

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

February 5, 2019

**NIPPON KANZAI Co., Ltd.**

Listed exchanges: Tokyo Stock Exchange, First Section  
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 Filing date of quarterly report: February 12, 2019  
 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, 2018 (April 1, 2018 to December 31, 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	%
Nine months ended December 31, 2018	71,594	1.4	5,071	15.8	5,303	7.9
Nine months ended December 31, 2017	70,607	4.9	4,379	8.1	4,915	14.4

Note: Comprehensive income: Nine months ended December 31, 2018: ¥2,248 million [-51.7%]  
 Nine months ended December 31, 2017: ¥4,652 million [86.1%]

	Profit Attributable to Owners of Parent		Profit per Share	Diluted Profit per Share
	Millions of yen	%	Yen	Yen
Nine months ended December 31, 2018	3,361	(2.0)	97.76	97.66
Nine months ended December 31, 2017	3,431	15.7	99.79	—

**(2) Consolidated financial position**

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of December 31, 2018	68,825	46,217	65.2
As of March 31, 2018	68,588	45,203	64.4

Reference: Equity: As of December 31, 2018: ¥44,877 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	—	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: None

### 3. Consolidated business forecasts for the fiscal year ending March 31, 2019 (April 1, 2018 to March 31, 2019)

(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	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: Two (Company name: Silent partnership whose proprietor is Amairo LLC; Silent partnership whose proprietor is Wakakusa 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 December 31, 2018	41,180,306 shares	As of March 31, 2018	41,180,306 shares
2)	As of December 31, 2018	6,736,762 shares	As of March 31, 2018	6,796,762 shares
3)	First nine months ended December 31, 2018	34,385,944 shares	First nine months ended December 31, 2017	34,383,843 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.

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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, 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 global economic trends such as the prolonged trade friction 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 improved centering on major urban areas and the number of reconstruction projects of multi-purpose buildings has been on the rise, 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 made efforts to enhance quality and expand the scope of its operations by proposing even more advanced and improved management services that also consider recent technological innovations than what it had offered to clients, for the purpose of sustaining and improving the asset value of buildings.

Furthermore, the Group has proactively developed business areas, including businesses overseas, utilizing our know-how, as well as private finance initiatives (PFI) and energy-saving and environment.

Net sales for the first nine months of the fiscal year ending March 31, 2019 increased by 1.4% year on year to 71,594 million yen due to an increase in non-recurring work in addition to an increase in fixed-term contracts some of which accompany fee revisions.

In terms of profit, thorough cost management and efforts such as continuous cost reduction resulted in operating income increasing by 15.8% year on year to 5,071 million yen and ordinary income increasing by 7.9% year on year to 5,303 million yen. However, profit attributable to owners of parent decreased by 2.0% year on year to 3,361 million yen due to an increase in tax expenses, among other factors.

The following are the business results by segment.

Segment income 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 nine months of the fiscal year ending March 31, 2019 increased by 2.1% year on year to 49,875 million yen due to an increase in non-recurring work in addition to an increase in fixed-term contracts, some of which accompanying fee revisions.

In terms of profit, making proposals for change in specifications and reviewing work efficiency resulted in segment income of 6,136 million yen, up 12.3% 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 nine months of the fiscal year ending March 31, 2019 was 11,288 million yen, down 8.3% 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 1,093 million yen, up 5.6% 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, although we steadily won new management contracts and renewed existing contracts, construction-related work saw a decrease. As a result, net sales for the first nine months of the fiscal year ending March 31, 2019 decreased by 1.5% year on year to 7,260 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 decreased by 1.7% year on year to 913 million yen despite 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, net sales for the segment for the first nine months of the current fiscal year increased by 216.3% year on year to 1,193 million yen as a result of acquisition fees due to the occurrence of the start of a new fund and gain on sale of a large-scale asset under management.

In addition, as a result of efforts on reducing expenses and improving operational efficiency as well as the gain on sale of a large-scale asset under management, segment income increased significantly to 239 million yen, up 91.4% year on year.

**(Other Businesses)**

In the Other Businesses, which consist mainly of event planning and management, printing and design, successful winning of highly profitable contracts resulted in net sales for the segment for the first nine months of the current fiscal year increasing by 15.9% year on year to 1,975 million yen and segment income increasing by 42.7% year on year to 397 million yen.

**(2) Explanation regarding financial position**

Total assets at the end of the third quarter of the fiscal year ending March 31, 2019 was 68,825 million yen, up 237 million yen, or up 0.3%, from the end of the previous fiscal year. This increase was mainly due to an increase in for-sale real estate by the Real Estate Fund Management Business offsetting a decrease in accounts receivable – trade brought by collection of notes and accounts receivable – trade.

Liabilities decreased by 776 million yen, or down 3.3%, from the end of the previous fiscal year to 22,607 million yen, mainly due to payment of accounts payable – trade, income tax payable, etc.

Net assets increased by 1,014 million yen, or up 2.2%, from the end of the previous fiscal year to 46,217 million yen, due to an increase in profit attributable to owners of parent, among other factors. The equity ratio increased by 0.8 percentage points from the end of the previous fiscal year to 65.2%.

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.

**(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)	Third quarter ended December 31, 2018 (As of December 31, 2018)
<b>ASSETS</b>		
Current assets		
Cash and deposits	22,002,218	22,185,423
Notes and accounts receivable — trade	14,097,157	11,122,134
Investments in silent partnership for business purposes	27,949	60,005
Supplies	121,457	141,627
Real estate for sale	1,476,174	4,500,350
Income taxes receivable	139,995	66,876
Other	1,007,139	2,089,666
Allowance for doubtful accounts	(8,301)	(6,991)
<b>Total current assets</b>	<b>38,863,788</b>	<b>40,159,090</b>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,288,498	3,228,336
Machinery, equipment and vehicles, net	49,966	52,043
Tools, furniture and fixtures, net	450,530	426,671
Land	1,154,050	1,167,664
Lease assets, net	300,492	260,224
Construction in progress	7,830	32,350
<b>Total property, plant and equipment</b>	<b>5,251,366</b>	<b>5,167,288</b>
Intangible assets		
Telephone subscription right	46,526	46,526
Software	309,263	290,622
Goodwill	1,971,427	1,856,208
Lease assets	9,329	8,021
Software in progress	88,971	124,697
<b>Total intangible assets</b>	<b>2,425,516</b>	<b>2,326,074</b>
Investments and other assets		
Investment securities	16,143,074	14,743,810
Long-term loans receivable	542,950	531,968
Long-term prepaid expenses	35,642	52,769
Lease and guarantee deposits	3,523,816	3,978,820
Membership	393,136	392,978
Net defined benefit asset	746,883	908,141
Deferred tax assets	370,033	264,316
Other	354,964	358,243
Allowance for doubtful accounts	(63,115)	(57,639)
<b>Total investments and other assets</b>	<b>22,047,383</b>	<b>21,173,406</b>
<b>Total noncurrent assets</b>	<b>29,724,265</b>	<b>28,666,768</b>
<b>TOTAL ASSETS</b>	<b>68,588,053</b>	<b>68,825,858</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)	Third quarter ended December 31, 2018 (As of December 31, 2018)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable—trade	8,607,085	6,623,554
Current portion of long-term loans payable	2,350,000	1,968,750
Current portion of long-term non-recourse loans payable	13,900	19,343
Lease obligations	107,293	98,685
Accrued expenses	2,685,542	2,486,786
Income taxes payable	949,574	504,248
Accrued consumption taxes	768,043	718,021
Deposits received	614,827	832,561
Advances received	169,530	544,127
Provision for bonuses	642,062	100,076
Asset retirement obligations	-	23,358
Other	17,417	48,730
<b>Total current liabilities</b>	<b>16,925,273</b>	<b>13,968,239</b>
Noncurrent liabilities		
Long-term non-recourse loans payable	1,051,100	2,989,158
Lease obligations	209,068	178,508
Deferred tax liabilities	1,277,979	1,147,376
Net defined benefit liability	432,279	423,764
Long-term guarantee deposited	2,517,391	2,969,143
Asset retirement obligations	264,295	241,513
Liabilities from application of equity method	4,552	-
Other	702,732	690,271
<b>Total noncurrent liabilities</b>	<b>6,459,396</b>	<b>8,639,733</b>
<b>TOTAL LIABILITIES</b>	<b>23,384,669</b>	<b>22,607,972</b>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	646,943	707,969
Retained earnings	42,567,483	44,347,294
Treasury stock	(4,962,993)	(4,919,193)
<b>Total shareholders' equity</b>	<b>41,251,433</b>	<b>43,136,070</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,724,532	2,877,121
Foreign currency translation adjustment	(540,087)	(896,778)
Remeasurements of defined benefit plans	(251,285)	(238,938)
<b>Total accumulated other comprehensive income</b>	<b>2,933,160</b>	<b>1,741,405</b>
Share acquisition rights	-	29,694
Non-controlling interests	1,018,791	1,310,717
<b>TOTAL NET ASSETS</b>	<b>45,203,384</b>	<b>46,217,886</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>68,588,053</b>	<b>68,825,858</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)	
	Nine months ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Nine months ended December 31, 2018 (April 1, 2018 to December 31, 2018)
Net sales	70,607,228	71,594,061
Cost of sales	56,526,807	56,571,302
Gross profit	14,080,421	15,022,759
Selling, general and administrative expenses		
Selling expenses	219,479	233,800
Personnel expenses	5,779,348	5,944,278
Provision for bonuses	47,637	73,757
Retirement benefit expenses	94,152	71,814
Transportation and communication expenses	743,748	790,999
Supplies expenses	291,463	278,983
Rent expenses	714,582	710,955
Insurance expenses	369,423	362,539
Depreciation	284,369	280,739
Taxes and dues	77,865	84,050
Enterprise tax	198,453	231,060
Provision of allowance for doubtful accounts	(2,985)	(2,826)
Amortization of goodwill	104,820	115,220
Other	778,088	775,455
Total selling, general and administrative expenses	9,700,442	9,950,823
Operating income	4,379,979	5,071,936
Non-operating income		
Interest and dividends income	156,892	166,777
Rent income	40,389	40,078
Share of profit of entities accounted for using equity method	343,524	82,737
Foreign exchange gains	45,244	-
Other	51,682	55,039
Total non-operating income	637,731	344,631
Non-operating expenses		
Interest expenses	21,135	21,638
Rent expenses	35,034	37,829
Loss on sales and retirement of noncurrent assets	27,283	17,041
Foreign exchange losses	-	19,049
Other	18,626	17,227
Total non-operating expenses	102,078	112,784
Ordinary income	4,915,632	5,303,783
Extraordinary income		
Gain on sales of investment securities	226,200	-
Total extraordinary income	226,200	-
Quarterly profit before income taxes	5,141,832	5,303,783
Income taxes — current	1,304,462	1,519,555
Income taxes — deferred	324,635	342,313
Total income taxes	1,629,097	1,861,868
Quarterly profit	3,512,735	3,441,915
Profit attributable to non-controlling interests	81,650	80,461
Profit attributable to owners of parent	3,431,085	3,361,454

\*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, 2017 (April 1, 2017 to December 31, 2017)	Nine months ended December 31, 2018 (April 1, 2018 to December 31, 2018)
Quarterly profit	3,512,735	3,441,915
Other comprehensive income		
Valuation difference on available-for-sale securities	888,249	(850,315)
Foreign currency translation adjustment	(4,474)	(5,328)
Remeasurements of defined benefit plans, net of tax	41,006	13,815
Share of other comprehensive income of entities accounted for using equity method	214,726	(351,362)
Total other comprehensive income	1,139,507	(1,193,190)
Quarterly comprehensive income	4,652,242	2,248,725
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,564,985	2,169,699
Comprehensive income attributable to non-controlling interests	87,257	79,026

\*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, 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	Residential Management and Operation Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales								
Net sales to external customers	48,846,605	12,305,683	7,372,893	377,306	1,704,741	70,607,228	—	70,607,228
Inter-segment net sales and transfer	—	—	—	—	—	—	—	—
Total	48,846,605	12,305,683	7,372,893	377,306	1,704,741	70,607,228	—	70,607,228
Segment income	5,464,991	1,035,256	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.

## II. Nine months ended December 31, 2018 (April 1, 2018 to December 31, 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	49,875,523	11,288,796	7,260,935	1,193,320	1,975,487	71,594,061	—	71,594,061
Inter-segment net sales and transfer	—	—	—	—	—	—	—	—
Total	49,875,523	11,288,796	7,260,935	1,193,320	1,975,487	71,594,061	—	71,594,061
Segment income	6,136,591	1,093,371	913,253	239,846	397,480	8,780,541	(3,708,605)	5,071,936

Notes: 1. Adjustments of -3,708,605 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.

## 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. Previously, the segment was included in “Building Management and Operation Business.”

As for the segment information for the third 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.