

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

August 5, 2011

NIPPON KANZAI Co., Ltd.

Listed Exchanges: Tokyo Stock Exchange and Osaka Securities Exchange, First Section
Code Number: 9728 URL: <http://www.nkanzai.co.jp/>
Representative: Shintaro Fukuda, President and Representative Director
Contact: Yasuhiro Harada, General Manager of Finance Department and Director
Telephone: 03-5290-5812
Filing date of quarterly report: August 10, 2011
Date to start dividends distribution: —
Supplementary quarterly materials prepared: No
Quarterly results information meeting held: No

*Amounts under one million yen have been rounded down.

1. Consolidated results for the first quarter ended June 30, 2011 (April 1, 2011 to June 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	%
Three months ended June 30, 2011	18,013	(2.5)	899	5.3	982	10.9
Three months ended June 30, 2010	18,474	4.0	854	12.4	885	13.4

Note: Comprehensive income: Three months ended June 30, 2011: ¥ 564 million (76.9%), Three months ended June 30, 2010: ¥318 million (—%)

	Net Income		Net Income per Share	Diluted Net Income per Share
	Millions of yen	%	Yen	Yen
Three months ended June 30, 2011	509	40.5	30.12	—
Three months ended June 30, 2010	362	(17.9)	20.99	—

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of June 30, 2011	36,916	24,690	62.8
As of March 31, 2011	37,233	24,780	62.3

Note: Shareholders' equity: As of June 30, 2011: ¥ 23,171 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
Year ended March 31, 2011	—	16.00	—	34.00	50.00
Year ending March 31, 2012	—				
Year ending March 31, 2012 (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 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
First six months	36,700	0.2	1,800	2.2	1,900	4.4	1,000	26.8	58.80
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 June 30, 2011	20,590,153 shares	As of March 31, 2011	20,590,153 shares
2)	As of June 30, 2011	3,674,902 shares	As of March 31, 2011	3,698,202 shares
3)	First three months ended June 30, 2011	16,900,824 shares	First three months ended June 30, 2010	17,261,495 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 special items**

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 the 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 2012, the Japanese economy gradually recovered from the sudden downturn resulting from the Great East Japan Earthquake, and, despite concerns regarding electric power supplies, the government's slowness in implementing recovery measures, and other matters that are causes for uncertainty about the country's economic future, there were also indications, like factories restarting operations, that recoveries among Japanese companies are gaining momentum.

In the real estate service industry, tough conditions continued as clients focused even more on cutting costs, buildings under contract were closed or had services scaled back, and office vacancies climbed.

Against that background, the Nippon Kan-zai Group continued efforts to expand its businesses peripheral to building maintenance, while engaging in aggressive business development activities targeting its property management and private finance initiatives (PFI), and the strengthening of group companies.

Consolidated net sales for the first three months fell 2.5% compared to the same period in the previous year, to 18,013 million yen as the lack of real estate fund asset sales proceeds, which were recorded for the first three months of the previous fiscal year, negated the positive effects of largely steady growth in new contracts.

Income suffered as stagnant unit prices for contracts put downward pressure on profitability. However, with efforts to cut and hold down management costs by thoroughly reviewing procurement unit prices and managing time better, and the lack of expenses related to the asset sales referred to the above, to the Group could improved its earnings compared to the same period of the previous fiscal year; operating income of 899 million yen, up 5.3%, ordinary income of 982 million yen, up 10.9%, and net income of 509 million yen up 40.5%.

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 is engaged in building management and security services, experienced strong orders for real estate services, recorded net sales for the first three months of 15,644 million yen, up 1.0% compared to the same period of the previous year.

Although a lack of growth in unit prices of contracts had a negative impact, this was overcome by successful efforts to lower cost ratios. As a result, the segment income came to 1,524 million yen, up 3.4%.

(Environmental Facility Management Business)

In the Environmental Facility Management Business, which is mainly engaged in 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 1,735 million yen, up 6.1% 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 rose 45.5% to 155 million yen.

(Real Estate Fund Management Business)

In the Real Estate Fund Management Business, which mainly entails forming and asset management of real estate funds, and handles investments in anonymous associations, a stable asset management income was recorded, but proceeds from sales of assets were not recorded. As a result, net sales for the segment came to 100 million yen, down 87.2% compared to the same period of the previous year.

Expenses regarding sales of assets were not recorded for the current period. Therefore, segment income came to 8 million yen, down 80.4%.

(Other Businesses)

Other Businesses, which consist mainly of event planning and management, printing, and design, suffered from both the downsizing of events and cost-cutting measures by clients, and held net sales for the segment to 533 million yen, down 4.9% from the same period of the previous year, and segment income came to 17 million yen, down 32.8%.

(2) Qualitative information on consolidated financial position

Total assets at the end of the first three months of the current fiscal year decreased 316 million yen, or 0.9% compared to the previous fiscal year end to 36,916 million yen.

This was due mainly to the difference between increases in prepaid expenses and investment securities, and decreases in collections of accounts receivable and in guarantees and deposits for leasehold estates in connection with the cancellation of master lease agreements.

Liabilities decreased 227 million yen, or 1.8% compared to the previous fiscal year end to 12,225 million yen due to an increase in accrued expenses and decreases in accrued income tax payments and in deposit guarantees received because of the cancellations of master lease agreements referred to the above.

Net assets came to 24,690 million yen, down 89 million yen, or 0.4%, as the positive effect of the recording of net income for the quarter was outweighed by dividend payments. As a result, equity ratio at the fiscal year end increased 0.5 percentage points to 62.8% from the previous fiscal year end.

(3) Qualitative information on consolidated business forecasts

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

Consolidated financial 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 no related information.

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

There is no related information.

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

There is no related information.

3. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

	(Thousands of yen)	
	Year ended March 31, 2011 (As of March 31, 2011)	First quarter ended June 30, 2011 (As of June 30, 2011)
ASSETS		
Current assets		
Cash and time deposits	11,801,956	11,940,028
Notes and accounts receivable	8,240,981	7,738,920
Investments in anonymous associations for business purposes	269,638	269,638
Supplies	71,619	74,549
Real estate for sale	2,063,938	2,085,465
Income taxes receivable	10,229	10,522
Deferred tax assets	407,612	409,037
Other	840,612	1,218,905
Allowance for doubtful accounts	(40,759)	(80,489)
Total current assets	23,665,826	23,666,575
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	1,732,981	1,708,036
Machinery and vehicles, net	44,415	42,161
Tools, appliance and equipment, net	239,486	238,993
Land	1,255,093	1,255,093
Lease assets, net	657,030	667,220
Total tangible fixed assets	3,929,005	3,911,503
Intangible fixed assets		
Telephone subscription rights	34,790	34,943
Software	568,536	520,168
Goodwill	124,126	87,070
Lease assets	15,299	14,297
Total intangible fixed assets	742,751	656,478
Investments and other assets		
Investment securities	5,075,640	5,300,469
Long-term loans	536,054	522,579
Long-term prepaid expenses	8,408	4,106
Guarantee and deposit for leasehold estate	1,843,616	1,443,627
Memberships	397,319	381,934
Deferred tax assets	792,983	719,553
Other	1,043,530	1,056,823
Allowance for doubtful accounts	(801,532)	(746,895)
Total investments and other assets	8,896,018	8,682,196
Total fixed assets	13,567,774	13,250,177
TOTAL ASSETS	37,233,600	36,916,752

(Thousands of yen)

	Year ended March 31, 2011 (As of March 31, 2011)	First quarter ended June 30, 2011 (As of June 30, 2011)
LIABILITIES		
Current liabilities		
Notes and accounts payable	4,007,277	4,104,135
Current portion of long-term loans payable	166,000	166,000
Current portion of long-term non-recourse loans	19,800	18,900
Lease obligations	144,388	152,617
Accrued expenses	1,891,946	2,784,074
Accrued income taxes	592,106	309,247
Accrued consumption taxes	321,986	446,912
Deposits received	210,574	316,181
Advances received	52,530	66,465
Allowance for bonuses	617,610	99,041
Allowance for directors' bonuses	79,421	19,261
Other	96,289	66,358
Total current liabilities	8,199,927	8,549,191
Fixed liabilities		
Long-term loans payable	333,904	250,904
Long-term non-recourse loans	1,313,300	1,294,400
Lease obligations	522,793	524,257
Deferred tax liability	9,333	10,659
Allowance for employees' retirement benefits	140,636	152,509
Allowance for directors' retirement benefits	505,994	411,162
Long-term guarantee deposits received	1,173,767	775,670
Asset retirement obligations	189,078	198,146
Liabilities from application of equity method	31,568	26,092
Other	32,818	32,954
Total fixed liabilities	4,253,191	3,676,753
TOTAL LIABILITIES	12,453,118	12,225,944
NET ASSETS		
Shareholders' equity		
Common stock	3,000,000	3,000,000
Capital surplus	498,800	498,800
Retained earnings	24,984,851	24,916,925
Treasury stock	(5,392,761)	(5,358,789)
Total shareholders' equity	23,090,890	23,056,936
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	89,336	114,612
Total unrealized gains and adjustments	89,336	114,612
Minority interests	1,600,256	1,519,260
TOTAL NET ASSETS	24,780,482	24,690,808
TOTAL LIABILITIES AND NET ASSETS	37,233,600	36,916,752

(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, 2010 (April 1, 2010 to June 30, 2010)	Three months ended June 30, 2011 (April 1, 2011 to June 30, 2011)
Net sales	18,474,269	18,013,283
Cost of sales	15,087,074	14,595,868
Gross profit	3,387,195	3,417,415
Selling, general and administrative expenses		
Selling expenses	33,721	31,788
Personnel expenses	1,430,616	1,452,537
Provision for accrued bonus	30,340	27,968
Provision for directors' bonuses	19,432	19,261
Provision for directors' retirement benefits	32,263	7,750
Retirement benefits expense	33,174	33,667
Transportation and communication expense	189,731	193,952
Supplies expense	94,398	88,137
Rent expense	199,480	199,183
Insurance expense	49,242	46,189
Depreciation and amortization	89,591	94,165
Tax and public charge	47,159	52,223
Enterprise tax	18,909	20,387
Provision of allowance for doubtful accounts	307	93
Amortization of goodwill	37,153	37,056
Other	226,872	213,333
Total selling, general and administrative expenses	2,532,388	2,517,689
Operating income	854,807	899,726
Non-operating income		
Interest and dividends income	47,015	48,199
Rent earned	9,681	9,608
Equity in earnings of affiliates	6,676	15,659
Other	14,954	42,241
Total non-operating income	78,326	115,707
Non-operating expenses		
Interest expense	6,500	10,341
Loss on sales of investment securities	18,927	—
Expense related to leasehold estates	15,685	15,656
Loss on retirement of fixed assets	4,551	1,472
Other	1,928	5,569
Total non-operating expenses	47,591	33,038
Ordinary income	885,542	982,395

(Thousands of yen)

	Three months ended June 30, 2010 (April 1, 2010 to June 30, 2010)	Three months ended June 30, 2011 (April 1, 2011 to June 30, 2011)
Extraordinary losses		
Loss on valuation of investment securities	1,500	0
Loss on valuation of membership	6,852	15,360
Loss on application of accounting standard for asset retirement obligations	113,748	—
Labor compensation costs	48,943	—
Total extraordinary losses	171,043	15,360
Quarterly income before income taxes and minority interests	714,499	967,035
Income taxes — current	354,045	378,320
Refund of income taxes for prior periods	(2,373)	—
Income taxes — deferred	(23,299)	49,431
Total income and other taxes	328,373	427,751
Quarterly income before minority interests	386,126	539,284
Minority interests in income	23,785	30,234
Quarterly net income	362,341	509,050

Quarterly consolidated statements of comprehensive income

(Thousands of yen)

	Three months ended June 30, 2010 (April 1, 2010 to June 30, 2010)	Three months ended June 30, 2011 (April 1, 2011 to June 30, 2011)
Quarterly income before minority interests	386,126	539,284
Other comprehensive income		
Valuation difference on available-for-sale securities	(67,288)	24,737
Total other comprehensive income	(67,288)	24,737
Comprehensive income	318,838	564,021
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	295,710	534,326
Comprehensive income attributable to minority interests	23,128	29,695

(3) Notes on premise of a going concern

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

There is no related information.

(4) Segment information

Three months ended June 30, 2010 (April 1, 2010 to June 30, 2010)

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

(Thousands of yen)

	Reportable Segment					Adjustments (note1)	Amount recorded on consolidated statements of income (note2)
	Building Management and Operating Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales							
Net sales to external customers	15,494,016	1,635,795	783,587	560,871	18,474,269	—	18,474,269
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	15,494,016	1,635,795	783,587	560,871	18,474,269	—	18,474,269
Segment income	1,473,736	106,765	44,124	25,466	1,650,091	(795,284)	854,807

Notes: 1. Adjustments to segment income consist of (795,284) 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 of fixed assets and goodwill by reportable segments

There is nothing to report.

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

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

(Thousands of yen)

	Reportable Segment					Adjustments (note1)	Amount recorded on consolidated statements of income (note2)
	Building Management and Operating 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 consolidated operating income described in quarterly consolidated statements of income.

2. Impairment of fixed assets and goodwill by reportable segments

There is nothing to report.

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

There is nothing to report.