

Consolidated Financial Statements
for the First Quarter of the Fiscal Year Ending March 31, 2020 [J-GAAP]

August 5, 2019

NIPPON KANZAI Co., Ltd.

Listed exchanges: Tokyo Stock Exchange, First Section
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Filing date of quarterly report: August 9, 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 first quarter ended June 30, 2019 (April 1, 2019 to June 30, 2019)

(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, 2019	25,262	12.7	1,576	14.8	1,550	6.6
Three months ended June 30, 2018	22,406	0.7	1,373	22.7	1,455	9.2

(Note) Comprehensive income: Three months ended June 30, 2019: ¥800 million [43.3%]
Three months ended June 30, 2018: ¥558 million [-58.9%]

	Profit Attributable to Owners of Parent		Profit per Share		Diluted Profit per Share	
	Millions of yen	%	Yen		Yen	
Three months ended June 30, 2019	947	2.8	26.24		26.17	
Three months ended June 30, 2018	921	9.2	26.81		—	

(2) Consolidated financial position

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen		Millions of yen		%	
As of June 30, 2019	74,314		50,491		66.3	
As of March 31, 2019	72,670		47,487		63.6	

(Reference) Equity: As of June 30, 2019: ¥49,307 million
As of March 31, 2019: ¥46,193 million

2. Dividends

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2019	Yen —	Yen 25.00	Yen —	Yen 25.00	Yen 50.00
Fiscal year ending March 31, 2020	—				
Fiscal year ending March 31, 2020 (forecast)		25.00	—	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, 2020 (April 1, 2019 to March 31, 2020)

(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	49,100	6.1	3,100	7.5	3,200	5.2	2,000	5.5	58.01	
Full year	100,000	2.1	6,800	6.9	7,200	6.5	4,600	6.7	133.43	

(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, 2019	41,180,306 shares	As of March 31, 2019	41,180,306 shares
2)	As of June 30, 2019	4,256,686 shares	As of March 31, 2019	6,056,686 shares
3)	First three months ended June 30, 2019	36,109,883 shares	First three months ended June 30, 2018	34,383,544 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**

(Notice regarding description of future prospective)

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 three months of the fiscal year ending March 31, 2020, the Japanese economy remained on a moderate recovery trend due to the improvement in corporate earnings and the employment and household income environments. However, the outlook continues to be unpredictable in the face of concerns over global economic trends such as the trade friction between the U.S. and China as well as the impact of fluctuations in the financial and capital markets.

In the real estate service industry, the vacancy rates of office and retail facilities continued to remain low mainly in major urban areas and the number of reconstruction projects of multi-purpose buildings has been on the rise, suggesting future expansion of the market targeted by the Company.

In such a business environment, NIPPON KANZAI Group (hereinafter “the Group”) has continued to pursue “optimal building management” through its advanced technologies and responsiveness in order to continuously provide high-quality services that effectively match customer needs, and endeavored to enhance asset value and profitability from the perspective of optimizing the life cycle costs of buildings.

Moreover, the Group has proactively developed business areas, including overseas business by utilizing its know-how, as well as private finance initiatives (PFI) and public facility management.

Consolidated net sales for the first three months of the fiscal year ending March 31, 2020 increased by 12.7% year on year to 25,262 million yen because of rolling over of fixed-term contracts and increase in construction-related orders.

In terms of profit, efforts for continuous cost reduction were made in addition to thorough cost management, resulting in operating income increase of 14.8% year on year to 1,576 million yen, ordinary income increase of 6.6% year on year to 1,550 million yen and profit attributable to owners of parent increase of 2.8% year on year to 947 million yen.

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, rolling over of fixed-term contracts and increase in construction-related orders resulted in the increase of net sales for the first three months of the fiscal year ending March 31, 2020 by 12.5% year on year to 17,674 million yen.

In terms of profit, efforts for continuous cost reduction in addition to thorough cost management resulted in segment income of 2,168 million yen, up 14.9% year on year.

(Residential Management and Operation Business)

In the Residential Management and Operation Business, which mainly comprises the management of apartments for sale and public housing, net sales for the segment for the first three months of the fiscal year ending March 31, 2020, was 3,909 million yen, up 12.0% year on year, due to an increase in construction-related work.

In terms of profit, re-examination of outsourcing expenses and thorough cost management resulted in segment income of 326 million yen, up 2.6% 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 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, 2020, increased by 8.8% year on year to 2,572 million yen. We consider the market has the potential to grow because the private sector’s know-how is useful for local governments, the main customers for this segment to meet their tight budgets.

In terms of profit, segment income increased by 10.6% year on year to 335 million yen as a result of improving cost ratio through fee revisions as well as our efforts in cost reduction such as realignment of personnel assignments.

(Real Estate Fund Management Business)

In the Real Estate Fund Management Business, which mainly comprises asset management (i.e. arrangement and asset management of real estate funds) and handling investments in silent partnership, net sales for the segment for the first three months of the fiscal year ending March 31, 2020, increased significantly from the previous fiscal year, up 316.2% to 375 million yen due to income through master lease agreements, etc.

In terms of profit, efforts to win highly profitable contracts and reduce expenses resulted in segment income of 20 million yen (segment loss of 16 million yen in the same quarter of the previous year).

(Other Businesses)

In Other Businesses, which consist mainly of event planning and management, printing and design, due to an increase in video production business, etc. resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2020, an increase of 14.3% year on year to 851 million yen and segment income increase of 0.7% year on year to 121 million yen.

(2) Explanation regarding financial position

Total assets at the end of the first quarter of the fiscal year ending March 31, 2020, increased by 1,644 million yen, or 2.3%, from the end of the previous fiscal year to 74,314 million yen, mainly due to an increase in cash and deposits.

Liabilities decreased by 1,360 million yen, or 5.4%, from the end of the previous fiscal year to 23,822 million yen, mainly due to payment of accounts payable-trade and income taxes payable.

Net assets increased by 3,004 million yen, or 6.3%, from the end of the previous fiscal year to 50,491 million yen, due to decrease in the number of treasury shares through exercise of share acquisition rights, an increase in capital surplus, etc. offsetting a decrease 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 66.3%.

(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 8, 2019, 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, 2019 (As of March 31, 2019)	First quarter ended June 30, 2019 (As of June 30, 2019)
ASSETS		
Current assets		
Cash and deposits	25,817,496	28,680,668
Notes and accounts receivable — trade	13,461,584	12,266,957
Investments in silent partnership for business purposes	60,351	59,624
Supplies	132,496	126,042
Real estate for sale	4,372,819	4,355,817
Income taxes receivable	73,648	141,759
Other	1,597,427	1,577,125
Allowance for doubtful accounts	(6,954)	(7,725)
Total current assets	45,508,867	47,200,267
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,256,380	3,235,510
Machinery, equipment and vehicles, net	64,293	60,601
Tools, furniture and fixtures, net	437,037	447,634
Land	1,167,664	1,167,664
Lease assets, net	232,640	215,118
Construction in progress	33,950	33,950
Total property, plant and equipment	5,191,964	5,160,477
Intangible assets		
Telephone subscription right	46,526	46,526
Software	262,183	236,993
Goodwill	1,822,307	1,788,407
Lease assets	7,246	6,472
Software in progress	125,540	149,482
Total intangible assets	2,263,802	2,227,880
Investments and other assets		
Investment securities	13,390,147	13,337,573
Long-term loans receivable	569,007	660,059
Long-term prepaid expenses	65,053	78,092
Lease and guarantee deposits	3,788,490	3,799,288
Membership	391,763	391,763
Net defined benefit asset	680,228	717,000
Deferred tax assets	517,490	428,572
Other	361,654	374,195
Allowance for doubtful accounts	(57,993)	(60,673)
Total investments and other assets	19,705,839	19,725,869
Total noncurrent assets	27,161,605	27,114,226
TOTAL ASSETS	72,670,472	74,314,493

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

(Thousands of yen)

	Fiscal year ended March 31, 2019 (As of March 31, 2019)	First quarter ended June 30, 2019 (As of June 30, 2019)
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	7,594,213	7,204,618
Current portion of long-term loans payable	375,000	375,000
Current portion of long-term non-recourse loans payable	25,330	25,330
Lease obligations	95,135	92,352
Accrued expenses	2,478,274	3,845,084
Income taxes payable	1,621,661	297,121
Accrued consumption taxes	754,745	937,616
Deposits received	628,237	790,904
Advances received	893,141	579,321
Provision for bonuses	726,419	131,965
Asset retirement obligations	5,870	5,870
Other	11,568	19,406
Total current liabilities	15,209,593	14,304,587
Noncurrent liabilities		
Long-term loans payable	1,500,000	1,406,250
Long-term non-recourse loans payable	2,979,300	2,972,968
Lease obligations	162,610	175,860
Deferred tax liabilities	528,890	427,734
Net defined benefit liability	1,102,475	333,425
Long-term guarantee deposited	2,739,718	2,737,820
Asset retirement obligations	271,275	271,893
Liabilities from application of equity method	-	16,796
Other	689,017	1,175,413
Total noncurrent liabilities	9,973,285	9,518,159
TOTAL LIABILITIES	25,182,878	23,822,746
NET ASSETS		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	1,415,920	3,333,700
Retained earnings	45,298,936	45,368,347
Treasury shares	(4,422,738)	(3,108,738)
Total shareholders' equity	45,292,118	48,593,309
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,340,429	2,106,867
Foreign currency translation adjustment	(1,117,245)	(1,084,697)
Remeasurements of defined benefit plans	(321,554)	(308,245)
Total accumulated other comprehensive income	901,630	713,925
Share acquisition rights	22,826	4,646
Non-controlling interests	1,271,020	1,179,867
TOTAL NET ASSETS	47,487,594	50,491,747
TOTAL LIABILITIES AND NET ASSETS	72,670,472	74,314,493

*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, 2018 (April 1, 2018 to June 30, 2018)	Three months ended June 30, 2019 (April 1, 2019 to June 30, 2019)
Net sales	22,406,191	25,262,214
Cost of sales	17,724,638	20,139,032
Gross profit	4,681,553	5,123,182
Selling, general and administrative expenses		
Selling expenses	56,877	162,414
Personnel expenses	1,923,860	1,946,267
Provision for bonuses	51,624	84,097
Retirement benefit expenses	19,403	61,053
Transportation and communication expenses	263,604	269,191
Supplies expenses	96,148	114,157
Rent expenses	236,279	251,593
Insurance expenses	122,934	121,848
Depreciation	94,733	91,320
Taxes and dues	66,281	64,894
Enterprise tax	76,882	73,458
Provision of allowance for doubtful accounts	(2,307)	3,450
Amortization of goodwill	34,940	33,900
Other	266,947	268,965
Total selling, general and administrative expenses	3,308,205	3,546,607
Operating income	1,373,348	1,576,575
Non-operating income		
Interest and dividends income	73,315	35,373
Rent income	12,797	13,552
Share of profit of entities accounted for using equity method	22,699	-
Other	21,391	31,896
Total non-operating income	130,202	80,821
Non-operating expenses		
Interest expenses	6,743	7,659
Rent expenses	16,266	16,520
Share of loss of entities accounted for using equity method	-	19,028
Loss on sales and retirement of non-current assets	15,004	701
Foreign exchange losses	5,570	47,263
Other	4,519	15,293
Total non-operating expenses	48,102	106,464
Ordinary income	1,455,448	1,550,932
Quarterly profit before income taxes	1,455,448	1,550,932
Income taxes—current	493,128	476,946
Income taxes—deferred	16,826	85,932
Total income taxes	509,954	562,878
Quarterly profit	945,494	988,054
Profit attributable to non-controlling interests	23,736	40,553
Profit attributable to owners of parent	921,758	947,501

*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, 2018 (April 1, 2018 to June 30, 2018)	Three months ended June 30, 2019 (April 1, 2019 to June 30, 2019)
Quarterly profit	945,494	988,054
Other comprehensive income		
Valuation difference on available-for-sale securities	16,600	(234,331)
Foreign currency translation adjustment	(16,802)	7,367
Remeasurements of defined benefit plans, net of tax	4,605	13,932
Share of other comprehensive income of entities accounted for using equity method	(391,677)	25,182
Total other comprehensive income	(387,274)	(187,850)
Quarterly comprehensive income	558,220	800,204
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	533,345	759,797
Comprehensive income attributable to non-controlling interests	24,875	40,407

*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)

During the first three months of the fiscal year ending March 31, 2020, the Company received payment from the disposal of treasury shares through partial exercise of share acquisition rights (share acquisition rights with exercise price amendment through third-party allotment clause) issued on November 21, 2018. This resulted in an increase of 1,917,780 thousand yen in capital surplus and decrease of 1,314,000 thousand yen in treasury shares.

As a result, capital surplus stood at 3,333,700 thousand yen and treasury shares at 3,108,738 thousand yen at the end of the first three months of the fiscal year ending March 31, 2020.

(Segment information, etc.)

I. 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.

II. Three months ended June 30, 2019 (April 1, 2019 to June 30, 2019)

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	17,674,542	3,909,698	2,572,784	375,995	729,195	25,262,214	—	25,262,214
Inter-segment net sales and transfer	—	—	—	—	122,100	122,100	(122,100)	—
Total	17,674,542	3,909,698	2,572,784	375,995	851,295	25,384,314	(122,100)	25,262,214
Segment income	2,168,934	326,388	335,288	20,185	121,548	2,972,343	(1,395,768)	1,576,575

(Notes) 1. Adjustments of -1,395,768 thousand yen for segment income are elimination of inter-segment transactions and unallocated general administrative expenses.

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