

**Consolidated Financial Statements**  
**for the First Quarter of the Fiscal Year Ending March 31, 2016 [J-GAAP]**

August 4, 2015

**NIPPON KANZAI Co., Ltd.**

Listed exchanges: Tokyo Stock Exchange, First Section  
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 Filing date of quarterly report: August 7, 2015  
 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, 2015 (April 1, 2015 to June 30, 2015)**

**(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, 2015	21,639	3.4	1,347	(3.0)	1,633	3.9
Three months ended June 30, 2014	20,937	11.0	1,388	23.4	1,572	29.0

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

Three months ended June 30, 2014: ¥1,510 million (70.2%)

	Profit Attributable to Owners of Parent		Net Income per Share		Diluted Net Income per Share	
	Millions of yen	%	Yen		Yen	
Three months ended June 30, 2015	1,318	18.8	77.45		—	
Three months ended June 30, 2014	1,110	69.4	65.48		—	

**(2) Consolidated financial position**

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen		Millions of yen		%	
As of June 30, 2015	55,540		37,149		64.7	
As of March 31, 2015	56,205		36,262		62.2	

Note: Shareholders' equity: As of June 30, 2015: ¥35,908 million

As of March 31, 2015: ¥34,964 million

**2. Dividends**

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2015	Yen —	Yen 22.00	Yen —	Yen 28.00	Yen 50.00
Fiscal year ending March 31, 2016	—				
Fiscal year ending March 31, 2016 (forecast)		25.00	—	25.00	50.00

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

**3. Consolidated business forecasts for the fiscal year ending March 31, 2016 (April 1, 2015 to March 31, 2016)**

(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		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	43,000	1.1	2,650	1.1	3,000	2.0	2,000	2.9	117.53
Full year	89,000	1.9	5,500	1.4	6,200	2.7	4,100	5.3	240.93

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, 2015	20,590,153 shares	As of March 31, 2015	20,590,153 shares
2)	As of June 30, 2015	3,560,231 shares	As of March 31, 2015	3,572,800 shares
3)	First three months ended June 30, 2015	17,021,948 shares	First three months ended June 30, 2014	16,954,657 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 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 Nippon Kanzai 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.

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

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

The Japanese economy remained uncertain during the first three months of the fiscal year ending March 31, 2016. During the quarter, the government's continuing economy-boosting measures started to improve the business environment including corporate earnings and employee incomes. However phenomena such as financial turmoil caused by the debt crisis in Europe and rising raw material prices due to sharp depreciation of the yen cast concerns over the negative impact on corporate earnings, particularly that of domestic demand-driven companies.

Meanwhile, business conditions in the real estate service industry continued to be severe. Despite signs of vacancy rate improvement for office and commercial buildings in some areas, clients remained highly cost conscious and some clients closed their buildings or reduced floor areas.

In such a business environment, NIPPON KANZAI Group (hereinafter "the Group") continued to work on expanding its areas of businesses around building maintenance. The Group also made efforts in proactive business development by enhancing its property management business, private finance initiatives (PFI), and energy-saving business and made the best of the Group companies' strengths.

As a result, consolidated net sales for the first three months rose by 3.4% year on year to 21,639 million yen. This was due to steady continuation of existing contracts and firm growth in winning new contracts and construction-related orders.

On the earnings front, 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 and income from the disposition of real estate for sale decreased from the previous year. As a result, operating income decreased by 3.0% year on year to 1,347 million yen while ordinary income increased by 3.9% year on year to 1,633 million yen. However, profit attributable to owners of parent increased by 18.8% year on year to 1,318 million yen, and this substantial growth was attributable to the contribution of earnings from the disposition of investment securities and real estate owned.

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 were steadily awarded with new contracts for real estate services. As a result, net sales for the first three months of the fiscal year ending March 31, 2016 increased by 5.7% year on year to 18,765 million yen.

Segment income was 2,051 million yen, up 16.0% year on year, due to tighter cost management overcoming a sluggish growth in price per contract and other downward factors.

### **(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, we secured a firm number of new contracts as well as renewals of existing contracts, particularly for the management of incinerators and recycling facilities. As a result, net sales for the segment amounted to 2,209 million yen, up 4.7% year on year, for the first three months of the fiscal year ending March 31, 2016.

Although local governments—the main customers for this segment—continued to be on a tight budget, 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. As a result, segment income for the quarter was 292 million yen, up 22.5% year on year.

### **(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, the asset management income was stable, while income from the disposition of real estate for sale was lower than the previous year. As a result, net sales for the segment for the first three months of the fiscal year ending March 31, 2016 was 255 million yen, down 56.8% compared to the same period of the previous fiscal year.

Turning to profits, segment income was 83 million yen, down 72.8% year on year. This significant decrease was attributable to decrease in income from the disposition of real estate for sale 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, we placed efforts in thorough cost management but there were adverse impacts from various events being downsized and clients' cost reductions. As a result, segment net sales decreased by 14.9% year on year to 409 million yen and yet segment income increased by 26.6% to 3 million yen.

**(2) Explanation regarding financial position**

Total assets at the end of the first quarter of the current fiscal year decreased by 664 million yen, or 1.2%, from the previous fiscal year-end to 55,540 million yen, mainly due to the decrease in assets by the disposition of noncurrent assets and investment securities.

Liabilities decreased by 1,552 million yen, or 7.8 %, from the previous fiscal year-end to 18,390 million yen due to the effect of paying accounts payable, accrued consumption taxes, etc.

Net assets increased by 887 million yen, or 2.4%, from the previous fiscal year-end to 37,149 million yen after being decreased by cash dividends payout and increased by profit attributable to owners of parent. As a result, the equity ratio as of June 30, 2015 increased by 2.5 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.

The Group's business performance has been generally in line with forecasts announced on May 8, 2015. 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.

While there was no transfer of specified subsidiaries, during the first quarter of the current fiscal year, OKINAWA NIPPON KANZAI Co., Ltd. was newly established and 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]

(Application of Accounting Standard for Business Combinations, etc.)

Nippon Kanzai adopted Accounting Standard for Business Combinations (ASBJ Statement No.21 of September 13, 2013; hereafter the "Business Combinations Accounting Standard"), Accounting Standard for Consolidated Financial Statements (ASBJ Statement No.22 of September 13, 2013; hereafter the "Consolidated Accounting Standard"), Accounting Standard for Business Divestitures (ASBJ Statement No.7 of September 13, 2013; hereafter the "Business Divestitures Accounting Standard"), etc. starting from the first quarter of the current fiscal year. As such, the difference due to change in Nippon Kanzai's equity interest in its subsidiaries under its continuous control was posted as capital surplus. We also changed the method of posting acquisition-related costs to post it as an expense in the fiscal year in which such expense is incurred. As for the business combinations on or after the beginning of the first quarter of the current fiscal year, we review the allotted acquisition cost by determining provisional accounting treatment and reflect such reviewed amount in the financial statements of the quarterly accounting period in which the business combination occurred. In addition, the Group changed the terminology for net income, etc. and for minority interests to non-controlling interests. In order to reflect such changes, the financial statements for the previous fiscal year's first quarter and full year have been adjusted.

Application of the Business Combinations Accounting Standard is pursuant to transitional handling set forth in paragraph 58-2 (4) of the Business Combinations Accounting Standard, paragraph 44-5 (4) of the Consolidated Accounting Standard and paragraph 57-4 (4) of the Business Divestitures Accounting Standard, and it is applied from the beginning of the first quarter of the current fiscal year into the future.

There were no monetary effects on the financial statements for the first quarter of the current fiscal year.

(Additional information)

(Abolition of directors' retirement benefit program)

Nippon Kanzai used to record the necessary amount based on its internal rules at fiscal year-end in order to prepare for the payment of directors' retirement benefits. However, payment of the accrued amount consequent to abolition of the directors' retirement benefit program was resolved at the annual general meeting of shareholders held on June 26, 2015.

In accordance with this, Nippon Kanzai reversed the entire allowance for directors' retirement benefits and posted the payable amount of payment for discontinuance in Others under noncurrent liabilities as long-term accounts payable.

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

(Thousands of yen)

	Fiscal year ended March 31, 2015 (As of March 31, 2015)	First quarter ended June 30, 2015 (As of June 30, 2015)
<b>ASSETS</b>		
Current assets		
Cash and deposits	16,726,902	18,691,621
Notes and accounts receivable—trade	11,331,252	9,231,185
Securities	10,042	10,028
Investments in silent partnership for business purposes	285,058	290,441
Supplies	72,955	75,772
Real estate for sale	567,641	564,372
Income taxes receivable	60,697	138,805
Deferred tax assets	385,265	409,166
Other	966,356	1,426,376
Allowance for doubtful accounts	(12,081)	(10,281)
<b>Total current assets</b>	<b>30,394,087</b>	<b>30,827,485</b>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	2,739,183	2,328,654
Machinery, equipment and vehicles, net	65,630	76,392
Tools, furniture and fixtures, net	422,657	409,627
Land	1,672,757	1,051,127
Lease assets, net	475,006	456,387
Construction in progress	156,342	194,354
<b>Total property, plant and equipment</b>	<b>5,531,575</b>	<b>4,516,541</b>
Intangible assets		
Telephone subscription right	45,435	45,435
Software	185,016	323,719
Goodwill	2,203,290	2,172,424
Lease assets	23,837	21,400
Software in progress	100,015	-
<b>Total intangible assets</b>	<b>2,557,593</b>	<b>2,562,978</b>
Investments and other assets		
Investment securities	14,047,667	13,846,000
Long-term loans receivable	504,013	511,845
Long-term prepaid expenses	26,478	25,417
Lease and guarantee deposits	1,441,509	1,454,529
Membership	425,754	425,702
Net defined benefit asset	591,912	687,972
Deferred tax assets	16,962	9,949
Other	848,501	852,444
Allowance for doubtful accounts	(180,978)	(180,588)
<b>Total investments and other assets</b>	<b>17,721,818</b>	<b>17,633,270</b>
<b>Total noncurrent assets</b>	<b>25,810,986</b>	<b>24,712,789</b>
<b>TOTAL ASSETS</b>	<b>56,205,073</b>	<b>55,540,274</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, 2015 (As of March 31, 2015)	First quarter ended June 30, 2015 (As of June 30, 2015)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable—trade	5,814,957	5,207,625
Current portion of long-term loans payable	741,000	741,000
Current portion of long-term non-recourse loans payable	10,000	10,000
Lease obligations	191,857	184,477
Accrued expenses	2,556,003	2,913,233
Income taxes payable	703,309	405,304
Accrued consumption taxes	1,577,934	868,159
Deposits received	434,300	545,925
Advances received	140,950	390,311
Provision for bonuses	673,763	63,080
Provision for directors' bonuses	6,047	267
Other	216,119	104,585
<b>Total current liabilities</b>	<b>13,066,239</b>	<b>11,433,966</b>
Noncurrent liabilities		
Long-term loans payable	3,667,870	3,441,120
Long-term non-recourse loans payable	385,000	382,500
Lease obligations	321,284	307,663
Deferred tax liabilities	907,882	1,099,316
Provision for directors' retirement benefits	562,223	-
Net defined benefit liability	319,161	330,914
Long-term guarantee deposited	340,875	332,866
Asset retirement obligations	229,356	251,484
Liabilities from application of equity method	68,383	13,963
Other	74,617	796,901
<b>Total noncurrent liabilities</b>	<b>6,876,651</b>	<b>6,956,727</b>
<b>TOTAL LIABILITIES</b>	<b>19,942,890</b>	<b>18,390,693</b>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	617,972	617,972
Retained earnings	33,716,122	34,553,065
Treasury stock	(5,270,659)	(5,248,357)
<b>Total shareholders' equity</b>	<b>32,063,435</b>	<b>32,922,680</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,719,708	3,131,414
Foreign currency translation adjustment	4,735	(318,828)
Remeasurements of defined benefit plans	176,955	173,419
<b>Total accumulated other comprehensive income</b>	<b>2,901,398</b>	<b>2,986,005</b>
Minority interests	1,297,350	1,240,896
<b>TOTAL NET ASSETS</b>	<b>36,262,183</b>	<b>37,149,581</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>56,205,073</b>	<b>55,540,274</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)

	Three months ended June 30, 2014 (April 1, 2014 to June 30, 2014)	Three months ended June 30, 2015 (April 1, 2015 to June 30, 2015)
Net sales	20,937,677	21,639,560
Cost of sales	16,568,802	17,153,453
<b>Gross profit</b>	<b>4,368,875</b>	<b>4,486,107</b>
Selling, general and administrative expenses		
Selling expenses	46,286	49,383
Personnel expenses	1,695,471	1,751,508
Provision for bonuses	44,266	41,985
Provision for directors' bonuses	34,954	267
Provision for directors' retirement benefits	7,063	6,413
Retirement benefit expenses	43,337	26,593
Transportation and communication expenses	252,793	238,863
Supplies expenses	100,919	97,179
Rent expenses	207,512	203,451
Insurance expenses	74,052	78,784
Depreciation	89,538	88,956
Taxes and dues	70,014	76,081
Enterprise tax	21,337	41,803
Provision of allowance for doubtful accounts	(2,700)	(2,190)
Amortization of goodwill	29,826	30,866
Other	265,600	408,714
<b>Total selling, general and administrative expenses</b>	<b>2,980,268</b>	<b>3,138,656</b>
Operating income	1,388,607	1,347,451
Non-operating income		
Interest and dividends income	57,403	62,627
Gain on sales of investment securities	3,907	-
Rent income	9,566	9,666
Share of profit of entities accounted for using equity method	152,747	230,514
Other	21,842	34,049
<b>Total non-operating income</b>	<b>245,465</b>	<b>336,856</b>
Non-operating expenses		
Interest expenses	17,506	12,415
Loss on sales of investment securities	-	3,015
Rent expenses	15,625	15,551
Loss on sales and retirement of noncurrent assets	9,076	557
Other	19,817	19,069
<b>Total non-operating expenses</b>	<b>62,024</b>	<b>50,607</b>
<b>Ordinary income</b>	<b>1,572,048</b>	<b>1,633,700</b>



(Thousands of yen)

	Three months ended June 30, 2014 (April 1, 2014 to June 30, 2014)	Three months ended June 30, 2015 (April 1, 2015 to June 30, 2015)
<b>Extraordinary income</b>		
Gain on sales of noncurrent assets	-	156,134
Gain on sales of investment securities	-	206,232
Total extraordinary income	-	362,366
Quarterly income before income taxes and minority interests	1,572,048	1,996,066
Income taxes – current	366,923	659,760
Income taxes – deferred	73,916	(4,362)
Total income taxes	440,839	655,398
Quarterly net income	1,131,209	1,340,668
Profit attributable to non-controlling interests	21,036	22,322
Profit attributable to owners of parent	1,110,173	1,318,346

\*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, 2014 (April 1, 2014 to June 30, 2014)	Three months ended June 30, 2015 (April 1, 2015 to June 30, 2015)
Quarterly net income	1,131,209	1,340,668
Other comprehensive income		
Valuation difference on available-for-sale securities	247,208	412,456
Remeasurements of defined benefit plans, net of tax	29,827	(3,362)
Share of other comprehensive income of entities accounted for using equity method	102,379	(323,563)
Total other comprehensive income	379,414	85,531
Quarterly comprehensive income	1,510,623	1,426,199
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,478,278	1,402,953
Comprehensive income attributable to non-controlling interests	32,345	23,246

\*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, 2014 (April 1, 2014 to June 30, 2014)****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	17,754,663	2,110,315	591,195	481,504	20,937,677	—	20,937,677
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	17,754,663	2,110,315	591,195	481,504	20,937,677	—	20,937,677
Segment income	1,767,705	238,399	308,064	2,857	2,317,025	(928,418)	1,388,607

Notes: 1. Adjustments to segment income consist of (928,418) 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, 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.