

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

February 5, 2015

**NIPPON KANZAI Co., Ltd.**

Listed exchanges: Tokyo Stock Exchange, First Section  
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 Filing date of quarterly report: February 12, 2015  
 Date to start dividends distribution: —  
 Supplementary materials for quarterly results: None  
 Quarterly results briefing meeting held: None

\*Amounts under one million yen have been rounded down.

**1. Consolidated results for the third quarter ended December 31, 2014 (April 1, 2014 to December 31, 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	%
Nine months ended December 31, 2014	64,046	3.8	4,009	6.6	4,462	10.8
Nine months ended December 31, 2013	61,701	11.0	3,759	32.5	4,028	33.8

Note: Comprehensive income: Nine months ended December 31, 2014: ¥4,130 million (39.5%)  
 Nine months ended December 31, 2013: ¥2,960 million (59.8%)

	Net Income		Net Income per Share		Diluted Net Income per Share	
	Millions of yen	%	Yen		Yen	
Nine months ended December 31, 2014	2,947	24.8	173.64		—	
Nine months ended December 31, 2013	2,361	36.4	140.22		—	

**(2) Consolidated financial position**

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen	%	Millions of yen	%		
As of December 31, 2014	53,418		34,624		62.4	
As of March 31, 2014	51,448		31,634		58.0	

Note: Shareholders' equity: As of December 31, 2014: ¥33,310 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 —	Yen 20.00	Yen —	Yen 22.00	Yen 42.00
Fiscal year ending March 31, 2015	—	22.00	—		
Fiscal year ending March 31, 2015 (forecast)				22.00	44.00

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
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 December 31, 2014	20,590,153 shares	As of March 31, 2014	20,590,153 shares
2)	As of December 31, 2014	3,585,567 shares	As of March 31, 2014	3,641,383 shares
3)	First nine months ended December 31, 2014	16,972,895 shares	First nine months ended December 31, 2013	16,842,612 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 “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 nine months of the fiscal year ending March 31, 2015, the Japanese economy remained uncertain due to concerns over negative effects, especially on income of companies dependent on domestic demand, from protracted weakness in consumption triggered by an increase in consumption tax rate, as well as higher prices for imported raw materials following the yen's sharp depreciation, despite some improvements in corporate earnings, employment and income environments, supported by the government's economic and financial policies which resulted in a modest economic recovery.

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 nine months rose by 3.8% year on year to 64,046 million yen. While construction-related orders struggled in the face of an absence of a surge in demand seen prior to an increase in Japan's consumption tax rate, sales were lifted by the continuation of existing contracts and firm growth in the receipt of new contracts. Other factors in sales growth included contributions to performance 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 disposition of real estate for sale.

On the earnings front, operating income climbed 6.6% year on year to 4,009 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 disposition of highly profitable real estate for sale.

In other earnings, ordinary income increased by 10.8% year on year to 4,462 million yen, while quarterly net income rose by 24.8% year on year to 2,947 million yen. This substantial growth was attributable to the contribution of business performance by PICA\*, an Australian company that became an equity-method affiliate at the end of the fiscal year ended March 31, 2013, and to improvement in non-operating income, reflecting interest expense reduction by the newly consolidated subsidiary mentioned above.

\*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 (loss) 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 is mainly engaged in building management and security services, while construction-related orders struggled, 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 nine months of the fiscal year ending March 31, 2015 increased by 4.7% year on year to 55,645 million yen.

Segment income was 5,840 million yen, up 4.6% 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, while we secured an overall firm number of new contracts, particularly for the management of incinerators and recycling facilities, orders for large-scale construction were lower. As a result, net sales for the segment amounted to 6,329 million yen, down 0.8% year on year, for the first nine months of the fiscal year ending March 31, 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 635 million yen, up 5.3% 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, while the business posted stable asset management income and recorded profits due to the disposition of real estate for sale other than those under management, income from the disposition of assets under management was lower. As a result, net sales for the segment for the first nine months of the fiscal year ending March 31, 2015 were 757 million yen, down 32.6% compared to same period of the previous fiscal year.

Turning to profits, segment income was 326 million yen, up 177.5% year on year. In addition to high profit margins associated with the disposition of real estate for sale, this dramatic income growth reflected our ongoing efforts in

expense reductions and improvements on 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 and occasional services, lifting segment net sales by 23.8% year on year to 1,312 million yen, and segment income to 7 million yen, an improvement of 40 million yen from the same period of the previous fiscal year.

**(2) Explanation regarding financial position**

Total assets at the end of the third quarter of the current fiscal year increased by 1,970 million yen, or 3.8%, from the previous fiscal year-end to 53,418 million yen, mainly due to an increase of the fair market valuation of investment securities.

Liabilities decreased by 1,019 million yen or 5.1% from the previous fiscal year end to 18,794 million yen mainly due to the repayment of loans payable.

Net assets increased by 2,989 million yen or 9.5% year on year to 34,624 million yen as the positive effect of the recording of quarterly net income and an increase of valuation difference on available-for-sale securities outweighed cash dividends paid. As a result, equity ratio as of December 31, 2014 increased by 4.4 percentage points to 62.4% 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 third quarter of the fiscal year ending March 31, 2015.

As a result, net defined benefit asset at the beginning of the period for the third 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 third quarter of the fiscal year ending March 31, 2015 increased by 12,700 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)	Third quarter ended December 31, 2014 (As of December 31, 2014)
<b>ASSETS</b>		
Current assets		
Cash and deposits	16,046,897	15,419,407
Notes and accounts receivable—trade	9,896,868	9,691,508
Securities	—	10,061
Investments in silent partnership for business purposes	288,029	292,015
Supplies	87,351	78,271
Real estate for sale	715,898	568,132
Income taxes receivable	2,367	221,111
Deferred tax assets	464,877	129,322
Other	1,016,014	1,848,914
Allowance for doubtful accounts	(15,756)	(19,878)
<b>Total current assets</b>	<b>28,502,545</b>	<b>28,238,863</b>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	2,807,840	2,784,229
Machinery, equipment and vehicles, net	48,361	60,612
Tools, furniture and fixtures, net	377,970	393,928
Land	1,798,571	1,747,636
Lease assets, net	557,861	499,623
Construction in progress	81,285	152,703
<b>Total property, plant and equipment</b>	<b>5,671,888</b>	<b>5,638,731</b>
Intangible assets		
Telephone subscription right	45,467	45,435
Software	143,074	120,818
Goodwill	2,296,596	2,234,156
Lease assets	26,855	22,400
Software in progress	—	93,200
Other	13,809	9,524
<b>Total intangible assets</b>	<b>2,525,801</b>	<b>2,525,533</b>
Investments and other assets		
Investment securities	11,654,748	13,718,958
Long-term loans receivable	538,721	505,931
Long-term prepaid expenses	8,545	29,546
Lease and guarantee deposits	1,467,119	1,480,047
Membership	413,965	426,487
Net defined benefit asset	44,828	264,833
Deferred tax assets	272,583	167,821
Other	520,279	593,456
Allowance for doubtful accounts	(172,915)	(171,830)
<b>Total investments and other assets</b>	<b>14,747,873</b>	<b>17,015,249</b>
<b>Total noncurrent assets</b>	<b>22,945,562</b>	<b>25,179,513</b>
<b>TOTAL ASSETS</b>	<b>51,448,107</b>	<b>53,418,376</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, 2014 (As of March 31, 2014)	Third quarter ended December 31, 2014 (As of December 31, 2014)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable—trade	5,554,935	5,093,081
Short-term loans payable	1,100,000	—
Current portion of long-term loans payable	741,000	741,000
Current portion of long-term non-recourse loans payable	—	10,000
Lease obligations	222,499	196,945
Accrued expenses	2,210,788	2,897,500
Income taxes payable	1,359,010	109,538
Accrued consumption taxes	376,611	1,219,111
Deposits received	431,307	875,499
Advances received	45,709	356,874
Provision for bonuses	675,040	72,292
Provision for directors' bonuses	75,093	53,294
Asset retirement obligations	5,290	—
Other	41,772	90,405
<b>Total current liabilities</b>	<b>12,839,054</b>	<b>11,715,539</b>
Noncurrent liabilities		
Long-term loans payable	4,408,870	3,811,620
Long-term non-recourse loans payable	—	387,500
Lease obligations	380,415	338,903
Deferred tax liabilities	368,653	864,031
Provision for directors' retirement benefits	564,855	555,906
Net defined benefit liability	593,475	419,489
Long-term guarantee deposited	368,394	342,640
Asset retirement obligations	214,321	230,002
Liabilities from application of equity method	50,821	68,383
Other	24,550	60,161
<b>Total noncurrent liabilities</b>	<b>6,974,354</b>	<b>7,078,635</b>
<b>TOTAL LIABILITIES</b>	<b>19,813,408</b>	<b>18,794,174</b>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	617,972	617,972
Retained earnings	30,516,725	32,771,213
Treasury stock	(5,390,831)	(5,293,231)
<b>Total shareholders' equity</b>	<b>28,743,866</b>	<b>31,095,954</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,490,447	2,426,878
Foreign currency translation adjustment	(233,942)	(131,563)
Remeasurements of defined benefit plans	(138,106)	(81,040)
<b>Total accumulated other comprehensive income</b>	<b>1,118,399</b>	<b>2,214,275</b>
Minority interests	1,772,434	1,313,973
<b>TOTAL NET ASSETS</b>	<b>31,634,699</b>	<b>34,624,202</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>51,448,107</b>	<b>53,418,376</b>

\*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, 2013 (April 1, 2013 to December 31, 2013)	Nine months ended December 31, 2014 (April 1, 2014 to December 31, 2014)
Net sales	61,701,870	64,046,007
Cost of sales	49,608,353	51,102,379
Gross profit	12,093,517	12,943,628
Selling, general and administrative expenses		
Selling expenses	143,112	158,260
Personnel expenses	4,873,295	5,365,416
Provision for bonuses	96,694	47,409
Provision for directors' bonuses	54,044	53,294
Provision for directors' retirement benefits	63,350	64,170
Retirement benefit expenses	118,991	76,061
Transportation and communication expenses	669,989	737,965
Supplies expenses	287,331	285,451
Rent expenses	569,038	633,846
Insurance expenses	190,164	220,348
Depreciation	344,721	276,311
Taxes and dues	62,984	80,432
Enterprise tax	64,318	64,198
Provision of allowance for doubtful accounts	(2,705)	4,909
Amortization of goodwill	76,142	91,558
Other	722,201	774,431
Total selling, general and administrative expenses	8,333,669	8,934,059
Operating income	3,759,848	4,009,569
Non-operating income		
Interest and dividends income	146,554	144,899
Gain on sales of investment securities	—	25,499
Rent income	30,596	28,416
Share of profit of entities accounted for using equity method	164,988	332,121
Foreign exchange gains	74,250	—
Other	89,534	67,200
Total non-operating income	505,922	598,135
Non-operating expenses		
Interest expenses	114,616	48,214
Rent expenses	34,577	34,474
Loss on sales and retirement of noncurrent assets	34,313	13,276
Other	53,865	49,192
Total non-operating expenses	237,371	145,156
Ordinary income	4,028,399	4,462,548



	(Thousands of yen)	
	Nine months ended December 31, 2013 (April 1, 2013 to December 31, 2013)	Nine months ended December 31, 2014 (April 1, 2014 to December 31, 2014)
Extraordinary loss		
Loss on valuation of membership	1,640	—
Provision of allowance for doubtful accounts	454	—
Total extraordinary loss	2,094	—
Quarterly income before income taxes and minority interests	4,026,305	4,462,548
Income taxes — current	1,388,439	1,053,242
Income taxes — deferred	135,460	387,484
Total income taxes	1,523,899	1,440,726
Quarterly income before minority interests	2,502,406	3,021,822
Minority interests in income	140,800	74,680
Quarterly net income	2,361,606	2,947,142

\*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, 2013 (April 1, 2013 to December 31, 2013)	Nine months ended December 31, 2014 (April 1, 2014 to December 31, 2014)
Quarterly income before minority interests	2,502,406	3,021,822
Other comprehensive income		
Valuation difference on available-for-sale securities	815,800	937,458
Remeasurements of defined benefit plans, net of tax	—	68,670
Share of other comprehensive income of entities accounted for using equity method	(358,178)	102,379
Total other comprehensive income	457,622	1,108,507
Quarterly comprehensive income	2,960,028	4,130,329
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	2,818,544	4,043,019
Comprehensive income attributable to minority interests	141,484	87,310

\*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 Nine months ended December 31, 2013 (April 1, 2013 to December 31, 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	53,138,225	6,379,431	1,123,248	1,060,966	61,701,870	—	61,701,870
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	53,138,225	6,379,431	1,123,248	1,060,966	61,701,870	—	61,701,870
Segment income (loss)	5,583,371	603,926	117,652	(33,599)	6,271,350	(2,511,502)	3,759,848

Notes: 1. Adjustments to segment income consist of (2,511,502) 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**

Assets by reportable segment for the first nine months have changed significantly from the previous fiscal year end as follows:

During the first three months of the fiscal year ended March 31, 2014, the Company acquired all shares in NJK Holding K.K. and included the company and its three subsidiaries in the consolidation scope. As a result, assets of the Building Management and Operation Business segment increased by 2,727,282 thousand yen.

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

(Significant changes in the amount of goodwill)

During the first three months of the fiscal year ended March 31, 2014, the Company acquired all shares in NJK Holding K.K. and included the company and its three subsidiaries in the consolidation scope. As a result, goodwill of the Building Management and Operation Business segment increased.

Due to the acquisition, the amount of goodwill increased by 2,326,422 thousand yen during the first nine months of the fiscal year ended March 31, 2014.

**II Nine months ended December 31, 2014 (April 1, 2014 to December 31, 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	55,645,956	6,329,603	757,497	1,312,951	64,046,007	—	64,046,007
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	55,645,956	6,329,603	757,497	1,312,951	64,046,007	—	64,046,007
Segment income (loss)	5,840,097	635,633	326,453	7,286	6,809,469	(2,799,900)	4,009,569

Notes: 1. Adjustments to segment income consist of (2,799,900) 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. 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 31, 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 third quarter of the fiscal year ending March 31, 2015 increased by 13,134 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.