

Summary of Consolidated Financial Results for the Second Quarter of Fiscal Year Ending March 31, 2018 (Japanese Accounting Standards)

November 8, 2017

Company Name: **Zensho Holdings Co., Ltd.** Stock Listings Tokyo Stock Exchange
 Code Number: 7550 URL <http://www.zensho.co.jp/>
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 Scheduled date for submission of quarterly securities report: November 8, 2017 Scheduled date for payment of dividends: December 5, 2017
 Supplementary documents for quarterly results : Yes
 Quarterly results briefing : Yes

(Figures rounded down to the nearest million yen)

1. Consolidated Financial Results for the Cumulative Second Quarter (April 1, 2017 to September 30, 2017)

(1) Consolidated Financial Results (Percentages (%) indicate changes from the previous year)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2017	290,980	8.3	10,027	(5.9)	10,114	1.1	5,106	3.8
September 30, 2016	268,647	2.0	10,654	69.0	10,007	70.9	4,917	98.2

Note: Comprehensive income Six months ended September 30, 2017 4,900 million yen(14.4 %)
 Six months ended September 30, 2016 4,283 million yen(114.8 %)

	Profit attributable to owners of parent per share	Profit attributable to owners of parent per share (Diluted)
Six months ended	Yen	Yen
September 30, 2017	34.45	-
September 30, 2016	33.07	-

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets per share
Six months ended	Million yen	Million yen	%	Yen
September 30, 2017	292,417	85,617	24.3	479.86
Fiscal year ended March 31, 2017	288,999	82,107	23.5	458.07

Note: Shareholders' Equity: September 30, 2017 71,137 million yen March 31, 2017 67,905 million yen

2. Dividends

	Dividend per Share				
	End of Q1	End of Q2	End of Q3	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2017	-	9.00	-	9.00	18.00
Fiscal year ending March 31, 2018	-	9.00	-	9.00	18.00
Fiscal year ending March 31, 2018 (forecast)	-	-	-	9.00	18.00

Note: Revisions to dividend forecasts published recently : None

3. Consolidated Forecasts for Fiscal Year Ending March 31, 2018 (April 1, 2017 to March 31, 2018)

(Percentages (%) indicate changes from the previous year for annual figures and year-on year changes for quarterly figures)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent		Profit attributable to owners of parent per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	595,180	9.4	21,692	15.5	20,676	14.5	9,660	14.4	65.16

Note: Revisions to consolidated financial forecasts published recently : None

※ Notes

(1) Changes of important subsidiaries during the period
(changes in specified subsidiaries resulting in change in scope of consolidation) : None

(2) Application of particular accounts procedures to the preparation of quarterly consolidated financial statements : None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies caused by revision of accounting standards : None

(ii) Changes in accounting policies other than (i) : None

(iii) Changes in accounting estimates : None

(iv) Restatement : None

(4) Shares issued and outstanding (common stock)

(i) Number of shares outstanding at the end of the period (including treasury stock)	As of September 30, 2017	149,640,445 shares	As of March 31, 2017	149,640,445 shares
(ii) Number of treasury stocks at the end of the period	As of September 30, 2017	1,396,343 shares	As of March 31, 2017	1,396,423 shares
(iii) Average number of shares outstanding during the term (quarter cumulative)	As of September 30, 2017	148,244,099 shares	As of September 30, 2016	148,709,513 shares

※ Quarterly consolidated financial results are not subject to a quarterly review.

※ Explanation and other special notes concerning the appropriate use of forecasted business performance

(Notes on forecasted business performance and others)

The forecast figures indicated above are projections based on the information available at the time of the announcement and certain assumptions include some degree of uncertainty. Actual business performance and other results may differ from the forecast depending on the changes in business conditions and others. Please refer to p.4 of the Appendix for information on the above forecast.

Appendix: Table of contents

1 . Qualitative Information on Results for the Cumulative Second Quarter Ended September 30, 2017	2
(1) Details of Consolidated Financial Results	2
(2) Details of Consolidated Financial Position.....	4
(3) Information on the Future Outlook, Including Consolidated Business Performance Forecast ...	4
2 . Quarterly Consolidated Financial Statements and Major Notes.....	5
(1) Quarterly Consolidated Balance Sheet	5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	7
(3) Quarterly Consolidated Cash Flows	9
(4) Notes on Quarterly Consolidated Financial Statements	11
(Notes on Going Concern Assumptions)	11
(Notes for Case Where Shareholders' Equity Underwent Significant Changes in Value)	11
(Segment Information)	11

1. Qualitative Information on Results for the Cumulative Second Quarter Ended September 30, 2017

(1) Details of Consolidated Financial Results

In the cumulative second quarter of the fiscal year under review (from April 1, 2017 to September 30, 2017), economic conditions in Japan continued a modest recovery with the backdrop of improvements in the corporate earnings and employment environment, while uncertainty over the future remained due to the increasing geopolitical risk in East Asia.

In the restaurant industry, although personal consumption showed some recovery, customers are still highly savings-oriented, and demand and supply of labor continued to be tight, resulting in a stringent business environment.

Under these circumstances, the same-store sales in the Gyudon category including Sukiya, the Family Dining category including Coco's and Jolly-Pasta, and the Fast Food Service category including Hamazushi were 101.8%, 99.1%, and 100.7% year-on-year, respectively.

At the end of the second quarter of the fiscal year under review, the number of stores stood at 4,932, resulting from 103 new store openings and 52 closures.

Consequently, the business performance in the cumulative second quarter of the fiscal year under review showed sales of 290,980 million yen (up 8.3% year-on-year), operating profit of 10,027 million yen (down 5.9% year-on-year), ordinary profit of 10,114 million yen (up 1.1% year-on-year), and profit attributable to owners of parent of 5,106 million yen (up 3.8% year-on-year).

An overview of conditions by business segment is provided below.

① Restaurant business

The sales of the restaurant business in the cumulative second quarter of the fiscal year under review were 248,349 million yen (up 4.2% year-on-year), and the operating profit was 9,766 million yen (down 5.7% year-on-year).

The performance of the restaurant business for each major category is as follows.

(Gyudon category)

The number of restaurants in the Gyudon category at the end of September 30, 2017 stood at 2,721, as a result of 61 new restaurant openings and 21 closures. The breakdown is 1,953 restaurants of Sukiya, 462 restaurants of Nakau (including 13 franchised restaurants), and others.

Sukiya, a Gyudon chain operated by Sukiya Co., Ltd., launched "Rokabo Gyumen" (low carbohydrate noodle with simmered beef on top), which uses konjac noodles with rice flour to offer low-carbohydrates and satisfactory feeling (regular size: 490 yen [tax included]), and "Rokabo Gyu Bibinmen" (spicy red low carbohydrate noodle with simmered beef on top) (regular size: 590 yen [tax included]) to address the various needs of customers, under the theme of "Let's be Healthy at Sukiya". In addition, Sukiya has made efforts to further enhance the product competitiveness by introducing "Irodori Yasai no Spicy Chicken curry" (rice and spicy chicken curry with assorted vegetables), which is spicy and refreshing, thus good for hot days in summer (regular size: 580 yen [tax included]), "Sanma Kabayaki Don" (rice bowl topped with grilled pacific saury), with its pacific saury dipped in the specialty sauce and grilled for three times to serve it soft and fragrant (regular size: 580 yen [tax included]), "Sanma Gyu" (Gyudon topped with grilled pacific saury) (regular size: 680 yen [tax included]), and "Curry Namban Gyudon" (Gyudon topped with curry sauce), which has not been in the menu since 2013 (regular size: 490 yen [tax included]).

Sukiya is striving to strengthen quality controls and improve its service to allow customers to continue to enjoy safe and delicious products, as well as to pursue the development of restaurants loved by customers.

Nakau, rice bowl dishes and Kyoto-style udon noodle chain, operated by Nakau Co., Ltd., sought to improve business performance by undertaking various sales promotions while enhancing product competitiveness through introduction of new and seasonal products and improvement of existing products.

As a result of the above, sales in the Gyudon category in the cumulative second quarter of the fiscal year under review totaled 102,322 million yen (up 4.3% year-on-year).

(Family Dining category)

The number of restaurants in the Family Dining category at the end of September 30, 2017 stood at 1,363 (including 78 franchised restaurants), as a result of 16 new restaurant openings and 15 closures.

Coco's, the standard restaurant chain operated by Coco's Japan Co., Ltd., has made efforts to improve its business performance by enriching the menu, introducing dainty campaign menus, and improving the standard of service across the chain.

Big Boy, the chain of hamburger steak and grill restaurants and other chain operated by Big Boy Japan, Inc., sought to improve its business performance by various ways, such as improving the main products, enriching salad bar and soup bar, and adding special menus.

Jolly-Pasta, the pasta specialty restaurant chain, operated by Jolly-Pasta Co., Ltd., expanded the lineup of the menu and introduced new dishes using seasonal ingredients to enhance the taste of products and to convey the pasta specialty restaurant's attractiveness to customers, under the slogan, "When you want pasta, it's Jolly-Pasta".

Hanaya Yohei, the Japanese-cuisine restaurant chain operated by Hanaya Yohei Co., Ltd., has been working to improve customers satisfaction by various ways, including development of products using seasonal ingredients, improvement of service standard with enhanced training of restaurant employees, and improvement of labor productivity.

Due to these efforts, sales in the Family Dining category in the cumulative second quarter of the fiscal year under review were 64,873 million yen (down 0.3% year-on-year).

(Fast Food Service category)

The number of restaurants in the Fast Food Service category at the end of September 30, 2017 stood at 726, as a result of 26 new restaurant openings and 6 closures.

Hamazushi, kaiten-sushi restaurants (sushi restaurants with conveying belts) operated by Hamazushi Co., Ltd., sought to expand its businesses by increasing the number of restaurants, enhancing quality of products and strengthening services at the restaurants.

Due to these efforts, sales in the Fast Food Service category in the cumulative second quarter of the fiscal year under review were 65,699 million yen (up 6.6% year-on-year).

(Other category)

Sales in the Other category in the cumulative second quarter of the fiscal year under review were 15,453 million yen (up 13.8% year-on-year).

Main businesses in this category include Tolona Japan Co., Ltd., which sells frozen pizza, etc.; Global Fresh Supply Co., Ltd., a company which handles logistics functions for the Zensho Group; and Global Table Supply Co., Ltd., which procures uniforms, equipments etc.

② Retail Business

Sales in the retail business in the cumulative second quarter of the fiscal year under review were 42,631 million yen (up 41.0% year-on-year), and the operating profit was 260 million yen (down 12.1% year-on-year).

The retail business includes the supermarket business operated by Maruya co., Ltd., Maruei Co., Ltd., Owariya Co., Ltd., and Fresh Corporation Co., Ltd., and fruit and vegetables stores operated by United Veggies Co., Ltd.

(2) Details of Consolidated Financial Position

1. Assets, liabilities, and net assets

(Total Assets)

Total assets stood at ¥292,417 million as of September 30, 2017, an increase of ¥3,418 million compared with the previous fiscal year-end. This increase was mainly due to an increase in property, plant and equipment resulted from new store investments.

(Liabilities)

Liabilities amounted to ¥206,800 million as of September 30, 2017, a decrease of ¥90 million compared with the previous fiscal year-end. This decrease was mainly due to a decrease in interest-bearing liabilities.

(Net Assets)

Net Assets came at ¥85,617 million as of September 30, 2017, an increase of ¥3,509 million compared with the previous fiscal year-end. This increase was mainly due to an increase in retained earnings.

2. Cash flows

(Cash flows from operating activities)

Cash flows from operating activities resulted in an increase in funds of 17,694 million yen (an increase in funds of 21,346 million yen in the same period of the previous fiscal year). This was mainly due to net income before taxes recorded and depreciation.

(Cash flows from investing activities)

Cash flows from investing activities resulted in a decrease in funds of 11,543 million yen (a decrease in funds of 5,962 million yen in the same period of the previous fiscal year). This was mainly due to acquisition of property, plant and equipment to open new stores.

(Cash flows from financing activities)

Cash flows from financing activities resulted in a decrease of funds of 4,525 million yen (a decrease in funds of 19,244 million yen in the same period of the previous fiscal year). This was mainly due to repayment of loans and payment of dividends.

As a result of the above, cash and cash equivalents increased 1,946 million yen from the end of previous fiscal year and totaled 24,220 million yen at September 30, 2017

(3) Information on the Future Outlook, Including Consolidated Business Performance Forecasts

There are no changes to the consolidated business performance forecasts announced on May 11, 2017, for the period ending March 31, 2018.

2 . Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

	(Million yen)	
	End of Previous fiscal year (As of March 31, 2017)	End of 2Q, Current fiscal year (As of September 30, 2017)
Assets		
Current Assets		
Cash and deposits	22,274	24,220
Notes and accounts receivable - trade	6,399	7,250
Merchandise and finished goods	18,471	17,450
Work in process	752	743
Raw materials and supplies	4,355	4,396
Other	16,207	17,416
Allowance for doubtful accounts	(11)	(11)
Total current assets	68,450	71,467
Non-current assets		
Property, plant and equipment, net		
Buildings and structures	181,641	186,222
Accumulated Depreciation	(102,276)	(105,838)
Buildings and structures, net	79,364	80,384
Machinery, equipment and vehicles	12,755	13,510
Accumulated Depreciation	(6,772)	(7,179)
Machinery, equipment and vehicles, net	5,982	6,331
Other	90,248	94,383
Accumulated Depreciation	(45,601)	(47,167)
Other, net	44,646	47,216
Total property, plant and equipment	129,993	133,931
Intangible assets		
Goodwill	18,928	19,239
Other	2,971	3,117
Total intangible assets	21,899	22,357
Investments and other assets		
Investment securities	3,570	1,143
Guarantee deposits	33,116	32,997
Other	31,887	30,458
Allowance for doubtful accounts	(14)	(14)
Total investments and other assets	68,561	64,584
Total non-current assets	220,454	220,873
Deferred assets	93	76
Total assets	288,999	292,417

	(Million yen)	
	End of Previous fiscal year (As of March 31, 2017)	End of 2Q, Current fiscal year (As of September 30, 2017)
Liabilities		
Current Liabilities		
Notes and accounts payable, trade	19,046	17,348
Short-term loans payable	2,662	5,149
Current portions of bonds	4,925	2,520
Current portion of long-term loans payable	43,485	38,696
Income taxes payable	2,491	2,208
Provision	1,869	2,063
Other	28,334	30,425
Total current liabilities	102,815	98,411
Non-current liabilities		
Bonds payable	10,580	9,600
Long-term loans payable	75,492	79,250
Net defined benefit liability	570	571
Asset retirement obligations	2,396	2,430
Other	15,036	16,536
Total non-current liabilities	104,075	108,388
Total liabilities	206,891	206,800
Net assets		
Shareholders' equity		
Capital stock	23,470	23,470
Capital surplus	24,261	24,261
Retained earnings	21,967	25,701
Treasury shares	(2,021)	(2,021)
Total shareholders' equity	67,677	71,412
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	541	(41)
Deferred gains or losses on hedges	51	(57)
Remeasurements of defined benefit plans	(36)	(33)
Foreign currency translation adjustment	(327)	(142)
Total accumulated other comprehensive income	227	(274)
Non-controlling interests	14,202	14,479
Total net assets	82,107	85,617
Total liabilities and net assets	288,999	292,417

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

(Quarterly Consolidated Statements of Income)

(Cumulative Second Quarter, Fiscal Year ending March 31, 2018)

(Million yen)

	Cumulative 2Q, Previous fiscal year (From April 1, 2016 to September 30, 2016)	Cumulative 2Q, Current fiscal year (From April 1, 2017 to September 30, 2017)
Net Sales	268,647	290,980
Cost of Sales	113,249	126,571
Gross Profit	155,398	164,408
Selling, General and Administrative Expenses	144,744	154,381
Operating Profit	10,654	10,027
Other Income		
Interest income	191	215
Dividend income	2	1
Rent income	112	107
Foreign exchange gains	—	303
Other	360	312
Total non-operating income	666	939
Non-operating expenses		
Interest expenses	556	427
Rent expenses	68	68
Foreign exchange losses	286	—
Other	401	357
Total non-operating expenses	1,313	853
Ordinary profit	10,007	10,114
Extraordinary income		
Gain on sales of non-current assets	7	3
Gain on sales of investment securities	0	94
Compensation income	—	31
Other	15	23
Total extraordinary income	22	152
Extraordinary losses		
Loss on sales of non-current assets	0	3
Loss on retirement of non-current assets	489	653
Other	484	333
Total extraordinary losses	973	991
Profit before income taxes	9,056	9,275
Income taxes - current	2,509	2,486
Income taxes - deferred	1,097	1,391
Total income taxes	3,607	3,877
Profit	5,449	5,397
Profit attributable to non-controlling interests	531	291
Profit attributable to owners of parent	4,917	5,106

(Quarterly Consolidated Statements of Comprehensive Income)

(Cumulative Second Quarter, Fiscal Year ending March 31, 2018)

	(Million yen)	
	Cumulative 2Q, Previous fiscal year (From April 1, 2016 to September 30, 2016)	Cumulative 2Q, Current fiscal year (From April 1, 2017 to September 30, 2017)
Profit	5,449	5,397
Other comprehensive income		
Valuation difference on available-for-sale securities	163	(582)
Deferred gains or losses on hedges	(61)	(108)
Remeasurements of defined benefit plans, net of tax	3	3
Foreign currency translation adjustment	(1,272)	190
Total other comprehensive income	(1,166)	(496)
Comprehensive income	4,283	4,900
(Breakdown)		
Comprehensive income attributable to owners of parent	3,771	4,611
Comprehensive income attributable to non-controlling interests	511	289

(3) Quarterly Consolidated Statements of Cash Flows

	(Million yen)	
	Cumulative 2Q, Previous fiscal year (From April 1, 2016 to September 30, 2016)	Cumulative 2Q, Current fiscal year (From April 1, 2017 to September 30, 2017)
Cash flows from operating activities		
Profit before income taxes	9,056	9,275
Depreciation	9,114	9,269
Amortization of goodwill	593	763
Amortization of negative goodwill	(1)	(1)
Increase (decrease) in provision for bonuses	361	176
Increase (decrease) in net defined benefit liability	(3)	(7)
Interest and dividend income	(193)	(217)
Interest expenses	556	427
Foreign exchange losses (gains)	157	(80)
Loss (gain) on sales of shares of subsidiaries and associates	(1)	—
Loss (gain) on sales of investment securities	(0)	(94)
Loss (gain) on sales of property, plant and equipment	(6)	0
Loss on retirement of property, plant and equipment	505	643
Other extraordinary loss (income)	78	47
Other non-operating expenses (income)	(1)	(2)
Decrease (increase) in notes and accounts receivable - trade	(424)	(815)
Decrease (increase) in inventories	923	1,024
Increase (decrease) in notes and accounts payable - trade	(743)	(1,742)
Increase (decrease) in accrued consumption taxes	435	147
Decrease (increase) in other current assets	867	(716)
Decrease (increase) in other non-current assets	587	407
Increase (decrease) in other current liabilities	1,136	2,059
Increase (decrease) in other non-current liabilities	(31)	(120)
Subtotal	22,966	20,442
Interest and dividend income received	34	38
Interest expenses paid	(580)	(440)
Income taxes paid	(1,073)	(2,346)
Net cash provided by (used in) operating activities	21,346	17,694

	(Million yen)	
	Cumulative 2Q, Previous fiscal year (From April 1, 2016 to September 30, 2016)	Cumulative 2Q, Current fiscal year (From April 1, 2017 to September 30, 2017)
Cash flows from investing activities		
Purchase of property, plant and equipment	(10,533)	(10,569)
Proceeds from sales of property, plant and equipment	3,282	73
Purchase of intangible assets	(242)	(407)
Purchase of long-term prepaid expenses	(158)	(50)
Purchase of long-term investment securities	(0)	(274)
Proceeds from sales of long-term investment securities	0	985
Payments for transfer of business	(402)	-
Payments of loans receivable	(79)	(264)
Collection of loans receivable	0	0
Payments for guarantee deposits	(398)	(464)
Proceeds from collection of guarantee deposits	441	612
Proceeds from sales of shares of subsidiaries and associates	1,724	-
Decrease (increase) in insurance funds	(3)	(3)
Decrease (increase) in premium receivable	(58)	(58)
Purchase of long term prepaid rents	(1,132)	(985)
Proceed from liquidation of long term prepaid rent	1,777	-
Other, net	(179)	(135)
Net cash provided by (used in) investing activities	(5,962)	(11,543)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(3,005)	2,480
Proceeds from long-term loans payable	7,000	20,663
Repayments of long-term loans payable	(16,779)	(21,694)
Redemption of bonds	(2,675)	(3,385)
Repayments of lease obligations	(1,003)	(1,077)
Purchase of treasury shares	(2,000)	-
Proceeds from sales of treasury shares	-	0
Purchase of treasury shares of subsidiaries	(0)	(0)
Repayments of installment payables	(22)	(166)
Proceeds from share issuance to non-controlling shareholders	108	111
Cash dividends paid	(748)	(1,334)
Dividends paid to non-controlling interests	(118)	(122)
Net cash provided by (used in) financing activities	(19,244)	(4,525)
Effect of exchange rate change on cash and cash equivalents	(422)	(31)
Net increase (decrease) in cash and cash equivalents	(4,283)	1,593
Beginning balance of cash and cash equivalents	20,925	22,274
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	9	352
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	33	-
Ending balance of cash and cash equivalents	16,684	24,220

(4) Notes on Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Notes for Case Where Shareholders' Equity underwent Significant Changes in Value)

Not applicable.

(Segment Information)

【Segment Information】

I Second quarter of Previous Fiscal Year (From April 1, 2016 to September 30, 2016)

1. Information on net sales, profits or losses by reporting segment

(Units : Millions of yen)

	Reporting segments		Total	Adjustment (Note1)	Amount on consolidated balance sheet (Note2)
	Restaurant business	Retail business			
Net Sales					
Sales to External Customers	238,408	30,239	268,647	—	268,647
Intersegment Sales or Transfers	1,360	28	1,388	(1,388)	—
Total	239,769	30,267	270,036	(1,388)	268,647
Segment Profit/(Loss)	10,358	296	10,654	(0)	10,654

- (Note) 1. Adjustment amount of segment profit/(loss) of ¥0 million are mainly elimination of intersegment transactions.
2. The total amount of segment profit/(loss) is adjusted with the operating profit in the quarterly consolidated statements of income
3. Intersegment sales or transfers amounts are calculated based on prevailing market prices.

2. Information on impairment loss, goodwill, etc. on non-current assets by reportable segment

(Important impairment loss on non-current assets)

Not applicable.

(Major change in goodwill)

Not applicable.

(Major negative goodwill profit)

Not applicable.

II Second quarter of Fiscal Year under review (From April 1, 2017 to September 30, 2017)

1. Information on net sales, profits or losses by reporting segment

(Unit : Millions of yen)

	Reporting segments		Total	Adjustment (Note1)	Amount on consolidated balance sheet (Note2)
	Restaurant business	Retail business			
Net Sales					
Sales to External Customers	248,349	42,631	290,980	—	290,980
Intersegment Sales or Transfers	1,077	10	1,088	(1,088)	—
Total	249,427	42,641	292,068	(1,088)	290,980
Segment Profit/(Loss)	9,766	260	10,027	0	10,027

- (Note) 1. Adjustment amount of segment profit/(loss) of ¥0 million are mainly elimination of intersegment transactions.
2. The total amount of segment profit/(loss) is adjusted with the operating profit in the quarterly consolidated statements of income
3. Intersegment sales or transfers amounts are calculated based on prevailing market prices.

2. Information on impairment loss, goodwill, etc. on non-current assets by reportable segment

(Important impairment loss on non-current assets)

Not applicable.

(Major change in goodwill)

Not applicable.

(Major negative goodwill profit)

Not applicable.