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Consolidated Financial Statements for the Second Quarter (First Half) of the Fiscal Year Ending March 31, 2025 [J-GAAP]

November 6, 2024

NIPPON KANZAI Holdings Co., Ltd.

Listed exchange: Tokyo Stock Exchange, Prime Market
 Securities code: 9347 URL: <https://www.nkanzaihd.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 semi-annual securities report: November 13, 2024
 Date to start dividends distribution: December 3, 2024
 Supplementary materials for results: Yes
 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 (first half) ended September 30, 2024 (April 1, 2024, to September 30, 2024)

(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, 2024	65,319	14.6	3,730	(6.7)	4,163	(7.1)
Six months ended September 30, 2023	57,003	—	3,997	—	4,482	—

(Note) Comprehensive income: Six months ended September 30, 2024: ¥4,257 million [11.4%]
 Six months ended September 30, 2023: ¥3,822 million [— %]

	Profit Attributable to Owners of Parent		Profit per Share		Diluted Profit per Share	
	Millions of yen	%	Yen		Yen	
Six months ended September 30, 2024	2,278	(25.2)	61.19		—	
Six months ended September 30, 2023	3,045	—	81.47		—	

(Note) Since the Company was established on April 3, 2023, through a sole share transfer, there is no rate of change from the same period of the previous fiscal year for the six months ended September 30, 2023.

(2) Consolidated financial position

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen		Millions of yen		%	
As of September 30, 2024	93,760		69,826		71.4	
As of March 31, 2024	92,645		69,152		73.5	

(Reference) Equity: As of September 30, 2024: ¥66,904 million
 As of March 31, 2024: ¥68,131 million

2. Dividends

	Annual Dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2024	—	27.00	—	27.00	54.00
Fiscal year ending March 31, 2025	—	27.00	—	—	—
Fiscal year ending March 31, 2025 (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, 2025 (April 1, 2024, to March 31, 2025)

(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	136,500	11.3	8,500	2.8	9,000	9.4	6,100	7.4	163.18

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

* Notes

(1) Significant changes in scope of consolidation during the period: Yes

Newly included: 1 company, Keystone Pacific Property Management, LLC

(2) Adoption of specific accounting methods for preparation of the semi-annual 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: 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, 2024	41,180,306 shares	As of March 31, 2024	41,180,306 shares
2)	As of September 30, 2024	4,271,890 shares	As of March 31, 2024	3,797,412 shares
3)	Six months ended September 30, 2024	37,240,311 shares	Six months ended September 30, 2023	37,383,074 shares

* **This semi-annual financial report is not subject to 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. Overview of business results, etc.; (3) Explanation regarding information on future forecasts including consolidated business forecasts, etc.” on page 3 of the Attached Document of this semi-annual financial report regarding assumptions upon which forecasts are based and the use of forecasts.

(How to obtain supplementary materials on financial results)

NIPPON KANZAI Holdings Co., Ltd. plans to hold a financial results briefing for institutional investors and analysts on Friday, November 15, 2024. The presentation materials for the financial results briefing will be posted on the Company’s website after the briefing is over.

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1. Overview of business results, etc.

(1) Overview of business results for the period

During the first half of the fiscal year ending March 31, 2025, the Japanese economy continued to be on a moderate recovery trend with the improving employment and income situation, but remained in severe economic conditions with the surging raw material prices caused by the unstable international situation, increasing commodity prices caused by the progress in depreciation of the yen, and other impact. These factors still continue to cast uncertainty over the future.

The real estate services industry saw vacancy rates for office buildings and retail facilities in urban areas remain high as the impact of various work arrangements including remote working and satellite offices started to take hold. In addition, with surging raw material prices, increasing commodity prices, and rising labor costs leading to client companies becoming more conscious of reducing costs, a severe business environment is expected to continue going forward.

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 meet customer needs, endeavoring to enhance the asset value of properties under management.

The Group also endeavors to further strengthen and improve Building Management and Operations, its core business, while proactively implementing operations in peripheral fields such as private finance initiatives (PFI) and public facility management projects.

In the first half of the fiscal year ending March 31, 2025, steady renewal of existing management contracts and orders for construction-related services resulted in net sales increasing by 14.6% year on year to 65,319 million yen.

In terms of profit, despite efforts to secure profits such as by revising fees and reviewing specifications and operational efficiency, personnel expenses and other expenses increasing resulted in operating income decreasing by 6.7% year on year to 3,730 million yen, and foreign exchange gains decreasing resulted in ordinary income decreasing by 7.1% year on year to 4,163 million yen, which coupled with recognition of loss on litigation resulted in profit attributable to owners of parent decreasing by 25.2% year on year to 2,278 million yen.

The following are business results by segment.

Segment income has been adjusted to operating income described in semi-annual 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, steady renewal of existing management contracts and orders for construction-related services resulted in net sales for the segment for the first half of the fiscal year ending March 31, 2025, increasing by 6.8% year on year to 40,028 million yen.

In terms of profit, efforts to revise fees, review specifications, and reduce costs resulted in segment income increasing by 8.4% year on year to 3,612 million yen.

Residential Management and Operations

With regard to Residential Management and Operations, which mainly consists of managing rental apartment buildings and condominiums to own and public housing, contribution of the business performance of Hawaiiiana Holdings Incorporated, which became a consolidated subsidiary at the end of the first half of the fiscal year ended March 31, 2024, and Keystone Pacific Property Management, LLC, which became a consolidated subsidiary from the first half of the fiscal year ending March 31, 2025, resulted in net sales for the segment for the first half of the fiscal year ending March 31, 2025, increasing by 62.9% year on year to 15,596 million yen and segment income increasing by 14.6% year on year to 846 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 resulted in net sales for the segment for the first half of the fiscal year ending March 31, 2025, increasing by 1.1% year on year to 7,041 million yen.

In terms of profit, in addition to improving the cost ratio by revising fees, efforts to reduce costs with a focus on realignment of personnel assignments resulted in segment income increasing by 13.5% year on year to 1,153 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, proceeds from sale of assets under management and income from sublease contracts decreasing resulted in net sales for the segment for the first half of the fiscal year ending March 31, 2025, decreasing by 6.8% year on year to 1,567 million yen.

In terms of profit, personnel expenses and other expenses increasing resulted in segment income decreasing by 34.0% year on year to 212 million yen.

Other Businesses

In Other Businesses, which consist mainly of event planning and management, design and payroll accounting services, the decrease in high-profit projects resulted in net sales for the segment for the first half of the fiscal year ending March 31, 2025, decreasing by 14.7% year on year to 1,236 million yen.

In terms of profit, personnel expenses and other expenses increasing resulted in segment income decreasing by 76.6% year on year to 77 million yen.

(2) Overview of financial position for the period

(Analysis of financial position)

Total assets at the end of the first half of the fiscal year ending March 31, 2025, increased by 1,115 million yen, or 1.2%, from the end of the previous fiscal year to 93,760 million yen, mainly due to Keystone Pacific Property Management, LLC becoming a consolidated subsidiary from the first half of the fiscal year ending March 31, 2025, leading to goodwill and customer-related intangible assets increasing.

Liabilities increased by 441 million yen, or 1.9%, from the end of the previous fiscal year to 23,933 million yen, mainly due to income taxes payable increasing.

Net assets increased by 674 million yen, or 1.0%, from the end of the previous fiscal year to 69,826 million yen, mainly due to retained earnings and non-controlling interests increasing. The equity ratio decreased by 2.1 percentage points from the end of the previous fiscal year to 71.4%.

(Analysis of cash flows)

Cash and cash equivalents (hereinafter “cash”) at the end of the first half of the fiscal year ending March 31, 2025, increased by 520 million yen from the end of the previous fiscal year to 31,384 million yen.

The status and main factors of cash flows for the first half of the fiscal year ending March 31, 2025, were as follows:

[Cash flows from operating activities]

In the first half of the fiscal year ending March 31, 2025, there was net cash provided by operating activities of 1,840 million yen, a larger inflow by 346 million yen year on year.

This was mainly due to income taxes paid decreasing (a smaller outflow by 1,812 million yen year on year) and gain on sale of investment securities increasing (a larger outflow by 1,510 million yen year on year).

[Cash flows from investing activities]

In the first half of the fiscal year ending March 31, 2025, there was net cash provided by investing activities of 643 million yen, a larger inflow by 3,432 million yen year on year.

This was mainly due to proceeds from sale of investment securities increasing (a larger inflow by 1,568 million yen year on year) and purchase of investment securities decreasing (a smaller outflow by 1,052 million yen year on year).

[Cash flows from financing activities]

In the first half of the fiscal year ending March 31, 2025, there was net cash used in financing activities of 2,710 million yen, a larger outflow by 1,318 million yen year on year.

This was mainly due to purchase of treasury stock increasing (a larger outflow by 1,209 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 8, 2024, and there are no changes to the full-year business forecasts.

2. Semi-annual consolidated financial statements and key notes**(1) Semi-annual consolidated balance sheets**

	(Millions of yen)	
	Fiscal year ended March 31, 2024 (As of March 31, 2024)	First half ended September 30, 2024 (As of September 30, 2024)
ASSETS		
Current assets		
Cash and deposits	31,239	31,930
Notes and accounts receivable—trade and contract assets	18,664	17,486
Investments in silent partnership for business purposes	154	148
Real estate for sale	1,455	1,447
Supplies	289	326
Income taxes refund receivable	22	—
Other	3,690	6,147
Allowance for doubtful accounts	(6)	(18)
Total current assets	55,509	57,467
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,808	3,799
Machinery, equipment and vehicles, net	61	54
Tools, furniture and fixtures, net	657	829
Land	1,211	1,211
Leased assets, net	1,210	1,817
Total property, plant and equipment	6,948	7,712
Intangible assets		
Software	318	265
Goodwill	2,830	5,670
Trademark right	320	354
Customer-related intangible assets	264	2,157
Software in progress	185	196
Other	54	61
Total intangible assets	3,974	8,706
Investments and other assets		
Investment securities	18,865	13,633
Long-term loans receivable	839	996
Deferred tax assets	400	354
Long-term prepaid expenses	16	17
Retirement benefit asset	965	1,032
Leasehold and guarantee deposits	3,063	3,157
Membership	333	333
Other	1,800	419
Allowance for doubtful accounts	(71)	(71)
Total investments and other assets	26,212	19,873
Total non-current assets	37,136	36,293
TOTAL ASSETS	92,645	93,760

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

	(Millions of yen)	
	Fiscal year ended March 31, 2024 (As of March 31, 2024)	First half ended September 30, 2024 (As of September 30, 2024)
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	8,015	5,574
Current portion of long-term non-recourse loans payable	227	225
Lease liabilities	261	360
Accrued expenses	3,565	2,474
Income taxes payable	822	2,006
Accrued consumption taxes	1,177	1,055
Contract liabilities	1,416	1,654
Deposits received	784	313
Provision for bonuses	892	888
Asset retirement obligations	—	4
Other	751	3,321
Total current liabilities	17,914	17,879
Non-current liabilities		
Long-term non-recourse loans payable	285	283
Lease liabilities	981	1,491
Deferred tax liabilities	1,219	784
Provision for retirement benefits for directors (and other officers)	4	7
Retirement benefit liability	220	183
Long-term guarantee deposits	1,793	1,898
Asset retirement obligations	437	444
Liabilities from application of equity method	34	102
Other	601	858
Total non-current liabilities	5,578	6,054
TOTAL LIABILITIES	23,492	23,933
NET ASSETS		
Shareholders' equity		
Share capital	3,000	3,000
Capital surplus	11,339	9,860
Retained earnings	62,382	63,664
Treasury shares	(10,328)	(11,538)
Total shareholders' equity	66,393	64,986
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,511	1,493
Foreign currency translation adjustment	(606)	558
Remeasurements of defined benefit plans	(166)	(133)
Total accumulated other comprehensive income	1,738	1,917
Non-controlling interests	1,020	2,921
TOTAL NET ASSETS	69,152	69,826
TOTAL LIABILITIES AND NET ASSETS	92,645	93,760

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

(2) Semi-annual consolidated statements of income and semi-annual consolidated statements of comprehensive income
Semi-annual consolidated statements of income

	(Millions of yen)	
	Six months ended September 30, 2023 (April 1, 2023, to September 30, 2023)	Six months ended September 30, 2024 (April 1, 2024, to September 30, 2024)
Net sales	57,003	65,319
Cost of sales	44,340	46,728
Gross profit	12,663	18,590
Selling, general and administrative expenses		
Selling expenses	406	421
Personnel expenses	4,677	8,596
Provision for bonuses	402	416
Provision for retirement benefits for directors (and other officers)	1	3
Retirement benefit expenses	154	236
Travel, transportation and communication expenses	574	836
Supplies expenses	263	689
Rent expenses	655	911
Insurance expenses	169	430
Depreciation	253	313
Taxes and dues	101	480
Enterprise tax	187	210
Provision of allowance for doubtful accounts	16	—
Amortization of goodwill	103	243
Other	696	1,069
Total selling, general and administrative expenses	8,665	14,860
Operating income	3,997	3,730
Non-operating income		
Interest and dividend income	137	133
Rental income	23	31
Commission income	—	431
Share of profit of entities accounted for using equity method	6	—
Foreign exchange gains	381	—
Other	49	48
Total non-operating income	599	644
Non-operating expenses		
Interest expenses	18	24
Rental expenses	28	27
Share of loss of entities accounted for using equity method	—	97
Loss on sale and retirement of non-current assets	21	5
Loss on valuation of membership	23	—
Foreign exchange losses	—	8
Other	22	47
Total non-operating expenses	114	210
Ordinary income	4,482	4,163
Extraordinary income		
Gain on sale of investment securities	—	1,510
Gain on step acquisitions	89	—
Total extraordinary income	89	1,510
Extraordinary losses		
Loss on litigation	—	1,322
Total extraordinary losses	—	1,322
Profit before income taxes	4,572	4,351
Income taxes — current	1,397	1,850
Income taxes — deferred	79	32
Total income taxes	1,476	1,883
Profit	3,095	2,468
Profit attributable to non-controlling interests	50	189
Profit attributable to owners of parent	3,045	2,278

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

Semi-annual consolidated statements of comprehensive income

	(Millions of yen)	
	Six months ended September 30, 2023 (April 1, 2023, to September 30, 2023)	Six months ended September 30, 2024 (April 1, 2024, to September 30, 2024)
Profit	3,095	2,468
Other comprehensive income		
Valuation difference on available-for-sale securities	689	(1,023)
Foreign currency translation adjustment	(108)	2,279
Remeasurements of defined benefit plans, net of tax	41	33
Share of other comprehensive income of entities accounted for using equity method	104	499
Total other comprehensive income	726	1,789
Comprehensive income	3,822	4,257
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,756	3,751
Comprehensive income attributable to non-controlling interests	65	506

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

(3) Semi-annual consolidated statements of cash flows

	(Millions of yen)	
	Six months ended September 30, 2023 (April 1, 2023, to September 30, 2023)	Six months ended September 30, 2024 (April 1, 2024, to September 30, 2024)
Cash flows from operating activities		
Profit before income taxes	4,572	4,351
Depreciation	381	575
Amortization of goodwill	103	243
Increase (decrease) in provision for bonuses	32	(3)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	1	3
Increase (decrease) in retirement benefit (asset) liability	(61)	(54)
Increase (decrease) in allowance for doubtful accounts	16	—
Share of loss (profit) of entities accounted for using equity method	(6)	97
Interest and dividend income	(137)	(133)
Interest expenses	18	24
Foreign exchange losses (gains)	(366)	8
Loss (gain) on step acquisitions	(89)	—
Loss (gain) on sale and retirement of non-current assets	21	5
Loss on valuation of membership	23	—
Loss (gain) on sale of investment securities	—	(1,510)
Decrease (increase) in trade receivables	804	1,632
Decrease (increase) in inventories	(72)	(27)
Decrease (increase) in other assets	(780)	(6)
Increase (decrease) in trade payables	(1,994)	(2,592)
Increase (decrease) in accrued consumption taxes	(204)	(122)
Increase (decrease) in other liabilities	1,582	(137)
Other, net	(14)	43
Subtotal	3,830	2,395
Interest and dividends received	158	135
Interest paid	(18)	(24)
Income taxes paid	(2,477)	(665)
Net cash provided by (used in) operating activities	1,493	1,840
Cash flows from investing activities		
Payments into time deposits	(30)	(200)
Proceeds from withdrawal of time deposits	30	30
Purchase of property, plant and equipment and intangible assets	(223)	(1,039)
Proceeds from sale of property, plant and equipment and intangible assets	0	1
Purchase of investment securities	(1,170)	(117)
Proceeds from sale of investment securities	435	2,003
Proceeds from redemption of investment securities	100	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(517)	—
Loan advances	—	(91)
Proceeds from collection of loans receivable	16	47
Payments of leasehold and guarantee deposits	(427)	(158)
Proceeds from refund of leasehold and guarantee deposits	582	83
Guarantee deposits received	11	152
Refund of guarantee deposits received	(161)	(47)
Other, net	(1,433)	(20)
Net cash provided by (used in) investing activities	(2,789)	643

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

	(Millions of yen)	
	Six months ended September 30, 2023 (April 1, 2023, to September 30, 2023)	Six months ended September 30, 2024 (April 1, 2024, to September 30, 2024)
Cash flows from financing activities		
Proceeds from short-term borrowings	3,750	5,800
Repayments of short-term borrowings	(3,750)	(5,800)
Repayments of long-term borrowings	(187)	—
Repayments of long-term non-recourse loans payable	(3)	(3)
Repayments of lease liabilities	(91)	(294)
Purchase of treasury shares	(0)	(1,209)
Dividends paid	(1,009)	(1,009)
Dividends paid to non-controlling interests	(99)	(192)
Net cash provided by (used in) financing activities	(1,392)	(2,710)
Effect of exchange rate change on cash and cash equivalents	22	314
Net increase (decrease) in cash and cash equivalents	(2,665)	87
Cash and cash equivalents at beginning of period	32,041	30,864
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	—	432
Cash and cash equivalents at end of period	29,376	31,384

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

(4) Notes to semi-annual consolidated financial statements**(Notes on the going concern assumption)**

Not applicable.

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

In the first half of the fiscal year ending March 31, 2025, Keystone Pacific Property Management, LLC, a non-consolidated subsidiary accounted for using the equity method to date, increased in significance and is thus included in the scope of consolidation. This resulted in the balance of capital surplus at the beginning of the period decreasing by 1,126 million yen and retained earnings increasing by 13 million yen.

In addition, in the first half of the fiscal year ending March 31, 2025, Nippon Kanzai USA, Inc., a consolidated subsidiary, increased and decreased its stake in the company. This resulted in capital surplus decreasing by 352 million yen.

Furthermore, in the first half of the fiscal year ending March 31, 2025, the Company purchased 474,300 treasury shares as resolved at the meeting of the Board of Directors held on August 6, 2024. This resulted in treasury shares increasing by 1,209 million yen.

As a result, capital surplus stood at 9,860 million yen, retained earnings stood at 63,664 million yen, and treasury shares inclusive of the purchase through buyback of shares less than 1 unit stood at 11,538 million yen at the end of the first half of the fiscal year ending March 31, 2025.

(Segment information, etc.)

Six months ended September 30, 2023 (April 1, 2023, to September 30, 2023)

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

	Reportable segment						Adjustments (Note 1)	Amount recorded on semi-annual 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	37,494	9,571	6,964	1,682	1,290	57,003	—	57,003
Inter-segment net sales and transfer	—	—	—	—	158	158	(158)	—
Total	37,494	9,571	6,964	1,682	1,449	57,161	(158)	57,003
Segment income	3,333	738	1,016	322	331	5,743	(1,745)	3,997

(Note) 1. Adjustments of -1,745 million yen for segment income are elimination of inter-segment transactions and unallocated general and administrative expenses.

2. Segment income has been adjusted to operating income described in semi-annual consolidated statements of income.

Six months ended September 30, 2024 (April 1, 2024, to September 30, 2024)

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

	Reportable segment						Adjustments (Note 1)	Amount recorded on semi-annual 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	40,028	15,596	7,041	1,567	1,086	65,319	—	65,319
Inter-segment net sales and transfer	—	—	—	—	150	150	(150)	—
Total	40,028	15,596	7,041	1,567	1,236	65,470	(150)	65,319
Segment income	3,612	846	1,153	212	77	5,903	(2,172)	3,730

(Note) 1. Adjustments of -2,172 million yen for segment income are elimination of inter-segment transactions and unallocated general and administrative expenses.

2. Segment income has been adjusted to operating income described in semi-annual consolidated statements of income.