

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

February 3, 2017

**NIPPON KANZAI Co., Ltd.**

Listed exchanges: Tokyo Stock Exchange, First Section  
 Code number: 9728 URL: <http://www.nkanzai.co.jp/>  
 Representative: Shintaro Fukuda, President and Representative Director  
 Contact: Yasuhiro Harada, General Manager of Finance Department and Director  
 Telephone: 03-5299-0863  
 Filing date of quarterly report: February 10, 2017  
 Date to start dividends distribution: —  
 Supplementary materials for quarterly results: None  
 Quarterly results briefing meeting held: None

\*Amounts below one million yen have been rounded down.

**1. Consolidated results for the third quarter ended December 31, 2016 (April 1, 2016 to December 31, 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	%
Nine months ended December 31, 2016	67,336	1.8	4,053	(2.6)	4,297	(8.3)
Nine months ended December 31, 2015	66,137	3.3	4,161	3.8	4,685	5.0

Note: Comprehensive income: Nine months ended December 31, 2016: ¥2,499 million [-20.9%]  
 Nine months ended December 31, 2015: ¥3,161 million [-23.4%]

	Profit Attributable to Owners of Parent		Profit per Share	Diluted Profit per Share
	Millions of yen	%	Yen	Yen
Nine months ended December 31, 2016	2,964	(9.9)	86.71	—
Nine months ended December 31, 2015	3,292	11.7	96.62	—

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 December 31, 2016	59,403	39,793	64.7
As of March 31, 2016	58,521	38,699	63.9

Note: Shareholders' equity: As of December 31, 2016: ¥38,434 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	—	19.00	—	—	—
Fiscal year ending March 31, 2017 (forecast)	—	—	—	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 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	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 December 31, 2016	41,180,306 shares	As of March 31, 2016	41,180,306 shares
2)	As of December 31, 2016	6,949,772 shares	As of March 31, 2016	7,030,880 shares
3)	First nine months ended December 31, 2016	34,191,693 shares	First nine months ended December 31, 2015	34,076,578 shares

The Company conducted a 2-for-1 stock split which became effective as of October 1, 2015. The figures above 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.

#### \* 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 review 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) Explanation regarding information on future forecasts including consolidated business forecasts, etc." on page 3 of the Attached Document of this quarterly financial report, regarding assumptions upon which forecasts are based and the use of forecasts.

**Table of Contents for the Attached Document**

1. Qualitative information on financial statements..... 2  
 (1) Explanation regarding business results..... 2  
 (2) Explanation regarding financial position..... 3  
 (3) Explanation regarding information on future forecasts including consolidated business forecasts, etc. .... 3

2. Supplement to summary information (Notes) ..... 3  
 (1) Changes of significant subsidiaries during the term ..... 3  
 (2) Adoption of specific accounting methods for preparation of the quarterly consolidated financial statements..... 3  
 (3) Changes in accounting policies, accounting estimates and restatement of revisions ..... 3  
 (4) Additional information..... 3

3. Quarterly consolidated financial statements..... 4  
 (1) Quarterly consolidated balance sheets ..... 4  
 (2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income.. 6  
     Quarterly consolidated statements of income..... 6  
     Quarterly consolidated statements of comprehensive income..... 8  
 (3) Notes on quarterly consolidated financial statements..... 9  
     (Notes on the going concern assumption) ..... 9  
     (Notes on significant changes in the amount of shareholders' equity)..... 9  
     (Segment information) ..... 9

## **1. Qualitative information on financial statements**

### **(1) Explanation regarding business results**

During the first nine months of the current fiscal year (fiscal year ending March 31, 2017), the Japanese economy showed a moderate improvement trend in corporate earnings and the employment situation, supported by the government's economic policies and the Bank of Japan's monetary policies. However, the outlook still remains uncertain, with such factors as rapid progress in the yen's depreciation and stock price fluctuations following the UK's decision to leave the EU (Brexit) and the U.S. presidential election results.

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.

In such a business environment, the NIPPON KANZAI Group (hereinafter "the Group") has been awarded with new management contracts by focusing on management with high added value that can clearly differentiate us from competitors. As to existing management contracts, although strong management cost-consciousness brought by the global financial crisis still remains among clients, the Group 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.

The Group has also been making 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.

Consolidated net sales for the first nine months of the current fiscal year increased by 1.8% year on year to 67,336 million yen because we steadily won construction-related orders.

As to earnings, although a review of procurement terms and conditions and efforts for thorough working time management were made, rise in construction cost and labor costs led to a decrease in operating income by 2.6% year on year to 4,053 million yen. Further, decrease in share of profit of entities accounted for using equity method and recording of loss on foreign exchange led to a decrease in ordinary income by 8.3% year on year to 4,297 million yen, as well as decrease in profit attributable to owners of parent by 9.9% year on year to 2,964 million yen.

The following are the results 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 steadily won construction-related orders. As a result, net sales for the segment for the first nine months of the current fiscal year was 59,017 million yen, up 2.2% year on year.

Despite a rise in construction cost and labor costs, reduction of administrative costs resulted in segment income of 6,403 million yen, up 3.0% year on year.

### **(Environmental Facility Management Business)**

In 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 some existing contracts were renewed at lower prices, we managed to secure an order for large construction work in addition to steadily winning new contracts. As a result, net sales for the segment for the first nine months of the current fiscal year was 6,730 million yen, up 0.2% year on year.

Although cost reduction efforts were made, focusing on re-examining procurement costs and realigning personnel assignments, the effect of contract renewals at lower prices and the increased costs from strengthening of the administrative system resulted in segment income of 780 million yen, down 7.2% year on year.

### **(Real Estate Fund Management Business)**

In 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 nine months of the current fiscal year was 349 million yen, down 31.0% year on year.

In addition, in spite of efforts in expense reductions and improvements on operational efficiency, the abovementioned decrease in income from the disposition of real estate resulted in segment income of 44 million yen, down 72.5% year on year.

### **(Other Businesses)**

In 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, successful winning of highly profitable contracts resulted in net sales for the segment for the first nine months of the current fiscal year of 1,239 million yen, up 9.0% year on year, and segment income of 167 million yen, up 179.5% year on year.

**(2) Explanation regarding financial position**

Total assets at the end of the third quarter of the current fiscal year increased by 881 million yen, or 1.5%, from the previous fiscal year-end to 59,403 million yen, mainly due to increase in lease and guarantee deposits for master lease agreements.

Liabilities decreased by 212 million yen, or 1.1%, from the previous fiscal year-end to 19,609 million yen, mainly due to payment of trade accounts payable and income taxes payable.

Net assets increased by 1,093 million yen, or 2.8%, from the previous fiscal year-end to 39,793 million yen, due to increase in profit attributable to owners of parent despite cash dividends payout, decrease in foreign currency translation adjustment, etc. The equity ratio increased by 0.8 percentage points from the previous fiscal year-end to 64.7%.

**(3) Explanation regarding information on future forecasts including consolidated business forecasts, etc.**

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

As to business forecasts, there are no changes to the full-year business forecasts announced on April 28, 2016.

**2. Supplement to summary information (Notes)**

**(1) Changes of significant subsidiaries during the term**

There are no applicable matters.

While there was no transfer of specified subsidiaries, in the second quarter of the current fiscal year, OKINAWA SAYCO Co., Ltd. was included in the scope of consolidation following new acquisition of its shares by the Company. In addition, in the third quarter of the current fiscal year, NIPPON KANZAI USA, Inc., which had been a non-consolidated subsidiary to date, increased in importance and was thus included in the scope of consolidation.

**(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 amendment of the Corporation Tax Act, “Practical solution on a change in depreciation method due to tax reform 2016” (Practical Issues Task Force (PITF) No. 32, June 17, 2016) was applied in the first quarter of the current fiscal year. Accordingly, the depreciation method was changed from declining-balance method to straight-line method for building plants 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 nine months of the current fiscal year is negligible.

**(4) Additional information**

(Application of 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” (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016).

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

(Thousands of yen)

	Fiscal year ended March 31, 2016 (As of March 31, 2016)	Third quarter ended December 31, 2016 (As of December 31, 2016)
<b>ASSETS</b>		
Current assets		
Cash and deposits	20,496,255	19,577,560
Notes and accounts receivable—trade	11,636,381	11,237,778
Investments in silent partnership for business purposes	286,013	255,559
Supplies	91,245	103,756
Real estate for sale	554,937	545,114
Income taxes receivable	149,053	74,933
Deferred tax assets	434,951	159,097
Other	1,419,357	1,809,320
Allowance for doubtful accounts	(13,141)	(11,191)
Total current assets	35,055,051	33,751,926
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	2,515,454	2,482,940
Machinery, equipment and vehicles, net	70,056	56,719
Tools, furniture and fixtures, net	411,730	430,880
Land	1,051,127	1,082,211
Lease assets, net	324,586	278,793
Construction in progress	22,050	648,705
Total property, plant and equipment	4,395,003	4,980,248
Intangible assets		
Telephone subscription right	45,250	46,451
Software	412,584	420,265
Goodwill	2,079,826	2,146,128
Lease assets	17,840	17,107
Software in progress	-	15,000
Total intangible assets	2,555,500	2,644,951
Investments and other assets		
Investment securities	13,209,379	13,074,793
Long-term loans receivable	445,316	420,504
Long-term prepaid expenses	20,677	19,379
Lease and guarantee deposits	1,452,224	2,792,622
Membership	392,962	396,805
Net defined benefit asset	471,311	779,108
Deferred tax assets	167,773	164,289
Other	446,260	457,543
Allowance for doubtful accounts	(89,646)	(79,137)
Total investments and other assets	16,516,256	18,025,906
Total noncurrent assets	23,466,759	25,651,105
<b>TOTAL ASSETS</b>	<b>58,521,810</b>	<b>59,403,031</b>

\*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)	Third quarter ended December 31, 2016 (As of December 31, 2016)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable—trade	7,026,968	6,406,568
Current portion of long-term loans payable	742,870	575,000
Current portion of long-term non-recourse loans payable	10,000	10,000
Lease obligations	141,458	115,060
Accrued expenses	2,603,741	2,738,264
Income taxes payable	1,047,592	399,930
Accrued consumption taxes	654,189	631,752
Deposits received	284,988	1,029,820
Advances received	219,517	383,392
Provision for bonuses	666,834	66,472
Provision for directors' bonuses	1,623	267
Other	136,158	36,819
<b>Total current liabilities</b>	<b>13,535,938</b>	<b>12,393,344</b>
Noncurrent liabilities		
Long-term loans payable	2,925,000	2,493,750
Long-term non-recourse loans payable	375,000	367,500
Lease obligations	212,477	189,510
Deferred tax liabilities	956,757	1,107,585
Net defined benefit liability	316,739	375,894
Long-term guarantee deposited	351,134	1,698,711
Asset retirement obligations	260,792	259,844
Liabilities from application of equity method	11,289	7,875
Other	876,747	715,524
<b>Total noncurrent liabilities</b>	<b>6,285,935</b>	<b>7,216,193</b>
<b>TOTAL LIABILITIES</b>	<b>19,821,873</b>	<b>19,609,537</b>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	617,972	618,027
Retained earnings	36,763,118	38,302,273
Treasury stock	(5,169,531)	(5,097,578)
<b>Total shareholders' equity</b>	<b>35,211,559</b>	<b>36,822,722</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,878,496	2,958,977
Foreign currency translation adjustment	(546,962)	(1,210,464)
Remeasurements of defined benefit plans	(161,138)	(136,482)
<b>Total accumulated other comprehensive income</b>	<b>2,170,396</b>	<b>1,612,031</b>
Non-controlling interests	1,317,982	1,358,741
<b>TOTAL NET ASSETS</b>	<b>38,699,937</b>	<b>39,793,494</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>58,521,810</b>	<b>59,403,031</b>

\*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)	
	Nine months ended December 31, 2015 (April 1, 2015 to December 31, 2015)	Nine months ended December 31, 2016 (April 1, 2016 to December 31, 2016)
Net sales	66,137,420	67,336,499
Cost of sales	52,604,962	53,792,137
Gross profit	13,532,458	13,544,362
Selling, general and administrative expenses		
Selling expenses	180,242	188,277
Personnel expenses	5,600,624	5,781,209
Provision for bonuses	47,995	40,389
Provision for directors' bonuses	267	267
Provision for directors' retirement benefits	6,413	-
Retirement benefit expenses	88,535	72,850
Transportation and communication expenses	741,885	718,153
Supplies expenses	298,291	287,393
Rent expenses	660,521	696,547
Insurance expenses	257,244	325,032
Depreciation	277,258	291,299
Taxes and dues	87,632	71,824
Enterprise tax	118,271	202,132
Provision of allowance for doubtful accounts	(5,366)	(1,927)
Amortization of goodwill	92,597	96,672
Other	918,061	720,907
Total selling, general and administrative expenses	9,370,470	9,491,024
Operating income	4,161,988	4,053,338
Non-operating income		
Interest and dividends income	148,393	136,107
Rent income	28,632	33,078
Share of profit of entities accounted for using equity method	463,038	170,492
Other	56,163	89,873
Total non-operating income	696,226	429,550
Non-operating expenses		
Interest expenses	34,799	24,572
Loss on sales of investment securities	3,015	97
Rent expenses	34,523	34,562
Loss on sales and retirement of noncurrent assets	23,004	1,412
Loss on foreign exchange	17,822	72,776
Other	59,553	51,905
Total non-operating expenses	172,716	185,324
Ordinary income	4,685,498	4,297,564

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

	(Thousands of yen)	
	Nine months ended December 31, 2015 (April 1, 2015 to December 31, 2015)	Nine months ended December 31, 2016 (April 1, 2016 to December 31, 2016)
Extraordinary income		
Gain on sales of noncurrent assets	156,533	-
Gain on sales of investment securities	229,559	393,548
Gain on sales of shares of subsidiaries	27,845	-
Total extraordinary income	413,937	393,548
Quarterly profit before income taxes	5,099,435	4,691,112
Income taxes—current	1,424,844	1,256,102
Income taxes—deferred	292,881	363,637
Total income taxes	1,717,725	1,619,739
Quarterly profit	3,381,710	3,071,373
Profit attributable to non-controlling interests	89,310	106,491
Profit attributable to owners of parent	3,292,400	2,964,882

\*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)	
	Nine months ended December 31, 2015 (April 1, 2015 to December 31, 2015)	Nine months ended December 31, 2016 (April 1, 2016 to December 31, 2016)
Quarterly profit	3,381,710	3,071,373
Other comprehensive income		
Valuation difference on available-for-sale securities	539,399	82,040
Foreign currency translation adjustment	-	(87,417)
Remeasurements of defined benefit plans, net of tax	(10,086)	25,865
Share of other comprehensive income of entities accounted for using equity method	(749,106)	(592,030)
Total other comprehensive income	(219,793)	(571,542)
Quarterly comprehensive income	3,161,917	2,499,831
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,070,920	2,390,572
Comprehensive income attributable to non-controlling interests	90,997	109,259

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

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

Not applicable.

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

Not applicable.

**(Segment information)**

## I. Nine months ended December 31, 2015 (April 1, 2015 to December 31, 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	57,774,415	6,719,793	506,462	1,136,750	66,137,420	—	66,137,420
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	57,774,415	6,719,793	506,462	1,136,750	66,137,420	—	66,137,420
Segment income	6,218,533	841,309	161,990	60,069	7,281,901	(3,119,913)	4,161,988

Notes: 1. Adjustments to segment income consist of -3,119,913 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. Nine months ended December 31, 2016 (April 1, 2016 to December 31, 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	59,017,134	6,730,405	349,635	1,239,325	67,336,499	—	67,336,499
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	59,017,134	6,730,405	349,635	1,239,325	67,336,499	—	67,336,499
Segment income	6,403,137	780,736	44,544	167,871	7,396,288	(3,342,950)	4,053,338

Notes: 1. Adjustments to segment income consist of -3,342,950 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 reportable segments, etc.

As noted under changes in accounting policies, the depreciation method has been changed from declining-balance method to straight-line method for building plants and structures acquired on or after April 1, 2016 in line with amendment of the 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 nine months of the current fiscal year is negligible.