

Consolidated Financial Statements
for the First Quarter of the Fiscal Year Ending March 31, 2022 [J-GAAP]

August 3, 2021

NIPPON KANZAI Co., Ltd.

Listed exchanges: Tokyo Stock Exchange, First Section
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 Filing date of quarterly report: August 10, 2021
 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, 2021 (April 1, 2021 to June 30, 2021)

(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, 2021	23,662	(3.1)	1,692	15.4	1,805	25.3
Three months ended June 30, 2020	24,419	(3.3)	1,466	(7.0)	1,440	(7.1)

(Note) Comprehensive income: Three months ended June 30, 2021: ¥1,644 million [176.5%]
 Three months ended June 30, 2020: ¥594 million [-25.7%]

	Profit Attributable to Owners of Parent		Profit per Share		Diluted Profit per Share	
	Millions of yen	%	Yen		Yen	
Three months ended June 30, 2021	1,123	27.0	30.06		—	
Three months ended June 30, 2020	884	(6.6)	23.67		—	

(2) Consolidated financial position

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen		Millions of yen		%	
As of June 30, 2021	77,358		57,786		73.2	
As of March 31, 2021	81,759		57,143		68.3	

(Reference) Equity: As of June 30, 2021: ¥56,594 million
 As of March 31, 2021: ¥55,862 million

2. Dividends

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2021	Yen —	Yen 25.00	Yen —	Yen 27.00	Yen 52.00
Fiscal year ending March 31, 2022	—	—	—	—	—
Fiscal year ending March 31, 2022 (forecast)	—	27.00	—	27.00	54.00

(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, 2022 (April 1, 2021 to March 31, 2022)

(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	51,000	3.1	3,500	17.4	3,700	23.6	2,500	26.2	66.87	
Full year	106,000	1.8	7,700	2.0	8,300	2.1	5,600	6.0	149.80	

(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.: | Yes |
| 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, 2021	41,180,306 shares	As of March 31, 2021	41,180,306 shares
2)	As of June 30, 2021	3,796,818 shares	As of March 31, 2021	3,796,818 shares
3)	First three months ended June 30, 2021	37,383,488 shares	First three months ended June 30, 2020	37,383,548 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**

(Notes to forward-looking statements)

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. Qualitative information on financial statements; (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, 2022, normalization of economic activities was expected for the Japanese economy due to the start of vaccination while the impact of COVID-19 continued to be seen, but repeated declarations of a state of emergency attributable to the pandemic and spread of variants continues to cast uncertainty over the future.

In the real estate services industry, with a shift from an urban-intensive society to a decentralized one due to measures such as the introduction of remote working and establishment of satellite offices in the suburbs as countermeasures against COVID-19, the vacancy rates of office and retail facilities are turning toward an upward trend with the exception of some areas. In addition, due to concerns over the increasing cost-consciousness of clients, a severe business environment is expected to continue going forward.

In such a business environment, the Nippon Kanzai Group (hereinafter “the Group”) sought to continuously provide high-quality services that address customer needs by unremittingly pursuing “optimal building management” through its advanced technologies and responsiveness, endeavoring to enhance the asset value of buildings.

The Group has also exerted itself to further strengthen and improve building management and operations, its core business, while proactively developing peripheral business areas including private finance initiatives (PFI) and public facilities management.

Consolidated net sales for the first three months of the fiscal year ending March 31, 2022, decreased by 3.1% year on year to 23,662 million yen due to sluggish growth in orders for construction-related work.

In terms of profit, efforts to secure profits including fee revisions and the review of the content of specifications and work efficiency resulted in operating income increasing by 15.4% year on year to 1,692 million yen, ordinary income increasing by 25.3% year on year to 1,805 million yen, and profit attributable to owners of parent increasing by 27.0% year on year to 1,123 million yen.

The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter, the “Revenue Recognition Accounting Standard”), etc. has been applied from the beginning of the first quarter of the fiscal year ending March 31, 2022, and net sales decreased by 36 million yen, cost of sales by 31 million yen, and operating income and ordinary income by 4 million yen each in the first three months of the fiscal year ending March 31, 2022. For details, please refer to “2. Quarterly consolidated financial statements and key notes (3) Notes on quarterly consolidated financial statements (Changes in Accounting Policies).”

The following are the results by segment.

Segment income (loss) has been adjusted to operating income described in quarterly consolidated statements of income.

Building Management and Operations

With regard to Building Management and Operations, the Group’s core business that focuses on building management and security services, sluggish growth in orders for construction-related work resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2022, decreasing by 6.6% year on year to 16,451 million yen.

In terms of profit, despite efforts in cost reduction, sluggish growth in net sales resulted in segment income decreasing by 3.3% year on year to 2,060 million yen.

The application of the Revenue Recognition Accounting Standard, etc. resulted in net sales decreasing by 37 million yen, cost of sales decreasing by 33 million yen and segment income decreasing by 4 million yen.

Residential Management and Operations

With regard to Residential Management and Operations, which mainly consists of managing rental apartment buildings and condominiums as well as public housing, the entrustment of new management projects and an increase in orders for construction-related work resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2022, increasing by 3.6% year on year to 3,891 million yen.

In terms of profit, efforts to review the cost ratio and reduce costs resulted in segment income increasing by 42.2% year on year to 434 million yen.

The application of the Revenue Recognition Accounting Standard, etc. has minimal impact on net sales and profits.

Environmental Facilities Management

With regard to Environmental Facilities Management, which mainly consists of managing water treatment, sewage disposal, and other public facilities related to the overall living environment, the entrustment of new management projects and steady contract renewals resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2022, increasing by 7.2% year on year to 2,742 million yen.

In terms of profit, segment income increased by 29.6% year on year to 462 million yen as a result of the Group’s efforts in cost reduction with a focus on appropriate personnel assignments.

The application of the Revenue Recognition Accounting Standard, etc. has minimal impact on net sales and profits.

Real Estate Fund Management

With regard to Real Estate Fund Management, which mainly consists of asset management (i.e., arrangement and asset management of real estate funds) and handling of investments in silent partnership, a decrease in acquisition fee associated with the launch of a new fund resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2022, decreasing by 3.2% year on year to 215 million yen.

In terms of profit, an increase in personnel expenses resulted in segment loss of 13 million yen (6 million yen of income in the same quarter of the previous year).

The application of the Revenue Recognition Accounting Standard, etc. does not have any impact on net sales and profits.

Other Businesses

For Other Businesses, which mainly consists of event planning and management, printing, and design, the entrustment of highly profitable businesses resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2022, increasing by 20.6% year on year to 437 million yen and segment income increasing significantly by 165.7% year on year to 136 million yen.

The application of the Revenue Recognition Accounting Standard, etc. does not have any impact on net sales and profits.

(2) Explanation regarding financial position

Total assets at the end of the first quarter of the fiscal year ending March 31, 2022, decreased by 4,401 million yen, or 5.4%, from the end of the previous fiscal year to 77,358 million yen, mainly due to a decrease in accounts receivable—trade from collection of trade receivables.

Liabilities decreased by 5,044 million yen, or 20.5%, from the end of the previous fiscal year to 19,571 million yen due to payment of trade accounts payable and income taxes payable.

Net assets increased by 643 million yen, or 1.1%, from the end of the previous fiscal year to 57,786 million yen due to an increase resulting from foreign currency translation adjustment and quarterly net income attributable to parent company. The equity ratio increased by 4.9 percentage points from the end of the previous fiscal year to 73.2%.

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

The Group remains cautious of the future business environment which continues to be unpredictable.

The Group's business performance has been generally in line with the forecasts announced on May 10, 2021, and there are no changes to the full-year business forecasts.

2. Quarterly consolidated financial statements and key notes**(1) Quarterly consolidated balance sheets**

	(Millions of yen)	
	Fiscal year ended March 31, 2021 (As of March 31, 2021)	First quarter ended June 30, 2021 (As of June 30, 2021)
ASSETS		
Current assets		
Cash and deposits	33,075	32,006
Notes and accounts receivable—trade	14,836	-
Notes, accounts receivable—trade and contract assets	-	11,366
Investments in silent partnership for business purposes	80	78
Supplies	147	157
Real estate for sale	3,519	3,504
Income taxes receivable	90	82
Other	1,742	1,624
Allowance for doubtful accounts	(8)	(8)
Total current assets	53,483	48,812
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	2,985	2,991
Machinery, equipment and vehicles, net	24	21
Tools, furniture and fixtures, net	507	502
Land	1,224	1,224
Lease assets, net	241	234
Construction in progress	429	429
Total property, plant and equipment	5,411	5,404
Intangible assets		
Telephone subscription right	46	46
Software	414	403
Goodwill	1,551	1,517
Lease assets	1	1
Software in progress	10	4
Total intangible assets	2,024	1,973
Investments and other assets		
Investment securities	14,514	14,863
Long-term loans receivable	800	811
Long-term prepaid expenses	34	31
Lease and guarantee deposits	3,681	3,674
Membership	371	371
Net defined benefit asset	801	846
Deferred tax assets	298	220
Other	395	405
Allowance for doubtful accounts	(57)	(57)
Total investments and other assets	20,840	21,167
Total noncurrent assets	28,276	28,545
TOTAL ASSETS	81,759	77,358

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

	(Millions of yen)	
	Fiscal year ended March 31, 2021 (As of March 31, 2021)	First quarter ended June 30, 2021 (As of June 30, 2021)
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	9,091	3,684
Current portion of long-term loans payable	375	375
Current portion of long-term non-recourse loans payable	19	19
Lease obligations	92	87
Accrued expenses	2,561	3,889
Income taxes payable	1,850	412
Accrued consumption taxes	1,402	1,288
Deposits received	300	486
Advances received	320	-
Contract liabilities	-	1,657
Provision for bonuses	787	125
Asset retirement obligations	-	5
Other	66	62
Total current liabilities	16,868	12,094
Noncurrent liabilities		
Long-term loans payable	750	656
Long-term non-recourse loans payable	2,336	2,331
Lease obligations	185	176
Deferred tax liabilities	524	478
Net defined benefit liability	169	191
Long-term guarantee deposited	2,580	2,578
Asset retirement obligations	266	266
Liabilities from application of equity method	1	1
Other	934	796
Total noncurrent liabilities	7,747	7,476
TOTAL LIABILITIES	24,616	19,571
NET ASSETS		
Shareholders' equity		
Capital stock	3,000	3,000
Capital surplus	3,785	3,785
Retained earnings	51,248	51,475
Treasury shares	(2,773)	(2,773)
Total shareholders' equity	55,260	55,487
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,050	2,022
Foreign currency translation adjustment	(1,216)	(758)
Remeasurements of defined benefit plans	(232)	(156)
Total accumulated other comprehensive income	601	1,106
Non-controlling interests	1,281	1,192
TOTAL NET ASSETS	57,143	57,786
TOTAL LIABILITIES AND NET ASSETS	81,759	77,358

*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

	(Millions of yen)	
	Three months ended June 30, 2020 (April 1, 2020 to June 30, 2020)	Three months ended June 30, 2021 (April 1, 2021 to June 30, 2021)
Net sales	24,419	23,662
Cost of sales	19,300	18,193
Gross profit	5,118	5,469
Selling, general and administrative expenses		
Selling expenses	133	103
Personnel expenses	2,052	2,155
Provision for bonuses	89	92
Retirement benefit expenses	72	95
Transportation and communication expenses	213	235
Supplies expenses	132	123
Rent expenses	256	274
Insurance expenses	122	115
Depreciation	96	101
Taxes and dues	68	61
Enterprise tax	79	83
Provision of allowance for doubtful accounts	2	(0)
Amortization of goodwill	33	33
Other	299	301
Total selling, general and administrative expenses	3,652	3,777
Operating income	1,466	1,692
Non-operating income		
Interest and dividends income	36	60
Rent income	13	13
Share of profit of entities accounted for using equity method	-	51
Foreign exchange gains	2	3
Other	11	27
Total non-operating income	65	156
Non-operating expenses		
Interest expenses	7	6
Rent expenses	16	16
Share of loss of entities accounted for using equity method	48	-
Loss on sales and retirement of non-current assets	7	8
Other	10	10
Total non-operating expenses	90	42
Ordinary income	1,440	1,805
Quarterly profit before income taxes	1,440	1,805
Income taxes—current	607	708
Income taxes—deferred	(81)	(51)
Total income taxes	525	656
Quarterly profit	915	1,149
Profit attributable to non-controlling interests	30	25
Profit attributable to owners of parent	884	1,123

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

Quarterly consolidated statements of comprehensive income

	(Millions of yen)	
	Three months ended June 30, 2020 (April 1, 2020 to June 30, 2020)	Three months ended June 30, 2021 (April 1, 2021 to June 30, 2021)
Quarterly profit	915	1,149
Other comprehensive income		
Valuation difference on available-for-sale securities	237	(34)
Foreign currency translation adjustment	0	43
Remeasurements of defined benefit plans, net of tax	21	71
Share of other comprehensive income of entities accounted for using equity method	(580)	414
Total other comprehensive income	(320)	494
Quarterly comprehensive income	594	1,644
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	559	1,628
Comprehensive income attributable to non-controlling interests	34	15

*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.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

From the beginning of the first quarter of the fiscal year ending March 31, 2022, the Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter, the "Revenue Recognition Accounting Standard"), etc., and recognizes the revenue at an amount the Group is expected to receive in exchange for the promised goods or services when control of the goods or services is transferred to the customer.

Specifically, the general management business for comprehensively managing real estate for management including building operations and facilities maintenance business, security business and cleaning business is a daily repetitive business, and the characteristics of each business and the pattern of transfer to customers are substantially the same. Therefore, all of these are regarded as a single performance obligation, and because they are judged to be satisfied according to the passage of time, the Group recognizes even revenue every month over the contract period.

For contracts based on the performance of a single business including facilities maintenance business, the Group individually recognizes the performance obligation with the customer. The performance obligation will be satisfied when control of the service is transferred to the customer with the provision of said service, and revenue is recognized at the time of monthly inspection by the customer.

For long-term repair work included in the maintenance, management and operations business of PFI, etc., the Group had recognized even revenue over the contract period, but such method has been changed to a method of recognizing revenue over a certain period based on the degree of progress. In addition, even for other construction-related work excluding construction work for an extremely short period, the Group estimates the degree of progress regarding the satisfaction of performance obligation and recognizes revenue over a certain period based on said degree of progress.

With regard to the application of Revenue Recognition Accounting Standard, etc., in accordance with the transitional treatment prescribed in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard, the cumulative effect of the retrospective application of the new accounting policy prior to the beginning of the first quarter of the fiscal year ending March 31, 2022, was added to or deducted from the retained earnings at the beginning of the first quarter of the fiscal year ending March 31, 2022, and the new accounting policy has been applied from the beginning balance of said fiscal year. However, with the application of the method prescribed in Paragraph 86 of the Revenue Recognition Accounting Standard, the Group does not retrospectively apply the new accounting policy to the contracts for which almost all revenue has been recognized in accordance with the previous treatment before the beginning of the first quarter of the fiscal year ending March 31, 2022. In addition, with the application of the method prescribed in item (1) of the supplementary provisions of Paragraph 86 of the Revenue Recognition Accounting Standard, the Group implemented accounting based on the contract conditions after reflecting all the changes in contracts made before the beginning of the first quarter of the fiscal year ending March 31, 2022, and such cumulative effect was added to or deducted from the retained earnings at the beginning of the first quarter of the fiscal year ending March 31, 2022.

As a result, net sales decreased by 36 million yen, cost of sales by 31 million, and operating income, ordinary income and quarterly profit before income taxes by 4 million yen each in first three months of the fiscal year ending March 31, 2022. In addition, the balance of retained earnings at the beginning of the current fiscal year increased by 113 million yen.

Due to the application of the Revenue Recognition Accounting Standard, etc., "Notes and accounts receivable—trade," which was presented in "Current assets" in the consolidated balance sheet for the previous fiscal year, has been included in "Notes, accounts receivable—trade and contract assets" from the first quarter of the fiscal year ending March 31, 2022, and "Advances received," which was presented in "Current liabilities," has been included in "contract liabilities" from the first quarter of the fiscal year ending March 31, 2022. In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Revenue Recognition Accounting Standard, no reclassification has been made for the previous fiscal year based on the new display method.

(Application of Accounting Standard for Fair Value Measurement)

The "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter, the "Fair Value Measurement Accounting Standard"), etc. has been applied from the beginning of the first quarter of the fiscal year ending March 31, 2022, and a new accounting policy stipulated by the Fair Value Measurement Accounting Standard, etc. will be applied in the future in accordance with the transitional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Article 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). Such application will not have any impact on the quarterly consolidated financial statements.

(Segment information, etc.)

I. Three months ended June 30, 2020 (April 1, 2020 to June 30, 2020)

1. Information on net sales, and income or losses for each reportable segment

(Millions of yen)

	Reportable segment						Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operations	Residential Management and Operations	Environmental Facilities Management	Real Estate Fund Management	Other Businesses	Total		
Net sales								
Net sales to external customers	17,611	3,757	2,559	222	268	24,419	—	24,419
Inter-segment net sales and transfer	—	—	—	—	94	94	(94)	—
Total	17,611	3,757	2,559	222	362	24,513	(94)	24,419
Segment income	2,130	305	357	6	51	2,851	(1,384)	1,466

(Notes) 1. Adjustments of -1,384 million 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.

II. Three months ended June 30, 2021 (April 1, 2021 to June 30, 2021)

1. Information on net sales, and income or losses for each reportable segment

(Millions of yen)

	Reportable segment						Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operations	Residential Management and Operations	Environmental Facilities Management	Real Estate Fund Management	Other Businesses	Total		
Net sales								
Net sales to external customers	16,451	3,891	2,742	215	361	23,662	—	23,662
Inter-segment net sales and transfer	—	—	—	—	75	75	(75)	—
Total	16,451	3,891	2,742	215	437	23,738	(75)	23,662
Segment income (loss)	2,060	434	462	(13)	136	3,082	(1,390)	1,692

(Notes) 1. Adjustments of -1,390 million yen for segment income (loss) are elimination of inter-segment transactions and unallocated general administrative expenses.

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

2. Matters on changes in reportable segments

As described in “Changes in accounting policies,” the Revenue Recognition Accounting Standard, etc. has been applied from the beginning of the first quarter of the fiscal year ending March 31, 2022, and the accounting method concerning revenue recognition has been changed. Therefore, the calculation method of business segment income (loss) has also been changed.

Due to such change, net sales and segment income in Building Management and Operations for the first three months of the fiscal year ending March 31, 2022, decreased by 37 million yen and 4 million yen, respectively, compared with the amounts when using the conventional method. In addition, the change has minimal impact on net sales and segment income in Residential Management and Operations and Environmental Facilities Management and has no impact on net sales and segment income (loss) in Real Estate Fund Management and Other Businesses.