



Consolidated Earnings Report for the Second Quarter of Fiscal 2017 [Japanese GAAP]

October 25, 2016

Company Name:	KOITO MANUFACTURING CO., LTD.
Stock Listing:	First Section, Tokyo Stock Exchange
Code Number:	7276
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Filing of Quarterly Securities Report:	November 2, 2016
Scheduled Payment of Dividends:	December 5, 2016
Supplementary explanatory materials prepared:	Yes
Explanatory meeting:	Yes

(¥ millions are rounded down)

1. Consolidated Results for the Second Quarter of Fiscal 2017(April 1, 2016 to September 30, 2016)

(1) Consolidated Operating Results (¥millions; percentage figures represent year-on-year changes)

Second Quarter	Net sales		Operating income		Recurring profit		Profit attributable to owners of parent	
Fiscal 2017	383,720	0.1%	39,748	22.7%	39,646	20.6%	22,929	61.8%
Fiscal 2016	383,310	18.6%	32,399	32.1%	32,882	28.4%	14,175	△3.3%

Note: Comprehensive income or loss: September 30, 2016: ¥8,284 million (623.7%), September 30, 2015: ¥1,144 million (△95.9%)

Second Quarter	Net income per share (¥)	Net income per share (diluted) (¥)
Fiscal 2017	142.69	142.63
Fiscal 2016	88.21	88.20

(2) Consolidated Financial Position

(¥millions)

	Total assets	Net assets	Equity ratio (%)	Net assets per share (¥)
September 30, 2016	570,049	329,625	51.2	1,816.06
March 31, 2016	588,683	329,671	48.6	1,780.94

Note: Equity: September 30, 2016: ¥ 291,830 million, March 31, 2016: ¥ 286,185 million

2. Dividends

	Dividend per share (¥)				
	First Quarter	Second Quarter	Third Quarter	Year End	Full Year
Fiscal 2016	—	16.00	—	20.00	36.00
Fiscal 2017	—	20.00			
Fiscal 2017 (forecast)			—	—	—

Notes: 1. Revisions to recent dividend forecasts: Yes

2. The dividend record date is March 31, as prescribed by KOITO's Articles of Incorporation; the dividend forecast for the March 31, 2017 is currently undecided.

3. Forecast of Consolidated Results for Fiscal 2017 (April 1, 2016 to March 31, 2017)

(¥million; percentage figures represent year-on-year changes)

	Net sales		Operating income		Recurring profit		Profit attributable to owners of parent		Net income per share (¥)
Full year	787,000	△3.3%	82,000	△0.3%	83,000	△1.5%	49,000	5.8%	304.93

Note: Revisions to recent consolidated business forecasts: Yes

***Notes**

- (1) Changes to important subsidiaries during the second quarter (changes in specified subsidiaries resulting in revised scope of consolidation): None
- (2) Application of special accounting methods in the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting principles, accounting estimates and restatements
 - ① Changes in accounting policies in conjunction with revisions to accounting standards: Yes
 - ② Other changes: None
 - ③ Changes in accounting estimates: None
 - ④ Restatements: None

(Note) For details, please refer to (3) Changes in Accounting Principles, Accounting Estimates and Restatements under 2. Summary Information (Notes) on page 4 of the supplementary materials.

(4) Number of shares issued (common stock)

① Number of shares issued (including treasury stock):	Fiscal 2017, 2Q	160,789,436	Fiscal 2016	160,789,436
② Number of treasury stock:	Fiscal 2017, 2Q	95,694	Fiscal 2016	95,649
③ Average number of stock during the second quarter:	Fiscal 2017, 2Q	160,693,772	Fiscal 2016, 2Q	160,693,975

***Explanations concerning status of quarterly review procedures**

This quarterly earnings report is not subject to the review procedures for quarterly reporting based on the Financial Instruments and Exchange Act. At the time of issue of this report, the review procedures for quarterly reporting based on the Financial Instruments and Exchange Act were being carried out.

《 For Reference Only 》

Forecast of Non-consolidated Result for Fiscal 2017 (April 1, 2016 to March 31, 2017)

(¥millions; percentage figures represent year-on-year changes)

	Net sales		Operating income		Recurring profit		Net income		Net income per share (¥)
Full year	288,000	6.3%	25,000	16.0%	40,000	8.2%	28,000	28.4%	174.24

Note: Revisions to recent non-consolidated business forecasts: Yes

*Explanations concerning proper use of business forecasts and other noteworthy matters

The above forecasts are based on information available, and certain assumptions that are judged to be reasonable, at the time of the release of this report. KOITO is not promising that the Company will achieve these forecasts. Actual results could differ from forecasts due to a variety of factors.

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1. Qualitative Information Concerning Quarterly Financial Statements and Other Matters

(1) Explanation Regarding Consolidated Operating Results

During the first half of fiscal 2017, the period under review, the Japanese economy continued to stagnate, due to sluggish personal consumption and other factors. Meanwhile, although the U.S. and European economy held firm, the global economy continued to decelerate as a whole. This was primarily due to slowing economic growth in China and economic recession in South America, along with the financial market confusion in the run-up to the Brexit referendum and risks in the Middle East.

In the Japanese auto industry, production volume decreased year on year mainly due to the impact of lackluster sales of mini vehicles. Overseas, production volume increased in the U.S., Western Europe, China, India and elsewhere. As a result, global automobile production volume as a whole increased year on year.

In this climate, the KOITO Group reported consolidated net sales at end of the first half of ¥383.7 billion, up 0.1% year on year. The increase was due to sales growth in the mainstay automotive lighting equipment segment, which was driven by an increase in new orders and a shift in automobile lamps to LED. However, the increase was marginal due to the impact of yen's appreciation.

Results by geographical segment are outlined as follows.

[Japan]

Sales in Japan increased 7.8% year on year to ¥147.7 billion. The increase was mainly attributable to an increase in new orders and a shift in automobile lamps to LED that more than offset the decrease in the domestic production volume of automobiles.

[North America]

Sales in North America decreased 1.2% year on year to ¥86.3 billion. The decrease was due to the impact of the appreciation of yen, despite an increase in sales on a currency basis, led by expanded production volume and newly gained orders accompanied by growing demand for automobiles, and a shift in automobile lamps to LED.

[China]

Sales in China decreased 5.3% year on year to ¥97.6 billion. This was due to the impact of yen's appreciation, more than offsetting the expanded production volume of automobile lamps, driven by an increase in automobile production volume and newly gained orders.

[Asia]

Sales in Asia decreased 3.9% year on year to ¥36.8 billion. The decrease was due to the effect of yen's appreciation, despite an increase in sales on a currency basis for respective region, led by an increase in new orders in Thailand and Indonesia, and a shift in motorcycle lamps to LED amid an overall recovery in automobile production in the ASEAN region.

[Europe]

Sales in Europe decreased 13.0% year on year to ¥15.0 billion. This was due to the impact of yen's appreciation, despite an increase in sales on a currency basis for the region, more than offsetting an increase in new orders and a shift in automobile lamps to LED, amid a robust trend in automobile production in the region.

On the earnings front, operating income was ¥39.7 billion, up 22.7% and recurring profit was ¥39.6 billion, up 20.6% year on year. The increase was mainly attributable to an increase in orders and rationalization effect in Japan and overseas. Profit attributable to owners of parent increased 61.8% year on year to ¥22.9 billion, since consolidated subsidiary KI HOLDINGS CO., LTD. recorded a loss on compensation for damages related to aircraft seats in the previous fiscal year.

(2) Explanation Regarding Consolidated Financial Position

-1. Analysis of assets, liabilities and net assets

Total assets as of September 30, 2016 decreased ¥18.6 billion to ¥570.0 billion. This was mainly due to a decrease in current assets such as trade notes and accounts receivable as well as the effect of exchange rate conversion.

Total liabilities as of September 30, 2016 decreased ¥18.5 billion to ¥240.4 billion mainly due to a decrease in trade notes and accounts payable, and short-term loans.

Net assets as of September 30, 2016 were ¥329.6 billion, almost as same as the end of the previous fiscal year. This was mainly due to a decrease in translation adjustments, despite an increase in retained earnings.

-2. Analysis of cash flows

Operating activities provided net cash of ¥42.3 billion after payment of taxes, mainly reflecting income before income taxes of ¥38.5 billion and depreciation of ¥14.4 billion.

Investing activities used net cash of ¥25.9 billion, mainly reflecting acquisition of property and equipment of ¥16.2 billion.

Financing activities used net cash of ¥11.8 billion, the result mainly of reflecting repayment of debt of ¥4.6 billion and dividends paid of ¥7.1 billion.

As a result, cash and cash equivalents as of September 30, 2016 were ¥33.9 billion, ¥2.0 billion higher than on March 31, 2016.

(3) Explanation Regarding Forecast of Consolidated Results for Fiscal 2017 and Other Future Projections

As regards KOITO's business forecasts for fiscal 2017, the fiscal year ending March 31, 2017, net sales are expected to increase in Japan due to the expansion of new orders and the market transition to LED automobile lamps despite the decrease in automobile production volume. For overseas business, while new orders are expected to grow mainly in North America and China, and shift in automobile lamps to LED, net sales are expected to fall from the previous fiscal year due to the effect of yen's appreciation. As a result, the consolidated net sales are expected to decrease year on year.

On the earnings front, although sales increase in Japan, operating income and recurring profit are likely expected to decrease compared to the previous fiscal year due to the exchange rate conversion in overseas. However, profit attributable to owners of parent is expected to rise. This is due to the rebound from a loss on the settlement of damages related to aircraft seats at consolidated subsidiary KI HOLDINGS CO., LTD. that recorded in the previous fiscal year.

For the first half of fiscal 2017, the fiscal year under review, KOITO paid a dividend of ¥20 per share, which is ¥4 higher than the dividend amount for the same period of the previous fiscal year, and the same with the year-end dividend amount of the previous fiscal year. The year-end dividend for fiscal 2017 has not yet been decided as the outlook for the business climate remains uncertain. The Company plans to announce the year-end dividend projection at a later date based on business performance trends.

Looking ahead, KOITO will continue efforts to achieve even higher earnings to meet the expectations of all shareholders.

The previously announced full-year business forecasts (both consolidated and non-consolidated) for fiscal 2017 announced in the Consolidated Earnings Report for the First Quarter of Fiscal 2017 on July 28, 2016, have been revised in the following manner.

Forecast of Consolidated Results for Fiscal 2017 (April 1, 2016 to March 31, 2017)

(¥ millions)

	Net sales	Operating income	Recurring profit	Profit attributable to owners of parent	Net income per share (¥)
Previously Announced forecast (A)	780,000	78,000	79,000	47,000	292.48
Revised forecast (B)	787,000	82,000	83,000	49,000	304.93
Difference (B-A)	7,000	4,000	4,000	2,000	—
Change (%)	0.9	5.1	5.1	4.3	—
(Reference) Actual results for fiscal 2016	813,477	82,218	84,296	46,303	288.15

(Reference) Forecast of Non-Consolidated Results for Fiscal 2017 (April 1, 2016 to March 31, 2017)

(¥ millions)

	Net sales	Operating income	Recurring profit	Net income	Net income per share (¥)
Previously Announced forecast (A)	287,000	22,000	37,000	26,000	161.80
Revised forecast (B)	288,000	25,000	40,000	28,000	174.24
Difference (B-A)	1,000	3,000	3,000	2,000	—
Change (%)	0.3	13.6	8.1	7.7	—
(Reference) Actual results for fiscal 2016	270,857	21,546	36,979	21,802	135.68

2. Summary Information (Notes)

(1) Changes to Important Subsidiaries during the Second Quarter:

None

(2) Application of Special Accounting Methods in the Preparation of Quarterly Consolidated Financial Statements:

None

(3) Changes in Accounting Principles, Accounting Estimates and Restatements:

Change in Accounting Principles

(Application of the Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes)

In accordance with the amendment in the Corporation Tax Act, a part of domestic consolidated subsidiaries have adopted the “Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes” (Practical Issue Task Force (PITF) No. 32, issued on June 17, 2016) in the first quarter of fiscal year ending March 31, 2017, and have changed the depreciation method for structures and attachment to buildings acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

This change in accounting policy had no effect on the consolidated financial statements for the first half of the fiscal year ending March 31, 2017.

3. Quarterly Consolidated Financial Statements
(1) Quarterly Consolidated Balance Sheets

(¥ millions)

	Fiscal 2016 As of March 31, 2016	Second Quarter of Fiscal 2017 As of September 30, 2016
Assets		
Current assets:		
Cash and time deposits	161,762	172,775
Trade notes and accounts receivable	126,393	110,974
Electronically recorded monetary claims-operating	9,361	9,385
Marketable securities	182	—
Inventories	64,180	63,156
Deferred income tax assets	4,081	3,527
Other current assets	29,477	29,399
Less: Allowance for doubtful accounts	△876	△674
Total current assets	394,562	388,543
Fixed assets:		
Property, plant and equipment:		
Buildings and structures (net)	40,346	36,316
Machinery and transportation equipment (net)	56,804	51,288
Fixtures, equipment and tools (net)	17,959	17,339
Land	13,749	13,478
Construction in progress	10,439	9,878
Total property, plant and equipment	139,300	128,299
Intangible fixed assets	1,997	1,874
Investments and other assets:		
Investment securities	45,988	44,331
Claims provable in bankruptcy, claims provable in rehabilitation and other	60	60
Deferred income tax assets	5,221	5,537
Other investments	1,741	1,692
Less: Allowance for doubtful accounts	△188	△291
Total investments and other assets	52,822	51,331
Total fixed assets	194,121	181,505
Total assets	588,683	570,049

(¥ millions)

	Fiscal 2016 As of March 31, 2016	Second Quarter of Fiscal 2017 As of September 30, 2016
Liabilities		
Current liabilities:		
Trade notes and accounts payable	128,357	119,501
Short-term loans	28,073	21,067
Accrued expenses	20,138	19,339
Income taxes payable	9,398	9,506
Allowance for employees' bonuses	4,820	4,869
Reserve for product warranties	2,824	2,891
Other current liabilities	11,180	10,231
Total current liabilities	204,793	187,407
Non-current liabilities:		
Long-term debt	13,176	12,626
Deferred income tax liabilities	6,410	5,940
Allowance for directors' and corporate auditors' retirement benefits	414	449
Reserve for product warranties	4,726	4,451
Allowance for environmental strategies	198	191
Net defined liability for retirement benefits	27,621	27,207
Other non-current liabilities	1,672	2,149
Total non-current liabilities	54,219	53,016
Total liabilities	259,012	240,423
Net assets		
Shareholders' equity:		
Common stock	14,270	14,270
Additional paid-in capital	17,108	17,107
Retained earnings	228,490	248,205
Treasury common stock, at cost	△86	△87
Total shareholders' equity	259,782	279,497
Accumulated other comprehensive income:		
Valuation adjustment on investment securities	19,123	18,555
Translation adjustments	7,712	△5,699
Adjustments in defined benefit plans	△432	△523
Total accumulated other comprehensive income	26,403	12,332
Subscription rights to shares	291	291
Non-controlling interests	43,193	37,503
Total net assets	329,671	329,625
Total liabilities and net assets	588,683	570,049

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Second quarter, for the six months ended September 30)

(¥ millions)

	Second Quarter of Fiscal 2016 April 1, 2015 to September 30, 2015	Second Quarter of Fiscal 2017 April 1, 2016 to September 30, 2016
Net sales	383,310	383,720
Cost of sales	323,639	317,801
Gross profit	59,671	65,919
Selling, general and administrative expenses	27,272	26,170
Operating income	32,399	39,748
Non-operating income:		
Interest income	966	365
Dividends	602	662
Equity in earnings of affiliates	4	7
Other non-operating income	1,266	852
Total non-operating income	2,840	1,888
Non-operating expenses		
Interest expenses	424	447
Foreign exchange losses	1,413	1,398
Aircraft business safety measure expenses	229	—
Other non-operating expenses	289	144
Total non-operating expenses	2,356	1,989
Recurring profit	32,882	39,646
Extraordinary gains:		
Gain on sales of property and equipment	1,390	12
Gain on sales of investment securities	1,002	41
Other extraordinary gains	1	—
Total extraordinary gains	2,394	54
Extraordinary losses:		
Loss on sales and disposal of property and equipment	314	225
Loss on valuation of investment securities	—	32
Loss on disasters	—	922
Provision for expenses for damages	9,968	—
Monopolization and maintenance of fair trade	933	—
Compensation for damage	924	—
Other extraordinary losses	1	—
Total extraordinary losses	12,142	1,181
Income before income taxes	23,135	38,520
Income taxes	8,477	11,103
Income tax adjustment	1,548	810
Total income taxes	10,026	11,913
Profit	13,109	26,606
(Break down)		
Profit attributable to owners of parent	14,175	22,929
Profit or loss attributable to non-controlling interests	△1,066	3,676

	(¥ millions)	
	Second Quarter of Fiscal 2016 April 1, 2015 to September 30, 2015	Second Quarter of Fiscal 2017 April 1, 2016 to September 30, 2016
Other comprehensive income		
Valuation difference on available-for-sale securities	△5,728	△693
Translation adjustments	△5,920	△17,531
Adjustments in defined benefit plans	△316	△96
Total other comprehensive income	<u>△11,964</u>	<u>△18,321</u>
Comprehensive income	<u>1,144</u>	<u>8,284</u>
(Break down)		
Comprehensive income attributable to owners of parent	4,561	8,858
Comprehensive income attributable to non-controlling interests	△3,416	△573

(3) Quarterly Consolidated Statements of Cash Flows

(¥ millions)

	Second Quarter of Fiscal 2016 April 1, 2015 to September 30, 2015	Second Quarter of Fiscal 2017 April 1, 2016 to September 30, 2016
Cash flows from operating activities		
Income before income taxes	23,135	38,520
Depreciation	14,497	14,455
Amortization of goodwill	108	—
Stock-based compensation	291	—
Equity in earnings of affiliated companies	△4	△7
Provision for allowance for doubtful accounts	234	△13
Net defined liability for retirement benefits	△722	△513
Provision for reserve for bonuses	68	54
Reserve for product warranties	195	△208
Interest and dividends received	△1,569	△1,027
Interest payments	424	447
Gain on sale of marketable and investment securities	△1,002	△41
Loss on valuation of marketable and investment securities	—	32
Gain or loss on sale of property and equipment	△1,076	212
Provision for expenses for damages	9,968	—
Monopolization and maintenance of fair trade	933	—
Compensation for damage	924	—
Loss on disasters	—	922
Increase or decrease in trade notes and accounts receivable	△3,264	4,385
Increase in inventories	△2,010	△4,589
Increase or decrease in other current assets	2,442	△2,418
Decrease in trade notes and accounts payable	△3,184	△14
Increase in accrued expenses and other current liabilities	1,460	776
Others	7,830	1,301
Sub total	49,678	52,274
Interest and dividends received	1,569	1,027
Interest paid	△424	△447
Loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade paid	△933	—
Damages paid	△8,995	—
Income taxes paid	△11,338	△10,539
Net cash provided by operating activities	29,557	42,315
Cash flows from investing activities		
Payments into time deposits	△63,771	△66,585
Proceeds from time deposits	41,730	56,859
Payments for purchase of marketable and investment securities	△48	△46
Proceeds from sale of marketable and investment securities	14,353	460
Acquisition of property and equipment	△22,541	△16,228
Proceeds from sale and disposal of property and equipment	2,086	15
Payments for new loans	△7	△4
Proceeds from loan repayments	8	6
Others	△806	△458
Net cash used in investing activities	△28,996	△25,981

(¥ millions)

	Second Quarter of Fiscal 2016 April 1, 2015 to September 30, 2015	Second Quarter of Fiscal 2017 April 1, 2016 to September 30, 2016
Cash flows from financing activities		
Decrease in short-term loans	2,649	△5,908
Increase in long-term debt	669	1,398
Repayment of long-term debt	△167	△152
Payments for repurchase of treasury stock	△0	△0
Dividends paid by parent company	△4,176	△3,212
Dividends paid to non-controlling interests	△1,682	△3,944
Net cash used in financing activities	△2,707	△11,818
Effect of exchange rate changes on cash and cash equivalents	△986	△2,419
Increase or decrease in cash and cash equivalents	△3,132	2,097
Cash and cash equivalents at beginning of quarter	33,082	31,886
Cash and cash equivalents at end of quarter	29,950	33,983

(4) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)

None

(Note Regarding Significant Changes in Shareholders' Equity)

None

(Segment Information)

【Segment Information】

I. Second Quarter of fiscal 2016 (April 1, 2015 to September 30, 2015)

1. Information Concerning Net Sales and Operating Income for Each Segment

(¥ millions)

	Japan	North America	China	Asia	Europe	Total	Adjustment (Note 1)	Amount recorded on quarterly consolidated financial statements (Note 3)
Net sales								
Sales to outside customers	137,075	87,458	103,124	38,345	17,306	383,310	—	383,310
Inter-segment sales and transfers	69,768	3	2,718	3,360	1,196	77,048	(77,048)	—
Total	206,844	87,462	105,842	41,706	18,503	460,359	(77,048)	383,310
Segment operating income	12,699	6,624	7,433	3,488	1,764	32,012	387	32,399

Notes 1. The ¥387 million adjustment in segment operating income includes ¥2,975 million in intersegment eliminations and ¥△2,588 million in unallocated expenses. Unallocated expenses comprise expenses related to management divisions such as administrative and accounting divisions of the head office of the parent company.

2. The breakdown of countries and regions other than Japan and China is as follows:

(1) North America: United States and Mexico

(2) Asia: Thailand, Indonesia, Taiwan and India

(3) Europe: Belgium, United Kingdom and Czech Republic

3. Segment operating income is adjusted to operating income in the quarterly consolidated financial statements.

2. Information Concerning Impairment Loss or Goodwill on Fixed Assets for Each Segment

(Material Change in Amounts of Goodwill)

Omitted from record due to lack of materiality.

(Material Impairment Loss on Fixed Assets)

None

II. Second Quarter of fiscal 2017 (April 1, 2016 to September 30, 2016)

1. Information Concerning Net Sales and Operating Income for Each Segment

(¥ millions)

	Japan	North America	China	Asia	Europe	Total	Adjustment (Note 1)	Amount recorded on quarterly consolidated financial statements (Note 3)
Net sales								
Sales to outside customers	147,762	86,371	97,674	36,852	15,059	383,720	—	383,720
Inter-segment sales and transfers	79,040	3	2,478	3,611	783	85,917	(85,917)	—
Total	226,803	86,374	100,153	40,464	15,842	469,638	(85,917)	383,720
Segment operating income	18,469	7,441	7,154	4,303	1,900	39,270	478	39,748

Notes 1. The ¥478 million adjustment in segment (operating income) includes ¥3,198 million in intersegment eliminations and ¥△2,720 million in unallocated expenses. Unallocated expenses comprise expenses related to management divisions such as administrative and accounting divisions of the head office of the parent company.

2. The breakdown of countries and regions other than Japan and China is as follows:

- (1) North America: United States and Mexico
- (2) Asia: Thailand, Indonesia, Taiwan and India
- (3) Europe: United Kingdom and Czech Republic

3. Segment operating income is adjusted to operating income in the quarterly consolidated financial statements.

2. Information Concerning Impairment Loss or Goodwill on Fixed Assets for Each Segment

(Material Change in Amounts of Goodwill)

None

(Material Impairment Loss on Fixed Assets)

None