

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

November 2, 2016

NIPPON KANZAI Co., Ltd.

Listed exchanges: Tokyo Stock Exchange, First Section
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 Supplementary materials for quarterly results: Yes
 Quarterly results briefing meeting held: Yes (targeted at institutional investors and analysts)

*Amounts under one million yen have been rounded down.

1. Consolidated results for the second quarter ended September 30, 2016 (April 1, 2016 to September 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 | % |
| Six months ended September 30, 2016 | 43,884 | (0.2) | 2,636 | (2.8) | 2,741 | (12.0) |
| Six months ended September 30, 2015 | 43,954 | 3.3 | 2,713 | 3.5 | 3,116 | 5.9 |

Note: Comprehensive income: Six months ended September 30, 2016: ¥1,029 million (-55.8%)
 Six months ended September 30, 2015: ¥2,330 million (-20.3%)

| | Profit Attributable to Owners of Parent | | Profit per Share | Diluted Profit per Share |
|-------------------------------------|---|--------|------------------|--------------------------|
| | Millions of yen | % | Yen | Yen |
| Six months ended September 30, 2016 | 1,998 | (11.6) | 58.49 | — |
| Six months ended September 30, 2015 | 2,261 | 16.4 | 66.39 | — |

(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 September 30, 2016 | 57,602 | 38,961 | 65.3 |
| As of March 31, 2016 | 58,521 | 38,699 | 63.9 |

Note: Shareholders' equity: As of September 30, 2016: ¥37,637 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 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 |
| 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 September 30, 2016 | 41,180,306 shares | As of March 31, 2016 | 41,180,306 shares |
| 2) | As of September 30, 2016 | 6,966,098 shares | As of March 31, 2016 | 7,030,880 shares |
| 3) | First six months ended September 30, 2016 | 34,175,914 shares | First six months ended September 30, 2015 | 34,062,062 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 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

1. 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.
2. On Tuesday, November 22, 2016, the Company plans to hold a presentation on its financial results for institutional investors and analysts. Shortly thereafter, the Company plans to post explanatory details, along with the materials used at the presentation, on its website.

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1. Qualitative information on financial statements

(1) Analysis of business results

During the first six months of the fiscal year ending March 31, 2017, the Japanese economy continued to experience a mild recovering trend in the improved corporate earnings and employment situation, supported by the economic measures implemented by the government and the Bank of Japan. However, the outlook still remains uncertain due to a sense of vigilance toward the world economy and progress in the yen's appreciation brought by 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.

In such a business environment, NIPPON KANZAI Group (hereinafter "the Group") has been awarded with new contracts for management business 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 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.

Despite the above efforts, consolidated net sales for the first six months decreased by 0.2% year on year to 43,884 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 labor costs and administrative costs incurred in strengthening organizational structure increased resulting in decrease in operating income by 2.8% year on year to 2,636 million yen. Furthermore, ordinary income decreased by 12.0% year on year to 2,741 million yen and profit attributable to owners of parent decreased by 11.6% year on year to 1,998 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.

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 six months of the fiscal year ending March 31, 2017 decreased by 0.1% year on year to 38,354 million yen.

Segment income was 4,170 million yen, up 1.9% year on year, due to reduction of administrative costs.

(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 contract renewals of existing contracts experienced difficulties requiring decrease of contract prices in some cases, etc., we were able to sign a large construction work in addition to receiving solid new contracts. As a result, net sales for the segment amounted to 4,490 million yen, up 0.8% year on year, for the first six 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 512 million yen, down 6.9% year on year, due to the effect of contract renewals for lower prices and the increased costs from strengthening of administrative system.

(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 six months of the fiscal year ending March 31, 2017 was 283 million yen, down 29.0% year on year.

Turning to profits, segment income was 61 million yen, down 55.3% 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 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 8.8% year on year to 754 million yen and segment income increased significantly to 119 million yen, up 115 million yen year on year due to successful winning of highly profitable contracts.

(2) Explanation regarding financial position

(Analysis of financial position)

Total assets at the end of the second quarter of the current fiscal year was 57,602 million yen, down 919 million yen, or 1.6%, from the previous fiscal year-end, mainly due to the decrease in cash and deposits resulted from cash dividends payout and payment of various taxes as well as notes and accounts payable-trade.

Liabilities decreased by 1,181 million yen, or 6.0 %, from the previous fiscal year-end to 18,640 million yen due to payment of accounts payable – trade, income taxes payable, etc.

Net assets increased by 261 million yen, or 0.7%, from the previous fiscal year-end to 38,961 million yen due to the increase in profit attributable to owners of parent despite cash dividends payout, the decrease in foreign currency translation adjustment, etc. The equity ratio increased by 1.4 percentage points from the previous fiscal year-end to 65.3%.

(Cash Flow)

Cash and cash equivalents (hereinafter “cash”) decreased by 776 million yen from the previous fiscal year-end to 19,024 million yen.

The status and main factors of cash flows for the first six months of the current fiscal year were as follows:

[Cash flows from operating activities]

Net cash provided by operating activities for the first six months of the current fiscal year was 946 million yen, up 215 million yen year on year. This is primarily due to the increase in accrued consumption taxes (a larger outflow by 902 million yen year on year), etc.

[Cash flows from investing activities]

Net cash used in investing activities was 368 million yen, up 2,053 million yen year on year.

The main components of this increase were the decrease in proceeds from sales of property, plant and equipment and intangible assets (1,166 million yen decrease year on year) and the increase in purchase of investment securities (652 million yen increase year on year).

[Cash flows from financing activities]

Net cash used in financing activities was 1,212 million yen, a bigger outflow by 228 million yen year on year. This resulted mainly from an increase in cash dividends payout (261 million yen increase year on year).

(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.

As to the Group’s business performance, there are no changes to the full-year business forecast 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 the acquisition of its shares by the Company.

(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 second 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**

| | (Thousands of yen) | |
|---|---|--|
| | Fiscal year ended March 31, 2016 (As of March 31, 2016) | Second quarter ended September 30, 2016 (As of September 30, 2016) |
| ASSETS | | |
| Current assets | | |
| Cash and deposits | 20,496,255 | 19,319,623 |
| Notes and accounts receivable—trade | 11,636,381 | 10,901,418 |
| Investments in silent partnership for business purposes | 286,013 | 256,455 |
| Supplies | 91,245 | 88,811 |
| Real estate for sale | 554,937 | 548,388 |
| Income taxes receivable | 149,053 | 45,026 |
| Deferred tax assets | 434,951 | 391,670 |
| Other | 1,419,357 | 1,270,817 |
| Allowance for doubtful accounts | (13,141) | (12,191) |
| Total current assets | 35,055,051 | 32,810,017 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 2,515,454 | 2,526,529 |
| Machinery, equipment and vehicles, net | 70,056 | 61,181 |
| Tools, furniture and fixtures, net | 411,730 | 425,334 |
| Land | 1,051,127 | 1,082,211 |
| Lease assets, net | 324,586 | 296,858 |
| Construction in progress | 22,050 | 284,813 |
| Total property, plant and equipment | 4,395,003 | 4,676,926 |
| Intangible assets | | |
| Telephone subscription right | 45,250 | 46,457 |
| Software | 412,584 | 445,775 |
| Goodwill | 2,079,826 | 2,181,068 |
| Lease assets | 17,840 | 19,568 |
| Total intangible assets | 2,555,500 | 2,692,868 |
| Investments and other assets | | |
| Investment securities | 13,209,379 | 12,632,063 |
| Long-term loans receivable | 445,316 | 426,352 |
| Long-term prepaid expenses | 20,677 | 19,262 |
| Lease and guarantee deposits | 1,452,224 | 2,702,560 |
| Membership | 392,962 | 396,858 |
| Net defined benefit asset | 471,311 | 711,571 |
| Deferred tax assets | 167,773 | 172,045 |
| Other | 446,260 | 448,558 |
| Allowance for doubtful accounts | (89,646) | (86,698) |
| Total investments and other assets | 16,516,256 | 17,422,571 |
| Total noncurrent assets | 23,466,759 | 24,792,365 |
| TOTAL ASSETS | 58,521,810 | 57,602,382 |

*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) | Second quarter ended September 30, 2016 (As of September 30, 2016) |
| LIABILITIES | | |
| Current liabilities | | |
| Notes and accounts payable—trade | 7,026,968 | 5,658,416 |
| 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 | 122,322 |
| Accrued expenses | 2,603,741 | 2,187,845 |
| Income taxes payable | 1,047,592 | 883,926 |
| Accrued consumption taxes | 654,189 | 602,618 |
| Deposits received | 284,988 | 305,832 |
| Advances received | 219,517 | 242,334 |
| Provision for bonuses | 666,834 | 619,400 |
| Provision for directors' bonuses | 1,623 | 1,718 |
| Other | 136,158 | 60,356 |
| Total current liabilities | 13,535,938 | 11,354,637 |
| Noncurrent liabilities | | |
| Long-term loans payable | 2,925,000 | 2,637,500 |
| Long-term non-recourse loans payable | 375,000 | 370,000 |
| Lease obligations | 212,477 | 203,144 |
| Deferred tax liabilities | 956,757 | 872,734 |
| Net defined benefit liability | 316,739 | 382,886 |
| Long-term guarantee deposited | 351,134 | 1,617,602 |
| Asset retirement obligations | 260,792 | 259,139 |
| Liabilities from application of equity method | 11,289 | 8,888 |
| Other | 876,747 | 933,967 |
| Total noncurrent liabilities | 6,285,935 | 7,285,860 |
| TOTAL LIABILITIES | 19,821,873 | 18,640,497 |
| NET ASSETS | | |
| Shareholders' equity | | |
| Capital stock | 3,000,000 | 3,000,000 |
| Capital surplus | 617,972 | 618,027 |
| Retained earnings | 36,763,118 | 38,005,631 |
| Treasury stock | (5,169,531) | (5,112,036) |
| Total shareholders' equity | 35,211,559 | 36,511,622 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 2,878,496 | 2,420,246 |
| Foreign currency translation adjustment | (546,962) | (1,149,865) |
| Remeasurements of defined benefit plans | (161,138) | (144,701) |
| Total accumulated other comprehensive income | 2,170,396 | 1,125,680 |
| Non-controlling interests | 1,317,982 | 1,324,583 |
| TOTAL NET ASSETS | 38,699,937 | 38,961,885 |
| TOTAL LIABILITIES AND NET ASSETS | 58,521,810 | 57,602,382 |

*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) | |
|---|--|--|
| | Six months ended September 30, 2015 (April 1, 2015 to September 30, 2015) | Six months ended September 30, 2016 (April 1, 2016 to September 30, 2016) |
| Net sales | 43,954,795 | 43,884,061 |
| Cost of sales | 35,043,967 | 34,918,765 |
| Gross profit | 8,910,828 | 8,965,296 |
| Selling, general and administrative expenses | | |
| Selling expenses | 108,686 | 113,814 |
| Personnel expenses | 3,425,159 | 3,555,677 |
| Provision for bonuses | 281,015 | 310,052 |
| Provision for directors' bonuses | 2,790 | 1,718 |
| Provision for directors' retirement benefits | 6,413 | - |
| Retirement benefit expenses | 62,968 | 66,060 |
| Transportation and communication expenses | 485,381 | 483,284 |
| Supplies expenses | 189,455 | 188,568 |
| Rent expenses | 434,636 | 460,019 |
| Insurance expenses | 152,512 | 202,403 |
| Depreciation | 181,953 | 193,278 |
| Taxes and dues | 80,948 | 68,278 |
| Enterprise tax | 81,635 | 137,441 |
| Provision of allowance for doubtful accounts | (6,871) | (865) |
| Amortization of goodwill | 61,732 | 61,732 |
| Other | 649,084 | 487,697 |
| Total selling, general and administrative expenses | 6,197,496 | 6,329,156 |
| Operating income | 2,713,332 | 2,636,140 |
| Non-operating income | | |
| Interest and dividends income | 111,480 | 104,565 |
| Rent income | 19,198 | 20,722 |
| Share of profit of entities accounted for using equity method | 334,396 | 157,241 |
| Other | 50,909 | 68,327 |
| Total non-operating income | 515,983 | 350,855 |
| Non-operating expenses | | |
| Interest expenses | 23,907 | 16,573 |
| Loss on sales of investment securities | 3,015 | - |
| Rent expenses | 25,418 | 24,991 |
| Loss on sales and retirement of noncurrent assets | 10,533 | 1,391 |
| Loss on foreign exchange | - | 141,825 |
| Other | 49,860 | 61,072 |
| Total non-operating expenses | 112,733 | 245,852 |
| Ordinary income | 3,116,582 | 2,741,143 |

| | (Thousands of yen) | |
|--|--|--|
| | Six months ended September 30, 2015 (April 1, 2015 to September 30, 2015) | Six months ended September 30, 2016 (April 1, 2016 to September 30, 2016) |
| Extraordinary income | | |
| Gain on sales of noncurrent assets | 156,134 | - |
| Gain on sales of investment securities | 207,892 | 393,548 |
| Total extraordinary income | 364,026 | 393,548 |
| Extraordinary loss | | |
| Loss on valuation of investment securities | - | 4,086 |
| Total extraordinary loss | - | 4,086 |
| Quarterly profit before income taxes | 3,480,608 | 3,130,605 |
| Income taxes – current | 1,145,115 | 952,811 |
| Income taxes – deferred | 21,630 | 104,602 |
| Total income taxes | 1,166,745 | 1,057,413 |
| Quarterly profit | 2,313,863 | 2,073,192 |
| Profit attributable to non-controlling interests | 52,325 | 74,210 |
| Profit attributable to owners of parent | 2,261,538 | 1,998,982 |

*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) | |
|---|--|--|
| | Six months ended September 30, 2015 (April 1, 2015 to September 30, 2015) | Six months ended September 30, 2016 (April 1, 2016 to September 30, 2016) |
| Quarterly profit | 2,313,863 | 2,073,192 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 243,949 | (458,166) |
| Remeasurements of defined benefit plans, net of tax | (6,724) | 17,244 |
| Share of other comprehensive income of entities accounted for using equity method | (221,048) | (602,903) |
| Total other comprehensive income | 16,177 | (1,043,825) |
| Quarterly comprehensive income | 2,330,040 | 1,029,367 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 2,276,869 | 954,266 |
| Comprehensive income attributable to non-controlling interests | 53,171 | 75,101 |

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

(3) Quarterly consolidated statements of cash flows

| | Six months ended September 30, 2015 (April 1, 2015 to September 30, 2015) | Six months ended September 30, 2016 (April 1, 2016 to September 30, 2016) |
|--|--|--|
| Cash flows from operating activities | | |
| Quarterly income before income taxes and minority interests | 3,480,608 | 3,130,605 |
| Depreciation and amortization | 292,879 | 298,325 |
| Amortization of goodwill | 61,732 | 61,732 |
| Increase (decrease) in provision for bonuses | (70,864) | (55,597) |
| Increase (decrease) in provision for directors' bonuses | (2,638) | 95 |
| Increase (decrease) in defined benefit liability | (210,814) | (175,458) |
| Increase (decrease) in provision for directors' retirement benefits | (562,223) | - |
| Increase (decrease) in allowance for doubtful accounts | (2,978) | (3,898) |
| Shares of (profit) loss of entities accounted for using equity method | (334,396) | (157,241) |
| Interest and dividends income | (111,480) | (104,565) |
| Interest expenses | 23,907 | 16,573 |
| Loss (gain) on foreign exchange | - | 141,681 |
| Loss (gain) on sales and retirement of non-current assets | (145,601) | 915 |
| Loss(gain) on sales of short-term and long-term investment securities | (204,877) | (393,548) |
| Loss (gain) on valuation of investment securities | - | 4,086 |
| Decrease (increase) in notes and accounts receivable—trade | 1,050,041 | 837,481 |
| (Increase) decrease in investments in silent partnership for business purposes | 1,030 | 29,377 |
| Decrease (increase) in inventories | 3,993 | 9,010 |
| Decrease (increase) in other assets | (79,751) | 165,626 |
| Increase (decrease) in notes and accounts payable—trade | (833,257) | (1,800,197) |
| Increase (decrease) in accrued consumption taxes | (958,352) | (55,480) |
| Increase (decrease) in other liabilities | 238,327 | (161,128) |
| Other, net | 9,388 | 9,366 |
| Subtotal | 1,644,674 | 1,797,760 |
| Interest and dividends income received | 114,579 | 108,632 |
| Interest expenses paid | (23,907) | (16,573) |
| Proceeds from insurance income | - | 400,446 |
| Accident restoration related expenses paid | - | (326,899) |
| Income taxes paid | (1,004,675) | (1,017,158) |
| Net cash provided by operating activities | 730,671 | 946,208 |

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

| | Six months ended September 30, 2015 (April 1, 2015 to September 30, 2015) | Six months ended September 30, 2016 (April 1, 2016 to September 30, 2016) |
|--|--|--|
| Cash flows from investing activities | | |
| Payments into time deposits | (280,000) | (280,000) |
| Proceeds from withdrawal of time deposits | 280,000 | 680,000 |
| Purchase of property, plant and equipment and intangible assets | (270,899) | (540,369) |
| Proceeds from sales of property, plant and equipment and intangible assets | 1,166,495 | 410 |
| Purchase of investment securities | (143,925) | (796,861) |
| Proceeds from sales of investment securities | 970,801 | 693,154 |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | - | (110,548) |
| Payments of loans receivable | (24,966) | (50,030) |
| Collection of loans receivable | 19,858 | 20,589 |
| Decrease (increase) in lease and guarantee deposits of leasehold estate | (10,848) | (1,247,161) |
| Increase (decrease) in guarantee deposits received | (26,859) | 1,266,467 |
| Other, net | 5,074 | (4,464) |
| Net cash used in investing activities | 1,684,731 | (368,813) |
| Cash flows from financing activities | | |
| Increase in short-term loans payable | 150,000 | 400,000 |
| Decrease in short-term loans payable | (150,000) | (400,000) |
| Repayment of long-term loans payable | (370,500) | (370,500) |
| Repayment of long-term non-recourse loans payable | (5,000) | (5,000) |
| Repayments of lease obligations | (102,925) | (82,949) |
| Proceeds from disposal of treasury stock | 56,597 | 57,672 |
| Purchase of treasury stock | (957) | (123) |
| Cash dividends paid | (481,715) | (742,946) |
| Dividends paid to non-controlling interest | (79,700) | (68,500) |
| Net cash used in financing activities | (984,200) | (1,212,346) |
| Effect of exchange rate change on cash and cash equivalents | - | (141,681) |
| Net increase (decrease) in cash and cash equivalents | 1,431,202 | (776,632) |
| Cash and cash equivalents at beginning of period | 16,331,902 | 19,801,255 |
| Cash and cash equivalents at end of period | 17,763,104 | 19,024,623 |

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

(4) 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 Six months ended September 30, 2015 (April 1, 2015 to September 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 | 38,405,302 | 4,455,936 | 400,259 | 693,298 | 43,954,795 | — | 43,954,795 |
| Inter-segment net sales and transfer | — | — | — | — | — | — | — |
| Total | 38,405,302 | 4,455,936 | 400,259 | 693,298 | 43,954,795 | — | 43,954,795 |
| Segment income | 4,093,321 | 549,960 | 138,206 | 4,149 | 4,785,636 | (2,072,304) | 2,713,332 |

Notes: 1. Adjustments to segment income consist of (2,072,304) 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 Six months ended September 30, 2016 (April 1, 2016 to September 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 | 38,354,922 | 4,490,929 | 283,998 | 754,212 | 43,884,061 | — | 43,884,061 |
| Inter-segment net sales and transfer | — | — | — | — | — | — | — |
| Total | 38,354,922 | 4,490,929 | 283,998 | 754,212 | 43,884,061 | — | 43,884,061 |
| Segment income | 4,170,238 | 512,221 | 61,714 | 119,726 | 4,863,899 | (2,227,759) | 2,636,140 |

Notes: 1. Adjustments to segment income consist of (2,227,759) 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 second quarter of the current fiscal year was negligible.