

Summary of Consolidated Financial Results [IFRS] for the First Quarter Ended June 30, 2019

July 29, 2019

Listed Company: **Hitachi Transport System, Ltd.** Stock Exchange: First Section of Tokyo
 Code Number: 9086 URL: <http://www.hitachi-transportssystem.com/en/>
 Representative: Yasuo Nakatani, President and Chief Executive Officer
 Person in Charge: Isao Takaoka, General Manager of Public Relations Department, Corporate Strategy Office
 Date of the Release of Quarterly Report (Schedule): August 14, 2019
 Date of the Start of Dividend Payment (Schedule): —
 Creates Supplementary Materials for Quarterly Summaries: Yes
 Briefing Held on Quarterly Settlement of Accounts: Yes (for analysts and institutional investors)

(Figures are rounded off to the nearest million yen)

1. Consolidated Financial Highlights for the First Quarter Ended June 30, 2019 (April 1, 2019 to June 30, 2019)

(1) Consolidated Financial Results (Cumulative) (% indicates the percentage change over year)

	Revenues		Adjusted operating income ^{*1}		EBIT ^{*2}		Income before income taxes		Net income		Net income attributable to stockholders of the parent company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2019	169,746	(2.9)	7,941	7.0	9,495	17.6	7,928	0.7	4,840	(9.4)	4,769	(5.6)
June 30, 2018	174,772	3.5	7,422	13.1	8,074	1.8	7,876	2.2	5,343	3.1	5,050	5.6

	Basic earnings per share attributable to stockholders of the parent company
June 30, 2019	Yen 42.75
June 30, 2018	45.27

*1. [Adjusted operating income] = [Revenues] - [Cost of sales] - [Selling, general and administrative expenses]

*2. EBIT (Earnings Before Interest and Taxes) = [Income before income taxes] - [Interest income] + [Interest expenses]

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to stockholders of the parent company	Total equity attributable to stockholders of the parent company ratio
	Million yen	Million yen	Million yen	%
June 30, 2019	879,525	229,418	223,081	25.4
March 31, 2019	612,535	228,949	222,346	36.3

2. Dividends

	Dividend per share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-End	Total
	Yen	Yen	Yen	Yen	Yen
March 31, 2019	—	19.00	—	21.00	40.00
March 31, 2020	—	—	—	—	—
March 31, 2020 (Forecasts)	—	21.00	—	22.00	43.00

(Note) Revision of the latest dividends forecasts: None

3. Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(% indicates the percentage change over year)

	Revenues		Adjusted operating income		EBIT		Income before income taxes		Net income		Net income attributable to stockholders of the parent company		Basic earnings per share attributable to stockholders of the parent company
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Half year	346,500	(1.7)	14,600	(1.7)	15,800	6.6	15,300	6.1	10,200	17.1	9,600	15.3	86.06
Full year	700,000	(1.2)	31,500	1.0	35,200	(2.7)	34,200	(3.0)	23,300	(3.0)	22,000	(3.4)	197.22

(Note) Revision of the latest consolidated financial forecasts: None

*** Notes**

(1) Changes in significant subsidiaries during the term (Change in specified subsidiaries causing changes in scope of consolidation):
None

(2) Changes in accounting policies and accounting estimates

(a) Changes in accounting policies required by IFRS: Yes

(b) Changes other than (a) above: None

(c) Changes in accounting estimates: None

(Note) For details, please refer to "2. Summary of Condensed Quarterly Consolidated Financial Statements and Major Notes (5) Summary of Notes to the Quarterly Consolidated Financial Statements (Changes in Accounting Policies)" on Page 10.

(3) Number of Shares Issued (Common Stock)

(a) Number of shares at the end of the term (Including treasury stock)

As of June 30, 2019: 111,776,714 shares,

As of March 31, 2019: 111,776,714 shares

(b) Number of treasury stock at the end of the term

As of June 30, 2019: 227,349 shares,

As of March 31, 2019: 227,265 shares

(c) Average number of shares during the term

Three months ended June 30, 2019: 111,549,414 shares,

Three months ended June 30, 2018: 111,549,753 shares

(Note) Quarterly financial results are outside the scope of quarterly review by certified public accountants or an audit corporation.

(Note) Explanation on the appropriate use of financial forecasts and other important items

- The financial forecasts shown on this report are estimated based on information available as of the issuing date of this report, and therefore the actual results for the future terms may differ from these forecasted figures due to various unknown factors. For the assumptions for forecasts and cautions regarding the use of the forecasts, please refer to "1. Qualitative Information on Quarterly Financial Results for the Period under Review, (3) Explanation of Future Forecast Information including Consolidated Financial Forecasts" on Page 3.
- The Company plans to post supplementary materials on quarterly financial results on the Company's website promptly after the announcement of the quarterly financial results.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

For the first quarter ended June 30, 2019, consolidated financial results of the Hitachi Transport System Group (the “Group”) are as follows:

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2019	Y on Y change
Revenues	174,772	169,746	97%
Adjusted operating income	7,422	7,941	107%
EBIT	8,074	9,495	118%
Net income attributable to stockholders of the parent company	5,050	4,769	94%

Revenues decreased by 3% year-on-year to ¥169,746 million. Adjusted operating income and EBIT increased by 7% and 18% year-on-year to ¥7,941 million and ¥9,495 million, respectively. Net income attributable to stockholders of the parent company decreased by 6% year-on-year to ¥4,769 million.

Results by business segment during the period under review are as follows:

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2019	Y on Y change
Revenues	105,129	107,275	102%
Segment profit (Adjusted operating income)	5,363	5,707	106%

Revenues of domestic logistics business increased 2% year-on-year to ¥107,275 million due to contribution of new projects (semiconductor manufacturing equipment-related, etc.) despite a decrease in handling volume in automobile-related business.

Segment profit increased 6% year-on-year to ¥5,707 million due to improved productivity and the adoption of IFRS 16 “Leases” despite decreased sales of automobile-related business and an impact of strategic investment.

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2019	Y on Y change
Revenues	64,807	58,377	90%
Segment profit (Adjusted operating income)	1,813	1,809	100%

Revenues of global logistics business decreased 10% year-on-year to ¥58,377 million due to effects of exclusion of Nisshin Transportation Co., Ltd. from the scope of consolidation and foreign exchange rates.

Segment profit remained flat year-on-year and was ¥1,809 million despite a decrease in revenues.

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2019	Y on Y change
Revenues	4,836	4,094	85%
Segment profit (Adjusted operating income)	246	425	173%

Revenues of other services decreased by 15% year-on-year to ¥4,094 million due to a decrease in revenues from vehicle and equipment sales and leasing business.

Segment profit increased by 73% year-on-year to ¥425 million due to an increase in profit from information system development business.

(2) Explanation of Financial Position

1) Assets, Liabilities and Net Assets

Total assets as of June 30, 2019 amounted to ¥879,525 million, an increase of ¥266,990 million compared with the end of the previous fiscal year. Current assets decreased by ¥3,687 million due to a decrease of ¥8,724 million in trade receivables and contract assets despite an increase of ¥4,050 million in assets held for sale. Non-current assets increased by ¥270,677 million due to an increase of ¥304,433 million in right-of-use assets despite a decrease of ¥34,705 million in property, plant and equipment.

Total liabilities as of June 30, 2019 amounted to ¥650,107 million, an increase of ¥266,521 million compared with the end of the previous fiscal year. Current liabilities increased by ¥31,508 million due to increases of ¥31,436 million in lease liabilities, ¥12,366 million in other financial liabilities, and ¥6,196 million in liabilities directly associated with assets held for sale, despite a decrease of ¥8,539 million in trade payables. Non-current liabilities increased by ¥235,013 million due to an increase of ¥278,190 million in lease liabilities, despite decreases of ¥30,482 million in long-term debt and ¥11,226 million in other financial liabilities.

Total equity as of June 30, 2019 amounted to ¥229,418 million, an increase of ¥469 million compared with the end of the previous fiscal year. Total equity attributable to stockholders of the parent company ratio decreased from 36.3% at the end of the previous fiscal year to 25.4%.

2) Cash flows

Cash and cash equivalents (herein called “cash”) as of June 30, 2019 was ¥111,222 million, an increase of ¥2,810 million from March 31, 2019.

Cash flows from each activity for the three months ended June 30, 2019 and their significant components are as follows:

Net cash provided by operating activities was ¥15,626 million, an increase of ¥8,736 million compared with the three months ended June 30, 2018. This is mainly due to an increase in cash from depreciation and amortization of ¥12,877 million and decrease in trade receivables and contract assets of ¥9,681 million, partly offset by a decrease in cash from decrease in trade payables of ¥8,539 million.

Net cash provided by investing activities was ¥140 million, an increase of ¥3,403 million compared with the three months ended June 30, 2018. This is mainly due to an increase in cash from proceeds from sale of property, plant and equipment and intangible assets of ¥3,184 million, partly offset by a decrease in cash from purchase of property, plant and equipment and intangible assets of ¥2,884 million.

Net cash used in financing activities was ¥12,776 million, an increase of ¥8,327 million compared with the three months ended June 30, 2018. This is mainly due to a decrease in cash from repayments of lease liabilities of ¥9,393 million and dividends paid to stockholders of the parent company of ¥2,343 million.

Effective April 1, 2019, the Group adopted IFRS 16 “Leases” (see page 10 for details).

(3) Explanation of Future Forecast Information including Consolidated Financial Forecasts

While the global economy shows a moderate growth trend, attention must still be paid to the impact of protectionism and trade friction as well as geopolitical risks and the impact of natural disasters, etc. In Japan, especially in the logistics industry, the business environment is becoming severe due to intensifying competitions across industries caused by labor shortage and expansion of EC market.

Against such a backdrop, under the business concept of “LOGISTEED,” the Group will strive to strengthen our core logistics function through collaborative innovation with various partners and also execute collaborative innovation strategies leading to further expansion of our domains.

No revision is made to the consolidated financial forecasts, released on April 26, 2019.

<p>*[LOGISTEED]: A word that combines LOGISTICS with Exceed, Proceed, Succeed, and Speed. It represents our determination to lead businesses to a new domain beyond the conventional logistics.</p>

2. Summary of Condensed Quarterly Consolidated Financial Statements and Major Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Million yen)

	As of March 31, 2019	As of June 30, 2019
(Assets)		
Current assets		
Cash and cash equivalents	108,412	111,172
Trade receivables and contract assets	132,544	123,820
Inventories	1,145	1,277
Other financial assets	4,597	4,261
Other current assets	10,408	8,839
Subtotal	257,106	249,369
Assets held for sale	1,557	5,607
Total current assets	258,663	254,976
Non-current assets		
Investments accounted for using the equity method	84,009	82,637
Property, plant and equipment	182,400	147,695
Right-of-use assets	—	304,433
Goodwill	26,212	25,991
Intangible assets	28,556	28,169
Deferred tax assets	8,083	7,643
Other financial assets	18,241	21,799
Other non-current assets	6,371	6,182
Total non-current assets	353,872	624,549
Total assets	612,535	879,525

(Million yen)

	As of March 31, 2019	As of June 30, 2019
(Liabilities)		
Current liabilities		
Trade payables	54,253	45,714
Short-term debt	5,850	5,271
Current portion of long-term debt	5,662	638
Lease liabilities	—	31,436
Income tax payable	3,362	1,902
Other financial liabilities	24,886	37,252
Other current liabilities	28,481	25,593
Subtotal	122,494	147,806
Liabilities directly associated with assets held for sale	—	6,196
Total current liabilities	122,494	154,002
Non-current liabilities		
Long-term debt	191,198	160,716
Lease liabilities	—	278,190
Retirement and severance benefits	32,083	31,654
Deferred tax liabilities	10,712	10,750
Other financial liabilities	22,958	11,732
Other non-current liabilities	4,141	3,063
Total non-current liabilities	261,092	496,105
Total liabilities	383,586	650,107
(Equity)		
Equity attributable to stockholders of the parent company		
Common stock	16,803	16,803
Retained earnings	206,245	208,987
Accumulated other comprehensive income	(520)	(2,527)
Treasury stock, at cost	(182)	(182)
Total equity attributable to stockholders of the parent company	222,346	223,081
Non-controlling interests	6,603	6,337
Total equity	228,949	229,418
Total liabilities and equity	612,535	879,525

(2) Condensed Quarterly Consolidated Statement of Profit or Loss and Comprehensive Income
Condensed Quarterly Consolidated Statement of Profit or Loss

(Million yen)

	Three Months Ended June 30, 2018 (April 1, 2018 to June 30, 2018)	Three Months Ended June 30, 2019 (April 1, 2019 to June 30, 2019)
Revenues	174,772	169,746
Cost of sales	(154,728)	(149,194)
Gross profit	20,044	20,552
Selling, general and administrative expenses	(12,622)	(12,611)
Adjusted operating income	7,422	7,941
Other income	194	1,468
Other expenses	(342)	(583)
Operating income	7,274	8,826
Financial income	52	55
Financial expenses	(509)	(598)
Share of profits of investments accounted for using the equity method	1,257	1,212
Earnings before interest and taxes	8,074	9,495
Interest income	261	315
Interest expenses	(459)	(1,882)
Income before income taxes	7,876	7,928
Income taxes	(2,533)	(3,088)
Net income	5,343	4,840
Attributable to:		
Stockholders of the parent company	5,050	4,769
Non-controlling interests	293	71

	Three Months Ended June 30, 2018 (April 1, 2018 to June 30, 2018)	Three Months Ended June 30, 2019 (April 1, 2019 to June 30, 2019)
Earnings per share attributable to stockholders of the parent company		
Basic	¥45.27	¥42.75
Diluted	—	—

Condensed Quarterly Consolidated Statement of Comprehensive Income

(Million yen)

	Three Months Ended June 30, 2018 (April 1, 2018 to June 30, 2018)	Three Months Ended June 30, 2019 (April 1, 2019 to June 30, 2019)
Net income	5,343	4,840
Other comprehensive income (OCI)		
Items not to be reclassified into net income		
Net changes in financial assets measured at fair value through OCI	223	(34)
Share of OCI of investments accounted for using the equity method	3	(97)
Total items not to be reclassified into net income	226	(131)
Items that can be reclassified into net income		
Foreign currency translation adjustments	(539)	(1,983)
Net changes in cash flow hedges	1	1
Share of OCI of investments accounted for using the equity method	(10)	13
Total items that can be reclassified into net income	(548)	(1,969)
Other comprehensive income	(322)	(2,100)
Comprehensive income	5,021	2,740
Attributable to:		
Stockholders of the parent company	4,843	2,855
Non-controlling interests	178	(115)

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

(Million yen)

Three Months Ended June 30, 2018 (April 1, 2018 to June 30, 2018)							
	Common stock	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total equity attributable to stockholders of the parent company	Non-controlling interests	Total equity
Cumulative effects of changes in accounting policies	—	25	—	—	25	—	25
Restated balance	16,803	186,398	1,333	(181)	204,353	3,963	208,316
Changes in equity							
Net income	—	5,050	—	—	5,050	293	5,343
Other comprehensive income	—	—	(207)	—	(207)	(115)	(322)
Dividends	—	(2,008)	—	—	(2,008)	(125)	(2,133)
Acquisition and sales of treasury stock	—	—	—	(0)	(0)	—	(0)
Changes in liabilities for written put options over non-controlling interests	—	565	(55)	—	510	(83)	427
Total changes in equity	—	3,607	(262)	(0)	3,345	(30)	3,315
Balance at end of period	16,803	190,005	1,071	(181)	207,698	3,933	211,631

(Million yen)

Three Months Ended June 30, 2019 (April 1, 2019 to June 30, 2019)							
	Common stock	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total equity attributable to stockholders of the parent company	Non-controlling interests	Total equity
Changes in equity							
Net income	—	4,769	—	—	4,769	71	4,840
Other comprehensive income	—	—	(1,914)	—	(1,914)	(186)	(2,100)
Transactions with non-controlling interests	—	(6)	(1)	—	(7)	(19)	(26)
Dividends	—	(2,343)	—	—	(2,343)	(117)	(2,460)
Acquisition and sales of treasury stock	—	—	—	(0)	(0)	—	(0)
Changes in liabilities for written put options over non-controlling interests	—	322	(92)	—	230	(15)	215
Total changes in equity	—	2,742	(2,007)	(0)	735	(266)	469
Balance at end of period	16,803	208,987	(2,527)	(182)	223,081	6,337	229,418

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Million yen)

	Three Months Ended June 30, 2018 (April 1, 2018 to June 30, 2018)	Three Months Ended June 30, 2019 (April 1, 2019 to June 30, 2019)
Cash flows from operating activities		
Net income	5,343	4,840
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,730	12,877
Impairment losses	—	162
Share of profits of investments accounted for using the equity method	(1,257)	(1,212)
Income taxes	2,533	3,088
Increase in retirement and severance benefits	240	(429)
Interest and dividends income	(312)	(368)
Interest expenses	459	1,882
Gain on sale of property, plant and equipment	(29)	(1,215)
Decrease in trade receivables and contract assets	2,830	9,681
(Increase) decrease in inventories	425	(127)
Decrease in trade payables	(3,087)	(8,539)
Decrease in other assets and liabilities	(2,550)	(1,503)
Other	124	(80)
Subtotal	9,449	19,057
Interest and dividends received	2,765	2,898
Interest paid	(397)	(1,792)
Income taxes paid	(4,927)	(4,537)
Net cash provided by operating activities	6,890	15,626
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(3,564)	(2,884)
Proceeds from sale of property, plant and equipment and intangible assets	123	3,184
Other	178	(160)
Net cash provided by (used in) investing activities	(3,263)	140
Cash flows from financing activities		
Increase (decrease) in short-term debt, net	318	(491)
Repayments on long-term debt	(303)	(203)
Repayments of lease liabilities	(1,080)	(9,393)
Dividends paid to stockholders of the parent company	(2,008)	(2,343)
Dividends paid to non-controlling interests	(125)	(117)
Purchase of shares of consolidated subsidiaries from non-controlling interests	(1,099)	(30)
Other	(152)	(199)
Net cash used in financing activities	(4,449)	(12,776)
Effect of exchange rate changes on cash and cash equivalents	(104)	(180)
Net increase (decrease) in cash and cash equivalents	(926)	2,810
Cash and cash equivalents at beginning of period	63,497	108,412
Cash and cash equivalents at end of period	62,571	111,222

(5) Summary of Notes to the Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

None

(Changes in Accounting Policies)

Effective April 1, 2019, the Group adopted the following standard in accordance with the transition method and reviewed part of the accounting treatments.

Standard	Name	Outline of new or revised standard
IFRS 16	Leases	Revision of definition of lease and lessees' accounting treatment

In accordance with the transition method, the Group did not adopt IFRS 16 “Leases” retrospectively to its consolidated financial statements for fiscal year ended March 31, 2019. In adopting the new standard, the Group applied the practical expedients that do not require entities to reassess whether existing contracts are a lease or contain a lease at the date of initial adoption. Lessees adopted IFRS 16.C5(b), under which comparative figures are not restated and the cumulative effect of initially adopting the standard is recognized on the date of the initial adoption (April 1, 2019). The weighted average incremental borrowing rate of the Group used to measure lease liabilities at the date of initial adoption is 1.9%. The table below shows a reconciliation of non-cancellable operating lease contracts accounted for under IAS 17 as of March 31, 2019 to lease liabilities recognized on the condensed quarterly consolidated statement of financial position at the date of initial application.

	(Million yen)
Non-cancellable operating lease contracts (as of March 31, 2019)	97,068
Finance lease obligations (as of March 31, 2019)	35,270
Review of estimates for option to extend the lease	184,156
Lease liabilities (as of April 1, 2019)	316,494

As a result of the adoption of IFRS 16, the Group recognized right-of-use assets of ¥277,222 million and lease liabilities of ¥281,224 million at the date of initial adoption.

The Group adopted IFRS 16 to leases classified as operating lease under IAS 17 using the following practical expedients:

- apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- rely on an assessment of leases as to whether they are onerous contracts under IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” immediately before the date of initial adoption as an alternative to performing an impairment review; and
- exclude initial direct costs from the measurement of the right-of-use assets at the date of initial adoption.

As a result of the adoption of the standard, on the condensed quarterly consolidated statement of financial position, finance lease assets, which were previously included in property, plant and equipment, are now separately reported as “right-of-use assets,” and lease obligations, which were included in “current portion of long-term debt” and “long-term debt,” are now separately reported as “lease liabilities.” On the condensed quarterly consolidated statement of cash flows, lease payments of operating lease were previously included in cash flows from operating activities, but as a result of the adoption of the standard, adjustments mainly related to depreciation of right-of-use assets are now included in cash flows from operating activities and payments of lease liabilities are now included in cash flows from financing activities, and accordingly, cash flows from operating activities increased and cash flows from financing activities decreased, compared to those under the previous accounting standard.

(Segment Information)

Three Months Ended June 30, 2018 (April 1, 2018 to June 30, 2018)

(Million yen)

	Reporting segment			Other services ¹	Total	Adjustments and eliminations ²	Amount recorded in consolidated financial statements
	Domestic logistics	Global logistics	Subtotal				
Revenues							
Revenues from outside customers	105,129	64,807	169,936	4,836	174,772	—	174,772
Revenues from intersegment transactions or transfers	—	—	—	2,588	2,588	(2,588)	—
Total	105,129	64,807	169,936	7,424	177,360	(2,588)	174,772
Segment profit	5,363	1,813	7,176	246	7,422	—	7,422
Other income							194
Other expenses							(342)
Financial income							52
Financial expenses							(509)
Share of profits of investments accounted for using the equity method							1,257
Interest income							261
Interest expenses							(459)
Income before income taxes							7,876

Note: 1. "Other services" includes information system development, service, sale and maintenance of motor vehicles, and travel agency service, which are excluded from the reporting segments.

2. Company-wide expenses which do not belong to any business segment such as corporate general administration expenses incurred in the parent company are allocated to each business segment in accordance with a rational basis.

Three Months Ended June 30, 2019 (April 1, 2019 to June 30, 2019)

(Million yen)

	Reporting segment			Other services ¹	Total	Adjustments and eliminations ²	Amount recorded in consolidated financial statements
	Domestic logistics	Global logistics	Subtotal				
Revenues							
Revenues from outside customers	107,275	58,377	165,652	4,094	169,746	—	169,746
Revenues from intersegment transactions or transfers	—	—	—	3,645	3,645	(3,645)	—
Total	107,275	58,377	165,652	7,739	173,391	(3,645)	169,746
Segment profit	5,707	1,809	7,516	425	7,941	—	7,941
Other income							1,468
Other expenses							(583)
Financial income							55
Financial expenses							(598)
Share of profits of investments accounted for using the equity method							1,212
Interest income							315
Interest expenses							(1,882)
Income before income taxes							7,928

Note: 1. "Other services" includes information system development, service, sale and maintenance of motor vehicles, and travel agency service, which are excluded from the reporting segments.

2. Company-wide expenses which do not belong to any business segment such as corporate general administration expenses incurred in the parent company are allocated to each business segment in accordance with a rational basis.