Consolidated Financial Results
for the Six Months Ended June 30, 2019
[Japanese GAAP]

August 6, 2019

Company name: Nissha Co., Ltd.
Stock exchange listing: Tokyo Stock Exchange
Code number: 7915
URL: https://www.nissha.com/english
Representative: Junya Suzuki, Chairman of the Board, President and CEO
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Scheduled date of filing quarterly securities report: August 7, 2019
Scheduled date of commencing dividend payments: September 2, 2019
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: Scheduled (for institutional investors)

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

1. Consolidated Financial Results for the Six Months Ended June 30, 2019 (January 1, 2019 to June 30, 2019)

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

	Net sales		EBITDA		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended June 30, 2019	73,100	0.8	(1,080)	–	(5,829)	–	(6,387)	–	(7,569)	–
Six months ended June 30, 2018	72,542	–	132	–	(4,476)	–	(5,954)	–	(6,754)	–

(Note) Comprehensive income: Six months ended June 30, 2019: ¥(6,653) million (–%)
Six months ended June 30, 2018: ¥(9,453) million (–%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended June 30, 2019	(151.65)	–
Six months ended June 30, 2018	(133.77)	–

(Notes)
1. Effective from the fiscal year ended December 31, 2017, the Company changed the fiscal year end date from March 31 to December 31. Therefore, figures indicating changes from the previous corresponding period for the six months ended June 30, 2018 are not provided, as the period (January 1, 2018 to June 30, 2018) is different from the corresponding period of the six months ended September 30, 2017 (April 1, 2017 to September 30, 2017).
2. EBITDA is the total of operating profit, depreciation and amortization of goodwill.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2019	178,669	81,961	45.9
As of December 31, 2018	202,596	90,326	44.5

(Reference) Equity: As of June 30, 2019: ¥81,960 million
As of December 31, 2018: ¥90,208 million

(Notes)
1. In the second quarter ended June 30, 2019, the Company finalized provisional accounting treatments for business combination, which is reflected in the relevant figures for the fiscal year ended December 31, 2018.
2. The Company has been applying “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) from the beginning of the first quarter ended March 31, 2019. Figures for the fiscal year ended December 31, 2018 have had the accounting standards applied retroactively.

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2018	−	15.00	−	15.00	30.00
Fiscal year ending December 31, 2019	−	15.00			
Fiscal year ending December 31, 2019 (Forecast)			−	20.00	35.00

(Notes)
1. Revision of cash dividend forecast: No
2. The year-end dividend for the fiscal year ending December 31, 2019 (forecast) includes a commemorative dividend of ¥5 in recognition of the 90th anniversary of the Company’s foundation.

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

(% indicates changes from the previous corresponding period)

	Net sales		EBITDA		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	180,000	(13.2)	11,800	(32.0)	1,500	(81.4)	500	(93.2)	0	−	0.00

(Notes)
1. Revision of consolidated financial results forecast: Yes
2. EBITDA is the total of operating profit, depreciation and amortization of goodwill.
3. In the second quarter ended June 30, 2019, the Company finalized provisional accounting treatments for business combinations, which is reflected in the relevant figures for the fiscal year ended December 31, 2018.

Notes:

(1) Changes in significant subsidiaries during the period under review: No
(Changes in specified subsidiaries resulting in changes in scope of consolidation):
New: – ( ), Exclusion: – ( )

(2) Adoption of special accounting treatment for preparing quarterly consolidated financial statements: Yes
(Note) For details, please see "2. Consolidated Financial Statements and Principal Notes (4) Notes to consolidated financial statements (Adoption of special accounting treatment for preparing quarterly consolidated financial statements)" on page 12 of the appendix.

(3) Changes in accounting policies, changes in accounting estimates, and restatements
1) Changes in accounting policies due to the revision of accounting standards: Yes
2) Any changes other than 1) above: No
3) Changes in accounting estimates: No
4) Restatements: No
(Note) For details, please see "2. Consolidated Financial Statements and Principal Notes (4) Notes to consolidated financial statements (Changes in accounting policies)" on page 12 of the appendix.

(4) Total number of issued shares (common stock)
1) Total number of issued shares at the end of the period (including treasury shares):

As of June 30, 2019	50,855,638 shares
As of December 31, 2018	50,855,638 shares

2) Total number of treasury shares at the end of the period:

As of June 30, 2019	943,240 shares
As of December 31, 2018	943,121 shares

3) Average number of shares during the period (cumulative total):

Six months ended June 30, 2019	49,912,497 shares
Six months ended June 30, 2018	50,488,245 shares

* This report on consolidated financial results is exempted from quarterly review by certified public accountant or auditing corporation.

* Explanation of the proper use of financial results forecast and other notes

The performance forecasts and other forward-looking statements contained in this report are based on information available to the Company on the date of this report's release and certain premises that the Company deems to be reasonable. Therefore, the Company has not prepared these descriptions with intent to commit to realize them. Actual results, etc. may differ from the forecasts, however, as a consequence of various factors in the future. For details on the premises of the performance forecasts of the Company and the points to note when using the performance forecasts, please see "1. Qualitative Information on Consolidated Financial Results for the Period under Review (3) Explanation of consolidated operating results forecast and other forecast information" on page 5 of the appendix.

We are scheduled to hold a briefing session for institutional investors on Tuesday, August 6, 2019. Reference materials to be distributed at the briefing session are scheduled to be posted on our website on that day, as well.

Contents of Appendix

1. Qualitative Information on Consolidated Financial Results for the Period under Review

(1) Explanation of operating results

The global economy, on the whole, gradually recovered in the six months ended June 30, 2019, despite the prevailing uncertainties in the outlook due to protectionist economic policies and trade frictions, and the weakness found in some areas. The United States saw ongoing economic recovery thanks primarily to increased consumer spending and capital investment. In Europe, the economy gradually recovered, though there was some weakness. In China, the economy slowed down gradually, and in other Asian emerging countries, the economic recovery turned out to be weak. The Japanese economy has continued a gradual recovery, although there is some weakness in its export and production.

The Group has been currently operating the Sixth Medium-term Business Plan (three-year plan) centering on the growth by reorganizing and optimizing its business portfolio. We have set the markets of mobility (automotive), medical devices and sustainable packaging materials as our focused markets, in addition to the mainstay consumer electronics (IT), and aim to develop well-balanced business bases and enhance our corporate value by implementing global based growth strategy. Regarding the financial results for the six months ended June 30, 2019, although the Medical Technologies segment performed well, the operation rate of the production department dropped as demand for the Devices segment and the Industrial Materials segment fell short of the projection.

As a result, regarding the consolidated financial results for the six months ended June 30, 2019, the net sales were ¥73,100 million (an increase of 0.8% as compared to the same period of the previous year). EBITDA was negative ¥1,080 million (positive ¥132 million in the same period of the previous year). Operating loss was ¥5,829 million (operating loss of ¥4,476 million in the same period of the previous year). Ordinary loss was ¥6,387 million (ordinary loss of ¥5,954 million in the same period of the previous year). Loss attributable to owners of parent was ¥7,569 million (loss attributable to owners of parent of ¥6,754 million in the same period of the previous year).

Following is an overview by business segment.

Industrial Materials

In the Industrial Materials segment, we mainly offer proprietary technologies that enable to create added value on the surfaces of various materials. IMD, IML, and IME, which facilitate simultaneous in-mold decoration, design and function adding of plastic products, are extensively adopted in mobility (automotive) components, home appliances, and smartphones in global markets. Also, our metallized paper, which unites the properties of metallic luster and printing friendliness, has the largest market share in the industry as sustainable packaging materials for beverages and foods on a global basis.

During the six months ended June 30, 2019, the operation rate at domestic plants declined on account of sluggish demand for Chinese market and furthermore, reduction of quality costs remained an issue at some overseas plants.

As a result, segment sales for the six months ended June 30, 2019 were ¥23,554 million (an increase of 0.9% as compared to the same period of the previous year), and EBITDA was ¥954 million (a decrease of 57.7% as compared to the same period of the previous year). Segment loss (operating loss) was ¥959 million (segment profit (operating profit) of ¥402 million in the same period of the previous year).

Devices

In the Devices segment, we produce devices that pursue precision and functionality. Our main products, film-based Touch Sensors are widely adopted mainly in smartphones, tablets, portable game players, industrial equipment and mobility (automotive) components in global markets. In addition, we offer gas sensors that can detect gas conditions, along with other products.

During the six months ended June 30, 2019, the operation rate of the production department dropped, as demand for smartphones fell short of the initial projection, placing pressure on revenue of the segment.

As a result, segment sales for the six months ended June 30, 2019 were ¥33,466 million (an increase of 4.5% as compared to the same period of the previous year), and EBITDA was negative ¥2,023 million (negative ¥1,598 million in the same period of the previous year). Segment loss (operating loss) was ¥3,507 million (segment loss (operating loss) of ¥3,086 million in the same period of the previous year).

Medical Technologies

The Medical Technologies segment is a business segment that offers high-quality and value-added products in medical devices and other related markets to contribute to healthy and affluent life. The segment provides contract manufacturing services (a business handling a series of processes ranging from product design and development to manufacture) for major medical device manufacturers on a global basis with its main products, surgical instruments and medical wearable sensor used for heart disease treatment. In addition to this, the segment currently manufactures and sells its own brand products to medical institutions.

During the six months ended June 30, 2019, demand progressed steadily primarily for our mainstay products of contract manufacturing services.

As a result, segment sales for the six months ended June 30, 2019 were ¥12,285 million (an increase of 23.0% as compared to the same period of the previous year), and EBITDA was ¥1,263 million (an increase of 56.7% as compared to the same period of the previous year). Segment profit (operating profit) was ¥272 million (segment loss (operating loss) of ¥24 million in the same period of the previous year).

Information and Communication

In the Information and Communication segment, we focus on the fields such as publication printing and art solution, where we can make the most of our high-definition and high-quality tone reproduction capabilities, and also offer commercial printing and services related to sales promotion.

During the six months ended June 30, 2019, segment sales decreased compared with the same period of the previous year due to impacts of the business restructuring on January 2019. Also, during the second quarter ended June 30, 2019, demand dropped as a result of seasonal factors and the factors squeezed the business profit.

As a result, segment sales for the six months ended June 30, 2019 were ¥3,601 million (a decrease of 48.5% as compared to the same period of the previous year), and EBITDA was negative ¥65 million (negative ¥121 million in the same period of the previous year). Segment loss (operating loss) was ¥133 million (segment loss (operating loss) of ¥245 million in the same period of the previous year).

(2) Explanation of financial position

Business combinations with Heart Sync, Inc. on May 18, 2018 and with Sequel Special Products, LLC and RSS Design, LLC on June 25, 2018 were finalized in the second quarter ended June 30, 2019. Accordingly, previous year-end amounts used for the comparison and analysis of financial position figures reflect the adjustment for the finalization of provisional accounting treatment.

In addition, the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) have been applied from the beginning of the first quarter ended March 31, 2019. Accordingly, the figures in the financial position are compared to and analyzed with the figures in the previous year that have been retrospectively restated to reflect the above-mentioned changes in the accounting standard.

1) Assets, liabilities and net assets

Total assets at the end of the second quarter ended June 30, 2019 decreased by ¥23,927 million from the end of the previous year (the fiscal year ended December 31, 2018) to ¥178,669 million.

Current assets decreased by ¥25,510 million from the end of the previous year to ¥70,348 million. This was mainly because a ¥5,013 million decrease of cash and deposits, a ¥11,964 million decrease of notes and accounts receivable-trade, and ¥2,011 million decrease of merchandise and finished goods.

Non-current assets increased by ¥1,583 million from the end of the previous year to ¥108,321 million. This was mainly because "other, net" in property, plant and equipment increased by ¥1,579 million due to application of IFRS 16 "Leases" by the subsidiaries of the Group that adopt IFRS from the beginning of the first quarter ended March 31, 2019, as stated in "2. Consolidated Financial Statements and Principal Notes (4) Notes to consolidated financial statements (Changes in accounting policies)," and investment securities increased by ¥3,899 million, which outweighed a ¥197 million decrease of trademark right, a ¥1,435 million decrease of goodwill, and a ¥573 million decrease of customer related assets.

Total liabilities at the end of the second quarter ended June 30, 2019 decreased by ¥15,561 million from the end of the previous year to ¥96,708 million.

Current liabilities decreased by ¥17,693 million from the end of the previous year to ¥65,015 million. This was mainly because a ¥23,956 million decrease of notes and accounts payable-trade and a ¥2,783 million decrease of electronically recorded obligations - operating outweighed a ¥15,124 million increase of short-term loans payable.

Non-current liabilities increased by ¥2,131 million from the end of the previous year to ¥31,692 million. This was mainly attributable to a ¥1,422 million increase of lease liabilities which are included in other as a result that the subsidiaries of the Group that adopt IFRS have applied IFRS 16 "Leases."

Net assets at the end of the second quarter ended June 30, 2019 decreased by ¥8,365 million from the end of the previous year to ¥81,961 million.

2) Cash flows

The balance of cash and cash equivalents (the “funds”) on a consolidated basis at the end of the six months ended June 30, 2019 was ¥11,743 million, a decrease of ¥5,013 million compared to the end of the previous year.

The following describes the conditions of each cash flow and the underlying causes for the six months ended June 30, 2019.

(Net Cash Provided by (Used in) Operating Activities)

Funds used in operating activities amounted to ¥13,729 million (a decrease of 40.8% as compared to the same period of the previous year). This was mainly because a ¥6,755 million of loss before income taxes, a ¥26,446 million decrease in notes and accounts payable-trade outweighed a ¥3,946 million of depreciation, a ¥11,596 million decrease in notes and accounts receivable-trade, and a ¥2,708 million decrease of inventories.

(Net Cash Provided by (Used in) Investing Activities)

Funds used in investing activities amounted to ¥4,491 million (a decrease of 54.6% as compared to the same period of the previous year). This was mainly attributable to the purchase of property, plant and equipment and intangible assets of ¥4,202 million.

(Net Cash Provided by (Used in) Financing Activities)

Funds provided by financing activities amounted to ¥13,398 million (a decrease of 34.1% as compared to the same period of the previous year). This was mainly attributable to the net increase in short-term loans payable of ¥15,153 million.

(3) Explanation of consolidated operating results forecast and other forecast information

As a result of reviewing the financial forecasts for the fiscal year ending December 31, 2019 based on the operating results for the six months ended June 30, 2019 and the latest demand trends and other factors, the operating results forecast announced on February 14, 2019 have been revised.

For details, please see the “Notice of Difference between Business Forecast and Actual Results for the First Half of FY2019, and Revision to the Business Forecast for FY2019” announced on August 6, 2019.

2. Consolidated Financial Statements and Principal Notes
(1) Consolidated balance sheets

(Million yen)

	As of December 31, 2018	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	16,762	11,748
Notes and accounts receivable-trade	40,867	28,902
Merchandise and finished goods	12,337	10,326
Work in process	8,101	7,327
Raw materials and supplies	7,144	6,713
Other	10,923	5,589
Allowance for doubtful accounts	(277)	(260)
Total current assets	95,859	70,348
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	29,408	29,016
Machinery, equipment and vehicles, net	11,678	11,026
Tools, furniture and fixtures, net	3,063	2,868
Land	6,192	6,190
Leased assets, net	1,475	1,472
Construction in progress	2,406	2,123
Other, net	—	1,579
Total property, plant and equipment	54,225	54,278
Intangible assets		
Trademark right	3,431	3,233
Software	1,026	1,097
Goodwill	22,039	20,604
Technical assets	1,965	1,815
Customer related assets	6,770	6,197
Other	995	1,006
Total intangible assets	36,228	33,955
Investments and other assets		
Investment securities	14,797	18,697
Other	1,955	1,844
Allowance for doubtful accounts	(468)	(454)
Total investments and other assets	16,284	20,087
Total non-current assets	106,737	108,321
Total assets	202,596	178,669

(Million yen)

	As of December 31, 2018	As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable-trade	44,484	20,527
Electronically recorded obligations - operating	6,772	3,988
Short-term loans payable	10,858	25,982
Current portion of long-term loans payable	1,716	1,550
Income taxes payable	840	303
Provision for bonuses	1,963	1,840
Provision for directors' bonuses	71	31
Provision for management board benefit trust	—	2
Provision for product warranties	74	71
Other	15,928	10,717
Total current liabilities	82,709	65,015
Non-current liabilities		
Bonds payable	2,840	2,840
Long-term loans payable	13,525	13,385
Provision for management board benefit trust	46	65
Net defined benefit liability	4,305	4,243
Other	8,843	11,158
Total non-current liabilities	29,560	31,692
Total liabilities	112,270	96,708
Net assets		
Shareholders' equity		
Capital stock	12,119	12,119
Capital surplus	15,514	14,654
Retained earnings	54,138	45,807
Treasury shares	(1,911)	(1,911)
Total shareholders' equity	79,861	70,670
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,216	10,491
Foreign currency translation adjustment	1,791	467
Remeasurements of defined benefit plans	339	330
Total accumulated other comprehensive income	10,347	11,289
Non-controlling interests	118	0
Total net assets	90,326	81,961
Total liabilities and net assets	202,596	178,669

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

(Million yen)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2019
Net sales	72,542	73,100
Cost of sales	62,954	65,038
Gross profit	9,587	8,061
Selling, general and administrative expenses	14,064	13,891
Operating loss	(4,476)	(5,829)
Non-operating income		
Interest income	54	36
Dividend income	192	270
Other	127	90
Total non-operating income	374	397
Non-operating expenses		
Interest expenses	363	534
Share of loss of entities accounted for using equity method	131	4
Foreign exchange losses	1,312	401
Other	44	14
Total non-operating expenses	1,852	955
Ordinary loss	(5,954)	(6,387)
Extraordinary income		
Gain on sales of non-current assets	143	57
Gain on sales of shares of subsidiaries and associates	354	788
State subsidy	58	25
Total extraordinary income	557	871
Extraordinary losses		
Loss on sales and retirement of non-current assets	287	320
Loss on valuation of investment securities	1	254
Impairment loss	—	485
Loss on closing of plants	—	105
Business structure improvement expenses	—	47
Business establishment transfer cost	33	25
Total extraordinary losses	323	1,239
Loss before income taxes	(5,720)	(6,755)
Income taxes	1,050	808
Loss	(6,770)	(7,564)
Profit (loss) attributable to non-controlling interests	(16)	5
Loss attributable to owners of parent	(6,754)	(7,569)

Consolidated statements of comprehensive income

(Million yen)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2019
Loss	(6,770)	(7,564)
Other comprehensive income		
Valuation difference on available-for-sale securities	(976)	2,259
Foreign currency translation adjustment	(1,653)	(1,326)
Remeasurements of defined benefit plans, net of tax	(12)	(21)
Share of other comprehensive income of entities accounted for using equity method	(41)	—
Total other comprehensive income	(2,683)	910
Comprehensive income	(9,453)	(6,653)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(9,446)	(6,656)
Comprehensive income attributable to non-controlling interests	(7)	2

(3) Consolidated statements of cash flows

(Million yen)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2019
Cash flows from operating activities		
Loss before income taxes	(5,720)	(6,755)
Depreciation	3,844	3,946
Impairment loss	—	485
Amortization of goodwill	764	803
Loss on closing of plants	—	105
Business structure improvement expenses	—	47
Business establishment transfer cost	33	25
Increase (decrease) in provision for bonuses	(24)	(97)
Increase (decrease) in provision for directors' bonuses	(24)	(39)
Increase (decrease) in provision for management board benefit trust	(114)	21
Increase (decrease) in provision for product warranties	32	(0)
Increase (decrease) in net defined benefit asset/liability	(60)	29
Increase (decrease) in allowance for doubtful accounts	(22)	(6)
Interest and dividend income	(247)	(306)
Interest expenses	363	534
Foreign exchange losses (gains)	911	5
Share of loss (profit) of entities accounted for using equity method	131	4
Loss (gain) on valuation of investment securities	1	254
Gain on sales of shares of subsidiaries and affiliates	(354)	(788)
Loss (gain) on sales and retirement of non-current assets	143	262
Decrease (increase) in notes and accounts receivable-trade	17,419	11,596
Decrease (increase) in inventories	(9,608)	2,708
Increase (decrease) in notes and accounts payable-trade	(27,807)	(26,446)
Other, net	(1,290)	990
Subtotal	(21,628)	(12,618)
Interest and dividend income received	226	303
Interest expenses paid	(362)	(500)
Income taxes paid	(1,464)	(956)
Income taxes refund	39	42
Net cash provided by (used in) operating activities	(23,189)	(13,729)

(Million yen)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2019
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(7,842)	(4,202)
Payments for retirement of property, plant and equipment	(201)	(253)
Proceeds from sales of property, plant and equipment and intangible assets	142	116
Purchase of investment securities	(4)	(944)
Proceeds from sales of investment securities	7	—
Purchase of investments in other securities of subsidiaries and affiliates	—	(29)
Purchase of investments in subsidiaries and others resulting in change in scope of consolidation	(1,498)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	697
Proceeds from sales of shares of subsidiaries and associates	317	—
Payments for transfer of business	(697)	—
Other, net	(110)	125
Net cash provided by (used in) investing activities	(9,886)	(4,491)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	20,230	15,153
Proceeds from long-term loans payable	2,905	944
Repayments of long-term loans payable	(1,166)	(812)
Commission fee paid	(10)	(0)
Repayments of lease obligations	(133)	(122)
Proceeds from sales and purchase of treasury stock, net	(717)	(0)
Cash dividends paid	(761)	(747)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(950)
Other, net	—	(64)
Net cash provided by (used in) financing activities	20,346	13,398
Effect of exchange rate change on cash and cash equivalents	(1,202)	(190)
Net increase (decrease) in cash and cash equivalents	(13,933)	(5,013)
Cash and cash equivalents at beginning of period	29,291	16,757
Cash and cash equivalents at end of period	15,358	11,743

(4) Notes to consolidated financial statements

(Notes to going concern assumptions)

Not applicable

(Notes to material changes in shareholders' equity)

The Company acquired additional shares in its consolidated subsidiaries, Nissha Printing Communications, Inc. and Graphic Controls Holdings, Inc. on January 7, 2019 and June 28, 2019, respectively. As a result, capital surplus decreased by ¥859 million in the six months ended June 30, 2019 and accordingly amounted to ¥14,654 million at the end of the second quarter ended June 30, 2019.

(Adoption of special accounting treatments for preparing quarterly consolidated financial statements)

Calculation of tax expense

When calculating tax expense, we reasonably estimate the effective tax rate after applying tax-effect accounting for profit (loss) before income taxes in the fiscal year, including the second quarter ended June 30, 2019. We then calculate the tax expense by multiplying profit (loss) before income taxes by the estimated effective tax rate. We use the statutory effective tax rate, however, if the estimated effective tax rate is unavailable.

(Changes in accounting policies)

(Application of the "Implementation Guidance on Tax Effect Accounting")

The "Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018)" has been applied from the beginning of the first quarter ended March 31, 2019. Accordingly, our accounting policy has been changed and we now recognize deferred tax liabilities for taxable temporary differences associated with the stocks in subsidiaries in non-consolidated financial statements, expect for the time when we have no intention to sell the said stocks for the foreseeable future.

The above-mentioned change in accounting policy has been applied retrospectively to the consolidated financial statements for the previous fiscal year, and the consolidated financial statements for the previous fiscal year presented in this document are those after the retrospective restatement.

Consequently, in the consolidated balance sheet for the previous fiscal year, deferred tax liabilities decreased by ¥683 million, and retained earnings increased by the same amount, as compared to those in the consolidated balance sheet for the previous fiscal year before the retrospective restatement.

This change in accounting policy did not give any impact on the profit (loss) for the six months ended June 30, 2018.

(Application of IFRS 16 "Leases")

The subsidiaries of the Group that adopt IFRS have applied IFRS 16 "Leases" from the beginning of the first quarter ended March 31, 2019. Accordingly, for lessee transactions, right-of-use assets and lease liabilities are recognized for all leases, in principle, and depreciation of the right-of-use assets and interest on the lease liabilities are also recognized.

In the application of IFRS 16 “Leases”, the transition provision was followed; for the leases that were categorized as operating leases in the past, right-of-use assets and lease liabilities were recognized at the beginning of the first quarter ended March 31, 2019.

As a result of the application, in consolidated balance sheets for the second quarter ended June 30, 2019, other, net in property, plant and equipment increased by ¥1,579 million, other in current liabilities increased by ¥180 million and other in non-current liabilities increased by ¥1,422 million. This change in accounting policy gave little impact on the profit (loss) for the six months ended June 30, 2019.

(Additional information)

(Application of the “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

The “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018)” have been applied from the beginning of the first quarter ended March 31, 2019.

Accordingly, deferred tax assets are presented under investments and other assets and deferred tax liabilities are presented under non-current liabilities.

(Segment information)

I. The six months ended June 30, 2018 (January 1, 2018 to June 30, 2018)

1. Information about sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment					Other (Note 1)	Total	Reconcili-ations (Note 2)	Consolidated (Note 3)
	Industrial Materials	Devices	Medical Technologies	Information and Communi-cation	Sub-total				
Sales									
Sales to external customers	23,338	32,012	9,987	6,994	72,333	209	72,542	—	72,542
Inter-segment sales or transfers	464	402	—	47	913	877	1,791	(1,791)	—
Total	23,802	32,414	9,987	7,041	73,247	1,086	74,334	(1,791)	72,542
Segment profit (loss)	402	(3,086)	(24)	(245)	(2,953)	36	(2,917)	(1,559)	(4,476)

(Notes) 1. The "Other" category consists of a business segment not included in the reportable segments and includes the landscaping business, etc.

2. The negative ¥1,559 million of reconciliations in segment profit (loss) includes unallocated corporate expenses, etc. Corporate expenses mainly consist of general and administrative expenses not attributable to any reportable segment.

3. Segment profit (loss) is reconciled with operating loss recorded in the consolidated statements of income.

II. The six months ended June 30, 2019 (January 1, 2019 to June 30, 2019)

1. Information about sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment					Other (Note 1)	Total	Reconcili-ations (Note 2)	Consolidated (Note 3)
	Industrial Materials	Devices	Medical Technologies	Information and Communi-cation	Sub-total				
Sales									
Sales to external customers	23,554	33,466	12,285	3,601	72,908	191	73,100	—	73,100
Inter-segment sales or transfers	428	72	—	26	527	833	1,361	(1,361)	—
Total	23,982	33,539	12,285	3,628	73,435	1,025	74,461	(1,361)	73,100
Segment profit (loss)	(959)	(3,507)	272	(133)	(4,327)	(4)	(4,332)	(1,496)	(5,829)

(Notes) 1. The "Other" category consists of a business segment not included in the reportable segments and includes the landscaping business, etc.

2. The negative ¥1,496 million of reconciliations in segment profit (loss) includes unallocated corporate expenses, etc. Corporate expenses mainly consist of general and administrative expenses not attributable to any reportable segment.

3. Segment profit (loss) is reconciled with operating loss recorded in the consolidated statements of income.

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

(Material impairment loss on non-current assets)

Impairment loss on non-current assets of ¥485 million was recorded in the Industrial Materials segment.

3. Changes in reportable segments, etc.

(Changes in accounting policies)

As stated in "Changes in accounting policies" above, the subsidiaries of the Group that adopt IFRS have applied IFRS 16 "Leases" from the beginning of the first quarter ended March 31, 2019. Accordingly, for lessee transactions, right-of-use assets and lease liabilities are recognized for all leases, in principle, and depreciation of the right-of-use assets and interest on the lease liabilities are also recognized.

This change in accounting policy gave little impact on segment profit (loss) for the six months ended June 30, 2019.

(Business Combinations)

Business combination by acquisition

Finalization of provisional accounting treatments related to business combination and material review in initial allocation amount of acquisition costs in comparative information

Business combination with Heart Sync, Inc.

Regarding business combination with Heart Sync, Inc. on May 18, 2018, the allocation amount of acquisition costs was provisionally calculated in the second quarter ended June 30, 2018 but the actual allocation amount was determined and amount of contingent consideration for the acquisition also was finalized in the second quarter ended June 30, 2019.

In line with the finalization, the initial allocation amount of acquisition costs was reviewed in the comparative information included in the quarterly consolidated financial statements for the six months ended June 30, 2019 but there was no impact on the consolidated financial statements for the fiscal year ended December 31, 2018 and also, there was no impact on the quarterly consolidated statements of income for the six months ended June 30, 2018.

Business combination with Sequel Special Products, LLC and RSS Design, LLC

Regarding business combination with Sequel Special Products, LLC and RSS Design, LLC on June 25, 2018, the allocation amount of acquisition costs was provisionally calculated in the second quarter ended June 30, 2018 but the actual allocation amount was determined and amount of contingent consideration for the acquisition also was finalized in the second quarter ended June 30, 2019.

In line with the finalization, significant changes in the initial allocation amount of the acquisition costs have been reflected in the comparative information included in the quarterly consolidated financial statements for the six months ended June 30, 2019.

As a result, goodwill of ¥606 million, which provisionally calculated, decreased by ¥168 million to ¥438 million and customer related assets of ¥508 million decreased by ¥22 million to ¥486 million, and also, at the end of fiscal year ended December 31, 2018, goodwill decreased by ¥160 million and customer related assets decreased by ¥21 million, while there was no impact on the quarterly consolidated statements of income for the six months ended, June 30, 2018.