

Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending December 31, 2019 [Japanese GAAP]



November 12, 2019

Company name: **AUCNET INC.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 3964

URL: <https://www.aucnet.co.jp/>

Representative: Mr. Kiyotaka Fujisaki, Representative Director and President

Contact: Mr. Hiroki Taniguchi, Executive Officer, DM, Corporate Management Division

Phone: +81-3-6440-2552

Scheduled date of filing quarterly report: November 12, 2019

Scheduled date of commencing dividend payments: —

Preparation of supplementary explanatory materials: None

Quarterly financial results meeting: None

(Amounts of less than one million yen are rounded down.)

1. Consolidated Results for the Third Quarter of the Fiscal Year Ending December 31, 2019 (January 1, 2019 – September 30, 2019)

(1) Consolidated Operating Results (cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended September 30, 2019	14,803	2.7	1,831	(27.4)	1,867	(28.7)	958	(33.6)
September 30, 2018	14,420	(1.8)	2,521	(3.4)	2,620	(1.8)	1,443	(0.4)

(Note) Comprehensive income: Nine months ended September 30, 2019: ¥1,112 million [-19.0%]

Nine months ended September 30, 2018: ¥1,374 million [-6.1%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended September 30, 2019	34.79	34.46
September 30, 2018	52.58	51.81

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2019	28,133	17,812	62.4
As of December 31, 2018	27,257	17,413	63.1

(Reference) Equity: As of September 30, 2019: ¥17,555 million

As of December 31, 2018: ¥17,205 million

2. Cash Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2018	—	13.00	—	13.00	26.00
Year ending December 31, 2019	—	13.00	—		
Year ending December 31, 2019 (Forecast)				13.00	26.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2019 (January 1, 2019 - December 31, 2019)

(% indicates changes from the previous corresponding period.)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	19,776	1.5	2,519	(21.7)	2,878	(13.0)	1,552	(9.1)	56.34

(Note) Revision to the forecast of consolidated results announced most recently: Yes

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: Yes
(Changes in specified subsidiaries resulting in changes in scope of consolidation)
New: 1 (Company name: iryoo.com INC.) Excluded: 1 (Company name: AUCNET DIGITAL PRODUCTS INC.)
(Note) For details, please see “2. Quarterly Consolidated Financial Statements and Primary Notes (3) Notes to Quarterly Consolidated Financial Statements (Changes in significant subsidiaries during the period under review)” on page 8 of the attachments.
- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
- 1) Changes in accounting policies due to the revision of accounting standards: None
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Total number of issued and outstanding shares (common shares)
- 1) Total number of issued and outstanding shares at the end of the period (including treasury shares):

September 30, 2019:	27,754,300 shares
December 31, 2018:	27,667,500 shares
 - 2) Total number of treasury shares at the end of the period:

September 30, 2019:	150,216 shares
December 31, 2018:	151,902 shares
 - 3) Average number of shares during the period:

Nine months ended September 30, 2019:	27,545,177 shares
Nine months ended September 30, 2018:	27,453,245 shares
- * The Company has introduced Board Benefit Trust (BBT). The Company's shares which the said BBT holds are included in the treasury shares to deduct in calculation of “Total number of treasury shares at the end of the period” and “Average number of shares during the period.”

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of performance forecast and other notes

The earnings forecast and other forward-looking statements herein are based on the information currently available and certain assumptions deemed reasonable by the Company, and the Company does not guarantee their achievement. In addition, actual results may differ significantly from these forecasts due to a wide range of factors. For cautionary notes on assumptions that form the basis of the performance forecast and the use of performance forecast, please see “1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information” on page 4 of the attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

Forward-looking statements herein are based on the judgement by the Group (the Company and its consolidated subsidiaries) as of the end of the third quarter of the fiscal year under review.

The Company has adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.” (ASBJ Statement No. 28, February 16, 2018), etc. since the beginning of the first quarter of the fiscal year under review. With regard to the financial position, the figures after the retroactive application of the accounting standard, etc. were used for comparison and analysis with the previous fiscal year.

During the nine months ended September 30, 2019, the Japanese economy continued to show modest recovery with a steady improvement in the employment and income picture, owing to effects of various measures, despite continued weak results mainly in exports. On the other hand, the global economic trends remain unclear under the influence of increasing tensions over the trade issue between the United States and China and uncertainties surrounding overseas economic trends and policies.

In these circumstances, in line with our brand statement, “Shaping the Future of Commerce,” the Company has worked to further improve its social and economic value by providing competitive value-added products and services to promote information distribution in addition to its B2B information distribution intermediary businesses.

As a result, for the nine months ended September 30, 2019, net sales were ¥14,803,353 thousand (up 2.7% from the same period of the previous fiscal year), operating income was ¥1,831,062 thousand (down 27.4% from the same period of the previous fiscal year), ordinary income was ¥1,867,972 thousand (down 28.7% from the same period of the previous fiscal year), and profit attributable to owners of parent was ¥958,431 thousand (down 33.6% from the same period of the previous fiscal year).

Performance results by business segment are as follows.

1) Automobile Business

The Automobile Business comprises the Company’s mainstay used vehicle auctions (*1), shared inventory market (*2), live linked auctions (*3), the proxy bidding service (*4), used vehicle inspection service (*5), and other services.

In the Japanese automotive sector, which has close connections with our business, total new-vehicle registrations (*6) increased 3.1% year-on-year to 4.14 million units in the nine months ended September 30, 2019. The total number of used-vehicle registrations (*7) increased 2.2% year-on-year to 5.36 million units, and the number of vehicles exhibited (*8) at auctions around Japan increased 4.9% year-on-year to 5.81 million units. The total number of vehicles sold at auctions (*8) increased 3.1% year-on-year to 3.72 million units.

Meanwhile, in our used vehicle auctions, despite a slight upward market trend, the number of vehicles listed and the total number of vehicles sold at auctions decreased from the same period of the previous fiscal year due to a decline in the number of vehicles listed by imported car dealer members, who are main listing targets. In the shared inventory market, the total number of vehicles listed as well as vehicles sold at auction rose because a decline in the number of vehicles exported is coming to a halt and the number of inter-group transactions between dealers and rental and lease companies remained steady. In the used vehicle inspection service, the number of vehicles inspected rose from the same period of the previous fiscal year due to the continued favorable performance of vehicle inspections for consumers.

As a result, for the nine months ended September 30, 2019, net sales (including inter-segment net sales) were ¥9,279,223 thousand (up 3.7% from the same period of the previous year), and operating income was ¥2,912,382 thousand (up 3.5% from the same period of the previous year).

(*1) Used vehicle auctions are real-time, members-only online auctions run by the Company.

- (*2) The shared inventory market is a system that allows Aucnet Group member sellers to share inventory with other members online. The inventory remains at the seller's premises while other members access it via the online system.
- (*3) Live-linked auctions use an online live-link system that enables real-time remote access to participate at physical auction sites, through partnerships between AUCNET and the physical auction sites.
- (*4) The proxy bidding service is an agency service provided by i-Auc, Inc. to buy, sell, settle payment for and transport used vehicles at auctions on behalf of its members.
- (*5) The used vehicle inspection service and related inspection skills training services are provided by AIS INC.
- (*6) Based on statistics compiled by Japan Automobile Dealers Association
- (*7) Based on statistics compiled by Japan Automobile Dealers Association and Japan Light Motor Vehicle and Motorcycle Association
- (*8) Based on U-Car Full Data Book and Export Quotation Book

2) Digital Product Business

The Digital Product Business comprises auctions for used digital equipment including used smartphones and used PCs, and services pertaining to distribution.

While the distribution volume in overall smartphone market is declining due mainly to slow domestic sales, although new smartphones were released, the effect was minor owing to the situation that it was shortly after they were released. In addition, the distribution volume increased from the same period of the previous fiscal year owing to changes of the contract details with major customers in April, but the commissions per device decreased significantly from the same period of the previous fiscal year. Furthermore, operating expenses related to the relocation of domestic processing centers increased. On the other hand, from the perspective of overseas business, operating expenses increased mainly because the preparation for transactions with alliance partners took more time than expected and only proceeded to the phase of trial transactions, despite the fact that our facility infrastructure in the United States was in place.

As a result, for the nine months ended September 30, 2019, net sales were ¥2,735,507 thousand (down 2.6% from the same period of the previous year), and operating income was ¥449,901 thousand (down 70.7% from the same period of the previous year).

3) Other Information Distribution Business

The Other Information Distribution Business comprises auctions for pre-owned luxury brand items, used motorcycles, and flowers (cut and potted), and services pertaining to distribution.

For pre-owned luxury brand items, both the number of sold items and the transaction volume increased compared to the same period of the previous fiscal year due to success of measures to acquire new members. In addition, the amount of overseas successful bids greatly rose from the same period of the previous fiscal year owing to favorable conditions mainly in the United States and Europe. For used motorcycles, while the market conditions have become more severe, various measures were implemented. However, the number of motorcycles sold was at the level of the same period of the previous fiscal year due to difficulties in securing the number of motorcycles listed. On the other hand, rental services remained steady with the numbers of new members acquired as well as motorcycles in operation increased from the same period of the previous fiscal year. For flowers (cut and potted), various measures paid off as seen by the fact that, among others, the improved delivery efficiency successfully reduced complaints and stockouts. In addition, the “Zoto no Madoguchi” service arranging flower gifts continued to be well received. These measures all contributed to the increase in the transaction volume from the same period of the previous fiscal year.

As a result, for the nine months ended September 30, 2019, net sales (including inter-segment net sales) were ¥2,044,375 thousand (up 3.1% from the same period of the previous year), and operating income was ¥516,230 thousand (up 11.3% from the same period of the previous year).

4) Other Business

Other Business comprises system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

For the nine months ended September 30, 2019, net sales (including inter-segment net sales) were ¥1,301,440 thousand (down 1.3% from the same period of the previous year), and operating loss was ¥228,620 thousand (the operating loss for the same period of the previous year was ¥194,528 thousand).

(2) Explanation of Financial Position

Total assets as of the end of the third quarter of the fiscal year under review amounted to ¥28,133,697 thousand, an increase of ¥876,522 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥40,903 thousand increase in accounts receivable – trade, a ¥2,343,555 thousand increase in due from auction members, a ¥78,322 thousand increase in intangible assets and a ¥629,066 thousand increase in investments and other assets, despite a ¥3,288,438 thousand decrease in cash and deposits and a ¥18,446 thousand decrease in property, plant and equipment.

Total liabilities amounted to ¥10,321,120 thousand, an increase of ¥477,645 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥15,992 thousand increase in accounts payable – trade, a ¥1,105,271 thousand increase in due to auction members and a ¥26,148 thousand increase in provision for stocks payment, despite a ¥101,785 thousand decrease in net defined benefit liability.

Total net assets amounted to ¥17,812,577 thousand, an increase of ¥398,877 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥14,947 thousand increase in capital stock, a ¥223,233 thousand increase in retained earnings, a ¥38,264 thousand increase in valuation difference on available-for-sale securities, a ¥105,592 thousand increase in remeasurements of defined benefit plans and a ¥49,388 thousand increase in non-controlling interests, despite a ¥22,228 thousand decrease in capital surplus, a ¥2,794 thousand decrease in treasury shares and a ¥13,115 thousand decrease in foreign currency translation adjustment.

(3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information

Based on recent trends in the business performance, the Company has revised the full-year performance forecast for the fiscal year ending December 31, 2019, which was announced on February 14, 2019.

The performance forecast has been prepared based on information available at this time, and the actual performance may differ from the forecast due to a variety of factors.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2018	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	16,489,700	13,201,262
Notes and accounts receivable - trade	861,503	902,406
Due from auction members	2,639,122	4,982,678
Other	1,400,004	2,482,589
Allowance for doubtful accounts	(68,094)	(59,120)
Total current assets	21,322,235	21,509,815
Non-current assets		
Property, plant and equipment	1,551,928	1,533,482
Intangible assets	1,393,462	1,471,785
Investments and other assets	2,989,547	3,618,614
Total non-current assets	5,934,939	6,623,882
Total assets	27,257,175	28,133,697
Liabilities		
Current liabilities		
Accounts payable - trade	599,991	615,983
Due to auction members	4,692,847	5,798,119
Other provision	91,330	249,678
Other	1,935,393	1,160,402
Total current liabilities	7,319,563	7,824,185
Non-current liabilities		
Provision for stocks payment	40,139	66,288
Net defined benefit liability	1,705,599	1,603,813
Other provision	5,679	8,980
Other	772,491	817,852
Total non-current liabilities	2,523,911	2,496,935
Total liabilities	9,843,475	10,321,120
Net assets		
Shareholders' equity		
Capital stock	1,711,335	1,726,283
Capital surplus	6,801,669	6,779,441
Retained earnings	8,815,791	9,039,025
Treasury shares	(248,596)	(245,802)
Total shareholders' equity	17,080,200	17,298,946
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	161,323	199,588
Foreign currency translation adjustment	10,187	(2,927)
Remeasurements of defined benefit plans	(45,979)	59,613
Total accumulated other comprehensive income	125,531	256,273
Non-controlling interests	207,968	257,357
Total net assets	17,413,699	17,812,577
Total liabilities and net assets	27,257,175	28,133,697

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine Months Ended September 30, 2018 and 2019

(Thousand yen)

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2019
Net sales	14,420,990	14,803,353
Cost of sales	5,485,865	6,745,800
Gross profit	8,935,124	8,057,552
Selling, general and administrative expenses	6,414,077	6,226,489
Operating income	2,521,046	1,831,062
Non-operating income		
Interest income	5,915	20,146
Dividend income	34,174	37,035
Share of profit of entities accounted for using equity method	46,780	34,332
Other	23,489	38,354
Total non-operating income	110,359	129,868
Non-operating expenses		
Interest expenses	2,718	1,411
Foreign exchange losses	7,286	88,752
Other	873	2,795
Total non-operating expenses	10,878	92,959
Ordinary income	2,620,528	1,867,972
Extraordinary income		
Gain on sales of investment securities	—	10,000
Other	7,012	157
Total extraordinary income	7,012	10,157
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	—	74,269
Loss on sales and retirement of non-current assets	23	30,568
Other	62,220	18,334
Total extraordinary losses	62,243	123,172
Profit before income taxes	2,565,297	1,754,957
Income taxes	1,096,648	772,744
Profit	1,468,648	982,213
Profit attributable to non-controlling interests	25,037	23,782
Profit attributable to owners of parent	1,443,611	958,431

Quarterly Consolidated Statements of Comprehensive Income
 Nine Months Ended September 30, 2018 and 2019

(Thousand yen)

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2019
Profit	1,468,648	982,213
Other comprehensive income		
Valuation difference on available-for-sale securities	(98,831)	38,264
Foreign currency translation adjustment	1,052	(13,115)
Remeasurements of defined benefit plans, net of tax	3,639	105,592
Total other comprehensive income	(94,139)	130,742
Comprehensive income	1,374,508	1,112,955
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,349,471	1,089,173
Comprehensive income attributable to non-controlling interests	25,037	23,782

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in amount of shareholders' equity)

Not applicable.

(Changes in significant subsidiaries during the period under review)

AUCNET DIGITAL PRODUCTS INC., which was a consolidated subsidiary of the Company, is excluded from the scope of consolidation because it ceased to exist by the absorption-type merger with the Company as the surviving entity during the second quarter of the fiscal year under review. In addition, although not applicable to changes in specified subsidiaries, Assist Inc., which was a consolidated subsidiary of the Company, is excluded from the scope of consolidation because it ceased to exist by the absorption-type merger with JBTV, Inc. as the surviving entity, which is also a consolidated subsidiary of the Company during the second quarter of the fiscal year under review.

The Company increased the capital of iryoo.com INC., which is a specified subsidiary of the Company, during the third quarter of the fiscal year under review. As a result, iryoo.com INC. is included in the scope of consolidation due to the increase of its financial significance. In addition, although not applicable to changes in specified subsidiaries, CARSERU, INC., which was newly established, is included in the scope of consolidation during the third quarter of the fiscal year under review.

(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)

(Calculation of Tax Expenses)

Tax expenses are calculated by making a reasonable estimate of the effective tax rate after application of tax-effect accounting to profit before income taxes for the fiscal year (consolidated) including the third quarter of the fiscal year under review, with quarterly profit before income taxes then multiplied by the estimated effective tax rate.

However, in the event that this tax expense calculation using estimated effective tax rate results in a significantly improbable figure, a method using the statutory effective tax rate may be adopted.

(Additional Information)

(Performance-Linked Stock Compensation Plan)

Based on the resolution by the 10th Annual General Shareholders Meeting held on March 28, 2018, the Company has introduced a performance-linked stock compensation plan in the form of a Board Benefit Trust (BBT) (the "Plan"), aiming to raise the motivation for contributing to improving performance and increasing corporate value over the medium- to long-term by further clarifying the link between the compensation of Directors and Executive Officers (the "Directors, etc.") and the performance and stock value of the Company.

The Company has conformed to the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ Practical Issues Task Force (PITF) No. 30 on March 26, 2015) with respect to the accounting methods of the aforementioned trust agreement.

(1) Outline of the Transaction

The Plan is a performance-linked stock compensation plan whereby shares in the Company are acquired through a trust using money contributed by the Company as funds (hereinafter, the trust established pursuant to the Plan is referred to as the "Trust"), and shares in the Company and cash equivalents of such shares at their market value (collectively, the "Company Shares, etc.") are delivered through the Trust to Directors, etc. pursuant to the Officer Stock Delivery Regulations established by the Company. The time for Directors, etc. to

receive delivery of Company Shares, etc. shall in principle be the date on which the Directors, etc. retire.

(2) Shares of the Company Held by Trust

Shares of the Company held by Trust are recorded as treasury shares under the category of net assets at book value in the Trust (excluding accompanying expenses). Book value and the number of aforementioned treasury shares as of the end of the third quarter of the fiscal year under review were ¥245,484 thousand and 150,000 shares, respectively.

(Adoption of the “Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.”)

In addition, the Company has adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.” (ASBJ Statement No. 28, February 16, 2018), etc. since the beginning of the first quarter of the fiscal year under review. As a result, deferred tax assets are now presented in the “investments and other assets” section.

(Segment information, etc.)

[Segment information]

For the nine months ended September 30, 2018 (from January 1, 2018 to September 30, 2018)

1. Information on net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	8,820,001	2,809,369	1,979,798	13,609,169	811,821	14,420,990	—	14,420,990
Inter-segment net sales or transfers	127,113	—	3,635	130,748	506,237	636,985	(636,985)	—
Total	8,947,114	2,809,369	1,983,433	13,739,917	1,318,058	15,057,975	(636,985)	14,420,990
Segment income (loss)	2,813,386	1,533,732	463,800	4,810,919	(194,528)	4,616,391	(2,095,344)	2,521,046

(Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥2,095,344 thousand includes goodwill amortization of negative ¥481,675 thousand, and corporate expenses of negative ¥1,613,668 thousand not allocated to specific reportable segments. Corporate expenses chiefly comprise general and administrative expenses not allocated to specific reportable segments.

3. Adjustments are made to reconcile segment income (loss) with operating income reported on the quarterly consolidated statements of income.

2. Reporting segment-specific information on impairment loss on non-current assets and details of goodwill, etc.

Not applicable.

For the nine months ended September 30, 2019 (from January 1, 2019 to September 30, 2019)

1. Information on net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	9,168,384	2,735,507	2,044,375	13,948,267	855,085	14,803,353	—	14,803,353
Inter-segment net sales or transfers	110,838	—	—	110,838	446,355	557,194	(557,194)	—
Total	9,279,223	2,735,507	2,044,375	14,059,106	1,301,440	15,360,547	(557,194)	14,803,353
Segment income (loss)	2,912,382	449,901	516,230	3,878,514	(228,620)	3,649,894	(1,818,831)	1,831,062

(Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as

system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥1,818,831 thousand is corporate expenses, which chiefly comprise general and administrative expenses not allocated to specific reportable segments.
3. Adjustments are made to reconcile segment income (loss) with operating income reported on the quarterly consolidated statements of income.

2. Reporting segment-specific information on impairment loss on non-current assets and details of goodwill, etc.

Not applicable.