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November 9, 2023

Consolidated Financial Results for the Six Months Ended September 30, 2023 (Under Japanese GAAP)

Company name: OSAKA SODA Co., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 4046
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 Scheduled date to file quarterly securities report: November 10, 2023
 Scheduled date to commence dividend payments: December 7, 2023
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the Six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
September 30, 2023	46,622	(10.2)	4,917	(49.4)	6,020	(44.5)	4,042	(46.1)
September 30, 2022	51,915	23.1	9,722	70.7	10,854	76.3	7,505	69.7

Note: Comprehensive income For the Six months ended September 30, 2023: ¥7,516 million [(10.9)%]
 For the Six months ended September 30, 2022: ¥8,437 million [111.1 %]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
September 30, 2023	158.91	—
September 30, 2022	314.73	—

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
September 30, 2023	146,439	105,928	72.3
March 31, 2023	138,029	99,543	72.1

Reference: Equity
 As of September 30, 2023: ¥105,916 million
 As of March 31, 2023: ¥99,535 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	—	45.00	—	45.00	90.00
Fiscal year ending March 31, 2024	—	45.00			
Fiscal year ending March 31, 2024 (Forecast)			—	45.00	90.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated financial results forecasts for the fiscal year ending March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings Per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	105,000	0.8	10,000	(35.7)	11,100	(35.3)	7,500	(29.1)	294.81

Note: Revisions to the forecast of consolidated financial results most recently announced: None

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None
- (4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2023	26,732,017 shares
As of March 31, 2023	26,732,017 shares

- (ii) Number of treasury shares at the end of the period

As of September 30, 2023	1,289,834 shares
As of March 31, 2023	1,291,509 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2023	25,440,958 shares
Six months ended September 30, 2022	23,846,330 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

In this document, statements other than historical facts are forward looking statements that reflect the Company's plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results and achievements to differ from those anticipated in these statements. Please refer to "1. Qualitative Information Concerning Results for the Six months ended September 30, 2023 (3) Analysis of Forward-looking Statement, Including Consolidated financial results Forecasts" on page 4 of the attached documents.

(Attached Documents)

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1. Qualitative Information Concerning Results for the Six months ended September 30, 2023

(1) Analysis of Operating Results

For the first six months of the consolidated fiscal year, the Japanese economy continued to show signs of recovery as social and economic activities moved toward normalization in line with the easing of restrictions on activities imposed as a result of COVID-19. Circumstances remained difficult, however, owing to the impact of factors such as rising raw material and fuel prices, the prolonging of the situation in Ukraine, concerns regarding the future of the Chinese economy, and the risk that a downturn of overseas economies amidst continued global monetary tightening could put downward pressure on the domestic economy.

In light of these circumstances, and taking into account the manufacturing equipment problems at the Mizushima Plant that occurred in April of this year, our group has decided to act, announcing our new medium-term management plan, “Shape the Future-2025” (FY2023 to FY2025). This new plan focuses on our vision of the company in 2035, the 120th anniversary of our founding, and includes measures to strengthen facility management and proactively invest in renewal and maintenance. In order to realize our vision for 2025, which is a milestone on our journey, we have established three basic policies: continuous strengthening of our base in existing businesses, strengthening of new product creation capabilities, and the promotion of sustainability management, and we have been steadily implementing specific measures in line with these basic policies.

In terms of the “continuous strengthening of our base in existing businesses,” we will work to enhance our business base by generating stable cash flows and actively investing in growth areas. In the Basic chemicals business, the entire company has been working together to recover from manufacturing equipment problems to ensure stable supply to customers. In the Functional chemicals business, despite declining demand for major products, we were able to steadily increase the sales volume of Acrylic Rubber by developing new markets. In the Healthcare business, following the decision to construct new manufacturing facilities at the Matsuyama Plant, it was also decided to construct new manufacturing facilities at the Amagasaki Plant as a second phase of expansion in order to meet the growing demand for pharmaceutical purification materials for diabetes treatments and the rapidly expanding obesity treatments. Investment plans for pharmaceutical purification materials are progressing smoothly, with construction at the Matsuyama Plant scheduled to begin in November of this year and completion scheduled for September 2024, and construction at the Amagasaki Plant scheduled to begin in January 2024 with completion scheduled for fiscal 2026.

In terms of the “strengthening of new product creation capabilities,” the development of materials for next-generation storage batteries, such as ultra-high ionic conductive polymers for all-solid batteries, which were selected as a NEDO Green Innovation Fund project, is progressing as originally planned. We have already begun construction of a battery research building as a new research facility, and will steadily develop our products to become the next global niche-top products.

In terms of the “promotion of sustainability management,” as an appropriate response to Japan’s Corporate Governance Code, in addition to taking steps to comply with TCFD recommendations and calculating GHG emissions, we have created a new integrated report. Additionally, we are continuing revision of the personnel system for managers which started last fiscal year and also revised the personnel system for general employees in April of this year, all in an effort to “grow together with our employees as a company” as set forth in our Vision Statement.

Due in part to the manufacturing equipment problems at the Mizushima Plant (net sales: ¥3,500 million, operating profit: ¥3,300 million), net sales for the first six months of the consolidated fiscal year were ¥46,622 million, a decrease of 10.2% year on year. In terms of profit, operating profit decreased 49.4% year on year to ¥4,917 million, ordinary profit decreased 44.5% year on year to ¥6,020 million, and profit attributable to owners of parent decreased 46.1% year on year to ¥4,042 million.

As the Healthcare business has been steadily growing as our third profitable business, starting from the first three months of the consolidated fiscal year we are changing our system to four reportable segments, namely, Basic Chemicals, Functional Chemicals, Healthcare, and Trading and Others. Accordingly, in the following year-on-year comparisons, figures for the same period of the previous fiscal year have been reclassified to the post-change segment classifications.

<Basic Chemicals>

Despite a decrease in the sales volumes of some products due to the manufacturing equipment problems at the Mizushima Plant and a decline in demand, net sales of Chlor-Alkali products increased due in part to a rise in product prices as a result of increases in raw material and fuel prices.

Net sales of Epichlorohydrin decreased due to a decline in demand for epoxy resins and softer overseas market conditions, as well as sales adjustments resulting from the manufacturing equipment problems.

As a result of the above, net sales in the Basic chemicals business decreased 13.0% year on year to ¥18,266 million.

<Functional Chemicals>

In the synthetic rubbers business, net sales of Epichlorohydrin Rubber increased due to a recovery in automobile production. Net sales of Acrylic Rubber increased, particularly to customers in Asia, as it was adopted for new applications in Japan and overseas.

Net sales of DAP resin for China remained strong, but decreased in Japan, Europe, and the Americas due to sluggish demand.

Sales of Allyl Ethers decreased due to a decline in demand for Silane coupling agents mainly for paint applications in Europe, the Americas, and China, as well as softening market conditions.

As a result of the above, net sales in the Functional chemicals business decreased 11.3% year on year to ¥13,477 million.

<Healthcare>

Net sales of pharmaceutical purification materials increased as demand steadily increased for applications in diabetes treatments in Europe, the Americas, and Asia. Net sales of active pharmaceutical ingredients (APIs) and their intermediates increased due to expanded sales of nucleic acid drug substances, anti-ulcer drug intermediates, and insomnia treatment drug intermediates. As a result of the above, net sales in the Healthcare business increased 1.9% year on year to ¥5,372 million.

<Trading and Others>

While net sales for consumer products increased thanks to strong sales, net sales decreased due to sluggish sales of electronic materials and automotive products, mainly glass fiber.

As a result of the above, net sales in the Trading and others business decreased 9.1% year on year to ¥9,507 million.

(2) Analysis of Financial Position

(Assets)

Current assets were ¥93,059 million, an increase of 3.8% compared to the end of the previous fiscal year. This was mainly due to an increase of ¥6,607 million in cash and deposits.

Noncurrent assets were ¥53,379 million, an increase of 10.3% compared to the end of the previous fiscal year. This was mainly due to an increase of ¥4,312 million in investment securities. As a result, total assets at the end of the first six months of the consolidated accounting period were ¥146,439 million, an increase of 6.1% compared to the end of the previous fiscal year.

(Liabilities)

Current liabilities were ¥33,144 million, an increase of 2.6% compared to the end of the previous fiscal year. This was mainly due to an increase of ¥1,147 million in notes and accounts payable.

Noncurrent liabilities were ¥7,366 million, an increase of 19.3% compared to the end of the previous fiscal year. This was mainly due to an increase of ¥1,300 million in deferred tax liabilities.

As a result, liabilities at the end of the first six months of the consolidated accounting period were ¥40,510 million, an increase of 5.3% compared to the end of the previous fiscal year.

(Net assets)

Total assets at the end of the first six months of the consolidated accounting period were ¥105,928 million, an increase of 6.4% compared to the end of the previous fiscal year. This was mainly due to increases of ¥2,898 million in retained earnings and ¥2,977 million in unrealized gains on other securities.

(Cash flows)

Cash and cash equivalents at the end of the first six months of the consolidated accounting period increased by ¥3,607 million compared to the end of the previous fiscal year to ¥40,450 million. Cash flows for the first six months of the consolidated fiscal year and their factors are as follows.

①Cash flow from operating activities was ¥5,149 million (compared to ¥5,922 million in the same period of the previous fiscal year). This was mainly due to a profit before income taxes of ¥5,925 million and depreciation expenses of ¥1,863 million as increasing factors, and an increase in inventories of ¥1,701 million and income taxes paid of ¥3,337 million as decreasing factors.

②Cash flow from investment activities was ¥815 million (compared to ¥3,005 million in the same period of the previous fiscal year). This was mainly due to the purchase of property, plant and equipment of ¥1,131 million.

③Cash flow from financing activities was ¥1,167 million (compared to ¥1,339 million in the same period of the previous fiscal year). This was mainly due to the payment of ¥1,143 million yen in dividends.

(3) Analysis of Forward-looking Statement, Including Consolidated financial results Forecasts

There is no change to the earnings forecast for the fiscal year ending March 31, 2024, which was announced on May 11, 2023. If there are any changes in the future, we will disclose them appropriately.

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

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	12,844	19,451
Notes and accounts receivable - trade, and contract assets	29,290	29,220
Electronically recorded monetary claims - operating	3,826	4,640
Securities	23,998	20,998
Merchandise and finished goods	9,516	9,757
Work in process	2,602	2,470
Raw materials and supplies	3,965	5,619
Other	3,599	903
Allowance for doubtful accounts	(3)	(2)
Total current assets	89,640	93,059
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,721	7,285
Machinery, equipment and vehicles, net	11,239	12,484
Land	2,304	2,305
Leased assets, net	644	653
Construction in progress	3,730	2,484
Other, net	462	445
Total property, plant and equipment	25,103	25,658
Intangible assets		
Goodwill	217	189
Software	102	109
Other	320	622
Total intangible assets	639	920
Investments and other assets		
Investment securities	21,302	25,615
Deferred tax assets	677	482
Long-term loans receivable	14	13
Other	657	712
Allowance for doubtful accounts	(5)	(22)
Total investments and other assets	22,645	26,800
Total non-current assets	48,389	53,379
Total assets	138,029	146,439

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	14,397	15,544
Short-term borrowings	7,172	7,172
Income taxes payable	3,585	2,033
Provision for bonuses	928	923
Current portion of long-term borrowings	58	65
Other	6,168	7,405
Total current liabilities	32,310	33,144
Non-current liabilities		
Long-term borrowings	434	436
Lease liabilities	838	847
Deferred tax liabilities	1,709	3,009
Retirement benefit liability	2,826	2,743
Asset retirement obligations	152	150
Other	214	179
Total non-current liabilities	6,175	7,366
Total liabilities	38,485	40,510
Net assets		
Shareholders' equity		
Share capital	15,871	15,871
Capital surplus	17,009	17,014
Retained earnings	62,741	65,639
Treasury shares	(3,811)	(3,806)
Total shareholders' equity	91,812	94,719
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,339	10,317
Deferred gains or losses on hedges	(101)	159
Foreign currency translation adjustment	676	894
Remeasurements of defined benefit plans	(190)	(174)
Total accumulated other comprehensive income	7,723	11,197
Non-controlling interests	8	12
Total net assets	99,543	105,928
Total liabilities and net assets	138,029	146,439

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

Consolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Net sales	51,915	46,622
Cost of sales	35,139	34,466
Gross profit	16,775	12,156
Selling, general and administrative expenses	7,053	7,238
Operating profit	9,722	4,917
Non-operating income		
Interest income	6	10
Dividend income	332	372
Share of profit of entities accounted for using equity method	7	3
Foreign exchange gains	802	474
Insurance claim income	5	—
Subsidy income	—	253
Other	111	76
Total non-operating income	1,265	1,191
Non-operating expenses		
Interest expenses	47	39
Loss on abandonment of inventories	70	—
Loss on tax purpose reduction entry of non-current assets	—	26
Other	17	23
Total non-operating expenses	134	89
Ordinary profit	10,854	6,020
Extraordinary losses		
Loss on retirement of non-current assets	123	94
Total extraordinary losses	123	94
Profit before income taxes	10,730	5,925
Income taxes - current	3,178	1,833
Income taxes - deferred	46	52
Total income taxes	3,225	1,886
Profit	7,504	4,039
Loss attributable to non-controlling interests	(0)	(3)
Profit attributable to owners of parent	7,505	4,042

Consolidated statements of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Profit	7,504	4,039
Other comprehensive income		
Valuation difference on available-for-sale securities	(30)	2,977
Deferred gains or losses on hedges	270	261
Foreign currency translation adjustment	652	213
Remeasurements of defined benefit plans, net of tax	16	15
Share of other comprehensive income of entities accounted for using equity method	23	8
Total other comprehensive income	932	3,476
Comprehensive income	8,437	7,516
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	8,433	7,516
Comprehensive income attributable to non-controlling interests	4	(0)

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Cash flows from operating activities		
Profit before income taxes	10,730	5,925
Depreciation	1,840	1,863
Amortization of goodwill	69	28
Increase (decrease) in allowance for doubtful accounts	19	16
Increase (decrease) in provision for bonuses	(54)	(5)
Increase (decrease) in retirement benefit liability	(67)	(82)
Interest and dividend income	(338)	(383)
Interest expenses	47	39
Foreign exchange losses (gains)	(249)	(236)
Loss on retirement of non-current assets	123	94
Loss on tax purpose reduction entry of non-current assets	—	26
Share of loss (profit) of entities accounted for using equity method	(7)	(3)
Insurance claim income	(5)	—
Subsidy income	—	(253)
Decrease (increase) in notes and accounts receivable - trade and contract assets	(3,467)	(607)
Decrease (increase) in inventories	(2,176)	(1,701)
Increase (decrease) in trade payables	1,581	980
Increase (decrease) in accrued consumption taxes	142	(167)
Other, net	107	2,554
Subtotal	8,294	8,087
Subsidies received	—	48
Interest and dividends received	344	390
Interest paid	(47)	(39)
Proceeds from insurance income	5	—
Income taxes paid	(2,674)	(3,337)
Net cash provided by (used in) operating activities	5,922	5,149

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,103)	(1,131)
Purchase of intangible assets	(85)	(337)
Purchase of investment securities	(707)	(10)
Proceeds from sale of shares of subsidiaries and associates	—	588
Subsidies received	—	205
Other, net	(109)	(128)
Net cash provided by (used in) investing activities	(3,005)	(815)
Cash flows from financing activities		
Proceeds from redemption of bonds with subscription rights to shares-FinCF	(41)	—
Repayments of long-term borrowings	—	(34)
Purchase of treasury shares	(235)	(1)
Dividends paid	(1,049)	(1,143)
Other, net	(13)	11
Net cash provided by (used in) financing activities	(1,339)	(1,167)
Effect of exchange rate change on cash and cash equivalents	693	440
Net increase (decrease) in cash and cash equivalents	2,271	3,607
Cash and cash equivalents at beginning of period	37,016	36,843
Cash and cash equivalents at end of period	39,288	40,450

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Premise of Going Concern)

Not applicable

(Notes on Major Changes in Shareholders' Equity)

Not applicable

(Segment Information and Other Items)

The Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

(Millions of yen)

	Basic chemicals	Functional chemicals	Healthcare	Trading and Others	Total	Adjustments *1	Consolidated *2
Net sales							
Japan	17,047	4,014	2,309	8,221	31,593	—	31,593
China	7	4,305	674	1,291	6,278		6,278
Asia	2,660	3,121	868	881	7,532	—	7,532
Europe	311	2,479	898	35	3,724	—	3,724
Others	958	1,281	521	24	2,787	—	2,787
Revenue from Contracts with Customers	20,986	15,201	5,273	10,454	51,915	—	51,915
Other Revenue	—	—	—	—	—	—	—
External sales	20,986	15,201	5,273	10,454	51,915	—	51,915
Intersegment sales or reclassifications	0	680	—	2,169	2,850	(2,850)	—
Total	20,987	15,881	5,273	12,624	54,766	(2,850)	51,915
Segment income	3,730	3,951	2,307	381	10,371	(648)	9,722

Notes:

- (1) Adjustments of segment income of ¥ (648) million are corporate expenses not allocated to reportable segments. Most of above-mentioned corporate expenses are not attributable to a reporting segment and related to fundamental research and development.
- (2) Segment income is adjusted to operating income of consolidated statement of income.

The Six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

(Millions of yen)

	Basic chemicals	Functional chemicals	Healthcare	Trading and Others	Total	Adjustments *1	Consolidated *2
Net sales							
Japan	17,604	3,787	2,327	8,361	32,080	—	32,080
China	—	3,942	543	821	5,307	—	5,307
Asia	396	2,960	759	313	4,431	—	4,431
Europe	143	1,585	1,306	3	3,037	—	3,037
Others	122	1,201	435	6	1,765	—	1,765
Revenue from Contracts with Customers	18,266	13,477	5,372	9,507	46,622	—	46,622
Other Revenue	—	—	—	—	—	—	—
External sales	18,266	13,477	5,372	9,507	46,622	—	46,622
Intersegment sales or reclassifications	0	551	—	1,376	1,928	(1,928)	—
Total	18,266	14,028	5,372	10,883	48,551	(1,928)	46,622
Segment income	59	2,107	2,661	698	5,527	(609)	4,917

Notes:

- (1) Adjustments of segment income of ¥ (609) million are corporate expenses not allocated to reportable segments. Most of above-mentioned corporate expenses are not attributable to a reporting segment and related to fundamental research and development.
- (2) Segment income is adjusted to operating income of consolidated statement of income.

Changes in Reportable Segments

(Changes in Reportable Segment Classification)

Starting from the first three months of the accounting period, the Healthcare business, which was previously included in the Functional Chemicals segment, has been spun off as its own new segment in line with business expansion. In addition, in order to better understand the actual state of business performance, reportable segments have been changed from the three categories of Basic Chemicals, Functional Chemicals, and Housing Facilities and Others, to the four categories of Basic Chemicals, Functional Chemicals, Healthcare, and Trading and Others. Furthermore, in order to better evaluate and manage the performance of each reportable segment, we have revised the allocation method of common expenses and changed the calculation method of profit or loss for the reportable segments. The segment information for the Six months of the pervious consolidated fiscal year is disclosed based on the post-change classification of the reportable segments.