

**Consolidated Financial Statements**  
**for the First Quarter of the Fiscal Year Ending March 31, 2019 [J-GAAP]**

August 2, 2018

**NIPPON KANZAI Co., Ltd.**

Listed exchanges: Tokyo Stock Exchange, First Section  
Code number: 9728 URL: <http://www.nkanzai.co.jp/>  
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Filing date of quarterly report: August 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 first quarter ended June 30, 2018 (April 1, 2018 to June 30, 2018)**

**(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, 2018	22,406	0.7	1,373	22.7	1,455	9.2
Three months ended June 30, 2017	22,258	4.2	1,119	(14.9)	1,332	(0.8)

(Note) Comprehensive income: Three months ended June 30, 2018: ¥558 million [-58.9%]  
Three months ended June 30, 2017: ¥1,357 million [108.0%]

	Profit Attributable to Owners of Parent		Profit per Share	Diluted Profit per Share
	Millions of yen	%	Yen	Yen
Three months ended June 30, 2018	921	9.2	26.81	—
Three months ended June 30, 2017	843	2.2	24.54	—

**(2) Consolidated financial position**

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of June 30, 2018	65,549	44,904	67.1
As of March 31, 2018	68,588	45,203	64.4

(Reference) Equity: As of June 30, 2018: ¥43,995 million  
As of March 31, 2018: ¥44,184 million

**2. Dividends**

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2018	Yen —	Yen 21.00	Yen —	Yen 21.00	Yen 42.00
Fiscal year ending March 31, 2019	—				
Fiscal year ending March 31, 2019 (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, 2019 (April 1, 2018 to March 31, 2019)**

(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	1.7	2,600	2.5	3,000	4.6	2,000	(6.0)	58.17
Full year	98,500	2.1	6,000	3.9	6,700	5.0	4,600	3.4	133.78

(Note) Revisions to the most recently announced consolidated business forecasts in the current quarter: None

**\* Notes**

**(1) Changes of significant subsidiaries during the period (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, 2018	41,180,306 shares	As of March 31, 2018	41,180,306 shares
2)	As of June 30, 2018	6,796,762 shares	As of March 31, 2018	6,796,762 shares
3)	First three months ended June 30, 2018	34,383,544 shares	First three months ended June 30, 2017	34,384,103 shares

**\* This quarterly financial report is not included in the quarterly review by certified public accountants or audit corporations**

**\* Explanation regarding the appropriate use of business forecasts and other notes**

The business forecasts reported herein were prepared based on information the Company had in its possession as of the time this report was prepared and on certain assumptions judged to be reasonable. Actual results may differ significantly from forecasts due to various factors. Please refer to the disclaimers, provided under "1. (3) Explanation regarding information on future forecasts including consolidated business forecasts, etc." on page 3 of the Attached Document of this quarterly financial report, regarding assumptions upon which forecasts are based and the use of forecasts.

## Table of Contents for the Attached Document

1. Qualitative information on financial statements .....	2
(1) Explanation regarding business results.....	2
(2) Explanation regarding financial position.....	3
(3) Explanation regarding information on future forecasts including consolidated business forecasts, etc. ....	3
2. 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
(Additional information) .....	8

## 1. Qualitative information on financial statements

### (1) Explanation regarding business results

During the first three months of the fiscal year ending March 31, 2019, the Japanese economy continued to show a moderate recovery trend against the backdrop of improvement in corporate earnings and increase in capital investment. 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, the vacancy rates of office and commercial buildings in central Tokyo and core regional cities improved. In addition, we expect future expansion as there has been an increasing number of reconstruction projects of multi-purpose buildings in central Tokyo.

In such a business environment, the NIPPON KANZAI Group (hereinafter “the Group”) has been awarded with new management contracts and is focusing on management with high added value by also being aware of clear differentiation from competitors. As to existing management contracts, 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.

Therefore, the Group has been making efforts in proactive business development in related areas such as private finance initiatives (PFI), energy-saving and environmental businesses as well as development of overseas business utilizing our know-how 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 0.7% year on year to 22,406 million yen because the period of fixed-term contracts was extended with the renewal of contracts and increase in construction-related orders.

As to earnings, efforts for continuous cost reduction were made in addition to thorough cost management, resulting in operating income increasing by 22.7% year on year to 1,373 million yen, ordinary income increasing by 9.2% year on year to 1,455 million yen and profit attributable to owners of parent increasing by 9.2% year on year to 921 million yen.

The following are the results by segment.

Segment income (loss) has been adjusted to operating income described in quarterly consolidated statements of income. In addition, we newly created a segment of Residential Management and Operation Business which was originally included in Building Management and Operation Business and made it a reportable segment.

#### **(Building Management and Operation Business)**

In our core Building Management and Operation Business, which focuses on building management and security services, the period of fixed-term contracts was extended with the renewal of contracts and increase in construction-related orders. As a result, net sales for the first three months of the fiscal year ending March 31, 2019 increased by 1.2% year on year to 15,713 million yen.

As to earnings, efforts for continuous cost reduction in addition to thorough cost management resulted in segment income of 1,887 million yen, up 12.0% year on year.

#### **(Residential Management and Operation Business)**

In Residential Management and Operation Business, which mainly comprises the management of apartments and public housing, although we steadily won new contracts, construction-related work decreased. As a result, net sales for the segment for the first three months of the fiscal year ending March 31, 2019 was 3,491 million yen, down 9.8% year on year.

As to earnings, re-examination of construction-related work with high cost ratio and thorough cost management resulted in segment income of 318 million yen, up 30.8% 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, 2019 increased by 4.9% year on year to 2,365 million yen. We consider the market has the potential to grow because the private sector’s know-how can be useful for local governments, the main customers for this segment, in meeting their tight budgets.

In addition, efforts in cost reduction were made, focusing on efforts to realign personnel assignments in addition to the re-examination of procurement costs. As a result, segment income increased by 10.5% year on year to 303 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 silent partnership, income from assets under management increased. As a result, net sales for the segment for the first three months of the current fiscal year was 90 million yen, up 35.7% year on year.

In addition, despite efforts in expense reduction and improvement of operational efficiency, segment loss of 16 million yen (26 million yen in the same quarter of the previous year) was recorded.

**(Other Businesses)**

In Other Businesses, which consist mainly of event planning & management, printing and design, increases in orders of various events resulted in net sales for the segment for the first three months of the current fiscal year increasing by 38.4% year on year to 745 million yen and segment income increasing by 20.8% year on year to 120 million yen.

**(2) Explanation regarding financial position**

Total assets at the end of the first quarter of the current fiscal year ending March 31, 2019 decreased by 3,038 million yen, or 4.4%, from the end of the previous fiscal year to 65,549 million yen, mainly due to the decrease through the collection of accounts receivable-trade.

Liabilities decreased by 2,739 million yen, or 11.7%, from the end of the previous fiscal year to 20,644 million yen, mainly due to payment of trade accounts payable and income taxes payable.

Net assets decreased by 298 million yen, or 0.7%, from the end of the previous fiscal year to 44,904 million yen, due to the decrease in foreign currency translation adjustment associated with exchange fluctuation. The equity ratio increased by 2.7 percentage points from the end of the previous fiscal year to 67.1%.

Furthermore, “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Corporate Accounting Standard No. 28, February 16, 2018) has been applied from the beginning of the first three months of the current fiscal year and the financial position is compared using the figures at the end of the previous fiscal year after retroactive adjustment.

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

We remain cautious of our business environment which can continue to be unpredictable.

The Group’s business performance has been generally in line with the forecasts announced on May 7, 2018, 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, 2018 (As of March 31, 2018)	First quarter ended June 30, 2018 (As of June 30, 2018)
<b>ASSETS</b>		
Current assets		
Cash and deposits	22,002,218	22,782,814
Notes and accounts receivable — trade	14,097,157	10,276,131
Investments in silent partnership for business purposes	27,949	27,317
Supplies	121,457	129,530
Real estate for sale	1,476,174	1,480,225
Income taxes receivable	139,995	148,234
Other	1,007,139	1,318,049
Allowance for doubtful accounts	(8,301)	(6,991)
<b>Total current assets</b>	<b>38,863,788</b>	<b>36,155,309</b>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,288,498	3,259,840
Machinery, equipment and vehicles, net	49,966	49,564
Tools, furniture and fixtures, net	450,530	438,322
Land	1,154,050	1,166,595
Lease assets, net	300,492	280,637
Construction in progress	7,830	44,830
<b>Total property, plant and equipment</b>	<b>5,251,366</b>	<b>5,239,788</b>
Intangible assets		
Telephone subscription right	46,526	46,526
Software	309,263	282,893
Goodwill	1,971,427	1,936,487
Lease assets	9,329	8,342
Software in progress	88,971	133,685
<b>Total intangible assets</b>	<b>2,425,516</b>	<b>2,407,933</b>
Investments and other assets		
Investment securities	16,143,074	15,805,603
Long-term loans receivable	542,950	524,662
Long-term prepaid expenses	35,642	35,000
Lease and guarantee deposits	3,523,816	3,627,886
Membership	393,136	393,083
Net defined benefit asset	746,883	808,962
Deferred tax assets	370,033	256,594
Other	354,964	354,751
Allowance for doubtful accounts	(63,115)	(59,871)
<b>Total investments and other assets</b>	<b>22,047,383</b>	<b>21,746,670</b>
<b>Total noncurrent assets</b>	<b>29,724,265</b>	<b>29,394,391</b>
<b>TOTAL ASSETS</b>	<b>68,588,053</b>	<b>65,549,700</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, 2018 (As of March 31, 2018)	First quarter ended June 30, 2018 (As of June 30, 2018)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable — trade	8,607,085	5,930,852
Current portion of long-term loans payable	2,350,000	2,206,250
Current portion of long-term non-recourse loans payable	13,900	13,900
Lease obligations	107,293	100,924
Accrued expenses	2,685,542	3,417,971
Income taxes payable	949,574	286,537
Accrued consumption taxes	768,043	926,133
Deposits received	614,827	814,464
Advances received	169,530	377,227
Provision for bonuses	642,062	66,877
Other	17,417	31,236
Total current liabilities	16,925,273	14,172,371
Noncurrent liabilities		
Long-term non-recourse loans payable	1,051,100	1,048,600
Lease obligations	209,068	194,037
Deferred tax liabilities	1,277,979	1,197,881
Net defined benefit liability	432,279	426,506
Long-term guarantee deposited	2,517,391	2,647,153
Asset retirement obligations	264,295	263,988
Liabilities from application of equity method	4,552	2,242
Other	702,732	692,023
Total noncurrent liabilities	6,459,396	6,472,430
<b>TOTAL LIABILITIES</b>	<b>23,384,669</b>	<b>20,644,801</b>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	646,943	646,943
Retained earnings	42,567,483	42,767,187
Treasury stock	(4,962,993)	(4,962,993)
Total shareholders' equity	41,251,433	41,451,137
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,724,532	3,740,481
Foreign currency translation adjustment	(540,087)	(948,566)
Remeasurements of defined benefit plans	(251,285)	(247,169)
Total accumulated other comprehensive income	2,933,160	2,544,746
Non-controlling interests	1,018,791	909,016
<b>TOTAL NET ASSETS</b>	<b>45,203,384</b>	<b>44,904,899</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>68,588,053</b>	<b>65,549,700</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, 2017 (April 1, 2017 to June 30, 2017)	Three months ended June 30, 2018 (April 1, 2018 to June 30, 2018)
Net sales	22,258,529	22,406,191
Cost of sales	17,866,966	17,724,638
Gross profit	4,391,563	4,681,553
Selling, general and administrative expenses		
Selling expenses	75,372	56,877
Personnel expenses	1,882,778	1,923,860
Provision for bonuses	44,637	51,624
Retirement benefit expenses	30,770	19,403
Transportation and communication expenses	252,082	263,604
Supplies expenses	97,401	96,148
Rent expenses	237,437	236,279
Insurance expenses	119,382	122,934
Depreciation	92,979	94,733
Taxes and dues	64,727	66,281
Enterprise tax	70,206	76,882
Provision of allowance for doubtful accounts	(1,560)	(2,307)
Amortization of goodwill	34,940	34,940
Other	270,949	266,947
Total selling, general and administrative expenses	3,272,100	3,308,205
Operating income	1,119,463	1,373,348
Non-operating income		
Interest and dividends income	64,079	73,315
Rent income	12,478	12,797
Share of profit of entities accounted for using equity method	124,737	22,699
Foreign exchange losses	21,656	-
Other	20,103	21,391
Total non-operating income	243,053	130,202
Non-operating expenses		
Interest expenses	6,783	6,743
Rent expenses	15,766	16,266
Loss on sales and retirement of non-current assets	1,861	15,004
Foreign exchange losses	-	5,570
Other	5,439	4,519
Total non-operating expenses	29,849	48,102
Ordinary income	1,332,667	1,455,448
Quarterly profit before income taxes	1,332,667	1,455,448
Income taxes — current	400,157	493,128
Income taxes — deferred	59,339	16,826
Total income taxes	459,496	509,954
Quarterly profit	873,171	945,494
Profit attributable to non-controlling interests	29,382	23,736
Profit attributable to owners of parent	843,789	921,758

\*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, 2017 (April 1, 2017 to June 30, 2017)	Three months ended June 30, 2018 (April 1, 2018 to June 30, 2018)
Quarterly profit	873,171	945,494
Other comprehensive income		
Valuation difference on available-for-sale securities	410,539	16,600
Foreign currency translation adjustment	(21,625)	(16,802)
Remeasurements of defined benefit plans, net of tax	14,723	4,605
Share of other comprehensive income of entities accounted for using equity method	80,649	(391,677)
Total other comprehensive income	484,286	(387,274)
Quarterly comprehensive income	1,357,457	558,220
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,326,711	533,345
Comprehensive income attributable to non-controlling interests	30,746	24,875

\*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, 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	Residential Management and Operation Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales								
Net sales to external customers	15,527,541	3,870,688	2,255,264	66,569	538,467	22,258,529	—	22,258,529
Inter-segment net sales and transfer	—	—	—	—	—	—	—	—
Total	15,527,541	3,870,688	2,255,264	66,569	538,467	22,258,529	—	22,258,529
Segment income (loss)	1,685,643	243,179	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.

## II. Three months ended June 30, 2018 (April 1, 2018 to June 30, 2018)

## 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	Residential Management and Operation Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales								
Net sales to external customers	15,713,573	3,491,818	2,365,396	90,336	745,068	22,406,191	—	22,406,191
Inter-segment net sales and transfer	—	—	—	—	—	—	—	—
Total	15,713,573	3,491,818	2,365,396	90,336	745,068	22,406,191	—	22,406,191
Segment income (loss)	1,887,299	318,078	303,247	(16,070)	120,718	2,613,272	(1,239,924)	1,373,348

(Notes) 1. Adjustments of -1,239,924 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.

## 2. Matters regarding the change in reportable segments

From the first three months of the current fiscal year, we started separately reporting “Residential Management and Operation Business” as a reportable segment to further clarify the nature of the business and earnings structure, considering its specialty and business scale. The segment used to be included in “Building Management and Operation Business.”

As for the segment information for the first three months of the previous fiscal year, information prepared after the change in segments is indicated.

**(Additional information)**

“Partial Amendments to Accounting Standard for Tax Effect Accounting” (Corporate Accounting Standard No. 28, February 16, 2018) has been applied from the beginning of the first three months of the current fiscal year. Deferred tax assets are classified as investments and other assets and deferred tax liabilities are classified as noncurrent liabilities.