(English translation based on Japanese Original)

To Shareholders

Code: 8933, First section of TSE

Internet Disclosure Information in Connection with the Notice of Convocation of the 33rd Ordinary General Meeting of Shareholders

Contents

In accordance with the relevant laws and regulations, and the provision 15 of the Company’s Article of Incorporation, the aforesaid is deemed to have been provided to the shareholders by being available at the Company’s website.

May 29, 2018

NTT Urban Development Corporation

Business Report

Mechanisms to ensure appropriate business operations

The following is an outline of the Company’s Internal Control Systems Basic Policy, which sets out systems and procedures to ensure that the Directors’ performance of their duties will comply with laws and regulations and the Articles of Incorporation, and other systems to ensure appropriate operations of the Group:

(i) A system to ensure that Directors and employees adhere to laws and regulations and the Company's Articles of Association in the execution of their duties. This system requires that:

a. Employees carry out their respective duties in a diligent and conscientious manner in accordance with laws, regulations and instructions in an effort to ensure appropriate and efficient business operations as stipulated in the Company's Rules of Employment and related documents;

b. All Directors and employees of NTT Urban Development Group companies ("the Group") engage in activities that promote the highest standards in corporate ethics and compliance in accordance with the NTT Group's Code of Corporate Ethics;

c. The Corporate Ethics Promotion Committee is established and preventive measures initiated with regard to illegalities and misconduct in accordance with compliance related regulations;

d. NTT Urban Development ("the Company") establishes a corporate ethics and compliance helpline to provide the necessary support infrastructure for all Directors and employees of the Group to report corporate ethics and compliance matters, anonymously or by name, both inside and outside the Company using attorneys. The Company will ensure that any person who makes reports to the corporate ethics and compliance helpline is not treated unfairly;

e. The Company establishes a framework to ensure information is concentrated in the relevant department and an appropriate response is formulated in the event of potential and actual non-compliance and unethical act;

f. Education and training with regard to corporate ethics and compliance is implemented on a continuous basis for all Directors and employees of the Group;

g. The Internal Audit Office is inaugurated as a means to evaluate the efficacy and management of the Internal Control Systems, and an audit review program is initiated for areas of particularly high risk to facilitate necessary and appropriate improvement;

h. A legal structure and framework, coordinated by the Legal Department, is maintained to ensure the appropriate checks and balances are in place. In addition, the Legal Department shall centrally coordinate the Company's legal consultation with lawyers;

i. As an operator of financial instruments, the Company ensures appropriate business management and human resources structures, and develops structures to enforce the compliance with laws and ordinances, and risk management structures, and manages appropriate customer protection and customer information control;

j. The Company appropriately develops and manages internal control associated with financial reports to ensure the credibility of financial reports in accordance with the Financial Instruments and Exchange Act; and

k. The Company is committed to not being associated, by any means, with antisocial forces or organizations that pose a threat to the order and safety of society, and to act decisively against these antisocial activities in cooperation with the appropriate authorities, such as the police.

(ii) A structure for storing and managing information pertaining to the execution of duties by Directors. Under this structure:

a. Minutes of meetings, associated documents and other information relating to the execution of duties by Directors are stored and managed by the relevant department in accordance with internal rules and regulations; and

b. Directors and Corporate Auditors regularly review the aforementioned documentation and information.

(iii) Provisions and other structures concerning administration of the danger of losses. In this context:

a. By establishing the Risk Management Committee and formulating regulations related to risk management, the Company shall regularly identify and assess the Group’s risks as a whole and shall prevent and handle risks appropriately;

b. Careful consideration of investment risks and other factors by the Management Council in connection with investment projects is preceded by due diligence by the Investment Deliberation Council;

c. NTT Urban Development conducts risk management education and training in order to raise awareness among all Directors and employees of the Group; and

d NTT Urban Development develops systems that enable it to take appropriate measures in the event of disaster by taking the necessary measures, such as establishing the Disaster Risk Management Promotion Committee and the Disaster Risk Management Promotion Office, developing a basic policy and a manual to respond to the occurrence of a major earthquake, and holding seminars and training in disaster management.

(iv) A framework to ensure the efficient execution of duties by Directors. Under this framework, the Company:

a. Clarifies department responsibilities, authority and decision-making procedures, based on internal rules and regulations that define the structure and scope of internal organizations as well as the division of duties, responsibilities and authority;

b. Formulates rules and regulations for the Board of Directors. In principle, the Board of Directors meets once a month to decide on important matters relating to the management of the Company in accordance with related legal requirements, decision-making principles and recommendations based on due diligence. In addition, the Board of Directors periodically reports on the status of business execution. Moreover, the Company formulates rules and regulations for the Management Council, an organization that in principle meets once a week and reports to the Board of Directors; and

c. Strives to enhance efficiency in the execution of business. To this end, the Board of Directors formulates medium-term management policies and business plans of the Group and closely reviews performance on a monthly and quarterly basis.

(v) A statement concerning the establishment of a system to ensure that the corporate group conducts activities appropriately. This system ensures that:

a. NTT Urban Development Group agreement Associated with the NTT Urban Development Group Agreement, etc., the Company requests that the Group companies deliberate with or report to the Company regarding important matters, including corporate ethics, compliance and risk management.
b. The internal control departments periodically call on the Group companies with the aim of monitoring and supervising the companies' operations;
c. Periodic meetings are convened for the Group companies to report to the Company the status of operations and their financial standing. This process enables the Company to maintain a comprehensive understanding of the Group companies activities and statuses and to ensure that the Group companies activities are conducted in an appropriate manner; and
d. Transactions between the parent company and the Group companies are conducted in an appropriate manner by examining contracts on the same terms and conditions as those with third parties.

(vi) Items concerning the independence from Directors of employees who are appointed to assist Corporate Auditors in their duties and to secure the effectiveness of instructions to the employees. These items provide for:

a. The establishment of a Corporate Auditors Office that reports directly to the Corporate Auditors and the appointment of full-time, specialist employees to support Corporate Auditors in the conduct of their duties.
b. Employees appointed to support Corporate Auditors do not engage in concurrent activities.
c. Assistants to Corporate Auditors conduct their duties based on the directions and orders of Corporate Auditors.
d. The opinions of Corporate Auditors are respected in handling the personnel changes, evaluations, and so on of employees who belong to the Corporate Auditors' Office.

(vii) A system for Directors and employees to report to Corporate Auditors and for other reporting to Corporate Auditors. Under this system:

a. A comprehensive reporting system is maintained in which Corporate Auditors attend not only the Board of Directors meetings but also the Management Council and other important meetings;

b. Directors and employees are required to report to Corporate Auditors on matters relating to the execution of their duties including the following; and

- Matters that have led to significant damage or have the potential to lead to significant damage to the Company
- Monthly business reports
- The status of internal audits
- Any risk of a breach of laws and regulations, the Company's Articles of Association and related rules and regulations
- The status of reports made under the corporate ethics and compliance helpline
- Important items reported by the Group companies
- Important issues relating to corporate ethics and compliance other than those previously identified

c. Directors are required to report to the Board of Directors on the status of the establishment and management of the Internal Control Systems through the Internal Audit Office.

(viii) Other structures to ensure that audits are performed effectively by Corporate Auditors. Based on this structure:

a. Corporate Auditors conduct meetings with representative Directors and related personnel on a quarterly basis to promote an exchange of opinions and ensure appropriate communication channels are maintained; and

b. The Company will provide every support to Corporate Auditors in connection with any request for the use of external advisors including attorneys and certified public accountants.

c. Corporate Auditors may charge expenses as necessary for the execution of their duties, and the Company shall make payments based on their expense claims.

Outline of the management of the mechanisms to ensure appropriate business operations

An outline of the management of the mechanisms to ensure appropriate business operations in the fiscal year under review is as follows.

(i) Initiatives for corporate ethics and compliance

The Company posts its Rules of Employment and the NTT Group's Code of Corporate Ethics on its website so that they can be reviewed regularly.

The NTT Urban Development Group provided training, etc. on corporate ethics and compliance to all directors and employees of the Group.

The Company held the Corporate Ethics Promotion Committee meetings four times and deliberated on matters reported to the corporate ethics and compliance helpline, among others.

The Internal Audit Office, which is an internal control department of the Company, audited the execution of duties to determine whether they adhered to laws and regulations and the Company's Articles of Association and reported the audit results to representative Directors and Corporate Auditors on a quarterly basis.

(ii) Initiatives for risk management

The Company held quarterly Risk Management Committee meetings to identify important risks that should be managed by the Group as a whole and checked if new risks had emerged.

The Company conducted anti-disaster training, etc. in accordance with business continuity management (BCM) guidelines for large-scale earthquakes, etc.

(iii) Initiatives for ensuring the efficient execution of duties

The Company has clarified departmental responsibilities, authority and decision-making procedures based on internal rules and regulations that define the structure and scope of internal organizations as well as the division of duties, responsibilities and authority.

The Company held the Board of Directors meetings on 13 occasions based on the rules and regulations for the Board of Directors. It also held Management Council meetings on 43 occasions based on the rules and regulations for the Management Council.

(iv) Initiatives for ensuring that the corporate group conducts activities appropriately

In accordance with the formulation of the affiliate management regulations of the NTT Urban Development Group, etc., the Group companies reported important matters to the Company and deliberated on them with the Company.

The Internal Audit Office implemented audits on the Group companies and reported the audit results to the representative Directors and Corporate Auditors on a quarterly basis.

(v) Initiatives for ensuring the effectiveness of audits by Corporate Auditors

Corporate Auditors attended important meetings such as the Board of Directors meetings and the Management Council meetings and received reports and explanations about the status of the execution of duties, etc. from Directors, etc.

Corporate Auditors exchanged opinions with representative Directors on a quarterly basis and received the necessary reports from the independent accounting auditor.

The Company established the Corporate Auditors Office that reports directly to Corporate Auditors and appointed full-time, specialist employees who do not engage in concurrent activities. The said employees conducted their duties based on the directions and instructions of the Corporate Auditors.

Basic policy on the control of the Stock Company

Reflecting the parent company’s ownership of more than 50% of the Company’s shareholder voting rights, the Company has not established a detailed basic policy on control of the Company and, at present, does not maintain takeover defense measures.

Notes to Consolidated Financial Statements

Important items used as basic materials for preparation of consolidated financial statements

1. Scope of consolidation

   Number of consolidated subsidiaries: 27

   All subsidiaries are consolidated.

   Consolidated subsidiaries:

   NTT Urban Development Building Service Co., NTT Urban Development Hokkaido Co., Otemachi First Square Inc., DAY・NITE Co., Ltd., Knox Twenty–One Co., Ltd., Motomachi Parking Access Co., Ltd., UDX Tokutei Mokuteki Kaisha, Premier REIT Advisors Co., Ltd., Shinagawa Season Terrace Building Management Corporation, NTT Urban Development Asset Management Corporation, UDX Investment Limited Partnership, UD EUROPE LIMITED, UD AUSTRALIA PTY LIMITED, UD USA Inc., and 13 other consolidated subsidiaries

   In the consolidated fiscal year under review, the Company established UDX Investment Limited Partnership and newly invested in three affiliated companies of UD USA Inc. to make them its consolidated subsidiaries.

2. Application of equity method

   Number of equity method affiliates: 24

   Equity method affiliates:

   Tokyo Opera City Building Co., Ltd., DHC Tokyo Co., Ltd., Tokyo Opera City District Heating & Cooling Co., Ltd., Harumi 4-chome City Planning Design Co., 335 GRICES ROAD PTY LTD, Annadale Development Partners Pty Limited, Seragaki Resort Tokutei Mokuteki Kaisha, Seragaki Hotel Management K.K., and 16 other equity method affiliates

   In the consolidated fiscal year under review, the Company newly invested in Seragaki Hotel Management K.K. and six affiliated companies of UD USA Inc. and made them its equity method affiliates.

3. Fiscal years of consolidated subsidiaries, etc.

   The end of the fiscal years of UD EUROPE LIMITED, UD AUSTRALIA PTY LIMITED, 335 GRICES ROAD PTY LTD, Annadale Development Partners Pty Limited, UD USA Inc. and its 13 consolidated subsidiaries and 16 equity method affiliates, Seragaki Resort Tokutei Mokuteki Kaisha and Seragaki Hotel Management K.K. is December 31. In the preparation of the consolidated financial statements, financial statements based on the provisional settlement of accounts implemented on the date of consolidated settlement of accounts are used for Seragaki Resort Tokutei Mokuteki Kaisha and Seragaki Hotel Management K.K. And the financial statements as of December 31 are used for other consolidated subsidiaries, etc., and the adjustments required for consolidation in relation to significant transactions occurring after the date and before the consolidated closing date.

   The end of the fiscal years of other consolidated subsidiaries, etc. is the same as the consolidated closing date.

Accounting practices

1. Standards and methods for the valuation of securities

Other securities

(i) Securities having market values:

Fair value method based on the market value on the consolidated closing date is applied.

The valuation difference is recorded as a component of net assets. The cost of products sold is calculated by applying the moving average method.

(ii) Securities not having market values:

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 is recorded based on the latest financial statements available.

2. Standards and methods for the valuation of derivatives

In principle, the fair value method is applied.

3. Standards and methods for the valuation of inventories

The cost method based on the specific cost method (reduction of the book value—balance sheet value—based on a decline in profitability) is applied to real estate for sale, real estate for sale in progress.

The cost method based on the specific cost method is applied to costs on uncompleted construction contracts.

The last purchase price method is applied to raw materials and supplies.

(Additional Information)

The valuation of inventories as at the end of the fiscal year under review reflects a ¥787 million reduction in book value due to the decline of profitability.

4. Depreciation method for non-current assets

(1) Property, plant and equipment (except lease assets)

The straight-line method is applied.

Major useful lives are as follows:

Buildings and structures:	20 to 50 years
Machinery, equipment and vehicles:	2 to 17 years

(2) Intangible assets (except lease assets)

The straight-line method is applied.

Software for internal use is amortized over its estimated useful life (five years).

(3) Long-term prepaid expenses

The straight-line method is applied.

(4) Lease assets

Lease assets relating to finance lease transactions without transfer of ownership

The same depreciation methods as applied to the non-current assets owned by the Company and its subsidiaries are applied.

5. Standard for calculating allowances

(1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the estimation of amount calculated using the actual historical rate of losses and uncollectible amount with respect to certain identified doubtful receivables .

(2) Provision for loss of subleasing business

In the subleasing business, the Company records the estimated amount of losses after the next consolidated fiscal year for properties in which a subleasing loss is likely to be made in future years.

6. Hedge accounting method

In principle, deferred hedge accounting is applied.

A special procedure is employed for interest rate swaps that meet the criteria for the special procedure.

7. Accounting method for retirement benefits

In preparation for employees retirement benefit, a net defined benefit liability is posted, which is estimated retirement benefit obligations less estimated plan assets at the end of the fiscal year. As a method of attributing expected benefit to periods before the fiscal year under review, benefit formula basis is used to calculate retirement benefit obligations.

Past service costs are amortized using the straight-line method over the average remaining working lives (from 10 to 13 years) of the employees at the time of occurrence.

Actuarial gains and losses are amortized using the straight-line method over the average remaining working lives (from 8 to 13 years) of the employees at the time of occurrence in each fiscal year from the following fiscal year.

Unrecognized actuarial gains and losses and unrecognized past service costs are recorded in the remeasurements of defined benefit plans in accumulated other comprehensive income under net assets after making an adjustment for tax effect.

8. Standard for recording amount of construction contract revenues and costs

For construction contracts, the percentage-of-completion method is applied to calculate construction contract revenues and costs if the outcome of the construction activity is deemed certain as of the end of this fiscal year during the course of the activity (degree of progress in construction is estimated using the cost-to-cost method), otherwise the completed-contract method is applied.

9. Amortization of goodwill and negative goodwill

Goodwill and negative goodwill that was generated on or before March 31, 2010 are amortized in 20 years by the straight-line method.

10. Accounting treatment of consumption taxes

Consumption taxes are accounted for by the tax exclusion method.

11. Application of consolidated taxation system

The Company has applied the consolidated taxation system from the consolidated fiscal year under review.

Notes to consolidated balance sheet

1. Accumulated depreciation of property, plant and equipment: ¥392,276 million

The amount above includes accumulated losses on the impairment of buildings of ¥4,063 million and accumulated losses on the impairment of land of ¥3,529 million.

2. Assets pledged as collateral and secured debt

Mortgaged assets and corresponding debt regarding debt with limited recourse

Mortgaged assets

Cash and deposits (within three months):	6,777 million yen
Other current assets:	160 million yen
Buildings and structures:	37,235 million yen
Land:	171,402 million yen
Other property, plant and equipment:	195 million yen
Intangible assets:	8 million yen
Long-term prepaid expenses:	224 million yen
Other investments and other asset:	0 million yen
Total:	216,004 million yen

Corresponding debt secured by the above collateral

Current portion of long-term loans payable:	53,600 million yen
Current portion of bonds:	1,000 million yen
Total:	54,600 million yen

3. Negative goodwill

The amount of negative goodwill occurred before March 31, 2010 is offset against positive goodwill. The amounts before the offset are ¥142 million for positive goodwill and ¥19,265 million for negative goodwill.

Notes to consolidated statement of changes in net assets

1. Type and number of outstanding shares at the end of the consolidated fiscal year

   Common shares 329,120,000 shares

2. Dividends

(1) Dividends

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 shares	2,962	9	March 31, 2017	June 23, 2017
Board of Directors meeting on November 8, 2017	Common shares	2,962	9	September 30, 2017	December 1, 2017

(2) Of dividends with a record date falling in the consolidated fiscal year under review, those with an effective date falling in the following consolidated fiscal year

Following resolution is planned to be made.

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

Notes to financial instruments

1. Financial instrument

The Group raises fund (primarily through bank loans and bond issuance) necessary to meet financing needs mainly for investments and working capital to carry out the offices/retail business and the residential business. If there are temporary idle funds on hand, they are invested only in short-term deposits or such.

In accordance with internal accounting rules, trade receivables are tracked for each business partner throughout their lifecycle and protection measures are taken to reduce risk in case they are not paid. As to securities and investment securities, fair values, market conditions, and financial standing of issuers (mainly business partners) are periodically assessed.

Derivative transactions are interest rate swap transactions to hedge the volatility risk of interests paid on borrowings, and the Company carries out derivative transactions in accordance with the risk management guidelines for financial instruments, as long as actual demand exists.

2. Fair values of financial instruments

The table below shows the book value and fair value of financial instruments and the difference between them at the end of the fiscal year.

Financial instruments whose fair value is very difficult to determine (please refer to (Note 2)) and financial instruments that are not significant are not included in the table.

(Million yen)

	Book value	Fair value	Difference
(1) Cash and deposits	18,073	18,073	–
(2) Notes and operating accounts receivable	9,340	9,340	(0)
(3) Short-term and long-term investment securities			
Other securities	8,376	8,568	192
Total assets	35,790	35,983	192
(1) Notes and operating accounts payable–trade	6,638	6,638	–
(2) Short-term loans payable	11,232	11,232	–
(3) Income taxes payable	3,908	3,908	–
(4) Bonds payable[*1]	90,986	94,394	3,407
(5) Long-term loans payable[*2]	442,548	448,579	6,031
(6) Lease and guarantee deposits received	16,159	15,795	(363)
Total liabilities	571,474	580,548	9,074
Derivative transactions[*3]	21	21	–

(*1) Current portion of bonds is included.

(*2) Current portion of long-term loans payable is included.

(*3) Receivables and payables arising from derivative transactions are shown as net amounts.

(Note 1) Methods used to calculate the fair value of financial instruments and matters relating to securities and derivative transactions.

Assets

(1) Cash and deposits

As cash and deposits are short-term accounts, fair values are close to book values. Thus, they are recorded at book value.

(2) Notes and operating accounts receivable

As notes and operating accounts receivable are settled in a short term, fair values are close to book values. Thus, they are recorded at book value. When an allowance for doubtful accounts is recognized for operating accounts receivable, the fair value is determined by subtracting the estimated uncollectible amount (the amount of the allowance) from the receivable.

(3) Short-term and long-term investment securities

Fair values of stocks and bonds having market prices refer to prices set by financial market.

Liabilities

(1) Notes and operating accounts payable-trade, (2) Short-term loans payable, (3) Income taxes payable

As these accounts are settled in a short term, fair values are close to book values. Thus, they are recorded at book value.

(4) Bonds payable

Fair values of bonds payable refer to market prices if market prices are available. If market prices are not available, fair values are determined at present values, calculated by discounting the combined total of principal and interest at a rate with the remaining period of the bond and credit risk taken into account.

(5) Long-term loans payable

Fair values of long-term loans payable are determined at present values, calculated by discounting the combined total of principal and interest at a rate with the remaining period of the long-term loans payable and credit risk taken into account. Special procedures apply for the treatment of interest rate swaps on long-term loans payable with floating interest rates (refer to “Derivative transactions” below). In such cases, fair values are determined based on present values, calculated by discounting the combined total of the remaining principal and interest payments that are processed together with the related interest rate swap at a discount rate that reflects the remaining term of the long-term loans payable and credit risk.

(6) Lease and guarantee deposits received

Fair values of lease and guarantee deposits received are determined at present values, calculated by discounting deposits at a rate with the remaining periods of the security deposits (those with confirmed refund timing) and guarantee deposits and credit risk taken into account.

Derivative transactions

Hedge accounting is applied to all derivative transactions, and the amount of contract or the amount equivalent to the principal specified in contract on the date of consolidated settlement of account by hedge accounting method are as follows.

(Million yen)

Hedge accounting method	Type of derivative transaction, etc.	Main hedged item	Amount of contract, etc.		Fair value
				Over a year	
Deferred hedge	Interest rate swaps Fixed rate payable and floating rate receivable	Long-term loans payable	4,068	2,260	21*1
Special treatments of Interest rate swaps	Interest rate swaps Fixed rate payable and floating rate receivable	Long-term loans payable	39,000	39,000	*2

(*1) The fair value is calculated based on the price presented by the financial institution, etc.

(*2) When the special procedures apply, the fair value of an interest rate swap is processed together with the long-term loans payable hedged by the swap and is thus included in the fair value of the long-term loans payable.

(Note 2) Unlisted stocks, investments in subsidiaries and affiliates, investments in limited partnerships, and other investments are not included in “Assets (3) Short-term and long-term investment securities,” as the market price is not available and difficult to determine its fair value.

Deposits received (excluding those whose time of return is determined) are not included in “Liabilities (6) Lease and guarantee deposits received,” because their remaining period cannot be determined, and it is very difficult to determine their fair value.

Notes to rental properties

The Company and certain consolidated subsidiaries own rental office buildings, rental commercial facilities and residential rental housing in Tokyo and other areas. In the fiscal year under review, the results of operation of those rental properties were ¥26,157 million (leasing revenue is accounted for in operating revenue and rental expenses in operating cost and in selling, general and administrative expenses), with gain on the sales of non-current assets of ¥118 million (in extraordinary gain), loss on the retirement of non-current assets of ¥600 million (in extraordinary loss).

Amounts recognized in the consolidated balance sheet for rental properties, its change during the fiscal year under review and its fair values as of the end of the year are as follows.

(Million yen)

Consolidated balance sheet amount			Fair value at the end of fiscal year under review
Amount at the beginning of fiscal year under review	Change during fiscal year under review	Amount at the end of fiscal year under review	
813,646	13,910	827,557	1,504,103

(Note 1) The consolidated balance sheet amount is the acquisition cost less the accumulated depreciation and the accumulated impairment loss.

(Note 2) The fair value of major properties at the end of the fiscal year under review is based on appraised values determined by outside real estate appraisers. The fair value of other properties is calculated by the Company, by using the indicators which believed to reflect the market price appropriately.

Notes to per-share information

1. Net assets per share: 685.80 yen
2. Net income per share: 56.82 yen

Notes to significant subsequent events

There were no significant subsequent events

Notes to Financial Statements (Non-Consolidated)

Significant accounting policies

1. Standards and methods for the valuation of securities

(1) Shares in subsidiaries and affiliates:

Cost method determined by the moving average method is applied.

(2) Other securities

(i) Securities having market values:

Fair value method based on the market value at the end of the fiscal year.

The valuation difference is recorded as a component of net assets. The cost of products sold is calculated by applying the moving average method.

(ii) Securities not having market values:

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 is recorded based on the latest financial statements available.

2. Standards and methods for the valuation of derivatives

In principle, the fair value method is applied.

3. Standards and methods for the valuation of inventories

The cost method based on the specific cost method (reduction of the book value—balance sheet value—based on a decline in profitability) is applied to real estate for sale, real estate for sale in progress.

The cost method based on the specific cost method is applied to costs on uncompleted construction contracts.

The last cost method is applied to raw materials and supplies.

(Additional information)

The valuation of inventories as at the end of the fiscal year under review reflects a ¥787 million reduction in book value due to the decline of profitability.

4. Depreciation method for non-current assets

(1) Property, plant and equipment (except lease assets)

The straight-line method is applied.

Major useful lives are as follows:

Buildings:	20 to 50 years
Structures:	15 to 50 years
Machinery and equipment:	5 to 17 years

Tools, furniture and fixtures: 2 to 20 years
Vehicles: 2 years

(2) Intangible assets (except lease assets)
The straight-line method is applied.
Software for internal use is amortized over its estimated useful life (5 years).
(3) Long-term prepaid expenses
The straight-line method is applied.
(4) Lease assets
Lease assets relating to finance lease transactions without transfer of ownership
The same depreciation methods as applied to the non-current assets owned by the Company and its subsidiaries are applied.

5. Standard for calculating allowances
(1) Allowance for doubtful accounts
Allowance for doubtful accounts is provided based on the estimation of amount calculated using the actual historical rate of losses and uncollectible amount with respect to certain identified doubtful receivables .
(2) Provision for loss of subleasing business
In the subleasing business, the Company records the estimated amount of losses after the next consolidated fiscal year for properties in which a subleasing loss is likely to be made in future years.
(3) Provision for retirement benefits
In preparation for employees retirement benefit, provision for retirement benefits are posted based on the retirement benefit obligation and estimated plan assets at the end of the fiscal year under review.
As a method of attributing expected benefit to periods before the fiscal year ending March 31, 2016, benefit formula basis is used to calculate retirement benefit obligations.
Past service costs are amortized using the straight-line method over the average remaining working lives (from 10 to 13 years) of the employees at the time of occurrence.
Actuarial gains and losses are amortized using the straight-line method over the average remaining working lives (from 8 to 13 years) of the employees at the time of occurrence in each fiscal year from the following fiscal year.

6. Hedge accounting method
In principle, deferred hedge accounting is applied.
A special procedure is employed for interest rate swaps that meet the criteria for the special procedure.

7. Standard for recording amount of construction contract revenues and costs
For construction contracts, the percentage-of-completion method is applied to calculate construction contract revenues and costs if the outcome of the construction activity is deemed certain as of the end

of this fiscal year during the course of the activity (degree of progress in construction is estimated using the cost-to-cost method), otherwise the completed-contract method is applied.

8. Accounting treatment of consumption taxes

Consumption taxes are accounted for by the tax exclusion method.

9. Application of consolidated taxation system

The Company has applied the consolidated taxation system from the consolidated fiscal year under review.

Notes to balance sheets

1. Receivable from and payable to affiliates

(1) Short-term receivable	788 million yen
(2) Short-term payable	6,777 million yen
(3) Long-term receivable	7,802 million yen
(4) Long-term payable	1,047 million yen

2. Accumulated depreciation of property, plant and equipment: 363,251 million yen

The amount above includes accumulated losses on the impairment of buildings of ¥4,063 million and accumulated losses on the impairment of land of ¥3,529 million.

3. Guaranteed obligation

The Company is providing a loan guarantee to the affiliate below for a loan from financial institutions.

UD USA Inc. (debt obligation) 7,224 million yen (68 million US dollar)

Notes to statements of income

Amount of transactions with affiliates

(1) Amount of operating transactions	
(i) Operating revenue	5,713 million yen
(ii) Operating expenses	5,559 million yen
(2) Amount of transactions excluding operating transactions	511 million yen

Notes to Statement of Changes in Net Assets

The type and number of treasury stock on the last day of the fiscal year under review

Common stock	77 shares

Notes to deferred tax accounting

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

Deferred tax assets (current)	
Accrued bonuses in excess of the limit for income tax deduction	114 million yen
Accrued taxes payable	263 million yen
Other	612 million yen
Total deferred tax assets (current)	989 million yen
Deferred tax liabilities (current)	
Other	(185) million yen
Total deferred tax liabilities (current)	(185) million yen
Net deferred tax assets (current)	804 million yen
Deferred tax assets (non-current)	
Denial of impairment loss	2,235 million yen
Denial of evaluation loss on land	2,811 million yen
Denial of depreciation of unused building volume	2,178 million yen
Provision for retirement benefits	1,942 million yen
Other	3,529 million yen
Subtotal	12,696 million yen
Valuation allowance	(6,806) million yen
Total deferred tax assets (non-current)	5,890 million yen
Deferred tax liabilities (non-current)	
Reserve for advanced depreciation of non-current assets	(18,310) million yen
Other	(1,715) million yen
Total deferred tax liabilities (non-current)	(20,026) million yen
Net deferred tax liabilities (non-current)	(14,135) million yen

2. Breakdown of difference between the effective tax rate and the actual effective tax rate after applying tax effect accounting by major cause

   Notes are omitted because the difference between the statutory effective tax rate and the burden ratio of income taxes after applying the tax effect accounting is less than five hundredths of the statutory effective tax rate.

Notes to related party transactions

Type	Company name	Location	Capital (million yen)	Business	Ownership of voting rights in percentage	Business relationship with the related party	Transactions	Transaction amount (million yen)	Account	Balance at end of fiscal year (million yen)
Subsidiary of the parent company	NTT FINANCE CORPORATION	Minato-ku, Tokyo	16,770	General leasing activities	(Owned by the Company) Direct 1.0%	Borrowing	Short-term loans payable	–	Short-term loans payable	2,369
							Long-term loans payable	60,000	Long-term loans payable	120,000

(Note) Loans payable are based on loan agreements where the Company and NTT FINANCE CORPORATION determined the interest rates based on the prevailing market interest rate.

Notes to per-share information

1. Net assets per share: 578.98 yen
2. Net income per share: 46.68 yen

Notes to significant subsequent events

There were no significant subsequent events.