

Consolidated Financial Statements
for the First Quarter of the Fiscal Year Ending March 31, 2015 [J-GAAP]

August 5, 2014

NIPPON KANZAI Co., Ltd.

Listed Exchanges: Tokyo Stock Exchange, First Section
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Filing date of quarterly report: August 8, 2014
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, 2014 (April 1, 2014 to June 30, 2014)

(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, 2014	20,937	11.0	1,388	23.4	1,572	29.0
Three months ended June 30, 2013	18,869	5.5	1,125	43.2	1,218	46.2

Note: Comprehensive income: Three months ended June 30, 2014: ¥1,510 million (70.2%)
Three months ended June 30, 2013: ¥887 million (164.7%)

	Net Income		Net Income per Share		Diluted Net Income per Share	
	Millions of yen	%	Yen		Yen	
Three months ended June 30, 2014	1,110	69.4	65.48		—	
Three months ended June 30, 2013	655	36.8	38.98		—	

(2) Consolidated financial position

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen	%	Millions of yen	%	%	
As of June 30, 2014	51,570		32,636		60.2	
As of March 31, 2014	51,448		31,634		58.0	

Note: Shareholders' equity: As of June 30, 2014: ¥31,052 million
As of March 31, 2014: ¥29,862 million

2. Dividends

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2014	— Yen	20.00 Yen	— Yen	22.00 Yen	42.00 Yen
Fiscal year ending March 31, 2015	—				
Fiscal year ending March 31, 2015 (forecast)		21.00	—	21.00	42.00

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, 2015 (April 1, 2014 to March 31, 2015)

(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	42,800	6.8	2,600	10.5	2,800	9.4	1,700	13.5	100.81
Full year	87,000	1.9	5,400	5.1	6,000	7.6	3,500	8.5	207.54

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: | None |
| 4) Restatement of revisions: | None |

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

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

1)	As of June 30, 2014	20,590,153 shares	As of March 31, 2014	20,590,153 shares
2)	As of June 30, 2014	3,626,425 shares	As of March 31, 2014	3,641,383 shares
3)	First three months ended June 30, 2014	16,954,657 shares	First three months ended June 30, 2013	16,816,347 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 Kanmai 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) Explanation regarding information on future forecasts including consolidated business forecasts, etc." on page 3 of the Attached Document of this quarterly financial report, regarding assumptions upon which forecasts are based and the use of forecasts.

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1. Qualitative information on financial statements

(1) Explanation regarding business results

During the first three months of the fiscal year ending March 2015, the Japanese economy continued to show some modest signs of recovery, as improved corporate earnings, an upturn in employment and other positives resulting from government-led economic and financial policies outweighed temporary weakness in consumption, itself due to the absence of a surge in demand seen prior to an increase in Japan's consumption tax rate.

In the real estate service industry, severe business conditions continue as clients remain highly cost-conscious and contracted buildings have been closed or decreased their services, although a slight improvement is seen in the office and commercial buildings vacancy rate in some areas.

In such business environment, NIPPON KANZAI Group (hereinafter "the Group") continued to work on expanding 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 rose by 11.0% year on year to 20,937 million yen. In addition to firm growth in new contracts and construction-related orders, sales were lifted by contributions from NJK Holding K.K. (including its three subsidiaries), which became a new consolidated subsidiary at the end of the first quarter of the previous fiscal year, as well as one-off revenue posted from the sale of real estate for sale.

On the earnings front, operating income climbed 23.4% year on year to 1,388 million yen. While sluggish growth in contract prices put downward pressure on profitability, earnings were boosted by a review of procurement terms and conditions, extensive time management, and efforts to restrain and control administrative costs, coupled with a one-off contribution from the sale of highly profitable real estate for sale.

In other earnings, ordinary income increased by 29.0% year on year to 1,572 million yen, while quarterly net income rose by 69.4% year on year to 1,110 million yen. This substantial growth was attributable to improvement in non-operating income, reflecting the contribution of business performance by PICA*, an Australian company that became an equity-method affiliate of the Company at the end of the fiscal year ended March 2012.

*PICA: Prudential Investment Company of Australia Pty Ltd., a strata management company whose head office is located in Sydney, Australia.

The following are earnings by segment.

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

(Building Management and Operation Business)

In our core Building Management and Operation Business, which includes building management and security services, we enjoyed steady growth in new contracts for real estate services, in addition to the contribution of the results of the new consolidated subsidiary mentioned above. As a result, net sales for the first three months of the fiscal year ending March 2015 increased by 11.4% year on year to 17,754 million yen.

Segment income was 1,767 million yen, up 4.3% year on year, due to tighter cost management overcoming a sluggish growth in price per contract and other factors.

(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 renewal of existing contracts, particularly for the management of incinerators and recycling facilities. As a result, net sales for the segment amounted to 2,110 million yen, up 0.4% year on year, for the first three months of the fiscal year ending March 2015.

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, review procurement costs, and realign personnel assignments to better match actual needs. As a result, segment income for the quarter was 238 million yen, up 15.7% year on year.

(Real Estate Fund Management Business)

In the Real Estate Fund Management Business, which mainly comprises asset management business (i.e. composition and asset management of real estate funds) and handling investments in a silent partnership, net sales for the segment for the first three months of the fiscal year ending March 2015 were 591 million yen, up 37.1% compared to same period of the previous fiscal year. While asset management income is trending slightly lower, mainly reflecting the sale of assets under management, profits were recorded due to the sale of real estate for sale other than those under management.

Turning to profits, segment income was 308 million yen, up 375.1% year on year. In addition to high profit margins associated with the sale of real estate for sale, this dramatic income growth reflected our ongoing efforts in expense reductions and steps to improve operational efficiency.

(Other Businesses)

Other Businesses, which consist mainly of event planning and management, printing and design, saw steady growth in orders for all types of events, lifting segment net sales by 21.9% year on year to 481 million yen, and segment income to 2 million yen, an improvement of 16 million yen from the same period of the previous fiscal year.

(2) Explanation regarding financial position

Total assets at the end of the first quarter of the current fiscal year increased by 122 million yen or 0.2% from the previous fiscal year-end to 51,570 million yen, mainly due to a decline from the collection of notes and accounts receivable - trade and an increase from the fair market valuation of investment securities.

Liabilities decreased by 879 million yen or 4.4% from the previous fiscal year end to 18,933 million yen mainly due to the decrease in accounts payable - trade and income taxes payable.

Net assets increased by 1,001 million yen or 3.2% year on year to 32,636 million yen as the positive effect of the recording of quarterly net income outweighed cash dividends paid. As a result, equity ratio as of June 30, 2014 increased by 2.2 percentage points to 60.2% from the previous fiscal year end.

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

We expect that our business environment will continue to be severe.

The Company's business performance outlook remains largely in line with forecasts announced on May 8, 2014. Consequently, there are no changes to the full-year business outlook at this time.

2. Supplement to summary information (Notes)

(1) Changes of significant subsidiaries during the term

There are no applicable matters to be reported.

While there was no transfer of specified subsidiaries, during the first quarter of the current fiscal year, NKS Co., Ltd. absorbed consolidated subsidiary Kanzai Facility Co., Ltd., with the trade name of the post-merger company changed to Nippon Kanzai Service Co., Ltd. In line with this change, Kanzai Facility Co., Ltd. was removed from the scope of consolidation.

(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]

From the first quarter of the fiscal year ending March 31, 2015, the Company has applied the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012; hereinafter, the "Accounting Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012; hereinafter, the "Guidance"), specifically to contents stipulated in paragraph 35 of the Accounting Standard and in paragraph 67 of the Guidance. Following a review of its method for calculating retirement benefit obligation and service cost, the Company will continue to employ straight-line attribution as the method for imputing its retirement benefit estimates for a given period. For the period of corporate bonds—the basis of the methodology used to determine the discount rate—the Company has switched from a method of determination based on a number of years closely approximating employees' average remaining period of service to a method that utilizes a single weighted average discount rate, reflecting the estimated period for payment of retirement benefits and the monetary value of each estimated period for payment.

For the application of the Accounting Standard and the Guidance, pursuant to past adjustments stipulated in paragraph 37 of the Accounting Standard (not applied retroactively to past periods in the financial statements), monetary effects accompanying changes in the method for calculating retirement benefit liability and service costs, are adjusted with retained earnings at the beginning of the period starting from the first quarter of the consolidated fiscal year ending March 31, 2015.

As a result, net defined benefit asset at the beginning of the period for the first quarter of the fiscal year ending March 31, 2015 increased by 26,807 thousand yen, while net defined benefit liability decreased by 90,058 thousand yen. In parallel, retained earnings increased by 63,909 thousand yen. Operating income, ordinary income and income before income taxes and minority interests for the first quarter of the fiscal year ending March 2015 increased by 4,233 thousand yen, respectively.

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

(Thousands of yen)

	Fiscal year ended March 31, 2014 (As of March 31, 2014)	First quarter ended June 30, 2014 (As of June 30, 2014)
ASSETS		
Current assets		
Cash and deposits	16,046,897	15,822,945
Notes and accounts receivable - trade	9,896,868	9,076,967
Investments in silent partnership for business purposes	288,029	294,900
Supplies	87,351	79,563
Real estate for sale	715,898	574,670
Income taxes receivable	2,367	31,198
Deferred tax assets	464,877	411,608
Other	1,016,014	1,650,652
Allowance for doubtful accounts	(15,756)	(12,943)
Total current assets	28,502,545	27,929,560
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	2,807,840	2,947,026
Machinery, equipment and vehicles, net	48,361	53,912
Tools, furniture and fixtures, net	377,970	414,552
Land	1,798,571	1,798,571
Lease assets, net	557,861	584,780
Construction in progress	81,285	152,703
Total property, plant and equipment	5,671,888	5,951,544
Intangible assets		
Telephone subscription right	45,467	45,435
Software	143,074	140,322
Goodwill	2,296,596	2,266,770
Lease assets	26,855	27,564
Other	13,809	12,381
Total intangible assets	2,525,801	2,492,472
Investments and other assets		
Investment securities	11,654,748	12,256,350
Long-term loans receivable	538,721	528,744
Long-term prepaid expenses	8,545	10,350
Lease and guarantee deposits	1,467,119	1,348,164
Membership	413,965	414,042
Net defined benefit asset	44,828	100,042
Deferred tax assets	272,583	202,419
Other	520,279	509,478
Allowance for doubtful accounts	(172,915)	(172,914)
Total investments and other assets	14,747,873	15,196,675
Total non-current assets	22,945,562	23,640,691
TOTAL ASSETS	51,448,107	51,570,251

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

	(Thousands of yen)	
	Fiscal year ended March 31, 2014 (As of March 31, 2014)	First quarter ended June 30, 2014 (As of June 30, 2014)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	5,554,935	4,840,121
Short-term loans payable	1,100,000	1,100,000
Current portion of long-term loans payable	741,000	741,000
Lease obligations	222,499	218,984
Accrued expenses	2,210,788	3,334,732
Income taxes payable	1,359,010	208,919
Accrued consumption taxes	376,611	751,072
Deposits received	431,307	442,120
Advances received	45,709	372,468
Provision for bonuses	675,040	71,941
Provision for directors' bonuses	75,093	16,194
Asset retirement obligations	5,290	—
Other	41,772	160,064
Total current liabilities	12,839,054	12,257,615
Non-current liabilities		
Long-term loans payable	4,408,870	4,182,120
Lease obligations	380,415	408,276
Deferred tax liabilities	368,653	491,506
Provision for directors' retirement benefits	564,855	498,799
Net defined benefit liability	593,475	452,407
Long-term guarantee deposited	368,394	346,382
Asset retirement obligations	214,321	226,115
Liabilities from application of equity method	50,821	38,521
Other	24,550	32,085
Total non-current liabilities	6,974,354	6,676,211
TOTAL LIABILITIES	19,813,408	18,933,826
NET ASSETS		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	617,972	617,972
Retained earnings	30,516,725	31,312,522
Treasury stock	(5,390,831)	(5,364,324)
Total shareholders' equity	28,743,866	29,566,170
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,490,447	1,737,150
Foreign currency translation adjustment	(233,942)	(131,563)
Remeasurements of defined benefit plans	(138,106)	(119,084)
Total accumulated other comprehensive income	1,118,399	1,486,503
Minority interests	1,772,434	1,583,752
TOTAL NET ASSETS	31,634,699	32,636,425
TOTAL LIABILITIES AND NET ASSETS	51,448,107	51,570,251

*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, 2013 (April 1, 2013 to June 30, 2013)	Three months ended June 30, 2014 (April 1, 2014 to June 30, 2014)
Net sales	18,869,709	20,937,677
Cost of sales	15,310,446	16,568,802
Gross profit	3,559,263	4,368,875
Selling, general and administrative expenses		
Selling expenses	35,112	46,286
Personnel expenses	1,373,685	1,695,471
Provision for bonuses	21,546	44,266
Provision for directors' bonuses	20,281	34,954
Provision for directors' retirement benefits	30,286	7,063
Retirement benefit expenses	40,130	43,337
Transportation and communication expenses	198,101	252,793
Supplies expenses	88,202	100,919
Rent expenses	179,995	207,512
Insurance expenses	54,529	74,052
Depreciation	100,431	89,538
Taxes and dues	46,379	70,014
Enterprise tax	21,837	21,337
Provision of allowance for doubtful accounts	(1,898)	(2,700)
Amortization of goodwill	5,563	29,826
Other	220,021	265,600
Total selling, general and administrative expenses	2,434,200	2,980,268
Operating income	1,125,063	1,388,607
Non-operating income		
Interest and dividends income	54,015	57,403
Gain on sales of investment securities	—	3,907
Rent income	9,651	9,566
Share of profit of entities accounted for using equity method	—	152,747
Foreign exchange gains	74,250	—
Other	30,428	21,842
Total non-operating income	168,344	245,465
Non-operating expenses		
Interest expenses	33,172	17,506
Rent expenses	15,264	15,625
Share of loss of entities accounted for using equity method	12,567	—
Loss on sales and retirement of non-current assets	9,133	9,076
Other	4,751	19,817
Total non-operating expenses	74,887	62,024
Ordinary income	1,218,520	1,572,048
Quarterly income before income taxes and minority interests	1,218,520	1,572,048
Income taxes — current	538,276	366,923
Income taxes — deferred	(30,374)	73,916
Total income taxes	507,902	440,839
Quarterly income before minority interests	710,618	1,131,209
Minority interests in income	55,167	21,036
Quarterly net income	655,451	1,110,173

*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, 2013 (April 1, 2013 to June 30, 2013)	Three months ended June 30, 2014 (April 1, 2014 to June 30, 2014)
Quarterly income before minority interests	710,618	1,131,209
Other comprehensive income		
Valuation difference on available-for-sale securities	177,195	247,208
Remeasurements of defined benefit plans, net of tax	—	29,827
Share of other comprehensive income of entities accounted for using equity method	—	102,379
Total other comprehensive income	177,195	379,414
Quarterly comprehensive income	887,813	1,510,623
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	832,981	1,478,278
Comprehensive income attributable to minority interests	54,832	32,345

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

(3) Notes on quarterly financial statements**(Notes on a going concern assumption)**

Not applicable.

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

Not applicable.

(Segment information)

I Three months ended June 30, 2013 (April 1, 2013 to June 30, 2013)

1. Information on 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	15,940,850	2,102,568	431,206	395,085	18,869,709	—	18,869,709
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	15,940,850	2,102,568	431,206	395,085	18,869,709	—	18,869,709
Segment income (loss)	1,694,187	206,131	64,843	(13,333)	1,951,828	(826,765)	1,125,063

Notes: 1. Adjustments to segment income consist of (826,765) 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. Information on assets for each reportable segment

(Significant increase in assets due to the acquisition of a subsidiary)

During the first three months of the fiscal year ending March 2014, the Company acquired shares in NJK Holding K.K. and included the company and its subsidiaries in the consolidation scope. As a result, assets of the Building Management and Operation Business segment increased by 5,761,115 thousand yen from the previous fiscal year end.

3. Information on impairment losses of noncurrent assets and goodwill for each reportable segment

(Significant changes in the amount of goodwill)

Following the acquisition of shares in NJK Holding K.K., the Company recognized goodwill in the Building Management and Operation Business segment. Due to the acquisition, the amount of goodwill increased by 2,386,073 thousand yen during the first three months of the fiscal year ending March 2014.

II Three months ended June 30, 2014 (April 1, 2014 to June 30, 2014)

1. Information on 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	17,754,663	2,110,315	591,195	481,504	20,937,677	—	20,937,677
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	17,754,663	2,110,315	591,195	481,504	20,937,677	—	20,937,677
Segment income	1,767,705	238,399	308,064	2,857	2,317,025	(928,418)	1,388,607

Notes: 1. Adjustments to segment income consist of (928,418) thousand yen in unallocated general administrative expenses.

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

2. Matters regarding changes to reporting segments, etc.

As noted previously under changes to accounting policies, in line with changes to the method for calculating retirement benefit obligation and service cost from the first quarter of the fiscal year ending March 2015, the Company has also made the same changes to the method for calculating retirement benefit obligation and service cost in each business segment.

Due to this change, compared to the previous method used, segment income in the Building Management and Operation Business for the first quarter of the consolidated fiscal year ending March 2015 increased by 4,377 thousand yen. The impact of this change on segment income was negligible for the Environmental Facility Management Business and the Real Estate Fund Management Business.