



Date: October 24, 2016

# SMBC NIKKO SECURITIES INC.

URL: <http://www.smbcnikko.co.jp/en/index.html>

## Consolidated Financial Results for the Six Months ended September 30, 2016 (JGAAP)

(Amounts less than one million yen are omitted.)

### 1. Overall business performance for the Six Months ended September 30, 2016

#### (1) Consolidated operating results

(Percentages indicate year-on-year changes)

Six months ended	Operating revenue		Net operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2016	163,084	(6.9)	149,107	(8.2)	29,572	(22.1)	31,501	(22.3)	22,031	(25.3)
September 30, 2015	175,146	11.9	162,356	11.8	37,962	7.7	40,554	11.0	29,497	22.9

Note : Comprehensive income September 30, 2016 9,222million yen <(67.0%)> September 30, 2015 27,923million yen <(0.8%)>

#### (2) Consolidated financial condition

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
September 30, 2016	9,582,339	507,031	5.3
March 31, 2016	10,479,163	697,808	6.7

Reference : Equity (i.e. "Shareholder's equity" and "Accumulated other comprehensive income")

As of September 30, 2016 506,883 million yen As of March 31, 2016 697,673 million yen

### 2. Others

(1) Changes in significant subsidiaries during the period : None

(2) Adoption of the accounting method peculiar to quarterly financial statements : None

(3) Changes in the accounting policies, estimates and retrospective restatements

(i) Changes in the accounting policies with accounting standards revisions : Yes

(ii) Changes in the accounting policies other than the above : None

(iii) Changes in accounting estimates : None

(iv) Retrospective restatements : None

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## **I. Summary information (Notes)**

### **1. Changes in significant subsidiaries during the period**

Not applicable

### **2. Adoption of the accounting method peculiar to quarterly financial statements**

Not applicable

### **3. Changes in the accounting policies, estimates and retrospective restatement**

#### **Changes in accounting policies with accounting standards revisions**

In accordance with the revision of the Corporation Tax Act, SMBC Nikko Securities Inc. adopted the “Practical Solution on Accounting for Changes in Depreciation Method due to Tax Reform 2016” (ASBJ Practical Issue Task Force (PITF) No. 32, issued June 17, 2016) from the first quarter in the period, and changed the depreciation method of facilities attached buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method. The impact of this change is immaterial on profit in the period.

#### **Additional information**

Effective from the first quarter in the period, SMBC Nikko Securities Inc. adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (the Guidance No. 26, issued March 28, 2016).

## II. Consolidated Financial Statements

### 1. Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2016	As of September 30, 2016
<b>Assets</b>		
Current assets		
Cash and deposits	761,834	628,895
Cash segregated as deposits	308,153	360,847
Trading products	3,673,124	3,440,021
Trading securities and other	3,111,007	2,763,847
Derivatives	562,117	676,174
Trade date accrual	80,138	—
Margin transaction assets	75,113	68,059
Loans on margin transactions	72,285	61,171
Cash collateral pledged for securities borrowing on margin transactions	2,827	6,888
Loans secured by securities	5,007,451	4,536,601
Cash collateral pledged for securities borrowed	5,000,521	4,510,925
Loans on Gensaki transactions	6,930	25,676
Short-term guarantee deposits	232,295	242,194
Accrued income	16,391	16,516
Deferred tax assets	10,556	7,340
Other	55,325	34,336
Allowance for doubtful accounts	(2)	(3)
Total current assets	10,220,382	9,334,812
Noncurrent assets		
Property and equipment	26,713	26,291
Intangible assets	84,617	82,829
Investments and other assets	147,450	138,405
Investment securities	123,594	115,416
Long-term loans receivable	4,956	4,954
Long-term guarantee deposits	15,789	14,850
Deferred tax assets	189	201
Other	4,959	4,990
Allowance for doubtful accounts	(2,039)	(2,008)
Total noncurrent assets	258,781	247,527
Total assets	10,479,163	9,582,339

(Millions of yen)

	As of March 31, 2016	As of September 30, 2016
<b>Liabilities</b>		
Current liabilities		
Trading products	2,464,579	2,203,615
Trading securities and other	1,907,003	1,544,375
Derivatives	557,575	659,240
Trade date accrual	—	345,058
Margin transaction liabilities	8,098	9,437
Borrowings on margin transactions	390	1
Cash received for securities lending on margin transactions	7,708	9,435
Loans payable secured by securities	5,104,859	4,320,348
Cash received on debt credit transaction of securities	3,865,744	3,083,672
Borrowings on Gensaki transaction	1,239,114	1,236,676
Deposits received	293,458	403,921
Guarantee deposits received	86,738	101,859
Short-term loans payable	687,773	632,644
Commercial papers	367,000	205,400
Current portion of bonds payable	54,546	67,189
Income taxes payable	4,549	6,810
Other	75,737	48,278
Total current liabilities	9,147,342	8,344,564
Noncurrent liabilities		
Bonds payable	494,099	492,541
Long-term loans payable	124,100	222,700
Lease obligations	3,816	3,785
Deferred tax liabilities	5,445	5,150
Net defined benefit liabilities	2,495	2,597
Asset retirement obligations	2,256	2,268
Other	669	511
Total noncurrent liabilities	632,882	729,555
Reserves under the special laws		
Reserve for financial products transaction liabilities	1,129	1,188
Total reserves under the special laws	1,129	1,188
Total liabilities	9,781,355	9,075,308
Net assets		
Shareholder's equity		
Capital stock	10,000	10,000
Capital surplus	378,395	378,395
Retained earnings	290,883	112,915
Total shareholder's equity	679,278	501,310
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,195	12,135
Deferred gains or losses on hedges	—	(48)
Foreign currency translation adjustment	5,193	(6,522)
Remeasurements of defined benefit plans	5	8
Total accumulated other comprehensive income	18,394	5,572
Non-controlling interests	135	147
Total net assets	697,808	507,031
Total liabilities and net assets	10,479,163	9,582,339

## 2. Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

### Consolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Operating revenue		
Commission received	92,313	77,917
Brokerage commissions	21,733	14,143
Underwriting and distribution commissions	19,761	19,700
Flotation and distribution fees	23,247	16,722
Other fees received	27,571	27,351
Net trading income	62,146	64,051
Financial revenue	15,034	13,897
Other sales	5,651	7,217
Total operating revenue	175,146	163,084
Financial expenses	8,545	8,754
Cost of other sales	4,244	5,222
Net operating revenue	162,356	149,107
Selling, general and administrative expenses		
Trading related expenses	22,401	19,425
Personnel expenses	58,983	55,909
Real estate expenses	11,256	10,563
Office cost	12,081	12,125
Depreciation	10,498	11,841
Taxes and dues	2,059	2,487
Other	7,112	7,182
Total selling, general and administrative expenses	124,393	119,534
Operating income	37,962	29,572
Non-operating income		
Dividends income	851	769
Equity in earnings of affiliates	1,424	1,005
Foreign exchange gains	338	331
Other	339	240
Total non-operating income	2,952	2,347
Non-operating expenses		
Interest expenses	79	79
Bond issuance cost	135	92
Other	146	247
Total non-operating expenses	361	419
Ordinary income	40,554	31,501

(Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Extraordinary income		
Gain on sales of stocks of subsidiaries and affiliates	6,504	—
Total extraordinary income	6,504	—
Extraordinary loss		
Impairment loss	235	27
Loss on sales of investment securities	2,300	—
Loss on valuation of investment securities	—	112
Provision of reserve for financial products transaction liabilities	229	58
Total extraordinary loss	2,765	198
Income before income taxes and non-controlling interests	44,293	31,302
Income taxes - current	7,172	5,857
Income taxes - deferred	7,610	3,401
Total income taxes	14,783	9,259
Profit	29,510	22,043
Profit attributable to non-controlling interests	12	11
Profit attributable to owners of parent	29,497	22,031

**Consolidated Statements of Comprehensive Income**

(Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Profit	29,510	22,043
Other comprehensive income		
Valuation difference on available-for-sale securities	(4,198)	(1,063)
Foreign currency translation adjustment	479	(3,926)
Remesurements of defined benefit plans	0	—
Share of other comprehensive income of affiliates accounted for using equity method	2,131	(7,831)
Total other comprehensive income	(1,587)	(12,821)
Comprehensive income	27,923	9,222
Comprehensive income attributable to:		
Owners of parent	27,910	9,210
Non-controlling interests	12	11

### 3. Notes on Going Concern Assumption

Not applicable

### 4. Notes on Significant Changes in Shareholder's Equity

Appropriation of surplus was resolved at the extraordinary meeting of shareholders held on September 27, 2016. As a result, retained earnings decreased by 200,000 million yen in the second quarter of the period, and outstanding amount of retained earnings at the end of second quarter of the period was 112,915 million yen.

• Dividends information

- (1) Total amount of dividends: 200,000 million yen (Dividends per share is the quotient of total amount of dividends and the number of outstanding shares)
- (2) Effective date: September 30, 2016
- (3) Dividend resource: Retained earnings

### 5. Additional information

(Execution of the Merger Agreement with SMBC Friend Securities)

SMBC Nikko, having approved the proposed merger with SMBC Friend Securities(President: Koichi Danno), entered into a memorandum of understanding, and proceeded with further considerations and discussions regarding the Merger, as announced in the press release "Memorandum of Understanding on the Merger between SMBC Nikko Securities and SMBC Friend Securities" dated May 12, 2016, hereby announce, as of September 30, that Two Securities Companies have executed a merger agreement. In this regard, please refer to Press Release "Execution of the Merger Agreement between SMBC Nikko Securities and SMBC Friend Securities" on September 30, 2016.



### III. Supplementary Information

#### 1. Commission Received

##### (1) Breakdown by Categories

(Millions of yen, except for percentages)

	Six months ended September 30, 2015	Six months ended September 30, 2016	Increase/(Decrease)	
			Amount	Rate of change
Brokerage commissions	21,733	14,143	(7,589)	(34.9) %
< Equities >	< 19,694 >	< 12,963 >	< (6,730) >	< (34.2) >
< Bonds >	< 164 >	< 171 >	< 6 >	< 4.1 >
< Investment trusts >	< 1,765 >	< 942 >	< (823) >	< (46.6) >
Underwriting and distribution commissions	19,761	19,700	(60)	(0.3)
< Equities >	< 10,261 >	< 7,789 >	< (2,472) >	< (24.1) >
< Bonds >	< 9,366 >	< 11,652 >	< 2,286 >	< 24.4 >
Flotation and distribution fees	23,247	16,722	(6,525)	(28.1)
< Investment trusts >	< 21,494 >	< 14,880 >	< (6,613) >	< (30.8) >
Other fees received	27,571	27,351	(220)	(0.8)
< Investment trusts >	< 15,888 >	< 14,108 >	< (1,779) >	< (11.2) >
Total	92,313	77,917	(14,395)	(15.6)

##### (2) Breakdown by Products

(Millions of yen, except for percentages)

	Six months ended September 30, 2015	Six months ended September 30, 2016	Increase/(Decrease)	
			Amount	Rate of change
Equities	30,646	21,137	(9,508)	(31.0) %
Bonds	11,665	14,423	2,758	23.6
Investment trusts	39,148	29,931	(9,216)	(23.5)
Other	10,853	12,425	1,571	14.5
Total	92,313	77,917	(14,395)	(15.6)

#### 2. Net Trading Income

(Millions of yen, except for percentages)

	Six months ended September 30, 2015	Six months ended September 30, 2016	Increase/(Decrease)	
			Amount	Rate of change
Net trading income on equities	3,789	4,474	685	18.1 %
Net trading income on bonds and others	58,357	59,577	1,219	2.1
Total	62,146	64,051	1,905	3.1

## 3. Quarterly Consolidated Statements of Income

(Millions of yen)

	FY2015 2Q (July 1 to September 30, 2015)	FY2015 3Q (October 1 to December 31, 2015)	FY2015 4Q (January 1 to March 31, 2016)	FY2016 1Q (April 1 to June 30, 2016)	FY2016 2Q (July 1 to September 30, 2016)
Operating revenue					
Commission received	46,153	44,403	29,787	35,335	42,582
Brokerage commissions	10,297	9,602	7,859	7,390	6,753
< Equities >	< 8,983 >	< 8,776 >	< 7,000 >	< 6,661 >	< 6,302 >
Underwriting and distribution commissions	10,799	10,001	4,237	7,518	12,182
< Equities >	< 4,783 >	< 5,750 >	< 1,519 >	< 2,869 >	< 4,920 >
< Bonds >	< 6,015 >	< 4,124 >	< 2,717 >	< 4,543 >	< 7,109 >
Flotation and distribution fees	11,023	10,490	4,692	7,529	9,192
< Investment trusts >	< 10,133 >	< 9,892 >	< 3,937 >	< 6,729 >	< 8,151 >
Other fees received	14,032	14,309	12,996	12,898	14,452
< Investment trusts >	< 7,794 >	< 7,694 >	< 7,037 >	< 7,037 >	< 7,070 >
Net trading income	22,079	25,813	23,263	36,757	27,294
Financial revenue	7,914	6,549	7,607	5,385	8,511
Other sales	3,172	2,803	3,416	3,534	3,683
Total operating revenue	79,319	79,570	64,074	81,013	82,070
Financial expenses	3,303	4,520	3,604	4,653	4,101
Cost of other sales	2,306	2,174	2,801	2,674	2,547
Net operating revenue	73,708	72,875	57,667	73,685	75,422
Selling, general and administrative expenses					
Trading related expenses	10,579	10,236	10,496	8,835	10,589
Personnel expenses	28,130	28,004	24,961	27,715	28,193
Real estate expenses	5,538	5,268	5,288	5,405	5,158
Office cost	6,285	6,340	6,606	6,064	6,060
Depreciation	5,315	5,530	5,757	5,844	5,996
Taxes and dues	847	893	535	1,317	1,170
Other	3,601	3,604	3,630	3,630	3,551
Total selling, general and administrative expenses	60,298	59,878	57,276	58,814	60,720
Operating income	13,410	12,996	390	14,870	14,701
Non-operating income	1,808	628	1,764	1,046	1,300
Non-operating expenses	142	169	339	167	251
Ordinary income	15,076	13,456	1,816	15,750	15,750
Extraordinary income	—	—	—	—	—
Extraordinary loss	2,506	18	253	497	(298)
Income before income taxes and non-controlling interests	12,569	13,438	1,563	15,252	16,049
Income taxes - current	6,464	5,878	398	585	5,272
Income taxes - deferred	(1,808)	(3,089)	(804)	3,913	(512)
Profit	7,912	10,648	1,969	10,753	11,289
Profit attributable to non-controlling interests	8	9	0	3	8
Profit attributable to owners of parent	7,904	10,639	1,969	10,750	11,281

## IV. Non-consolidated Financial Statements

### 1. Non-consolidated Balance Sheets

	(Millions of yen)	
	As of March 31, 2016	As of September 30, 2016
<b>Assets</b>		
Current assets		
Cash and deposits	667,574	531,476
Cash segregated as deposits	308,132	360,828
Trading products	3,673,124	3,440,021
Trading securities and other	3,111,007	2,763,847
Derivatives	562,117	676,174
Trade date accrual	80,138	—
Margin transaction assets	75,113	68,059
Loans on margin transactions	72,285	61,171
Cash collateral pledged for securities borrowing on margin transactions	2,827	6,888
Loans secured by securities	5,007,451	4,536,601
Cash collateral pledged for securities borrowed	5,000,521	4,510,925
Loans on Gensaki transactions	6,930	25,676
Short-term guarantee deposits	232,291	242,194
Short-term loans receivable	39,355	41,984
Accrued income	15,121	15,209
Deferred tax assets	6,405	3,652
Other	34,164	25,992
Allowance for doubtful accounts	(2)	(3)
Total current assets	10,138,870	9,266,017
Noncurrent assets		
Property and equipment	6,662	6,475
Intangible assets	24,710	22,921
Investments and other assets	175,984	173,412
Investment securities	60,678	58,993
Stocks of subsidiaries and affiliates	94,372	94,372
Long-term loans receivable	4,938	4,937
Long-term guarantee deposits	15,004	14,080
Other	2,973	2,986
Allowance for doubtful accounts	(1,983)	(1,958)
Total noncurrent assets	207,358	202,809
<b>Total assets</b>	<b>10,346,228</b>	<b>9,468,827</b>

(Millions of yen)

	As of March 31, 2016	As of September 30, 2016
<b>Liabilities</b>		
Current liabilities		
Trading products	2,464,579	2,203,615
Trading securities and other	1,907,003	1,544,375
Derivatives	557,575	659,240
Trade date accrual	—	345,074
Margin transaction liabilities	8,098	9,437
Borrowings on margin transactions	390	1
Cash received for securities lending on margin transactions	7,708	9,435
Loans payable secured by securities	5,104,859	4,320,348
Cash received on debt credit transaction of securities	3,865,744	3,083,672
Borrowings on Gensaki transaction	1,239,114	1,236,676
Deposits received	231,438	333,754
Guarantee deposits received	86,738	101,859
Short-term loans payable	690,500	637,200
Commercial papers	367,000	205,400
Current portion of bonds payable	54,546	67,189
Income taxes payable	1,341	5,940
Other	37,613	25,940
Total current liabilities	9,046,716	8,255,760
Noncurrent liabilities		
Bonds payable	494,099	492,541
Long-term loans payable	124,100	222,700
Lease obligations	544	406
Deferred tax liabilities	4,476	3,986
Provision for retirement benefits	2,227	2,316
Asset retirement obligations	2,011	2,028
Other	422	300
Total noncurrent liabilities	627,881	724,280
Reserves under the special laws		
Reserve for financial products transaction liabilities	1,129	1,188
Total reserves under the special laws	1,129	1,188
Total liabilities	9,675,727	8,981,229
Net assets		
Shareholder's equity		
Capital stock	10,000	10,000
Capital surplus	378,395	378,395
Other capital surplus	378,395	378,395
Retained earnings	268,294	86,473
Legal retained earnings	—	2,500
Other retained earnings	268,294	83,973
Retained earnings brought forward	268,294	83,973
Total shareholder's equity	656,689	474,869
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	13,811	12,729
Total valuation and translation adjustments	13,811	12,729
Total net assets	670,500	487,598
Total liabilities and net assets	10,346,228	9,468,827

**2. Non-consolidated Statements of Income**

(Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Operating revenue		
Commission received	88,211	73,467
Brokerage commissions	20,152	12,761
Underwriting and distribution commissions	19,761	19,700
Flotation and distribution fees	23,020	16,637
Other fees received	25,275	24,368
Net trading income	62,146	64,051
Financial revenue	14,506	13,577
Total operating revenue	164,864	151,096
Financial expenses	8,073	8,522
Net operating revenue	156,790	142,574
Selling, general and administrative expenses		
Trading related expenses	21,832	18,387
Personnel expenses	53,287	50,277
Real estate expenses	9,867	9,428
Office cost	25,170	26,595
Depreciation	3,267	3,317
Taxes and dues	1,812	2,217
Other	6,464	6,638
Total selling, general and administrative expenses	121,702	116,862
Operating income	35,088	25,712
Non-operating income		
Dividends income	798	764
Other	228	181
Total non-operating income	1,027	946
Non-operating expenses		
Bond issuance cost	135	92
Other	82	66
Total non-operating expenses	217	158
Ordinary income	35,897	26,499

(Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Extraordinary income		
Gain on sales of stocks of subsidiaries and affiliates	4,869	—
Total extraordinary income	4,869	—
Extraordinary loss		
Impairment loss	235	27
Loss on valuation of investment securities	—	112
Loss related to liquidation of subsidiaries	4,382	—
Provision of reserve for financial products transaction liabilities	229	58
Total extraordinary loss	4,847	198
Income before income taxes	35,920	26,301
Income taxes - current	6,493	5,379
Income taxes - deferred	5,347	2,743
Total income taxes	11,840	8,122
Profit	24,079	18,179

**3. Capital Adequacy Ratio on a stand-alone basis**

(Millions of yen)

		As of March 31, 2016	As of September 30, 2016
Basic items	(A)	656,689	474,869
Supplementary items	Valuation difference on available-for-sale securities and others	13,811	12,729
	Reserves under the special laws	1,129	1,188
	Allowance for doubtful accounts	2	2
	Short-term subordinated debt	—	100,000
Total (B)		14,942	113,919
Deductible assets	(C)	162,350	159,727
Net capital	(A) + (B) - (C) (D)	509,281	429,060
Risk items	Market Risk	43,886	51,666
	Counterparty Risk	22,948	20,817
	Basic Risk	61,780	58,081
Total (E)		128,614	130,566
Capital adequacy ratio	(D) / (E)*100	395.9%	328.6%

## 4. Quarterly Non-consolidated Statements of Income

(Millions of yen)

	FY2015 2Q (July 1 to September 30, 2015)	FY2015 3Q (October 1 to December 31, 2015)	FY2015 4Q (January 1 to March 31, 2016)	FY2016 1Q (April 1 to June 30, 2016)	FY2016 2Q (July 1 to September 30, 2016)
Operating revenue					
Commission received	44,169	42,256	27,913	33,132	40,334
Brokerage commissions	9,516	8,854	7,191	6,679	6,081
< Equities >	< 8,202 >	< 8,027 >	< 6,332 >	< 5,951 >	< 5,629 >
Underwriting and distribution commissions	10,799	10,001	4,237	7,518	12,182
< Equities >	< 4,783 >	< 5,750 >	< 1,519 >	< 2,869 >	< 4,920 >
< Bonds >	< 6,015 >	< 4,124 >	< 2,717 >	< 4,543 >	< 7,109 >
Flotation and distribution fees	10,982	10,489	4,665	7,459	9,178
< Investment trusts >	< 10,133 >	< 9,892 >	< 3,937 >	< 6,729 >	< 8,151 >
Other fees received	12,870	12,911	11,818	11,475	12,892
< Investment trusts >	< 7,048 >	< 6,903 >	< 6,265 >	< 6,102 >	< 6,141 >
Net trading income	22,079	25,813	23,263	36,757	27,294
Financial revenue	7,693	6,361	7,456	5,228	8,349
Total operating revenue	73,941	74,431	58,633	75,119	75,977
Financial expenses	3,111	4,360	3,483	4,535	3,987
Net operating revenue	70,830	70,070	55,149	70,584	71,990
Selling, general and administrative expenses					
Trading related expenses	10,156	9,967	10,054	8,392	9,995
Personal expenses	25,321	25,169	22,256	24,862	25,414
Real estate expenses	4,860	4,639	4,638	4,841	4,587
Office cost	12,804	12,738	12,797	13,405	13,190
Depreciation	1,643	1,675	1,711	1,648	1,668
Taxes and dues	727	779	383	1,173	1,043
Other	3,372	3,299	3,215	3,438	3,199
Total selling, general and administrative expenses	58,885	58,269	55,057	57,762	59,099
Operating income	11,945	11,801	91	12,821	12,890
Non-operating income	663	117	754	363	582
Non-operating expenses	101	114	234	87	70
Ordinary income	12,507	11,804	611	13,097	13,402
Extraordinary income	—	—	—	—	—
Extraordinary loss	4,588	15	243	500	(302)
Income before income taxes	7,919	11,788	367	12,596	13,704
Income taxes - current	5,932	5,518	(2,086)	421	4,957
Income taxes - deferred	(3,201)	(1,703)	1,390	3,466	(723)
Profit	5,187	7,973	1,064	8,709	9,470