

## **Business Results Meeting for the Second Quarter of the Fiscal Year Ended March 31, 2026: Questions and Answers**

### **[FY2025 Business Results Forecast]**

#### **Business environment (Functional Chemicals segment)**

**Q1: The Functional Chemicals segment is forecast to recover in terms of earnings from the first half to the second half. Year on year, the variance attributable to sales volume is expected to move into positive territory, shifting from a decrease of 2.6 billion yen in the first half to an increase of 0.8 billion yen in the second half. It is also assumed that earnings attributable to a decrease of variable costs will increase from 0.1 billion yen in the first half to 1.0 billion yen in the second half. Could you explain these factors?**

A1: Regarding the variance attributable to sales volume, the greatest factor in the first half was a decrease in shipments due to inventory adjustments by some customers for cosmetics-related products. In addition, sluggish demand for some functional chemicals was also a factor. In the second half, we expect shipments to recover as inventory adjustments for cosmetics-related products run their course. Regarding variable costs, we expect a positive effect in the second half from maintaining appropriate prices in response to raw material prices.

**Q2: Regarding the current revision to the financial forecast for the Functional Chemicals segment, the forecast for operating profit variance attributable to sales volume on page 13 of the presentation material shows a decrease of 1.8 billion yen. Since an increase of 2.2 billion yen was previously forecasted, this would be a downward revision of 4.0 billion yen attributable to sales volume on a net basis. Since net sales were revised downward by 6.7 billion yen compared to the previous forecast, the scale of the downward revision to operating profit attributable to sales volume seems large relative to sales. Is this mainly because the profit margin of cosmetics ODM is high, or are there changes in the product mix for other products?**

A2: We have explained that there was a decrease in shipments in the first half due to inventory adjustments by some customers for cosmetics-related products, but as you pointed out, the impact of the decrease in the cosmetics ODM business is a major factor.

**Q3: Is it your outlook that inventory adjustments by customers for cosmetics-related products will have largely run their course by around the third quarter and that shipments will subsequently grow?**

A3: We expect that inventory adjustments by some customers will have largely run their course and that shipments will recover in response to demand from the third quarter.

**Q4: I would like to ask about competition with Chinese manufacturers in the Functional Chemicals segment. Recently, there have been notable technological advancements and capacity expansions in the chemicals industry in China. I believe your company is being affected in air conditioner-related areas, but is this situation affecting other products as well? Also, since I believe the impact is emerging particularly in air conditioner-related areas, could you tell us about your response to this situation?**

A4: Local Chinese manufacturers are increasing their capabilities year by year, and as you pointed out, local manufacturers have become strong competitors regarding base materials for refrigerating oils. Since we anticipate that the technological capabilities of local Chinese manufacturers will improve for other products in the future, we intend to continue developing our business in China by developing and rolling out products with higher added value and higher performance.

**Q5: Aside from base materials for refrigerating oils, have there been any particular impacts from Chinese companies on your domestically manufactured chemical products, going beyond just their locally produced items in China?**

A5: In China, production capacity is being increased for global export, so the impact on other businesses as well is not insignificant. For example, for commoditized products such as organic peroxides, Chinese products are becoming widespread in the market, and we are seeing impacts, such as the disruption of pricing structures, particularly in Southeast Asia. Going forward, NOF Group will address this in terms of price and quality.

### **Business environment (Pharmaceuticals, Medicals and Health segment)**

**Q6: Regarding the variance attributable to sales volume in the Pharmaceuticals, Medicals and Health segment for the full year compared to the previous fiscal year, the forecast has been slightly revised downward from an increase of 1.8 billion yen in the previous plan to an increase of 1.3 billion yen. Are raw materials for DDS the main factor behind this revision?**

A6: It is not only due to raw materials for DDS. In processed edible oils and functional food materials, price ranges are becoming polarized amid continued high prices; moreover, consumer sentiment for high-priced products is declining, leading to a shift toward low-priced products.

**Q7: Could you tell us about your second-half outlook for raw materials for DDS?**

A7: Regarding raw materials for DDS, although there were changes in shipment trends last fiscal year, the situation had become relatively settled in the first half, and shipments were firm. Note that while there are some effects from factors such as U.S. monetary policy, etc., our basic view is that performance will generally be firm for the full year as well.

**Q8: Regarding raw materials for DDS, I would like to confirm the outlook for the second half. Specifically, will there be contributions from new projects, or do you anticipate stronger demand?**

A8: For raw materials for DDS, there is no major trend in the first and second halves; rather, net sales and operating profit fluctuate depending on the timing of shipments. For the full year, we expect firm performance compared to last year. It is not that new projects will contribute, but rather that we are forecasting demand, including shipment timing.

**Q9: Could you tell us the status of the LS Aichi Plant, which commenced business operations this October? Also, will this facility contribute significantly to business results from the next fiscal year onward?**

A9: The startup of LS Aichi Plant is progressing smoothly as planned, including the allocation of personnel. For manufacturing facilities for raw materials for DDS, we do not supply actual products immediately after the plant is completed; rather, it takes time to receive customer approval, such as validation. Therefore, operations will be launched in response to each drug formulation while addressing these requirements.

**Q10: Will the LS Aichi Plant reach full capacity operation during the three years of the next Mid-term Plan, or is it a facility built with a view further into the future?**

A10: Since a certain amount of time is required from the preparation of manufacturing facilities until the actual supply of products, the LS Aichi Plant was constructed in anticipation of future demand trends.

## **Business environment (Explosives & Propulsion segment)**

**Q11: Please explain the background and factors behind the upward revisions of 13.7 billion yen in net sales and 2.9 billion yen in operating profit for the full year in the Explosives & Propulsion segment. My understanding is that, traditionally, there have not been many major changes from the initial forecast in this segment.**

A11: The main factor is the recognition of revenue and expenses for certain transactions related to initial costs for rapid acquisition within defense-related products. In addition, demand for other defense-related products is also increasing.  
Regarding initial costs for rapid acquisition, the details of the contracts had not been finalized at the time of the business results meeting in May of this year. Therefore, we explained that we would recognize revenue and expenses in a lump sum upon the customer's requirements being met for each of the three manufacturing facilities—in other words, at the time of handover. However, as we proceeded with contract preparations, it became clear that the contracts would be divided into several parts. Recently, among those individual contracts, contracts were identified for certain transactions in which revenue is recognized according to the fulfillment status of the performance obligations (progress of construction). Therefore, we revised the business results for the Explosives & Propulsion segment upward.

**Q12: Will both net sales and profit continue to be recorded according to the progress of construction in the future?**

A12: Compared to conventional defense-related products, the initial costs for this rapid acquisition are on a large scale. Among them, contracts extending over a certain period, such as for civil engineering work, have been identified. These contracts will be recorded in the same manner.

**Q13: The upward revision to the financial forecast for the Explosives & Propulsion segment this time is 13.7 billion yen in net sales and 2.9 billion yen in operating profit. Simply dividing these gives a profit margin of 21%. Does this mean it is a business with a considerably high profit margin?**

A13: The sales amount for defense-related products is determined in accordance with the rules established for defense equipment. In cases where net sales (cost of sales) increase significantly compared to the previous fiscal year, such as with the initial costs related to large-scale rapid acquisition, the variance between the forecast and actual results for general and administrative expenses and other items becomes large, causing earnings and the ratio of operating profit to net sales to increase. Conversely, when net sales (cost of sales) decrease significantly compared to the previous fiscal year, the situation is reversed; the difference between the forecast and actual expenses becomes smaller, and earnings and the ratio of operating profit to net sales decrease. Over a certain period of time, the profit margin will converge within the prescribed range.  
Due to these rules and amidst the increase in net sales for rapid acquisition in this fiscal year and from the next fiscal year onward, it is assumed that the ratio of operating profit to net sales for the Explosives & Propulsion segment as a whole will increase.

**Q14: Does this mean that the portion of the 100-billion-yen investment for rapid acquisition will appear in earnings in stages?**

A14: Since contracts have not been fully finalized, we will proceed with the formulation of the 2028 Mid-term Plan while working out the details of the contracts. We forecast that revenue recognition of initial costs in the 2028 Mid-term Plan will be relatively large in the first and second years and will settle down somewhat from around the third year.

- Q15: Is my understanding correct that the revision to the financial forecast in the Explosives & Propulsion segment consists of 2.9 billion yen of profit, which is added to the 10.8-billion-yen manufacturing cost that corresponds to the facility investment amount for initial costs, resulting in the upward revision of net sales to 13.7 billion yen? Also, while it looks as if a profit margin of around 10% is being applied to the total cost, I would like to confirm if you have a general idea of the level.**
- A15: For defense equipment, profit margins and other items are calculated according to established rules. When net sales (cost of sales) increase significantly compared to the previous fiscal year, the portion equivalent to general and administrative expenses accounting for net sales becomes larger than the actual results. Conversely, when net sales decrease significantly, this allocated portion becomes smaller than the actual expenses.  
Regarding the profit margin, although it is calculated for each contract, we generally expect a profit margin on par with conventional levels.
- Q16: You explained that the contracts related to initial costs have not all been finalized. I would like to confirm whether the amounts for these contracts are to be fixed at the time of the contract or if they are contracts subject to cost audits, where costs are audited upon completion.**
- A16: Basically, we plan to conclude each individual contract based on estimates. However, if the actual results fluctuate significantly from the initial estimates, we will hold discussions depending on the situation. In principle, they are premised on the estimates at the time of the contract.
- Q17: Of the total investment of 100 billion yen for initial costs, how much of it factored into the current upward revision in net sales? Also, what portion of the expected contracts have you finalized?**
- A17: I would like to refrain from giving specific figures regarding the net sales forecast for initial costs for this fiscal year. Since this fiscal year represents the initial stage of the project, we expect that a portion of the 100 billion yen will be recorded. The main factor behind the upward revision to the financial forecast in the Explosives & Propulsion segment at this time is largely the revenue recognition of initial costs for rapid acquisition. Regarding facility investments related to initial costs, we assume that full-scale construction will progress in FY2026, the first year of the next Mid-term Plan, and FY2027, the second year. We expect that the majority will be recorded as net sales in these two years, but some will remain in FY2028, the third year. We expect the recording of net sales to peak in 2026 and 2027. Regarding the details, we would like to indicate the direction to some extent in the future while proceeding with contract preparations, examining them closely, and formulating the next Mid-term Plan.
- Q18: In the statement of cash flows in the semi-annual report, an increase in fixed assets related to the rapid acquisition of 5.8 billion yen has been recorded. Is my understanding correct that this was not recorded in net sales in the first half and that one year's worth will be recorded collectively in the fourth quarter?**
- A18: The portion of the increase in fixed assets related to the rapid acquisition in the statement of cash flows for the first half has not been recorded in net sales for the first half. We will recognize revenue from the third quarter according to the progress of construction.
- Q19: Is my understanding correct that in the next fiscal year as well, it will be recorded in each quarter from the first quarter to the fourth quarter, albeit possibly not evenly?**
- A19: Basically, revenue will be recognized according to the progress of construction, rather than being distributed evenly each quarter.

### **Mid-term Management Plan (Mid-term Plan)**

**Q20: Regarding the Mid-term Management Plan, will the next Mid-term Plan period be five years? Also, regarding the targets of 60.0 billion yen in operating profit and a ratio of operating profit to net sales of 20% or more for FY2030, could you tell us about your current views on the possibility of slightly raising them further?**

A20: Amidst our efforts toward NOF VISION 2030, we are executing the 2025 Mid-term Plan, and at present and with an eye toward an operating profit of 60.0 billion yen in FY2030, we are proceeding with the formulation of the 2028 Mid-term Plan, which will cover three years and be the next business domain expansion stage.

**Q21: Regarding the operating profit target for FY2028, will it be at a lower level than the 60.0 billion yen for FY2030?**

A21: That is what we are thinking.

**Q22: Do you have any thoughts on presenting KPIs using indicators that show capital efficiency, such as ROE or ROIC?**

A22: We will consider possible forms of disclosure for those indicators.