

Quarterly Financial Results for the Third Quarter, Ended December 31, 2017 (Japanese GAAP, Consolidated)

February 8, 2018

Name of Listed Company: **Kaneka Corporation**

Stock Exchange Listings: Tokyo, Nagoya

Code Number: 4118

URL <http://www.kaneka.co.jp>

Representative: Mamoru Kadokura Title: President, Representative Director

Contact Person: Osamu Ishida Title: Officer – Investor & Public Relations Department Phone: +81-3-5574-8090

Scheduled date for submitting financial statements: February 13, 2018 Scheduled date of dividend distribution: —

Note: Figures have been rounded down to the nearest million yen.

1. Consolidated Business Performance for the Third Quarter, Ended December 31, 2017 (from April 1, 2017 to December 31, 2017)

(1) Consolidated business performance (cumulative) (% indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Apr. 2017 – Dec. 2017	445,931	9.3	26,355	7.3	24,307	17.1	15,735	21.5
Apr. 2016 – Dec. 2016	408,082	(2.2)	24,570	(16.3)	20,762	(19.2)	12,952	(21.0)

Note: Comprehensive income: ¥29,609 million (73.1%) nine months ended December 31, 2017

¥17,102 million (-15.9%) nine months ended December 31, 2016

	Net income per share	Fully diluted net income per share
Apr. 2017 – Dec. 2017	¥ 47.89	¥ 47.83
Apr. 2016 – Dec. 2016	39.03	38.99

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	¥ million	¥ million	%
As of December 31, 2017	636,578	344,206	51.3
As of March 31, 2017	592,900	321,551	51.5

(Reference) Shareholders' equity: ¥326,500 million as of December 31, 2017

¥305,149 million as of March 31, 2017

2. Dividends

	Annual dividends				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
Apr. 2016 – Mar. 2017	¥ —	¥ 9.00	¥ —	¥ 9.00	¥ 18.00
Apr. 2017 – Mar. 2018	—	9.00	—		
Apr. 2017 – Mar. 2018 (Forecasts)				9.00	18.00

Note: Changes in dividend forecast during the quarter under review: No

3. Forecast for consolidated business performance for the year ending March 31, 2018 (from April 1, 2017 to March 31, 2018)

(Percentage figures represent changes from the corresponding periods of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Full year	610,000	11.3	37,000	11.6	33,000	20.3	21,000	2.5	63.96

Note: Revisions to consolidated business performance forecasts during the quarter under review: No

4. Other

(1) Changes in principal subsidiaries during the term: No

(2) Application of simplified methods of accounting and specific accounting methods: No

(3) Changes in accounting principles, changes in estimates, or restatements

1. Changes owing to revisions in accounting standards: No

2. Changes other than 1. above: No

3. Changes in accounting estimates: No

4. Restatements: No

(4) Number of shares outstanding (common stock)

1. Number of shares issued at the end of the period
(including treasury stock):

December 31, 2017	350,000,000 shares	March 31, 2017	350,000,000 shares
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2. Shares of treasury stock at the end of the period:

December 31, 2017	22,314,741 shares	March 31, 2017	19,834,211 shares
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3. Average number of shares during the period (calculated
cumulatively from the beginning of the fiscal year)

December 31, 2017	328,603,594 shares	December 31, 2016	331,831,487 shares
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(These financial statements are exempt from audit procedures)

(Explanations or other items pertaining to appropriate use of operating results forecasts)

The operating results forecasts and certain other statements contained in this document are forward-looking statements, which are rationally determined based on information currently available to the company. For a variety of reasons, actual performance may differ substantially from these projections. They do not constitute a guarantee that the company will achieve these forecasts or other forward-looking statements. For cautionary items used in operating results forecasts, please refer to "(3) Consolidated Business Forecasts" under "1. Quarterly Consolidated Business Performance" on page 3.

Supplementary Materials

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1. Quarterly Consolidated Business Performance

(1) Consolidated Business Performance

The global economy continued to experience a modest recovery during the first nine months under review (April 1, 2017 to December 31, 2017), and the Kaneka Group exceeded the previous fiscal year's results in all areas. Consolidated net sales were ¥445,931 million (up 9.3% year on year), the highest on record, mainly driven by its overseas business. Operating income was ¥26,355 million (up 7.3% year on year), absorbing the impacts of a sharp increase in certain raw material prices in the first quarter and hurricanes in the U.S. in the second quarter. Ordinary income was ¥24,307 million (up 17.1% year on year), and net income attributable to owners of parent was ¥15,735 million (up 21.5% year on year).

Operating performance by business segment was as follows:

1) Material Solutions Unit

In the Vinyls and Chlor-Alkali business, exports of general PVC resins and caustic soda to Asia continued to be strong, while domestic sales for those were also brisk. Sales of chlorinated PVC and paste PVC expanded steadily, mainly in overseas markets.

In the Performance Polymers business, although first-half sales of modifiers were affected by an abrupt change in the market price of raw materials, hurricanes, and other factors, strong demand continued globally, and sales expanded with the full contribution of a new production facility in Malaysia. Looking ahead, the Group expects to see earnings continue to grow with progress on expanding applications such as non-PVC fields. Sales also expanded steadily in modified silicone polymers, with the contribution of a new production facility in Malaysia that commenced operation in July 2017 in response to global demand.

Looking forward, the Group will advance the development of new highly functional materials in the aerospace field which is expected to grow to provide valuable solutions.

2) Quality of Life Solutions Unit

In the E & I Technology business, sales of ultra-heat-resistance polyimide films grew steadily due to the contribution from strengthening the supply system in response to strong demand for new models from major smartphone manufacturers. Profits also rose with an increase in models adopting new products using polyimide resin technologies for displays and so forth. Looking ahead, it is expected that the downsizing and multifunctioning of digital devices, such as smartphones, will create higher demand for ultra-heat-resistant polyimide films and high thermal conductive graphite sheets, and the Group is considering increasing its production capacity.

In the Foam & Residential Techs business, sales volume grew at a sluggish pace due to diminished hauls and delays in construction and civil engineering work caused by bad weather. Looking ahead, the Group will put more highly functional expandable plastics products on the market that are lightweight, energy saving, resource saving, and heat insulating, seeking to expand sales in the automobile field where the adoption of EVs is advancing and strengthen development of the housing solutions business.

In the Performance Fibers business, sales volume increased due to strong demand in the pile and flame-retardant materials fields. Demand for hair accessories in the African market has bottomed out and begun to recover, however the pace of recovery has been slower than anticipated, and a full-scale recovery is now expected from the fourth quarter onward. As demand in the hair accessory market continues to expand, the Group will continue to develop its new markets in Africa and other regions.

In the PV & Energy management business, sales of new products in high-efficiency photovoltaic modules and others expanded steadily, and the Group advanced its structural reforms. The Group will focus on providing energy solutions that contribute to net zero energy houses and buildings, centering on the photovoltaic module business.

3) Health Care Solutions Unit

In the Medical Devices business, sales remained solid in the domestic and overseas markets. Sales of new products, such as high-pressure balloon catheters to enlarge peripheral vessels, proceeded steadily, absorbing a fall in reimbursement pricing to secure earnings on par with the previous fiscal year. Looking ahead, the Group will expand new therapeutic fields such as drug-coated balloon treatments and strengthen the sales and marketing system of the blood purification business in the U.S.

In the Pharma business, sales of biopharmaceuticals expanded steadily, and production expansion is proceeding. However, the sales volume of low-molecular pharmaceutical materials decreased since these products were shipped intensively during the same period of the previous fiscal year. The Group expects sales will recover going forward.

The Group will strengthen open innovation using the Kaneka U.S. Innovation Center, which was established in 2016 on the U.S. West Coast.

4) Nutrition Solutions Unit

In the Food & Agris business, sales expanded due to proactive proposal-based sales leveraging new foodstuffs and targeting major suppliers of bakery products, convenience stores, and food product manufacturers. Sales of Group companies in and outside Japan also performed steadily. The Group is advancing market development of new solutions aiming to develop new business models in the agriculture and livestock produce field.

In the Supplemental Nutrition business, the sales volume of the reduced form of coenzyme Q10 continued to increase, mainly in the U.S. market, contributing significantly to business performance. The Group reached a partial settlement regarding U.S. patent infringement claims related to oxidized coenzyme Q10 and is working to grow its share of the North American oxidized coenzyme Q10 market and increased sales in reduced coenzyme Q10 in the Chinese market.

(2) Consolidated Financial Position

1) Status of Assets, Liabilities and Equity

Total assets were ¥636,578 million as of December 31, 2017, up ¥43,678 million compared with March 31, 2017, due to increases in receivable-trade and investment securities. Interest-bearing debt totaled ¥292,372 million, up ¥21,023 million due to an increase in accrued expenses. Net assets (equity) increased by ¥22,655 million to ¥344,206 million, due to an increase in retained earnings.

2) Consolidated Cash Flows

Net cash provided by operating activities during the first nine months of the year was ¥35,152 million, mainly due to income before income taxes and depreciation and amortization, while net cash used in investing activities amounted to ¥29,442 million, mainly due to the purchase of property, plant and equipment. Net cash used in financing activities came to ¥8,503 million, mainly owing to cash dividends paid. As a result, cash and cash equivalents as of December 31, 2017 totaled ¥39,153 million mainly due to cash dividends paid and purchase of treasury stock.

(3) Consolidated Business Forecasts

Looking ahead, the global economy is expected to continue expanding steadily overall, uncertainties remain, such as political and economic trends in key countries, business trends in emerging nations, and geopolitical risks.

In the third quarter, the impacts of the raw materials issue and hurricane that occurred in the first half passed, and the Group returned to a growth trajectory with the contribution from production capacity enhancements in mainstay businesses and full rollout of new products. From the fourth quarter onward, the Group will implement timely pricing corrections for increases in raw materials prices. It will also expand sales of modifiers, modified silicon polymers, and others making use of the new production facility in Malaysia. Furthermore, the Group will strengthen the business foundations of its focus areas for strategic growth, namely the Medical Devices, Pharma and Supplemental Nutrition, and E & I Technology solutions vehicles, the latter of which is experiencing market growth for smartphones. Through these initiatives, the Group will promote its strengths in global business expansion. As a solutions provider with a market-oriented perspective, the Group will aggressively pursue open innovation, alliances, and M&As in a concentrated effort to transform its business portfolio and achieve growth.

In light of the above, the Group has left its forecast for consolidated business performance unchanged from the forecast announced on November 9, 2017.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY2016 Term ended March 31, 2017	FY2017 3rd Quarter Term ended December 31, 2017
Assets		
Current assets		
Cash and deposits	41,116	39,916
Notes and accounts receivable—trade	125,482	140,573
Short-term investment securities	110	110
Merchandise and finished goods	52,493	56,723
Work in process	10,148	9,340
Raw materials and supplies	34,106	38,468
Other	17,334	19,365
Allowance for doubtful accounts	(353)	(339)
Total current assets	280,439	304,156
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	74,073	75,788
Machinery, equipment and vehicles, net	98,666	103,754
Other, net	52,803	55,551
Total property, plant and equipment	225,544	235,095
Intangible assets		
Goodwill	3,322	4,196
Other	6,929	7,069
Total intangible assets	10,251	11,265
Investments and other assets		
Investment securities	62,584	73,813
Other	14,309	12,521
Allowance for doubtful accounts	(228)	(273)
Total investments and other assets	76,665	86,061
Total noncurrent assets	312,461	332,421
Total assets	592,900	636,578

	(Millions of yen)	
	FY2016	FY2017 3rd Quarter
	Term ended March 31, 2017	Term ended December 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable-trade	73,058	86,497
Short-term loans payable	52,294	59,735
Income taxes payable	3,390	2,626
Provision	135	11
Other	40,122	43,916
Total current liabilities	169,001	192,788
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	50,336	44,336
Provision	319	329
Net defined benefit liability	37,310	37,582
Other	4,381	7,334
Total noncurrent liabilities	102,347	99,583
Total liabilities	271,349	292,372
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	32,813	32,799
Retained earnings	248,523	259,127
Treasury stock	(16,753)	(18,726)
Total shareholders' equity	297,630	306,247
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	22,338	29,224
Deferred gains or losses on hedges	(61)	(70)
Foreign currency translation adjustment	(5,105)	(608)
Remeasurements of defined benefit plans	(9,653)	(8,293)
Total accumulated other comprehensive income	7,518	20,252
Subscription rights to shares	271	298
Noncontrolling interests	16,130	17,407
Total net assets	321,551	344,206
Total liabilities and net assets	592,900	636,578

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income		(Millions of yen)	
	FY2016 3rd Quarter	FY2017 3rd Quarter	
	From April 1, 2016 to December 31, 2016	From April 1, 2017 to December 31, 2017	
Net sales	408,082	445,931	
Cost of sales	286,416	320,104	
Gross profit	121,665	125,826	
Selling, general and administrative expenses	97,095	99,471	
Operating income	24,570	26,355	
Non-operating income			
Dividends income	1,469	1,313	
Gain on sales of investment securities	480	14	
Foreign exchange gains	—	794	
Equity in earnings of affiliates	95	97	
Other	681	593	
Total non-operating income	2,727	2,813	
Non-operating expenses			
Interest expenses	1,020	1,242	
Loss on retirement of noncurrent assets	2,107	1,243	
Foreign exchange losses	2,210	—	
Other	1,196	2,375	
Total non-operating expenses	6,535	4,861	
Ordinary income	20,762	24,307	
Extraordinary loss			
Patent protection court cost	594	783	
Total extraordinary losses	594	783	
Income before income taxes	20,168	23,523	
Income taxes—current	5,020	5,455	
Income taxes—deferred	1,421	1,488	
Total income taxes	6,442	6,944	
Net income	13,725	16,579	
Net income attributable to non-controlling interests	772	843	
Net income attributable to owners of parent	12,952	15,735	

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2016 3rd Quarter From April 1, 2016 to December 31, 2016	FY2017 3rd Quarter From April 1, 2017 to December 31, 2017
Net income	13,725	16,579
Other comprehensive income		
Valuation difference on available-for-sale securities	5,502	7,059
Deferred gains or losses on hedges	(28)	(9)
Foreign currency translation adjustment	(3,415)	4,610
Remeasurements of defined benefit plans, net of tax	1,319	1,366
Share of other comprehensive income of associates accounted for using equity method	(1)	2
Total other comprehensive income	3,376	13,030
Comprehensive income	17,102	29,609
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	16,424	28,314
Comprehensive income attributable to noncontrolling interests	677	1,295

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	FY2016 3rd Quarter From April 1, 2016 to December 31, 2016	FY2017 3rd Quarter From April 1, 2017 to December 31, 2017
Net cash provided by (used in) operating activities		
Income before income taxes	20,168	23,523
Depreciation and amortization	20,503	22,282
Increase (decrease) in net defined benefit liability	1,843	2,137
Increase (decrease) in allowance for doubtful accounts	12	0
Interest and dividends income	(1,530)	(1,382)
Interest expenses	1,020	1,242
Equity in (earnings) losses of affiliates	(95)	(97)
Loss (gain) on disposal of noncurrent assets	526	558
Decrease (increase) in notes and accounts receivable-trade	(11,628)	(13,598)
Decrease (increase) in inventories	(1,256)	(5,172)
Increase (decrease) in notes and accounts payable-trade	13,578	12,312
Other, net	663	(1,210)
Subtotal	43,805	40,596
Interest and dividends income received	1,529	1,402
Interest expenses paid	(891)	(1,128)
Income taxes paid	(6,734)	(5,717)
Net cash provided by (used in) operating activities	37,709	35,152
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(26,893)	(25,067)
Proceeds from sales of property, plant and equipment	55	42
Purchase of intangible assets	(993)	(976)
Purchase of investment securities	(56)	(1,073)
Proceeds from sales of investment securities	511	156
Purchase of stocks of subsidiaries and affiliates	(102)	(1,475)
Payments of loans receivable	(363)	(898)
Collection of loans receivable	187	859
Other, net	(952)	(1,009)
Net cash provided by (used in) investing activities	(28,606)	(29,442)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(2,128)	4,272
Proceeds from long-term loans payable	4,911	756
Repayments of long-term loans payable	(4,502)	(4,986)
Proceeds from sales and leasebacks	-	230
Repayments of lease obligations	(119)	(231)
Purchase of treasury stock	(7)	(2,576)
Proceeds from sales of treasury stock	346	400
Proceeds from stock issuance to noncontrolling shareholders	53	-
Cash dividends paid	(6,328)	(5,933)
Dividends paid to noncontrolling interests	(398)	(356)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(2,686)	(78)
Net cash provided by (used in) financing activities	(10,860)	(8,503)
Effect of exchange rate change on cash and cash equivalents	(283)	329
Net increase (decrease) in cash and cash equivalents	(2,041)	(2,464)
Cash and cash equivalents at beginning of period	43,161	41,018
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	-	600
Cash and cash equivalents at end of period	41,120	39,153

(4) Notes to the Consolidated Financial Statements

(Notes on the Premise of a Going Concern)

Not applicable

(Notes in the Event of Significant Changes in the Amount of Shareholders' Equity)

Not applicable

(Segment Information)

I Term from April 1, 2016 to December 31, 2016

1) Sales and Income (Loss) by Segments

(Millions of yen)

	Segment Information					Others (Note)1	Total	Adjustment	Figures in consolidated financial statements (Note)2
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	149,803	104,386	34,042	119,123	407,356	725	408,082	—	408,082
Intersegment	961	9	—	19	990	1,084	2,074	(2,074)	—
Total	150,764	104,396	34,042	119,143	408,346	1,810	410,157	(2,074)	408,082
Segment profit	15,417	12,304	7,972	3,933	39,628	309	39,937	(15,367)	24,570

(Note) 1 "Others" is a business segment that is not included in the reporting segments and includes property insurance and life insurance business.

2 Segment profit is reconciled with operating income in the quarterly consolidated financial statements.

2) Reconciliations between Segment Total and Quarterly Consolidated Statements of Income (Adjustments)

(Millions of yen)

Income	Amount
Segment total	39,628
Segment profit of Others	309
Elimination of intersegment transactions	(3)
Companywide expenses (Note)	(15,352)
Other adjustments	(10)
Operating income in the quarterly consolidated statements of income	24,570

(Note) Companywide expenses primarily are expenses for basic R&D that are not allocable to any reporting segment.

II Term from April 1, 2017 to December 31, 2017

1) Sales and Income (Loss) by Segments

(Millions of yen)

	Segment Information					Others (Note)1	Total	Adjustment	Figures in consolidated financial statements (Note)2
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	175,192	115,116	32,787	121,950	445,047	884	445,931	—	445,931
Intersegment	939	25	0	28	994	917	1,911	(1,911)	—
Total	176,131	115,142	32,787	121,979	446,041	1,801	447,843	(1,911)	445,931
Segment profit	18,871	11,615	6,618	4,657	41,762	441	42,204	(15,848)	26,355

(Note) 1 "Others" is a business segment that is not included in the reporting segments and includes property insurance and life insurance business.

2 Segment profit is reconciled with operating income in the quarterly consolidated financial statements.

2) Reconciliations between Segment Total and Quarterly Consolidated Statements of Income (Adjustments)

(Millions of yen)

Income	Amount
Segment total	41,762
Segment profit of Others	441
Elimination of intersegment transactions	(8)
Companywide expenses (Note)	(15,883)
Other adjustments	43
Operating income in the quarterly consolidated statements of income	26,355

(Note) Companywide expenses primarily are expenses for basic R&D that are not allocable to any reporting segment.

3) Concerning Changes in Reporting Segments, etc.

In the Kaneka Group's mid-term management vision newly started in fiscal 2017, we radically reformed our management system in order to accelerate contribution to development of society through creating new value by technological innovation, including "IoT" and "AI," and solving various problems facing society: issues of global environmental protection, population growth, food supply, and improving public health in an ageing society.

Our business divisions have been renamed "Solutions Vehicle" that aim to become organizations implementing growth strategy from the perspective of achieving solutions. In addition, we reorganized our business structure so as to make these nine "Solutions Vehicle" be consistent with four new business domains known as "Solutions Unit."

As a result of this reform of management system, the conventional reporting segments of Chemicals, Functional Plastics, Expandable Plastics and Products, Foodstuffs Products, Life Science Products, Electronic Products, and Synthetic Fibers and Others have reclassified into new reporting segments which reflected the new business domains from the first quarter of the fiscal year.

Segment information for the third quarter of the fiscal year ended March 31, 2017 has been prepared based on the segment classification after the change.

The Solutions Vehicles and main products that belong to each reporting segment are as follows.

Solutions Unit (Reporting Segments)	Solutions Vehicle	Main products
Material Solutions Unit	Vinyls and Chlor-Alkali	General PVC resins, Caustic soda, Specialty PVC resins
	Performance Polymers	Modifiers, Modified silicone polymers, Biopolymers
Quality of Life Solutions Unit	Foam & Residential Techs	Expandable polystyrene resins and products, Extruded polystyrene foam boards, Bead-method polyolefin foam, Solar circuit construction method (external insulation and double ventilation construction) products
	E&I Technology	Ultra-heat-resistant polyimide films, Optical materials, High thermal conductive graphite sheets
	PV & Energy management	Photovoltaic modules, Energy storage batteries for residences
	Performance Fibers	Acrylic synthetic fibers
Health Care Solutions Unit	Medical Devices	Medical devices
	Pharma & Supplemental Nutrition (Pharma)	Low-molecular pharmaceutical materials, API, Biopharmaceuticals
Nutrition Solutions Unit	Pharma & Supplemental Nutrition (Supplemental Nutrition)	Functional foodstuffs
	Foods & Agris	Margarine, Shortening, Bakery yeast, Spices, Antifreeze proteins, Functional fertilizers, Feeds

4) Impairment Loss on Fixed Assets or Goodwill by Reporting Segment (Significant changes in Goodwill)

In the second quarter of the fiscal year ended March 31, 2018, the Company recorded goodwill of ¥827 million in conjunction with the acquisition of shares of Applied Poleramic Inc. (currently Kaneka Aerospace LLC) in September 2017. This goodwill was not allocated to any reporting segment.