

**Consolidated Financial Statements**  
**for the First Quarter of the Fiscal Year Ending March 31, 2014 [J-GAAP]**

August 6, 2013

**NIPPON KANZAI Co., Ltd.**

Listed Exchanges: Tokyo Stock Exchange, First Section  
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 Filing date of quarterly report: August 9, 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 first quarter ended June 30, 2013 (April 1, 2013 to June 30, 2013)**

**(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, 2013	18,869	5.5	1,125	43.2	1,218	46.2
Three months ended June 30, 2012	17,889	(0.7)	785	(12.7)	833	(15.1)

Note: Comprehensive income: Three months ended June 30, 2013: ¥ 887 million (164.7%)  
 Three months ended June 30, 2012: ¥ 335 million (-40.5%)

	Net Income		Net Income per Share		Diluted Net Income per Share	
	Millions of yen	%	Yen		Yen	
Three months ended June 30, 2013	655	36.8	38.98		—	
Three months ended June 30, 2012	479	(5.9)	28.17		—	

**(2) Consolidated financial position**

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen		Millions of yen		%	
As of June 30, 2013	49,704		28,844		54.7	
As of March 31, 2013	45,330		28,313		58.8	

Note: Shareholders' equity: As of June 30, 2013: ¥ 27,197 million  
 As of March 31, 2013: ¥ 26,671 million

**2. Dividends**

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2013	Yen —	Yen 20.00	Yen —	Yen 20.00	Yen 40.00
Fiscal year ending March 31, 2014	—				
Fiscal year ending March 31, 2014 (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, 2014 (April 1, 2013 to March 31, 2014)**

(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	39,500	8.7	1,900	13.5	2,000	13.0	1,100	8.1	65.26
Full year	84,300	12.3	4,600	14.6	5,000	14.2	2,700	12.8	160.19

Note: Revisions to the most recently announced consolidated business forecasts in the current quarter: Yes

**\* 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.: | 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, 2013	20,590,153 shares	As of March 31, 2013	20,590,153 shares
2)	As of June 30, 2013	3,761,635 shares	As of March 31, 2013	3,780,794 shares
3)	First three months ended June 30, 2013	16,816,347 shares	First three months ended June 30, 2012	17,013,507 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**

Consolidated business forecasts have been revised as stated in this document and the “Notice of Revision of Consolidated Business Forecasts” announced today.

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) Explanation regarding information on future forecasts of 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 2014, the Japanese economy showed some signs of recovery such as the depreciation of the Japanese yen and the rise in stock prices backed by public expectations for monetary and fiscal policies led by the government. However, the economic outlook still remains uncertain due to some concerns including the downside risk given the current economic conditions overseas, particularly in emerging economies.

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 rose by 5.5% year on year to 18,869 million yen supported by steady receipt of new contracts and construction-related orders.

Although profitability was hurt by a sluggish growth in price per contract, we continued to make efforts to improve profitability by conducting a thorough review of procurement unit prices and better time management and cutting and restraining administrative costs. As a result, the Group achieved increases in income year-on-year and recorded operating income of 1,125 million yen, up 43.2% year on year, ordinary income of 1,218 million yen, up 46.2%, and quarterly net income of 655 million yen, up 36.8%.

The following are earnings by segment.

Segment income (loss) has been adjusted to 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, in which segment we enjoyed steady receipt of new contracts for real estate services. As a result, net sales for the first three months increased by 4.1% year on year to 15,940 million yen.

Segment income was 1,694 million yen, up 19.1% year on year, due to successful efforts to cut administrative costs 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 renewal of existing contracts, particularly for the management of incinerators and recycling facilities. In addition, certain operation management contracts were changed to comprehensive contracts for the operation management of the entire facility, which resulted in an increase in the contractual amount. As a result, net sales for the segment increased by 8.1% year on year to 2,102 million yen for the first three months of the fiscal year ending March 2014.

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 206 million yen, up 12.2% 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 silent partnership, a stable asset management income and gains on sales of assets were recorded. As a result, net sales for the segment increased by 305.1% year on year to 431 million yen for the first three months of the fiscal year ending March 2014.

While expenses related to sales of assets increased, with the help of our efforts in expense reductions and improvements in operational efficiency, segment income was 64 million yen, up 275.2% year on year.

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

Other Businesses, which mainly consist of event planning and management, printing and design, saw a decrease in orders for temporary event operations due to a downsizing of events, and impacts from cost-cutting measures by clients. For the first three months of the fiscal year ending March 2014, therefore, net sales decreased by 24.0% year on year to 395 million yen, and segment loss was 13 million yen, flat from the same period in 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 4,373 million yen or 9.6% from the previous fiscal year end to 49,704 million yen mainly due to the increase in goodwill that resulted from the acquisition of shares in subsidiaries.

Liabilities increased by 3,842 million yen or 22.6% from the previous fiscal year end to 20,860 million yen mainly due to the effect of long-term loans payable of the new consolidated subsidiaries.

Net assets increased by 530 million yen or 1.9% year on year to 28,844 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, 2013 decreased by 4.1 percentage points to 54.7% 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. Aiming at further business expansion under these circumstances, the Group acquired shares in NJK Holding K.K. on June 4, 2013 and the company became our consolidated subsidiary.

As a result, as stated in the “Notice of Revision of Consolidated Business Forecasts” announced today, we forecast that our consolidated business results for the current fiscal year will be higher than originally planned due to the contribution of NJK Holding K.K. and its subsidiaries starting from the second quarter of the current fiscal year.

**2. Supplement to summary information (Notes)**

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

As a result of the acquisition of shares in NJK Holding K.K. mentioned above, we include the company and its subsidiaries (Japan Housing Management Co., NJK Staff Service K.K., and Japan Housing Management Sapporo Co.) in the consolidation scope, although this does not fall under changes in specified subsidiaries.

Regarding the acquisition of shares, the Company acquired 50% of the voting rights on April 2, 2013 and the remaining 50% on June 4, 2013. Therefore, NJK Holding K.K. was accounted for as an equity method affiliate during the period from the initial acquisition through June 30, 2013, which is the deemed acquisition date pertaining to the control acquisition date.

**(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**

Not applicable.

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

(Thousands of yen)

	Fiscal year ended March 31, 2013 (As of March 31, 2013)	First quarter ended June 30, 2013 (As of June 30, 2013)
<b>ASSETS</b>		
Current assets		
Cash and deposits	14,787,733	14,263,745
Notes and accounts receivable—trade	8,864,470	8,801,506
Investments in silent partnership for business purposes	301,440	307,557
Supplies	79,076	104,395
Real estate for sale	1,582,211	1,486,178
Income taxes receivable	1,719	2,655
Deferred tax assets	362,963	416,774
Other	856,627	1,513,615
Allowance for doubtful accounts	(12,783)	(12,694)
Total current assets	26,823,456	26,883,731
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	1,843,232	2,360,662
Machinery, equipment and vehicles, net	45,735	59,423
Tools, furniture and fixtures, net	254,225	292,079
Land	1,086,763	1,823,031
Lease assets, net	553,529	594,473
Construction in progress	267,266	266,742
Total property, plant and equipment	4,050,750	5,396,410
Intangible assets		
Telephone subscription right	34,790	45,425
Software	310,202	267,824
Goodwill	16,490	2,397,000
Lease assets	28,753	29,899
Other	—	18,095
Total intangible assets	390,235	2,758,243
Investments and other assets		
Investment securities	10,714,843	11,194,246
Long-term loans receivable	530,108	556,226
Long-term prepaid expenses	10,052	7,601
Lease and guarantee deposits	1,462,445	1,486,254
Membership	410,108	412,849
Deferred tax assets	183,193	183,721
Other	886,967	1,017,096
Allowance for doubtful accounts	(131,237)	(191,777)
Total investments and other assets	14,066,479	14,666,216
Total noncurrent assets	18,507,464	22,820,869
<b>TOTAL ASSETS</b>	<b>45,330,920</b>	<b>49,704,600</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, 2013 (As of March 31, 2013)	First quarter ended June 30, 2013 (As of June 30, 2013)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable—trade	4,630,458	4,171,821
Short-term loans payable	—	580,000
Current portion of long-term loans payable	167,904	206,154
Current portion of long-term non-recourse loans payable	855,600	538,900
Lease obligations	199,519	213,509
Accrued expenses	2,054,411	3,530,399
Income taxes payable	665,746	421,614
Accrued consumption taxes	326,478	482,001
Deposits received	468,042	797,420
Advances received	48,440	191,287
Provision for bonuses	595,336	126,424
Provision for directors' bonuses	75,795	21,561
Other	81,828	281,173
Total current liabilities	10,169,557	11,562,263
Noncurrent liabilities		
Long-term loans payable	4,946,500	6,816,618
Lease obligations	392,973	415,812
Deferred tax liabilities	50,850	169,536
Provision for retirement benefits	324,346	432,376
Provision for directors' retirement benefits	481,849	557,865
Long-term guarantee deposited	372,162	397,085
Asset retirement obligations	225,570	230,452
Liabilities from application of equity method	30,992	36,655
Other	22,336	241,422
Total noncurrent liabilities	6,847,578	9,297,821
<b>TOTAL LIABILITIES</b>	17,017,135	20,860,084
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	498,800	498,800
Retained earnings	27,960,384	28,280,826
Treasury stock	(5,515,802)	(5,487,875)
Total shareholders' equity	25,943,382	26,291,751
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	728,296	905,826
Total accumulated other comprehensive income	728,296	905,826
Minority interests	1,642,107	1,646,939
<b>TOTAL NET ASSETS</b>	28,313,785	28,844,516
<b>TOTAL LIABILITIES AND NET ASSETS</b>	45,330,920	49,704,600

\*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, 2012 (April 1, 2012 to June 30, 2012)	Three months ended June 30, 2013 (April 1, 2013 to June 30, 2013)
Net sales	17,889,234	18,869,709
Cost of sales	14,508,655	15,310,446
Gross profit	3,380,579	3,559,263
Selling, general and administrative expenses		
Selling expenses	37,157	35,112
Personnel expenses	1,483,414	1,373,685
Provision for bonuses	22,108	21,546
Provision for directors' bonuses	18,110	20,281
Provision for directors' retirement benefits	8,547	30,286
Retirement benefit expenses	63,777	40,130
Transportation and communication expenses	222,950	198,101
Supplies expenses	88,252	88,202
Rent expenses	184,084	179,995
Insurance expenses	44,096	54,529
Depreciation	105,306	100,431
Taxes and dues	58,482	46,379
Enterprise tax	20,529	21,837
Provision of allowance for doubtful accounts	(2,774)	(1,898)
Amortization of goodwill	5,563	5,563
Other	235,509	220,021
Total selling, general and administrative expenses	2,595,110	2,434,200
Operating income	785,469	1,125,063
Non-operating income		
Interest and dividends income	47,966	54,015
Rent income	10,087	9,651
Foreign exchange gains	—	74,250
Other	30,253	30,428
Total non-operating income	88,306	168,344
Non-operating expenses		
Interest expenses	8,947	33,172
Rent expenses	15,357	15,264
Equity in losses of affiliates	6,223	12,567
Loss on sales and retirement of noncurrent assets	1,859	9,133
Other	7,780	4,751
Total non-operating expenses	40,166	74,887
Ordinary income	833,609	1,218,520
Quarterly income before income taxes and minority interests	833,609	1,218,520
Income taxes — current	325,025	538,276
Income taxes — deferred	6,030	(30,374)
Total income taxes	331,055	507,902
Quarterly income before minority interests	502,554	710,618
Minority interests in income	23,353	55,167
Quarterly net income	479,201	655,451

\*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, 2012 (April 1, 2012 to June 30, 2012)	Three months ended June 30, 2013 (April 1, 2013 to June 30, 2013)
Quarterly income before minority interests	502,554	710,618
Other comprehensive income		
Valuation difference on available-for-sale securities	(167,126)	177,195
Total other comprehensive income	(167,126)	177,195
Quarterly comprehensive income	335,428	887,813
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	312,249	832,981
Comprehensive income attributable to minority interests	23,179	54,832

\*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, 2012 (April 1, 2012 to June 30, 2012)****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	15,317,101	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. Information on impairment losses of noncurrent assets and goodwill for each reportable segment**

Not applicable.

**II 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.