

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

February 5, 2013

NIPPON KANZAI Co., Ltd.

Listed Exchanges: Tokyo Stock Exchange and Osaka Securities Exchange, First Section
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Filing date of quarterly report: February 8, 2013
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, 2012 (April 1, 2012 to December 31, 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	%
Nine months ended December 31, 2012	55,588	2.0	2,838	(4.0)	3,010	(4.9)
Nine months ended December 31, 2011	54,484	(1.1)	2,955	4.3	3,164	7.5

Note: Comprehensive income: Nine months ended December 31, 2012: ¥ 1,852 million (14.0%)
Nine months ended December 31, 2011: ¥ 1,625 million (4.2%)

	Net Income		Net Income per Share		Diluted Net Income per Share	
	Millions of yen	%	Yen		Yen	
Nine months ended December 31, 2012	1,731	6.1	102.63		—	
Nine months ended December 31, 2011	1,632	17.9	96.41		—	

(2) Consolidated financial position

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen	%	Millions of yen	%	%	
As of December 31, 2012	38,512		27,169		66.4	
As of March 31, 2012	39,804		26,356		62.2	

Note: Shareholders' equity: As of December 31, 2012: ¥ 25,566 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	—	20.00	—	20.00	40.00
Fiscal year ending March 31, 2013	—	20.00	—		
Fiscal year ending March 31, 2013 (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, 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	
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 are those referred to in Article 10-5 of the Regulations Concerning the Terms, Forms, and Preparation Method for Quarterly Consolidated Financial Statements. For details, please refer to “(3) Changes in accounting policies, accounting estimates and restatement of revisions of 2. Matters concerning summary information (Notes)” 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 December 31, 2012	20,590,153 shares	As of March 31, 2012	20,590,153 shares
2)	As of December 31, 2012	3,799,513 shares	As of March 31, 2012	3,584,059 shares
3)	First nine months ended December 31, 2012	16,874,156 shares	First nine months ended December 31, 2011	16,932,876 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 “(3) Qualitative information on consolidated business forecasts of 1. Qualitative information on financial statements” 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, 2013, the Japanese economy experienced a mild recovery boosted by reconstruction demand following the Great East Japan Earthquake, although there remained concerns of the uncertain economic outlook in Europe and China and the prolonged strong yen. Despite the uncertainty, there has been a growing expectation that the Japanese economy is recovering based on the positive progress in stock markets and a weaker yen following the political power shift in December.

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 nine months rose 2.0% compared to the same period in the previous fiscal year to 55,588 million yen, as steady capture of new contracts and construction-related orders.

We continued to make efforts to improve profitability by thorough review of procurement unit prices and better time management. However, the Group’s earnings fell compared to the same period of the previous fiscal year; operating income of 2,838 million yen, down 4.0%, and ordinary income of 3,010 million yen, down 4.9%, due mainly to a rise in major costs such as personnel and subcontracting costs, a decrease in highly profitable contracts, and an increase in administrative costs, part of which is related to enhancing organizational power. However, net income increased by 6.1% to 1,731 million yen, due to a lower corporate tax rate.

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, which includes building management and security services, achieved favorable sales growth by capturing new contracts and construction-related orders. As a result, net sales of 48,206 million yen for the first nine months, up 1.5% compared to the same period of the previous fiscal year, was recorded.

Segment income was 4,739 million yen, up 0.4% year on year, resulting from our cost-cutting efforts focusing on administrative costs, despite the sluggish growth in price per contract and increases in major costs including personnel and subcontracting expenses.

(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 5,821 million yen, up 10.7% 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 547 million yen, up 13.8% year on year.

(Real Estate Fund Management Business)

In the asset management business, which comprises composition and asset management of real estate funds, and in the real estate fund management business, which mainly comprises investment in silent partnerships, a stable asset management income was recorded. However, since there was a decrease from the buying and selling of assets, net sales for the segment came to 372 million yen, down 6.6% compared to the same period of the previous fiscal year.

Consequently, segment income was 95 million yen, down 17.0% year on year as sales decreased.

(Other Businesses)

Other Businesses, which mainly consist of event planning and management, printing, and design, were negatively affected by a decrease in highly profitable event services and real estate brokerage orders. As a result, net sales for the segment for the first nine months decreased by 10.9% year on year to 1,188 million yen, and segment loss was 56 million yen, down 59 million yen compared to the previous fiscal year.

(2) Qualitative information on consolidated financial position

Total assets at the end of the third quarter of the current fiscal year decreased by 1,291 million yen, or 3.2%, compared to the previous fiscal year end to 38,512 million yen.

Major cause of this decrease is a decrease in cash and deposits, due to paying accounts payable—trade, etc.

Liabilities decreased by 2,104 million yen, or 15.6%, compared to the previous fiscal year end to 11,343 million yen.

The major causes are decreases in payments of notes and accounts payable—trade and income taxes payable, and in provisions for bonuses due to payment of bonuses.

Net assets rose by 812 million yen, or 3.1%, to 27,169 million yen as quarterly net income exceeded decreasing factors such as payments of cash dividends and purchase of treasury stock. As a result, equity ratio as of December 31, 2012 increased by 4.2 percentage points to 66.4% from the previous fiscal year end.

(3) Qualitative information on consolidated business forecasts

We expect our business environment will continue to be very challenging; nevertheless, we will strive to expand our business and improve its profitability.

Consolidated business results were in line with the forecasts announced on May 8, 2012; therefore, no revisions were made to our full-year 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 difficult to be distinguished from the changes in accounting estimates)

Starting from the first three months of the fiscal year ending March 31, 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 nine months increased by 3,233 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)	Third quarter ended December 31, 2012 (As of December 31, 2012)
ASSETS		
Current assets		
Cash and deposits	13,497,900	12,693,737
Notes and accounts receivable—trade	8,898,708	8,746,955
Investments in silent partnership for business purposes	193,550	308,036
Supplies	68,617	80,416
Real estate for sale	1,975,059	1,911,245
Income taxes receivable	9,524	38,545
Deferred tax assets	373,191	85,873
Other	1,011,921	1,192,304
Allowance for doubtful accounts	(12,679)	(11,524)
Total current assets	26,015,791	25,045,587
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	1,945,206	1,881,914
Machinery, equipment and vehicles, net	16,288	48,180
Tools, furniture and fixtures, net	248,627	261,201
Land	1,693,312	1,086,763
Lease assets, net	595,789	550,220
Construction in progress	—	140,533
Total property, plant and equipment	4,499,222	3,968,811
Intangible assets		
Telephone subscription right	34,935	34,790
Software	405,374	363,351
Goodwill	38,744	22,054
Lease assets	17,585	29,409
Total intangible assets	496,638	449,604
Investments and other assets		
Investment securities	5,498,630	5,079,342
Long-term loans receivable	502,534	530,904
Long-term prepaid expenses	7,481	16,313
Lease and guarantee deposits	1,471,314	1,547,337
Membership	380,259	403,123
Deferred tax assets	635,816	698,902
Other	937,191	1,409,416
Allowance for doubtful accounts	(640,404)	(636,355)
Total investments and other assets	8,792,821	9,048,982
Total noncurrent assets	13,788,681	13,467,397
TOTAL ASSETS	39,804,472	38,512,984

*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)	Third quarter ended December 31, 2012 (As of December 31, 2012)
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	4,982,556	4,357,913
Current portion of long-term loans payable	166,000	167,904
Current portion of long-term non-recourse loans payable	19,600	21,300
Lease obligations	165,697	187,883
Accrued expenses	1,992,654	2,160,096
Income taxes payable	1,070,229	99,056
Accrued consumption taxes	301,725	314,716
Deposits received	429,762	558,003
Advances received	46,729	74,795
Provision for bonuses	596,883	79,178
Provision for directors' bonuses	78,479	54,100
Other	62,916	98,858
Total current liabilities	9,913,230	8,173,802
Noncurrent liabilities		
Long-term loans payable	167,904	—
Long-term non-recourse loans payable	1,235,200	1,173,600
Lease obligations	453,255	403,610
Deferred tax liabilities	18,055	22,183
Provision for retirement benefits	200,202	284,643
Provision for directors' retirement benefits	432,572	475,212
Long-term guarantee deposited	762,104	536,747
Asset retirement obligations	206,260	222,444
Liabilities from application of equity method	21,535	29,491
Other	37,645	21,861
Total noncurrent liabilities	3,534,732	3,169,791
TOTAL LIABILITIES	13,447,962	11,343,593
NET ASSETS		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	498,800	498,800
Retained earnings	26,238,534	27,297,603
Treasury stock	(5,226,262)	(5,543,086)
Total shareholders' equity	24,511,072	25,253,317
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	257,239	312,755
Total accumulated other comprehensive income	257,239	312,755
Minority interests	1,588,199	1,603,319
TOTAL NET ASSETS	26,356,510	27,169,391
TOTAL LIABILITIES AND NET ASSETS	39,804,472	38,512,984

*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)	
	Nine months ended December 31, 2011 (April 1, 2011 to December 31, 2011)	Nine months ended December 31, 2012 (April 1, 2012 to December 31, 2012)
Net sales	54,484,698	55,588,074
Cost of sales	44,036,850	45,107,848
Gross profit	10,447,848	10,480,226
Selling, general and administrative expenses		
Selling expenses	105,727	126,308
Personnel expenses	4,455,766	4,447,349
Provision for bonuses	27,103	24,883
Provision for directors' bonuses	56,182	54,100
Provision for directors' retirement benefits	22,433	53,490
Retirement benefit expenses	95,512	133,552
Transportation and communication expenses	613,532	637,190
Supplies expenses	266,368	245,573
Rent expenses	584,051	571,912
Insurance expenses	137,960	147,025
Depreciation	292,990	323,020
Taxes and dues	68,829	68,886
Enterprise tax	57,711	60,281
Provision of allowance for doubtful accounts	(2,087)	(2,283)
Amortization of goodwill	79,818	16,690
Other	630,340	733,716
Total selling, general and administrative expenses	7,492,235	7,641,692
Operating income	2,955,613	2,838,534
Non-operating income		
Interest and dividends income	125,113	128,371
Gain on sales of investment securities	3,420	—
Rent income	28,965	30,345
Equity in earnings of affiliates	50,192	37,355
Other	81,952	81,951
Total non-operating income	289,642	278,022
Non-operating expenses		
Interest expenses	29,975	22,838
Rent expenses	33,960	33,746
Loss on sales and retirement of noncurrent assets	2,140	26,323
Other	14,480	23,405
Total non-operating expenses	80,555	106,312
Ordinary income	3,164,700	3,010,244

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

(Thousands of yen)

	Nine months ended December 31, 2011 (April 1, 2011 to December 31, 2011)	Nine months ended December 31, 2012 (April 1, 2012 to December 31, 2012)
Extraordinary loss		
Loss on valuation of investment securities	60,062	44,253
Loss on valuation of membership	16,360	7,010
Provision of allowance for doubtful accounts	—	850
Labor compensation	18,880	—
Total extraordinary loss	95,302	52,113
Quarterly income before income taxes and minority interests	3,069,398	2,958,131
Income taxes — current	1,004,104	961,585
Income taxes — deferred	353,221	199,831
Total income taxes	1,357,325	1,161,416
Quarterly income before minority interests	1,712,073	1,796,715
Minority interests in income	79,538	64,847
Quarterly net income	1,632,535	1,731,868

*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)

	Nine months ended December 31, 2011 (April 1, 2011 to December 31, 2011)	Nine months ended December 31, 2012 (April 1, 2012 to December 31, 2012)
Quarterly income before minority interests	1,712,073	1,796,715
Other comprehensive income		
Valuation difference on available-for-sale securities	(86,821)	55,788
Total other comprehensive income	(86,821)	55,788
Quarterly comprehensive income	1,625,252	1,852,503
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	1,544,740	1,787,383
Comprehensive income attributable to minority interests	80,512	65,120

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

(3) Notes on a going concern assumption

Nine months ended December 31, 2012 (April 1, 2012 to December 31, 2012)

Not applicable.

(4) Segment information

I Nine months ended December 31, 2011 (April 1, 2011 to December 31, 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	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 operating income described in quarterly consolidated statements of income.

2. Impairment of noncurrent assets and goodwill by reportable segments

Not applicable.

II Nine months ended December 31, 2012 (April 1, 2012 to December 31, 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	48,206,219	5,821,188	372,309	1,188,358	55,588,074	—	55,588,074
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	48,206,219	5,821,188	372,309	1,188,358	55,588,374	—	55,588,074
Segment income (loss)	4,739,216	547,707	95,506	(56,323)	5,326,106	(2,487,572)	2,838,534

Notes: 1. Adjustments to segment income consist of (2,487,572) 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.