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Consolidated Financial Results for the Six Months Ended September 30, 2020 (under Japanese GAAP)

November 6, 2020

Company name: **Sanyo Chemical Industries, Ltd.**
 Listing: Tokyo Stock Exchange
 Securities code: 4471
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 Scheduled date to file quarterly securities report: November 12, 2020
 Scheduled date to commence dividend payments: December 1, 2020
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results presentation meeting: Yes (for analysts)

(Figures are rounded down to the nearest million yen)

1. Consolidated financial results for the first six months of the fiscal year ending March 31, 2021 (from April 1, 2020 to September 30, 2020)

(1) Consolidated operating results (cumulative) (% indicates 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, 2020	65,933	(15.4)	4,599	(22.1)	4,374	(25.8)	2,330	(38.6)
September 30, 2019	77,948	(4.9)	5,906	(13.0)	5,894	(31.3)	3,792	(36.2)

Note: Comprehensive income: Six months ended September 30, 2020 ¥4,560 million [160.5%]
 Six months ended September 30, 2019 ¥1,751 million [(79.6)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
September 30, 2020	105.70	–
September 30, 2019	172.04	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of				
September 30, 2020	177,760	132,558	73.2	5,903.95
March 31, 2020	178,873	130,097	71.4	5,789.88

Reference: Equity: As of September 30, 2020 ¥130,162 million
 As of March 31, 2020 ¥127,635 million

2. Cash dividends

	Cash dividends per share				
	1Q (as of June 30)	2Q (as of Sept. 30)	3Q (as of Dec. 31)	4Q (as of Mar. 31)	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2020	–	70.00	–	70.00	140.00
Fiscal year ending March 31, 2021	–	70.00			
Fiscal year ending March 31, 2021 (Forecast)			–	70.00	140.00

Note: Revisions of the latest forecasts for cash dividends announced: None

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2021 (from April 1, 2020 to March 31, 2021)

(% indicates 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
Fiscal year ending March 31, 2021	140,000	(10.0)	11,500	(7.6)	12,000	(5.5)	7,000	(8.7)	317.52

Note: Revisions of the latest forecasts for earnings announced: None

*** Notes**

(1) Significant changes in subsidiaries during the six months ended September 30, 2020 (changes in specific subsidiaries resulting in the change in scope of consolidation): None

(2) Application of special accounting methods for the preparation of quarterly consolidated financial statements: Yes

Note: See page 10, “2. Quarterly consolidated financial statements and significant notes thereto, (4) Notes to quarterly consolidated financial statements, Application of special accounting methods for the preparation of quarterly consolidated financial statements” for more information.

(3) Changes in accounting policies, accounting estimates, and restatements

a. Changes in accounting policies associated with revised accounting standards, etc.: None

b. Changes in accounting policies other than a. above: Yes

c. Changes in accounting estimates: None

d. Restatements: None

Note: See page 10, “2. Quarterly consolidated financial statements and significant notes thereto, (4) Notes to quarterly consolidated financial statements, Changes in accounting policies” for more information.

(4) Number of shares issued (common stock)

a. Number of shares issued at the end of the period (including treasury shares)

As of September 30, 2020	23,534,752 shares
As of March 31, 2020	23,534,752 shares

b. Number of treasury shares at the end of the period

As of September 30, 2020	1,488,007 shares
As of March 31, 2020	1,490,245 shares

c. Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

For the six months ended September 30, 2020	22,045,230 shares
For the six months ended September 30, 2019	22,044,842 shares

Note: Shares of Sanyo Chemical Industries, Ltd. (the “Company”) owned by the trust whose beneficiaries are directors, etc. of the Company are included in the treasury shares that are excluded in calculating the number of treasury shares at the end of the period and the average number of shares outstanding during the period.

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

* Appropriate use of earnings forecasts and other special items

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Actual earnings may differ significantly due to various factors. See page 4, “1. Qualitative information regarding financial results for the six months ended September 30, 2020, (3) Information concerning future forecast such as consolidated earnings forecasts” for more information regarding the circumstances behind the assumptions used in earnings forecasts and matters to be noted when relying on earnings forecasts.

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1. Qualitative information regarding financial results for the six months ended September 30, 2020

(1) Information regarding operating results

During the first six months (April 1, 2020 to September 30, 2020) of the fiscal year ending March 31, 2021, the Japanese economy deteriorated rapidly as a result of the large drop in private consumption and exports due to the impact of the COVID-19 pandemic. With the reopening of economic activities, exports are picking up particularly for automotive equipment, but the situation remains challenging as inbound demand continues to be almost non-existent. In the global economy, although China is steadily recovering after the reopening of economic activities, Europe and the US will likely need time to return to last year's levels despite their reopening of economic activities, as their pace of recovery is slowing.

In the chemical industry, the yen is appreciating in the forex market as expectations are increasing towards the US to extend the period of easing in its monetary policy, and raw material costs are recovering after they plunged sharply with the decline in oil prices and the global economy. Amid these unstable conditions, the business environment remains unpredictable.

Under these circumstances, net sales for the period under review decreased by 15.4% year on year, to ¥65,933 million mainly due to a decrease in sales amount and appropriate sales price revision to respond to a drop in raw material costs. In terms of profit, operating profit was ¥4,599 million (a decrease of 22.1% year on year) mainly due to a decrease in net sales, and ordinary profit was ¥4,374 million (a decrease of 25.8% year on year) mainly due to a decrease in share of profit of entities accounted for using equity method. Profit attributable to owners of parent was ¥2,330 million (a decrease of 38.6% year on year).

1) Business performance

(Millions of yen)					
	Six months ended September 30, 2019	Six months ended September 30, 2020	Change		FY2019
			(Amount)	(Ratio)	
Net sales	77,948	65,933	(12,015)	(15.4)%	155,503
Operating profit	5,906	4,599	(1,306)	(22.1)%	12,439
Ordinary profit	5,894	4,374	(1,520)	(25.8)%	12,704
Profit attributable to owners of parent	3,792	2,330	(1,462)	(38.6)%	7,668
Basic earnings per share	¥172.04	¥105.70	¥(66.34)	(38.6)%	¥347.87
ROA (Return on assets*)	6.3%	4.9%	–	(1.4) percentage point	6.8%
ROE (Return on equity)	5.9%	3.6%	–	(2.3) percentage point	6.0%
Currency exchange (US\$, CNY)	US\$=¥108.61 CNY=¥15.68	US\$=¥106.93 CNY=¥15.26		¥(1.68) ¥(0.42)	US\$=¥108.72 CNY=¥15.60
Naphtha price in Japan	¥42,800/kl	¥27,700/kl		¥(15,100)/kl	¥42,900/kl

*ROA (Return on assets) is calculated based on ordinary profit.

Note: ROA and ROE for the six months ended September 30, 2019 and 2020 are annualized.

2) Business performance by segment

(Millions of yen)

	Six months ended September 30, 2019		Six months ended September 30, 2020		Change		FY2019	
	Net sales	Operating profit	Net sales	Operating profit	Net sales	Operating profit	Net sales	Operating profit
Toiletries and Health Care	26,527	756	25,788	1,540	(738)	784	53,726	1,590
Petroleum and Automotives	21,676	1,781	15,845	1,110	(5,830)	(670)	42,770	3,740
Plastics and Textiles	10,799	1,441	9,491	989	(1,307)	(452)	21,453	3,003
Information and Electrics/Electronics	10,646	1,450	8,196	571	(2,449)	(878)	20,985	2,937
Environmental Protection, Construction and Others	8,299	476	6,610	386	(1,688)	(89)	16,567	1,166

<Toiletries and Health Care>

In the Toiletries segment, sales decreased because of weak sales of polyethyleneglycol in both domestic and foreign markets due to a decline in the market as well as weak sales of surfactants for liquid laundry detergents. In the Health Care segment, sales were flat, as sales for our mainstay superabsorbent polymers declined mainly due to appropriate sales price revision to respond to a drop in raw material costs despite strong demand in China, while on the other hand, sales of germicides and other products increased.

As a result, total net sales in this segment decreased by 2.8% year on year, to ¥25,788 million. Operating profit was ¥1,540 million (an increase of 103.7% year on year) due to improved profitability of superabsorbent polymers.

<Petroleum and Automotives>

In the Petroleum and Automotives segment, sales experienced a large decline. This was due to the decline in the automotive industry which caused weak sales of raw materials for polyurethane foams used in automobile seats and other applications, lubricant additives, and thermoplastic polyurethane beads for interior parts of automobiles.

As a result, total net sales in this segment decreased by 26.9% year on year, to ¥15,845 million. Operating profit was ¥1,110 million (a decrease of 37.6% year on year).

<Plastics and Textiles>

In the Plastics segment, sales decreased because of weak sales of paint coating agents and additives, and automotive modeling materials as well as resin modifiers used as paint binders, despite flat sales of our mainstay permanent antistatic agents.

The Textiles segment experienced a large-scale decline in sales, as polyurethane resins for synthetic leather and elastomer fiber and the spin finish oil used in the manufacturing process of tire cord yarns and other items experienced a downturn in sales, despite brisk sales of chemicals for carbon fibers due to an increase in demand. As a result, total net sales in this segment decreased by 12.1% year on year, to ¥9,491 million. Operating profit was ¥989 million (a decrease of 31.4% year on year).

<Information and Electrics/Electronics>

In the Information segment, sales experienced a large decline. This was due to a decline in office use of multifunction devices, etc. reflecting the increased teleworking, which caused weak sales of toner materials for those devices, including toner resins for pulverized toners and polyester beads as a core component of polymerization toners.

In the Electrics/Electronics segment, sales were flat. This was due to flat sales of adhesives for electronic parts, despite the decline in the automotive industry that led to weak sales of electrolytes for aluminum electrolytic capacitors.

As a result, total net sales in this segment decreased by 23.0% year on year, to ¥8,196 million. Operating profit was ¥571 million (a decrease of 60.6% year on year).

<Environmental Protection, Construction and Others>

In the Environmental Protection segment, sales declined due to the continued stagnation of the polymer flocculants market, which caused weak sales of cationic monomer, the raw material used to make polymer flocculants.

In the Construction segment, sales experienced a large decline. This was due to weak sales for both raw materials for building sealants and raw materials for polyurethane foams mainly used in furniture and heat insulating materials, reflecting a decline in the market.

As a result, total net sales in this segment decreased by 20.3% year on year, to ¥6,610 million. Operating profit was ¥386 million (a decrease of 18.9% year on year).

(2) Analysis of financial position

The Group's financial position at the end of the period under review was as follows:

Total assets decreased by ¥1,113 million compared with the end of the previous fiscal year, amounting to ¥177,760 million.

Net assets increased by ¥2,460 million from the end of the previous fiscal year, to ¥132,558 million.

Equity ratio rose by 1.8 percentage points from the end of the previous fiscal year, to 73.2%.

Cash and cash equivalents ("cash") as of the end of the period under review amounted to ¥20,967 million. This marked an increase of ¥2,957 million compared with the end of the previous fiscal year (cash decreased by ¥345 million during the same period of the previous fiscal year).

The cash flow movements during the period under review and the factors influencing them were as follows:

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥10,130 million (compared to ¥8,126 million in net cash provided during the same period of the previous fiscal year). This result was mainly due to the cash inflow from profit before income taxes of ¥3,914 million, depreciation of ¥4,731 million and the decrease in trade receivables of ¥6,760 million, which outweighed the cash outflow from the decrease in trade payables of ¥4,900 million and income taxes paid of ¥851 million.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥5,889 million (compared to ¥5,426 million in net cash used during the same period of the previous fiscal year). This result was mainly due to a cash outlay of ¥4,731 million for purchase of non-current assets.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥660 million (compared to ¥2,779 million in net cash used during the same period of the previous fiscal year). This result was mainly due to the cash outflow from dividends paid of ¥1,540 million and repayments of long-term borrowings of ¥700 million, which outweighed the cash inflow from net increase in short-term borrowings of ¥1,856 million.

(3) Information concerning future forecast such as consolidated earnings forecasts

Earnings during the period under review fell below consolidated earnings forecasts announced on July 31, 2020 in the "Notice regarding consolidated earnings forecasts and dividend forecasts for the fiscal year ending March 31, 2021." However, due to the uncertainty over the future including the impact of COVID-19 and the forex and crude oil markets from the third quarter, the Company has left its full-year consolidated earnings forecasts unchanged.

The rates of progress made during the period under review in comparison to the full-year consolidated earnings forecasts announced on July 31, 2020 are shown in the table below.

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
Half-year consolidated earnings forecasts (Millions of yen)	66,000	4,500	4,700	2,600
[Progress to forecasts (%)]	[99.9]	[102.2]	[93.1]	[89.6]
Full-year consolidated earnings forecasts (Millions of yen)	140,000	11,500	12,000	7,000
[Progress to forecasts (%)]	[47.1]	[40.0]	[36.5]	[33.3]

* These earnings forecasts were based on information available at the time of announcement. Actual earnings may differ due to various factors occurring in the future.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2020	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	18,009	20,967
Notes and accounts receivable - trade	40,954	34,485
Electronically recorded monetary claims - operating	1,621	1,593
Merchandise and finished goods	14,729	15,182
Semi-finished goods	3,926	3,875
Work in process	435	333
Raw materials and supplies	4,873	4,407
Other	1,316	1,950
Allowance for doubtful accounts	(32)	(30)
Total current assets	85,835	82,766
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	17,956	17,675
Machinery, equipment and vehicles, net	29,985	28,467
Land	8,875	8,830
Construction in progress	1,330	3,433
Other, net	2,568	2,252
Total property, plant and equipment	60,716	60,660
Intangible assets		
Software	1,405	1,312
Other	1,091	1,400
Total intangible assets	2,497	2,712
Investments and other assets		
Investment securities	22,701	24,495
Long-term loans receivable	2,232	2,447
Deferred tax assets	311	285
Retirement benefit asset	983	1,007
Other	3,624	3,414
Allowance for doubtful accounts	(29)	(29)
Total investments and other assets	29,823	31,621
Total non-current assets	93,038	94,994
Total assets	178,873	177,760

(Millions of yen)

	As of March 31, 2020	As of September 30, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	17,444	14,276
Electronically recorded obligations - operating	4,872	3,209
Short-term borrowings	5,867	7,647
Current portion of long-term borrowings	1,400	1,400
Accrued expenses	3,146	3,526
Income taxes payable	715	1,188
Provision for bonuses	1,916	1,849
Provision for bonuses for directors (and other officers)	107	44
Electronically recorded obligations - non-operating	799	794
Provision for loss on factory closing	541	243
Other	5,954	5,040
Total current liabilities	42,766	39,220
Non-current liabilities		
Long-term borrowings	2,400	1,700
Deferred tax liabilities	1,758	2,457
Provision for stock-based compensation	189	243
Retirement benefit liability	27	25
Other	1,633	1,555
Total non-current liabilities	6,009	5,982
Total liabilities	48,775	45,202
Net assets		
Shareholders' equity		
Share capital	13,051	13,051
Capital surplus	11,246	11,246
Retained earnings	103,033	103,824
Treasury shares	(5,858)	(5,846)
Total shareholders' equity	121,473	122,275
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,122	7,853
Foreign currency translation adjustment	471	432
Remeasurements of defined benefit plans	(431)	(398)
Total accumulated other comprehensive income	6,161	7,887
Non-controlling interests	2,462	2,395
Total net assets	130,097	132,558
Total liabilities and net assets	178,873	177,760

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

(Millions of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Net sales	77,948	65,933
Cost of sales	60,573	51,056
Gross profit	17,374	14,876
Selling, general and administrative expenses	11,468	10,276
Operating profit	5,906	4,599
Non-operating income		
Interest income	40	55
Dividend income	382	327
Share of profit of entities accounted for using equity method	108	–
Rental income from real estate	178	68
Other	86	104
Total non-operating income	797	555
Non-operating expenses		
Interest expenses	50	32
Rental costs on real estate	52	27
Loss on abandonment of inventories	73	75
Foreign exchange losses	533	167
Share of loss of entities accounted for using equity method	–	374
Other	97	102
Total non-operating expenses	808	780
Ordinary profit	5,894	4,374
Extraordinary income		
Insurance claim income	1	30
Gain on sales of investment securities	4	–
Total extraordinary income	5	30
Extraordinary losses		
Loss on retirement of non-current assets	495	475
Other	–	15
Total extraordinary losses	495	491
Profit before income taxes	5,404	3,914
Income taxes	1,560	1,363
Profit	3,843	2,550
Profit attributable to non-controlling interests	51	219
Profit attributable to owners of parent	3,792	2,330

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Profit	3,843	2,550
Other comprehensive income		
Valuation difference on available-for-sale securities	(807)	1,731
Foreign currency translation adjustment	(1,268)	246
Remeasurements of defined benefit plans, net of tax	(16)	33
Total other comprehensive income	(2,092)	2,010
Comprehensive income	1,751	4,560
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,969	4,336
Comprehensive income attributable to non-controlling interests	(218)	224

(3) Consolidated statements of cash flows

(Millions of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Cash flows from operating activities		
Profit before income taxes	5,404	3,914
Depreciation	4,432	4,731
Loss on retirement of non-current assets	495	475
Increase (decrease) in provision for bonuses	(156)	(90)
Changes in retirement benefit asset and liability	(54)	23
Increase (decrease) in provision for bonuses for directors (and other officers)	(59)	(63)
Increase (decrease) in provision for stock-based compensation	57	65
Interest and dividend income	(423)	(382)
Interest expenses	50	32
Share of loss (profit) of entities accounted for using equity method	(108)	374
Loss (gain) on sales of investment securities	(4)	–
Decrease (increase) in trade receivables	6,725	6,760
Decrease (increase) in inventories	294	125
Increase (decrease) in trade payables	(5,349)	(4,900)
Other, net	(607)	(499)
Subtotal	10,696	10,567
Interest and dividends received	651	447
Interest paid	(52)	(33)
Income taxes paid	(3,169)	(851)
Net cash provided by (used in) operating activities	8,126	10,130
Cash flows from investing activities		
Purchase of non-current assets	(4,598)	(4,731)
Proceeds from sales of property, plant and equipment	96	3
Purchase of investment securities	(2)	(102)
Proceeds from sales of investment securities	6	–
Long-term loan advances	(469)	(337)
Other, net	(458)	(721)
Net cash provided by (used in) investing activities	(5,426)	(5,889)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(702)	1,856
Repayments of long-term borrowings	(968)	(700)
Net decrease (increase) in treasury shares	(0)	(0)
Dividends paid	(1,431)	(1,540)
Dividends paid to non-controlling interests	(210)	(220)
Proceeds from share issuance to non-controlling shareholders	533	–
Other, net	–	(55)
Net cash provided by (used in) financing activities	(2,779)	(660)
Effect of exchange rate change on cash and cash equivalents	(265)	(80)
Net increase (decrease) in cash and cash equivalents	(345)	3,498
Cash and cash equivalents at beginning of period	19,151	18,009
Increase (decrease) in cash and cash equivalents resulting from changes in the fiscal year-end of consolidated subsidiaries	–	(652)
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	–	111
Cash and cash equivalents at end of period	18,805	20,967

(4) Notes to quarterly consolidated financial statements

Notes to going concern assumptions

None

Notes on significant changes in the amount of shareholders' equity

None

Changes in scope of consolidation or scope of application of equity method

(i) Significant changes in scope of consolidation

In the first quarter of the fiscal year under review, Nagoya Sanyo Warehouse Co., Ltd., one of the Company's unconsolidated subsidiaries accounted for using equity method, and Sanyo Transport Co., Ltd., a consolidated subsidiary, conducted an absorption-type merger with Nagoya Sanyo Warehouse Co., Ltd. as the surviving company, and the trade name was changed to Sanyo Chemical Logistics Co., Ltd. Sanyo Chemical Logistics Co., Ltd has been included in the scope of consolidation due to its increased importance as a result of the merger. As Sanyo Transport Co., Ltd. was the absorbed company in the merger, it has been removed from the scope of consolidation.

(ii) Significant changes in scope of application of equity method

In the first quarter of the fiscal year under review, as Nagoya Sanyo Warehouse Co., Ltd. increased in importance and was included in the scope of consolidation as the surviving company in the absorption-type merger, it has been excluded from the scope of application of equity method.

(iii) Changes to items related to the fiscal year of consolidated subsidiaries

In the past, with regard to Sanyo Kasei (Thailand) Ltd., a consolidated subsidiary with a closing date of December 31, the Company used its financial statements prepared as of that date and made necessary consolidation adjustments for important transactions occurring in the period through the consolidated closing date. However, to ensure more proper disclosure of consolidated financial statements, starting in the first quarter of the fiscal year under review, the Company has changed to a consolidation method in which a tentative closing is made on the quarterly consolidated closing date.

Furthermore, profit or loss from the said consolidated subsidiary from January 1, 2020 through March 31, 2020 has been directly recorded in retained earnings. As a result of this change, retained earnings increased by ¥8 million, and the change in cash and cash equivalents is shown in the "increase (decrease) in cash and cash equivalents resulting from changes in the fiscal year-end of consolidated subsidiaries" in the consolidated statements of cash flows.

Application of special accounting methods for the preparation of quarterly consolidated financial statements

After applying tax effect accounting to profit before income taxes for the fiscal year, which includes the second quarter under review, the Company makes a reasonable estimate of the effective tax rate and multiply the profit before income taxes by that estimated effective tax rate. Furthermore, income tax adjustments are included in the presentation of income taxes.

Changes in accounting policies

(Application of Accounting Standard for Revenue Recognition and Its Implementation Guidance)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020) from the start of the first quarter of the fiscal year under review, and it has recognized promised goods or services as revenue at the amount expected to be received upon exchange of said goods or services at the time the control of said promised goods or services is transferred to the customer. The application of the Accounting Standard for Revenue Recognition and its Implementation Guidance is subject to the transitional treatment provided for in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the start of the first quarter of the fiscal year under review, was added to or subtracted from the opening balance of retained earnings of the first quarter of the fiscal year under review, and thus the new accounting policy was applied from such opening balance; provided, however, that the new accounting policy was not retrospectively applied to contracts where recognitions of nearly all the revenue amounts for periods prior to the start of the first quarter of the fiscal year under review, were subject to the previous treatment by applying the method provided for in paragraph 86 of the Accounting Standard for Revenue Recognition.

As a result of this change, for the six months ended September 30, 2020, net sales decreased by ¥853 million and cost of sales decreased by ¥670 million, while operating profit, ordinary profit and profit before income taxes each decreased by ¥182 million.

Segment information

[Segment information]

I Six months ended September 30, 2019 (April 1, 2019 to September 30, 2019)

Information regarding net sales, profit or loss by reportable segment

(Millions of yen)

	Reportable Segment						Adjustment	Total
	Toiletries and Health Care	Petroleum and Automotives	Plastics and Textiles	Information and Electrics/Electronics	Environmental Protection, Construction and Others	Subtotal		
Net sales								
Sales to external customers	26,527	21,676	10,799	10,646	8,299	77,948	–	77,948
Intersegment sales/transfers	–	–	–	–	34	34	(34)	–
Total	26,527	21,676	10,799	10,646	8,334	77,983	(34)	77,948
Segment profit	756	1,781	1,441	1,450	476	5,906	–	5,906

Note: Total amount of the segment profit corresponds to operating profit described in the quarterly consolidated statements of income.

II Six months ended September 30, 2020 (April 1, 2020 to September 30, 2020)

1. Information regarding net sales, profit or loss by reportable segment

(Millions of yen)

	Reportable Segment						Adjustment	Total
	Toiletries and Health Care	Petroleum and Automotives	Plastics and Textiles	Information and Electrics/Electronics	Environmental Protection, Construction and Others	Subtotal		
Net sales								
Sales to external customers	25,788	15,845	9,491	8,196	6,610	65,933	–	65,933
Intersegment sales/transfers	–	–	–	–	33	33	(33)	–
Total	25,788	15,845	9,491	8,196	6,643	65,966	(33)	65,933
Segment profit	1,540	1,110	989	571	386	4,599	–	4,599

Note: Total amount of the segment profit corresponds to operating profit described in the quarterly consolidated statements of income.

2. Items related to changes in reporting segments

As stated in the above changes in accounting policies, from the start of the first quarter of the fiscal year under review, the Company applied the Accounting Standard for Revenue Recognition and its Implementation Guidance and changed the accounting processing methods related to revenue recognition, resulting in similar changes to the measurement method for profit or losses in the business segments.

As a result of these changes, net sales and profit for each segment declined compared to the previous method. In the six months ended September 30, 2020, net sales and segment profit for the Toiletries and Health Care segment decreased by ¥141 million and ¥35 million respectively, net sales and segment profit for the Petroleum and Automotives segment decreased by ¥180 million and ¥25 million respectively, net sales and segment profit for the Plastics and Textiles segment decreased by ¥235 million and ¥65 million respectively, net sales and segment profit for the Information and Electrics/Electronics segment decreased by ¥220 million and ¥49 million respectively, and net sales and segment profit for the Environmental Protection, Construction and Others segment decreased by ¥74 million and ¥7 million respectively.

<Reference>

[Information by geographic segment]

Six months ended September 30, 2019 (April 1, 2019 to September 30, 2019)

(Millions of yen)

	Japan	USA	China	Other	Total	Elimination or common assets	Consolidated total
Net sales							
(1) Sales to external customers	59,329	3,673	12,058	2,885	77,948	–	77,948
(2) Intersegment sales/transfers	3,941	–	966	16	4,923	(4,923)	–
Total	63,270	3,673	13,025	2,901	82,872	(4,923)	77,948
Operating profit (loss)	5,775	151	515	(561)	5,880	25	5,906

Six months ended September 30, 2020 (April 1, 2020 to September 30, 2020)

(Millions of yen)

	Japan	USA	China	Other	Total	Elimination or common assets	Consolidated total
Net sales							
(1) Sales to external customers	47,511	2,674	12,534	3,213	65,933	–	65,933
(2) Intersegment sales/transfers	2,666	23	1,064	198	3,954	(3,954)	–
Total	50,178	2,698	13,598	3,412	69,887	(3,954)	65,933
Operating profit (loss)	3,873	76	989	(348)	4,591	8	4,599

[Overseas net sales]

Six months ended September 30, 2019 (April 1, 2019 to September 30, 2019)

(Millions of yen)

	Asia	[Of which, China]	Americas	Other	Total
I. Overseas net sales	23,938	[14,446]	4,800	1,114	29,853
II. Consolidated net sales	–	[–]	–	–	77,948
III. Percentage of overseas net sales to consolidated net sales (%)	30.7	[18.5]	6.2	1.4	38.3

Six months ended September 30, 2020 (April 1, 2020 to September 30, 2020)

(Millions of yen)

	Asia	[Of which, China]	Americas	Other	Total
I. Overseas net sales	23,420	[15,447]	3,093	1,231	27,746
II. Consolidated net sales	–	[–]	–	–	65,933
III. Percentage of overseas net sales to consolidated net sales (%)	35.5	[23.4]	4.7	1.9	42.1

Notes: 1. The term “overseas net sales” refers to net sales of the Company (non-consolidated) and its consolidated subsidiaries registered in countries and regions outside Japan.

2. Areas included in each country or region are determined based on their degree of proximity.

3. Main countries or regions included in each geographic segment

(1) Asia: South Korea, China, Indonesia, India, Thailand, etc.

(2) Americas: USA, Mexico, Brazil, etc.

(3) Other: Australia, Europe, Russia, the Middle East, etc.

Significant subsequent events

(Cancellation of the business integration by way of joint share transfer between the Company and Nippon Shokubai Co., Ltd. and the termination by mutual agreement of the final agreement concerning the business integration)

On the matter of a business integration by way of joint share transfer (the “Business Integration”) with Nippon Shokubai Co., Ltd. (“Nippon Shokubai”), the Company concluded a final agreement with Nippon Shokubai concerning the Business Integration on November 29, 2019. Then on April 13, 2020, it was decided that the share transfer ratio was reassessed and the Business Integration was postponed to April 1, 2021. However, at an extraordinary meeting of the Board of Directors held on October 21, 2020, a decision was made to cancel the Business Integration and on the same day, the final agreement concerning the Business Integration was terminated with agreement of both companies (the “Companies”).

1. Reason for the cancellation of the Business Integration and the termination by mutual agreement of the final agreement concerning the Business Integration

Since the Companies executed a basic agreement concerning the consideration of the Business Integration on May 29, 2019, the Companies have been carrying out detailed examinations and discussions concerning the Business Integration between the Companies. On November 29, 2019, the Companies executed a final agreement concerning the Business Integration and announced that they will conduct the Business Integration on October 1, 2020. Subsequently, on April 13, 2020, the Companies announced that they agreed to reassess the share transfer ratio agreed under the final agreement and to postpone the Business Integration until April 1, 2021 on the reasoning that, in light of the global outbreak of COVID-19 and the sharp decline in the oil and oil product markets, among other factors, the outlook had become uncertain for the performance and other aspects of the Companies, as well as for the financial, economic, market and other elements of the business environment, which served as bases for the agreement on the Business Integration.

However, because the business environment surrounding the Companies has rapidly and significantly changed after the execution of the final agreement concerning the Business Integration on November 29, 2019, such as significant changes in raw material costs and product prices as well as heightened uncertainty about product demand in the future, the Companies reached the conclusion that it has become difficult to conduct the Business Integration. Further, the Companies determined that, in light of the current business environment, they would be in a better position to improve their respective corporate value if they exerted their respective strengths independently, and therefore decided to cancel the Business Integration and terminate the final agreement concerning the Business Integration.

Although the Business Integration is canceled, the Companies will continue to maintain a good relationship in various aspects.

2. Impact of the cancellation of the Business Integration and the termination of the final agreement concerning the Business Integration on financial forecasts

The impact of the cancellation of the Business Integration and the termination of the final agreement concerning the Business Integration on financial forecasts is being carefully examined by the Company.

3. Supplementary information

Trend of quarterly consolidated earnings

Fiscal year ended March 31, 2020

(Millions of yen)

	1Q	2Q	3Q	4Q	Total
	April 2019 to June 2019	July 2019 to September 2019	October 2019 to December 2019	January 2020 to March 2020	April 2019 to March 2020
Net sales	39,277	38,671	39,779	37,775	155,503
Operating profit	2,905	3,000	2,811	3,721	12,439
Ordinary profit	2,898	2,995	3,313	3,496	12,704
Profit attributable to owners of parent	1,794	1,998	2,126	1,749	7,668
Comprehensive income	1,021	729	3,569	(3,142)	2,178

Fiscal year ending March 31, 2021

(Millions of yen)

	1Q	2Q	Change (%)	
	April 2020 to June 2020	July 2020 to September 2020	The same period of the previous fiscal year	The previous period
			July 2019 to September 2019	April 2020 to June 2020
Net sales	32,813	33,119	(14.4)	0.9
Operating profit	2,453	2,146	(28.5)	(12.5)
Ordinary profit	2,608	1,765	(41.1)	(32.3)
Profit attributable to owners of parent	1,490	839	(58.0)	(43.7)
Comprehensive income	3,322	1,238	69.7	(62.7)