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Consolidated Financial Results for the Six Months Ended September 30, 2022 [Japanese GAAP]



November 9, 2022

Company name: KYUSHU LEASING SERVICE CO., LTD.
 Stock exchange listing: Tokyo and Fukuoka Stock Exchanges
 Securities code: 8596
 URL: <https://www.k-lease.co.jp>
 Representative: Seiji Isoyama, President and CEO
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 Phone: +81-92-431-2530
 Scheduled date of filing quarterly securities report: November 10, 2022
 Scheduled date of commencing dividend payments: December 9, 2022
 Availability of supplementary explanatory materials on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended September 30, 2022 (April 1, 2022 - September 30, 2022)

(1) Consolidated Operating Results (Cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2022	17,340	44.9	2,409	37.3	2,421	36.7	3,752	192.3
September 30, 2021	11,967	(14.4)	1,754	(10.2)	1,771	(12.5)	1,283	(4.6)

(Note) Comprehensive income: Six months ended September 30, 2022: 2,461 million yen [101.5%]

Six months ended September 30, 2021: 1,221 million yen [(26.6)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2022	165.12	—
September 30, 2021	56.51	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2022	178,162	35,857	19.9
As of March 31, 2022	169,417	33,467	19.7

(Reference) Equity: As of September 30, 2022: 35,515 million yen

As of March 31, 2022: 33,336 million yen

2. Dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	—	8.00	—	10.50	18.50
Fiscal year ending March 31, 2023	—	11.00			
Fiscal year ending March 31, 2023 (Forecast)			—	12.50	23.50

(Note 1) Revision to the forecast for dividends announced most recently: Yes

(Note 2) Breakdown for the six months ended September 30, 2021 Ordinary dividend: 8.00 yen
Breakdown for the fiscal year ended March 31, 2022 Ordinary dividend: 10.50 yen
Breakdown for the six months ended September 30, 2022 Ordinary dividend: 9.00 yen
Special dividend: 2.00 yen
Breakdown for the fiscal year ending March 31, 2023 (forecast) Ordinary dividend: 9.50 yen
Special dividend: 3.00 yen

(Note 3) For information regarding revisions to the forecast for dividends, please see the “Notice Regarding Dividends of Surplus (Interim Dividend and Dividend Increase) and Revisions to Dividend Forecast (Special Dividends and Dividend Increase)” issued today (November 9, 2022).

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 - March 31, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	Yen
Full year	36,000	21.8	5,000	53.8	5,000	51.6	5,500 158.5	242.00

(Note) Revision to the financial results forecast announced most recently: None

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: Yes
(Changes in specified subsidiaries resulting in changes in the scope of consolidation):
Newly included: 1 (TOKYO23 Residential Fund 2 Specific Purpose Company), Excluded: – ()
- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
1) Changes in accounting policies due to the revision of accounting standards: Yes
2) Changes in accounting policies other than 1) above: None
3) Changes in accounting estimates: None
4) Retrospective restatement: None
- (Note) For details, please refer to “2. Quarterly Consolidated Financial Statements and Principal Notes (4) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies)” on page 11 of the Attachments.
- (4) Total number of issued and outstanding shares (common shares)
1) Total number of issued shares at the end of the period (including treasury shares):
September 30, 2022: 25,952,374 shares
March 31, 2022: 25,952,374 shares

2) Total number of treasury shares at the end of the period:
September 30, 2022: 3,225,404 shares
March 31, 2022: 3,225,404 shares

3) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year):
Six months ended September 30, 2022: 22,726,970 shares
Six months ended September 30, 2021: 22,715,101 shares
- (Note) Treasury shares include the Company shares held by Custody Bank of Japan, Ltd. (Trust Account E) as trust property for the “Board Benefit Trust (BBT)” and the “Japanese employee stock ownership plan (J-ESOP).”

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

*** Explanation of the proper use of financial results forecast and other notes**

Financial results forecasts and other forward-looking statements contained herein are based on information available as of this report’s publication and certain assumptions that are deemed reasonable, and these forecasts are not guarantees of future performance. Actual results may differ significantly due to various factors. For the assumptions underlying the forecasts herein and cautionary notes on the use of these financial results forecasts, please refer to “1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” on page 4 of the Attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the six months ended September 30, 2022, from late June to mid-August, Japan experienced its seventh wave of the novel coronavirus disease (COVID-19) infections, with the number of new infections rising rapidly to unprecedented levels. The government, however, maintained the easing of movement restrictions and entry restrictions to Japan, and the trend toward recovery in socioeconomic activities gained momentum. Nevertheless, the prolonged situation in Ukraine and the rapid yen depreciation due to market expectations of the raising of U.S. interest rates affected the prices of resources and raw materials and the price of goods in Japan; accordingly, the outlook of the Japanese economy remains uncertain.

Under such harsh circumstances, with an aim to create new value and a prosperous future as a Kyushu-based comprehensive financial services company, the Group has been working toward “Expanding business foundations” and “Raising the sophistication of corporate structure” by implementing various measures set forth in the medium-term management plan, “Co-creation 2024: Challenge for the Future,” covering the period from April 2021 to March 2024.

In addition, in accordance with the capital and business alliance agreement with Nishi-Nippon Financial Holdings, Inc. (Nishi-Nippon FH), the Company became an equity-method affiliate of Nishi-Nippon FH on October 5, 2022. The two companies, which share the same main foothold, will further deepen their cooperation and provide a wider range of solutions to the needs of customers, striving to improve the sustainability of the region, and thus the corporate value of both companies.

As consolidated financial results for the six months ended September 30, 2022, due to higher lease sales and strong real estate business performance including the proceeds from major real estate sales at consolidated subsidiaries, the Company posted net sales of 17,340 million yen (up 44.9% year on year), operating profit of 2,409 million yen (up 37.3% year on year), ordinary profit of 2,421 million yen (up 36.7% year on year), and profit attributable to owners of parent of 3,752 million yen (up 192.3% year on year) as a result of the recording of gain on sale of investment securities as extraordinary income.

Operating results by business segment are as follows.

1) Leasing/Installment sales

Net sales increased by 7.1% year on year to 9,407 million yen and operating profit increased by 22.2% year on year to 783 million yen, due to factors such as an increase in new leasing contracts mainly of commercial facilities and higher leasing income from aircrafts acquired in the previous fiscal year. Operating assets as of September 30, 2022 were 83,845 million yen (up 3.1% from the end of the previous fiscal year).

2) Finance

Net sales increased by 4.3% year on year to 846 million yen and operating profit increased by 10.8% year on year to 510 million yen, in line with the increase in interest revenue, etc. from accounts receivable - operating loans. Operating assets as of September 30, 2022 were 31,569 million yen (down 2.7% from the end of the previous fiscal year), primarily due to prepayment of accounts receivable - operating loans.

3) Real estate

Net sales increased by 287.4% year on year to 6,257 million yen and operating profit increased by 56.1% year on year to 1,144 million yen, mainly due to the recording of proceeds from major real estate sales including those of consolidated subsidiaries. As a result of the acquisition of properties of real estate for sale, operating assets as of September 30, 2022 were 42,935 million yen (up 13.6% from the end of the previous fiscal year).

4) Fee business

Net sales increased by 5.8% year on year to 237 million yen and operating profit increased by 14.2% year on

year to 103 million yen, due to increases in automobile-related commission income and income from the insurance agency business.

5) Environmental solutions

Net sales increased by 10.0% year on year to 575 million yen and operating profit increased by 30.6% year on year to 121 million yen, due to the revenue from the solar power station acquired in the previous fiscal year. Operating assets as of September 30, 2022 were 4,559 million yen (down 2.5 % from the end of the previous fiscal year).

(2) Explanation of Financial Position

Assets, liabilities and net assets

Total assets at the end of the six months under review increased by 8,745 million yen or 5.2% from the end of the previous fiscal year to 178,162 million yen. This was mainly due to an increase of 935 million yen in lease receivables and investments in leases, an increase of 1,675 million yen in installment receivables, and an increase of 4,322 million yen in real estate for sale.

Total liabilities increased by 6,355 million yen or 4.7% from the end of the previous fiscal year to 142,305 million yen. This was mainly due to an increase of 4,558 million yen in borrowings.

Total net assets increased by 2,390 million yen or 7.1% from the end of the previous fiscal year to 35,857 million yen. This was mainly due to an increase of 3,503 million yen in retained earnings.

(Status of Cash Flows)

Cash and cash equivalents during the six months ended September 30, 2022 increased by 1,350 million yen from the end of the previous fiscal year to 6,298 million yen.

1) Cash Flows from Operating Activities

Net cash used in operating activities was 2,961 million yen, compared with a cash outflow of 11,606 million yen for the six months ended September 30, 2021. The principal cash inflow factors were 5,451 million yen in profit before taxes and a decrease of 883 million yen in accounts receivable - operating loans. The principal cash outflow factors were an increase of 4,221 million yen in real estate for sale, 3,029 million yen in gain on sale of investment securities, and an increase of 1,868 million yen in installment receivables.

2) Cash Flows from Investing Activities

Net cash used in investing activities was 41 million yen, compared with a cash inflow of 76 million yen for the six months ended September 30, 2021. The principal cash inflow factor was 28 million yen in proceeds from sales and redemption of investment securities, and the principal cash outflow factor was 53 million yen in purchase of intangible assets.

3) Cash Flows from Financing Activities

Net cash provided by financing activities was 4,354 million yen, compared with a cash inflow of 11,535 million yen for the six months ended September 30, 2021. The principal cash inflow factor was a net increase of 4,558 million yen in long-term and short-term borrowings, and the principal cash outflow factors were 249 million yen in dividends paid, 87 million yen in repayments of lease obligations, and 50 million yen in redemption of bonds.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

No changes have been made to the consolidated financial results forecast for the full year ending March 31, 2023, announced on October 21, 2022.

The financial results forecast is based on information available as of this report's publication and actual results may change due to various factors going forward including the timing of the end of the COVID-19 pandemic.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	4,947	6,298
Notes and accounts receivable - trade	93	58
Installment receivables	20,520	22,195
Lease receivables and investments in leases	53,994	54,929
Accounts receivable - operating loans	32,453	31,569
Accounts receivable - lease	393	299
Real estate for sale	9,490	13,812
Other	1,254	3,608
Allowance for doubtful accounts	(371)	(351)
Total current assets	122,774	132,420
Non-current assets		
Property, plant and equipment		
Assets for lease		
Real estate for rent, net	26,545	26,991
Other, net	7,625	7,457
Total assets for lease	34,171	34,448
Other operating assets	3,859	3,673
Own-used assets	660	684
Total property, plant and equipment	38,691	38,806
Intangible assets	406	353
Investments and other assets		
Investment securities	6,591	5,162
Other	952	1,420
Total investments and other assets	7,543	6,583
Total non-current assets	46,642	45,742
Total assets	169,417	178,162

(Million yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,252	2,200
Short-term borrowings	49,008	38,823
Current portion of bonds payable	200	150
Income taxes payable	484	1,725
Provisions	398	413
Other	4,982	5,857
Total current liabilities	57,325	49,170
Non-current liabilities		
Long-term borrowings	67,871	82,614
Provisions	25	27
Retirement benefit liability	363	371
Asset retirement obligations	348	413
Other	10,015	9,706
Total non-current liabilities	78,624	93,134
Total liabilities	135,950	142,305
Net assets		
Shareholders' equity		
Share capital	2,933	2,933
Capital surplus	835	811
Retained earnings	28,828	32,331
Treasury shares	(999)	(999)
Total shareholders' equity	31,597	35,076
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,739	438
Total accumulated other comprehensive income	1,739	438
Non-controlling interests	130	342
Total net assets	33,467	35,857
Total liabilities and net assets	169,417	178,162

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Net sales	11,967	17,340
Cost of sales	8,954	13,568
Gross profit	3,012	3,771
Selling, general and administrative expenses	1,257	1,362
Operating profit	1,754	2,409
Non-operating income		
Dividend income	73	78
Other	6	18
Total non-operating income	79	97
Non-operating expenses		
Interest expenses	29	41
Share of loss of entities accounted for using equity method	3	—
Shareholders related costs	21	30
Other	8	13
Total non-operating expenses	62	84
Ordinary profit	1,771	2,421
Extraordinary income		
Gain on sale of investment securities	—	3,029
Gain on sales of real estate for rent	4	—
Gain on sale of shares of subsidiaries and associates	76	—
Total extraordinary income	80	3,029
Profit before income taxes	1,851	5,451
Income taxes – current	406	1,675
Income taxes – deferred	151	13
Total income taxes	558	1,688
Profit	1,293	3,762
Profit attributable to non-controlling interests	10	9
Profit attributable to owners of parent	1,283	3,752

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Profit	1,293	3,762
Other comprehensive income		
Valuation difference on available-for-sale securities	(72)	(1,300)
Total other comprehensive income	(72)	(1,300)
Comprehensive income	1,221	2,461
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,211	2,451
Comprehensive income attributable to non-controlling interests	10	9

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Cash flows from operating activities		
Profit before income taxes	1,851	5,451
Depreciation	550	646
Increase (decrease) in allowance for doubtful accounts	25	(19)
Increase (decrease) in provisions	15	17
Increase (decrease) in retirement benefit liability	8	7
Interest and dividend income	(73)	(78)
Capital costs and interest expenses	327	400
Loss (gain) on sales of real estate for rent	(4)	—
Share of loss (profit) of entities accounted for using equity method	3	—
Loss (gain) on sale of investment securities	—	(3,029)
Loss (gain) on sale of shares of subsidiaries and associates	(76)	—
Decrease (increase) in installment receivables	(1,230)	(1,868)
Net decrease (increase) in lease receivables and investments in leases	(1,948)	(510)
Decrease (increase) in accounts receivable - operating loans	(4,533)	883
Decrease (increase) in real estate for sale	(4,169)	(4,221)
Purchase of assets for lease	(196)	(638)
Purchase of other operating assets	(289)	(0)
Increase (decrease) in trade payables	(596)	(51)
Proceeds from sale of assets for lease	16	—
Other, net	(581)	802
Subtotal	(10,901)	(2,208)
Interest and dividends received	73	78
Interest paid	(329)	(398)
Income taxes paid	(449)	(432)
Net cash provided by (used in) operating activities	(11,606)	(2,961)
Cash flows from investing activities		
Purchase of own-used assets	(6)	(15)
Purchase of intangible assets	(7)	(53)
Purchase of investment securities	(24)	(0)
Proceeds from sale and redemption of investment securities	101	28
Other, net	13	(0)
Net cash provided by (used in) investing activities	76	(41)

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	8,500	(10,400)
Proceeds from long-term borrowings	17,700	30,690
Repayments of long-term borrowings	(14,297)	(15,731)
Redemption of bonds	(50)	(50)
Proceeds from share issuance to non-controlling shareholders	—	244
Repayments of lease liabilities	(85)	(87)
Dividends paid	(213)	(249)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	—	(50)
Other, net	(18)	(9)
Net cash provided by (used in) financing activities	11,535	4,354
Effect of exchange rate change on cash and cash equivalents	0	(0)
Net increase (decrease) in cash and cash equivalents	5	1,351
Cash and cash equivalents at beginning of period	4,722	4,947
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	—	(0)
Cash and cash equivalents at end of period	4,728	6,298

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in shareholders' equity)

Not applicable.

(Changes in scope of consolidation or equity method)

TOKYO23 Residential Fund 2 Specific Purpose Company was included in the scope of consolidation in the first quarter of this fiscal year as a result of equity investment, etc. In addition, KK Residence LLC was excluded from the scope of consolidation as a result of the end of effective control. The portion of the statement of income of KK Residence LLC corresponding to the period until the end of effective control is included in the scope of consolidation.

(Changes in accounting policies)

(Application of the Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter, the "Fair Value Measurement Guidance") effective from the beginning of the first quarter of this fiscal year, and will prospectively apply the new accounting policy prescribed by the Fair Value Measurement Guidance in accordance with the transitional treatment provided for in Paragraph 27-2 of the Fair Value Measurement Guidance. As a result of this change, some investment trusts that were previously recorded at acquisition cost as securities whose fair value was deemed to be extremely difficult to determine are now recorded at fair value on the consolidated balance sheets. The application of this implementation guidance has no material impact on the quarterly consolidated financial statements.

(Additional information)

(Transactions of delivering the Company's own stock to employees, etc. through trusts)

The Company introduced a performance-based stock compensation plan (the "Board Benefit Trust (BBT)") for its Directors and Audit & Supervisory Board Members (excluding Outside Directors and Outside Audit & Supervisory Board Members), and an incentive plan (the "Japanese employee stock ownership plan (J-ESOP)") that delivers the Company's shares to employees who have satisfied certain requirements (hereinafter, collectively referred to as the "Trust").

The Company's shares held by the Trust are presented as treasury shares under net assets in the quarterly consolidated balance sheets, and the book value and the number of these treasury shares as of the end of the previous fiscal year were 306 million yen and 1,035,100 shares, respectively, while those as of the end of the second quarter under review were 306 million yen and 1,035,100 shares, respectively.

(Segment information, etc.)

(Segment information)

I. For the six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

1. Information on net sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment					
	Leasing/ Installment sales	Finance	Real estate	Fee business	Environmental solutions	Total
Net sales						
Net sales to outside customers	8,781	812	1,615	224	523	11,956
Inter-segment net sales or transfers	—	—	—	—	—	—
Total	8,781	812	1,615	224	523	11,956
Segment profit (loss)	641	460	733	90	92	2,017

	Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in quarterly consolidated statements of income (Note 3)
Net sales				
Net sales to outside customers	10	11,967	—	11,967
Inter-segment net sales or transfers	—	—	—	—
Total	10	11,967	—	11,967
Segment profit (loss)	(9)	2,008	(253)	1,754

(Notes) 1. “Others” include business segments that are not included in reportable segments, including sale of goods.

2. The negative 253 million yen adjustment for segment profit (loss) represents corporate expenses unallocated to reportable segments consisting of general administrative expenses.

3. Segment profit (loss) was adjusted based on operating profit reported on the quarterly consolidated statements of income for the corresponding period.

2. Information on impairment loss on non-current assets and goodwill by reportable segment

Not applicable.

II. For the six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

1. Information on net sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment					
	Leasing/ Installment sales	Finance	Real estate	Fee business	Environmental solutions	Total
Net sales						
Net sales to outside customers	9,407	846	6,257	237	575	17,324
Inter-segment net sales or transfers	—	—	—	—	—	—
Total	9,407	846	6,257	237	575	17,324
Segment profit (loss)	783	510	1,144	103	121	2,662

	Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in quarterly consolidated statements of income (Note 3)
Net sales				
Net sales to outside customers	16	17,340	—	17,340
Inter-segment net sales or transfers	—	—	—	—
Total	16	17,340	—	17,340
Segment profit (loss)	(6)	2,656	(246)	2,409

(Notes) 1. “Others” include business segments that are not included in reportable segments, including sale of goods.

2. The negative 246 million yen adjustment for segment profit (loss) represents corporate expenses unallocated to reportable segments consisting of general administrative expenses.

3. Segment profit (loss) was adjusted based on operating profit reported on the quarterly consolidated statements of income for the corresponding period.

2. Information on impairment loss on non-current assets and goodwill by reportable segment

Not applicable.

3. Supplementary Information

Operating assets (Consolidated)

Name of segment		As of March 31, 2022		As of September 30, 2022	
		Year-end amount (Million yen)	Percentage (%)	2nd quarter-end amount (Million yen)	Percentage (%)
Lease/Installment sales	Finance leases	53,213	34.0	54,192	33.3
	Operating leases	7,625	4.9	7,457	4.6
	Total leases	60,838	38.9	61,649	37.9
	Installment sales	20,520	13.1	22,195	13.6
	Total leases and installment sales	81,359	52.0	83,845	51.5
Finance		32,453	20.8	31,569	19.4
Real estate	Operating leases	26,545	17.0	26,991	16.5
	Other	11,247	7.2	15,943	9.8
	Total real estate	37,792	24.2	42,935	26.3
Environmental solutions		4,675	3.0	4,559	2.8
Total		156,280	100.0	162,908	100.0