

NIPPON KANZAI HOLDINGS

November 24, 2023

Financial Results for the 2nd Quarter of Fiscal Year Ending March 31, 2024

NIPPON KANZAI Holdings Co., Ltd. (Securities Code: 9347/TSE Prime)

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Overview of NIPPON KANZAI HOLDINGS



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Corporate Message

“What needs to be changed with times”

“What should not be changed though the time changes”

Keeping this in mind, we consider it important always to provide customers with high-quality services while flexibly adapting to the changes of times and environment.

The NIPPON KANZAI Group transitioned to a holding company structure on April 3, 2023. Setting the Group mission of **“Enduring quality without compromise,”** we will further grow the company through exercising more of the “collective strength” with the intra-Group synergy.



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Main Business Model of the NIPPON KANZAI Group

- This is a stock-based business model realized by accumulating single-year/multiple-year/long-term contracts with clients, including building owners.
- Taking advantage of the collective strength of the Group, we enhance client satisfaction through the provision of value-added services suitable for various needs to tighten the grip and further expand the profit.



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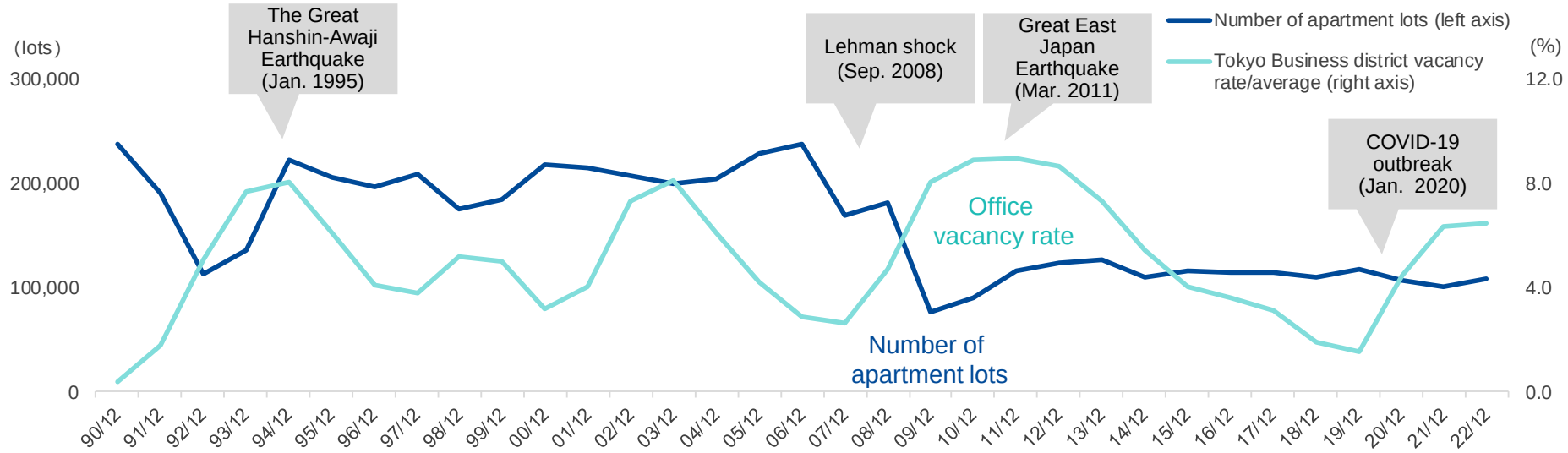
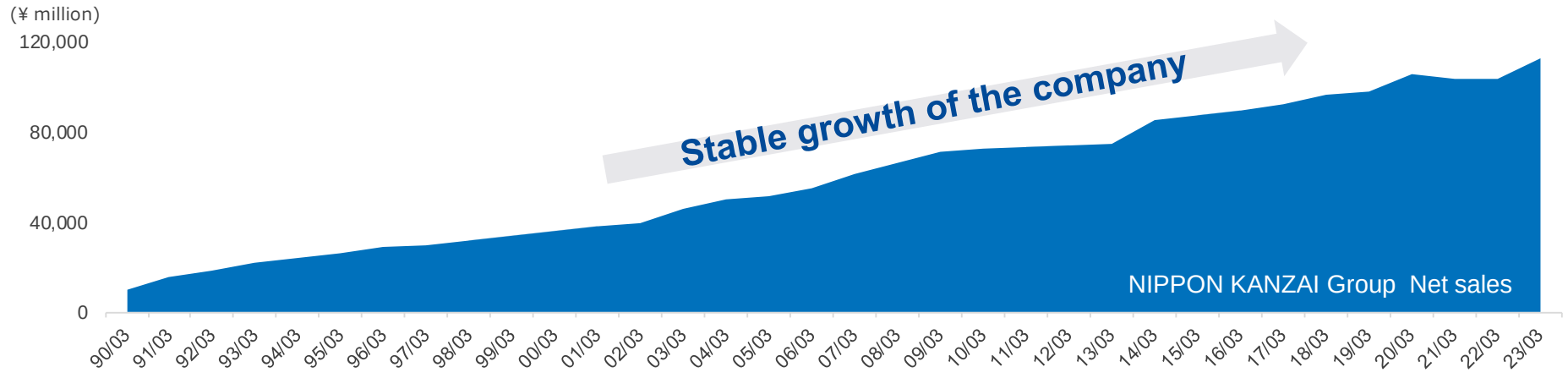
Strength of Stock-based Business

- The Group grows stably without being significantly affected by adverse global circumstances such as past deteriorated market conditions and the COVID-19 pandemic.





Source: Miki Shoji *Office Market Data*, Ministry of Land, Infrastructure, Transport and Tourism (MLIT) *Report on Statistical Survey of Construction Starts*

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Strengths of the NIPPON KANZAI Group

1 Covering a wide range of business fields related to real estate

- We are involved in the business related to management, operation, and ownership of real estate in Japan and overseas. Highly professional Group companies provide optimal solutions for various real estate types, such as office buildings, commercial facilities, hotels, public facilities, apartments, and environmental facilities.

2 Stable management platform based on the stock-based revenue

- Most of the Group's main businesses are stock-based businesses that can ensure continuous revenue. We have built a stable management platform that is not greatly affected by macroeconomic condition.

3 Realization of the sustainable growth of the company based on the stable management platform

- Based on the stable management platform, we make proactive investments in priority fields such as expansion of the existing business, new projects, M&A and capital subscription in Japan and overseas, digital transformation, and human resources development to realize the sustainable growth of the company.

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Consolidated Financial Results for 1H FY3/24



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Consolidated Financial Results Highlights

（Rounded down to the nearest ¥million）

Net Sales ¥57,003 million (+6.1% YoY)

- Steady consignments of new management projects and renewal of existing contracts
- Orders for construction-related work also increased

Operating Profit ¥3,997 million (-4.8% YoY)

- Increase of personnel expenses such as wage hike
- Expenses accompanying the establishment of the Holding Company

Ordinary Profit ¥4,482 million (-5.6% YoY)

- Decrease in share of profit of entities accounted for using equity method
- Recognition of foreign exchange gains due to the weak yen

Profit Attributable to Owners of Parent ¥3,045 million (-0.8% YoY)

- As a result of recording the extraordinary income related to the overseas subsidiary, the results exceeded the financial forecast

* YoY change in the net sales and profit means the comparison with the medium term of the 58th period of NIPPON KANZAI Co., Ltd.

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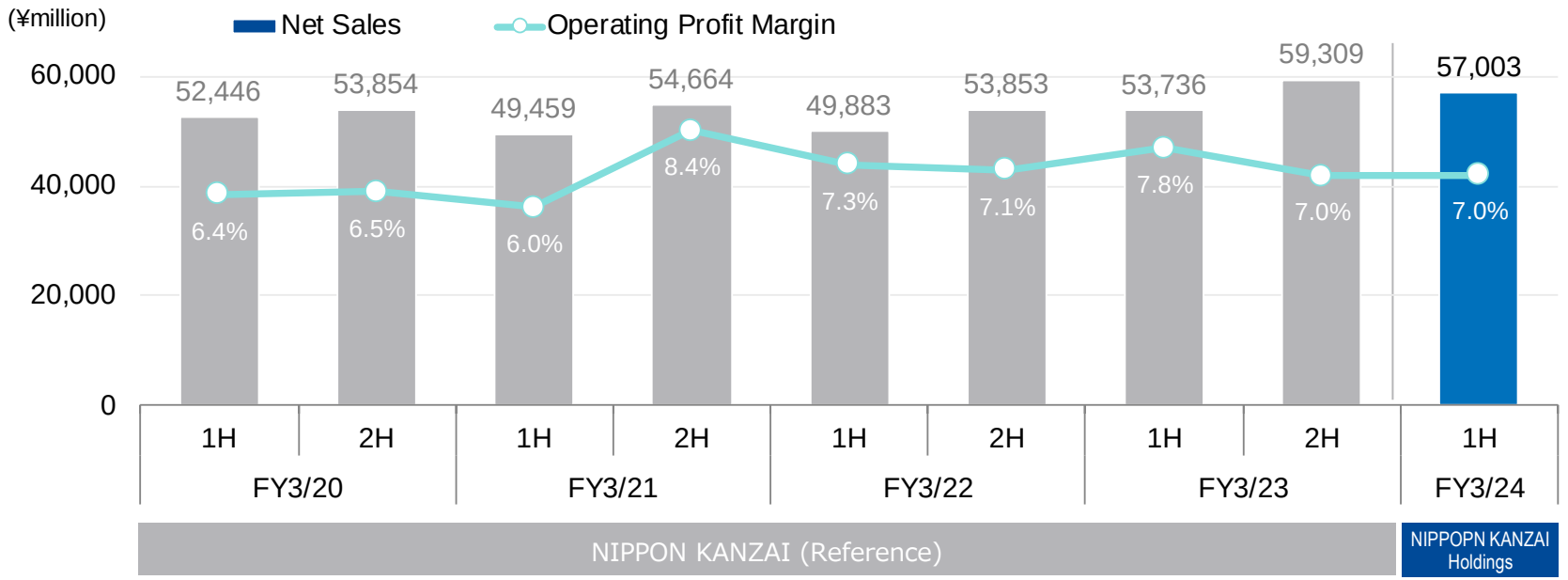
Consolidated Financial Results Summary

Consolidated (¥ million)	NIPPON KANZAI (Reference) 1H FY3/23 Actual	Ratio	NIPPON KANZAI Holdings 1H FY3/24 Actual	Ratio	(Reference) YoY Changes Amount	Ratio
Net Sales	53,736	100.0%	57,003	100.0%	3,266	6.1%
Gross Profit	12,331	22.9%	12,663	22.2%	331	2.7%
SG&A Expenses	8,134	15.1%	8,665	15.2%	531	6.5%
Operating Profit	4,197	7.8%	3,997	7.0%	(199)	-4.8%
Ordinary Profit	4,747	8.8%	4,482	7.9%	(265)	-5.6%
Profit Attributable to Owners of Parent	3,068	5.7%	3,045	5.3%	(23)	-0.8%



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Business Segments and Main Group Companies

Facilities Management and Operations ¥37,494 mil.

Building Maintenance and Property Management (excl. Security Service) ¥26,081 mil.

Cleaning management, facility maintenance administrative contract tasks, and construction-related work of buildings, hotels, public facilities, etc.

NIPPON KANZAI Co., Ltd.
NS Corporation Co., Ltd.
Japan Environmental Solutions Co., Ltd.
Okinawa Nippon Kanzai Co., Ltd.

Security Services ¥11,412 mil.

Security on duty all the time, machine security services

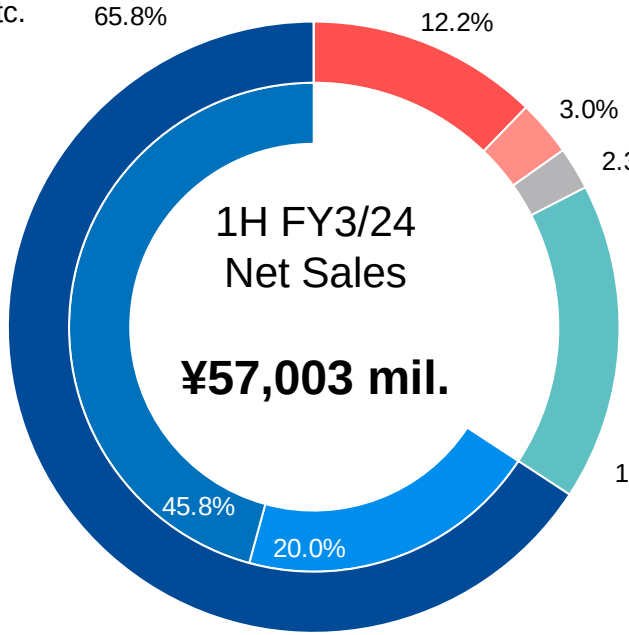
NIPPON KANZAI Co., Ltd.
Three-S Co., Ltd.

Residential Management and Operations ¥9,571 mil.

Condominium Management

Management of condominiums and public housing

NIPPON KANZAI Co., Ltd.
Nippon Kanzai Housing Management Co., Ltd.
Japan Housing Management Co., Ltd.
NJK Staff Service Co., Ltd.



Environmental Facilities Management ¥6,964 mil.

Environmental Facilities Management

Public facilities management related to the living environment in general, such as water and sewerage treatment facilities

Nippon Kanzai Environment Service Co., Ltd.

Real Estate Fund Management ¥1,682 mil.

Asset Management

Asset management engaging in setting up real estate fund and fund management, and investment in anonymous cooperatives

Tokyo Capital Management Co., Ltd.

Other ¥1,290 mil.

Other Businesses

Planning and operation of events, design creation, payroll accounting operation

NS Corporation Co., Ltd.
(Advertisement and event planning)
Neotrust Co., Ltd.
(Payroll and social insurance BPO)

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Financial Results by Business Segment

Consolidated (¥ million)	NIPPON KANZAI (Reference) 1H FY3/23 Actual	NIPPON KANZAI (Reference) 1H FY3/23 Ratio/Margin	NIPPON KANZAI Holdings 1H FY3/24 Actual		NIPPON KANZAI Holdings 1H FY3/24 Ratio/Margin	(Reference) YoY Changes Amount	(Reference) YoY Changes Ratio
Net Sales	53,736	100.0%	57,003		100.0%	3,266	6.1%
Facilities Management and Operation Business	36,357	67.7%	37,494		65.8%	1,136	3.1%
Building Maintenance and Property Management	24,984	46.5%	26,081		45.8%	1,096	4.4%
Security Service	11,372	21.2%	11,412		20.0%	40	0.4%
Residential Management and Operation Business	8,907	16.6%	9,571		16.8%	664	7.5%
Environmental Facility Management Business	5,944	11.1%	6,964		12.2%	1,019	17.1%
Real Estate Fund Management Business	1,357	2.5%	1,682		3.0%	324	23.9%
Other Businesses	1,170	2.2%	1,290		2.3%	120	10.3%
Segment Profit	4,197	7.8%	3,997		7.0%	(199)	-4.8%
Facilities Management and Operation Business	5,251	14.4%	3,333	*2	8.9%	(1,917)	-36.5%
Building Maintenance and Property Management	3,733	14.9%	2,625	*2	10.1%	(1,108)	-29.7%
Security Service	1,518	13.3%	708	*2	6.2%	(809)	-53.3%
Residential Management & Operation Business	984	11.1%	738	*2	7.7%	(246)	-25.0%
Environmental Facility Management Business	803	13.5%	1,016		14.6%	213	26.5%
Real Estate Fund Management Business	21	1.6%	322		19.2%	301	-
Other Businesses	265	22.7%	331		25.7%	66	25.1%
Adjustments*1	(3,128)	-	(1,745)		-	1,382	-

*1 The adjusted amount of segment profit includes the elimination of intersegment transactions as well as SG&A expenses which are not attributable to any particular segment.

*2 Starting from this term, with the transition to a holding company structure, the general and administrative expenses of our subsidiary, Nippon Kanzai Co., Ltd. have been incorporated into the expenses of the Facilities Management and Operation Business and Residential Management and Operation Business.

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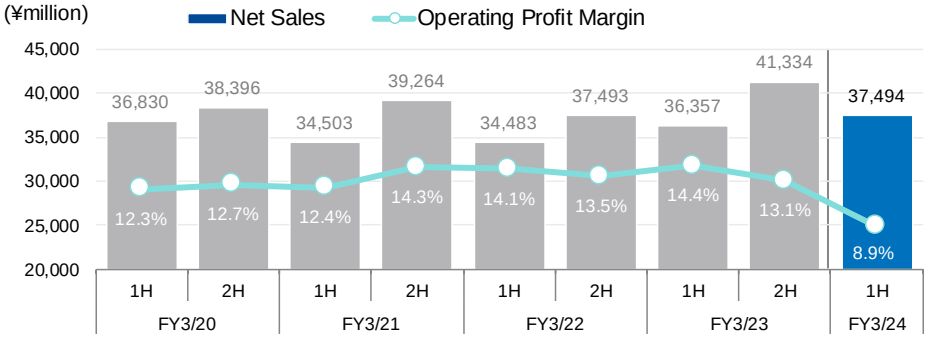
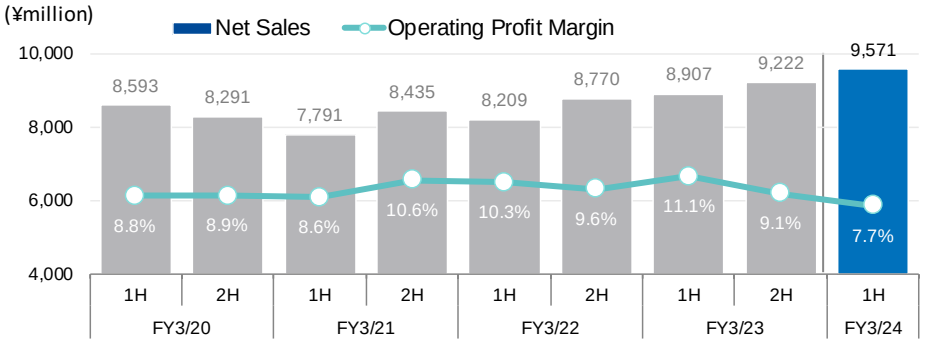
Performance of Business Segments

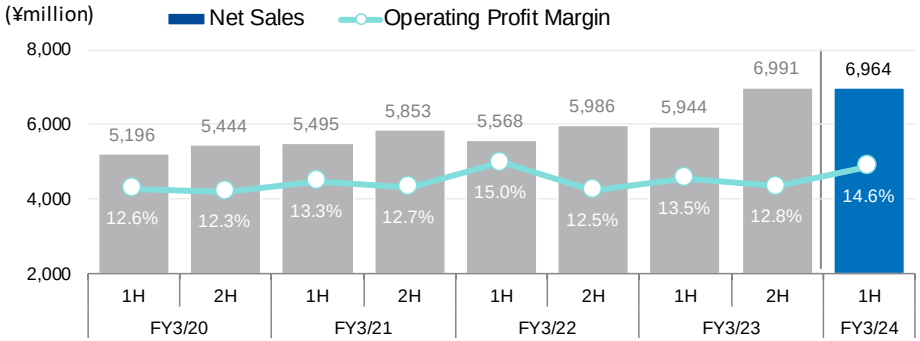
Facilities Management and Operations



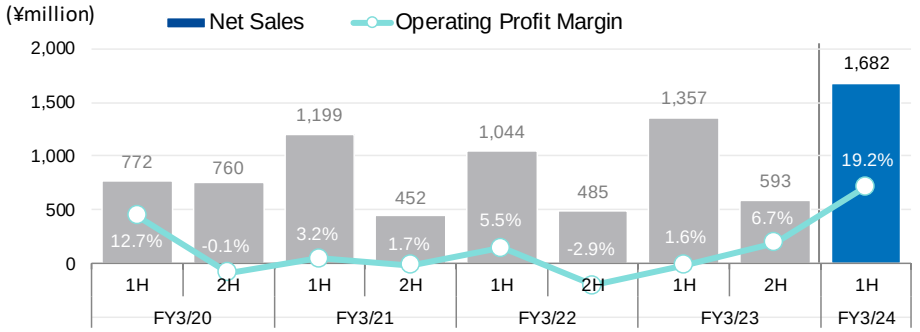
Residential Management and Operations



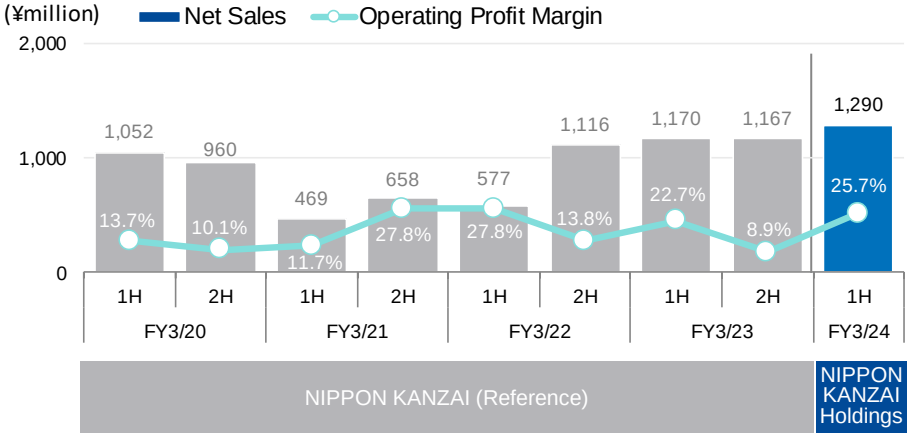
Environmental Facilities Management



Real Estate Fund Management



Other



- Starting from this term, with the transition to a holding company structure, the general and administrative expenses of our subsidiary, Nippon Kanzai Co., Ltd. have been incorporated into the expenses of the Facilities Management and Operation Business and Residential Management and Operation Business.

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Overview of Consolidated Balance Sheets

Consolidated (¥ million)	NIPPON KANZAI (Reference) FY3/23 End Actual	Ratio	NIPPON KANZAI Holdings 1H FY3/24 End Actual	Ratio	(Reference) vs. FY3/22 End Amount	Ratio
Current assets	52,779	60.5%	50,941	56.9%	(1,838)	-3.5%
Cash and deposits	32,386	37.2%	29,721	33.2%	(2,665)	-8.2%
Notes and accounts receivable - trade, and contract assets	15,925	18.3%	15,500	17.3%	(424)	-2.7%
Real estate for sale	2,128	2.4%	2,115	2.4%	(13)	-0.6%
Non-current assets	34,396	39.5%	38,599	43.1%	4,203	12.2%
Property, plant and equipment	6,385	7.3%	6,700	7.5%	314	4.9%
Intangible assets	2,400	2.8%	4,011	4.5%	1,611	67.1%
Investments and other assets	25,610	29.4%	27,887	31.1%	2,277	8.9%
Total Assets	87,175	100.0%	89,540	100.0%	2,365	2.7%
Current liabilities	16,691	19.1%	15,564	17.4%	(1,126)	-6.8%
Notes and accounts payable - trade	7,146	8.2%	5,183	5.8%	(1,963)	-27.5%
Income taxes payable	1,726	2.0%	931	1.0%	(795)	-46.0%
Non-current liabilities	5,004	5.7%	5,794	6.5%	790	15.8%
Deferred tax liabilities	690	0.8%	1,242	1.4%	552	80.0%
Long-term guarantee deposits	2,255	2.6%	2,106	2.4%	(149)	-6.6%
Total Liabilities	21,695	24.9%	21,359	23.9%	(336)	-1.5%
Shareholders' equity	62,732	72.0%	64,767	72.3%	2,035	3.2%
Share capital	3,000	3.4%	3,000	3.4%	-	-
Capital surplus	3,785	4.3%	11,339	12.7%	7,554	199.6%
Retained earnings	58,720	67.4%	60,756	67.9%	2,036	3.5%
Accumulated other comprehensive income	1,608	1.8%	2,320	2.6%	711	44.2%
Non-controlling interests	1,138	1.3%	1,092	1.2%	(45)	-4.0%
Total Net Assets	65,479	75.1%	68,181	76.1%	2,701	4.1%
Total Liabilities and Net Assets	87,175	100.0%	89,540	100.0%	2,365	2.7%

Main Factors for Increase/Decrease

(¥ million)

Assets 2,365

- Increase in goodwill associated with the acquisition of additional shares of an overseas subsidiary 1,628
- Increase in investment securities associated with the acquisition of shares of affiliates, etc. 772

Liabilities (336)

- Decrease in notes and accounts payable - trade (1,963)
- Increase in deposits received 963
- Increase in deferred tax liabilities 552

Net Assets 2,701

- Increase in capital surplus 7,554
- Increase in retained earnings 2,036

Equity Ratio 74.9%

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Overview of Consolidated Statement of Cash Flows

	NIPPON KANZAI (Reference)	NIPPON KANZAI Holdings	(Reference)
Consolidated (¥ million)	1H FY3/23 Actual	1H FY3/24 Actual	YoY Changes Amount
Profit before income taxes	4,747	4,572	(175)
Depreciation	329	381	52
Decrease (increase) in trade receivables	889	804	(85)
Increase (decrease) in trade payables	(1,449)	(1,994)	(545)
Decrease (increase) in inventories	764	(72)	(837)
Increase (decrease) in accrued consumption taxes	77	(204)	(281)
Income taxes paid	(693)	(2,477)	(1,784)
Other, net	(1,132)	485	1,617
Cash Flows from Operating Activities	3,533	1,493	(2,039)
Purchase of property, plant and equipment, and intangible assets	(363)	(223)	139
Purchase of investment securities	(3,089)	(1,170)	1,919
Proceeds from redemption of investment securities	-	100	100
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(517)	(517)
Other, net	89	(977)	(1,067)
Cash Flows from Investing Activities	(3,363)	(2,789)	573
Increase (decrease) in borrowings (incl. non-recourse loans)	(195)	(191)	4
Dividends paid (incl. dividends paid to non-controlling interests)	(1,104)	(1,108)	(4)
Other, net	(66)	(92)	(25)
Cash Flows from Financing Activities	(1,365)	(1,392)	(26)
Net increase (decrease) in cash and cash equivalents	(1,110)	(2,665)	(1,555)
Cash and cash equivalents at the beginning of current per	32,444	32,041	(402)
Cash and cash equivalents at the end of current period	31,333	29,376	(1,957)
Free Cash Flows	170	(1,295)	(1,466)

Main Factors for Increase/Decrease

(¥ million)

CF from Operating Activities (2,039)

- Increase in income taxes paid (1,784)
- Decrease in trade payables (545)

CF from Investing Activities 573

- Decrease in purchase of investment securities 1,919
- Purchase of shares of subsidiaries resulting in change in scope of consolidation (517)

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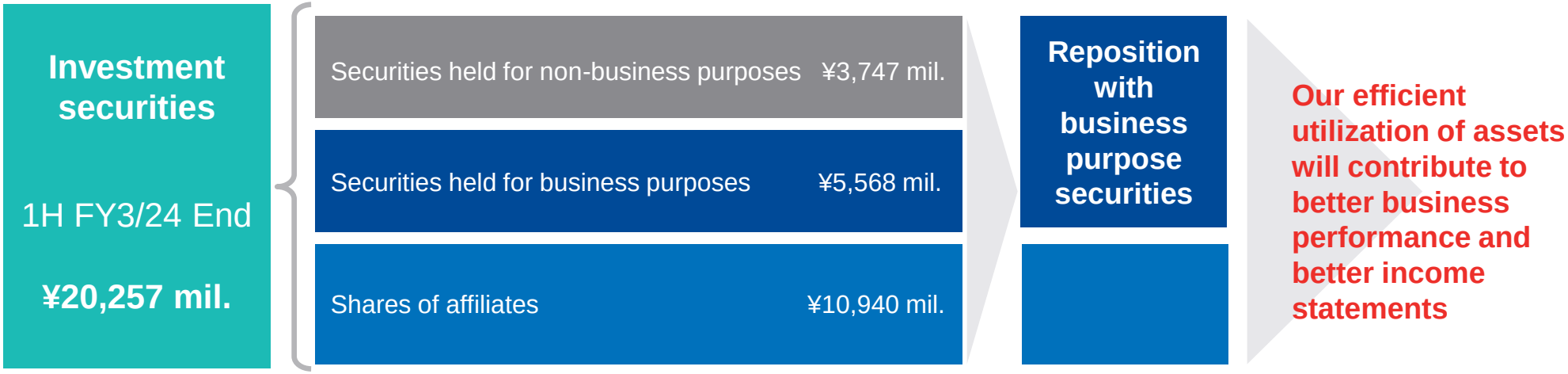
Overview of Investment Securities Portfolio

Promotion of effective asset utilization in accordance with the corporate governance code

- Repositioning our portfolio of investment securities to enhance business development



Current initiatives

- Continue to coordinate with multiple companies to eliminate non-operating holdings

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Consolidated Financial Forecasts for FY3/24



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Consolidated Financial Forecasts Summary

Market Background and Risks

- As a result of digital transformation, offices are shifting from centralization to decentralization based on promoting remote work and the like. Vacancy rates remains high.
- Construction delays due to soaring raw material prices caused by rising prices and a supply shortage.
- Risk of exchange rate fluctuations due to soaring energy prices and the rapid depreciation of the yen as a result of the prolonged situation in Ukraine and Middle East.
- Concerns over securing staff and rising labor costs.

	NIPPON KANZAI (Reference)		NIPPON KANZAI Holdings						(Reference)	
Consolidated (¥ million)	Full-Year FY3/23		1H FY3/24		2H FY3/24		Full-Year FY3/24		YoY Changes	
	Actual	Ratio	Actual	Ratio	Forecast	Ratio	Forecast	Ratio	Amount	Ratio
Net Sales	113,045	100.0%	57,003	100.0%	61,596	100.0%	118,600	100.0%	5,554	4.9%
Gross Profit	24,776	21.9%	12,663	22.2%	12,936	21.0%	25,600	21.6%	823	3.3%
SG&A Expenses	16,435	14.5%	8,665	15.2%	8,334	13.5%	17,000	14.3%	564	3.4%
Operating Profit	8,341	7.4%	3,997	7.0%	4,602	7.5%	8,600	7.3%	258	3.1%
Ordinary Profit	8,662	7.7%	4,482	7.9%	4,617	7.5%	9,100	7.7%	437	5.0%
Profit Attributable to Owners of Parent	5,658	5.0%	3,045	5.3%	2,954	4.8%	6,000	5.1%	341	6.0%

- In the 1H results, net sales and profits exceeded the initial forecasts.
- There is no change to the outlook for consolidated financial results from initial forecasts in light of the market environment and risk conditions.

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Financial Forecasts by Business Segment

Consolidated (¥ million)	NIPPON KANZAI (Reference) Full-Year FY3/23 Actual	NIPPON KANZAI (Reference) Full-Year FY3/23 Composition Ratio/Margin	NIPPON KANZAI Holdings 1H FY3/24 Actual	NIPPON KANZAI Holdings 1H FY3/24 Composition Ratio/Margin	NIPPON KANZAI Holdings 2H FY3/24 Forecast	NIPPON KANZAI Holdings 2H FY3/24 Composition Ratio/Margin	NIPPON KANZAI Holdings Full-Year FY3/24 Forecast	NIPPON KANZAI Holdings Full-Year FY3/24 Composition Ratio/Margin	(Reference) YoY Changes Amount	(Reference) YoY Changes Ratio
Net Sales	113,045	100.0%	57,003	100.0%	61,596	100.0%	118,600	100.0%	5,554	4.9%
Facilities Management and Operation Business	77,691	68.7%	37,494	65.8%	44,815	72.8%	82,310	69.4%	4,618	5.9%
Building Maintenance and Property Management	54,565	48.3%	26,081	45.8%	32,608	52.9%	58,690	49.5%	4,124	7.6%
Security Service	23,126	20.5%	11,412	20.0%	12,207	19.8%	23,620	19.9%	493	2.1%
Residential Management and Operation Business	18,130	16.0%	9,571	16.8%	9,028	14.7%	18,600	15.7%	469	2.6%
Environmental Facility Management Business	12,936	11.4%	6,964	12.2%	7,485	12.2%	14,450	12.2%	1,513	11.7%
Real Estate Fund Management Business	1,950	1.7%	1,682	3.0%	-	-	890	0.8%	(1,060)	-54.4%
Other Businesses	2,337	2.1%	1,290	2.3%	1,059	1.7%	2,350	2.0%	12	0.6%
Segment Profit	8,341	7.4%	3,997	7.0%	4,602	7.5%	8,600	7.3%	258	3.1%
Facilities Management and Operation Business	10,649	13.7%	3,333	8.9%	8,286	18.5%	11,620	14.1%	970	9.1%
Building Maintenance and Property Management	7,597	13.9%	2,625	10.1%	5,844	17.9%	8,470	14.4%	872	11.5%
Security Service	3,051	13.2%	708	6.2%	2,441	20.0%	3,150	13.3%	98	3.2%
Residential Management and Operation Business	1,825	10.1%	738	7.7%	1,171	13.0%	1,910	10.3%	84	4.6%
Environmental Facility Management Business	1,697	13.1%	1,016	14.6%	763	10.2%	1,780	12.3%	82	4.9%
Real Estate Fund Management Business	60	3.1%	322	19.2%	-	-	20	2.3%	(40)	-67.2%
Other Businesses	369	15.8%	331	25.7%	48	4.5%	380	16.2%	10	2.9%
Adjustments*1	(6,261)	-	(1,745)	-	(5,364)	-	(7,110)	-	(848)	-

*1 The adjusted amount of segment profit includes the elimination of intersegment transactions as well as SG&A expenses which are not attributable to any particular segment.

*2 There is no change to the outlook for full-year financial forecasts by business segment from the initial forecasts in light of the market environment and risk conditions.

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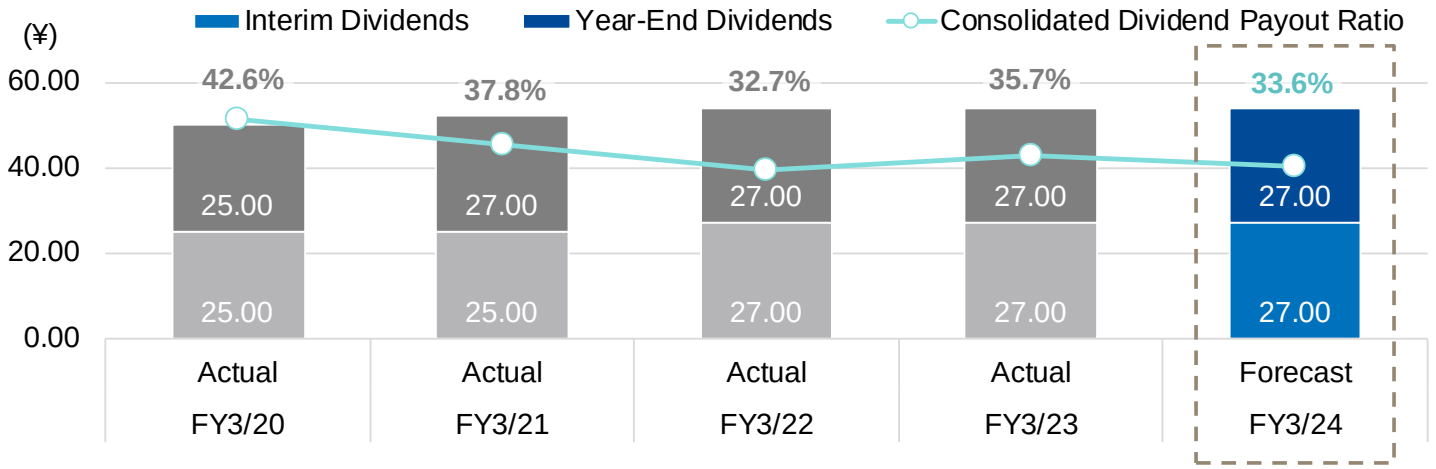
Shareholder Return Policy

- Determining dividend policy is one of NIPPON KANZAI's most important tasks and we return profit by appropriate distribution of results according to performance.
- For FY3/24, the interim dividend will be set at ¥27. The year-end dividend will be set at ¥27, with plans for total dividends of ¥54 per share.

	NIPPON KANZAI (Reference)				NK Holdings
	FY3/20 Actual	FY3/21 Actual	FY3/22 Actual	FY3/23 Actual	FY3/24 Forecast
Interim Dividends	25.00	25.00	27.00	27.00	27.00
Year-End Dividends	25.00	27.00	27.00	27.00	27.00
Consolidated Dividend Payout Ratio	42.6%	37.8%	32.7%	35.7%	33.6%
Dividend on Equity Ratio (DOE)	3.7%	3.6%	3.5%	3.2%	—



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The NIPPON KANZAI Group's medium-term growth strategies



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The NIPPON KANZAI Group's Medium-Term Growth Strategies

Growth Strategies

1 **Sales promotion to the public sector**

2 Promotion of M&A and investment

3 Overseas Development —Sharing of the Group know-how

4 Promotion of DX

Business Actions

① ●Create business opportunities by strengthening PPP / PFI and designated manager systems (P.23～P.27)

② ●Promote aggressive M&A and investment domestically and abroad (P.29～P.31)

③ ●Improvement of service quality and streamlining of businesses through roll-out of the Group know-how (P.33)

④ ●Standardization of the system platform, provision and sharing of systems, conversion of work records to data files, utilization of robots (P.35～P.40)

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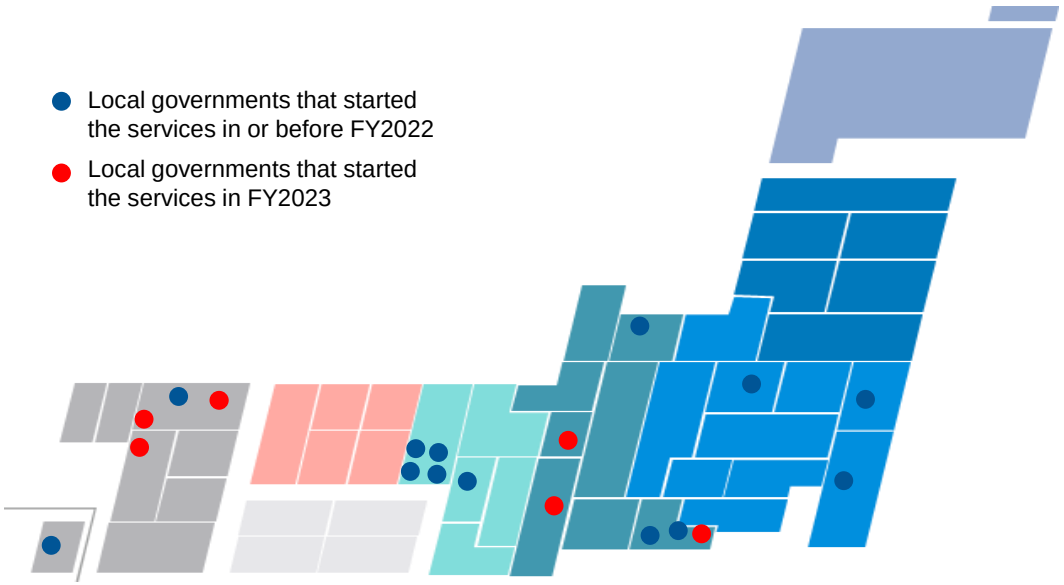
Growth Strategies(1): NIPPON KANZAI Performance in Public Sector (excluding conventional general bidding)

Sales expansion of comprehensive management services of public facilities

NIPPON KANZAI's track record in comprehensive management of public facilities is expanding from the current 19 projects nationwide, and our market share ratio of approx. 50% is the industry-leading. In FY2023, we started operations at 6 local governments (Mishima, Yokkaichi, Kusatsu, Munakata, Omuta, and Arao). We also plan to commence new operations in multiple local governments in FY2024. Given the expected nationwide expansion of the comprehensive management services market, we will leverage our track record and accumulated expertise to strive for further market share expansion.

* Comprehensive management is a form of contract for managerial work for multiple public facilities of local governments such as equipment inspection and cleaning Promoting comprehensive management has significant advantages such as "implementation of planned capital investment with prioritization," ,""regional revitalization through cooperation with local companies," and "workload reduction of local government staff," and we are deploying it nationwide as a measure of our public facilities management strategy

Local governments introducing comprehensive management services



Starting period	Local governments	No. of facilities
Apr. 2018	Akashi-city, Hyogo*	170
Apr. 2019	Ashiya-city, Hyogo	53
	Chikusei-city, Ibaraki	65
	Kosai-city, Shizuoka	80
Apr. 2020	Numata-city, Gunma	123
	Urasoe-city, Okinawa*	20
Apr. 2021	Shimada-city, Shizuoka	70
Apr. 2022	Ichihara-city, Chiba	407
	Imizu-city, Toyama	105
	Osaka-city, Osaka (Eastern area)	247
	Kobe-cory, Hyogo (Eastern part)	154
	Takasago-city, Hyogo	48
	Kasuga-city, Fukuoka	10
Apr. 2023	Mishima-city, Shizuoka	85
	Yokkaichi-city, Mie	44
	Kusatsu-city, Shiga	133
	Arao-city, Kumamoto	43
	Omuta-city, Fukuoka	69
	Munakata-city, Fukuoka	181

"*" indicates the local governments that introduced the services in multiple terms.

(As of October 31, 2023)

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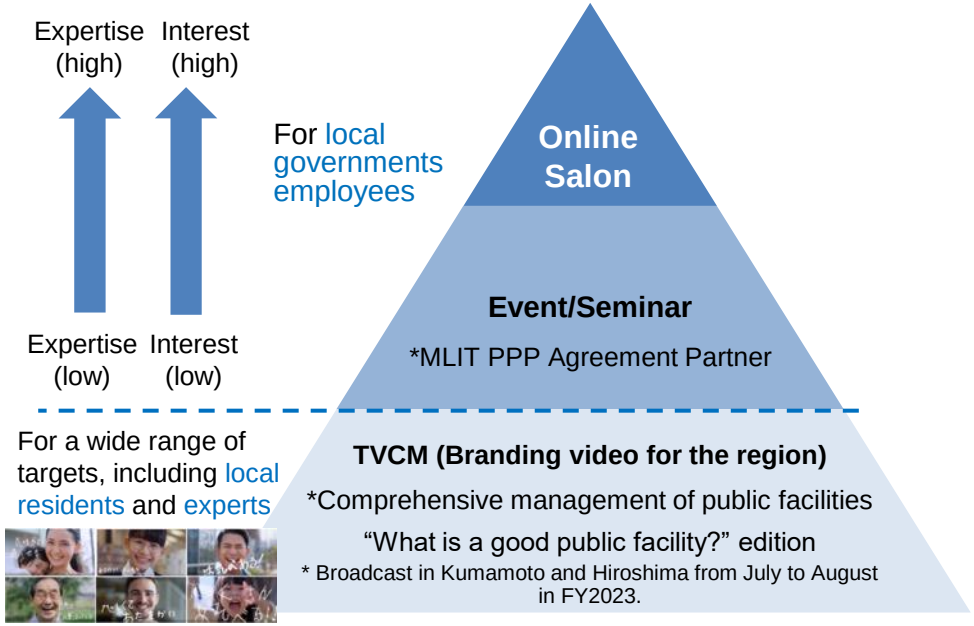
Growth Strategies(1): Public Facilities Management Support Business

Publicity strategy in public facilities management

We aim to increase the awareness of NIPPON KANZAI through information dissemination via commercials, social media, and seminars.

■ Training, Synergy and Media Mix

- **Training** By disseminating information through online salons and PPP seminars, NIPPON KANZAI will support “Public FM interested groups” to become “practitioners.”
- **Synergy** Aiming to boost the comprehensive management market, NIPPON KANZAI will create medium to long term value, rather than ad-hoc measures.
- **Media mix** By combining several media, NIPPON KANZAI aims to create complementary and synergistic effects between them.



Operating online salons

A public FM Online Salon was opened on February 5, 2021. The Online Salon provides information sharing and networking opportunities among workers of local governments who engage in Public Facilities Management (FM) through transmitting the up-front initiatives and know-how related to the national public FM and taking other initiatives.

129 local governments and 167 people participated
(as of September 30, 2023)



Holding events and seminars related to public-and-private cooperation

Since being certified as an MLIT PPP Agreement Partner company in FY2018, we have held annual seminars for workers of local governments. In FY2023, we held an in-person event (partly held online) with the aim of facilitating discussions and information exchange among participants.





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Growth Strategies(1): NIPPON KANZAI Performance in Public Sector (excluding conventional general bidding)

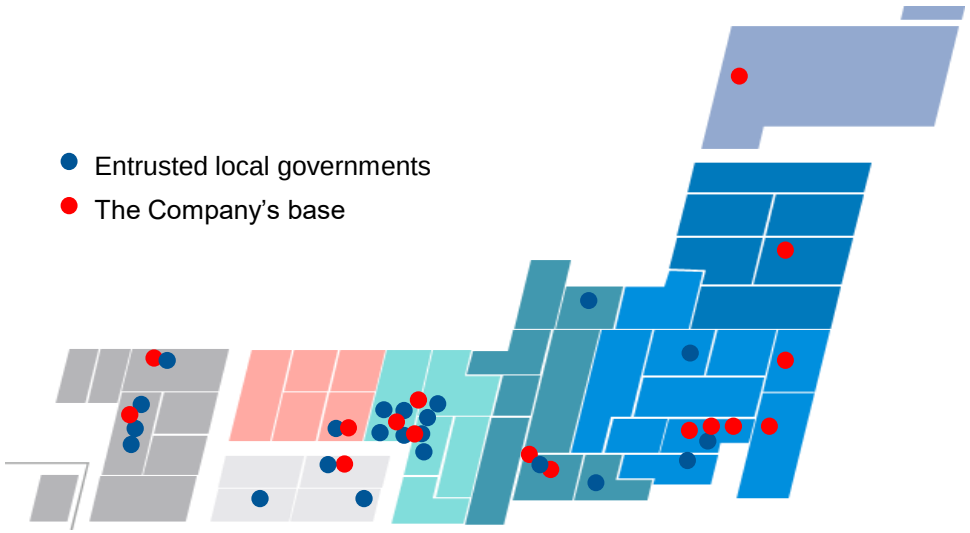
Sales expansion of public housing management services

When public housing management started to shift to the designated manager systems three years after the partial revision of the Local Autonomy Act in 2003, NIPPON KANZAI was among the first to start the sales activities. Starting with the contract for the designated management of Amagasaki City public housing in 2007, we have increased our management track record year by year. Currently, we manage over 120,000 units across 30 local governments nationwide, making us the second largest in the industry in terms of share.

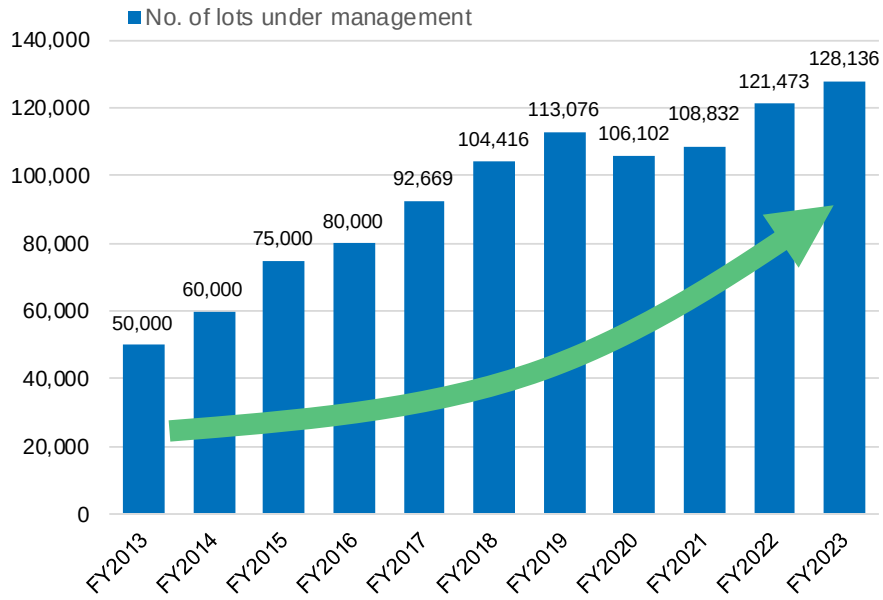
We continue to make efforts to expand the profit by introducing the designated manager systems, promoting the incorporation into the high-affinity comprehensive facilities management business, and scrutinizing the additional public offering projects.

* Public housing designated manager systems indicate the system in which local governments entrust a private, professional manager with the operation and management of the public housing. In this system, improving the services to be provided to the public housing and streamlining costs are aimed for. Its purpose is to enable efficient management by taking advantage of the private know-how.

Record of public housing management



Transition of the number of public housing lots under management



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Growth Strategies(1): NIPPON KANZAI Performance in Public Sector (excluding conventional general bidding)

Sales expansion of environmental facilities management services

In the Environmental Facilities Management Business, which deals with facilities such as water and sewerage treatment facilities and industrial waste treatment facilities, PPP-related new projects, including comprehensive privatization and DBO-method ordering, have recently increased. Proactive sales and marketing activities are conducted nationwide to win entrusted projects.

1. Promote sales of comprehensive privatization services

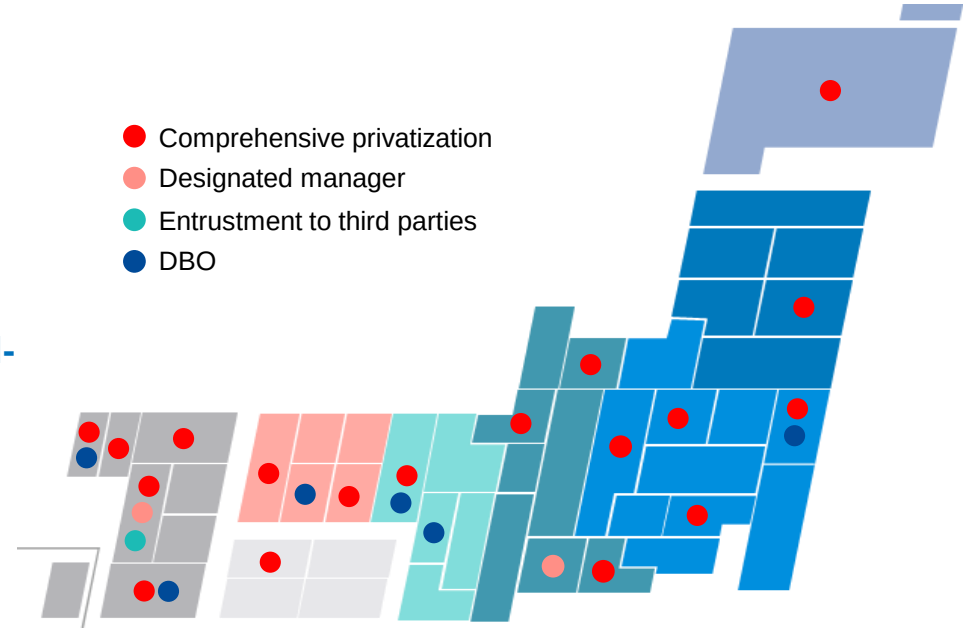
Comprehensive privatization is a system in which several operations and facilities are entrusted comprehensively so that a business operator entrusted with the business can operate the facilities more efficiently and effectively, making use of its knowledge and know-how. The introduction of the system is accelerated nationwide. Since the market expansion, especially in local areas, continues to be expected, we strengthen the promotional sales activities, development of professional human resources, etc.

2. Strengthen taking DBO-method ordering in the special-use facilities

DBO-method* has become a mainstream method for managing and operating environmental facilities. In particular, we strengthen the sales activities targeting the reconstruction timing of waste combustors, recycling-related facilities, night-soil treatment plants, etc. And, there have been an increasing number of newly established large-scale complex recycling facilities, which carry out all the processes, from incineration to recycling and disposal of the waste, all at once. So, we strengthen the sales activities for new order taking.

* DBO method is a method in which a private entity executes design, construction work, maintenance and management, and operation with public funding.

Record of comprehensive privatization, designated administrators, entrustment to third parties, and DBO









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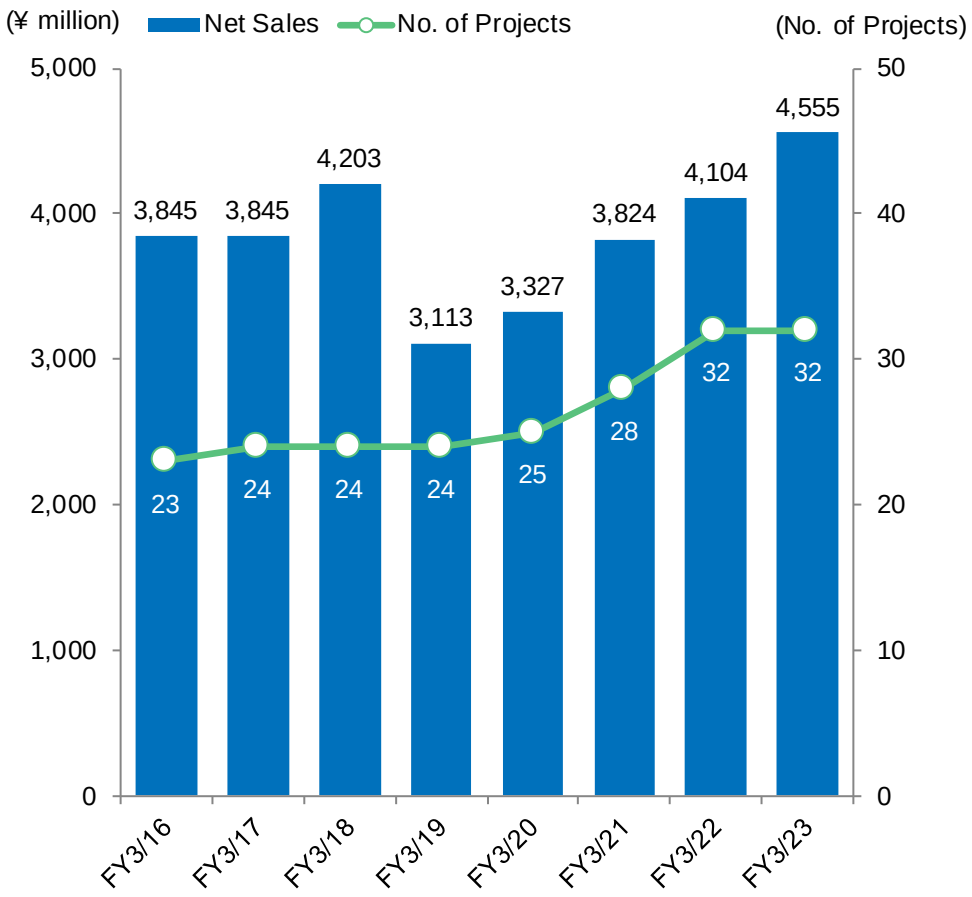
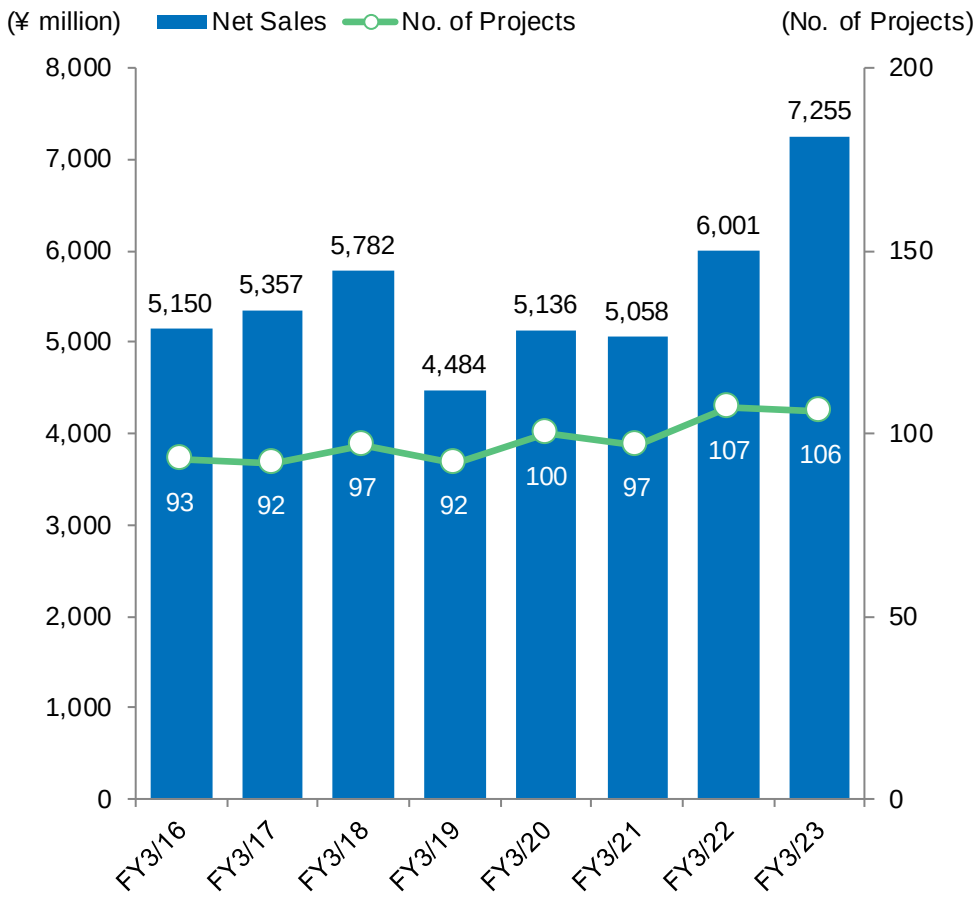
Growth Strategies(1): NIPPON KANZAI Performance in Public Sector (excluding conventional general bidding)

Initiatives for other public-private partnerships

PFI



Designated Manager



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The NIPPON KANZAI Group's Medium-Term Growth Strategies

Growth Strategies

1 Sales promotion to the public sector

2 Promotion of M&A and investment

3 Overseas Development —Sharing of the Group know-how

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Growth Strategies(2): Promotion of M&A and Investment

Promote M&A and investment by companies related to the Group both domestically and abroad

The Group positions M&A and investment as important factors for expanding and growing our business. It will proactively promote M&A related business both domestically and abroad that have synergies with our group based on the following fundamental policies.

Japan

Basic policy: M&A of and investment in blue-chip companies within strategic regions (expansion of domestic market and regional development)

Recent track record (from 2020)**:**

- Aug. 2021 Acquired 100% share of Neotrust Co., Ltd., an outsourcing company that undertakes payroll and various clerical works.
- **Jul. 2022 Acquired 40% share of JTB Asset Management Corp., a group company of JTB Corp.*1**
- **Dec. 2022 Acquired 100% share of Seiryu Maintenance Inc. from SEKISUI CHEMICAL CO., LTD. *2**
- **Oct. 2023 Nihon Kanzai Environment Service Co., Ltd. absorbed Seiryu Maintenance Inc.**

<Supplementary note>
*1 Business alliance with JTB Corp.
*2 NIPPON KANZAI Kankyo Service Co., Ltd., a subsidiary of NIPPON KANZAI, acquired the share. Strengths outside the company's sales area are expected.

Overseas

Basic policy: M&A of and investment in the residential management and relevant businesses in Europe, the U.S., and Oceania (expansion into the overseas market)

Recent track record (from 2020)**:**

- Mar. 2020 Acquired 50% share of Hawaiiana Holdings Incorporated, a residential management company in Hawaii, the U.S.
- Dec. 2020 Increased the ratio of investment in Keystone Pacific Property Management LCC., a gated community management company on the west coast of the U.S., to 50%.
- Mar. 2022 Acquired 90% share of PPG, a property management company in Hawaii, the U.S.
- **Jul. 2023 Established a subsidiary in Germany. (Company name: Nippon Kanzai Deutschland GmbH)**
- **Aug. 2023 Acquired 50% share of and wholly owned Hawaiiana Holdings Incorporated, a residential management company in Hawaii, the U.S.**
- **Sep. 2023 Acquired 75% share of Ackermann Hausverwaltung GmbH, a housing management company in Munich, Germany.**

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Growth Strategies(2): Collaborative Development by Acquiring Shares of JTB Asset Management

Concluded a business alliance agreement with JTB Corporation

On July 1, 2022, NIPPON KANZAI invested 40% in JTB Asset Management Co., Ltd, a JTB subsidiary that provides space solutions, and on December 28, JTB and NIPPON KANZAI concluded a business alliance agreement for collaboration. By investing in JTB Asset Management (40%), NIPPON KANZAI will not only share know-how and skills of the company and add them to NIPPON KANZAI's service menu but also enhance alliances with JTB group companies. This will lead to the further expansion of the "Area Solutions Business", which is one of the 3 pillars in the JTB Group's medium-term management plan the "Pioneering Ways to bring people, places and possibilities together in a New Era," also help two companies achieve further development though the leveraging of their strengths.

■ Purpose of the business alliance

JTB and NIPPON KANZAI have entered into a business alliance with the aim of expanding and developing the business of JTB Asset Management and strengthening stronger cooperation between the two companies, including their group companies.

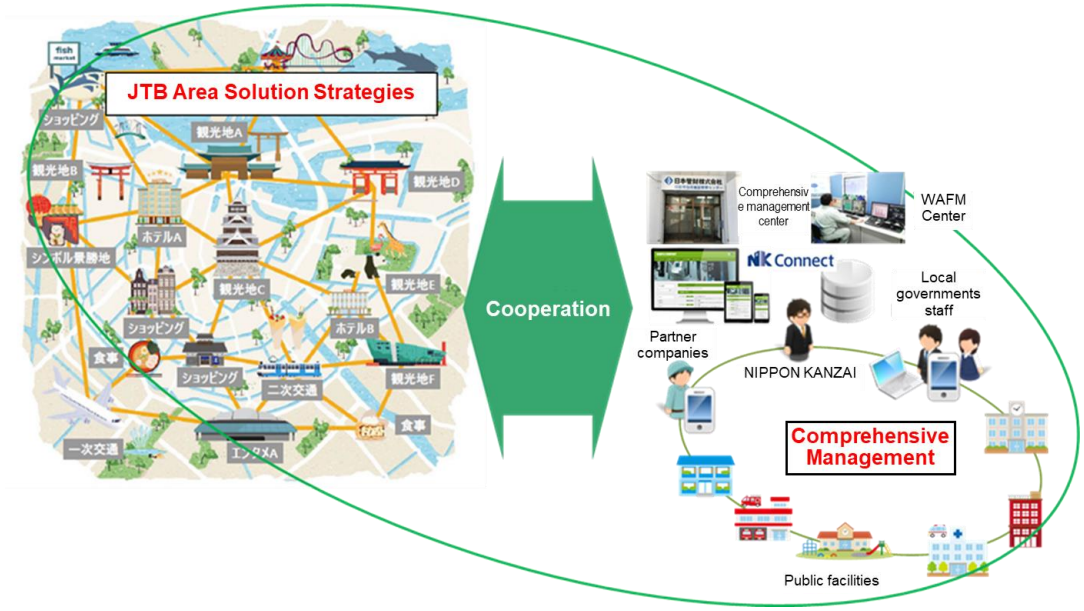
■ Field of the business alliance

1. Designated administrator systems and PPP businesses
2. Comprehensive management businesses aimed at regional revitalization, etc.
3. Businesses related to the development of tourist attractions and regional exchange centers, etc.
4. Expansion of sales channels through joint businesses
5. Other initiatives considered beneficial by both companies





Solutions that leads to regional revitalization, including not only tourism but also the creation of new businesses.



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Growth Strategies(2): Overseas Development (Ackermann Ltd.)



Company Overview

Residential property management company, providing HOA, brokers for sale, rental and facilities management. While in the German market, which often specializes only HOA management, their business model has been established with focus on the 'stock business' of rental and HOA management, with a wide range of 'flow business' such as 'brokerage' and 'repairment' generated from stock businesses. It is counted as one of the three largest housing management companies in Munich.

Background

In September 2023, Nippon Kanzai Deutschland GmbH, a subsidiary newly established in July 2023, acquired a 75% equity interest from the owner and Group CEO, making Ackermann a non-consolidated subsidiary under the equity method. From now and forward it will also work on longer-term strategies, utilizing the knowledge developed in Japan, Australia and the US, as well as our company's stable financial base.

Most Recent Business Environment

After start of war in Ukraine in 2022, energy and other prices have risen worldwide, especially in Europe and utmost in Germany, as the country depended highly on Russia for energy. Therefore, with labor costs, material prices and interest rates all rising, the challenge is to transfer the cost increases to sales and to cover the decline in the intermediary sector.

Office



Properties under Management







Company Name	Ackermann Hausverwaltung GmbH (Ackermann)
Establishment	14 May 2001 (founded in 1919)
Main Business	Mainly Housing management
Corporate Office	Munich, Bavaria, Federal Republic of Germany
Major Branch	City of Munich
No. Employees	Approx. 85 as of December 31, 2022)
No. of Units under Management	Rental management: approx. 12,000 units; management of condominium units: approx. 5,000 units (approx. 150 associations) as of December 31, 2022

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(P.35～P.40)

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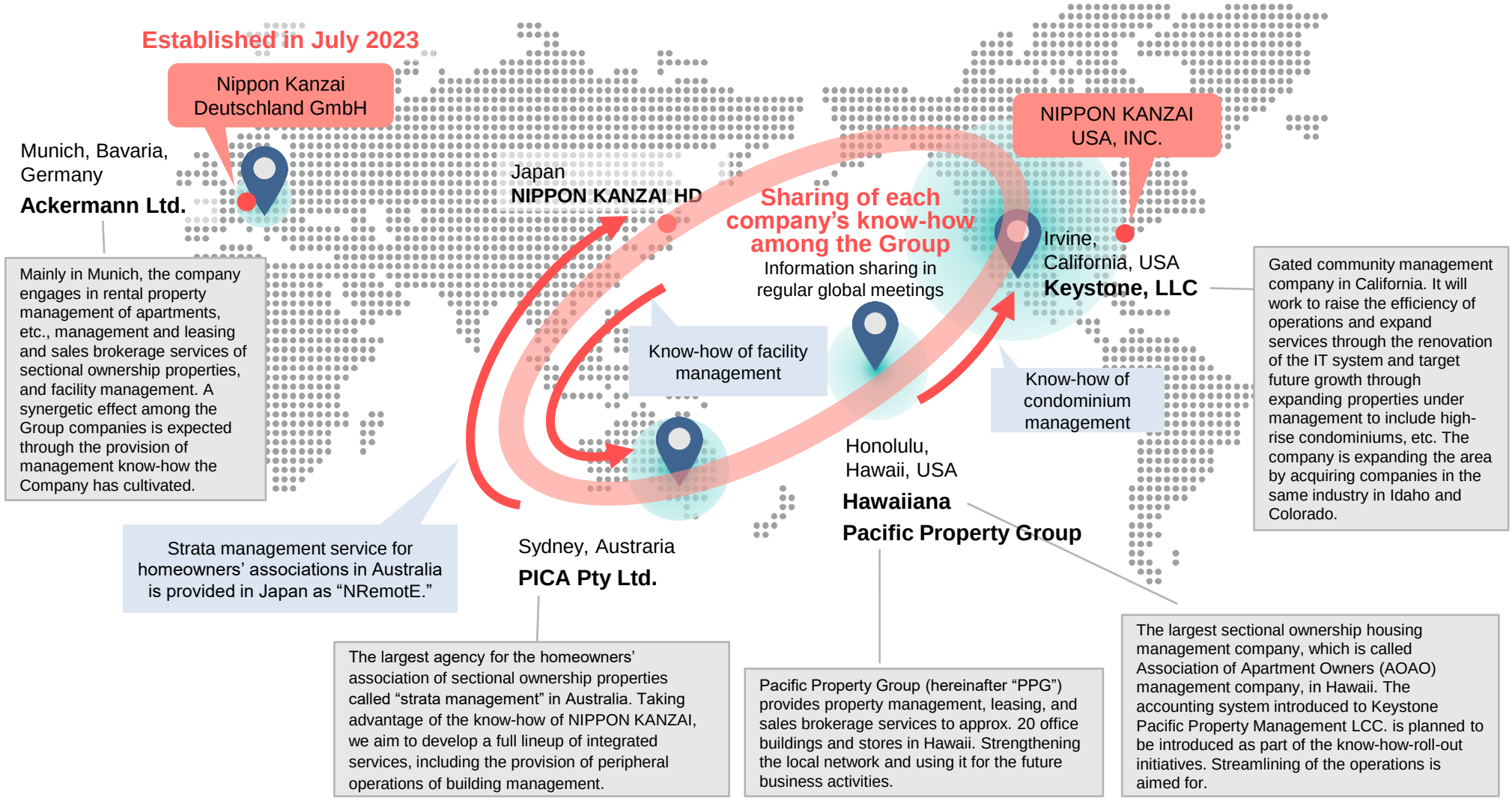
Growth Strategies(3): Roll-out of the Group Know-how

Aiming to improve the business quality and the growth of the entire company, we will roll out the know-how and strengths cultivated by each company and put them into practice. In the future, in particular, we will strengthen information sharing in IT and digital transformation fields, raise operational efficiency, and take other measures.



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Growth Strategies(3): Approach Based on IT -Digital Transformation-

With IT approaches both externally and internally, and fusion of digital and analog, we provide optimal services to customers

DX

DX for clients

DX for internal use

1	Use of building knowledge	• Accumulating know-how and sharing of knowledge • Providing quick and optimal solutions • Standardizing HR development and work quality	• Knowledge integration environment • Accumulation in the core system	System construction and provision
2	Visualization of equipment status	• Remote monitoring of equipment operation status • Notification of irregular trends and irregular values • Early detection and response to facilities problems	• IoT for facilities monitoring • Operation of WAFM (Wide Area Facilities Management) center	
3	Providing and sharing systems	• Aggregation and analysis of facilities-related data • Estimation of life cycle costs • Providing a work management portal	• NK Connect • Cross Point FM	
4	Conversion of work records to data files	• Digitization of on-site forms • Keeping digital data of inspection records • Electronic application for work request	• On-site forms apps • Smart devices	Use of IT / ICT
5	Diversification of work styles	• Strengthening responsiveness to infectious diseases and disasters • Effective use of travel time	• Online meetings • Web transactions	
6	Automation of office work	• Improving productivity • Allocating staff properly • Creating time with clients	• Automation such as RPAs • Voice-to-text conversion technology	

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Growth Strategies(4): Provision and Sharing of Systems **(DX for clients❸)**

Provision of new homeowner association services using IT tools

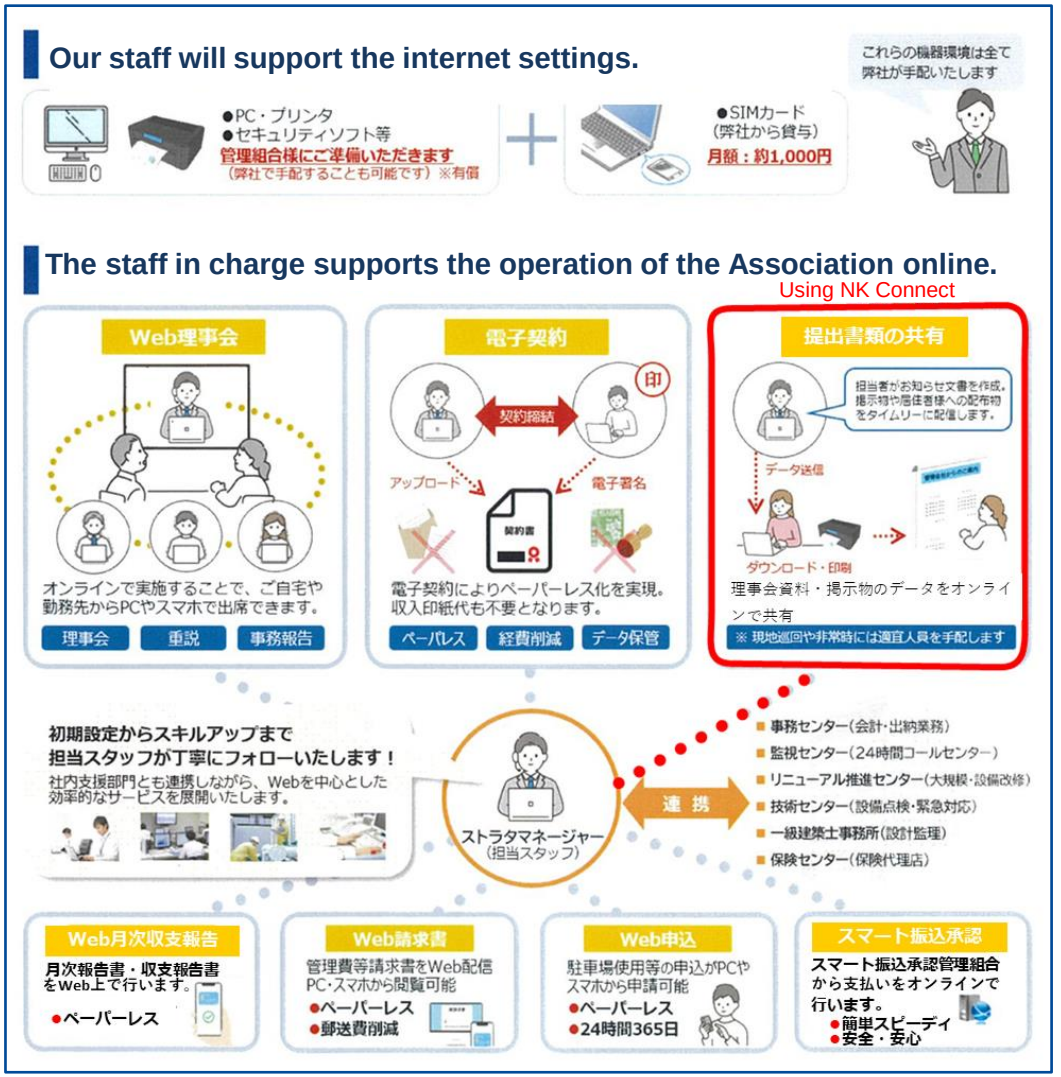
Overview

In the past, management of homeowner associations was conducted by the association's board members and the property manager who met in person on site.
Each of the Group's homeowner association management companies have launched strata management services called NRemotE for homeowner associations in order to facilitate smooth operations for situations where interpersonal contact has become difficult due to the outbreak of the Covid 19. The introduction of this service makes it possible to hold board meetings and manage various tasks such as contractual relations online.

Main functions

- Holding of online board meetings
- Executing management contract electronically
- Providing monthly financial reports online
- Digitalization of invoice, reports, etc.
- Online-based application service for owner/resident information updates.

* Strata management refers to homeowner associations operation, and cashier works in the condominium management business in Japan. "NRemotE" was developed by the know-how rolled out by PICA, an affiliate in Australia.



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Growth Strategies(4): Conversion of Work Records to Data Files **(DX for clients❹)**

Promoting digitalization of operations by introduction of building management app “Kanri-Roid”

In August 2023, NIPPON KANZAI introduced “Kanri-Roid” an AI-driven cloud-based real estate management software developed by THIRD INC., into meter-reading and inspection works of approx. 70 unmanned properties under management, with the purpose of digitalization and streamlining of the works.

Background

In conventional meter-reading and inspection works, staff filled out the numerical values and inspection results of the electricity and water meters on site, and they input the information again to the PC. It was very analog and generated operating efficiency and workload issues.

Result

Through this trial, we were able to reduce the administrative work time required for meter reading and inspection tasks by 116 hours per month compared to before the implementation. Paperless practices related to accounting ledgers, etc., were also promoted.

Outlook

Based on the validation of the effect of the trial, we will examine the expansion of properties to which Kanri-Roid is introduced and the scope of functions to be used to raise operational efficiency further and save human resources.









Kanri-Roid is an AI-driven cloud-based real estate management software developed by THIRD INC. that raises the efficiency of building management operations and monitors the property remotely by replacing the preparation of conventional paper-based reports on inspection, meter reading, and cleaning with smartphone and web dashboard and linking them on a real-time basis. For the meter-reading operations, when the user takes photos of the electricity or water meter, AI reads the meter and automatically prepares the web meter ledger. And, for the inspection operations, the app prepares the document automatically only by setting in advance the format of the ledge data about the patrol, water supply and drainage, and air-conditioning inspection and inputting the inspection results directly to the app.

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Growth Strategies(4): Diversification of Work Styles **(DX for clients❺)**

Promoting the use of robots, etc., in building management services

NIPPON KANZAI has introduced robots into building management services in a proactive manner because of recent serious manpower shortage. Recently, we collaborated with SoftBank Robotics Corp. and SmartBX Co., Ltd. to promote the verification test for digitalization of building management using electronic devices such as smartphones and sensors, in addition to robots, to increase the satisfaction of building users and operating efficiency.

Benefits of introduction

- Reduction of burden on staff through reducing workload
- Reduction of human error and accident occurrence rate
- Standardization of work quality
- Appealing to our tenants through the introduction of the latest technology

Track record

- Cleaning robot: 29 units in 21 buildings in operation (including outsourcing operation)
- Security robot: 2 units in 2 buildings in operation

(as of September 30, 2023)

■ Type of building that introduced robots

- Office building
- Public facilities
- Hospital
- School
- Underground city, etc.





Validation for introduction / monitoring



We will pick up a variety of requirements, including the use, scale, characteristic, working hours, and quality of facilities, and test-introduce and verify robotics that meet the working specifications of our robots. After the verification, the robot that matches the use of the facility will be introduced.

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Growth Strategies(4): Automation of Office Work **(DX for internal use❻)**

Improving the efficiency of operations with the use of generative AI

The Company developed its own conversational AI, “NK-AIbot Powered by GPT-3.5*” utilizing the Azure OpenAI Service and Microsoft Power Platform provided by Microsoft Corporation, and, in June 2023, started the operation for 1,900 employees in Japan, including the Company and other Group companies. The introduction of the generative AI helps new employees and employees with limited experience acquire the same level of knowledge as experienced employees and prepare precise documents. We will try to improve the service we provide by using the time made by the efficient operations for responding to the customers and making value-added proposals for them.

* We have released the upgraded version, “NK-AIbot-D1,” that enabled a more practical response, which was realized through teaching the AI the knowledge of our unique data, such as operational manuals.



Screen image

<Major functions, how to use>
- Response to answers, deep answers
- Preparation of documents, presentation of ideas, summarizing
- Preparation of Excel functions
- Preparation of simple program codes, etc.

[FY2023 Roadmap]

	Development	Internal initiatives
May-Jun.	[Phase 1] Environment building, development	Introduction of the system to the entire company, promotion of use, collection of data to be used, development of human resources who play a role in the promotion of the company
Jul.-Sep.	[Phase 2] Use of the company’s data	Trial learning based on Input, frequency of questions, and study results
	Goal	
The end of 2023	Aiming for the development of AI that can provide various operational know-how (by learning) and plays a supportive role for employees	

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Growth Strategies(4): Standardization of the System Platform **(DX for internal use)**

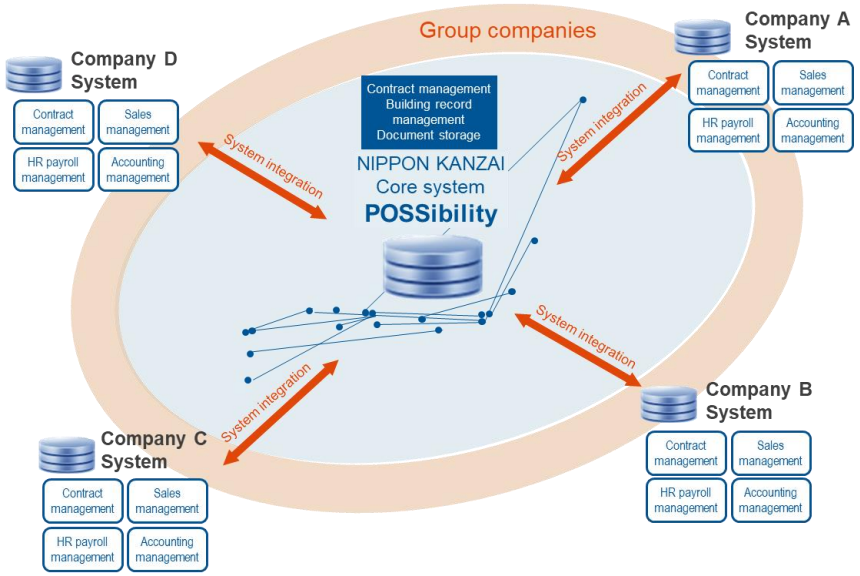
Standardization of the system platform across the entire group

The NIPPON KANZAI Group is advancing the integration of the system platforms of each group company that had been fragmented. By standardizing security and control levels and implementing efficient system operations, we will strengthen the governance of the entire group.

Core system

● POSSibility

Our core system POSSibility is a web system unique to the Group that enables management of contract and operation status, preparation of invoice, ordering procedures between the company and subcontractors, etc.
We are currently integrating various IT systems related to management of accounting, personnel salary, attendance management, etc. as well.



Introduction of other systems

● Response to invoice and Electronic Record Retention Law

New system will be introduced in response to the Invoicing System and Electronic Record Retention Law that is to be enforced from October 1, 2023. We will increase work efficiency through operating the system in full scale from the second half of FY2023, in combination with digitalization of the invoice information and unification of the management.

● Standardization of purchasing system

We are digitalizing the procedures for purchasing goods through applying the centralized purchasing to promote e-commerce. Although NIPPON KANZAI introduced the system in advance, we encourage the Group companies to introduce it and aim for reducing the cost of the entire Group in the future through increasing work efficiency with e-commerce and collecting and analyzing the purchasing data.

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Sustainability of the NIPPON KANZAI Group



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Initiatives for ESG

The social roles required of companies have been expanding year by year because of environmental changes in society and the economy. The entire Group of NIPPON KANZAI will focus on the management being aware of sustainability so as to realize a sustainable society.

E environment

Initiatives for environment and energy saving

- **Carbon offset of Nishinomiya registered office building**
- **Installation of quick EV charger to Nishinomiya registered office building**
- **Promotion of replacing corporate cars with EVs**
- **Enhancement of green product lineup through central purchasing system**



Development of environmental business

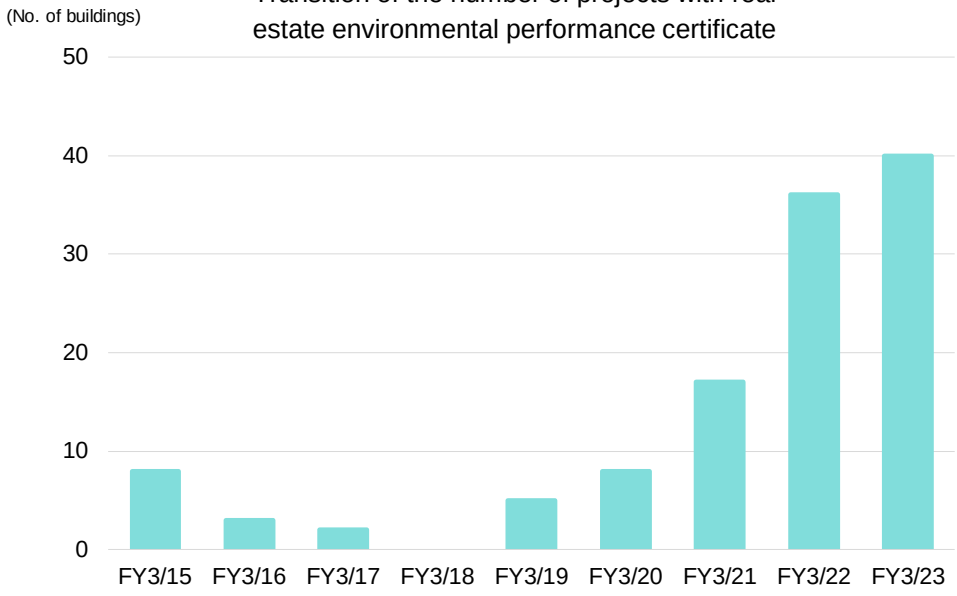
(1) Proposal of installing photovoltaic facilities

We proactively propose installing solar carports that enable power generation at the parking space to properties under management, such as large-scale facilities, including factories and hospitals.

(2) Implementation of certification for real estate environmental performance

As a certification organization for real estate environmental performance, such as CASBEE, GRESB, and BELS, whose needs for REIT and funds have increased recently, we implement many certifications.

Transition of the number of projects with real estate environmental performance certificate



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Initiatives for ESG

S social

Initiatives related to worker-friendliness and employment

● Various systems related to the realization of a flexible working style

We set up various systems to support the balance between work and child raising/nursing care.

<Major systems>

- Short-time working system (For child raising and nursing care, the system is valid until the child becomes the third grade in elementary school)
- Hour-base paid leave system
- Work-from-home system
- Use of satellite office
- Subsidy system for hiring baby sitter

● Employment support for recruiting people with disabilities

The Company employs people with disabilities using Social Office*, in cooperation with AOH, a general incorporated association that operates a chocolate factory as part of the first employment-support business in Japan.

People with disabilities employed by the Company work at the authentic bean-to-bar chocolate factory (CHOCOLABO) in Yokohama.



* A Social Office is a system in which a company employs people and has them work at places other than the company's facilities.

● Workplace visits for families

As part of the initiatives related to work-life balance, we held a quiz show that deepened the understanding of the work, had participants exchange their business cards, and gave a workplace tour so that the employees' families deepen the understanding of the Company and communication is enhanced.









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Initiatives for ESG

G governance

Initiatives for strengthening corporate governance

● Corporate governance systems

■ Form of organization design	Company with an audit and supervisory committee
■ Number of directors who are not audit and supervisory committee members (among which, external directors)	8 (0)
■ Number of directors who are audit and supervisory committee members (among which, external directors)	4 (4)
■ Term of directors other than audit and supervisory committee members	1 year
■ Term of directors who are audit and supervisory committee members	2 years
■ Operation enforcement structure	Executive officer system (3 people)

● Establishment of Investment Committee

We set the Investment Committee as an advisory council of the Board of Directors to promote M&A and investments as part of the growth strategies of the Company. The Committee examines the risk of sales projects, etc., accompanying important investments from the perspectives of profitability, business strategies, and operation to judge the appropriateness of the investment. And, continuous risk management is executed through monitoring after the investment.

● Acquisition of Resilience Certification

"Resilience Certification" is a system to certify the companies and organizations that support the intent of "building of national resilience" based on the "Guidelines for Certification of Organization Contributing to National Resilience" promoted by the National Resilience Promotion Office, Cabinet Secretariat, and that are committed to business continuity.
In July, 2023, NIPPON KANZAI Co., Ltd. was registered as an organization that acquired "Resilience Certification."

Registered organization	NIPPON KANZAI Co., Ltd.
Scope	Business continuity
Certified date	July 31, 2023
Period	2 years (renewal screening after 2 years)
Announcement	On July 31, the first certification organizations in fiscal 2023 were announced on the website of the Association for Resilience Japan.

*Integrated operation with HD

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Reference (1)

Company Information

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Basic Information

The NIPPON KANZAI Group respects each building and keeps maintaining the value.

Business name	NIPPON KANZAI Holdings Co., Ltd.
Establishment	April 3, 2023
Share capital	¥3,000 million
Representative	Shintaro Fukuda, President and Representative Director
Address of headquarters	2-1-10 Nihombashi, Chuo-ku, Tokyo, Japan
Address of registered office	9-16 Rokutanji-cho, Nishinomiya City, Hyogo Pref., Japan
Business Descriptions	The business management of the Group companies that operate office buildings, housing complexes, environmental facilities and real estate fund management business, and business incidental or related to this
Number of employees	Consolidated: 10,502 (as of September 30, 2023)

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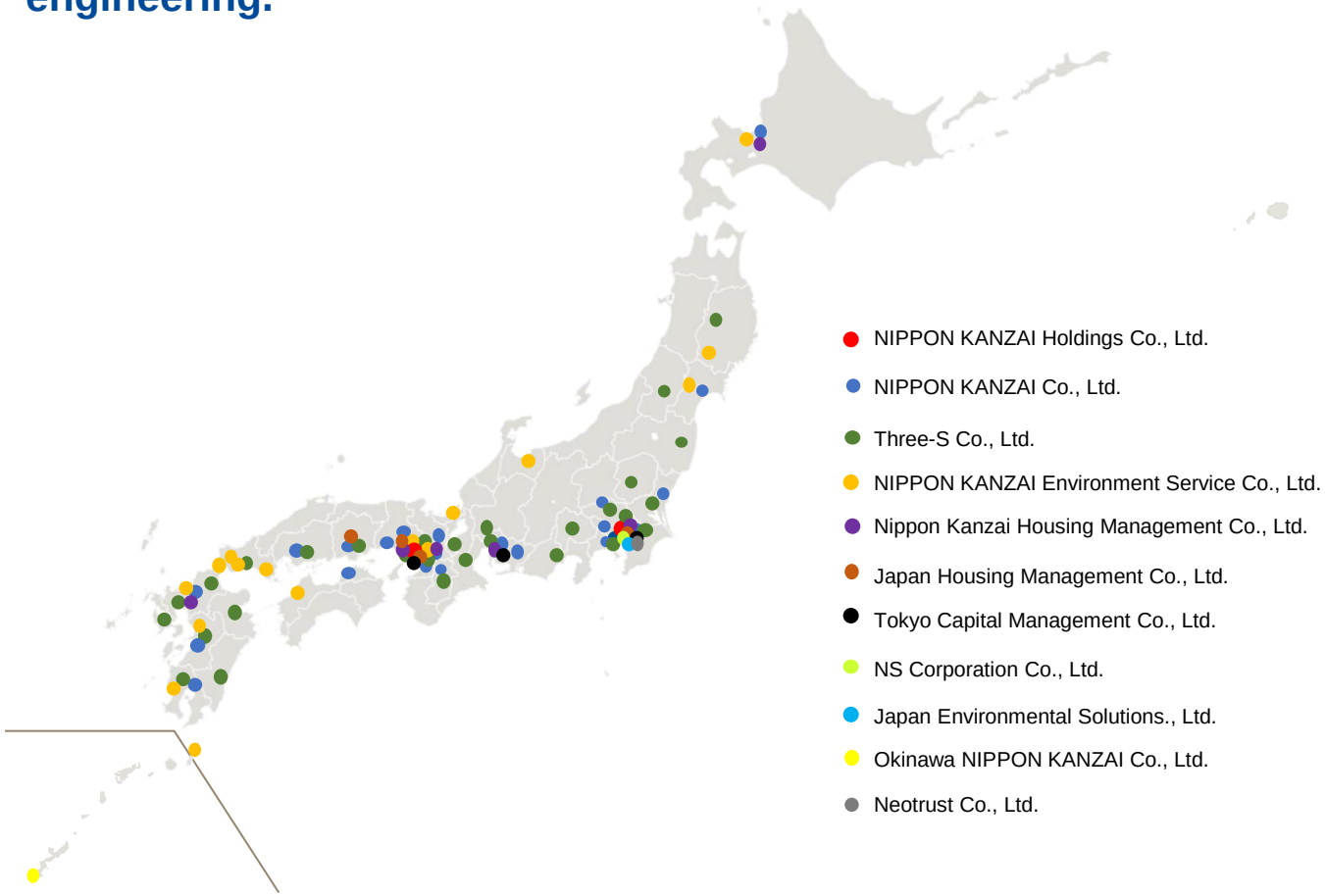
Business Site

Since establishment, we have offered one-stop solution for the optimum operation management, taking advantage of the five-decade experience, knowledge, nationwide network, wide business area, and the latest building engineering.



- NIPPON KANZAI Holdings Co., Ltd.
- NIPPON KANZAI Co., Ltd.
- Three-S Co., Ltd.
- NIPPON KANZAI Environment Service Co., Ltd.
- Nippon Kanzai Housing Management Co., Ltd.
- Japan Housing Management Co., Ltd.
- Tokyo Capital Management Co., Ltd.
- NS Corporation Co., Ltd.
- Japan Environmental Solutions., Ltd.
- Okinawa NIPPON KANZAI Co., Ltd.
- Neotrust Co., Ltd.

Gated community management company in California, the United States

Keystone Pacific Property Management, LLC



The largest AOAO (“Association of Apartment Owners”) management company in the State of Hawaii

Hawaiiana Holdings Incorporated

Property management company in Hawaii

Pacific Property Group, Inc.

The largest strata management company in Australia

Prudential Investment Company of Australia Pty Ltd (PICA)



Housing management company in Munich, Germany

Ackermann Hausverwaltung GmbH



(as of September 30, 2023)

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History of NIPPON KANZAI

Apr. 2023 **Established NIPPON KANZAI Holdings Co.,Ltd.**

Apr. 2014 **Adopted a dual headquarters system, one in Tokyo and the other in Kansai**

Apr. 2018 **Started the first comprehensive management operations in Kansai area**

FY3/23
Net sales
¥113,045 million

Oct. 1965 Current Chairman Takeshi Fukuda founded NIPPON KANZAI Co., Ltd. in Kobe City

Jun. 2000 **Entrusted with PFI project and established a specific purpose company**

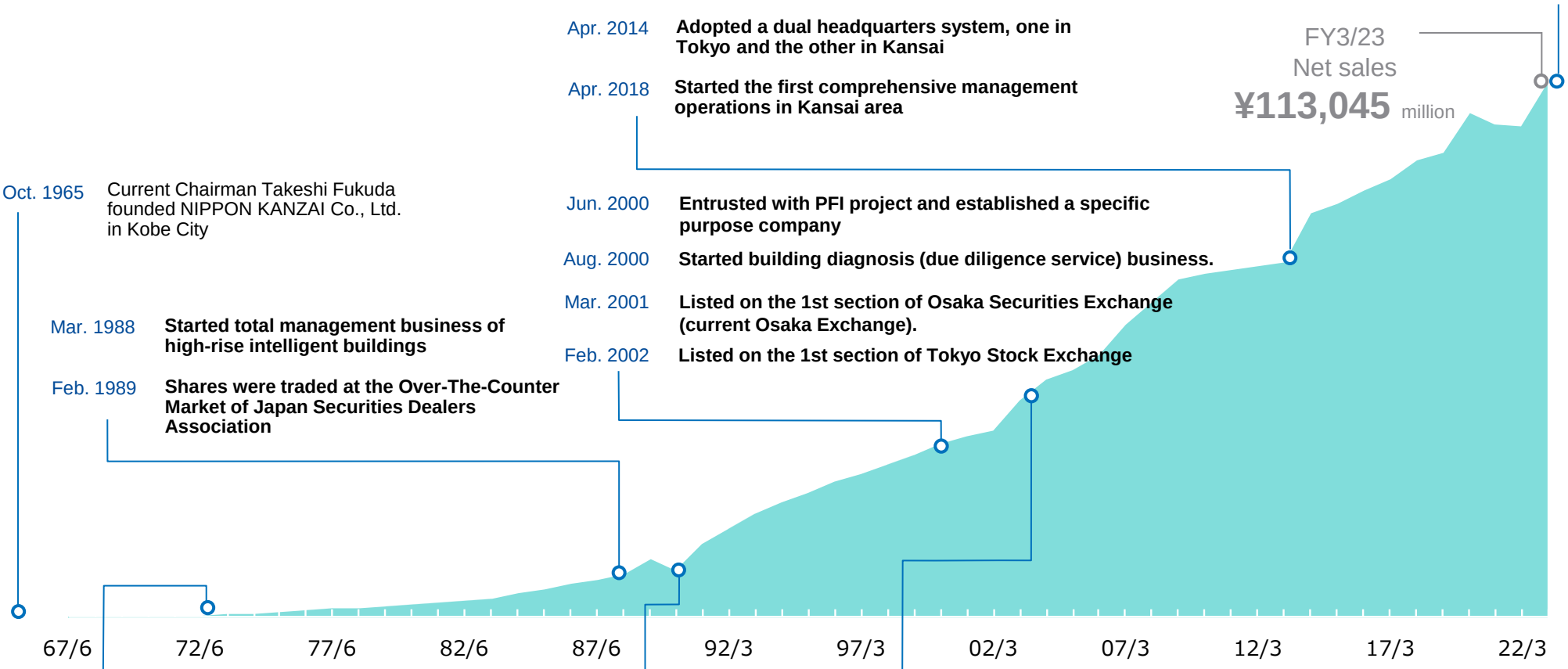
Aug. 2000 **Started building diagnosis (due diligence service) business.**

Mar. 2001 **Listed on the 1st section of Osaka Securities Exchange (current Osaka Exchange).**

Feb. 2002 **Listed on the 1st section of Tokyo Stock Exchange**

Mar. 1988 **Started total management business of high-rise intelligent buildings**

Feb. 1989 **Shares were traded at the Over-The-Counter Market of Japan Securities Dealers Association**



Aug. 1973 **Started total management business for condominiums**

Apr. 1976 **Started operation and maintenance business for public sewerage plants**

May 2003 **Started Asset Management Business**

Jul. 2004 Started establishing funds for institutional investors

Dec. 2006 **Agreed with Galileo, an investor in Australia to establish A-REIT**

Jul. 1990 Entrusted with **management of a land trust building** through a proposal-based competition

Nov. 1993 Listed on the 2nd section of Osaka Securities Exchange (current Osaka Exchange)

Aug. 1996 **BEST System, a life-long building management system to enhance property values, was introduced to the market**

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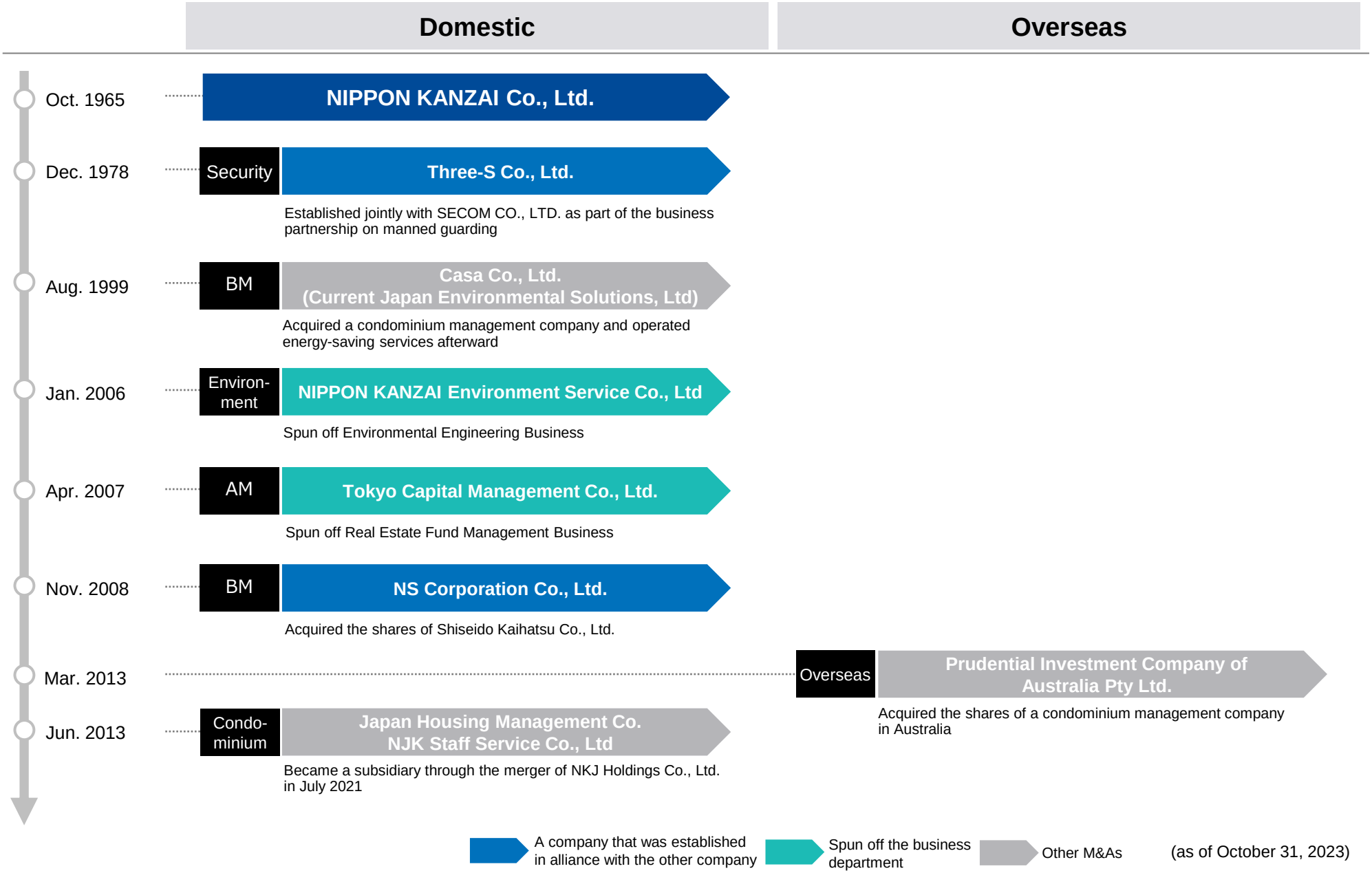
Group Company Restructuring (1)



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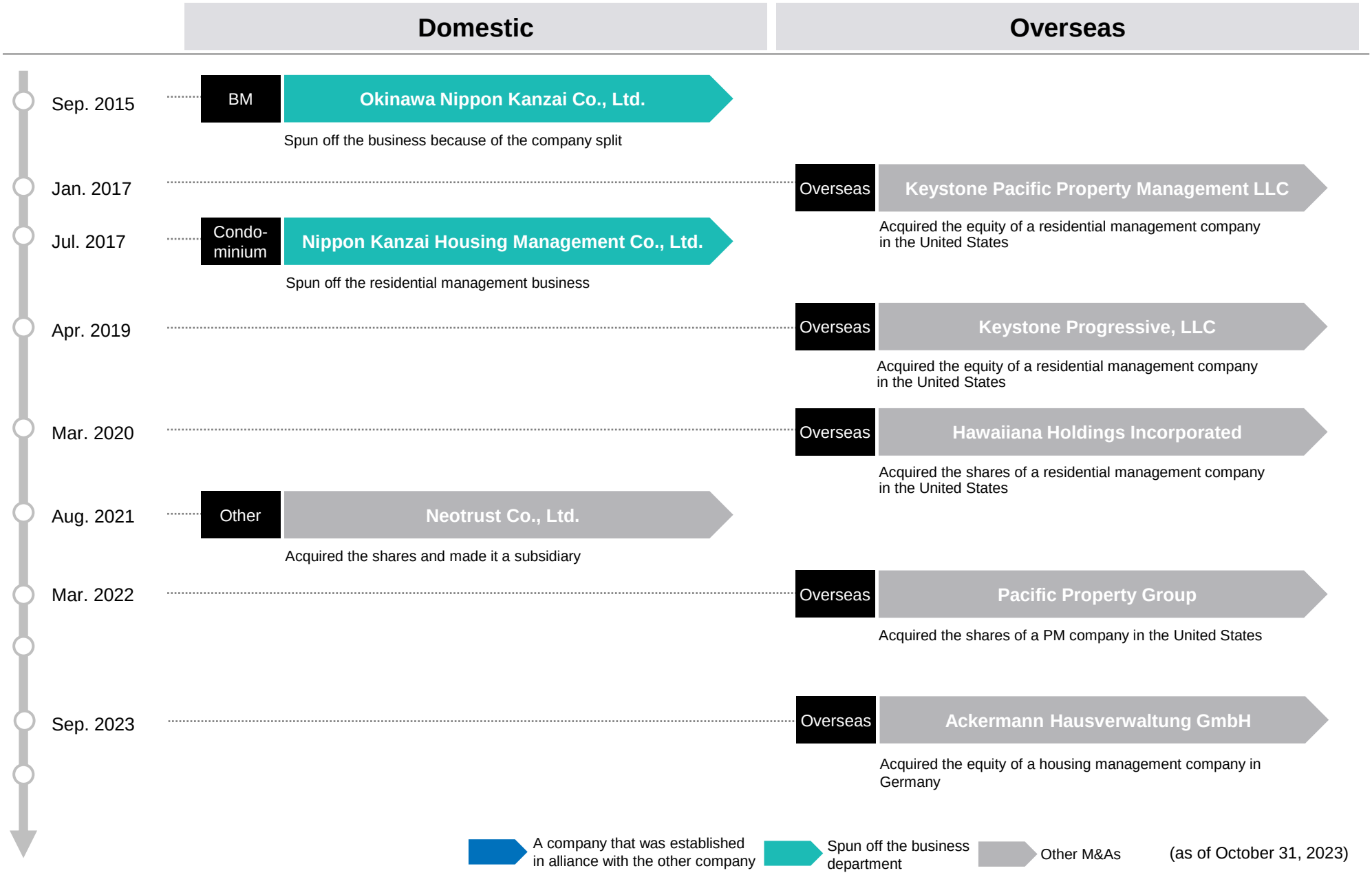
Group Company Restructuring (2)



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Alliance Strategy Taking Advantage of Independent Type (2)

2010

Apr. 2012 **Kanzai Facility Co., Ltd.**, a consolidated subsidiary absorbed KN Facilities Co., Ltd.

Mar. 2013 Acquired 50% share of **Prudential Investment Company of Australia Pty Ltd.**, a strata management company in Australia, and formed a capital alliance.

Jun. 2013 Acquired shares of **NJK Holding Co., Ltd.** and made it a wholly owned subsidiary.

Apr. 2014 NKS Co., Ltd. absorbed Kanzai Facility Co., Ltd. and changed the business name to **NIPPON KANZAI service Co., Ltd.**

Jan. 2017 Acquired 40% equity of **Keystone Pacific Property Management LCC.**, a gated community management company in the United States.

Jul. 2017 Spun off the condominium management business due to company split. **Nippon Kanzai Housing Management Co., Ltd.** started operations.

Oct. 2017 Transferred the property management business to Japan Property Solutions Co., Ltd.

Dec. 2017 Absorbed NIPPON KANZAI Service Co., Ltd.
Parking lot operation business of NIPPON KANZAI Service Co., Ltd. was split and taken over by Japan Property Solutions Co., Ltd..

Apr. 2019 Keystone Pacific Property Management LCC., an affiliated company in the United States, acquired the business right of **Keystone Progressive, LLC**, a residential management company.

Sep. 2019 Acquired 100% share of **SANEI WORK Co., Ltd.**, a company newly established by a subsidiary of Nippon Television Work 24 Corporation.

2020

Mar. 2020 Acquired 50% share of **Hawaiiana Holdings Incorporated**, a residential management company in Hawaii.

Apr. 2020 Absorbed SANEI WORK Co., Ltd.

Dec. 2020 Increased investment ratio to 50% after additionally acquiring the equity of **Keystone Pacific Property Management LCC.**

Jul. 2021 Tokyo Capital Management Co., Ltd., a consolidated subsidiary, merged with Japan Property Solutions Co., Ltd.

Following the merger of NKJ Holdings Co., Ltd., acquired 100% share of Japan Housing Management Co., Ltd., Nippon Kanzai Housing Management Co., Ltd., and NJK Staff Service Co., Ltd. respectively to wholly own the companies.

Aug. 2021 Acquired 100% share of **Neotrust Co., Ltd.**, and made it a wholly subsidiary

2022

Mar. 2022 Acquired 90% share of **Pacific Property Group**, a PM company in Hawaii.

Jul. 2022 Acquired 40% share of JTB Asset Management Co., Ltd., a group company of JTB Corp.

Dec. 2022 NIPPON KANZAI Environment Service Co., Ltd., a consolidated subsidiary, acquired 100% of Seiryu Maintenance Inc. from **Sekisui Chemical Co., Ltd.** (made it a sub-subsidiary)

2023

Aug. 2023 **NIPPON KANZAI USA, INC.** a consolidated subsidiary acquired 100% share of Hawaiiana Holdings Incorporated.

Sep. 2023 Acquired 75% of the equity of **Ackermann Hausverwaltung GmbH**, a housing management company in Germany.

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Alliance Strategy Taking Advantage of Independent Type (1)

Aug. 2002 Established **Japan Property Solutions Co., Ltd.**, a property management company jointly funded by with Mitsubishi Trust and Banking Corporation (current Mitsubishi UFJ Trust and Banking Corporation)

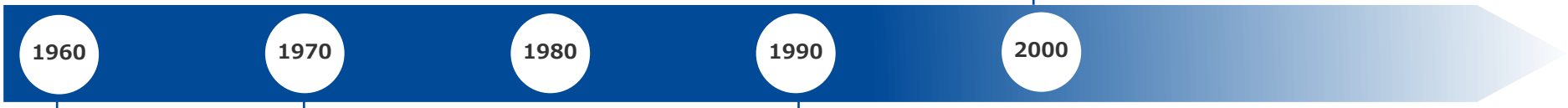
Jan. 2006 Spun off Environment Environmental Engineering Business due to company split. **Nippon Kanzai Environment Service Co., Ltd.** started operations.

Sep. 2006 Acquired Lion Building Maintenance Co., Ltd/, a group company of Lion Corporation and changed the business name to **Kanzai Facility Co., Ltd**.

Apr. 2007 Spun off Real Estate Fund Management Business due to company split. **Tokyo Capital Management Co., Ltd.** started operations.

Jan. 2008 Changed the business name of Casa Co., Ltd., a consolidated subsidiary, to **Japan Environmental Solutions, Ltd** and started the water filtration business.

Nov. 2008 Acquired the shares of Shiseido Kaihatsu Co., Ltd., a group company of Shiseido Company, Limited, and changed the business name to **NS Corporation Co., Ltd.**



Jul. 1999 Established **KN Facilities Co., Ltd.**, a total building management company jointly funded with Kumagai Gumi Co., Ltd.

Aug. 1972 Separated the equipment maintenance work business and established **NIPPON KANZAI Service Co., Ltd**.

Dec. 1978 Concluded a business partnership on manned guarding with Nihon Keibi Hosho Co., Ltd. (current SECOM CO., LTD.) and jointly established **Three-S Co., Ltd.**

Oct. 1965 Current Chairman Takeshi Fukuda founded NIPPON KANZAI Co., Ltd. in Kobe City

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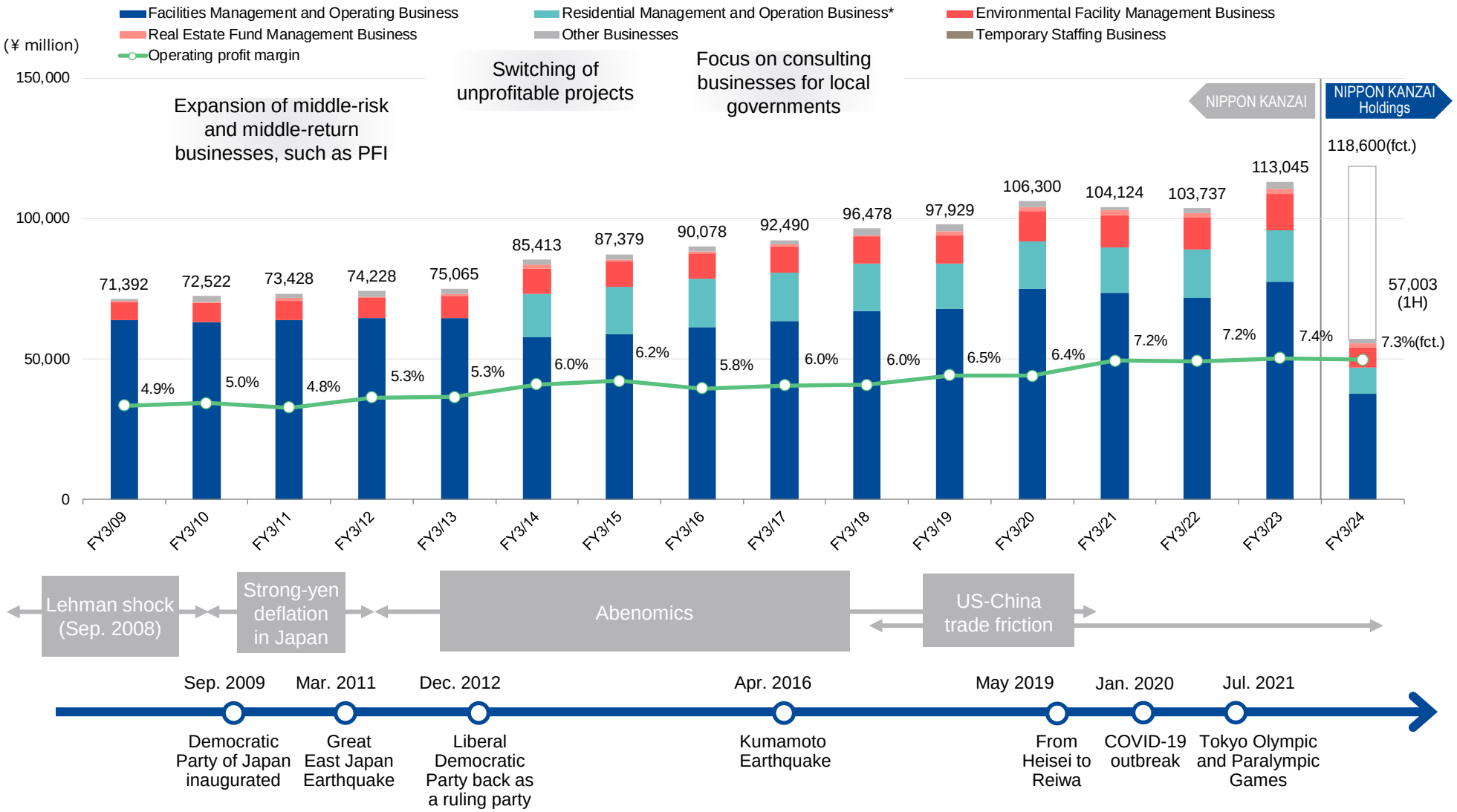
Mid-Term Transition of Business performance



*Residential Management and Operation Business before FY3/14 is included in Facilities Management and Operation Business.

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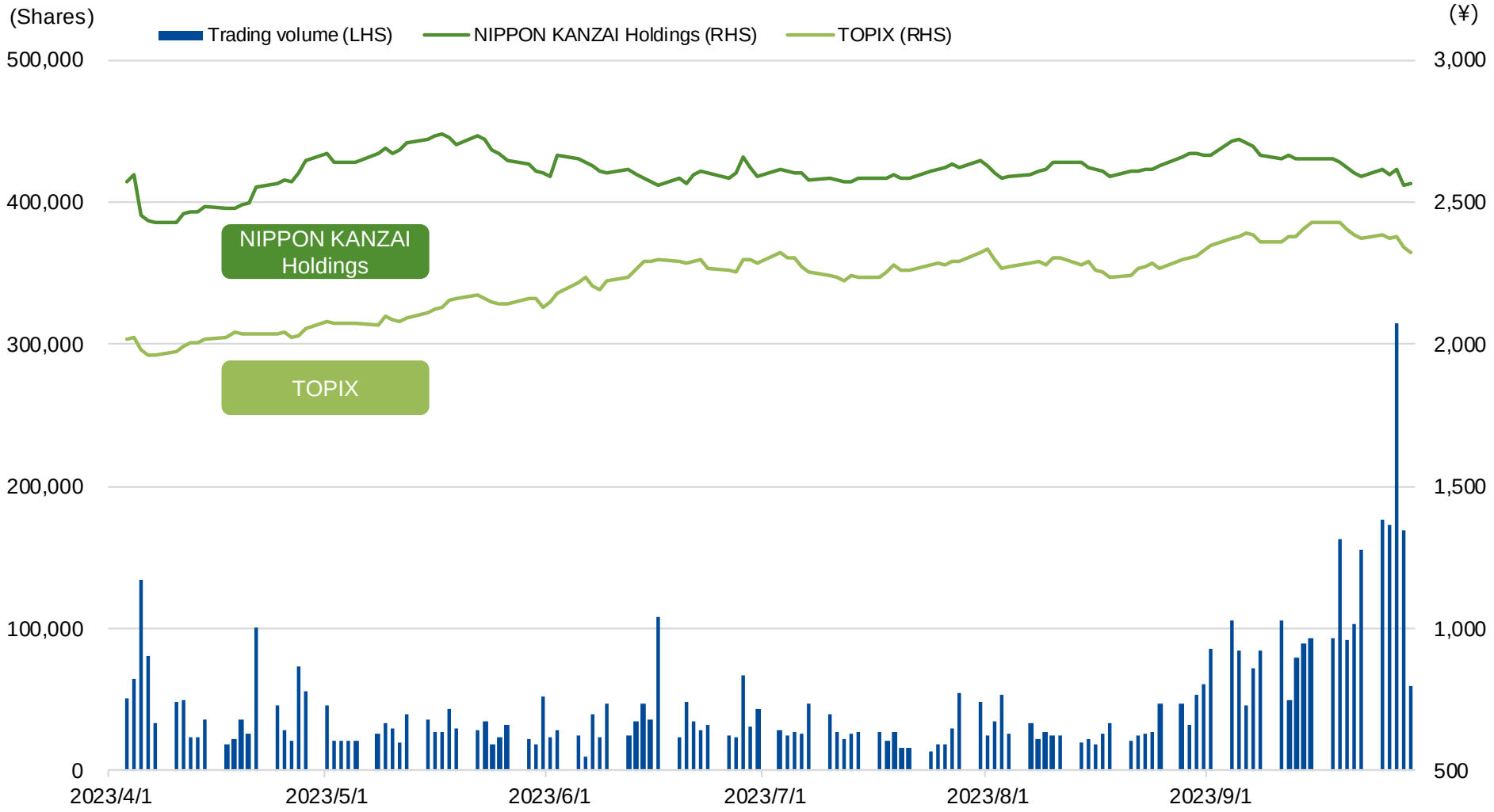
Share Price Trends



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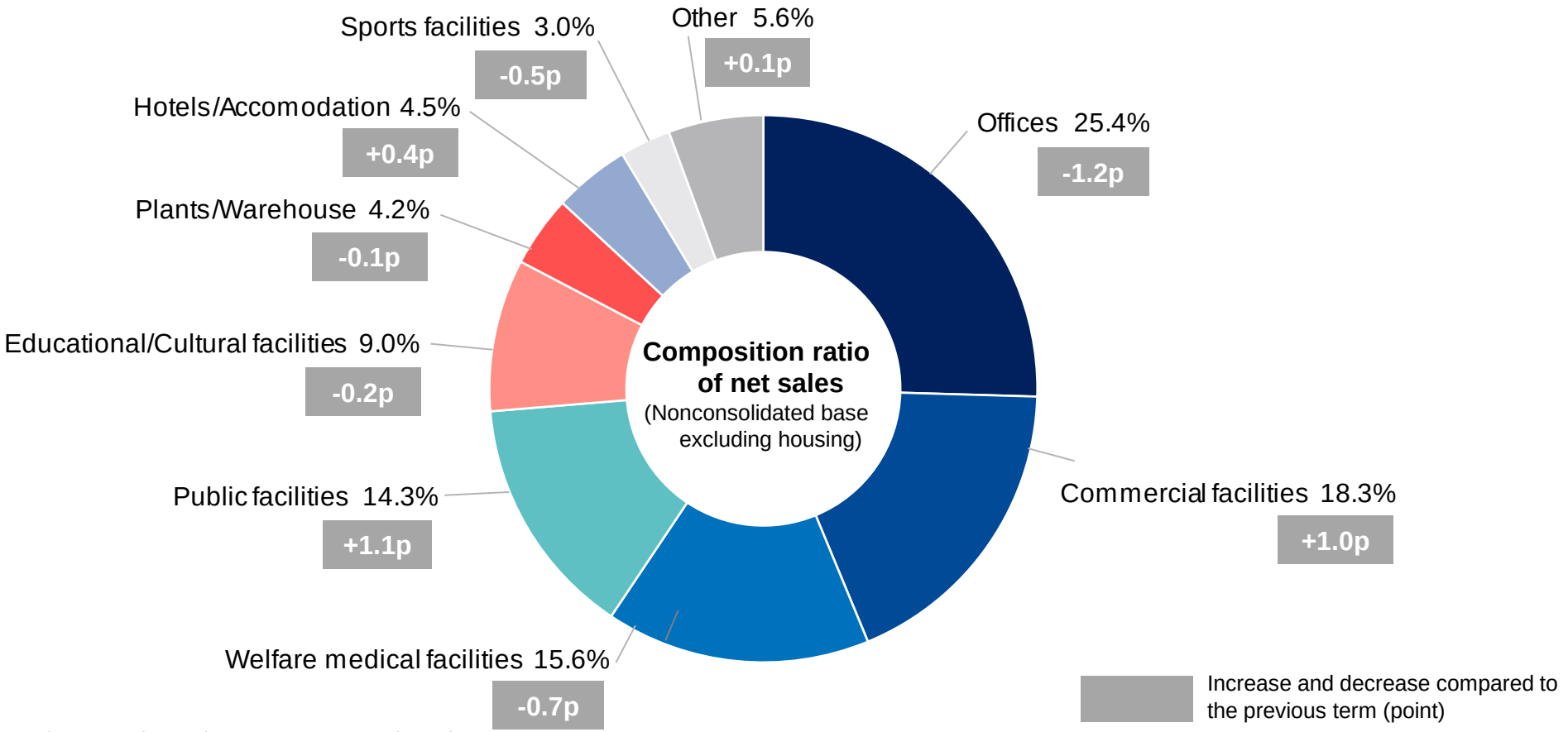
Diversity of Operation Management Facilities (Building Operation Management Business)

Portfolio of operation management building

- **Covering a wide range of applications, such as offices, large-scale commercial facilities, and public facilities**
- **Recently, showing a tendency to increase large-scale facilities such as commercial facilities and public facilities**



*Figures for properties under management are based on data in NIPPON KANZAI data base "Building charts."

(as of March 31, 2023)

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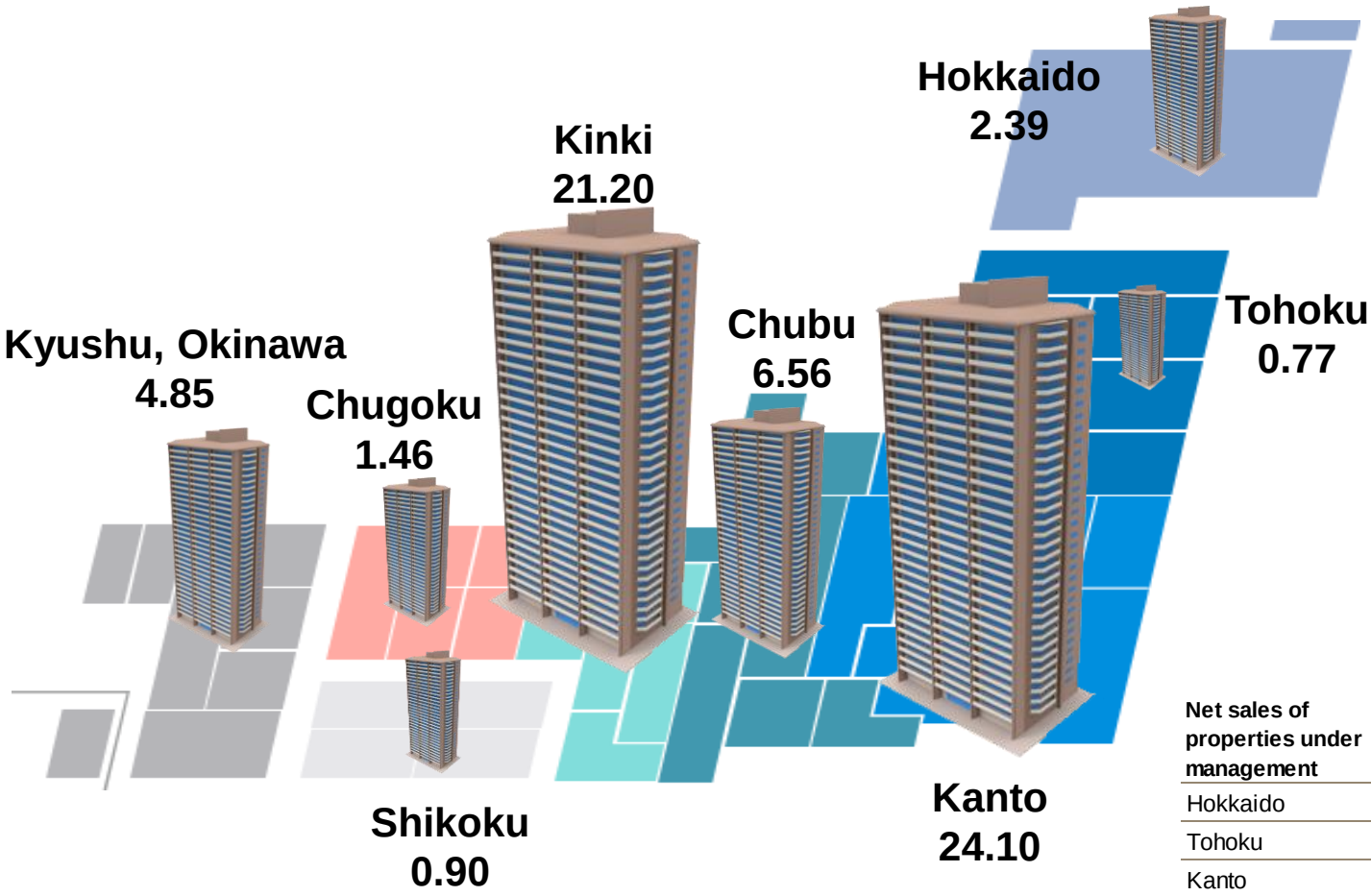
Geographical Distribution (Building Operation Management Business)

NIPPON KANZAI Co., Ltd., Three-S Co., Ltd., Okinawa Nippon Kanzai Co., Ltd.

(Unit: ¥ billion)



Net sales of properties under management	(¥ billion)	Composition ratio (%)	YoY Changes (%)
Hokkaido	2.39	3.8%	6.8%
Tohoku	0.77	1.2%	6.5%
Kanto	24.10	38.8%	9.3%
Chubu	6.56	10.5%	11.5%
Kinki	21.20	34.1%	6.9%
Chugoku	1.46	2.4%	6.8%
Shikoku	0.90	1.4%	-2.5%
Kyushu	4.85	7.8%	5.9%
Total	62.42	100.0%	8.0%

(as of March 31, 2023)

*Figures for properties under management are based on data in NIPPON KANZAI data base "Building charts."

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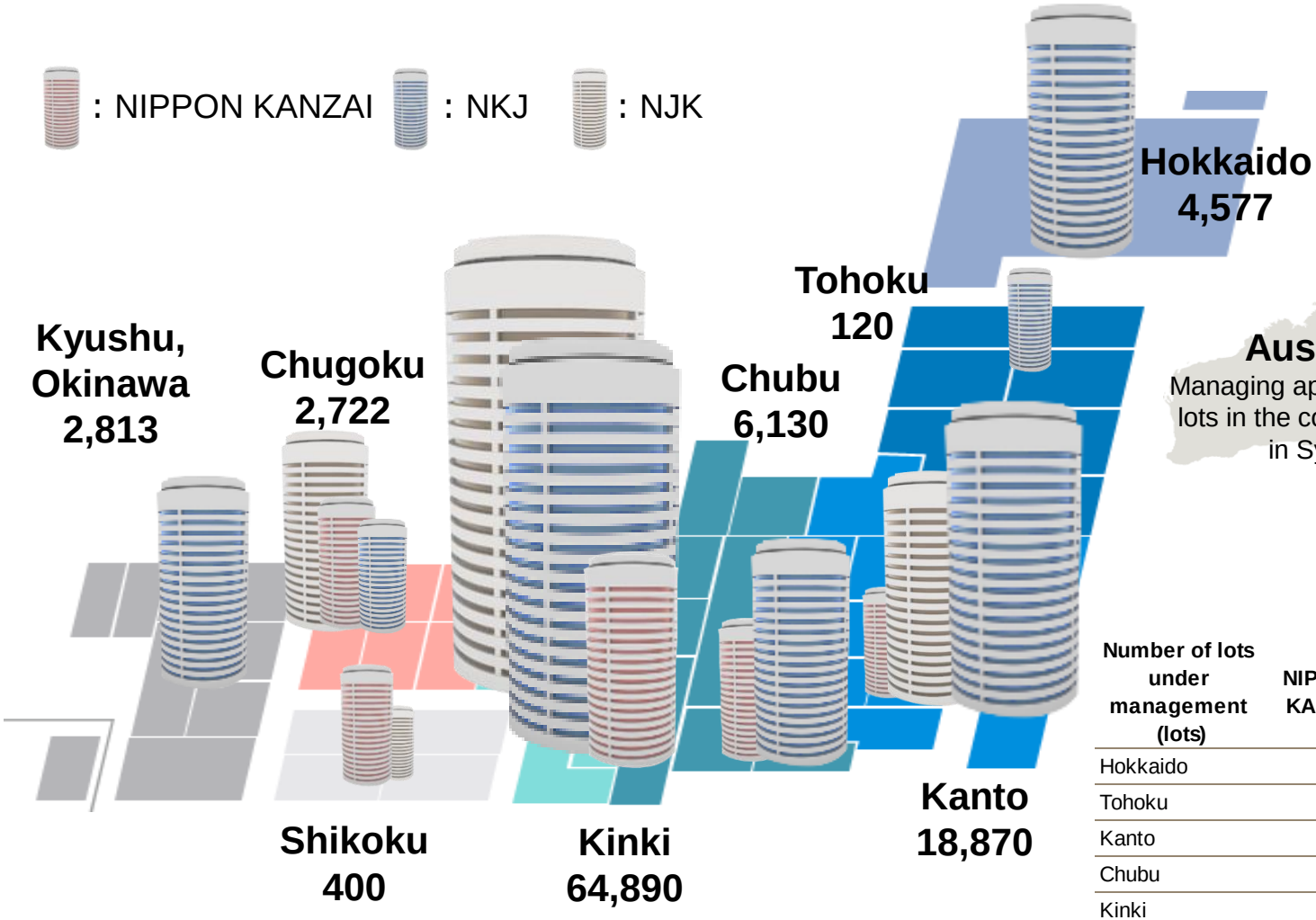
Geographical Distribution (Residential Management and Operation Business)

NIPPON KANZAI Co., Ltd., Nippon Kanzai Housing Management Co., Ltd., Japan Housing Management Co., Ltd.

(Unit: lots)



U.S.A
Managing approx. 100,000 lots in the south part of California

Australia
Managing approx. 195,000 lots in the country, mainly in Sydney

Hawaii
Managing approx. 110,000 lots in 6 islands including Oahu where Honolulu is located

Germany
Managing approx. 17,000 lots in the country, mainly in Munich

Number of lots under management (lots)	NIPPON KANZAI	NKJ	NJK	YoY Changes (%)
Hokkaido	-	4,577	-	0.0%
Tohoku	-	120	-	0.0%
Kanto	356	14,555	3,959	-1.7%
Chubu	874	5,256	-	21.3%
Kinki	2,937	23,297	38,656	1.7%
Chugoku	266	195	2,261	-8.8%
Shikoku	361	-	39	0.0%
Kyushu	-	2,813	-	-0.1%
Total	4,794	50,813	44,915	1.6%

3 companies total: 100,522 (As of March 31, 2023)

*NJK: NIPPON KANZAI HOUSING MANAGEMENT Co., Ltd.
NJK: JAPAN HOUSING MANAGEMENT CO.
*Numerical value based on the data reported to “entrusted business records by prefecture” investigated by Condominium Management Companies Association.

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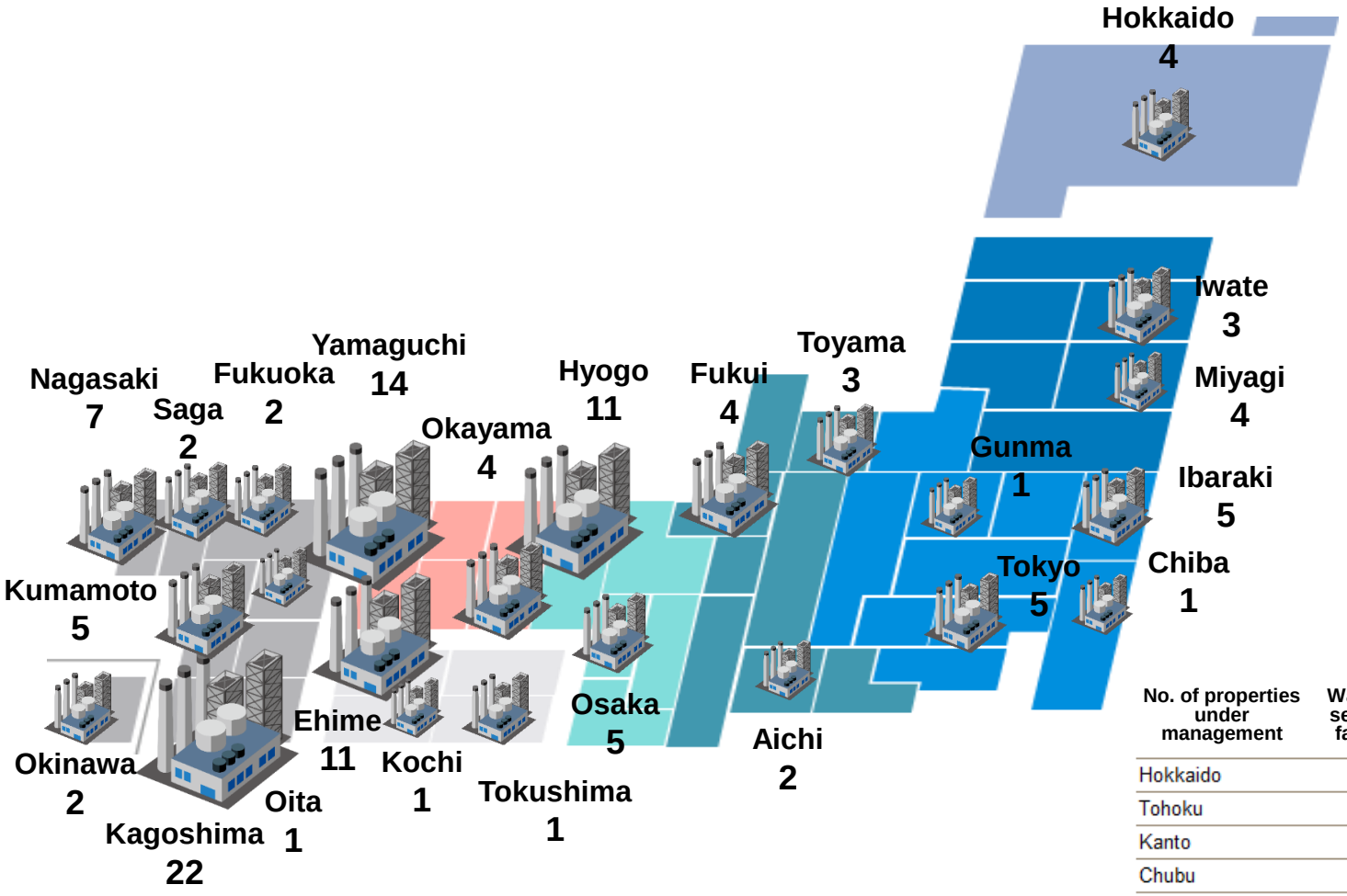
Geographical Distribution (Environmental Facilities Management Business)

Nippon Kanzai Environment Service Co., Ltd.

(Unit: cases)



No. of properties under management	Water and sewerage facilities	General waste treatment facilities	Biomass power generation facilities	Total	Composition ratio(%)
Hokkaido	1	3	-	**4**	3.3%
Tohoku	-	7	-	**7**	5.8%
Kanto	2	9	1	**12**	9.9%
Chubu	2	7	-	**9**	7.4%
Kinki	10	6	-	**16**	13.2%
Chugoku	8	10	-	**18**	14.9%
Shikoku	11	2	-	**13**	10.7%
Kyushu	16	25	1	**42**	34.7%
Total	50	69	2	**121**	100.0%

(as of April 1, 2023)

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Overseas Development (Overview of PICA Pty Ltd.)



Reception



Properties under Management





Company Overview

PICA is the largest “Strata Management Company” in Australia and acts as an agent for Owners Corporations. Using multiple brand names, such as “BCS” (Body Corporate Services), PICA mainly provides services to support Owners Corporations which includes collecting delinquent management fees. Leveraging off NIPPON KANZAI’s expertise, PICA has introduced facility management services.

Background

NIPPON KANZAI acquired 50% of PICA shares from Fexco, a global fintech organization, in March 2013. Currently NIPPON KANZAI and Fexco send directors to PICA and manage it jointly. Founded in 1981, Fexco employs over 2,300 people and now has operations in 29 countries across Europe, the Middle East, Asia-Pacific, North America and Latin America.
Fexco website: http://www.fexco.com/

Most Recent Business Environment

The strata management industry in Australia has been witnessing a consistent decline in profitability over the past 15 years due to a surge in the CPI as reported in a research by a financial institution. As an industry leader, PICA Group is proactively addressing this issue through “Simplification, Automation and Growth” strategies. Our initiatives encompass streamlining operations and organization, while maintaining high-quality service by implementing standardized, effective processes and procedures as well as centralized back office services.

Company Name	Prudential Investment Company of Australia Pty Ltd.
Establishment	October 4, 1948
Capital	AUD28 million (JPY2,500 million) *AUD1=JPY89.62 (as of December 31, 2022)
Main Business	Strata management, debt collection
Head Office	Sydney
Major Branches	Major cities of East Coast, include Sydney, Melbourne, Brisbane, Cairns etc.
No. of Employees	Approx. 750 as of December 31, 2022
No. of Lots under Management	Approx. 194,000 lots, 11,000 Plans (Owners Corporations) as of December 31, 2022

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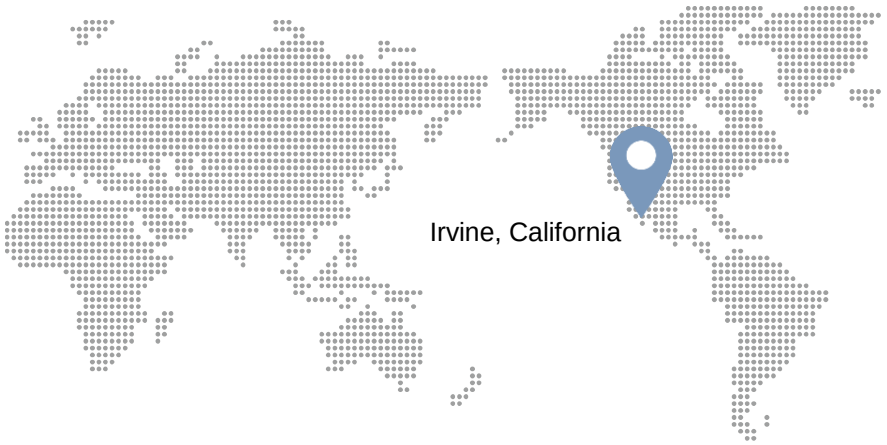
Overseas Development (Overview of Keystone, LLC)



Company Overview

Keystone Pacific Property Management, LLC (hereinafter “Keystone”) is a ies management company. Gated community is developments consisting of detached housing and high-end multi-unit homes in estates surrounded by walls. Keystone provides homeowner associations with support services including holding annual general meeting, accounting and financial reporting and on-site management. It has a reputation for offering high-quality and detailed services. Other than subsidiaries and affiliates of major nationwide companies, Keystone is ranked within the top ten companies in Southern California. Since 2019 onward, Keystone has made progress in expanding service area coverage through M&A.

Background

In January 2017, NIPPON KANZAI’s subsidiary, NIPPON KANZAI USA, Inc. acquired an ownership interest from Keystone which is currently a non-consolidated equity-method affiliate of NIPPON KANZAI.
NIPPON KANZAI will work to raise operational efficiencies and expand services through renovation of the IT system, and target future growth through incorporating the Company’s know-how, while expanding properties under management to include high-rise condominiums etc. In addition, Keystone acquired the business rights of multiple companies within the same industry while expanding into new markets. The company plans to further grow the business in the future.

Head Office



Properties under Management







Most Recent Business Environment

The current environment has elevated levels of inflation. Inflation has led to reduced home sales, increases in costs, including employee costs, and increased employee turnover due to increased competition for talent. This has increased customer turnover. Businesses must use alternative means of talent acquisition/ technology to increase efficiency and reduce staffing costs to maintain profitability.

Company Name	Keystone Pacific Property Management, LLC
Establishment	September 15, 2016
Main Business	Residential community management
Corporate Office	Irvine, California
Major Branches	Southern California, Denver, Colorado and Boise, Idaho
No. of Employees	Approx. 316 as of December 31, 2022 (including Keystone Progressive)
No. of Units under Management	Approx. 104,307 units, approx. 525 associations as of December 31, 2022 (including the Company’s subsidiary, Keystone Progressive)

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Overseas Development (Overview of Hawaiiana)



Company Overview

Hawaiiana Holdings Incorporated (hereinafter “Hawaiiana”) is the largest AOAO (“Association of Apartment Owners”) management company in the State of Hawaii. Hawaiiana provides apartment owners’ associations with support services including holding board meetings and annual general meetings, as well as providing accounting and financial reporting. Hawaiiana is a highly reputable yet locally operated company with a long history in the industry. It operates on six islands including Oahu (home to Honolulu), Maui, Hawaii and Kauai.

Background

Nippon Kanzai acquired a 50% share of Hawaiiana from the local real estate company Swell International (SI) in March 2020, making it an equity method affiliate. In August 2023, after transferring this share to our subsidiary company, Nippon Kanzai USA, Inc., NKUSA completed the acquisition of the remaining shares from SI, making Hawaiiana a wholly-owned subsidiary of NKUSA.

Properties under Management





Most Recent Business Environment

The rapid increase in interest rates, inflation, a strong US $, and rising real estate prices since last year have led to a prolonged slump in real estate transactions. As a result, revenues related to real estate transactions have not yet returned to pre-COVID levels. Labor shortages continue to persist, making talent acquisition a significant challenge. While our property management operations remain stable, competition in this sector remains intense.

Company Name	Hawaiiana Holdings Incorporated
Establishment	September 24, 2008
Capital	USD4.27 million (JPY570 million) *USD1=JPY132.71 (as of December 31, 2022)
Main Business	AOAO management
Head Office	Honolulu, Hawaii
Major Branches	Maui, West Maui, Kona, Kauai
No. of Employees	Approx. 240 as of December 31, 2022
No. of Units under Management	Approx. 110,000 units, 670 associations as of December 31, 2022

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Overseas Development (Overview of PPG, Inc.)



Company Overview

Located in Honolulu, Hawaii, Pacific Property Group (hereinafter “PPG”) provides property management, leasing and sales brokerage services to over 20 commercial properties including a shopping center in Waikiki that has well-known shops and restaurants as tenants. PPG is a small-sized yet excellent local company that provides quality services. PPG values personal relationship in marketing and due to this philosophy, PPG has many long-time and repeat clients.

Background

Our resident officer in Hawaii was introduced to PPG and after due consideration, NIPPON KANZAI’s subsidiary, NIPPON KANZAI USA, Inc., acquired 90% of shares from founder/president in March 2022. PPG is an equity-method non-consolidated subsidiary of NIPPON KANZAI.

Most Recent Business Environment

Due to the slow real estate market, the revenue from this sector has dropped down. But the profit amount was not affected so much due to the cost system. Management sector is stable because of the stable staff retention. But the market is more competitive.

Company Name	Pacific Property Group, Inc.
Establishment	February 27, 2007
Capital	USD1,000 (JPY130,000) *USD1=JPY132.71 (as of December 31, 2022)
Main Business	Commercial Property Management
Head Office	Honolulu, Hawaii
No. of Employees	11 as of December 31, 2022
No. of Properties under Management	Approx. 17 as of December 31, 2022

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Promotion of DX
(Visualization of Facility Status -Operation of Wide-Area Facilities Management Center-)

Fully redesigned Wide-Area FM Center (WAFM Center) in April 2023



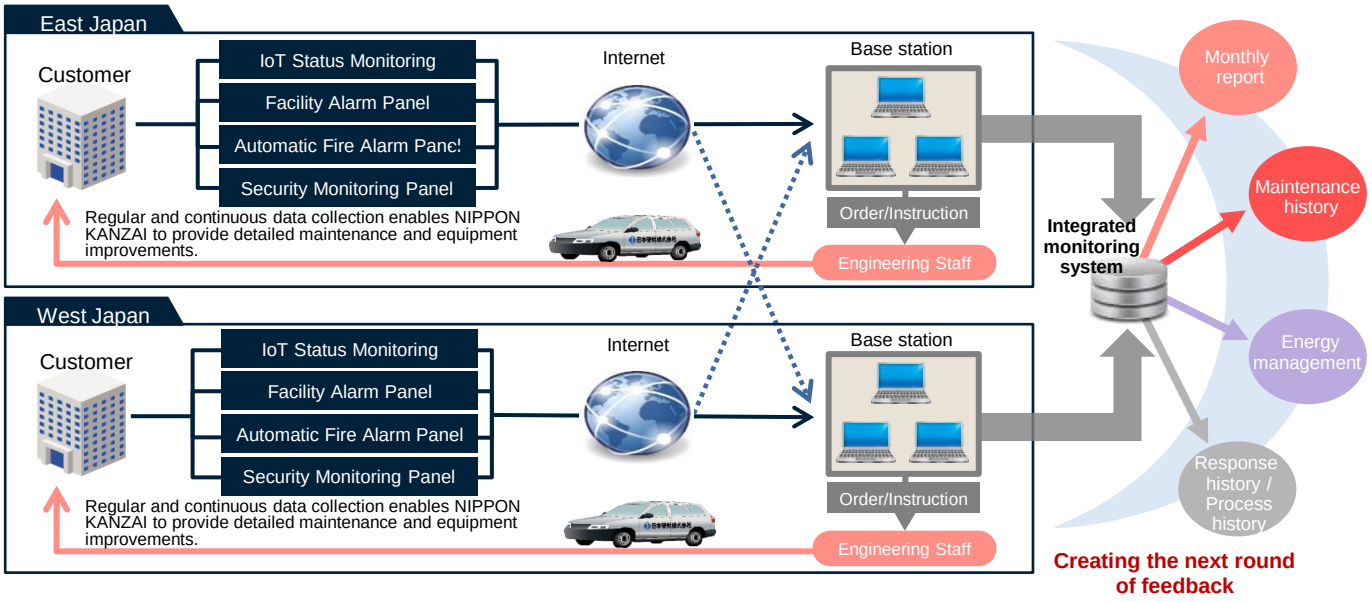




*Design and construction cooperation: JTB Asset Management, Supervision: NIPPON KANZAI

WAFM — **Wide Area Facilities Management System**
Manage buildings 24/7 remotely

- Remote management, machine security, and call center services complement each other throughout Japan.
- Accumulation of data collected on a daily basis such as response history, and provision of feedback



WAFM function enhancement project in progress

NIPPON KANZAI will continue to integrate people and IT technology to further enhance its functions and emergency response capabilities, with the aim of improving safety and streamlining building management functions.

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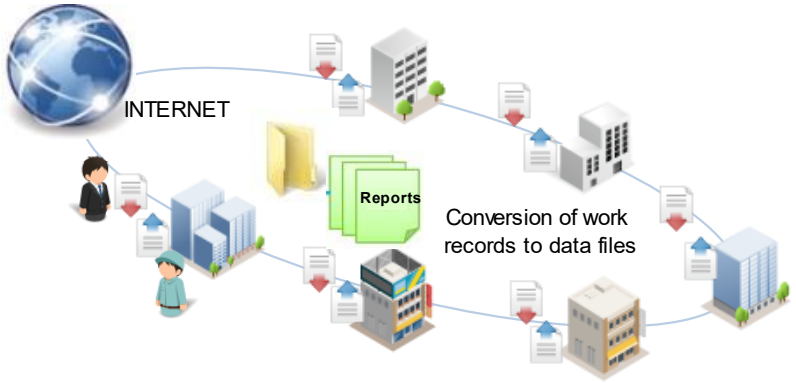
Promotion of DX
(Provision and Sharing of Systems -Update of Facilities Information Sharing System and Application-)

We provide the app that allows you to check the facility inspection information and maintenance/management status on PCs and smartphones.

NK Connect

Facilities information sharing system
Work fulfillment confirmation & report application

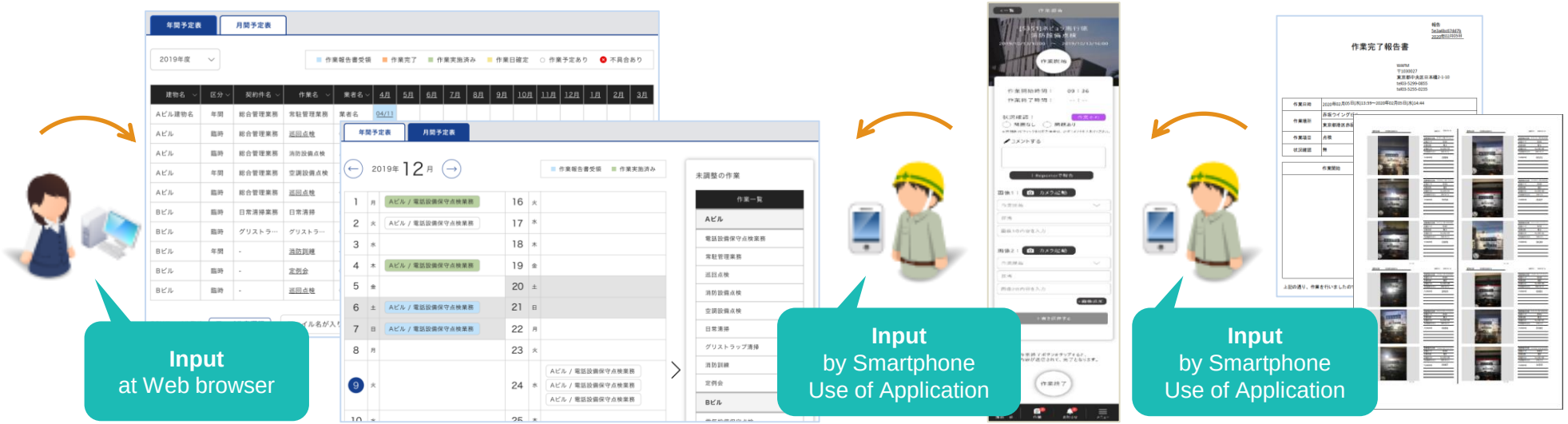
- Sharing of information with customers and partner companies on the Cloud
  Centralized management of various building information, work plans, and repair plans
- Use of work management application with smart devices
- Promoting computerization of malfunctions report and forms in the field,
- conversion of inspection records to data files



Work plan & repair plan management

Confirmation of work execution

Detailed work report



Note: Details will be reported by linking the application created by NIPPON KANZAI and ConMas i-Reporter of Cimtops Corporation.

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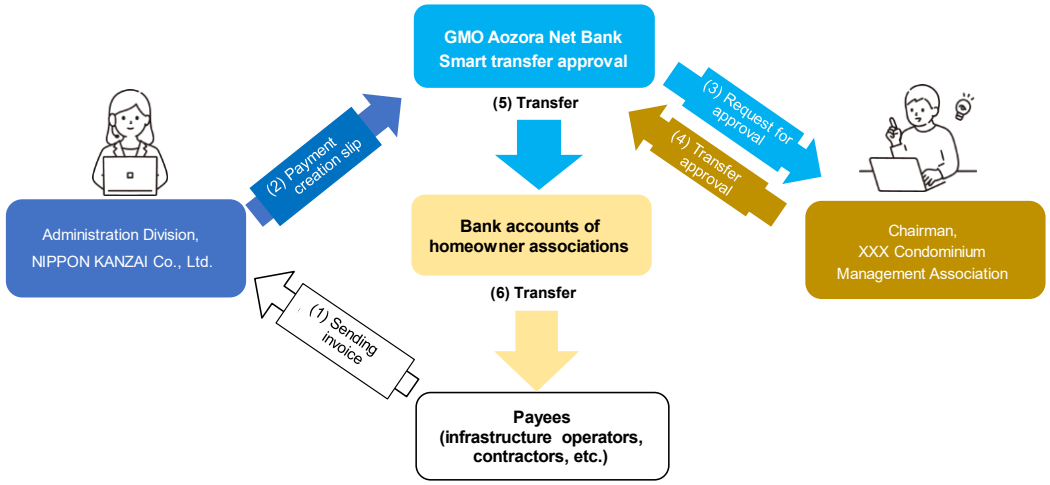
Promotion of DX
(Provision and Sharing of Systems -DX of Housing Management-)

Completing payment of administrative overhead, etc. of homeowner associations online

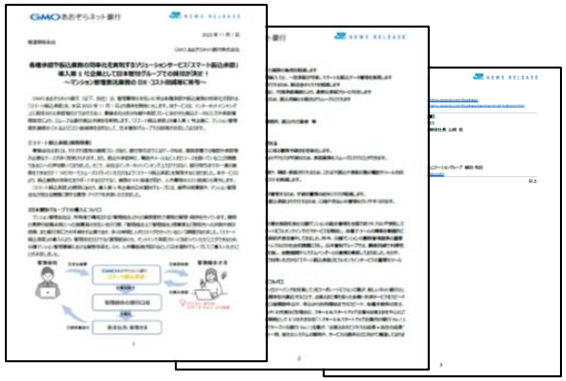
Overview

"Smart Payment Approval," which combines the system integration function of GMO Aozora Net Bank with the property management expertise of the NIPPON KANZAI Group, is an online payment service that enables payments from homeowner association corporate accounts. Previously, various expenses were paid through a bank by the property managers on behalf of the homeowner association. This method was inefficient and there were cases where the payment approval process was inadequate. However, by introducing this service, it is possible to efficiently carry out various tasks such as approvals and payments.



"Smart transfer approval," streamlining of approvals, and transfer works

First to introduce the service: NIPPON KANZAI Group



GMO Aozora Net Bank,
News release November 1, 2022 issue

Effects of introduction

- Efficient payment approval procedures between the homeowner associations and property managers
- Thorough management of the evidence detailed setting of approval routes between homeowner associations and management companies
- Reduction in the number of procedures, etc. at a bank

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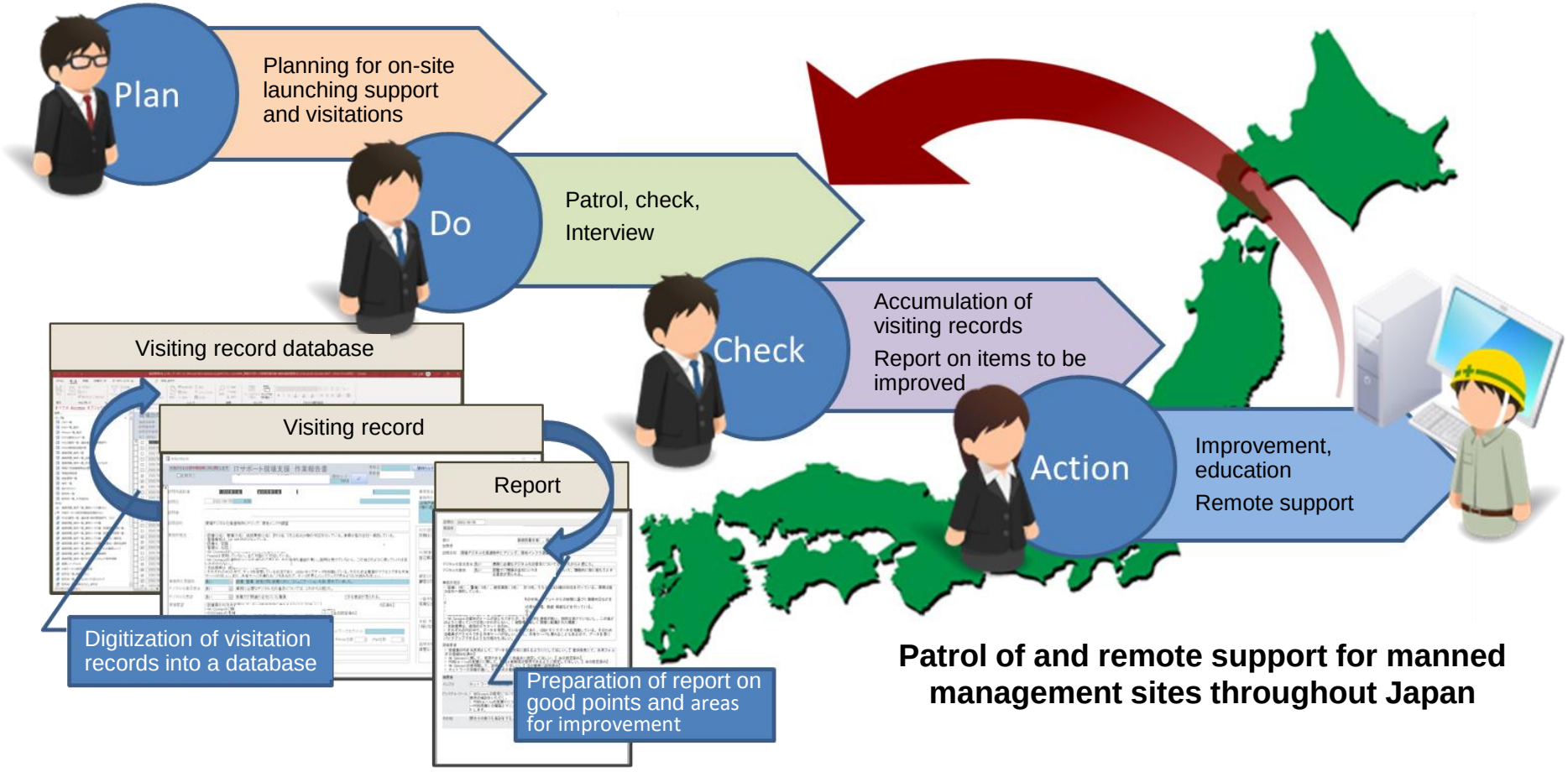
Promotion of DX
(Digitization of Work Records – Supported by the On-Site IT Support Team)

Promotion of operational efficiency through improvement of IT skills of on-site staff

Due to the decline in the working-age population, streamlining and digitizing on-site management have become urgent topics. To enhance the IT environment and improve productivity, we aim to improve the IT skills of on-site staff and implement support activities such as on-site visits and remote support by the IT support team. This is to achieve efficient business operations.



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Reference (2)

Positioning within the Industry

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Transition of Building Maintenance (1)

Transition of building management business and move of NIPPON KANZAI (1965-1990)

Society situation

- 1965
- 1970
  - First oil shock
- 1980
  - Second oil shock
  - 1982 Fire of Hotel New Japan

Laws and technologies related to maintenance security

- 1968 Kasumigaseki Building, the first high-rise building in Japan, was completed
- 1970 Act on Maintenance of Sanitation in Buildings was established
- 1978 Sunshine 60 was completed
- 1979 Act on Rationalizing Energy Use(Energy Conservation Act)
- Around 1981 Multi-package unit for buildings
- Around 1984 Decentralization control, concentration management method
- From late 1980s to 1990s Intelligent buildings

Roles and functions of the maintenance management company

- **Expansion of comprehensive building maintenance**
  - Professional skills responding to increasing high-rise buildings
- **Building services that are becoming higher level and more complicated**
  - From total management to integrated management works

Major move of NIPPON KANZAI

- 1965 Establishment of NIPPON KANZAI
- 1967 Started total building management of hospitals
- 1970 Started total building management of government office buildings
- 1973 Started total management of condominiums
- 1976 Established Osaka Branch
- 1980 Established Kyushu Branch
- 1981 Established Tokyo Branch
- 1984 Established Nagoya Branch
- 1988 Started integrated management business of intelligent buildings
- 1989 Established Tohoku Branch

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Transition of Building Maintenance (2)

Transition of building management business and move of NIPPON KANZAI (1990-present)

	1990	2000	2010
Society situation	Bubble burst 1995 The Great Hanshin-Awaji Earthquake	2001 The World Trade Center attack (9-11) 2008 Lehman shock	2011 Great East Japan Earthquake 2016 Kumamoto Earthquake 2021 Tokyo Olympic and Paralympic Games 2022 Russian invasion of Ukraine
Laws and technologies related to maintenance security	Around 1990 OA floor method 1997 Implementation of FMer qualification test	1998 Act on Securitization of Special Asset by Special Purpose Companies 1999 Act on Promotion of Development of Public Facilities, etc. by Utilizing Private Funds, etc. 2003 Revision of the Act on Rational Use of Energy	2009 Act on Securing Financial Soundness of Local Governments
Roles and functions of the maintenance management company	**Building services that are becoming higher level and more complicated** ● Response to land trust and redevelopment business	● Response to PFI and designated managers ● Response to ownership of real estate and separation of management (AM, PM)	● Response to CRE and PRE ● Energy/power saving ● SDGs, decarbonation ● Digitalization of management
Major move of NIPPON KANZAI	1990 Entrusted with the management work of large-scale land trust building 1995 Entrusted with the redeveloped building management work in urban area 1996 Commercialized BEST, a production management system	2000 Commercialized WAFM system. Started remote monitoring of facilities Entrusted with PFI business. Started building due diligence service business 2002 Established OS Department 2003 Entrusted with asset management work of real estate after setting up securitization of office buildings 2007 Entrusted with the management works of designated manager systems	2012 Joined FM expo held in Dubai, as a starting point of entering the overseas market 2014 To double-headquarters system 2017 Entrusted with facilities management during the construction period of Toyosu Fish Market 2018 Started comprehensive management operations of Akashi City 2023 Establishment of NIPPON KANZAI Holdings

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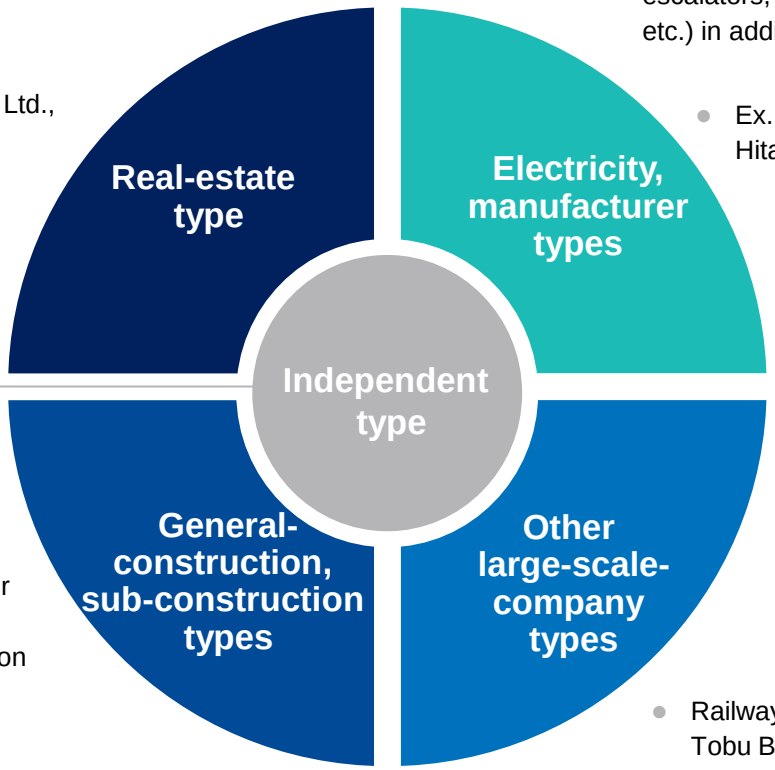
Industry Structure of Building Maintenance

- Main clients are the buildings owned/developed by their parent company. Advantage in building management businesses such as sales, accounting, clerical work, negotiations with other companies, and securing of profitability in cooperation with their parent company, in addition to general building management works.
- Ex. Mitsubishi Jisho Property Management Co., Ltd., MITSUI FUDOSAN BUILDING MANAGEMENT CO.,LTD., TOKYU COMMUNITY CORP.

- Advantage in maintenance and repair, being familiar with products of their parent company (elevators, escalators, electric devices, air-conditioning equipment, etc.) in addition to general building management works.
- Ex. Mitsubishi Electric Building Solutions Corporation, Hitachi Building Systems Co., Ltd., etc.



- Organizer-like company that integrates functions of companies of each business type
- **NIPPON KANZAI is an independent-type top-level company that is able to deal with total management.**

- Main clients are the buildings owned/developed by their parent company. Many companies were management departments spun off from their parent company. Recently, however, there are cases in which such departments are sold as non-core businesses.
- Railway type: Ex. JR East Facility Management Co.,Ltd., Tobu Building Management Co., Ltd.
- Insurance type: Taisay Building Management Co.,Ltd., Meiji Yasuda Real Estate Management Company Limited
- Commerce type: AEON DELIGHT CO., LTD., etc.

- Main clients are the buildings constructed by their parent company. Advantage in renovation, reconstruction, and extension works in cooperation with their parent company, in addition to general building management works.
- Ex. Kajima Tatemono Sogo Kanri Co.,Ltd., Taisei-Yuraku Real Estate Co.,Ltd., OBAYASHI FACILITIES CORPORATION, etc.

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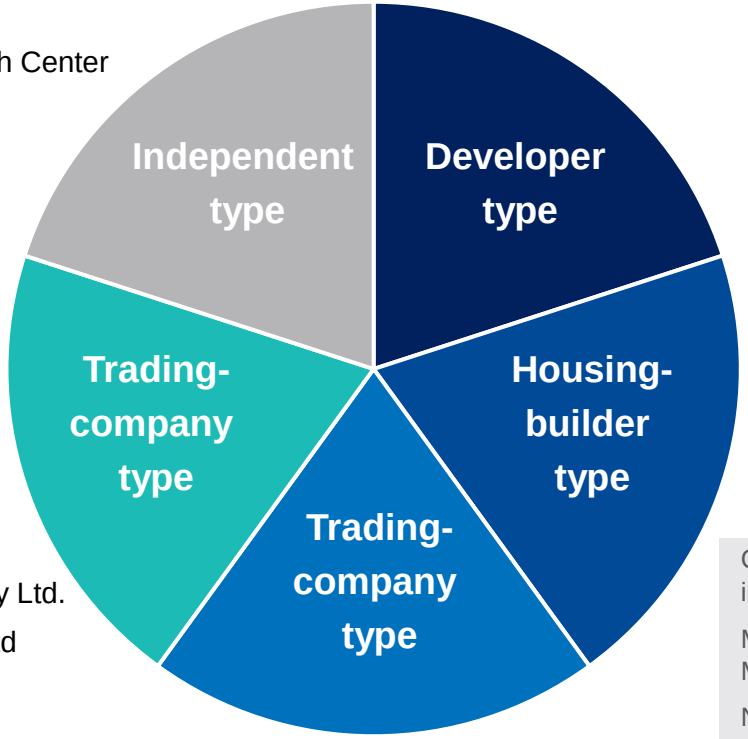
Mechanism of Condominium Management Industry

- NIPPON KANZAI Group
- Nihon Housing Co., Ltd.
- Gojinsha Planning Research Center



- DAIKYO ASTAGE INCORPORATED
- TOKYU COMMUNITY CORP.
- Mitsui Fudosan Residential Service Co., Ltd.
- Mitsubishi Jisho Community Co., Ltd.
- Sumitomo Fudosan Tatemono Service Co., Ltd

- DAIWA LIFENEXT CO., LTD.
- Anabuki Housing Service Co., Ltd.
- Global Community Co., Ltd.

- ITOCHU Urban Community Ltd.
- Sumisho Tatemono Co., Ltd
- Sojitz LifeOne Corporation

- Haseko Community, Inc.
- Taisei-Yuraku Real Estate Co.,Ltd.
- Nippon Steel Community Service Co.Ltd

Condominium management company in Japan	Approx. **2,642** companies
Member company of Condominium Management Companies Association	**354** companies
No. of lots under management of the member companies (per company)	Approx. **18,235** lots

(Source: Condominium Management Companies Association, 2023 Survey on condominium management commission)

NIPPON KANZAI Group

Only independent-type building management company dealing with condominium management that is listed on the Tokyo Stock Exchange Prime section

No. **16** in the industry (**100,522** lots) total lots of 3 Group companies

(Source: Mansionkanri Shimbun, calculated by NIPPON KANZAI by group company)

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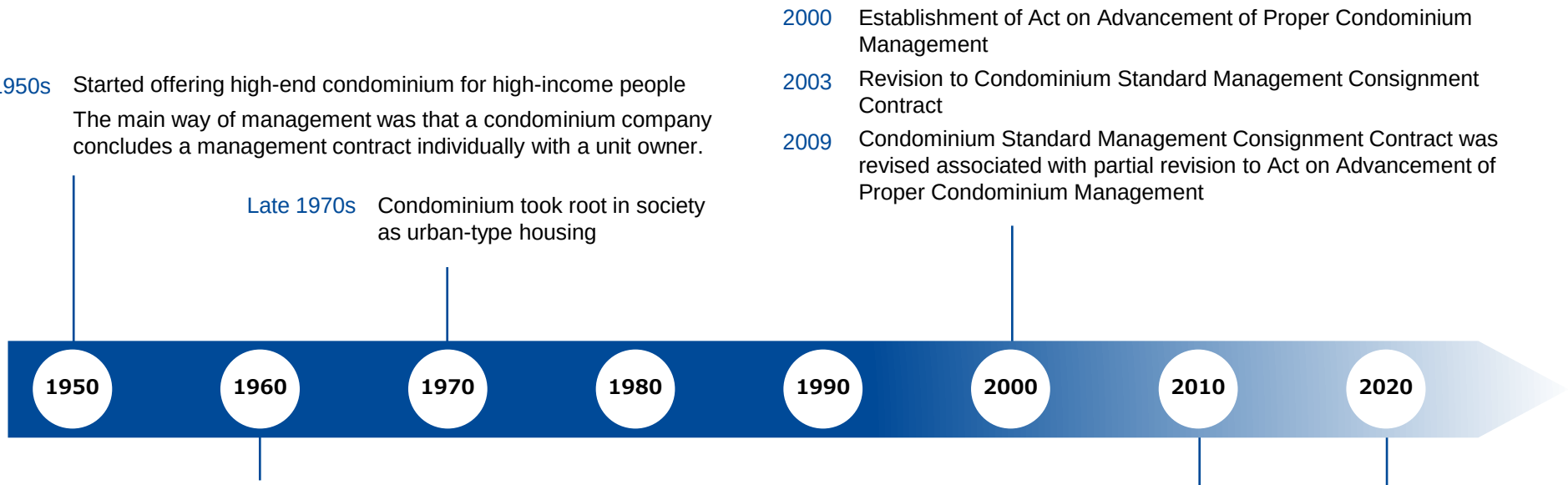
Transition of Condominium Management Industry

Transition of laws and forms related to condominium management



Late1950s Started offering high-end condominium for high-income people

The main way of management was that a condominium company concludes a management contract individually with a unit owner.

Late 1970s Condominium took root in society as urban-type housing

2000 Establishment of Act on Advancement of Proper Condominium Management

2003 Revision to Condominium Standard Management Consignment Contract

2009 Condominium Standard Management Consignment Contract was revised associated with partial revision to Act on Advancement of Proper Condominium Management

1962 Establishment of laws concerning unit ownership of buildings, etc.

Late 1960s Increase of popular-type condominium for moderate-income people

Management company affiliated with a condominium company emerged and building maintenance companies entered the market.

Start of a management method: Unit owners establish a homeowner association; and the homeowner association and a management company conclude the management contract. Focus was placed on maintenance and inspections.

1982 Formulation of the Condominium Standard Management Consignment Contract for Mid- to High-rise condominiums (Template of the contract in the case of outsourcing a business to a management company)

2014 Establishment of Revised Act on Facilitation of Reconstruction of Condominiums

2021 Establishment of the regulations on explaining important matters via IT devices, associated with partial revision to Act on Advancement of Proper Condominium Management

Establishment of the system in which local governments approve condominium with a proper management plan

Revision to Condominium Standard Management Consignment Contract

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