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July 6, 2022

Consolidated Financial Results for the Six Months Ended May 31, 2022 (Under Japanese GAAP)

Company name: SALA Corporation
Listing: Tokyo Stock Exchange / Nagoya Stock Exchange
Securities code: 2734
URL: https://www.sala.jp/
Representative: Goro Kamino, President and Representative Director, Group Representative and CEO
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Telephone: +81-532-51-1182
Scheduled date to file quarterly securities report: July 8, 2022
Scheduled date to commence dividend payments: July 29, 2022
Preparation of supplementary material on quarterly financial results: None
Holding of quarterly financial results briefing: Yes (for institutional investors and analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the six months ended May 31, 2022 (from December 1, 2021 to May 31, 2022)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
May 31, 2022	118,277	3.9	6,243	(1.0)	7,030	1.3	4,801	0.8
May 31, 2021	113,816	2.8	6,307	12.8	6,941	(0.1)	4,765	2.9

Note: Comprehensive income For the six months ended May 31, 2022: ¥5,199 million [3.8%]
For the six months ended May 31, 2021: ¥5,009 million [10.5%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
May 31, 2022	75.36	–
May 31, 2021	75.51	–

Note: The Company has applied the "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the current fiscal year, and each figure for the six months ended May 31, 2022, is the figure after applying the accounting standard and relevant ASBJ regulations.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
May 31, 2022	184,935	71,725	38.1
November 30, 2021	187,481	66,699	34.9

Reference: Equity
As of May 31, 2022: ¥70,379 million
As of November 30, 2021: ¥65,425 million

Note: The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the current fiscal year, and each figure as of May 31, 2022, is the figure after applying the accounting standard and relevant ASBJ regulations.

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended November 30, 2021	–	10.00	–	13.00	23.00
Fiscal year ending November 30, 2022	–	11.00			
Fiscal year ending November 30, 2022 (Forecast)			–	14.00	25.00

Note: Revisions to the forecast of cash dividends most recently announced: Yes
For the revisions to the dividend forecast, please refer to the "Notice Concerning Revisions to the Dividend Forecast Due to the Implementation of Commemorative Dividends" announced today (July 6, 2022).

3. Consolidated earnings forecasts for the fiscal year ending November 30, 2022 (from December 1, 2021 to November 30, 2022)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending November 30, 2022	224,000	(1.7)	6,800	3.2	7,600	(8.6)	4,900	(6.9)	76.99

Note: Revisions to the earnings forecasts most recently announced: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

Note: For details, please refer to "(4) Notes to quarterly consolidated financial statements (Changes in accounting policies)" of "2. Quarterly consolidated financial statements and significant notes thereto" on page 11 of the attachment.

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of May 31, 2022	66,041,147 shares
As of November 30, 2021	66,041,147 shares

(ii) Number of treasury shares at the end of the period

As of May 31, 2022	2,239,067 shares
As of November 30, 2021	2,396,033 shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended May 31, 2022	63,712,083 shares
Six months ended May 31, 2021	63,104,849 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters
(Caution concerning forward-looking statements)
The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable by the Company. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Actual business and other results may differ significantly due to various unforeseen factors.

○Attachment Index

Index

1. Qualitative information on quarterly consolidated financial results

(1) Explanation of operating results

During the six months ended May 31, 2022, the Japanese economy saw an increase in uncertainties regarding the economic outlook due to factors such as rising raw material prices and the progression of inflation due to the impact of situation in Ukraine, etc., while efforts to both prevent the spread of the novel coronavirus disease (COVID-19) and to revitalize socioeconomic activities continued to progress.

Under these conditions, the Group (hereinafter referred to as the “SALA Group”) focused on initiatives for “new developments by SALA in life,” “SALA’s penetration” and “transformation and challenge,” which are its priority issues in the fourth medium-term management plan with the fiscal year ended November 30, 2020 as the first fiscal year. The SALA Group is unified in pressing ahead with each measure in the fiscal year ending November 30, 2022, as it is the final year to complete the fourth medium-term management plan.

During the first six months of the current fiscal year, SALA ENERGY CO., LTD., which operates the Energy & Solutions business, worked to prepare to rebuild a core system in order to provide optimal high quality services to customers through the use of digital technologies. In March 2022, the company entered into an agreement related to the “project to introduce renewable energy to city-owned facilities” with Toyohashi City and started initiatives that systematically entrust services from the installation of solar power generation equipment, etc. at 15 facilities owned by Toyohashi City to the operation, maintenance, and management of the equipment. ASCO Co., Ltd., in the animal health care business, has decided to integrate its subsidiaries A.M.I. Co., Ltd. and Daiwa Pharmaceutical co,. ltd. through an absorption-type merger on December 1, 2022 in order to further strengthen profitability and expand its market share, following the integration of its subsidiary Hokuyaku Co., Ltd., in December 2021. Moreover, emCAMPUS Co.,Ltd., a new company established in December 2021, is working to revitalize local communities by working with governments, such as those in Aichi Prefecture and Toyohashi City, companies, universities, etc., and working to provide learning programs for working people and support entrepreneurs.

As for operating results for the first six months of the current fiscal year, net sales increased by 3.9% year on year to ¥118,277 million due to increases in revenue mainly in the Energy & Solutions business and the Housing business amid a decrease in revenue of ¥7,282 million compared with the previous accounting method due to the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations. As for profit, despite increases in profit in the Energy & Solutions business and the Housing business, operating profit decreased by 1.0% year on year to ¥6,243 million due to decreases in profit mainly in Engineering & Maintenance business. Meanwhile, as gain on valuation of derivatives on forward exchange contracts increased, ordinary profit increased by 1.3% year on year to ¥7,030 million. As a result, profit attributable to owners of parent increased by 0.8% year on year to ¥4,801 million.

Operating results of each segment are as follows.

Energy & Solutions business

Net sales ¥59,723 million (up 14.2% year on year)

Operating profit ¥4,519 million (up 9.2% year on year)

With regard to city gas, sales volume for home use, industrial use and commercial use increased. Net sales increased due to the upwardly adjustment of the selling price of city gas based on a system to adjust raw material costs, and due to the revision of the selling price of LP gas was in response to higher raw material prices. In terms of profit, operating profit increased due to higher gross profit from city gas sales.

Engineering & Maintenance business

Net sales ¥15,749 million (down 9.4% year on year)

Operating profit ¥1,409 million (down 18.8% year on year)

Net sales decreased as completed projects decreased in the equipment work department and the civil engineering department. As for profit, despite efforts to reduce cost of sales by thorough process management, operating profit decreased due to the declined profit margin of completed construction in the equipment work department and the construction department.

Housing business

Net sales ¥18,509 million (up 6.3% year on year)

Operating profit ¥211 million (up 151.5% year on year)

In the housing sales department, the number of custom-built houses and lot houses sold increased. In the housing components and materials processing and sales department, orders received increased as a result of its efforts to expand transactions mainly in the existing business partners. Consequently, net sales and operating profit both increased.

Car Life Support business

Net sales ¥7,525 million (up 2.9% year on year)

Operating profit ¥5 million (down 93.2% year on year)

Both Volkswagen and Audi experienced a decrease in the number of new cars sold, but net sales increased as the number of used cars sold increased due to the Company focusing on used car sales. As for profit, operating profit decreased due to an increase in selling, general and administrative expenses, such as promotion expenses.

Animal Health Care business

Net sales ¥13,512 million (down 14.0% year on year)

Operating profit ¥514 million (down 3.1% year on year)

In the livestock farming department, orders for veterinary medical products, etc. received from existing business partners decreased year on year due to the impact of high feed prices, etc. Net sales decreased due to the inclusion of a revenue decreasing factor of ¥2,186 million from the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations. As for profit, operating profit decreased despite efforts to reduce selling, general and administrative expenses.

Properties business

Net sales ¥2,064 million (up 9.6% year on year)

Operating loss ¥188 million (operating loss of ¥250 million for the same period of the previous fiscal year)

In the asset management department managing real estate properties, etc., net sales increased due to strong performance, such as an increase in revenue from asset management due to an increase in the number of properties handled. As for profit, operating loss was recorded owing to the continued effect of a decrease in the number of customers of banquets, bridal services, hotel stays, etc. in the hospitality department stemming from the impact of COVID-19.

(2) Explanation of financial position

(i) Assets, liabilities and net assets

Assets

Assets amounted to ¥184,935 million, down ¥2,546 million from November 30, 2021. This was mainly due to decreases in "work in process" by ¥2,042 million, "property, plant and equipment" by ¥972 million, "deferred tax assets" by ¥647 million and "other" under current assets by ¥464 million, despite an increase in "notes and accounts receivable - trade, and contract assets" by ¥1,440 million.

Liabilities

Liabilities were ¥113,210 million, down ¥7,571 million from November 30, 2021. This was mainly due to decreases in "long-term borrowings (including current portion)" by ¥4,142 million, "other" under current liabilities by ¥2,926 million and "provision for bonuses" by ¥1,321 million, despite increases in "electronically recorded obligations - operating" by ¥550 million and "notes and accounts payable - trade" by ¥253 million.

Net assets

Net assets were ¥71,725 million, up ¥5,025 million from November 30, 2021. This was mainly due to an increase in "retained earnings" of ¥4,544 million (increased by ¥4,801 million due to recording of profit attributable to owners of parent, decreased by ¥858 million due to payment of dividends, and increased by ¥601 million due to the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations).

(ii) Cash flows

Cash and cash equivalents (hereinafter referred to as "cash") in the six months ended May 31, 2022 decreased by ¥280 million in total, resulting from net cash provided by operating activities of ¥7,276 million, net cash used in investing activities of ¥2,747 million, and net cash used in financing activities of ¥4,809 million. As a result, cash and cash equivalents at the end of the six months ended May 31, 2022 were ¥23,947 million.

Cash flows from operating activities

Net cash provided by operating activities was ¥7,276 million (¥4,643 million provided in the same period of the previous fiscal year). This was mainly due to increase factors such as "profit before income taxes" of ¥7,084 million, "depreciation" of ¥3,291 million and "increase in trade payables" of ¥680 million, and decrease factors including "income taxes paid" of ¥1,547 million, "decrease in provision for bonuses" of ¥1,321 million, "increase in inventories" of ¥640 million and "gain on valuation of derivatives" of ¥286 million.

Cash flows from investing activities

Net cash used in investing activities was ¥2,747 million (¥2,133 million used in the same period of the previous fiscal year). This was mainly due to "purchase of property, plant and equipment" of ¥2,875 million.

Cash flows from financing activities

Net cash used in financing activities was ¥4,809 million (¥2,303 million used in the same period of the previous fiscal year). This was mainly due to decrease factors such as "repayments of long-term borrowings" of ¥5,230 million and "dividends paid" of ¥870 million, and increase factors including "proceeds from long-term borrowings" of ¥1,100 million and "net increase in short-term borrowings" of ¥223 million.

(3) Explanation of consolidated earnings forecasts and other forward-looking statements

There is no change to the consolidated earnings forecasts for the full-year earnings forecasts announced on January 12, 2022.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of November 30, 2021	As of May 31, 2022
Assets		
Current assets		
Cash and deposits	24,754	24,475
Notes and accounts receivable - trade	26,528	–
Notes and accounts receivable - trade, and contract assets	–	27,969
Electronically recorded monetary claims - operating	1,458	1,803
Merchandise and finished goods	12,618	12,485
Work in process	11,135	9,093
Raw materials and supplies	405	305
Other	4,781	4,317
Allowance for doubtful accounts	(196)	(203)
Total current assets	81,487	80,247
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	20,768	20,551
Machinery, equipment and vehicles, net	8,821	8,475
Gas pipe, net	17,158	16,534
Land	33,858	33,477
Construction in progress	841	1,501
Other, net	1,475	1,409
Total property, plant and equipment	82,923	81,950
Intangible assets		
Goodwill	338	268
Other	1,149	1,220
Total intangible assets	1,488	1,488
Investments and other assets		
Investment securities	7,552	7,943
Long-term loans receivable	3,939	3,570
Deferred tax assets	4,920	4,272
Other	5,599	5,885
Allowance for doubtful accounts	(428)	(423)
Total investments and other assets	21,583	21,249
Total non-current assets	105,994	104,688
Total assets	187,481	184,935

(Millions of yen)

	As of November 30, 2021	As of May 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	24,656	24,910
Electronically recorded obligations - operating	4,289	4,840
Short-term borrowings	6,791	7,015
Current portion of long-term borrowings	9,845	8,425
Income taxes payable	1,301	1,528
Provision for bonuses	2,639	1,317
Provision for bonuses for directors (and other officers)	7	4
Provision for warranties for completed construction	64	61
Provision for loss on construction contracts	175	166
Provision for point card certificates	280	224
Provision for loss on guarantees	193	–
Other	14,163	11,236
Total current liabilities	64,407	59,731
Non-current liabilities		
Long-term borrowings	40,369	37,647
Deferred tax liabilities	198	271
Provision for retirement benefits for directors (and other officers)	195	179
Provision for share-based compensation	417	405
Provision for repairs	83	93
Retirement benefit liability	11,782	11,634
Other	3,327	3,246
Total non-current liabilities	56,374	53,478
Total liabilities	120,782	113,210
Net assets		
Shareholders’ equity		
Share capital	8,025	8,025
Capital surplus	25,269	25,283
Retained earnings	33,365	37,909
Treasury shares	(1,585)	(1,479)
Total shareholders’ equity	65,074	69,738
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	441	550
Deferred gains or losses on hedges	356	552
Remeasurements of defined benefit plans	(446)	(461)
Total accumulated other comprehensive income	351	641
Non-controlling interests	1,273	1,345
Total net assets	66,699	71,725
Total liabilities and net assets	187,481	184,935

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income

Quarterly consolidated statement of income (cumulative)

(Millions of yen)

	Six months ended May 31, 2021	Six months ended May 31, 2022
Net sales	113,816	118,277
Cost of sales	81,591	86,987
Gross profit	32,224	31,289
Selling, general and administrative expenses	25,917	25,045
Operating profit	6,307	6,243
Non-operating income		
Interest income	46	37
Dividend income	33	30
Gain on valuation of derivatives	178	286
Share of profit of entities accounted for using equity method	123	163
Other	385	416
Total non-operating income	766	934
Non-operating expenses		
Interest expenses	80	68
Other	52	79
Total non-operating expenses	132	148
Ordinary profit	6,941	7,030
Extraordinary income		
Gain on sale of non-current assets	43	34
Gain on sale of investment securities	24	29
Reversal of provision for loss on guarantees	–	22
Total extraordinary income	67	85
Extraordinary losses		
Loss on sale and retirement of non-current assets	36	14
Loss on valuation of investment securities	–	0
Impairment losses	43	17
Total extraordinary losses	80	32
Profit before income taxes	6,928	7,084
Income taxes - current	1,444	1,804
Income taxes - deferred	586	370
Total income taxes	2,031	2,174
Profit	4,896	4,909
Profit attributable to non-controlling interests	131	107
Profit attributable to owners of parent	4,765	4,801

Quarterly consolidated statement of comprehensive income (cumulative)

(Millions of yen)

	Six months ended May 31, 2021	Six months ended May 31, 2022
Profit	4,896	4,909
Other comprehensive income		
Valuation difference on available-for-sale securities	112	108
Deferred gains or losses on hedges	97	195
Remeasurements of defined benefit plans, net of tax	(97)	(14)
Total other comprehensive income	112	289
Comprehensive income	5,009	5,199
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,876	5,091
Comprehensive income attributable to non-controlling interests	133	108

(3) Quarterly consolidated statement of cash flows

(Millions of yen)

	Six months ended May 31, 2021	Six months ended May 31, 2022
Cash flows from operating activities		
Profit before income taxes	6,928	7,084
Depreciation	3,370	3,291
Impairment losses	43	17
Amortization of goodwill	81	83
Increase (decrease) in allowance for doubtful accounts	(26)	2
Increase (decrease) in provision for bonuses	(1,117)	(1,321)
Increase (decrease) in provision for bonuses for directors (and other officers)	(2)	(2)
Increase (decrease) in provision for warranties for completed construction	0	(3)
Increase (decrease) in provision for loss on construction contracts	(48)	1
Increase (decrease) in provision for point card certificates	0	(6)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(19)	(15)
Increase (decrease) in provision for share-based compensation	14	(12)
Increase (decrease) in provision for repairs	10	10
Increase (decrease) in provision for loss on guarantees	–	(193)
Increase (decrease) in retirement benefit liability	(193)	(153)
Interest and dividend income	(79)	(68)
Interest expenses	81	69
Share of loss (profit) of entities accounted for using equity method	(123)	(163)
Loss (gain) on valuation of derivatives	(178)	(286)
Loss (gain) on sale and retirement of non-current assets	(23)	(29)
Loss (gain) on sale of investment securities	(24)	(29)
Loss (gain) on valuation of investment securities	–	0
Decrease (increase) in trade receivables	(421)	196
Decrease (increase) in inventories	(1,559)	(640)
Increase (decrease) in trade payables	849	680
Increase (decrease) in long-term accounts payable - other	(75)	(54)
Other, net	(1,475)	376
Subtotal	6,011	8,832
Interest and dividends received	78	69
Interest paid	(100)	(78)
Income taxes paid	(1,346)	(1,547)
Net cash provided by (used in) operating activities	4,643	7,276

(Millions of yen)

	Six months ended May 31, 2021	Six months ended May 31, 2022
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,433)	(2,875)
Proceeds from sale of property, plant and equipment	87	75
Purchase of intangible assets	(62)	(271)
Purchase of investment securities	(71)	(114)
Proceeds from sale of investment securities	165	91
Loan advances	(51)	(43)
Proceeds from collection of loans receivable	409	419
Other, net	(175)	(29)
Net cash provided by (used in) investing activities	(2,133)	(2,747)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	732	223
Proceeds from long-term borrowings	1,600	1,100
Repayments of long-term borrowings	(4,157)	(5,230)
Purchase of treasury shares	(0)	(0)
Proceeds from sale of treasury shares	300	105
Dividends paid	(660)	(870)
Dividends paid to non-controlling interests	(7)	(5)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(6)	(16)
Repayments of finance lease obligations	(105)	(115)
Net cash provided by (used in) financing activities	(2,303)	(4,809)
Net increase (decrease) in cash and cash equivalents	206	(280)
Cash and cash equivalents at beginning of period	21,598	24,227
Cash and cash equivalents at end of period	21,805	23,947

(4) Notes to quarterly consolidated financial statements

Uncertainties of entity's ability to continue as going concern

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.

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the current fiscal year, and it has recognized revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services.

Major changes due to the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations are as follows.

(i) Revenue recognition related to sales of LP gas and electricity

In relation to sales of LP gas and electricity, the Company changed the method of revenue recognition whereby, of revenues previously recognized on the basis of the date of reading the electricity meter, revenue arising between the date of reading the meter in the settlement month and the settlement date is recognized based on the reasonable estimates.

(ii) Revenue recognition related to agent transactions

In relation to revenue for some direct transactions of principally sales of LP gas and veterinary medical products, the Company previously had recognized the entire amount of consideration received from customers as revenue, and that has been changed to a method that recognizes revenue at the net amount after deducting the amount paid to suppliers from the amount received from customers for transactions in which the SALA Group acts as an agent for the provision of goods or services to customers.

(iii) Revenue recognition related to construction contracts

With respect to construction contracts, the Company previously had applied the percentage-of-completion method to construction work whose outcome from the completed portion was deemed definite, and had applied the completed-contract method to other construction work. As a result of this application, however, the Company has changed the method to recognize revenue over a certain period of time in alignment with its satisfaction of performance obligations to transfer goods or services to customers when control over a good or service is to be transferred to the customer over a certain period of time. In measuring progress made in satisfying a performance obligation, construction costs incurred as of the last day of each reporting period are to be calculated based on the ratio of the total estimated construction costs. Furthermore, revenue is recognized on a cost recovery basis when it is not possible to reasonably estimate progress towards satisfaction of performance obligations, but it is probable that the costs incurred will be recovered.

The application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations is subject to the transitional treatment provided for in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter of the current fiscal year was added to or deducted from the opening balance of retained earnings of the first quarter of the current fiscal year, and thus the new accounting policy was applied from such opening balance; provided, however, that the new accounting policy was not retrospectively applied to contracts for which nearly all the revenue amounts had been recognized according to the previous treatment in periods prior to the beginning of the first quarter of the current fiscal year, by applying the method provided for in paragraph 86 of the Accounting Standard for Revenue Recognition. Furthermore, by applying the method set forth in item (1) of the supplementary provisions of paragraph 86 of the Accounting Standard for Revenue Recognition, modifications to contracts carried out prior to the beginning of the first quarter of the current fiscal year were accounted for based on the contractual terms after all contract modifications were reflected. Consequently, this cumulative effect was added to or deducted from the opening balance of retained earnings of the first quarter of the current fiscal year.

As a result of this change, for the first six months of the current fiscal year, net sales decreased by ¥7,282 million, cost of sales decreased by ¥7,226 million, selling, general and administrative expenses decreased by ¥197 million, while operating profit, ordinary profit and profit before income taxes each increased by ¥142 million. In addition, the opening balance of retained earnings increased by ¥601 million.

Due to the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations, “notes and accounts receivable - trade” under current assets of the consolidated balance sheet as of the end of the previous fiscal year has been included in “notes and accounts receivable - trade, and contract assets” under current assets from the quarterly consolidated balance sheet as of the end of the first quarter of the current fiscal year. In accordance with the transitional treatment provided for in paragraph 89-2 of the Accounting Standard for Revenue Recognition, figures for the previous fiscal year have not been restated in accordance with the new approach to presentation. Furthermore, the information on disaggregation of revenue from contracts with customers during the first six months of the previous fiscal year has not been disclosed as allowed by the transitional treatment provided for in paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020).

Application of accounting standard for fair value measurement, etc.

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) and relevant ASBJ regulations from the beginning of the first quarter of the current fiscal year, and it has applied the new accounting policy provided for by the Accounting Standard for Fair Value Measurement, etc. prospectively in accordance with the transitional measures provided for in paragraph 19 of the Accounting Standard For Fair Value Measurement, and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). There is no impact on the quarterly consolidated financial statements.

Additional information

Impact of the spread of COVID-19

There has been no material change in the assumptions regarding the impact of the spread COVID-19 described in Impairment loss on non-current assets in Significant accounting estimates in the annual securities report for the previous fiscal year.

Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system

As for items regarding the transition to the group tax sharing system introduced in the “Act Partially Amending the Income Tax Act” (Act No. 8 of 2020) and items revised on non-consolidated taxation system in connection with the transition to the group tax sharing system, the Company and some consolidated subsidiaries have not applied the provisions of paragraph 44 of the “Guidance on Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) as allowed by the provisions of paragraph 3 of the “Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ PITF No. 39, March 31, 2020). Accordingly, amounts of deferred tax assets and deferred tax liabilities are determined in accordance with the provisions of the tax law before revision.

Segment information

I For the six months ended May 31, 2021

1. Disclosure of sales and profit (loss) for each reportable segment

(Millions of yen)

	Reportable segments				
	Energy & Solutions business	Engineering & Maintenance business	Housing business	Car Life Support business	Animal Health Care business
Net sales					
Revenues from external customers	52,287	17,383	17,406	7,315	15,704
Intersegment sales or transfers	872	2,037	66	5	8
Total	53,159	19,420	17,472	7,320	15,713
Segment profit (loss)	4,139	1,736	83	86	531

	Reportable segments		Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Properties business	Total				
Net sales						
Revenues from external customers	1,883	111,979	1,836	113,816	–	113,816
Intersegment sales or transfers	236	3,226	652	3,878	(3,878)	–
Total	2,119	115,205	2,489	117,694	(3,878)	113,816
Segment profit (loss)	(250)	6,326	91	6,418	(110)	6,307

(Notes) 1. The “other” category represents operating segments that are not included in reportable segments, and includes manufacturing auto parts, installment sale and lease.

2. Adjustment to segment profit (loss) of ¥(110) million includes intersegment eliminations of ¥570 million and corporate expenses of ¥(681) million. Corporate expenses are mainly general and administrative expenses, which are not attributable to the reportable segments.

3. Segment profit (loss) was adjusted with operating profit in the quarterly consolidated statement of income.

2. Disclosure of impairment losses on non-current assets or goodwill for each reportable segment

(Significant impairment losses on non-current assets)

Impairment losses on assets for business use were recorded in the Animal Health Care business. The recorded amount of such impairment losses was ¥43 million in the first six months of the previous fiscal year.

II For the six months ended May 31, 2022

1. Disclosure of sales and profit (loss) for each reportable segment and disaggregation of revenue

(Millions of yen)

	Reportable segments				
	Energy & Solutions business	Engineering & Maintenance business	Housing business	Car Life Support business	Animal Health Care business
Net sales					
City gas	23,289	–	–	–	–
LP gas	16,140	–	–	–	–
Electric power	6,989	–	–	–	–
Civil engineering work, construction work, equipment work	–	15,749	–	–	–
Housing, construction materials	–	–	18,509	–	–
Automotive sales and maintenance	–	–	–	7,525	–
Veterinary medical products	–	–	–	–	13,512
Lease, sale and purchase, and brokerage of real estate, hotel	–	–	–	–	–
Other	13,303	–	–	–	–
Revenue from contracts with customers	59,723	15,749	18,509	7,525	13,512
Other revenue (Note 4)	–	–	–	–	–
Revenues from external customers	59,723	15,749	18,509	7,525	13,512
Intersegment sales or transfers	1,185	2,482	3	5	0
Total	60,908	18,232	18,512	7,531	13,512
Segment profit (loss)	4,519	1,409	211	5	514

	Reportable segments		Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Properties business	Total				
Net sales						
City gas	–	23,289	–	23,289	–	23,289
LP gas	–	16,140	–	16,140	–	16,140
Electric power	–	6,989	–	6,989	–	6,989
Civil engineering work, construction work, equipment work	–	15,749	–	15,749	–	15,749
Housing, construction materials	–	18,509	–	18,509	–	18,509
Automotive sales and maintenance	–	7,525	–	7,525	–	7,525
Veterinary medical products	–	13,512	–	13,512	–	13,512
Lease, sale and purchase, and brokerage of real estate, hotel	2,064	2,064	–	2,064	–	2,064
Other	–	13,303	1,010	14,313	67	14,381
Revenue from contracts with customers	2,064	117,084	1,010	118,094	67	118,162
Other revenue (Note 4)	–	–	114	114	–	114
Revenues from external customers	2,064	117,084	1,124	118,209	67	118,277
Intersegment sales or transfers	246	3,924	962	4,886	(4,886)	–
Total	2,311	121,009	2,086	123,095	(4,818)	118,277
Segment profit (loss)	(188)	6,471	61	6,533	(289)	6,243

(Notes) 1. The “other” category represents operating segments that are not included in reportable segments, and includes manufacturing auto parts, installment sale and lease.

2. Adjustment to segment profit (loss) of ¥(289) million includes intersegment eliminations of ¥571 million and corporate expenses of ¥(861) million. Corporate expenses are mainly general and administrative expenses, which are not attributable to the reportable segments.

3. Segment profit (loss) was adjusted with operating profit in the quarterly consolidated statement of income.

4. “Other revenue” includes revenue on lease, etc.

2. Disclosure of impairment losses on non-current assets or goodwill for each reportable segment

(Significant impairment losses on non-current assets)

Impairment losses on assets for business use were recorded in the Energy & Solutions business. The recorded amount of such impairment losses was ¥17 million in the first six months of the current fiscal year.

3. Information related to revisions to reportable segments

As stated under “Changes in accounting policies,” the Company has applied the Accounting Standard for Revenue Recognition and relevant ASBJ regulations from the beginning of the first quarter of the current fiscal year, and accordingly changed its method for calculating net sales, profit and loss for operating segments given that it has changed accounting methods for revenue recognition.

For the first six months of the current fiscal year, as a result of this change, and compared with the figures obtained by the previous method, net sales decreased by ¥4,527 million and segment profit increased by ¥83 million for the “Energy & Solutions business.” Net sales and segment profit increased by ¥145 million and ¥61 million, respectively, for the “Engineering & Maintenance business.” Net sales and segment profit decreased by ¥4 million and ¥2 million, respectively, for the “Housing business.” Net sales decreased by ¥166 million for the “Car Life Support business,” but there is no effect on segment profit.

Net sales decreased by ¥2,186 million for the “Animal Health Care business,” but there is no effect on segment profit. Net sales decreased by ¥1 million for the “Properties business,” but there is no effect on segment profit. Net sales decreased by ¥542 million for “Other,” but there is no effect on segment profit.

Significant events after reporting period

Not applicable.