

Consolidated Financial Statements
for the Second Quarter of the Fiscal Year Ending March 31, 2018 [J-GAAP]

November 2, 2017

NIPPON KANZAI Co., Ltd.

Listed exchanges: Tokyo Stock Exchange, First Section
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 Filing date of quarterly report: November 10, 2017
 Date to start dividends distribution: December 5, 2017
 Supplementary materials for quarterly results: Yes
 Quarterly results briefing meeting held: Yes (for institutional investors and analysts)

*Amounts below one million yen have been rounded down.

1. Consolidated results for the second quarter ended September 30, 2017 (April 1, 2017 to September 30, 2017)

(1) Consolidated business results

(Percentage figures indicate the rate of change from the same period in the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2017	45,226	3.1	2,536	(3.8)	2,868	4.7
Six months ended September 30, 2016	43,884	(0.2)	2,636	(2.8)	2,741	(12.0)

(Note) Comprehensive income: Six months ended September 30, 2017: ¥2,857 million [177.6%]
 Six months ended September 30, 2016: ¥1,029 million [-55.8%]

	Profit Attributable to Owners of Parent		Profit per Share		Diluted Profit per Share	
	Millions of yen	%	Yen		Yen	
Six months ended September 30, 2017	2,128	6.5	61.91		—	
Six months ended September 30, 2016	1,998	(11.6)	58.49		—	

(2) Consolidated financial position

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen		Millions of yen		%	
As of September 30, 2017	62,389		43,128		67.7	
As of March 31, 2017	62,279		41,464		64.4	

(Reference) Equity: As of September 30, 2017: ¥42,210 million
 As of March 31, 2017: ¥40,095 million

2. Dividends

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2017	—	19.00	—	21.00	40.00
Fiscal year ending March 31, 2018	—	21.00			
Fiscal year ending March 31, 2018 (forecast)			—	21.00	42.00

(Note) Revisions to the most recently announced forecast of cash dividends in the current quarter: None

3. Consolidated business forecasts for the fiscal year ending March 31, 2018 (April 1, 2017 to March 31, 2018)

(Percentage figures for the full year indicate the rate of change from the previous fiscal year. Percentage figures for the first six months indicate the rate of change from the same period of the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		Profit per Share	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen	
Full year	96,300	4.1	5,800	5.0	6,400	7.3	4,300	1.7	125.06	

(Note) Revisions to the most recently announced consolidated business forecasts in the current quarter: None

*** Notes**

(1) Changes of significant subsidiaries during the term (changes in specific subsidiaries associated with changes in scope of consolidation): None

(2) Adoption of specific accounting methods for preparation of the quarterly consolidated financial statements:
None

(3) Changes in accounting policies, accounting estimates and restatement of revisions

- | | |
|---|------|
| 1) Changes in accounting policies due to revisions of accounting standards, etc.: | None |
| 2) Changes in accounting policies other than 1) above: | None |
| 3) Changes in accounting estimates: | None |
| 4) Restatement of revisions: | None |

(4) Number of shares issued and outstanding (common stock)

- 1) Number of shares issued and outstanding (including treasury stock)
- 2) Number of treasury stock
- 3) Average number of shares issued and outstanding

1)	As of September 30, 2017	41,180,306 shares	As of March 31, 2017	41,180,306 shares
2)	As of September 30, 2017	6,796,586 shares	As of March 31, 2017	6,796,030 shares
3)	First six months ended September 30, 2017	34,383,933 shares	First six months ended September 30, 2016	34,175,914 shares

*** This quarterly financial report is not included in the quarterly review**

*** Explanation regarding the appropriate use of business forecasts and other notes**

1. The business forecasts reported herein were prepared based on information the Company had in its possession as of the time this report was prepared and on certain assumptions judged to be reasonable. Actual results may differ significantly from forecasts due to various factors. Please refer to the disclaimers, provided under “1. (3) Explanation regarding information on future forecasts including consolidated business forecasts, etc.” on page 3 of the Attached Document of this quarterly financial report, regarding assumptions upon which forecasts are based and the use of forecasts.
2. The Company plans to hold a presentation on its financial results for institutional investors and analysts on Tuesday, November 7, 2017. Presentation materials will be posted on its website after the presentation.

Table of Contents for the Attached Document

1. Qualitative information on financial statements.....	2
(1) Explanation regarding business results.....	2
(2) Explanation regarding financial position.....	2
(3) Explanation regarding information on future forecasts including consolidated business forecasts, etc.....	3
2. Quarterly consolidated financial statements and key notes.....	4
(1) Quarterly consolidated balance sheets.....	4
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income..	6
Quarterly consolidated statements of income.....	6
Quarterly consolidated statements of comprehensive income.....	7
(3) Quarterly consolidated statements of cash flows.....	8
(4) Notes on quarterly consolidated financial statements.....	10
(Notes on going concern assumption).....	10
(Notes on significant changes in the amount of shareholders' equity).....	10
(Segment information, etc.).....	10

1. Qualitative information on financial statements

(1) Explanation regarding business results

During the first six months of the fiscal year ending March 31, 2018, the Japanese economy continued to show a moderate recovery trend against the backdrop of improvement in corporate earnings and the employment situation. However, the outlook still remains uncertain, with many factors of concern such as the policy trend of the U.S. administration and the economic slowdown of emerging countries.

In the real estate service industry, signs of improvement are seen in the office and commercial buildings vacancy rates in central Tokyo and core regional cities, and it was confirmed that rents in some areas have turned upward. In addition, the Company's target market indicates future expansion as there has been an increasing number of reconstruction projects of multi-purpose buildings in central Tokyo and other areas.

In such a business environment, the NIPPON KANZAI Group (hereinafter "the Group") has been awarded with new management contracts by focusing on management with high added value that can clearly differentiate us from competitors. As to existing management contracts, although strong management cost-consciousness brought by the global financial crisis still remains among clients, the Group has increased efforts on improving management quality and expansion of the scope of management by offering better management services with evolved and improved contents to clients from the viewpoint of maintaining and enhancing safety, security and asset value.

The Group has also been making efforts in proactive business development in related areas such as private finance initiatives (PFI), energy-saving and environmental businesses while working to further strengthen and improve our main business of building management.

Net sales for the first six months of the fiscal year ending March 31, 2018 increased by 3.1% year on year to 45,226 million yen because, in addition to the retention of existing management contracts, we steadily won construction-related orders.

As to earnings, although a review of procurement terms and conditions and efforts for thorough working time management were made, the rise in major costs such as personnel and subcontracting costs resulted in a decrease in operating income by 3.8 year on year to 2,536 million yen. Furthermore, ordinary income increased by 4.7% year on year to 2,868 million yen and profit attributable to owners of parent increased by 6.5% year on year to 2,128 million yen. These were caused by the increase in share of profit of entities accounted for using equity method and recording of loss on foreign exchange.

The following are the results by segment.

Segment income has been adjusted to operating income described in quarterly consolidated statements of income.

(Building Management and Operation Business)

In our core Building Management and Operation Business, which focuses on building management and security services, we steadily retained existing management contracts and won construction-related orders. As a result, net sales for the first six months of the fiscal year ending March 31, 2018 increased by 2.5% year on year to 39,311 million yen.

As to earnings, a rise in personnel costs and outsourcing costs in addition to the delayed progress in fee revisions resulted in segment income of 3,966 million yen, down 4.9% year on year.

(Environmental Facility Management Business)

In Environmental Facility Management Business, which mainly comprises the management of water treatment, sewage disposal and other public facilities related to the overall living environment, we steadily won waste incineration facility and other new management contracts and renewed existing contracts. As a result, net sales for the first six months of the fiscal year ending March 31, 2018 increased by 1.7% year on year to 4,567 million yen.

In addition, cost reduction efforts were made, focusing on efforts to realign personnel assignments as well as to re-examine low profit margin contracts and procurement costs. As a result, segment income increased by 10.4% year on year to 565 million yen.

(Real Estate Fund Management Business)

In Real Estate Fund Management Business, which mainly comprises asset management business (i.e. arrangement and asset management of real estate funds) and handling investments in a silent partnership, profits were recorded from the sale of assets under management. As a result, net sales for the segment for the first six months of the fiscal year ending March 31, 2018 was 325 million yen, up 14.5% year on year.

In addition, as a result of efforts on reducing expenses and improving operational efficiency as well as the abovementioned sale of assets under management, segment income stood at 152 million yen, up 147.5% year on year.

(Other Businesses)

In Other Businesses, which consist mainly of event planning & management, printing and design, although there were adverse impacts from various events being downsized and client cost reductions, successful winning of large orders resulted in net sales for the segment for the first six months of the fiscal year ending March 31, 2018 of 1,022 million yen, up 35.6% year on year and segment income of 179 million yen, up 49.5% year on year.

(2) Explanation regarding financial position

(Analysis of financial position)

Total assets at the end of the second quarter of the fiscal year ending March 31, 2018 was 62,389 million yen, up 110

million yen, or 0.2%, from the previous fiscal year-end. This increase was mainly due to the increase from the fair market value of investment securities despite the decrease in cash and deposits resulted from cash dividends payout and payment of various taxes and notes and accounts payable – trade.

Liabilities decreased by 1,553 million yen, or 7.5 %, from the previous fiscal year-end to 19,261 million yen due to payments of accounts payable – trade, income taxes payable, etc.

Net assets increased by 1,663 million yen, or 4.0%, from the end of the previous fiscal year to 43,128 million yen, due to recording of profit attributable to owners of parent, increase in valuation difference on available-for-sale securities, etc. The equity ratio increased by 3.3 percentage points from the end of the previous fiscal year to 67.7%.

(Cash Flows)

Cash and cash equivalents (hereinafter “cash”) decreased by 734 million yen from the end of the previous fiscal year to 20,453 million yen.

The status and main factors of cash flows for the first six months of the fiscal year ending March 31, 2018 were as follows:

[Cash flows from operating activities]

Net cash provided by operating activities for the first six months of the fiscal year ending March 31, 2018 was 479 million yen, down 466 million yen year on year. This is primarily due to the decrease in notes and accounts payable – trade (a larger outflow by 408 million yen year on year), etc.

[Cash flows from investing activities]

Net cash provided by investing activities was 218 million yen, up 587 million yen year on year.

The main components of this increase was the decrease in purchase of investment securities (696 million yen increase year on year).

[Cash flows from financing activities]

Net cash used in financing activities was 1,549 million yen, a bigger outflow by 336 million yen year on year. This resulted mainly from an increase in dividends paid to non-controlling interests (230 million yen increase year on year).

(3) Explanation regarding information on future forecasts including consolidated business forecasts, etc.

We expect that our business environment will continue to be in an unpredictable situation.

The Group’s business performance has been generally in line with the forecasts announced on April 28, 2017, and there are no changes to the full-year business forecasts.

2. Quarterly consolidated financial statements and key notes**(1) Quarterly consolidated balance sheets**

(Thousands of yen)

	Fiscal year ended March 31, 2017 (As of March 31, 2017)	Second quarter ended September 30, 2017 (As of September 30, 2017)
ASSETS		
Current assets		
Cash and deposits	21,583,169	20,698,371
Notes and accounts receivable—trade	11,721,211	11,228,485
Investments in silent partnership for business purposes	405,483	28,235
Supplies	114,599	120,309
Real estate for sale	541,840	535,291
Income taxes receivable	53,251	59,561
Deferred tax assets	404,773	377,562
Other	1,045,499	1,684,908
Allowance for doubtful accounts	(11,281)	(10,077)
Total current assets	35,858,544	34,722,645
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,341,402	3,324,296
Machinery, equipment and vehicles, net	54,965	47,931
Tools, furniture and fixtures, net	456,703	464,013
Land	1,083,183	1,083,183
Lease assets, net	273,230	314,048
Construction in progress	1,800	13,130
Total property, plant and equipment	5,211,283	5,246,601
Intangible assets		
Telephone subscription right	46,451	46,744
Software	394,582	357,025
Goodwill	2,111,188	2,041,307
Lease assets	14,645	11,911
Software in progress	27,050	44,060
Total intangible assets	2,593,916	2,501,047
Investments and other assets		
Investment securities	13,614,313	14,727,951
Long-term loans receivable	490,357	466,186
Long-term prepaid expenses	21,282	21,851
Lease and guarantee deposits	2,779,660	2,903,617
Membership	395,833	395,838
Net defined benefit asset	672,803	766,224
Deferred tax assets	278,624	267,966
Other	442,197	448,802
Allowance for doubtful accounts	(79,057)	(78,867)
Total investments and other assets	18,616,012	19,919,568
Total noncurrent assets	26,421,211	27,667,216
TOTAL ASSETS	62,279,755	62,389,861

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

(Thousands of yen)

	Fiscal year ended March 31, 2017 (As of March 31, 2017)	Second quarter ended September 30, 2017 (As of September 30, 2017)
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	7,200,747	5,788,548
Current portion of long-term loans payable	575,000	575,000
Current portion of long-term non-recourse loans payable	10,000	10,000
Lease obligations	116,615	113,231
Accrued expenses	2,309,369	2,615,513
Income taxes payable	1,134,781	702,057
Accrued consumption taxes	659,155	634,414
Deposits received	290,747	602,869
Advances received	299,151	177,285
Provision for bonuses	647,954	611,944
Provision for directors' bonuses	1,068	1,321
Other	403,475	72,363
Total current liabilities	13,648,062	11,904,545
Noncurrent liabilities		
Long-term loans payable	2,350,000	2,062,500
Long-term non-recourse loans payable	365,000	360,000
Lease obligations	179,840	219,678
Deferred tax liabilities	1,072,268	1,402,395
Net defined benefit liability	526,753	496,194
Long-term guarantee deposited	1,690,000	1,848,243
Asset retirement obligations	259,604	257,855
Liabilities from application of equity method	7,875	6,226
Other	715,816	703,982
Total noncurrent liabilities	7,167,156	7,357,073
TOTAL LIABILITIES	20,815,218	19,261,618
NET ASSETS		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	618,090	646,943
Retained earnings	39,564,783	40,971,322
Treasury stock	(4,961,570)	(4,962,632)
Total shareholders' equity	38,221,303	39,655,633
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,834,553	3,408,719
Foreign currency translation adjustment	(729,421)	(650,351)
Remeasurements of defined benefit plans	(230,617)	(203,836)
Total accumulated other comprehensive income	1,874,515	2,554,532
Non-controlling interests	1,368,719	918,078
TOTAL NET ASSETS	41,464,537	43,128,243
TOTAL LIABILITIES AND NET ASSETS	62,279,755	62,389,861

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income
Quarterly consolidated statements of income

	(Thousands of yen)	
	Six months ended September 30, 2016 (April 1, 2016 to September 30, 2016)	Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)
Net sales	43,884,061	45,226,785
Cost of sales	34,918,765	36,172,239
Gross profit	8,965,296	9,054,546
Selling, general and administrative expenses		
Selling expenses	113,814	184,509
Personnel expenses	3,555,677	3,587,753
Provision for bonuses	310,052	295,164
Provision for directors' bonuses	1,718	1,321
Retirement benefit expenses	66,060	57,600
Transportation and communication expenses	483,284	505,345
Supplies expenses	188,568	192,660
Rent expenses	460,019	476,436
Insurance expenses	202,403	236,570
Depreciation	193,278	188,599
Taxes and dues	68,278	71,659
Enterprise tax	137,441	131,370
Provision of allowance for doubtful accounts	(865)	(1,393)
Amortization of goodwill	61,732	69,880
Other	487,697	520,953
Total selling, general and administrative expenses	6,329,156	6,518,426
Operating income	2,636,140	2,536,120
Non-operating income		
Interest and dividends income	104,565	103,985
Rent income	20,722	26,690
Share of profit of entities accounted for using equity method	157,241	198,034
Foreign exchange gains	-	43,421
Other	68,327	30,017
Total non-operating income	350,855	402,147
Non-operating expenses		
Interest expenses	16,573	14,208
Rent expenses	24,991	24,895
Loss on sales and retirement of non-current assets	1,391	20,617
Foreign exchange losses	141,825	-
Other	61,072	9,776
Total non-operating expenses	245,852	69,496
Ordinary income	2,741,143	2,868,771
Extraordinary income		
Gain on sales of investment securities	393,548	204,700
Total extraordinary income	393,548	204,700
Extraordinary losses		
Loss on valuation of investment securities	4,086	-
Total extraordinary losses	4,086	-
Quarterly profit before income taxes	3,130,605	3,073,471
Income taxes—current	952,811	851,514
Income taxes—deferred	104,602	47,324
Total income taxes	1,057,413	898,838
Quarterly profit	2,073,192	2,174,633
Profit attributable to non-controlling interests	74,210	46,024
Profit attributable to owners of parent	1,998,982	2,128,609

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

Quarterly consolidated statements of comprehensive income

(Thousands of yen)

	Six months ended September 30, 2016 (April 1, 2016 to September 30, 2016)	Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)
Quarterly profit	2,073,192	2,174,633
Other comprehensive income		
Valuation difference on available-for-sale securities	(458,166)	576,155
Foreign currency translation adjustment	-	(4,919)
Remeasurements of defined benefit plans, net of tax	17,244	27,883
Share of other comprehensive income of entities accounted for using equity method	(602,903)	83,989
Total other comprehensive income	(1,043,825)	683,108
Quarterly comprehensive income	1,029,367	2,857,741
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	954,266	2,808,595
Comprehensive income attributable to non-controlling interests	75,101	49,146

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

(3) Quarterly consolidated statements of cash flows

	Six months ended September 30, 2016 (April 1, 2016 to September 30, 2016)	Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)
Cash flows from operating activities		
Quarterly income before income taxes and minority interests	3,130,605	3,073,471
Depreciation and amortization	298,325	301,220
Amortization of goodwill	61,732	69,880
Increase (decrease) in provision for bonuses	(55,597)	(37,360)
Increase (decrease) in provision for directors' bonuses	95	253
Increase (decrease) in defined benefit liability	(175,458)	(88,367)
Increase (decrease) in allowance for doubtful accounts	(3,898)	(1,393)
Shares of (profit) loss of entities accounted for using equity method	(157,241)	(198,034)
Interest and dividends income	(104,565)	(103,985)
Interest expenses	16,573	14,208
Loss (gain) on foreign exchange	141,681	(43,446)
Loss (gain) on sales and retirement of non-current assets	915	20,061
Loss (gain) on sales of investment securities	(393,548)	(204,700)
Loss (gain) on valuation of investment securities	4,086	-
Decrease (increase) in notes and accounts receivable—trade	837,481	543,655
(Increase) decrease in investments in silent partnership for business purposes	29,377	225,426
Decrease (increase) in inventories	9,010	2,278
Decrease (increase) in other assets	165,626	30,328
Increase (decrease) in notes and accounts payable—trade	(1,800,197)	(2,208,874)
Increase (decrease) in accrued consumption taxes	(55,480)	25,168
Increase (decrease) in other liabilities	(161,128)	273,247
Other, net	9,366	(7,592)
Subtotal	1,797,760	1,685,444
Interest and dividends income received	108,632	106,281
Interest expenses paid	(16,573)	(14,208)
Proceeds from insurance income	400,446	-
Accident restoration related expenses paid	(326,899)	-
Income taxes paid	(1,017,158)	(1,298,138)
Net cash provided by operating activities	946,208	479,379

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

	Six months ended September 30, 2016 (April 1, 2016 to September 30, 2016)	Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)
Cash flows from investing activities		
Payments into time deposits	(280,000)	(130,000)
Proceeds from withdrawal of time deposits	680,000	280,000
Purchase of property, plant and equipment and intangible assets	(540,369)	(232,702)
Proceeds from sales of property, plant and equipment and intangible assets	410	557
Purchase of investment securities	(796,861)	(100,687)
Proceeds from sales of investment securities	693,154	347,598
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(110,548)	-
Payments of loans receivable	(50,030)	(250)
Collection of loans receivable	20,589	21,145
Decrease (increase) in lease and guarantee deposits of leasehold estate	(1,247,161)	(143,676)
Increase (decrease) in guarantee deposits received	1,266,467	158,243
Other, net	(4,464)	18,006
Net cash used in investing activities	(368,813)	218,234
Cash flows from financing activities		
Increase in short-term loans payable	400,000	600,000
Decrease in short-term loans payable	(400,000)	(600,000)
Repayment of long-term loans payable	(370,500)	(287,500)
Repayment of long-term non-recourse loans payable	(5,000)	(5,000)
Repayments of lease obligations	(82,949)	(63,183)
Proceeds from disposal of treasury stock	57,672	-
Purchase of treasury stock	(123)	(1,063)
Cash dividends paid	(742,946)	(721,632)
Dividends paid to non-controlling interests	(68,500)	(298,934)
Purchase of shares of subsidiaries not resulting in change of scope of consolidation	-	(172,000)
Net cash used in financing activities	(1,212,346)	(1,549,312)
Effect of exchange rate change on cash and cash equivalents	(141,681)	41,353
Net increase (decrease) in cash and cash equivalents	(776,632)	(810,346)
Cash and cash equivalents at beginning of period	19,801,255	21,188,169
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	-	75,548
Cash and cash equivalents at end of period	19,024,623	20,453,371

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

(4) Notes on quarterly consolidated financial statements**(Notes on going concern assumption)**

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

(Segment information, etc.)

I. Six months ended September 30, 2016 (April 1, 2016 to September 30, 2016)

1. Information on net sales, and income or losses for each reportable segment

(Thousands of yen)

	Reportable segment					Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales							
Net sales to external customers	38,354,922	4,490,929	283,998	754,212	43,884,061	—	43,884,061
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	38,354,922	4,490,929	283,998	754,212	43,884,061	—	43,884,061
Segment income	4,170,238	512,221	61,714	119,726	4,863,899	(2,227,759)	2,636,140

(Notes) 1. Adjustments of -2,227,759 thousand yen for segment income are unallocated general administrative expenses.

2. Segment income has been adjusted to operating income described in quarterly consolidated statements of income.

II. Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)

1. Information on net sales, and income or losses for each reportable segment

(Thousands of yen)

	Reportable segment					Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales							
Net sales to external customers	39,311,978	4,567,183	325,042	1,022,582	45,226,785	—	45,226,785
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	39,311,978	4,567,183	325,042	1,022,582	45,226,785	—	45,226,785
Segment income	3,966,384	565,330	152,735	179,002	4,863,451	(2,327,331)	2,536,120

(Notes) 1. Adjustments of -2,327,331 thousand yen for segment income are unallocated general administrative expenses.

2. Segment income has been adjusted to operating income described in quarterly consolidated statements of income.