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October 27, 2022

Consolidated Financial Results for the Six Months Ended September 30, 2022 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchange
 Security code: 4461
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 Scheduled date to file quarterly securities report: November 10, 2022
 Scheduled date to commence dividend payments: December 6, 2022
 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, 2022 (from April 1, 2022 to September 30, 2022)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
September 30, 2022	32,765	7.8	717	(70.7)	872	(59.5)	(396)	–
September 30, 2021	30,387	8.5	2,447	37.7	2,152	29.5	1,160	14.4

Note: Comprehensive income For the six months ended September 30, 2022 ¥765 million [(56.0)%]
 For the six months ended September 30, 2021 ¥1,738 million [(7.4)%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2022	(40.00)	–
September 30, 2021	114.03	–

(2) Consolidated financial position

	Total assets	Net assets	Equity-ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
September 30, 2022	84,249	39,069	41.5	3,661.75
March 31, 2022	86,469	40,383	42.5	3,610.31

Reference: Equity
 As of September 30, 2022 ¥34,999 million
 As of March 31, 2022 ¥36,767 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, 2022	–	35.00	–	45.00	80.00
Fiscal year ending March 31, 2023	–	40.00			
Fiscal year ending March 31, 2023 (Forecast)			–	40.00	80.00

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

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		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	70,000	11.7	3,500	(24.3)	3,500	(16.5)	1,000	(59.9)	102.70

Note: Revisions to the earnings forecasts 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

Newly included: – companies

Excluded: – companies

- (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: Yes

(ii) Changes in accounting policies due to reasons other than (i): None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

Note: For details, kindly refer to “2. Quarterly Consolidated Financial Statements and Notes, (4) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies)” in page 10 of attached materials.

- (4) Number of issued shares (ordinary shares)

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

As of September 30, 2022	10,684,321 shares
As of March 31, 2022	10,684,321 shares

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

As of September 30, 2022	1,126,123 shares
As of March 31, 2022	500,351 shares

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

Six months ended September 30, 2022	9,916,768 shares
Six months ended September 30, 2021	10,179,418 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

(Notice concerning forward-looking statements)

Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. Consequently, no statements herein constitute assurances regarding actual results by the Company. Results may differ materially from the consolidated forecasts due to various factors.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the six months ended September 30, 2022, the Japanese economy made progress toward normalization while balancing measures to combat COVID-19 and socioeconomic activities. At the same time, higher prices of food, daily necessities, and other items due to the Russia-Ukraine conflict and the weak yen, and concerns over potential global economic recession, among others, are major risk factors. In the chemical industry, prices for domestic naphtha, resources and energy, raw materials, and other products remain high, posing a threat to all companies.

Under this environment, the Group's efforts to adjust product prices in response to soaring raw material prices were delayed, which put a squeeze on profit. We will continue to move forward with price pass-on activities and strive to secure profit through efforts such as cost reductions at production sites and acceleration of new business revenue generation.

Concerning the results for the six months ended September 30, 2022, net sales were ¥32,765 million (up 7.8% year on year), thanks to significant growth of flame retardants for overseas markets in the Functional Materials segment.

Operating income was ¥717 million (down 70.7% year on year). Profit decreased mainly in the Surfactants and Functional Materials segments due primarily to an increase in R&D expenses for the future and a sharp rise in raw material prices that exceeded price pass-on measures. In addition, ordinary income was ¥872 million (down 59.5% year on year), despite recovery of non-operating income and expenses. On top of this, an impairment loss was recorded for non-current assets in the Polyurethane Materials segment as an extraordinary loss, so the loss attributable to owners of parent after deducting income tax expenses came to ¥396 million (profit of ¥1,160 million in the same period of the previous year).

Results by segment are as follows.

Surfactants

Net sales in the Surfactants segment were generally firm.

In Japan, sales were sluggish in IT and electronics applications, and paint and coloring agent applications, but remained firm in machinery and metal applications. Sales for soap and detergent applications grew significantly.

Overseas, sales for rubber and plastic applications were sluggish.

As a result, net sales in this segment were ¥9,534 million (up 5.2% year on year).

Operating income was ¥904 million (down 29.7% year on year) due to the impact of soaring raw materials prices.

Amenity Materials

Net sales in the Amenity Materials segment were generally firm.

In Japan, sales of cellulose polymers were sluggish in energy and environmental applications. Sales of sucrose fatty acid esters remained strong for food applications, and sales of vinyl polymers were firm for rubber and plastic applications.

Overseas, sales of sucrose fatty acid esters were sluggish in food applications, while those for personal care (cosmetics) applications grew significantly. As a result, net sales in this segment were ¥4,158 million (up 7.8% year on year).

Operating income was ¥58 million (down 75.3% year on year) due to the impact of soaring raw materials prices and increased operating expenses.

Polyurethane Materials

Net sales in the Polyurethane Materials segment were generally sluggish.

Sales of environmentally friendly synthetic lubricants related to CFC regulations grew substantially, but sales of civil engineering chemicals related to public works fell sharply.

Demand for functional polyurethane was firm for IT and electronics applications.

As a result, net sales in this segment were ¥4,218 million (down 0.4% year on year).

The Company posted an operating loss of ¥198 million for the period (recorded ¥51 million operating income for the same period of the previous year) due to the impact of soaring raw materials prices.

Functional Materials

Net sales in the Functional Materials segment generally increased significantly.

In Japan, sales of radcure resin materials and waterborne polyurethane for IT and electronics applications were both sluggish, but sales of flame retardants for rubber and plastic applications grew significantly.

Overseas, flame retardants for rubber and plastics grew significantly, and radcure resin materials for IT and electronics applications also grew significantly.

As a result, net sales in this segment were ¥11,518 million (up 22.7% year on year).

Operating income was ¥248 million (down 68.3% year on year) due to an increase in operating expenses, mainly R&D expenses, in addition to the impact of soaring raw material prices.

Electronic Device Materials

Net sales in the Electronic Device Materials segment fell significantly overall.

Sales of ionic liquids for display applications were sluggish, and sales of conductive pastes for solar cell applications fell significantly. As a result, net sales in this segment were ¥3,093 million (down 14.8% year on year).

Due to the significant drop in net sales, operating income was ¥152 million (down 57.9% year on year).

Life Sciences

Net sales in the Life Sciences business segment increased by ¥34 million (16.5%) year on year, to ¥242 million. We launched our new brand “TENCHUKASOU” and are promoting thorough brand image recognition. Improvement of cognitive function has been confirmed in clinical trials on intake of I. Japonica-Bombyx Fungus containing Naturido. Based on the results of this research, we will move on to the notification phase for food with functional claims and work on new product development.

The OEM business for pharmaceutical additives and health foods made through the concentration and pulverization of extracts from natural materials was steady. As for operating income, although net sales increased, with upfront operating expenses for establishment of brand image, the result was an operating loss of ¥448 million (operating loss of ¥272 million in the same period of the previous year).

(2) Explanation of Financial Position(Assets)

Current assets as of September 30, 2022 were ¥44,533 million, down ¥2,001 million from the end of the previous fiscal year. This was primarily due to a decrease of ¥4,981 million in cash and deposits, despite an increase of ¥1,493 million in inventories such as merchandise and finished goods. Non-current assets totaled ¥39,715 million, down ¥219 million from the end of the previous fiscal year.

This was primarily due to a decrease of ¥215 million in property, plant and equipment. As a result, total assets amounted to ¥84,249 million, down ¥2,220 million from the end of the previous fiscal year.

(Liabilities)

Current liabilities as of September 30, 2022 were ¥24,407 million, up ¥2,680 million from the end of the previous fiscal year. This was primarily due to a ¥1,400 million increase in short-term borrowings and a ¥1,210 million increase in notes and accounts payable-trade. Non-current liabilities totaled ¥20,772 million, down ¥3,586 million from the end of the previous fiscal year. This was primarily due to a decrease of ¥3,192 million in long-term borrowings.

As a result, total liabilities at the end of the period under review were ¥45,180 million, down ¥906 million from the end of the previous fiscal year.

(Net assets)

Total net assets as of September 30, 2022 were ¥39,069 million, down ¥1,314 million from the end of the previous fiscal year. This was primarily due to an increase in treasury shares of ¥1,466 million due to purchase of treasury shares, and a decrease in retained earnings of ¥854 million, resulting from loss attributable to owners of parent of ¥396 million and dividend of surplus of ¥458 million, despite an increase in foreign currency translation adjustment of ¥549 million and an increase in non-controlling interests of ¥452 million.

As a result, the equity ratio came to 41.5% (42.5% as of the end of the previous fiscal year).

(Consolidated cash flows)

Cash and cash equivalents (“cash”) in the six months ended September 30, 2022 were ¥7,161 million, a decrease of ¥4,989 million compared to the end of the previous fiscal year.

The respective cash flow positions and the factors thereof in the six months ended September 30, 2022 are as follows.

Cash flows from operating activities

Net cash provided by operating activities was ¥595 million (¥3,049 million was provided in the same period of the previous year). This was due to a decrease in funds resulting primarily from an increase in inventories of ¥1,233 million (an increase of ¥1,100 million in the same period of the previous year) and an increase in trade receivables of ¥1,120 million (a decrease of ¥708 million in the same period of the previous year), and an increase in funds resulting primarily from depreciation of ¥1,675 million (¥1,700 million in the same period of the previous year) and an increase in trade payables of ¥1,140 million (an increase of ¥710 million in the same period of the previous year).

Cash flows from investing activities

Net cash used in investing activities was ¥1,320 million (1,032 million was used in the same period of the previous year). This was due to a decrease in funds resulting from expenditures for purchase of property, plant and equipment of ¥1,221 million (¥1,026 million for the same period of the previous year).

Cash flows from financing activities

Net cash used in financing activities was ¥4,455 million (compared to ¥3,447 million in the same period of the previous year). This was due to a decrease in funds resulting primarily from repayment of long-term borrowings of ¥2,904 million (¥3,387 million in the same period of the previous year), purchase of treasury shares of ¥1,499 million, and payment of dividends of ¥458 million (¥356 million in the same period of the previous year).

(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Information

Consolidated financial results forecast has not changed from the forecast for the full year announced as of September 29, 2022.

Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. Consequently, the actual results for the Company may significantly differ due to various factors.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	12,224	7,243
Notes and accounts receivable - trade	14,959	16,146
Electronically recorded monetary claims - operating	1,532	1,719
Merchandise and finished goods	11,582	12,778
Work in process	21	21
Raw materials and supplies	3,905	4,202
Prepaid expenses	317	520
Other	1,996	1,906
Allowance for doubtful accounts	(4)	(5)
Total current assets	46,534	44,533
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	13,541	13,354
Machinery, equipment and vehicles, net	5,555	4,907
Tools, furniture and fixtures, net	730	756
Land	9,638	9,934
Leased assets, net	2,800	2,596
Construction in progress	1,091	1,592
Total property, plant and equipment	33,358	33,142
Intangible assets		
Goodwill	213	-
Other	405	369
Total intangible assets	618	369
Investments and other assets		
Investment securities	4,004	4,145
Long-term loans receivable	16	15
Long-term prepaid expenses	231	183
Deferred tax assets	172	186
Retirement benefit asset	1,228	1,288
Other	310	390
Allowance for doubtful accounts	(6)	(6)
Total investments and other assets	5,958	6,204
Total non-current assets	39,935	39,715
Total assets	86,469	84,249

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	10,204	11,415
Electronically recorded obligations - operating	429	462
Short-term borrowings	6,711	8,111
Lease liabilities	558	526
Accrued expenses	348	382
Income taxes payable	576	350
Accrued business office taxes	41	20
Provision for bonuses	816	784
Other	2,040	2,352
Total current liabilities	21,726	24,407
Non-current liabilities		
Corporate bonds	6,000	6,000
Long-term borrowings	15,051	11,858
Lease liabilities	2,551	2,350
Deferred tax liabilities	318	99
Retirement benefit liability	107	126
Asset retirement obligations	74	74
Other	255	263
Total non-current liabilities	24,359	20,772
Total liabilities	46,086	45,180
Net assets		
Shareholders' equity		
Capital stock	8,895	8,895
Capital surplus	7,278	7,276
Retained earnings	20,498	19,643
Treasury shares	(1,021)	(2,488)
Total shareholders' equity	35,650	33,327
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	181	210
Foreign currency translation adjustment	507	1,057
Remeasurements of defined benefit plans	427	404
Total accumulated other comprehensive income	1,116	1,672
Non-controlling interests	3,616	4,069
Total net assets	40,383	39,069
Total liabilities and net assets	86,469	84,249

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income**Quarterly consolidated statement of income (cumulative)**

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Net sales	30,387	32,765
Cost of sales	22,538	26,080
Gross profit	7,848	6,684
Selling, general and administrative expenses	5,400	5,967
Operating income	2,447	717
Non-operating income		
Interest income	4	4
Dividend income	38	50
Share of profit of entities accounted for using equity method	26	44
Foreign exchange gains	1	169
Other	45	76
Total non-operating income	116	346
Non-operating expenses		
Interest expenses	96	90
Corporate bond interest	18	18
Inactive facility expenses	228	–
Other	68	81
Total non-operating expenses	411	191
Ordinary income	2,152	872
Extraordinary losses		
Impairment losses	–	786
Amortization of goodwill	–	137
Loss on disposal of non-current assets	65	42
Loss on valuation of investment securities	29	–
Total extraordinary losses	95	966
Profit (loss) before income taxes	2,057	(93)
Income taxes - current	596	259
Income taxes - deferred	46	(230)
Total income taxes	642	29
Profit (loss)	1,414	(122)
Profit attributable to non-controlling interests	254	273
Profit (loss) attributable to owners of parent	1,160	(396)

Quarterly consolidated statement of comprehensive income (cumulative)

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Profit (loss)	1,414	(122)
Other comprehensive income		
Valuation difference on available-for-sale securities	(267)	29
Foreign currency translation adjustment	430	829
Remeasurements of defined benefit plans, net of tax	132	(23)
Share of other comprehensive income of entities accounted for using equity method	28	52
Total other comprehensive income	323	887
Comprehensive income	1,738	765
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,299	159
Comprehensive income attributable to non- controlling interests	438	605

(3) Quarterly consolidated statement of cash flows

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flows from operating activities		
Profit (loss) before income taxes	2,057	(93)
Depreciation	1,700	1,675
Amortization of goodwill	75	213
Increase (decrease) in allowance for doubtful accounts	(7)	(0)
Increase (decrease) in retirement benefit liability	(333)	(93)
Interest and dividend income	(42)	(55)
Interest expenses	96	90
Corporate bond interest	18	18
Share of loss (profit) of entities accounted for using equity method	(26)	(44)
Impairment losses	–	786
Loss on disposal of non-current assets	65	42
Loss on valuation of investment securities	29	–
Decrease (increase) in trade receivables	708	(1,120)
Decrease (increase) in inventories	(1,100)	(1,233)
Increase (decrease) in trade payables	710	1,140
Other	(277)	(245)
Subtotal	3,673	1,080
Interest and dividends received	92	85
Interest paid	(114)	(108)
Income taxes paid	(602)	(461)
Net cash provided by (used in) operating activities	3,049	595
Cash flows from investing activities		
Payments into time deposits	(67)	(76)
Proceeds from withdrawal of time deposits	67	77
Purchase of property, plant and equipment	(1,026)	(1,221)
Purchase of investment securities	(1)	(1)
Other	(4)	(98)
Net cash provided by (used in) investing activities	(1,032)	(1,320)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	465	327
Proceeds from long-term borrowings	160	500
Repayments of long-term borrowings	(3,387)	(2,904)
Repayments of lease liabilities	(289)	(267)
Purchase of treasury shares	(0)	(1,499)
Dividends paid	(356)	(458)
Dividends paid to non-controlling interests	(40)	(152)
Net cash provided by (used in) financing activities	(3,447)	(4,455)
Effect of exchange rate change on cash and cash equivalents	69	191
Net increase (decrease) in cash and cash equivalents	(1,361)	(4,989)
Cash and cash equivalents at beginning of period	11,531	12,151
Cash and cash equivalents at end of period	10,170	7,161

(4) Notes to Quarterly Consolidated Financial Statements
(Notes on premise of going concern)

Not applicable.

(Notes when there are significant changes in amounts of equity)

Purchase of treasury shares

The Company purchased treasury shares as outlined below under the provisions of Article 156 of the Companies Act, which is applied after replacing the applicable words under the provisions of Article 165, Paragraph 3 of the Companies Act. The purchase of treasury shares based on the resolution at the board of directors meeting held on June 24, 2022 has been completed with purchases made through August 22, 2022.

- (1) Classes of shares subject to acquisition
Ordinary share of the Company
- (2) Total number of shares acquired
641,700 shares
- (3) Total acquisition cost of shares
1,499,961,900 yen
- (4) Acquisition period
July 1–August 22, 2022 (contract basis)

(Changes in accounting policies)

Application of Implementation Guidance for Accounting Standard for Fair Value Measurement

We have applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; “Fair Value Measurement Implementation Guidance”) from the beginning of the first quarter, and decided to apply new accounting standards set forth in the Fair Value Measurement Implementation Guidance prospectively in accordance with the transitional treatment provided for in Section 27-2 of the Fair Value Measurement Implementation Guidance.

There is no impact of application of this implementation guidance on the quarterly consolidated financial statements.

(Notes on quarterly consolidated statement of income)Inactive facility expenses

Expenses related to inactive equipment in the six months ended September 30, 2021 are fixed costs related to the period during which production of radcure resin material manufacturing equipment in the Chitose Plant of the Yokkaichi Branch was suspended.

Impairment losses

First six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

(1) The Group recorded impairment losses on the asset group(s) below.

Location	Use	Class	Amount (Millions of yen)
DKS Co., Ltd. Yokkaichi Branch (Yokkaichi City, Mie)	Polyurethane material manufacturing equipment	Buildings and structures	67
		Machinery, equipment and vehicles	718
Total			786

(2) Background behind recognition of impairment loss

The above assets are non-current assets belonging to the asset group of the Company's Polyurethane Materials segment.

During the six months ended September 30, 2022, the profitability of the above assets declined due to delays in product price adjustments in response to soaring raw material prices and new development activities. In conjunction with this, the book value of the above assets was reduced to the recoverable amount, and that amount was recorded under extraordinary losses as an impairment loss.

The recoverable amount of this asset group is measured by utility value, which is zero because no future cash flows are expected.

(3) Method of asset grouping

Categories corresponding to product composition and manufacturing method are the smallest units for grouping assets. Idle assets are grouped individually.

Amortization of goodwill

Amortization of goodwill recorded under extraordinary losses for the six months ended September 30, 2022 was calculated based on the provisions of paragraph (32) of the "Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements" (final revision of JICPA Accounting Practice Committee Statement No. 7, February 16, 2018).

(Segment information, etc.)

Segment information

I First six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

Disclosure of sales and profit (loss) for each reportable segment and information on breakdown of revenues

(Millions of yen)

	Surfactants	Amenity Materials	Polyurethane Materials	Functional Materials	Electronic Device Materials	Life Sciences	Total
Net sales							
Revenue from contacts with customers	9,063	3,858	4,234	9,391	3,632	207	30,387
Revenues from external customers	9,063	3,858	4,234	9,391	3,632	207	30,387
Transactions with other segments	–	–	–	–	–	–	–
Total	9,063	3,858	4,234	9,391	3,632	207	30,387
Segment profit (loss) operating income (loss)	1,287	237	51	783	361	(272)	2,447

Note: Total amount of profit or loss in reportable segments and operating income in the quarterly consolidated statement of income coincide.

II First six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

Disclosure of sales and profit (loss) for each reportable segment and information on breakdown of revenues

(Millions of yen)

	Surfactants	Amenity Materials	Polyurethane Materials	Functional Materials	Electronic Device Materials	Life Sciences	Total
Net sales							
Revenue from contacts with customers	9,534	4,158	4,218	11,518	3,093	242	32,765
Revenues from external customers	9,534	4,158	4,218	11,518	3,093	242	32,765
Transactions with other segments	–	–	–	–	–	–	–
Total	9,534	4,158	4,218	11,518	3,093	242	32,765
Segment profit (loss) operating income (loss)	904	58	(198)	248	152	(448)	717

Note: Total amount of profit or loss in reportable segments and operating income in the quarterly consolidated statement of income coincide.

(Notes on revenue recognition)

Information on revenue from contracts with customers is as stated in Notes (Segment information, etc.)