

**Consolidated Financial Statements**  
**for the First Quarter of the Fiscal Year Ending March 31, 2018 [J-GAAP]**

August 3, 2017

**NIPPON KANZAI Co., Ltd.**

Listed exchanges: Tokyo Stock Exchange, First Section  
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 Filing date of quarterly report: August 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 first quarter ended June 30, 2017 (April 1, 2017 to June 30, 2017)**

**(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, 2017	22,258	4.2	1,119	(14.9)	1,332	(0.8)
Three months ended June 30, 2016	21,355	(1.3)	1,315	(2.4)	1,343	(17.7)

(Note) Comprehensive income: Three months ended June 30, 2017: ¥1,357 million [108.0%]  
 Three months ended June 30, 2016: ¥652 million [-54.2%]

	Profit Attributable to Owners of Parent		Profit per Share		Diluted Profit per Share	
	Millions of yen	%	Yen		Yen	
Three months ended June 30, 2017	843	2.2	24.54		—	
Three months ended June 30, 2016	825	(37.4)	24.17		—	

**(2) Consolidated financial position**

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen		Millions of yen		%	
As of June 30, 2017	60,662		41,704		67.1	
As of March 31, 2017	62,279		41,464		64.4	

(Reference) Equity: As of June 30, 2017: ¥40,717 million  
 As of March 31, 2017: ¥40,095 million

**2. Dividends**

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2017	Yen —	Yen 19.00	Yen —	Yen 21.00	Yen 40.00
Fiscal year ending March 31, 2018	—				
Fiscal year ending March 31, 2018 (forecast)		21.00	—	21.00	42.00

(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, 2018 (April 1, 2017 to March 31, 2018)**

(Percentage figures for the full year indicate the rate of change from the previous fiscal year. Percentage figures for the first six months indicate the rate of change from the same period of 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	46,000	4.8	2,700	2.4	3,000	9.4	2,000	0.1	58.17
Full year	96,300	4.1	5,800	5.0	6,400	7.3	4,300	1.7	125.06

(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.: | None |
| 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, 2017	41,180,306 shares	As of March 31, 2017	41,180,306 shares
2)	As of June 30, 2017	6,796,272 shares	As of March 31, 2017	6,796,030 shares
3)	First three months ended June 30, 2017	34,384,103 shares	First three months ended June 30, 2016	34,157,900 shares

**\* This quarterly financial report is not included in the quarterly review**

**\* 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.....	2
(3) Explanation regarding information on future forecasts including consolidated business forecasts, etc.....	3
2. Quarterly consolidated financial statements and key notes.....	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.....	7
(3) Notes on quarterly consolidated financial statements.....	8
(Notes on going concern assumption).....	8
(Notes on significant changes in the amount of shareholders' equity).....	8
(Segment information, etc.).....	8

## 1. Qualitative information on financial statements

### (1) Explanation regarding business results

During the first three months of the current fiscal year ending March 31, 2018, the Japanese economy continued to show a moderate recovery trend against the backdrop of improvement in corporate earnings and the employment situation. However, the outlook still remains uncertain, with many factors of concern such as the policy trend of the U.S. administration and the economic slowdown of emerging countries.

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.

Net sales for the first three months of the current fiscal year increased by 4.2% year on year to 22,258 million yen because, in addition to the accumulation of existing management contracts, 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, the rise in major costs such as personnel and subcontracting costs resulted in a decrease in operating income by 14.9% year on year to 1,119 million yen. Furthermore, ordinary income decreased by 0.8% year on year to 1,332 million yen and profit attributable to owners of parent increased by 2.2% year on year to 843 million yen. These were caused by the increase in share of profit of entities accounted for using equity method and recording of loss on foreign exchange.

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 accumulated existing management contracts and won construction-related orders. As a result, net sales for the first three months of the fiscal year ending March 31, 2018 increased by 4.6% year on year to 19,398 million yen.

As to earnings, a rise in personnel costs and outsourcing costs resulted in segment income of 1,928 million yen, down 4.1% 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, we steadily won waste incineration facility and other new management contracts and renewed existing contracts. As a result, net sales for the first three months of the fiscal year ending March 31, 2018 increased by 2.4% year on year to 2,255 million yen.

In addition, cost reduction efforts were made, focusing on efforts to rein in start-up costs for new contracts, re-examine procurement costs and realign personnel assignments. As a result, segment income increased by 5.9% year on year to 274 million yen.

#### (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 three months of the current fiscal year was 66 million yen, down 56.9% 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 loss of 26 million yen.

#### (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 client cost reductions, successful winning of large orders resulted in net sales for the segment for the first three months of the current fiscal year of 538 million yen, up 17.9% year on year. However, segment income was 99 million yen, down 13.1% year on year, due to the rise in major costs such as outsourcing costs.

### (2) Explanation regarding financial position

Total assets at the end of the first quarter of the current fiscal year ending March 31, 2018 decreased by 1,617 million yen, or 2.6%, from the end of the previous fiscal year to 60,662 million yen, mainly due to the decrease in cash and deposits through the payment of corporation tax and dividends.

Liabilities decreased by 1,857 million yen, or 8.9%, from the end of the previous fiscal year to 18,958 million yen, mainly due to payment of trade accounts payable and income taxes payable.

Net assets increased by 240 million yen, or 0.6%, from the end of the previous fiscal year to 41,704 million yen, due to recording of profit attributable to owners of parent, increase in valuation difference on available-for-sale securities, etc. The equity ratio increased by 2.7 percentage points from the end of the previous fiscal year to 67.1%.

**(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 the forecasts announced on April 28, 2017, and there are no changes to the full-year business forecasts.

**2. Quarterly consolidated financial statements and key notes****(1) Quarterly consolidated balance sheets**

(Thousands of yen)

	Fiscal year ended March 31, 2017 (As of March 31, 2017)	First quarter ended June 30, 2017 (As of June 30, 2017)
<b>ASSETS</b>		
Current assets		
Cash and deposits	21,583,169	20,062,286
Notes and accounts receivable — trade	11,721,211	10,423,640
Investments in silent partnership for business purposes	405,483	242,461
Supplies	114,599	130,247
Real estate for sale	541,840	538,565
Income taxes receivable	53,251	47,310
Deferred tax assets	404,773	377,534
Other	1,045,499	1,414,049
Allowance for doubtful accounts	(11,281)	(9,911)
Total current assets	35,858,544	33,226,181
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,341,402	3,357,819
Machinery, equipment and vehicles, net	54,965	51,317
Tools, furniture and fixtures, net	456,703	451,991
Land	1,083,183	1,083,183
Lease assets, net	273,230	295,833
Construction in progress	1,800	7,190
Total property, plant and equipment	5,211,283	5,247,333
Intangible assets		
Telephone subscription right	46,451	46,451
Software	394,582	369,700
Goodwill	2,111,188	2,076,248
Lease assets	14,645	13,380
Software in progress	27,050	44,060
Total intangible assets	2,593,916	2,549,839
Investments and other assets		
Investment securities	13,614,313	14,476,496
Long-term loans receivable	490,357	468,695
Long-term prepaid expenses	21,282	22,135
Lease and guarantee deposits	2,779,660	2,931,881
Membership	395,833	394,710
Net defined benefit asset	672,803	721,188
Deferred tax assets	278,624	263,836
Other	442,197	439,301
Allowance for doubtful accounts	(79,057)	(78,867)
Total investments and other assets	18,616,012	19,639,375
Total noncurrent assets	26,421,211	27,436,547
<b>TOTAL ASSETS</b>	<b>62,279,755</b>	<b>60,662,728</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, 2017 (As of March 31, 2017)	First quarter ended June 30, 2017 (As of June 30, 2017)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable—trade	7,200,747	5,855,788
Current portion of long-term loans payable	575,000	575,000
Current portion of long-term non-recourse loans payable	10,000	10,000
Lease obligations	116,615	113,911
Accrued expenses	2,309,369	3,104,140
Income taxes payable	1,134,781	192,575
Accrued consumption taxes	659,155	892,467
Deposits received	290,747	583,142
Advances received	299,151	202,446
Provision for bonuses	647,954	63,457
Provision for directors' bonuses	1,068	234
Other	403,475	24,363
<b>Total current liabilities</b>	<b>13,648,062</b>	<b>11,617,523</b>
Noncurrent liabilities		
Long-term loans payable	2,350,000	2,206,250
Long-term non-recourse loans payable	365,000	362,500
Lease obligations	179,840	202,272
Deferred tax liabilities	1,072,268	1,265,112
Net defined benefit liability	526,753	505,170
Long-term guarantee deposited	1,690,000	1,827,661
Asset retirement obligations	259,604	261,399
Liabilities from application of equity method	7,875	6,226
Other	715,816	704,066
<b>Total noncurrent liabilities</b>	<b>7,167,156</b>	<b>7,340,656</b>
<b>TOTAL LIABILITIES</b>	<b>20,815,218</b>	<b>18,958,179</b>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	618,090	635,352
Retained earnings	39,564,783	39,686,502
Treasury stock	(4,961,570)	(4,962,010)
<b>Total shareholders' equity</b>	<b>38,221,303</b>	<b>38,359,844</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,834,553	3,244,279
Foreign currency translation adjustment	(729,421)	(670,397)
Remeasurements of defined benefit plans	(230,617)	(216,446)
<b>Total accumulated other comprehensive income</b>	<b>1,874,515</b>	<b>2,357,436</b>
Non-controlling interests	1,368,719	987,269
<b>TOTAL NET ASSETS</b>	<b>41,464,537</b>	<b>41,704,549</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>62,279,755</b>	<b>60,662,728</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, 2016 (April 1, 2016 to June 30, 2016)	Three months ended June 30, 2017 (April 1, 2017 to June 30, 2017)
Net sales	21,355,341	22,258,529
Cost of sales	16,856,597	17,866,966
Gross profit	4,498,744	4,391,563
Selling, general and administrative expenses		
Selling expenses	48,221	75,372
Personnel expenses	1,868,437	1,882,778
Provision for bonuses	41,656	44,637
Provision for directors' bonuses	267	234
Retirement benefit expenses	43,084	30,770
Transportation and communication expenses	243,648	252,082
Supplies expenses	105,663	97,401
Rent expenses	229,837	237,437
Insurance expenses	101,323	119,382
Depreciation	95,291	92,979
Taxes and dues	61,960	64,727
Enterprise tax	50,102	70,206
Provision of allowance for doubtful accounts	(928)	(1,560)
Amortization of goodwill	30,866	34,940
Other	264,147	270,715
Total selling, general and administrative expenses	3,183,574	3,272,100
Operating income	1,315,170	1,119,463
Non-operating income		
Interest and dividends income	54,558	64,079
Rent income	7,792	12,478
Share of profit of entities accounted for using equity method	100,937	124,737
Foreign exchange losses	-	21,656
Other	18,654	20,103
Total non-operating income	181,941	243,053
Non-operating expenses		
Interest expenses	7,893	6,783
Rent expenses	15,472	15,766
Loss on sales and retirement of non-current assets	98	1,861
Foreign exchange losses	113,297	-
Other	16,599	5,439
Total non-operating expenses	153,359	29,849
Ordinary income	1,343,752	1,332,667
Extraordinary losses		
Loss on valuation of investment securities	4,086	-
Total extraordinary losses	4,086	-
Quarterly profit before income taxes	1,339,666	1,332,667
Income taxes—current	401,868	400,157
Income taxes—deferred	73,517	59,339
Total income taxes	475,385	459,496
Quarterly profit	864,281	873,171
Profit attributable to non-controlling interests	38,611	29,382
Profit attributable to owners of parent	825,670	843,789

\*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, 2016 (April 1, 2016 to June 30, 2016)	Three months ended June 30, 2017 (April 1, 2017 to June 30, 2017)
Quarterly profit	864,281	873,171
Other comprehensive income		
Valuation difference on available-for-sale securities	(131,255)	410,539
Foreign currency translation adjustment	-	(21,625)
Remeasurements of defined benefit plans, net of tax	8,622	14,723
Share of other comprehensive income of entities accounted for using equity method	(89,158)	80,649
Total other comprehensive income	(211,791)	484,286
Quarterly comprehensive income	652,490	1,357,457
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	614,408	1,326,711
Comprehensive income attributable to non-controlling interests	38,082	30,746

\*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 going concern assumption)**

Not applicable.

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

Not applicable.

**(Segment information, etc.)**

## I. 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 of -1,113,323 thousand yen for segment income are unallocated general administrative expenses.

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

## II. Three months ended June 30, 2017 (April 1, 2017 to June 30, 2017)

## 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	19,398,229	2,255,264	66,569	538,467	22,258,529	—	22,258,529
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	19,398,229	2,255,264	66,569	538,467	22,258,529	—	22,258,529
Segment income (loss)	1,928,822	274,535	(26,669)	99,913	2,276,601	(1,157,138)	1,119,463

(Notes) 1. Adjustments of -1,157,138 thousand yen for segment income (loss) are unallocated general administrative expenses.

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