

**Consolidated Financial Statements**  
**for the Second Quarter of the Fiscal Year Ending March 31, 2012 [J-GAAP]**

November 2, 2011

**NIPPON KANZAI Co., Ltd.**

Listed Exchanges: Tokyo Stock Exchange and Osaka Securities Exchange, First Section  
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Filing date of quarterly report: November 9, 2011  
Date to start dividends distribution: December 6, 2011  
Supplementary materials for quarterly results: No  
Quarterly results briefing meeting held: No

\*Amounts under one million yen have been rounded down.

**1. Consolidated results for the second quarter ended September 30, 2011 (April 1, 2011 to September 30, 2011)**

**(1) Consolidated business results**

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

	Net Sales		Operating Income		Ordinary Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2011	36,256	(1.0)	1,856	5.4	1,984	9.0
Six months ended September 30, 2010	36,631	3.7	1,762	9.6	1,820	33.4

Note: Comprehensive income: Six months ended September 30, 2011: ¥ 1,033 million (28.8%)

Six months ended September 30, 2010: ¥ 802 million (—%)

	Net Income		Net Income per Share	Diluted Net Income per Share
	Millions of yen	%	Yen	Yen
Six months ended September 30, 2011	1,021	29.6	60.41	—
Six months ended September 30, 2010	788	16.4	45.99	—

**(2) Consolidated financial position**

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of September 30, 2011	36,854	25,217	64.2
As of March 31, 2011	37,233	24,780	62.3

Note: Shareholders' equity: As of September 30, 2011: ¥ 23,672 million

As of March 31, 2011: ¥ 23,180 million

**2. Dividends**

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2011	—	16.00	—	34.00	50.00
Fiscal year ending March 31, 2012	—	20.00			
Fiscal year ending March 31, 2012 (Forecast)			—	20.00	40.00

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, 2012 (April 1, 2011 to March 31, 2012)**

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

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	75,000	2.1	3,900	10.5	4,100	9.7	2,100	24.6	123.49

Note: Revisions to the most recently announced consolidated business forecasts in the current quarter: None

#### 4. Others

(1) Changes of significant subsidiaries during the term (Changes in specific subsidiaries associated with changes in scope of consolidation): None

(2) Adoption of specific methods for preparation of the quarterly consolidated financial statements: None

(3) Changes in accounting policies, accounting estimates and restatement of revisions

- |   |      |
|---|------|
| 1) Changes in accounting policies due to revisions of accounting standards, etc.: | None |
| 2) Changes in accounting policies other than 1) above:                            | None |
| 3) Changes in accounting estimates:   | None |
| 4) Restatement of revisions:  | None |

(4) Number of shares issued and outstanding (common stock)

- 1) Number of shares issued and outstanding (including treasury stock)
- 2) Number of treasury stock
- 3) Average number of shares issued and outstanding

1)	As of September 30, 2011	20,590,153 shares	As of March 31, 2011	20,590,153 shares
2)	As of September 30, 2011	3,635,130 shares	As of March 31, 2011	3,698,202 shares
3)	First six months ended September 30, 2011	16,918,647 shares	First six months ended September 30, 2010	17,148,259 shares

\* **Presentation of implementation status for quarterly review procedures**

This quarterly financial report is not covered by the Financial Instruments and Exchange Act and the quarterly consolidated financial statements review procedures called for by the Financial Instruments and Exchange Act have not been completed as of the release of this quarterly financial report.

\* **Explanation regarding the appropriate use of forecasts of business results and other notes**

The forecasts of business results reported herein were prepared based on information Nippon Kanzai had in its possession as of the time this report was prepared and on certain assumptions judged to be reasonable. Actual results may differ significantly from forecasts due to various factors. Please refer to the disclaimers, provided under "1. (3) Qualitative information on consolidated business forecasts" 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) Qualitative information on consolidated business results**

During the first six months of the fiscal year ending March 2012, the Japanese economy showed signs of gradual recovery from the sudden downturn resulting from the Great East Japan Earthquake. Although indications such as factories restarting operations were observed and recoveries among Japanese companies are gaining momentum, the future remains unpredictable as there are concerns about the possible economic slowdown due to escalated yen appreciation and financial instability in Europe.

In the real estate service industry, severe conditions continued as clients became even more cost-conscious, contracted buildings were closed or they decreased their services, and office vacancy rate climbed.

In such business environment, the Nippon Kanzaï Group continued to expand its area of businesses around the building maintenance business. The Group also made efforts to enhance its private finance initiatives (PFI) and energy conservation solutions, and aggressively developed businesses while making the best of the Group companies' strengths.

Consolidated net sales for the first six months fell by 1.0% compared to the same period in the previous year to 36,256 million yen, due to delays in large construction projects and to the lack of real estate fund asset sales proceeds, which were recorded for the first six months of the previous fiscal year.

Income suffered as stagnant price per contract put downward pressure on profitability. However, with efforts to cut and hold down management costs by thorough review of procurement unit prices and better time management, and the fact that there were no expenses related to the asset sales referred to the above, the Group improved its earnings compared to the same period of the previous fiscal year; operating income of 1,856 million yen, up 5.4%, ordinary income of 1,984 million yen, up 9.0%, and net income of 1,021 million yen, up 29.6%.

The following are earnings by segment.

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

#### **(Building Management and Operating Business)**

Our core Building Management and Operating Business, which includes building management and security services, experienced strong demands for real estate services, recorded net sales for the first six months of 31,539 million yen, up 0.6% compared to the same period of the previous year.

Although a sluggish growth in price per contract had a negative impact, successful efforts to lower cost ratios overcame such impact. As a result, the segment income was 3,043 million yen, up 2.2%.

#### **(Environmental Facility Management Business)**

In the Environmental Facility Management Business, which mainly comprises the management of water treatment, sewage disposal and other public facilities, we secured an overall firm number of new contracts, particularly for the management of incinerators and recycling facilities. As a result, net sales for the segment amounted to 3,485 million yen, up 1.9% compared to the same period of the previous year.

Although local governments – the main customers for this segment – continued to be on a tight budget, the Group worked to reduce costs, primarily by re-examining procurement costs and realigning personnel assignments to better match actual needs. As a result, segment income was 300 million yen, up 44.7%.

#### **(Real Estate Fund Management Business)**

In the asset management business, which mainly comprises composition and asset management of real estate funds, and in the real estate fund management business, which mainly comprises handling investments in silent partnership, a stable asset management income was recorded, but proceeds from sales of assets did not accrue. As a result, net sales for the segment came to 249 million yen, down 73.7% compared to the same period of the previous year.

Expenses regarding sales of assets did not accrue for the current period. Therefore, segment income was 62 million yen, down 39.5%.

#### **(Other Businesses)**

Other Businesses, which mainly consist of event planning, event management, printing and design, were supported by strong demands for various events. Therefore, net sales for the segment came to 981 million yen, up 8.5% from the same period of the previous year, and segment income came to 24 million yen, up 481.3%.

## **(2) Qualitative information on consolidated financial position**

[Consolidated balance sheets]

Total assets at the end of the second quarter of the current fiscal year decreased 379 million yen, or 1.0% compared to the previous fiscal year end to 36,854 million yen.

This was due mainly to a decrease in cash and deposits from the acquisition of noncurrent assets and a decrease in lease and guarantee deposits in connection with the cancellation of master lease agreements.

Liabilities decreased by 816 million yen, or 6.6% compared to the previous fiscal year end to 11,637 million yen despite an increase in income taxes payable and due to a decrease in notes and accounts payable—trade and a decrease in guarantee deposits received because of the cancellations of master lease agreements referred to the above.

Net assets were 25,217 million yen, up 436 million yen, or 1.8%, as the positive effect of the recording of quarterly net income outweighed cash dividends paid. As a result, equity ratio at the fiscal year end increased by 1.9 percentage points to 64.2% from the previous fiscal year end.

[Consolidated statements of cash flows]

Cash and cash equivalents (hereinafter “cash”) decreased by 678 million yen from the previous fiscal year end to 10,803 million yen. The status and main factors of cash flows for the first six months of the current fiscal year were as follows:

(Cash flows from operating activities)

Net cash provided by operating activities for the first six months of the current fiscal year was 1,182 million yen, up 45 million yen, year on year. Main increasing factors were an increase in quarterly income before income taxes and minority interests and a decrease in income taxes paid, while decreasing factors were a smaller decrease in inventories and another smaller decrease in notes and accounts receivable—trade.

(Cash flows from investing activities)

Net cash used in investing activities was 1,065 million yen, up 796 million yen. Although a cash inflow from proceeds from withdrawal of time deposits net of payments into time deposits increased, there were decreasing factors such as an increase in purchase of noncurrent assets.

(Cash flows from financing activities)

Net cash used in financing activities was 795 million yen, down 782 million yen year on year. Main increasing factors were a decrease in repayments of long-term non-recourse loans payable and a decrease in purchase of treasury stock, while main decreasing factor was an increase in cash dividends paid.

## **(3) Qualitative information on consolidated business forecasts**

In the meantime, we expect our business environment will continue to be very challenging.

Consolidated business results were in line with the forecasts which were announced on May 10, 2011, and no revisions were made to the consolidated business forecasts.

## **2. Summary (other) information**

### **(1) Changes of significant subsidiaries during the term**

There is nothing to report.

### **(2) Adoption of specific accounting methods for preparation of the quarterly consolidated financial statements**

There is nothing to report.

### **(3) Changes in accounting policies, accounting estimates and restatement of revisions**

There is nothing to report.

### 3. Quarterly consolidated financial statements

#### (1) Quarterly consolidated balance sheets

(Thousands of yen)

	Fiscal year ended March 31, 2011 (As of March 31, 2011)	Second quarter ended September 30, 2011 (As of September 30, 2011)
<b>ASSETS</b>		
Current assets		
Cash and deposits	11,801,956	11,118,403
Notes and accounts receivable—trade	8,240,981	8,074,696
Investments in silent partnership for business purposes	269,638	304,087
Supplies	71,619	73,447
Real estate for sale	2,063,938	2,027,725
Income taxes receivable	10,229	—
Deferred tax assets	407,612	386,628
Other	840,612	1,287,601
Allowance for doubtful accounts	(40,759)	(81,759)
Total current assets	23,665,826	23,190,828
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	1,732,981	1,884,375
Machinery, equipment and vehicles, net	44,415	20,537
Tools, furniture and fixtures, net	239,486	237,673
Land	1,255,093	1,693,312
Lease assets, net	657,030	635,125
Total property, plant and equipment	3,929,005	4,471,022
Intangible assets		
Telephone subscription right	34,790	34,943
Software	568,536	480,908
Goodwill	124,126	50,015
Lease assets	15,299	17,663
Total intangible assets	742,751	583,529
Investments and other assets		
Investment securities	5,075,640	5,140,873
Long-term loans receivable	536,054	509,328
Long-term prepaid expenses	8,408	4,224
Lease and guarantee deposits	1,843,616	1,455,393
Membership	397,319	382,509
Deferred tax assets	792,983	799,889
Other	1,043,530	1,059,213
Allowance for doubtful accounts	(801,532)	(742,525)
Total investments and other assets	8,896,018	8,608,904
Total noncurrent assets	13,567,774	13,663,455
<b>TOTAL ASSETS</b>	<b>37,233,600</b>	<b>36,854,283</b>

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

(Thousands of yen)

	Fiscal year ended March 31, 2011 (As of March 31, 2011)	Second quarter ended September 30, 2011 (As of September 30, 2011)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable—trade	4,007,277	3,795,965
Current portion of long-term loans payable	166,000	166,000
Current portion of long-term non-recourse loans payable	19,800	20,800
Lease obligations	144,388	156,380
Accrued expenses	1,891,946	1,758,973
Income taxes payable	592,106	758,496
Accrued consumption taxes	321,986	309,592
Deposits received	210,574	245,262
Advances received	52,530	81,965
Provision for bonuses	617,610	596,078
Provision for directors' bonuses	79,421	41,780
Other	96,289	51,428
<b>Total current liabilities</b>	<b>8,199,927</b>	<b>7,982,719</b>
Noncurrent liabilities		
Long-term loans payable	333,904	250,904
Long-term non-recourse loans payable	1,313,300	1,273,600
Lease obligations	522,793	495,679
Deferred tax liabilities	9,333	12,279
Provision for retirement benefits	140,636	162,204
Provision for directors' retirement benefits	505,994	419,198
Long-term guarantee deposited	1,173,767	783,563
Asset retirement obligations	189,078	196,628
Liabilities from application of equity method	31,568	26,092
Other	32,818	34,199
<b>Total noncurrent liabilities</b>	<b>4,253,191</b>	<b>3,654,346</b>
<b>TOTAL LIABILITIES</b>	<b>12,453,118</b>	<b>11,637,065</b>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	498,800	498,800
Retained earnings	24,984,851	25,428,043
Treasury stock	(5,392,761)	(5,300,801)
<b>Total shareholders' equity</b>	<b>23,090,890</b>	<b>23,626,042</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	89,336	46,247
<b>Total accumulated other comprehensive income</b>	<b>89,336</b>	<b>46,247</b>
Minority interests	1,600,256	1,544,929
<b>TOTAL NET ASSETS</b>	<b>24,780,482</b>	<b>25,217,218</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>37,233,600</b>	<b>36,854,283</b>

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

**(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income****Quarterly consolidated statements of income**

(Thousands of yen)

	Six months ended September 30, 2010 (April 1, 2010 to September 30, 2010)	Six months ended September 30, 2011 (April 1, 2011 to September 30, 2011)
Net sales	36,631,825	36,256,353
Cost of sales	29,872,321	29,402,167
Gross profit	6,759,504	6,854,186
Selling, general and administrative expenses		
Selling expenses	57,351	66,378
Personnel expenses	2,709,261	2,732,701
Provision for bonuses	235,572	229,462
Provision for directors' bonuses	41,607	41,779
Provision for directors' retirement benefits	42,902	15,787
Retirement benefit expenses	63,268	63,940
Transportation and communication expenses	383,928	400,373
Supplies expenses	185,588	180,898
Rent expenses	394,070	389,793
Insurance expenses	94,131	87,385
Depreciation	181,419	191,685
Taxes and dues	51,430	60,023
Enterprise tax	38,001	38,718
Provision of allowance for doubtful accounts	617	1,363
Amortization of goodwill	74,306	74,111
Other	444,047	422,996
Total selling, general and administrative expenses	4,997,498	4,997,392
Operating income	1,762,006	1,856,794
Non-operating income		
Interest and dividends income	88,374	89,667
Rent income	19,255	19,355
Equity in earnings of affiliates	6,676	15,659
Other	36,742	61,938
Total non-operating income	151,047	186,619
Non-operating expenses		
Interest expenses	14,346	20,307
Loss on sales of investment securities	18,927	—
Rent expenses	24,884	24,971
Loss on sales and retirement of noncurrent assets	6,393	1,894
Other	27,724	11,409
Total non-operating expenses	92,274	58,581
Ordinary income	1,820,779	1,984,832

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



(Thousands of yen)

	Six months ended September 30, 2010 (April 1, 2010 to September 30, 2010)	Six months ended September 30, 2011 (April 1, 2011 to September 30, 2011)
Extraordinary loss		
Loss on valuation of investment securities	170,989	46,616
Loss on valuation of membership	6,852	14,760
Loss on adjustment for changes of accounting standard for asset retirement obligations	113,748	—
Labor compensation costs	38,978	—
Other	11,985	—
Total extraordinary loss	342,552	61,376
Quarterly income before income taxes and minority interests	1,478,227	1,923,456
Income taxes — current	661,091	811,170
Refund of income taxes for prior periods	(2,373)	—
Income taxes — deferred	(17,413)	37,395
Total income taxes	641,305	848,565
Quarterly income before minority interests	836,922	1,074,891
Minority interests in income	48,288	52,900
Quarterly net income	788,634	1,021,991

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

**Quarterly consolidated statements of comprehensive income**

(Thousands of yen)

	Six months ended September 30, 2010 (April 1, 2010 to September 30, 2010)	Six months ended September 30, 2011 (April 1, 2011 to September 30, 2011)
Quarterly income before minority interests	836,922	1,074,891
Other comprehensive income		
Valuation difference on available-for-sale securities	(34,681)	(41,520)
Total other comprehensive income	(34,681)	(41,520)
Quarterly comprehensive income	802,241	1,033,371
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	754,857	978,902
Comprehensive income attributable to minority interests	47,384	54,469

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

**(3) Quarterly consolidated statements of cash flows**

(Thousands of yen)

	Six months ended September 30, 2010 (April 1, 2010 to September 30, 2010)	Six months ended September 30, 2011 (April 1, 2011 to September 30, 2011)
Cash flows from operating activities		
Quarterly income before income taxes and minority interests	1,478,227	1,923,456
Depreciation and amortization	250,397	268,236
Amortization of goodwill	74,306	74,111
Increase (decrease) in provision for bonuses	(19,344)	(21,532)
Increase (decrease) in provision for directors' bonuses	(37,352)	(37,641)
Increase (decrease) in provision for retirement benefits	(8,056)	21,568
Increase (decrease) in provision for directors' retirement benefits	(11,938)	(86,796)
Increase (decrease) in allowance for doubtful accounts	(12,339)	(18,007)
Equity in (earnings) losses of affiliates	(6,676)	(15,659)
Interest and dividends income	(88,374)	(89,667)
Interest expenses	14,346	20,307
Loss (gain) on sales and retirement of noncurrent assets	6,393	1,894
Loss (gain) on sales of short-term and long-term investment securities	18,927	(961)
Loss (gain) on valuation of investment securities	170,989	46,616
Decrease (increase) in notes and accounts receivable—trade	446,708	199,996
(Increase) decrease in investments in silent partnership for business purposes	(687)	(34,449)
Decrease (increase) in inventories	634,506	34,385
Decrease (increase) in other assets	(112,212)	(111,967)
Increase (decrease) in notes and accounts payable—trade	(886,044)	(547,286)
Increase (decrease) in accrued consumption taxes	9,220	(12,394)
Increase (decrease) in other liabilities	176,598	104,255
Loss on valuation of membership	6,852	14,760
Loss on adjustment for changes of accounting standard for asset retirement obligations	113,533	—
Other, net	15,832	10,592
Subtotal	2,233,812	1,743,817
Interest and dividends income received	90,632	93,232
Interest expenses paid	(14,346)	(20,307)
Income taxes paid	(1,173,478)	(634,551)
Net cash provided by operating activities	1,136,620	1,182,191

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

(Thousands of yen)

	Six months ended September 30, 2010 (April 1, 2010 to September 30, 2010)	Six months ended September 30, 2011 (April 1, 2011 to September 30, 2011)
Cash flows from investing activities		
Payments into time deposits	(415,000)	(300,000)
Proceeds from withdrawal of time deposits	55,506	305,000
Purchase of property, plant and equipment and intangible assets	(242,871)	(932,013)
Proceeds from sales of property, plant and equipment and intangible assets	22,642	22,334
Purchase of investment securities	(611)	(267,901)
Proceeds from sales of investment securities	180,982	100,960
Collection of investments in capital	150,000	—
Payments of loans receivable	(15,070)	(1,252)
Collection of loans receivable	17,155	15,061
Decrease (increase) in lease and guarantee deposits of leasehold estate	72,409	388,223
Increase (decrease) in guarantee deposits received	(82,419)	(390,204)
Other, net	(11,555)	(5,297)
Net cash used in investing activities	(268,832)	(1,065,089)
Cash flows from financing activities		
Increase in short-term loans payable	300,000	300,000
Decrease in short-term loans payable	(300,000)	(300,000)
Repayment of long-term loans payable	—	(83,000)
Proceeds from long-term non-recourse loans payable	1,380,000	—
Repayments of long-term non-recourse loans payable	(1,964,300)	(38,700)
Repayments of lease obligations	(77,622)	(78,784)
Proceeds from disposal of treasury stock	40	87,528
Purchase of treasury stock	(590,338)	(40)
Repayments to minority shareholders	—	(59,796)
Cash dividends paid	(276,061)	(572,863)
Cash dividends paid to minority shareholders	(50,000)	(50,000)
Net cash used in financing activities	(1,578,281)	(795,655)
Net increase (decrease) in cash and cash equivalents	(710,493)	(678,553)
Cash and cash equivalents at beginning of period	9,959,610	11,481,956
Cash and cash equivalents at end of period	9,249,117	10,803,403

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

**(4) Notes on a going concern assumption**

Six months ended September 30, 2011 (April 1, 2011 to September 30, 2011)

There is nothing to report.

**(5) Segment information**

I Six months ended September 30, 2010 (April 1, 2010 to September 30, 2010)

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

(Thousands of yen)

	Reportable segment					Adjustments (Note 1)	Amount recorded on consolidated statements of income (Note 2)
	Building Management and Operating Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales							
Net sales to external customers	31,361,908	3,419,236	945,841	904,840	36,631,825	—	36,631,825
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	31,361,908	3,419,236	945,841	904,840	36,631,825	—	36,631,825
Segment income	2,978,215	207,527	104,074	4,285	3,294,101	(1,532,095)	1,762,006

Notes: 1. Adjustments to segment income consist of (1,532,095) thousand yen in unallocated general administrative expenses.

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

2. Impairment loss of noncurrent assets and goodwill by reportable segments

There is nothing to report.

II Six months ended September 30, 2011 (April 1, 2011 to September 30, 2011)

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

(Thousands of yen)

	Reportable segment					Adjustments (Note 1)	Amount recorded on consolidated statements of income (Note 2)
	Building Management and Operating Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales							
Net sales to external customers	31,539,996	3,485,602	249,208	981,547	36,256,353	—	36,256,353
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	31,539,996	3,485,602	249,208	981,547	36,256,353	—	36,256,353
Segment income	3,043,628	300,292	62,916	24,910	3,431,746	(1,574,952)	1,856,794

Notes: 1. Adjustments to segment income consist of (1,574,952) thousand yen in unallocated general administrative expenses.

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

2. Impairment loss of noncurrent assets and goodwill by reportable segments

There is nothing to report.

**(6) Notes on significant changes in the amount of shareholders' equity**

There is nothing to report.