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Summary of Non-Consolidated Financial Results for the Six Months Ended February 28, 2023 (Based on Japan GAAP)

April 14, 2023

Company name: and factory, inc
 Stock exchange listing: Tokyo
 Stock code: 7035 URL <https://andfactory.co.jp/>
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 Scheduled date to file annual securities report: April 14, 2023
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of annual financial results meeting: No

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

1. Non-Consolidated financial results for the six months ended February 28, 2023

(From September 1, 2022 to February 28, 2023)

(1) Non-consolidated operating results (cumulative)

Percentages indicate year-on-year changes.

	Net sales		Operating income		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended February 28, 2023	1,416	6.4	42	284.4	26	—	24	—
Six months ended February 28, 2022	1,332	(10.0)	11	—	(95)	—	(94)	—

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended February 28, 2023	2.28		2.28	
Six months ended February 28, 2022	(9.61)		—	

Notes: Although dilutive shares exist, diluted earnings per share are not stated as earnings per share were negative.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of February 28, 2023	5,198	1,065	20.5
As of August 31, 2022	4,855	540	11.1

(Reference) Equity capital: February 28, 2023: ¥1,065 million August 31, 2022: ¥540 million

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Total
Year ended August 31, 2022	—	0.00	—	0.00	0.00
Year ending August 31, 2023	—	0.00	—	—	—
Year ending August 31, 2023 (Forecast)	—	—	—	0.00	0.00

Notice concerning Revision of the Financial Forecasts : No

3. Forecast of non-consolidated financial results for the year ending August 31, 2023

(From September 1, 2022 to August 31, 2023)

Percentages indicate year-on-year changes.

	Net sales		Operating income		Ordinary profit		Profit		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	3,140	10.8	100	51.3	68	—	64	—	6.50

Notice concerning Revision of the Financial Forecasts : No

4. Notes

(1) Application of special accounting treatment for quarterly financial reporting: Yes

Note: For details, please refer to “2. Quarterly Non-Consolidated Financial Statements and Notes (3) Notes to the Quarterly Non-Consolidated Financial Statements (Application of Special Accounting Treatment for Quarterly Financial Reporting)” on page 5 of the attachments to this summary.

(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

Restatement of prior period financial statements: No

(3) Number of issued shares (common stock)

Total number of issued shares at the end of the period (including treasury shares)

As of February 28, 2023	11,261,970 shares	As of August 31, 2022	9,853,520 shares
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Number of treasury shares at the end of the period

As of February 28, 2023	257 shares	As of August 31, 2022	257 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended February 28, 2023	10,717,009 shares	Six months ended February 28, 2022	9,848,449 shares
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Notes: This financial report is exempt from the review.

Explanation about appropriate usage of business forecasts and other special notes:

The business forecasts and other forward-looking statements presented in this document are based on information that is currently available to the Company and on certain assumptions deemed reasonable, and the Company does not guarantee their achievement. In addition, actual results may differ significantly from projections due to a variety of factors. For assumptions underlying the Company's business forecasts and cautionary notes concerning the use of the forecasts, please refer to “(3) Operating Performance Forecast” on page 4 of the attachments to this summary.

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1. Qualitative Information on Quarterly Financial Results

(1) Analysis of Operating Performance

The size of the e-book market (the Company's main business category) was ¥482.1 billion in fiscal 2020, with comics accounting for 83.0% of this total. In fiscal 2021, the market reached a size of ¥551.0 billion, a 14.3% increase year on year, and comics generated ¥466.0 billion (84.6%) of this amount. This change demonstrates recent growth in the comics market.

Projections indicate that the size of the e-book market will grow to ¥804.8 billion in fiscal 2026, approximately 50% larger than the size reported in fiscal 2021. Accordingly, the Company expects market expansion to continue moving forward.

(From Impress Research Institute's eBook Marketing Report 2022)

In this business environment, the Company pursues a mission to make people's lives more fulfilling by bringing a little "something extra" to their daily lives. In its core Apps segment, the Company has focused mainly on expanding earnings from smartphone manga apps developed in collaboration with large publishers.

In the Apps segment, advertising revenue in the mainstay manga apps business was down, reflecting lower advertising ARPU (*1) stemming from deterioration in the advertising market. However, sales from in-app purchases increased, driven by robust performance of apps with high in-app purchase rates and of popular titles. In the entertainment business, fortune-telling services were strong, and this contributed to year-on-year growth in both overall sales and operating income in the Apps segment.

In the RET segment, profitability related to the operation of &AND HOSTEL facilities improved significantly as a result of business structure reforms, and occupancy rates at the facilities gradually recovered as easing restrictions on immigration drove up the number of foreign guests.

As a result, in the six months ended February 28, 2023, the Company generated net sales of ¥1,416,976 thousand (up 6.4% year on year), operating income of ¥42,637 thousand (up 284.4% year on year), ordinary profit of ¥26,057 thousand (loss of ¥95,606 thousand in the corresponding period of the previous fiscal year), and net income of ¥24,394 thousand (loss of ¥94,622 thousand in the corresponding period of the previous fiscal year).

By segment, earnings performance was as follows.

(1) Apps business

In the six months ended February 28, 2023, the seven manga apps operated in collaboration with publishers and Amutus Corporation registered strong MAU (*2) mainly as a result of the acquisition of new users supported by efficient spending on advertising, and the implementation of measures to promote continued use by existing users. Sales from in-app purchases rose thanks to factors such as the release of popular content and new manga additions.

However, advertising revenue fell on a downtrend in advertising ARPU (*1) amid widespread deterioration in the advertising market driven by the COVID-19 pandemic.

As a result, in the six months ended February 28, 2023, sales in the Apps segment were ¥1,390,853 thousand (up 10.5% year on year). Segment profit came to ¥246,718 thousand (up 5.7% year on year).

*1 The average amount of revenue generated per person

*2 The number of people who use an app at least once in a month

Of the smartphone apps the Company operates in the Apps business, the following table outlines average MAUs by quarter for the manga apps.

(Thousands of people)

Date	Average MAUs	Date	Average MAUs
May 31, 2017	310	May 31, 2020	9,060
August 31, 2017	650	August 31, 2020	9,940
November 30, 2017	1,080	November 30, 2020	10,260
February 28, 2018	1,500	February 28, 2021	10,540
May 31, 2018	2,040	May 31, 2021	10,560
August 31, 2018	2,380	August 31, 2021	11,010
November 30, 2018	2,790	November 30, 2021	10,460
February 28, 2019	3,620	February 28, 2022	10,440
May 31, 2019	4,300	May 31, 2022	11,210
August 31, 2019	5,320	August 31, 2022	11,520
November 30, 2019	6,410	November 30, 2022	11,290
February 29, 2020	7,200	February 28, 2023	11,050

Note: the average MAUs shown above are quarterly averages.

(2) RET business

In the six months ended February 28, 2023, occupancy rates at all of the &AND HOSTEL smart hostels operated by the Company recovered on an increase in reservations from foreign guests, helped in part by the impact of easing restrictions on immigration. The Company also adjusted agreements associated with some &AND HOSTEL locations, which drove up sales generated from such locations while lowering expenses.

As a result, losses from the &AND HOSTEL business contracted year on year. Despite ongoing rental revenue from properties, real estate-related sales declined year on year because the one-off earnings from property sales brokerage fees recorded in the corresponding period of the previous year dropped out of the picture.

Consequently, in the six months ended February 28, 2023, sales in the RET segment came to ¥26,123 thousand (down 61.4% year on year), with a segment loss of ¥35,991 thousand (loss of ¥34,290 thousand in the corresponding period of the previous fiscal year).

(3) Other businesses

Until the previous fiscal year, the Company planned, explored, and gathered information on operations in the entertainment field that involved the application of new technologies and solutions unrelated to its other segments. However, it has decided to discontinue such activities from the current fiscal year as it does not expect to generate earnings from related operations.

As a result, in the six months ended February 28, 2023, sales in the Other segment came to ¥0 thousand (down 100.0% year on year). Segment profit came to ¥278 thousand (loss of ¥13,866 thousand in the corresponding period of the previous year).

(2) Analysis of Financial Conditions

(1) Assets, liabilities, and net assets

(Assets)

As of February 28, 2023, total assets amounted to ¥5,198,126 thousand, up ¥342,728 thousand compared to August 31, 2022. Major factors behind this change included ¥196,880 thousand decrease in leasehold and guarantee deposits, ¥37,568 thousand decline in accounts receivable–trade, and ¥536,879 thousand increase in cash and deposits.

(Liabilities)

Total liabilities amounted to ¥4,132,737 thousand as of February 28, 2023, down ¥181,665 thousand from August 31, 2022. This mainly reflected inclines of ¥86,432 thousand in long-term borrowings and ¥179,534 thousand in allowance for cancellation loss.

(Net assets)

As of February 28, 2023, net assets totaled ¥1,065,389 thousand, up ¥524,394 thousand from end of the August 31, 2022. This was due to ¥24,394 thousand increase in retained earnings from the posting of net income for the quarter, ¥249,999 thousand increase in capital stock and ¥249,999 thousand increase in capital surplus from the allocation of new shares to a third party.

The equity ratio came to 20.5% (compared with 11.1% as of August 31, 2022).

(2) Cash flows

As of February 28, 2023, cash and cash equivalents totaled ¥1,016,001 thousand, up ¥536,879 thousand from August 31, 2022.

(Cash flows from operating activities)

Net cash used in operating activities totaled ¥187,747 thousand. This was mainly due to a loss before income taxes of ¥26,284 thousand, a decrease in trade receivables of ¥37,568 thousand. Meanwhile the company recorded depreciation of ¥28,090 thousand, and cancellation payments of ¥162,455 thousand and an increase in accounts receivable other of ¥43,526 thousand.

(Cash flows from investing activities)

Net cash used in investing activities totaled ¥170,484 thousand. This was mainly due to ¥16,216 thousand in purchase of intangible assets, while there was ¥196,140 thousand in proceeds from the collection of leasehold and guarantee deposits.

(Cash flows from financing activities)

Net cash used in financing activities totaled ¥554,143 thousand. This was mainly due to an outflow of ¥138,568 thousand in repayments of long-term borrowings, while there was ¥225,000 thousand in proceeds from long-term loans and ¥497,711 thousand from issuance of stock.

(3) Operating Performance Forecast

At the present time, the Company has made no changes to its full-year forecast announced on October 14, 2022.

The forecast above is based on information available as of the date of this release, and actual results may differ from projections due to various factors in the future.

2. Quarterly Non-Consolidated Financial Statements

(1) Quarterly Non-Consolidated Balance Sheets

(Thousands of yen)

	As of August 31, 2022	As of February 28, 2023
Assets		
Current assets		
Cash and deposits	479,131	1,016,011
Accounts receivable–trade	524,777	487,208
Work in process	—	10,210
Real estate for sale	3,118,940	3,109,828
Advances paid	196,779	175,308
Other	37,932	98,745
Allowance for doubtful accounts	(12,347)	(14,359)
Total current assets	4,345,213	4,882,954
Non-current assets		
Property, plant and equipment		
Buildings	11,640	11,640
Tools, furniture and fixtures	64,646	66,436
Accumulated depreciation	(46,546)	(50,708)
Total property, plant and equipment	29,740	27,368
Intangible assets		
Software	55,317	70,409
Software in progress	18,375	7,639
Total intangible assets	73,692	78,049
Investments and other assets		
Investment securities	165,607	165,607
Leasehold and guarantee deposits	237,773	40,893
Other	3,369	3,254
Total investments and other assets	406,750	209,755
Total non-current assets	510,184	315,172
Total assets	4,855,398	5,198,126

(Thousands of yen)

	As of August 31, 2022	As of February 28, 2023
Liabilities		
Current liabilities		
Accounts payable–trade	100,073	98,309
Short-term borrowings	265,000	235,000
Current portion of long-term borrowings	277,136	277,136
Accounts payable–other	514,051	506,364
Income taxes payable	13,051	8,184
Provision for bonuses	304	920
Provision for shareholder benefit program	36,464	8,193
Provision for loss on cancellation	179,534	—
Deposits received	8,312	6,901
Other	36,723	27,989
Total current liabilities	1,430,651	1,168,999
Non-current liabilities		
Long-term borrowings	2,877,206	2,963,638
Long-term guarantee deposits	6,545	100
Total non-current liabilities	2,883,751	2,963,738
Total liabilities	4,314,402	4,132,737
Net assets		
Shareholders' equity		
Share capital	551,819	801,818
Capital surplus	550,460	800,460
Retained earnings	(560,710)	(536,316)
Treasury shares	(572)	(572)
Total shareholders' equity	540,995	1,065,389
Total net assets	540,995	1,065,389
Total liabilities and net assets	4,855,398	5,198,126

(2) Quarterly Non-Consolidated Statements of Income

(Thousands of yen)

	Six months ended February 28, 2022	Six months ended February 28, 2023
Net sales	1,332,199	1,416,976
Cost of sales	600,644	598,121
Gross profit	731,554	818,855
Selling, general and administrative expenses	720,463	776,217
Operating profit	11,090	42,637
Non-operating income		
Interest income	4	8
Subsidy income	893	1,914
Other	238	6
Total non-operating income	1,136	1,929
Non-operating expenses		
Interest expenses	15,160	15,801
Share issuance costs	—	2,288
Rent	86,581	—
Other	6,091	419
Total non-operating expenses	107,833	18,510
Ordinary profit (loss)	(95,606)	26,057
Extraordinary income		
Gain on sale of businesses	0	—
Gain on sale of non-current assets	—	227
Gain on sale of investment securities	10,020	—
Total extraordinary income	10,020	227
Extraordinary losses		
Impairment losses	964	—
Loss on retirement of non-current assets	1,183	—
Loss on valuation of investment securities	4,999	—
Total extraordinary losses	7,146	—
Profit (loss) before income taxes	(92,733)	26,284
Income taxes	1,889	1,890
Profit (loss)	(94,622)	24,394

(3) Quarterly Non-Consolidated Statements of Cash Flows

(Thousands of yen)

	Six months ended February 28, 2022	Six months ended February 28, 2023
Cash flows from operating activities		
Loss before income taxes	(92,733)	26,284
Depreciation	33,544	28,090
Impairment losses	964	-
Loss (gain) on sale of non-current assets	-	(227)
Loss on retirement of non-current assets	1,183	-
Share issuance costs	-	2,288
Loss (gain) on sale of businesses	(0)	-
Loss (gain) on sale of investment securities	(10,020)	-
Loss (gain) on valuation of investment securities	4,999	-
Increase (decrease) in allowance for doubtful accounts	3,075	2,011
Increase (decrease) in provision for bonuses	-	615
Increase (decrease) in provision for shareholder benefit program	(29,888)	(28,270)
Interest income	(4)	(8)
Subsidy income	(893)	(1,914)
Interest expenses	15,160	15,801
Rent	86,581	-
Decrease (increase) in trade receivables	74,342	37,568
Decrease (increase) in accounts receivable - other	13,886	(43,526)
Decrease (increase) in inventories	85	(10,210)
Decrease (increase) in prepaid expenses	779	(19,031)
Decrease (increase) in advances paid	34,335	21,471
Increase (decrease) in trade payables	(16,941)	(1,763)
Increase (decrease) in accounts payable - other	9,366	(10,454)
Increase (decrease) in accrued consumption taxes	(63,391)	(7,929)
Other, net	3,520	(3,369)
Subtotal	67,951	7,423
Cancellation penalty paid	-	(162,455)
Interest and dividends received	4	8
Interest paid	(13,289)	(13,779)
Subsidies received	893	1,914
Rent paid	(93,642)	(17,079)
Payments for business structure restructuring expenses	(8,079)	-
Income taxes paid	(3,779)	(3,780)
Net cash provided by (used in) operating activities	(49,941)	(187,747)

	Six months ended February 28, 2022	Six months ended February 28, 2023
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,743)	(3,221)
Proceeds from sale of property, plant and equipment	-	227
Purchase of intangible assets	-	(16,216)
Payments of leasehold and guarantee deposits	(165)	-
Proceeds from refund of leasehold and guarantee deposits	42,570	196,140
Proceeds from sale of investment securities	70,020	-
Proceeds from sale of businesses	0	-
Other, net	(2,441)	(6,445)
Net cash provided by (used in) investing activities	106,239	170,484
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(30,000)	(30,000)
Proceeds from long-term borrowings	-	225,000
Repayments of long-term borrowings	(138,568)	(138,568)
Proceeds from issuance of shares	-	497,711
Proceeds from exercise of employee share options	4,197	-
Net cash provided by (used in) financing activities	(164,370)	554,143
Net increase (decrease) in cash and cash equivalents	(108,072)	536,879
Cash and cash equivalents at beginning of period	774,726	479,131
Cash and cash equivalents at end of period	666,654	1,016,011

(4) Notes to the Quarterly Consolidated Financial Statements

(Notes Related to the Going Concern Assumption)

Not applicable

(Notes in the Events of Significant Changes in Shareholders' Equity)

Six months ended February 28, 2022 (September 1, 2021 to February 28, 2022)

Not applicable

Six months ended February 28, 2023 (September 1, 2022 to February 28, 2023)

On November 10, 2022, the Company received payment for a third-party allotment of shares to Septeni Holdings Co., Ltd. As a result, share capital and legal capital surplus both increased by ¥249,999 thousand in the six months ended February 28, 2023. As of February 28, 2023, share capital and capital surplus stood at ¥801,818 thousand and ¥800,460 thousand, respectively.

(Application of Special Accounting Treatment for Quarterly Financial Reporting)

(Calculation of Tax Expenses)

When computing tax expenses, the Company has rationally estimated the effective tax rate following the application of tax-effect accounting to profit before income taxes for the fiscal year that includes the six months ended February 28, 2023. The Company then calculated tax expenses by multiplying the profit (loss) before income taxes by this rate. However, if the tax expenses calculated using the estimated effective tax rate yield unreasonable results, the statutory effective tax rate may be used.

(Changes in Accounting Policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

Effective from the beginning of the quarter under review, the Company has applied the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021; hereinafter referred to as the "Fair Value Measurement Implementation Guidance"). In accordance with the transitional treatment prescribed in Paragraph 27-2 of the Fair Value Measurement Implementation Guidance, the Company has opted to apply the new accounting policy specified in the Fair Value Measurement Implementation Guidance prospectively.

This change has no impact on the quarterly financial statements.

(Additional Information)

(Accounting Estimates)

The spread of COVID-19 continues to impact the economy, and the Company's business activities are being affected, as well. Advertising revenue from manga apps is shrinking as the advertising market deteriorates. Lower occupancy rates and sales per customer at the &AND HOSTEL locations the Company operates are affecting operating performance.

It is difficult to predict with any accuracy when these conditions could improve. However, based on the information available at the time these financial statements were prepared, for the purposes of making accounting estimates (such as the valuation of real estate for sale, decisions on whether to post impairment losses on fixed assets, and decisions on the recoverability of deferred tax assets), we have assumed that the effect will gradually diminish from the fiscal year ending August 31, 2023.

(Segment Information, etc.)

[Segment Information]

Six months ended February 28, 2022 (September 1, 2021 to February 28, 2022)

1. Information related to sales, profits or losses for each reportable segment

(Thousands of yen)

	Reportable segments			Other (Note)	Total
	APPs	RET	Total		
Net Sales					
Manga apps	1,074,807	—	1,074,807	—	1,074,807
Fortune	159,043	—	159,043	—	159,043
&AND HOSTEL	—	19,546	19,546	—	19,546
RET	—	9,331	9,331	—	9,331
Other	25,241	1,465	26,706	5,491	32,198
Revenue from contracts with customers	1,259,092	30,343	1,289,435	5,491	1,294,926
Other revenue	—	37,272	37,272	—	37,272
Sales to external customers	1,259,092	67,615	1,326,707	5,491	1,332,199
Intersegment sales or transfer	—	—	—	—	—
Total	1,259,092	67,615	1,326,707	5,491	1,332,199
Segment profit (loss)	233,413	(34,290)	199,122	(13,866)	185,255

Note : “Other” refers to businesses not included within the Company's reportable segments and mainly comprises lodging and rental property services, as well as internet advertising agency services.

2. Total profits or losses for reportable segments and the primary reasons for discrepancies between these values and corresponding figures stated in the quarterly non-consolidated statements of income (matters related to the adjustment of discrepancies)

(Thousands of yen)

Income	Amount
Subtotal for reportable segments	199,122
Income from “Other” businesses	(13,866)
Company-wide expenses (Note)	(174,164)
Operating profit (loss) in the quarterly non-consolidated statements of income	11,090

Note: Company-wide expenses are mainly general and administrative expenses not attributable to reportable segments.

3. Information related to losses on the impairment of fixed assets or goodwill for each reportable segments

(Significant impairment losses related to fixed assets)

Not applicable

Six months ended February 28, 2023 (September 1, 2022 to February 28, 2023)

1. Information related to sales, profits or losses for each reportable segment.

(Thousands of yen)

	Reportable segments			Other (Note)	Total
	APPs	RET	Total		
Net Sales					
Manga apps	1,096,056	—	1,096,056	—	1,096,056
Fortune	277,419	—	277,419	—	277,419
&AND HOSTEL	—	1,659	1,659	—	1,659
RET	—	600	600	—	600
Other	17,377	688	18,066	—	18,066
Revenue from contracts with customers	1,390,853	2,948	1,393,801	—	1,393,801
Other revenue	—	23,175	23,175	—	23,175
Sales to external customers	1,390,853	26,123	1,416,976	—	1,416,976
Intersegment sales or transfer	—	—	—	—	—
Total	1,390,853	26,123	1,416,976	—	1,416,976
Segment profit (loss)	246,718	(35,991)	210,726	278	211,004

Notes : “Other” refers to businesses not included within the Company's reportable segments and mainly comprises entertainment related business operations that utilize new technologies.

2. Total profits or losses for reportable segments and the primary reasons for discrepancies between these values and corresponding figures stated in the quarterly non-consolidated statements of income (matters related to the adjustment of discrepancies)

(Thousands of yen)

Income or Loss	Amount
Subtotal for reportable segments	210,726
Income from “Other” businesses	278
Company-wide expenses (Note)	(168,366)
Operating profit (loss) in the quarterly non-consolidated statements of income	42,637

Note : Company-wide expenses are mainly general and administrative expenses not attributable to reportable segments.

3. Information related to losses on the impairment of fixed assets or goodwill for each reportable segment.

(Significant impairment losses related to fixed assets)

Not applicable