



Kyoritsu Maintenance Co., Ltd.
(Securities Code: 9616)

**First Half of Fiscal Year Ending March 2017
Consolidated Earnings Results Update**

November 2016



First Half of Fiscal Year Ending March 2017 Consolidated Earnings Announcement

November 9, 2016

Company Name: Kyoritsu Maintenance Co., Ltd.

Tokyo Stock Exchange

Stock Code: 9616, URL: <http://www.kyoritsugroup.co.jp/>

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Quarterly Earnings Announcement Report Filing Date (Anticipated): November 14, 2016

Dividend Payment Date (Anticipated): December 5, 2016

Quarterly Earnings Presentation Document (Anticipated): Yes

Quarterly Earnings Presentation Meeting (Anticipated): Yes (For Institutional Investors)

(All figures of less than one million yen are rounded down to the nearest digit)

1. First Half of Fiscal Year Ending March 2017 Consolidated Earnings (April 1, 2016 to September 30, 2016)

(1) Consolidated Earnings (Aggregated)

(% figures show year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
1H FY3/17	68,477	2.4	7,173	16.6	6,861	19.0	4,268	12.3
1H FY3/16	66,867	24.8	6,153	36.1	5,764	36.6	3,800	39.4

(Note) Comprehensive income: ¥3,957 million (23.5% YoY) in 1H FY3/17; ¥3,204 million (2.4% YoY) in 1H FY3/16

	EPS		Fully Diluted EPS	
	Yen		Yen	
1H FY3/17	220.63		201.78	
1H FY3/16	203.76		194.82	

(2) Consolidated Financial Position

	Total Assets		Net Assets		Equity Ratio		Book Value Per Share	
	Millions of yen		Millions of yen		%		Yen	
1H FY3/17	157,397		61,439		39.0		3,174.81	
FY3/16	161,402		57,974		35.9		2,997.10	

(Note) Capital: ¥61,439 million in 1H FY3/17; ¥57,974 million in FY3/16

2. Dividend Conditions

	Dividend Per Share				
	1Q-End	2Q-End	3Q-End	4Q-End	Total
	Yen				
FY3/16	—	25.00	—	27.00	52.00
FY3/17	—	26.00	—	—	—
FY3/17 (Projected)	—	—	—	26.00	52.00

(Note) Recent changes in dividend projections: None

3. Fiscal Year Ending March 2017 Consolidated Earnings Estimates (April 1, 2016 to March 31, 2017)

(% figures show year-on-year change for the full year)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		EPS
	Millions of yen	% (YoY)	Millions of yen	% (YoY)	Millions of yen	% (YoY)	Millions of yen	% (YoY)	Yen
Full Year	138,000	2.2	11,500	12.3	11,000	12.5	6,900	15.6	356.71

(Note) Recent changes in earnings estimates: None

Notes

- (1) Important changes in our subsidiaries, including changes to the scope of our consolidation: None
(2) Application of special accounting procedures in the preparation of our quarterly consolidated financial statements: Applicable
(Note) Please refer to “2. Summary Information (Notes), (2) Application of special accounting procedures in the preparation of our quarterly consolidated financial statements” on page 7 for more details.

- (3) Changes in the accounting policies, procedures, and changes or revisions in the display of accounting estimates:

- | | |
|--|------------|
| 1. Changes accompanying revisions in accounting standards: | Applicable |
| 2. Other changes: | None |
| 3. Changes in accounting estimates: | None |
| 4. Redisplay of revisions: | None |

(Note) Please refer to “2. Summary Information (Notes), (3) Changes in the accounting policies, procedures, and changes or revisions in the display of accounting estimates” on page 7 for more details.

(4) Shares Issued (Common Stocks)

1. Shares issued as of term-end (including treasury shares)
2. Treasury stock as of term-end
3. Average during the term (first six months)

1H FY3/17	19,461,727	FY3/16	19,452,173
1H FY3/17	109,607	FY3/16	108,573
1H FY3/17	19,348,035	1H FY3/16	18,652,572

* Information Regarding Quarterly Review Practices:

The practices for review of quarterly consolidated earnings statements pursuant to the “Financial Instruments and Exchange Act” of Japan have not been conducted for the disclosure of this document.

* Notes and explanations regarding the appropriate use of our earnings projections:

(Notes on forecast results)

All earnings estimates and forward-looking statements in this document are based on the best information available and rational decisions of management at the time of its creation, and actual earnings may diverge largely from those estimates and forward-looking statements put forward in this document due to various unforeseen factors. Moreover, for information regarding earnings estimates and the assumptions upon which they are based, and the usages of these earnings estimates, please refer to the section, “1. Qualitative Information about Quarterly Earnings, (3) Explanation of future forecasts including consolidated earnings estimates” on page 6.

(Access to quarterly earnings presentation documents)

Quarterly earnings presentation materials are available on the Kyoritsu Maintenance website.

Index

1. Qualitative Information about Quarterly Earnings	5
(1) Explanation of business performance	5
(2) Explanation of financial position	6
(3) Explanation of future forecasts including consolidated earnings estimates	6
2. Summary Information (Notes)	7
(1) Changes in important consolidated subsidiaries during the quarter	7
(2) Application of special accounting procedures in the preparation of our quarterly consolidated financial statements	7
(3) Changes in the accounting policies, procedures, and changes or revisions in the display of accounting estimates	7
(4) Additional information	7
3. Quarterly Consolidated Financial Statements	8
(1) Quarterly consolidated balance sheet	8
(2) Quarterly consolidated income statement and comprehensive income statement	10
Quarterly consolidated income statement	
Consolidated first half	10
Quarterly consolidated comprehensive income statements	
Consolidated first half	11
(3) Consolidated cash flow statement	12
(4) Quarterly consolidated financial statement notes	14
(Notes regarding going concern assumptions)	14
(Significant changes in shareholders' equity notes)	14
(Segment information)	14

1. Qualitative Information about Quarterly Earnings

(1) Explanation of business performance

During the first half of the current fiscal year, although a modest recovery trend continued in the Japanese economy as there were signs of improvements in the employment and income environment, prevailing uncertainties were seen as personal consumption remained sluggish, there was growing uncertainty in economies overseas, and there were fluctuations in the financial markets.

Against this backdrop, our dormitory business got off to a solid start with occupancy rates rising by 1.0 percentage point year on year to 98.3% at the start of the fiscal year, partially due to growing needs with respect to company dormitories. In the hotel business segment, occupancy rates and Average Daily Rate were high, benefiting from strong domestic demand as well as ongoing year-on-year growth in inbound demand even though market competition has intensified.

As a result, during the first half of the current fiscal year, both revenues and earnings increased to exceed the initial earnings estimates, with sales up 2.4% year on year to ¥68,477 million, operating income up 16.6% to ¥7,173 million, ordinary income up 19.0% to ¥6,861 million, and profit attributable to owners of parent up 12.3% to ¥4,268 million. Note that while profit growth was gradual compared to the first quarter of the current fiscal year, this was due to factors including the impact of the typhoon, repair costs in the dormitory business, and business commencement expenses for Dormy Inn business hotels.

We provide details of our earnings by business segment as follows.

Dormitory business

Our dormitory business got off to a solid start with the occupancy rate at the beginning of the fiscal term having gained by 1.0 percentage point year on year to 98.3%, and the total number of contracted residents rising by 1,021 year on year to 33,708 residents as of the end of September. In addition, student dormitories trended favorably during the first half of the current fiscal year partially due to increasing numbers of students from overseas, while corporate dormitories achieved substantial gains in numbers of contracts due to factors that included companies hiring greater numbers of new company employees and more companies now opting to offer employee dormitories. The impact of the Kumamoto Earthquake in April was minimal.

As a result, sales rose by 3.2% year on year to ¥22,555 million, and operating income increased significantly by 19.4% year on year to ¥3,546 million, due to ongoing implementation of stringent cost controls on a facility-by-facility basis.

Hotel business

With respect to the Dormy Inn business hotels, this fiscal year we have opened four establishments, which have been well received—the “Natural Springs Tendo no Yu Dormy Inn Abashiri”, “global cabin Gotanda”, “Natural Springs Toyama Tsurugi no Yu Onyado Nono”, and “Natural Springs Zenkou No Yu Dormy Inn Nagano”. Our existing hotels maintained high occupancy rates and Average Daily Rates that were up year on year due to solid demand from repeat customers in Japan and the ongoing increase in inbound demand, and it was possible to cover concentrated development costs as a result.

Note that while operations were suspended at “Natural Springs Rokka no Yu Dormy Inn Kumamoto” as a result of the Kumamoto Earthquake in April, operations were resumed in August.

In the resort hotel business, the occupancy rate was high, exceeding overall levels in the previous year, thanks in part to the recovery in the occupancy rate at hotels in the Hakone region to levels on par with typical years, and Average Daily Rate also rose. In addition, cost management was thorough due to flexible personnel assignments tailored to individual occupancy conditions.

As a result, sales rose 12.6% year on year to ¥30,074 million and operating income climbed significantly by 14.9% to ¥4,624 million, managing to also absorb the impact of the typhoon.

Contracted services business

In the contracted services business, both revenues and earnings decreased due to factors including a postponement of construction work. As a result, sales decreased 8.3% year on year to ¥6,467 million and operating income decreased by 19.3% year on year to ¥151 million.

Food service business

While the food service business generates higher sales due to an increase in the number of contracted hotel restaurants, due to factors including a struggling spa business, sales grew 17.3% year on year to ¥3,163 million, and an operating loss of ¥26 million was recorded in comparison with an operating loss of ¥17 million in the same quarter of the previous fiscal year.

Construction business

The construction business generated increases in revenue and earnings as a result of bringing in greater numbers of orders for hotel development. Consequently, sales and operating income rose by 39.2% and 185.7% year on year to ¥9,864 million and ¥537 million, respectively.

Other business

Our other business segments are the Senior Life (former Wellness Life) business (management of senior citizen housing), the Public Kyoritsu Partnership business (PKP: consigned services business provided to regional government bodies), single life support business and insurance agency business, comprehensive human resource services business, and financing and administrative outsourcing services. The other business segments posted total net sales of ¥5,660 million, a decrease of 3.9% year on year, and incurred an operating loss of ¥108 million, in comparison with an operating loss of ¥21 million in the same period of the previous fiscal year.

(2) Explanation of financial position

1. Conditions of assets, liabilities, and net assets

(Assets)

Total consolidated assets declined by ¥4,005 million from the end of the previous fiscal year to ¥157,397 million at the end of the second quarter. The main factor behind this decrease was a decrease in cash and deposits, etc.

(Liabilities)

Total consolidated liabilities declined by ¥7,469 million from the end of the previous fiscal year to ¥95,958 million at the end of the second quarter, due primarily to declines in advances received and notes and accounts payable–trade.

(Net assets)

Net assets grew by ¥3,464 million from the end of the previous fiscal year to ¥61,439 million at the end of the second quarter, due mainly to a rise in retained earnings.

Consequently, equity ratio rose by 3.1 p.p. from the end of the previous fiscal year to 39.0% at the end of the second quarter.

2. Cash flow conditions

Cash and equivalents declined by ¥11,545 million from the end of the previous fiscal year to ¥14,057 million at the end of the second quarter.

(Cash flow from operating activities)

Net cash provided by operating activities amounted to ¥3,368 million in the current first half, an increase of ¥4,831 million compared with the same period of the previous fiscal year due to a decrease in notes and accounts receivable–trade and a decrease in other inventories.

(Cash flow from investing activities)

Net cash used by investing activities amounted to ¥14,024 million in the current first half, an increase of ¥9,279 million compared with the same period of the previous fiscal year due to purchases of property, plant and equipment and payments for lease and guarantee deposits.

(Cash flow from financing activities)

Net cash provided by financing activities amounted to ¥780 million in the current first half, an increase of 5,021 million compared with the same period of the previous fiscal year due to proceeds from long-term loans payable.

(3) Explanation of future forecasts including consolidated earnings estimates

Our consolidated earnings estimates for the full fiscal year ending March 31, 2017, as provided in the “Fiscal Year Ending March 2017 Consolidated Earnings Announcement” dated May 13, 2016, remain unchanged at this point in time.

2. Summary Information (Notes)

(1) Changes in important consolidated subsidiaries during the quarter

Not applicable

(2) Application of special accounting procedures in the preparation of our quarterly consolidated financial statements

(Calculation of tax expense)

The Company applies the method that reasonably estimates an effective tax rate to be assessed on income before income taxes for the year ending March 31, 2017, including this six months ended September 30, 2016, after accounting for the tax effects, and multiplies income before income taxes during the six months ended September 30, 2016 by this estimated effective tax rate. However, in the event that the estimate for the effective tax rate appears to lack logical rationale, then the legally determined effective tax rate is employed.

(3) Changes in the accounting policies, procedures, and changes or revisions in the display of accounting estimates

Changes in accounting policies

(Application of Practical Solution on a Change in Depreciation Method due to Fiscal 2016 Tax Reforms)

Due to revisions in the Corporation Tax Act, the Company has adopted the “Practical Solution on a Change in Depreciation Method due to Fiscal 2016 Tax Reforms” (ASBJ Practical Issue Task Force No. 32, issued on June 17, 2016) from the first quarter of the current fiscal year, and changed the method for the depreciation of some facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

The effect of this change on the Company’s operating income, ordinary income and income before income taxes for the second quarter is insignificant.

(4) Additional information

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016) from the first quarter of the current fiscal year.

Kyoritsu Maintenance (9616), 1H FYE March 2017 Earnings Announcement

3. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheet

(Unit: Millions of yen)

	FY3/16 (March 31, 2016)	1H FY3/17 (September 30, 2016)
Assets		
Current assets		
Cash and deposits	25,960	14,415
Notes and accounts receivable–trade	9,763	7,053
Real estate for sale in process	2,827	1,688
Costs on uncompleted construction contracts	331	417
Other	6,368	6,608
Allowance for loan losses	(19)	(27)
Total current assets	45,231	30,155
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	36,337	36,370
Land	33,807	36,455
Construction in progress	6,906	11,708
Other, net	2,190	2,332
Total property, plant and equipment	79,240	86,867
Intangible assets	1,710	2,533
Investments and other assets		
Investment securities	5,034	4,893
Guarantee deposits	12,199	13,654
Lease deposits	10,103	10,901
Other	7,978	8,503
Allowance for doubtful accounts	(212)	(215)
Total investments and other assets	35,103	37,736
Total non-current assets	116,054	127,137
Deferred assets	116	104
Total assets	161,402	157,397

Kyoritsu Maintenance (9616), 1H FYE March 2017 Earnings Announcement

(Unit: Millions of yen)

	FY3/16 (March 31, 2016)	1H FY3/17 (September 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable–trade	6,966	4,374
Short-term loans payable	21,471	26,086
Current portion of bonds	1,350	1,350
Income taxes payable	2,765	2,487
Advances received	11,079	8,073
Provision for bonuses	1,700	982
Provision for directors' bonuses	426	191
Provision for warranties for completed construction	8	8
Provision for point card certificates	18	17
Provision for loss on disaster	–	87
Other	7,861	7,240
Total current liabilities	53,648	50,900
Non-current liabilities		
Bonds payable	5,600	4,925
Convertible bond-type bonds with subscription rights to shares	20,608	20,571
Long-term loans payable	17,940	13,777
Director retirement benefit reserve	287	286
Provision for point card certificates	25	35
Net defined benefit liability	1,072	1,113
Other	4,244	4,348
Total non-current liabilities	49,779	45,057
Total liabilities	103,428	95,958
Net assets		
Shareholders' equity		
Capital stock	7,654	7,673
Capital surplus	12,509	12,528
Retained earnings	37,778	41,524
Treasury shares	(305)	(313)
Total shareholders' equity	57,637	61,413
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	736	709
Foreign currency translation adjustment	(393)	(684)
Remeasurements of defined benefit plans	(5)	0
Total accumulated other comprehensive income	336	26
Total net assets	57,974	61,439
Total liabilities and net assets	161,402	157,397

Kyoritsu Maintenance (9616), 1H FYE March 2017 Earnings Announcement

(2) Quarterly consolidated income statement and comprehensive income statement

(Quarterly consolidated income statement)

(Consolidated first half)

	(Unit: Millions of yen)	
	1H FY3/16 (April 1, 2015 to September 30, 2015)	1H FY3/17 (April 1, 2016 to September 30, 2016)
Net sales	66,867	68,477
Cost of sales	52,502	52,305
Gross profit	14,364	16,172
Selling, general and administrative expenses	8,211	8,998
Operating income	6,153	7,173
Non-operating income		
Interest income	68	35
Dividend income	25	27
Deposit redemption income	35	39
Other	59	55
Total non-operating income	188	158
Non-operating expense		
Interest payment	404	313
Other	171	156
Total non-operating expenses	576	470
Ordinary income	5,764	6,861
Extraordinary income		
Gain on cancellation of leasehold contracts	432	-
Total extraordinary income	432	-
Extraordinary losses		
Impairment loss	-	89
Loss on disaster	-	304
Settlement funds	175	-
Other	39	27
Total extraordinary losses	214	421
Income before income taxes	5,982	6,440
Income taxes	2,181	2,171
Profit	3,800	4,268
Profit attributable to owners of parent	3,800	4,268

Kyoritsu Maintenance (9616), 1H FYE March 2017 Earnings Announcement

(Quarterly consolidated comprehensive income statements)

(Consolidated first half)

(Unit: Millions of yen)

	1H FY3/16 (April 1, 2015 to September 30, 2015)	1H FY3/17 (April 1, 2016 to September 30, 2016)
Profit	3,800	4,268
Other comprehensive income		
Valuation difference on available-for-sale securities	(157)	(27)
Foreign currency translation adjustment	(426)	(290)
Remeasurements of defined benefit plans	(11)	6
Total other comprehensive income	(595)	(310)
Comprehensive income	3,204	3,957
(Details)		
Comprehensive income attributable to owners of parent	3,204	3,957

Kyoritsu Maintenance (9616), 1H FYE March 2017 Earnings Announcement

(3) Consolidated cash flow statement

(Unit: Millions of yen)

	Previous Term FY3/16 (April 1, 2015 to September 30, 2015)	Current Term FY3/17 (April 1, 2016 to September 30, 2016)
Cash flow from operating activities		
Income before income taxes and minority interests	5,982	6,440
Depreciation	1,678	1,849
Amortization of long-term prepaid expenses	195	202
Amortization of guarantee deposits	100	107
Increase (decrease) in provision for bonuses	(333)	(717)
Interest and dividend income	(93)	(63)
Interest expenses	404	313
Gain on cancellation of leasehold contracts	(432)	–
Impairment loss	–	89
Loss on disaster	–	304
Settlement funds	175	–
Decrease (increase) in notes and accounts receivable - trade	(599)	2,709
Decrease (increase) in accounts receivable - other	525	357
Decrease (increase) in other inventories	(1,606)	1,005
Increase (decrease) in notes and accounts payable - trade	(325)	(2,591)
Increase (decrease) in accrued expenses	32	(111)
Increase (decrease) in advances received	(3,943)	(3,005)
Increase (decrease) in accounts payable - other	(230)	(117)
Increase (decrease) in accrued consumption taxes	(629)	320
Increase (decrease) in deposits received	(519)	(604)
Increase (decrease) in guarantee deposits received	159	25
Other	(116)	(212)
Subtotal	422	6,302
Interest and dividend income received	69	35
Interest expenses paid	(408)	(313)
Income taxes refund	1	1
Income taxes (paid) refund	(1,546)	(2,657)
Net cash provided by (used in) operating activities	(1,462)	3,368
Cash flows from investing activities		
Purchase of securities	(2)	(11)
Proceeds from sales of securities	1,061	92
Purchase of property, plant and equipment	(4,646)	(10,650)
Proceeds from sales of property, plant and equipment	329	112
Purchase of intangible assets	(50)	(897)
Payments of loans receivable	(401)	(344)
Collection of loans receivable	390	404
Payments for lease and guarantee deposits	(726)	(2,512)
Proceeds from collection of lease and guarantee deposits	90	52
Purchase of insurance funds	(556)	(540)
Proceeds from cancellation of insurance funds	21	175
Other	(253)	96
Net cash provided by (used in) investing activities	(4,745)	(14,024)

Kyoritsu Maintenance (9616), 1H FYE March 2017 Earnings Announcement
(Unit: Millions of yen)

	Previous Term FY3/16 (April 1, 2015 to September 30, 2015)	Current Term FY3/17 (April 1, 2016 to September 30, 2016)
Cash flow from financing activities		
Net increase (decrease) in short-term loans payable	8,200	7,350
Proceeds from long-term loans payable	1,800	–
Repayments of long-term loans payable	(4,580)	(6,898)
Redemption of bonds	(675)	(675)
Purchase of treasury shares	(91)	(8)
Cash dividends paid	(384)	(521)
Other	(29)	(27)
Net cash provided by (used in) financing activities	4,240	(780)
Effect of exchange rate change on cash and cash equivalents	(102)	(108)
Net increase (decrease) in cash and cash equivalents	(2,070)	(11,545)
Cash and cash equivalents at beginning of period	15,758	25,603
Cash and cash equivalents at end of period	13,688	14,057

Kyoritsu Maintenance (9616), 1H FYE March 2017 Earnings Announcement

(3) Quarterly consolidated financial statement notes

(Notes regarding going concern assumptions)

Not applicable

(Significant changes in shareholders' equity notes)

Not applicable

(Segment information)

Segment information

I. First half of fiscal year ended March 2016 (From April 1 to September 30, 2015)

1. Information pertaining to segment sales, profits and losses

(Unit: Millions of yen)

	Reporting segments						Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Dormitories	Hotels	Contracted Services	Food Services	Construction	Subtotal				
Sales										
External sales	21,753	26,656	3,597	795	8,396	61,199	5,668	66,867	–	66,867
Inter-segment sales and transfers	113	46	3,458	1,902	(1,308)	4,211	222	4,433	(4,433)	–
Total	21,866	26,703	7,055	2,698	7,087	65,410	5,890	71,301	(4,433)	66,867
Segment profit/loss	2,971	4,025	187	(17)	188	7,354	(21)	7,333	(1,179)	6,153

- (Notes) 1. Other is not considered as a reporting business segment and is comprised of the wellness life (management of senior citizen housing), PKP business (consigned services business provided to regional government bodies), single life support services, insurance agency business, comprehensive human resources, financing and advertising agency services.
2. Adjustment for segment profit and loss of ¥1,179 million includes ¥29 million for inter-segment transaction eliminations, and ¥1,150 million in companywide expenses that cannot be allocated to specific reporting segments. Companywide expenses are primarily those expenses arising from the finance and accounting, and management divisions.
3. Segment profits or losses are derived by adjusting the operating income used in the quarterly consolidated income statement.

2. Impairment accounting losses and goodwill amortization of fixed assets by reporting segments

None

II. First half of fiscal year ending March 2017 (From April 1 to September 30, 2016)

1. Information pertaining to segment sales, profits and losses

(Unit: Millions of yen)

	Reporting segments						Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Dormitories	Hotels	Contracted Services	Food Services	Construction	Subtotal				
Sales										
External sales	22,441	30,009	3,523	846	6,229	63,050	5,426	68,477	–	68,477
Inter-segment sales and transfers	114	65	2,943	2,317	3,634	9,075	233	9,308	(9,308)	–
Total	22,555	30,074	6,467	3,163	9,864	72,125	5,660	77,786	(9,308)	68,477
Segment profit/loss	3,546	4,624	151	(26)	537	8,832	(108)	8,723	(1,549)	7,173

(Notes) 1. Other is not considered as a reporting business segment and is comprised of the Senior Life (former Wellness Life) (management of senior citizen housing), PKP business (consigned services business provided to regional government bodies), single life support services, insurance agency business, comprehensive human resources, financing services and other related services.

2. Adjustment for segment profit and loss of ¥1,549 million includes ¥349 million for inter-segment transaction eliminations, and ¥1,200 million in companywide expenses that cannot be allocated to specific reporting segments. Companywide expenses are primarily those expenses arising from the accounting and management divisions.

3. Segment profits or losses are derived by adjusting the operating income used in the quarterly consolidated income statements.

2. Impairment accounting losses and goodwill amortization of fixed assets by reporting segments

None