

Summary of Consolidated Financial Results [IFRS] for the First Quarter Ended June 30, 2016

July 28, 2016

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 10, 2016
 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, 2016 (April 1, 2016 to June 30, 2016)

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

	Revenues		Adjusted operating income		Income before income taxes		Net income		Net income attributable to stockholders of the parent company		Comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2016	160,500	(5.4)	6,723	9.2	6,269	7.1	3,757	15.4	3,287	14.0	(3,528)	—
June 30, 2015	169,683	4.9	6,156	64.9	5,854	32.6	3,255	60.9	2,884	89.6	5,633	428.9

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
June 30, 2016	29.47	—
June 30, 2015	25.85	—

【Important】 “Adjusted operating income” is presented as revenues less cost of sales and selling, general and administrative expenses.
 “Basic earnings per share” and “Diluted earnings per share” are calculated based on “Net income attributable to equity holders the parent”.

(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, 2016	514,987	<u>175,584</u>	<u>172,917</u>	<u>33.6</u>
March 31, 2016	464,399	<u>178,552</u>	<u>175,543</u>	<u>37.8</u>

2. Dividends

	Dividend per share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-End	Total
March 31, 2016	—	15.00	—	15.00	30.00
March 31, 2017	—	—	—	—	—
March 31, 2017 (Forecasts)	—	17.00	—	17.00	34.00

(Note) Revision of the latest dividends forecasts: None

3. Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2017 (April 1, 2016 to March 31, 2017)

(% indicates the percentage change over year)

	Revenues		Adjusted operating income		Income before income taxes		Net income		Net income attributable to stockholders of the parent company		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Half year	330,000	(3.1)	13,000	(0.1)	12,000	6.1	6,900	6.4	6,200	6.1	55.58
Full year	685,000	0.7	28,000	(1.1)	29,500	9.6	20,200	30.3	18,500	32.0	165.84

(Note) Revision of the latest consolidated financial forecasts: Yes

【Important】 “Adjusted operating income” is presented as revenues less cost of sales and selling, general and administrative expenses.

*** 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, accounting estimates and retrospective restatements
- (a) Changes in accounting policies required by IFRS: None
 - (b) Changes other than (a) above: None
 - (c) Changes in accounting estimates: None
- (3) Number of Shares Issued (Common Stock)
- (a) Number of shares at the end of the term (Including treasury stock)
 - As of June 30, 2016: 111,776,714 shares,
 - As of March 31, 2016: 111,776,714 shares
 - (b) Number of treasury stock at the end of the term
 - As of June 30, 2016: 226,406 shares,
 - As of March 31, 2016: 226,306 shares
 - (c) Average number of shares during the term
 - Year ended June 30, 2016: 111,550,338 shares,
 - Year ended June 30, 2015: 111,550,651 shares

(Note) Information regarding the implementation of quarterly review procedures

These quarterly financial results are not subject to quarterly review procedures. Thus, at the time of disclosure of these financial results, the quarterly financial statement review procedures based on the Financial Instruments and Exchange Law, have not been completed.

(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.
- A conference call for analysts and institutional investors are scheduled to be held on July 28, 2016.

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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, 2016, consolidated financial results of the Hitachi Transport System Group (the “Group”) are as follows.

(Million yen)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2016	Y on Y change
Revenues	169,683	160,500	95%
Adjusted operating income	6,156	6,723	109%
Earnings before interest and tax (EBIT)	6,046	6,508	108%
Net income attributable to stockholders of the parent company	2,884	3,287	114%

Revenues decreased by 5% year-on-year to ¥160,500 million, and adjusted operating income, earnings before interest and tax (EBIT), and net income attributable to stockholders of the parent company increased by 9%, 8%, and 14% year-on-year, to ¥6,723 million, ¥6,508 million, and ¥3,287 million respectively.

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

【Domestic logistics business】

(Million yen)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2016	Y on Y change
Revenues	99,146	99,796	101%
Segment profit (Adjusted operating income)*	4,727	5,020	106%

Revenues of domestic logistics business increased by 1% year-on-year to ¥99,796 million due to phased commencement of new food service-related operations and full-scale operations of new project launched in the previous fiscal year (cosmetics, sporting goods, retail products and food, etc.) despite a decrease in the handling volume caused by changes in the external environment such as a backlash drop from a temporary volume increase in the three months ended June 30, 2015.

Segment profit increased by 6% year-on-year to ¥5,020 million due to the effect of revenues increase and improvement in operating efficiency, productivity and profitability.

【Global logistics business】

(Million yen)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2016	Y on Y change
Revenues	65,468	56,110	86%
Segment profit (Adjusted operating income)*	1,130	1,552	137%

Revenues of global logistics business decreased due to factors including a backlash drop from a temporary volume increase in Asia and a decrease in the handling volume affected by the Chinese economy, as well as a huge impact of foreign exchange rates. In addition, the handling volume in forwarding business between Japan and other countries decreased, and accordingly, segment revenue decreased by 14% year-on-year to ¥56,110 million.

Segment profit increased by 37% year-on-year to ¥1,552 million due to the profitability improvement of overseas 3PL business and intermodal business, as well as the effect of structural reform in forwarding business between Japan and other countries.

【Other services (logistics related businesses)】

(Million yen)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2016	Y on Y change
Revenues	5,069	4,594	91%
Segment profit (Adjusted operating income)* ¹	299	151	51%

Revenues of other services decreased by 9% year-on-year to ¥4,594 million due to automobile maintenance business and information system development business fell below the results for the previous fiscal year.

Segment profit decreased by 49% year-on-year to ¥151 million due to decreased revenue and partial outsourcing of facility management operations, etc.

* From the three months ended June 30, 2016, segment profit represents “Adjusted operating income” instead of “Operating income.”

The segment information for the three months ended June 30, 2015 reflects this alternation. (Please refer to Page 13 for the details.)

(2) Explanation of Financial Position

1) Assets, Liabilities and Net Assets

Total assets as of June 30, 2016 amounted to ¥514,987 million, an increase of ¥50,588 million compared with the end of the previous fiscal year. Current assets decreased by ¥12,175 million due to a decrease of ¥5,228 million in trade receivables, ¥4,929 million in other financial assets and ¥2,582 million in cash and cash equivalents despite an increase of ¥517 million in other current assets. Non-current assets increased by ¥62,763 million because of an increase of ¥67,032 million in investments accounted for using the equity method despite decreases of ¥1,658 million in intangible assets, ¥1,639 million in property, plant and equipment and ¥1,045 million in goodwill.

Total liabilities as of June 30, 2016 amounted to ¥339,403 million, an increase of ¥53,556 million compared with the end of the previous fiscal year. Current liabilities increased by ¥75,593 million due to an increase of ¥98,780 million in short-term debt despite decreases of ¥10,303 million in current portion of long-term debt, ¥4,080 million in trade payables, ¥3,049 million in income tax payable, ¥3,402 million in other financial liabilities and ¥2,353 million in other current liabilities. Non-current liabilities decreased by ¥22,037 million mainly due to a decrease of ¥19,801 million in long-term debt.

Total equity as of June 30, 2016 amounted to ¥175,584 million, a decrease of ¥2,968 million compared with the end of the previous fiscal year. Total equity attributable to stockholders of the parent company ratio decreased from 37.8% at the end of the previous fiscal year to 33.6%.

2) Cash flows

Cash and cash equivalents (herein called “cash”) as of June 30, 2016 was ¥42,564 million, a decrease of ¥2,582 million from March 31, 2016.

Cash flows from each activity for the three months ended June 30, 2016 and their significant components are as follows:

Net cash used in operating activities was ¥950 million, a decrease of ¥5,902 million compared with the three months ended June 30, 2015. This is mainly due to an increase in cash from depreciation and amortization of ¥4,768 million, net income of ¥3,757 million and income taxes of ¥2,512 million, partly offset by a decrease in cash from income taxes paid of ¥6,684 million, decrease in other assets and other liabilities of ¥4,864 million, and decrease in trade payables of ¥2,160 million.

Net cash used in investing activities was ¥66,806 million, a decrease of ¥60,936 million compared with the three months ended June 30, 2015. This is mainly due to an increase in cash from proceeds from withdrawal of deposits of ¥3,500 million, partly offset by a decrease in cash from acquisition of investments accounted for using the equity method of ¥66,843 million and purchase of property, plant and equipment and intangible assets of ¥4,713 million.

Net cash provided by financing activities was ¥66,735 million, an increase of ¥68,322 million compared with the three months ended June 30, 2015. This is mainly due to a decrease in cash from payments on long-term debt of ¥30,366 million, partly offset by an increase in cash from increase in short-term debt, net of ¥100,030 million.

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

The business environment surrounding the Group remains severe due to concerns over sluggish growth of global economy and intensifying competitions in the industry, which resulted in a growing sense of uncertainty about the future.

Under these circumstances, the Group aims to achieve sustainable growth and improve the Group's corporate value by ensuring the implementation of the basic strategies of "Mid-term Management Plan: - Value Creation 2018-" which started in April 2016: "Drive thorough enhancement of 3PL business and increase market share," "Enhance forwarding business" and "Enhance Heavy Machinery and Plant Logistics."

The Group revised the consolidated financial forecasts for the six months ending September 30, 2016, released on May 12, 2016 as below in consideration of the latest performance trend and future outlook.

Revision of the consolidated financial forecast for the six months ending September 30, 2016

(April 1, 2016 through September 30, 2016)

(Million yen)

	Previous forecast (A)	Revised forecast (B)	Changes (B)-(A)	Percentage change (%)
Revenues	337,000	330,000	(7,000)	(2.1)
Adjusted operating income	12,300	13,000	700	5.7
Income before income taxes	11,700	12,000	300	2.6
Net income	6,700	6,900	200	3.0
Net income attributable to stockholders of the parent company	6,000	6,200	200	3.3

There is no revision for the consolidated financial forecast for the fiscal year ending March 31, 2017.

2. Matters Related to Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Term

Not applicable.

(2) Changes in Accounting Policies and Accounting Estimates

The significant accounting policies adopted for the quarterly consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended March 31, 2016.

The Group calculated income tax expenses for the three months ended June 30, 2016, based on the estimated average annual effective tax rate.

3. Summary of Condensed Quarterly Consolidated Financial Statements

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Million yen)

	As of March 31, 2016	As of June 30, 2016
(Assets)		
Current assets		
Cash and cash equivalents	45,146	42,564
Trade receivables	118,908	113,680
Inventories	1,114	1,161
Other financial assets	10,352	5,423
Other current assets	9,330	9,847
Total current assets	184,850	172,675
Non-current assets		
Investments accounted for using the equity method	1,179	68,211
Property, plant and equipment	177,153	175,514
Goodwill	29,542	28,497
Intangible assets	39,038	37,380
Deferred tax assets	7,900	8,172
Other financial assets	16,504	16,556
Other non-current assets	8,233	7,982
Total non-current assets	279,549	342,312
Total assets	464,399	514,987

(Million yen)

	As of March 31, 2016	As of June 30, 2016
(Liabilities)		
Current liabilities		
Trade payables	48,892	44,812
Short-term debt	12,110	110,890
Current portion of long-term debt	36,025	25,722
Income tax payable	6,512	3,463
Other financial liabilities	<u>31,199</u>	<u>27,797</u>
Other current liabilities	27,203	24,850
Total current liabilities	<u>161,941</u>	<u>237,534</u>
Non-current liabilities		
Long-term debt	49,666	29,865
Retirement and severance benefits	31,254	31,187
Deferred tax liabilities	12,542	12,039
Other financial liabilities	<u>28,361</u>	<u>26,725</u>
Other non-current liabilities	2,083	2,053
Total non-current liabilities	<u>123,906</u>	<u>101,869</u>
Total liabilities	<u>285,847</u>	<u>339,403</u>
(Equity)		
Equity attributable to stockholders of the parent company		
Common stock	16,803	16,803
Retained earnings	<u>157,362</u>	<u>161,656</u>
Accumulated other comprehensive income	<u>1,558</u>	<u>(5,362)</u>
Treasury stock, at cost	(180)	(180)
Total equity attributable to stockholders of the parent company	<u>175,543</u>	<u>172,917</u>
Non-controlling interests	<u>3,009</u>	<u>2,667</u>
Total equity	<u>178,552</u>	<u>175,584</u>
Total liabilities and equity	464,399	514,987

(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, 2015 (April 1, 2015 to June 30, 2015)	Three Months Ended June 30, 2016 (April 1, 2016 to June 30, 2016)
Revenues	169,683	160,500
Cost of sales	(152,694)	(142,636)
Gross profit	16,989	17,864
Selling, general and administrative expenses	(10,833)	(11,141)
Adjusted operating income	6,156	6,723
Other income	243	339
Other expenses	(326)	(365)
Operating income	6,073	6,697
Financial income	64	68
Financial expenses	(162)	(562)
Share of profits of investments accounted for using the equity method	71	305
Earnings before interest and tax	6,046	6,508
Interest income	179	178
Interest expenses	(371)	(417)
Income before income taxes	5,854	6,269
Income taxes	(2,599)	(2,512)
Net income	3,255	3,757
Attributable to:		
Stockholders of the parent company	2,884	3,287
Non-controlling interests	371	470

	Three Months Ended June 30, 2015 (April 1, 2015 to June 30, 2015)	Three Months Ended June 30, 2016 (April 1, 2016 to June 30, 2016)
Earnings per share attributable to stockholders of the parent company		
Basic	¥25.85	¥29.47
Diluted	—	—

Condensed Quarterly Consolidated Statement of Comprehensive Income

(Million yen)

	Three Months Ended June 30, 2015 (April 1, 2015 to June 30, 2015)	Three Months Ended June 30, 2016 (April 1, 2016 to June 30, 2016)
Net income	3,255	3,757
Other comprehensive income (OCI)		
Items not to be reclassified into net income		
Net changes in financial assets measured at fair value through OCI	381	(270)
Share of OCI of investments accounted for using the equity method	1	6
Total items not to be reclassified into net income	382	(264)
Items that can be reclassified into net income		
Foreign currency translation adjustments	2,001	(6,961)
Net changes in cash flow hedges	(3)	(11)
Share of OCI of investments accounted for using the equity method	(2)	(49)
Total items that can be reclassified into net income	1,996	(7,021)
Other comprehensive income	2,378	(7,285)
Comprehensive income	5,633	(3,528)
Attributable to:		
Stockholders of the parent company	4,914	(2,710)
Non-controlling interests	719	(818)

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

(Million yen)

Three Months Ended June 30, 2015 (April 1, 2015 to June 30, 2015)							
	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	—	2,884	—	—	2,884	371	3,255
Other comprehensive income	—	—	2,030	—	2,030	348	2,378
Dividends	—	(1,562)	—	—	(1,562)	(27)	(1,589)
Acquisition and sales of treasury stock	—	—	—	(0)	(0)	—	(0)
Changes in liabilities for written put options over non-controlling interests	—	(582)	305	—	(277)	(551)	(828)
Total changes in equity	—	740	2,335	(0)	3,075	141	3,216
Balance at end of period	16,803	150,075	10,096	(179)	176,795	3,147	179,942

(Million yen)

Three Months Ended June 30, 2016 (April 1, 2016 to June 30, 2016)							
	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	—	3,287	—	—	3,287	470	3,757
Other comprehensive income	—	—	(5,997)	—	(5,997)	(1,288)	(7,285)
Dividends	—	(1,673)	—	—	(1,673)	(43)	(1,716)
Acquisition and sales of treasury stock	—	—	—	(0)	(0)	—	(0)
Changes in liabilities for written put options over non-controlling interests	—	2,680	(923)	—	1,757	519	2,276
Total changes in equity	—	4,294	(6,920)	(0)	(2,626)	(342)	(2,968)
Balance at end of period	16,803	161,656	(5,362)	(180)	172,917	2,667	175,584

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Million yen)

	Three Months Ended June 30, 2015 (April 1, 2015 to June 30, 2015)	Three Months Ended June 30, 2016 (April 1, 2016 to June 30, 2016)
Cash flows from operating activities		
Net income	3,255	3,757
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,755	4,768
Share of profits of investments accounted for using the equity method	(71)	(305)
Income taxes	2,599	2,512
Increase in retirement and severance benefits	332	28
Interest and dividend income	(241)	(238)
Interest expenses	371	417
Gain on sale of property, plant and equipment	(148)	(231)
Decrease in trade receivables	6,078	1,738
Increase in inventories	(61)	(84)
Decrease in trade payables	(4,981)	(2,160)
Decrease in other assets and liabilities	(3,043)	(4,864)
Other	413	449
Subtotal	9,258	5,787
Interest and dividend received	326	356
Interest paid	(330)	(409)
Income taxes paid	(4,302)	(6,684)
Net cash provided by (used in) operating activities	4,952	(950)
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(6,031)	(4,713)
Proceeds from sale of property, plant and equipment, and intangible assets	480	845
Proceeds from withdrawal of deposits	—	3,500
Acquisition of investments accounted for using the equity method	—	(66,843)
Other	(319)	405
Net cash used in investing activities	(5,870)	(66,806)
Cash flows from financing activities		
Increase in short-term debt, net	1,430	100,030
Repayments on long-term debt	(343)	(30,366)
Repayments of lease obligations	(1,041)	(1,146)
Dividends paid to stockholders of the parent company	(1,562)	(1,673)
Dividends paid to holders of non-controlling interests	(27)	(43)
Other	(44)	(67)
Net cash provided by (used in) financing activities	(1,587)	66,735
Effect of exchange rate changes on cash and cash equivalents	440	(1,561)
Net decrease in cash and cash equivalents	(2,065)	(2,582)
Cash and cash equivalents at beginning of period	34,544	45,146
Cash and cash equivalents at end of period	32,479	42,564

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

(Notes on Going Concern Assumptions)

None

(Changes in presentation methods)

For the three months ended June 30, 2015, “Operating income” (¥6,073 million) was presented as “Gross profit” (¥16,989 million) less “Selling, general and administrative expenses” (¥10,833 million) and “Other expenses” (¥326 million), and plus “Other income” (¥243 million). From the three months ended June 30, 2016, “Adjusted operating income” is presented as “Gross profit” less “Selling, general and administrative expenses,” and “Earnings before interest and taxes” is presented as “Income before income taxes” less interest income and plus interest expenses.

These changes were based on the judgment by the management that “Adjusted operating income,” which reflects the results of business activities excluding gains and losses arising from business reorganization and structural reform, is appropriate to manage progress and results toward achievement of the target, and that “Earnings before interest and taxes” excluding interest income and expenses related to funding, reflect the efforts of the alliance with other companies and indicate the Group’s situation clearly.

(Segment information)

Three Months Ended June 30, 2015 (April 1, 2015 to June 30, 2015)

(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	99,146	65,468	164,614	5,069	169,683	—	169,683
Revenues from intersegment transactions or transfers	—	—	—	2,493	2,493	(2,493)	—
Total	99,146	65,468	164,614	7,562	172,176	(2,493)	169,683
Segment profit	4,727	1,130	5,857	299	6,156	—	6,156
Other income							243
Other expenses							(326)
Financial income							64
Financial expenses							(162)
Share of profits of investments accounted for using the equity method							71
Interest income							179
Interest expenses							(371)
Income before income taxes							5,854

Note: 1. "Other services" includes information system development, service, sale and maintenance of motor vehicles, and travel agency service, which are excluded in 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, 2016 (April 1, 2016 to June 30, 2016)

(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	99,796	56,110	155,906	4,594	160,500	—	160,500
Revenues from intersegment transactions or transfers	—	—	—	2,239	2,239	(2,239)	—
Total	99,796	56,110	155,906	6,833	162,739	(2,239)	160,500
Segment profit	5,020	1,552	6,572	151	6,723	—	6,723
Other income							339
Other expenses							(365)
Financial income							68
Financial expenses							(562)
Share of profits of investments accounted for using the equity method							305
Interest income							178
Interest expenses							(417)
Income before income taxes							6,269

Note: 1. “Other services” includes information system development, service, sale and maintenance of motor vehicles, and travel agency service, which are excluded in 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.

From the three months ended June 30, 2016, segment profit represents “Adjusted operating income” instead of “Operating income.”

This change was based on the judgment by the management that “Adjusted operating income,” which reflects the results of business activities excluding gains and losses arising from business reorganization and structural reform, is appropriate to manage progress and results toward achievement of the target.

The segment information for the three months ended June 30, 2015 reflects this alternation.