

FOR IMMEDIATE RELEASE

## **Kurita Water Industries Reports Earnings for the Nine Months Ended December 31, 2019**

Tokyo, Japan, February 10, 2020—Kurita Water Industries Ltd. (TSE Securities Code 6370) announced net sales of 197,072 million yen and profit attributable to owners of parent of 16,965 million yen, or 151.09 yen per share, for the nine months ended December 31, 2019 (April 1, 2019 – December 31, 2019).

The Kurita Group (Kurita Water Industries Ltd. and its consolidated subsidiaries and equity method affiliates) is applying the International Financial Reporting Standards (IFRS) from the first quarter of the fiscal year ending March 31, 2020. The figures for the same period of the previous fiscal year and for the previous consolidated fiscal year are also compliant with IFRS. For information about the difference between financial data under IFRS and those under Japanese GAAP, please refer to Notes to Consolidated Financial Statements (First-time Adoption) on page 15 of the attached document.

### **Results of Operations**

Total consolidated orders for the Kurita Group in the nine months ended December 31, 2019 fell 2.2% from the level of the year-ago period, to 196,121 million yen, and net sales increased 2.8%, to 197,072 million yen. Operating profit was 24,948 million yen, up 87.8% versus the year-ago period, profit before tax was 24,415 million yen, up 77.2%, and profit attributable to owners of parent amounted to 16,965 million yen, up 118.5%. Operating profit and profit at other levels rose significantly, chiefly reflecting a gain on the sale of fixed assets of 4,818 million yen in the nine months under review and the absence of a loss on transfer of business of 2,838 million yen and an impairment loss on goodwill of 1,181 million yen posted in the same period of the previous fiscal year.

Looking at the market environment surrounding the Kurita Group, in Japan, production in the manufacturing sector remained weak as exports continued to struggle. Capital expenditure restraint was evident in certain sectors. Overseas, while the U.S. economy remained firm, economic growth slowed in China and emerging countries in Asia as well as in Europe, reflecting the growing effects of protracted trade dispute between the United States and China.

In this environment, the Group strengthened its sales system in each market and each region to increase customer intimacy. Meanwhile, the Group promoted proposals of total solutions that will contribute to solving issues of customers, such as environmental mitigation, energy saving and productivity improvement.

From the first quarter of this fiscal year, the operating results at U.S.-based U.S. Water Services, Inc., as well as U.S.-based Avista Technologies, Inc. and U.K.-based Avista Technologies (UK) Ltd. have been newly consolidated.

### **Segment Information**

The Group consists of two reportable segments in its segment information: Water Treatment Chemicals and Water Treatment Facilities.

#### **Water Treatment Chemicals**

Total Group orders for the Water Treatment Chemicals segment were 86,305 million yen, up 10.9% versus the same period of the fiscal year ended March 31, 2019, while net sales rose 12.2%, to 86,850 million yen.

Operating profit stood at 8,941 million yen, up 166.9% year on year, chiefly reflecting a decrease in other expenses due to the absence of a loss on transfer of business of 2,838 million yen related to the aluminum compound business in Europe and an impairment loss on goodwill of 1,181 million yen based on the Group's decision to transfer a certain water treatment chemical production function in China to a plant of a newly formed company (both are temporary losses) posted in the same period of the previous fiscal year.

Orders and net sales in Japan, primarily orders and net sales of process treatment chemicals for iron and steel production, increased, reflecting the Group's efforts to gain new customers by proposing total

solutions that contribute to energy saving at customers' plants.

Orders and net sales rose also overseas despite the effect of the transfer of the aluminum compound business in Europe in the previous fiscal year, primarily due to the new consolidation of operating results (for nine months) in the water treatment chemicals business at U.S. Water Services, Inc. and operating results (for seven months) at U.S.-based Avista Technologies, Inc. and U.K.-based Avista Technologies (UK) Ltd.

### **Water Treatment Facilities**

Total Group orders for the Water Treatment Facilities segment were 109,816 million yen, down 10.6% versus the same period of the previous fiscal year. Net sales declined 3.5%, to 110,221 million yen.

Operating profit came to 16,026 million yen, up 60.0% year on year, reflecting a gain on the sale of fixed assets of 4,782 million yen posted in other income resulting primarily from the sale of certain facility in the ultrapure water supply business and the absence of temporary additional costs due to an insufficient production system in the same period of the previous fiscal year.

In Japan, orders and net sales of water treatment facilities for the electronics industry declined from the same period of the previous fiscal year, during which orders were received and sales were recorded for large projects. However, both orders and net sales rose in maintenance services for the electronics industry due to orders for expansion and renovation projects for the purpose of increasing production capacity at customers' plants.

Orders for water treatment facilities for general industries climbed, but net sales declined. Both orders and net sales in maintenance services for general industries fell in reaction to strong orders and net sales in the same period of the previous fiscal year. Orders for facilities for electric power plants declined in reaction to orders for large projects in the same period of the previous fiscal year, but net sales increased due to progress in construction work for a backlog of orders. Orders and net sales of soil remediation decreased, reflecting a completion of large projects.

Overseas, orders increased, chiefly attributable to the new consolidation of operating results (for nine months) in the water treatment facilities business of U.S. Water Services, Inc. However, net sales decreased in reaction to sales from large projects posted in the same period of the previous fiscal year. Net sales in the ultrapure water supply business in Japan and overseas fell due to the effect of changes in contracts with a certain customer.

### **Financial Condition**

Condition of assets, liabilities and equity

1) Total assets: 398,025 million yen, an increase of 39,359 million yen from the end of the previous fiscal year)

Current assets totaled 162,874 million yen at the end of the third quarter (December 31, 2019), an increase of 11,749 million yen from the end of the previous fiscal year (March 31, 2019). This was mainly attributable to an increase in cash and cash equivalents of 8,451 million yen, chiefly reflecting the partial execution of the commitment line contracts, offsetting funds used for business acquisitions and capital expenditures.

Non-current assets totaled 235,150 million yen at the end of the third quarter, an increase of 27,610 million yen from the end of the previous fiscal year. Property, plant and equipment increased 7,033 million yen, chiefly due to capital expenditure in the ultrapure water supply business (Water Treatment Facilities business). Right-of-use assets rose 4,441 million yen, chiefly reflecting the acquisition of the right of use of land. Goodwill climbed 7,746 million yen due to acquisitions in North America and Europe (Water Treatment Chemicals business). Investments accounted for using equity method increased 6,598 million yen owing to an increase in equity method affiliates (Water Treatment Chemicals business and Water Treatment Facilities business).

2) Liabilities: 148,848 million yen, an increase of 29,297 million yen from the end of the previous fiscal year.

Current liabilities totaled 99,820 million yen at the end of the period, an increase of 26,698 million yen from the end of the previous fiscal year. This was mainly due to an increase in borrowings of 35,004 million yen resulting from the partial execution of the commitment line contracts, offsetting a decrease of 6,061 million yen in trade and other payables.

Non-current liabilities totaled 49,028 million yen at the end of the period, an increase of 2,600 million yen from the end of the previous fiscal year. This was primarily attributable to an increase in lease liabilities of 4,051 million yen due to the acquisition of the right of use of land.

3) Equity: 249,176 million yen, an increase of 10,062 million yen from the end of the previous fiscal year.

This mainly reflected an increase in retained earnings of 10,681 million yen chiefly due to the posting of a profit for the period, which outweighed the posting of year-end dividends and interim dividends and were partly offset by a decrease in other components of equity of 790 million yen mainly due to a decline in exchange differences on translation of foreign operations associated with the stronger yen against foreign currencies.

### **Cash Flows**

Consolidated net cash and cash equivalents at the end of the third quarter (December 31, 2019) totaled 43,999 million yen, an increase of 8,451 million yen from the end of the previous fiscal year (March 31, 2019).

The various cash flows and related factors are outlined below.

#### **1) Cash Flows from Operating Activities**

Net cash provided by operating activities during the nine months ended December 31, 2019 totaled 20,728 million yen, a decrease of 14,090 million yen from the same period of the previous fiscal year. Inflows from profit before tax of 24,415 million yen and depreciation and amortization of 13,354 million yen were partly offset by income taxes paid of 10,438 million yen.

#### **2) Cash Flows from Investing Activities**

Net cash used in investing activities totaled 36,788 million yen, an increase of 23,869 million yen from the same period of the previous fiscal year. Cash was used for purchases of property, plant and equipment of 23,176 million yen, payments for acquisition of business of 8,501 million yen, and purchases of shares and investments in capital of subsidiaries and affiliates of 5,865 million yen.

#### **3) Cash Flows from Financing Activities**

Net cash provided by financing activities totaled 24,848 million yen, an increase of 37,128 million yen from the same period of the previous fiscal year. Inflows chiefly from a net increase in short-term borrowings of 35,004 million yen were partly offset by dividends paid of 6,525 million yen.

The Group's basic policy is to constantly secure liquidity necessary for business operations and resource of funds. Short-term working capital is basically supplied by the Group's own funds. Capital investment and other investments in growth fields depend chiefly on the Group's own funds, but the Group considers financing through bank loans as needed. As of the end of the period under review, the Group has concluded commitment line contracts with four financial institutions (realized borrowings: 35,000 million yen; unrealized borrowings: 35,600 million yen).

**Forecasts for the Fiscal Year Ending March 31, 2020**

The Group's current outlook for the fiscal year ending March 31, 2020 is consistent with the earnings forecast disclosed in "Earnings Report for the Six Months Ended September 30, 2019," which was announced on November 11, 2019.

(Note on forward-looking statements)

The forward-looking statements such as business forecasts included in this document are based on the information available to the Company at the time of the announcement and on certain assumptions considered reasonable, and the Company makes no representations as to their achievability. Actual results may differ materially from the forecast depending on a range of factors.

## Condensed quarterly consolidated financial statements

### (1) Condensed quarterly consolidated statement of financial position

(Million yen)

	Date of transition to IFRS (April 1, 2018)	As of March 31, 2019	As of December 31, 2019
Assets			
Current assets			
Cash and cash equivalents	60,531	35,547	43,999
Trade and other receivables	89,354	100,497	101,704
Other financial assets	2,809	1,709	2,911
Inventories	8,078	9,348	11,351
Other current assets	2,619	4,022	2,907
Total current assets	163,393	151,125	162,874
Non-current assets			
Property, plant and equipment	81,336	103,275	110,308
Right-of-use assets	11,331	12,226	16,667
Goodwill	19,966	37,954	45,700
Intangible assets	10,197	17,515	17,052
Investments accounted for using equity method	1,098	956	7,554
Other financial assets	40,103	28,592	31,236
Deferred tax assets	4,581	6,803	6,367
Other non-current assets	277	216	262
Total non-current assets	168,893	207,540	235,150
Total assets	332,287	358,666	398,025

(Million yen)

	Date of transition to IFRS (April 1, 2018)	As of March 31, 2019	As of December 31, 2019
Liabilities and equity			
Current liabilities			
Trade and other payables	40,139	49,576	43,515
Borrowings	2,963	385	35,389
Lease liabilities	2,958	3,818	3,796
Other financial liabilities	12	1	220
Income taxes payable	4,737	5,887	2,839
Provisions	572	1,026	928
Other current liabilities	10,729	12,427	13,130
Total current liabilities	62,113	73,122	99,820
Non-current liabilities			
Borrowings	2,331	1,717	1,373
Lease liabilities	9,397	9,628	13,679
Other financial liabilities	1,122	1,771	1,779
Retirement benefit liability	16,374	16,580	17,317
Provisions	331	491	499
Deferred tax liabilities	547	854	851
Other non-current liabilities	761	15,385	13,527
Total non-current liabilities	30,868	46,428	49,028
Total liabilities	92,981	119,551	148,848
Equity			
Share capital	13,450	13,450	13,450
Capital surplus	10,959	10,265	10,353
Treasury shares	(10,943)	(10,932)	(10,893)
Other components of equity	16,785	4,838	4,048
Retained earnings	207,005	219,590	230,271
Total equity attributable to owners of parent	237,257	237,212	247,231
Non-controlling interests	2,048	1,902	1,945
Total equity	239,305	239,114	249,176
Total liabilities and equity	332,287	358,666	398,025

## (2) Condensed quarterly consolidated statement of profit or loss and comprehensive income

### Condensed quarterly consolidated statement of profit or loss

(Million yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net sales	191,659	197,072
Cost of sales	131,037	127,462
Gross profit	60,621	69,610
Selling, general and administrative expenses	42,259	49,329
Other income	720	5,628
Other expenses	5,794	960
Operating profit	13,287	24,948
Finance income	715	526
Finance costs	288	1,182
Share of profit of investments accounted for using equity method	61	123
Profit before tax	13,776	24,415
Income tax expense	6,037	7,358
Profit for the period	7,738	17,057
Profit attributable to		
Owners of parent	7,763	16,965
Non-controlling interests	(25)	92
Profit for the period	7,738	17,057
Earnings per share		
Basic earnings per share (yen)	69.15	151.09
Diluted earnings per share (yen)	–	–

## Condensed quarterly consolidated statement of comprehensive income

(Million yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Profit for the period	7,738	17,057
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net change in the fair value of financial assets measured through other comprehensive income	(1,860)	1,524
Remeasurements of defined benefit plans	(26)	(11)
Total of items that will not be reclassified to profit or loss	(1,887)	1,512
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(4,074)	(2,058)
Cash flow hedges	210	77
Share of other comprehensive income of investments accounted for using equity method	(20)	(73)
Total of items that may be reclassified to profit or loss	(3,884)	(2,054)
Other comprehensive income, net of tax	(5,771)	(541)
Comprehensive income for the period	1,966	16,515
Comprehensive income attributable to		
Owners of parent	2,036	16,412
Non-controlling interests	(69)	103
Comprehensive income	1,966	16,515

### (3) Condensed quarterly consolidated statement of changes in equity

Nine months ended December 31, 2018 (April 1, 2018 - December 31, 2018)

(Million yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Treasury shares	Other components of equity		
				Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2018	13,450	10,959	(10,943)	–	2	16,783
Profit for the period	–	–	–	–	–	–
Other comprehensive income	–	–	–	(4,053)	210	(1,860)
Total comprehensive income for the period	–	–	–	(4,053)	210	(1,860)
Purchase of treasury shares	–	–	(2)	–	–	–
Dividends	–	–	–	–	–	–
Share-based payment transactions	–	–	14	–	–	–
Changes in ownership interests in subsidiaries	–	(294)	–	11	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	(6,392)
Other	–	(558)	–	–	–	–
Total transactions with owners	–	(852)	11	11	–	(6,392)
Balance as of December 31, 2018	13,450	10,106	(10,932)	(4,041)	213	8,529

(Million yen)

	Equity attributable to owners of parent				Non-controlling interests	Total
	Other components of equity		Retained earnings	Total		
	Remeasurements of defined benefit plans	Total				
Balance as of April 1, 2018	–	16,785	207,005	237,257	2,048	239,305
Profit for the period	–	–	7,763	7,763	(25)	7,738
Other comprehensive income	(24)	(5,727)	–	(5,727)	(44)	(5,771)
Total comprehensive income for the period	(24)	(5,727)	7,763	2,036	(69)	1,966
Purchase of treasury shares	–	–	–	(2)	–	(2)
Dividends	–	–	(5,968)	(5,968)	(5)	(5,973)
Share-based payment transactions	–	–	–	14	–	14
Changes in ownership interests in subsidiaries	–	11	–	(282)	1	(280)
Transfer from other components of equity to retained earnings	24	(6,368)	6,368	–	–	–
Other	–	–	66	(491)	–	(491)
Total transactions with owners	24	(6,357)	467	(6,730)	(4)	(6,734)
Balance as of December 31, 2018	–	4,701	215,236	232,563	1,974	234,537

Nine months ended December 31, 2019 (April 1, 2019 - December 31, 2019)

(Million yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Treasury shares	Other components of equity		
				Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2019	13,450	10,265	(10,932)	(4,671)	310	9,199
Profit for the period	-	-	-	-	-	-
Other comprehensive income	-	-	-	(2,143)	77	1,524
Total comprehensive income for the period	-	-	-	(2,143)	77	1,524
Purchase of treasury shares	-	-	(2)	-	-	-
Dividends	-	-	-	-	-	-
Share-based payment transactions	-	92	42	-	-	-
Changes in ownership interests in subsidiaries	-	(4)	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	-	-	(248)
Other	-	(0)	-	-	-	-
Total transactions with owners	-	88	39	-	-	(248)
Balance as of December 31, 2019	13,450	10,353	(10,893)	(6,814)	388	10,474

(Million yen)

	Equity attributable to owners of parent				Non-controlling interests	Total
	Other components of equity		Retained earnings	Total		
	Remeasurements of defined benefit plans	Total				
Balance as of April 1, 2019	-	4,838	219,590	237,212	1,902	239,114
Profit for the period	-	-	16,965	16,965	92	17,057
Other comprehensive income	(10)	(552)	-	(552)	10	(541)
Total comprehensive income for the period	(10)	(552)	16,965	16,412	103	16,515
Purchase of treasury shares	-	-	-	(2)	-	(2)
Dividends	-	-	(6,521)	(6,521)	(10)	(6,532)
Share-based payment transactions	-	-	-	134	7	142
Changes in ownership interests in subsidiaries	-	-	-	(4)	(56)	(60)
Transfer from other components of equity to retained earnings	10	(237)	237	-	-	-
Other	-	-	0	(0)	-	(0)
Total transactions with owners	10	(237)	(6,284)	(6,393)	(59)	(6,453)
Balance as of December 31, 2019	-	4,048	230,271	247,231	1,945	249,176

**(4) Condensed quarterly consolidated statement of cash flows**

(Million yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Cash flows from operating activities		
Profit before tax	13,776	24,415
Depreciation and amortization	14,042	13,354
Share of loss (profit) of investments accounted for using equity method	(61)	(123)
Loss (gain) on sale of fixed assets	516	(4,813)
Decrease (increase) in inventories	(1,422)	(1,925)
Decrease (increase) in trade and other receivables	(2,412)	(2,078)
Increase (decrease) in trade and other payables	200	2,103
Other	18,044	(124)
Subtotal	42,683	30,807
Interest received	48	32
Dividends received	555	396
Interest paid	(143)	(70)
Income taxes paid	(8,326)	(10,438)
Net cash provided by (used in) operating activities	34,818	20,728
Cash flows from investing activities		
Payments into time deposits	(19,216)	(1,609)
Proceeds from withdrawal of time deposits	16,898	1,040
Purchase of property, plant and equipment	(19,319)	(23,176)
Proceeds from sale of property, plant and equipment	515	4,845
Purchase of intangible assets	(855)	(1,455)
Proceeds from sale of investments	12,528	41
Payments for acquisition of business (after deduction of cash and cash equivalents included in acquired assets)	(2,338)	(8,501)
Purchase of shares and investments in capital of subsidiaries and affiliates	-	(5,865)
Other	(1,131)	(2,107)
Net cash provided by (used in) investing activities	(12,919)	(36,788)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(2,331)	35,004
Repayments of long-term borrowings	(541)	(323)
Repayments of lease liabilities	(2,336)	(3,254)
Dividends paid	(5,980)	(6,525)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(1,094)	(60)
Other	4	8
Net cash provided by (used in) financing activities	(12,280)	24,848
Effect of exchange rate changes on cash and cash equivalents	(748)	(336)
Net increase (decrease) in cash and cash equivalents	8,870	8,451
Cash and cash equivalents at beginning of period	60,531	35,547
Cash and cash equivalents at end of period	69,402	43,999

## Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Nine months ended December 31, 2019 (April 1, 2019 – December 31, 2019)

Not applicable

(Segment Information)

Information of reportable segments

Nine months ended December 31, 2018 (April 1, 2018 – December 31, 2018)

(Million yen)

	Reportable Segments		Total	Adjustments (Note 1)	Amounts reported on the condensed quarterly consolidated statement of profit or loss (Note 2)
	Water Treatment Chemicals	Water Treatment Facilities			
Sales					
Sales to outside customers	77,434	114,225	191,659	–	191,659
Inter-segment sales and transfers	608	1,141	1,750	(1,750)	–
Total	78,043	115,367	193,410	(1,750)	191,659
Segment income	3,350	10,019	13,369	(81)	13,287
Finance income					715
Finance costs					288
Share of profit of investments accounted for using equity method					61
Profit before tax					13,776

(Notes) 1. Segment income: Amount resulting from eliminations of inter-segment transactions.

2. Segment income is shown at the operating income level.

Nine months ended December 31, 2019 (April 1, 2019 – December 31, 2019)

(Million yen)

	Reportable Segments		Total	Adjustments (Note 1)	Amounts reported on the condensed quarterly consolidated statement of profit or loss (Note 2)
	Water Treatment Chemicals	Water Treatment Facilities			
Sales					
Sales to outside customers	86,850	110,221	197,072	–	197,072
Inter-segment sales and transfers	565	1,390	1,955	(1,955)	–
Total	87,415	111,612	199,027	(1,955)	197,072
Segment income	8,941	16,026	24,967	(19)	24,948
Finance income					526
Finance costs					1,182
Share of profit of investments accounted for using equity method					123
Profit before tax					24,415

(Notes) 1. Segment income: Amount resulting from eliminations of inter-segment transactions.

2. Segment income is shown at the operating income level.

(Significant subsequent events)

At a meeting of the Board of Directors held on January 30, 2020, the Company resolved to establish a new research and development base (new global technology center) in Akishima-shi, Tokyo in April 2022. The existing research and development base, the functions of Kurita Global Technology Center (Nogi-machi, Shimotsuga-gun, Tochigi), will be transferred to the new global technology center on March 31, 2022. The land of the Kurita Global Technology Center will be sold.

(1) Purpose of the establishment of the new global technology center

The Company will establish the new base in response to the aging of the existing Kurita Global Technology Center. The project is aimed at building a development environment with state-of-the-art equipment and analytical instruments, so as to accelerate the creation of leading-edge technologies and total solutions related to “water and the environment.” The Company will position the new global technology center as the core of its global research and development system, aiming to make a research and development facility that is open to society, where new innovations are created through interactions with customers and other stakeholders.

(2) Overview of the new global technology center

Name	New Research and Development Facility (tentative name), New Multi-Functional Facility (tentative name)
Location	Parts of 3993-1 and 3993-8 Aza Kohake, Hajjima-cho, Akishima-shi, Tokyo
Site area	30,381.37 m <sup>2</sup>
Total floor area	38,075 m <sup>2</sup>
Construction of the buildings (planned)	New Research and Development Facility: A five-story building and other structures New Multi-Functional Facility: A three-story building
Construction cost	Approximately 30 billion yen (The Company’s own funds and debt financing)
Commencement of construction	May 2020
Completion of construction	March 2022 (planned)
Opening (commencement of operation)	April 2022 (planned)

(Additional information)

Acquisition of shares by a consolidated subsidiary

Kurita America Holdings Inc., a wholly owned subsidiary of Kurita Water Industries Ltd., signed an agreement to acquire an additional 26% of the shares of Pentagon Technologies Group, Inc. (“Pentagon Technologies”), in which Kurita America Holdings currently holds a 25% stake, on December 26, 2019. As a result, Kurita America Holdings will hold a 51% stake in Pentagon Technologies, which will become a consolidated subsidiary of Kurita Water Industries.

(1) Name, address, representative, capital and business of the company whose shares the Company will acquire

- (i) Name: Pentagon Technologies Group, Inc.
- (ii) Address: 21031 Alexander Ct. Hayward, California, U.S.A.
- (iii) Representative: Irwin H. Pfister, Chairman
- (iv) Capital: 2,000 US dollars
- (v) Business: Tool cleaning business, development of measuring instruments for surface particles on semiconductor manufacturing equipment, services related to clean rooms

(2) Purpose of the acquisition of shares

The Company will make Pentagon Technologies its subsidiary to have a base for overseas service in the electronics industry, which the Company positions as a key business field, and to further increase its competitiveness in the market. The Company also aims to accelerate its business growth and offer new value by acquiring the cutting-edge tool cleaning technologies and expertise of Pentagon Technologies and creating synergies with the tool cleaning business that the Kurita Group has been developing in Japan.

(3) Date of acquisition of shares

April 1, 2020 (plan)

(4) Number of shares to be acquired, acquisition value and shareholding ratio after acquisition

- (i) Number of shares to be acquired  
757,875 shares
- (ii) Acquisition value  
52,000,000 US dollars
- (iii) Shareholding ratio after acquisition  
51.0%

(5) Funding

The Company’s own funds

(6) Becoming a wholly owned subsidiary

Under the share acquisition agreement, it has been agreed that Pentagon Technologies becomes a wholly owned subsidiary of Kurita America Holdings around June 30, 2022.

#### (First-time Adoption)

The Group is disclosing quarterly consolidated financial statements complying with IFRS from the first quarter of this fiscal year. The most recent consolidated financial statements prepared under Japanese GAAP are those for the fiscal year ended March 31, 2019. The date of transition to IFRS is April 1, 2018.

#### (1) Exemptions set out in IFRS 1

In principle, an entity that applies IFRS for the first time (hereinafter “First-time Adopter”) is requested to retrospectively apply IFRS. However, IFRS 1 - First-time Adoption of International Financial Reporting Standards (hereinafter “IFRS 1”) sets out standards to which exemptions have to be applied mandatorily and standards to which exemptions are applied optionally. The effects of the applied exemptions are adjusted by retained earnings or other components of equity on the date of transition to IFRS. When the Group moved from Japanese GAAP to IFRS, it applied the following exemptions:

##### I. Business Combinations

The First-time Adopter is allowed to choose not to retrospectively apply IFRS 3 Business Combinations (hereinafter “IFRS 3”) to business combinations before the date of transition to IFRS. The Group has applied the exemption and has chosen not to retrospectively apply IFRS 3 to business combinations before the date of transition. As a result, goodwill that resulted from business combinations before the date of transition is based on the book value on the date of transition under Japanese GAAP.

The Group conducted an impairment test related to goodwill on the date of transition regardless of the existence of signs of impairment.

##### II. Deemed Cost

IFRS 1 allows entities to use the fair value of property, plant and equipment, investment property and intangible assets on the date of transition to IFRS as a deemed cost on the date of transition. The Group uses the fair value of certain property, plant and equipment on the date of transition as deemed cost on the date of transition under IFRS.

##### III. Cumulative Translation Differences for Foreign Operations

IFRS 1 allows entities to choose to deem cumulative translation differences for foreign operations as of the date of transition to IFRS to be zero. The Group has chosen to deem cumulative translation differences for foreign operations to be zero as of the date of transition.

##### IV. Share-based Payment Transactions

The Group has chosen not to apply IFRS 2 to stock compensation that was vested before the date of transition.

##### V. Leases

IFRS 1 allows the First-time Adopter to determine whether contracts existing as of the date of transition to IFRS include leases, based on facts and circumstances existing on the date of transition. It also allows the First-time Adopter to measure lease liabilities at the present value of the remaining lease payments, which is calculated by discounting the remaining lease payments using the lessee’s incremental borrowing rate on the date of transition, and to make the amount of right-of-use assets the same as the amount of lease liabilities. The First-time Adopter is allowed to recognize as expenses leases whose term expires within 12 months of the date of transition and leases whose underlying assets are of low value.

The Group applies the exemption to recognize and measure leases.

#### (2) Mandatory exceptions in retrospective application set out in IFRS 1

IFRS 1 prohibits retrospective application of IFRS in relation to estimates, derecognition of financial assets and financial liabilities, hedge accounting, non-controlling interests, classification and measurement of financial assets, etc. The Group has been applying these items from the date of transition onwards.

#### (3) Reconciliation from Japanese GAAP to IFRS

The tables below are reconciliation sheets required in IFRS 1.

The reclassification column is for the figures of items that do not affect retained earnings or comprehensive income. The difference due to changes in recognition, measurement and accounting period column is for the figures of items that affect retained earnings and comprehensive income.

## I. Reconciliation of Assets on Date of Transition to IFRS (April 1, 2018)

(Million yen)

Account under Japanese GAAP	Japanese GAAP	Reclassification	Difference due to changes in recognition, measurement and accounting period	IFRS	Notes	Account under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	61,086	(1,652)	1,097	60,531	(1)	Cash and cash equivalents
Notes and accounts receivable – trade	86,865	(464)	2,954	89,354	(1), (2)	Trade and other receivables
	–	2,769	40	2,809	(1)	Other financial assets
Finished products	3,968	(3,968)	–	–		
Work in process	3,621	(3,621)	–	–		
Raw materials and supplies	2,800	(2,800)	–	–		
	–	10,390	(2,312)	8,078	(1), (2)	Inventories
Other	2,531	(1,119)	1,206	2,619	(1)	Other current assets
Allowance for doubtful accounts	(464)	464	–	–		
Total current assets	160,409	–	2,984	163,393		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	86,028	(86,028)	–	–		
	–	81,603	(266)	81,336	(1), (3)	Property, plant and equipment
	–	4,455	6,875	11,331	(1), (4)	Right-of-use assets
Intangible fixed assets	31,003	(31,003)	–	–		
	–	20,362	(396)	19,966	(1), (5)	Goodwill
	–	10,610	(412)	10,197	(1)	Intangible assets
Investments and other assets						
Investment securities	35,683	(35,683)	–	–		
	–	1,147	(48)	1,098	(1)	Investments accounted for using equity method
	–	38,630	1,473	40,103	(1), (6)	Other financial assets
Deferred tax assets	4,860	(1,119)	840	4,581	(1), (7)	Deferred tax assets
Other	5,238	(5,238)	–	–		
	–	967	(690)	277	(1)	Other non-current assets
Allowance for doubtful accounts	(176)	176	–	–		
Total non-current assets	162,637	(1,119)	7,376	168,893		Total non-current assets
Total assets	323,046	(1,119)	10,360	332,287		Total assets

(Million yen)

Account under Japanese GAAP	Japanese GAAP	Reclassification	Difference due to changes in recognition, measurement and accounting period	IFRS	Notes	Account under IFRS
Liabilities						Liabilities and equity
Current liabilities						Current liabilities
Notes and accounts payable – trade	28,875	(28,875)	–	–		
Accounts payable – other	10,995	(10,995)	–	–		
	–	38,575	1,564	40,139	(1)	Trade and other payables
	–	1,337	1,625	2,963	(1)	Borrowings
	–	635	2,322	2,958	(1), (4)	Lease liabilities
	–	–	12	12	(1)	Other financial liabilities
Income taxes payable	4,806	–	(68)	4,737	(1)	Income taxes payable
Provision for bonuses	2,420	(2,420)	–	–		
Other provision	695	(695)	–	–		
	–	549	23	572	(1)	Provisions
Other	8,355	1,888	486	10,729	(1), (8), (9)	Other current liabilities
Total current liabilities	56,149	–	5,964	62,113		Total current liabilities
Non-current liabilities						Non-current liabilities
Lease obligations	4,038	(4,038)	–	–		
	–	2,388	(56)	2,331	(1)	Borrowings
	–	4,038	5,359	9,397	(1), (4)	Lease liabilities
	–	1,644	(522)	1,122	(1)	Other financial liabilities
Net defined benefit liability	16,610	–	(235)	16,374	(1), (10)	Retirement benefit liability
Provision	191	(190)	330	331	(1)	Provisions
Deferred tax liabilities related to revaluation	1,119	(492)	(79)	547	(1), (7)	Deferred tax liabilities
Other	4,084	(4,469)	1,146	761	(1)	Other non-current liabilities
Total non-current liabilities	26,044	(1,119)	5,943	30,868		Total non-current liabilities
Total liabilities	82,193	(1,119)	11,907	92,981		Total liabilities
Net assets						Equity
Shareholders' equity						
Common stock	13,450	–	–	13,450		Share capital
Capital surplus	10,959	–	–	10,959		Capital surplus
Treasury stock	(10,943)	–	–	(10,943)		Treasury shares
Accumulated other comprehensive income	16,187	–	597	16,785	(1), (12), (13)	Other components of equity
Retained earnings	209,149	–	(2,144)	207,005	(1), (12), (13)	Retained earnings
	238,803	–	(1,546)	237,257		Total equity attributable to owners of parent
Non-controlling interests	2,049	–	(1)	2,048	(1), (13)	Non-controlling interests
Total net assets	240,853	–	(1,547)	239,305		Total equity
Total liabilities and net assets	323,046	(1,119)	10,360	332,287		Total liabilities and equity

II. Reconciliation of Assets at End of Third Quarter of the Previous Fiscal Year (December 31, 2018)

(Million yen)

Account under Japanese GAAP	Japanese GAAP	Reclassification	Difference due to changes in recognition, measurement and accounting period	IFRS	Notes	Account under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	72,005	(2,603)	–	69,402		Cash and cash equivalents
Notes and accounts receivable – trade	89,569	92	834	90,496	(2)	Trade and other receivables
	–	4,590	(3)	4,587		Other financial assets
Finished products	4,133	(4,133)	–	–		
Work in process	2,202	(2,202)	–	–		
Raw materials and supplies	2,765	(2,765)	–	–		
	–	9,101	50	9,151	(2)	Inventories
Other	5,183	(2,582)	26	2,627		Other current assets
Allowance for doubtful accounts	(503)	503	–	–		
Total current assets	175,356	–	908	176,264		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	98,388	(98,388)	–	–		
	–	92,346	(3)	92,343	(3)	Property, plant and equipment
	–	6,042	4,612	10,654	(4)	Right-of-use assets
Intangible fixed assets	28,706	(28,706)	–	–		
	–	19,240	1,502	20,743	(5)	Goodwill
	–	9,465	(121)	9,344		Intangible assets
Investments and other assets						
Investment securities	20,026	(20,026)	–	–		
	–	954	35	990		Investments accounted for using equity method
	–	23,456	2,667	26,123	(6)	Other financial assets
Deferred tax assets	7,529	(1,119)	538	6,949	(7)	Deferred tax assets
Other	6,614	(6,614)	–	–		
	–	2,080	(1,924)	155		Other non-current assets
Allowance for doubtful accounts	(149)	149	–	–		
Total non-current assets	161,115	(1,119)	7,309	167,304		Total non-current assets
Total assets	336,471	(1,119)	8,217	343,569		Total assets

(Million yen)

Account under Japanese GAAP	Japanese GAAP	Reclassification	Difference due to changes in recognition, measurement and accounting period	IFRS	Notes	Account under IFRS
Liabilities						Liabilities and equity
Current liabilities						Current liabilities
Notes and accounts payable – trade	24,746	(24,746)	–	–		
Accounts payable – other	14,089	(14,089)	–	–		
	–	43,548	(192)	43,355		Trade and other payables
	–	966	–	966		Borrowings
	–	968	2,021	2,989	(4)	Lease liabilities
Income taxes payable	3,378	–	–	3,378		Income taxes payable
Provision for bonuses	1,304	(1,304)	–	–		
Other provision	1,246	(1,246)	–	–		
	–	934	–	934		Provisions
Other	13,701	(5,030)	2,272	10,943	(8), (9)	Other current liabilities
Total current liabilities	58,466	–	4,101	62,568		Total current liabilities
Non-current liabilities						Non-current liabilities
Lease obligations	5,269	(5,269)	–	–		
	–	1,771	–	1,771		Borrowings
	–	5,269	3,528	8,797	(4)	Lease liabilities
	–	1,659	40	1,699	(11)	Other financial liabilities
Net defined benefit liability	16,907	–	(230)	16,677	(10)	Retirement benefit liability
Provision	175	(175)	491	491		Provisions
Deferred tax liabilities related to revaluation	1,119	–	(18)	1,100	(7)	Deferred tax liabilities
Other	19,757	(4,375)	543	15,925		Other non-current liabilities
Total non-current liabilities	43,229	(1,119)	4,354	46,463		Total non-current liabilities
Total liabilities	101,695	(1,119)	8,455	109,032		Total liabilities
Net assets						Equity
Shareholders' equity						
Common stock	13,450	–	–	13,450		Share capital
Capital surplus	10,665	–	(558)	10,106	(11)	Capital surplus
Treasury stock	(10,932)	–	–	(10,932)		Treasury shares
Accumulated other comprehensive income	3,828	–	873	4,701	(12), (13)	Other components of equity
Retained earnings	215,916	–	(680)	215,236	(12), (13)	Retained earnings
	232,928	–	(365)	232,563		Total equity attributable to owners of parent
Non-controlling interests	1,847	–	126	1,974	(13)	Non-controlling interests
Total net assets	234,775	–	(238)	234,537		Total equity
Total liabilities and net assets	336,471	(1,119)	8,217	343,569		Total liabilities and equity

III. Reconciliation of Assets at End of Previous Fiscal Year (March 31, 2019)

(Million yen)

Account under Japanese GAAP	Japanese GAAP	Reclassification	Difference due to changes in recognition, measurement and accounting period	IFRS	Notes	Account under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	35,351	196	–	35,547		Cash and cash equivalents
Notes and accounts receivable – trade	99,247	113	1,137	100,497	(2)	Trade and other receivables
	–	1,599	109	1,709		Other financial assets
Finished products	5,106	(5,106)	–	–		
Work in process	1,235	(1,235)	–	–		
Raw materials and supplies	3,133	(3,133)	–	–		
	–	9,474	(126)	9,348	(2)	Inventories
Other	6,136	(2,570)	456	4,022		Other current assets
Allowance for doubtful accounts	(659)	659	–	–		
Total current assets	149,550	–	1,575	151,125		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	109,669	(109,669)	–	–		
	–	103,278	(3)	103,275	(3)	Property, plant and equipment
	–	6,391	5,835	12,226	(4)	Right-of-use assets
Intangible fixed assets	53,958	(53,958)	–	–		
	–	36,301	1,652	37,954	(5)	Goodwill
	–	17,656	(140)	17,515		Intangible assets
Investments and other assets						
Investment securities	22,203	(22,203)	–	–		
	–	1,100	(144)	956		Investments accounted for using equity method
	–	26,850	1,742	28,592	(6)	Other financial assets
Deferred tax assets	7,929	(1,119)	(6)	6,803	(7)	Deferred tax assets
Other	6,724	(6,724)	–	–		
	–	829	(613)	216		Other non-current assets
Allowance for doubtful accounts	(149)	149	–	–		
Total non-current assets	200,335	(1,119)	8,324	207,540		Total non-current assets
Total assets	349,885	(1,119)	9,899	358,666		Total assets

(Million yen)

Account under Japanese GAAP	Japanese GAAP	Reclassification	Difference due to changes in recognition, measurement and accounting period	IFRS	Notes	Account under IFRS
Liabilities						Liabilities and equity
Current liabilities						Current liabilities
Notes and accounts payable – trade	26,362	(26,362)	–	–		
Accounts payable – other	19,737	(19,737)	–	–		
	–	50,134	(558)	49,576		Trade and other payables
	–	385	–	385		Borrowings
	–	1,176	2,641	3,818	(4)	Lease liabilities
	–	–	1	1		Other financial liabilities
Income taxes payable	5,890	–	(3)	5,887		Income taxes payable
Provision for bonuses	2,520	(2,520)	–	–		
Other provision	1,158	(1,158)	–	–		
	–	1,026	–	1,026		Provisions
Other	12,403	(2,942)	2,966	12,427	(8), (9)	Other current liabilities
Total current liabilities	68,072	–	5,050	73,122		Total current liabilities
Non-current liabilities						Non-current liabilities
Lease obligations	5,250	(5,250)	–	–		
	–	1,717	–	1,717		Borrowings
	–	5,250	4,377	9,628	(4)	Lease liabilities
	–	1,663	108	1,771	(11)	Other financial liabilities
Net defined benefit liability	16,648	–	(68)	16,580	(10)	Retirement benefit liability
Provision	359	(358)	490	491		Provisions
Deferred tax liabilities related to revaluation	1,119	(361)	95	854	(7)	Deferred tax liabilities
Other	18,961	(3,781)	205	15,385		Other non-current liabilities
Total non-current liabilities	42,339	(1,119)	5,208	46,428		Total non-current liabilities
Total liabilities	110,412	(1,119)	10,258	119,551		Total liabilities
Net assets						Equity
Shareholders' equity						
Common stock	13,450	–	–	13,450		Share capital
Capital surplus	10,665	–	(400)	10,265	(11)	Capital surplus
Treasury stock	(10,932)	–	–	(10,932)		Treasury shares
Accumulated other comprehensive income	4,187	–	651	4,838	(12), (13)	Other components of equity
Retained earnings	220,234	–	(643)	219,590	(12), (13)	Retained earnings
	237,604	–	(392)	237,212		Total equity attributable to owners of parent
Non-controlling interests	1,868	–	33	1,902	(13)	Non-controlling interests
Total net assets	239,473	–	(358)	239,114		Total equity
Total liabilities and net assets	349,885	(1,119)	9,899	358,666		Total liabilities and equity

IV. Reconciliation of Income in Nine Months of Previous Fiscal Year (from April 1, 2018 to December 31, 2018)

(Million yen)

Account under Japanese GAAP	Japanese GAAP	Reclassification	Difference due to changes in recognition, measurement and accounting period	IFRS	Notes	Account under IFRS
Net sales	193,723	–	(2,063)	191,659	(2)	Net sales
Cost of sales	133,050	–	(2,012)	131,037	(2), (4), (8)	Cost of sales
Gross profit	60,672	–	(50)	60,621		Gross profit
Selling, general and administrative expenses	43,419	–	(1,159)	42,259	(4), (5), (8)	Selling, general and administrative expenses
	–	828	(108)	720		Other income
	–	5,706	88	5,794		Other expenses
Operating income	17,252	(4,878)	913	13,287		Operating profit
Non-operating income	1,611	(1,611)	–	–		
Non-operating expenses	1,282	(1,031)	(251)	–		
Extraordinary income	8,381	–	(8,381)	–	(6)	
Extraordinary losses	4,920	(4,920)	–	–		
	–	669	45	715		Finance income
	–	245	42	288	(4)	Finance costs
	–	112	(51)	61		Share of profit of investments accounted for using equity method
Income before income taxes	21,043	–	(7,266)	13,776		Profit before tax
Income taxes	8,129	–	(2,091)	6,037	(6), (7)	Income tax expense
Net income	12,913	–	(5,174)	7,738		Profit for the period
Profit attributable to owners of parent	12,938	–	(5,174)	7,763		Owners of parent
Loss attributable to non-controlling interests	(24)	–	(0)	(25)		Non-controlling interests
Other comprehensive income						Other comprehensive income
Unrealized gains (losses) on available-for-sale securities	(8,246)	8,246	–	–		
Deferred gains (losses) on hedges	214	(214)	–	–		
Foreign currency translation adjustments	(2,001)	2,001	–	–		
Remeasurements of defined benefit plans, net of tax	(24)	24	–	–		
Share of other comprehensive income of associates accounted for using equity method	(152)	152	–	–		
						Items that will not be reclassified to profit or loss
	–	(8,246)	6,385	(1,860)	(6)	Net change in the fair value of financial assets measured through other comprehensive income
	–	(24)	(2)	(26)	(10)	Remeasurements of defined benefit plans
						Items that may be reclassified to profit or loss
	–	(2,001)	(2,073)	(4,074)		Exchange differences on translation of foreign operations

(Million yen)

Account under Japanese GAAP	Japanese GAAP	Reclassification	Difference due to changes in recognition, measurement and accounting period	IFRS	Notes	Account under IFRS
	–	214	(3)	210		Cash flow hedges
	–	(152)	131	(20)		Share of other comprehensive income of investments accounted for using equity method
Total other comprehensive income	(10,210)	–	4,439	(5,771)		Other comprehensive income, net of tax
Comprehensive income	2,702	–	(736)	1,966		Comprehensive income for the period

V. Reconciliation of Income in Previous Fiscal Year (from April 1, 2018 to March 31, 2019)

(Million yen)

Account under Japanese GAAP	Japanese GAAP	Reclassification	Difference due to changes in recognition, measurement and accounting period	IFRS	Notes	Account under IFRS
Net sales	259,409	–	(2,078)	257,331	(2)	Net sales
Cost of sales	176,663	–	(1,993)	174,670	(2), (4), (8)	Cost of sales
Gross profit	82,746	–	(84)	82,661		Gross profit
Selling, general and administrative expenses	58,420	–	(1,425)	56,994	(4), (5), (8)	Selling, general and administrative expenses
	–	1,091	(67)	1,024		Other income
	–	6,908	(77)	6,831		Other expenses
Operating income	24,326	(5,816)	1,350	19,860		Operating profit
Non-operating income	2,006	(2,006)	–	–		
Non-operating expenses	2,413	(2,162)	(251)	–		
Extraordinary income	8,676	–	(8,676)	–	(6)	
Extraordinary losses	5,063	(5,063)	–	–		
	–	776	5	781		Finance income
	–	316	205	521	(4)	Finance costs
	–	136	10	146		Share of profit of investments accounted for using equity method
Income before income taxes	27,532	–	(7,264)	20,267		Profit before tax
Income taxes	10,207	–	(1,927)	8,279	(6), (7)	Income tax expense
Net income	17,325	–	(5,337)	11,987		Profit for the period
Profit attributable to owners of parent	17,323	–	(5,273)	12,050		Owners of parent
Profit attributable to non-controlling interests	1	–	(64)	(63)		Non-controlling interests
Other comprehensive income						Other comprehensive income
Unrealized gains (losses) on available-for-sale securities	(7,904)	7,904	–	–		
Deferred gains (losses) on hedges	315	(315)	–	–		
Foreign currency translation adjustments	(2,208)	2,208	–	–		
Remeasurements of defined benefit plans, net of tax	(3)	3	–	–		
Share of other comprehensive income of associates accounted for using equity method	(46)	46	–	–		
						Items that will not be reclassified to profit or loss
	–	(7,904)	6,860	(1,044)	(6)	Net change in the fair value of financial assets measured through other comprehensive income
	–	(3)	(69)	(72)	(10)	Remeasurements of defined benefit plans
						Items that may be reclassified to profit or loss
	–	(2,208)	(2,384)	(4,593)		Exchange differences on translation of foreign operations

(Million yen)

Account under Japanese GAAP	Japanese GAAP	Reclassification	Difference due to changes in recognition, measurement and accounting period	IFRS	Notes	Account under IFRS
	–	315	(6)	308		Cash flow hedges
	–	(46)	(106)	(153)		Share of other comprehensive income of investments accounted for using equity method
Total other comprehensive income	(9,848)	–	4,293	(5,554)		Other comprehensive income, net of tax
Comprehensive income	7,476	–	(1,044)	6,432		Comprehensive income for the period

## VI. Notes on Reconciliation

### (i) Reclassification

Of the items that were included in Non-operating income, Non-operating expenses, Extraordinary income, and Extraordinary losses under Japanese GAAP, finance-related items are reclassified as Finance income or Finance costs under IFRS, and the other items are reclassified as Other income, Other expenses or Share of profit of investments accounted for using equity method under IFRS.

### (ii) Differences due to changes in recognition, measurement and accounting period

#### (1) Reconciliation related to the unification of reporting periods

Under Japanese GAAP, if the reporting date of a subsidiary and that of the Company are different, consolidated financial statements were prepared based on the financial statements of the subsidiary on the reporting date of the subsidiary. Under IFRS, the reporting date of a subsidiary is made the same as that of the Company or a provisional financial closing is conducted on the same reporting date as that of the Company unless that is impossible practically. This has resulted in a difference in each account.

#### (2) Reconciliation of revenue recognition

Under Japanese GAAP, if reliable estimates are available for the work completed in construction work, the percentage of completion method is used, and the completed-contract method is used for other construction work. Under IFRS, under a contract where control over goods or services is transferred to the customer over a certain period of time, revenue is recognized over the period regardless of the legal form of the contract.

#### (3) Reconciliation of property, plant and equipment

For certain property, plant and equipment, the Group applies an optional exemption where the fair value on the date of transition to IFRS is used as a deemed cost.

#### (4) Reconciliation of leases

Under Japanese GAAP, an operating lease was expensed. Under IFRS, due to the adoption of IFRS 16, right-of-use assets and lease liabilities are posted.

#### (5) Reconciliation of goodwill

Under Japanese GAAP, goodwill was amortized over a certain period of time. Under IFRS, goodwill is not amortized. Goodwill amortized under Japanese GAAP on or after the date of transition to IFRS is reversed.

#### (6) Reconciliation of other financial assets (non-current)

Under Japanese GAAP, unlisted shares were posted based on acquisition cost and impairment losses were recorded in accordance with deterioration in the financial position of the issuing company. Under IFRS, unlisted shares are measured at fair value through other comprehensive income. Loss (gain) on sale and impairment loss of financial instruments recognizable as capital are recognized as profit or loss under Japanese GAAP. Under IFRS, changes in fair value are recognized as other comprehensive income, and loss (gain) on sale and impairment loss are not recognized as profit or loss.

#### (7) Reconciliation of deferred tax assets and deferred tax liabilities

Under Japanese GAAP, the deferred method was employed for tax effects associated with the elimination of unrealized intercompany profits. Under IFRS, the asset and liability method is employed. The recoverability of deferred tax assets is examined under IFRS. Temporary differences have occurred due to adjustments associated to the transition from Japanese GAAP to IFRS, and deferred tax assets and deferred tax liabilities have been adjusted accordingly.

#### (8) Reconciliation of unused paid leave

Under Japanese GAAP, no accounting process were required for unused paid leave. Under IFRS, the Group has recorded liabilities related to unused paid leave.

#### (9) Reconciliation of other current liabilities

Under Japanese GAAP, expenses were recognized throughout a fiscal year when fixed assets tax etc. was paid. Under IFRS, the amount expected to be paid is recognized as liabilities when debts to the government are determined.

#### (10) Reconciliation of employees' retirement benefits

Under Japanese GAAP, the Group recorded actuarial differences as expenses in a year or two, on a pro-rata basis, from the fiscal year when the differences occurred. Under IFRS, actuarial differences are recognized in other comprehensive income when they occur and are transferred to retained earnings immediately. Prior service cost is recognized as profit or loss at the time of occurrence.

#### (11) Liabilities related to put option contracts for non-controlling interests

If the Group is required to buy the non-controlling interests of certain subsidiaries under certain conditions at the request of the shareholders of the non-controlling interests, financial liabilities are recognized and capital surplus is reduced under IFRS.

(12) Reconciliation of other components of equity

The Group has chosen an exemption set out in IFRS 1 and transferred all cumulative translation differences related to foreign subsidiaries to retained earnings on the date of transition to IFRS, April 1, 2018.

(13) Reconciliation of retained earnings

(Million yen)

	Date of transition to IFRS (April 1, 2018)	As of December 31, 2018	As of March 31, 2019
Reconciliation due to the unification of reporting periods (Refer to (1))	(123)	—	—
Reconciliation of property, plant and equipment (Refer to (3))	(380)	(380)	(200)
Reconciliation of goodwill (Refer to (5))	—	1,251	1,643
Reconciliation of other financial assets (Refer to (6))	(207)	84	(52)
Reconciliation of unused paid leave (Refer to (8))	(1,875)	(1,875)	(1,908)
Reconciliation of other current liabilities (Refer to (9))	(161)	(151)	(154)
Reconciliation of employees' retirement benefits (Refer to (10))	225	225	104
Reconciliation of other components of equity (Refer to (12))	(193)	(193)	(193)
Other	(6)	(217)	(462)
<b>Sum of reconciliations</b>	<b>(2,720)</b>	<b>(1,256)</b>	<b>(1,222)</b>
Tax effect related to the adjustments above and increase (decrease) in non-controlling interests	576	576	579
<b>Reconciliation of retained earnings</b>	<b>(2,144)</b>	<b>(680)</b>	<b>(643)</b>

VII. Reconciliation of Cash Flows

There is no significant difference between the consolidated statement of cash flows under the Japanese GAAP and the consolidated statement of cash flows under IFRS.