

**Consolidated Financial Statements**  
**for the Second Quarter of the Fiscal Year Ending March 31, 2021 [J-GAAP]**

November 5, 2020

**NIPPON KANZAI Co., Ltd.**

Listed exchanges: Tokyo Stock Exchange, First Section  
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Date to start dividends distribution: December 2, 2020

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, 2020 (April 1, 2020, to September 30, 2020)**

**(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, 2020	49,459	(5.7)	2,980	(11.3)	2,994	(13.2)
Six months ended September 30, 2019	52,446	13.4	3,360	16.5	3,450	13.4

(Note) Comprehensive income: Six months ended September 30, 2020: ¥1,935 million [-0.6%]

Six months ended September 30, 2019: ¥1,946 million [15.0%]

	Profit Attributable to Owners of Parent		Profit per Share		Diluted Profit per Share	
	Millions of yen	%	Yen		Yen	
Six months ended September 30, 2020	1,980	(8.3)	52.97		—	
Six months ended September 30, 2019	2,160	14.0	58.80		—	

**(2) Consolidated financial position**

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen	%	Millions of yen	%	%	
As of September 30, 2020	75,875		53,939		69.5	
As of March 31, 2020	77,024		53,029		67.2	

(Reference) Equity: As of September 30, 2020: ¥52,719 million

As of March 31, 2020: ¥51,780 million

**2. Dividends**

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2020	Yen —	Yen 25.00	Yen —	Yen 25.00	Yen 50.00
Fiscal year ending March 31, 2021	—	25.00	—	—	—
Fiscal year ending March 31, 2021 (forecast)	—	—	—	25.00	50.00

(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, 2021 (April 1, 2020, to March 31, 2021)**

(Percentage figures for the full year indicate the rate of change from 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	108,000	1.6	7,000	2.1	7,400	2.3	4,600	5.8	123.05	

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

\* Notes

- (1) **Changes of significant subsidiaries during the period (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, 2020	41,180,306 shares	As of March 31, 2020	41,180,306 shares
2)	As of September 30, 2020	3,796,758 shares	As of March 31, 2020	3,796,758 shares
3)	First six months ended September 30, 2020	37,383,548 shares	First six months ended September 30, 2019	36,736,024 shares

\* **This quarterly financial report is not included in the quarterly review by certified public accountants or audit corporations**

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

(Notice regarding description of future prospects, etc.)

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. Qualitative information on financial statements; (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.

(Change of unit of amounts)

Amounts for the Company’s quarterly financial statement accounts and other matters were previously stated in thousands of yen, but starting from the first quarter/first three months of the fiscal year ending March 31, 2021, the unit has been changed and is stated in millions of yen.

(Where to find supplementary materials for results)

The Company plans to hold a briefing session on its financial results for institutional investors and analysts on Thursday, November 26, 2020. Presentation materials will be posted on our website after the presentation.

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## 1. Qualitative information on financial statements

### (1) Explanation regarding business results

During the first six months of the fiscal year ending March 31, 2021, the Japanese economy saw the COVID-19 pandemic cause rapid economic downturn and concerns over prolonged stagnation in economic activity in Japan and abroad, continuing to cast extreme uncertainty over the future.

In the real estate service industry, the vacancy rates of office and retail facilities continued to remain low mainly in major urban areas. However, a shift from an urban-intensive society to a decentralized society is seen due to measures such as the introduction of remote working and establishment of satellite offices in the suburbs as countermeasures against COVID-19, and vacancy rates are turning toward an upward trend with the exception of some areas. In addition, due to concerns over the increasing cost-consciousness of clients, a severe business environment is expected to continue going forward.

In such a business environment, Nippon Kanzai Group (hereinafter “the Group”) has continued to pursue “optimal building management” through its advanced technologies and responsiveness and continuously provide high-quality services that match customer needs, endeavoring to enhance the asset value of buildings.

The Group has also endeavored to further strengthen and improve building management and operation, its core business, while proactively developing peripheral business areas including private finance initiatives (PFI) and public facility management.

With regard to the Group’s response to COVID-19, placing the safety and security of customers and other stakeholders and employees first, the Group continues to work on efforts for preventing infection inside and outside of the Group through measures such as compulsory wearing of face masks, hand-washing, and sanitizing with alcohol being carried out by all employees, as well as adopting web-conferencing systems and encouraging remote working or staggered commuting.

Consolidated net sales for the first six months of the fiscal year ending March 31, 2021, decreased by 5.7% year on year to 49,459 million yen due to sluggish growth in orders for construction-related work and temporary work.

In terms of profit, although a review of terms and conditions for purchases and efforts for thorough working-time management were made, sluggish growth in net sales and an increase in personnel expenses, etc. due to the strengthening of the organizational system resulted in operating income decreasing by 11.3% year on year to 2,980 million yen, ordinary income decreasing by 13.2% year on year to 2,994 million yen, and profit attributable to owners of parent decreasing by 8.3% year on year to 1,980 million yen.

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

With regard to Building Management and Operation, the Group’s core business that focuses on building management and security services, sluggish growth in orders for construction-related work resulted in net sales for the segment for the first six months of the fiscal year ending March 31, 2021, decreasing by 6.3 % year on year to 34,503 million yen.

In terms of profit, despite efforts in cost reduction, sluggish growth in net sales and an increase in personnel expenses due to the strengthening of the system resulted in segment income decreasing by 5.1% year on year to 4,293 million yen.

#### Residential Management and Operation

With regard to Residential Management and Operation, which mainly consists of managing apartments and condominiums as well as public housing, the cancellation and postponement of orders for construction-related work resulted in net sales for the segment for the first six months of the fiscal year ending March 31, 2021, decreasing by 9.3% year on year to 7,791 million yen.

In terms of profit, despite the Group’s efforts in cost reduction, an increase in personnel expenses due to the strengthening of the system resulted in segment income decreasing by 11.0% year on year to 673 million yen.

#### Environmental Facility Management

With regard to Environmental Facility Management, which mainly consists of managing water treatment, sewage disposal, and other public facilities related to the overall living environment, steady contract renewals as well as an increase in orders for construction-related work, etc. resulted in net sales for the segment for the first six months of the fiscal year ending March 31, 2021, increasing by 5.7% year on year to 5,495 million yen.

In terms of profit, segment income increased by 11.3% year on year to 731 million yen as a result of an improved cost ratio through fee revisions as well as the Group’s efforts in cost reduction with a focus on appropriate personnel assignments.

#### Real Estate Fund Management

With regard to Real Estate Fund Management, which mainly consists of asset management (i.e., arrangement and asset management of real estate funds) and handling of investments in silent partnership, sales of assets under management, etc. resulted in net sales for the segment for the first six months of the fiscal year ending March 31, 2021, increasing by 55.2% year on year to 1,199 million yen.

In terms of profit, despite an increase in profit due to sales of assets under management, a decrease in rent income through master lease agreements in relation to hotels resulted in segment income decreasing by 61.2% year on year to 37 million yen.

## **Other Businesses**

For Other Businesses, which mainly consists of event planning and management, printing, and design, the cancellation of many events due to COVID-19 resulted in net sales for the segment for the first six months of the fiscal year ending March 31, 2021, decreasing by 49.3 % year on year to 657 million yen and segment income decreasing by 62.0 % year on year to 54 million yen.

## **(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, 2021, decreased by 1,148 million yen, or 1.5%, from the end of the previous fiscal year to 75,875 million yen, mainly due to a decrease in accounts receivable-trade from collection of trade receivables and a decrease resulting from the sales of real estate for sale.

Liabilities decreased by 2,058 million yen, or 8.6%, from the end of the previous fiscal year to 21,935 million yen due to payment of trade accounts payable.

Net assets increased by 909 million yen, or 1.7%, from the end of the previous fiscal year to 53,939 million yen due to an increase in retained earnings. The equity ratio increased by 2.3 percentage points from the end of the previous fiscal year to 69.5%.

### **(Cash Flows)**

Cash and cash equivalents (hereinafter “cash”) increased by 134 million yen from the end of the previous fiscal year to 28,477 million yen.

The status and main factors of cash flows for the first six months of the fiscal year ending March 31, 2021, 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, 2021, was 1,530 million yen, up 1,377 million yen year on year.

The major factors are a decrease in notes and accounts receivable-trade (up 1,830 million yen year on year), a decrease in inventories (up 708 million yen year on year) and a decrease in notes and accounts payable-trade that is smaller than the previous year (down 2,083 million yen year on year).

#### **[Cash flows from investing activities]**

Net cash used in investing activities for the first six months of the fiscal year ending March 31, 2021, was 136 million yen, a smaller outflow by 425 million yen year on year.

This is primarily due to an increase in proceeds from sales of investment securities (up 318 million yen year on year).

#### **[Cash flows from financing activities]**

Net cash provided by financing activities for the first six months of the fiscal year ending March 31, 2021, was 1,270 million yen, a larger outflow by 4,029 million yen year on year.

This is primarily due to a decrease in proceeds from disposal of treasury shares (down 3,996 million yen year on year) through exercise of share acquisition rights.

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

The Group remains cautious of the future business environment which continues to be unpredictable.

The Group's business performance has been generally in line with the forecasts announced on May 7, 2020, and there are no changes to the full-year business forecasts.

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

	(Millions of yen)	
	Fiscal year ended March 31, 2020 (As of March 31, 2020)	Second quarter ended September 30, 2020 (As of September 30, 2020)
<b>ASSETS</b>		
Current assets		
Cash and deposits	28,588	28,722
Notes and accounts receivable—trade	13,989	13,128
Investments in silent partnership for business purposes	81	80
Supplies	138	156
Real estate for sale	4,302	3,551
Income taxes receivable	57	65
Other	1,647	2,460
Allowance for doubtful accounts	(7)	(8)
<b>Total current assets</b>	<b>48,797</b>	<b>48,157</b>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,111	3,053
Machinery, equipment and vehicles, net	33	28
Tools, furniture and fixtures, net	483	526
Land	1,167	1,234
Lease assets, net	236	256
Construction in progress	222	222
<b>Total property, plant and equipment</b>	<b>5,254</b>	<b>5,321</b>
Intangible assets		
Telephone subscription right	46	46
Software	454	453
Goodwill	1,686	1,618
Lease assets	4	3
Software in progress	47	-
<b>Total intangible assets</b>	<b>2,239</b>	<b>2,122</b>
Investments and other assets		
Investment securities	14,633	14,068
Long-term loans receivable	577	577
Long-term prepaid expenses	66	50
Lease and guarantee deposits	3,697	3,768
Membership	391	391
Net defined benefit asset	518	552
Deferred tax assets	525	560
Other	381	361
Allowance for doubtful accounts	(59)	(58)
<b>Total investments and other assets</b>	<b>20,732</b>	<b>20,274</b>
<b>Total noncurrent assets</b>	<b>28,226</b>	<b>27,717</b>
<b>TOTAL ASSETS</b>	<b>77,024</b>	<b>75,875</b>

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

	(Millions of yen)	
	Fiscal year ended March 31, 2020 (As of March 31, 2020)	Second quarter ended September 30, 2020 (As of September 30, 2020)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable—trade	8,587	6,546
Current portion of long-term loans payable	375	375
Current portion of long-term non-recourse loans payable	25	25
Lease obligations	87	89
Accrued expenses	2,215	2,428
Income taxes payable	1,070	1,101
Accrued consumption taxes	1,273	1,042
Deposits received	282	295
Advances received	337	512
Provision for bonuses	714	713
Asset retirement obligations	1	-
Other	49	48
<b>Total current liabilities</b>	<b>15,019</b>	<b>13,179</b>
Noncurrent liabilities		
Long-term loans payable	1,125	937
Long-term non-recourse loans payable	2,953	2,941
Lease obligations	195	207
Deferred tax liabilities	266	264
Net defined benefit liability	548	196
Long-term guarantee deposited	2,598	2,677
Asset retirement obligations	253	252
Liabilities from application of equity method	40	90
Other	992	1,189
<b>Total noncurrent liabilities</b>	<b>8,974</b>	<b>8,756</b>
<b>TOTAL LIABILITIES</b>	<b>23,994</b>	<b>21,935</b>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,000	3,000
Capital surplus	3,785	3,785
Retained earnings	47,833	48,878
Treasury shares	(2,773)	(2,773)
<b>Total shareholders' equity</b>	<b>51,845</b>	<b>52,891</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,621	1,635
Foreign currency translation adjustment	(1,227)	(1,389)
Remeasurements of defined benefit plans	(460)	(418)
<b>Total accumulated other comprehensive income</b>	<b>(65)</b>	<b>(171)</b>
Non-controlling interests	1,249	1,220
<b>TOTAL NET ASSETS</b>	<b>53,029</b>	<b>53,939</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>77,024</b>	<b>75,875</b>

\*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**

	(Millions of yen)	
	Six months ended September 30, 2019 (April 1, 2019, to September 30, 2019)	Six months ended September 30, 2020 (April 1, 2020, to September 30, 2020)
Net sales	52,446	49,459
Cost of sales	41,977	39,176
Gross profit	10,468	10,283
Selling, general and administrative expenses		
Selling expenses	378	337
Personnel expenses	3,743	3,944
Provision for bonuses	320	352
Retirement benefit expenses	125	144
Transportation and communication expenses	544	441
Supplies expenses	213	246
Rent expenses	498	516
Insurance expenses	242	241
Depreciation	186	197
Taxes and dues	75	77
Enterprise tax	151	163
Provision of allowance for doubtful accounts	3	2
Amortization of goodwill	67	67
Other	555	568
Total selling, general and administrative expenses	7,107	7,302
Operating income	3,360	2,980
Non-operating income		
Interest and dividends income	104	87
Rent income	27	27
Share of profit of entities accounted for using equity method	11	-
Foreign exchange gains	-	16
Other	52	41
Total non-operating income	195	173
Non-operating expenses		
Interest expenses	13	13
Rent expenses	26	26
Share of loss of entities accounted for using equity method	-	63
Loss on sales and retirement of non-current assets	3	29
Foreign exchange losses	37	-
Other	24	26
Total non-operating expenses	105	159
Ordinary income	3,450	2,994
Extraordinary income		
Gain on sales of investment securities	-	217
Total extraordinary income	-	217
Quarterly profit before income taxes	3,450	3,212
Income taxes—current	1,121	1,243
Income taxes—deferred	102	(64)
Total income taxes	1,224	1,179
Quarterly profit	2,226	2,032
Profit attributable to non-controlling interests	66	52
Profit attributable to owners of parent	2,160	1,980

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



**Quarterly consolidated statements of comprehensive income**

	(Millions of yen)	
	Six months ended September 30, 2019 (April 1, 2019, to September 30, 2019)	Six months ended September 30, 2020 (April 1, 2020, to September 30, 2020)
Quarterly profit	2,226	2,032
Other comprehensive income		
Valuation difference on available-for-sale securities	(141)	22
Foreign currency translation adjustment	(1)	1
Remeasurements of defined benefit plans, net of tax	27	42
Share of other comprehensive income of entities accounted for using equity method	(164)	(164)
Total other comprehensive income	(279)	(97)
Quarterly comprehensive income	1,946	1,935
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,879	1,873
Comprehensive income attributable to non-controlling interests	66	61

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

**(3) Quarterly consolidated statements of cash flows**

(Millions of yen)

	Six months ended September 30, 2019 (April 1, 2019, to September 30, 2019)	Six months ended September 30, 2020 (April 1, 2020, to September 30, 2020)
<b>Cash flows from operating activities</b>		
Quarterly income before income taxes and minority interests	3,450	3,212
Depreciation and amortization	286	291
Amortization of goodwill	67	67
Increase (decrease) in provision for bonuses	(45)	(1)
Increase (decrease) in defined benefit liability	(808)	(324)
Increase (decrease) in allowance for doubtful accounts	3	(0)
Shares of (profit) loss of entities accounted for using equity method	(11)	63
Interest and dividends income	(104)	(87)
Interest expenses	13	13
Loss (gain) on foreign exchange	33	(4)
Loss (gain) on sales and retirement of non-current assets	3	26
Loss (gain) on sales of investment securities	-	(217)
Decrease (increase) in notes and accounts receivable—trade	(790)	1,039
Decrease (increase) in inventories	25	733
Decrease (increase) in other assets	177	252
Increase (decrease) in notes and accounts payable—trade	(482)	(2,566)
Increase (decrease) in accrued consumption taxes	(99)	(247)
Increase (decrease) in other liabilities	189	556
Other, net	(0)	(6)
<b>Subtotal</b>	<b>1,909</b>	<b>2,801</b>
Interest and dividends income received	211	116
Interest expenses paid	(13)	(13)
Income taxes paid	(1,954)	(1,374)
<b>Net cash provided by operating activities</b>	<b>152</b>	<b>1,530</b>

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

(Millions of yen)

	Six months ended September 30, 2019 (April 1, 2019, to September 30, 2019)	Six months ended September 30, 2020 (April 1, 2020, to September 30, 2020)
Cash flows from investing activities		
Payments into time deposits	(130)	(130)
Proceeds from withdrawal of time deposits	130	130
Purchase of property, plant and equipment and intangible assets	(243)	(270)
Proceeds from sales of property, plant and equipment and intangible assets	0	16
Purchase of investment securities	(273)	(226)
Proceeds from sales of investment securities	-	318
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(22)	-
Payments of loans receivable	(102)	(33)
Collection of loans receivable	16	31
Payments for lease and guarantee deposits	(113)	(157)
Proceeds from collection of lease and guarantee deposits	299	106
Proceeds from guarantee deposits received	51	138
Repayments of guarantee deposits received	(212)	(60)
Other, net	39	(0)
Net cash used in investing activities	(561)	(136)
Cash flows from financing activities		
Increase in short-term loans payable	1,400	1,400
Decrease in short-term loans payable	(1,400)	(1,400)
Repayment of long-term loans payable	(187)	(187)
Repayment of long-term non-recourse loans payable	(12)	(12)
Repayments of lease obligations	(23)	(51)
Proceeds from disposal of treasury shares through exercise of share acquisition rights	3,996	-
Cash dividends paid	(889)	(933)
Dividends paid to non-controlling interests	(124)	(84)
Net cash used in financing activities	2,758	(1,270)
Effect of exchange rate change on cash and cash equivalents	(30)	10
Net increase (decrease) in cash and cash equivalents	2,319	134
Cash and cash equivalents at beginning of period	25,572	28,343
Cash and cash equivalents at end of period	27,891	28,477

\*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, 2019 (April 1, 2019, to September 30, 2019)

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

(Millions of yen)

	Reportable segment						Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation	Residential Management and Operation	Environmental Facility Management	Real Estate Fund Management	Other Businesses	Total		
Net sales								
Net sales to external customers	36,830	8,593	5,196	772	1,052	52,446	—	52,446
Inter-segment net sales and transfer	—	—	—	—	243	243	(243)	—
Total	36,830	8,593	5,196	772	1,295	52,689	(243)	52,446
Segment income	4,523	756	656	97	144	6,178	(2,817)	3,360

(Notes) 1. Adjustments of -2,817 million yen for segment income are elimination of inter-segment transactions and 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, 2020 (April 1, 2020, to September 30, 2020)

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

(Millions of yen)

	Reportable segment						Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation	Residential Management and Operation	Environmental Facility Management	Real Estate Fund Management	Other Businesses	Total		
Net sales								
Net sales to external customers	34,503	7,791	5,495	1,199	469	49,459	—	49,459
Inter-segment net sales and transfer	—	—	—	—	188	188	(188)	—
Total	34,503	7,791	5,495	1,199	657	49,647	(188)	49,459
Segment income	4,293	673	731	37	54	5,790	(2,810)	2,980

(Notes) 1. Adjustments of -2,810 million yen for segment income are elimination of inter-segment transactions and unallocated general administrative expenses.

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