

**Consolidated Financial Statements**  
**for the First Quarter of the Fiscal Year Ending March 31, 2013 [J-GAAP]**

July 31, 2012

**NIPPON KANZAI Co., Ltd.**

Listed Exchanges: Tokyo Stock Exchange and Osaka Securities Exchange, First Section  
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 Filing date of quarterly report: August 10, 2012  
 Date to start dividends distribution: —  
 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 first quarter ended June 30, 2012 (April 1, 2012 to June 30, 2012)**

**(1) Consolidated business results**

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

	Net Sales		Operating Income		Ordinary Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2012	17,889	(0.7)	785	(12.7)	833	(15.1)
Three months ended June 30, 2011	18,013	(2.5)	899	5.3	982	10.9

Note: Comprehensive income: Three months ended June 30, 2012: ¥ 335 million (-40.5%)  
 Three months ended June 30, 2011: ¥ 564 million (76.9%)

	Net Income		Net Income per Share		Diluted Net Income per Share	
	Millions of yen	%	Yen		Yen	
Three months ended June 30, 2012	479	(5.9)	28.17		—	
Three months ended June 30, 2011	509	40.5	30.12		—	

**(2) Consolidated financial position**

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen	%	Millions of yen	%	%	
As of June 30, 2012	38,650		26,330		64.1	
As of March 31, 2012	39,804		26,356		62.2	

Note: Shareholders' equity: As of June 30, 2012: ¥ 24,769 million  
 As of March 31, 2012: ¥ 24,768 million

**2. Dividends**

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2012	Yen —	Yen 20.00	Yen —	Yen 20.00	Yen 40.00
Fiscal year ending March 31, 2013	—				
Fiscal year ending March 31, 2013 (forecast)		20.00	—	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, 2013 (April 1, 2012 to March 31, 2013)**

(Percentage figures indicate the rate of change from the same period in the previous fiscal 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	
First half	37,200	2.6	1,900	2.3	2,000	0.8	1,100	7.6	64.90	
Full year	76,800	3.5	4,200	6.5	4,400	3.6	2,400	10.5	141.61	

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

**\* Notes**

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

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

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

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

Note: These changes correspond to “a case in which it is difficult to distinguish changes in accounting policies from changes in accounting estimates”. For details, please refer to “2. (3) Changes in accounting policies, accounting estimates and restatement of revisions” on page 3 of the Attached Document.

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

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

1)	As of June 30, 2012	20,590,153 shares	As of March 31, 2012	20,590,153 shares
2)	As of June 30, 2012	3,564,044 shares	As of March 31, 2012	3,584,059 shares
3)	First three months ended June 30, 2012	17,013,507 shares	First three months ended June 30, 2011	16,900,824 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 business forecasts and other notes**

The business forecasts 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 three months of the fiscal year ending March 2013, the Japanese economy was on a path to gradual recovery on the back of demand fueled by reconstruction activities. However, with concerns about the European debt crisis, the yen stuck at high levels, and electric power supply, economic conditions remained uncertain.

In the real estate service industry, severe business conditions continue as clients are becoming even more cost-conscious, contracted buildings have been closed or decreased their services, and no improvement is seen in the office and commercial building vacancy rate.

In such business environment, the Nippon Kanzai Group (hereinafter “the Group”) continued to expand its area of businesses around the building maintenance business. The Group also made efforts in proactive business development by enhancing its property management business, private finance initiatives (PFI), and energy-saving business and making the best of the Group companies’ strengths.

Consolidated net sales for the first three months fell 0.7% year on year to 17,889 million yen due to the difficult conditions for securing new contracts and a significant decrease in construction-related orders.

We continued to make efforts to improve profitability by thorough review of procurement unit prices and better time management. However, among other reasons, due to a rise in major cost items such as personnel expenses and subcontracting expenses coupled with a decrease in highly profitable orders, the Group’s earnings fell compared to the same period of the previous fiscal year; operating income of 785 million yen, down 12.7%, ordinary income of 833 million yen, down 15.1%, and net income of 479 million yen, down 5.9%.

The following are earnings by segment.

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

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

Our core Building Management and Operation Business includes building management and security services, in which segment we experienced ongoing difficulty in securing new contracts and a decrease in construction-related orders. As a result, net sales of 15,317 million yen for the first three months down 2.1% compared to the same period of the previous fiscal year, was recorded.

Segment income was 1,422 million yen, down 6.6% year on year due to a rise in major cost items such as personnel expenses and subcontracting expenses coupled with a sluggish growth in price per contract and a decrease in construction-related orders whose profit margin was relatively high.

#### **(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 and contract renewal of existing buildings, particularly for the management of incinerators and recycling facilities. As a result, net sales for the segment amounted to 1,945 million yen, up 12.1% compared to the same period of the previous fiscal year.

Although local governments – the main customers for this segment – continued to be on a tight budget, the Group has worked to reduce costs, focusing on efforts to rein in start-up costs for newly contracted facilities, re-examine procurement costs, and realign personnel assignments to better match actual needs. As a result, segment income was 183 million yen, up 18.3% year on year.

#### **(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. As a result, net sales for the segment were 106 million yen, up 6.3% compared to the same period of the previous fiscal year.

Segment income was 17 million yen, up 99.6% year on year as expenses related to sales of assets decreased and no loss on valuation of real estate was incurred.

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

Other Businesses, which mainly consist of event planning and management, printing, and design, were negatively affected by a decrease in highly profitable design and real estate brokerage orders. As a result, net sales for the segment for the first three months decreased by 2.5% year on year to 520 million yen, and segment loss was 12 million yen, down 29 million yen compared to the previous fiscal year.

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

Total assets at the end of the first quarter of the current fiscal year decreased by 1,154 million yen or 2.9%, compared to the previous fiscal year end to 38,650 million yen mainly due to collection of accounts receivable—trade.

Liabilities decreased by 1,128 million yen or 8.4%, compared to the previous fiscal year end to 12,319 million yen due to a decrease in payment of accounts payable—trade and payments of income taxes payable.

Net assets were 26,330 million yen, down 25 million yen or 0.1%, as the positive effect of the recording of quarterly net income outweighed cash dividends paid. As a result, equity ratio as of June 30, 2012 increased by 1.9 percentage points to 64.1% from the previous fiscal year end.

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

We expect our business environment will continue to be severe.

Consolidated business results were in line with the forecasts which were announced on May 8, 2012, and no revisions were made to the consolidated business forecasts.

**2. Matters concerning summary information (\*Notes)**

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

Not applicable.

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

Not applicable.

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

(Changes in accounting policies that are not difficult to be distinguished from change in accounting estimates)

Starting from the first three months of the fiscal year ending March 2013, the Company and its consolidated subsidiaries applied a new depreciation method to items of property, plant and equipment acquired on or after April 1, 2012 pursuant to the amendment to the Corporation Tax Act.

As a result, operating income, ordinary income, and quarterly income before income taxes and minority interests for the first three months increased by 328 thousand yen as compared with the respective amounts that would have been posted under the previous method.

**3. Quarterly consolidated financial statements****(1) Quarterly consolidated balance sheets**

	(Thousands of yen)	
	Fiscal year ended March 31, 2012 (As of March 31, 2012)	First quarter ended June 30, 2012 (As of June 30, 2012)
<b>ASSETS</b>		
Current assets		
Cash and deposits	13,497,900	13,289,928
Notes and accounts receivable—trade	8,898,708	8,104,452
Investments in silent partnership for business purposes	193,550	193,550
Supplies	68,617	68,763
Real estate for sale	1,975,059	1,947,891
Income taxes receivable	9,524	45,669
Deferred tax assets	373,191	361,466
Other	1,011,921	1,040,284
Allowance for doubtful accounts	(12,679)	(11,274)
Total current assets	26,015,791	25,040,729
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	1,945,206	1,909,952
Machinery, equipment and vehicles, net	16,288	28,128
Tools, furniture and fixtures, net	248,627	242,265
Land	1,693,312	1,693,312
Lease assets, net	595,789	611,379
Total property, plant and equipment	4,499,222	4,485,036
Intangible assets		
Telephone subscription right	34,935	34,935
Software	405,374	401,161
Goodwill	38,744	33,180
Lease assets	17,585	34,844
Total intangible assets	496,638	504,120
Investments and other assets		
Investment securities	5,498,630	4,733,063
Long-term loans receivable	502,534	475,417
Long-term prepaid expenses	7,481	21,212
Lease and guarantee deposits	1,471,314	1,459,290
Membership	380,259	409,183
Deferred tax assets	635,816	730,077
Other	937,191	1,431,016
Allowance for doubtful accounts	(640,404)	(638,802)
Total investments and other assets	8,792,821	8,620,456
Total noncurrent assets	13,788,681	13,609,612
<b>TOTAL ASSETS</b>	<b>39,804,472</b>	<b>38,650,341</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, 2012 (As of March 31, 2012)	First quarter ended June 30, 2012 (As of June 30, 2012)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable—trade	4,982,556	4,094,672
Current portion of long-term loans payable	166,000	166,000
Current portion of long-term non-recourse loans payable	19,600	19,100
Lease obligations	165,697	182,539
Accrued expenses	1,992,654	2,859,216
Income taxes payable	1,070,229	248,106
Accrued consumption taxes	301,725	439,127
Deposits received	429,762	542,435
Advances received	46,729	98,670
Provision for bonuses	596,883	76,947
Provision for directors' bonuses	78,479	18,109
Other	62,916	84,422
<b>Total current liabilities</b>	<b>9,913,230</b>	<b>8,829,343</b>
Noncurrent liabilities		
Long-term loans payable	167,904	84,904
Long-term non-recourse loans payable	1,235,200	1,216,100
Lease obligations	453,255	472,328
Deferred tax liabilities	18,055	19,750
Provision for retirement benefits	200,202	248,982
Provision for directors' retirement benefits	432,572	430,269
Long-term guarantee deposited	762,104	739,245
Asset retirement obligations	206,260	207,137
Liabilities from application of equity method	21,535	30,802
Other	37,645	40,627
<b>Total noncurrent liabilities</b>	<b>3,534,732</b>	<b>3,490,144</b>
<b>TOTAL LIABILITIES</b>	<b>13,447,962</b>	<b>12,319,487</b>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	498,800	498,800
Retained earnings	26,238,534	26,377,464
Treasury stock	(5,226,262)	(5,197,075)
<b>Total shareholders' equity</b>	<b>24,511,072</b>	<b>24,679,189</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	257,239	90,287
<b>Total accumulated other comprehensive income</b>	<b>257,239</b>	<b>90,287</b>
Minority interests	1,588,199	1,561,378
<b>TOTAL NET ASSETS</b>	<b>26,356,510</b>	<b>26,330,854</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>39,804,472</b>	<b>38,650,341</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)

	Three months ended June 30, 2011 (April 1, 2011 to June 30, 2011)	Three months ended June 30, 2012 (April 1, 2012 to June 30, 2012)
Net sales	18,013,283	17,889,234
Cost of sales	14,595,868	14,508,655
Gross profit	3,417,415	3,380,579
Selling, general and administrative expenses		
Selling expenses	31,788	37,157
Personnel expenses	1,452,537	1,483,414
Provision for bonuses	27,968	22,108
Provision for directors' bonuses	19,261	18,110
Provision for directors' retirement benefits	7,750	8,547
Retirement benefit expenses	33,667	63,777
Transportation and communication expenses	193,952	222,950
Supplies expenses	88,137	88,252
Rent expenses	199,183	184,084
Insurance expenses	46,189	44,096
Depreciation	94,165	105,306
Taxes and dues	52,223	58,482
Enterprise tax	20,387	20,529
Provision of allowance for doubtful accounts	93	(2,774)
Amortization of goodwill	37,056	5,563
Other	213,333	235,509
Total selling, general and administrative expenses	2,517,689	2,595,110
Operating income	899,726	785,469
Non-operating income		
Interest and dividends income	48,199	47,966
Rent income	9,608	10,087
Equity in earnings of affiliates	15,659	—
Other	42,241	30,253
Total non-operating income	115,707	88,306
Non-operating expenses		
Interest expenses	10,341	8,947
Rent expenses	15,656	15,357
Equity in losses of affiliates	—	6,223
Loss on sales and retirement of noncurrent assets	1,472	1,859
Other	5,569	7,780
Total non-operating expenses	33,038	40,166
Ordinary income	982,395	833,609

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



(Thousands of yen)

	Three months ended June 30, 2011 (April 1, 2011 to June 30, 2011)	Three months ended June 30, 2012 (April 1, 2012 to June 30, 2012)
Extraordinary loss		
Loss on valuation of investment securities	0	—
Loss on valuation of membership	15,360	—
Total extraordinary loss	15,360	—
Quarterly income before income taxes and minority interests	967,035	833,609
Income taxes — current	378,320	325,025
Income taxes — deferred	49,431	6,030
Total income taxes	427,751	331,055
Quarterly income before minority interests	539,284	502,554
Minority interests in income	30,234	23,353
Quarterly net income	509,050	479,201

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

**Quarterly consolidated statements of comprehensive income**

(Thousands of yen)

	Three months ended June 30, 2011 (April 1, 2011 to June 30, 2011)	Three months ended June 30, 2012 (April 1, 2012 to June 30, 2012)
Quarterly income before minority interests	539,284	502,554
Other comprehensive income		
Valuation difference on available-for-sale securities	24,737	(167,126)
Total other comprehensive income	24,737	(167,126)
Quarterly comprehensive income	564,021	335,428
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	534,326	312,249
Comprehensive income attributable to minority interests	29,695	23,179

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

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

Three months ended June 30, 2012 (April 1, 2012 to June 30, 2012)

Not applicable.

**(4) Segment information**

I Three months ended June 30, 2011 (April 1, 2011 to June 30, 2011)

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

(Thousands of yen)

	Reportable segment					Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales							
Net sales to external customers	15,644,740	1,735,230	100,101	533,212	18,013,283	—	18,013,283
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	15,644,740	1,735,230	100,101	533,212	18,013,283	—	18,013,283
Segment income	1,524,362	155,331	8,660	17,115	1,705,468	(805,742)	899,726

Notes: 1. Adjustments to segment income consist of (805,742) thousand yen in unallocated general administrative expenses.

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

2. Impairment of noncurrent assets and goodwill by reportable segments

Not applicable.

II Three months ended June 30, 2012 (April 1, 2012 to June 30, 2012)

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

(Thousands of yen)

	Reportable segment					Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales							
Net sales to external customers	15,317,101	1,945,564	106,441	520,128	17,889,234	—	17,889,234
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	15,317,101	1,945,564	106,441	520,128	17,889,234	—	17,889,234
Segment income (loss)	1,422,931	183,695	17,281	(12,426)	1,611,481	(826,012)	785,469

Notes: 1. Adjustments to segment income consist of (826,012) thousand yen in unallocated general administrative expenses.

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

2. Impairment of noncurrent assets and goodwill by reportable segments

Not applicable.

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

Not applicable.