

**Consolidated Financial Statements**  
**for the Second Quarter of the Fiscal Year Ending March 31, 2023 [J-GAAP]**

November 7, 2022

**NIPPON KANZAI Co., Ltd.**

Listed exchange: Tokyo Stock Exchange, Prime Market  
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 Filing date of quarterly report: November 14, 2022  
 Date to start dividends distribution: December 2, 2022  
 Supplementary materials for quarterly results: Yes  
 Quarterly results briefing meeting held: Yes (for institutional investors and analysts)

\*Amounts below one million yen have been rounded down.

**1. Consolidated results for the second quarter ended September 30, 2022 (April 1, 2022 to September 30, 2022)**

**(1) Consolidated business results**

(Percentage figures indicate the rate of change from the same period of the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2022	53,736	7.7	4,197	15.0	4,747	18.1
Six months ended September 30, 2021	49,883	0.9	3,651	22.5	4,019	34.2

(Note) Comprehensive income: Six months ended September 30, 2022: ¥3,922 million [-1.9%]  
 Six months ended September 30, 2021: ¥3,998 million [106.6%]

	Profit Attributable to Owners of Parent		Profit per Share	Diluted Profit per Share
	Millions of yen	%	Yen	Yen
Six months ended September 30, 2022	3,068	(9.7)	82.09	—
Six months ended September 30, 2021	3,400	71.7	90.95	—

**(2) Consolidated financial position**

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of September 30, 2022	84,186	64,464	75.1
As of March 31, 2022	82,141	61,652	73.5

(Reference) Equity: As of September 30, 2022: ¥63,223 million  
 As of March 31, 2022: ¥60,372 million

**2. Dividends**

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2022	—	27.00	—	27.00	54.00
Fiscal year ending March 31, 2023	—	27.00	—	—	—
Fiscal year ending March 31, 2023 (forecast)	—	—	—	27.00	54.00

(Note) Revisions to the most recently announced forecast of cash dividends in the current quarter: None

**3. Consolidated business forecasts for the fiscal year ending March 31, 2023 (April 1, 2022 to March 31, 2023)**

(Percentage figures indicate the rate of change from the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		Profit per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	108,000	4.1	7,800	4.0	8,500	2.7	5,600	(9.3)	149.80

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

\* Notes

(1) **Changes of significant subsidiaries during the period (changes in specific subsidiaries associated with changes in scope of consolidation):** None

(2) **Adoption of specific accounting methods for preparation of the quarterly consolidated financial statements:**  
None

(3) **Changes in accounting policies, accounting estimates and restatement of revisions**

- |   |      |
|---|------|
| 1) Changes in accounting policies due to revisions of accounting standards, etc.: | None |
| 2) Changes in accounting policies other than 1) above:                            | Yes  |
| 3) Changes in accounting estimates:   | None |
| 4) Restatement of revisions:  | None |

(4) **Number of shares issued and outstanding (common stock)**

- 1) Number of shares issued and outstanding (including treasury stock)
- 2) Number of treasury stock
- 3) Average number of shares issued and outstanding

1)	As of September 30, 2022	41,180,306 shares	As of March 31, 2022	41,180,306 shares
2)	As of September 30, 2022	3,797,032 shares	As of March 31, 2022	3,797,012 shares
3)	First six months ended September 30, 2022	37,383,293 shares	First six months ended September 30, 2021	37,383,486 shares

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

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

(Notes to forward-looking statements)

The business forecasts reported herein were prepared based on information the Company had in its possession as of the time this report was prepared and on certain assumptions judged to be reasonable. Actual results may differ significantly from forecasts due to various factors. Please refer to the disclaimers provided under “1. Qualitative information on financial statements; (3) Explanation regarding information on future forecasts including consolidated business forecasts, etc.” on page 3 of the Attached Document of this quarterly financial report regarding assumptions upon which forecasts are based and the use of forecasts.

(How to obtain supplementary materials on financial results)

The Company plans to hold a financial results briefing for institutional investors and analysts on Thursday, November 24, 2022. Presentation materials will be posted on the Company website after the briefing meeting is over.

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## 1. Qualitative information on financial statements

### (1) Explanation regarding business results

During the first six months of the fiscal year ending March 31, 2023, the Japanese economy showed signs of an increase in activity due to the easing of stay-at-home orders and such, but the impact of surging resource and raw material prices caused by the prolonged situation in Ukraine and currency exchange fluctuation risks due to the rapid depreciation of the yen with no prospects of an end to COVID-19 yet in sight still continuing to cast uncertainty over the future.

The real estate services industry also saw vacancy rates for office buildings and retail facilities in urban areas still remain high as a result of a widespread adoption of remote working and establishment of satellite offices as countermeasures against COVID-19 and other factors. In addition, with surging resource and raw material prices and rising labor costs leading to client companies becoming more conscious of reducing costs, a severe business environment is expected to continue.

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

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

Consolidated net sales for the first six months of the fiscal year ending March 31, 2023, increased by 7.7% year on year to 53,736 million yen from new management project contracts and steady contract renewals.

In terms of profit, efforts to review the cost of sales ratio and reduce costs resulted in operating income increasing by 15.0% year on year to 4,197 million yen and ordinary income increasing by 18.1% year on year to 4,747 million yen, and profit attributable to owners of parent decreased by 9.7% year on year to 3,068 million yen due to an increase in tax expenses.

The following are business results by segment.

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

#### Building Management and Operations

With regard to Building Management and Operations, the Group’s core business that focuses on building management and security services, steadily winning new management contracts and renewing contracts resulted in net sales for the segment for the first six months of the fiscal year ending March 31, 2023, increasing by 5.4% year on year to 36,357 million yen.

In terms of profit, a review of the cost ratio and efforts to reduce costs resulted in segment income increasing by 7.9% year on year to 5,251 million yen.

#### Residential Management and Operations

With regard to Residential Management and Operations, which mainly consists of managing rental apartment buildings and condominiums as well as public housing, increasingly winning new management contracts resulted in net sales for the segment for the first six months of the fiscal year ending March 31, 2023, increasing by 8.5% year on year to 8,907 million yen.

In terms of profit, a review of the cost ratio and efforts to reduce costs resulted in segment income increasing by 16.1% year on year to 984 million yen.

#### Environmental Facilities Management

With regard to Environmental Facilities Management, which mainly consists of managing water treatment, sewage disposal, and other public facilities related to the overall living environment, steady renewal of existing management contracts and an increase in orders for construction-related work resulted in net sales for the segment for the first six months of the fiscal year ending March 31, 2023, increasing by 6.8% year on year to 5,944 million yen.

In terms of profit, despite efforts to reduce expenses and enhance operational efficiency, the impact of surging resource prices and other factors resulted in segment income decreasing by 3.5% year on year to 803 million yen.

#### Real Estate Fund Management

With regard to Real Estate Fund Management, which mainly consists of asset management (i.e., arrangement and asset management of real estate funds) and handling of investments in silent partnership, an increase in income from the sale of assets under management and sublease contracts resulted in net sales for the segment for the first six months of the fiscal year ending March 31, 2023, increasing by 30.0% year on year to 1,357 million yen.

In terms of profit, despite efforts to reduce expenses and enhance operational efficiency, an increase in personnel expenses and such due to strengthening of the system resulted in segment income decreasing by 63.2% year on year to 21 million yen.

#### Other Businesses

In Other Businesses, which consist mainly of event planning and management, design and payroll accounting services, successfully winning highly profitable contracts and contribution of the business performance of Neotrust Co., Ltd., which became a consolidated subsidiary at the end of the second quarter of the fiscal year ended March 31, 2022, resulted in net sales for the segment for the first six months of the fiscal year ending March 31, 2023, increasing by 82.7% year on year to 1,330 million yen and segment income increasing by 65.3% year on year to 265 million yen.

## **(2) Explanation regarding financial position**

### **(Analysis of financial position)**

Total assets at the end of the second quarter of the fiscal year ending March 31, 2023, increased by 2,044 million yen, or 2.5%, from the end of the previous fiscal year to 84,186 million yen, mainly due to an increase in investment securities from purchase of shares of affiliated companies.

Liabilities decreased by 767 million yen, or 3.7%, from the end of the previous fiscal year to 19,721 million yen, mainly due to payment of trade accounts payable and repayment of loans payable.

Net assets increased by 2,812 million yen, or 4.6%, from the end of the previous fiscal year to 64,464 million yen, mainly due to foreign currency translation adjustment and an increase in profit attributable to owners of parent. The equity ratio increased by 1.6 percentage points from the end of the previous fiscal year to 75.1%.

### **(Analysis of cash flows)**

Cash and cash equivalents (hereinafter “cash”) decreased by 1,110 million yen from the end of the previous fiscal year to 31,333 million yen.

The status and main factors of cash flows for the first six months of the fiscal year ending March 31, 2023, were as follows:

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

Net cash provided by operating activities for the first six months of the fiscal year ending March 31, 2023, was 3,533 million yen, a larger inflow by 2,955 million yen year on year.

This was mainly due to an increase in notes and accounts payable (a smaller outflow by 2,051 million yen year on year) and a decrease in income taxes paid (a smaller outflow by 1,237 million yen year on year).

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

Net cash used in investing activities for the first six months of the fiscal year ending March 31, 2023, was 3,363 million yen, a larger outflow by 2,132 million yen year on year.

This was mainly due to an increase in purchase of investment securities (a larger outflow by 2,499 million yen year on year) and a decrease in proceeds from redemption of investment securities (a smaller inflow by 412 million yen year on year).

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

Net cash used in financing activities for the first six months of the fiscal year ending March 31, 2023, was 1,365 million yen, a larger outflow by 1 million yen year on year.

This was mainly due to an increase in repayments of lease obligations (a larger outflow by 8 million yen year on year).

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

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

The Group’s business performance has been generally in line with the forecasts announced on May 10, 2022, and there are no changes to the full-year business forecasts.

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

	(Millions of yen)	
	Fiscal year ended March 31, 2022 (As of March 31, 2022)	Second quarter ended September 30, 2022 (As of September 30, 2022)
<b>ASSETS</b>		
Current assets		
Cash and deposits	32,789	31,678
Notes, accounts receivable—trade and contract assets	14,296	13,437
Investments in silent partnership for business purposes	74	69
Supplies	183	240
Real estate for sale	2,907	2,086
Income taxes receivable	141	-
Other	1,465	2,536
Allowance for doubtful accounts	(8)	(7)
<b>Total current assets</b>	<b>51,849</b>	<b>50,040</b>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,846	3,860
Machinery, equipment and vehicles, net	39	33
Tools, furniture and fixtures, net	550	545
Land	1,226	1,228
Leased assets, net	302	457
Construction in progress	21	8
<b>Total property, plant and equipment</b>	<b>5,988</b>	<b>6,133</b>
Intangible assets		
Telephone subscription right	46	46
Software	405	350
Goodwill	1,825	1,735
Leased assets	9	8
Software in progress	70	200
<b>Total intangible assets</b>	<b>2,357</b>	<b>2,342</b>
Investments and other assets		
Investment securities	15,653	19,510
Long-term loans receivable	833	890
Long-term prepaid expenses	19	15
Lease and guarantee deposits	3,671	3,423
Membership	361	360
Net defined benefit asset	830	907
Deferred tax assets	245	246
Other	388	372
Allowance for doubtful accounts	(56)	(56)
<b>Total investments and other assets</b>	<b>21,946</b>	<b>25,669</b>
<b>Total non-current assets</b>	<b>30,291</b>	<b>34,145</b>
<b>TOTAL ASSETS</b>	<b>82,141</b>	<b>84,186</b>

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

	(Millions of yen)	
	Fiscal year ended March 31, 2022 (As of March 31, 2022)	Second quarter ended September 30, 2022 (As of September 30, 2022)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable—trade	6,143	4,808
Current portion of long-term loans payable	375	375
Current portion of long-term non-recourse loans payable	16	308
Lease obligations	107	145
Accrued expenses	2,659	2,630
Income taxes payable	561	1,360
Accrued consumption taxes	930	1,009
Deposits received	277	295
Contract liabilities	1,711	1,742
Provision for bonuses	768	764
Asset retirement obligations	21	7
Other	53	43
<b>Total current liabilities</b>	<b>13,626</b>	<b>13,491</b>
Non-current liabilities		
Long-term loans payable	375	187
Long-term non-recourse loans payable	1,871	1,570
Lease obligations	229	341
Deferred tax liabilities	731	724
Net defined benefit liability	166	152
Long-term guarantee deposited	2,475	2,206
Asset retirement obligations	284	332
Liabilities from application of equity method	22	6
Other	705	707
<b>Total non-current liabilities</b>	<b>6,862</b>	<b>6,230</b>
<b>TOTAL LIABILITIES</b>	<b>20,489</b>	<b>19,721</b>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,000	3,000
Capital surplus	3,785	3,785
Retained earnings	55,080	57,140
Treasury shares	(2,773)	(2,773)
<b>Total shareholders' equity</b>	<b>59,092</b>	<b>61,151</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,282	2,238
Foreign currency translation adjustment	(820)	(17)
Remeasurements of defined benefit plans	(181)	(148)
<b>Total accumulated other comprehensive income</b>	<b>1,280</b>	<b>2,071</b>
Non-controlling interests	1,279	1,240
<b>TOTAL NET ASSETS</b>	<b>61,652</b>	<b>64,464</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>82,141</b>	<b>84,186</b>

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

**(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income**  
**Quarterly consolidated statements of income**

	(Millions of yen)	
	Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)	Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)
Net sales	49,883	53,736
Cost of sales	38,595	41,404
Gross profit	11,288	12,331
Selling, general and administrative expenses		
Selling expenses	296	368
Personnel expenses	4,133	4,316
Provision for bonuses	357	359
Retirement benefit expenses	170	143
Transportation and communication expenses	474	525
Supplies expenses	239	270
Rent expenses	552	636
Insurance expenses	229	207
Depreciation	211	237
Taxes and dues	71	71
Enterprise tax	168	182
Provision of allowance for doubtful accounts	0	(1)
Amortization of goodwill	67	89
Other	663	726
Total selling, general and administrative expenses	7,637	8,134
Operating income	3,651	4,197
Non-operating income		
Interest and dividend income	124	114
Rent income	27	27
Share of profit of entities accounted for using equity method	238	52
Foreign exchange gains	29	395
Other	41	35
Total non-operating income	462	625
Non-operating expenses		
Interest expenses	11	11
Rent expenses	26	29
Loss on sales and retirement of non-current assets	27	19
Other	28	14
Total non-operating expenses	93	74
Ordinary income	4,019	4,747
Extraordinary income		
Gain on sales of investment securities	100	-
Total extraordinary income	100	-
Profit before income taxes	4,119	4,747
Income taxes—current	1,053	1,617
Income taxes—deferred	(392)	(0)
Total income taxes	661	1,616
Profit	3,458	3,131
Profit attributable to non-controlling interests	57	62
Profit attributable to owners of parent	3,400	3,068

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



**Quarterly consolidated statements of comprehensive income**

	(Millions of yen)	
	Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)	Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)
Profit	3,458	3,131
Other comprehensive income		
Valuation difference on available-for-sale securities	92	(45)
Foreign currency translation adjustment	34	(128)
Remeasurements of defined benefit plans, net of tax	92	33
Share of other comprehensive income of entities accounted for using equity method	320	931
Total other comprehensive income	539	790
Comprehensive income	3,998	3,922
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,950	3,860
Comprehensive income attributable to non-controlling interests	47	62

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

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

	(Millions of yen)	
	Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)	Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)
<b>Cash flows from operating activities</b>		
Profit before income taxes	4,119	4,747
Depreciation	285	329
Amortization of goodwill	67	89
Increase (decrease) in provision for bonuses	(58)	(4)
Increase (decrease) in assets and liabilities for retirement benefits	44	(41)
Increase (decrease) in allowance for doubtful accounts	0	(1)
Share of (profit) loss of entities accounted for using equity method	(238)	(52)
Interest and dividend income	(124)	(114)
Interest expenses	11	11
Foreign exchange losses (gains)	(2)	(311)
Loss (gain) on sales and retirement of non-current assets	27	18
Loss (gain) on sales of investment securities	(100)	-
Decrease (increase) in notes and accounts receivable—trade	1,910	889
Decrease (increase) in inventories	588	764
Decrease (increase) in other assets	(91)	(977)
Increase (decrease) in notes and accounts payable—trade	(3,500)	(1,449)
Increase (decrease) in accrued consumption taxes	(570)	77
Increase (decrease) in other liabilities	(7)	79
Other, net	(14)	(6)
Subtotal	2,347	4,048
Interest and dividend income received	172	189
Interest expenses paid	(11)	(11)
Income taxes paid	(1,930)	(693)
Net cash provided by (used in) operating activities	578	3,533

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

	(Millions of yen)	
	Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)	Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)
<b>Cash flows from investing activities</b>		
Payments into time deposits	(130)	(30)
Proceeds from withdrawal of time deposits	230	30
Purchase of property, plant and equipment and intangible assets	(672)	(363)
Proceeds from sales of property, plant and equipment and intangible assets	0	2
Purchase of investment securities	(589)	(3,089)
Proceeds from sales of investment securities	119	30
Proceeds from redemption of investment securities	412	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(511)	-
Payments of loans receivable	(34)	-
Collection of loans receivable	29	32
Payments for lease and guarantee deposits	(332)	(113)
Proceeds from collection of lease and guarantee deposits	207	391
Proceeds from guarantee deposits received	335	58
Repayments of guarantee deposits received	(290)	(327)
Other, net	(4)	16
Net cash provided by (used in) investing activities	(1,230)	(3,363)
<b>Cash flows from financing activities</b>		
Increase in short-term loans payable	1,400	1,800
Decrease in short-term loans payable	(1,400)	(1,800)
Repayments of long-term loans payable	(187)	(187)
Repayments of long-term non-recourse loans payable	(9)	(8)
Repayments of lease obligations	(57)	(66)
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(1,009)	(1,009)
Dividends paid to non-controlling interests	(99)	(94)
Net cash provided by (used in) financing activities	(1,364)	(1,365)
Effect of exchange rate change on cash and cash equivalents	6	85
Net increase (decrease) in cash and cash equivalents	(2,009)	(1,110)
Cash and cash equivalents at beginning of period	32,830	32,444
Cash and cash equivalents at end of period	30,820	31,333

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

**(4) Notes on quarterly consolidated financial statements**

**(Notes on the going concern assumption)**

Not applicable.

**(Notes on significant changes in the amount of shareholders' equity)**

Not applicable.

**(Changes in accounting policies)**

Overseas equity method affiliated companies that have adopted International Financial Reporting Standards (IFRS) have traditionally recognized the configuration or customization of costs for cloud computing contracts in accordance with IAS 38 as “intangible assets.” Starting from the fourth quarter of the fiscal year ended March 31, 2022, however, the method has been changed to one with which the above costs are recognized as costs generated when the configuration or customization service is received, based on the agenda decision of the IFRS Interpretations Committee that was announced in April 2021.

The change in accounting policy is applied retrospectively and has been reflected in the quarterly consolidated financial statements for the first six months of the fiscal year ended March 31, 2022.

The change has minimal impact on the quarterly consolidated financial statements for the first six months of the fiscal year ended March 31, 2022.

**(Segment information, etc.)**

## I. Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)

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

(Millions of yen)

	Reportable segment						Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operations	Residential Management and Operations	Environmental Facilities Management	Real Estate Fund Management	Other Businesses	Total		
Net sales								
Net sales to external customers	34,483	8,209	5,568	1,044	577	49,883	—	49,883
Inter-segment net sales and transfer	—	—	—	—	150	150	(150)	—
Total	34,483	8,209	5,568	1,044	728	50,034	(150)	49,883
Segment income	4,866	848	832	57	160	6,765	(3,114)	3,651

(Notes) 1. Adjustments of -3,114 million yen for segment income are elimination of inter-segment transactions and unallocated general administrative expenses.

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

## II. Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)

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

(Millions of yen)

	Reportable segment						Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operations	Residential Management and Operations	Environmental Facilities Management	Real Estate Fund Management	Other Businesses	Total		
Net sales								
Net sales to external customers	36,357	8,907	5,944	1,357	1,170	53,736	—	53,736
Inter-segment net sales and transfer	—	—	—	—	160	160	(160)	—
Total	36,357	8,907	5,944	1,357	1,330	53,897	(160)	53,736
Segment income	5,251	984	803	21	265	7,326	(3,128)	4,197

(Notes) 1. Adjustments of -3,128 million yen for segment income are elimination of inter-segment transactions and unallocated general administrative expenses.

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