

Financial Report for the 6-month Period Ended June 30, 2016 (Consolidated - Japanese Standards)

Company name: DAITO ELECTRON CO., LTD.
 Stock exchange listing: 1st Sections of the Tokyo Stock Exchange
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Scheduled date of submitting quarterly statement: August 10, 2016

Scheduled date of starting dividend payment: —

Support explanatory material for quarterly settlement: Prepared

Explanatory meeting for quarterly settlement: Held (for institutional investors and analysts)

(Figures less than a million yen are rounded down.)

1. Financial results for 6-month period ended June 30, 2016 (Consolidated)

(1) Operating results (Cumulative)

(Figures shown in percentages indicate the year-on-year rates of increase/decrease.)

	Net sales		Operating income		Ordinary income		Quarterly net income attributable to parent shareholders	
	Mil. yen	%	Mil. yen	%	Mil. yen	%	Mil. yen	%
2Q/2016	21,850	(0.7)	1,083	14.1	1,005	6.1	576	(12.7)
2Q/2015	22,005	16.8	949	313.8	948	315.8	660	284.9

Note: Comprehensive income 2Q/2016: 357 million yen (-59.8%) 2Q/2015: 888 million yen (548.7%)

	Quarterly net income per share		Diluted quarterly net income per share	
	Yen		Yen	
2Q/2016	51.93		—	
2Q/2015	59.47		—	

Note: Diluted quarterly net income per share is not shown because there existed no potential common stocks.

(2) Financial standing

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
2Q/2016	29,920	13,258	44.3	1,193.87
FY2015	28,681	13,179	45.9	1,186.64

(Reference) Shareholders' equity 2Q/2016: 13,255 million yen FY2015: 13,176 million yen

2. Dividend payments

	Annual dividend payment (Yen)				
	1Q end	2Q end	3Q end	fiscal end	Total
FY2015	—	0.00	—	25.00	25.00
FY2016	—	0.00			
FY2016 (expected)			—	20.00	20.00

(Note) Revision of the most recently announced dividend payment expectation: None

3. Consolidated operating estimates for fiscal 2016 ending December 31, 2016

(Figures shown in percentages indicate the year-on-year rates of increase/decrease.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Mil.yen	%	Mil.yen	%	Mil.yen	%	Mil.yen	%	Yen
Full year	46,500	7.6	1,650	7.0	1,650	7.3	1,020	(9.9)	91.86

(Note) Revision of the most recently announced operating estimates: None

* Notes

(1) Change in significant subsidiaries (change in specific subsidiaries that entails a change in the scope of consolidation) during the current cumulative quarter: None

(2) Application of accounting procedures specially applicable to preparation of quarterly consolidated financial statements: None

(3) Change in accounting principles and estimates or restatement:

- ① Change associated with revision in accounting principles, etc: Changed
- ② Other change in accounting principles: None
- ③ Change in accounting estimates: None
- ④ Restatement: None

(Note) For the detail, please refer to “(3) Change in accounting principles and estimates or restatement” under “2. Matters regarding summary information” on page 4 of the attached material.

(4) Number of outstanding shares (common shares)

- ① number of outstanding shares at period-end (including treasury stock)
 - 2Q 2016 : 11,155,979 shares
 - FY 2015 : 11,155,979 shares
- ② number of treasury stocks at period-end
 - 2Q 2016 : 52,897 shares
 - FY 2015 : 51,811 shares
- ③ average number of shares during period (quarterly cumulative)
 - 2Q 2016 : 11,103,352 shares
 - 2Q 2015 : 11,104,755 shares

* Representation on implementation status of the quarterly review procedures

This Quarterly Financial Report is not subject to the quarterly review procedures under the Financial Instruments and Exchange Act, and the review procedures for quarterly financial statements under the Act have not been completed at the time of disclosure of this Report.

* Explanations on appropriate use of the earnings forecasts and other special comments

(Note on references to future)

Please note that the statements concerning the future contained in this Report, including the earnings forecasts, are based on information obtained by the Company to date and given assumptions considered reasonable, but not a commitment to achieve them. In addition, the actual results may differ to a great extent depending on various factors that may arise in the future.

(Method of acquiring support explanatory material for quarterly settlement and explanatory meeting for quarterly settlement)

The Company is scheduled to hold an explanatory meeting for institutional investors and analysts on Friday, August 5, 2016. The support explanatory material used on the day will be shown on our website as soon as possible after such meeting.

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1. Qualitative information on accounts for the current quarter

(1) Discussion regarding business results

The Japanese economy during these cumulative two quarters remained with a sense of uncertainty about the future impacted by continuingly stagnant consumer spending, radical foreign exchange fluctuations, and the low stock prices, etc., with all the recovery trend of corporate performance backed by the effects of the government's economic policy and the monetary relaxation policy by the Bank of Japan.

Globally, the US economy remained on a recovery path, while the growth of the economies of China and other newly emerging countries in Asia was on a deceleration trend. In addition, there have been economic concerns over the future with UK's moves toward the withdrawal from the European Union.

In our electronics industry, demand increased for electronic equipment/components and manufacturing equipment in auto, industrial robot, and IoT related fields, while the business in the smartphone, PC, and tablet related markets remained on a slowing trend.

Under these circumstances, the Group's business results remained almost the same in sales as those of the same term last year. As for profits, supported by the improved profitability with the increased sales of domestic manufacturing subsidiaries' products, the operating income and the ordinary income exceeded those of the same term last year; however, with the tax burden increased associated with the elimination of the losses carried forward by some of the subsidiaries, the quarterly net income attributable to parent shareholders decreased.

Consequently, the Group obtained the following results in the current cumulative second quarter: net sales 21,850 million yen (down 0.7% from the same term last year); operating income 1,083 million yen (up 14.1%); ordinary income 1,005 million yen (up 6.1%); and quarterly net income attributable to parent shareholders 576 million yen (down 12.7%).

The outline of segmental performance is as follows:

- Domestic Sales Companies

As for this segment, with the organic EL related market activated, cameras and peripherals of the "Image-Related Equipment and Parts," and with increased demand for control equipment and measurement equipment, etc., built-in board computers of the "Embedded System" did well, respectively. However, as the performance of the "Semiconductors and FPD Manufacturing Equipment" fell short of that of the same term last year, when a major delivery was completed, the sales and profits finished below those of the same term last year.

Consequently, net sales of this segment totaled 18,445 million yen (down 1.6% from the same term last year) with a segmental (operating) income of 293 million yen (down 4.5%).

- Domestic Manufacturing Companies

As for the performance of Daitron Technology Co., Ltd., which deals with manufacturing equipment, with the growth of the sales of processing and inspection equipment, etc. mainly in the Japanese and the Chinese markets associated with the increased demand for telecom-related semiconductor manufacturing equipment,

both sales and profits exceeded largely the previous year's results. As for Daito Denso Co., Ltd., which deals with electronic equipment and components, with the strong sales of harnesses for aerospace and defense fields and special connectors for ships and marine fields, both sales and profits exceeded the previous year's results.

Consequently, net sales of this segment totaled 1,384 million yen (up 31.5% from the same term last year) with the segmental (operating) income of 692 million yen (up 51.7%). With a large percent of the sales through the Group's domestic sales companies, the total sales including inter-segmental sales amounted to 4,531 million yen (up 5.3%).

- Overseas Subsidiaries

As for this segment, sales of the "Image-Related Equipment and Parts" and the "Electronic Components Manufacturing Equipment" increased in the US and part of the Asian market. However, due to the sharp rise of the yen in addition to the decreased sales of the "Electronic Components & Assembly Products" and the "Power Supply Equipment" mainly in the Chinese market, the sales and profits fell below those of the same term last year.

Consequently, net sales of this segment totaled 2,021 million yen (down 8.6% from the same term last year) with a segmental (operating) income of 94 million yen (down 34.9 million yen).

(2) Discussion regarding financial conditions

- Assets, liabilities, and net assets

(Assets)

Current assets at the end of this quarter amounted to 24,513 million yen (up 855 million yen from the previous fiscal-end), primarily due to the increases in electronically recorded monetary claims by 791 million yen, advance payment included in other current assets by 612 million yen, and cash and deposits by 544 million yen, respectively, despite the decrease in notes and accounts receivable by 965 million yen. Fixed assets amounted to 5,406 million yen (up 382 million yen), as a result of the increase in tangible fixed assets by 523 million yen despite the decrease in investments and other assets by 133 million yen.

Consequently, the total assets stood at 29,920 million yen, up 1,238 million yen from the end of the previous fiscal year.

(Liabilities)

Current liabilities at the end of this quarter amounted to 12,933 million yen (up 627 million yen from the previous fiscal-end), primarily due to the increase in advance received included in other current liabilities by 541 million yen. Fixed liabilities amounted to 3,728 million yen (up 531 million yen) primarily due to the increase in long-term loans by 488 million yen.

Consequently, the total liabilities stood at 16,661 million yen, up 1,159 million yen from the end of the previous fiscal year.

(Net assets)

Total net assets at the end of this quarter amounted to 13,258 million yen (up 79 million yen from the previous fiscal-end), primarily due to the increase in retained earnings of 298 million yen despite the decrease in difference from evaluation of other investment securities by 122 million yen.

Consequently, the shareholders' equity ratio stood at 44.3%, down 1.6 point from the end of the previous fiscal year.

- Cash flow

The balance of cash and cash equivalents at the end of this cumulative second quarter (hereinafter called "Fund") stood at 6,795 million yen, up 544 million yen from the previous fiscal-end.

The status of each cash flow during this period and their factors are as follows:

(Cash flows from operating activities)

The Fund increased 977 million yen (475 million yen decrease in the same term last year) as a result of operating activities: the major increasing factors are the increases in net income before taxes and adjustments of 1,006 million yen and advance received of 560 million yen, respectively, and the major decreasing factor is the increase in advance payment of 626 million yen.

(Cash flows from investing activities)

The Fund decreased 636 million yen (104 million yen decrease in the same term last year) as a result of investing activities: the major decreasing factor is the acquisition of tangible fixed assets of 624 million yen.

(Cash flows from financing activities)

The Fund increased 328 million yen (221 million yen decrease in the same term last year) as a result of financing activities: the major increasing factor is the proceeds from long-term loans of 700 million yen, and the major decreasing factor is the dividends paid of 276 million yen

(3) Discussion regarding forecast information such as consolidated earnings forecast

As for the business environment surrounding the Group, there is a growing sense of uncertainty about the future due to such factors as the geopolitical risks increasing with the Middle East situation and terror attacks as well as economic slowdown in China and other newly emerging Asian nations in the global economy, while in the Japanese economy, the move of exchange rates with the yen continuingly strong and the consumption trend which has remained low.

Under such circumstances, we have decided not to revise the original consolidated earnings forecast for the full year because it is difficult to review them accurately at this point of time. We will make a close examination again by around the 3Q earnings announcement scheduled on November 4, and in case there is a need of revision in the forecasted figures, disclose them without delay.

2. Matters regarding summary information (Notes)

(1) Change in significant subsidiaries during the quarter: N.A.

(2) Application of accounting procedures specially applicable to preparation of quarterly consolidated financial statements: N.A.

(3) Change in accounting principles, change in accounting estimates, and revised and restatements:

(Application of accounting standards, etc. for business combination)

Applying the Accounting Standards for Business Combination (Corporate Accounting Standards No.21, September 13, 2015; hereinafter called "Business Combination Accounting Standards"), the Accounting Standard for Consolidated Financial Statements (Corporate Accounting Standards No.22, September 13, 2015; hereinafter called "Consolidated Accounting Standards"), and the Accounting Standard for Business Divestitures

(Corporate Accounting Standards No.7, September 13, 2015; hereinafter called "Business Divestitures Accounting Standards") as from the current first quarter, the Company has changed the calculation method to that of posting as capital surplus the differences arising from a change in the equity interests of the Company in its subsidiary over which the control is continued, as well as that of posting the acquisition related expenses as the costs in the period in which such expenses were incurred. As for the business combination to be implemented at or after the beginning of the current first quarter, the calculation method has been changed to the one reflecting the reviewed allocation of acquisition costs by determining the tentative accounting procedure in the consolidated financial statements for the quarter to which the date of the business combination belongs. In addition, the presentations of Quarterly net income, etc. were changed, and that of Minority interests was changed to Non-controlling shareholders' interests. To reflect these changes in presentations, the consolidated financial statements for the previous second cumulative quarter and the previous accounting period have been reclassified.

The Company applies the Business Combination Accounting Standards, etc. in accordance with the transitional treatments set forth in Paragraph 58-2 (4) of the Business Combination Accounting Standards, Paragraph 44-5 (4) of the Consolidated Accounting Standards, and Paragraph 57-4 (4) of the Business Divestitures Accounting Standards from the beginning of the current first quarter into the future.

There will be no effect of this change on the consolidated quarterly financial statements.

(4) Additional information

(Effect of changes in corporate tax rates, etc.)

The Act for Partial Revision of the Income Tax Act (Act No. 15 of 2016) and the Act for Partial Revision of the Local Tax Act (Act No. 13 of 2016) were promulgated on March 31, 2016, and the tax rates, etc. will be lowered from the accounting year commencing on or after April 1, 2016. With this revision, the effective statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities will be lowered from the previous 35.6% to: (i) 33.1% for the temporary differences expected to disappear in the accounting year commencing on January 1, 2016; (ii) 30.9% for the temporary differences expected to disappear in the accounting years commencing on January 1, 2017 and January 1, 2018; and (iii) 30.6% for the temporary differences expected to disappear in the accounting year commencing on January 1, 2019.

The effect of this tax rate change will be minor.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: thousand yen)

	at December 31, 2015	at June 30, 2016
Assets		
Current assets		
Cash and deposits	6,281,111	6,825,649
Notes and accounts receivable - Trade	11,182,946	10,217,149
Electronically recorded monetary claims	2,387,438	3,178,728
Goods and products	1,604,495	1,790,667
Work in process	1,383,590	1,047,133
Raw materials	339,710	332,227
Other current assets	482,711	1,124,189
Allowance for doubtful accounts	(3,820)	(2,185)
Total current assets	23,658,183	24,513,559
Fixed assets		
Tangible fixed assets	3,172,584	3,695,782
Intangible fixed assets	81,866	75,304
Investments and other assets		
Other investments and other assets	1,836,422	1,696,968
Allowance for doubtful accounts	(67,074)	(61,472)
Total investments and other assets	1,769,348	1,635,496
Total fixed assets	5,023,798	5,406,582
Total assets	28,681,982	29,920,142

	at December 31, 2015	at March 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,701,389	6,227,974
Electronically recorded monetary obligation	3,530,209	4,031,014
Short-term loans payable	100,000	100,000
Long-term loans payable due within one year	66,660	206,656
Accrued Income taxes, etc.	291,006	373,140
Allowance for bonuses	57,095	86,756
Other allowance	39,845	62,381
Other current liabilities	1,518,852	1,845,129
Total current liabilities	<u>12,305,058</u>	<u>12,933,052</u>
Fixed liabilities		
Long-term loans payable	838,905	1,327,247
Liabilities pertaining to employees' retirement benefits	2,215,662	2,280,205
Asset retirement obligation	48,292	48,660
Other fixed liabilities	94,096	72,006
Total fixed liabilities	<u>3,196,956</u>	<u>3,728,119</u>
Total liabilities	<u>15,502,014</u>	<u>16,661,171</u>
Net assets		
Shareholders' equity		
Common stock	2,200,708	2,200,708
Capital surplus	2,482,896	2,482,896
Retained earnings	8,242,070	8,541,062
Treasury stock	(19,882)	(20,637)
Total shareholders' equity	<u>12,905,793</u>	<u>13,204,030</u>
Accumulated other comprehensive income		
Difference from evaluation of other investment securities	422,229	299,935
Deferred gains or losses on hedges	(1,176)	1,814
Foreign currency translation adjustments	6,194	(102,810)
Accumulated adjustment pertaining to employees' retirement benefits	(156,439)	(147,365)
Total accumulated other comprehensive income	<u>270,807</u>	<u>51,574</u>
Minority interests	3,366	3,366
Total net assets	<u>13,179,967</u>	<u>13,258,970</u>
Total liabilities and net assets	<u>28,681,982</u>	<u>29,920,142</u>

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

(Consolidated Statement of Income)

(Unit: thousand yen)

	6 months Ended June 30, 2015	6 months Ended June 30, 2016
Net sales	22,005,796	21,850,803
Cost of sales	17,109,376	16,782,343
Gross profit	4,896,420	5,068,460
Selling, general and administrative expenses	3,946,465	3,984,994
Operating income	949,954	1,083,465
Non-operating income		
Interest income	2,599	1,406
Dividend income	9,398	7,718
Insurance dividend	11,909	13,029
Other non-operating income	14,622	8,854
Total non-operating income	38,529	31,009
Non-operating expenses		
Interest expense	9,609	11,806
Loss on sale of trade notes	2,219	1,339
Foreign exchange loss	17,510	88,215
Other non-operating losses	10,968	7,120
Total non-operating expenses	40,308	108,481
Ordinary income	948,175	1,005,994
Extraordinary income		
Gain on sale of fixed assets	4,479	534
Gain on sale of investment securities	0	—
Total extraordinary income	4,479	534
Extraordinary losses		
Loss on sale and retirement of fixed assets	433	1
Valuation loss on securities	1,780	—
Total extraordinary losses	2,213	1
Net income before taxes and adjustments	950,441	1,106,517
Income, inhabitants and enterprise taxes	329,121	443,856
Income taxes-deferred	(39,061)	(13,925)
Total income taxes	290,059	429,931
Quarterly net income	660,382	576,596
Quarterly net income attributable to parent shareholders	660,382	576,596

(Consolidated Statement of Comprehensive Income)

(Unit: thousand yen)

	6 months Ended June 30, 2015	6 months Ended June 30, 2016
Quarterly net income	660,382	576,596
Other comprehensive income		
Difference from evaluation of other securities	210,146	(122,293)
Deferred gains or losses on hedges	3,450	2,991
Foreign currency translation adjustments	36,692	(109,005)
Adjustment pertaining to employees' retirement benefits	(21,832)	9,074
Total other comprehensive income	228,457	(219,233)
Quarterly comprehensive income	888,839	357,362
(breakdown)		
Quarterly comprehensive income pertaining to parent shareholders	888,839	357,362
Quarterly comprehensive income pertaining to non-controlling shareholders	—	—

(3) Consolidated Statement of Cash Flows

(Unit: thousand Yen)

	6 months Ended June 30, 2015	6 months Ended June 30, 2016
Cash flows from operating activities		
Net income before taxes and adjustments	950,441	1,006,527
Depreciation and amortization	115,534	104,088
Interest and dividend income	(11,997)	(9,125)
Interest expense	9,609	11,806
(Gain)/Loss on sale and retirement of fixed assets	(4,045)	(533)
(Gain)/Loss on sale of investment securities	(0)	—
(Gain)/Loss on valuation of investment securities	1,780	—
Decrease/(increase) in accounts receivable	(1,008,423)	90,538
Decrease/(increase) in inventories	(293,828)	98,145
Decrease/(increase) in advance payment	73,988	(626,129)
Increase/(decrease) in trade notes and accounts payable	(129,835)	100,989
Increase/(decrease) in advance received	51,673	560,321
Increase/(decrease) in allowances	48,017	52,197
Others	4,130	(30,615)
Sub-total	(192,954)	1,358,211
Interest and dividend received	12,264	10,228
Interest paid	(10,067)	(13,517)
Income tax and other taxes paid	(284,484)	(376,967)
Net cash provided by/(used in) operating activities	(475,242)	977,954
Cash flows from investing activities		
Payment for purchase of tangible fixed assets	(97,636)	(624,761)
Proceeds from sale of tangible fixed assets	4,628	7,390
Payment for purchase of investment securities	(9,823)	(10,144)
Others	(1,794)	(8,990)
Net cash provided by/(used in) investing activities	(104,626)	(636,505)
Cash flows from financing activities		
Proceeds from long-term loans	—	700,000
Repayment of long-term loans payable	(33,330)	(71,662)
Dividends paid	(165,751)	(276,204)
Others	(22,801)	(23,700)
Net cash provided by/(used in) financing activities	(221,883)	328,432
Effect of exchange rate changes on cash and cash equivalents	6,798	(125,344)
Increase/(decrease) in cash and cash equivalents	(794,952)	544,537
Cash and cash equivalents at beginning of period	6,092,205	6,251,111
Cash and cash equivalents at quarter end	5,297,252	6,795,649

(4) Notes regarding Quarterly Consolidated Financial Statements

(Notes regarding premises of going concern) N.A.

(Notes for significant change in the amount of shareholders' equity) N.A.

(Segment information, etc.)

Segment information

[6 months Ended June 30, 2015]

a. Information on the amounts of net sales and profits by report segment

(Unit: thousand yen)

	Report Segment			
	Domestic Sales Companies	Domestic Manufacturing Companies	Overseas Subsidiaries	Total
Net sales				
- Sales to outside customers	18,742,546	1,052,168	2,211,081	22,005,796
- Inter-segmental sales or transfer	623,632	3,249,585	82,360	3,955,577
Total	19,366,179	4,301,754	2,293,441	25,961,374
Segment income	307,860	456,933	144,871	909,665

	Adjustment (*1)	Amount on Consolidated Financial Statements (*2)
Net sales		
- Sales to outside customers	—	22,005,796
- Inter-segmental sales or transfer	(3,955,577)	—
Total	(3,955,577)	22,005,796
Segment income	40,288	949,954

(Notes) 1. Adjustment in Segment income of 40,288 thousand yen includes the Inter-segmental transaction elimination of 64,705 thousand yen and Corporate allocation not allocated to each Report Segment of (24,416) thousand yen. The main portion of Corporate allocation is Selling, general and administrative expenses not attributable to Report Segments.

2. Adjustments are made in the difference between Segment income and the Operating income on the quarterly Consolidated Statement of Income.

b. Information on Impairment loss on fixed assets or Goodwill, etc. by Report Segment: N.A.

[6 months Ended June 30, 2016]

a. Information on the amounts of net sales and profits by report segment

(Unit: thousand yen)

	Report Segment			
	Domestic Sales Companies	Domestic Manufacturing Companies	Overseas Subsidiaries	Total
Net sales				
- Sales to outside customers	18,445,640	1,384,040	2,021,122	21,850,803
- Inter-segmental sales or transfer	564,453	3,147,611	57,031	3,769,096
Total	19,010,093	4,531,652	2,078,154	25,619,900
Segment income	293,852	692,959	94,261	1,081,074

	Adjustment (*1)	Amount on Consolidated Financial Statements (*2)
Net sales		
- Sales to outside customers	—	21,850,803
- Inter-segmental sales or transfer	(3,769,096)	—
Total	(3,769,096)	21,850,803
Segment income	2,391	1,083,465

(Notes) 1. Adjustment in Segment income of 2,391 thousand yen includes the inter-segmental transaction elimination of 24,016 thousand yen and Corporate allocation not allocated to each Report Segment of (21,624) thousand yen. The main portion of Corporate allocation is Selling, general and administrative expenses not attributable to Report Segments.

2. Segmental income is adjusted to Operating income on the quarterly Consolidated Statement of Income.

b. Information on Impairment loss on fixed assets or Goodwill, etc. by Report Segment: N.A.