

Translation

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Consolidated Financial Results for the Three Months Ended March 31, 2024 (Based on Japanese GAAP)

May 9, 2024

Company name: Nippon Denko Co., Ltd.
 Stock exchange listing: Tokyo
 Stock code: 5563 <https://www.nippondenko.co.jp/en/>
 Representative: President & CEO Yasushi Aoki
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 Scheduled date to file Quarterly Securities Report: May 9, 2024
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the three months ended March 31, 2024 (from January 1, 2024 to March 31, 2024)

(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	%
Three months ended March 31, 2024	17,708	(16.3)	827	(38.6)	18	(96.3)	(317)	–
Three months ended March 31, 2023	21,159	7.1	1,348	(63.4)	491	(87.9)	100	(96.7)

Note: Comprehensive income For the three months ended March 31, 2024: ¥ (549) million [-%]
 For the three months ended March 31, 2023: ¥ (604) million [-%]

	Earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended March 31, 2024	(2.32)	–
Three months ended March 31, 2023	0.73	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of March 31, 2024	99,127	70,063	70.7
As of December 31, 2023	100,750	71,436	70.9

Reference: Equity As of March 31, 2024: ¥70,063 million
 As of December 31, 2023: ¥71,436 million

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2023	–	3.00	–	6.00	9.00
Year ending December 31, 2024	–	–	–	–	–
Year ending December 31, 2024 (Forecast)	–	4.00	–	TBD	TBD

Note: Revisions to the forecast of cash dividends most recently announced: Yes
 For details, please refer to the “Notice Concerning Consolidated Earnings and Dividend Forecasts” announced on May 9, 2024.

3. Forecast of consolidated financial results for the year ending December 31, 2024 (from January 1, 2024 to December 31, 2024)

Percentages indicate year-on-year changes

	Net sales		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	76,000	(3.0)	3,000	23.9	–	–	–

Note: Revisions to the forecast of consolidated financial results most recently announced: Yes
 For details, please refer to the “2. Supplementary information (1) Consolidated financial results” on page 10.

4. Notes

- (1) Changes in significant subsidiaries during the three months ended March 31, 2024
(changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of special accounting methods for preparing quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements
- | | |
|--|------|
| Changes in accounting policies due to revisions to accounting standards and other regulations: | None |
| Changes in accounting policies due to other reasons: | Yes |
| Changes in accounting estimates: | None |
| Restatement of prior period financial statements: | None |

(4) Number of issued shares (common shares)

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

As of March 31, 2024	137,217,772 shares	As of December 31, 2023	137,217,772 shares
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Number of treasury shares at the end of the period

As of March 31, 2024	2,720 shares	As of December 31, 2023	2,497 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Three months ended March 31, 2024	137,215,228 shares	Three months ended March 31, 2023	138,311,438 shares
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* Quarterly financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

The Forecast of Consolidated Financial Results for the Fiscal Year Ending December 2024 is calculated based on information available at the present time, and since it contains considerable uncertain elements, actual results may differ significantly from the forecast figures.

Supplementary Materials

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1. Consolidated financial statements for the quarter and primary notes

(1) Quarterly consolidated financial statements

Consolidated balance sheets

	(Millions of yen)	
	As of December 31, 2023	As of March 31, 2024
Assets		
Current assets		
Cash and deposits	7,867	8,421
Notes and accounts receivable - trade	10,973	9,857
Merchandise and finished goods	18,694	18,171
Work in process	282	263
Raw materials and supplies	11,651	11,496
Other	2,117	2,468
Total current assets	51,587	50,679
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,452	6,676
Machinery, equipment and vehicles, net	11,488	11,300
Land	5,327	5,327
Leased assets, net	3,142	3,098
Construction in progress	154	362
Other, net	355	380
Total property, plant and equipment	26,919	27,145
Intangible assets	362	403
Investments and other assets		
Investment securities	13,260	12,541
Long-term loans receivable	5,201	5,298
Retirement benefit asset	723	676
Deferred tax assets	2,412	2,105
Other	282	276
Total investments and other assets	21,880	20,898
Total non-current assets	49,162	48,448
Total assets	100,750	99,127

	(Millions of yen)	
	As of December 31, 2023	As of March 31, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,230	4,717
Short-term borrowings	2,000	3,000
Current portion of long-term borrowings	3,528	4,385
Lease liabilities	156	156
Income taxes payable	96	90
Provision for bonuses	222	642
Provision for bonuses for directors (and other officers)	23	7
Notes payable - facilities	10	0
Other	5,821	4,194
Total current liabilities	16,090	17,194
Non-current liabilities		
Long-term borrowings	8,866	7,516
Lease liabilities	4,003	3,998
Other	353	354
Total non-current liabilities	13,223	11,869
Total liabilities	29,313	29,064
Net assets		
Shareholders' equity		
Share capital	11,096	11,096
Capital surplus	17,450	17,450
Retained earnings	38,685	37,544
Treasury shares	(0)	(1)
Total shareholders' equity	67,231	66,090
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,488	1,696
Deferred gains or losses on hedges	0	0
Foreign currency translation adjustment	1,824	1,402
Remeasurements of defined benefit plans	891	873
Total accumulated other comprehensive income	4,204	3,973
Total net assets	71,436	70,063
Total liabilities and net assets	100,750	99,127

(2) Consolidated statements of income (cumulative) and consolidated statements of comprehensive income (cumulative)**Consolidated statements of income (cumulative)**

(Millions of yen)

	Three months ended March 31, 2023	Three months ended March 31, 2024
Net sales	21,159	17,708
Cost of sales	18,111	15,268
Gross profit	3,048	2,440
Selling, general and administrative expenses	1,700	1,613
Operating profit	1,348	827
Non-operating income		
Interest income	50	55
Dividend income of insurance	56	57
Other	75	60
Total non-operating income	182	173
Non-operating expenses		
Interest expenses	122	146
Share of loss of entities accounted for using equity method	785	618
Loss on retirement of non-current assets	85	173
Other	44	43
Total non-operating expenses	1,038	982
Ordinary profit	491	18
Extraordinary income		
Gain on sale of investment securities	224	–
Total extraordinary income	224	–
Extraordinary losses		
Loss on disaster	–	76
Loss on retirement of non-current assets	21	–
Loss on sale of shares of subsidiaries and associates	47	–
Total extraordinary losses	69	76
Profit (loss) before income taxes	646	(58)
Income taxes - current	274	35
Income taxes - deferred	271	223
Total income taxes	545	259
Profit (loss)	100	(317)
Profit attributable to non-controlling interests	0	–
Profit (loss) attributable to owners of parent	100	(317)

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Three months ended March 31, 2023	Three months ended March 31, 2024
Profit (loss)	100	(317)
Other comprehensive income		
Valuation difference on available-for-sale securities	206	207
Deferred gains or losses on hedges	(3)	0
Remeasurements of defined benefit plans, net of tax	(8)	(17)
Share of other comprehensive income of entities accounted for using equity method	(900)	(421)
Total other comprehensive income	(704)	(231)
Comprehensive income	(604)	(549)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(605)	(549)
Comprehensive income attributable to non- controlling interests	1	-

(3) Notes relating to consolidated financial statements for the quarter**(Note on premise of going concern)**

Not applicable

(Note on significant change in the amount of shareholders' equity)

Not applicable

(Changes in accounting policies)

(Revision to the accounting policy regarding the revenue from sale of valuable metals)

Chuo Denki Kogyo Co., Ltd., which is a subsidiary of Nippon Denko Co., Ltd. (the "Company" or "we"), used to post the estimated sales of valuable metals recovered during the melting and solidification process of incineration ash as raw materials and supplies and deduct the revenue from sale of the valuable metals from manufacturing costs. However, as the amount of recovered valuable metals is increasing due to the improvement of the recycling technology and the system for managing revenues and costs was revised in parallel with the formulation of the 9th Medium-Term Business Plan, we have been using the method of posting net sales, the corresponding cost of sales, and merchandise and finished goods since the first quarter of the fiscal year under review. The revised accounting policy has been applied retroactively.

Through the retroactive application of the revised accounting policy, in the consolidated balance sheets for the previous fiscal year, merchandise and finished goods increased ¥26 million, and raw materials and supplies decreased ¥291 million. In addition, notes and accounts receivable - trade increased ¥68 million, while other current assets decreased by the same amount. In the consolidated statement of income for the first quarter of the previous fiscal year, each of gross profit, operating profit, ordinary profit and profit before income taxes decreased ¥46 million respectively, as net sales grew ¥440 million and cost of sales augmented ¥486 million. The balance of retained earnings at the beginning of the previous fiscal year decreased ¥219 million, due to the cumulative effect of the revision to the accounting policy, which is reflected in the book value of net assets at the beginning of the previous fiscal year.

The effect on segment information is described in the corresponding section.

(Segment information, etc.)

[Segment information]

First quarter of FY2023 (From January 1, 2023 to March 31, 2023)

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

(Millions of yen)

	Reportable segments						Other (Note) 1	Total	Adjustment	Amount on consoli- dated financial statements (Note) 2
	Ferroalloys business	Functional Materials business	Incineration Ash Recycling business	Aqua Solutions business	Electric Power business	Total				
Net sales										
Revenue from contracts with customers	15,870	2,710	1,576	438	200	20,795	364	21,159	—	21,159
Net sales from external customers	15,870	2,710	1,576	438	200	20,795	364	21,159	—	21,159
Intersegment sales or transfers	20	46	2	—	—	69	47	117	(117)	—
Total	15,890	2,756	1,578	438	200	20,864	411	21,276	(117)	21,159
Segment profit (loss)	547	48	(39)	37	(68)	525	(33)	491	—	491

Notes: 1. The "Other" classification is business segments that are not included in reportable segments, and is mainly sales of other subsidiary businesses.

2. The total of segment or loss matches ordinary profit in the quarterly consolidated statement of income.

2. Impairment losses on fixed assets & information concerning goodwill by reportable segment

(Significant Impairment losses related to Non-current assets)

Not applicable

Current fiscal year (From January 1, 2024 to March 31, 2024)

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

	Reportable segments						Other (Note) 1	Total	Adjustment	Amount on consoli- dated financial statements (Note) 2
	Ferroalloys business	Functional Materials business	Incineration Ash Recycling business	Aqua Solutions business	Electric Power business	Total				
Net sales										
Revenue from contracts with customers	12,393	2,961	1,529	388	173	17,446	262	17,708	—	17,708
Net sales from external customers	12,393	2,961	1,529	388	173	17,446	262	17,708	—	17,708
Intersegment sales or transfers	29	—	1	—	—	31	7	39	(39)	—
Total	12,423	2,961	1,531	388	173	17,478	270	17,748	(39)	17,708
Segment profit (loss)	(306)	308	112	20	(90)	44	(26)	18	—	18

Notes: 1. The “Other” classification is business segments that are not included in reportable segments, and is mainly sales of other subsidiary businesses.
2. The total of segment or loss matches ordinary profit in the quarterly consolidated statement of income.

2. Items regarding changes in reportable segments, etc.

(Changes in segment classification through the restructuring of our organization)

In the previous fiscal year, the Group’s business segments were “Ferroalloys business,” “Functional Materials business,” “Environment business,” and “Electric Power business,” but from the first quarter of the fiscal year under review, our business segments have been changed into “Ferroalloys business,” “Functional Materials business,” “Incineration Ash Recycling business,” “Aqua Solutions business,” and “Electric Power business.”

Through this change, the Melting & Solidification of Incineration Ash business, which uses electric furnaces, and the Environmental Systems business, which were included in the “Environment business,” have been separated and renamed the “Incineration Ash Recycling business” and the “Aqua Solutions business,” respectively.

This is because we positioned said five segments as core businesses in the “Medium/Long-Term Business Plan (2024 to 2030),” which was announced on November 29, 2023, and changed our revenue management system according to it.

The segment information for the first quarter of the previous fiscal year has been written based on the new segment classification method.

(Revision to the accounting policy regarding the revenue from sale of valuable metals)

As described in “Revision to the accounting policy,” we have been using the revised accounting method for posting the revenue from sale of valuable metals recovered during the melting and solidification process of incineration ash in Chuo Denki Kogyo Co., Ltd., which is a subsidiary of the Company, from the first quarter of the fiscal year under review, so the method for calculating the profit or loss in the business segment has been revised in the same way.

The revised accounting policy has been retroactively applied to the segment information for the first quarter of the previous fiscal year. Through the retroactive application of the revised accounting policy, net sales of the Incineration Ash Recycling business increased ¥440 million and the profit in this segment decreased ¥46 million in the first quarter of the previous fiscal year.

3. Impairment losses on fixed assets & information concerning goodwill by reportable segment
(Significant Impairment losses related to Non-current assets)
Not applicable

2. Supplementary information

(1) Consolidated financial results

(Billions of yen/Rounded to the nearest 100 million of yen)

	FY2023		FY2024		YoY	
	1Q	Full Year	1Q	Full Year	1Q	Full Year
Net sales	21.2	78.4	17.7	76.0	(3.5)	(2.4)
Ordinary profit	0.5	2.4	0.0	3.0	(0.5)	0.6
Underlying OP basis *	1.7	5.5	0.6	4.8	(1.1)	(0.7)
Profit attributable to owners of parent	0.1	4.3	(0.3)	-	(0.4)	-
Earnings per share (yen)	0.7	31.5	(2.3)	-	(3.1)	-

*Underlying OP basis: Ordinary profit excluding the impact of inventory and one-time factors

During the first quarter of the fiscal year under review, the Functional Materials business benefited from positive effects such as an increased production capacity and the resumption of facilities; however, the margin decline arising from the drop in the product market price of the Ferroalloys business significantly impacted our performance. As a result, net sales, ordinary profit and underlying ordinary profit decreased by ¥3.5 billion, ¥0.5 billion and ¥1.1 billion year-on-year, respectively.

The Toyama and Myoko plants, which serve as the production sites of our Functional Materials business, suffered from damages by the Noto Peninsula Earthquake in 2024. We resumed the production of all product types from March 12; however, extraordinary losses were recorded at ¥76 million.

For the fiscal year ending December 31, 2024, it is expected that the impacts of wage increases and interest rate hike etc. will be dealt with by a price pass-through and cost improvement; however, the impact of margin decline in the Ferroalloys business was significant in the first quarter of the fiscal year under review, so net sales, ordinary profit and underlying ordinary profit are forecast to be ¥76.0 billion, ¥3.0 billion and ¥4.8 billion, respectively.

(2) Business results by segment

(Billions of yen/Rounded to the nearest 100 million of yen)

Net sales	FY2023		FY2024 Projection		YoY	
	1Q	Full Year	1Q	Full Year	1Q	Full Year
Ferroalloys	15.9	52.9	12.4	50.7	(3.5)	(2.2)
Functional Materials	2.7	13.8	3.0	13.6	0.3	(0.2)
Incineration Ash Recycling	1.6	6.9	1.5	7.3	(0.0)	0.4
Aqua Solutions	0.4	1.7	0.4	1.7	(0.0)	0.0
Electric Power	0.2	1.4	0.2	1.4	(0.0)	0.0
Other	0.4	1.7	0.3	1.3	(0.1)	(0.4)
Total	21.2	78.4	17.7	76.0	(3.5)	(2.4)

Ordinary profit	FY2023		FY2024 Projection		YoY	
	1Q	Full Year	1Q	Full Year	1Q	Full Year
Ferroalloys	0.5	(0.9)	(0.3)	0.3	(0.9)	1.2
Domestic	1.3	1.0	0.3	1.0	(1.0)	0.0
Overseas	(0.8)	(1.9)	(0.6)	(0.7)	0.2	1.2
Functional Materials	0.0	2.0	0.3	1.2	0.3	(0.8)
Incineration Ash Recycling	(0.0)	0.7	0.1	1.0	0.2	0.3
Aqua Solutions	0.0	0.1	0.0	0.1	(0.0)	0.0
Electric Power	(0.1)	0.4	(0.1)	0.3	(0.0)	(0.1)
Other	(0.0)	0.1	(0.0)	0.1	0.0	0.0
Total	0.5	2.4	0.0	3.0	(0.5)	0.6

Underlying OP basis *	FY2023		FY2024 Projection		YoY	
	1Q	Full Year	1Q	Full Year	1Q	Full Year
Ferroalloys	1.7	2.3	0.2	1.7	(1.5)	(0.6)
Domestic	1.8	2.6	0.3	1.5	(1.5)	(1.1)
Overseas	(0.1)	(0.3)	(0.1)	0.2	0.0	0.5
Functional Materials	0.0	1.8	0.4	1.6	0.4	(0.2)
Incineration Ash Recycling	0.0	0.8	0.1	1.0	0.1	0.2
Aqua Solutions	0.0	0.1	0.0	0.1	(0.0)	0.0
Electric Power	(0.1)	0.4	(0.1)	0.3	(0.0)	(0.1)
Other	0.0	0.1	0.0	0.1	0.0	0.0
Total	1.7	5.5	0.6	4.8	(1.1)	(0.7)

*Underlying OP basis: Ordinary profit excluding the impact of inventory and one-time factors

(Ferroalloys Business)

During the first quarter of the fiscal year under review, the market price of our mainstay product, high-carbon ferromanganese, dropped, which led to the margin decline in the domestic Ferroalloys business. As a result, net sales, ordinary profit and underlying ordinary profit decreased by ¥3.5 billion, ¥0.9 billion and ¥1.5 billion year-on-year, respectively.

For the fiscal year ending December 31, 2024, we assume underlying ordinary profit to decrease by ¥0.6 billion year-on-year to ¥1.7 billion due to the impact of significant margin decline in the first quarter of the fiscal year under review.

In the overseas Ferroalloys business, we will continue to experience negative impacts due to the drop in the silicomanganese and ferrosilicon markets. On the other hand, it is expected to become profitable in terms of an underlying profit due to cost improvements through the stabilization of production and an increase of profits from the mining interests thanks to the rise in the manganese ore market price.

(Functional Materials Business)

Our production sites, the Toyama and Myoko plants, suffered from damages by the Noto Peninsula Earthquake in 2024; however, we resumed the production of all product types on March 12.

During the first quarter of the fiscal year under review, the sales volume of zirconium oxide for the electronic components was sluggish due to prolonged inventory adjustments by our major customers. On the other hand, thanks to the positive factors such as the increased production capacity of cathode materials for lithium-ion batteries and the resumption of ferroboron production, sales and profit increased year-on-year.

For the fiscal year ending December 31, 2024, we expect a recovery of demand for electronic components in the mobility field; however, we assume that underlying ordinary profit will decrease by ¥0.2 billion year-on-year to ¥1.6 billion owing to a slow recovery of demand for our products due to the prolonged inventory adjustments by our customers.

(Incineration Ash Recycling Business)

During the first quarter of the fiscal year under review, the treatment volume decreased compared to that of the same period of the previous fiscal year due to regular furnace repair.

Both sales prices and volume of valuable metals recovered in the process of resource recovery remained firm, resulting in underlying ordinary profit of ¥0.1 billion, an increase of ¥0.1 billion year-on-year.

For the fiscal year ending December 31, 2024, we expect an increase in underlying ordinary profit by ¥0.2 billion year-on-year to ¥1.0 billion by a price pass-through of the rising electricity cost, which was not completed in the previous year.

(Aqua Solutions Business)

During the first quarter of the fiscal year under review, sales and profit were slightly lower than those of the same period of the previous fiscal year, due to a decrease in demand following facility maintenance by large customers and other factors.

(Electric Power Business)

The Company efficiently operated two hydroelectric power plants as a power sales business utilizing the Feed-in Tariff (FIT) system for renewable energy; however, the sales and profit decreased slightly compared to those of the previous fiscal year when we enjoyed favorable weather conditions.

<Reference Indicators>

1. High-carbon ferromanganese market (EU)

(\$/t)

	1Q	2Q	3Q	4Q	FY2024
FY2023	1,242	1,151	1,003	993	1,098
FY2024	1,130				

2. Manganese ore market

(\$/Mn %)

	1Q	2Q	3Q	4Q	FY2024
FY2023	5.4	5.4	4.7	4.5	5.0
FY2024	4.3				

3. Exchange rate

(Yen / \$ US)

	1Q	2Q	3Q	4Q	FY2024
FY2023	132	137	145	148	141
FY2024	149	145	145	145	146