resolution of Board of Directors' meeting held on July 30,2019.The shares held by the Trust are included in the number of treasury shares at the end of the period, and they are included in the number of treasury shares deducted in calculating the average number of shares outstanding over the period. The number of shares held by the Trust (included in treasury shares) at the end of the period was 139,400 shares.
In addition, the average number of shares held by the Trust during the period was 139,783 shares.
This is not included in the average number of shares outstanding.

* Presentation regarding implementation status of quarterly(Semi-annual) review procedures
The financial release is not subject to quarterly(Semi-annual) review.

* Explanations regarding appropriate use of business outlook and other special notes
The business outlook contained in this report is based on information available at the time of disclosure.
Actual operating results may differ materially from the outlook due to various factors.

For supplemental information, please refer to our website.

The transcript of financial results briefing will be released on our website as well.

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1. Qualitative Information on Quarterly Results

(1) Business Performance

During the second quarter of the current fiscal year (April 01, 2024 to September 30, 2024), the domestic economy steadied due to a recovery in consumer spending, which was accompanied by an increase in the rate of wage increases in the 2024 spring offensive, a recovery in demand for semiconductors, and a rebound in automobile sales. Under these circumstances, in the Chemicals Segment, sales of Basic Chemicals decreased, but sales of Fine Chemicals increased. In the Performance Materials Segment, sales of Semiconductor Materials were fine. In the Agricultural Chemicals Segment, sales increased. In the Healthcare Segment, sales decreased.

As a result, both sales and each income were above the same period of the previous fiscal year, and they exceeded the outlooks announced in May.

(Million yen, amount rounded down to the nearest million yen)

	2Q FY2023	2Q FY2024	Year-on-Year Change	2Q FY2024 (Outlook)	Change from Outlook
Sales	105,675	118,185	+12,510	109,600	+8,585
Operating income	24,094	28,344	+4,250	24,000	+4,344
Ordinary income	26,197	27,945	+1,747	23,300	+4,645
Net income attributable to owners of parent	19,497	20,522	+1,025	18,100	+2,422

Explanations by segments are as below.

The Chemicals Segment

In Basic Chemicals, sales of high purity sulfuric acid (agent used for cleaning semiconductor) increased, but sales of urea, AdBlue®* (high-grade urea solution) and nitric acid products (metal dissolution, surface treatment, etc.) decreased. In Fine Chemicals, sales of "TEPIC" (powder coating agent for paint, sealants, etc.) increased.

As a result, sales of this segment were 17,851 million yen (a decrease of 23 million yen from the same period of the previous fiscal year) and operating loss was 379 million yen (a decrease in profit of 293 million yen). Compared to the outlook (Note), sales and operating income were below 0.2 billion yen.

* AdBlue® is a registered trademark of the Verband der Automobilindustrie (VDA).

(Note) The outlook is described on page 19 of the FY2023 Presentation Materials Part2 (announced on May 13, 2024).

The Performance Materials Segment

In Display Materials, sales of "SUNEVER" (LCD alignment coating) increased. In Semiconductor Materials, sales of anti-reflective coating for semiconductors (ARC®*) and multi-layer process materials (OptiStack®*) increased due to recovery in customer utilization. In Inorganic Materials, sales of "SNOWTEX" for polishing electronic materials and hard coating, Organo / Monomer sol (various kinds of coating materials, resin additive) increased.

As a result, sales of this segment were 48,611 million yen (an increase of 8,098 million yen) and operating income was 14,373 million yen (an increase of 3,243 million yen). Compared to the outlook (Note), sales were above 3.9 billion yen and operating income was above 2.1 billion yen.

* ARC® and OptiStack® are registered trademarks of Brewer Science, Inc.

(Note) The outlook is described on page 19 of the FY2023 Presentation Materials Part2 (announced on May 13, 2024).

The Agricultural Chemicals Segment

Sales of Fluralaner (active ingredients for veterinary pharmaceuticals) increased. In Japanese domestic market, sales of "ALTAIR" (paddy rice herbicide) increased. In the overseas market, sales of "GRACIA"(insecticide) and "LEIMAY" (fungicide) grew.

As a result, sales of this segment were 39,190 million yen (an increase of 3,911 million yen) and operating income was 14,242 million yen (an increase of 2,604 million yen). Compared to the outlook (Note), sales were above 2.4 billion yen and operating income was above 1.8 billion yen.

(Note) The outlook is described on page 19 of the FY2023 Presentation Materials Part2 (announced on May 13, 2024).

The Healthcare Segment

Sales of "LIVALO" (anti-cholesterol drug) declined both in Japan and overseas. In "Custom Chemicals" (solution proposal business and joint development business), sales increased.

As a result, sales of this segment were 3,294 million yen (a decrease of 252 million yen) and operating income was 1,266 million yen (a decrease of 539 million yen). Compared to the outlook (Note), sales were above 0.3 billion yen and operating income was above 0.4 billion yen.

(Note) The outlook is described on page 19 of the FY2023 Presentation Materials Part2 (announced on May 13, 2024).

Trading

Sales of this segment were 56,266 million yen (an increase of 7,473 million yen) and operating income was 2,022 million yen (an increase of 240 million yen). Compared to the outlook (Note), sales were above 6.0 billion yen and operating income was above 0.5 billion yen.

(Note) The outlook is described on page 64 and 65 of the FY2023 Presentation Materials Part2 (announced on May 13, 2024).

Others

Sales of this segment were 12,038 million yen (a decrease of 226 million yen) and operating income was 34 million yen (a decrease of 124 million yen).

(2) Financial Position

(Position of Assets, Liabilities and Net Assets)

Total assets as of September 30, 2024 was 311,389 million yen (a decrease of 12,069 million yen from March 31, 2024). It is mainly due to the decrease notes and accounts receivable - trade, though cash and deposits and inventory increased.

Also, total liabilities as of September 30, 2024 was 79,789 million yen (a decrease of 12,715 million yen). It is mainly due to the decrease of short-term loans payable.

Net assets as of September 30, 2024 was 231,599 million yen (an increase of 646 million yen).

As a result of these factors, equity ratio was 73.4% (an increase of 3.1% from March 31, 2024).

(Position of Cash Flows)

Deducting income taxes paid from income before income taxes and non-controlling interests, depreciation and change in working capital, net cash provided by operating activities for the six months ended September 30, 2024 was 46,153 million yen (36,026 million yen for the same period of the previous year).

Mainly due to capital investment in factories, etc., net cash used in investing activities for the six months ended September 30, 2024 was 7,046 million yen (8,486 million yen for the same period of the previous year).

Due to the decrease in loans payable, payment for dividends and share repurchase, net cash used in financing activities for the six months ended September 30, 2024 was 31,087 million yen (36,232 million yen for the same period of the previous year).

Cash and cash equivalents at the end of this period increased 7,694 million yen from March 31, 2024 after adjusting for the 325 million yen of decrease as an effect of exchange rate change. Moreover, after adding the 17 million yen increase in cash and cash equivalents resulting from change in scope of consolidation, the balance stood at 30,449 million yen (21,171 million yen for the same period of the previous year).

(3) Outlook of Consolidated Financial Results and Other Forward-looking Information

Outlook for the year ending March 31, 2025 was revised as follows based on the cumulative second quarter and demand forecast. The exchange rate for the third quarter and beyond is assumed to be 145 yen to the U.S. dollar.

Revision of consolidated financial results' outlook for the year ending March 31, 2025 (April 01, 2024 to March 31, 2025)

(Billion yen)

	Previous outlook(A)	Revised outlook(B)	Change (B-A)	Rate of change (%)	(Reference) Results for the previous fiscal year
Sales	234.1	245.0	+10.9	+4.7%	226.7
Operating income	50.0	53.0	+3.0	+6.0%	48.2
Ordinary income	50.5	53.2	+2.7	+5.3%	51.6
Net income attributable to owners of parent	38.4	39.4	+1.0	+2.6%	38.0
Basic earnings per share	279.08 yen	285.94 yen	+6.86 yen	+2.5%	272.82 yen

Revision of consolidated sales and operating income outlook by segments for the year ending March 31, 2025

(Billion yen)

	Sales		Operating income	
	Previous	Revised	Previous	Revised
Chemicals	37.7	38.5	0.6	0.1
Performance Materials	91.9	97.4	24.4	28.3
Agricultural Chemicals	84.9	86.3	24.1	25.7
Healthcare	6.4	6.2	2.3	2.3
Trading	104.1	112.4	3.2	3.7
Others	28.7	29.1	0.7	0.8
Adjustment	(119.6)	(124.9)	(5.3)	(7.9)
Total	234.1	245.0	50.0	53.0

(4) Basic Policy on Distribution of Earnings

The Company's basic policy of profit allocation is returning to shareholders by improving company value through increasing revenue in the medium and long terms.

In medium-term business plan "Vista2027" Stage I launched from April 2022, the company aims to realize dividend payout ratio to be 55% and total payout ratio to be 75% after FY2022.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

Asset	As of March 31, 2024	As of September 30, 2024
Current assets		
Cash and deposits	22,738	30,449
Notes and accounts receivable - trade, and contract assets	88,800	68,973
Merchandise and finished goods	56,804	58,205
Work in process	5	248
Raw materials and supplies	21,370	22,944
Accounts receivable - other	2,956	1,655
Short-term loans receivable	2,152	1,719
Other	7,189	6,070
Allowance for doubtful accounts	(48)	(50)
Total current assets	201,968	190,217
Non-current assets		
Property, plant and equipment		
Buildings and structures	85,860	87,105
Accumulated depreciation and impairment loss	(50,898)	(52,344)
Buildings and structures, net	34,962	34,760
Machinery, equipment and vehicles	170,309	173,254
Accumulated depreciation and impairment loss	(145,729)	(150,130)
Machinery, equipment and vehicles, net	24,579	23,123
Tools, furniture and fixtures	44,084	44,554
Accumulated depreciation and impairment loss	(39,457)	(40,341)
Tools, furniture and fixtures, net	4,626	4,213
Land	9,064	9,047
Leased assets	160	135
Accumulated depreciation	(24)	(21)
Leased assets, net	135	114
Construction in progress	4,004	6,055
Total property, plant and equipment	77,372	77,315
Intangible assets		
Software	2,444	2,683
Other	8,302	7,965
Total intangible assets	10,747	10,648
Investments and other assets		
Investment securities	26,119	25,422
Long-term loans receivable	50	0
Deferred tax assets	519	520
Net defined benefit asset	3,737	3,742
Other	3,054	3,632
Allowance for doubtful accounts	(111)	(110)
Total investments and other assets	33,370	33,207
Total non-current assets	121,489	121,171
Total assets	323,458	311,389

(Million yen)

	As of March 31, 2024	As of September 30, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	20,427	17,554
Short-term loans payable	39,062	16,766
Current portion of long-term loans payable	634	574
Income taxes payable	4,940	7,580
Provision for bonuses	2,548	2,510
Provision for loss on business of subsidiaries and associates	310	227
Provision for business structure improvement	2	-
Other	18,638	18,757
Total current liabilities	<u>86,563</u>	<u>63,969</u>
Non-current liabilities		
Bonds payable	-	10,000
Long-term loans payable	1,284	1,027
Deferred tax liabilities	1,381	1,370
Provision for loss on business of subsidiaries and affiliates	143	159
Provision for share-based remuneration for directors (and other officers)	272	254
Net defined benefit liability	467	523
Other	2,392	2,484
Total non-current liabilities	<u>5,941</u>	<u>15,819</u>
Total liabilities	<u>92,505</u>	<u>79,789</u>
Net assets		
Shareholders' equity		
Capital stock	18,942	18,942
Capital surplus	13,613	13,613
Retained earnings	182,376	185,121
Treasury shares	(943)	(1,163)
Total shareholders' equity	<u>213,989</u>	<u>216,513</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,238	7,966
Foreign currency translation adjustment	4,226	3,155
Remeasurements of defined benefit plans	1,066	995
Total accumulated other comprehensive income	<u>13,531</u>	<u>12,117</u>
Non-controlling interests	<u>3,432</u>	<u>2,968</u>
Total net assets	<u>230,952</u>	<u>231,599</u>
Total liabilities and net assets	<u>323,458</u>	<u>311,389</u>

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

- Consolidated Statements of Income

(Million yen)

	Six Months Ended September 30, 2023	Six Months Ended September 30, 2024
Net sales	105,675	118,185
Cost of sales	54,136	61,267
Gross profit	51,539	56,918
Selling, general and administrative expenses	27,444	28,573
Operating income	24,094	28,344
Non-operating income		
Interest income	83	126
Dividend income	354	465
Equity in earnings of affiliates	397	143
Foreign exchange gains	1,879	—
Other	341	884
Total non-operating income	3,057	1,619
Non-operating expenses		
Interest expenses	255	345
Loss on disposal of non-current assets	501	342
Bond issuance costs	—	53
Plant stop losses	58	249
Foreign exchange losses	—	833
Other	139	193
Total non- operating expenses	953	2,019
Ordinary income	26,197	27,945
Extraordinary income		
Gain on receipt of contingent consideration	—	821
Gain on sales of investment securities	603	—
Total extraordinary income	603	821
Extraordinary losses		
Total extraordinary losses	—	—
Income before income taxes and non-controlling interests	26,801	28,767
Income taxes - current	6,806	8,435
Income taxes - deferred	313	143
Total income taxes	7,119	8,579
Net income	19,682	20,187
Net income attributable to non-controlling interests	184	(334)
Net income attributable to owners of parent	19,497	20,522

- Consolidated Statements of Comprehensive Income

(Million yen)

	Six Months Ended September 30, 2023	Six Months Ended September 30, 2024
Net income	19,682	20,187
Other comprehensive income		
Valuation difference on available-for-sale securities	586	(271)
Foreign currency translation adjustment	2,321	(1,199)
Remeasurements of defined benefit plans, net of tax	(10)	(71)
Share of other comprehensive income of entities accounted for using equity method	(0)	(0)
Total other comprehensive income	2,896	(1,543)
Comprehensive income	22,578	18,644
(Comprehensive income attributable to)		
Owners of parent	22,140	19,108
Non-controlling interests	437	(463)

(3) Consolidated Statements of Cash Flows

(Million yen)

	Six Months Ended September 30, 2023	Six Months Ended September 30, 2024
Cash flows from operating activities		
Income before income taxes and non-controlling interests	26,801	28,767
Depreciation	5,829	6,145
Gain on receipt of contingent consideration	–	(821)
Amortization of goodwill	50	18
Interest and dividend income	(438)	(591)
Loss (gain) on sales of investment securities	(603)	–
Interest expenses	251	345
Loss (gain) on disposal of non-current assets	501	342
Decrease (increase) in notes and accounts receivable - trade	15,324	19,831
Decrease (increase) in inventories	(8,170)	(3,306)
Increase (decrease) in notes and accounts payable - trade	(830)	(3,420)
Other	4,817	3,200
Subtotal	43,533	50,511
Interest and dividend income received	1,315	1,792
Interest expenses paid	(253)	(326)
Income taxes paid	(8,568)	(5,823)
Net cash provided by (used in) operating activities	36,026	46,153
Cash flows from investing activities		
Purchase of investment securities	(67)	(66)
Proceeds from sales of investment securities	788	1
Purchase of shares of subsidiaries	(10)	–
Proceeds from sale of shares of subsidiaries	–	276
Purchase of property, plant and equipment	(10,385)	(8,533)
Payments for retirement of property, plant and equipment	(468)	(330)
Purchase of intangible assets	(608)	(981)
Proceeds from contingent consideration	–	2,633
Net decrease (increase) in short-term loans receivable	2,309	453
Purchase of long-term prepaid expenses	(110)	(551)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	93	–
Other	(27)	51
Net cash provided by (used in) investing activities	(8,486)	(7,046)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(17,720)	(22,724)
Repayments of long-term loans payable	(312)	(317)
Proceeds from issuance of bonds	–	10,000
Cash dividends paid	(13,199)	(13,043)
Share repurchase	(5,004)	(5,000)
Other	4	(2)
Net cash provided by (used in) financing activities	(36,232)	(31,087)
Effect of exchange rate change on cash and cash equivalents	215	(325)
Net increase (decrease) in cash and cash equivalents	(8,476)	7,694
Cash and cash equivalents at beginning of period	29,647	22,738
Increase in cash and cash equivalents from newly consolidated subsidiary	–	17
Cash and cash equivalents at end of period	21,171	30,449

(4) Notes to Consolidated Financial Statements

(Notes on Assumption of Going Concern)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

The Company made a stock payment of 4,600 shares to the eligible party on April 25, 2024 based on the trust agreement of the Board Benefit Trust (BBT) resolved by the Board of Director's meeting on July 30, 2019. As a result, treasury shares decreased by 22 million yen during the second quarter of current consolidated fiscal year. Also, the Company repurchased 1,061,000 treasury shares based on the resolution of Board of Directors' meeting held on May 13, 2024 and May 28, 2024. As a result, treasury shares increased by 4,999 million yen during the second quarter of current consolidated fiscal year.

In addition, the Company canceled 1,000,000 treasury shares on September 9, 2024 based on the resolution of Board of Directors' meeting held on August 27, 2024. As a result, retained earnings and treasury shares decreased by 4,757 million yen during the second quarter of current consolidated fiscal year.

(Changes in Accounting Policies)

(Application of the Accounting Standard for Current Income Taxes)

The Accounting Standard for Current Income Taxes (ASBJ Statement No.27, October 28, 2022; hereinafter referred to as the "Revised Accounting Standard 2022"), etc. have been adopted from the beginning of the first quarter ended June 30, 2024. The amendment to categories in which current income taxes should be recorded (taxes on other comprehensive income) follows the transitional treatment prescribed in the proviso of paragraph 20-3 of the Revised Accounting Standard 2022 and the transitional treatment prescribed in the proviso (2) of paragraph 65-2 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No.28, October 28, 2022; hereinafter referred to as the "Revised Implementation Guidance 2022"). This change in accounting policies has no impact on the quarterly consolidated financial statements.

For the amendment related to the revised accounting treatment for consolidated financial statements when gains or losses on sale of shares in subsidiaries resulting from transactions between consolidated companies were deferred for tax purposes, the Revised Implementation Guidance 2022 has been adopted from the beginning of the first quarter ended June 30, 2024. This change in accounting policies was applied retrospectively. Hence, the quarterly consolidated financial statements for the same period of the previous fiscal year and the consolidated financial statements for the previous fiscal year have been modified retrospectively. As a result, deferred tax liabilities decreased by 49 million yen and retained earnings increased by 49 million yen in the consolidated balance sheets for the fiscal year ended March 31, 2024.

(Segment Information)

1. Information Regarding Sales, Income (Loss) of Reportable Segments

1) For the Six Months Ended September 30, 2023 (From April 01, 2023 to September 30, 2023)

(Million yen)

	Chemicals	Performance Materials	Agricultural Chemicals	Healthcare	Trading	Others	Total	Adjustment (Note 2)	Consolidated Total
Net Sales									
Sales to outside customers (Note 1)	11,896	32,855	29,528	3,489	36,617	4,701	119,089	(13,413)	105,675
Intersegment Sales	5,978	7,657	5,750	57	12,175	7,563	39,182	(39,182)	—
Total Sales	17,874	40,513	35,279	3,546	48,793	12,265	158,272	(52,596)	105,675
Segment Income or Loss (Operating Income or Loss)	(86)	11,129	11,638	1,805	1,782	158	26,427	(2,332)	24,094

Notes:

- 1 Sales to outside customers in reportable segments are calculated on a gross basis, including sales that are agent transactions. A reconciliation of gross sales to net sales as agent transactions is made in the Adjustments section.
- 2 Adjustments are as follows.
 - (1) (13,413) million yen adjustment in sales to outside customers includes (13,424) million yen in the elimination of agent transactions, and 10 million yen sales not attributable to any reporting segment.
 - (2) (2,332) million yen adjustment in segment income includes 402 million yen in intersegment eliminations, 11 million yen sales not attributable to any reporting segment, and (2,746) million yen corporate expenses not attributable to any reportable segment. The corporate expenses are mainly group administrative expenses which do not belong to any segment.

2) For the Six Months Ended September 30, 2024 (From April 01, 2024 to September 30, 2024)

(Million yen)

	Chemicals	Performance Materials	Agricultural Chemicals	Healthcare	Trading	Others	Total	Adjustment (Note 2)	Consolidated Total
Net Sales									
Sales to outside customers (Note 1)	11,850	36,002	32,141	3,220	42,955	4,526	130,696	(12,510)	118,185
Intersegment Sales	6,001	12,608	7,049	74	13,311	7,512	46,557	(46,557)	—
Total Sales	17,851	48,611	39,190	3,294	56,266	12,038	177,253	(59,067)	118,185
Segment Income or Loss (Operating Income or Loss)	(379)	14,373	14,242	1,266	2,022	34	31,559	(3,214)	28,344

Notes:

- 1 Sales to outside customers in reportable segments are calculated on a gross basis, including sales that are agent transactions. A reconciliation of gross sales to net sales as agent transactions is made in the Adjustments section.
- 2 Adjustments are as follows.
 - (1) (12,510) million yen adjustment in sales to outside customers includes (12,723) million yen in the elimination of agent transactions, and 212 million yen sales not attributable to any reporting segment.
 - (2) (3,214) million yen adjustment in segment income includes (707) million yen in intersegment eliminations, 214 million yen sales not attributable to any reporting segment, and (2,721) million yen corporate expenses not attributable to any reportable segment. The corporate expenses are mainly group administrative expenses which do not belong to any segment.