

**Summary of Consolidated Financial Results for the Second Quarter  
of the Fiscal Year Ending March 31, 2019  
(Six Months Ended September 30, 2018)**

[Japanese GAAP]

Company name: NITTOKU ENGINEERING CO., LTD. Listing: Tokyo Stock Exchange (JASDAQ)  
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Scheduled date of filing of Quarterly Report: November 9, 2018  
 Scheduled date of payment of dividend: December 3, 2018  
 Preparation of supplementary materials for quarterly financial results: Yes  
 Holding of quarterly financial results meeting: Yes (for analysts and institutional investors)

Note: The original disclosure in Japanese was released on November 8, 2018, at 15:00 (GMT +9).

(All amounts are rounded down to the nearest million yen)

**1. Consolidated Financial Results for the Second Quarter Ended September 30, 2018 (Apr. 1, 2018 – Sep. 30, 2018)**

(1) Consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Sep. 30, 2018	14,853	(2.9)	1,622	(34.0)	1,692	(31.0)	1,175	(31.7)
Six months ended Sep. 30, 2017	15,300	39.3	2,458	97.9	2,453	82.8	1,720	88.1

Note: Comprehensive income (million yen) Six months ended Sep. 30, 2018: 988 (down 55.9%)  
 Six months ended Sep. 30, 2017: 2,241 (up 340.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2018	65.06	-
Six months ended Sep. 30, 2017	95.23	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Sep. 30, 2018	39,501	27,032	68.1
As of Mar. 31, 2018	37,585	26,284	69.8

Reference: Shareholders' equity (million yen) As of Sep. 30, 2018: 26,912 As of Mar. 31, 2018: 26,221

Note: Starting with the beginning of the first quarter of the current fiscal year, Nittoku Engineering is applying "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018). Figures for the total assets and equity ratio as of March 31, 2018 have been adjusted retroactively to conform with this accounting standard.

**2. Dividends**

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2018	-	14.00	-	16.00	30.00
Fiscal year ending Mar. 31, 2019	-	15.00	-	-	-
Fiscal year ending Mar. 31, 2019 (forecast)	-	-	-	15.00	30.00

Note: Revisions to the most recently announced dividend forecast: None

Dividend for the end of second quarter is expected to be resolved at the Board of Directors meeting on November 9, 2018.

**3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2019 (Apr. 1, 2018 – Mar. 31, 2019)**

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	33,000	7.5	4,450	10.7	4,480	10.3	3,250	1.5	179.88

Note: Revisions to the most recently announced consolidated earnings forecast: None

**\* Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

Newly added: 1 (Master Electronic Technology (Changzhou) Co., Ltd., China) Excluded: -

(2) Application of special accounting methods in the preparation of the quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of outstanding shares (common stock)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Sep. 30, 2018:	18,098,923 shares	As of Mar. 31, 2018:	18,098,923 shares
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2) Number of treasury shares at the end of the period

As of Sep. 30, 2018:	31,269 shares	As of Mar. 31, 2018:	31,244 shares
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3) Average number of shares outstanding during the period

Six months ended Sep. 30, 2018:	18,067,666 shares	Six months ended Sep. 30, 2017:	18,067, 939 shares
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\* The quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

\* Explanation of appropriate use of earnings forecasts, and other special items

- Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to the Company's management at the time the materials were prepared. These materials are not promises by the Company regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons. For discussion of the assumptions and other factors considered by the Company in preparing the above projections, please refer to page 4 of the attachments "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements."

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## 1. Qualitative Information on Quarterly Consolidated Financial Performance

### (1) Explanation of Results of Operations

Looking back at the world for the past few years, with the economy that has become more globalized and business more borderless and interconnected, governments have faced the increasing difficulty in implementing their own economic measures as effectively as before. Against this backdrop, some superpower economies are launching the unilateralist trade tactics for the benefit of their own economy and fiscal position, causing friction with the other economies, causing the economic uncertainty to continue in the world.

In the meantime, with an aim to realizing a smart society represented by safety, convenience and abundance, many countries and companies in the world are boldly competing and collaborating with each other to accelerate and expand their efforts on research and development as well as commercialization in the fields of IoT, robotics, AI, or highly efficient use of natural energy.

While the industrial structure has changed dramatically on a global scale since the collapse of Lehman Brothers, Japanese companies have been overwhelmed by their competitors overseas in the market for end products such as home appliances, personal computers, and smartphones. However, they came to establish themselves as leaders in development and manufacture of core parts for automobiles as well as the above mentioned end products, and also in the field of FA equipment that is key to manufacturing such core parts.

The Nittoku Group mainly focuses on development and manufacture of FA systems leveraging industrial engineering technologies related to winding and tensioning for the production of coils, motors, and modules incorporating those coils and motors as core parts, all of which are indispensable for most of the aforementioned end products. Our FA systems also incorporate proprietary industry engineering technologies related to conveyance and handling. As an equipment manufacturer supporting the development of devices in the digital society that continues to evolve at high speed, we have been developing our business globally by leveraging development and manufacturing capabilities in Japan.

Specifically, with an aim to contribute to technological advancement in the society and to differentiate ourselves from peer equipment manufacturers at home and abroad, we ensure to implement our strategy, bearing in mind our core competency for creating innovation of production equipment. With our strategy in place, we can directly and quickly identify and satisfy customer needs—namely for higher performance, further miniaturization, higher quality production, and more labor saving. We are ambitious enough to establish our brand image as a “one-of-a-kind supplier” for our manufacturing customers—a supplier who can help increase value added of the players of various industry sectors—by taking charge of equipment development as a manufacturing solution partner for those manufacturers in various countries who aspire to be the world’s “number one player” in electrics, electronics, communications, automobiles, or other sectors. With this global branding strategy effectively in place, we are fully confident that we can continue to increase our corporate value through sustainable growth by effectively responding to changes and movements of region, country or industry-specific markets and capturing opportunities for generating revenue even if we are adversely affected by such changes and movements for a short period of time.

We strive to become a one-of-a-kind supplier by establishing a business portfolio management system called “business cluster management.” In this management system, a cluster is likened to a bunch of fruits, or businesses, which grow on the trunk of a tree, which is analogous to our core competency for creating innovation of product equipment as mentioned above. Each cluster is composed of core technologies and other elements. These pieces of elements are cultured by the personnel with knowledge, experience and understanding of our corporate culture, who can interact with each other in an analog manner. Then, they make seeds with their DNA, powered by knowledge database and globally recruited human resources, so as to grow next trunks and clusters to address changes in the future. If we need knowledge that is not readily available in the Group, we are not hesitant in acquiring it by proactively leveraging alliances and open innovation under the slogan: “co-creation, collaboration, and challenge.” As such, we are strengthening our business strategy to enhance our brand power as a one-of-a-kind supplier, who always creates and meets customer expectations without lagging behind changes in markets and players as well as technological innovation.

Given the current manufacturing environment where equipment plays a pivotal role in all or most of the

manufacturing process, we have identified explicit needs of customers; manufacturers seek an equipment manufacturer as their strategic partner who can develop an FA system that provides a “turn-key solution”—a system that is able to be used immediately once installed, or a system that can meet the requirements such as “multi-product and variable quantity production” and “product traceability.” In addition, the Nittoku Group is responding to future-oriented needs to provide comprehensive maintenance, support and solutions, not only in Japan but in other major production and development bases in the world, centering in Asia, Europe and the United States.

As a result of implementing the above business strategy, we have achieved operating results for the first half of the current fiscal year largely as planned. Net sales totaled 14,853 million yen (down 2.9% year on year) with operating profit of 1,622 million yen (down 34.0% year on year), ordinary profit of 1,692 million yen (down 31.0% year on year), and profit attributable to owners of parent of 1,175 million yen (down 31.7% year on year). The year-on-year decreases in both sales and profits can be explained by the fact that deliveries of large-scale projects for information and telecommunications sector concentrated in the second quarter of the previous fiscal year. As we have estimated the business performance for the current fiscal year based on the order backlog at the beginning of the fiscal year, orders received in the current fiscal year, and production environment, we have maintained the full-year consolidated earnings forecast for the current fiscal year at this moment.

Results by business segment were as follows.

### **Winding System & Mechatronics Business**

With driver assistance systems and semi-automatic driving systems rapidly put into practical use worldwide, sensors, cameras and steering devices, accelerators, brakes, and inverters utilize coils and motors including sensor coils, chip inductors, pumps, EPS, EBS, and capacitors as key components. Production of these devices is mostly undertaken by the FA system to promote product quality assurance and labor-saving. As equipment qualities have improved, the cost of some FA systems has soared to hundreds of millions of yen per line. Additionally, production equipment for EV traction motors based on current manufacturing methods has intermittently generated sales. Regarding other motors, equipment for home appliance motors and that for industrial motors have performed well.

Capital expenditures for small electronic components and modules are increasing due to growing demand for electronic components for automobiles and IoT although they once dropped due to decelerating functional evolution of smartphones. In addition, improving high performance, reduced production costs, and shortage of production engineers as well as increasing load on motor control function have led to growing demand for the FA system. We view changes triggered by innovation in both end products and production methods as well as a geographical shift in production as business opportunities for us to receive more orders.

Consequently, consolidated sales of the Winding System & Mechatronics Business, which accounts for about 97% of total sales, were 14,442 million yen (down 0.9% year on year), and segment profit (operating profit) was 2,095 million yen (down 24.5% year on year). On a non-consolidated basis, segment orders were 13,037 million yen (down 15.7% year on year), sales were 12,445 million yen (down 8.3% year on year), and the order backlog at the end of the second quarter of the current fiscal year was 17,377 million yen (up 13.1% year on year).

### **Contactless IC Tag & Card Business**

In the first half of the current fiscal year, demand on IC tags for production control, which demonstrated steady performance in the same period of the previous fiscal year, appeared to have come to a pause as in the first quarter, and both orders and sales decreased.

Accordingly, consolidated sales of the Contactless IC Tag & Card Business were 410 million yen (down 43.3% year on year), and segment profit (operating profit) was 8 million yen (down 95.6% year on year). On a non-consolidated basis, segment orders were 401 million yen (down 32.5% year on year), sales (production) were 410 million yen (down 43.3% year on year), and the order backlog at the end of the second quarter of the current fiscal year was 177 million yen (down 34.1% year on year).

**(2) Explanation of Financial Position****Assets**

Current assets increased 1,437 million yen from the end of the previous fiscal year to 30,795 million yen. This was mainly due to increases of 947 million yen in notes and accounts receivable-trade and 637 million yen in work in process.

Non-current assets increased 478 million yen from the end of the previous fiscal year to 8,705 million yen. This was mainly attributable to an increase of 672 million yen in property, plant and equipment, which was partially offset by a decrease of 208 million yen in investments and other assets.

As a result, total assets increased 1,915 million yen from the end of the previous fiscal year to 39,501 million yen.

**Liabilities**

Current liabilities increased 1,210 million yen from the end of the previous fiscal year to 12,024 million yen. This was mainly attributable to an increase of 1,062 million yen in electronically recorded obligations-operating.

Non-current liabilities decreased 43 million yen from the end of the previous fiscal year to 444 million yen. This was mainly attributable to a decrease of 63 million yen in deferred tax liabilities.

As a result, total liabilities increased 1,166 million yen from the end of the previous fiscal year to 12,468 million yen.

**Net assets**

Total net assets increased 748 million yen from the end of the previous fiscal year to 27,032 million yen.

**Cash flows**

Cash and cash equivalents (“net cash”) at the end of the second quarter of the current fiscal year decreased 629 million yen from the end of the previous fiscal year to 9,056 million yen. The cash flow components during the first half of the current fiscal year and the main reasons for changes are as described below.

**Cash flows from operating activities**

Net cash provided by operating activities was 740 million yen (compared with 2,569 million yen provided in the same period of the previous fiscal year). Main factors include profit before income taxes of 1,692 million yen and an increase of 1,030 million yen in notes and accounts payable-trade, which were partially offset by increases of 968 million yen in notes and accounts receivable-trade and 1,107 million yen in inventories.

**Cash flows from investing activities**

Net cash used in investing activities was 1,141 million yen (compared with 41 million yen provided in the same period of the previous fiscal year). Main factors include payments into time deposits of 2,666 million yen and purchase of property, plant and equipment of 803 million yen, which were partially offset by proceeds from withdrawal of time deposits of 2,373 million yen.

**Cash flows from financing activities**

Net cash used in financing activities was 288 million yen (compared with 252 million yen used in the same period of the previous fiscal year), which was caused by the payment of cash dividends of 288 million yen.

**(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements**

The earnings forecasts are based on information available at the time of the release of this report. Actual results may differ from these forecasts for a number of reasons. There are no revisions to the full-year consolidated earnings forecast that was announced on May 11, 2018.

**2. Quarterly Consolidated Financial Statements and Notes****(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	FY3/18 (As of Mar. 31, 2018)	Second quarter of FY3/19 (As of Sep. 30, 2018)
Assets		
Current assets		
Cash and deposits	12,929,681	12,580,649
Notes and accounts receivable-trade	7,363,066	8,310,089
Securities	400,120	501,106
Work in process	6,823,799	7,460,954
Raw materials and supplies	724,903	1,146,117
Other	1,157,120	832,048
Allowance for doubtful accounts	(40,630)	(35,679)
Total current assets	29,358,061	30,795,286
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,954,232	1,913,371
Machinery, equipment and vehicles, net	564,735	549,164
Land	700,297	747,451
Other, net	370,608	1,052,817
Total property, plant and equipment	3,589,873	4,262,804
Intangible assets		
Goodwill	18,848	11,308
Other	150,063	170,760
Total intangible assets	168,911	182,068
Investments and other assets		
Investment securities	3,516,251	3,026,356
Deferred tax assets	58,089	103,422
Other	894,579	1,131,078
Total investments and other assets	4,468,921	4,260,856
Total non-current assets	8,227,706	8,705,730
Total assets	37,585,767	39,501,016

	(Thousands of yen)	
	FY3/18 (As of Mar. 31, 2018)	Second quarter of FY3/19 (As of Sep. 30, 2018)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable-trade	2,850,385	2,799,020
Electronically recorded obligations-operating	4,192,111	5,255,060
Income taxes payable	668,724	563,459
Provision for bonuses	512,853	604,819
Other	2,589,604	2,801,753
<b>Total current liabilities</b>	<b>10,813,678</b>	<b>12,024,113</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	131,506	67,797
Net defined benefit liability	151,289	171,358
Other	204,941	204,941
<b>Total non-current liabilities</b>	<b>487,737</b>	<b>444,097</b>
<b>Total liabilities</b>	<b>11,301,415</b>	<b>12,468,210</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	6,884,928	6,884,928
Capital surplus	2,542,054	2,535,775
Retained earnings	15,297,353	16,199,617
Treasury shares	(25,267)	(25,341)
<b>Total shareholders' equity</b>	<b>24,699,068</b>	<b>25,594,979</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	1,059,398	854,351
Foreign currency translation adjustment	519,290	510,539
Remeasurements of defined benefit plans	(56,666)	(47,350)
<b>Total accumulated other comprehensive income</b>	<b>1,522,022</b>	<b>1,317,540</b>
<b>Non-controlling interests</b>	<b>63,261</b>	<b>120,286</b>
<b>Total net assets</b>	<b>26,284,352</b>	<b>27,032,806</b>
<b>Total liabilities and net assets</b>	<b>37,585,767</b>	<b>39,501,016</b>

**(2) Quarterly Consolidated Statements of Income and Comprehensive Income****Quarterly Consolidated Statement of Income****(For the Six-month Period)**

(Thousands of yen)

	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)
Net sales	15,300,919	14,853,663
Cost of sales	10,837,145	11,085,908
Gross profit	4,463,773	3,767,754
Selling, general and administrative expenses	2,005,586	2,145,279
Operating profit	2,458,187	1,622,475
Non-operating income		
Dividend income	15,370	19,765
Foreign exchange gains	-	32,449
Other	48,569	35,426
Total non-operating income	63,939	87,641
Non-operating expenses		
Loss on transfer of receivables	1,771	6,107
Foreign exchange losses	44,153	-
Other	22,493	11,516
Total non-operating expenses	68,418	17,624
Ordinary profit	2,453,708	1,692,493
Extraordinary income		
Gain on sales of investment securities	25,118	-
Total extraordinary income	25,118	-
Profit before income taxes	2,478,827	1,692,493
Income taxes-current	782,786	526,770
Income taxes-deferred	(30,234)	(26,164)
Total income taxes	752,551	500,606
Profit	1,726,275	1,191,887
Profit attributable to non-controlling interests	5,674	16,346
Profit attributable to owners of parent	1,720,601	1,175,540

**Quarterly Consolidated Statement of Comprehensive Income**  
**(For the Six-month Period)**

(Thousands of yen)

	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)
Profit	1,726,275	1,191,887
Other comprehensive income		
Valuation difference on available-for-sale securities	361,942	(205,046)
Foreign currency translation adjustment	147,173	(8,005)
Remeasurements of defined benefit plans, net of tax	5,863	9,315
Total other comprehensive income	514,979	(203,736)
Comprehensive income	2,241,255	988,150
Comprehensive income attributable to:		
Owners of parent	2,233,280	970,824
Non-controlling interests	7,974	17,325

**(3) Quarterly Consolidated Statement of Cash Flows**

(Thousands of yen)

	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)
Cash flows from operating activities		
Profit before income taxes	2,478,827	1,692,493
Depreciation	199,145	186,366
Amortization of goodwill	7,539	7,539
Increase (decrease) in allowance for doubtful accounts	(4,852)	(4,949)
Increase (decrease) in provision for bonuses	73,537	92,012
Increase (decrease) in net defined benefit liability	24,307	19,302
Interest and dividend income	(39,655)	(33,345)
Loss (gain) on sales of property, plant and equipment	13,687	1,397
Decrease (increase) in notes and accounts receivable-trade	172,972	(968,521)
Decrease (increase) in inventories	(333,821)	(1,107,119)
Increase (decrease) in notes and accounts payable-trade	235,458	1,030,068
Other, net	204,485	418,418
Subtotal	3,031,631	1,333,661
Interest and dividend income received	38,060	33,791
Income taxes paid	(500,080)	(634,317)
Income taxes refund	-	7,801
Net cash provided by (used in) operating activities	2,569,611	740,937
Cash flows from investing activities		
Payments into time deposits	(2,775,406)	(2,666,624)
Proceeds from withdrawal of time deposits	2,865,280	2,373,356
Proceeds from redemption of securities	-	100,120
Purchase of property, plant and equipment	(236,128)	(803,440)
Proceeds from sales of property, plant and equipment	33,430	20,006
Purchase of intangible assets	(9,129)	(16,779)
Purchase of investment securities	(2,892)	(3,782)
Proceeds from sales and redemption of investment securities	231,272	10,199
Purchase of insurance funds	(43,338)	(34,911)
Proceeds from maturity of insurance funds	19,827	-
Other, net	(41,800)	(119,205)
Net cash provided by (used in) investing activities	41,115	(1,141,061)
Cash flows from financing activities		
Purchase of treasury shares	(234)	(73)
Cash dividends paid	(252,698)	(288,828)
Net cash provided by (used in) financing activities	(252,933)	(288,902)
Effect of exchange rate change on cash and cash equivalents	84,673	10,111
Net increase (decrease) in cash and cash equivalents	2,442,467	(678,915)
Cash and cash equivalents at beginning of period	10,143,756	9,686,048
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	-	49,046
Cash and cash equivalents at end of period	12,586,223	9,056,178

**(4) Notes to Quarterly Consolidated Financial Statements****Going Concern Assumption**

Not applicable.

**Significant Changes in Shareholders' Equity**

First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)

Not applicable.

**Segment and Other Information****Segment Information**

I. First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)

1. Information related to net sales and profit or loss for each reportable segment (Thousands of yen)

	Reportable segment		Total
	Winding System & Mechatronics Business	Contactless IC Tag & Card Business	
Net sales			
External sales	14,576,599	724,320	15,300,919
Inter-segment sales and transfers	-	-	-
Total	14,576,599	724,320	15,300,919
Segment profit	2,777,084	186,770	2,963,855

2. Reconciliation of amounts shown on the quarterly consolidated statement of income with total profit or loss for reportable segments

(Thousands of yen)

Profit	Amount
Total for reportable segments	2,963,855
Corporate expenses (Note)	(505,667)
Operating profit on the quarterly consolidated statement of income	2,458,187

Note: Corporate expenses mainly include general and administrative expenses that cannot be attributed to any reportable segments.

II. First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)

1. Information related to net sales and profit or loss for each reportable segment (Thousands of yen)

	Reportable segment		Total
	Winding System & Mechatronics Business	Contactless IC Tag & Card Business	
Net sales			
External sales	14,442,958	410,704	14,853,663
Inter-segment sales and transfers	-	-	-
Total	14,442,958	410,704	14,853,663
Segment profit	2,095,828	8,219	2,104,048

2. Reconciliation of amounts shown on the quarterly consolidated statement of income with total profit or loss for reportable segments

(Thousands of yen)

Profit	Amount
Total for reportable segments	2,104,048
Corporate expenses (Note)	(481,572)
Operating profit on the quarterly consolidated statement of income	1,622,475

Note: Corporate expenses mainly include general and administrative expenses that cannot be attributed to any reportable segment.

*This summary report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*