

# **QUARTERLY REPORT**

(The Second Quarter of the 72<sup>nd</sup> Term)  
From July 1, 2019 to September 30, 2019

(TRANSLATION)

**ARISAWA MFG. CO., LTD.**

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Company name (Japanese):	<i>Kabushiki-Kaisha Arisawa Seisakusho</i>
Company name (English):	Arisawa Mfg. Co., Ltd.
Name and title of representative:	Yuta Arisawa, President and Representative Director
Location of head office:	5-5, Minami-honcho 1-chome, Joetsu-shi, Niigata
Telephone number:	(025) 524-5126
Contact person:	Shuichi Kubota, General Manager, Accounting Department
Place of contact:	5-5, Minami-honcho 1-chome, Joetsu-shi, Niigata
Telephone number:	(025) 524-5126
Contact person:	Shuichi Kubota, General Manager, Accounting Department
Places where copies of this Quarterly Report are made available for public inspection:	Arisawa Mfg. Co., Ltd., Tokyo Branch Office (12-5, Yanagibashi 2-chome, Taito-ku, Tokyo) Tokyo Stock Exchange, Inc. (2-1, Nihombashi Kabutocho, Chuo-ku, Tokyo)

## PART I. INFORMATION ON THE BUSINESS

### I. General Conditions of Business

#### 1. Changes in Principal Management Indicators, etc.

Term	71 <sup>st</sup> term consolidated cumulative second quarter	72 <sup>nd</sup> term consolidated cumulative second quarter	71 <sup>st</sup> term
Accounting period	From April 1, 2018 to September 30, 2018	From April 1, 2019 to September 30, 2019	From April 1, 2018 to March 31, 2019
Net sales (Millions of yen)	22,707	22,599	44,728
Ordinary income (Millions of yen)	2,590	1,440	4,297
Profit (or loss (Δ)) attributable to owners of the parent (Millions of yen)	1,775	Δ894	2,861
Comprehensive income (Millions of yen)	1,310	Δ1,196	2,200
Net assets (Millions of yen)	52,521	49,109	53,462
Total assets (Millions of yen)	71,463	74,184	73,096
Net income (or loss (Δ)) per share (Yen)	49.16	Δ24.81	79.15
Fully diluted net income per share (Yen)	48.77	—	78.70
Equity ratio (%)	69.8	62.6	69.3
Cash flows from operating activities (Millions of yen)	1,084	2,218	2,893
Cash flows from investing activities (Millions of yen)	Δ1,454	Δ1,248	Δ3,304
Cash flows from financing activities (Millions of yen)	Δ1,695	Δ230	Δ576
Cash and cash equivalents at the end of period (Millions of yen)	6,728	8,377	7,718

Term	71 <sup>th</sup> term consolidated second quarter	72 <sup>nd</sup> term consolidated second quarter
Accounting period	From July 1, 2018 to September 30, 2018	From July 1, 2019 to September 30, 2019
Net income (or loss (Δ)) per share (Yen)	25.36	Δ31.93

Note: 1. As Arisawa Mfg. Co., Ltd. (hereinafter referred to as either the “Company” or the “Submitting Company”, as the case may be) prepares the quarterly consolidated financial statements, the changes in principal management indicators, etc. of the Submitting Company are not stated above.

2. Consumption tax, etc. are not included in the amount of net sales.

3. Diluted net income per share in the 72<sup>nd</sup> term consolidated cumulative second quarter is not stated above due to net loss per share, though potential share exists.

4. The provisional accounting treatment for business combinations, which were conducted in the previous consolidated second quarter, was finalized during the previous consolidated third quarter. As a result, figures as of the previous consolidated cumulative second quarter and the previous consolidated second quarter reflect the important revision of the initially allocated amounts of acquisition price.

#### 2. Description of Business

There was no material change in information regarding the business lines of our corporate group (the Company and its associated companies; hereinafter referred to as either the “Group” or “our Group”, as the case may be) in the current consolidated cumulative second quarter.

No change of organization was made to any of the Company’s principal associated companies. .

## II. Status of Business

### 1. Business Risks, etc.

The current consolidated cumulative second quarter saw neither any new business risks, etc. emerging nor any significant change in the business risks, etc. stated in the Financial Report for the previous business year.

### 2. Analyses of Consolidated Financial Position, Business Results and Cash Flows by the Corporate Managers

Matters stated concerning the future in the text are based on judgments made as of the end of the current consolidated second quarter.

#### (1) Financial Position and Operating Results

##### 1) Operating Results

The outlook of Japanese economy in the current consolidated cumulative second quarter remained uncertain due to the impact of trade friction between the United States and China on the global economy and the slowdown of the Chinese economy, etc.

Under such circumstances, results of operations for the current consolidated cumulative second quarter showed net sales of 22,599 million yen (a 0.5% decrease as compared with the year-earlier quarter), an operating income of 1,321 million yen (a 23.7% decrease as compared with the year-earlier quarter), an ordinary income of 1,440 million yen (a 44.4% decrease as compared with the year-earlier quarter) and a loss attributable to owners of the parent of 894 million yen (profit attributable to owners of the parent of 1,775 million yen in the year-earlier quarter). The main cause of this loss is that the recognition of tax expenses of 1,584 million yen regarding the sale of all shares of the affiliate company accounted for under equity method (Polatechno Co., Ltd.), which is to be conducted in the third quarter, was conducted in the second quarter.

Business results with respect to each segment are as follows.

##### a. Electronic materials segment

In the electronic materials segment, net sales were 14,453 million yen (a 1.7% decrease as compared with the year-earlier quarter) and consisting mainly of the sales of our mainstay product, i.e. materials for flexible printed circuit boards (the amount of orders received increased by 4.3%, and the production output increased by 7.0%, as compared with the year-earlier quarter on a non-consolidated basis of the Submitting Company), while the segment income was 1,110 million yen (a 19.9% decrease as compared with the year-earlier quarter).

##### b. Industrial application structural materials segment

In the industrial application structural materials segment, net sales (consisting mainly of the sales of filament winding molded products as well as honeycomb panels and prepregs for aircraft) were 4,334 million yen (a 1.8% increase as compared with the year-earlier quarter), while the segment income was 621 million yen (a 16.2% decrease as compared with the year-earlier quarter).

##### c. Electrical insulating materials segment

In the electrical insulating materials segment, net sales (consisting mainly of the sales of prepregs and glass cloth for electrical insulation) were 1,553 million yen (a 1.1% decrease as compared with the year-earlier quarter), while the segment income was 173 million yen (a 24.8% decrease as compared with the year-earlier quarter).

##### d. Display materials segment

In the display materials segment, net sales (consisting mainly of the sales of 3D imaging-related materials) were 1,867 million yen (a 3.7% increase as compared with the year-earlier quarter), while the segment income was 150 million yen (a 87.5% increase as compared with the year-earlier quarter).

##### e. Other (other businesses)

In other businesses, net sales were 391 million yen (a 3.2% increase as compared with the year-earlier quarter), while the segment income was 108 million yen (a 0.0% increase as compared with the year-earlier quarter).

It should also be noted that the amounts of net sales, orders received, etc. stated in this section do not include consumption tax, etc.

## 2) Financial Position

Total assets as of the end of the current consolidated cumulative second quarter were 74,184 million yen, an increase of 1,088 million yen compared with the end of the previous year. This was due largely to an increase of 1,316 million yen in property, plant and equipment.

Total liabilities as of the end of the current consolidated cumulative second quarter were 25,074 million yen, an increase of 5,440 million yen compared with the end of the previous year. This was due largely to an increase of 3,354 million yen in short-term loans payable and an increase of 1,824 million yen in "Other" in "Non-current liabilities".

Total net assets as of the end of the current consolidated cumulative second quarter were 49,109 million yen, a decrease of 4,352 million yen compared with the end of the previous year. This was due largely to a decrease of 1,980 million yen in retained earnings and an increase of 1,963 million yen in treasury shares.

## (2) Status of Cash Flows

Cash and cash equivalents (hereinafter referred to as the "Funds") as of the end of the current consolidated second quarter amounted to 8,377 million yen, increasing 1,649 million yen, or 24.5%, as compared with the end of the previous consolidated second quarter.

The following is the status of each cash flow category during the current consolidated cumulative second quarter and the key factors of such status.

(Cash flows from operating activities)

Funds earned from operating activities were 2,218 million yen (a 104.5% increase as compared with the year-earlier quarter). This was due largely to an increase in the Funds comprising the postings of 1,437 million yen in income before income taxes, 961 million yen in depreciation as well as a decrease in the Funds comprising the postings of 368 million yen in increase in notes and accounts receivable-trade and 287 million yen in increase in other assets.

(Cash flows from investing activities)

Funds disbursed from investing activities were 1,248 million yen (a 14.2% decrease as compared with the year-earlier quarter). This was due largely to an increase in the Funds comprising the proceeds of 380 million yen from sales of investment securities as well as a decrease in the Funds comprising the expenditure of 1,294 million yen for purchases of property, plant and equipment and the expenditure of 194 million yen for purchase of investment securities.

(Cash flows from financing activities)

Funds disbursed for financing activities were 230 million yen (a 86.4% decrease as compared with the year-earlier quarter). This was due largely to an increase in the Funds comprising the proceeds of 3,495 million yen from short-term loans payable as well as a decrease in the Funds comprising the expenditure of 2,285 million yen for acquisition of treasury stock, the expenditure of 1,147 million yen for repayments of long-term loans payable and the payment of 1,083 million yen in cash dividends.

## (3) Management Policy, Management Strategy, etc.

There was no significant change, during the current consolidated cumulative second quarter, in the management policy, management strategy, etc. set by our Group.

## (4) Business and Financial Tasks to be Addressed

There was no significant change in the tasks to be addressed by our Group in the current consolidated cumulative second quarter.

In this regard, the Company has a basic policy in place as to how the persons controlling the Company's financial and business policymaking shall act, and the contents, etc. of such basic policy (the matters set forth in Article 118, item 3 of the Ordinance for Enforcement of the Companies Act) are as follows.

1) Contents of the basic policy and the efforts toward the realization of the basic policy (including, but not limited to, effective utilization of the assets of the Company and formation of an appropriate corporate group)

The Company, ever since its initiation in 1909, has been working on technological innovations and product development to build up unique technologies that integrate the "weaving, coating and molding" elements of its expertise while consistently fulfilling users' needs, thereby increasing its corporate value under favorable labor-management climate. The Company's Board of Directors believes that the

Company is obligated to adhere to such time-honored principle of nurturing technological accumulation and also to understand, foster and enhance the said corporate value in the long run.

In light of the above, our Group stands on a management policy centering on the motto “Creation, Innovation and Challenge” as we aim to enhance profitability through creation of new business bases and new markets with the utmost emphasis on the pursuit of safety and quality.

2) Efforts to prevent inappropriate persons from controlling the Company’s financial and business policymaking

The Company decided not to continue the protective measures (Takeover defensive measures) as of the end of the 71st Ordinary General Meeting of Shareholders held on June 27, 2019. However, if any acquisition of large block shares of the Company is made, we will strive to gather necessary and sufficient information which may enable the shareholders to make an appropriate judgement on the pros and cons of such acquisition of large block shares, and seek to secure time and information required for the shareholders' considering by disclosing opinions of the Board of Directors, etc.

(5) Research and Development Activities

The Group’s total expenses for research and development activities incurred in the current consolidated cumulative second quarter amounted to 1,032 million yen.

In this regard, there was no significant change in the status of research and development activities of our Group in the current consolidated cumulative second quarter.

**3. Agreements with Managerial Implications, etc.**

At the board meeting as of August 27, 2019, the Company resolved to apply for the tender offer made by Nippon Kayaku Co., Ltd., for all common shares (9,280,000 shares) of the affiliate company accounted for under equity method (Polatechno Co., Ltd.) hold by the Company and entered into the Tender offer application agreement.

More information is described in “IV. Status of Accounting - 1. Quarterly Consolidated Financial Statements - [Notes] - Significant subsequent events”.

### III. Status of the Submitting Company

#### 1. Status of Shares, etc.

##### (1) Total Number of Shares, etc.

###### 1) Total number of shares

Class	Total number of shares authorized to be issued
Common stock	130,000,000
Total	130,000,000

###### 2) Shares issued and outstanding

Class	Number of shares issued and outstanding as of the end of the second quarter (As of September 30, 2019)	Number of shares issued and outstanding as of the filing date of this Quarterly Report (As of November 14, 2019)	Name of financial instruments exchange where the shares are listed or authorized financial instruments firms association where the shares are registered	Remarks
Common stock	36,326,524	36,327,824	Tokyo Stock Exchange (First Section)	Number of shares constituting one full unit: 100
Total	36,326,524	36,327,824	---	---

Note: The number of shares issued through the exercise of stock acquisition rights in the period from November 1, 2019 to the filing date of this Quarterly Report is not included in the column "Number of shares issued and outstanding as of the filing date of this Quarterly Report".

##### (2) Status of Stock Acquisition Rights, etc.

###### 1) Details of Stock Option Scheme

Date of Resolution	June 27, 2019
Category and number of persons to whom stock acquisition rights shall be granted	4 directors of the Company, 208 employees of the Company, and 14 directors and employees of subsidiaries of the Company
Number of stock acquisition rights (Units) ※	3,260
Class, contents and number of shares subject to stock acquisition rights ※	Common stock 326,000
Amount to be paid per share at the time of exercising each stock acquisition right (Yen) ※	922
Exercise period for stock acquisition rights ※	July 1, 2021 through June 30, 2024
Issuance price and amount credited to equity capital in the event of share issuance through the exercise of stock acquisition rights (Yen) ※	Issuance price 1,090 Amount credited to equity capital 545
Conditions for the exercise of stock acquisition rights ※	Being a director or an employee of the Company (including an advisor and a counselor) or a director or an employee of a subsidiary of the Company (including an advisor) at the time of exercising the rights.
Matters concerning the transfer of stock acquisition rights ※	Any transfer of stock acquisition rights shall be subject to the approval of the Board of Directors.
Matters concerning the grant of stock acquisition rights in connection with acts of reorganization ※	In the event that a merger agreement in which the Company becomes a defunct company has been approved, or that a proposal for approval of a stock swap agreement (or for a transfer of shares) in which the Company becomes a wholly owned subsidiary has been approved at a general meeting of shareholders, except where the surviving company or the Company's wholly owning parent company succeeds to the obligation to grant stock acquisition rights, the Company shall be able to acquire the stock acquisition rights without consideration.

The details shown above are as of the date of issuance of Stock Acquisition Right certificates (August 17, 2019).



2) Status of Other stock acquisition right

No applicable matter.

(3) Status of Exercise of Moving Strike Convertible Bonds, etc.

No applicable matter.

(4) Changes in the Number of Shares Issued and Outstanding, Capital Stock, etc.

Period	Number of shares issued and outstanding		Capital stock (Thousands of yen)		Legal capital surplus (Thousands of yen)	
	Change	Balance	Change	Balance	Change	Balance
From July 1, 2019 to September 30, 2019 (See Note 1)	72,500	36,326,524	17,687	7,570,716	17,659	6,682,708

- Note:
1. The increases are due to the exercise of stock acquisition rights.
  2. In the period from October 1, 2019 to October 31, 2019, the number of shares issued and outstanding increased by 1,300 shares, and the amount of capital stock and that of legal capital surplus increased by 412 thousand yen respectively, all through the exercise of stock acquisition rights.

## (5) Status of Major Shareholders

As of September 30, 2019

Full name or corporate name	Address	Number of shares held	Ratio of the number of shares held to the number of shares issued and outstanding (excluding treasury stock) (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	11-3, Hamamatsu-cho 2-chome, Minato-ku, Tokyo	3,307,300	9.62
Japan Trustee Services Bank, Ltd. (Trust account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	1,747,600	5.08
Mitsubishi Gas Chemical Company, Inc.	5-2, Marunouchi 2-chome, Chiyoda-ku, Tokyo	1,472,166	4.28
INTERTRUST TRUSTEES (CAYMAN) LIMITED SOLELY IN ITS CAPACITY AS TRUSTEE OF JAPAN-UP (Standing Proxy: Mizuho Bank Ltd., Settlement & Clearing Services Department)	190 ELGIN AVENUE, GEORGE TOWN, GRAND CAYMAN KY1-9005, CAYMAN ISLANDS (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo)	1,245,300	3.62
Tachibana Securities Co. Ltd.	13-14 NihonbashiKayabacho 1-chome, Chuo-ku, Tokyo	1,110,000	3.23
The Hachijuni Bank, Ltd. (Standing Proxy: The Master Trust Bank of Japan, Ltd.)	178-8, Nakagoshō Okada, Nagano-shi, Nagano (11-3, Hamamatsu-cho 2-chome, Minato-ku, Tokyo)	1,000,930	2.91
Arisawa Kenko Ltd.	11-44, Nishishiro-cho 3-chome, Joetsu-shi, Niigata	834,338	2.42
NORTHERN TRUST CO.(AVFC) RE NVI01 (Standing Proxy: The Hongkong and Shanghai Banking Corporation Ltd., Tokyo Branch)	50 BANK STREET CANARY WHARF LONDON E 14 5 NT, UK (11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo)	764,600	2.22
STATE STREET LONDON CARE OF STATE STREET BANK AND TRUST, BOSTON SSBTC A/C UK LONDON BRANCH CLIENTS - UNITED KINGDOM (Standing Proxy: The Hongkong and Shanghai Banking Corporation Ltd., Tokyo Branch)	ONE LINCOLN STREET, BOSTON MA USA 02111 (11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo)	687,600	2.00
DFA INTL SMALL CAP VALUE PORTFOLIO (Standing Proxy: Citibank Japan Ltd.)	Palisades West 6300, Bee Cave Road Building One, Austin, TX 78746 US (27-30, Shinjuku 6-chome, Shinjuku-ku, Tokyo)	683,982	1.99
Total	---	12,853,816	37.41

Note: 1. In addition to the above, the company owns 1,967,700 shares as treasury stock.

2. The number of shares held by Mitsubishi Gas Chemical Company, Inc. includes 966,306 shares that have been contributed by Mitsubishi Gas Chemical Company, Inc. as the trust property of retirement benefit trust. The pertinent name in the Company's register of shareholders is "The Master Trust Bank of Japan, Ltd. (Retirement benefit trust account and Mitsubishi Gas Chemical Company, Inc. account)."

3. Though it is described in the Amendment Report on Bulk Holding available for public inspection as of September 6, 2018 that Sumitomo Mitsui Trust Bank, Limited and a joint holder thereof hold the shares described below as of August 31, 2018, the Company has confirmed no beneficial ownerships of the number of shares as of September 30, 2019. Therefore, such

number of shares is not included in above-mentioned Status of Major Shareholders. Details of the Amendment Report on Bulk Holding are as follows:

Bulk Holders : Sumitomo Mitsui Trust Bank, Limited and two joint holders thereof  
Address : 4-1, Marunouchi 1 chome, Chiyoda-ku, Tokyo  
Number of shareholdings etc. : 1,488,200  
Holding ratio of share certificates etc. : 4.12%

4. Though it is described in the Amendment Report on Bulk Holding available for public inspection as of December 20, 2018 that BlackRock Japan Co., Ltd. and a joint holder thereof hold the shares described below as of December 14, 2018, the Company has confirmed no beneficial ownerships of the number of shares as of September 30, 2019. Therefore, such number of shares is not included in above-mentioned Status of Major Shareholders. Details of the Report on Bulk Holding are as follows:

Bulk Holders : BlackRock Japan Co., Ltd. and one joint holder thereof  
Address : 8-3, Marunouchi 1 chome, Chiyoda-ku, Tokyo  
Number of shareholdings etc. : 1,259,700  
Holding ratio of share certificates etc. : 3.48%

5. Though it is described in the Amendment Report on Bulk Holding available for public inspection as of December 21, 2018 that Sumitomo Mitsui Asset Management Company, Limited hold the shares described below as of December 14, 2018, the Company has confirmed no beneficial ownerships of the number of shares as of September 30, 2019. Therefore, such number of shares is not included in above-mentioned Status of Major Shareholders. Details of the Report on Bulk Holding are as follows:

Bulk Holders : Sumitomo Mitsui Asset Management Company, Limited  
Address : 5-1, Atago 2 chome, Minato-ku, Tokyo  
Number of shareholdings etc. : 1,090,300  
Holding ratio of share certificates etc. : 3.01%

6. Though it is described in the Amendment Report on Bulk Holding available for public inspection as of August 15, 2019 that Strategic Capital, Inc. hold the shares described below as of August 7, 2019, the Company has confirmed no beneficial ownerships of the number of shares as of September 30, 2019. Therefore, such number of shares is not included in above-mentioned Status of Major Shareholders. Details of the Report on Bulk Holding are as follows:

Bulk Holders : Strategic Capital, Inc.  
Address : 14-15, Higashi 3 chome, Shibuya-ku, Tokyo  
Number of shareholdings etc. : 2,279,500  
Holding ratio of share certificates etc. : 6.29%

7. Though it is described in the Amendment Report on Bulk Holding available for public inspection as of September 17, 2019 that Nippon Value Investors KK hold the shares described below as of September 13, 2019, the Company has confirmed no beneficial ownerships of the number of shares as of September 30, 2019. Therefore, such number of shares is not included in above-mentioned Status of Major Shareholders. Details of the Report on Bulk Holding are as follows:

Bulk Holders : Nippon Value Investors KK  
Address : 1-8-1 Marunouchi, Chiyoda-ku, Tokyo  
Number of shareholdings etc. : 3,021,700  
Holding ratio of share certificates etc. : 8.33

## (6) Status of Voting Rights

### 1) Shares issued and outstanding

As of September 30, 2019

Category	Number of shares	Number of voting rights (Units)	Remarks
Shares without voting rights	---	---	---
Shares with restricted voting rights (Treasury stock, etc.)	---	---	---
Shares with restricted voting rights (Other)	---	---	---
Shares with full voting rights (Treasury stock, etc.)	Common stock 1,967,700	---	---
Shares with full voting rights (Other) (See Note 1)	Common stock 34,280,600	342,806	---
Shares constituting less than one full unit (See Note 2)	Common stock 78,224	---	---
Number of shares issued and outstanding	36,326,524	---	---
Total number of voting rights held by shareholders	---	342,806	---

Note: 500 shares held in the name of Japan Securities Depository Center, Inc. are included in the row "Shares with full voting rights (Other)". 5 units of voting rights pertaining to shares with full voting rights held in the name of Japan Securities Depository Center, Inc. are included in the column "Number of voting rights".

### 2) Treasury Stock, etc.

As of September 30, 2019

Name and address of shareholder		Number of shares held			Ratio of the number of shares held to the number of shares issued and outstanding (%)
Full name or corporate name	Address	Under own name	Under the names of others	Total	
Arisawa Mfg. Co., Ltd.	5-5, Minami-honcho 1- chome, Joetsu-shi, Niigata	1,967,700	---	1,967,700	5.41
Total	---	1,967,700	---	1,967,700	5.41

## 2. Status of Directors and Officers

No applicable matter.

## **IV. Status of Accounting**

### **1. Method of Preparation of Quarterly Consolidated Financial Statements**

The quarterly consolidated financial statements of the Company are prepared in compliance with the “Regulations for Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements” (Cabinet Office Ordinance No. 64 of 2007).

### **2. Certification of Audit**

The Company received a quarterly review of its quarterly consolidated financial statements for the current consolidated second quarter (From July 1, 2019 to September 30, 2019) and the current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019) conducted by Ernst & Young ShinNihon LLC under the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

## 1. Quarterly Consolidated Financial Statements

### (1) Quarterly Consolidated Balance Sheets

	(Thousands of yen)	
	Previous consolidated fiscal year (As of March 31, 2019)	Current consolidated second quarter (As of September 30, 2019)
Assets		
Current assets		
Cash and deposits	8,193,697	8,756,255
Notes and accounts receivable-trade	* 16,127,374	16,266,512
Securities	1,401,188	1,538,322
Merchandise and finished goods	4,012,943	3,305,089
Work in process	1,941,748	2,039,559
Raw materials and supplies	3,378,698	3,646,523
Other	1,190,214	1,747,005
Allowance for doubtful accounts	△668,052	△600,508
Total current assets	35,577,813	36,698,759
Non-current assets		
Property, plant and equipment	11,998,454	13,314,867
Intangible assets		
Goodwill	219,309	190,067
Other	175,923	204,021
Total intangible assets	395,233	394,089
Investments and other assets		
Investment securities	23,142,852	22,412,487
Other	2,125,569	1,545,184
Allowance for doubtful accounts	△143,823	△180,725
Total investments and other assets	25,124,598	23,776,947
Total non-current assets	37,518,286	37,485,904
Total assets	73,096,100	74,184,664

	(Thousands of yen)	
	Previous consolidated fiscal year (As of March 31, 2019)	Current consolidated second quarter (As of September 30, 2019)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	*	6,105,195
Current portion of bonds		36,800
Short-term loans payable		5,394,122
Current portion of long-term loans payable		779,820
Income taxes payable		300,788
Provision for bonuses		510,407
Provision for directors' bonuses		3,957
Other	*	3,041,830
Total current liabilities		<u>16,172,921</u>
Non-current liabilities		
Bonds payable		128,000
Long-term loans payable		1,265,465
Net defined benefit liability		626,885
Asset retirement obligations		92,502
Other		1,348,196
Total non-current liabilities		<u>3,461,049</u>
Total liabilities		<u>19,633,971</u>
Net assets		
Shareholders' equity		
Capital stock		7,541,693
Capital surplus		6,653,615
Retained earnings		35,130,363
Treasury stock		△4,764
Total shareholders' equity		<u>49,320,907</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities		745,120
Deferred gains or losses on hedges		443
Foreign currency translation adjustment		707,571
Remeasurements of defined benefit plans		△147,916
Total accumulated other comprehensive income		<u>1,305,219</u>
Subscription rights to shares		144,419
Non-controlling interests		2,691,582
Total net assets		<u>53,462,129</u>
Total liabilities and net assets		<u>73,096,100</u>

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

[Quarterly Consolidated Statements of Income]

[Consolidated cumulative second quarter]

(Thousands of yen)

	Previous consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)	Current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019)
Net sales	22,707,154	22,599,910
Cost of sales	18,496,710	18,771,640
Gross profit	4,210,443	3,828,270
Selling, general and administrative expenses	* 2,477,449	* 2,506,776
Operating income	1,732,994	1,321,493
Non-operating income		
Interest income	163,334	155,386
Dividends income	50,256	56,811
Share of profit of entities accounted for using equity method	360,187	—
Foreign exchange gains	295,978	—
Other	212,129	154,975
Total non-operating income	1,081,887	367,172
Non-operating expenses		
Interest expenses	41,176	47,116
Loss on redemption of investment securities	31,592	61,160
Provision of allowance for doubtful accounts	95,887	—
Other	55,883	139,886
Total non-operating expenses	224,541	248,163
Ordinary income	2,590,340	1,440,502
Extraordinary income		
Gain on sales of non-current assets	441	—
Gain on sales of investment securities	65,010	—
Gain on reversal of share acquisition rights	6,601	14,229
Other	6,790	—
Total extraordinary income	78,843	14,229
Extraordinary losses		
Loss on retirement of non-current assets	7,435	5,146
Loss on valuation of investment securities	—	9,287
Other	—	2,894
Total extraordinary losses	7,435	17,328
Income before income taxes	2,661,748	1,437,402
Income taxes	740,349	2,202,543
Profit (or loss(Δ))	1,921,399	Δ765,140
Profit attributable to non-controlling interests	146,165	128,973
Profit (or loss(Δ)) attributable to owners of the parent	1,775,233	Δ894,114



[Quarterly Consolidated Statements of Comprehensive Income]

[Consolidated cumulative second quarter]

(Thousands of yen)

	Previous consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)	Current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019)
Profit (or loss(Δ))	1,921,399	Δ765,140
Other comprehensive income		
Valuation difference on available-for-sale securities	Δ26,288	Δ91,621
Deferred gains or losses on hedges	Δ7,057	1,277
Foreign currency translation adjustment	Δ488,849	Δ258,975
Remeasurements of defined benefit plans	13,526	17,126
Share of other comprehensive income of entities accounted for using equity method	Δ102,046	Δ98,834
Total other comprehensive income	Δ610,714	Δ431,026
Comprehensive income	1,310,684	Δ1,196,167
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,336,467	Δ1,229,181
Comprehensive income attributable to non-controlling interests	Δ25,782	33,014

## (3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	Previous consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)	Current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019)
Cash flows from operating activities		
Income before income taxes	2,661,748	1,437,402
Depreciation	902,319	961,595
Amortization of goodwill	29,241	29,241
Share-based compensation expenses	23,965	26,820
Gain on reversal of subscription rights to shares	△6,601	△14,229
Increase (△ decrease) in allowance for doubtful accounts	100,835	△24,410
Increase (△ decrease) in provision for bonuses	△3,549	128,076
Increase (△ decrease) in provision for product warranties	△82	39
Increase (△ decrease) in provision for directors' bonuses	△3,097	△1,041
Increase (△ decrease) in net defined benefit liability	23,207	37,707
Loss (△ gain) on redemption of investment securities	△13,698	40,413
Interest and dividends income	△213,591	△212,197
Interest expenses	41,176	47,116
Foreign exchange losses (△ gains)	△137,454	26,894
Share of (△ profit) loss of entities accounted for using equity method	△360,187	16,672
Loss (△ gain) on change in equity	△6,790	—
Loss (△ gain) on sales of short-term and long-term investment securities	△65,010	2,894
Loss (△ gain) on valuation of investment securities	—	9,287
Loss (△ gain) on liquidation of subsidiaries and associates	—	750
Loss (△ gain) on sales of non-current assets	△619	△63
Loss on retirement of property, plant and equipment	2,426	1,359
Decrease (△ increase) in notes and accounts receivable-trade	△946,055	△368,380
Decrease (△ increase) in inventories	△86,007	254,274
Increase (△ decrease) in notes and accounts payable-trade	△262,819	83,394
Increase (△ decrease) in accrued consumption taxes	141,268	78,096
Decrease (△ increase) in other assets	△108,761	△287,353
Increase (△ decrease) in other liabilities	△30,059	△124,340
Subtotal	1,681,802	2,150,019
Interest and dividends income received	293,018	309,747
Interest expenses paid	△42,011	△45,422
Income taxes paid	△848,043	△195,569
Net cash provided by (used in) operating activities	1,084,766	2,218,775

	(Thousands of yen)	
	Previous consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)	Current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019)
Cash flows from investing activities		
Payments into time deposits	—	△106,000
Purchase of property, plant and equipment	△1,075,368	△1,294,806
Proceeds from sales of property, plant and equipment	1,758	—
Purchase of intangible assets	△25,113	△50,250
Purchase of investment securities	△1,315,662	△194,899
Proceeds from sales of investment securities	890,254	380,724
Payments of loans receivable	△20,000	—
Collection of loans receivable	33,760	8,510
Decrease (△increase) in other investments	—	8,109
Other proceeds	55,672	—
Net cash provided by (used in) investing activities	△1,454,698	△1,248,612
Cash flows from financing activities		
Net increase (△ decrease) in short-term loans payable	△211,650	3,495,808
Proceeds from long-term loans payable	441,600	994,000
Repayments of long-term loans payable	△542,270	△1,147,154
Repayments of lease obligations	△10,830	△10,063
Redemption of bonds	△18,400	△18,400
Payments for long-term accounts payable - other	△57,586	△57,586
Proceeds from issuance of common stock	115,765	48,306
Purchase of treasury stock	△175	△2,285,268
Cash dividends paid	△1,220,470	△1,083,648
Cash dividends paid to non-controlling interests	△191,154	△166,575
Net cash provided by (used in) financing activities	△1,695,171	△230,582
Effect of exchange rate change on cash and cash equivalents	△39,209	△80,727
Net increase (△ decrease) in cash and cash equivalents	△2,104,313	658,853
Cash and cash equivalents at beginning of period	8,832,805	7,718,682
Cash and cash equivalents at end of period	* 6,728,492	* 8,377,536

[Notes]

(Changes in Accounting Policies)

<Application of IFRS 16 (Lease)>

IFRS 16 "Lease" (Published in January, 2016) (hereinafter, "IFRS 16") has been applied to the IFRS-applied subsidiaries of our Group since the current consolidated first quarter. In applying IFRS 16, we adopted the method allowed as Provisional measures where cumulative influence of application of this Standards is recognized on the commencement date of such application.

Regarding the lease on the side of lessee which was classified into operating lease by applying IAS 17 in the past, right-of-use assets and lease liability were recognized on the commencement date of such application.

A part of assets included in "Other" in "Investments and other assets" is transferred to right-of-use assets.

Along with the application of this Standard, Quarterly Consolidated Balance Sheets show that "Property, plant and equipment", "Other" in "Current liabilities" and "Other" in "Non-current liabilities" increased respectively by 372,024 thousand yen, 31,850 thousand yen and 299,701 thousand yen, while "Other" in "Investments and other assets" decreased by 41,461 thousand yen.

The influence on gain and loss in the current cumulative consolidated second quarter due to these changes was slight.

(Particular accounting treatments applied in preparation of quarterly consolidated financial statements)

<Calculation of tax expenses>

Tax expenses are calculated by multiplying the quarterly income before income taxes by an estimated effective tax rate. Such effective tax rate is reasonably estimated after applying tax effect accounting to the income before income taxes for the consolidated fiscal year including the current consolidated second quarter.

(Notes Related to Quarterly Consolidated Balance Sheets)

\* Notes, etc. maturing at the end of the consolidated second quarter

For accounting treatment of notes, electronically recorded monetary claims and electronically recorded obligations maturing at the end of the consolidated third quarter, settlement is made as of the clearing date of each note or as of the settlement date of each electronically recorded monetary claim and electronically recorded obligation, as the case may be. As the end of the previous consolidated fiscal year falls on a bank holiday, the following notes, electronically recorded monetary claims and electronically recorded obligations maturing at the end of the consolidated second quarter are included in their respective balances as of the end of the previous consolidated fiscal year.

	(Thousands of yen)	
	Previous consolidated fiscal year (As of March 31, 2019)	Current consolidated second quarter (As of September 30, 2019)
Notes and accounts receivable-trade	66,950	—
Notes and accounts payable-trade	130,679	—
Current liabilities and others (Notes payable-facilities, Electronically recorded obligations-non-operating)	51,206	—

## (Notes Related to Quarterly Consolidated Statements of Income)

\* Major items under selling, general and administrative expenses and their respective amounts are as follows.

	(Thousands of yen)	
	Previous consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)	Current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019)
Salaries, benefits and bonuses	683,948	708,188
Provision for bonuses	120,581	138,383
Provision for directors' bonuses	2,858	2,915
Retirement benefit expenses	33,260	37,682
Provision of allowance for doubtful accounts	8,044	3,148

## (Notes Related to Quarterly Consolidated Statements of Cash Flows)

\* The correlation between the balance of cash and cash equivalents at the end of the current consolidated second quarter and the amounts shown for the corresponding items on the quarterly consolidated balance sheets is as follows.

	(Thousands of yen)	
	Previous consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)	Current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019)
Cash and deposits	6,845,845	8,756,255
Time deposits with a deposit term of more than three months	△535,000	△741,000
Securities (Money management fund)	417,647	362,281
Cash and cash equivalents	6,728,492	8,377,536

## (Notes Related to Shareholders' Equity, etc.)

## I Previous consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)

## Dividends paid

(Resolution)	Class of shares	Total amount of dividends (Thousands of yen)	Dividend per share (Yen)	Record date	Effective date	Source of dividends
Ordinary General Meeting of Shareholders of June 28, 2018	Common stock	1,224,579	34.00	March 31, 2018	June 29, 2018	Retained earnings

## II Current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019)

## Dividends paid

(Resolution)	Class of shares	Total amount of dividends (Thousands of yen)	Dividend per share (Yen)	Record date	Effective date	Source of dividends
Ordinary General Meeting of Shareholders of June 27, 2019	Common stock	1,086,565	30.00	March 31, 2019	June 28, 2019	Retained earnings

(Segment Information, etc.)

[Segment Information]

I Previous consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)

1. Information on the amount of net sales and income or loss with respect to each reportable segment

(Thousands of yen)

	Reportable segment					Other (See Note)	Total
	Electronic materials	Industrial application structural materials	Electrical insulating materials	Display materials	Subtotal		
Net sales							
Net sales to external customers	14,698,956	4,257,503	1,569,732	1,801,587	22,327,780	379,374	22,707,154
Inter-segment sales or transfers	—	—	—	—	—	396,797	396,797
Total	14,698,956	4,257,503	1,569,732	1,801,587	22,327,780	776,171	23,103,952
Segment income or loss (Δ)	1,385,729	742,434	230,980	80,109	2,439,252	108,260	2,547,513

Note: 1. The column “Other” represents business operations that do not fall under any of the reportable segments and includes the related goods sales, the logistics-related operations and other businesses, etc.

2. Segment income is calculated according to the monetary amount reflecting the important revision, which is stated in “Notes (business combinations etc.), of initially allocated amount of acquisition price following the finalization of the provisional accounting”.

2. Difference between the aggregate amount of income or loss of reportable segments and the pertinent amount shown on the quarterly consolidated statements of income as well as the key components of such difference (Matters concerning difference adjustment)

(Thousands of yen)

Income	Amount
Total of reportable segments	2,439,252
Income in the category “Other”	108,260
Elimination of inter-segment transactions	Δ54,424
Amortization of goodwill	Δ29,241
Unallocated corporate expenses (See Note)	Δ703,377
Adjustment of inventories	Δ27,476
Operating income shown on the quarterly consolidated statements of income	1,732,994

Note: Unallocated corporate expenses are mostly general and administrative expenses that are not attributable to any of the reportable segments.

3. Information on impairment loss on non-current assets or goodwill, etc. with respect to each reportable segment

No applicable matter.

II Current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019)

1. Information on the amount of net sales and income or loss with respect to each reportable segment

(Thousands of yen)

	Reportable segment					Other (See Note)	Total
	Electronic materials	Industrial application structural materials	Electrical insulating materials	Display materials	Subtotal		
Net sales							
Net sales to external customers	14,453,033	4,334,451	1,553,213	1,867,634	22,208,333	391,577	22,599,910
Inter-segment sales or transfers	—	—	—	—	—	389,894	389,894
Total	14,453,033	4,334,451	1,553,213	1,867,634	22,208,333	781,471	22,989,804
Segment income	1,110,657	621,995	173,715	150,172	2,056,540	108,274	2,164,814

Note: The column "Other" represents business operations that do not fall under any of the reportable segments and includes the related goods sales, the logistics-related operations and other businesses, etc.

2. Difference between the aggregate amount of income or loss of reportable segments and the pertinent amount shown on the quarterly consolidated statements of income as well as the key components of such difference (Matters concerning difference adjustment)

(Thousands of yen)

Income	Amount
Total of reportable segments	2,056,540
Income in the category "Other"	108,274
Elimination of inter-segment transactions	△40,173
Amortization of goodwill	△29,241
Unallocated corporate expenses (See Note)	△747,694
Adjustment of inventories	△26,212
Operating income shown on the quarterly consolidated statements of income	1,321,493

Note: Unallocated corporate expenses are mostly general and administrative expenses that are not attributable to any of the reportable segments.

3. Information on impairment loss on non-current assets or goodwill, etc. with respect to each reportable segment

No applicable matter.

(Business Combinations)

Important revision of initially allocated amount of acquisition price in the comparison information

Provisional accounting was conducted in the previous consolidated second quarter for the business combination with Satosen Co., Ltd., which was effected on November 30, 2017. Such provisional accounting has been finalized in the previous consolidated third quarter. Due to such finalization of the provisional accounting, important revision of the initially allocated amount of acquisition price is reflected on the comparative information described in Quarterly Consolidated Financial Statements for the current cumulative consolidated second quarter.

As a result, the amount of goodwill which was calculated provisionally is revised, due to the said finalization of accounting, from 355,527 thousand yen to 292,412 thousand yen, a decrease of 63,115 thousand yen. Such decrease of goodwill is due to the respective increases of 95,039 thousand yen in "Other" of "Intangible assets", and of 31,923 thousand yen in "Other" of "Non-current assets".

As a result, the influence on Quarterly Consolidated Statements of Income for the previous cumulative consolidated second quarter is slight.

(Per Share Information)

The amounts of net income per share and fully diluted net income per share with their respective bases of calculation are as follows.

	Previous consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)	Current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019)
(1) Net income (or loss) per share (△)	49.16 yen	△24.81yen
(Basis of calculation)		
Profit (or loss) attributable to owners of the parent (Thousands of yen)	1,775,233	△894,114
Amount not attributable to common stockholders (Thousands of yen)	---	---
Profit (or loss) attributable to owners of the parent pertaining to common stock (Thousands of yen)	1,775,233	△894,114
Average number of shares of common stock during the period	36,110,689	36,032,251
(2) Fully diluted net income per share	48.77yen	---
(Basis of calculation)		
Adjustment of profit attributable to owners of the parent (Thousands of yen)	---	---
Increase in the number of shares of common stock	285,755	—
Outline of dilutive shares that were not included in the calculation of fully diluted net income per share due to a lack of dilutive effect and also underwent a significant change after the end of the previous consolidated fiscal year	---	---

Note: 1. Diluted net income per share in the current term consolidated cumulative second quarter is not stated above due to net loss per share, though potential share exists.

2. Net income per share and fully diluted net income per share in the previous consolidated cumulative second quarter are calculated according to the monetary amount reflecting adjustments of the purchase price allocation following the determination of the provisional accounting treatment related to business combinations.

(Significant subsequent events)

(Share transfer of the affiliate company accounted for under equity method)

The Company entered into the Tender Offer Application Agreement with Nippon Kayaku Co., Ltd. (hereinafter referred to as “Tender Offeror”) as of August 27, 2019 and applied for the tender offer made by Tender Offeror during the term of the tender offer from August 28, 2019 to October 10, 2019 for all shares (9,280,000 shares) of the affiliate company accounted for under equity method (Polatechno Co., Ltd.) hold by the Company.

This tender offer was concluded upon expiration of the tender offer as of October 10, 2019 and the settlement of this tender offer was completed as of October 18, 2019. Therefore, Polatechno Co., Ltd. was excluded from the affiliate companies accounted for under equity method hold by the Company.

Number of transferred shares	9,280,000 shares
Transfer price	9,215,040 thousand yen
Gain on sale of investment securities	1,253,012 thousand yen

**2. Other**

No applicable matter.



**PART II. INFORMATION ON GUARANTY COMPANIES, ETC. OF THE  
SUBMITTING COMPANY**

No applicable matter.

## **Independent Auditors' Quarterly Review Report**

November 14, 2019

To the Board of Directors of Arisawa Mfg. Co., Ltd.

Ernst & Young ShinNihon LLC

Akira Igarashi [Seal]  
Designated Limited Liability Partner and Engagement Partner,  
Certified Public Accountant

Eishi Daikoku [Seal]  
Designated Limited Liability Partner and Engagement Partner,  
Certified Public Accountant

We have conducted, under the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, a quarterly review of the quarterly consolidated financial statements of Arisawa Mfg. Co., Ltd. listed in the "Status of Accounting" for the consolidated second quarter (From July 1, 2019 to September 30, 2019) and the consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019) of the consolidated fiscal year from April 1, 2019 to March 31, 2020, consisting of the quarterly consolidated balance sheets, quarterly consolidated statements of income, quarterly consolidated statements of comprehensive income, quarterly consolidated statements of cash flows and notes.

### Responsibility of Management for the Quarterly Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the quarterly consolidated financial statements in accordance with the standards for preparation of quarterly consolidated financial statements generally accepted in Japan. This includes improvement and operation of such internal control as the management deems necessary for the preparation and fair presentation of quarterly consolidated financial statements free from material misstatement, whether due to fraud or error.

### Responsibility of Auditors

Our responsibility is to express a conclusion on the quarterly consolidated financial statements from an independent standpoint based on our quarterly review. We conducted our quarterly review in accordance with the quarterly review standards generally accepted in Japan.

A quarterly review consists principally of making inquiries to the management and the persons responsible for financial and accounting matters, etc., applying analytical procedures and conducting other quarterly review procedures. The quarterly review procedures are less exhaustive than the procedures for annual financial statement audits conducted in accordance with the audit standards generally accepted in Japan.

We believe that the evidence we have obtained provides a basis for our conclusion.

### Conclusion of Auditors

In our quarterly review, no matter has come to our attention that causes us to believe that the above quarterly consolidated financial statements do not fairly present, in any material respect, the financial conditions of Arisawa Mfg. Co., Ltd. and its consolidated subsidiaries as of September 30, 2019 as well as the results of their operations and the status of their cash flows in the consolidated cumulative second quarter ended September 30, 2019 in accordance with the standards for preparation of quarterly consolidated financial statements generally accepted in Japan.

### Interest

There exists no special interest between the Company and this audit corporation or its engagement partners which is required to be stated pursuant to the provisions of the Certified Public Accountants Act.

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Note: 1. All the matters stated above have been electronically copied from the matters stated in the original quarterly review report. The original quarterly review report is separately archived by the Company (the company submitting the Quarterly Report).  
2. XBRL data are not included in the subject of the quarterly review.