Consolidated Financial Results for the Six Months Ended June 30, 2018 Unaudited [IFRS]

August 10, 2018

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Stock exchange listing: Tokyo Stock Exchange
Code number: 6464
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Scheduled date of filing quarterly securities report: August 10, 2018
Scheduled date of commencing dividend payments: September 3, 2018
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: Scheduled (for institutional investors and securities analysts)

(Amounts of less than one million yen are rounded.)

1. Consolidated Financial Results for the Six Months Ended June 30, 2018 (January 1, 2018 to June 30, 2018)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Sales		Operating profit		Profit before taxes		Net profit for the period	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2018	38,901	88.4	5,394	55.9	4,840	56.5	3,515	54.5
June 30, 2017	20,653	12.1	3,460	(2.7)	3,094	16.3	2,276	13.0

	Net profit for the period attributable to owners of the parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
Six months ended	Million yen	%	Million yen	%	Yen	Yen
June 30, 2018	3,513	54.4	994	(56.8)	88.27	86.02
June 30, 2017	2,276	13.0	2,300	-	57.59	56.28

(Reference) EBITDA: Six months ended June 30, 2018: ¥7,131 million (up 67.6%)
Six months ended June 30, 2017: ¥4,256 million
EBITDA = Operating profit + depreciation and amortization. EBITDA is outside the scope of quarterly review pursuant to the Financial Instrument and Exchange Act.

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent
	Million yen	Million yen	Million yen	%
As of June 30, 2018	139,099	43,939	43,914	31.6
As of December 31, 2017	139,576	44,606	44,582	31.9

In the second quarter consolidated accounting period, provisional accounting for business combinations has been finalized. By the settlement of provisional accounting, the review of the initial allocation of acquisition costs are reflected on previous fiscal year amounts.

The English translation is only for reference purpose. When there are discrepancies between original Japanese version and English translation version, the original Japanese version always prevails.

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2017	-	31.00	-	33.00	64.00
Fiscal year ending December 31, 2018	-	39.00			
Fiscal year ending December 31, 2018 (Forecast)			-	40.00	79.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(% indicates changes from the previous corresponding period.)

	Sales		Operating profit		Profit before taxes	
	Million yen	%	Million yen	%	Million yen	%
Full year	75,000	40.9	11,500	83.7	10,600	101.3

	Net profit for the period attributable to owners of the parent		Basic earnings per share
	Million yen	%	Yen
Full year	7,790	193.1	195.88

(Note) Revision to the financial results forecast announced most recently: No

*** Notes:**

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Changes in accounting policies and changes in accounting estimates
1) Changes in accounting policies required by IFRS: Yes
2) Changes in accounting policies other than 1) above: No
3) Changes in accounting estimates: No

(3) Total number of issued shares (common shares)
1) Total number of issued shares at the end of the period (including treasury shares):
June 30, 2018: 40,432,000 shares
December 31, 2017: 40,340,800 shares

2) Total number of treasury shares at the end of the period:
June 30, 2018: 733,610 shares
December 31, 2017: 571,075 shares

3) Average number of shares during the period:
Six months ended June 30, 2018: 39,802,149 shares
Six months ended June 30, 2017: 39,524,553 shares

* These quarterly financial results are outside the scope of quarterly review by a certified public accountant or an audit corporation.

* Explanation of the proper use of financial results forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions deemed to be reasonable, and are not intended to be construed as assurance that they will be accomplished in the future. Actual results may differ significantly from these forecasts due to a wide range of factors.

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

(1) Explanation of Business Results

The world economy during the six months ended June 30, 2018 generally remained firm despite persisting uncertainties including protectionist policies by the US, defensive measures by China and geopolitical risks. In Japan, personal consumption and capital investments were solid as well, and a gradual recovery trend continued.

In this environment, the Company continued to make business efforts and for the six months ended June 30, 2018, sales increased 88.4% year on year to ¥38,901 million (an increase of 86.2% excluding the impact of exchange rates for overseas consolidated subsidiaries; of which, sales for the PBC acquired from NN, Inc. US (the "former PBC") during the previous fiscal year was ¥16,989 million.).

As for profits, operating profit increased 55.9% year on year to ¥5,394 million (an increase of 62.4% excluding one-time cost and the impact of exchange rates for overseas consolidated subsidiaries; of which, operating profit for the former PBC was ¥1,499 million).

Net profit for the period attributable to owners of the parent increased 54.4% year on year to ¥3,513 million (an increase of 61.1% excluding one-time cost and the impact of exchange rates for overseas consolidated subsidiaries; of which, net profit for the period attributable to owners of the parent for the former PBC was ¥1,105 million.).

As such, under the management principle of "We will become a stellar corporation that realizes sustainable profitable growth and continues to create improvements in corporate value," the Group will strive to become a company that can further contribute to society and customers as "New TSUBAKI NAKASHIMA."

Performance by segment is as follows.

Precision Components Business

During the previous fiscal year, because of the inclusion of TN TENNESSEE, LLC. and eight other companies in the scope of consolidation due to stock acquisition for transferring the PBC of NN, Inc. US, the name of the segment has been changed from "Ball Business" to "Precision Components Business."

Sales of the Precision Components Business increased 102.3% year on year to ¥36,030 million (an increase of 99.8% excluding the impact of exchange rates for overseas subsidiaries). Segment profit (operating profit) increased 56.1% year on year to ¥4,900 million (an increase of 63.2% excluding one-time cost and the impact of exchange rates for overseas subsidiaries).

Linear Business

Sales of the Linear Business increased 0.9% year on year to ¥2,684 million (an increase of 0.8% excluding the impact of exchange rates for overseas subsidiaries). Segment profit (operating profit) increased 122.5% year on year to ¥334 million (an increase of 122.3% excluding the impact of exchange rates for overseas subsidiaries.).

Other Business

Sales of other businesses increased 0.5% year on year to ¥187 million (an increase of 0.5% excluding the impact of exchange rates for overseas subsidiaries). Segment profit (operating profit) decreased 6.3% year on year to ¥160 million (a decrease of 6.3% excluding the impact of exchange rates for overseas subsidiaries).

(2) Explanation of Financial Position

Current assets as of the end of the second quarter of the fiscal year under review increased ¥1,822 million from the end of the previous fiscal year to ¥54,939 million. This is attributable to increases in cash

and cash equivalents by ¥758 million, trade and other receivables, net by ¥218 million, inventories by ¥628 million, and other current assets by ¥218 million.

Non-current assets decreased ¥2,299 million from the end of the previous fiscal year to ¥84,160 million. This is attributable to decreases in property, plant and equipment, net by ¥1,507 million and intangible assets, net and goodwill by ¥856 million.

Current liabilities increased ¥9,237 million from the end of the previous fiscal year to ¥20,408 million. This is attributable to increases in trade and other payables by ¥529 million and loans and borrowings by ¥8,500 million.

Non-current liabilities decreased ¥9,047 million from the end of the previous fiscal year to ¥74,752 million. This is attributable to a decrease in loans and borrowings, excluding current portion by ¥9,032 million.

Equity decreased ¥667 million from the end of the previous fiscal year to ¥43,939 million. This is attributable to an increase in retained earnings by ¥2,201 million and treasury stock by ¥468 million and accumulated other comprehensive loss by ¥2,520 million.

In the second quarter consolidated accounting period, provisional accounting for business combinations has been finalized. By the settlement of provisional accounting, the review of the initial allocation of acquisition costs are reflected on previous fiscal year amounts.

(Analysis of Status of Cash Flows)

Cash and cash equivalents as of the end of the second quarter of the fiscal year under review increased ¥758 million year on year to ¥12,759 million. The status of cash flows of each activity during the six months ended June 30, 2018 and its cause are as follows.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥3,978 million. This is attributable to cash increase factors including profit before taxes of ¥4,840 million, depreciation and amortization of ¥1,737 million and increase in trade and other payables of ¥749 million, despite cash decrease factors including increase in trade and other receivables of ¥800 million, increase in inventories of ¥1,160 million and income taxes paid of ¥1,387 million.

(Cash Flows from Investing Activities)

Net cash used in investing activities amounted to ¥1,392 million. This is attributable to payments for acquisition of property, plant and equipment of ¥1,320 million and payments for acquisition of subsidiary stock of ¥90 million.

(Cash Flows from Financing Activities)

Net cash used in financing activities amounted to ¥1,762 million. This is attributable to cash dividends paid of ¥1,312 million, repayments of long-term loans and borrowings of ¥78 million, payments for purchase of treasury stock of ¥468 million and proceeds from exercise of subscription rights of ¥96 million.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

Regarding the full year consolidated financial results forecast for the fiscal year ending December 31, 2018, there are no changes from the forecast released on February 14, 2018.

2. Matters Concerning Summary Information (Notes)

(1) Changes in Significant Subsidiaries During the Period under Review

Not applicable.

(2) Changes in Accounting Policies and Changes in Accounting Estimates

(1) Financial Instruments, Revenue from Contracts with Customers

The Group has adopted the following standards from the first quarter ended March 31, 2018:

Standard	Title of standard	Description of new standards and amendments
IFRS 9	Financial Instruments	New standard on the recognition, classification, measurement and hedge accounting of financial instruments
IFRS 15	Revenue from Contracts with Customers	New standard on accounting and disclosure for revenue recognition

IFRS 9 “Financial Instruments”

The Group has adopted IFRS 9 “Financial Instruments” effective January 1, 2018. The description and effects of major changes in accounting policies resulting from the adoption of IFRS 9 are summarized as follows:

The application of IFRS 9 has made consequential amendments to IAS 1 “Presentation of Financial Statements,” which has also been applied. The amendments require that the impairment of financial assets should be presented separately in the statement of profit or loss and other comprehensive income.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The following assessments have been made based on the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation of investments in equity instruments not held for trading as measured at FVOCI (measured at fair value through other comprehensive income).
- Changes to hedge accounting policies resulting from the adoption of IFRS 9 have been applied prospectively.
- All hedging relationships designated under IAS 39 on December 31, 2017 met the criteria for hedge accounting under IFRS 9 on January 1, 2018 and have therefore been regarded as continuing hedging relationships.

As a result of applying IFRS 9, the foreign currency basis spreads of financial instruments are separately accounted for as a cost of hedging; they are recognized in other comprehensive income and accumulated in a cost of hedging reserve within equity.

There is no material impact on the Group’s financial results or position.

Classification of financial assets and financial liabilities

Under IFRS 9, financial assets are classified into three major categories as measured at: amortized cost; FVOCI; and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which financial assets are managed and their contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables, and available for sale. Derivatives embedded in contracts where the host contract is a financial asset in the scope of IFRS 9 are never separated. Instead, the hybrid financial instrument in its entirety is assessed for classification.

The application of IFRS 9 does not have a material effect on the Group’s accounting policies related to financial liabilities.

Impairment of financial assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with the “expected credit loss” model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt financial assets measured at FVOCI, but not to investments in equity financial assets.

Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Hedge accounting

The Group has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses cross-currency interest rate swaps to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings.

The Group designates the change in fair value of the spot element and the interest element of foreign exchange rates as the hedging instrument in cash flow hedging relationships. The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity.

Under IFRS 9, the foreign currency basis spreads of financial instruments are separately accounted for as a cost of hedging; they are recognized in other comprehensive income and accumulated in a cost of hedging reserve within equity.

IFRS 15 “Revenue from Contracts with Customers”

The Group has adopted IFRS 15 “Revenue from Contracts with Customers” effective January 1, 2018.

In applying IFRS 15, the Group uses a method of recognizing the cumulative effect of applying this standard at the date of initial application, which is accepted as a transitional measure, and accordingly financial information for the comparative year is not restated.

In accordance with IFRS 15, the Group has recognized revenue based on the following five-step approach from the first quarter ended March 31, 2018, except for interest and dividend income under IFRS 9.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group engages in manufacturing and selling precision balls, precision rollers, stamped steel cages, sheet metal parts, ball screws, air blowers and other products. For the sale of such products, revenue is recognized upon delivery of the products because the customer obtains control of the products upon delivery, by which the Group determines that the performance obligation is satisfied. The amount of revenue is measured at the net amount of consideration promised in a contract less returns, discounts and rebates.

As a result of identifying performance obligations under contracts with customers based on the above five-step approach, certain cost of sales that has been previously recognized as such is accounted for as a reduction of revenue from the first quarter ended March 31, 2018.

The impact on revenue and other profit or loss is immaterial.

⑵ Share-based payment

The Group has adopted an officer remuneration BIP (Board Incentive Plan) trust (hereinafter referred to as the “BIP Trust”) as a performance-linked share-based payment to ensure steady execution and progress of the Midterm Business Plan. The BIP Trust is a system of granting the Company’s shares to officers (in certain cases, the Company’s shares are converted into money within the trust and money equivalent to the value of the Company’s shares is paid) in accordance with the officers’ rank and level of achievement of the Midterm Business Plan, etc. The value of the services received is measured by the fair value of the Company’s shares at the grant date. This value is expensed over the vesting period from the grant date, and the corresponding amount is recognized as an increase in equity.

3. Unaudited Condensed Interim Consolidated Financial Statements

(1) Unaudited Condensed Interim Consolidated Statements of Financial Position

(Millions of yen)

	As of December 31, 2017	As of June 30, 2018
Assets		
Current assets		
Cash and cash equivalents	12,001	12,759
Trade and other receivables, net	17,017	17,235
Inventories	23,372	24,000
Other current assets	727	945
Total current assets	53,117	54,939
Non-current assets		
Property, plant and equipment, net	34,092	32,585
Intangible assets, net and goodwill	47,940	47,084
Investment property	3,755	3,755
Other investments	398	461
Deferred tax assets	176	166
Other non-current assets	98	109
Total non-current assets	86,459	84,160
Total assets	139,576	139,099
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	6,487	7,016
Current portion of loans and borrowings	155	8,655
Income taxes payable	1,052	1,121
Other current liabilities	3,477	3,616
Total current liabilities	11,171	20,408
Non-current liabilities		
Loans and borrowings, excluding current portion	72,441	63,409
Net defined benefit liability	2,905	2,871
Deferred tax liabilities	4,233	4,203
Other non-current liabilities	4,220	4,269
Total non-current liabilities	83,799	74,752
Total liabilities	94,970	95,160
Equity		
Share capital	16,459	16,501
Capital surplus	10,630	10,701
Treasury stock	(971)	(1,439)
Accumulated other comprehensive loss	(2,085)	(4,605)
Retained earnings	20,549	22,750
Equity attributable to owners of the parent	44,582	43,914
Non-controlling interests	24	25
Total equity	44,606	43,939
Total liabilities and equity	139,576	139,099

(2) Unaudited Condensed Interim Consolidated Statements of Profit or Loss and Other Comprehensive Income (Loss)

(Millions of yen)

	For the six months ended June 30, 2017	For the six months ended June 30, 2018
Sales	20,653	38,901
Cost of sales	14,907	29,754
Gross profit	5,746	9,147
Selling, general and administrative expenses	2,349	3,731
Other income	65	53
Other expenses	2	75
Operating profit	3,460	5,394
Financial income	23	18
Financial expenses	389	572
Profit before taxes	3,094	4,840
Income tax expense	818	1,325
Net profit for the period	2,276	3,515
Net profit for the period attributable to.		
Owners of the parent	2,276	3,513
Non-controlling interests	—	2
Net profit for the period	2,276	3,515
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Financial assets measured at FVOCI	—	56
Total items that will not be reclassified to profit or loss	—	56
Items that may subsequently be reclassified to profit or loss		
Foreign currency translation differences	(62)	(2,713)
Cash flow hedges	43	(15)
Hedges costs	—	151
Changes in fair value of available-for-sale financial assets	43	—
Total items that may subsequently be reclassified to profit or loss	24	(2,577)
Other comprehensive loss, net of tax	24	(2,521)
Total comprehensive income (loss)	2,300	994
Total comprehensive income attributable to.		
Owners of the parent	2,300	993
Non-controlling interests	—	1
Total comprehensive income (loss)	2.300	994
Earnings per share attributable to owners of the parent		
Basic earnings per share (yen)	57.59	88.27
Diluted earnings per share (yen)	56.28	86.02

Unaudited Condensed Interim Consolidated Statements of Profit or Loss and Other Comprehensive Income (Loss)

(Millions of yen)

	For the three months ended June 30, 2017	For the three months ended June 30, 2018
Sales	10,588	19,411
Cost of sales	7,626	14,789
Gross profit	2,962	4,622
Selling, general and administrative expenses	1,234	1,974
Other income	29	20
Other expenses	2	46
Operating profit	1,755	2,622
Financial income	91	106
Financial expenses	111	269
Profit before taxes	1,735	2,459
Income tax expense	484	681
Net profit for the period	1,251	1,778
Net profit for the period attributable to.		
Owners of the parent	1,251	1,776
Non-controlling interests	—	2
Net profit for the period	1,251	1,778
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Financial assets measured at FVOCI	—	73
Total items that will not be reclassified to profit or loss	—	73
Items that may subsequently be reclassified to profit or loss		
Foreign currency translation differences	459	496
Cash flow hedges	17	58
Hedges costs	—	12
Changes in fair value of available-for-sale financial assets	35	—
Total items that may subsequently be reclassified to profit or loss	511	566
Other comprehensive loss, net of tax	511	639
Total comprehensive income (loss)	1,762	2,417
Total comprehensive income attributable to.		
Owners of the parent	1,762	2,415
Non-controlling interests	—	2
Total comprehensive income (loss)	1.762	2,417
Earnings per share attributable to owners of the parent		
Basic earnings per share (yen)	31.61	44.63
Diluted earnings per share (yen)	30.89	43.54

(3) Unaudited Condensed Interim Consolidated Statements of Changes in Equity

For the six months ended June 30, 2017

(Millions of yen)

	Equity attributable to owners of the parent				
				Accumulated Other Comprehensive Income (Loss)	
	Share capital	Capital surplus	Treasury stock	Foreign currency translation differences	Cash flow hedges
Balance as of January 1, 2017	16,299	10,472	(971)	(1,968)	(332)
Net profit for the period	—	—	—	—	—
Other comprehensive income (loss), net of tax	—	—	—	(62)	43
Total comprehensive Income (loss)	—	—	—	(62)	43
Issuance of new shares	93	92	—	—	—
Dividends	—	—	—	—	—
Total transactions with owners and other	93	92	—	—	—
Balance as of June 30, 2017	16,392	10,564	(971)	(2,030)	(289)

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated Other Comprehensive Income (Loss)		Retained earnings	Total	Non-controlling interests	Total equity
	Changes in fair value of available-for-sale financial assets	Total				
Balance as of January 1, 2017	(5)	(2,305)	20,497	43,992	19	44,011
Net profit for the period	—	—	2,276	2,276	—	2,276
Other comprehensive income (loss), net of tax	43	24	—	24	—	24
Total comprehensive income (loss)	43	24	2,276	2,300	—	2,300
Issuance of new shares	—	—	—	185	—	185
Dividends	—	—	(1,302)	(1,302)	—	(1,302)
Total transactions with owners and other	—	—	(1,302)	(1,117)	—	(1,117)
Balance as of June 30, 2017	38	(2,281)	21,471	45,175	19	45,194

For the six months ended June 30, 2018

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated Other Comprehensive Income (Loss)		
	Share capital	Capital surplus	Treasury stock	Foreign currency translation differences	Cash flow hedges	Hedges costs
Balance as of January 1, 2018	16,459	10,630	(971)	(1,110)	(1,110)	—
Adjustment to apply IFRS 9 (after tax)	—	—	—	—	(130)	130
Adjusted balance as of January 1, 2018	16,459	10,630	(971)	(1,110)	(1,240)	130
Net profit for the period	—	—	—	—	—	—
Other comprehensive income (loss), net of tax	—	—	—	(2,712)	(15)	151
Total comprehensive Income (loss)	—	—	—	(2,712)	(15)	151
Purchase of treasury stock	—	—	(468)	—	—	—
Issuance of new shares	48	47	—	—	—	—
Dividends	—	—	—	—	—	—
Share based payment	—	24	—	—	—	—
Total transactions with owners and other	48	71	(468)	—	—	—
Balance as of June 30, 2018	16,507	10,701	(1,439)	(3,822)	(1,255)	281

(Millions of yen)

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Accumulated Other Comprehensive Income (Loss)		Retained earnings	Total		
	Changes in fair value of available-for-sale financial assets	Total				
Balance as of January 1, 2018	135	(2,085)	20,549	44,582	24	44,606
Adjustment to apply IFRS 9 (after tax)	—	—	—	—	—	—
Adjusted balance as of January 1, 2018	135	(2,085)	20,549	44,582	24	44,606
Net profit for the period	—	—	3,513	3,513	2	3,515
Other comprehensive income (loss), net of tax	56	(2,520)	—	(2,520)	(1)	(2,521)
Total comprehensive income (loss)	56	(2,520)	3,513	993	1	994
Purchase of treasury stock	—	—	—	(468)	—	(468)
Issuance of new shares	—	—	—	95	—	95
Dividends	—	—	(1,312)	(1,312)	—	(1,312)
Share based payment	—	—	—	24	—	24
Total transactions with owners and other	—	—	(1,312)	(1,661)	—	(1,661)
Balance as of June 30, 2018	191	(4,605)	22,750	43,914	25	43,939

(4) Unaudited Condensed Interim Consolidated Statements of Cash Flows

(Millions of yen)

	For the six months ended June 30, 2017	For the six months ended June 30, 2018
Cash flows from operating activities		
Profit before taxes	3,094	4,840
Depreciation and amortization	796	1,737
Decrease in net defined benefit liability	(41)	(11)
Interest and dividend income	(19)	(14)
Interest expense	215	401
Foreign exchange losses	153	74
Gain on sale of fixed assets	(5)	(1)
Decrease (increase) in trade and other receivables	427	(800)
Increase in inventories	(569)	(1,160)
Increase in trade and other payables	757	749
Other, net	(98)	(65)
Interest and dividends received	17	11
Interest paid	(216)	(396)
Income taxes paid	(1,108)	(1,387)
Net cash provided by operating activities	3,403	3,978
Cash flows from investing activities		
Payments for acquisition of property, plant and equipment	(510)	(1,320)
Proceeds from sales of property, plant and equipment	—	10
Payments for acquisition of investment securities	(1)	(1)
Payments for acquisition of subsidiary stock	—	(90)
Other, net	7	9
Net cash used in investing activities	(504)	(1,392)
Cash flows from financing activities		
Repayments of long-term loans and borrowings	(78)	(78)
Proceeds from exercise of subscription rights	186	96
Cash dividends paid	(1,285)	(1,312)
Payments for purchase of treasury stock	—	(468)
Net cash used in financing activities	(1,177)	(1,762)
Effect of exchange rate changes on cash and cash equivalents	(57)	(66)
Net increase in cash and cash equivalents	1,665	758
Cash and cash equivalents at the beginning of the period	19,132	12,001
Cash and cash equivalents at the end of the period	20,797	12,759

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(5) Summary Notes on the quarterly consolidated financial statements

Notes concerning going concern assumption

Not applicable

Operating Segments

1. General information

(1) Basis of segmentation

The Group is composed of segments by product and service and there are "Precision component Business, "Linear Business" and "Others" as reporting segments.

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available and is subject to regular review by the Chief Executive Officer of the Group for assessing performance and making resource allocation decisions. The Company's operating segments consist of "Precision component business", "Linear business" and "Others business". These businesses offer different products and are managed separately because they require different technologies and marketing strategies.

The "Precision component business" segment engages in manufacturing and sales of various types of steel balls, rollers, cages and sheet metal parts. The "Linear business" segment engages in manufacturing and sales of ball screws and air blowers. The "Others business" segment engages primarily in the leasing of real estate.

Segment information is determined in conformity with the accounting policies used in preparing the condensed interim consolidated financial statements. Operating profit (loss) of each reportable segment is measured in a consistent manner with consolidated operating profit, which is profit before income taxes before finance income and finance costs. Pricing for the inter-segment transactions are determined on an arm's length basis.

During the third quarter of the previous consolidated fiscal year, we acquired TN TENNESSEE, LLC. and eight other companies in the scope of consolidation. The name of the segment has been changed from "Ball business" to "Precision component Business".

The reported segment information for the second quarter of the previous fiscal year is also shown as after the change.

(2) Segment Information

Segment information for the six months ended June 30, 2017 and 2018 is as follows.

For the six months ended June 30, 2017

(Millions of yen)

	Precision component business	Linear business	Others business	Total	Reconciling items	Condensed interim consolidated financial statements
Sales						
External sales	17,806	2,661	186	20,653	—	20,653
Inter-segment sales	2	—	22	24	(24)	—
Total consolidated sales	17,808	2,661	208	20,677	(24)	20,653
Segment profit	3,139	150	171	3,460	—	3,460
				Financial income		23
				Financial expense		(389)
				Profit before taxes		3,094

Reconciling items to segment profit include elimination of inter-segment transactions.

For the six months ended June 30, 2018

(Millions of yen)

	Precision component business	Linear business	Others business	Total	Reconciling items	Condensed interim consolidated financial statements
Sales						
External sales	36,030	2,684	187	38,901	—	38,901
Inter-segment sales	5	—	21	26	(26)	—
Total consolidated sales	36,035	2,684	208	38,927	(26)	38,901
Segment profit	4,900	334	160	5,394	—	5,394
				Financial income		18
				Financial expense		(572)
				Profit before taxes		4,840

Reconciling items to segment profit include elimination of inter-segment transactions.

Segment information for the three months ended June 30, 2017 and 2018 is as follows.

For the three months ended June 30, 2017

(Millions of yen)

	Precision component business	Linear business	Others business	Total	Reconciling items	Condensed interim consolidated financial statements
Sales						
External sales	9,114	1,381	93	10,588	—	10,588
Inter-segment sales	1	—	11	12	(12)	—
Total consolidated sales	9,115	1,381	104	10,600	(12)	10,588
Segment profit	1,598	71	86	1,755	—	1,755
				Financial income		91
				Financial expense		(111)
				Profit before taxes		1,735

Reconciling items to segment profit include elimination of inter-segment transactions.

For the three months ended June 30, 2018

(Millions of yen)

	Precision component business	Linear business	Others business	Total	Reconciling items	Condensed interim consolidated financial statements
Sales						
External sales	17,969	1,348	94	19,411	—	19,411
Inter-segment sales	3	—	10	13	(13)	—
Total consolidated sales	17,972	1,348	104	19,424	(13)	19,411
Segment profit	2,370	177	75	2,622	—	2,622
				Financial income		106
				Financial expense		(269)
				Profit before taxes		2,459

Reconciling items to segment profit include elimination of inter-segment transactions.