

Consolidated Financial Statements
for the First Quarter of the Fiscal Year Ending March 31, 2017 [J-GAAP]

August 4, 2016

NIPPON KANZAI Co., Ltd.

Listed exchanges: Tokyo Stock Exchange, First Section
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 Filing date of quarterly report: August 12, 2016
 Date to start dividends distribution: —
 Supplementary materials for quarterly results: None
 Quarterly results briefing meeting held: None

*Amounts under one million yen have been rounded down.

1. Consolidated results for the first quarter ended June 30, 2016 (April 1, 2016 to June 30, 2016)

(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	%
Three months ended June 30, 2016	21,355	(1.3)	1,315	(2.4)	1,343	(17.7)
Three months ended June 30, 2015	21,639	3.4	1,347	(3.0)	1,633	3.9

Note: Comprehensive income: Three months ended June 30, 2016: ¥652 million (-54.2%)
 Three months ended June 30, 2015: ¥1,426 million (-5.6%)

	Profit Attributable to Owners of Parent		Profit per Share		Diluted Profit per Share	
	Millions of yen	%	Yen		Yen	
Three months ended June 30, 2016	825	(37.4)	24.17		—	
Three months ended June 30, 2015	1,318	18.8	38.72		—	

(Note) NIPPON KANZAI (hereinafter “the Company”) conducted a 2-for-1 stock split which became effective as of October 1, 2015. The figures for profit per share have been adjusted to reflect the impact of the stock split as if the stock split had occurred at the beginning of the prior fiscal year.

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of June 30, 2016	55,993	38,548	66.5
As of March 31, 2015	58,521	38,699	63.9

Note: Shareholders' equity: As of June 30, 2016: ¥37,260 million
 As of March 31, 2016: ¥37,381 million

2. Dividends

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2016	Yen —	Yen 12.50	Yen —	Yen 22.00	Yen 34.50
Fiscal year ending March 31, 2017	—				
Fiscal year ending March 31, 2017 (forecast)		19.00	—	19.00	38.00

Note: Revisions to the most recently announced forecast of cash dividends in the current quarter: None

The Company conducted a 2-for-1 stock split which became effective as of October 1, 2015. The figure for interim dividends for the fiscal year ended March 31, 2016 has been adjusted to reflect the impact of the stock split as if the stock split had occurred at the beginning of the prior fiscal year. (The actual amount of interim dividends for the fiscal year ended March 31, 2016 was 25 yen.)

3. Consolidated business forecasts for the fiscal year ending March 31, 2017 (April 1, 2016 to March 31, 2017)

(Percentage figures indicate the rate of change from the same period in 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
First half	45,000	2.4	2,700	(0.5)	3,300	5.9	2,200	(2.7)	64.42
Full year	92,000	2.1	5,500	5.2	6,400	10.2	4,200	6.1	122.99

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

* Notes

(1) **Changes of significant subsidiaries during the term (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 June 30, 2016	41,180,306 shares	As of March 31, 2016	41,180,306 shares
2)	As of June 30, 2016	7,007,580 shares	As of March 31, 2016	7,030,880 shares
3)	First three months ended June 30, 2016	34,157,900 shares	First three months ended June 30, 2015	34,043,896 shares

* Presentation of implementation status for quarterly review procedures

This quarterly financial report is not covered by the Financial Instruments and Exchange Act and the quarterly consolidated financial statements audit procedures called for by the Financial Instruments and Exchange Act have not been completed as of the release of this quarterly financial report.

* Explanation regarding the appropriate use of business forecasts and other notes

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. (3) Analysis of 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) Analysis of business results

During the first three months of the fiscal year ending March 31, 2017, the Japanese economy began to see a recovering trend in the improved corporate earnings, employment and income environment, supported by the government's continuous economic measures. On the other hand, the outlook still remains uncertain amid fluctuating stock prices and foreign exchange rates as well as concerns over the world's economic disorder due to Britain's decision to leave the EU (Brexit) and other factors.

In the real estate service industry, signs of improvement are seen in the office and commercial buildings vacancy rates in central Tokyo and core regional cities, and it was confirmed that rents in some areas have turned upward. In addition, the Company's target market indicates future expansion as there has been an increasing number of reconstruction projects of multi-purpose buildings in central Tokyo and other areas. Concerning new contracts for management business, we have been awarded contracts by focusing on management with added value that can clearly differentiate us from competitors. As to existing contracts for the management business, although strong cost-consciousness brought by the global financial crisis still remains among clients, the Company has increased efforts on improving management quality and expansion of the scope of management by offering better management services with evolved and improved contents to clients from the viewpoint of maintaining and enhancing safety, security and asset value. In such a business environment, NIPPON KANZAI Group (hereinafter "the Group") made efforts in proactive business development in related areas such as private finance initiatives (PFI), energy-saving and environmental businesses while working to further strengthen and improve our main business of building management.

Despite the above efforts, consolidated net sales for the first three months decreased by 1.3% year on year to 21,355 million yen due to sluggish growth in new contracts and construction-related orders.

As per earnings, although a review of procurement terms and conditions and efforts for thorough working time management were made, major costs such as personnel and subcontracting costs increased resulting in decrease in operating income by 2.4% year on year to 1,315 million yen. Furthermore, ordinary income decreased by 17.7% year on year to 1,343 million yen and profit attributable to owners of parent decreased by 37.4% year on year to 825 million yen, falling below those of the same quarter of the previous fiscal year. These decreases were caused by the decrease in share of profit of entities accounted for using equity method and recording of loss on foreign exchange resulting from foreign exchange rate fluctuation.

The following are earnings by segment.

Segment income (loss) has been adjusted to operating income described in quarterly consolidated statements of income.

(Building Management and Operation Business)

In our core Building Management and Operation Business, which focuses on building management and security services, we struggled to win new contracts and construction-related orders. As a result, net sales for the first three months of the fiscal year ending March 31, 2017 decreased by 1.2% year on year to 18,541 million yen.

Segment income was 2,011 million yen, down 1.9% year on year, due to a sluggish growth in price per contract and increase in labor costs.

(Environmental Facility Management Business)

In the Environmental Facility Management Business, which mainly comprises the management of water treatment, sewage disposal and other public facilities related to the overall living environment, although we generally secured a firm number of renewals of existing contracts, we struggled to win new contracts. As a result, net sales for the segment amounted to 2,202 million yen, down 0.3% year on year, for the first three months of the fiscal year ending March 31, 2017.

Although the Group has worked to reduce costs, focusing on efforts to rein in start-up costs for new contracts, to reduce procurement costs, and to realign personnel assignments to better match actual needs, segment income for the quarter was 259 million yen, down 11.3% year on year, due to the increased costs of major items such as outsourcing costs.

(Real Estate Fund Management Business)

In the Real Estate Fund Management Business, which mainly comprises asset management business (i.e. arrangement and asset management of real estate funds) and handling investments in a silent partnership, although the asset management income was stable, income from the disposition of real estate decreased. As a result, net sales for the segment for the first three months of the fiscal year ending March 31, 2017 was 154 million yen, down 39.5% year on year.

Turning to profits, segment income was 42 million yen, down 49.0% year on year. This significant decrease was attributable to decrease in income from the disposition of real estate mentioned above, exceeding our efforts in expense reductions and improvements on operational efficiency.

(Other Businesses)

In the Other Businesses, which consist mainly of event planning & management, printing and design, although there were adverse impacts from various events being downsized and clients' cost reductions, segment net sales increased by 11.5% year on year to 456 million yen and segment income increased significantly to 114 million yen, up 111 million yen year on year due to successful winning of highly profitable contracts.

(2) Analysis of financial position

Total assets at the end of the first quarter of the current fiscal year decreased by 2,527 million yen, or 4.3%, from the previous fiscal year-end to 55,993 million yen, mainly due to the decrease in collection of accounts receivable – trade.

Liabilities decreased by 2,376 million yen, or 12.0 %, from the previous fiscal year-end to 17,445 million yen due to payment of accounts payable – trade, income taxes payable, etc.

Net assets decreased by 151 million yen, or 0.4%, from the previous fiscal year-end to 38,548 million yen due to the decrease in cash dividends payout, valuation difference on available-for-sale securities, etc., despite the increase in profit attributable to owners of parent. The equity ratio increased by 2.6 percentage points from the previous fiscal year-end to 66.5%.

(3) Analysis of information on future forecasts including consolidated business forecasts, etc.

We expect that our business environment will continue to be in an unpredictable situation.

The Group's business performance has been generally in line with forecasts announced on April 28, 2016. Consequently, there are no changes to the full-year business outlook at this time.

2. Supplement to summary information (Notes)

(1) Changes of significant subsidiaries during the term

There are no applicable matters.

(2) Adoption of specific accounting methods for preparation of the quarterly consolidated financial statements

There are no applicable matters.

(3) Changes in accounting policies, accounting estimates and restatement of revisions

[Changes in accounting policies]

In line with the revision to the corporate tax system, “Practical solution on a change in depreciation method due to tax reform 2016” (Practical Issues Task Force (PITF) No.32, June 17, 2016) is applied for the first quarter of the current fiscal year. Accordingly, depreciation method has been changed from declining-balance method to straight-line method for facilities attached to buildings and structures acquired on or after April 1, 2016.

The impact of this change on operating income, ordinary income and quarterly profit before income taxes for the first quarter of the current fiscal year is negligible.

(4) Additional information

(Application of ASBJ Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the first quarter of the current fiscal year, the Company has applied the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).

3. Quarterly consolidated financial statements**(1) Quarterly consolidated balance sheets**

	Fiscal year ended March 31, 2016 (As of March 31, 2016)	(Thousands of yen) First quarter ended June 30, 2016 (As of June 30, 2016)
ASSETS		
Current assets		
Cash and deposits	20,496,255	19,832,222
Notes and accounts receivable—trade	11,636,381	9,779,928
Investments in silent partnership for business purposes	286,013	306,692
Supplies	91,245	97,292
Real estate for sale	554,937	551,663
Income taxes receivable	149,053	52,360
Deferred tax assets	434,951	386,721
Other	1,419,357	1,468,912
Allowance for doubtful accounts	(13,141)	(11,921)
Total current assets	35,055,051	32,463,869
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	2,515,454	2,498,897
Machinery, equipment and vehicles, net	70,056	65,622
Tools, furniture and fixtures, net	411,730	422,105
Land	1,051,127	1,082,211
Lease assets, net	324,586	319,876
Construction in progress	22,050	33,950
Total property, plant and equipment	4,395,003	4,422,661
Intangible assets		
Telephone subscription right	45,250	45,250
Software	412,584	476,469
Goodwill	2,079,826	2,048,960
Lease assets	17,840	15,439
Total intangible assets	2,555,500	2,586,118
Investments and other assets		
Investment securities	13,209,379	13,080,476
Long-term loans receivable	445,316	428,723
Long-term prepaid expenses	20,677	19,892
Lease and guarantee deposits	1,452,224	1,455,412
Membership	392,962	392,910
Net defined benefit asset	471,311	609,169
Deferred tax assets	167,773	167,091
Other	446,260	457,473
Allowance for doubtful accounts	(89,646)	(89,878)
Total investments and other assets	16,516,256	16,521,268
Total noncurrent assets	23,466,759	23,530,047
TOTAL ASSETS	58,521,810	55,993,916

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

	(Thousands of yen)	
	Fiscal year ended March 31, 2016 (As of March 31, 2016)	First quarter ended June 30, 2016 (As of June 30, 2016)
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	7,026,968	5,421,657
Current portion of long-term loans payable	742,870	659,870
Current portion of long-term non-recourse loans payable	10,000	10,000
Lease obligations	141,458	127,561
Accrued expenses	2,603,741	3,094,728
Income taxes payable	1,047,592	247,799
Accrued consumption taxes	654,189	814,672
Deposits received	284,988	413,311
Advances received	219,517	302,442
Provision for bonuses	666,834	60,515
Provision for directors' bonuses	1,623	267
Asset retirement obligations	-	4,162
Other	136,158	77,138
Total current liabilities	13,535,938	11,234,122
Noncurrent liabilities		
Long-term loans payable	2,925,000	2,781,250
Long-term non-recourse loans payable	375,000	372,500
Lease obligations	212,477	217,534
Deferred tax liabilities	956,757	941,569
Net defined benefit liability	316,739	377,084
Long-term guarantee deposited	351,134	356,488
Asset retirement obligations	260,792	254,273
Liabilities from application of equity method	11,289	8,888
Other	876,747	902,047
Total noncurrent liabilities	6,285,935	6,211,633
TOTAL LIABILITIES	19,821,873	17,445,755
NET ASSETS		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	617,972	617,972
Retained earnings	36,763,118	36,832,319
Treasury stock	(5,169,531)	(5,148,829)
Total shareholders' equity	35,211,559	35,301,462
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,878,496	2,748,174
Foreign currency translation adjustment	(546,962)	(636,120)
Remeasurements of defined benefit plans	(161,138)	(152,919)
Total accumulated other comprehensive income	2,170,396	1,959,135
Non-controlling interests	1,317,982	1,287,564
TOTAL NET ASSETS	38,699,937	38,548,161
TOTAL LIABILITIES AND NET ASSETS	58,521,810	55,993,916

*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**

	(Thousands of yen)	
	Three months ended June 30, 2015 (April 1, 2015 to June 30, 2015)	Three months ended June 30, 2016 (April 1, 2016 to June 30, 2016)
Net sales	21,639,560	21,355,341
Cost of sales	17,153,453	16,856,597
Gross profit	4,486,107	4,498,744
Selling, general and administrative expenses		
Selling expenses	49,383	48,221
Personnel expenses	1,751,508	1,868,437
Provision for bonuses	41,985	41,656
Provision for directors' bonuses	267	267
Provision for directors' retirement benefits	6,413	-
Retirement benefit expenses	26,593	43,084
Transportation and communication expenses	238,863	243,648
Supplies expenses	97,179	105,663
Rent expenses	203,451	229,837
Insurance expenses	78,784	101,323
Depreciation	88,956	95,291
Taxes and dues	76,081	61,960
Enterprise tax	41,803	50,102
Provision of allowance for doubtful accounts	(2,190)	(928)
Amortization of goodwill	30,866	30,866
Other	408,714	264,147
Total selling, general and administrative expenses	3,138,656	3,183,574
Operating income	1,347,451	1,315,170
Non-operating income		
Interest and dividends income	62,627	54,558
Rent income	9,666	7,792
Share of profit of entities accounted for using equity method	230,514	100,937
Other	34,049	18,654
Total non-operating income	336,856	181,941
Non-operating expenses		
Interest expenses	12,415	7,893
Loss on sales of investment securities	3,015	-
Rent expenses	15,551	15,472
Loss on sales and retirement of noncurrent assets	557	98
Loss on foreign exchange	-	113,297
Other	19,069	16,599
Total non-operating expenses	50,607	153,359
Ordinary income	1,633,700	1,343,752

	(Thousands of yen)	
	Three months ended June 30, 2015 (April 1, 2015 to June 30, 2015)	Three months ended June 30, 2016 (April 1, 2016 to June 30, 2016)
Extraordinary income		
Gain on sales of noncurrent assets	156,134	-
Gain on sales of investment securities	206,232	-
Total extraordinary income	362,366	-
Extraordinary loss		
Loss on valuation of investment securities	-	4,086
Total extraordinary loss	-	4,086
Quarterly profit before income taxes	1,996,066	1,339,666
Income taxes – current	659,760	401,868
Income taxes – deferred	(4,362)	73,517
Total income taxes	655,398	475,385
Quarterly profit	1,340,668	864,281
Profit attributable to non-controlling interests	22,322	38,611
Profit attributable to owners of parent	1,318,346	825,670

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

Quarterly consolidated statements of comprehensive income

	(Thousands of yen)	
	Three months ended June 30, 2015 (April 1, 2015 to June 30, 2015)	Three months ended June 30, 2016 (April 1, 2016 to June 30, 2016)
Quarterly profit	1,340,668	864,281
Other comprehensive income		
Valuation difference on available-for-sale securities	412,456	(131,255)
Remeasurements of defined benefit plans, net of tax	(3,362)	8,622
Share of other comprehensive income of entities accounted for using equity method	(323,563)	(89,158)
Total other comprehensive income	85,531	(211,791)
Quarterly comprehensive income	1,426,199	652,490
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,402,953	614,408
Comprehensive income attributable to non-controlling interests	23,246	38,082

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

(3) Notes on quarterly financial statements**(Notes on a going concern assumption)**

Not applicable.

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

Not applicable.

(Segment information)

I Three months ended June 30, 2015 (April 1, 2015 to June 30, 2015)

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

(Thousands of yen)

	Reportable segment					Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales							
Net sales to external customers	18,765,182	2,209,554	255,137	409,687	21,639,560	—	21,639,560
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	18,765,182	2,209,554	255,137	409,687	21,639,560	—	21,639,560
Segment income	2,051,326	292,037	83,817	3,616	2,430,796	(1,083,345)	1,347,451

Notes: 1. Adjustments to segment income consist of (1,083,345) thousand yen in unallocated general administrative expenses.

2. Segment income (loss) has been adjusted to operating income described in quarterly consolidated statements of income.

II Three months ended June 30, 2016 (April 1, 2016 to June 30, 2016)

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

(Thousands of yen)

	Reportable segment					Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales							
Net sales to external customers	18,541,720	2,202,400	154,324	456,897	21,355,341	—	21,355,341
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	18,541,720	2,202,400	154,324	456,897	21,355,341	—	21,355,341
Segment income	2,011,649	259,126	42,751	114,967	2,428,493	(1,113,323)	1,315,170

Notes: 1. Adjustments to segment income consist of (1,113,323) thousand yen in unallocated general administrative expenses.

2. Segment income (loss) has been adjusted to operating income described in quarterly consolidated statements of income.

2. Matters regarding changes to reporting segments, etc.

As noted previously under changes to accounting policies, depreciation method has been changed from declining-balance method to straight-line method for facilities attached to buildings and structures acquired on or after April 1, 2016 in line with revisions to Corporation Tax Act. Thus the Company has also made the same changes to the depreciation method for business segments.

The impact of this change on each segment income for the first quarter of the current fiscal year was negligible.