

## Summary of Consolidated Financial Statements for the Third Quarter Fiscal 2018 (JPGAAP)

January 31, 2019

### Tokuyama Corporation

(URL <http://www.tokuyama.co.jp/eng/>)

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Preparation of supplementary quarterly explanatory materials: Yes

Quarterly business results IR briefing to be held: Yes (for institutional investors and analysts)

### 1. Consolidated results for fiscal third quarter ended Dec. 31, 2018 (Apr. 1, 2018 – Dec. 31, 2018)

#### (1) Performance

Note: All amounts are rounded down to the nearest million yen.

	Net sales		Operating profit		Ordinary profit	
	(millions of yen)	Year-on-year change [%]	(millions of yen)	Year-on-year change [%]	(millions of yen)	Year-on-year change [%]
Third Quarter Fiscal 2018	238,289	5.4	25,454	(15.6)	23,674	(10.6)
Third Quarter Fiscal 2017	226,090	3.7	30,150	6.6	26,477	5.2

(Note) Comprehensive income: 3rd Q FY18: 16,648 million yen [7.7 %]  
3rd Q FY17: 15,454 million yen [(42.0) %]

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
	(millions of yen)	Year-on-year change [%]	(yen)	(yen)
Third Quarter Fiscal 2018	19,570	166.5	281.56	-
Third Quarter Fiscal 2017	7,342	(70.5)	82.18	-

\* The Company consolidated its common shares at a ratio of one share for each five shares effective as of October 1, 2017. On this basis, basic earnings per share data is calculated on the assumption that the consolidation of shares was conducted as of the beginning of the preceding fiscal year.

#### (2) Consolidated financial position

	Total assets (millions of yen)	Net assets (millions of yen)	Shareholders' Equity ratio (%)	Net assets per share (yen)
Dec 31, 2018	363,799	148,952	38.0	1,992.76
Mar 31, 2018	361,949	136,591	34.7	1,806.56

(Reference) Shareholders' equity: Dec 31, 2018: 138,401 million yen Mar 31, 2018: 125,656 million yen

### 2. Dividends

(Period)	Annual dividends per share				
	1st quarter	2nd quarter	3rd quarter	Year-end	Total
Fiscal 2017, ended Mar 31, 2018	(yen) -	(yen) 2.00	(yen) -	(yen) 20.00	(yen) -
Fiscal 2018, ending Mar 31, 2019	-	25.00	-		
Fiscal 2018 (Forecast)				25.00	50.00

(Note) Revision of the latest dividends forecast: No

\* The Company consolidated its common shares at a ratio of one share for each five shares effective as of October 1, 2017. The amount of dividend for the end of the second quarter of the fiscal year ending March 31, 2018 is presented as the amount of dividend prior to share consolidation. The forecast amount for the year-end dividend per share for the fiscal year ending March 31, 2018 is stated after taking into the account the impact of the share consolidation. The annual dividend amount is presented as “-.” Meanwhile, the interim dividend per share for the fiscal year ending March 31, 2018 converted after the share consolidation and the annual dividend per share are ¥10.00 and ¥30.00, respectively.

\*Year-end dividend per share for the fiscal year ending March 31, 2018 of ¥20.00, includes ¥10.00 of a 100th anniversary commemorative dividend.

### 3. Consolidated performance forecast for fiscal 2018 (Apr. 1, 2018 – Mar. 31, 2019)

(% indicates the rate of change over the corresponding previous periods respectively)

	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 2018	328,000	6.5	38,000	(7.9)	34,000	(6.1)	27,000	37.1	388.15

(Note) Revision of the latest consolidated performance forecast: No

#### \*Notes

##### (1) Changes in significant subsidiaries during this period (Apr. 1, 2018 – Dec. 31, 2018)

: No

##### (2) Application of accounting methods specific to the preparation of the quarterly consolidated financial statements

: Yes

(Note) For more details, please refer to “2. Quarterly Consolidated Financial Statements and (4) Notes on Quarterly Consolidated Financial Statements (Change of accounting process specific to preparing quarterly consolidated financial statement)” on page 11 of the Accompanying Materials to this Summary of Quarterly Consolidated Financial Statement.

##### (3) Changes of accounting policies, changes in accounting estimates, and retrospective restatements

- i. Changes of accounting policies by revision of accounting standards: No
- ii. Changes of accounting policies other than the above: No
- iii. Changes in accounting estimates: No
- iv. Retrospective restatements: No

##### (4) Number of shares issued (in common stock)

i. Number of shares issued at end of period (including treasury stock):	Third Quarter Fiscal 2018:	69,934,375	Fiscal 2017:	69,934,375
ii. Number of treasury stock at end of period:	Third Quarter Fiscal 2018:	481,897	Fiscal 2017:	378,378
iii. Average number of shares over period:	Third Quarter Fiscal 2018:	69,509,684	Third Quarter Fiscal 2017:	69,561,756

\* The Company consolidated its common shares at a ratio of one share for each five shares effective as of October 1, 2017. On this basis, number of shares issued at end of period, number of treasury stock at end of period and average number of shares over period are calculated on the assumption that the consolidation of shares was conducted as of the beginning of the preceding fiscal year.

(Note) Notice on the implementation of quarterly review procedures

This summary of quarterly consolidated financial statements is not subject to quarterly review procedures in line with the Financial Instruments and Exchange Act. At the point of disclosure of this summary of quarterly consolidated financial statements, the quarterly consolidated financial statements review procedures in line with the Financial Instruments and Exchange Act are underway.

(Note) Cautions pertaining to appropriate use of performance forecast and other particular items

(Cautions related to Forward-looking statement)

The performance forecast and other forward-looking statements contained in this material have been prepared on the basis of information available at this point and certain assumptions which are judged to be rational, and may be substantially different from the actual performance because of various factors that may arise from now on.

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## 1. Qualitative information on consolidated results for this quarter

### (1) Explanation concerning business results

Consolidated results for the third quarter fiscal 2018 (accumulated figures, April 1, 2018 - December 31, 2018) are summarized as follows:

(Unit: Millions of yen)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
<b>Third Quarter Fiscal 2018</b>	<b>238,289</b>	<b>25,454</b>	<b>23,674</b>	<b>19,570</b>
Third Quarter Fiscal 2017	226,090	30,150	26,477	7,342
Rate of change (%)	5.4	(15.6)	(10.6)	166.5

#### Net sales

Consolidated net sales increased 5.4%, or ¥12,198 million compared with the corresponding period of the previous year, to ¥238,289 million. This was largely attributable to an increased sales volume in products such as semiconductor-related products and revision in selling prices of products such as caustic soda.

#### Cost of sales

Cost of sales increased 9.3%, or ¥14,114 million compared with the corresponding period of the previous year, to ¥166,215 million. This was due mainly to a upturn in raw material and fuel costs as a result of the increase in coal prices and domestic naphtha.

#### SG&A expenses

SG&A expenses increased 6.3%, or ¥2,780 million compared with the corresponding period of the previous year, to ¥46,619 million. This was largely attributable to the increase in logistics costs.

#### Operating profit

Operating profit decreased 15.6%, or ¥4,695 million compared with the corresponding period of the previous year, to ¥25,454 million. Despite sales in each business remained steady, the increase in manufacturing costs including the rise in raw material and fuel costs affected the operating profit of each segment.

**Non-operating income/expenses, Ordinary profit**

Non-operating income/expenses improved ¥1,892 million compared with the corresponding period of the previous year.

As a result of the above, ordinary profit decreased 10.6%, or ¥2,803 million compared with the corresponding period of the previous year, to ¥23,674 million.

**Extraordinary income/losses, Profit before income taxes, Profit, Profit attributable to owners of parent**

Extraordinary income/losses improved by ¥2,048 million compared with the corresponding period of the previous year.

As a result of the above, profit before income taxes decreased 3.1%, or ¥755 million compared with the corresponding period of the previous year, to ¥23,808 million.

Profit after deducting income taxes calculated in an appropriate way increased 58.9%, or ¥7,413 million compared with the corresponding period of the previous year, to ¥19,991 million.

Profit attributable to owners of parent increased 166.5%, or ¥12,228 million compared with the corresponding period of the previous year, to ¥19,570 million.

## (Operating results by segment)

## Net sales

(Unit: Millions of yen)

	Reportable segment				Others	Total	Adjustment	Figures in quarterly consolidated income statement
	Chemicals	Specialty Products	Cement	Life & Amenity				
<b>Third Quarter Fiscal 2018</b>	<b>74,232</b>	<b>42,053</b>	<b>69,071</b>	<b>39,312</b>	<b>45,102</b>	<b>269,773</b>	<b>(31,484)</b>	<b>238,289</b>
Third Quarter Fiscal 2017	67,889	41,756	65,750	37,795	41,047	254,238	(28,148)	226,090
Rate of change (%)	9.3	0.7	5.1	4.0	9.9	6.1	-	5.4

## Operating profit

(Unit: Millions of yen)

	Reportable segment				Others	Total	Adjustment	Figures in quarterly consolidated income statement
	Chemicals	Specialty Products	Cement	Life & Amenity				
<b>Third Quarter Fiscal 2018</b>	<b>12,694</b>	<b>6,862</b>	<b>2,222</b>	<b>2,386</b>	<b>2,782</b>	<b>26,947</b>	<b>(1,492)</b>	<b>25,454</b>
Third Quarter Fiscal 2017	11,405	7,306	3,656	2,383	5,024	29,777	373	30,150
Rate of change (%)	11.3	(6.1)	(39.2)	0.1	(44.6)	(9.5)	-	(15.6)

(Note) Net sales and operating profit in each segment include inter-segment transactions.

**Chemicals**

With regard to caustic soda, the revision of selling prices was progressed. As a result, its operating profit increased greatly.

Sales volume of vinyl chloride resin was steady. Meanwhile, manufacturing costs increased due to a rise in raw material prices such as domestic naphtha. As a result, its operating profit decreased.

As a result of the above, segment net sales increased 9.3% compared with the corresponding period of the previous year, to ¥74,232 million and operating profit increased 11.3% to ¥12,694 million. The segment reported higher earnings on higher sales.

## **Specialty Products**

Sales volume of semiconductor-grade polycrystalline silicon was steady. Meanwhile, manufacturing costs increased due to a upturn in fuel and raw material costs. As a result, its operating profit decreased.

With regard to high-purity chemicals for electronics manufacturing, sales volume increased. Meanwhile, manufacturing costs increased due to a rise in raw material prices such as domestic naphtha. As a result, its operating profit decreased.

With regard to aluminum nitride, sales volume in such applications used for semiconductor manufacturing equipment increased and the business did well.

As a result of the above, segment net sales increased 0.7% compared with the corresponding period of the previous year, to ¥42,053 million and operating profit decreased 6.1% to ¥6,862 million. The segment reported lower earnings on higher sales.

## **Cement**

With regard to cement, domestic sales volume was weak and manufacturing costs increased due to a rise in raw material prices such as coal. As a result, its operating profit decreased.

In the resource recycling business, its business result was almost same as the corresponding period of the previous year.

Consolidated subsidiary net sales increased. This mainly reflected the robust shipping trends of cement-related products.

As a result of the above, segment net sales increased 5.1% compared with the corresponding period of the previous year, to ¥69,071 million and operating profit decreased 39.2% to ¥2,222 million. The segment reported lower earnings on higher sales.

## **Life & Amenity**

With regard to plastic lens-related materials, sales volume of photochromic dye materials for eyeglass lenses increased.

With regard to ion exchange membranes, despite sales volume was steady, its operating profit decreased due to large-scale project recorded in the corresponding period of the previous year.

As a result of the above, segment net sales increased 4.0% compared with the corresponding period of the previous year, to ¥39,312 million and operating profit increased 0.1% to ¥2,386 million. The segment reported higher earnings on higher sales.

## **(2) Explanation concerning financial position**

### **(Status of assets, liabilities and net assets)**

As of December 31, 2018, total assets amounted to ¥363,799 million, an increase of ¥1,850 million compared with those as of March 31, 2018.

This increase primarily reflects the increase of property, plant and equipment of ¥5,163 million due to the inclusion of subsidiaries in the Company's scope of consolidation from the second quarter consolidated accounting period for the fiscal year ending March 31, 2019, despite the decrease of Investment securities of ¥2,090 million due to the fair market valuation of securities held.

Total liabilities amounted to ¥214,847 million, down ¥10,510 million compared with those as of March 31, 2018.

The principal factors are a decrease in long-term loans payable and current portion of long-term loans payable of ¥10,114 million.

Net assets totaled ¥148,952 million, an increase of ¥12,360 million compared with those as of March 31, 2018.

This mainly reflected the increase of retained earnings of ¥16,428 million, while the valuation difference on available-for-sale securities decrease ¥2,782 million compared with those as of March 31, 2018. This was primarily due to posting profit attributable to owners of parent.

## **(3) Explanation concerning information related to future prediction such as consolidated performance forecast**

Although the future business environment is uncertain because of the fluctuations in exchange rate and raw material and fuel prices, the Company's results were in line with our expectations at this time. Therefore, the Company has not revised the performance forecasts, announced on April 27, 2018.

The performance forecast has been prepared on the basis of information available at this point and certain assumptions which are judged to be rational, and may be substantially different from the actual performance because of various factors that may arise from now on.



## 2. Quarterly Consolidated Financial Statements

### (1) Quarterly Consolidated Balance Sheets

	Millions of yen	
	3/31/2018	12/31/2018
<b>Assets</b>		
Current assets		
Cash and deposits	57,229	61,172
Notes and accounts receivable - trade	79,660	78,075
Lease receivables	28	29
Securities	10,000	—
Merchandise and finished goods	14,028	17,791
Work in process	10,075	9,432
Raw materials and supplies	15,327	17,313
Other	4,809	5,896
Allowance for doubtful accounts	△127	△104
Total current assets	191,031	189,608
Non-current assets		
Property, plant and equipment		
Buildings and structures	102,761	105,249
Accumulated depreciation	△73,455	△75,797
Buildings and structures, net	29,305	29,451
Machinery, equipment and vehicles	446,278	456,577
Accumulated depreciation	△404,441	△412,959
Machinery, equipment and vehicles, net	41,836	43,617
Tools, furniture and fixtures	21,887	22,042
Accumulated depreciation	△19,748	△19,870
Tools, furniture and fixtures, net	2,138	2,171
Land	30,995	32,197
Leased assets	3,760	4,595
Accumulated depreciation	△1,753	△2,146
Leased assets, net	2,007	2,448
Construction in progress	3,959	5,518
Total property, plant and equipment	110,242	115,405
Intangible assets		
Goodwill	1,158	359
Leased assets	51	53
Other	1,556	1,557
Total intangible assets	2,766	1,970
Investments and other assets		
Investment securities	24,302	22,213
Long-term loans receivable	2,627	2,530
Deferred tax assets	18,300	18,658
Net defined benefit asset	9,657	10,102
Other	3,162	3,368
Allowance for doubtful accounts	△141	△58
Total investments and other assets	57,908	56,814
Total non-current assets	170,917	174,191
Total assets	361,949	363,799

Millions of yen

	3/31/2018	12/31/2018
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	47,610	49,051
Short-term loans payable	2,549	3,622
Current portion of long-term loans payable	15,684	12,279
Lease obligations	641	763
Income taxes payable	3,688	2,281
Provision for bonuses	2,557	1,224
Provision for repairs	4,332	3,493
Provision for product warranties	98	34
Other	15,870	15,749
Total current liabilities	93,032	88,501
Non-current liabilities		
Long-term loans payable	119,521	112,811
Lease obligations	1,521	1,880
Deferred tax liabilities	298	442
Provision for directors' retirement benefits	143	209
Provision for share benefits	—	34
Provision for repairs	1,594	1,375
Allowance for loss on compensation for building materials	261	218
Provision for environmental measures	253	251
Net defined benefit liability	1,527	2,191
Asset retirement obligations	5	6
Other	7,197	6,925
Total non-current liabilities	132,325	126,346
Total liabilities	225,357	214,847
<b>Net assets</b>		
Shareholders' equity		
Capital stock	10,000	10,000
Capital surplus	20,008	20,018
Retained earnings	90,752	107,180
Treasury shares	△1,472	△1,821
Total shareholders' equity	119,288	135,377
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,352	△1,430
Deferred gains or losses on hedges	△151	△59
Foreign currency translation adjustment	2,093	1,607
Remeasurements of defined benefit plans	3,074	2,907
Total accumulated other comprehensive income	6,368	3,024
Non-controlling interests	10,935	10,550
Total net assets	136,591	148,952
Total liabilities and net assets	361,949	363,799

## (2) Quarterly Consolidated Statements of Income

	Millions of yen	
	Q3 FY2017 YTD	Q3 FY2018 YTD
Net sales	226,090	238,289
Cost of sales	152,100	166,215
Gross profit	73,989	72,074
Selling, general and administrative expenses		
Selling expenses	29,385	31,090
General and administrative expenses	14,453	15,528
Total selling, general and administrative expenses	43,839	46,619
Operating profit	30,150	25,454
Non-operating income		
Interest income	174	75
Dividend income	253	400
Share of profit of entities accounted for using equity method	811	721
Trial products income	450	533
Fiduciary obligation fee	317	572
Rent income on non-current assets	319	426
Other	1,017	1,042
Total non-operating income	3,344	3,770
Non-operating expenses		
Interest expenses	2,894	2,055
Cost of loans payable	—	884
Loss on bond retirement	1,605	—
Other	2,517	2,611
Total non-operating expenses	7,017	5,551
Ordinary profit	26,477	23,674
Extraordinary income		
Gain on sales of non-current assets	478	39
Gain on bargain purchase	—	964
Gain on sales of investment securities	—	1
Subsidy income	144	33
Gain on insurance adjustment	31	46
Compensation income for damage	7,705	—
Other	—	31
Total extraordinary income	8,359	1,117
Extraordinary losses		
Loss on sales of non-current assets	1	9
Impairment loss	—	125
Loss on disaster	4	18
Loss on reduction of non-current assets	110	19
Loss on disposal of non-current assets	489	600
Litigation expenses	120	157
Loss on transfer of business	8,059	—
Loss on contract cancellation	1,431	—
Other	56	52
Total extraordinary losses	10,273	982
Profit before income taxes	24,564	23,808
Income taxes	11,986	3,817
Profit	12,577	19,991
Profit attributable to non-controlling interests	5,235	420
Profit attributable to owners of parent	7,342	19,570

(3) Quarterly Consolidated Statements of Comprehensive Income

	Millions of yen	
	Q3 FY2017 YTD	Q3 FY2018 YTD
Profit	12,577	19,991
Other comprehensive income		
Valuation difference on available-for-sale securities	1,778	△2,768
Deferred gains or losses on hedges	135	92
Foreign currency translation adjustment	946	△431
Remeasurements of defined benefit plans, net of tax	△17	△167
Share of other comprehensive income of entities accounted for using equity method	34	△68
Total other comprehensive income	2,877	△3,343
Comprehensive income	15,454	16,648
Comprehensive income attributable to		
Owners of the Parent	10,109	16,226
Non-controlling interests	5,345	421

## **(4) Notes on Quarterly Consolidated Financial Statements**

(Change of Accounting Process Specific to Preparing Quarterly Consolidated Financial Statement)  
(Calculation of Tax Expense)

The Company rationally estimated the effective tax rate after the application of accounting policy for deferred tax, which was applied to the profit/loss before income tax for the fiscal year under review including the third quarter consolidated accounting period for the fiscal year ending March 31, 2019, and calculated the tax expense by multiplying the estimated effective tax rate to the profit/loss before income tax. However, if the application of said estimated effective tax rate reduces the rationality of the calculation of tax expense, the Company applies the effective statutory tax rate.

(Additional Information)

(Application of the Partial Amendments to the Accounting Standard for Tax Effect Accounting)  
Effective from the first quarter of the fiscal year under review, Tokuyama has applied the Partial Amendments to the Accounting Standard for Tax Effect Accounting (Accounting Standards Board of Japan (ASBJ) Statement No. 28 issued on February 16, 2018). Accordingly, deferred tax assets have been reclassified and included in the investment and other assets section of the Company's balance sheet, and deferred tax liabilities have been reclassified and included in the non-current liabilities section of the Company's balance sheet.

(Adoption of the Consolidated Taxation System)

Effective from the first quarter of the fiscal year under review, the Company and certain of its consolidated subsidiaries have adopted the consolidated taxation system.

(Performance-linked Share-based Remuneration Plan)

Effective from September 3, 2018, the Company introduced a performance-linked share-based remuneration plan for Directors (excluding Directors who are Audit and Supervisory Committee Members, non-executive Directors, External Directors, and persons not resident in Japan) and Executive Officers (excluding non-residents of Japan).

### 1. Overview of the Plan

The Plan employs a framework using a trust for officer remuneration plan, which is a so-called Board Incentive Plan (BIP) (this trust, hereinafter "BIP trust"). As with performance shares and restricted shares in Europe and North America, a BIP trust is a system whereby shares in the Company and cash equivalent to the conversion amount of the Company's shares will be delivered or paid in accordance with business performance and the recipient's rank.

### 2. The Company's Shares Held by the Trust

The Company's shares held by the BIP trust is included in net assets as treasury stock at book value (excluding associated expenses). There were 100,800 shares with a book value of 340 million yen as of the end of the period under review.

## (5) Segment information

### Third Quarter Fiscal 2017 (accumulated figures, Apr. 1, 2017– Dec. 31, 2017)

#### 1. Information on sales and profit by reportable segment

(Millions of yen)

	Reportable segments				Others*1	Total	Adjustment*2	Figures in quarterly consolidated income statement*3
	Chemicals	Specialty Products	Cement	Life & Amenity				
Sales								
Sales to customers	67,153	33,396	65,495	36,194	23,851	226,090	-	226,090
Inter-segment sales/transfer	735	8,360	255	1,601	17,195	28,148	(28,148)	-
Total	67,889	41,756	65,750	37,795	41,047	254,238	(28,148)	226,090
Segment profit	11,405	7,306	3,656	2,383	5,024	29,777	373	30,150

\*1 The “Others” segment comprises businesses other than those of the reportable segments. Specifically, the segment includes overseas sales companies, a distribution company, a real estate business, etc.

\*2 The segment profit adjustment amount consists mainly of basic R&D expenses that are not allocable to a specific reportable segment.

\*3 With regard to segment profit, operating profit in the quarterly consolidated statement of income has been calculated by making an adjustment to the sum total of the reportable segments’ profit and the “Others” segment’s profit.

### Third Quarter Fiscal 2018 (accumulated figures, Apr. 1, 2018– Dec. 31, 2018)

#### 1. Information on sales and profit by reportable segment

(Millions of yen)

	Reportable segments				Others*1	Total	Adjustment*2	Figures in quarterly consolidated income statement*3
	Chemicals	Specialty Products	Cement	Life & Amenity				
Sales								
Sales to customers	73,592	32,654	68,412	37,764	25,883	238,289	-	238,289
Inter-segment sales/transfer	640	9,399	659	1,566	19,218	31,484	(31,484)	-
Total	74,232	42,053	69,071	39,312	45,102	269,773	(31,484)	238,289
Segment profit	12,694	6,862	2,222	2,386	2,782	26,947	(1,492)	25,454

\*1 The “Others” segment comprises businesses other than those of the reportable segments. Specifically, the segment includes overseas sales companies, a distribution company, a real estate business, etc.

\*2 The segment profit adjustment amount consists mainly of basic R&D expenses that are not allocable to a specific reportable segment and the amount of inter-segment eliminations.

\*3 With regard to segment profit, operating profit in the quarterly consolidated statement of income has been calculated by making an adjustment to the sum total of the reportable segments’ profit and the “Others” segment’s profit.

#### 2. Items related to the changes in reportable segment

The Company posted ¥125 million of Impairment loss in the “Life & Amenity” segment in the third quarter consolidated accounting period for the fiscal year ending March 31, 2019.