# Quarterly Report

(First Quarter of 34th term)

From April 1, 2018
to June 30, 2018

NTT Urban Development Corporation

4-14-1, Sotokanda, Chiyoda-ku, Tokyo

# Contents

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| Document submitted | Quarterly Report |
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| Destination | Director General of the Kanto Finance Bureau |
| Date of submission | August 6, 2018 |
| Quarterly accounting period | First quarter of 34th term (from April 1, 2018 to June 30, 2018) |
| Corporate name | NTT Toshi Kaihatsu Kabushiki Kaisha |
| Corporate name in English | NTT URBAN DEVELOPMENT CORPORATION |
| Name and title of representative | Hiroshi Nakagawa, President and Chief Executive Officer |
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| Contact person | Hideyuki Yamasawa, Executive Vice President, Corporate Strategy Department |
| Place for public inspection | Tokyo Stock Exchange, Inc.<br>(2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo) |

# Chapter 1 Corporate Information

## Section 1 Overview of the Company's situation

### 1. Changes in major financial data

| Term | | 33rd term<br>Three months ended<br>June 30, 2017 | 34th term<br>Three months ended<br>June 30, 2018 | 33rd term |
|---|---|---|---|---|
| Account period | | From April 1, 2017<br>to June 30, 2017 | From April 1, 2018<br>to June 30, 2018 | From April 1, 2017<br>to March 31, 2018 |
| Operating revenue | (million yen) | 40,148 | 29,900 | 160,654 |
| Profit before tax | (million yen) | 11,742 | 9,353 | 27,938 |
| Profit attributable to owners of parent | (million yen) | 7,721 | 6,099 | 18,155 |
| Comprehensive income attributable to owners of parent | (million yen) | 8,085 | 6,492 | 17,336 |
| Equity attributable to owners of parent | (million yen) | 222,345 | 235,900 | 228,636 |
| Total assets | (million yen) | 996,308 | 991,811 | 997,154 |
| Basic earnings per share | (yen) | 23.46 | 18.53 | 55.16 |
| Diluted earnings per share | (yen) | — | — | — |
| Ratio of equity attributable to owners of parent | (%) | 22.3 | 23.8 | 22.9 |
| Cash flows from (used in) operating activities | (million yen) | 4,712 | 2,319 | 42,232 |
| Cash flows from (used in) investing activities | (million yen) | (33,770) | 6,173 | (57,018) |
| Cash flows from (used in) financing activities | (million yen) | 30,069 | (7,290) | 12,663 |
| Cash and cash equivalents at end of period | (million yen) | 23,402 | 21,434 | 20,187 |

(Note 1) The above indicators are based on the condensed quarterly consolidated financial statements and consolidated financial statements prepared according to IFRS (International Financial Accounting Standards).

(Note 2) Since the Company has prepared condensed quarterly consolidated financial statements, changes in major financial data of the submitting company are omitted.

(Note 3) Operating revenue does not include consumption tax.

(Note 4) Since there was no potential shares with dilutive effects, diluted earnings per share is omitted.

## 2. Businesses

During the three months ended June 30, 2018, there were no significant changes in the major operations managed by the NTT Urban Development Group (the Company and its affiliates). Changes in major affiliates are as follows;

The following company became affiliates of the submitting company in the first quarter under review.

(Consolidated Subsidiaries)

| Name | Address | Capitalization (million yen) | Main business (Note) | Voting rights ownership percentage (%) | Relations |
|---|---|---|---|---|---|
| UD Hospitality Management Corporation | Chiyoda-ku, Tokyo | 400 | Other | 100.0 | Management and operation of hotels |

(Note) In the major business column, the names of segment information are entered.

(Equity-method affiliates)

| Name | Address | Capitalization (million yen) | Main business (Note) | Voting rights ownership percentage (%) | Relations |
|---|---|---|---|---|---|
| O-ENCE CO., Ltd. | Chuo-ku, Tokyo | 100 | Other | 19.0 | Management and operation of buildings |

(Note) In the major business column, the names of segment information are entered.

## Section 2 Business situation

### 1. Operating risks

During the three months ended June 30, 2018, no new operating risks emerged.
In addition, there were no significant changes in the operating risks described in the annual securities report for the previous fiscal year.

### 2. Management's analysis of financial position, operating results and cash flows

The forward-looking statements in the following text are based on the judgements as of the date of the submission of the quarterly report.

(1) Financial position and Operating results

In the three months ended June 30, 2018, an occupancy rates in the office leasing market continued to be high and market rents remained firm. In the condominium sales market, although sales prices continued to be high, demand remained firm for condominiums in central areas of Tokyo. In the suburbs, however, there were some condominiums which sales were prolonged.
In this environment, the Company and its subsidiaries (collectively "the Group") operated their businesses steadily, aiming for sustainable growth based on the Group's Medium-Term Vision 2018 – For Further Growth. In the Offices/Retail Business, revenue and income increased in base businesses that are not subject to transient impacts.In the meantime, in the Residential Business, the number of condominium units delivered decreased, and the average price per unit declined.
Operating revenue amounted to ¥29,900 million (down ¥10,248 million, or 25.5%) and operating income was ¥9,907 million (reduce ¥2,521 million, or 20.3%), profit before tax was ¥9,353 million (decline ¥2,388 million, or 20.3%) and profit attributable to owners of parent was ¥6,099 million (decrease ¥1,621 million, or 21.0%).

i) Offices/Retail Business

In the Offices/Retail Business, the Company strived to generate earnings in the three months ended June 30, 2018 from the contribution of new properties, such as UD Yumesaki Building (Osaka-shi, Osaka), 185 Dartmouth Street (Boston, U.S.), among others. In addition, there were impacts from gains on sales of properties posted in the first quarter under review and a reactionary decline in transient compensation revenue and income in the urban redevelopment business posted in the first quarter of the previous consolidated fiscal year.
Operating revenue amounted to ¥22,378 million (down ¥1,212 million, or 5.1%) and operating income was ¥11,306 million (decrease ¥884 million or 7.3%).
Development projects currently underway include OTEMACHI PLACE (former name: Otemachi 2-chome Area 1st Class Urban Redevelopment Project, Chiyoda-ku, Tokyo), Urbannet Uchisaiwaicho Building (former name: Shimbashi 1-chome Project, Minato-ku, Tokyo), Harajuku Station Front Project (Shibuya-ku, Tokyo), etc. For the Hotel/Resort Business, the Group enhanced initiatives for the Shinpukan Redevelopment Project (Kyoto-shi, Kyoto), Kiyomizu Elementary School Conversion Project (Kyoto-shi, Kyoto), etc.

ii) Residential Business

The number of units delivered decreased to 77 units in the first quarter of the consolidated fiscal year ended June 30, 2018 because there were no newly constructed properties. The average price per unit decreased to ¥37 million.
Operating revenue amounted to ¥3,473 million (down ¥10,040 million, or 74.3%) and operating loss was ¥351 million (decline ¥1,837 million from operating income of ¥1,485 million in the three months ended June 30, 2017).

iii) Other

Operating revenue in other business (interior construction management for tenants, property management of existing buildings, etc.) in the three months ended June 2018 amounted to ¥5,357 million (up ¥1,075 million, or 25.1%) while operating income stood at ¥595 million (rise ¥261 million, or 78.2%).

(2) Consolidated cash flows

The following is an explanation on the situation and factors for each category of cash flow for the three months ended June 2018.

(Cash flows from (used in) operating activities)

Cash flow from operating activities was a cash inflow of ¥2,319 million (down ¥2,392 million year on year). This mainly reflected a cash-in of ¥13,646 million (decrease ¥2,399 million) attributable to profit before tax and depreciation and a cash-out of ¥5,120 million (expansion ¥5,067 million) attributable to increase of inventories, and ¥3,693 million (contraction ¥2,727 million) due to payment of income taxes paid.

(Cash flows from (used in) investing activities)

Cash flow from investing activities was a cash-in of ¥6,173 million (up ¥39,943 million from a cash-out of ¥33,770 million in the three months ended June 30, 2017). This result was attributable to a cash-out with purchase of investment property and property, plant and equipment of ¥5,942 million, (contraction ¥ 27,805 million from the three months ended June 30, 2017) and a cash-in with sale of investment property and property, plant and equipment ¥13,551 million, (up ¥13,551 million).

(Free cash flow)

Free cash flow was a cash-in of ¥8,493 million (up ¥37,550 million from a cash-out of ¥29,057 million in the three months ended June 30, 2017).

(Note) The calculating formula of the free cash flow is as follows:

Free cash flow = Cash flows from (used in) operating activities + Cash flows from (used in) investing activities

(Cash flows from (used in) financing activities)

Cash flow in financing activities was a cash-out of ¥7,290 million (down ¥37,360 million from a cash-in of ¥30,069 million in the three months ended June 2017). This was largely a reflection of a decrease in interest-bearing debt (¥3,525 million) and cash dividends paid (¥3,291 million).

As a result, cash and cash equivalents at the end of the three months ended June 30, 2018 was ¥21,434 million, an increase of ¥1,246 million from the end of the previous fiscal year.

(3) Operational and financial challenges to meet

During the three months ended June 30, 2018, there were no significant changes in challenges facing the Company.

(4) Research and development

Not applicable.

(5) Operating revenue

The table below shows operating revenue by business segment for the three months ended June 30, 2018. Operating revenue in each segment in the text includes inter-segment internal revenues and transfers.

(Million yen)

| Business segment | Three months ended June 30, 2018 (From April 1, 2018 to June 30, 2018) | Year-on-year (%) |
|---|---|---|
| Offices/Retail Business | 22,378 | 94.9 |
| Residential Business | 3,473 | 25.7 |
| Total operating revenue in the reported segments | 25,851 | 69.7 |
| Other | 5,357 | 125.1 |
| Eliminations | (1,309) | — |
| Total | 29,900 | 74.5 |

(Note 1) The numbers do not include consumption tax. Operating revenue in each segment includes intersegment internal revenues and transfers.

(Note 2) "Eliminations" refers to internal revenues and transfers duplicated in more than one segment.

The following shows breakdowns of operating revenue, etc. in the Offices/Retail Business and Residential Business, major businesses of the Group.

(Offices/Retail Business)

The table below shows operating revenue in the Offices/Retail Business. All figures are consolidated results.

| Classification | | Three months ended June 30, 2017 | Three months ended June 30, 2018 |
|---|---|---|---|
| Offices/Retail leasing | Operating revenue | 20,925 million yen | 21,427 million yen |
| | Rentable floor space | 1,104,272 $m^2$ (Of the above, sub-leases: 92,750$m^2$) | 1,105,669 $m^2$ (Of the above, sub-leases: 91,700$m^2$) |
| Sales of income-generating properties | Operating revenue | — | — |
| Other | Operating revenue | 2,665 million yen | 951 million yen |
| Total operating revenue | | 23,591 million yen | 22,378 million yen |

(Note 1) Rentable floor space figures are as of the end of June of each fiscal year.

(Note 2) The rentable area of sub-leases does not include the area that has been agreed upon between the Company and its consolidated subsidiaries.

The table below shows the vacancy rate by area.

| Classification | June 2017 | September 2017 | December 2017 | March 2018 | June 2018 |
|---|---|---|---|---|---|
| Five wards of central Tokyo | 2.1% | 2.0% | 1.2% | 1.4% | 0.5% |
| Nationwide | 3.6% | 3.3% | 3.3% | 3.4% | 2.7% |

(Note 1) The numbers above are vacancy rate as of the end of each month.

(Note 2) "Five wards of central Tokyo" are Chiyoda-ku, Chuo-ku, Minato-ku, Shibuya-ku and Shinjuku-ku.

(Residential Business)

The table below shows operating revenue, etc. in the Residential Business. All figures are consolidated results.

(Million yen)

| Classification | Three months ended June 30, 2017 | Three months ended June 30, 2018 |
|---|---|---|
| Residential property sales | 13,009 | 2,933 |
| Residential rentals | 503 | 540 |
| Other | — | — |
| Total operating revenue | 13,513 | 3,473 |

The table below shows operating revenue, etc. in the residential property sales business by operation type and area.

| Classification | | | Three months ended June 30, 2017 | | Three months ended June 30, 2018 | |
|---|---|---|---|---|---|---|
| | | | Units/Lots | Operating revenue (million yen) | Units/Lots | Operating revenue (million yen) |
| Condominiums | | | | | | |
| | Units delivered | Tokyo metropolitan area | 260 | 10,392 | 49 | 1,896 |
| | | Other regions | 31 | 1,306 | 27 | 1,024 |
| | Completed in inventories | | 627 | — | 535 | — |
| Residential Lots, etc. | | | | | | |
| | Units/Lots delivered | Tokyo metropolitan area | 13 | 448 | — | — |
| | | Other regions | 9 | 112 | 1 | 11 |
| | Completed in inventories | | 60 | — | 44 | — |
| Subtotal (Condominiums and Residential Lots, etc.) | | | | | | |
| | Units/Lots delivered | Tokyo metropolitan area | 273 | 10,840 | 49 | 1,896 |
| | | Other regions | 40 | 1,419 | 28 | 1,036 |
| | Completed in inventories | | 687 | — | 579 | — |
| Residential property sales other | | | | | | |
| | Units/Lots delivered | Tokyo metropolitan area | — | — | — | — |
| | | Other regions | 1 | 750 | — | — |
| | Completed in inventories | | — | — | — | — |
| Total Operating revenue | | | — | 13,009 | — | 2,933 |

(Note 1) For joint projects, the number of units, corresponding to the Company’s share in the project, is rounded down to the nearest unit.

(Note 2) Completed in inventories figures are as of the end of June of each fiscal year. The condominiums completed in inventories for the three months ended June 30, 2017 and for the three months ended June 30, 2018 include 66 units and 58 units, respectively, for which a contract has been completed but ownership has not yet been delivered. The residential lots, etc. completed in inventories for the three months ended June 30, 2017 and for the three months ended June 30, 2018 include 25 lots and 10 lots, for which a contract has been completed but ownership has not yet been delivered.

(Note 3) “Tokyo metropolitan area” includes Tokyo, Kanagawa, Chiba, Saitama, Ibaraki, Gunma and Tochigi prefectures.

(Note 4) The Group, which engages in sales of condominiums in Australia as well as the abovementioned locations, had posted operating income based on J GAAP during and prior to the previous consolidated fiscal year. With the introduction of IFRS, however, it decided to reflect such revenue in equity in earnings (or losses) of affiliate companies. Lots delivered and lots completed in inventories in the quarter of the previous consolidated fiscal year were 76 lots and 223 lots, respectively, and those for the quarter for the consolidated fiscal year ended June 30, 2018 were 17 lots and 221 lots, respectively.

(6) Factors affecting financial results and situation of and outlook for management strategy

In the Offices Business, the Company will cope with deterioration in the supply-demand balance stemming from the large-scale supply in central Tokyo by focusing on securing profitability, including working to reinforce relationships with customers that occupy its properties and increasing customer satisfaction. To address the risk of fluctuation in the rental offices market arising from an increase in vacancies, the Company will work to increase competitiveness through strategic renewals, including BCP (business continuity planning), and to strengthen property management through collaboration with partners.

Furthermore, the Company will also grasp changes in society and focus on using ICT to provide high quality services and increase the efficiency of operations. It will also actively focus on expanding new business areas such of the LIFORK business (new shared office business which supports individual customers in realizing the workstyle and lifestyle that suits them).

In the Retail Business, the Company will implement initiatives in response to the increase in foreign visitors to Japan and changes in consumption trends, while in the Hotel/Resort Business, where market expansion in expected, the Company will continue to push ahead with competitive developments in attractive areas in response to the changing business environment. The Company will also work to create new value through developments that use existing buildings and blend with the historical and cultural cityscape. In its operation of retail facilities, the Company will attract tenants based on the shift in consumer values towards experiences over things and will work to create attractive facilities that meet with customer satisfaction.

In the Residential Business, the Company will review its existing business model and focus on diversifying its business domains in light of changing lifestyles and demographics. In the Condominium Sales Business, the Company will focus on the selection of supply areas and product planning to meet changing customer needs, taking into consideration the resurgence in demand for homes closes to the city center. The Company will also expand renovation and conversion (change of use) of used residential properties and increase initiatives for high added value business. It will also continue to focus on serviced senior housing and rental housing for senior citizens such as the Tsunagu (Connected) TOWN Project.

In the Other Business, the Group will seek to boost the value of the assets in which it is involved by implementing asset replacement, using the real estate investment trust (REIT) to which the Company is linked, and grow the fee business, including building management and property management operations.

(7) Analysis of financial resources for capital and liquidity of funds

The Company raised funds primarily through borrowings from financial institutions during the three months ended June 30, 2018 in response to capital needs, including investment in facilities and capital, acquisition of inventories.

(8) Basic policy on the control of the stock company

Since the parent company holds more than 50% of the voting rights, the Company has not established any basic policy relating to the Stock Company and has not introduced any takeover defense.

## 3. Significant management contracts

There were no significant management contracts determined or concluded during the three months ended June 30, 2018.

# Section 3 Situation of submitting company

## 1. Shares of the Company

### (1) Total number of shares and other information

i) Total number of shares

| Type | Total number of shares authorized to be issued by the Company |
|---|---|
| Common stocks | 1,050,000,000 |
| Total | 1,050,000,000 |

ii) Shares issued

| Type | Number of shares issued as of June 30, 2018 (Shares) | Number of shares issued on the date of the submission of the report (Shares) (August 6, 2018) | Stock exchange or registered financial instruments dealers association | Remarks |
|---|---|---|---|---|
| Common stocks | 329,120,000 | 329,120,000 | The First Section of the Tokyo Stock Exchange | Number of shares of one share unit 100 |
| Total | 329,120,000 | 329,120,000 | — | — |

(Note) The number of shares issued includes 30,630,000 shares of an investment in kind (with buildings, etc. of ¥927 million and land (89,492 $m^2$) of ¥2,144 million).

### (2) Stock acquisition rights

i) Stock option system

Not applicable.

ii) Other Stock acquisition rights

Not applicable.

### (3) Exercise of bonds with subscription rights to shares with amendments to exercise prices

Not applicable.

### (4) Changes in number of shares outstanding and share capital

| Date | Change in number of shares outstanding (shares) | Number of shares outstanding (shares) | Change in share capital (million yen) | Share capital (million yen) | Change in share capital reserve (million yen) | Share capital reserve (million yen) |
|---|---|---|---|---|---|---|
| From April 1, 2018 to June 30, 2018 | — | 329,120,000 | — | 48,760 | — | 34,109 |

### (5) Major shareholders

There are no items to state as the quarter under review is the first quarter.

(6) Voting rights

Since the Company cannot confirm the contents of the shareholder register as of June 30, 2018, it cannot describe voting rights as of that date. The Company describes voting rights based on the shareholder register as of the latest base date (March 31, 2018) instead.

i) Shares issued

As of March 31, 2018

| Classification | Number of shares (shares) | Number of voting rights | Remarks |
|---|---|---|---|
| Nonvoting shares | — | — | — |
| Shares with limited voting rights (treasury share, etc.) | — | — | — |
| Shares with limited voting rights (other shares) | — | — | — |
| Shares with complete voting rights (treasury share, etc.) | — | — | — |
| Shares with complete voting rights (other shares) | Common shares 329,114,500 | 3,291,145 | — |
| Fractional shares | Common shares 5,500 | — | — |
| Total number of shares issued | 329,120,000 | — | — |
| Number of voting rights of all shareholders | — | 3,291,145 | — |

(Note 1) Shares with complete voting rights (other shares) include 800 shares under the name of the Japan Securities Depository Center. The number of voting rights includes 8 shares with complete voting rights under the name of the Japan Securities Depository Center.

(Note 2) Fractional shares include 77 shares of treasury shares.

ii) Treasury stock

As of March 31, 2018

| Owner | Address of owner | Number of shares held under the owner's own name (shares) | Number of shares held under the name of any other person (shares) | Total number of shares held (shares) | Ratio of holdings to the number of shares issued (%) |
|---|---|---|---|---|---|
| — | — | — | — | — | — |
| Total | — | — | — | — | — |

## 2. Officers

Not applicable.

# Section 4 Financial status

## 1. Methods of preparing condensed quarterly consolidated financial statements

The Company's condensed quarterly financial statements are prepared in compliance with International Accounting Standards No. 34, namely, Interim Financial Reporting, according to the provisions of Article 93 in Ordinance on Terminology, Forms, and Preparation Methods of Quarterly Financial Statements, etc. (Cabinet Office Ordinance No. 63 of August 10, 2007).

## 2. Audit certification

Under the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the quarterly consolidated financial statements of the Company for the three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018) and for the three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018) have received a quarterly review by KPMG AZSA LLC.

## 3. Improvement of systems to properly prepare consolidated financial statements based on IFRS as well as the content of special efforts for ensuring the appropriateness of consolidated financial statements

The Company has been working on improving its systems to properly prepare its consolidated financial statements based on IFRS while developing special measures for ensuring the appropriateness of consolidated financial statements. Details are as follows.

(1) The Company joined the Financial Accounting Standards Foundation to correctly understand the content of accounting standards and to refine its systems to appropriately respond to changes in accounting standards.

In conjunction with the adoption of IFRS, the Company has been taking steps to understand the latest standards by obtaining press releases and standards whenever they are issued publicly by the International Accounting Standards Board. In addition, to prepare appropriate consolidated financial statements based on IFRS, the Company has established the group accounting policy and accounting guidance, based on which accounting treatments are implemented.

# 1. Condensed Quarterly Consolidated Financial Statements

## (1) Condensed Quarterly Consolidated Statement of Financial Position

(Million yen)

| | Notes | The date of transition to IFRS (April 1, 2017) | The end of the previous fiscal year (March 31, 2018) | In the first quarter under review (June 30, 2018) |
|---|---|---|---|---|
| (Assets) | | | | |
| Current assets | | | | |
| Cash and cash equivalents | | 22,471 | 20,187 | 21,434 |
| Trade and other receivables | | 19,874 | 20,838 | 12,778 |
| Other financial assets | 13 | 202 | 160 | 336 |
| Inventories | | 82,714 | 75,672 | 80,793 |
| Other current assets | | 3,989 | 4,302 | 5,361 |
| (Subtotal) | | 129,252 | 121,160 | 120,703 |
| Assets held for sale | 8 | — | 11,803 | — |
| Total current assets | | 129,252 | 132,964 | 120,703 |
| Non-current assets | | | | |
| Property, plant and equipment | | 13,317 | 18,635 | 20,073 |
| Goodwill and intangible assets | | 2,844 | 2,550 | 2,412 |
| Investment property | 7 | 798,626 | 803,259 | 801,685 |
| Investments accounted for using the equity method | | 12,366 | 11,820 | 13,525 |
| Other financial assets | 13 | 21,905 | 23,476 | 30,729 |
| Deferred tax assets | | 1,996 | 2,211 | 248 |
| Other non-current assets | | 1,874 | 2,236 | 2,431 |
| Total non-current assets | | 852,931 | 864,189 | 871,107 |
| Total assets | | 982,183 | 997,154 | 991,811 |

(Million yen)

| | Notes | The date of transition to IFRS (April 1, 2017) | The end of the previous fiscal year (March 31, 2018) | In the first quarter under review (June 30, 2018) |
|---|---|---|---|---|
| (Liabilities and Equity) | | | | |
| Current liabilities | | | | |
| Short-term borrowings | 13 | 57,155 | 100,688 | 108,212 |
| Trade and other payables | | 41,154 | 22,996 | 13,155 |
| Other financial liabilities | 13 | 1,316 | 989 | 1,288 |
| Income taxes payable | | 6,790 | 3,858 | 2,010 |
| Provisions | | 130 | 683 | 700 |
| Other current liabilities | | 19,828 | 20,046 | 19,919 |
| (Subtotal) | | 126,375 | 149,263 | 145,286 |
| Liabilities directly related to assets held for sale | 8 | — | 237 | — |
| Total current liabilities | | 126,375 | 149,500 | 145,286 |
| Non-current liabilities | | | | |
| Long-term borrowings | 13 | 465,718 | 443,010 | 432,062 |
| Other financial liabilities | 13 | 75,876 | 77,029 | 78,616 |
| Defined benefit liability | | 7,731 | 8,128 | 8,231 |
| Provisions | | 3,434 | 4,932 | 4,854 |
| Deferred tax liabilities | | 42,018 | 41,922 | 42,437 |
| Other non-current liabilities | | 245 | 209 | 494 |
| Total non-current liabilities | | 595,025 | 575,234 | 566,696 |
| Total liabilities | | 721,401 | 724,734 | 711,983 |
| Equity | | | | |
| Equity attributable to owners of parent | | | | |
| Share capital | 9 | 48,760 | 48,760 | 48,760 |
| Share premium | 9 | 31,442 | 31,443 | 31,443 |
| Retained earnings | | 134,423 | 146,700 | 154,601 |
| Treasury shares | 9 | (0) | (0) | (0) |
| Other components of equity | 9 | 2,596 | 1,732 | 1,094 |
| Total equity attributable to owners of parent | | 217,221 | 228,636 | 235,900 |
| Non-controlling interests | | 43,560 | 43,783 | 43,927 |
| Total equity | | 260,782 | 272,419 | 279,827 |
| Total liabilities and equity | | 982,183 | 997,154 | 991,811 |

(2) Condensed Quarterly Consolidated Statement of Income

Three months ended June 30, 2018

(Million yen)

| | Notes | Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017) | Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018) |
|---|---|---|---|
| Operating revenue | 11 | 40,148 | 29,900 |
| Cost of sales | | 23,100 | 17,232 |
| Operating gross profit | | 17,048 | 12,667 |
| Selling, general and administrative expense | | 4,772 | 4,293 |
| Other operating income | 12 | 9 | 1,476 |
| Other operating expense | 12 | 82 | 61 |
| Share of profit of entities accounted for using equity method | | 225 | 118 |
| Operating income | | 12,428 | 9,907 |
| Finance income | | 160 | 179 |
| Finance costs | | 846 | 732 |
| Profit before tax | | 11,742 | 9,353 |
| Income taxes | | 3,446 | 2,656 |
| Profit | | 8,296 | 6,696 |
| | | | |
| Profit attributable to: | | | |
| Owners of parent | | 7,721 | 6,099 |
| Non-controlling interests | | 574 | 597 |
| Profit | | 8,296 | 6,696 |
| | | | |
| Income per share attributable to owners of parent | | | |
| Basic earnings per share (Yen) | | 23.46 | 18.53 |

(3) Condensed Quarterly Consolidated Statement of Comprehensive Income

Three months ended June 30, 2018

(Million yen)

| | Notes | Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017) | Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018) |
|---|---|---|---|
| Profit | | 8,296 | 6,696 |
| Other comprehensive income (Net of tax) | | | |
| Items that will not be reclassified to profit or loss | | | |
| Net gain (loss) on financial assets measured at fair value through other comprehensive income | 9 | — | 176 |
| Remeasurements of defined benefit plans | 9 | — | — |
| Items that may be reclassified subsequently to profit or loss | | | |
| Gains and losses on hedging instruments in a cash flow hedge | 9 | (3) | (2) |
| Valuation difference on available-for-sale securities | 9 | (218) | — |
| Exchange differences on translation of foreign operations | 9 | 586 | 218 |
| Total other comprehensive income (Net of tax) | | 364 | 392 |
| Total comprehensive income | | 8,660 | 7,089 |
| | | | |
| Comprehensive income attributable to: | | | |
| Owners of parent | | 8,085 | 6,492 |
| Non-controlling interests | | 574 | 597 |
| Total | | 8,660 | 7,089 |

(4) Condensed Quarterly Consolidated Statement of Changes in Equity

Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

(Million yen)

| | Notes | Equity attributable to owners of parent | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Share premium | Retained earnings | Treasury shares | Other components of equity | Total | | |
| April 1, 2017 | | 48,760 | 31,442 | 134,423 | (0) | 2,596 | 217,221 | 43,560 | 260,782 |
| Comprehensive income | | | | | | | | | |
| Profit | | | | 7,721 | | | 7,721 | 574 | 8,296 |
| Other comprehensive income | | | | | | 364 | 364 | — | 364 |
| Total comprehensive income | | — | — | 7,721 | — | 364 | 8,085 | 574 | 8,660 |
| Transactions with owners | | | | | | | | | |
| Dividends of surplus | 10 | | | (2,962) | | | (2,962) | | (2,962) |
| Transfer to retained earnings | | | | | | | | | — |
| Other | | | | | | | | (247) | (247) |
| Total transactions with owners | | — | — | (2,962) | — | — | (2,962) | (247) | (3,210) |
| June 30, 2017 | | 48,760 | 31,442 | 139,182 | (0) | 2,960 | 222,345 | 43,887 | 266,232 |

Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018)

(Million yen)

| | Notes | Equity attributable to owners of parent | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Share premium | Retained earnings | Treasury shares | Other components of equity | Total | | |
| March 31, 2018 | | 48,760 | 31,443 | 146,700 | (0) | 1,732 | 228,636 | 43,783 | 272,419 |
| Cumulative effect of application of IFRS 9 “Financial Instruments” | | — | — | 5,093 | — | (1,029) | 4,063 | — | 4,063 |
| April 1, 2018 | | 48,760 | 31,443 | 151,793 | (0) | 702 | 232,699 | 43,783 | 276,482 |
| Comprehensive income | | | | | | | | | |
| Profit | | | | 6,099 | | | 6,099 | 597 | 6,696 |
| Other comprehensive income | | | | | | 392 | 392 | | 392 |
| Total comprehensive income | | — | — | 6,099 | — | 392 | 6,492 | 597 | 7,089 |
| Transactions with owners | | | | | | | | | |
| Dividends of surplus | 10 | | | (3,291) | | | (3,291) | | (3,291) |
| Transfer to retained earnings | | | | | | | | | — |
| Other | | | | | | | | (453) | (453) |
| Total transactions with owners | | — | — | (3,291) | — | — | (3,291) | (453) | (3,744) |
| June 30, 2018 | | 48,760 | 31,443 | 154,601 | (0) | 1,094 | 235,900 | 43,927 | 279,827 |

(5) Condensed Quarterly Consolidated Statement of Cash Flows

(Million yen)

| | Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017) | Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018) |
|---|---|---|
| Cash flows from (used in) operating activities | | |
| Profit before tax | 11,742 | 9,353 |
| Depreciation and amortisation expense | 4,303 | 4,292 |
| Finance income and finance costs | 686 | 520 |
| Share of profit of investments accounted for using the equity method | (225) | (118) |
| (Increase) decrease in trade and other receivables | 1,238 | 8,045 |
| (Increase) decrease in Inventories | (53) | (5,120) |
| Increase (decrease) in trade and other payables, and personnel expenses payable | (1,675) | (7,367) |
| Other | (4,422) | (3,123) |
| Subtotal | 11,594 | 6,482 |
| Interest and dividend income received | 175 | 190 |
| Interest expenses paid | (637) | (659) |
| Income taxes paid | (6,420) | (3,693) |
| Cash flows from (used in) operating activities | 4,712 | 2,319 |
| Cash flows from (used in) investing activities | | |
| Purchase of investment property and property, plant and equipment | (33,748) | (5,942) |
| Proceeds from sales of investment property and property, plant and equipment | 0 | 13,551 |
| Purchase of other financial assets | (219) | (1,141) |
| Proceeds from sale and redemption of other financial assets | 324 | 66 |
| Other | (126) | (360) |
| Cash flows from (used in) investing activities | (33,770) | 6,173 |
| Cash flows from (used in) financing activities | | |
| Net cash inflow (outflow) from short-term borrowings | 1,912 | 8,655 |
| Proceeds from increase in long-term borrowings | 45,000 | — |
| Repayments of long-term borrowings | (13,410) | (12,180) |
| Cash dividends paid | (2,962) | (3,291) |
| Dividends paid to non-controlling interests | (464) | (465) |
| Other | (4) | (8) |
| Cash flows from (used in) financing activities | 30,069 | (7,290) |
| Net increase (decrease) in cash and cash equivalents | 1,011 | 1,202 |
| Cash and cash equivalents, beginning of term | 22,471 | 20,187 |
| Effect of exchange rate change on cash and cash equivalents | (81) | 44 |
| Cash and cash equivalents, end of term | 23,402 | 21,434 |

Notes to the Condensed Quarterly Consolidated Financial Statements

1. Reporting company

NTT Urban Development Corporation (hereinafter referred to as the "Company") is a joint stock corporation (kabushi kaisha) formed under Japanese law. The address of the Company's registered head office is 4-14-1, Sotokanda, Chiyoda-ku, Tokyo. These consolidated financial statements are the financial statements of the Company and its subsidiaries (hereinafter referred to as the "Group").

The Group belongs to the NTT Group led by parent company Nippon Telegraph and Telephone Corporation (NTT) and, as the only comprehensive real estate developer in the NTT Group, it is principally engaged in two business areas, namely the Offices/Retail Business and the Residential Business.

2. Basis of preparation

(1) Matters related to conformance with IFRS and first-time adoption of IFRS

The Group's condensed quarterly consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) No. 34 "Interim Financial Reporting" pursuant to the provisions of Article 93 of the "Ordinance on Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements" (Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc. No. 64 of 2007) because the Group meets all of the requirements for a "Specified Company under Designated International Financial Reporting Standards" as stipulated in Article 1-2 of said ordinance. The condensed quarterly consolidated financial statements were approved at the board meeting held on August 3, 2018.

The Group has applied IFRS from the fiscal year under review (from April 1, 2018 to March 31, 2019), and the IFRS transition date is April 1, 2017. On making the transition to IFRS, the Group has applied IFRS 1 First-time Adoption of International Financial Reporting Standards" (hereinafter referred to as "IFRS 1"). For details of the impact of transition to IFRS on the Group's financial position, operating results and cash flows, see Note "15. First-time Adoption of IFRS".

The Group's accounting policies conform to IFRS effective as at June 30, 2018, except for IFRS provisions that have not been applied early and exemptions in IFRS 1.

(2) Basis of measurement

The consolidated financial statements, as stated in the notes "3. Significant Accounting Policies," are prepared based on the acquisition costs, except for financial instruments measured at fair value and liabilities recognized in relation to the defined benefit plans (defined benefit liabilities).

(3) Functional currency and presentation currency

The condensed quarterly consolidated financial statements are presented in Japanese yen, which is the currency of the primary economic environment in which the Company operates (hereinafter referred to as the "functional currency"), and amounts are rounded to the nearest ¥1 million.

(4) Changes to the Group's accounting policies

The Group has applied IFRS 9 "Financial Instruments" (issued July 2014) (hereinafter referred to as "IFRS 9") from the first quarter under review (from April 1, 2018 to June 30, 2018).

The Company has not restated prior periods' financial statements in connection with the application of the provisions for exemption from IFRS 9 under IFRS 1. Financial figures for the transition date, the first quarter of the previous fiscal year and previous fiscal year conform with generally accepted accounting standards in Japan (hereinafter referred to as "J GAAP"), and any differences between the carrying amounts according to J GAAP at the beginning of the period and carrying amounts under IFRS 9 are recorded as adjustments to retained earnings other components of equity.

For details of significant accounting policies according to J GAAP in the first quarter of the previous fiscal year and the previous fiscal year and significant accounting policies in the fiscal year under review, see note "3. Significant Accounting Policies (4) Financial Instruments."

i) Impacts

These changes to accounting policies apply to financial assets and liabilities held by the Group at the beginning of the period. Financial assets and liabilities that were disposed of in prior periods have been recorded in accordance with J GAAP. In addition, in connection with the application of the provisions for exemption from IFRS 9 under IFRS 1, the classification of financial assets/liabilities held at the beginning of the period under review has been determined based on the situation at that time. Under JGAAP, special treatment used to be adopted to account for interest rate swaps if the requirements for receiving special treatment were met. Under IFRS, however, changes in the fair value of interest rate swaps judged an effective hedge are recognized as other

comprehensive income, and the accumulated amount is included in other components of equity according to the cash flow hedge accounting model. It is transferred from other components of equity to profit or loss for the financial period in which profit or loss in relation to the hedged items was recognized. In addition, under JGAAP, non-listed stocks, investments in anonymous associations and other investments in capital are assessed at cost using the moving average method because it is deemed to be extremely difficult to ascertain their market values, but they are measured at fair value under IFRS.
The impact of these changes to accounting policies on the statement of financial position are as follows. Except for the following, the impact of the changes to accounting policies is insignificant.。

(Million yen)

| Account items (classified in accordance with J GAAP) | Balance at end of previous period (March 31, 2018) | Cause of restatement | Balance at beginning of period in accordance with IFRS 9 (April 1, 2018) |
|---|---|---|---|
| Non-current assets<br>Other financial assets<br>(Financial instruments whose fair value is very difficult to determine) | 8,499 | Impact of fair value measurement of non-listed stocks, investments in anonymous associations and other investments in capital | 15,739 |
| Current liabilities<br>Other financial liabilities<br>(Special treatment) | - | Fair value measurement of interest rate swaps used for hedging | 6 |
| Non-current liabilities<br>Other financial liabilities<br>(Special treatment) | - | Fair value measurement of interest rate swaps used for hedging | 1,634 |

At the beginning of the period under review, the cumulative effects of application of IFRS 9 are a decrease of 1,793 million yen in “Deferred tax assets,” an increase of 5,093 million yen in “Retained earnings“, and a decrease of 1,029 million yen in “Other components of equity.” The impact on “Profit” and “Basic earnings per share” in the first quarter of the fiscal year under review is insignficiant.

3. Significant Accounting Policies

The accounting policy adopted by the Group, unless otherwise stated, is applied to all the periods stated in these condensed quarterly consolidated financial statements (including the consolidated statement of financial position on the date of the change to IFRS).

(1)The basis for consolidation

i) Subsidiaries

A subsidiary is a company which is controlled by the Group.

Control means having power over the investee, exposure, or rights, to variable returns from involvement with the investee, and the ability to use power over the investee to affect the amount of the returns.

Consolidation of a subsidiary begins from the date the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary.

If a subsidiary adopts accounting policies that are different from the Group, the financial statements of the subsidiary are adjusted as necessary.

Non-controlling interests consist of equity interests at acquisition and any subsequent changes in non-controlling interests.

The comprehensive income of subsidiaries is allocated to equity attributable to owners of the parent and non-controlling interests, in principle, even in the case of a deficit non-controlling interest balance.

Inter-group receivable/payable balance and transactions, and unrealized gains and losses arising from intergroup transactions are eliminated on the preparation of consolidated financial statements.

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control of the subsidiary are accounted for as equity transactions. The carrying value of the Group's ownership interest and non-controlling interests are adjusted to reflect changes in the Group's ownership interest in the subsidiary.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or the consideration received is recognized directly in equity and attributed to the owners of the parent.

If the Group loses control of its subsidiary, the recognition of the assets and liabilities of the subsidiary and non-controlling interests and other components of equity in relation to the subsidiary ceases. Gains or losses arising from it are recognized as profit or loss.

ii) Investments in associates and joint ventures

An associate is a company over whose financial and operating policy decisions the Group has significant influence but does not have control or joint control. In general, a company is included in the Group's associates if the Group holds 20%-50% of its voting rights. A company may still be included in the Group's associates even if the Group holds less than 20% of its voting rights, if the Group is deemed to have significant influence over the company through the dispatch of directors, participation in the policy decision-making process or significant transactions, etc.

A joint venture is a joint arrangement whereby the parties, which include the Company or a consolidated subsidiary of the Company, that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method, and investment in associates and joint ventures is initially recognized at the acquisition cost. The Group's share of profit or loss and other comprehensive income up to the date when significant influence is lost is subsequently recognized and the carrying amount of the investment is adjusted.

If the Group's share of losses of an associate or joint venture exceeds the Group's interest in the company, except in cases where the Group burdens legal or constructive obligations or made payments on behalf of the associate, the long-term investment which consists the partial net investment to the associate is reduced to zero, and further loss will not be recognized.

Unrealized gains and losses arising from transactions with associates and joint ventures are added to or subtracted from the investment up to an upper limit of Group's interest.

The amount by which the acquisition cost of an investment in an associate or joint venture exceeds the Group's share of the net of the acquisition-date fair values of the identifiable assets and liabilities is recognized as goodwill and included in the carrying value of the investment in the associate or joint venture.

Such goodwill is not recognized separately and is, therefore, not tested for impairment separately. Instead, the Group considers its total investment in associates as a single asset and performs an impairment test if objective grounds indicate that its investment may be impaired.

The condensed quarterly consolidated financial statements include investments in equity-method affiliates with differing fiscal year ends because it is practically impossible for them to have the same fiscal year end as the Company due to their relationship with other investors, etc., and the fiscal year end of these equity-method affiliates is usually December 31. Adjustments are made to the consolidated financial statements reflecting the impact of any significant transactions and events occurred between the fiscal year end of the equity-method affiliates and the fiscal year end of the Company.

(2) Business combinations

Business combinations are accounted for by the acquisition method on the date when control is acquired.

The consideration transferred in a business combination is measured as the total of the fair value of the assets transferred by the Group, the liabilities of the former owners of the acquiree assumed by the Group and any equity financial instruments issued by the Group on the acquisition date. Acquisition costs are recognized in profit and loss as incurred.

The identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values, except for the following.

- Deferred tax assets and deferred tax liabilities, and assets and liabilities relating to employee benefits are recognized and measured in accordance with IAS 12 “Income Taxes” and IAS 19 “Employee Benefits” respectively.
- The acquiree’s share-based payment contracts or debt or equity financial instruments issued to replace the acquiree’s share-based payment contracts with the Group’s system are measured in accordance with IFRS 2 “Share-based Payment” on the acquisition date.
- Assets and disposal groups classified as held for sale are measured in accordance with IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations”.

Goodwill is measured as the amount by which the total of the consideration transferred and the amount of any non-controlling interest exceeds the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed (if this is the case). If this difference is negative, it is recognized in profit or loss immediately.

The Group chooses whether to measure non-controlling interests at fair value or the non-controlling interests’ proportionate share of identifiable net assets recognized by the Group on a transaction by transaction basis. In the case of a business combination achieved in stages, the Group’s previously held ownership interests in the acquiree are remeasured at their acquisition-date fair value and any resultant gain or loss is recognized in profit or loss.

Any amount of other comprehensive income relating to a change in the value of the ownership interests in the acquiree recorded prior to the acquisition date is processed in the same as the Group directly sold the portion, and is recognized in profit or loss, or other comprehensive income.

If the initial accounting for a business combination is not completed by the end of the reporting period, the Group uses provisional amounts in its report. The Group retrospectively adjusts the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that were not in existence at the acquisition date and that, if known, would have affected measurement of the amounts recognized when accounting for the business combination. The measurement period cannot exceed one year from the acquisition date.

The Group has adopted the exemptions in IFRS 1 and has not retrospectively applied IFRS 3 “Business Combinations” (IFRS No.3) to business combinations prior to April 1, 2017 (IFRS transition date). The amount of goodwill arising from business combinations prior to the IFRS transition date which had been recognized based on the previous accounting standards (J GAAP) is carried over at the IFRS transition date and recorded based on the carrying amount after being tested for impairment.

(3) Foreign currency translation

i) Foreign currency transactions

Each entity in the Group prepares its financial statements in its functional currency. Transactions in currencies other than the entity’s functional currency (foreign currency) are translated at the exchange rate at the date of the transaction.

Foreign currency items are translated into the functional currency at the exchange rate at the end of the period. Foreign currency items carried at fair value are translated into the functional currency at the rate that existed when the fair value was determined.

Exchange differences are reported in profit or loss. However, translation differences arising from equity instruments or hedging instruments in a cash flow hedge accounted for at fair value through other comprehensive income are recognized in other comprehensive income.

ii) Translation of foreign currency financial statements of foreign subsidiaries and foreign associates, etc.
For preparation of the Condensed Quarterly Consolidated Financial Statements, the assets and liabilities (including adjustments to goodwill arising in an acquisition and fair value) of foreign subsidiaries and foreign associates, etc. (hereinafter referred to collectively as “foreign operations”) are translated into Japanese yen at the exchange rate at the end of the period.
Income, expenses and cash flows are translated into Japanese yen at the average rates for the quarter, provided, however, that if the amounts are not similar to those of translation at exchange rates at the dates of the transactions, the exchange rates at the date of the transactions are used.
Exchange rate differences arising from translation of the foreign currency financial statements of foreign operations are recognized in other comprehensive and then accumulated in other components of equity.
If the Group loses control or significant influence over a foreign operation, the Group transfers the cumulative exchange rate differences relating to the foreign operation to profit or loss in the accounting period when the foreign operation is disposed of.
The Group has adopted the exemptions in IFRS 1 and has transferred all cumulative exchange rate differences on the IFRS transition date to retained earnings.

(4) Financial instruments
For the transition date, the first quarter of the previous fiscal year and the previous fiscal year, the previous accounting standards (J GAAP) are applied in accordance with the exemptions to full restrospective application of IFRS 9 under IFRS 1. In the three months ended June 30, 2018, the Group has applied IFRS 9, and its accounting policies are as follows.
i) Financial assets excluding derivatives
On initial recognition, the Group classifies financial assets into financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, and financial assets measured at amortized cost. The Group undertakes an initial recognition on the day when it becomes a party to each agreement.
Financial assets are derecognized if contractual rights to receive the cash flows of the financial asset are extinguished or if the Group transfers contractual rights to receive cash flows from the financial asset or substantially transfers almost all the risks and rewards of ownership of the financial asset.

Financial assets at amortised cost
The Group classifies financial assets that meet both the following conditions into financial assets measured at amortized cost.
・The asset is held under the business model whose objectives is to hold asset for collecting the contractual cash flows.
・The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition, a financial asset measured at amortized cost (exclusive of operating receivables that do not include material financial elements) is measured by adding any transaction costs that are directly attributable to acquisition of the asset to its fair value. In addition, operating receivables that do not include material financial elements are initially measured at the transaction price. After initial recognition, the asset is measured at amortized cost, which is its total carrying amount calculated using the effective interest method less a loss allowance

At initial recognition, a financial asset measured at fair value through other comprehensive income is measured by adding any transaction costs that are directly attributable to acquisition of the asset to its fair value. After initial recognition, it is measured at fair value, and any subsequent changes are recognized in other comprehensive income. The cumulative amount recognized in other comprehensive income is transferred to profit or loss if the asset is derecognized.

Financial assets measured at fair value through other comprehensive income (FVTOCI) (Equity instruments)

Within equity instruments, for those whose purpose is not purchase nor sales, an entity can make an irrevocable decision at initial recognition to present subsequent changes in its fair value in other comprehensive income, and the Group designates this by each financial instrument.

On initial recognition, an equity instrument measured at fair value through other comprehensive income is measured by adding any transactions costs that are directly attributable to acquisition of the asset to its fair value. After initial recognition, it is measured at fair value and any subsequent changes are recognized as other comprehensive income. With respect to other comprehensive income accumulated in other components of equity, the accumulated amount is transferred to retained earnings when recognition ceases and is not transferred to profit or loss. In addition, dividends are recognized as profit or loss.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets other than the above are classified as financial assets measured at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value at the time of initial recognition, and the transaction costs arising directly from the said acquisition are recognized as profit or loss when they are incurred. In addition, after the initial recognition, they are measured at fair value, and subsequent changes are recognized as profit or loss.

Operating revenue includes dividend income from financial assets measured at FVTPL. “Net changes in fair value of FVTPL assets (excluding dividend income)” includes changes in fair value, interest income and foreign exchange differences.

ii) Impairment of financial assets

With respect to financial assets at amortized cost and lease receivables and contract assets, the Group calculates the amount of impairment loss (loss allowance) based on the expected credit losses.

If, at the end of the period, the credit risk of a financial instrument has not increased significantly since initial recognition, the Group calculates the amount of the loss allowance based on expected credit losses that result from default events that are possible within 12 months after the reporting date (12-month expected credit losses). If, however, at the end of the period, the credit risk of a financial instrument has increased significantly since initial recognition, the Group calculates the amount of the loss allowance based on expected credit losses that result from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). In addition, with respect to operating receivables, lease receivables and contract assets that do not include material financial elements, the amount of loss allowance is always calculated from the expected credit losses for the entire period.

iii) Financial liabilities excluding derivatives

At initial recognition, all financial liabilities are classified as financial liabilities measured at amortized cost. The Group initially recognizes a financial liability on the date that the respective entity became a party to the contractual provisions of the instrument. A financial liability is derecognized when it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires.

Financial liabilities at amortised cost

Financial liabilities other than those measured at fair value though profit or loss are classified as financial liabilities measured at amortized cost. At initial recognition, a financial liability measured at amortized cost is measured by subtracting any transaction costs that are directly attributable to the issue of the liability from its fair value. After initial recognition, the liability is measured at amortized cost using the effective interest rate method.

iv) Derivatives and hedge accounting

The Group engages in derivatives transactions such as interest swap transactions to hedge against the risk of changes in interest rates. The Group does not engage in speculative derivatives transactions.

At the inception of the hedge, the Group formally designates and documents the hedging relationship and its risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess hedge effectiveness in offsetting exposure to changes in the fair value or cash flows of the hedged item arising from the hedged risk. In addition, while the Group expects that such hedges will be extremely effective in offsetting changes in the fair value or cash flows arising from the hedged risks at the designated time, it continuously assesses their effectiveness into the future throughout the designated accounting period.

Derivatives are initially recognized at fair value. After initial recognition, derivatives are measured at fair value, and any subsequent changes are accounted for as follows.

Cash flow hedge

The portion of the change in the fair value of a derivative used as a hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income, and the cumulative amount is included in other components of equity. In addition, any ineffective portion of the hedge is recognized as profit or loss. The amount that has been accumulated in other components of equity is transferred from other components of equity to profit or loss in the accounting period in which the transaction that is the hedged item affects profit or loss. However, if the hedge of a highly probably forecast transaction subsequently results in recognition of a non-financial asset or non-financial liability, the amount accumulated in other components of equity is treated as an adjustment to the initial carrying amount of the recognized non-financial asset or non-financial liability.

If the hedging instrument has expired or is sold, terminated or exercised or if the qualifying conditions for hedge accounting are no longer met, hedge accounting is discontinued. If a forecast transaction is no longer expected to occur, the amount accumulated in other components of equity is immediately transferred from other components of equity to profit or loss.

Derivatives not designated as hedges

Changes in the fair value of derivatives are recognized as profit or loss.

The accounting standards under J GAAP applied on the transition date and in the first quarter of the previous fiscal year and the previous fiscal year are as follows.

i) Financial assets

The Group recognizes a financial asset when it becomes party to a contract that gives rises to contractual rights to the financial asset. The Group recognizes extinguishment of the financial asset when it has exercised or forfeited its contractual rights to the financial asset or has transferred control over the rights. When financial assets meet the requirements for derecognition, the difference between the book value and the amount of receipt and payment in consideration for them is recognized as profit or loss for the reporting period.

Receivables

With respect to operating receivables and other receivables, measurement is undertaken at the value obtained by deducting the allowance for doubtful receivables calculated based on the estimated bad debts from the acquisition cost. However, when receivables are obtained at a value that is lower or higher than the amount of receivables, if the nature of the difference between the acquisition cost and the amount of receivables is recognized as an adjustment of the interest rate, measurement is undertaken at the amount obtained by deducting the allowance for doubtful receivables calculated based on the estimated bad debts from the value calculated according to the amortized cost method.

Securities

The Group has shares and other securities of associates.

Available-for-sale securities with fair market value are stated using the mark-to-market method based on the market price at the consolidated balance sheet date. (unrealized gains or losses are directly recorded in shareholders' equity, and the cost of securities sold is computed based on the moving-average method). Securities not having market values are stated using cost method determined by the moving average method is applied.

With respect to investment in limited liability investment partnerships and associations of a similar nature (investments deemed to be securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act), the net amount equivalent to equity based on the latest financial statements available is recorded.

ii) Allowance for credit losses

The Group calculates the allowance for doubtful receivables by breaking receivables down into categories according to the financial position and operating results of the debtor, such as general receivables, doubtful receivables and bankruptcy reorganization claims. The Group posts estimated uncollectible amounts, which are estimated from loan loss ratios for general reserves and from collectability for each of specific receivables including those with low collectability.

iii) Financial liabilities

The Group recognizes a financial liability when it becomes a party to a contract that gives rise to contractual obligations for the financial liability. The Group recognizes extinguishment of the financial liability when it has fulfilled its contractual obligations for the financial liability, or when its obligations are extinguished or it is discharged as primary obligor.
Trade and other payables, short-term debts receivable and long-term debts, etc. are recorded based on the amount of debt. However, if the amount of income is different from the amount of debt, for example, if the issue price of bonds is lower or higher than their face value, the value is stated at the value assessed with the amortized cost method.

iv) derivatives and hedges

The net receivables and payables arising from derivative transactions are measured at the market value, and the valuation difference is posted in profit or loss for the reporting period, in principle.
Under the Company's internal rules on derivative transactions, interest rate risks relating to the hedged item are hedged against within a certain range.
In principle, deferred hedge accounting is applied as the hedge accounting method. A preferential procedure is employed for interest rate swap that meet the criteria for the preferential procedure.
The Group evaluates hedge effectiveness by comparing the cumulative change in the market value or the cumulative change in the cash flows of the hedged item and the cumulative change in the market value or the cumulative change in the cash flows of the hedging instrument and using the amount of change in both, etc. as the basis for determining effectiveness. As for interest rate swap by preferential procedure, the assessment of hedge effectiveness is not performed.

(5) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be withdrawn at any time, and short-term investments that are readily convertible to cash, are subject to an insignificant risk of changes in value, and have a maturity of three months or less from the date of acquisition.

(6) Inventories

Wholesale assets are comprised of real estate for sale, work in process real estate for sale, cost accrued on unfinished work, raw materials and supplies, and are measured at the lower of cost and net realizable value. These costs are assessed based on the actual cost method.
The net realizable value is calculated by deducting the estimated cost and the estimated sales cost necessary for completion from the estimated sale price in the ordinary business process.

(7) Property, plant and equipment

The Group adopts the cost model for the measurement of property, plant and equipment, and measures property, plant and equipment at the acquisition cost less any accumulated depreciation and any accumulated impairment losses. Expenses that are directly incidental to the acquisition of the assets in question, the initial estimated amount of expenses for the dismantling/removal and restoration of the installation location to its original state, and the loan costs that should be posted in assets are included in the acquisition cost.

Depreciation expense is calculated under the straight-line method by allocating the depreciable amount of each component of the asset over its useful life. Depreciable amount equals the acquisition cost of the asset minus the salvage value. Land and construction work in progress are not depreciated.

The estimated useful life of the main items of property, plant and equipment are as follows.

Buildings and structures 20 to 50 years

The method of depreciation, useful life and salvage value of assets is reviewed at the end of each fiscal year, and any change is applied forthwith as an accounting estimate change.

For details of impairment losses, see Note "3. Significant accounting policies (11) Impairment losses".

(8) Goodwill and intangible assets

i) Goodwill

Goodwill arising on the acquisition of a subsidiary is recorded in intangible assets.

The Group measures goodwill as the fair value of consideration paid including the recognized amount of non-controlling interests in the acquiree measured at the acquisition date less the net recognized amount (usually, the fair value) of identifiable assets acquired and liabilities assumed at the acquisition date.

Instead of amortizing goodwill, the Group performs impairment testing if there is an indication that a CGU to which goodwill is allocated may be impaired, and at a certain time every fiscal year regardless of whether there is indication of impairment.

For details of impairment losses, see Note "3. Significant accounting policies (11) Impairment losses". The carrying amount of goodwill is the acquisition cost less accumulated impairment losses.

ii) Other intangible assets

The Group adopts the cost model approach for the measurement of intangible assets, and measures an intangible asset at acquisition cost less accumulated amortization and impairment losses.

Intangible assets that are separately acquired are measured at cost at initial recognition, Intangible assets acquired in a business combination are recognized separately from goodwill at initial recognition, and are measured at fair value on the date when the Group gains control.

Intangible assets include some assets that have an indefinite useful life.

Tangible assets with a finite useful life are amortized on a straight-line basis over their estimated useful life.

Computer software is a prime example of an intangible asset with a finite useful life. Internal use software with a useful life of one year or more is capitalized, while the cost of subsequent additions, changes or improvements to internal use software is capitalized only if the additions, changes or improvements to the software provide additional functionality. Software maintenance and training costs are expensed as they arise. Capitalized computer software is amortized on a straight-line basis generally over five years.

The method of amortisation, useful life and salvage value of assets is reviewed at the end of each fiscal year, and any change is applied forthwith as an accounting estimate change.

Intangible assets with an indefinite useful life are as follows.

・Land leases

Such intangible assets with an indefinite life and intangible assets not yet available for use are not amortized. For details of impairment losses on such assets, see Note "3. Significant accounting policies (11) Impairment losses."

(9) Lease assets

The Group judges whether a contract is a lease or contains a lease based on the substance of the contract at inception of the contract.
A lease is classified as a finance lease if it transfers substantially almost all the risks and rewards incidental to ownership of the asset to the lessee. All other leases are classified as operating leases. In situations such as if the lease term is for the major part of the economic life of the asset or if the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset, the lease is judged to transfer substantially almost all the risks and rewards incidental to ownership. The lease term is the non-cancellable period together with any further terms for which the lessee has the option to continue to lease the asset, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

i) Finance lease transactions

(Accounting as lessee)

Lease assets and lease liabilities are initially recognized at the lower of the fair value of the asset or the present value of the minimum lease payments, each determined at the inception of the lease.
After initial recognition, the accounting policy applicable to the asset is adopted. Lease payments are apportioned between the finance cost and the repayment portion of the outstanding liability of each term so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

(Accounting as lessor)

A lease receivable is initially recognized at an amount equal to the net investment in the lease at commencement of the lease term.
After initial recognition, the accounting policy applicable to the asset is adopted. Lease income is apportioned between the financial revenue and the collected portion of the outstanding lease receivable of each term so as to achieve a constant periodic rate of interest on balance of lease receivable.

ii) Operating lease transactions

(Accounting as lessee)

For operating leases, the lease payments are recognized as an expense over the lease term on a straight-line basis.

(Accounting as lessor)

Lease income from operating leases is recognized in income over the lease term on a straight-line basis.

(10) Investment property

Investment real estate is real estate held for rental income or capital gains or both. Real estate held for sale in the ordinary course of business and real estate used in the manufacturing or sale of products or services or for other administrative purposes is not included in investment real estate.
The Group adopts the cost model approach to measure investment real estate after initial recognition, and records investment real estate at acquisition cost less accumulated depreciation and impairment losses.
Expenses that are directly incidental to the acquisition of the assets in question, the initial estimated amount of expenses for the dismantling/removal and restoration of the installation location to its original state, and the loan costs that should be posted in assets are included in the acquisition cost.
Depreciation expense is calculated under the straight-line method by allocating the depreciable amount of each component of the asset over its useful life. Depreciable amount equals the acquisition cost of the asset minus the salvage value. Land and construction work in progress are not depreciated.
The estimated useful life of important investment real estate is as follows.

Buildings and structures 20 to 50 years

The method of depreciation, useful life and salvage value of assets is reviewed at the end of each fiscal year, and any change is applied forthwith as an accounting estimate change.
For details of impairment losses, see Note “3. Significant accounting policies (11) Impairment losses”.

(11) Impairment losses

i) Impairment of investment real estate, property, plant and equipment and intangible assets

The Group judges whether there is any indication that investment real estate, property, plant and equipment, and intangible assets may be impaired at the end of the reporting period.

If there is an indication of impairment, the Group estimates the recoverable amount. If it is possible to estimate the recoverable amount of individual assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. A cash generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Investment real estate and intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment if there is an indication of impairment and also at a certain time each fiscal year regardless of whether there is any indication of impairment.

The recoverable amount is the higher of the asset's fair value less costs and its value in use. Value in use is calculated by discounting expected future cash flows to their present value using a pre-tax discount rate that reflects the time value of money and risks specific to the asset.

If the recoverable amount of the asset or CGU is lower than the asset's (CGU's) carrying amount, the carrying amount is written down to the recoverable amount, and an impairment loss is recognized in profit or loss.

At the end of the reporting period, the Group assesses whether there is any indication that an impairment loss for an asset other than goodwill recognized in prior years has decreased or no longer exists. If there is an indication of reversal of impairment, the Group estimates the recoverable amount of the asset or CGU. If the recoverable amount exceeds the asset's (CGU's) carrying amount, the Group reverses the impairment loss but up to a limit of the lower of the recoverable amount or the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

ii) Impairment of goodwill

At the end of the reporting period, the Group assesses whether there is any indication that goodwill may be impaired.

Goodwill is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination, and the Group tests goodwill for impairment if there is an indication that a particular CGU may be impaired and also at a certain time each fiscal year regardless of whether there is any indication of impairment. If, in the impairment test, the CGU's recoverable amount is lower than its carrying amount, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs and then to reduce the carrying amounts of the other assets of the unit (group of units) on a pro rata basis. The impairment loss of goodwill is recognized in profit or loss and is not reversed in subsequent periods.

(12) Employee retirement benefits

The Group mainly has a defined contribution pension plan and defined benefit pension plan.

i) Defined contribution plan

Contributions to the defined contribution plan are recognized as expenses in the period in which employees render services, and unpaid contributions are recognized as an obligation.

ii) Defined benefit plan

Liability recognized in connection with the defined benefit plan (defined benefit liability) is the present value of the defined benefit plan obligation as of the end of the reporting period minus the fair value of the plan assets.

The defined benefit plan obligation is calculated by an independent pension actuary using the projected unit credit method. Defined benefit expense comprises service cost, net interest on the net defined benefit liability or asset, and remeasurements of the net defined benefit liability or asset. Service cost and net interest are recognized as profit or loss, and the discount rate decided by referring to the market yield of good corporate bonds as of the last day of the reporting period that reflects the estimated time and amount of the payment of benefits is used to calculate net interest.

The Group recognizes remeasurements, which are comprised of actuarial gains and losses and returns on plan assets (excluding amounts included in net interest), in other comprehensive income, and immediately transfers cumulative remeasurements from other components of equity to retained earnings.

(13) Provisions

A provision is recognized if the Group has a present legal or constructive obligation as a result of a past event, payment of the obligation will probably be required, and the amount of the obligation can be estimated reliably.

A provision is calculated by discounting expected future cash flows, which take into account the risks and uncertainties surrounding the obligation at the end of the reporting period, to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the liability.

The Group recognizes its asset retirement obligations and provision for loss on sub-lease business as provisions.

Asset retirement obligations

The Group recognizes its legal obligations in relation to the retirement of investment real estate and property, plant and equipment (hereinafter "investment real estate, etc.") in liabilities and makes the best estimate of the expenditure necessary for the payment of the said liabilities at the time when they are incurred. If an entity recognizes an asset retirement obligation for the first time, it is necessary to capitalize the cost of retirement of the investment real estate, etc. and to increase the carrying amount of the relevant investment real estate.

The Group considers that the duty of restoration to the original state relating to leased land and leased buildings, among others, of the Group is the main legal obligation.

Provision for loss of subleasing business

In the sub-lease business, for a property whose sub-lease loss is likely to be incurred in the future, an estimated amount of loss in and after the following consolidated fiscal year is posted.

(14) Revenue

The Group recognizes revenue, except for lease income under IAS 17 "Lease" and interest and dividend income under IFRS 9, in an amount that reflects the consideration to which it expects to be entitled in exchange for the transfer of goods or services to customers in accordance with the following five step approach.

Step 1 ： Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group also recognizes incremental costs of obtaining a contract with the customer and costs to fulfil a contract as assets (hereinafter "assets recognized for contract costs") if it expects to recover those costs. Incremental costs of obtaining a contract are costs incurred to obtain the contract with the customer which the Group would not have incurred if the contract had not been successfully obtained.

In addition, for the time of the recognition of revenue by main property or service, please refer to the notes "11. Operating revenue."

(15) Government grants

The Group measures and recognizes grants at fair value if there is reasonable assurance that the Group will comply with the conditions related to grants and that grants will be received. A grant for expenses incurred is recognized as revenue in the same quarter in which the expenses were incurred. A grant for the acquisition of an asset is stated at the amount of the grant minus the acquisition cost of the asset.

(16) Income taxes

Income taxes are comprised of current tax and deferred taxes and are recognized in profit or loss, except to the extent that tax arises from a business combination or a transaction or event recognized either in other comprehensive income or directly in equity.

Current tax is measured at the amount expected to be paid to or recovered from taxation authorities, using the rates/laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognized for deductible temporary differences, unused taxes losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. The recoverability of a deferred tax asset is reviewed at the end of the reporting period.

However, a deferred tax that arises from the initial recognition of an asset or liability other than in a business combination, which, at the time of the transaction, does not affect accounting profit or taxable profit is not recognized for temporary differences.

Deferred tax assets for deductible temporary differences arising from investments in subsidiaries, associates and joint ventures are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available against which the temporary difference will be utilized.

A deferred tax liability is recognized for all taxable temporary differences in principle, with the following exceptions.

- liabilities arising from the initial recognition of an asset/liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or the taxable profit
- liabilities arising from initial recognition of goodwill
- liabilities arising from temporary differences associated with investments in subsidiaries, associates and joint ventures, but only to the extent that the Group is able to control the timing of the reversal of the differences and it is probable that the reversal will not occur in the foreseeable future

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax laws/rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities can only be offset if the Group has the legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same taxing authority on the same entity.

(17) Earnings per share

Basic earnings per share (Earnings Per Share, hereinafter "EPS") are calculated based on the average number of issued shares during the fiscal period (except for treasury shares). The Company's EPS and diluted EPS are the same because the Company has not issued any dilutive securities.

(18) Operating segment

An operating segment is a component that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other operating segments) whose operating results are reviewed regularly by the Company's board of directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(19) Assets held for sale

Non-current assets (or disposal groups) held for sale under IFRS 5 are classified as held for sale if the carrying amount will be recovered mainly through sale rather than through continuous use. These assets are measured at the lower of their carrying amount or fair value less costs of disposal and are classified as non-current assets (or disposal groups) held for sale. These assets are not depreciated. If the fair value less costs of disposal is lower than the carrying amount, the Group recognizes an impairment loss for the assets. If the fair value less costs of disposal subsequently increases, the Group reverses the previously recognized impairment loss. The reversal of the impairment loss must be limited to the amount of impairment loss previously recognized for the asset. If the conditions for the asset to be classified as held for sale are no longer met, the asset is no longer recorded as held for sale. The asset will then be measured at the lower of its carrying amount had it not been classified as held for sale or the recoverable amount on the date that the conditions for the asset to be classified as held for sale are no longer met.

(20) Treasury shares

When treasury shares were obtained, the consideration paid after considering the tax effects including direct transaction costs is recognized as an item of deduction of equity. In the purchase, sale or cancellation of treasury shares, net loss and profit are not recognized. The difference between the carrying amount and the sale consideration is recognized in the capital surplus.

4. Significant accounting estimates and judgments in making estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. The estimates and assumptions, which are based on management's best judgment at the balance sheet date, are based on historical experience, available information and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and assumptions

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in future years.

Judgments, estimates and assumptions that significantly affect the amounts recognized in the Group's consolidated financial statements are as follows.

・Judgment whether the Group controls an investee when determining the scope of consolidation (See Note "3. Significant accounting policies 1) The basis for consolidation")
・Net realizable value for inventories (See Note "3. Significant accounting policies 6) Inventories)
・Estimate of impairment of investment real estate (See Note "3. Significant accounting policies 11) Impairment)

5. Non application of explanation of new standards

Of the documents of standards and guidelines for interpretation that were created anew or revised before the date of the approval of these condensed quarterly consolidated financial statements, those that the Group does not apply at an early stage and whose application may have a material impact on the group are as shown below.

| Standards | Name of Standard | Date of mandatory application (fiscal year starting on or after this date) | Fiscal year in which Group plans to adopt | Outline of new standard or revision | Potential impact on the consolidated financial statements |
|---|---|---|---|---|---|
| IFRS 16 | Lease | January 1, 2019 | FY2019<br>(35th term)<br>From April 1, 2019 to March 31, 2020 | IFRS16 will replace parts of the IAS 17, and the main revisions are as follows.<br>・Introduction of concept of control to thinking about definition of leases<br>・Revision of lease accounting by lessees | Especially, the Company expects that the amount of assets and liailities will increase in operating leases of lessee. The impact of application on the Group is currently being determined.。 |

6. Segment information

(1) Segment information by business

The business segments of the Group are those whose separate financial information can be obtained among the constituent units of the Group and that are periodically examined by the board of directors for decisions on the allocation of management resources and the evaluation of business performance. In addition, in reporting, the business segments are not consolidated.

The Group decides Offices/Retail Business and Residential Business are reported segments. The outline of each reported segment is as follows.

The Offices/Retail Business segment is mainly leases properties, including office buildings, commercial facilities and others that it has developed and owns.

The Residential Business segment is engaged in sales of residential properties, mainly sales of condominium units, and the rental housing business.

In addition, other business includes the design, construction and construction supervision of buildings, etc., the management of office buildings and the supply of air conditioning, the management of restaurants as ancillary service facilities of office buildings, and other business. None of these meet the quantitative standard values of the reporting segments for the first three months of the previous fiscal year or the first three months of the current consolidated fiscal year.

(2) Information about amounts of operating revenue, profit or loss by reportable segment

The accounting policies of the reported operating segments are largely the same as those described in Note “3. Significant accounting policies.”

Profits in the reported segments are values based on operating income. Inter-segment internal revenues or transfers are based on current fair values.

Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

(Million yen)

| | Reported segments | | | Other | Total | Adjustments | Amount stated in condensed consolidated financial statement |
|---|---|---|---|---|---|---|---|
| | Offices/ Retail Business | Residential Business | Total | | | | |
| Operating revenue | | | | | | | |
| Operating revenue to third parties | 23,320 | 13,510 | 36,831 | 3,317 | 40,148 | — | 40,148 |
| Inter-segment internal revenues and transfers | 270 | 2 | 273 | 964 | 1,237 | (1,237) | — |
| Total | 23,591 | 13,513 | 37,104 | 4,282 | 41,386 | (1,237) | 40,148 |
| Segment profits | 12,190 | 1,485 | 13,676 | 334 | 14,010 | (1,581) | 12,428 |
| Finance income | — | — | — | — | — | — | 160 |
| Finance costs | — | — | — | — | — | — | (846) |
| Profit before tax | — | — | — | — | — | — | 11,742 |

(Note) Adjustment of segment income of - ¥1,581 million includes the elimination of transactions between segments of ¥4 million and entire company expenses not allocated to each reporting segment of - ¥1,586 million. Entire company expenses are mainly selling, general and administrative expenses not belong to the reporting segments.

Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018)

(Million yen)

| | Reported segments | | | Other | Total | Adjustments | Amount stated in condensed consolidated financial statement |
|---|---|---|---|---|---|---|---|
| | Offices/ Retail Business | Residential Business | Total | | | | |
| Operating revenue | | | | | | | |
| Operating revenue to third parties | 22,068 | 3,471 | 25,539 | 4,360 | 29,900 | — | 29,900 |
| Inter-segment internal revenues and transfers | 310 | 1 | 312 | 996 | 1,309 | (1,309) | — |
| Total | 22,378 | 3,473 | 25,851 | 5,357 | 31,209 | (1,309) | 29,900 |
| Segment profits or lossses | 11,306 | (351) | 10,954 | 595 | 11,550 | (1,642) | 9,907 |
| Finance income | — | — | — | — | — | — | 179 |
| Finance costs | — | — | — | — | — | — | (732) |
| Profit before tax | — | — | — | — | — | — | 9,353 |

(Note) Adjustment of - ¥1,642 million in segment profits or losses includes elimination of inter-segment transactions of - ¥1 million and company-wide expenses of - ¥1,641 million which is not allotted to the reported segments and other. Company-wide expenses are primarily selling, general and administrative expenses that are not attributable to reported segments and other.

7. Investment property

A breakdown of investment real estate at the transition date and the end of the previous fiscal year, and in the first quarter of the fiscal year under review is as follows.

(Million yen)

| | The transition date (April 1, 2017) | The end of the previous fiscal year (March 31, 2018) | Three months ended June 30, 2018 (June 30, 2018) |
|---|---|---|---|
| Land | 479,054 | 470,420 | 470,280 |
| Buildings and structures | 611,683 | 627,107 | 625,636 |
| Construction in progress | 8,056 | 15,455 | 16,037 |
| Other | 58,169 | 58,539 | 58,344 |
| Subtotal | 1,156,963 | 1,171,523 | 1,170,298 |
| Accumulated depreciation and impairment losses | (358,337) | (368,264) | (368,612) |
| Total investment property | 798,626 | 803,259 | 801,685 |

8. Assets held for sale

A breakdown of assets held for sale and liabilities directly associated with those assets is as follows.

(Million yen)

| | The transition date (April 1, 2017) | The end of the previous fiscal year (March 31, 2018) | Three months ended June 30, 2018 (June 30, 2018) |
|---|---|---|---|
| Assets held for sale | | | |
| Investment property | — | 11,796 | — |
| Other current assets | — | 7 | — |
| Total | — | 11,803 | — |
| Liabilities directly associated with the assets held for sale | | | |
| Other financial liabilities | — | 65 | — |
| Other current liabilities | — | 172 | — |
| Total | — | 237 | — |

In the previous fiscal year, the Group decided to sell assets and liabilities associated with investment real estate and classified them as assets held for sale and liabilities directly associated with assets held for sale. The sale of these assets was completed in the first quarter of the fiscal year under review.

9. Paid-in capital and other items of equity

(1) Number of shares authorized and number of shares outstanding

Changes in number of shares authorized, outstanding shares and treasury shares in the first quarter of the previous fiscal year are as follows.

(share)

| | Number of shares authorized (Ordinary shares of no par value) | Number of shares outstanding (Ordinary shares of no par value) | Number of treasury shares (Ordinary shares of no par value) |
|---|---|---|---|
| April 1, 2017 | 1,050,000,000 | 329,120,000 | 77 |
| Purchase of treasury shares by resolution of the board of directors | — | — | — |
| Purchase of treasury shares based on requests for purchase of fractional shares | — | — | — |
| Disposal of treasury shares based on requests for additional purchase of fractional shares | — | — | — |
| June 30, 2017 | 1,050,000,000 | 329,120,000 | 77 |

Changes in number of shares authorized, outstanding shares and treasury shares in the first quarter of the period under review are as follows.

(share)

| | Number of shares authorized (Ordinary shares of no par value) | Number of shares outstanding (Ordinary shares of no par value) | Number of treasury shares (Ordinary shares of no par value) |
|---|---|---|---|
| April 1, 2018 | 1,050,000,000 | 329,120,000 | 77 |
| Purchase of treasury shares by resolution of the board of directors | — | — | — |
| Purchase of treasury shares based on requests for purchase of fractional shares | — | — | — |
| Disposal of treasury shares based on requests for additional purchase of fractional shares | — | — | — |
| June 30, 2018 | 1,050,000,000 | 329,120,000 | 77 |

(2) A breakdown of other components of equity

A breakdown of other components of equity (net of tax) in the first quarter of the previous fiscal year and the first quarter of the period under review is as follows.

Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

(Million yen)

| | Other components of equity | | | | |
|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Cash flow hedge (Note) | Rmeasurements of defined benefit plan | Exchange differences on translation of foreign operations | Total |
| April 1, 2017 | 2,590 | 5 | － | － | 2,596 |
| Other comprehensive income | (218) | (3) | － | 586 | 364 |
| Transfer to retained earnings | － | － | － | － | － |
| June 30, 2017 | 2,371 | 2 | － | 586 | 2,960 |

(Note) Before the end of the previous consolidated fiscal year, deferred gains or losses on hedges under JGAAP

Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018)

(Million yen)

| | Other components of equity | | | | |
|---|---|---|---|---|---|
| | Financial assets measured at fair value through other comprehensive income | Cash flow hedge | Rmeasurements of defined benefit plan | Exchange differences on translation of foreign operations | Total |
| March 31, 2018 | 1,881 | 25 | － | (174) | 1,732 |
| Cumulative effect of application of IFRS 9 “Financial Instruments” | 108 | (1,138) | － | － | (1,029) |
| April 1, 2018 | 1,990 | (1,113) | － | (174) | 702 |
| Other comprehensive income | 176 | (2) | － | 218 | 392 |
| Transfer to retained earnings | － | － | － | － | － |
| June 30, 2018 | 2,167 | (1,116) | － | 43 | 1,094 |

10. Dividends

Dividends

i) Dividends in the first quarter of the previous fiscal year and the first quarter of the period under review

| Resolution | Type of shares | Total dividends (million yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Ordinary General Meeting of Shareholders on June 22, 2017 | Common stocks | 2,962 | 9 | March 31, 2017 | June 23, 2017 |
| Ordinary General Meeting of Shareholders on June 21, 2018 | Common stocks | 3,291 | 10 | March 31, 2018 | June 22, 2018 |

11. Operating revenue

Revenue breakdown

Revenue breakdown and segment revenue

Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

(Million yen)

| | goods or services | Reported segments | | | Other | Total |
|---|---|---|---|---|---|---|
| | | Offices/ Retail Business | Residential Business | Total | | |
| Offices/ Retail Business | Offices/Retail rental | 20,655 | − | 20,655 | − | 20,655 |
| | Income-producing property sale | − | − | − | − | − |
| | Other | 2,665 | − | 2,665 | − | 2,665 |
| Residential Business | Residential property sales | − | 13,008 | 13,008 | − | 13,008 |
| | Residential rentals | − | 502 | 502 | − | 502 |
| | Other | − | − | − | − | − |
| Other | | − | − | − | 3,317 | 3,317 |
| Total | | 23,320 | 13,510 | 36,831 | 3,317 | 40,148 |

(Note) After deduction of intra-group transactions.

Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018)

(Million yen)

| | goods or services | Reported segments | | | Other | Total |
|---|---|---|---|---|---|---|
| | | Offices/ Retail Business | Residential Business | Total | | |
| Offices/ Retail Business | Offices/Retail rental | 21,117 | − | 21,117 | − | 21,117 |
| | Income-producing property sale | − | − | − | − | − |
| | Other | 951 | − | 951 | − | 951 |
| Residential Business | Residential property sales | − | 2,931 | 2,931 | − | 2,931 |
| | Residential rentals | − | 539 | 539 | − | 539 |
| | Other | − | − | − | − | − |
| Other | | − | − | − | 4,360 | 4,360 |
| Total | | 22,068 | 3,471 | 25,539 | 4,360 | 29,900 |

(Note) After deduction of intra-group transactions.

In the Offices/Retail rental, the Group leases office buildings, retail facilities, hotels and other real estate property that it has developed and owns. The Group accounts for income arising from the lease of such real estate property in accordance with IAS 17 “Leases” and income is recognized on a straight-line basis over the lease term. Revenue from services incidental to these contracts is accounted for in accordance with IFRS 15 “Revenue from contracts with customers” (IFRS 15) and recognized over some given period.

Income-producing property sale services consist mainly in the sale of office buildings and other properties developed by the Group, and revenue is recognized when the terms of delivery specified in the contract with the customer are satisfied in accordance with IFRS 15.

Residential property sales consist mainly in the sale of condominium units, residential lots and other residential properties developed by the Group, and revenue is recognized when the terms of delivery specified in the contract with the customer are satisfied in accordance with IFRS 15.

Residential rental consist mainly in the rental housing business and the serviced senior-citizen residences business. The Group accounts for income arising from the lease of such real estate property in accordance with IAS 17 “Leases.” Revenue from services incidental to these contracts is accounted for in accordance with IFRS 15 and recognized over some given period.

Other consist mainly in the design and construction of buildings, etc., construction work management, and the operation of incidental facilities, etc.

12. Other operating revenue and expense

A breakdown of other operating revenue and expenses in the first quarter of the previous fiscal year and the first quarter of the fiscal year under review is as follows.

i) Other operating revenue

(Million yen)

| | Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017) | Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018) |
|---|---|---|
| Gain on sales of investment real estate | － | 1,403 |
| Other | 9 | 73 |
| Total | 9 | 1,476 |

ii) Other operating expense

(Million yen)

| | Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017) | Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018) |
|---|---|---|
| Loss on retirement of investment real estate | 66 | 46 |
| Other | 16 | 15 |
| Total | 82 | 61 |

13. Fair value of financial instruments

For the transition date and the previous fiscal year, the Group has applied the accounting standards it adopted previously (JGAAP) based on the exemptions from retrospective application of IFRS 9 under IFRS 1. For the first quarter of the fiscal year under review, the Group has applied IFRS 9.

(1) Financial instruments that are not measured at fair value

The carrying amount and fair value of financial instruments that are not measured at fair value are as follows. The table below does not include financial instruments that are recorded in an amount that approximates fair value such as cash and cash equivalents, trade and other receivables, short-term debt, and trade and other payables.

(Million yen)

| | The transition date (April 1, 2017) | | The end of the previous fiscal year (March 31, 2018) | | Three months ended June 30, 2018 (June 30, 2018) | |
|---|---|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| Long-term borrowings | 514,833 | 529,468 | 531,018 | 540,301 | 518,862 | 526,623 |

(Note 1) Long-term debt includes the current portion of long-term borrowings and the current portion of corporate bonds.

(Note 2) The fair value of long-term debt is measured by discounting future cash flows at a discount rate based on the assumption that the Group newly borrows a similar liability, excluding variable-rate debt whose carrying amount is considered to be a reasonable approximation of fair value.

(2) The fair value hierarchy

The fair value of financial instruments is determined based on market prices and other market information and valuation techniques such as the market approach, the income approach and the cost approach. The inputs used to measure fair value are categorized into the following three levels.

Level 1: Quoted prices (without adjustment) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Transfers between levels of the fair value hierarchy are recognized as transfers that occurred at the end of each quarter.

A breakdown of financial assets and financial liabilities that are measured at fair value on a recurring basis for the transition date, the first quarter of the previous fiscal year and the first quarter of the period under review is as follows.

The transition date (April 1, 2017)

(Million yen)

| Classification | Fair value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Other current financial assets | | | | |
| Derivatives | － | 2 | － | 2 |
| Other non-current financial assets | | | | |
| Share | 3,237 | － | － | 3,237 |
| Debt securities | 214 | － | － | 214 |
| Derivatives | － | 7 | － | 7 |
| Investment securities | 5,476 | － | 1,038 | 6,515 |
| Total financial assets | 8,928 | 9 | 1,038 | 9,977 |

The end of the previous fiscal year (March 31, 2018)

(Million yen)

| Classification | Fair value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Other non-current financial assets | | | | |
| Share | 2,573 | － | － | 2,573 |
| Debt securities | － | － | － | － |
| Derivatives | － | 35 | － | 35 |
| Investment securities | 4,854 | － | 1,140 | 5,995 |
| Total financial assets | 7,427 | 35 | 1,140 | 8,604 |

(Note 1) There are no significant transfers between the levels for the previous fiscal year.

(Note 2) Reconciliation of changes in Level 3 measurements has not been disclosed, as there was no significant change in financial instruments classified as Level 3 in the previous fiscal year.

(Note 3) The transition date and figures for the previous fiscal year are based on JGAAP, and fair value amounts are those that were disclosed as market value under JGAAP. Amounts of unlisted stocks, investment trusts, etc. for the transition date and the previous fiscal year are calculated based on JGAAP because unlisted stocks, investment trusts, etc. do not have market prices and it is deemed extremely difficult to measure their market value. Unlisted stocks, investment trusts, etc. are, therefore, carried at their acquisition cost and are not included in the above table.

Three months ended June 30, 2018

(Million yen)

| Classification | Fair value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Other non-current financial assets | | | | |
| FVTPL (Share capital) | － | 126 | 15,602 | 15,729 |
| Financial assets designated as hedging instruments (Derivatives) | － | 41 | － | 41 |
| FVTOCI (Share) | 2,793 | － | 1,136 | 3,930 |
| FVTOCI (Investment securities) | 4,889 | － | － | 4,889 |
| Total financial assets | 7,682 | 167 | 16,739 | 24,590 |
| | | | | |
| Current financial liabilities designated as hedging instruments | | | | |
| Financial liabilities designated as hedging instruments (Derivatives) | － | 84 | － | 84 |
| Other non-current financial liabilities | | | | |
| Financial liabilities designated as hedging instruments (Derivatives) | － | 1,566 | － | 1,566 |
| Total financial liabilities | － | 1,651 | － | 1,651 |

(Note 1) There are no significant transfers between the levels in the first quarter under review.

(Note 2) Reconciliation of changes in Level 3 measurements has not been disclosed, as there was no significant change in financial instruments classified as Level 3 in the first quarter under review.

Fair value measurement of financial instruments

The fair value of financial instruments measured at fair value in the statement of financial position that are classified as Level 2 and Level 3 is determined as follows.

i) Other non-current financial assets

Other financial assets include investments, etc. in unlisted ordinary shares and investments in silent parter issued by customers and other associates that are not accounted for using the equity method. In J GAAP, the fair value of unlisted ordinary shares and share capital have not been estimated for the transition date and the previous fiscal year as quoted market prices do not exist. Investment for unlisted ordinary shares and share capital classified as Level 3 determine the valuation method and processes of associated related accounting policy and mainly use revised net asset approach to valuation. These fair value measured under proper approval process of the Company including rational estimate of inputs and choice of proper valuation model.

ii) Derivatives

Derivatives are mainly interest rate swap contract. The fair value of derivatives is measured using basic conditions are possible to observe in the market such as LIBOR and swap rate and discounting the future cash flows to the present value. The Group engages independent external valuation experts to measure the fair value of financial instruments if measurement requires a high level of knowledge and experience and if the amounts involved are significant.

14. Subsequent events

There were no subsequent events.

15. First-time adoption of IFRS

(1) Transition to IFRS-based financial reporting

These Condensed Quarterly Financial Statements are the Group's first condensed quarterly financial statements prepared in accordance with IFRS.

IFRS 1 requires an entity that is adopting IFRS Standards for the first time to apply IFRS retrospectively. However, IFRS 1 prohibits retrospective application of some aspects of other IFRSs, requiring application from the IFRS transition date onwards. IFRS 1 also permits a first-time adopter to elect to use exemptions from some requirements of other IFRSs. The impact of applying these provisions is recognized on the IFRS transition date and impact values are adjusted in retained earnings or other components of equity. The main optional exemptions applied by the Group are as follows.

i) Business combinations

Under IFRS 1, an entity can elect to retrospectively restate all business combinations that took place before the IFRS transition date in accordance with IFRS 3 or to apply IFRS 3 from the IFRS transition date or from a specific business combination before the IFRS transition date. The Group has elected not to retrospectively apply IFRS 3 to business combinations that took place before the transition date. As a result, goodwill arising from business combinations that took place before the transition date has been recognized at carrying amount in accordance with J GAAP.

ii) Deemed cost

Under IFRS 1, an entity may elect to measure an item of investment real estate at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date. The Group used the fair value of some investment real estate as its deemed cost at that date.

iii) Translation differences for foreign operations

Under IFRS 1, an entity may elect to deem cumulative translation differences for all foreign operations to be zero. The Group as elected to deem cumulative translation differences for foreign operations to be zero at the transition date.

iv) Borrowing costs

Under IFRS 1, an entity can elect not to retrospectively apply IAS 23 "Borrowing costs" (IAS 23) for borrowing costs for eligible assets arising before the transition date. The Group has elected not to retrospectively apply IAS 23 for borrowing costs for eligible assets arising before the transition date.

v) Revenue

Under IFRS 1, an entity may apply the transitional measure in paragraph C5 of IFRS 15. The Group has used the practical expedient in paragraph C5 (d) of IFRS 15 when retrospectively applying IFRS 15 and has not disclosed the amount of the transaction price allocated to remaining performance obligations or an explanation of when the Group expects to recognize this amount as revenue for any of the reporting periods before the start of the first IFRS reporting period (the current fiscal year).

vi) Exemption from requirement for retrospective restatement of comparative information due to IFRS 9

IFRS 1 does not require a first-time adopter that applies IFRS from an annual period beginning before January 1, 2019 and that applies the complete version of IFRS 9 (released 2014) to restate comparative information in the first IFRS consolidated financial statements in accordance with IFRS 7 or the complete version of IFRS 9 and permits an entity to apply the accounting standards that it previously adopted. The Group has applied this exemption and has recognized and measured the consolidated financial statements for the comparative previous fiscal year in accordance with J GAAP, which are the accounting standards it adopted previously.

(3) Reconciliations for transition from J GAAP to IFRS

On making the transition to IFRS, the Group has adjusted amounts reported in consolidated financial statements prepared based on JGAAP. The impact of transition from JGAAP to IFRS on the financial position, operating results and cash flows of the Company and its subsidiaries are shown Reconsoliations and Notes to Reconciliations below.

"Reclassifications" included in Reconciliations represents items that do not have any impact on equity and comprehensive income, while "Gains or losses from recognition and measurement" represent items that have an impact on equity and comprehensive income.

Reconciliation of equity at date of transition (April 1, 2017)
Consolidated Statement of Financial Position

(Million yen)

| Accounting titles of J GAAP | J GAAP | Reclassifications | Gains or losses from recognition and measurement | IFRS | Note No. | Accounting titles of IFRS |
|---|---|---|---|---|---|---|
| Assets | | | | | | (Assets) |
| Current assets | | | | | | Current assets |
| Cash and deposits | 16,945 | 7,008 | (1,483) | 22,471 | | Cash and cash equivalents |
| Notes and operating accounts receivable | 9,026 | 4,901 | 5,946 | 19,874 | i | Trade and other receivables |
| Real estate for sale | 25,156 | 60,942 | (3,383) | 82,714 | iv | Inventories |
| Real estate for sale in process | 68,204 | (68,204) | | | | |
| Costs on uncompleted construction contracts | 423 | (423) | | | | |
| Raw materials and supplies | 81 | (81) | | | | |
| Lease investment assets | 2,074 | (2,074) | | | | |
| Deposits paid | 7,208 | (7,005) | (0) | 202 | | Other financial assets |
| Deferred tax assets | 572 | (572) | | | | |
| Other | 8,123 | (2,830) | (1,303) | 3,989 | ii | Other current assets |
| Allowance for doubtful accounts | (0) | 0 | | | | |
| Total current assets | 137,816 | (8,339) | (224) | 129,252 | | Total current assets |
| Non-current assets | | | | | | Non-current assets |
| Property, plant and equipment | 797,557 | (772,736) | (11,503) | 13,317 | | Property, plant and equipment |
| Intangible assets | 25,228 | (21,775) | (608) | 2,844 | | Goodwill and intangible assets |
| | | 813,646 | (15,020) | 798,626 | iii,v | Investment property |
| Investments and other assets | | | | | | |
| Investment securities | 22,518 | (15,336) | 5,184 | 12,366 | | Investments accounted for using the equity method |
| | | 21,654 | 251 | 21,905 | | Other financial assets |
| Long-term prepaid expenses | 14,571 | (14,571) | | | | |
| Net defined benefit asset | 276 | (276) | | | | |
| Deferred tax assets | 440 | 572 | 983 | 1,996 | vi | Deferred tax assets |
| Other | 8,292 | (3,486) | (2,931) | 1,874 | | Other non-current assets |
| Allowance for doubtful accounts | (802) | 802 | | | | |
| Total non-current assets | 868,081 | 8,493 | (23,644) | 852,931 | | Total non-current assets |
| Total assets | 1,005,898 | 154 | (23,868) | 982,183 | | Total assets |

(Million yen)

| Accounting titles of J GAAP | J GAAP | Reclassifications | Gains or losses from recognition and measurement | IFRS | Note No. | Accounting titles of IFRS |
|---|---|---|---|---|---|---|
| Liabilities | | | | | | (Liabilities and equity) |
| Current liabilities | | | | | | Current liabilities |
| Notes and operating accounts payable - trade | 6,002 | 35,285 | (133) | 41,154 | | Trade and other payables |
| Short-term loans payable | 6,611 | 47,363 | 3,180 | 57,155 | | Short-term borrowings |
| Lease obligations | 32 | (32) | | | | |
| Current portion of long-term loans payable | 27,364 | (27,364) | | | | |
| Current portion of bonds | 19,998 | (19,998) | | | | |
| Income taxes payable | 6,748 | | 41 | 6,790 | | Income taxes payable |
| Deferred tax liabilities | 4 | (4) | | | | |
| | | 1,316 | (0) | 1,316 | | Other financial liabilities |
| | | 130 | | 130 | | Provisions |
| Other | 46,030 | (36,700) | 10,498 | 19,828 | i,iv | Other current liabilities |
| Total current liabilities | 112,792 | (4) | 13,587 | 126,375 | | Total Current liabilities |
| Non-current liabilities | | | | | | Non-current liabilities |
| Bonds payable | 90,982 | 377,125 | (2,389) | 465,718 | | Long-term borrowings |
| Long-term loans payable | 377,125 | (377,125) | | | | |
| Lease obligations | 49 | (49) | | | | |
| Lease and guarantee deposits received | 75,024 | 49 | 802 | 75,876 | | Other financial liabilities |
| Negative goodwill | 21,037 | 154 | (21,191) | | vii | |
| Deferred tax liabilities | 59,367 | 4 | (17,352) | 42,018 | | Deferred tax liabilities |
| Provision for directors' retirement benefits | 34 | (34) | | | | |
| Net defined benefit liability | 7,731 | | | 7,731 | | Defined benefit liability |
| Asset retirement obligations | 2,803 | | 631 | 3,434 | | Provisions |
| Other | 392 | 34 | (181) | 245 | | Other non-current liabilities |
| Total non-current liabilities | 634,548 | 158 | (39,681) | 595,025 | | Total non-current liabilities |
| Total liabilities | 747,341 | 154 | (26,094) | 721,401 | | Total liabilities |

(Million yen)

| Accounting titles of J GAAP | J GAAP | Reclassifications | Gains or losses from recognition and measurement | IFRS | Note No. | Accounting titles of IFRS |
|---|---|---|---|---|---|---|
| Net assets | | | | | | Equity |
| Shareholders' equity | | | | | | Equity attriutable to owners of parent |
| Capital stock | 48,760 | | | 48,760 | | Share capital |
| Capital surplus | 31,648 | | (206) | 31,442 | | Share premium |
| Retained earnings | 129,195 | | 5,227 | 134,423 | x | Retained earnings |
| Treasury shares | (0) | | | (0) | | Treasury shares |
| Accumulated other comprehensive income | | | | | | |
| Valuation difference on available-for-sale securities | 2,590 | (2,590) | | | | |
| Deferred gains or losses on hedges | 1 | (1) | | | | |
| Foreign currency translation adjustment | 1,100 | (1,100) | | | viii | |
| Remeasurements of defined benefit plans | (625) | 625 | | | | |
| | | 3,067 | (471) | 2,596 | | Other components of equity |
| | | | | 217,221 | | Total equity attriutable to owners of parent |
| Non-controlling interests | 45,884 | | (2,324) | 43,560 | | Non-controlling interests |
| Total net assets | 258,556 | | 2,225 | 260,782 | | Total equity |
| Total liabilities and net assets | 1,005,898 | 154 | (23,868) | 982,183 | | Total liabilities and equity |

Reconciliation of equity at date of the three months ended June 30, 2017 (June 30, 2017)
Consolidated Statement of Financial Position

(Million yen)

| Accounting titles of J GAAP | J GAAP | Reclassifications | Gains or losses from recognition and measurement | IFRS | Note No. | Accounting titles of IFRS |
|---|---|---|---|---|---|---|
| Assets | | | | | | (Assets) |
| Current assets | | | | | | Current assets |
| Cash and deposits | 27,005 | 6,994 | (10,597) | 23,402 | | Cash and cash equivalents |
| Notes and operating accounts receivable | 8,505 | 4,016 | 6,138 | 18,660 | i | Trade and other receivables |
| Real estate for sale | 29,891 | 56,152 | (3,276) | 82,768 | iv | Inventories |
| Real estate for sale in process | 63,329 | (63,329) | | | | |
| Costs on uncompleted construction contracts | 467 | (467) | | | | |
| Raw materials and supplies | 53 | (53) | | | | |
| Lease investment assets | 2,035 | (2,035) | | | | |
| Deposits paid | 7,194 | (6,994) | 2 | 202 | | Other financial assets |
| Deferred tax assets | 511 | (511) | | | | |
| Other | 7,194 | (1,981) | (2,836) | 2,376 | ii | Other current assets |
| Allowance for doubtful accounts | (0) | 0 | | | | |
| Total current assets | 146,188 | (8,209) | (10,569) | 127,408 | | Total current assets |
| Non-current assets | | | | | | Non-current assets |
| Property, plant and equipment | 797,589 | (785,596) | 1,182 | 13,175 | | Property, plant and equipment |
| Intangible assets | 25,021 | (21,733) | (543) | 2,744 | | Goodwill and intangible assets |
| | | 826,307 | (13,901) | 812,405 | iii,v | Investment property |
| Investments and other assets | | | | | | |
| Investment securities | 26,439 | (17,846) | 3,784 | 12,376 | | Investments accounted for using the equity method |
| | | 23,688 | 1,171 | 24,860 | | Other financial assets |
| Long-term prepaid expenses | 14,507 | (14,507) | | | | |
| Net defined benefit asset | 279 | (279) | | | | |
| Deferred tax assets | 437 | 511 | 252 | 1,200 | vi | Deferred tax assets |
| Other | 8,177 | (2,984) | (3,057) | 2,136 | | Other non-current assets |
| Allowance for doubtful accounts | (802) | 802 | | | | |
| Total non-current assets | 871,649 | 8,361 | (11,110) | 868,899 | | Total non-current assets |
| Total assets | 1,017,837 | 151 | (21,680) | 996,308 | | Total assets |

(Million yen)

| Accounting titles of J GAAP | J GAAP | Reclassifications | Gains or losses from recognition and measurement | IFRS | Note No. | Accounting titles of IFRS |
|---|---|---|---|---|---|---|
| Liabilities | | | | | | (Liabilities and equity) |
| Current liabilities | | | | | | Current liabilities |
| Notes and operating accounts payable - trade | 6,735 | 14,827 | 49 | 21,613 | | Trade and other payables |
| Short-term loans payable | 8,040 | 37,115 | 12,647 | 57,803 | | Short-term borrowings |
| Lease obligations | 31 | (31) | | | | |
| Current portion of long-term loans payable | 17,116 | (17,116) | | | | |
| Current portion of bonds | 19,998 | (19,998) | | | | |
| Income taxes payable | 2,661 | | (175) | 2,486 | | Income taxes payable |
| Deferred tax liabilities | 4 | (4) | | | | |
| | | 1,252 | (12) | 1,239 | | Other financial liabilities |
| | | 130 | | 130 | | Provisions |
| Other | 25,712 | (16,178) | 8,262 | 17,795 | i, iv | Other current liabilities |
| Total current liabilities | 80,301 | (4) | 20,771 | 101,068 | | Total current liabilities |
| Non-current liabilities | | | | | | Non-current liabilities |
| Bonds payable | 90,983 | 419,435 | (11,219) | 499,199 | | Long-term borrowings |
| Long-term loans payable | 419,435 | (419,435) | | | | |
| Lease obligations | 43 | (43) | | | | |
| Lease and guarantee deposits received | 75,205 | 44 | 879 | 76,129 | | Other financial liabilities |
| Negative goodwill | 20,558 | 151 | (20,709) | | vii | |
| Deferred tax liabilities | 59,233 | 4 | (17,195) | 42,042 | | Deferred tax liabilities |
| Provision for directors' retirement benefits | 26 | (26) | | | | |
| Net defined benefit liability | 7,762 | | 9 | 7,772 | | Defined benefit liability |
| Asset retirement obligations | 3,057 | | 625 | 3,682 | | Provisions |
| Other | 208 | 24 | (53) | 179 | | Other non-current liabilities |
| Total non-current liabilities | 676,515 | 155 | (47,663) | 629,007 | | Total non-current liabilities |
| Total liabilities | 756,816 | 151 | (26,892) | 730,075 | | Total liabilities |

(Million yen)

| Accounting titles of J GAAP | J GAAP | Reclassifications | Gains or losses from recognition and measurement | IFRS | Note No. | Accounting titles of IFRS |
|---|---|---|---|---|---|---|
| Net assets | | | | | | Equity |
| Shareholders' equity | | | | | | Equity attributable to owners of parent |
| Capital stock | 48,760 | | | 48,760 | | Share capital |
| Capital surplus | 31,648 | | (206) | 31,442 | | Share premium |
| Retained earnings | 132,406 | | 6,775 | 139,182 | x | Retained earnings |
| Treasury shares | (0) | | | (0) | | Treasury shares |
| Accumulated other comprehensive income | | | | | | |
| Valuation difference on available-for-sale securities | 2,371 | (2,371) | | | | |
| Deferred gains or losses on hedges | 5 | (5) | | | | |
| Foreign currency translation adjustment | 517 | (517) | | | viii | |
| Remeasurements of defined benefit plans | (611) | 611 | | | | |
| | | 2,283 | 676 | 2,960 | | Other components of equity |
| | | | | 222,345 | | Total equity attributable to owners of parent |
| Non-controlling interests | 45,922 | | (2,034) | 43,887 | | Non-controlling interests |
| Total net assets | 261,020 | | 5,211 | 266,232 | | Total equity |
| Total liabilities and net assets | 1,017,837 | 151 | (21,680) | 996,308 | | Total liabilities and equity |

Reconciliation of equity at date of the end of the previous fiscal year (March 31, 2018)
Consolidated Statement of Financial Position

(Million yen)

| Accounting titles of J GAAP | J GAAP | Reclassifications | Gains or losses from recognition and measurement | IFRS | Note No. | Accounting titles of IFRS |
|---|---|---|---|---|---|---|
| Assets | | | | | | (Assets) |
| Current assets | | | | | | Current assets |
| Cash and deposits | 18,073 | 2,752 | (638) | 20,187 | | Cash and cash equivalents |
| Notes and operating accounts receivable | 9,340 | 5,448 | 6,048 | 20,838 | i | Trade and other receivables |
| Real estate for sale | 27,672 | 49,974 | (1,975) | 75,672 | iv | Inventories |
| Real estate for sale in process | 55,614 | (55,614) | | | | |
| Costs on uncompleted construction contracts | 784 | (784) | | | | |
| Raw materials and supplies | 86 | (86) | | | | |
| Lease investment assets | 1,912 | (1,912) | | | | |
| Deposits paid | 2,912 | (2,752) | | 160 | | Other financial assets |
| Deferred tax assets | 671 | (671) | | | | |
| Other | 8,298 | (3,544) | (451) | 4,302 | ii | Other current assets |
| Allowance for doubtful accounts | (0) | 0 | | | | |
| | | (7,189) | 2,983 | 121,160 | | Current assets (Subtotal) |
| | | 11,803 | | 11,803 | | Assets held for sale |
| Total current assets | 125,367 | 4,613 | 2,983 | 132,964 | | Total non-current assets |
| Non-current assets | | | | | | Non-current assets |
| Property, plant and equipment | 819,324 | (799,934) | (754) | 18,635 | | Property, plant and equipment |
| Intangible assets | 25,818 | (21,892) | (1,375) | 2,550 | | Goodwill and intangible assets |
| | | 827,557 | (24,298) | 803,259 | iii,v | Investment property |
| Investments and other assets | | | | | | |
| Investment securities | 26,852 | (16,822) | 1,790 | 11,820 | | Investments accounted for using the equity method |
| | | 23,018 | 458 | 23,476 | | Other financial assets |
| Long-term prepaid expenses | 14,138 | (14,138) | | | | |
| Net defined benefit asset | 355 | (355) | | | | |
| Deferred tax assets | 237 | 671 | 1,302 | 2,211 | vi | Deferred tax assets |
| Other | 8,366 | (3,376) | (2,753) | 2,236 | | Other non-current assets |
| Allowance for doubtful accounts | (802) | 802 | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total non-current assets | 894,292 | (4,471) | (25,631) | 864,189 | | Total non-current assets |
| Total assets | 1,019,659 | 142 | (22,647) | 997,154 | | Total assets |

(Million yen)

| Accounting titles of J GAAP | J GAAP | Reclassifications | Gains or losses from recognition and measurement | IFRS | Note No. | Accounting titles of IFRS |
|---|---|---|---|---|---|---|
| Liabilities | | | | | | (Liabilities and equity) |
| Current liabilities | | | | | | Current liabilities |
| Notes and operating accounts payable - trade | 6,638 | 15,272 | 1,085 | 22,996 | | Trade and other payables |
| Short-term loans payable | 11,232 | 90,064 | (607) | 100,688 | | Short-term borrowings |
| Lease obligations | 33 | (33) | | | | |
| Current portion of long-term loans payable | 89,064 | (89,064) | | | | |
| Current portion of bonds | 1,000 | (1,000) | | | | |
| Income taxes payable | 3,908 | | (50) | 3,858 | | Income taxes payable |
| Deferred tax liabilities | 0 | (0) | | | | |
| | | 975 | 13 | 989 | | Other financial liabilities |
| | | 433 | 250 | 683 | | Provisions |
| Other | 25,981 | (16,885) | 10,951 | 20,046 | i,iv | Other current liabilities |
| | | (237) | 11,641 | 149,263 | | Current liabilities (Subtotal) |
| | | 237 | | 237 | | Liabilities directly related to assets held for sale |
| Total current liabilities | 137,859 | (0) | 11,641 | 149,500 | | Total current liabilities |
| Non-current liabilities | | | | | | Non-current liabilities |
| Bonds payable | 89,986 | 353,484 | (459) | 443,010 | | Long-term borrowings |
| Long-term loans payable | 353,484 | (353,484) | | | | |
| Lease obligations | 42 | (42) | | | | |
| Lease and guarantee deposits received | 76,399 | 44 | 586 | 77,029 | | Other financial liabilities |
| Negative goodwill | 19,122 | 142 | (19,265) | | vii | |
| Deferred tax liabilities | 58,060 | 0 | (16,137) | 41,922 | | Deferred tax liabilities |
| Provision for loss of subleasing business | 2,350 | (2,350) | | | | |
| Provision for directors' retirement benefits | 29 | (29) | | | | |
| Net defined benefit liability | 8,092 | | 35 | 8,128 | | Defined benefit liability |
| Asset retirement obligations | 2,228 | 2,350 | 353 | 4,932 | | Provisions |
| Other | 193 | 28 | (12) | 209 | | Other non-current liabilities |
| Total non-current liabilities | 609,989 | 142 | (34,898) | 575,234 | | Total non-current liabilities |
| Total liabilities | 747,849 | 142 | (23,256) | 724,734 | | Total liabilities |

(Million yen)

| Accounting titles of J GAAP | J GAAP | Reclassifications | Gains or losses from recognition and measurement | IFRS | Note No. | Accounting titles of IFRS |
|---|---|---|---|---|---|---|
| Net assets | | | | | | Equity |
| Shareholders' equity | | | | | | Equity attributable to owners of parent |
| Capital stock | 48,760 | | | 48,760 | | Share capital |
| Capital surplus | 31,650 | | (206) | 31,443 | | Share premium |
| Retained earnings | 141,973 | | 4,727 | 146,700 | x | Retained earnings |
| Treasury shares | (0) | | | (0) | | Treasury shares |
| Accumulated other comprehensive income | | | | | | |
| Valuation difference on available-for-sale securities | 1,881 | (1,881) | | | | |
| Deferred gains or losses on hedges | 15 | (15) | | | | |
| Foreign currency translation adjustment | 1,974 | (1,974) | | | viii | |
| Remeasurements of defined benefit plans | (543) | 543 | | | | |
| | | 3,328 | (1,596) | 1,732 | | Other components of equity |
| | | | | 228,636 | | Total equity attributable to owners of parent |
| Non-controlling interests | 46,098 | | (2,315) | 43,783 | | Non-controlling interests |
| Total net assets | 271,810 | | 608 | 272,419 | | Total equity |
| Total liabilities and net assets | 1,019,659 | 142 | (22,647) | 997,154 | | Total liabilities and equity |

Reconciliation of profit or loss and comprehensive income at date of the three months ended June 30, 2017
(from April 1, 2017 to June 30, 2017)
Consolidated Statement of Income

(Million yen)

| Accounting titles of J GAAP | J GAAP | Reclassifications | Gains or losses from recognition and measurement | IFRS | Note No. | Accounting titles of IFRS |
|---|---|---|---|---|---|---|
| Operating revenue | 40,776 | | (627) | 40,148 | i | Operating revenue |
| Operating cost | 26,261 | | (3,161) | 23,100 | iii,iv, v | Operating cost |
| Operating gross profit | 14,514 | | 2,533 | 17,048 | | Operating gross profit |
| Selling, general and administrative expenses | 5,192 | | (420) | 4,772 | ii,iv,v | Selling, general and administrative expense |
| | | 63 | (53) | 9 | | Other operating revenue |
| | | 82 | (0) | 82 | iii | Other operating expense |
| | | 386 | (160) | 225 | | Share of profit of investments accounted for using the equity method |
| Operating income | 9,321 | 367 | 2,739 | 12,428 | | Operating income |
| Non-operating income | | | | | | |
| Interest income | 2 | 159 | (1) | 160 | | Finance income |
| Dividend income | 159 | (159) | | | | |
| Amortization of negative goodwill | 481 | | (481) | | | |
| Share of profit of entities accounted for using equity method | 386 | (386) | | | | |
| Other | 63 | (63) | | | | |
| Total non-operating income | 1,093 | (449) | (483) | | | |
| Non-operating expenses | | | | | | |
| Interest expenses | 1,111 | | (264) | 846 | | Finance costs |
| Other | 16 | (16) | | | | |
| Total non-operating expenses | 1,127 | (16) | (264) | | | |
| Ordinary profit | 9,287 | (66) | 2,520 | | | |
| Extraordinary losses | | | | | | |
| Loss on retirement of non-current assets | 66 | (66) | | | | |
| Total extraordinary losses | 66 | (66) | | | | |
| Profit before income taxes | 9,221 | | 2,520 | 11,742 | | Profit before tax |
| Total income taxes | 2,534 | | 912 | 3,446 | vi | Income taxes |
| Profit | 6,687 | | 1,608 | 8,296 | | Profit |
| | | | | | | Profit attributable to: |
| Profit attributable to non-controlling interests | 515 | | 59 | 574 | | Non-controlling interests |

| | | | | | | |
|---|---|---|---|---|---|---|
| Profit attributable to owners of parent | 6,172 | | 1,548 | 7,721 | | Owners of parent |

Consolidated Statement of Comprehensive Income

(Million yen)

| Accounting titles of J GAAP | J GAAP | Reclassifications | Gains or losses from recognition and measurement | IFRS | Note No. | Accounting titles of IFRS |
|---|---|---|---|---|---|---|
| Profit | 6,687 | | 1,608 | 8,296 | | Profit |
| Other comprehensive income | | | | | | Other comprehensive income (Net of tax) |
| | | | | | | Items that will not be reclassified to profit or loss |
| Remeasurements of defined benefit plans | 14 | | (14) | | | Remeasurements of defined benefit plan |
| | | | | | | Items that may be reclassified to profit or loss |
| Deferred gains or losses on hedges | 4 | | (7) | (3) | | Net changes in fair value of cash flow hedge |
| Valuation difference on available-for-sale securities | (218) | | | (218) | | Valuation difference on available-for-sale securities |
| Foreign currency translation adjustment | (583) | | 1,169 | 586 | | Exchange differences on translation of foreign operations |
| Total other comprehensive income | (783) | | 1,147 | 364 | | Total other comprehensive income (Net of tax) |
| Comprehensive income | 5,904 | | 2,756 | 8,660 | | Total comprehensive income |
| (Breakdown) | | | | | | Comprehensive income attributable to: |
| Comprehensive income attributable to owners of parent | 5,388 | | 2,696 | 8,085 | | Owners of parent |
| Comprehensive income attributable to non-controlling interests | 515 | | 59 | 574 | | Non-controlling interests |
| | 5,904 | | 2,756 | 8,660 | | Total |

Reconciliation of profit or loss and comprehensive income at date of the three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

Consolidated Statement of Income

(Million yen)

| Accounting titles of J GAAP | J GAAP | Reclassifications | Gains or losses from recognition and measurement | IFRS | Note No. | Accounting titles of IFRS |
|---|---|---|---|---|---|---|
| Operating revenue | 166,800 | | (6,145) | 160,654 | i | Operating revenue |
| Operating cost | 115,978 | | (3,722) | 112,256 | iii,iv,v | Operating cost |
| Operating gross profit | 50,821 | | (2,423) | 48,398 | | Operating gross profit |
| Selling, general and administrative expenses | 21,185 | | (653) | 20,531 | ii,iv,v | Selling, general and administrative expense |
| | | 519 | 2,468 | 2,987 | | Other operating revenue |
| | | 770 | 451 | 1,221 | iii | Other operating expense |
| | | (121) | 899 | 778 | | Share of profit of investments accounted for using the equity method |
| Operating income | 29,635 | (372) | 1,147 | 30,410 | | Operating income |
| Non-operating income | | | | | | |
| Interest income | 14 | 1,016 | (4) | 1,026 | | Finance income |
| Dividend income | 213 | (213) | | | | |
| Contribution | 319 | (319) | | | | |
| Gain on donation of non-current assets | 21 | (21) | | | | |
| Amortization of negative goodwill | 1,926 | | (1,926) | | | |
| Other | 60 | (60) | | | | |
| Total non-operating income | 2,555 | 401 | (1,930) | | | |
| Non-operating expenses | | | | | | |
| Interest expenses | 4,493 | 166 | (1,160) | 3,499 | | Finance costs |
| Share of loss of entities accounted for using equity method | 121 | (121) | | | | |
| Other | 144 | (144) | | | | |
| Total non-operating expenses | 4,759 | (99) | (1,160) | | | |
| Ordinary profit | 27,432 | 128 | 377 | | | |
| Extraordinary income | | | | | | |
| Gain on sales of non-current assets | 118 | (118) | | | | |
| Gain on sales of investment securities | 802 | (802) | | | | |
| Total extraordinary income | 920 | (920) | | | | |
| Extraordinary losses | | | | | | |
| Loss on retirement of | 626 | (626) | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| non-current assets | | | | | | |
| Loss on sales of investment securities | 66 | (66) | | | | |
| Loss on valuation of investment securities | 99 | (99) | | | | |
| Total extraordinary losses | 792 | (792) | | | | |
| Profit before income taxes | 27,560 | | 377 | 27,938 | | Profit before tax |
| Total income taxes | 6,886 | | 893 | 7,780 | vi | Income taxes |
| Profit | 20,673 | | (515) | 20,157 | | Profit |
| | | | | | | Profit attributable to: |
| Profit attributable to non-controlling interests | 1,972 | | 30 | 2,002 | | Non-controlling interests |
| Profit attributable to owners of parent | 18,701 | | (546) | 18,155 | | Owners of parent |

Consolidated Statement of Comprehensive Income

(Million yen)

| Accounting titles of J GAAP | J GAAP | Reclassifications | Gains or losses from recognition and measurement | IFRS | Note No. | Accounting titles of IFRS |
|---|---|---|---|---|---|---|
| Profit | 20,673 | | (515) | 20,157 | | Profit |
| Other comprehensive income | | | | | | Other comprehensive income (Net of tax) |
| | | | | | | Items that will not be reclassified to profit or loss |
| Remeasurements of defined benefit plans | 84 | | (37) | 47 | | Rmeasurements of defined benefit plan |
| | | | | | | Items that may be reclassified to profit or loss |
| Deferred gains or losses on hedges | 13 | | 6 | 19 | | Net changes in fair value of cash flow hedge |
| Valuation difference on available-for-sale securities | (708) | | | (708) | | Valuation difference on available-for-sale securities |
| Foreign currency translation adjustment | 874 | | (1,048) | (174) | | Exchange differences on translation of foreign operations |
| Total other comprehensive income | 263 | | (1,080) | (816) | | Total other comprehensive income (Net of tax) |
| Comprehensive income | 20,937 | | (1,595) | 19,341 | | Total comprehensive income |
| (Breakdown) | | | | | | Comprehensive income attributable to: |
| Comprehensive income attributable to | 18,962 | | (1,625) | 17,336 | | Owners of parent |

| | | | | | | |
|---|---|---|---|---|---|---|
| owners of parent | | | | | | |
| Comprehensive income attributable to non-controlling interests | 1,974 | | 29 | 2,004 | | Non-controlling interests |
| | 20,937 | | (1,595) | 19,341 | | Total |

(3) Notes to reconciliations of equity and comprehensive income

i) Trade and other receivables

Under J GAAP, the Group used to recognize operating leases with incentives (such as free rent periods) based on the amount receivable specified in the contract. However, under IFRS, an entity recognizes total lease payments receivable including incentives on a straight-line basis over the lease term and, as a result, operating and other receivables have increased.

The impact of the change is as follows.

(Million yen)

| | The transition date (April 1, 2017) | Three months ended June 30, 2017 (June 30, 2017) | The end of the previous fiscal year (March 31, 2018) |
|---|---|---|---|
| (Consolidated Statement of Financial Position) | | | |
| Trade and other receivables | 5,446 | 5,634 | 5,899 |
| Other current liabilities | 67 | 78 | 71 |
| Deferred tax liabilities | 1,649 | 1,685 | 1,700 |
| Non-controlling interests | 193 | 184 | 176 |
| Reconciliation of retained earnings | 3,535 | 3,685 | 3,951 |

(Million yen)

| | Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017) | The previous fiscal year (One-year period ended March 31, 2018) |
|---|---|---|
| (Consolidated Statement of Income) | | |
| Operating revenue | 170 | 437 |
| Reconciliation of profit before tax | 170 | 437 |

ii) Advertising expense

Under J GAAP, The Group used to capitalize assets used for advertising. However, under IFRS, some assets used for advertising are expensed and “Other non-current assets” have, therefore, decreased.

The impact of the change is as follows.

(Million yen)

| | The transition date (April 1, 2017) | Three months ended June 30, 2017 (June 30, 2017) | The end of the previous fiscal year (March 31, 2018) |
|---|---|---|---|
| (Consolidated Statement of Financial Position) | | | |
| Other current assets | (2,730) | (2,373) | (2,577) |
| Deferred tax assets | 842 | 732 | 789 |
| Reconciliation of retained earnings | (1,887) | (1,641) | (1,788) |

(Million yen)

| | Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017) | The previous fiscal year (One-year period ended March 31, 2018) |
|---|---|---|
| (Consolidated Statement of Income) | | |
| Selling, general and administrative expense | (356) | (152) |
| Reconciliation of profit before tax | 356 | 152 |

iii) Deemed cost

The Group has elected to use the fair value of some of its investment real estate at the date of transition as the deemed cost of the

investment real estate in accordance with IFRS 1.
The impact of the change is as follows.
The fair value of investment real estate at the transition date using deemed cost and its carrying amount under J GAAP is 293,066 million yen and 329,331 million yen respectively.

(Million yen)

| | The transition date (April 1, 2017) | Three months ended June 30, 2017 (June 30, 2017) | The end of the previous fiscal year (March 31, 2018) |
|---|---|---|---|
| (Consolidated Statement of Financial Position) | | | |
| Investment property | (36,265) | (35,866) | (35,049) |
| Deferred tax assets | 11,104 | 10,982 | 10,732 |
| Non-controlling interests | (2,293) | (2,278) | (2,230) |
| Reconciliation of retained earnings | (22,866) | (22,606) | (22,086) |

(Million yen)

| | Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017) | The previous fiscal year (One-year period ended March 31, 2018) |
|---|---|---|
| Consolidated Statement of Income | | |
| Operating cost | (398) | (1,210) |
| Other operating expense | − | (5) |
| Reconciliation of profit before tax | 398 | 1,215 |

iv) Levies

Under J GAAP, the Group used to expense property tax levied in Japan over the fiscal year in which it was paid. However, under IFRS, property tax is recorded in a lump sum as a liability on the base date and is included in "Other current liabilities."

The impact of the change is as follows.

(Million yen)

| | The transition date (April 1, 2017) | Three months ended June 30, 2017 (June 30, 2017) | The end of the previous fiscal year (March 31, 2018) |
|---|---|---|---|
| (Consolidated Statement of Financial Position) | | | |
| Inventories | 160 | 93 | 136 |
| Deferred tax assets | 2,955 | 2,262 | 3,101 |
| Other current liabilities | 9,642 | 7,317 | 10,183 |
| Non-controlling interests | (223) | (167) | (234) |
| Reconciliation of retained earnings | (6,304) | (4,795) | (6,711) |

(Million yen)

| | Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017) | The previous fiscal year (One-year period ended March 31, 2018) |
|---|---|---|
| (Consolidated Statement of Income) | | |
| Operating cost | (2,132) | 453 |
| Selling, general and administrative expense | (142) | 112 |
| Reconciliation of profit before tax | 2,274 | (565) |

v) Tax and public dues

Under J GAAP, real estate acquisition tax and other tax and public dues incurred on the acquisition of an asset was expensed as SG&A expenses in the fiscal year in which they were incurred. However, under IFRS, they are included in the acquisition cost of the asset.

The impact of the change is as follows.

(Million yen)

| | The transition date (April 1, 2017) | Three months ended June 30, 2017 (June 30, 2017) | The end of the previous fiscal year (March 31, 2018) |
|---|---|---|---|
| (Consolidated Statement of Financial Position) | | | |
| Investment property | 3,140 | 3,153 | 3,622 |
| Deferred tax liabilities | 961 | 965 | 1,109 |
| Reconciliation of retained earnings | 2,179 | 2,187 | 2,513 |

(Million yen)

| | Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017) | The previous fiscal year (One-year period ended March 31, 2018) |
|---|---|---|
| (Consolidated Statement of Income) | | |
| Operating cost | 13 | 61 |
| Selling, general and administrative expense | (26) | (547) |
| Reconciliation of profit before tax | 12 | 486 |

vi) Deferred tax assets

Regarding the recoverability of deferred tax assets, the Group assessed the probability that taxable profit will be available against which the deductible temporary differences can be utilized in accordance with IFRS and, as a result, deferred tax assets have increased. The impact of the change is as follows.

(Million yen)

| | The transition date to IFRS (April 1, 2017) | Three months ended June 30, 2017 (June 30, 2017) | The end of the previous fiscal year (March 31, 2018) |
|---|---|---|---|
| (Consolidated Statement of Financial Position) | | | |
| Deferred tax assets | 7,086 | 7,094 | 6,873 |
| Non-controlling interests | 1 | 1 | 0 |
| Reconciliation of retained earnings | 7,084 | 7,092 | 6,872 |

Due to the abovementioned reconciliation, "Income taxes" in the three months ended June 30, 2017 of income have decreased 8 million yen, in the consolidated statement of income have increased 213 million yen for the previous fiscal year.

vii) Reconciliation of negative goodwill

Under J GAAP, negative goodwill arising in a business combination that took place before April 1, 2010 was recognized as a liability when it arose and amortized on a straight-line basis. However, under IFRS, since negative good will is recognized as a gain when it arises, the adjustment is reflected in retained earnings.

viii) Exchange differences on translation of foreign operations

The Group has elected to apply the exemption specified in IFRS 1 and has deemed the cumulative translation differences for foreign operations (included in other components of equity) to be zero and transferred them all to retained earnings.

ix) Other

Adjustments to equity and comprehensive other than those from i) to viii) are mainly as follows.

Under JGAAP, when the closing date of a subsidiary or affiliated company accounted for using the equity method is different from the closing date of the parent company, important events or transactions occurring during the different period are disclosed in notes or adjusted in the main document of the consolidated financial statements.

On the other hand, under IFRS, when the closing date of a subsidiary or affiliated company and company under common control is different from the closing date of the parent company, unless it is practically impossible, additional financial statements are made by using the unified closing date or the closing date of the parent company. In addition, if it is practically impossible to use the unified closing date or prepare additional financial statements, important events or transactions occurring during the different period are adjusted.

ix) Retained earnings

The impact of the abovementioned reconciliation on retained earnings is as follows.

(Million yen)

| Adjustment item | Note No. | The transition date (April 1, 2017) | Three months ended June 30, 2017 (June 30, 2017) | The end of the previous fiscal year (March 31, 2018) |
|---|---|---|---|---|
| Trade and other receivables | i | 3,535 | 3,685 | 3,951 |
| Advertising expense | ii | (1,887) | (1,641) | (1,788) |
| Deemed cost | iii | (22,866) | (22,606) | (22,086) |
| Levies | iv | (6,304) | (4,795) | (6,711) |
| Tax and public dues | v | 2,179 | 2,187 | 2,513 |
| Deferred tax assets | vi | 7,084 | 7,092 | 6,872 |
| Reconciliation of negative goodwill | vii | 21,191 | 20,709 | 19,265 |
| Exchange differences on translation of foreign operations | viii | 1,100 | 1,100 | 1,100 |
| Other | ix | 1,194 | 1,041 | 1,610 |
| Total | | 5,227 | 6,775 | 4,727 |

(4) Notes to changes in presentation in the consolidated statement of financial position

i) Representation of deferred tax assets and Deferred tax liabilities

Under JGAAP, deferred tax assets and deferred tax liabilities are presented as current assets and current liabilities or non-current assets and non-current liabilities. Under IFRS, however, presentation as current assets and current liabilities is not permitted, and thus all of them are presented as non-current assets and non-current liabilities.

(5) Significant reconciliations of consolidated statements of cash flows

i) Three months ended June 30, 2017

There are no significant differences between the consolidated statement of cash flows prepared in conformity with IFRS and the consolidated statement of cash flows prepared in conformity with J GAAP.

ii) The previous fiscal year

There are no significant differences between the consolidated statement of cash flows prepared in conformity with IFRS and the consolidated statement of cash flows prepared in conformity with J GAAP.

## 2. Other

Not applicable.

## Chapter 2 Information on the Guarantee Company of the Submitting Company

Not applicable.