

**Consolidated Financial Statements**  
**for the Third Quarter of the Fiscal Year Ending March 31, 2023 [J-GAAP]**

February 7, 2023

**NIPPON KANZAI Co., Ltd.**

Listed exchange: Tokyo Stock Exchange, Prime Market  
 Securities code: 9728 URL: <https://www.nkanzai.co.jp/en/>  
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 Filing date of quarterly report: February 14, 2023  
 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, 2022 (April 1, 2022 to December 31, 2022)**

**(1) Consolidated business results**

(Percentage figures indicate the rate of change from the same period of the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2022	82,324	9.2	6,580	20.0	6,913	13.9
Nine months ended December 31, 2021	75,386	0.4	5,484	6.7	6,069	12.2
(Note) Comprehensive income:	Nine months ended December 31, 2022: ¥5,678 million [7.7%] Nine months ended December 31, 2021: ¥5,270 million [33.9%]					
	Profit Attributable to Owners of Parent		Profit per Share		Diluted Profit per Share	
	Millions of yen	%	Yen		Yen	
Nine months ended December 31, 2022	4,415	(6.8)	118.11		—	
Nine months ended December 31, 2021	4,735	33.3	126.67		—	

**(2) Consolidated financial position**

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of December 31, 2022	84,858	65,210	75.3
As of March 31, 2022	82,141	61,652	73.5

(Reference) Equity: As of December 31, 2022: ¥63,900 million  
 As of March 31, 2022: ¥60,372 million

**2. Dividends**

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	—	27.00	—	27.00	54.00
Fiscal year ending March 31, 2023	—	27.00	—		
Fiscal year ending March 31, 2023 (forecast)				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, 2023 (April 1, 2022 to March 31, 2023)**

(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	108,000	4.1	7,800	4.0	8,500	2.7	5,600	(9.3)	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.: | None |
| 2) Changes in accounting policies other than 1) above:                            | Yes  |
| 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, 2022	41,180,306 shares	As of March 31, 2022	41,180,306 shares
2)	As of December 31, 2022	3,797,106 shares	As of March 31, 2022	3,797,012 shares
3)	First nine months ended December 31, 2022	37,383,286 shares	First nine months ended December 31, 2021	37,383,453 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 nine months of the fiscal year ending March 31, 2023, the Japanese economy showed signs of an increase in activity due to the easing of stay-at-home orders and such, but the impact of surging resource and raw material prices caused by the prolonged situation in Ukraine and currency exchange fluctuation risks due to the rapid depreciation of the yen with no prospects of an end to COVID-19 yet in sight still continued to cast uncertainty over the future.

The real estate services industry also saw vacancy rates for office buildings and retail facilities in urban areas still remain high as a result of a widespread adoption of remote working and establishment of satellite offices as countermeasures against COVID-19 and other factors. In addition, with surging resource and raw material prices and rising labor costs leading to client companies becoming more conscious of reducing costs, a severe business environment is expected to continue.

In such a business environment, the 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 match customer needs, endeavoring to enhance the asset value of buildings.

The Group has also endeavored to further strengthen and improve Building Management and Operations, its core business, while proactively developing business areas including private finance initiatives (PFI) and public facility management.

Consolidated net sales for the first nine months of the fiscal year ending March 31, 2023, increased by 9.2% year on year to 82,324 million yen from new management project contracts and steady contract renewals.

In terms of profit, efforts to review the cost of sales ratio and reduce costs resulted in operating income increasing by 20.0% year on year to 6,580 million yen and ordinary income increasing by 13.9% year on year to 6,913 million yen, and profit attributable to owners of parent decreased by 6.8% year on year to 4,415 million yen due to an increase in tax expenses.

The following are business results by segment.

Segment income 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, steadily winning new management contracts and renewing contracts resulted in net sales for the segment for the first nine months of the fiscal year ending March 31, 2023, increasing by 8.1% year on year to 56,452 million yen.

In terms of profit, a review of the cost ratio and efforts to reduce costs resulted in segment income increasing by 14.0% year on year to 8,162 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, increasingly winning public housing management contracts resulted in net sales for the segment for the first nine months of the fiscal year ending March 31, 2023, increasing by 8.5% year on year to 13,284 million yen.

In terms of profit, continuous efforts to reduce costs resulted in segment income increasing by 13.6% year on year to 1,340 million yen.

#### 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, steady renewal of existing management contracts and an increase in orders for construction-related work resulted in net sales for the segment for the first nine months of the fiscal year ending March 31, 2023, increasing by 7.9% year on year to 9,144 million yen.

In terms of profit, despite the impact of surging resource prices and other factors, efforts to reduce costs with a focus on maintaining appropriate staffing resulted in segment income increasing by 2.0% year on year to 1,267 million yen.

#### 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, an increase in income from the sale of assets under management and sublease contracts resulted in net sales for the segment for the first nine months of the fiscal year ending March 31, 2023, increasing by 29.8% year on year to 1,671 million yen.

In terms of profit, segment income increased by 178.9% year on year to 107 million yen as a result of the Group’s efforts to reduce costs with a focus on maintaining appropriate staffing.

#### Other Businesses

In Other Businesses, which consist mainly of event planning and management, design and payroll accounting services, increasingly winning event contracts and contribution of the business performance of Neotrust Co., Ltd., which became a consolidated subsidiary at the end of the second quarter of the fiscal year ended March 31, 2022, resulted in net sales for the segment for the first nine months of the fiscal year ending March 31, 2023, increasing by 45.6% year on year to 2,008 million yen and segment income increasing by 27.5% year on year to 355 million yen.

**(2) Explanation regarding financial position**

Total assets at the end of the third quarter of the fiscal year ending March 31, 2023, increased by 2,717 million yen, or 3.3%, from the end of the previous fiscal year to 84,858 million yen, mainly due to an increase in investment securities from purchase of shares of affiliated companies.

Liabilities decreased by 841 million yen, or 4.1%, from the end of the previous fiscal year to 19,647 million yen, mainly due to payment of trade accounts payable and repayment of loans payable.

Net assets increased by 3,558 million yen, or 5.8%, from the end of the previous fiscal year to 65,210 million yen, mainly due to foreign currency translation adjustment and an increase in profit attributable to owners of parent. The equity ratio increased by 1.8 percentage points from the end of the previous fiscal year to 75.3%.

**(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, 2022, 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, 2022 (As of March 31, 2022)	Third quarter ended December 31, 2022 (As of December 31, 2022)
<b>ASSETS</b>		
Current assets		
Cash and deposits	32,789	31,640
Notes, accounts receivable—trade and contract assets	14,296	13,931
Investments in silent partnership for business purposes	74	64
Supplies	183	226
Real estate for sale	2,907	2,135
Income taxes receivable	141	13
Other	1,465	1,876
Allowance for doubtful accounts	(8)	(7)
<b>Total current assets</b>	<b>51,849</b>	<b>49,880</b>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,846	3,861
Machinery, equipment and vehicles, net	39	30
Tools, furniture and fixtures, net	550	552
Land	1,226	1,211
Leased assets, net	302	489
Construction in progress	21	-
<b>Total property, plant and equipment</b>	<b>5,988</b>	<b>6,144</b>
Intangible assets		
Telephone subscription right	46	48
Software	405	392
Goodwill	1,825	1,859
Leased assets	9	8
Software in progress	70	136
<b>Total intangible assets</b>	<b>2,357</b>	<b>2,444</b>
Investments and other assets		
Investment securities	15,653	20,174
Long-term loans receivable	833	919
Long-term prepaid expenses	19	14
Lease and guarantee deposits	3,671	3,491
Membership	361	360
Net defined benefit asset	830	946
Deferred tax assets	245	160
Other	388	376
Allowance for doubtful accounts	(56)	(55)
<b>Total investments and other assets</b>	<b>21,946</b>	<b>26,388</b>
<b>Total non-current assets</b>	<b>30,291</b>	<b>34,977</b>
<b>TOTAL ASSETS</b>	<b>82,141</b>	<b>84,858</b>

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

	(Millions of yen)	
	Fiscal year ended March 31, 2022 (As of March 31, 2022)	Third quarter ended December 31, 2022 (As of December 31, 2022)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable—trade	6,143	4,864
Current portion of long-term loans payable	375	375
Current portion of long-term non-recourse loans payable	16	833
Lease obligations	107	154
Accrued expenses	2,659	3,146
Income taxes payable	561	898
Accrued consumption taxes	930	1,107
Deposits received	277	945
Contract liabilities	1,711	1,913
Provision for bonuses	768	90
Asset retirement obligations	21	-
Other	53	62
<b>Total current liabilities</b>	<b>13,626</b>	<b>14,394</b>
Non-current liabilities		
Long-term loans payable	375	93
Long-term non-recourse loans payable	1,871	447
Lease obligations	229	361
Deferred tax liabilities	731	859
Net defined benefit liability	166	227
Long-term guarantee deposited	2,475	2,215
Asset retirement obligations	284	333
Liabilities from application of equity method	22	6
Other	705	706
<b>Total non-current liabilities</b>	<b>6,862</b>	<b>5,253</b>
<b>TOTAL LIABILITIES</b>	<b>20,489</b>	<b>19,647</b>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,000	3,000
Capital surplus	3,785	3,785
Retained earnings	55,080	57,477
Treasury shares	(2,773)	(2,773)
<b>Total shareholders' equity</b>	<b>59,092</b>	<b>61,488</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,282	2,007
Foreign currency translation adjustment	(820)	536
Remeasurements of defined benefit plans	(181)	(132)
<b>Total accumulated other comprehensive income</b>	<b>1,280</b>	<b>2,411</b>
Non-controlling interests	1,279	1,309
<b>TOTAL NET ASSETS</b>	<b>61,652</b>	<b>65,210</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>82,141</b>	<b>84,858</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**

	(Millions of yen)	
	Nine months ended December 31, 2021 (April 1, 2021 to December 31, 2021)	Nine months ended December 31, 2022 (April 1, 2022 to December 31, 2022)
Net sales	75,386	82,324
Cost of sales	58,310	63,559
Gross profit	17,075	18,765
Selling, general and administrative expenses		
Selling expenses	437	497
Personnel expenses	6,736	7,025
Provision for bonuses	45	43
Retirement benefit expenses	243	217
Transportation and communication expenses	738	800
Supplies expenses	412	430
Rent expenses	859	957
Insurance expenses	331	291
Depreciation	336	365
Taxes and dues	82	90
Enterprise tax	246	265
Provision of allowance for doubtful accounts	0	(1)
Amortization of goodwill	112	134
Other	1,009	1,066
Total selling, general and administrative expenses	11,591	12,184
Operating income	5,484	6,580
Non-operating income		
Interest and dividend income	181	174
Rent income	41	43
Share of profit of entities accounted for using equity method	391	5
Foreign exchange gains	70	136
Other	66	79
Total non-operating income	750	440
Non-operating expenses		
Interest expenses	17	23
Rent expenses	37	40
Loss on sales and retirement of non-current assets	78	23
Other	32	19
Total non-operating expenses	165	107
Ordinary income	6,069	6,913
Extraordinary income		
Gain on sales of investment securities	100	-
Total extraordinary income	100	-
Profit before income taxes	6,169	6,913
Income taxes—current	1,297	2,016
Income taxes—deferred	54	348
Total income taxes	1,351	2,365
Profit	4,818	4,548
Profit attributable to non-controlling interests	83	133
Profit attributable to owners of parent	4,735	4,415

\*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)	
	Nine months ended December 31, 2021 (April 1, 2021 to December 31, 2021)	Nine months ended December 31, 2022 (April 1, 2022 to December 31, 2022)
Profit	4,818	4,548
Other comprehensive income		
Valuation difference on available-for-sale securities	105	(277)
Foreign currency translation adjustment	25	260
Remeasurements of defined benefit plans, net of tax	112	49
Share of other comprehensive income of entities accounted for using equity method	208	1,096
Total other comprehensive income	452	1,129
Comprehensive income	5,270	5,678
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,194	5,546
Comprehensive income attributable to non-controlling interests	76	131

\*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.

**(Changes in accounting policies)**

Overseas equity method affiliated companies that have adopted International Financial Reporting Standards (IFRS) have traditionally recognized the configuration or customization of costs for cloud computing contracts in accordance with IAS 38 as “intangible assets.” Starting from the fourth quarter of the fiscal year ended March 31, 2022, however, the method has been changed to one with which the above costs are recognized as costs generated when the configuration or customization service is received, based on the agenda decision of the IFRS Interpretations Committee that was announced in April 2021.

The change in accounting policy is applied retrospectively and has been reflected in the quarterly consolidated financial statements for the first nine months of the fiscal year ended March 31, 2022.

The change has minimal impact on the quarterly consolidated financial statements for the first nine months of the fiscal year ended March 31, 2022.

**(Segment information, etc.)**

## I. Nine months ended December 31, 2021 (April 1, 2021 to December 31, 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	52,219	12,246	8,478	1,287	1,153	75,386	—	75,386
Inter-segment net sales and transfer	—	—	—	—	225	225	(225)	—
Total	52,219	12,246	8,478	1,287	1,379	75,612	(225)	75,386
Segment income	7,160	1,179	1,243	38	278	9,901	(4,416)	5,484

(Notes) 1. Adjustments of -4,416 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. Nine months ended December 31, 2022 (April 1, 2022 to December 31, 2022)

## 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	56,452	13,284	9,144	1,671	1,772	82,324	—	82,324
Inter-segment net sales and transfer	—	—	—	—	235	235	(235)	—
Total	56,452	13,284	9,144	1,671	2,008	82,559	(235)	82,324
Segment income	8,162	1,340	1,267	107	355	11,233	(4,652)	6,580

(Notes) 1. Adjustments of -4,652 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.