

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

February 3, 2012

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
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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 third quarter ended December 31, 2011 (April 1, 2011 to December 31, 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	%
Nine months ended December 31, 2011	54,484	(1.1)	2,955	4.3	3,164	7.5
Nine months ended December 31, 2010	55,069	2.5	2,832	6.1	2,942	16.2

Note: Comprehensive income: Nine months ended December 31, 2011: ¥ 1,625 million (4.2%)

Nine months ended December 31, 2010: ¥ 1,560 million (—%)

	Net Income		Net Income per Share	Diluted Net Income per Share
	Millions of yen	%	Yen	Yen
Nine months ended December 31, 2011	1,632	17.9	96.41	—
Nine months ended December 31, 2010	1,384	7.0	81.24	—

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of December 31, 2011	37,180	25,515	64.4
As of March 31, 2011	37,233	24,780	62.3

Note: Shareholders' equity: As of December 31, 2011: ¥ 23,944 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	Yen —	Yen 16.00	Yen —	Yen 34.00	Yen 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
Year-end dividend for the fiscal year ended March 31, 2011 includes commemorative dividend of ¥10.00.

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 December 31, 2011	20,590,153 shares	As of March 31, 2011	20,590,153 shares
2)	As of December 31, 2011	3,602,625 shares	As of March 31, 2011	3,698,202 shares
3)	First nine months ended December 31, 2011	16,932,876 shares	First nine months ended December 31, 2010	17,047,781 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 nine months of the fiscal year ending March 31, 2012, the Japanese economy began to show some signs of gradual recovery from the Great East Japan Earthquake and the electricity shortages and other follow-on impacts of that disaster. However, with fears that another downturn could result from negative factors like exchange rate and stock price fluctuations and the European sovereign debt crisis, coupled with flood damage in Thailand, 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 Kan-zai 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 making the best of the Group companies' strengths.

Consolidated net sales for the first nine months fell by 1.1% compared to the same period in the previous year to 54,484 million yen, due to difficulty in securing new contracts, delays in large construction projects, and a significant decrease in asset sales proceeds by real estate fund.

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 was a decrease in 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 2,955 million yen, up 4.3%, ordinary income of 3,164 million yen, up 7.5%, and net income of 1,632 million yen, up 17.9%.

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 ongoing difficulty in securing new contracts and delays in large construction projects and recorded net sales of 47,495 million yen for the first nine months, down 0.4% compared to the same period of the previous year.

Segment income came to 4,719 million yen, down 0.2% year on year, due to the sluggish growth in price per contract, a decline in relatively high-margin non-recurring work, and increases in major costs including start-up costs for new properties and outsourcing.

(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 5,257 million yen, up 2.3% 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 481 million yen, up 36.1% 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, but there was a significant decrease in proceeds from sales of assets. As a result, net sales for the segment came to 398 million yen, down 61.9% compared to the same period of the previous year.

Expenses regarding sales of assets decreased in the current period, while no real estate valuation losses were recorded. Thus, segment income was 115 million yen, up 34.5% year on year.

(Other Businesses)

Other Businesses, which mainly consist of event planning, event management, printing and design, were supported by a healthy number of contracts for various events. Thus, net sales for the segment came to 1,333 million yen, up 10.6% from the same period of the previous year, and segment income came to 3 million yen, up 53 million yen year on year.

(2) Qualitative information on consolidated financial position

[Consolidated balance sheets]

Total assets at the end of the third quarter of the current fiscal year decreased by 53 million yen or 0.1%, compared to the previous fiscal year end to 37,180 million yen, and stayed at almost the same level as the previous fiscal year results.

Liabilities decreased by 788 million yen or 6.3%, compared to the previous fiscal year end to 11,664 million yen due to payments of income taxes payable, a decrease in provision for bonuses caused by bonuses paid and a decrease in long-term guarantee deposited because of the cancellations of master lease agreements.

Net assets were 25,515 million yen, up 735 million yen or 3.0%, 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 2.1 percentage points to 64.4% from the previous fiscal year end.

(3) Qualitative information on consolidated business forecasts

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)	Third quarter ended December 31, 2011 (As of December 31, 2011)
ASSETS		
Current assets		
Cash and deposits	11,801,956	11,580,073
Notes and accounts receivable—trade	8,240,981	8,302,225
Investments in silent partnership for business purposes	269,638	214,649
Supplies	71,619	67,475
Real estate for sale	2,063,938	2,006,640
Income taxes receivable	10,229	9,444
Deferred tax assets	407,612	143,008
Other	840,612	1,382,517
Allowance for doubtful accounts	(40,759)	(78,309)
Total current assets	23,665,826	23,627,722
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	1,732,981	1,849,516
Machinery, equipment and vehicles, net	44,415	18,063
Tools, furniture and fixtures, net	239,486	241,762
Land	1,255,093	1,693,312
Lease assets, net	657,030	613,671
Total property, plant and equipment	3,929,005	4,416,324
Intangible assets		
Telephone subscription right	34,790	34,935
Software	568,536	436,555
Goodwill	124,126	44,307
Lease assets	15,299	16,119
Total intangible assets	742,751	531,916
Investments and other assets		
Investment securities	5,075,640	5,101,463
Long-term loans receivable	536,054	503,331
Long-term prepaid expenses	8,408	4,716
Lease and guarantee deposits	1,843,616	1,542,015
Membership	397,319	380,884
Deferred tax assets	792,983	760,841
Other	1,043,530	945,647
Allowance for doubtful accounts	(801,532)	(634,383)
Total investments and other assets	8,896,018	8,604,514
Total noncurrent assets	13,567,774	13,552,754
TOTAL ASSETS	37,233,600	37,180,476

*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)	Third quarter ended December 31, 2011 (As of December 31, 2011)
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	4,007,277	4,055,194
Current portion of long-term loans payable	166,000	166,000
Current portion of long-term non-recourse loans payable	19,800	18,800
Lease obligations	144,388	160,314
Accrued expenses	1,891,946	2,098,568
Income taxes payable	592,106	291,797
Accrued consumption taxes	321,986	321,131
Deposits received	210,574	625,272
Advances received	52,530	100,172
Provision for bonuses	617,610	94,541
Provision for directors' bonuses	79,421	56,182
Other	96,289	95,377
Total current liabilities	8,199,927	8,083,348
Noncurrent liabilities		
Long-term loans payable	333,904	167,904
Long-term non-recourse loans payable	1,313,300	1,254,800
Lease obligations	522,793	472,321
Deferred tax liabilities	9,333	13,384
Provision for retirement benefits	140,636	176,952
Provision for directors' retirement benefits	505,994	425,845
Long-term guarantee deposited	1,173,767	823,722
Asset retirement obligations	189,078	189,306
Liabilities from application of equity method	31,568	21,535
Other	32,818	35,449
Total noncurrent liabilities	4,253,191	3,581,218
TOTAL LIABILITIES	12,453,118	11,664,566
NET ASSETS		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	498,800	498,800
Retained earnings	24,984,851	25,697,887
Treasury stock	(5,392,761)	(5,253,290)
Total shareholders' equity	23,090,890	23,943,397
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	89,336	1,541
Total accumulated other comprehensive income	89,336	1,541
Minority interests	1,600,256	1,570,972
TOTAL NET ASSETS	24,780,482	25,515,910
TOTAL LIABILITIES AND NET ASSETS	37,233,600	37,180,476

*English translation of some items 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)

	Nine months ended December 31, 2010 (April 1, 2010 to December 31, 2010)	Nine months ended December 31, 2011 (April 1, 2011 to December 31, 2011)
Net sales	55,069,079	54,484,698
Cost of sales	44,776,996	44,036,850
Gross profit	10,292,083	10,447,848
Selling, general and administrative expenses		
Selling expenses	91,691	105,727
Personnel expenses	4,399,379	4,455,766
Provision for bonuses	27,861	27,103
Provision for directors' bonuses	56,088	56,182
Provision for directors' retirement benefits	51,802	22,433
Retirement benefit expenses	92,206	95,512
Transportation and communication expenses	580,083	613,532
Supplies expenses	269,980	266,368
Rent expenses	592,482	584,051
Insurance expenses	138,792	137,960
Depreciation	275,254	292,990
Taxes and dues	56,577	68,829
Enterprise tax	56,640	57,711
Provision of allowance for doubtful accounts	1,967	(2,087)
Amortization of goodwill	111,361	79,818
Other	657,482	630,340
Total selling, general and administrative expenses	7,459,645	7,492,235
Operating income	2,832,438	2,955,613
Non-operating income		
Interest and dividends income	119,199	125,113
Gain on sales of investment securities	—	3,420
Rent income	29,423	28,965
Equity in earnings of affiliates	43,258	50,192
Other	50,521	81,952
Total non-operating income	242,401	289,642
Non-operating expenses		
Interest expenses	23,206	29,975
Loss on sales of investment securities	18,927	—
Rent expenses	33,914	33,960
Loss on sales and retirement of noncurrent assets	6,632	2,140
Other	49,252	14,480
Total non-operating expenses	131,931	80,555
Ordinary income	2,942,908	3,164,700

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

(Thousands of yen)

	Nine months ended December 31, 2010 (April 1, 2010 to December 31, 2010)	Nine months ended December 31, 2011 (April 1, 2011 to December 31, 2011)
Extraordinary loss		
Loss on valuation of investment securities	200,102	60,062
Loss on valuation of membership	6,852	16,360
Loss on adjustment for changes of accounting standard for asset retirement obligations	113,748	—
Labor compensation costs	38,978	18,880
Other	11,985	—
Total extraordinary loss	371,665	95,302
Quarterly income before income taxes and minority interests	2,571,243	3,069,398
Income taxes — current	922,990	1,004,104
Refund of income taxes for prior periods	(2,373)	—
Income taxes — deferred	198,065	353,221
Total income taxes	1,118,682	1,357,325
Quarterly income before minority interests	1,452,561	1,712,073
Minority interests in income	67,603	79,538
Quarterly net income	1,384,958	1,632,535

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

Quarterly consolidated statements of comprehensive income

(Thousands of yen)

	Nine months ended December 31, 2010 (April 1, 2010 to December 31, 2010)	Nine months ended December 31, 2011 (April 1, 2011 to December 31, 2011)
Quarterly income before minority interests	1,452,561	1,712,073
Other comprehensive income		
Valuation difference on available-for-sale securities	107,529	(86,821)
Total other comprehensive income	107,529	(86,821)
Quarterly comprehensive income	1,560,090	1,625,252
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	1,493,186	1,544,740
Comprehensive income attributable to minority interests	66,904	80,512

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

(3) Notes on a going concern assumption

Nine months ended December 31, 2011 (April 1, 2011 to December 31, 2011)

There is nothing to report.

(4) Segment information

I Nine months ended December 31, 2010 (April 1, 2010 to December 31, 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	47,676,864	5,139,771	1,047,230	1,205,214	55,069,079	—	55,069,079
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	47,676,864	5,139,771	1,047,230	1,205,214	55,069,079	—	55,069,079
Segment income (loss)	4,731,309	353,604	85,480	(50,177)	5,120,216	(2,287,778)	2,832,438

Notes: 1. Adjustments to segment income consist of (2,287,778) thousand yen in unallocated general administrative expenses.

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

2. Impairment of noncurrent assets and goodwill by reportable segments

There is nothing to report.

II Nine months ended December 31, 2011 (April 1, 2011 to December 31, 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	47,495,469	5,257,467	398,547	1,333,215	54,484,698	—	54,484,698
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	47,495,469	5,257,467	398,547	1,333,215	54,484,698	—	54,484,698
Segment income	4,719,992	481,273	115,007	3,108	5,319,380	(2,363,767)	2,955,613

Notes: 1. Adjustments to segment income consist of (2,363,767) 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 noncurrent 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.