

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

February 3, 2022

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: February 10, 2022
 Date to start dividends distribution: —
 Supplementary materials for quarterly results: None
 Quarterly results briefing meeting held: None

*Amounts below one million yen have been rounded down.

1. Consolidated results for the third quarter ended December 31, 2021 (April 1, 2021 to December 31, 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	%
Nine months ended December 31, 2021	75,386	0.4	5,484	6.7	6,104	12.9
Nine months ended December 31, 2020	75,090	(4.9)	5,140	(0.3)	5,408	(0.4)

(Note) Comprehensive income: Nine months ended December 31, 2021: ¥5,312 million [34.9%]
 Nine months ended December 31, 2020: ¥3,937 million [18.1%]

	Profit Attributable to Owners of Parent		Profit per Share		Diluted Profit per Share	
	Millions of yen	%	Yen		Yen	
Nine months ended December 31, 2021	4,767	34.2	127.53		—	
Nine months ended December 31, 2020	3,553	3.8	95.05		—	

(2) Consolidated financial position

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen	%	Millions of yen	%	%	
As of December 31, 2021	79,479		60,445		74.5	
As of March 31, 2021	81,759		57,143		68.3	

(Reference) Equity: As of December 31, 2021: ¥59,192 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 December 31, 2021	41,180,306 shares	As of March 31, 2021	41,180,306 shares
2)	As of December 31, 2021	3,796,990 shares	As of March 31, 2021	3,796,818 shares
3)	First nine months ended December 31, 2021	37,383,453 shares	First nine months ended December 31, 2020	37,383,536 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.

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1. Qualitative information on financial statements

(1) Explanation regarding business results

During the first nine 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 continue to be on a moderate 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 nine months of the fiscal year ending March 31, 2022, increased by 0.4% year on year to 75,386 million yen due to steady entrustment of new management projects and contract renewals.

In terms of profit, despite the occurrence of expenses due to countermeasures against COVID-19 and the strengthening of the corporate structure, efforts to secure profits including fee revisions and the review of the content of specifications and work efficiency resulted in operating income increasing by 6.7% year on year to 5,484 million yen and ordinary income increasing by 12.9% year on year to 6,104 million yen, and profit attributable to owners of parent increased significantly by 34.2% year on year to 4,767 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 114 million yen, cost of sales by 91 million yen, and operating income and ordinary income by 23 million yen each in the first nine months of the fiscal year ending March 31, 2022. For details, please refer to “2. Quarterly consolidated financial statements and key notes (3) 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 nine months of the fiscal year ending March 31, 2022, decreasing by 0.6% year on year to 52,219 million yen.

In terms of profit, efforts in fee revisions, review of specifications and cost reduction resulted in segment income increasing by 5.2% year on year to 7,160 million yen.

The application of the Revenue Recognition Accounting Standard, etc. resulted in net sales decreasing by 121 million yen, cost of sales decreasing by 97 million yen and segment income decreasing by 23 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 repair work in the management of public housing resulted in net sales for the segment for the first nine months of the fiscal year ending March 31, 2022, increasing by 1.5% year on year to 12,246 million yen.

In terms of profit, continuous efforts in cost reduction resulted in segment income increasing by 4.5% year on year to 1,179 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 nine months of the fiscal year ending March 31, 2022, increasing by 3.4% year on year to 8,478 million yen.

In terms of profit, segment income increased by 12.7% year on year to 1,243 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 nine months of the fiscal year ending March 31, 2022, decreasing by 10.5% year on year to 1,287 million yen.

In terms of profit, despite continuous efforts in cost reduction, a decrease in profit due to sales of assets under management resulted in segment income decreasing by 40.5% year on year to 38 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 and the 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 ending March 31, 2022, resulted in net sales for the segment for the first nine months of the fiscal year ending March 31, 2022, increasing by 22.1% year on year to 1,379 million yen and segment income increasing by 17.7% year on year to 278 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

Total assets at the end of the third quarter of the fiscal year ending March 31, 2022, decreased by 2,280 million yen, or 2.8%, from the end of the previous fiscal year to 79,479 million yen, mainly due to a decrease in cash and deposits resulting from the payment of trade accounts payable and taxes.

Liabilities decreased by 5,581 million yen, or 22.7%, from the end of the previous fiscal year to 19,034 million yen due to payment of trade accounts payable and income taxes payable.

Net assets increased by 3,301 million yen, or 5.8%, from the end of the previous fiscal year to 60,445 million yen due to an increase in profit attributable to owners of parent. The equity ratio increased by 6.2 percentage points from the end of the previous fiscal year to 74.5%

(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)	Third quarter ended December 31, 2021 (As of December 31, 2021)
ASSETS		
Current assets		
Cash and deposits	33,075	30,878
Notes and accounts receivable—trade	14,836	-
Notes, accounts receivable—trade and contract assets	-	12,845
Investments in silent partnership for business purposes	80	74
Supplies	147	186
Real estate for sale	3,519	2,910
Income taxes receivable	90	540
Other	1,742	1,619
Allowance for doubtful accounts	(8)	(9)
Total current assets	53,483	49,047
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	2,985	3,801
Machinery, equipment and vehicles, net	24	43
Tools, furniture and fixtures, net	507	557
Land	1,224	1,224
Lease assets, net	241	302
Construction in progress	429	-
Total property, plant and equipment	5,411	5,929
Intangible assets		
Telephone subscription right	46	46
Software	414	402
Goodwill	1,551	1,869
Lease assets	1	0
Software in progress	10	23
Total intangible assets	2,024	2,343
Investments and other assets		
Investment securities	14,514	15,829
Long-term loans receivable	800	828
Long-term prepaid expenses	34	23
Lease and guarantee deposits	3,681	3,708
Membership	371	361
Net defined benefit asset	801	921
Deferred tax assets	298	153
Other	395	390
Allowance for doubtful accounts	(57)	(56)
Total investments and other assets	20,840	22,159
Total noncurrent assets	28,276	30,432
TOTAL ASSETS	81,759	79,479

*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)	Third quarter ended December 31, 2021 (As of December 31, 2021)
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	9,091	4,040
Current portion of long-term loans payable	375	375
Current portion of long-term non-recourse loans payable	19	16
Lease obligations	92	105
Accrued expenses	2,561	3,281
Income taxes payable	1,850	205
Accrued consumption taxes	1,402	843
Deposits received	300	874
Advances received	320	-
Contract liabilities	-	2,213
Provision for bonuses	787	79
Asset retirement obligations	-	11
Other	66	81
Total current liabilities	16,868	12,127
Noncurrent liabilities		
Long-term loans payable	750	468
Long-term non-recourse loans payable	2,336	1,875
Lease obligations	185	223
Deferred tax liabilities	524	589
Net defined benefit liability	169	190
Long-term guarantee deposited	2,580	2,487
Asset retirement obligations	266	256
Liabilities from application of equity method	1	22
Other	934	793
Total noncurrent liabilities	7,747	6,906
TOTAL LIABILITIES	24,616	19,034
NET ASSETS		
Shareholders' equity		
Capital stock	3,000	3,000
Capital surplus	3,785	3,785
Retained earnings	51,248	54,109
Treasury shares	(2,773)	(2,773)
Total shareholders' equity	55,260	58,121
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,050	2,159
Foreign currency translation adjustment	(1,216)	(972)
Remeasurements of defined benefit plans	(232)	(116)
Total accumulated other comprehensive income	601	1,070
Non-controlling interests	1,281	1,252
TOTAL NET ASSETS	57,143	60,445
TOTAL LIABILITIES AND NET ASSETS	81,759	79,479

*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)	
	Nine months ended December 31, 2020 (April 1, 2020 to December 31, 2020)	Nine months ended December 31, 2021 (April 1, 2021 to December 31, 2021)
Net sales	75,090	75,386
Cost of sales	59,014	58,310
Gross profit	16,076	17,075
Selling, general and administrative expenses		
Selling expenses	528	437
Personnel expenses	6,351	6,736
Provision for bonuses	84	45
Retirement benefit expenses	217	243
Transportation and communication expenses	674	738
Supplies expenses	360	412
Rent expenses	777	859
Insurance expenses	355	331
Depreciation	304	336
Taxes and dues	86	82
Enterprise tax	240	246
Provision of allowance for doubtful accounts	2	0
Amortization of goodwill	101	112
Other	850	1,009
Total selling, general and administrative expenses	10,935	11,591
Operating income	5,140	5,484
Non-operating income		
Interest and dividends income	141	181
Rent income	40	41
Share of profit of entities accounted for using equity method	90	425
Foreign exchange gains	25	70
Other	90	66
Total non-operating income	389	785
Non-operating expenses		
Interest expenses	19	17
Rent expenses	37	37
Loss on sales and retirement of non-current assets	31	78
Other	32	32
Total non-operating expenses	121	165
Ordinary income	5,408	6,104
Extraordinary income		
Gain on sales of investment securities	217	100
Total extraordinary income	217	100
Quarterly profit before income taxes	5,626	6,204
Income taxes — current	1,773	1,297
Income taxes — deferred	209	56
Total income taxes	1,982	1,353
Quarterly profit	3,643	4,850
Profit attributable to non-controlling interests	90	83
Profit attributable to owners of parent	3,553	4,767

*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)	
	Nine months ended December 31, 2020 (April 1, 2020 to December 31, 2020)	Nine months ended December 31, 2021 (April 1, 2021 to December 31, 2021)
Quarterly profit	3,643	4,850
Other comprehensive income		
Valuation difference on available-for-sale securities	325	105
Foreign currency translation adjustment	9	25
Remeasurements of defined benefit plans, net of tax	64	112
Share of other comprehensive income of entities accounted for using equity method	(105)	218
Total other comprehensive income	293	462
Quarterly comprehensive income	3,937	5,312
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,839	5,236
Comprehensive income attributable to non-controlling interests	97	76

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

(3) 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 114 million yen, cost of sales by 91 million yen, and operating income, ordinary income and quarterly profit before income taxes by 23 million yen each in first nine 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. Nine months ended December 31, 2020 (April 1, 2020 to December 31, 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	52,543	12,061	8,199	1,438	847	75,090	—	75,090
Inter-segment net sales and transfer	—	—	—	—	282	282	(282)	—
Total	52,543	12,061	8,199	1,438	1,129	75,372	(282)	75,090
Segment income	6,807	1,129	1,103	64	236	9,341	(4,201)	5,140

(Notes) 1. Adjustments of -4,201 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. Nine months ended December 31, 2021 (April 1, 2021 to December 31, 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	52,219	12,246	8,478	1,287	1,153	75,386	—	75,386
Inter-segment net sales and transfer	—	—	—	—	225	225	(225)	—
Total	52,219	12,246	8,478	1,287	1,379	75,612	(225)	75,386
Segment income	7,160	1,179	1,243	38	278	9,901	(4,416)	5,484

(Notes) 1. Adjustments of -4,416 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 nine months of the fiscal year ending March 31, 2022, decreased by 121 million yen and 23 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.