

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

February 2, 2018

**NIPPON KANZAI Co., Ltd.**

Listed exchanges: Tokyo Stock Exchange, First Section  
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Filing date of quarterly report: February 9, 2018  
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, 2017 (April 1, 2017 to December 31, 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	%
Nine months ended December 31, 2017	70,607	4.9	4,379	8.1	4,915	14.4
Nine months ended December 31, 2016	67,336	1.8	4,053	(2.6)	4,297	(8.3)

Note: Comprehensive income: Nine months ended December 31, 2017: ¥4,652 million [86.1%]  
Nine months ended December 31, 2016: ¥2,499 million [-20.9%]

	Profit Attributable to Owners of Parent		Profit per Share	Diluted Profit per Share
	Millions of yen	%	Yen	Yen
Nine months ended December 31, 2017	3,431	15.7	99.79	—
Nine months ended December 31, 2016	2,964	(9.9)	86.71	—

**(2) Consolidated financial position**

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of December 31, 2017	64,428	44,200	67.1
As of March 31, 2017	62,279	41,464	64.4

Note: Owned capital: As of December 31, 2017: ¥43,244 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	—	21.00	—		
Fiscal year ending March 31, 2018 (forecast)				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 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	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 December 31, 2017	41,180,306 shares	As of March 31, 2017	41,180,306 shares
2)	As of December 31, 2017	6,796,690 shares	As of March 31, 2017	6,796,030 shares
3)	First nine months ended December 31, 2017	34,383,843 shares	First nine months ended December 31, 2016	34,191,693 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.

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

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

During the first nine months of the 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 vacancy rates of office and commercial buildings 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 nine months of the fiscal year ending March 31, 2018 increased by 4.9% year on year to 70,607 million yen because, in addition to the retention of existing management contracts, we steadily won construction-related orders.

As to earnings, a thorough review of procurement unit prices and better time management resulted in an increase in operating income by 8.1% year on year to 4,379 million yen, in ordinary income by 14.4% year on year to 4,915 million yen and in profit attributable to owners of parent by 15.7% year on year to 3,431 million yen, despite some impact from sluggish growth in price per contract and increase in administrative costs due to strengthening of organizational structure, etc.

The following are the results by segment.

Segment income 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 retained existing management contracts and won construction-related orders. As a result, net sales for the first nine months of the fiscal year ending March 31, 2018 increased by 3.6% year on year to 61,152 million yen.

Also concerning earnings, segment income increased by 1.5% year on year to 6,500 million yen, due to thorough cost management overcoming a sluggish growth in price per contract, rise in construction cost, etc.

#### **(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 nine months of the fiscal year ending March 31, 2018 increased by 9.5% year on year to 7,372 million yen.

In addition, cost reduction efforts were made, focusing on efforts to realign personnel assignments as well as to reexamine low profit margin contracts and procurement costs. As a result, segment income increased by 19.0% year on year to 928 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, profits were recorded from the sale of assets under management. As a result, net sales for the first nine months of the fiscal year ending March 31, 2018 was 377 million yen, up 7.9% year on year.

In addition, as a result of efforts on reducing expenses and improving operational efficiency as well as the abovementioned sale of assets under management, segment income stood at 125 million yen, up 181.3% 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 client cost reductions, successful winning of large orders resulted in net sales for the first nine months of the fiscal year ending March 31, 2018 of 1,704 million yen, up 37.6% year on year and segment income of 278 million yen, up 65.9% year on year.

**(2) Explanation regarding financial position**

Total assets at the end of the third quarter of the fiscal year ending March 31, 2018 was 64,428 million yen, up 2,149 million yen, or 3.5%, from the end of the previous fiscal year. This increase was mainly due to the increase from the fair market value of investment securities despite the decrease in cash and deposits resulted from cash dividends payout and payment of various taxes.

Liabilities decreased by 586 million yen, or 2.8%, from the end of the previous fiscal year to 20,228 million yen, mainly due to payment of income taxes payable and repayment of loans.

Net assets increased by 2,735 million yen, or 6.6%, from the end of the previous fiscal year to 44,200 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)	Third quarter ended December 31, 2017 (As of December 31, 2017)
<b>ASSETS</b>		
Current assets		
Cash and deposits	21,583,169	20,753,054
Notes and accounts receivable — trade	11,721,211	12,435,964
Investments in silent partnership for business purposes	405,483	27,582
Supplies	114,599	121,275
Real estate for sale	541,840	466,887
Income taxes receivable	53,251	112,480
Deferred tax assets	404,773	92,624
Other	1,045,499	1,674,133
Allowance for doubtful accounts	(11,281)	(8,101)
Total current assets	35,858,544	35,675,898
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,341,402	3,291,432
Machinery, equipment and vehicles, net	54,965	52,518
Tools, furniture and fixtures, net	456,703	460,653
Land	1,083,183	1,154,050
Lease assets, net	273,230	320,980
Construction in progress	1,800	22,830
Total property, plant and equipment	5,211,283	5,302,463
Intangible assets		
Telephone subscription right	46,451	46,526
Software	394,582	329,635
Goodwill	2,111,188	2,006,367
Lease assets	14,645	10,572
Software in progress	27,050	59,871
Total intangible assets	2,593,916	2,452,971
Investments and other assets		
Investment securities	13,614,313	15,651,928
Long-term loans receivable	490,357	545,030
Long-term prepaid expenses	21,282	24,571
Lease and guarantee deposits	2,779,660	3,011,169
Membership	395,833	394,518
Net defined benefit asset	672,803	803,864
Deferred tax assets	278,624	292,568
Other	442,197	352,729
Allowance for doubtful accounts	(79,057)	(78,940)
Total investments and other assets	18,616,012	20,997,437
Total noncurrent assets	26,421,211	28,752,871
<b>TOTAL ASSETS</b>	<b>62,279,755</b>	<b>64,428,769</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)	Third quarter ended December 31, 2017 (As of December 31, 2017)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable—trade	7,200,747	7,276,066
Current portion of long-term loans payable	575,000	525,000
Current portion of long-term non-recourse loans payable	10,000	10,000
Lease obligations	116,615	112,284
Accrued expenses	2,309,369	2,667,128
Income taxes payable	1,134,781	272,368
Accrued consumption taxes	659,155	720,971
Deposits received	290,747	769,198
Advances received	299,151	289,312
Provision for bonuses	647,954	66,563
Provision for directors' bonuses	1,068	-
Deferred tax liabilities	-	1,271
Other	403,475	59,847
Total current liabilities	13,648,062	12,770,008
Noncurrent liabilities		
Long-term loans payable	2,350,000	1,968,750
Long-term non-recourse loans payable	365,000	357,500
Lease obligations	179,840	226,121
Deferred tax liabilities	1,072,268	1,561,822
Net defined benefit liability	526,753	466,512
Long-term guarantee deposited	1,690,000	1,906,150
Asset retirement obligations	259,604	263,066
Liabilities from application of equity method	7,875	4,552
Other	715,816	703,813
Total noncurrent liabilities	7,167,156	7,458,286
<b>TOTAL LIABILITIES</b>	20,815,218	20,228,294
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	618,090	646,943
Retained earnings	39,564,783	41,551,740
Treasury stock	(4,961,570)	(4,962,844)
Total shareholders' equity	38,221,303	40,235,839
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,834,553	3,718,880
Foreign currency translation adjustment	(729,421)	(519,169)
Remeasurements of defined benefit plans	(230,617)	(191,264)
Total accumulated other comprehensive income	1,874,515	3,008,447
Non-controlling interests	1,368,719	956,189
<b>TOTAL NET ASSETS</b>	41,464,537	44,200,475
<b>TOTAL LIABILITIES AND NET ASSETS</b>	62,279,755	64,428,769

\*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, 2016 (April 1, 2016 to December 31, 2016)	Nine months ended December 31, 2017 (April 1, 2017 to December 31, 2017)
Net sales	67,336,499	70,607,228
Cost of sales	53,792,137	56,526,807
Gross profit	13,544,362	14,080,421
Selling, general and administrative expenses		
Selling expenses	188,277	219,479
Personnel expenses	5,781,209	5,779,348
Provision for bonuses	40,389	47,637
Provision for directors' bonuses	267	-
Retirement benefit expenses	72,850	94,152
Transportation and communication expenses	718,153	743,748
Supplies expenses	287,393	291,463
Rent expenses	696,547	714,582
Insurance expenses	325,032	369,423
Depreciation	291,299	284,369
Taxes and dues	71,824	77,865
Enterprise tax	202,132	198,453
Provision of allowance for doubtful accounts	(1,927)	(2,985)
Amortization of goodwill	96,672	104,820
Other	720,907	778,088
Total selling, general and administrative expenses	9,491,024	9,700,442
Operating income	4,053,338	4,379,979
Non-operating income		
Interest and dividends income	136,107	156,892
Rent income	33,078	40,389
Share of profit of entities accounted for using equity method	170,492	343,524
Foreign exchange gains	-	45,244
Other	89,873	51,682
Total non-operating income	429,550	637,731
Non-operating expenses		
Interest expenses	24,572	21,135
Loss on sales of investment securities	97	-
Rent expenses	34,562	35,034
Loss on sales and retirement of noncurrent assets	1,412	27,283
Foreign exchange losses	72,776	-
Other	51,905	18,626
Total non-operating expenses	185,324	102,078
Ordinary income	4,297,564	4,915,632
Extraordinary income		
Gain on sales of investment securities	393,548	226,200
Total extraordinary income	393,548	226,200
Quarterly profit before income taxes	4,691,112	5,141,832
Income taxes — current	1,256,102	1,304,462
Income taxes — deferred	363,637	324,635
Total income taxes	1,619,739	1,629,097
Quarterly profit	3,071,373	3,512,735
Profit attributable to non-controlling interests	106,491	81,650
Profit attributable to owners of parent	2,964,882	3,431,085

\*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, 2016 (April 1, 2016 to December 31, 2016)	Nine months ended December 31, 2017 (April 1, 2017 to December 31, 2017)
Quarterly profit	3,071,373	3,512,735
Other comprehensive income		
Valuation difference on available-for-sale securities	82,040	888,249
Foreign currency translation adjustment	(87,417)	(4,474)
Remeasurements of defined benefit plans, net of tax	25,865	41,006
Share of other comprehensive income of entities accounted for using equity method	(592,030)	214,726
Total other comprehensive income	(571,542)	1,139,507
Quarterly comprehensive income	2,499,831	4,652,242
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,390,572	4,564,985
Comprehensive income attributable to non-controlling interests	109,259	87,257

\*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, 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 of -3,342,950 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. Nine months ended December 31, 2017 (April 1, 2017 to December 31, 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	61,152,288	7,372,893	377,306	1,704,741	70,607,228	—	70,607,228
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	61,152,288	7,372,893	377,306	1,704,741	70,607,228	—	70,607,228
Segment income	6,500,247	928,906	125,299	278,499	7,832,951	(3,452,972)	4,379,979

Notes: 1. Adjustments of -3,452,972 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.