

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

October 31, 2018

NIPPON KANZAI Co., Ltd.

Listed exchanges: Tokyo Stock Exchange, First Section

Code number: 9728 URL: <https://www.nkanzai.co.jp/>

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Filing date of quarterly report: November 6, 2018

Date to start dividends distribution: December 4, 2018

Supplementary materials for quarterly results: Yes

Quarterly results briefing meeting held: Yes (for institutional investors and analysts)

*Amounts below one million yen have been rounded down.

1. Consolidated results for the second quarter ended September 30, 2018 (April 1, 2018 to September 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	%
Six months ended September 30, 2018	46,256	2.3	2,884	13.7	3,042	6.1
Six months ended September 30, 2017	45,226	3.1	2,536	(3.8)	2,868	4.7

(Note) Comprehensive income: Six months ended September 30, 2018: ¥1,693 million [-40.8%]
Six months ended September 30, 2017: ¥2,857 million [177.6%]

	Profit Attributable to Owners of Parent		Profit per Share		Diluted Profit per Share	
	Millions of yen	%	Yen		Yen	
Six months ended September 30, 2018	1,894	(11.0)	55.11		—	
Six months ended September 30, 2017	2,128	6.5	61.91		—	

(2) Consolidated financial position

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen		Millions of yen		%	
As of September 30, 2018	70,099		46,237		64.3	
As of March 31, 2018	68,588		45,203		64.4	

(Reference) Equity: As of September 30, 2018: ¥45,108 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
	Yen				
Fiscal year ended March 31, 2018	—	21.00	—	21.00	42.00
Fiscal year ending March 31, 2019	—	25.00			
Fiscal year ending March 31, 2019 (forecast)			—	25.00	50.00

(Note) Revisions to the most recently announced forecast of cash dividends in the current quarter: Yes

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	
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 term (changes in specific subsidiaries associated with changes in scope of consolidation): Yes

Newly included: One (Company name: Silent partnership whose proprietor is Amairo LLC)
Removed: None (Company name:)

(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 September 30, 2018	41,180,306 shares	As of March 31, 2018	41,180,306 shares
2)	As of September 30, 2018	6,796,762 shares	As of March 31, 2018	6,796,762 shares
3)	First six months ended September 30, 2018	34,383,544 shares	First six months ended September 30, 2017	34,383,933 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**

- 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) 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.
- 2. The Company plans to hold a presentation on its financial results for institutional investors and analysts on Thursday, November 29, 2018. Presentation materials will be posted on its website after the presentation.

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) Quarterly consolidated statements of cash flows	8
(4) Notes on quarterly consolidated financial statements	10
(Notes on going concern assumption).....	10
(Notes on significant changes in the amount of shareholders' equity).....	10
(Segment information, etc.).....	10
(Additional information)	10
(Significant subsequent events).....	11

1. Qualitative information on financial statements

(1) Explanation regarding business results

During the first six months of the fiscal year ending March 31, 2019, the Japanese economy continued to show a moderate recovery trend against the backdrop of improvements in corporate earnings and employment. However, the outlook still remains unpredictable, in the face of concerns over the global economy such as trade frictions between the U.S. and China as well as the slowdown of emerging economies.

In the real estate service industry, the vacancy rates of office and retail facilities in central Tokyo and core regional cities improved and the number of reconstruction projects of multi-purpose buildings increased in central Tokyo, suggesting a future expansion of the market.

In such a business environment, NIPPON KANZAI Group (hereinafter “the Group”) worked to win new management contracts with a focus on those that require high value-added management services, intending to differentiate ourselves from our competitors. For existing management contracts, the Group reinforced its endeavors to enhance quality and expand the scope of its operations by proposing even more advanced and improved management services than what it had offered to clients for the purpose of providing safety and security as well as sustaining and improving the value of properties.

The Group endeavored to further strengthen and improve building management and operation, our core business, and proactively developed business areas including overseas business utilizing our know-how, private finance initiatives (PFI), energy-saving and environment.

Net sales for the first six months of the current fiscal year increased by 2.3% year on year to 46,256 million yen due to extension of fixed-term contracts through contract renewals and an increase in construction-related orders.

In terms of profit, thorough cost management and efforts for continuous cost reduction resulted in operating income increasing by 13.7% year on year to 2,884 million yen and ordinary income increasing by 6.1% year on year to 3,042 million yen. However, profit attributable to owners of parent decreased by 11.0% year on year to 1,894 million yen due to an increase in tax expenses, among other factors.

The following are the results by segment.

Segment income (loss) has been adjusted to operating income described in the quarterly consolidated statements of income. In addition, the Residential Management and Operation Business, which had been included in the Building Management and Operation Business, was made into a new reportable segment in the first quarter of the current fiscal year.

(Building Management and Operation Business)

In the Building Management and Operation Business, our core business that focuses on building management and security services, net sales for the first six months of the fiscal year ending March 31, 2019 increased by 4.4% year on year to 32,518 million yen due to an increase in fixed-term contracts through contract renewals and an increase in construction-related orders.

In terms of profit, thorough cost management and efforts for continuous cost reduction resulted in segment income of 3,935 million yen, up 17.3% year on year.

(Residential Management and Operation Business)

In the Residential Management and Operation Business, which mainly comprises the management of apartments and condominiums to own, and public housing, net sales for the segment for the first six months of the fiscal year ending March 31, 2019 was 7,379 million yen, down 9.5% year on year, as a result of a decrease in construction-related work, although we steadily won new contracts.

In terms of profit, re-examination of construction-related work with a high cost ratio and thorough cost management resulted in segment income of 639 million yen, up 4.6% year on year.

(Environmental Facility Management Business)

In the Environmental Facility Management Business, which mainly comprises the management of water treatment, sewage disposal and other public facilities related to the overall living environment, we steadily won new management contracts and renewed existing contracts. As a result, net sales for the first six months of the fiscal year ending March 31, 2019 increased by 4.7% year on year to 4,783 million yen. We consider that the segment has a potentially large market as local governments, the main customers for this segment, still remain financially strained, so the private sector’s know-how can be largely useful for them to meet their tight budgets.

In terms of profit, segment income increased by 6.8% year on year to 603 million yen as a result of re-examination of procurement costs as well as efforts in cost reduction with a focus on realignment of personnel assignments.

(Real Estate Fund Management Business)

In the Real Estate Fund Management Business, which mainly comprises asset management business (i.e. arrangement and asset management of real estate funds) and handling investments in silent partnership, income from assets under management remained stable, but revenues related to real estate sales decreased. Accordingly, net sales for the segment for the first six months of the current fiscal year dropped by 34.5% year on year to 213 million yen.

Despite our efforts in cost reduction and operational efficiency, the segment recorded a loss of 19 million yen (152 million yen of profit for the same period in the previous fiscal year).

(Other Businesses)

In the Other Businesses, which consist mainly of event planning and management, printing and design, increases in orders of various events resulted in net sales for the segment for the first six months of the current fiscal year increasing by 33.2% year on year to 1,361 million yen and segment income increasing by 21.9% year on year to 218 million yen.

(2) Explanation regarding financial position

(Analysis of financial position)

Total assets at the end of the second quarter of the current fiscal year ending March 31, 2019 increased by 1,511 million yen, or up 2.2%, from the end of the previous fiscal year to 70,099 million yen, mainly due to an increase in for-sale real estate by the Real Estate Fund Management Business.

Liabilities increased by 477 million yen, or up 2.0%, from the end of the previous fiscal year to 23,862 million yen, mainly due to an increase in non-recourse loans payable associated with the acquisition of the aforementioned for-sale real estate.

Net assets increased by 1,033 million yen, or up 2.3%, from the end of the previous fiscal year to 46,237 million yen, due to an increase in profit attributable to owners of parent, among other factors. The equity ratio decreased by 0.1 percentage points from the end of the previous fiscal year to 64.3%.

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 quarter 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.

(Cash Flows)

Cash and cash equivalents (hereinafter “cash”) decreased by 1,135 million yen from the end of the previous fiscal year to 22,892 million yen.

The status and main factors of cash flows for the first six months of the fiscal year ending March 31, 2019 were as follows:

[Cash flows from operating activities]

Net cash provided by operating activities for the first six months of the fiscal year ending March 31, 2019 was 66 million yen, down 412 million yen year on year.

This is primarily due to a decrease in notes and accounts receivable—trade (a larger inflow by 2,020 million yen year on year), an increase in inventories (a larger outflow by 1,968 million yen year on year) and a decrease in other liabilities (a larger outflow by 532 million yen year on year), etc.

[Cash flows from investing activities]

Net cash used in investing activities was 259 million yen, a larger outflow by 477 million yen year on year.

This is primarily due to a decrease in proceeds from sales of investment securities (a smaller inflow by 347 million yen year on year).

[Cash flows from financing activities]

Net cash provided by financing activities was 1,319 million yen, a larger inflow by 2,868 million yen year on year.

This resulted mainly from an increase in the net cash due to borrowings and repayments of loans payable (a larger inflow by 2,326 million yen year on year.)

(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 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)	Second quarter ended September 30, 2018 (As of September 30, 2018)
ASSETS		
Current assets		
Cash and deposits	22,002,218	23,137,824
Notes and accounts receivable — trade	14,097,157	11,804,279
Investments in silent partnership for business purposes	27,949	60,657
Supplies	121,457	143,539
Real estate for sale	1,476,174	3,420,329
Income taxes receivable	139,995	55,338
Other	1,007,139	1,407,750
Allowance for doubtful accounts	(8,301)	(6,991)
Total current assets	38,863,788	40,022,725
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,288,498	3,266,411
Machinery, equipment and vehicles, net	49,966	45,684
Tools, furniture and fixtures, net	450,530	437,908
Land	1,154,050	1,167,664
Lease assets, net	300,492	282,395
Construction in progress	7,830	34,150
Total property, plant and equipment	5,251,366	5,234,212
Intangible assets		
Telephone subscription right	46,526	46,526
Software	309,263	262,830
Goodwill	1,971,427	1,901,547
Lease assets	9,329	8,795
Software in progress	88,971	166,616
Total intangible assets	2,425,516	2,386,314
Investments and other assets		
Investment securities	16,143,074	15,990,896
Long-term loans receivable	542,950	528,119
Long-term prepaid expenses	35,642	40,100
Lease and guarantee deposits	3,523,816	4,033,687
Membership	393,136	393,031
Net defined benefit asset	746,883	857,255
Deferred tax assets	370,033	317,696
Other	354,964	355,513
Allowance for doubtful accounts	(63,115)	(59,871)
Total investments and other assets	22,047,383	22,456,426
Total noncurrent assets	29,724,265	30,076,952
TOTAL ASSETS	68,588,053	70,099,677

*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)	Second quarter ended September 30, 2018 (As of September 30, 2018)
LIABILITIES		
Current liabilities		
Notes and accounts payable — trade	8,607,085	6,702,526
Short-term loans payable	-	1,000,000
Current portion of long-term loans payable	2,350,000	2,062,500
Current portion of long-term non-recourse loans payable	13,900	24,135
Lease obligations	107,293	98,060
Accrued expenses	2,685,542	2,349,277
Income taxes payable	949,574	932,701
Accrued consumption taxes	768,043	645,691
Deposits received	614,827	623,746
Advances received	169,530	439,803
Provision for bonuses	642,062	647,807
Asset retirement obligations	-	10,113
Other	17,417	28,265
Total current liabilities	16,925,273	15,564,624
Noncurrent liabilities		
Long-term non-recourse loans payable	1,051,100	2,361,890
Lease obligations	209,068	199,341
Deferred tax liabilities	1,277,979	1,333,340
Net defined benefit liability	432,279	426,993
Long-term guarantee deposited	2,517,391	3,027,361
Asset retirement obligations	264,295	254,105
Liabilities from application of equity method	4,552	2,242
Other	702,732	692,443
Total noncurrent liabilities	6,459,396	8,297,715
TOTAL LIABILITIES	23,384,669	23,862,339
NET ASSETS		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	646,943	646,943
Retained earnings	42,567,483	43,740,378
Treasury stock	(4,962,993)	(4,962,993)
Total shareholders' equity	41,251,433	42,424,328
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,724,532	3,888,904
Foreign currency translation adjustment	(540,087)	(961,401)
Remeasurements of defined benefit plans	(251,285)	(243,054)
Total accumulated other comprehensive income	2,933,160	2,684,449
Non-controlling interests	1,018,791	1,128,561
TOTAL NET ASSETS	45,203,384	46,237,338
TOTAL LIABILITIES AND NET ASSETS	68,588,053	70,099,677

*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, 2017 (April 1, 2017 to September 30, 2017)	Six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)
Net sales	45,226,785	46,256,456
Cost of sales	36,172,239	36,723,471
Gross profit	9,054,546	9,532,985
Selling, general and administrative expenses		
Selling expenses	184,509	159,289
Personnel expenses	3,587,753	3,700,174
Provision for bonuses	295,164	324,633
Retirement benefit expenses	57,600	45,295
Transportation and communication expenses	505,345	523,901
Supplies expenses	192,660	184,087
Rent expenses	476,436	468,560
Insurance expenses	236,570	243,120
Depreciation	188,599	185,047
Taxes and dues	71,659	76,006
Enterprise tax	131,370	154,337
Provision of allowance for doubtful accounts	(1,393)	(2,307)
Amortization of goodwill	69,880	69,880
Other	522,274	516,632
Total selling, general and administrative expenses	6,518,426	6,648,654
Operating income	2,536,120	2,884,331
Non-operating income		
Interest and dividends income	103,985	133,400
Rent income	26,690	26,811
Share of profit of entities accounted for using equity method	198,034	6,820
Foreign exchange gains	43,421	19,110
Other	30,017	39,655
Total non-operating income	402,147	225,796
Non-operating expenses		
Interest expenses	14,208	13,397
Rent expenses	24,895	25,896
Loss on sales and retirement of non-current assets	20,617	17,041
Other	9,776	11,272
Total non-operating expenses	69,496	67,606
Ordinary income	2,868,771	3,042,521
Extraordinary income		
Gain on sales of investment securities	204,700	-
Total extraordinary income	204,700	-
Quarterly profit before income taxes	3,073,471	3,042,521
Income taxes — current	851,514	1,069,670
Income taxes — deferred	47,324	32,719
Total income taxes	898,838	1,102,389
Quarterly profit	2,174,633	1,940,132
Profit attributable to non-controlling interests	46,024	45,183
Profit attributable to owners of parent	2,128,609	1,894,949

*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, 2017 (April 1, 2017 to September 30, 2017)	Six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)
Quarterly profit	2,174,633	1,940,132
Other comprehensive income		
Valuation difference on available-for-sale securities	576,155	165,080
Foreign currency translation adjustment	(4,919)	(13,927)
Remeasurements of defined benefit plans, net of tax	27,883	9,210
Share of other comprehensive income of entities accounted for using equity method	83,989	(407,387)
Total other comprehensive income	683,108	(247,024)
Quarterly comprehensive income	2,857,741	1,693,108
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,808,595	1,646,238
Comprehensive income attributable to non-controlling interests	49,146	46,870

*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, 2017 (April 1, 2017 to September 30, 2017)	Six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)
Cash flows from operating activities		
Quarterly income before income taxes and minority interests	3,073,471	3,042,521
Depreciation and amortization	301,220	277,068
Amortization of goodwill	69,880	69,880
Increase (decrease) in provision for bonuses	(37,360)	5,745
Increase (decrease) in defined benefit liability	(88,367)	(101,553)
Increase (decrease) in allowance for doubtful accounts	(1,393)	(4,554)
Shares of (profit) loss of entities accounted for using equity method	(198,034)	(6,820)
Interest and dividends income	(103,985)	(133,400)
Interest expenses	14,208	13,397
Loss (gain) on foreign exchange	(43,446)	(19,059)
Loss (gain) on sales and retirement of non-current assets	20,061	17,041
Loss (gain) on sales of investment securities	(204,700)	0
Decrease (increase) in notes and accounts receivable—trade	543,655	2,564,185
(Increase) decrease in investments in silent partnership for business purposes	225,426	(32,709)
Decrease (increase) in inventories	2,278	(1,966,236)
Decrease (increase) in other assets	30,328	(54,586)
Increase (decrease) in notes and accounts payable—trade	(2,208,874)	(2,323,970)
Increase (decrease) in accrued consumption taxes	25,168	(109,109)
Increase (decrease) in other liabilities	273,247	(259,737)
Other, net	(7,339)	(734)
Subtotal	1,685,444	977,370
Interest and dividends income received	106,281	143,241
Interest expenses paid	(14,208)	(13,397)
Income taxes paid	(1,298,138)	(1,040,299)
Net cash provided by operating activities	479,379	66,915

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

	Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)
Cash flows from investing activities		
Payments into time deposits	(130,000)	(130,000)
Proceeds from withdrawal of time deposits	280,000	130,000
Purchase of property, plant and equipment and intangible assets	(232,702)	(299,897)
Proceeds from sales of property, plant and equipment and intangible assets	557	1,438
Purchase of investment securities	(100,687)	(25,360)
Proceeds from sales of investment securities	347,598	0
Payments of loans receivable	(250)	(1,385)
Collection of loans receivable	21,145	24,924
Payments for lease and guarantee deposits	(273,233)	(596,630)
Proceeds from collection of lease and guarantee deposits	129,557	129,481
Proceeds from guarantee deposits received	160,841	523,469
Repayments of guarantee deposits received	(2,598)	(13,499)
Other, net	18,006	(1,658)
Net cash used in investing activities	218,234	(259,117)
Cash flows from financing activities		
Increase in short-term loans payable	600,000	2,800,000
Decrease in short-term loans payable	(600,000)	(1,800,000)
Repayment of long-term loans payable	(287,500)	(287,500)
Proceeds from long-term non-recourse loans payable	-	1,327,000
Repayment of long-term non-recourse loans payable	(5,000)	(5,975)
Repayments of lease obligations	(63,183)	(55,337)
Purchase of treasury stock	(1,063)	-
Payments from non-controlling interests	-	197,550
Cash dividends paid	(721,632)	(721,803)
Dividends paid to non-controlling interests	(298,934)	(134,650)
Purchase of shares of subsidiaries not resulting in change of scope of consolidation	(172,000)	-
Net cash used in financing activities	(1,549,312)	1,319,285
Effect of exchange rate change on cash and cash equivalents	41,353	8,523
Net increase (decrease) in cash and cash equivalents	(810,346)	1,135,606
Cash and cash equivalents at beginning of period	21,188,169	21,757,218
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	75,548	-
Cash and cash equivalents at end of period	20,453,371	22,892,824

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

(4) 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. Six months ended September 30, 2017 (April 1, 2017 to September 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	31,161,286	8,150,692	4,567,183	325,042	1,022,582	45,226,785	—	45,226,785
Inter-segment net sales and transfer	—	—	—	—	—	—	—	—
Total	31,161,286	8,150,692	4,567,183	325,042	1,022,582	45,226,785	—	45,226,785
Segment income	3,354,626	611,758	565,330	152,735	179,002	4,863,451	(2,327,331)	2,536,120

(Notes) 1. Adjustments of -2,327,331 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. Six months ended September 30, 2018 (April 1, 2018 to September 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	32,518,450	7,379,682	4,783,446	213,006	1,361,872	46,256,456	—	46,256,456
Inter-segment net sales and transfer	—	—	—	—	—	—	—	—
Total	32,518,450	7,379,682	4,783,446	213,006	1,361,872	46,256,456	—	46,256,456
Segment income	3,935,439	639,875	603,558	(19,912)	218,291	5,377,251	(2,492,920)	2,884,331

(Notes) 1. Adjustments of -2,492,920 thousand yen for segment income (loss) are general administrative expenses not allocated to any reportable segment.

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 quarter 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 second quarter 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 quarter of the current fiscal year. Deferred tax assets are classified as investments and other assets and deferred tax liabilities are classified as noncurrent liabilities.

(Significant subsequent events)

The Company resolved at its board of directors meeting held on October 31, 2018 to issue the first subscription warrants through third-party allotment.

For more details, please refer to the press release, “Notice concerning issuance of the first subscription warrants with adjustment to exercise price through third-party allotment (with designation on exercise of rights and suspension)” (available only in Japanese) as of the same date.