

Quarterly Report

(Second Quarter of 34th term)

From July 1, 2018
to September 30, 2018

NTT Urban Development Corporation

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

Contents

Page

Cover

Chapter 1 Corporate Information

Section 1 Overview of the Company's situation

- 1. Changes in major financial data 1
- 2. Businesses 2

Section 2 Business situation

- 1. Operating risks 3
- 2. Management's analysis of financial position, operating results and cash flows 3
- 3. Significant management contracts 9

Section 3 Situation of submitting company

1. Shares of the Company

- (1) Total number of shares and other information 10
- (2) Stock acquisition rights 10
- (3) Exercise of bonds with subscription rights to shares with amendments to exercise prices 10
- (4) Changes in number of shares outstanding and share capital 10
- (5) Major shareholders 11
- (6) Voting rights 12

2. Officers 14

Section 4 Financial status 15

1. Condensed Quarterly Consolidated Financial Statements

- (1) Condensed Quarterly Consolidated Statement of Financial Position 16
- (2) Condensed Quarterly Consolidated Statement of Income 18
- (3) Condensed Quarterly Consolidated Statement of Comprehensive Income 20
- (4) Condensed Quarterly Consolidated Statement of Changes in Equity 22
- (5) Condensed Quarterly Consolidated Statement of Cash Flows 23

2. Other 85

Chapter 2 Information on the Guarantee Company of the Submitting Company 86

Cover

Document submitted	Quarterly Report
Applicable law clause	Article 24-4-7, Paragraph 1 of Financial Instruments and Exchange Act
Destination	Director General of the Kanto Finance Bureau
Date of submission	November 6, 2018
Quarterly accounting period	Second quarter of 34th term (from July 1, 2018 to September 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. (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 Six months ended September 30, 2017	34th term Six months ended September 30, 2018	33rd term
Account period	From April 1, 2017 to September 30, 2017	From April 1, 2018 to September 30, 2018	From April 1, 2017 to March 31, 2018
Operating revenue [Three months ended September 30] (million yen)	71,320 [31,171]	71,921 [42,021]	160,654
Profit before tax (million yen)	19,981	18,449	27,938
Profit attributable to owners of parent (million yen) [Three months ended September 30]	13,078 [5,357]	11,813 [5,713]	18,155
Comprehensive income attributable to owners of parent (million yen)	14,486	13,318	17,336
Total equity attributable to owners of parent (million yen)	228,746	242,726	228,636
Total assets (million yen)	992,655	995,328	997,154
Basic earnings per share [Three months ended September 30] (yen)	39.74 [16.28]	35.89 [17.36]	55.16
Diluted earnings per share (yen)	—	—	—
Ratio of total equity attributable to owners of parent (%)	23.0	24.4	22.9
Cash flows from (used in) operating activities (million yen)	16,631	20,380	42,232
Cash flows from (used in) investing activities (million yen)	(38,480)	(2,662)	(57,018)
Cash flows from (used in) financing activities (million yen)	20,976	(22,007)	12,663
Cash and cash equivalents, end of term (million yen)	21,526	15,973	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 six months ended September 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 six months ended September 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) Operating results

In the six months ended September 30, 2018, the office leasing market saw an occupancy rates continued to be high and market rents remained firm during. In the condominium sales market, demand remained firm for condominiums in central areas of Tokyo, although sales prices continued to rise due to rising land prices and the hovering of construction costs at a high level. In the suburbs, however, there were some condominiums for 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. Meanwhile, in the Residential Business, the number of condominiums lots delivered decreased and the average price per unit improved.

Operating revenue amounted to ¥71,921 million (expand ¥601 million, or 0.8% year-on-year), operating income was ¥19,837 million (down ¥1,688 million, or 7.8%), and profit before tax was ¥18,449 million (reduce ¥1,531 million, or 7.7%), and profit attributable to owners of parent was ¥11,813 million (decline ¥1,265 million, or 9.7%)

i) Offices/Retail Business

In the Offices/Retail Business for the six months ended September 30, 2018, the Company strived to generate earnings in the fiscal year under review from the contribution of new properties, such as OTEMACHI PLACE (Former name : Otemachi 2-chome Area 1st Class Urban Redevelopment Project, Chiyoda-ku, Tokyo), UD Yumesaki Building (Osaka-shi, Osaka), 185 Dartmouth Street (Boston, U.S.). In addition, there were impacts from gains on sales of properties posted in the three months ended June 30, 2018 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 ¥46,201 million (increase ¥587 million, or 1.3% year-on-year), operating income was ¥20,712 million (decrease ¥1,442 million, or 6.5%).

In the six months ended September 30, 2018, OTEMACHI PLACE (Chiyoda-ku, Tokyo) and Hyatt Regency Seragaki Island, Okinawa (Kunigami-gun, Okinawa), among others, were completed and started operation. Development projects currently underway include 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

In the Residential Business, the number of units delivered resulted in 305 units in the six months ended September 30, 2018, due to the completion of Wellith Shinjuku Wasedanomori (Shinjuku-ku, Tokyo) and Wellith Chiyoda Higashikanda (Chiyoda-ku, Tokyo), etc. The average price per unit improved to ¥52 million.

Operating revenue amounted to ¥17,400 million (down ¥2,331 million, or 11.8% year-on-year) and operating income was ¥1,037 million (decline ¥593 million or 36.4%).

iii) Other

Operating revenue (interior construction management for tenants, property management of existing buildings, etc.) in other business for the six months ended September 30, 2018 was ¥11,203 million (improve ¥2,702 million, or 31.8% year-on-year), and operating income was ¥1,272 million (increase ¥527 million, or 70.7%).

(2) Qualitative information on consolidated financial position

i) Assets, Liabilities and Equity

(Assets)

Total assets at the end of the three months ended September 30, 2018 were ¥995,328 million, reduce ¥1,825 million from the end of the previous consolidated fiscal year.

Current assets stood at ¥116,793 million, declining ¥16,170 million from the end of the previous consolidated fiscal year.

This was mainly attributable to a decrease of ¥11,803 million in assets held for disposal through the sale of properties.

Non-current assets amounted to ¥878,534 million, up ¥14,344 million from the end of the previous consolidated fiscal year.

This was mainly due to a rise of ¥8,719 million in other financial assets as a result of evaluation of the market prices of securities and an increase of ¥2,858 million in investment property as a result of the investment in new development properties.

(Liabilities)

Total liabilities at the end of the three months ended September 30, 2018 were ¥708,598 million, down ¥16,136 million from the end of the previous consolidated fiscal year. This was mainly attributable to a decrease in interest-bearing debt (¥18,227 million). Net interest-bearing debt, interest-bearing debt less cash and cash equivalents, etc., decrease ¥13,973 million from the end of the previous consolidated fiscal year.

(Equity)

Total equity at the end of the three months ended September 30, 2018 were ¥286,729 million, rise ¥14,310 million from the end of the previous consolidated fiscal year. The increase reflected an increase in retained earnings (¥13,615 million), rise in other components of equity (¥475 million) and rise in non- controlling interests (¥219 million).

ii) Consolidated cash flows

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

(Cash flows from (used in) operating activities)

Cash flow from operating activities was a cash inflow of ¥20,380 million (improve ¥3,749 million year-on-year). This mainly reflected a cash-in of ¥27,178 million (down ¥1,234 million) attributable to profit before tax and depreciation and a cash-out of ¥1,575 million (contraction ¥472 million) attributable to increase of inventories, and ¥3,985 million (contraction ¥2,812 million) due to payment of income taxes paid.

(Cash flows from (used in) investing activities)

Cash flow from investing activities was a cash-out of ¥2,662 million (contraction ¥35,818 million year-on-year). This result was attributable to a cash-out with purchase of investment property and property, plant and equipment of ¥14,300 million, (contraction ¥23,752 million) 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 ¥17,718 million (expand ¥39,567 million from a cash-out of ¥21,849 million in the six months ended September 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 ¥22,007 million (decline ¥42,983 million from a cash-in of ¥20,976 million in the six months ended September 2017). This was largely a reflection of a decrease in interest-bearing debt (¥17,698 million) and cash dividends paid (¥3,291 million).

As a result, cash and cash equivalents at the end of the six months ended September 30, 2018 was ¥15,973 million, a decrease of ¥4,214 million from the end of the previous fiscal year.

(3) Operational and financial challenges to meet

During the six months ended September 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 in the six months ended September 30, 2018. Operating revenue in each segment in the text includes inter-segment internal revenues and transfers.

(Million yen)

Business segment	Six months ended September 30, 2018 (From April 1, 2018 to September 30, 2018)	Year-on-year (%)
Offices/Retail Business	46,201	101.3
Residential Business	17,400	88.2
Total operating revenue in reported segments	63,601	97.3
Other	11,203	131.8
Eliminations	(2,883)	—
Total	71,921	100.8

(Note1) The numbers do not include consumption tax. Operating revenue in each segment include inter-segment internal revenues and transfers.

(Note2) “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.

(Million yen)

Classification		Six months ended September 30, 2017	Six months ended September 30, 2018
Offices/ Retail leasing	Operating revenue	42,710	43,807
	Rentable floor space	1,118,459 m ² (Of the above, sub-leases: 92,685 m ²)	1,151,160 m ² (Of the above, sub-leases: 111,539 m ²)
Sales of income-generating properties	Operating revenue	—	—
Other	Operating revenue	2,903	2,393
Total operating revenue		45,613	46,201

(Note1) “Rentable floor space” figures are as of the end of September of each fiscal year.

(Note2) 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	September 2017	December 2017	March 2018	June 2018	September 2018
Five wards of central Tokyo	2.0%	1.2%	1.4%	0.5%	0.5%
Nationwide	3.3%	3.3%	3.4%	2.7%	2.7%

(Note1) The numbers above are vacancy rate as of the end of each month.

(Note2) 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 in the Residential Business. All figures are consolidated results.

(Million yen)

Classification	Six months ended September 30, 2017	Six months ended September 30, 2018
Residential property sales	18,687	16,276
Residential rentals	1,044	1,124
Other	—	—
Total operating revenue	19,732	17,400

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

Classification		Six months ended September 30, 2017		Six months ended September 30, 2018	
		Units/Lots	Operating revenue (Million yen)	Units/Lots	Operating revenue (Million yen)
Condominiums					
Units delivered	Tokyo metropolitan area	346	13,950	234	13,442
	Other regions	62	2,575	70	2,715
Completed in inventories		510	—	501	—
Residential Lots, etc.					
Units/Lots delivered	Tokyo metropolitan area	27	877	—	0
	Other regions	45	533	10	118
Completed in inventories		45	—	20	—
Subtotal (Condominiums and Residential Lots, etc.)					
Units/Lots delivered	Tokyo metropolitan area	373	14,827	234	13,442
	Other regions	107	3,109	80	2,833
Completed in inventories		555	—	521	—
Residential property sales other					
Units/Lots delivered	Tokyo metropolitan area	—	—	—	—
	Other regions	1	750	—	—
Completed in inventories		—	—	—	—
Total operating revenue		—	18,687	—	16,276

(Note1) For joint projects, the number of units, corresponding to the Company's share in the project, is rounded down to the nearest unit.

(Note2) "Completed in inventories" figures are as of the end of September of each fiscal year. The condominiums completed in inventories for the six months ended September 30, 2017 and for the six months ended September 30, 2018 include 51 units and 50 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 six months ended September 30, 2017 and for the six months ended September 30, 2018 include 15 lots and 13 lots, for which a contract has been completed but ownership has not yet been delivered.

(Note3) Tokyo metropolitan area includes Tokyo, Kanagawa, Chiba, Saitama, Ibaraki, Gunma and Tochigi prefectures.

(Note4) The group, which engages in sales of residential lots in Australia as well as the abovementioned locations, had posted

operating revenue 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 share of profit of entities accounted for using equity method. Lots delivered and lots completed in inventories in the second quarter of the previous consolidated fiscal year were 44 lots and 236 lots, respectively, and those for the second quarter for the consolidated fiscal year ended September 30, 2018 were 1 lot and 225 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 providing 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 is 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 close 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 (Connecting) 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 six months ended September 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 six months ended September 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 September 30, 2018 (shares)	Number of shares issued on the date of the submission of the report (shares) (November 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 m²) 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 July 1, 2018 to September 30, 2018	—	329,120,000	—	48,760	—	34,109

(5) Major shareholders

As of September 30, 2018

Name	Address	Number of shares held	Ratio of holdings to the number of shares issued (%)
Nippon Telegraph and Telephone Corporation (NTT)	1-5-1, Otemachi, Chiyoda-ku, Tokyo	221,481,500	67.30
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11, Harumi, Chuo-ku, Tokyo	12,953,000	3.94
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3, Hamamatsu-cho, Minato-ku, Tokyo	6,163,700	1.87
GOLDMAN, SACHS & CO. REG (Standing agency: Goldman Sachs Japan Co., Ltd.)	200 WEST STREET NEW YORK, NY, USA (Roppongi Hills Mori Tower, 6-10-1 Roppongi, Minato-ku, Tokyo)	5,590,885	1.70
CGML PB CLIENT ACCOUNT/COLLATERAL (Standing agency: Citibank, N.A., Tokyo Branch)	CITIGROUP CENTER, CANADA SQUARE, CANARY WHARF, LONDON E145LB (6-27-30, Shinjuku, Shinjuku-ku, Tokyo)	5,492,800	1.67
STATE STREET BANK AND TRUST COMPANY 505001 (Standing agency: Custody & Proxy Department, Mizuho Corporate Bank, Ltd.)	P.O. BOX 351 Boston Massachusetts 02101 U.S.A. (Shinagawa Intercity Building A, 2-15-1, Konan, Minato-ku, Tokyo)	3,163,902	0.96
THE BANK OF NEW YORK MELLON 140042 (Standing agency: Custody & Proxy Department, Mizuho Corporate Bank, Ltd.)	225 LIBERTY STREET, NEW YORK, U.S.A. (Shinagawa Intercity Building A, 2-15-1, Konan, Minato-ku, Tokyo)	2,818,010	0.86
Japan Trustee Services Bank, Ltd. (Trust Account5)	1-8-11, Harumi, Chuo-ku, Tokyo	2,389,900	0.73
STATE STREET BANK AND TRUST COMPANY 505019 (Standing agency: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch, Custody and Clearing Division)	AIB INTERNATIONAL CENTER P.O. BOX 518 IFSC DUBLIN, IRELAND (3-11-1, Nihonbashi, Chuo-ku, Tokyo)	2,293,916	0.70
THE BANK OF NEW YORK MELLON 140044 (Standing agency: Custody & Proxy Department, Mizuho Corporate Bank, Ltd.)	225 LIBERTY STREET, NEW YORK, U.S.A. (Shinagawa Intercity Building A, 2-15-1, Konan, Minato-ku, Tokyo)	2,171,500	0.66
Total	—	264,519,113	80.37

(Note 1) All shares held by Japan Trustee Services Bank, Ltd. (Trust Account), The Master Trust Bank of Japan, Ltd. (Trust Account) and Japan Trustee Services Bank, Ltd. (Trust Account5) are those held under their trust operations (including securities investment trusts). They include 10,617,900 shares under the management of investment trusts, 1,977,200 shares under the management of pension trusts, and 8,911,500 shares under the management of other trusts.

(Note 2) The following institutions manage custody operations of shares owned by foreign institutional investors, as well as act as owners of shares on behalf of the relevant institutional investors; they are GOLDMAN, SACHS & CO. REG, CGML PB CLIENT ACCOUNT/COLLATERAL, STATE STREET BANK AND TRUST COMPANY 505001, THE BANK OF NEW YORK MELLON 140042, STATE STREET BANK AND TRUST COMPANY 505019 and THE BANK OF NEW YORK MELLON 140044.

(6) Voting rights

i) Shares issued

As of September 30, 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.)	Common shares 100	—	—
Shares with complete voting rights (other shares)	Common shares 329,113,800	3,291,138	—
Fractional shares	Common shares 6,100	—	—
Total number of shares issued	329,120,000	—	—
Number of voting rights of all shareholders	—	3,291,138	—

(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 21 shares of treasury shares.

ii) Treasury stock

As of September 30, 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 (%)
NTT Urban Development Corporation	4-14-1, Sotokanda, Chiyoda-ku, Tokyo	100	—	100	0.00
Total	—	100	—	100	0.00

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. 64 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 September 30, 2018 (from July 1, 2018 to September 30, 2018) and for the six months ended September 30, 2018 (from April 1, 2018 to September 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.
- (2) 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)	Three months ended September 30, 2018
(Assets)				
Current assets				
Cash and cash equivalents		22,471	20,187	15,973
Trade and other receivables		19,874	20,838	16,131
Other financial assets	13	202	160	268
Inventories		82,714	75,672	77,247
Other current assets		3,989	4,302	7,173
(subtotal)		129,252	121,160	116,793
Assets held for sale	8	—	11,803	—
Total current assets		129,252	132,964	116,793
Non-current assets				
Property, plant and equipment		13,317	18,635	20,991
Goodwill and intangible assets		2,844	2,550	2,302
Investment property	7	798,626	803,259	806,117
Investments accounted for using the equity method		12,366	11,820	13,765
Other financial assets	13	21,905	23,476	32,196
Deferred tax assets		1,996	2,211	333
Other non-current assets		1,874	2,236	2,827
Total non-current assets		852,931	864,189	878,534
Total assets		982,183	997,154	995,328

(Million yen)

	Notes	The date of transition to IFRS (April 1, 2017)	The end of the previous fiscal year (March 31, 2018)	Three months ended September 30, 2018
(Liabilities and equity)				
Current liabilities				
Short-term borrowings	13	57,155	100,688	65,383
Trade and other payables		41,154	22,996	19,711
Other financial liabilities	13	1,316	989	1,269
Income taxes payable		6,790	3,858	3,771
Provisions		130	683	717
Other current liabilities		19,828	20,046	18,044
(subtotal)		126,375	149,263	108,897
Liabilities directly related to assets held for sale	8	—	237	—
Total current liabilities		126,375	149,500	108,897
Non-current liabilities				
Long-term borrowings	13	465,718	443,010	460,089
Other financial liabilities	13	75,876	77,029	82,153
Defined benefit liability		7,731	8,128	8,626
Provisions		3,434	4,932	4,777
Deferred tax liabilities		42,018	41,922	43,534
Other non-current liabilities		245	209	520
Total non-current liabilities		595,025	575,234	599,701
Total liabilities		721,401	724,734	708,598
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	160,315
Treasury shares	9	(0)	(0)	(0)
Other components of equity	9	2,596	1,732	2,207
Total equity attributable to owners of parent		217,221	228,636	242,726
Non-controlling interests		43,560	43,783	44,002
Total equity		260,782	272,419	286,729
Total liabilities and equity		982,183	997,154	995,328

(2) Condensed Quarterly Consolidated Statements of Income
Six months ended September 30

(Million yen)

	Notes	Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)	Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)
Operating revenue	11	71,320	71,921
Operating cost		41,157	43,911
Operating gross profit		30,162	28,010
Selling, general and administrative expense		8,894	8,682
Other operating revenue	12	14	1,655
Other operating expense	12	265	868
Share of profit of investments accounted for using the equity method		509	(276)
Operating income		21,526	19,837
Finance income		164	185
Finance costs		1,709	1,574
Profit before tax		19,981	18,449
Income taxes		5,762	5,447
Profit		14,218	13,002
Profit attributable to:			
Owners of parent		13,078	11,813
Non-controlling interests		1,140	1,188
Profit		14,218	13,002
Income per share attributable to owners of parent			
Basic earnings per share (Yen)		39.74	35.89

Three months ended September 30

(Million yen)

	Notes	Three months ended September 30, 2017 (from July 1, 2017 to September 30, 2017)	Three months ended September 30, 2018 (from July 1, 2018 to September 30, 2018)
Operating revenue		31,171	42,021
Operating cost		18,056	26,678
Operating gross profit		13,114	15,342
Selling, general and administrative expense		4,121	4,388
Other operating revenue	12	4	179
Other operating expense	12	183	807
Share of profit of investments accounted for using the equity method		284	(395)
Operating income		9,098	9,930
Finance income		3	6
Finance costs		862	841
Profit before tax		8,239	9,095
Income taxes		2,316	2,790
Profit		5,922	6,305
Profit attributable to:			
Owners of parent		5,357	5,713
Non-controlling interests		565	591
Profit		5,922	6,305
Income per share attributable to owners of parent			
Basic earnings per share (Yen)		16.28	17.36

(3) Condensed Quarterly Consolidated Statement of Comprehensive Income
Six months ended September 30

(Million yen)

	Notes	Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)	Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)
Profit		14,218	13,002
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	—	184
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	(0)	147
Valuation difference on available-for-sale securities	9	32	—
Exchange differences on translation of foreign operations	9	1,375	1,172
Total other comprehensive income (Net of tax)		1,407	1,505
Total comprehensive income		15,626	14,507
Comprehensive income attributable to:			
Owners of parent		14,486	13,318
Non-controlling interests		1,140	1,188
Total		15,626	14,507

Three months ended September 30

(Million yen)

	Notes	Three months ended September 30, 2017 (from July 1, 2017 to September 30, 2017)	Three months ended September 30, 2018 (from July 1, 2018 to September 30, 2018)
Profit		5,922	6,305
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		—	7
Remeasurements of defined benefit plans		—	—
Items that may be reclassified subsequently to profit or loss			
Gains and losses on hedging instruments in a cash flow hedge		2	150
Valuation difference on available-for-sale securities		251	—
Exchange differences on translation of foreign operations		789	954
Total other comprehensive income (Net of tax)		1,043	1,113
Total comprehensive income		6,966	7,418
Comprehensive income attributable to:			
Owners of parent		6,400	6,826
Non-controlling interests		565	591
Total		6,966	7,418

(4) Condensed Quarterly Consolidated Statement of Changes in Equity

Six months ended September 30, 2017 (from April 1, 2017 to September 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				13,078			13,078	1,140	14,218
Other comprehensive income						1,407	1,407	—	1,407
Total comprehensive income		—	—	13,078	—	1,407	14,486	1,140	15,626
Transactions with owners									
Dividends of surplus	10			(2,962)			(2,962)		(2,962)
Transfer to retained earnings									—
Other								(738)	(738)
Total transactions with owners		—	—	(2,962)	—	—	(2,962)	(738)	(3,700)
September 30, 2017		48,760	31,442	144,539	(0)	4,004	228,746	43,962	272,708

Six months ended September 30, 2018 (from April 1, 2018 to September 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				11,813			11,813	1,188	13,002
Other comprehensive income						1,505	1,505		1,505
Total comprehensive income		—	—	11,813	—	1,505	13,318	1,188	14,507
Transactions with owners									
Dividends of surplus	10			(3,291)			(3,291)		(3,291)
Purchase of treasury shares					(0)		(0)		(0)
Transfer to retained earnings									—
Other								(969)	(969)
Total transactions with owners		—	—	(3,291)	(0)	—	(3,291)	(969)	(4,260)
September 30, 2018		48,760	31,443	160,315	(0)	2,207	242,726	44,002	286,729

(5) Condensed Quarterly Consolidated Statement of Cash Flows

	(Million yen)	
	Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)	Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)
Cash flows from (used in) operating activities		
Profit before tax	19,981	18,449
Depreciation and amortization expense	8,431	8,729
Finance income and costs	1,545	1,388
Share of profit of investments accounted for using the equity method	(509)	276
(Increase) decrease in trade and other receivables	6,276	4,715
(Increase) decrease in inventories	(2,047)	(1,575)
Increase (decrease) in trade and other payables	(4,560)	(1,022)
Other	(4,182)	(5,214)
(subtotal)	24,934	25,746
Interest and dividend income received	179	194
Interest expenses paid	(1,683)	(1,575)
Income taxes paid	(6,798)	(3,985)
Cash flows from (used in) operating activities	16,631	20,380
Cash flows from (used in) investing activities		
Purchase of investment property and property, plant and equipment	(38,052)	(14,300)
Proceeds from sales of investment property and property, plant and equipment	0	13,551
Purchase of other financial assets	(393)	(1,814)
Proceeds from sale and redemption of other financial assets	170	207
Other	(205)	(307)
Cash flows from (used in) investing activities	(38,480)	(2,662)
Cash flows from (used in) financing activities		
Net cash inflow (outflow) from short-term borrowings	1,618	148
Proceeds from increase in long-term borrowings	45,000	49,000
Repayments of long-term borrowings	(21,710)	(66,847)
Payments for purchase of treasury shares	—	(0)
Cash dividends paid	(2,962)	(3,291)
Dividends paid to non-controlling interests	(955)	(999)
Other	(13)	(17)
Cash flows from (used in) financing activities	20,976	(22,007)
Net increase (decrease) in cash and cash equivalents	(873)	(4,289)
Cash and cash equivalents, beginning of term	22,471	20,187
Effect of exchange rate change on cash and cash equivalents	(71)	75
Cash and cash equivalents, end of term	21,526	15,973

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 November 5, 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 September 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 of FY2018.

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, six months ended September 30, 2017 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 transition date, six months ended September 30, 2017 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 J GAAP, 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 J GAAP, 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 impacts of these changes to accounting policies on the statement of financial position are as follows. Except for the following, the impacts of the changes to accounting policies are insignificant.

(Million yen)

Account items (classified in accordance with J GAAP)	Balance at end of the previous fiscal year (March 31, 2018)	Cause of restatement	Balance at beginning of period in accordance with IFRS 9 (April 1, 2018)
Non-current assets Other financial assets (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 Other financial liabilities (Special treatment)	-	Fair value measurement of interest rate swaps used for hedging	6
Non-current liabilities Other financial liabilities (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 in “Deferred tax assets,” an increase of ¥5,093 million in “Retained earnings “, and a reduce of ¥1,029 million in “Other components of equity.” The impacts on “Profit” and “Basic earnings per share” in the second quarter of the fiscal year under review are insignificant.

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.

iii) Investment in Joint Operations

Joint Operations refer to companies in which an investment is made by more than one party, including the Company and its consolidated subsidiaries, on the condition that rights to relevant assets and obligations for relevant liabilities are owned directly by the said parties based on matters agreed concerning joint control.

Consolidated financial statements present portions of assets whose rights are owned by the Company and its subsidiaries, liabilities borne by the Company and its subsidiaries, revenue and/or expenses, to the extent that such portions are considered as being equivalent to equities of the Company and its subsidiaries with respect to Joint Operations.

(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, six months ended September 30, 2017 and the previous fiscal year, the previous accounting standards (J GAAP) are applied in accordance with the exemptions to full retrospective application of IFRS 9 under IFRS 1. In the six months ended September 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 through 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 six months ended September 30, 2017 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 losses)

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 (35th term) From April 1, 2019 to March 31, 2020	IFRS16 will replace parts of the IAS 17, and the main revisions are as follows. <ul style="list-style-type: none"> • Introduction of concept of control to thinking about definition of leases • Revision of lease accounting by lessees 	Especially, the Company expects that the amount of assets and liabilities 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, retail 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 six months ended September 30, 2017 or six months ended September 30, 2018.

(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 “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.

Six months ended September 30, 2017 (from April 1, 2017 to September 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	45,075	19,726	64,802	6,517	71,320	—	71,320
Inter-segment internal revenues and transfers	538	5	543	1,982	2,525	(2,525)	—
Total	45,613	19,732	65,345	8,500	73,845	(2,525)	71,320
Segment profits	22,154	1,631	23,786	745	24,531	(3,004)	21,526
Finance income	—	—	—	—	—	—	164
Finance costs	—	—	—	—	—	—	(1,709)
Profit before tax	—	—	—	—	—	—	19,981

(Note) Adjustment of - ¥3,004 million in segment profits includes elimination of inter-segment transactions of ¥7 million and company-wide expenses of - ¥3,012 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.

Six months ended September 30, 2018 (from April 1, 2018 to September 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	45,572	17,396	62,969	8,952	71,921	—	71,921
Inter-segment internal revenues and transfers	628	3	632	2,251	2,883	(2,883)	—
Total	46,201	17,400	63,601	11,203	74,804	(2,883)	71,921
Segment profits	20,712	1,037	21,750	1,272	23,022	(3,184)	19,837
Finance income	—	—	—	—	—	—	185
Finance costs	—	—	—	—	—	—	(1,574)
Profit before tax	—	—	—	—	—	—	18,449

(Note) Adjustment of - ¥3,184 million in segment profits includes elimination of inter-segment transactions of - ¥17 million and company-wide expenses of - ¥3,167 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.

Three months ended September 30, 2017 (from July 1, 2017 to September 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	21,754	6,216	27,970	3,200	31,171	—	31,171
Inter-segment internal revenues and transfers	267	2	270	1,017	1,287	(1,287)	—
Total	22,022	6,218	28,240	4,218	32,459	(1,287)	31,171
Segment profits	9,964	145	10,109	411	10,520	(1,422)	9,098
Finance income	—	—	—	—	—	—	3
Finance costs	—	—	—	—	—	—	(862)
Profit before tax	—	—	—	—	—	—	8,239

(Note) Adjustment of - ¥1,422 million in segment profits includes elimination of inter-segment transactions of ¥3 million and company-wide expenses of - ¥1,426 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.

Three months ended September 30, 2018 (from July 1, 2018 to September 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	23,504	13,925	37,429	4,591	42,021	—	42,021
Inter-segment internal revenues and transfers	317	1	319	1,254	1,574	(1,574)	—
Total	23,822	13,927	37,749	5,845	43,595	(1,574)	42,021
Segment profits	9,406	1,388	10,795	677	11,472	(1,542)	9,930
Finance income	—	—	—	—	—	—	6
Finance costs	—	—	—	—	—	—	(841)
Profit before tax	—	—	—	—	—	—	9,095

(Note) Adjustment of - ¥1,542 million in segment profits includes elimination of inter-segment transactions of - ¥15 million and company-wide expenses of - ¥1,526 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 September 30, 2018 (September 30, 2018)
Land	479,054	470,420	470,269
Buildings and structures	611,683	627,107	637,974
Construction in progress	8,056	15,455	11,611
Other	58,169	58,539	58,651
Subtotal	1,156,963	1,171,523	1,178,507
Accumulated depreciation and impairment losses	(358,337)	(368,264)	(372,389)
Total investment property	<u>798,626</u>	<u>803,259</u>	<u>806,117</u>

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 September 30, 2018 (September 30, 2018)
Assets held for sale			
Investment property	—	11,796	—
Other current assets	—	7	—
Total	<u>—</u>	<u>11,803</u>	<u>—</u>
Liabilities directly related to assets held for sale			
Other financial liabilities	—	65	—
Other current liabilities	—	172	—
Total	<u>—</u>	<u>237</u>	<u>—</u>

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 three months ended June 30, 2018.

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 second 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	—	—	—
September 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	—	—	44
Disposal of treasury shares based on requests for additional purchase of fractional shares	—	—	—
September 30, 2018	1,050,000,000	329,120,000	121

(2) A breakdown of other components of equity

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

Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)

(Million yen)

	Other components of equity				
	Valuation difference on available-for-sale securities	Cash flow hedge (Note)	Remeasurements of defined benefit plans	Exchange differences on translation of foreign operations	Total
April 1, 2017	2,590	5	—	—	2,596
Other comprehensive income	32	(0)	—	1,375	1,407
Transfer to retained earnings	—	—	—	—	—
September 30, 2017	2,623	5	—	1,375	4,004

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

Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)

(Million yen)

	Other components of equity				
	Net gain (loss) on financial assets measured at fair value through other comprehensive income	Cash flow hedge (Note)	Remeasurements of defined benefit plans	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	184	147	—	1,172	1,505
Transfer to retained earnings	—	—	—	—	—
September 30, 2018	2,175	(965)	—	998	2,207

10. Dividends

Dividends

Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)

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

Of dividends with a record date falling in six months ended September 30, 2017, (from April 1, 2017 to September 30, 2017) those with an effective date falling after three months ended September 30, 2017

Resolution	Type of shares	Total dividends (million yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors on November 8, 2017	Common stocks	2,962	9	September 30, 2017	December 1, 2017

Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)

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

Of dividends with a record date falling in six months ended September 30, 2018, (from April 1, 2018 to September 30, 2018) those with an effective date falling after three months ended September 30, 2018

Resolution	Type of shares	Total dividends (million yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors November 5, 2018	Common stocks	3,291	10	September 30, 2018	December 3, 2018

11. Operating revenue

Revenue breakdown

Revenue breakdown and segment revenue

Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)

(Million yen)

	goods or services	Reported segments			Other	Total
		Offices/ Retail Business	Residential Business	Total		
Offices/ Retail Business	Offices/Retail rental	42,172	—	42,172	—	42,172
	Income-producing property sale	—	—	—	—	—
	Other	2,903	—	2,903	—	2,903
Residential Business	Residential property sales	—	18,684	18,684	—	18,684
	Residential rentals	—	1,042	1,042	—	1,042
	Other	—	—	—	—	—
Other		—	—	—	6,517	6,517
Total		45,075	19,726	64,802	6,517	71,320

(Note) After deduction of intra-group transactions.

Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)

(Million yen)

	goods or services	Reported segments			Other	Total
		Offices/ Retail Business	Residential Business	Total		
Offices/ Retail Business	Offices/Retail rental	43,179	—	43,179	—	43,179
	Income-producing property sale	—	—	—	—	—
	Other	2,393	—	2,393	—	2,393
Residential Business	Residential property sales	—	16,272	16,272	—	16,272
	Residential rentals	—	1,124	1,124	—	1,124
	Other	—	—	—	—	—
Other		—	—	—	8,952	8,952
Total		45,572	17,396	62,969	8,952	71,921

(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 is as follows.

i) Other operating revenue

	(Million yen)	
	Six months ended September 30, 2018 (from April 1, 2017 to September 30, 2017)	Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)
Gain on sales of investment real estate	—	1,403
Other	14	252
Total	14	1,655

	(Million yen)	
	Three months ended September 30, 2017 (from July 1, 2017 to September 30, 2017)	Three months ended September 30, 2018 (from July 1, 2018 to September 30, 2018)
Gain on sales of investment real estate	—	—
Other	4	179
Total	4	179

ii) Other operating expense

	(Million yen)	
	Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)	Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)
Loss on retirement of investment real estate	189	836
Other	76	31
Total	265	868

	(Million yen)	
	Three months ended September 30, 2017 (from July 1, 2017 to September 30, 2017)	Three months ended September 30, 2018 (from July 1, 2018 to September 30, 2018)
Loss on retirement of investment real estate	123	790
Other	60	16
Total	183	807

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 (J GAAP) based on the exemptions from retrospective application of IFRS 9 under IFRS 1. For the second 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 September 30, 2018 (September 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	512,279	516,984

(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 that 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 previous fiscal year and six months ended September 30, 2018 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 J GAAP, and fair value amounts are those that were disclosed as market value under J GAAP. Amounts of unlisted stocks, investment trusts, etc. for the transition date and the previous fiscal year are calculated based on J GAAP 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 September 30, 2018 (September 30, 2018)

(Million yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Other non-current financial assets				
FVTPL (Share capital)	—	126	15,846	15,973
Financial assets designated as hedging instruments (Derivatives)	—	40	—	40
FVTOCI (Share)	2,500	—	1,136	3,637
FVTOCI (Investment securities)	5,193	—	—	5,193
Total financial assets	7,694	166	16,983	24,844
Other current financial liabilities				
Financial liabilities designated as hedging instruments (Derivatives)	—	—	—	—
Other non-current financial liabilities				
Financial liabilities designated as hedging instruments (Derivatives)	—	1,432	—	1,432
Total financial liabilities	—	1,432	—	1,432

(Note 1) There are no significant transfers between the levels in six months ended September 30, 2018.

(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 six months ended September 30, 2018.

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 partner 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 values 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

(Tender Offer for Our Shares)

The Company resolved at the meeting of the board of directors held on October 15, 2018 to express an opinion supporting the tender offer (the “Tender Offer”) by NTT-SH Corporation (the “Offeror”) for common shares of the Company (the “Company Shares”) and to recommend the shareholders of the Company to tender in the Tender Offer as follows.

The aforementioned resolution at the meeting of the board of directors was adopted on the understanding that Nippon Telegraph and Telephone Corporation (NTT), the wholly-owning parent company of the Offeror, and the Offeror intend to make the Company a wholly-owned subsidiary of the Offerors through the Tender Offer by Offeror and a series of procedures to be implemented thereafter, and the Company Shares are to be delisted.

1. Overview of the Offeror

(1)	Name	NTT-SH Corporation	
(2)	Address	1-5-1 Otemachi, Chiyoda-ku, Tokyo	
(3)	Name and title of representative	Katsumi Kuroda, President and Representative Director	
(4)	Description of business	Holding and managing the Company Shares	
(5)	Share capital	JPY 3 million	
(6)	Date of incorporation	August 29, 2007	
(7)	Major shareholders and shareholding ratios (as of October 15, 2018)	Nippon Telegraph and Telephone Corporation	100.00%
(8)	Relationship between the Company and the Offeror		
	Capital relationship	Not applicable. As of October 15, 2018, NTT, the wholly-owning parent company of the Offeror, holds 221,481,500 shares of the Company Shares (Ownership Ratio (Note) of 67.30% (rounded off to two decimal places)).	
	Personal relationship	Not applicable. As of October 15, 2018, one director and one audit & supervisory board member of the Company are concurrently employees of NTT, the wholly-owning parent company of the Offeror.	
	Business relationship	Not applicable. The Company leases offices to NTT, the wholly-owning parent company of the Offeror. Transactions such as depositing and loaning of cash have been conducted with NTT Finance Corporation, whose parent company is NTT.	
	Status as related parties	NTT, the wholly-owning parent company of the Offeror, is a parent of the Company and the Offeror corresponds to a related party of the Company.	

(Note) “Ownership Ratio” means the ratio of the shares owned to the number of shares (329,119,923 shares) obtained by deducting the number of the Company’s treasury shares owned by the Company as of June 30, 2018 (77 shares) from the total number of issued shares as of June 30, 2018 (329,120,000 shares).

2. Period of the Tender Offer

October 16, 2018 (Tuesday) until November 27, 2018 (Tuesday) (30 Business Days)

3. Tender Offer Price

JPY 1,680 per share of common stock

4. Number of share certificates that will be purchased
- | | |
|---|----------------------|
| Number of shares that will be purchased | 107,638,423 (shares) |
| Minimum number of shares that will be purchased | — (shares) |
| Maximum number of shares that will be purchased | — (shares) |

5. Commencement Date of the Settlement
December 4, 2018 (Tuesday)

15. First-time adoption

(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.

(2) 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 J GAAP. The impact of transition from J GAAP to IFRS on the financial position, operating results and cash flows of the Company and its subsidiaries are shown Reconciliations 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 attributable 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 attributable 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 September 30, 2017 (September 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	18,026	4,851	(1,350)	21,526		Cash and cash equivalents
Notes and operating accounts receivable	3,759	3,876	6,001	13,636	i	Trade and other receivables
Real estate for sale	25,432	61,860	(2,531)	84,762	iv	Inventories
Real estate for sale in process	68,906	(68,906)				
Costs on uncompleted construction contracts	535	(535)				
Raw materials and supplies	57	(57)				
Lease investment assets	1,997	(1,997)				
Deposits paid	5,011	(4,851)	1	161		Other financial assets
Deferred tax assets	711	(711)				
Other	6,960	(1,879)	(2,629)	2,451	ii	Other current assets
Allowance for doubtful accounts	(0)	0				
Total current assets	131,397	(8,350)	(509)	122,538		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	808,248	(786,059)	(9,121)	13,068		Property, plant and equipment
Intangible assets	25,913	(21,809)	(1,485)	2,618		Goodwill and intangible assets
		826,696	(12,745)	813,951	iii,v	Investment property
Investments and other assets						
Investment securities	27,564	(17,745)	3,136	12,955		Investments accounted for using the equity method
		23,580	1,146	24,726		Other financial assets
Long-term prepaid expenses	14,334	(14,334)				
Net defined benefit asset	276	(276)				
Deferred tax assets	435	711	(640)	506	vi	Deferred tax assets
Other	8,497	(3,067)	(3,139)	2,290		Other non-current assets
Allowance for doubtful accounts	(802)	802				

Total non-current assets	884,468	8,498	(22,850)	870,117	Total non-current assets
Total Assets	1,015,866	148	(23,359)	992,655	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	3,286	16,990	(1,402)	18,875		Trade and other payables
Short-term loans payable	10,150	95,154	398	105,703		Short-term borrowings
Lease obligations	31	(31)				
Current portion of long-term loans payable	74,155	(74,155)				
Current portion of bonds	20,999	(20,999)				
Income taxes payable	3,877		165	4,043		Income taxes payable
Deferred tax liabilities	4	(4)				
		969	24	994		Other financial liabilities
		151		151		Provisions
Other	27,952	(18,080)	6,412	16,284	i,iv	Other current liabilities
Total current liabilities	140,456	(4)	5,599	146,052		Total current liabilities
Non-current liabilities						Non-current liabilities
Bonds payable	89,984	353,416	49	443,450		Long-term borrowings
Long-term loans payable	353,416	(353,416)				
Lease obligations	39	(39)				
Lease and guarantee deposits received	76,150	40	686	76,877		Other financial liabilities
Negative goodwill	20,079	148	(20,228)		vii	
Deferred tax liabilities	59,399	4	(17,239)	42,164		Deferred tax liabilities
Provision for directors' retirement benefits	24	(24)				
Net defined benefit liability	8,057		19	8,076		Defined benefit liability
Asset retirement obligations	2,527		615	3,143		Provisions
Other	158	23	(0)	181		Other non-current liabilities
Total non-current liabilities	609,838	152	(36,095)	573,894		Total non-current liabilities
Total liabilities	750,294	148	(30,496)	719,947		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	135,893		8,645	144,539	x	Retained earnings
Treasury shares	(0)			(0)		Treasury shares
Accumulated other comprehensive income						
Valuation difference on available-for-sale securities	2,623	(2,623)				
Deferred gains or losses on hedges	2	(2)				
Foreign currency translation adjustment	1,097	(1,097)			viii	
Remeasurements of defined benefit plans	(597)	597				
		3,125	878	4,004		Other components of equity
				228,746		Total equity attributable to owners of parent
Non-controlling interests	46,143		(2,181)	43,962		Non-controlling interests
Total net assets	265,571		7,137	272,708		Total equity
Total liabilities and net assets	1,015,866	148	(23,359)	992,655		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 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 six months ended September 30, 2017
(from April 1, 2017 to September 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	72,792		(1,472)	71,320	i	Operating revenue
Operating cost	47,995		(6,838)	41,157	iii,iv,v	Operating cost
Operating gross profit	24,796		5,365	30,162		Operating gross profit
Selling, general and administrative expenses	9,246		(352)	8,894	ii,iv,v	Selling, general and administrative expense
		52	(38)	14		Other operating revenue
		243	22	265	iii	Other operating expense
		398	111	509		Share of profit of investments accounted for using the equity method
Operating income	15,550	207	5,768	21,526		Operating income
Non-operating income						
Interest income	4	162	(2)	164		Finance income
Dividend income	162	(162)				
Amortization of negative goodwill	963		(963)			
Share of profit of entities accounted for using equity method	398	(398)				
Other	52	(52)				
Total non-operating income	1,581	(451)	(965)			
Non-operating expenses						
Interest expenses	2,258		(549)	1,709		Finance costs
Other	53	(53)				
Total non-operating expenses	2,312	(53)	(549)			
Ordinary profit	14,819	(189)	5,351			
Extraordinary losses						
Loss on retirement of non-current assets	189	(189)				
Total extraordinary losses	189	(189)				
Profit before income taxes	14,629		5,351	19,981		Profit before tax
Total income taxes	3,959		1,802	5,762	vi	Income taxes
Profit	10,669		3,549	14,218		Profit

Profit attributable to non-controlling interests	1,009		130	1,140	Profit attributable to:
Profit attributable to owners of parent	9,659		3,418	13,078	Non-controlling interests
					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	10,669		3,549	14,218		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	28		(28)			Remeasurements of defined benefit plans
						Items that may be reclassified subsequently to profit or loss
Deferred gains or losses on hedges	0		(1)	(0)		Gains and losses on hedging instruments in a cash flow hedge
Valuation difference on available-for-sale securities	32			32		Valuation difference on available-for-sale securities
Foreign currency translation adjustment	(3)		1,379	1,375		Exchange differences on translation of foreign operations
Total other comprehensive income	58		1,349	1,407		Total other comprehensive income (Net of tax)
Comprehensive income	10,728		4,898	15,626		Total comprehensive income
(Breakdown)						Comprehensive income attributable to:
Comprehensive income attributable to owners of parent	9,718		4,768	14,486		Owners of parent
Comprehensive income attributable to non-controlling interests	1,009		130	1,140		Non-controlling interests
	10,728		4,898	15,626		Total

Reconciliation of profit or loss and comprehensive income at date of the three months ended September 30, 2017
(from July 1, 2017 to September 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	32,015		(844)	31,171	i	Operating revenue
Operating cost	21,733		(3,677)	18,056	iii,iv,v	Operating cost
Operating gross profit	10,282		2,832	13,114		Operating gross profit
Selling, general and administrative expenses	4,053		68	4,121	ii,iv,v	Selling, general and administrative expense
		(11)	15	4		Other operating revenue
		160	22	183	iii	Other operating expense
		12	272	284		Share of profit of investments accounted for using the equity method
Operating income	6,228	(159)	3,029	9,098		Operating income
Non-operating income						
Interest income	1	2	0	3		Finance income
Dividend income	2	(2)				
Amortization of negative goodwill	481		(481)			
Share of profit of entities accounted for using equity method	12	(12)				
Other	(11)	11				
Total non-operating income	487	(1)	(482)			
Non-operating expenses						
Interest expenses	1,147		(284)	862		Finance costs
Other	37	(37)				
Total non-operating expenses	1,184	(37)	(284)			
Ordinary profit	5,531	(123)	2,831			
Extraordinary losses						
Loss on retirement of non-current assets	123	(123)				
Total extraordinary losses	123	(123)				
Profit before income taxes	5,407		2,831	8,239		Profit before tax
Total income taxes	1,425		890	2,316	vi	Income taxes
Profit	3,981		1,940	5,922		Profit

Profit attributable to non-controlling interests	494		70	565	Profit attributable to: Non-controlling interests
Profit attributable to owners of parent	3,487		1,869	5,357	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	3,981		1,940	5,922		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 plans
						Items that may be reclassified subsequently to profit or loss
Deferred gains or losses on hedges	(3)		5	2		Gains and losses on hedging instruments in a cash flow hedge
Valuation difference on available-for-sale securities	251			251		Valuation difference on available-for-sale securities
Foreign currency translation adjustment	579		210	789		Exchange differences on translation of foreign operations
Total other comprehensive income	841		201	1,043		Total other comprehensive income (Net of tax)
Comprehensive income	4,823		2,142	6,966		Total comprehensive income
(Breakdown)						Comprehensive income attributable to:
Comprehensive income attributable to owners of parent	4,329		2,071	6,400		Owners of parent
Comprehensive income attributable to non-controlling interests	494		70	565		Non-controlling interests
	4,823		2,142	6,966		Total

Reconciliation of profit or loss and comprehensive income at the previous fiscal year (from April 1, 2017 to March 31, 2018)
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 non-current assets	626	(626)				
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 non-controlling interests	1,972		30	2,002		Profit attributable to: 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		Remeasurements of defined benefit plans
						Items that may be reclassified subsequently to profit or loss
Deferred gains or losses on hedges	13		6	19		Gains and losses on hedging instruments in a 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 owners of parent	18,962		(1,625)	17,336	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 September 30, 2017 (September 30, 2017)	The end of the previous fiscal year (March 31, 2018)
(Consolidated Statement of Financial Position)			
Trade and other receivables	5,446	5,793	5,899
Other current liabilities	67	98	71
Deferred tax liabilities	1,649	1,708	1,700
Non-controlling interests	193	185	176
Reconciliation of retained earnings	3,535	3,800	3,951

	(Million yen)		
	Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)	Three months ended September 30, 2017 (from July 1, 2017 to September 30, 2017)	The previous fiscal year (One-year period ended March 31, 2018)
(Consolidated Statement of Income)			
Operating revenue	316	145	437
Reconciliation of pre-tax profit	316	145	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 September 30, 2017 (September 30, 2017)	The end of the previous fiscal year (March 31, 2018)
(Consolidated Statement of Financial Position)			
Other current assets	(2,730)	(2,783)	(2,577)
Deferred tax assets	842	859	789
Reconciliation of retained earnings	(1,887)	(1,924)	(1,788)

	(Million yen)		
	Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)	Three months ended September 30, 2017 (from July 1, 2017 to September 30, 2017)	The previous fiscal year (One-year period ended March 31, 2018)
(Consolidated Statement of Income)			
Selling, general and administrative expense	53	410	(152)
Reconciliation of pre-tax profit	(53)	(410)	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 and ¥329,331 million respectively.

	(Million yen)		
	The transition date (April 1, 2017)	Three months ended September 30, 2017 (September 30, 2017)	The end of the previous fiscal year (March 31, 2018)
(Consolidated Statement of Financial Position)			
Investment property	(36,265)	(35,467)	(35,049)
Deferred tax assets	11,104	10,860	10,732
Non-controlling interests	(2,293)	(2,262)	(2,230)
Reconciliation of retained earnings	(22,866)	(22,345)	(22,086)

	(Million yen)		
	Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)	Three months ended September 30, 2017 (from July 1, 2017 to September 30, 2017)	The previous fiscal year (One-year period ended March 31, 2018)
(Consolidated Statement of Income)			
Operating cost	(797)	(398)	(1,210)
Other operating expense	—	—	(5)
Reconciliation of pre-tax profit	797	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 September 30, 2017 (September 30, 2017)	The end of the previous fiscal year (March 31, 2018)
(Consolidated Statement of Financial Position)			
Inventories	160	53	136
Deferred tax assets	2,955	1,523	3,101
Other current liabilities	9,642	4,911	10,183
Non-controlling interests	(223)	(111)	(234)
Reconciliation of retained earnings	(6,304)	(3,223)	(6,711)

	(Million yen)		
	Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)	Three months ended September 30, 2017 (from July 1, 2017 to September 30, 2017)	The previous fiscal year (One-year period ended March 31, 2018)
(Consolidated Statement of Income)			
Operating cost	(4,377)	(2,245)	453
Selling, general and administrative expense	(246)	(104)	112
Reconciliation of pre-tax profit	4,624	2,350	(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 September 30, 2017 (September 30, 2017)	The end of the previous fiscal year (March 31, 2018)
(Consolidated Statement of Financial Position)			
Investment property	3,140	3,249	3,622
Deferred tax liabilities	961	994	1,109
Reconciliation of retained earnings	2,179	2,254	2,513

	(Million yen)		
	Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)	Three months ended September 30, 2017 (from July 1, 2017 to September 30, 2017)	The previous fiscal year (One-year period ended March 31, 2018)
(Consolidated Statement of Income)			
Operating cost	28	14	61
Selling, general and administrative expense	(136)	(110)	(547)
Reconciliation of pre-tax profit	108	95	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.

	The transition date (April 1, 2017)	Three months ended September 30, 2017 (September 30, 2017)	(Million yen) The end of the previous fiscal year (March 31, 2018)
(Consolidated Statement of Financial Position)			
Deferred tax assets	7,086	7,111	6,873
Non-controlling interests	1	0	0
Reconciliation of retained earnings	7,084	7,110	6,872

Due to the abovementioned reconciliation, “Income taxes” in the six months ended September 30, 2017 of income have decreased ¥25 million, in the consolidated statement of income have increased ¥213 million 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 J GAAP, 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.

x) Retained earnings

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

(Million yen)

Adjustment item	Not e No.	The transition date (April 1, 2017)	Three months ended September 30, 2017 (September 30, 2017)	The end of the previous fiscal year (March 31, 2018)
Trade and other receivables	i	3,535	3,800	3,951
Advertising expense	ii	(1,887)	(1,924)	(1,788)
Deemed cost	iii	(22,866)	(22,345)	(22,086)
Levies	iv	(6,304)	(3,223)	(6,711)
Tax and public dues	v	2,179	2,254	2,513
Deferred tax assets	vi	7,084	7,110	6,872
Reconciliation of negative goodwill	vii	21,191	20,228	19,265
Exchange differences on translation of foreign operations	viii	1,100	1,100	1,100
Other	ix	1,194	1,162	1,610
Total		5,227	8,164	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 J GAAP, 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) Six months ended September 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

The Company decided on interim dividends for the current fiscal year at the meeting of the Board of Directors held on November 5, 2018 as follows:

- | | |
|---|------------------|
| (a) Total amount of interim dividends | ¥3,291 million |
| (b) Dividend per share | ¥10 |
| (c) Effective date of payment requests and first payment date | December 3, 2018 |

(Note) Dividends will be paid to shareholders listed or recorded on the shareholder register as of September 30, 2018.

Chapter 2 Information on the Guarantee Company of the Submitting Company

Not applicable.