

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

January 26, 2017

Company Name:	KOITO MANUFACTURING CO., LTD.
Stock Listing:	First Section, Tokyo Stock Exchange
Code Number:	7276
URL:	http://www.koito.co.jp
Representative Director:	Hiroshi Mihara, President
Inquiries:	Hideo Yamamoto, Director and Managing Corporate Officer
Tel:	+81-3-3443-7111
Filing of Quarterly Securities Report:	February 2, 2017
Scheduled Payment of Dividends:	—
Supplementary explanatory materials prepared:	None
Explanatory meeting:	None

(¥ millions are rounded down)

1. Consolidated Results for the Third Quarter of Fiscal 2017 (April 1, 2016 to December 31, 2016)

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

Third Quarter	Net sales		Operating income		Recurring profit		Profit attributable to owners of parent	
Fiscal 2017	603,143	1.2%	63,581	14.3%	66,009	14.1%	39,938	34.3%
Fiscal 2016	595,914	18.7%	55,613	31.0%	57,877	28.2%	29,733	13.3%

Note: Comprehensive income or loss: December 31, 2016: ¥ 49,405 million (118.1%), December 31, 2015: ¥ 22,647 million (△58.9%)

Third Quarter	Net income per share (¥)	Net income per share (diluted) (¥)
Fiscal 2017	248.54	248.44
Fiscal 2016	185.03	184.99

(2) Consolidated Financial Position

(¥ millions)

	Total assets	Net assets	Equity ratio (%)	Net assets per share (¥)
December 31, 2016	634,087	367,551	51.1	2,015.13
March 31, 2016	588,683	329,671	48.6	1,780.94

Note: Equity: December 31, 2016: ¥ 323,818 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: None

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)

(¥ millions; 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	824,000	1.3%	89,000	8.2%	92,000	9.1%	55,000	18.8%	342.27

Note: Revisions to recent consolidated business forecasts: Yes

***Notes**

(1) Changes to important subsidiaries during the third quarter (changes in specified subsidiaries resulting in revised scope of consolidation): Yes

Newly included: 1 company

(Company name) NAL do Brasil Indústria e Comércio de Componentes de Iluminação Ltda.

Excluded: -

(Note) For details, please refer to (1) Changes in Important Subsidiaries during the Third Quarter under 2. Summary Information (Notes) on page 4 of the supplementary materials.

(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, 3Q	160,789,436	Fiscal 2016	160,789,436
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② Number of treasury stock:

Fiscal 2017, 3Q	95,731	Fiscal 2016	95,649
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③ Average number of stock during the third quarter:

Fiscal 2017, 3Q	160,693,751	Fiscal 2016, 3Q	160,693,950
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*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 》

Forecasts of Non-consolidated Results 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	297,000	9.7%	28,000	30.0%	44,000	19.0%	31,000	42.2%	192.91

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 on Quarterly Financial Statements and Other Matters

(1) Explanation Regarding Consolidated Operating Results

During the third quarter 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 caused by Brexit referendum, and risks in the Middle East.

In the Japanese auto industry, production volume remained flat year on year mainly due to the impact of lackluster sales of mini vehicles. Overseas, production volume increased in the U.S., 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 third-quarter consolidated net sales of ¥603.1 billion, up 1.2% 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 segments are outlined as follows.

[Japan]

Sales in Japan increased 6.8% year on year to ¥229.7 billion. This was mainly attributable to an increase in new orders and a shift in automobile lamps to LED while domestic production volume of automobiles remained flat.

[North America]

Sales in North America was ¥135.7 billion, remained flat year on year. 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, sales remained flat due to the impact of the appreciation of yen.

[China]

Sales in China decreased 3.3% year on year to ¥155.7 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 increased 3.1% year on year to ¥59.7 billion. This was led by an increase in new orders in India and Indonesia, and a shift in motorcycle lamps to LED, while automobile production in Asia remained flat.

[Europe]

Sales in Europe decreased 14.6% year on year to ¥22.1 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.

[Other regions]

As KOITO established a manufacturing subsidiary in Brazil, 'Other regions' segment was newly included to geographical segment from the third quarter of fiscal 2017. The production subsidiary is scheduled to commence operation in May 2018.

On the earnings front, operating income was ¥63.5 billion, up 14.3% and recurring profit was ¥66.0 billion, up 14.1% 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 34.3% year on year to ¥39.9 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 December 31, 2016 increased ¥45.4 billion to ¥634.0 billion. This was mainly due to an increase in current assets such as cash and time deposits.

Total liabilities as of December 31, 2016 increased ¥7.5 billion to ¥266.5 billion mainly due to an increase in trade notes and accounts payable, and electronically recorded monetary obligations.

Net assets as of December 31, 2016 increased ¥37.8 billion to ¥367.5 billion. This increase was mainly due to an increase in retained earnings.

-2. Analysis of cash flows

Operating activities provided net cash of ¥71.6 billion after payment of taxes, mainly reflecting income before income taxes of ¥64.7 billion and depreciation of ¥22.7 billion.

Investing activities used net cash of ¥34.2 billion, mainly reflecting acquisition of property and equipment of ¥27.6 billion.

Financing activities used net cash of ¥15.4 billion, the result mainly of reflecting repayment of debt of ¥5.3 billion and dividends paid of ¥10.1 billion.

As a result, cash and cash equivalents as of December 31, 2016 were ¥52.8 billion, ¥20.9 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. For overseas business, new orders are expected to grow mainly in North America and China, and shift in automobile lamps to LED. As a result, despite the effect of yen's appreciation, consolidated net sales are expected to increase year on year.

Earnings on all counts from operating income and recurring profit to profit attributable to owners of the parent are forecast to increase in line with sales increasing, as well as enhanced rationalization of operations in Japan and overseas.

The previously announced full-year business forecasts (both consolidated and non-consolidated) for fiscal 2017 announced in the Consolidated Earnings Report for the Second Quarter of Fiscal 2017 on October 25, 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)	787,000	82,000	83,000	49,000	304.93
Revised forecast (B)	824,000	89,000	92,000	55,000	342.27
Difference (B-A)	37,000	7,000	9,000	6,000	—
Change (%)	4.7	8.5	10.8	12.2	—
(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)	288,000	25,000	40,000	28,000	174.24
Revised forecast (B)	297,000	28,000	44,000	31,000	192.91
Difference (B-A)	9,000	3,000	4,000	3,000	—
Change (%)	3.1	12.0	10.0	10.7	—
(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 Third Quarter:

NAL do Brasil Indústria e Comércio de Componentes de Iluminação Ltda. was established and newly included in the scope of consolidation from the current consolidated cumulative third quarter under review.

(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 third-quarter 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	Third Quarter of Fiscal 2017 As of December 31, 2016
Assets		
Current assets:		
Cash and time deposits	161,762	191,219
Trade notes and accounts receivable	126,393	119,272
Electronically recorded monetary claims-operating	9,361	10,670
Marketable securities	182	—
Inventories	64,180	73,249
Deferred income tax assets	4,081	3,372
Other current assets	29,477	36,145
Less: Allowance for doubtful accounts	△876	△839
Total current assets	394,562	433,090
Non-current assets:		
Property, plant and equipment:		
Buildings and structures (net)	40,346	39,698
Machinery and transportation equipment (net)	56,804	57,599
Fixtures, equipment and tools (net)	17,959	19,062
Land	13,749	14,648
Construction in progress	10,439	10,677
Total property, plant and equipment	139,300	141,686
Intangible assets	1,997	1,949
Investments and other assets:		
Investment securities	45,988	52,124
Claims provable in bankruptcy, claims provable in rehabilitation and other	60	60
Deferred income tax assets	5,221	3,616
Other investments	1,741	1,865
Less: Allowance for doubtful accounts	△188	△306
Total investments and other assets	52,822	57,361
Total non-current assets	194,121	200,996
Total assets	588,683	634,087

(¥ millions)

	Fiscal 2016 As of March 31, 2016	Third Quarter of Fiscal 2017 As of December 31, 2016
Liabilities		
Current liabilities:		
Trade notes and accounts payable	125,181	130,302
Electronically recorded monetary obligations-operating	3,176	10,912
Short-term loans	28,073	22,150
Accrued expenses	20,138	20,733
Income taxes payable	9,398	9,935
Allowance for employees' bonuses	4,820	2,760
Reserve for product warranties	2,824	2,891
Other current liabilities	11,180	12,323
Total current liabilities	204,793	212,009
Non-current liabilities:		
Long-term debt	13,176	12,864
Deferred income tax liabilities	6,410	7,433
Allowance for directors' and corporate auditors' retirement benefits	414	347
Reserve for product warranties	4,726	4,451
Allowance for environmental strategies	198	191
Net defined liability for retirement benefits	27,621	27,232
Other non-current liabilities	1,672	2,005
Total non-current liabilities	54,219	54,526
Total liabilities	259,012	266,536
Net assets		
Shareholders' equity:		
Common stock	14,270	14,270
Additional paid-in capital	17,108	17,107
Retained earnings	228,490	262,001
Treasury common stock, at cost	△86	△87
Total shareholders' equity	259,782	293,292
Accumulated other comprehensive income:		
Valuation adjustment on investment securities	19,123	23,608
Translation adjustments	7,712	7,477
Adjustments in defined benefit plans	△432	△560
Total accumulated other comprehensive income	26,403	30,525
Subscription rights to shares	291	291
Non-controlling interests	43,193	43,441
Total net assets	329,671	367,551
Total liabilities and net assets	588,683	634,087

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Third quarter, for the nine months ended December 31)

(¥ millions)

	Third Quarter of Fiscal 2016 April 1, 2015 to December 31, 2015	Third Quarter of Fiscal 2017 April 1, 2016 to December 31, 2016
Net sales	595,914	603,143
Cost of sales	497,916	497,864
Gross profit	97,998	105,278
Selling, general and administrative expenses	42,385	41,696
Operating income	55,613	63,581
Non-operating income:		
Interest income	1,250	554
Dividends	1,241	1,285
Equity in earnings of affiliates	7	20
Foreign exchange gains	—	190
Other non-operating income	2,387	1,351
Total non-operating income	4,886	3,401
Non-operating expenses		
Interest expenses	611	712
Foreign exchange losses	1,326	—
Aircraft business safety measure expenses	262	—
Other non-operating expenses	422	260
Total non-operating expenses	2,623	973
Recurring profit	57,877	66,009
Extraordinary gains:		
Gain on sales of property and equipment	1,535	31
Gain on sales of investment securities	1,008	41
Reversal of allowance for expenses for damages	1,068	—
Other extraordinary gains	1	—
Total extraordinary gains	3,614	73
Extraordinary losses:		
Loss on sales and disposal of property and equipment	452	268
Loss on valuation of investment securities	—	32
Loss on disasters	—	985
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	12,279	1,287
Income before income taxes	49,211	64,796
Income taxes	14,155	17,772
Income tax adjustment	2,798	1,252
Total income taxes	16,953	19,024
Profit	32,258	45,771
(Break down)		
Profit attributable to owners of the parent	29,733	39,938
Profit attributable to non-controlling interests	2,524	5,833

(¥ millions)

	Third Quarter of Fiscal 2016 April 1, 2015 to December 31, 2015	Third Quarter of Fiscal 2017 April 1, 2016 to December 31, 2016
Other comprehensive income		
Valuation difference on available-for-sale securities	△2,690	4,584
Translation adjustments	△6,449	△822
Adjustments in defined benefit plans	△470	△128
Total other comprehensive income	△9,610	3,633
Comprehensive income	22,647	49,405
(Break down)		
Comprehensive income attributable to owners of parent	22,476	44,061
Comprehensive income attributable to non-controlling interests	170	5,344

(3) Quarterly Consolidated Statements of Cash Flows

(¥ millions)

	Third Quarter of Fiscal 2016 April 1, 2015 to December 31, 2015	Third Quarter of Fiscal 2017 April 1, 2016 to December 31, 2016
Cash flows from operating activities		
Income before income taxes	49,211	64,796
Depreciation	23,028	22,732
Amortization of goodwill	162	—
Stock-based compensation	291	—
Equity in earnings of affiliated companies	△7	△20
Provision for allowance for doubtful accounts	203	115
Net defined liability for retirement benefits	△1,045	△587
Provision for reserve for bonuses	△360	△2,060
Reserve for product warranties	195	△208
Interest and dividends received	△2,491	△1,839
Interest payments	611	712
Gain on sale of marketable and investment securities	△1,008	△41
Loss on valuation of marketable and investment securities	—	32
Gain or loss on sale of property and equipment	△1,083	236
Reversal of allowance for expenses for damages	△1,068	—
Provision for expenses for damages	9,968	—
Monopolization and maintenance of fair trade	933	—
Compensation for damage	924	—
Loss on disasters	—	985
Increase or decrease in trade notes and accounts receivable	1,143	4,604
Increase in inventories	△14,069	△10,235
Increase or decrease in other current assets	△793	△6,732
Decrease in trade notes and accounts payable	6,479	14,244
Increase in accrued expenses and other current liabilities	4,875	397
Others	5,701	919
Sub total	81,800	88,050
Interest and dividend received	2,491	1,839
Interest paid	△611	△712
Loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade Paid	△933	—
Damages paid	△15,479	—
Payments for loss on disaster	—	△414
Income taxes paid	△18,384	△17,130
Net cash provided by operating activities	48,884	71,633
Cash flows from investing activities		
Payments into time deposits	△89,899	△95,785
Proceeds from time deposits	63,324	88,124
Payments for purchase of marketable and investment securities	△54	△15
Proceeds from sale of marketable and investment securities	16,358	460
Acquisition of property and equipment	△32,237	△27,673
Proceeds from sale and disposal of property and equipment	2,507	143
Payments for new loans	△10	△5
Proceeds from loan repayments	14	11
Others	△873	453
Net cash used in investing activities	△40,870	△34,287

(¥ millions)

	Third Quarter of Fiscal 2016 April 1, 2015 to December 31, 2015	Third Quarter of Fiscal 2017 April 1, 2016 to December 31, 2016
Cash flows from financing activities		
Increase or decrease in short-term loans	1,867	△6,267
Increase in long-term debt	674	1,474
Repayment of long-term debt	△609	△573
Payments for repurchase of treasury stock	△0	△0
Dividends paid by parent company	△6,487	△6,167
Dividends paid to non-controlling interests	△4,418	△3,966
Net cash used in financing activities	△8,973	△15,499
Effect of exchange rate changes on cash and cash equivalents	△1,181	△884
Increase or decrease in cash and cash equivalents	△2,140	20,963
Cash and cash equivalents at beginning of quarter	33,082	31,886
Cash and cash equivalents at end of quarter	30,942	52,849

(4) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)

None

(Note Regarding Significant Changes in Shareholders' Equity)

None

(Segment Information)

【Segment Information】

I. Third Quarter of fiscal 2016 (April 1, 2015 to December 31, 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	215,180	135,780	161,017	57,953	25,982	595,914	—	595,914
Inter-segment sales and transfers	111,260	6	4,163	5,326	1,878	122,635	(122,635)	—
Total	326,441	135,786	165,180	63,279	27,861	718,550	(122,635)	595,914
Segment operating income	22,576	12,065	12,450	5,679	3,107	55,880	(266)	55,613

Notes 1. The ¥△266 million adjustment in segment operating income includes ¥3,437 million in intersegment eliminations and ¥△3,703 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 Non-current Assets for Each Segment

(Material Change in Amounts of Goodwill)

Omitted from record due to lack of materiality.

(Material Impairment Loss on Non-current Assets)

None

II. Third Quarter of fiscal 2017 (April 1, 2016 to December 31, 2016)

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

(¥ millions)

	Japan	North America	China	Asia	Europe	Other regions	Total	Adjustment (Note 1)	Amount recorded on quarterly consolidated financial statements (Note 3)
Net sales									
Sales to outside customers	229,723	135,718	155,773	59,742	22,184	—	603,143	—	603,143
Inter-segment sales and transfers	125,154	13	3,463	5,684	1,211	—	135,528	(135,528)	—
Total	354,878	135,732	159,237	65,427	23,395	—	738,671	(135,528)	603,143
Segment operating income or loss	29,795	13,707	11,243	6,322	2,621	△11	63,680	(98)	63,581

Notes 1. The ¥△98 million adjustment in segment operating income includes ¥3,906 million in intersegment eliminations and ¥△4,004 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
- (4) Other regions: Brazil

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

2. Information Concerning Impairment Loss or Goodwill on Non-current Assets for Each Segment

(Material Change in Amounts of Goodwill)

Omitted from record due to lack of materiality.

(Material Impairment Loss on Non-current Assets)

None