

Consolidated Financial Statements
for the Second Quarter of the Fiscal Year Ending March 31, 2022 [J-GAAP]

November 4, 2021

NIPPON KANZAI Co., Ltd.

Listed exchanges: Tokyo Stock Exchange, First Section
Code number: 9728 URL: <https://www.nkanzai.co.jp/en/>
Representative: Shintaro Fukuda, President and Representative Director
Contact: Shigeki Okamoto, Senior Executive Officer and Head of Finance & Accounting Dept.
Telephone: +81-3-5299-0863

Filing date of quarterly report: November 11, 2021

Date to start dividends distribution: December 2, 2021

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, 2021 (April 1, 2021 to September 30, 2021)

(1) Consolidated business results

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

	Net Sales		Operating Income		Ordinary Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2021	49,883	0.9	3,651	22.5	4,054	35.4
Six months ended September 30, 2020	49,459	(5.7)	2,980	(11.3)	2,994	(13.2)

(Note) Comprehensive income: Six months ended September 30, 2021: ¥4,057 million [109.6 %]

Six months ended September 30, 2020: ¥1,935 million [-0.6 %]

	Profit Attributable to Owners of Parent		Profit per Share		Diluted Profit per Share	
	Millions of yen	%	Yen		Yen	
Six months ended September 30, 2021	3,433	73.4	91.84		—	
Six months ended September 30, 2020	1,980	(8.3)	52.97		—	

(2) Consolidated financial position

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen	%	Millions of yen	%	%	
As of September 30, 2021	79,750		60,199		74.0	
As of March 31, 2021	81,759		57,143		68.3	

(Reference) Equity: As of September 30, 2021: ¥58,975 million

As of March 31, 2021: ¥55,862 million

2. Dividends

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2021	—	25.00	—	27.00	52.00
Fiscal year ending March 31, 2022	—	27.00	—	—	—
Fiscal year ending March 31, 2022 (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, 2022 (April 1, 2021 to March 31, 2022)

(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	106,000	1.8	7,700	2.0	8,300	2.1	5,600	6.0	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.: | Yes |
| 2) Changes in accounting policies other than 1) above: | None |
| 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, 2021	41,180,306 shares	As of March 31, 2021	41,180,306 shares
2)	As of September 30, 2021	3,796,822 shares	As of March 31, 2021	3,796,818 shares
3)	First six months ended September 30, 2021	37,383,486 shares	First six months ended September 30, 2020	37,383,548 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.

(Where to find supplementary materials for results)

The Company plans to hold a briefing session on its financial results for institutional investors and analysts on Wednesday, November 24, 2021. Presentation materials will be posted on our website after the presentation.

Table of Contents for the Attached Document

1. Qualitative information on financial statements	2
(1) Explanation regarding business results	2
(2) Explanation regarding financial position	3
(3) Explanation regarding information on future forecasts including consolidated business forecasts, etc.	3
2. Quarterly consolidated financial statements and key notes	4
(1) Quarterly consolidated balance sheets	4
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income	6
Quarterly consolidated statements of income	6
Quarterly consolidated statements of comprehensive income	7
(3) Quarterly consolidated statements of cash flows	8
(4) Notes on quarterly consolidated financial statements	10
(Notes on going concern assumption)	10
(Notes on significant changes in the amount of shareholders' equity)	10
(Changes in accounting policies)	10
(Segment information, etc.)	11

1. Qualitative information on financial statements

(1) Explanation regarding business results

During the first six months of the fiscal year ending March 31, 2022, normalization of economic activities was expected for the Japanese economy due to the promotion of vaccination while the impact of COVID-19 continued to be seen, but repeated declarations of a state of emergency as well as the rise in material prices and insufficient supply of semiconductors continue to cast uncertainty over the future.

In the real estate services industry, with a shift from an urban-intensive society to a decentralized one due to measures such as the introduction of remote working and establishment of satellite offices in the suburbs as countermeasures against COVID-19, the vacancy rates of office and retail facilities are turning toward an upward trend with the exception of some areas. In addition, due to concerns over the increasing cost-consciousness of clients, a severe business environment is expected to continue going forward.

In such a business environment, the Nippon Kanzai Group (hereinafter “the Group”) sought to continuously provide high-quality services that address customer needs by unremittingly pursuing “optimal building management” through its advanced technologies and responsiveness, endeavoring to enhance the asset value of buildings.

The Group has also exerted itself to further strengthen and improve building management and operations, its core business, while proactively developing peripheral business areas including private finance initiatives (PFI) and public facilities management.

Consolidated net sales for the first six months of the fiscal year ending March 31, 2022, increased by 0.9% year on year to 49,883 million yen due to steady entrustment of new management projects and contract renewals.

In terms of profit, efforts to secure profits including fee revisions and the review of the content of specifications and work efficiency resulted in operating income increasing by 22.5% year on year to 3,651 million yen and ordinary income increasing by 35.4% year on year to 4,054 million yen, and profit attributable to owners of parent increased significantly by 73.4% year on year to 3,433 million yen due to the decrease in tax expense.

The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter, the “Revenue Recognition Accounting Standard”), etc. has been applied from the beginning of the first quarter of the fiscal year ending March 31, 2022, and net sales decreased by 63 million yen, cost of sales by 47 million yen, and operating income and ordinary income by 15 million yen each in the first six months of the fiscal year ending March 31, 2022. For details, please refer to “2. Quarterly consolidated financial statements and key notes (4) Notes on quarterly consolidated financial statements (Changes in Accounting Policies).”

The following are the 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, although contract renewals were steady, sluggish growth 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, 2022, decreasing by 0.1% year on year to 34,483 million yen.

In terms of profit, efforts in the review of cost ratio and cost reduction resulted in segment income increasing by 13.3% year on year to 4,866 million yen.

The application of the Revenue Recognition Accounting Standard, etc. resulted in net sales decreasing by 68 million yen, cost of sales decreasing by 52 million yen and segment income decreasing by 15 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, an increase in construction-related work resulted in net sales for the segment for the first six months of the fiscal year ending March 31, 2022, increasing by 5.4% year on year to 8,209 million yen.

In terms of profit, efforts in the review of cost ratio and cost reduction resulted in segment income increasing by 26.0% year on year to 848 million yen.

The application of the Revenue Recognition Accounting Standard, etc. has minimal impact on net sales and profits.

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, the entrustment of new management projects and steady contract renewals resulted in net sales for the segment for the first six months of the fiscal year ending March 31, 2022, increasing by 1.3% year on year to 5,568 million yen.

In terms of profit, segment income increased by 13.9% year on year to 832 million yen as a result of the Group’s efforts in cost reduction with a focus on appropriate personnel assignments.

The application of the Revenue Recognition Accounting Standard, etc. has minimal impact on net sales and profits.

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, a decrease in revenue due to the sales of assets under management resulted in net sales for the segment for the first six months of the fiscal year ending March 31, 2022, decreasing by 12.9% year on year to 1,044 million yen.

In terms of profit, efforts to conduct thorough cost management resulted in segment income increasing by 51.7% year on year to 57 million yen.

The application of the Revenue Recognition Accounting Standard, etc. does not have any impact on net sales and profits.

Other Businesses

For Other Businesses, which mainly consists of event planning and management, printing, and design, the entrustment of highly profitable businesses resulted in net sales for the segment for the first six months of the fiscal year ending March 31, 2022, increasing by 10.8 % year on year to 728 million yen and segment income increasing significantly by 192.8 % year on year to 160 million yen.

The application of the Revenue Recognition Accounting Standard, etc. does not have any impact on net sales and profits.

(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, 2022, decreased by 2,009 million yen, or 2.5%, from the end of the previous fiscal year to 79,750 million yen, mainly due to a decrease in cash and deposits resulting from the acquisition of investment securities and payment of trade accounts payable and taxes.

Liabilities decreased by 5,065 million yen, or 20.6 %, from the end of the previous fiscal year to 19,550 million yen due to payment of trade accounts payable and income taxes payable.

Net assets increased by 3,055 million yen, or 5.3%, from the end of the previous fiscal year to 60,199 million yen due to an increase in foreign currency translation adjustment and quarterly net income attributable to parent company. The equity ratio increased by 5.7 percentage points from the end of the previous fiscal year to 74.0%

(Cash flows)

Cash and cash equivalents (hereinafter “cash”) decreased by 2,009 million yen from the end of the previous fiscal year to 30,820 million yen.

The status and main factors of cash flows for the first six months of the fiscal year ending March 31, 2022, 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, 2022, was 578 million yen, down 952 million yen year on year.

The major factor is a decrease in notes and accounts payable-trade which is smaller than the previous year (down 934 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, 2022, was 1,230 million yen, a larger outflow by 1,094 million yen year on year.

This is primarily due to an increase in expenses due to purchase of shares of subsidiaries resulting in change in scope of consolidation (down 511 million yen year on year) and an increase in expenses due to purchase of property, plant and equipment and intangible assets (down 402 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, 2022, was 1,364 million yen, a larger outflow by 93 million yen year on year.

This is primarily due to an increase in cash dividends paid (down 76 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, 2021, 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, 2021 (As of March 31, 2021)	Second quarter ended September 30, 2021 (As of September 30, 2021)
ASSETS		
Current assets		
Cash and deposits	33,075	30,965
Notes and accounts receivable—trade	14,836	-
Notes, accounts receivable—trade and contract assets	-	13,659
Investments in silent partnership for business purposes	80	78
Supplies	147	158
Real estate for sale	3,519	2,920
Income taxes receivable	90	-
Other	1,742	1,313
Allowance for doubtful accounts	(8)	(9)
Total current assets	53,483	49,086
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	2,985	3,806
Machinery, equipment and vehicles, net	24	27
Tools, furniture and fixtures, net	507	546
Land	1,224	1,224
Lease assets, net	241	242
Construction in progress	429	-
Total property, plant and equipment	5,411	5,847
Intangible assets		
Telephone subscription right	46	46
Software	414	427
Goodwill	1,551	1,914
Lease assets	1	1
Software in progress	10	38
Total intangible assets	2,024	2,427
Investments and other assets		
Investment securities	14,514	15,783
Long-term loans receivable	800	836
Long-term prepaid expenses	34	26
Lease and guarantee deposits	3,681	3,838
Membership	371	361
Net defined benefit asset	801	883
Deferred tax assets	298	307
Other	395	409
Allowance for doubtful accounts	(57)	(57)
Total investments and other assets	20,840	22,388
Total noncurrent assets	28,276	30,664
TOTAL ASSETS	81,759	79,750

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

	(Millions of yen)	
	Fiscal year ended March 31, 2021 (As of March 31, 2021)	Second quarter ended September 30, 2021 (As of September 30, 2021)
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	9,091	4,274
Current portion of long-term loans payable	375	375
Current portion of long-term non-recourse loans payable	19	19
Lease obligations	92	93
Accrued expenses	2,561	2,754
Income taxes payable	1,850	834
Accrued consumption taxes	1,402	846
Deposits received	300	284
Advances received	320	-
Contract liabilities	-	2,005
Provision for bonuses	787	758
Asset retirement obligations	-	19
Other	66	68
Total current liabilities	16,868	12,336
Noncurrent liabilities		
Long-term loans payable	750	562
Long-term non-recourse loans payable	2,336	2,326
Lease obligations	185	177
Deferred tax liabilities	524	279
Net defined benefit liability	169	187
Long-term guarantee deposited	2,580	2,625
Asset retirement obligations	266	263
Liabilities from application of equity method	1	1
Other	934	790
Total noncurrent liabilities	7,747	7,214
TOTAL LIABILITIES	24,616	19,550
NET ASSETS		
Shareholders' equity		
Capital stock	3,000	3,000
Capital surplus	3,785	3,785
Retained earnings	51,248	53,785
Treasury shares	(2,773)	(2,773)
Total shareholders' equity	55,260	57,797
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,050	2,149
Foreign currency translation adjustment	(1,216)	(835)
Remeasurements of defined benefit plans	(232)	(136)
Total accumulated other comprehensive income	601	1,177
Non-controlling interests	1,281	1,223
TOTAL NET ASSETS	57,143	60,199
TOTAL LIABILITIES AND NET ASSETS	81,759	79,750

*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, 2020 (April 1, 2020 to September 30, 2020)	Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)
Net sales	49,459	49,883
Cost of sales	39,176	38,595
Gross profit	10,283	11,288
Selling, general and administrative expenses		
Selling expenses	337	296
Personnel expenses	3,944	4,133
Provision for bonuses	352	357
Retirement benefit expenses	144	170
Transportation and communication expenses	441	474
Supplies expenses	246	239
Rent expenses	516	552
Insurance expenses	241	229
Depreciation	197	211
Taxes and dues	77	71
Enterprise tax	163	168
Provision of allowance for doubtful accounts	2	0
Amortization of goodwill	67	67
Other	568	663
Total selling, general and administrative expenses	7,302	7,637
Operating income	2,980	3,651
Non-operating income		
Interest and dividends income	87	124
Rent income	27	27
Share of profit of entities accounted for using equity method	-	273
Foreign exchange gains	16	29
Other	41	41
Total non-operating income	173	497
Non-operating expenses		
Interest expenses	13	11
Rent expenses	26	26
Share of loss of entities accounted for using equity method	63	-
Loss on sales and retirement of non-current assets	29	27
Other	26	28
Total non-operating expenses	159	93
Ordinary income	2,994	4,054
Extraordinary income		
Gain on sales of investment securities	217	100
Total extraordinary income	217	100
Quarterly profit before income taxes	3,212	4,154
Income taxes—current	1,243	1,053
Income taxes—deferred	(64)	(390)
Total income taxes	1,179	663
Quarterly profit	2,032	3,491
Profit attributable to non-controlling interests	52	57
Profit attributable to owners of parent	1,980	3,433

*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, 2020 (April 1, 2020 to September 30, 2020)	Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)
Quarterly profit	2,032	3,491
Other comprehensive income		
Valuation difference on available-for-sale securities	22	92
Foreign currency translation adjustment	1	34
Remeasurements of defined benefit plans, net of tax	42	92
Share of other comprehensive income of entities accounted for using equity method	(164)	346
Total other comprehensive income	(97)	565
Quarterly comprehensive income	1,935	4,057
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,873	4,009
Comprehensive income attributable to non-controlling interests	61	47

*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, 2020 (April 1, 2020 to September 30, 2020)	Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)
Cash flows from operating activities		
Quarterly income before income taxes and minority interests	3,212	4,154
Depreciation and amortization	291	285
Amortization of goodwill	67	67
Increase (decrease) in provision for bonuses	(1)	(58)
Increase (decrease) in defined benefit liability	(324)	44
Increase (decrease) in allowance for doubtful accounts	(0)	0
Shares of (profit) loss of entities accounted for using equity method	63	(273)
Interest and dividends income	(87)	(124)
Interest expenses	13	11
Loss (gain) on foreign exchange	(4)	(2)
Loss (gain) on sales and retirement of non-current assets	26	27
Loss (gain) on sales of investment securities	(217)	(100)
Decrease (increase) in notes and accounts receivable—trade	1,039	1,910
Decrease (increase) in inventories	733	588
Decrease (increase) in other assets	252	(91)
Increase (decrease) in notes and accounts payable—trade	(2,566)	(3,500)
Increase (decrease) in accrued consumption taxes	(247)	(570)
Increase (decrease) in other liabilities	556	(7)
Other, net	(6)	(14)
Subtotal	2,801	2,347
Interest and dividends income received	116	172
Interest expenses paid	(13)	(11)
Income taxes paid	(1,374)	(1,930)
Net cash provided by operating activities	1,530	578

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

(Millions of yen)

	Six months ended September 30, 2020 (April 1, 2020 to September 30, 2020)	Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)
Cash flows from investing activities		
Payments into time deposits	(130)	(130)
Proceeds from withdrawal of time deposits	130	230
Purchase of property, plant and equipment and intangible assets	(270)	(672)
Proceeds from sales of property, plant and equipment and intangible assets	16	0
Purchase of investment securities	(226)	(589)
Proceeds from sales of investment securities	318	119
Proceeds from redemption of investment securities	-	412
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(511)
Payments of loans receivable	(33)	(34)
Collection of loans receivable	31	29
Payments for lease and guarantee deposits	(157)	(332)
Proceeds from collection of lease and guarantee deposits	106	207
Proceeds from guarantee deposits received	138	335
Repayments of guarantee deposits received	(60)	(290)
Other, net	(0)	(4)
Net cash used in investing activities	(136)	(1,230)
Cash flows from financing activities		
Increase in short-term loans payable	1,400	1,400
Decrease in short-term loans payable	(1,400)	(1,400)
Repayment of long-term loans payable	(187)	(187)
Repayment of long-term non-recourse loans payable	(12)	(9)
Repayments of lease obligations	(51)	(57)
Purchase of treasury shares	-	(0)
Cash dividends paid	(933)	(1,009)
Dividends paid to non-controlling interests	(84)	(99)
Net cash used in financing activities	(1,270)	(1,364)
Effect of exchange rate change on cash and cash equivalents	10	6
Net increase (decrease) in cash and cash equivalents	134	(2,009)
Cash and cash equivalents at beginning of period	28,343	32,830
Cash and cash equivalents at end of period	28,477	30,820

*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 going concern assumption)

Not applicable.

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

Not applicable.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

From the beginning of the first quarter of the fiscal year ending March 31, 2022, the Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter, the "Revenue Recognition Accounting Standard"), etc., and recognizes the revenue at an amount the Group is expected to receive in exchange for the promised goods or services when control of the goods or services is transferred to the customer.

Specifically, the general management business for comprehensively managing real estate for management including building operations and facilities maintenance business, security business and cleaning business is a daily repetitive business, and the characteristics of each business and the pattern of transfer to customers are substantially the same. Therefore, all of these are regarded as a single performance obligation, and because they are judged to be satisfied according to the passage of time, the Group recognizes even revenue every month over the contract period.

For contracts based on the performance of a single business including facilities maintenance business, the Group individually recognizes the performance obligation with the customer. The performance obligation will be satisfied when control of the service is transferred to the customer with the provision of said service, and revenue is recognized at the time of monthly inspection by the customer.

For long-term repair work included in the maintenance, management and operations business of PFI, etc., the Group had recognized even revenue over the contract period, but such method has been changed to a method of recognizing revenue over a certain period based on the degree of progress. In addition, even for other construction-related work excluding construction work for an extremely short period, the Group estimates the degree of progress regarding the satisfaction of performance obligation and recognizes revenue over a certain period based on said degree of progress.

With regard to the application of Revenue Recognition Accounting Standard, etc., in accordance with the transitional treatment prescribed in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard, the cumulative effect of the retrospective application of the new accounting policy prior to the beginning of the first quarter of the fiscal year ending March 31, 2022, was added to or deducted from the retained earnings at the beginning of the first quarter of the fiscal year ending March 31, 2022, and the new accounting policy has been applied from the beginning balance of said fiscal year. However, with the application of the method prescribed in Paragraph 86 of the Revenue Recognition Accounting Standard, the Group does not retrospectively apply the new accounting policy to the contracts for which almost all revenue has been recognized in accordance with the previous treatment before the beginning of the first quarter of the fiscal year ending March 31, 2022. In addition, with the application of the method prescribed in item (1) of the supplementary provisions of Paragraph 86 of the Revenue Recognition Accounting Standard, the Group implemented accounting based on the contract conditions after reflecting all the changes in contracts made before the beginning of the first quarter of the fiscal year ending March 31, 2022, and such cumulative effect was added to or deducted from the retained earnings at the beginning of the first quarter of the fiscal year ending March 31, 2022.

As a result, net sales decreased by 63 million yen, cost of sales by 47 million yen, and operating income, ordinary income and quarterly profit before income taxes by 15 million yen each in first six months of the fiscal year ending March 31, 2022. In addition, the balance of retained earnings at the beginning of the current fiscal year increased by 113 million yen.

Due to the application of the Revenue Recognition Accounting Standard, etc., "Notes and accounts receivable—trade," which was presented in "Current assets" in the consolidated balance sheet for the previous fiscal year, has been included in "Notes, accounts receivable—trade and contract assets" from the first quarter of the fiscal year ending March 31, 2022, and "Advances received," which was presented in "Current liabilities," has been included in "contract liabilities" from the first quarter of the fiscal year ending March 31, 2022. In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Revenue Recognition Accounting Standard, no reclassification has been made for the previous fiscal year based on the new display method.

(Application of Accounting Standard for Fair Value Measurement)

The "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter, the "Fair Value Measurement Accounting Standard"), etc. has been applied from the beginning of the first quarter of the fiscal year ending March 31, 2022, and a new accounting policy stipulated by the Fair Value Measurement Accounting Standard, etc. will be applied in the future in accordance with the transitional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Article 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). Such application will not have any impact on the quarterly consolidated financial statements.

(Segment information, etc.)

I. Six months ended September 30, 2020 (April 1, 2020 to September 30, 2020)

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	34,503	7,791	5,495	1,199	469	49,459	—	49,459
Inter-segment net sales and transfer	—	—	—	—	188	188	(188)	—
Total	34,503	7,791	5,495	1,199	657	49,647	(188)	49,459
Segment income	4,293	673	731	37	54	5,790	(2,810)	2,980

(Notes) 1. Adjustments of -2,810 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, 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.

2. Matters on changes in reportable segments

As described in “Changes in accounting policies,” the Revenue Recognition Accounting Standard, etc. has been applied from the beginning of the first quarter of the fiscal year ending March 31, 2022, and the accounting method concerning revenue recognition has been changed. Therefore, the calculation method of business segment income (loss) has also been changed.

Due to such change, net sales and segment income in Building Management and Operations for the first six months of the fiscal year ending March 31, 2022, decreased by 68 million yen and 15 million yen, respectively, compared with the amounts when using the conventional method. In addition, the change has minimal impact on net sales and segment income in Residential Management and Operations and Environmental Facilities Management and has no impact on net sales and segment income in Real Estate Fund Management and Other Businesses.