Annual Report 2014

NTT URBAN DEVELOPMENT CORPORATION

Corporate Slogan

With Integrity, through Innovation
—connecting cities and people

Corporate Philosophy (UD Statement)

We will contribute to sustainable urban development through our real estate services. What we value most is seeing the satisfaction of our customers and members of the wider public, and bringing smiles to their faces.

For this, we will pay close attention to the changing needs of our customers and society, and thoroughly understand our customers' perspectives.

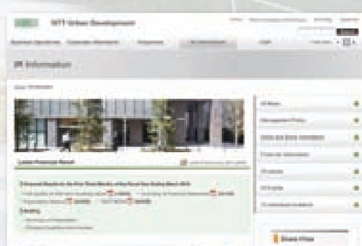
We make it a promise to continue our challenge of generating innovative services, where all of our management and employees will act with integrity and without fearing failure.

This challenge is fueled by a corporate culture conducive to all of our management and employees freely and proactively voicing opinions, where all of us may respect and value one another, and go about our jobs with a smile.

CONTENTS

IR Information and Online Access to Annual Reports

NTT Urban Development provides corporate information, including news releases on business activities and business performance, on its website as part of good investor relations. The Company's annual reports are also uploaded to the website and include interactive features available only online. Please visit our site.



IR information website:
http://ir.nttud.co.jp/english/

Online Annual Report 2014
http://ir.nttud.co.jp/english/library/ar.html
(Scheduled to be released in October 2014)

Highlights

NTT Urban Development Corporation (the Company) has been growing steadily since its establishment in 1986 as a **comprehensive real estate company of the NTT Group**, founded on quality properties received as capital contribution from Nippon Telegraph and Telephone Corporation (NTT), and the core operations of the **Leasing Business**, centered on office buildings, and the **Residential Property Sales Business**, centered on condominiums.
Areas of growth cover a broad range of fields and are included in the Real Estate Fund Business and Global Business as well.

Operating revenue
¥189.1 billion
(Year ended March 31, 2014)

Operating income
¥30.4 billion
(Year ended March 31, 2014)

Net income
¥11.3 billion
(Year ended March 31, 2014)

Percentage of operating revenue

Leasing Business
49.6%

Residential Property Sales Business
40.9%

Other Business
9.5%

(Year ended March 31, 2014)

Rentable floor space
1,193 thousand m^2
(As of March 31, 2014)

Vacancy rate (five wards of central Tokyo)
6.4%
(As of March 31, 2014)

NOI
¥51.4 billion
(Year ended March 31, 2014)

Number of condominium units delivered
1,423
(Year ended March 31, 2014)

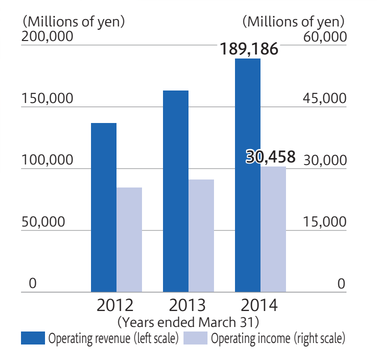
ROA
3.4%
(As of March 31, 2014)

Long-term debt rating
A+
Rating and Investment Information, Inc.
(As of March 31, 2014)

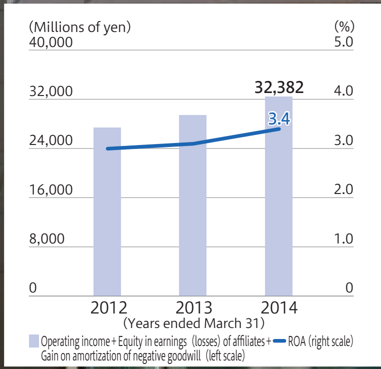
Years ended March 31	Millions of yen 2012	2013	2014	% change 2014/2013
For the year				
Operating revenue	¥136,842	¥163,168	**¥189,186**	15.9%
Operating income	25,365	27,401	**30,458**	11.2
Net income	15,586	12,073	**11,343**	(6.1)
At year-end				
Total assets	928,537	941,050	**985,507**	4.7
Net assets	203,727	213,835	**228,591**	6.9
Interest-bearing debt	505,805	505,993	**507,253**	0.2
Financial indicators				
Net operating income (NOI)[1]	54,318	53,499	**51,489**	(3.8)
Return on assets (ROA) (%)[2]	3.0	3.1	**3.4**	–
Return on equity (ROE) (%)	9.7	7.1	**6.3**	–
Equity ratio (%)	17.9	18.7	**18.8**	–
Net debt-to-equity (D/E) ratio (times)[3,4]	2.42	2.30	**2.14**	–
Net interest-bearing debt/EBITDA ratio (times)[3,5]	9.8	9.6	**8.9**	–
Dividend payout ratio (%)	29.6	43.6	**46.4**	–
Per-share data		Yen		% change
Net assets[6,8]	¥504.41	¥535.43	**¥563.98**	–
Net income[7,8]	47.36	36.68	**34.46**	–
Dividends[8]	14	16	**16**	–

[1] Net operating income (NOI)* = Property rent income – Property rental costs + Depreciation expenses (including long-term prepaid expenses)
*Excluding the effects of property sales, etc.
[2] ROA = (Operating income + Equity in eamings of affiliates + Gain on amortization of negative goodwill) ÷ Average total assets
[3] Net interest-bearing debt = Interest-bearing debt – Cash and cash equivalents – Time deposits held for 3 months or longer
[4] Net D/E ratio = Net interest-bearing debt ÷ Net assets
[5] Net interest-bearing debt/EBITDA ratio = Net interest-bearing debt ÷ EBITDA (Operating income + Depreciation and amortization)
[6] Net assets per share (Net assets – Subscription rights to shares – Minority interests) ÷ Number of shares outstanding
[7] Net income per share = Net income ÷ Number of shares outstanding
[8] Per share data is calculated based on the number of issued and outstanding shares after a 100-for-one stock split executed on October 1, 2013, which raised the total number of outstanding shares to 329,120,000 shares, and has been prepared based on figures adjusted to reflect the stock split.

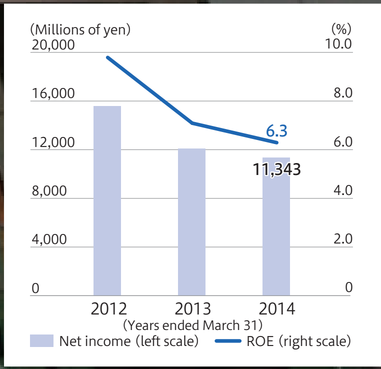
Operating Revenue/Operating Income



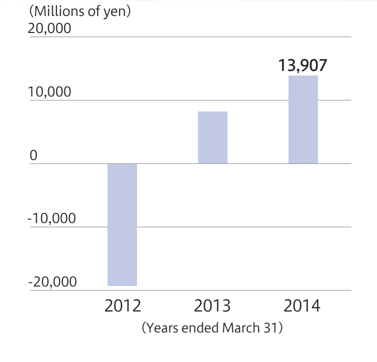
ROA



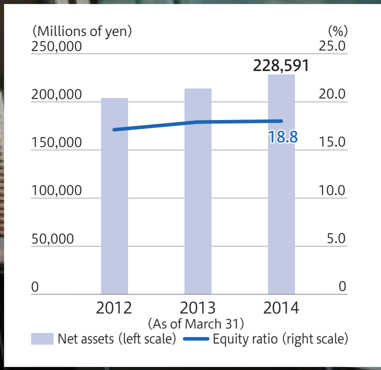
Net Income/ROE



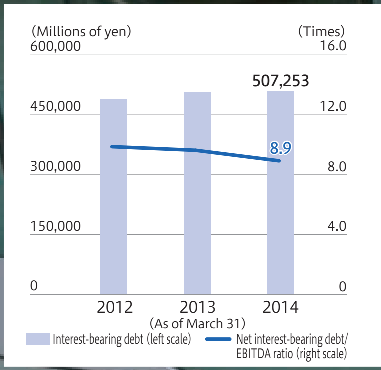
Free Cash Flow



Net Assets/Equity Ratio



Interest-Bearing Debt/Net Interest-Bearing Debt/EBITDA Ratio



Message from the President

■ Review of the Year Ended March 31, 2014: Increased Revenue and Income Due to Positive Performance in the Residential Property Sales Business

One year has already passed since I assumed the position of president and chief executive officer in June of 2013. During this period, we have proactively engaged in reforms described in our Medium-Term Vision 2018, fully enforcing a customer and market-centered orientation, and pursuing innovation. We have instituted a new corporate philosophy after considering a new mission statement together with employees, while reviewing work processes, reorganizing existing corporate structures and establishing new ones.

In the year ended March 31, 2014, consolidated financial results exceeded expectations due to positive performance in the residential property sales business. Operating revenue rose 15.9% year on year, to ¥189.1 billion, and operating income grew 11.2%, to ¥30.4 billion, making for the highest ever operating revenue and operating income in the history of the Company.

● Supported by Positive Demand, the Residential Property Sales Business Improved

The condominium sales market was supported by steady demand against a backdrop of an anticipated rise in mortgage rates. We also benefited from this trend, with deliveries including high-end units such as those of WELLITH Daikanyama Sarugakucho (Shibuya-ku, Tokyo) and WELLITH Arisugawa (Minato-ku, Tokyo), achieving an all-time high in condominium units sold of 1,423 units, and resulting in a substantial increase in unit prices. As a result, operating revenue rose 44.8% year on year, to ¥79.5 billion, and operating income grew 182.1%, to ¥8.2 billion, for a major increase in both operating revenue and operating income in the residential property sales business.

● Strengthening Sales Capabilities and Rebuilding the Leasing Business

The office leasing market as a whole has seen gradual improvement in the vacancy rate, but the bearish trend in market rents continues unabated. On the other hand, the leasing business of the Company was active in securing rent income from properties completed in the previous term such as the Urbannet Kanda Building (Chiyoda-ku, Tokyo) and Grand Front Osaka (Osaka-shi, Osaka), as well as new properties such as Resola South Terrace (Fukuoka-shi, Fukuoka), and posted revenues from the sale of domestic properties. In spite of these efforts, rent income decreased due to factors such as an increase in the vacancy rate arising from existing tenant departures. As a result, operating revenue rose 2.2% year on year, to ¥96.5 billion, and operating income decreased 6.9%, to ¥27.1 billion.

In response to this increase in the vacancy rate, we have implemented a new system for bolstering our sales capabilities including boosting sales staff. Strengthening our sales capabilities has begun to show concrete impact, and we are able to forecast an improvement in the vacancy rate, excluding newly completed properties, as of the year ending March 31, 2015. In order to secure a dependable recovery in our core business framework, the leasing business, a sustained effort as part of our customer and market-centered sales approach will be maintained.

● Progress in Global Business

With a view to asset portfolio diversification, we have ventured into the mature and well-established European and U.S. markets, as well as the growing Asian market.

In the U.K. market we have built solid performance through acquisitions such as 103 Mount Street, an office building in London in 2009 (which we later sold after enhancing its value), 1 King William Street in June 2011, and 20 Finsbury Circus in September 2012. Furthermore, in April 2013 we acquired the prime property 265 Strand in the heart of London.

In October 2013, we established a subsidiary in the United States, the world's largest real estate market. In December of the same year we were able to take part in an office and commercial complex redevelopment project in New York City.

In April 2013, we established an office in Singapore for advancing into the Asian growth market. Leveraging the connections and experience cultivated by the NTT Group in the 17 countries and 46 cities where the NTT Group already has a presence, we are evaluating concrete business propositions including alliances with local firms.

● Building a Highly Profitable Portfolio while Maintaining a Healthy Financial Balance

In the year ended March 31, 2014, we acquired investments of ¥62.7 billion in such assets as the Toshin Building in Minato-ku, Tokyo, and 265 Strand in London, United Kingdom. While pursuing investments aimed at future growth, we continued to review our portfolio to maintain a healthy financial balance, and we divested ourselves of properties in the metropolitan area and Kansai to restructure our assets. Through this reorganization of our assets, we were able to secure investment capital while keeping interest-bearing debt under control, decreasing our net interest-bearing debt/EBITDA ratio to 8.9 times, and at the same time securing free cash flow of ¥13.9 billion.

Going forward, we will continue to build a highly profitable portfolio while maintaining a healthy financial balance.

Toward Business Recovery with Fiscal 2014 as the Low Water Mark: Outlook for the Year Ending March 31, 2015

With respect to the results for fiscal 2014, we expect operating revenue of ¥148 billion, down 21.8% from fiscal 2013, and operating income of ¥20 billion, a 34.3% decrease year on year. In the leasing business, initial expenses for the Shinagawa Season Terrace (Minato-ku, Tokyo) will be recorded, and no earnings from the sale of properties are to be expected, so a decrease in profits is forecasted. In the residential property sales business, profits are expected to decrease because of a drop in the number of condominiums delivered to owners in fiscal 2014 due to their accelerated delivery in fiscal 2013.

Nonetheless, we are undertaking a broad range of initiatives to ensure that the performance forecast at the ¥20 billion level for the year ending March 31, 2015 represents the low water mark and a profit increase from the following year.

In the leasing business, we are pouring all our efforts into the leasing of newly developed properties such as the Shinagawa Season Terrace, as well as continuing efforts to secure sustained and increased momentum in existing property leasing. With respect to new developments, the Mejiro 2-chome project in front of Mejiro Station is slated to complete construction this autumn, and the new tenants taking up residence there are expected to create a new concentration of bustling prosperity to the development. For the year ending March 31, 2015, we also plan the completion of the office buildings Urbannet Nihonbashi 2-chome (Chuo-ku, Tokyo) and Urbannet Ginza 1-chome (Chuo-ku, Tokyo), and we will continue to ensure stable leasing by focusing on prime locations, providing amenities and environmental performance, as well as a secure BCP (business continuity plan).

In the residential property sales business, as a way to secure profitability and as a response to the sharp increases in land purchase prices and constructions costs, we endeavor to formulate the optimum specifications and construction methods for each property, and make progress on residences with services for elderly people in coordination with NTT Group.

With our Medium-Term Vision 2018, even as we persevere with our current approach, we continue to drill down in search of strategies and development of new business models, as well as review our profit target indices in response to changing market conditions, which include the impact of large-scale office-space offerings, rising construction costs, and sharp increases in residential land purchase prices.

Sadao Maki
President and Chief Executive Officer

■ Establishment of a New Mission Statement: With Integrity, through Innovation

In June 2014, we developed a Corporate Slogan, Corporate Philosophy and Action Guidelines as part of a new mission statement.

The business environment in which the Company operates has changed significantly since the time of its founding, and the range of business activities has expanded from the leasing business to include the residential property sales business and global operations. Moreover, each employee's values have diversified along with an increase in the diversity of our employees. Our mission statement reflects the changing times, and based upon the common recognition that new structures are necessary to prepare for fresh challenges, the Company's management and employees have repositioned current issues and engage in deeper dialogue together.

The mission statement provides a compass to align vectors throughout the Company toward a common direction for the future, embrace new challenges, and generate new value, thereby providing a touchstone to rely upon for management, in their decision making, and each employee going forward, in conducting our day-to-day business.

New Mission Statement (established in June 2014)

(1) Corporate Slogan

With Integrity, through Innovation

—connecting cities and people

(2) Corporate Philosophy (UD Statement)

We will contribute to sustainable urban development through our real estate services. What we value most is seeing the satisfaction of our customers and members of the wider public, and bringing smiles to their faces. For this, we will pay close attention to the changing needs of our customers and society to thoroughly understand our customers' perspectives. We make it a promise to continue meeting our challenge of generating innovative services, encouraging our management and employees to act with integrity and without fearing failure. This challenge is fueled by a corporate culture conducive to all of our management and employees freely and proactively voicing opinions, where all of us may respect and value one another, and go about our jobs with a smile.

(3) Action Guidelines (UD Style)

We will ...

- Always pursue our corporate identity with the creation of new value in mind.
- Always respect diversity, and generate diverse values.
- Continue to challenge without ever giving up until we succeed.
- Strive for success by making good use of our failures and shortcomings.
- Always be mindful of cost, and work to maximize our profits.
- Always be forward-looking without being influenced by precedents.
- Always be good citizens showing appreciation, humility and respect.
- Value holistic optimization over partial optimization.
- Think with our own heads and speak in our own words.
- Take the initiative and be mindful of our own responsibilities.
- Consider the customer first and foremost, ahead of our superiors.
- Think with a global perspective.
- Think and act with emphasis on speed.
- Be mindful of what goes on in the field.
- Treasure personal connections both as individuals and as a company.
- Appoint the right people to the right positions, maintaining fairness and impartiality.
- Create an environment where thoughts, proposals and grievances can be shared freely.

■ Approaches to enhancing profitability and competitiveness

With respect to the year ended March 31, 2014, we engaged in the following initiatives to realize the reforms described in our Medium-Term Vision 2018: fully enforcing a customer and market-centered orientation, and pursuing innovation.

■ Strengthening sales capabilities

By leveraging the sales resources of the NTT Group and expanding account sales efforts and integrating and utilizing customer databases, the sales system has been greatly reinforced. We are also taking active steps to improve sales capabilities to establish a resilient business base in the office leasing business.

■ Establishment of Corporate Communication and Marketing Office

In order to fully enforce a customer and market-centered orientation, we aim to bolster our ability to gather data and to ensure that this information permeates the Company. Moreover, we are strengthening our information dissemination capabilities to facilitate mutual communication between stakeholders, including our customers, and enhancing brand awareness of the Company.

■ Establishment of a Strategy Development Department

This department reinforces strategic development capabilities and evaluates each project throughout the Company from a comprehensive perspective, while conducting product planning and feasibility assessment with respect to new project development. We conduct information gathering and analysis every quarter of customer feedback, economic conditions, the real estate market environment and urban planning policy, establish leasing property portfolio strategies and use them to apply measures aimed at sustained growth.

■ Establishment of a Procurement Office

This Office was established to conduct centralized management of procurement to spearhead cost control throughout the Company. Working in coordination with related departments, we aim to achieve continuous cost reductions through stimulation of cost consciousness and reforms in procurement processes and governance.

Going forward, we will boldly tackle a broad range of measures in order to reinforce our profitability and competitiveness.

Assessment of the Operating Environment

In the year ended March 31, 2014, vacancy rates evidenced moderate improvement. The market vacancy rate* in five wards of central Tokyo averaged 6.7% at the end of March 2014, an improvement of 1.9 percentage points from the end of March 2013, while nationwide it dropped to 9.3%, an improvement of 1.4 percentage points.

The general downward trend in market rents continued to level off, substantiated by a mere ¥179, or a 1.08% year-on-year drop in the average asking rent per *tsubo** (approximately 3.3 m²) in the five wards of central Tokyo, from ¥16,504 at the end of March 2013, to ¥16,325 at the end of March 2014.

*The average market asking rent per *tsubo* and the average vacancy rate in five wards of central Tokyo are based on data from Miki Shoji Co., Ltd. The nationwide market vacancy rate is a simple average of vacancy rates announced by Miki Shoji for Tokyo, Yokohama, Osaka, Nagoya, Fukuoka, Sendai and Sapporo. (Calculations are made by NTT Urban Development.)

Results for the Year Ended March 31, 2014

Although rental income from existing properties declined, the leasing business generated rental income from buildings completed in the previous year such as Urbannet Kanda Building (Chiyoda-ku, Tokyo), Otemachi Financial City North Tower (Chiyoda-ku, Tokyo), Grand Front Osaka (Osaka-shi, Osaka), as well as rental income from newly completed properties, plus proceeds from the sales of properties, including Urbannet Irifune Building (Chuo-ku, Tokyo).

In addition, development of Shinagawa Season Terrace (Minato-ku, Tokyo), the Mejiro 2-Chome Project (Toshima-ku, Tokyo), Urbannet Nihonbashi 2-Chome Building (Chuo-ku, Tokyo), and Urbannet Ginza 1-Chome Building (Chuo-ku, Tokyo) are ongoing, while construction was completed on Resola South Terrace (Fukuoka-shi, Fukuoka).

The vacancy rates were impacted by the increase in the vacancy of existing properties in the five wards of central Tokyo. The Company's vacancy rate in the five wards of central Tokyo was 6.4% at the end of March 2014, (up 2.4 percentage points from the end of March 2013), while nationwide it was 7.4% (up 0.9 percentage point).

Consequently, the leasing business generated operating revenue of ¥96,595 million in the year ended March 31, 2014 (up 2.2% from the previous year), and operating income was ¥27,189 million (6.9% decrease year on year).

Net operating income (NOI)* of assets in our possession was ¥51,489 million (a drop of 3.8% for the same period). Fair value of rental properties was ¥1,210,052 million, and unrealized gains, or the positive difference between carrying value and fair value, came to ¥404,141 million yen.

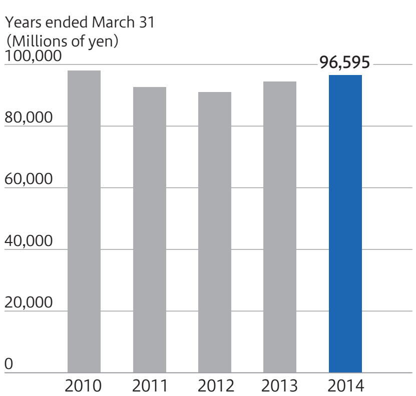
*NOI (net operating income) = Property rental income – Property rental costs + Depreciation expenses (including prepaid long-term expenses), excluding the effects of property sales, etc.

Initiatives for the Year Ending March 31, 2015

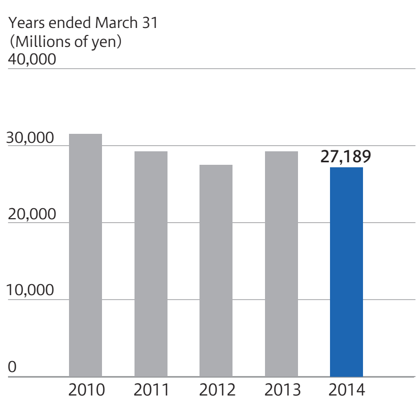
The leasing market in the year ending March 31, 2015, may see the vacancy rates improve and falling rent levels bottom out along with the gradually improving economy.

The Company can also be expected to earn an improvement in the vacancy rate through its reinforced sales capabilities. However, according to our performance forecast, operating revenue and income are likely to decline, mainly because of the burden of the initial expenses of developing Shinagawa Season Terrace and the lack of a plan for property sales.

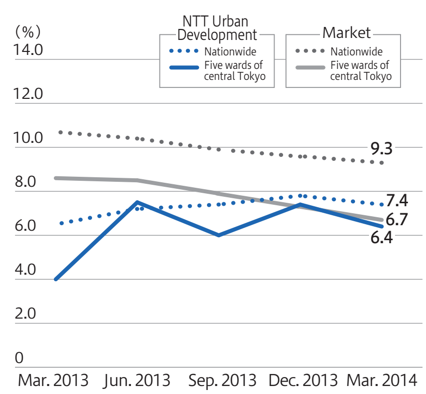
Operating Revenue



Operating Income



Vacancy Rate



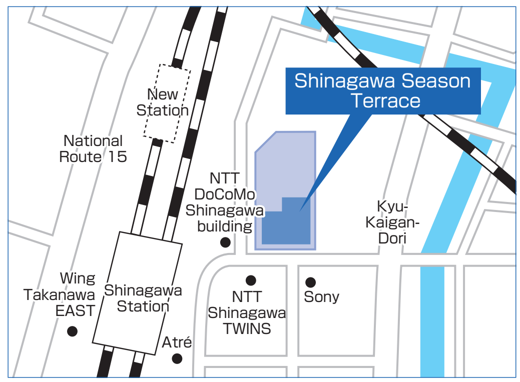
Source: Market data for the five wards of central Tokyo was announced by Miki Shoji Co., Ltd. Vacancy for the nationwide market is a simple average of vacancy rates (calculated by NTT UD) for Tokyo, Yokohama, Osaka, Nagoya, Fukuoka, Sendai and Sapporo, announced by Miki Shoji Co., Ltd.

Shinagawa Season Terrace (Upper-Level Section Redevelopment Project for the Shibaura Water Reclamation Center)

A vast 3.5-hectare green space becomes a green base for the area

Architectural Outline

Location:	2-6, Konan 1-chome, Minato-ku, Tokyo
Footprint:	49,547 m² (total)
Floor space:	205,785 m² (total)
Size:	32 floors above ground, 1 below
Primary use:	Office and commercial
Timeline:	Construction commenced February 2012 Completion in February 2015 (scheduled)



Shinagawa Season Terrace Development Story

You will marvel at the regeneration of the Shinagawa area with the birth of a new complex harmonizing with nature and the environment.

Hayato Sato
Project Management Department

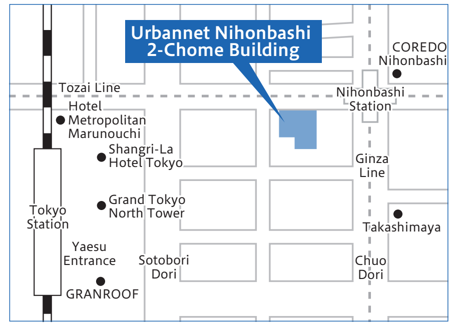
Shinagawa Season Terrace is a public land-use project based on a multi-faceted vertical city planning system to utilize the upper portions of a sewage facility to create an office and commercial complex together with about 3.5 hectares of a vast green space. A highlight of this project is its employment of environmental features and considerations, such as ventilation pathways to mitigate the urban heat island phenomenon and the selection and positioning of tree varieties for compatibility with the features of the district, contributing to the creation of diverse environments and an ecosystem network. When construction is completed, Shinagawa Season Terrace is expected to become a landmark that greatly enhances the potential of the surrounding area.

In this project, a great deal of expertise was gained through the pioneering initiatives involving application of a three-dimensional urban planning system and the environmental considerations, and we hope that such expertise can be fully leveraged in new projects to come.

Urbannet Nihonbashi 2-Chome Building

● **Architectural Outline**

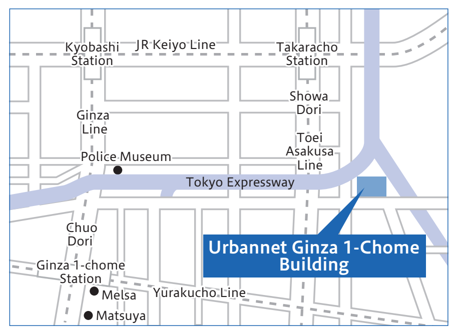
Location: 1-7, Nihonbashi 2-chome, Chuo-ku, Tokyo
Footprint: 1,687 m²
Floor space: 14,795 m²
Size: 10 floors above ground, 1 below
Primary use: Offices
Timeline: Construction commenced February 2013
Completion in October 2015 (scheduled)



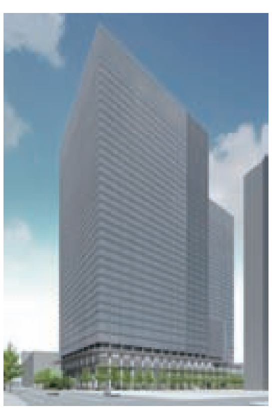
Urbannet Ginza 1-Chome Building

● **Architectural Outline**

Location: 219-2, Ginza 1-chome, Chuo-ku, Tokyo
Footprint: 1,737 m²
Floor space: 11,720 m²
Size: 8 floors above ground, 1 below
Primary use: Offices
Timeline: Construction commenced June 2013
Completion in November 2015 (scheduled)



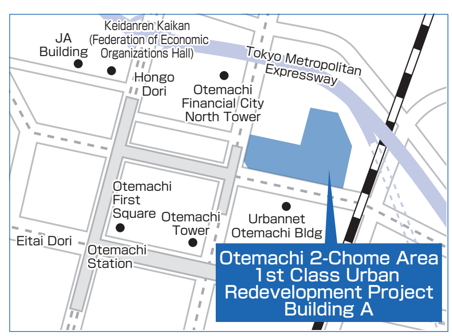
Otemachi 2-Chome Area 1st Class Urban Redevelopment Project Building A



● **Architectural Outline**

Location: Otemachi 2-chome precinct, Chiyoda-ku, Tokyo
Footprint: About 20,000 m² (both buildings A and B)
Floor space: Building A: approx. 199,000 m²
(NTT UD share: approx. 34,000 m²*)
Size: Building A: 35 floors above ground, 3 below
Primary use: Offices and commercial
Timeline: Construction commences June 2015 (scheduled)
Completion in May 2018 (scheduled)

*Including co-owned part



Urbannet Nihonbashi 2-Chome Building Development Story

As a member of NTT Group, we sincerely endeavor to contribute to the solution of our customers' business challenges.

Atsuyoshi Okamoto
Office Building Business Headquarters,
Enterprise Sales Department

The Nihonbashi area of Tokyo is attracting attention for its urban renewal, and is also home to offices of many long-standing resident companies, including those in finance and pharmaceuticals. To win in such a hotly contested real estate area, an NTT Urban Development building must boldly bring its building business philosophy to the fore. We aim to create office buildings that contribute to the resolution of our customers' business issues using the phrase "best place to work," which is what our customers actually want from an office, and thereby successfully realize our "Urbannet" brand concept.

With this particular property, there was more enthusiasm than ever to create a building that reflected every aspect of the customers' intent, and every department, from operations and product planning through sales, participated in the planning from the very first stages. Specifically, NTT's special expertise in disaster preparedness (BCP) and security, gained through the building and operation of communications facilities, was instrumental in ensuring that we provided the highest levels of safety and security, including in the event of disaster. Moreover, optical duct technology to introduce natural illumination was employed, achieving a bright, pleasant workplace provided by quadruple-aspect lighting. Such next-generation technology will enhance intellectual productivity in the workplace and also reduce power consumption and negative environmental impact.

Under the powerful brand of NTT Urban Development, we were able to create a property we can offer our customers with confidence, and we would like to see robust leasing activity develop from this.

Urbannet Ginza 1-Chome Building Development Story

Through uncompromising pursuit of customer satisfaction, we aim to create a property that will leave tenants honestly saying "we are so happy we moved in."

Takahiro Osaki
Office Building Business Headquarters,
Enterprise Sales Department

The Ginza 1-chome area of Tokyo is one of the optimal areas for business in the heart of the city. In an area where small and medium-scale offices and shops line the streets and there are no large-scale properties, we set about introducing a large-scale office building in the 1,000 m^2 per floor class. As part of our effort to reinforce sales capabilities, as well to ensure thorough adherence to customer intent we had the sales division participate from the earliest stage of planning. To be able to recommend this property to customers with confidence and to provide a high level of customer satisfaction, the design reflects the many detailed requests we obtained through ongoing daily interactions with our customers.

For instance, in this area where large tracts of land are difficult to come by, there are many properties lacking drive-through entranceways or car-waiting areas. These features were therefore designed into this property from the beginning. Moreover, to ensure a comfortable stay for smokers and nonsmokers alike, smoking spaces are in roof-top terrace locations rather than outside at ground level. Additionally, we have taken comprehensive measures, such as keeping a fully stocked warehouse facility for emergency supplies, to ensure the security and safety in anticipation of disaster situations in which people are unable to easily return home. This property can be expected to provide an entirely new level of customer satisfaction because we work to faithfully resolve potential inconveniences that might otherwise be experienced after moving in.

Construction is scheduled to be completed in November 2015, but we have already received extremely positive feedback from customers. We believe we will receive heartfelt testimonials from tenants satisfied with their wise choice in deciding to move in here.

Residential Property Sales Business

Assessment of the Operating Environment

The condominium sales market was generally favorable in the year ended March 31, 2014, supported by steady demand against a backdrop of encouraging factors such as low mortgage rates. In calendar year 2013, the supply of new condominiums* in the Tokyo metropolitan area was 56,478, a surge of 23.8%, or 10,876 units, from 45,602 units in calendar year 2012.

The aggregate month-of-sale contract ratio* hit an all-time high of 91.7%, up 1.7 percentage points from 90.0% in 2012, and inventory for sale* decreased 257 units, to 5,090 units, from 5,347 units in 2012. Market trends such as these indicate that conditions are good.

*Information on the supply of new condominiums in the Tokyo metropolitan area, the aggregate month-of-sale contract ratio and the inventory for sale was sourced from Real Estate Economic Institute Co., Ltd.

Results for the Year Ended March 31, 2014

In the year ended March 31, 2014, the residential property sales business focused on the sale of condominiums, aiming to create high-quality residences that add value to residents' lives and maintain asset value based upon the WELLITH brand. The annual number of condominiums delivered to new customers was the highest in our history, reaching 1,423 units, including properties completed in past fiscal years and properties such as WELLITH Daikanyama Sarugakucho (Shibuya-ku, Tokyo), WELLITH Arisugawa (Minato-ku, Tokyo), WELLITH Inage (Chiba-shi, Chiba), and WELLITH Maiko (Kobe-shi, Hyogo).

Moreover, in the year ended March 31, 2014, we launched sales of new condominiums such as WELLITH Tsukuba Kenkyugakuen Terrace (Tsukuba-shi, Ibaraki) and WELLITH Tsurumi-Ryokuchi (Osaka-shi, Osaka), and also delivered residential lots and detached houses at WELLITH Park Shingu Morinomiya (Kasuya-gun, Fukuoka).

As a result, the residential property sales business showed a dramatic increase in the year ended March 31, 2014, with operating revenue of ¥79,537 million (up 44.8% over the previous period), and operating income of ¥8,222 million (up 182.1% over the previous period). The operating margin was 10.3% (up 5.0 percentage points over the previous period), demonstrating a marked improvement in profitability.

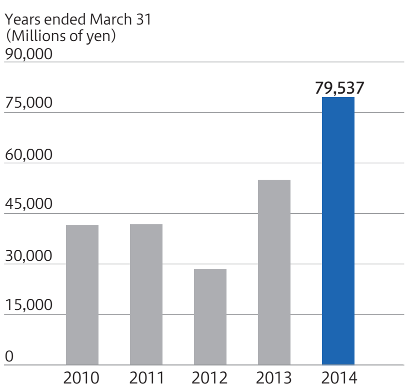
Initiatives for the Year Ending March 31, 2015

The condominium sales market outlook for the year ending March 31, 2015 promises sustained steady sales, with only limited impact from the reaction to the last minute surge in demand concomitant with the consumption tax rate increase. In addition to continuing sales of condominiums that meet the needs of our customers, the Company is also engaged in offering residences for elderly people with services, seeking to increase operational efficiency and secure profits in spite of challenges in land acquisition and a sharp increase in construction costs. With respect to the performance forecast for the year ending March 31, 2015, profits are expected to decrease due to a reduction in the planned number of condominium units delivered brought on by accelerated deliveries in the year ended March 31, 2014.

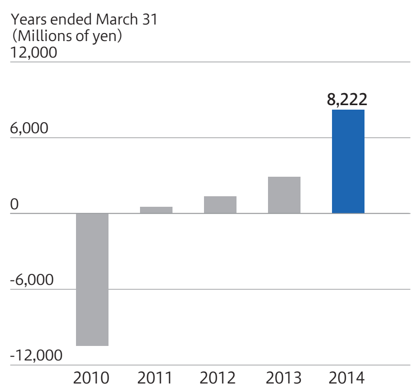
WELLITH

We seek to create quality residences that are attractive to families for generations to come, with a harmonious balance of innovation and peace of mind and sustained high asset value over the long term. This is the WELLITH brand.

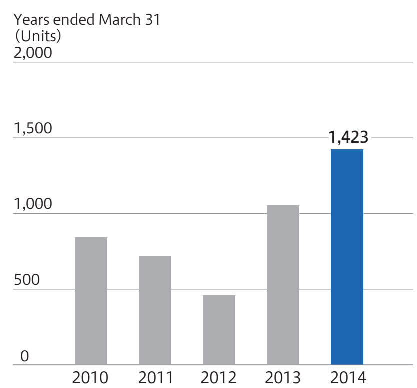
Operating Revenue



Operating Income



Number of Units Delivered



Principal Properties Delivered in the Year Ended March 31, 2014

WELLITH Daikanyama Sarugakucho

Location: Shibuya-ku, Tokyo
Total number of units: 44
Completed: May 2013

WELLITH Arisugawa

Location: Minato-ku, Tokyo
Total number of units: 57
Completed: October 2013

WELLITH Yotsuya

Location: Shinjuku-ku, Tokyo
Total number of units: 49
Completed: September 2013

WELLITH Maiko

Location: Kobe-shi, Hyogo
Total number of units: 145
Completed: January 2014

WELLITH Inage

Location: Chiba-shi, Chiba
Total number of units: 929 units (in total)
Completion
Lucent Block: January 2014
Oasis Block: August 2014
Grow Block: March 2015 (planned)

A large-scale project with 929 units on a hill, five minutes' walk along a flat road from Inage Station on the JR Sobu Line. By providing diverse shared facilities and a comprehensive disaster prevention infrastructure, we have made every effort to structure a secure living environment. Moreover, we have implemented the Hagumu Club to provide relaxed interaction and socializing opportunities, where residents plan their own programs for getting together. Our aim is to structure a permanently sustainable community across generations, where residents can share security, happiness and enjoyment together.

Lounge

Graphic image

Entrance

WELLITH Inage Development Story

In pursuit of a permanently sustainable community cultivated by residents of all generations.

Miho Nomura
Manager,
Business Development,
Residential Development Department

Since Inage is a multigenerational residential district, our intention has been to leverage that positive attribute in our approach to city planning and the development of this property by envisioning a wide variety of naturally occurring, intergenerational interactions. In everything from the arrangement of onsite common facilities to devising the flow plan, all our efforts went into generating natural, positive interaction among residents, ensuring that residents can enjoy an agreeable lifestyle.

In earlier times, the idea of interaction between residents was largely absent from the condominium concept, but since the Great East Japan Earthquake such ties have become more important from the perspective of disaster response as well. By maintaining a comfortable level of interaction among residents, we believe it might be possible to enjoy a more secure lifestyle in which residents can help each other in times of emergency.

This property offers the Hagumu Club, a platform for people of all ages to create opportunities to get to know one another. In March 2014, we delivered the Lucent Block to our customers, and prior to taking up residence, the Hagumu Club held an event called Rice Planting Social Gathering. Many people participated and the event became a fine opportunity for future co-residents to get to know one another. Creating enjoyment for residents through such events will lead to community interaction once they actually begin living there and expectations of a flourishing community developing after customers take up residence are even greater than before.

Our corporate slogan at NTT Urban Development includes the phrase "connecting cities and people." We believe that through this type of initiative we are able to truly express our unique corporate culture.

WELLITH Tsukuba Kenkyugakuen Terrace

Location: Tsukuba-shi, Ibaraki
Total number of units: 86
Completed: July 2014

This is NTT Urban Development's first smart condominium complex created within Tsukuba city's community-style low-carbon emission model town. In this area, the Company promotes projects selected by the Ministry of Land, Infrastructure, Transport and Tourism as part of "supported projects for the formulation of models of conservation in the generation and storage of energy for the year ended March 31, 2013," to achieve lifestyles characterized by low carbon emissions. With its smart complex, NTT UD is also promoting environmental initiatives, including a bulk power receiving system and the Mansion Energy Management System (MEMS), one example of which is a power consumption unit that enables easy monitoring of energy usage, in cooperation with NTT Group, and also with close coordination between public and private sectors in urban planning.

Graphic image

Entrance

Lounge

WELLITH Tsukuba Kenkyugakuen Terrace Development Story

Toward a futuristic city with low carbon emissions: we seek to provide residences that can be handed down through generations.

Tsuyoshi Nakamura
Manager,
Business Development,
Residential Development Department

WELLITH Tsukuba Kenkyugakuen Terrace introduces Mansion Energy Management System (MEMS) and Home Energy Management System (HEMS) services utilizing a bulk power receiving system and Hikari BOX services from NTT Facilities and FLET'S Hikari from NTT East, making it a smart condominium that brings together and focuses the full capabilities of the NTT Group. With the cooperation of Tsukuba city and house builders, this project aims to realize the conception of a sustainable community, implementing experimental new features such as EV charging stations for electric cars and easily accessible car sharing.

This property offers ecological as well as economic benefits, with an approach that capitalizes on all the merits of the NTT Group to save on electric power and Internet access fees. Moreover, we have factored in total expenses including monthly costs and facility renewal costs for common areas. We are prepared to go the extra mile to ensure that we create not merely a place to live, but also create a valuable asset for our customers. It is our goal to create condominiums that our customers will continue to cherish and assets that will continue to retain their value long after purchase. Moreover, one of the highlights of this property is that those who live here will be able to create their own community together. It is my hope that our customers who take up residence here will discover the meaning of home and abundance, even as they enjoy the growth of their families and their community.

Global Business Expansion

The NTT Urban Development Group is actively expanding overseas as one fundamental aspect of our quest for new business domains. Our initiatives are aimed at securing stable revenue through an expansion of our business bases in Europe and the United States, while acquiring future opportunities in Southeast Asia.

- **United Kingdom** We established a subsidiary in 2009, and acquired our first property in London. We currently own three properties there, and plan to increase their value through renovation in addition to their stable operation.
- **Australia** We established a subsidiary in 2011. We are currently expanding our residential land sales business in the suburbs of Melbourne.
- **Southeast Asia** We established a Singapore office in 2014. Capitalizing on synergies with NTT Group enterprises, we are currently evaluating concrete business proposals.
- **United States** In 2013, we established a subsidiary in the state of Delaware, which participates in an office and commercial complex project in New York City.


1 King William Street, London, U.K.


20 Finsbury Circus, London, U.K.


265 Strand, London, U.K.

● Track record

(Years ended March 31)

	2010	2011	2012	2013	2014
Overseas bases	UD Europe (London)		UD Australia (Melbourne)	Southeast Asian Regional Office (Singapore)	UD USA Inc. (New York)

Expansion of business in London
◆ 103 Mount St.→ Succeeded in selling after increasing the value
◆ 1 King William St. (Renovation planned)
◆ 20 Finsbury Circus
◆ 265 Strand

Business operations in Australia
◆ 335 Grices Road (Promoting the residential land sales business)

Business development in New York City
◆ 119 West 25th Street

● Future business deployment

(Years ended March 31)

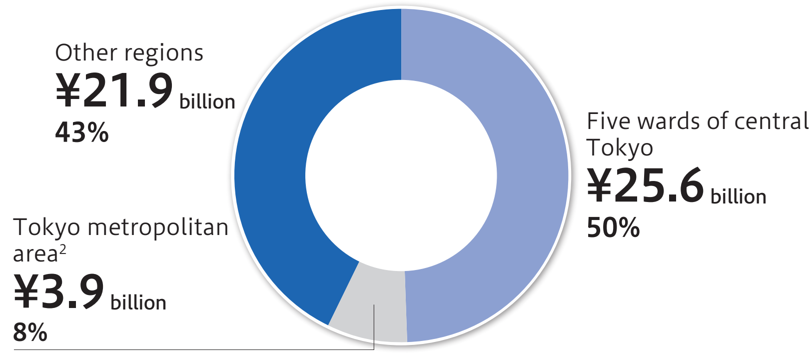
	2015	2016	• • • 2019
Developed markets	Expand the business base by acquiring income-producing properties and accumulating development projects, including renovations		Further expand business operations in Europe and the U.S.A.
Growth markets	Create business opportunities in growth markets		

Development Projects and Results

NOI[1]

¥51.4

(Year ended March 31, 2014)

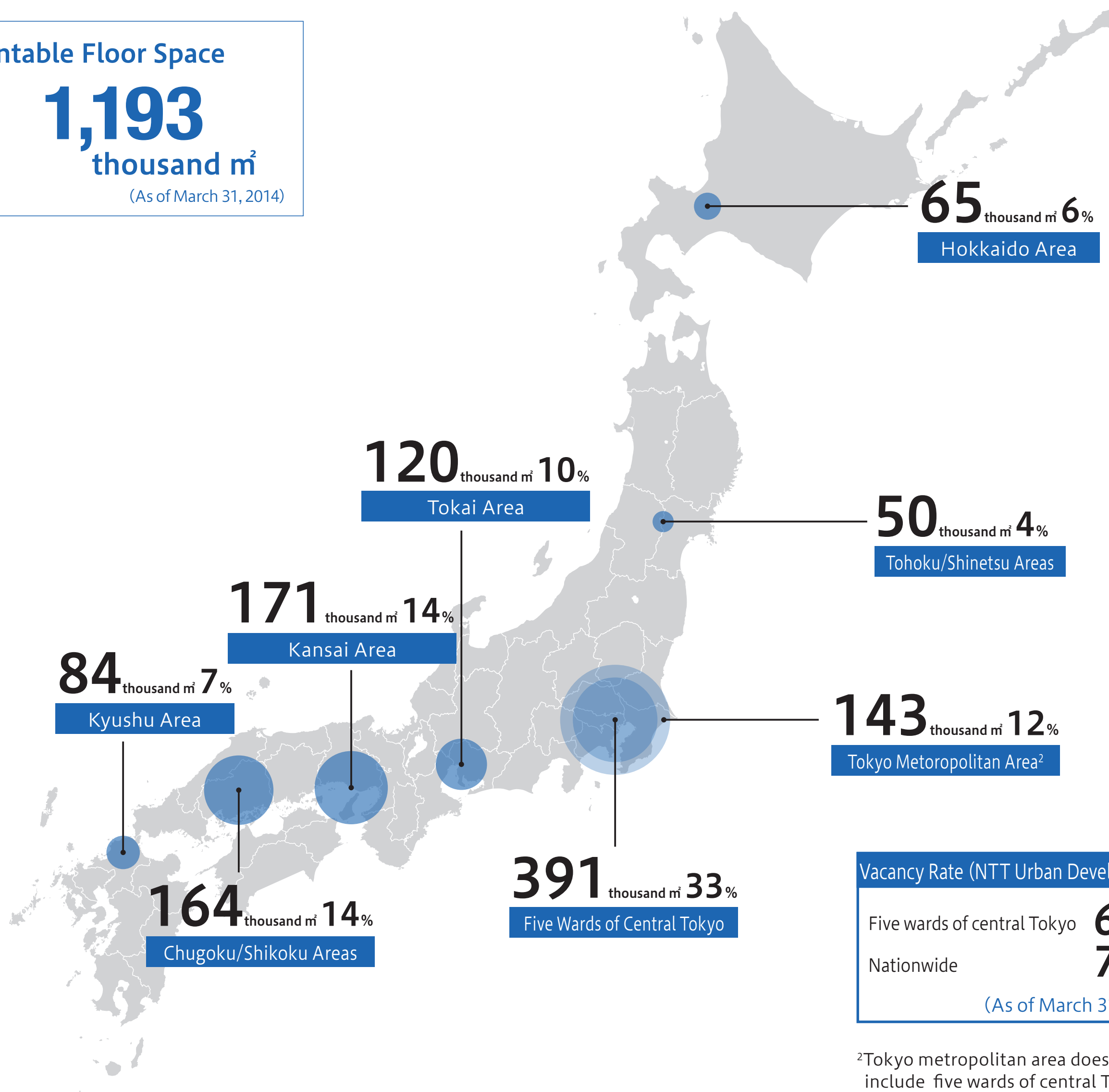


[1]NOI (before the effects of property sales, etc.): ¥56.1 billion
Property rent income (¥96.5 billion) - Property rental costs (¥63.6 billion) + Depreciation expenses (including long-term prepaid expenses) (¥23.2 billion)
・Gain on sales of properties: ¥4.6 billion

Rentable Floor Space

1,193 thousand m²

(As of March 31, 2014)



Vacancy Rate (NTT Urban Development)	
Five wards of central Tokyo	6.4%
Nationwide	7.4%

(As of March 31, 2014)

[2]Tokyo metropolitan area does not include five wards of central Tokyo

Principal Portfolio Properties (in the Five Wards of Central Tokyo)

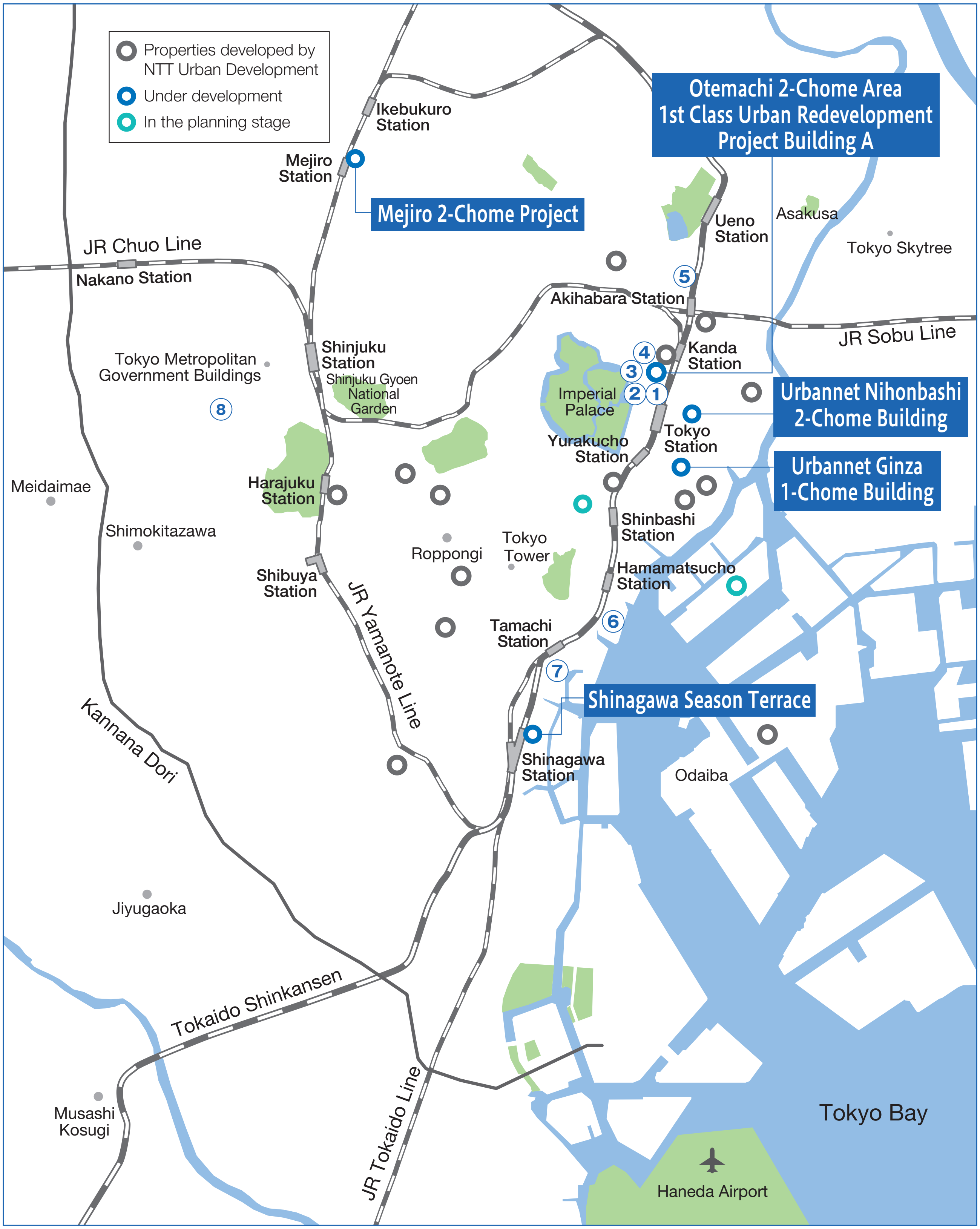



Photo by Kokyu Miwa Architectural Photography

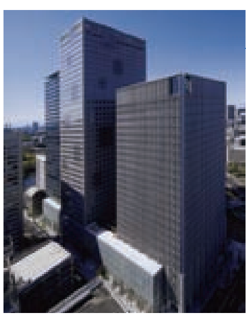
1. Urbannet Otemachi Building

Location: Chiyoda-ku, Tokyo
Footprint: 9,361 m²
Floor space: 117,618 m²
Size: 22 floors above ground, 5 below
Completed: June 1990


Photo by Nacasa & Partners

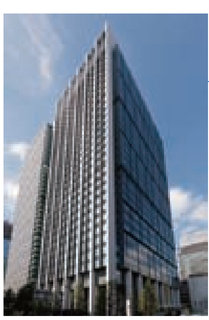
2. Otemachi First Square

Location: Chiyoda-ku, Tokyo
Footprint: 6,236 m² (portion owned by NTT Urban Development)
Floor space: 54,284 m² (portion owned by NTT Urban Development)
Size: 23 floors above ground, 5 below (West Tower); 23 floors above ground, 4 below (East Tower)
Completed: February 1992 (West Tower); May 1997 (East Tower)



3. JA Building, Keidanren Kaikan

Location: Chiyoda-ku, Tokyo
Footprint: 1,506 m² (portion owned by NTT Urban Development; total of JA Building and Keidanren Kaikan)
Floor space: 26,517 m² (portion owned by NTT Urban Development; total of JA Building and Keidanren Kaikan)
Size: 37 floors above ground, 3 below (JA Building); 23 floors above ground, 4 below (Keidanren Kaikan)
Completed: April 2009



4. Otemachi Financial City North Tower

Location: Chiyoda-ku, Tokyo
Footprint: About 14,100 m² (North Tower and South Tower in total)
Floor space: About 110,000 m² (North Tower in total)
Size: 31 floors above ground, 4 below
Completed: October 2012

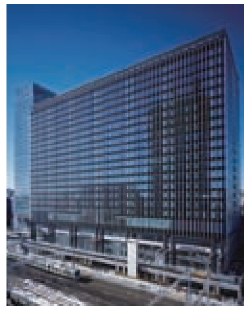


Photo by Forward Stroke

5. Akihabara UDX

Location: Chiyoda-ku, Tokyo
Footprint: 11,548 m²
Floor space: 155,629 m²
Size: 22 floors above ground, 3 below
Completed: January 2006

Note: Akihabara UDX is owned by the UDX Tokutei Mokuteki Kaisha, a special purpose company (SPC) that is a consolidated subsidiary of NTT Urban Development.


Photo by Kaneaki Monma

6. Seavans N Building

Location: Minato-ku, Tokyo
Footprint: 13,144 m²
Floor space: 78,488 m²
Size: 24 floors above ground, 2 below
Completed: January 1991


Photo by Kokyu Miwa Architectural Photography

7. Granpark Tower

Location: Minato-ku, Tokyo
Footprint: 12,092 m² (portion owned by NTT Urban depelopment; tower and residences in total)
Floor space: 117,659 m² (portion owned by NTT Urban depelopment; tower and residences in total)
Size: 34 floors above ground, 4 below
Completed: October 1996

8. Tokyo Opera City

Location: Shinjuku-ku, Tokyo
Footprint: 3,831 m² (portion owned by NTT Urban Development)
Floor space: 33,086 m² (portion owned by NTT Urban Development)
Size: 54 floors above ground, 4 below
Completed: July 1996

Corporate Social Responsibility (CSR) Activities

NTT Urban Development Group engages in earnest dialogue with a broad range of partners in the course of giving shape to urban areas, so as to ensure lifestyle-enhancing city planning.

Maximizing customer satisfaction

In the leasing business, we develop and operate office buildings characterized by high quality and high reliability, in excellent locations of major domestic urban centers. We also make use of the optimum telecommunications infrastructure and building facilities for each building, providing and sustaining an environment of convenience, comfort, and safety. Building management operations are conducted by formulating systems to respond to the many diverse needs of our customers, and we strive to constantly increase customer satisfaction in support of our customers' enterprises.

Furthermore, with respect to commercial facility development and operation, we engage in working together with local residents, customers and tenants to make our commercial facilities appealing and vibrant places that will remain in the minds of visitors, based upon our commercial property business vision: Creating New Facilities for Life—Personal and Unique.

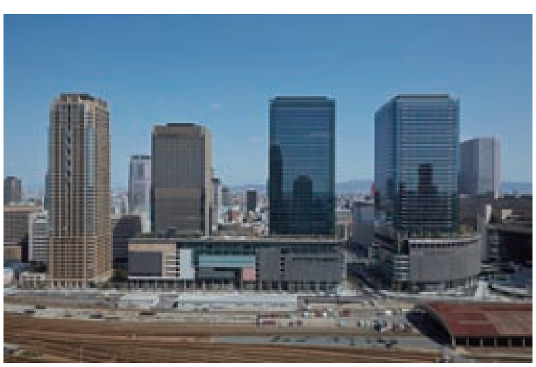
In the residential property sales business, we seek to create quality residences that remain attractive to families for generations to come, with a harmonious balance of innovation and peace of mind creating high asset value over the long term. This is the WELLITH brand. Aiming to coordinate with the NTT Group, we are engaged in fully enforcing a customer-centered orientation by actively implementing energy conservation and crime prevention measures in the development of high-quality residences.

For the safety and peace of mind of all

The NTT Urban Development Group provides comfortable lifestyles by developing high-quality buildings and services where everyone can spend time in security and safety. Based upon our safety and quality policy, we are committed to safety now and in the future, and also in times of emergency, working to maintain and improve the quality of all processes including planning, design, construction, and management. Along with features such as high durability, high reliability, and high functionality, we take an inclusive perspective with initiatives to provide emergency measures, crime prevention and security measures, sustainability, universal design and more.

Harmonizing with the landscape and regional needs

The NTT Urban Development Group is engaged in the development of office buildings, commercial complexes, hotels, condominiums, and other projects, and we make every effort to ensure visual congruence of building facades with the surrounding landscape, and plans that reflect the many diverse needs of the region and vicinity. Through earnest communication with our many stakeholders, we aim to learn as much as we can about the unique features of the location, such as history and identity associated with the location, in order to utilize these in our design.



Grand Front Osaka

Urbannet Kanda Building

Responding to the needs of society in light of the continuing low birth rate and aging population

According to population statistics announced by the Ministry of Internal Affairs and Communications on September 15, 2013 (Respect for the Aged Day), those 65 years old or older reached one-fourth of the total Japanese population for the first time at 31.86 million people. As the Japanese version of the baby boom generation (*dankai sedai*, born 1947–1949) joins the ranks of the aged, senior residences will shift from "something the family selects" to "something the individual selects." With this shift, there will be a greater emphasis on ensuring elderly residents can live with peace of mind and in comfort, and that family members are also assured of their well-being.

WELLITH Olive Shinkoiwa (Katsushika-ku, Tokyo) is a residence for elderly people with services. Each room is barrier-free and is equipped with an emergency alarm system and a "life-rhythm sensor" that is activated automatically when motion is not detected for a preset period of time. A broad range of amenities providing living support for residents include concierge services, assisted living, a monitoring and emergency response system, and health care management. A home visit care office is also attached to the facility and standing by whenever care might be needed.

Placing importance on functioning as a community is the highlight feature of this property. The dining lounge, theater room, and communal baths are all provided to serve as places to mingle and interact, and a variety of events and group activities are held to support this approach. Moreover, residents are provided access to local seniors group events, and onsite seminars open to people living in the vicinity are planned to cultivate closer ties to the wider community. NTT Urban Development also conducts individual interviews with all our residents to hear their views and make best use of them in our management.

For the future, we are contemplating creating an environment where three to four generations can live and watch over each other in a single community, with assisted-living senior housing, care facilities, and owned condominiums all in one place. These initiatives will be expanded and will advance cooperation within the NTT Group.


WELLITH Olive Shinkoiwa

As a responsible integrated real estate services company, the NTT Urban Development Group advances urban planning that places high priority on the environment, in cooperation with our diverse stakeholders, including business partners and tenants.

Measures to mitigate climate change

Our NTT Urban Development Group has declared the control of greenhouse gases through resource and energy conservation activities as the theme of environmental conservation activities. In building design, we take a comprehensive approach to improving energy conservation efficiency, factoring in the structure, materials used, air conditioning, illumination, and regulating systems. In building maintenance as well, we promote energy conservation by raising awareness in cooperation with our tenants. Additionally, we engage in harnessing natural energy through installation of rooftop photovoltaic generation systems and green electricity certification activities.

One representative example of the Group's initiatives worthy of mention is the Shinagawa Season Terrace (Minato-ku, Tokyo), which was recognized for its far-reaching environmental awareness including high energy-conservation efficiency, receiving the highest ranking Platinum-level DBJ Green Building Certification from the Development Bank of Japan.

Waste reduction and resource recycling

In accordance with NTT Group's Green Design Guideline for Buildings, we strive to prolong the lifespan of our buildings. In the residential property sales business, this is achieved by responding to changes in family structure and making maintenance easier so as to prolong residency. Under the standard "deterioration countermeasures grade 3," the highest specified level in the Housing Performance Indication System (under normal use conditions), a structure can be used for 75–90 years before requiring large-scale renovation.

Moreover, in the course of our business activities, the Group makes every effort to recycle by-product materials generated during construction. We also continuously pursue the recycling of municipal waste generated in the buildings and commercial facilities we own and manage.

Biodiversity conservation

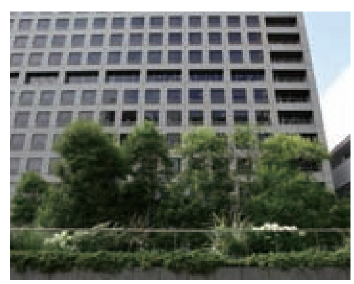
At our office buildings and commercial facilities, we endeavor to secure green spaces for biodiversity conservation, making use of areas such as unoccupied land and rooftops. Moreover, in residences as well, we conduct landscaping with a view to harmonizing buildings and nature, ensuring that occupants can feel the presence and proximity of nature and the ecosystem.

Creating green spaces in urban areas

NTT Urban Development Group seizes a wide variety of opportunities to create abundant green spaces in urban areas, enabling many people to make use of them for relaxation and recreation.

Granpark Tower (Minato-ku, Tokyo) near JR Tamachi Station is a building complex that combines office, residence and conference facilities. Roughly 60% of the site is made available to the public as unoccupied land, and has been continuously maintained to become a lush green space since construction was completed in 1996. In 2013, this complex, which is the site of a wide variety of events such as summer festivals and serves as a venue for regional community interaction, was designated an "urban oasis" by the Organization for Landscape and Urban Green Infrastructure (OLUGI).

Moreover, the Shinagawa Season Terrace (Minatoku, Tokyo) in front of Shinagawa Station is a complex incorporating offices and commercial space, and it is now in the final stages of construction with completion slated for February 2015. In this project, we incorporated a spacious 3.5 hectare green space by making effective use of the upper portion of the Tokyo Metropolitan Government's Bureau of Sewerage Shibaura Water Reclamation Center. In the spacious green space, a cherry tree promenade and deciduous trees providing fall colors are combined to bring enjoyment to visitors throughout the four seasons. Tree varieties are selected based upon the natural features of this region, and as a living ecosystem with insects and birds, it serves to link the ecosystems of the seaside and inland habitats. This green space was certified by OLUGI as a development project contributing to society and the environment through green space conservation and creation (Urban Development Edition SEGES: Social and Environmental Green Evaluation System).



Granpark Tower

The engine that drives the growth of NTT Urban Development Group and increases its corporate value is the activity of each of our employees. With this in mind, the Company strives to create a workplace characterized by vibrancy and respect for the individual while encouraging its employees to engage in activities aimed at vivifying the local community. The Company believes these experiences shape good corporate citizens.

Contribution to the community

As a good corporate citizen, NTT Urban Development Group engages in activities contributing to society and leading to city planning that enriches every region where it operates. Based upon our social contribution policy, we are expanding our activities and harmonizing them with our businesses, by cooperating with

MOTTAINAI (why waste it?) Flea Market

communities and promoting employee development.

In every region where we have offices, we actively join in ongoing environmental beautification campaigns. Our employees engage in cleaning activities, not only sweeping and cleaning the areas around our offices, but also participating in regional clean-up events held by the cities of Sapporo, Osaka, Hiroshima, and Fukuoka. Moreover, the Company set up a system to support the volunteer activities of our employees, such as disaster relief and support for stricken areas, individual donations to respectable non-profit organizations, and other activities that contribute to local communities.

We also utilize our buildings as venues for regional community interaction, by holding and supporting events at our various commercial buildings.

Creating a workplace based on respect for the individual

At NTT Urban Development, we actively support employees who aim to enhance their skills. In addition to a certification system encouraging staff to acquire the skills related to our business, we also offer classes in language, legal statutes and regulations, and finance, through both correspondence courses and online courses.

Moreover, at the organizational level, we ensure that our employees are able to maintain physical and mental health by providing an individual health management system, aside from work safety and hygiene, which contribute to an optimum work–life balance for each of our employees.

In addition, we are promoting diversity in management in order to create a workplace that facilitates active participation by a diverse workforce. One example of this is the NTT Group Initiative: Double the Percentage of Female Managers.

Communication with our investors

■ Disclosure Policy

To make fair and impartial information disclosure and to help investors make appropriate decisions about their investments in the Group, we have a disclosure policy that clearly sets forth our position on disclosing Company information.

■ Posting of IR Information on Our Website

In addition to operating results, timely disclosure reports, annual securities reports, and other information, we make available on our website presentation materials used at briefings and an IR event calendar. We also promptly publish English versions of various materials and IR news to provide our overseas investors with timely information.

■ Regular Briefings for Analysts and Investors

We hold briefings for analysts and investors to announce interim and year-end operating results and telephone conferences for first and third quarter results. At the briefings, our management team communicates directly with analysts and institutional investors. We also take part in conferences as part of our efforts to help more investors understand our company.

■ Information Sessions for Individual Investors

To help individual investors better understand our company, we participate in individual investor briefings. In the year ended March 31, 2014, we took part in the Company Briefing for Individual Investors held in Tokyo and Osaka, as well as new online Company briefings.


Briefing for individual investors

■ Continued Inclusion in FTSE4Good SRI Index

In recognition of our environmental and social initiatives, since 2008 we have been consistently selected for the FTSE4Good Index, a leading index for socially responsible investment in publicly traded companies around the world.

FTSE4Good

CSR Webpage http://www.nttud.co.jp/csr/
Details of CSR activities are posted.

Directors and Corporate Auditors (As of July 1, 2014)

From the left

Satoshi Shinoda
Executive Vice President
Corporate Strategy and Planning

Sadao Maki
President and Chief Executive Officer

Yoshiharu Nishimura
Senior Executive Vice President

Kazuhiro Hasegawa
Executive Vice President
Office Building Buisiness, Regional Business (Hokkaido and Tokai)

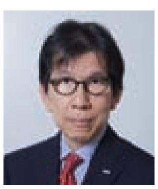
Directors

Shiro Nakahara
Senior Vice President, Procurement Office, Corporate Strategy and Planning

Masayuki Kusumoto
Senior Vice President, Commercial Properties Development, Global Business, Regional Business (Chugoku and Kyushu)

Akiyoshi Kitamura
Senior Vice President, Residential Development

Kanya Shiokawa
Senior Vice President, Kansai Regional Business (General Manager of Kansai Branch)



Shigehito Katsuki
Senior Vice President, Accounting and Finance

Yoshihito Kichijo
Senior Vice President, Real Estate Investment, General Affairs

Masaki Mitsumura
Corporate Adviser

Akira Komatsu[1, 3]
Independent Officer

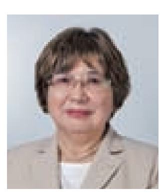
Kou Ikeda[1]

Corporate Auditors (full-time)

Mitsuhiro Watanabe[2]

Hiroshi Ikegawa[2, 3]
Independent Officer

Corporate Auditors



Hisako Kato[2, 3]
Independent Officer

Shinji Kume[2]

[1]Of the Directors, Mr. Akira Komatsu and Mr. Kou Ikeda are Outside Directors.
[2]Of the Corporate Auditors, Mr. Mitsuhiro Watanabe, Mr. Hiroshi Ikegawa, Ms. Hisako Kato and Mr. Shinji Kume are Outside Auditors.
[3]The Company has designated Outside Director Mr. Akira Komatsu, and Outside Corporate Auditors Mr. Hiroshi Ikegawa and Ms. Hisako Kato as independent officers as stipulated by Tokyo Stock Exchange, Inc., to which it has submitted a notification.

Corporate Governance

Basic Policy on Corporate Governance

NTT Urban Development recognizes strong corporate governance as a fundamental management issue and an essential element in maximizing corporate value. In order to deepen the trust-based relationships it maintains with stakeholders, including shareholders and other investors, as well as customers, business partners, and local communities, its basic stance is to raise management efficiency by operating with full management transparency and accountability and giving its attention to establishing solid risk management, corporate ethics and compliance.

NTT Urban Development employs a system of corporate auditors. As stipulated in Japan's Companies Act, the Company has established a governance structure comprising the General Ordinary Meeting of Shareholders, the Board of Directors, the Board of Corporate Auditors, and the independent accounting auditor. The Company has also established the Management Council, which discusses with the President matters of management importance within his decision-making capacity with the goal of ensuring swift decision making related to the execution of duties. In addition, full-time corporate auditors attend Management Council meetings to further enhance transparency in the decision-making process.

Moreover, for proposed investments, the interdisciplinary members of the Investment Deliberation Council conduct risk management by prudently considering investment and other risks prior to Management Council meetings.

As of March 31, 2014, the Board of Directors comprised 14 directors (two members were outside directors; all members were male). The Board decides on important matters, sets basic policies regarding the Company's management and business execution, and supervises the execution of duties by directors. In principle, the Board of Directors convenes regularly once a month with additional meetings as necessary to ensure swift decision making. In the year ended March 31, 2014, the Board of Directors meeting was held 21 times.

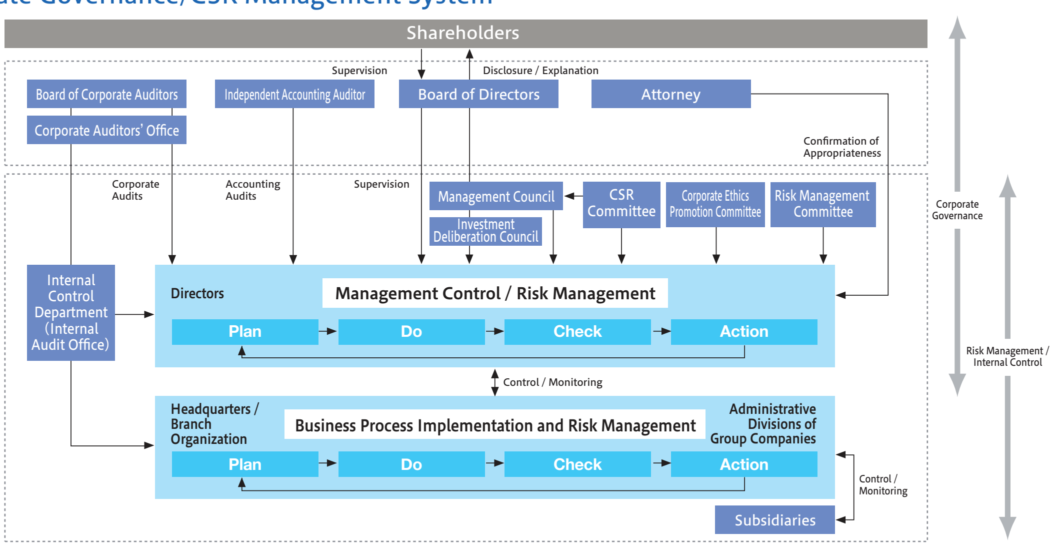
In the year ended March 31, 2014, the Board of Corporate Auditors had four members (all members were outside corporate auditors and were male). In principle, the Board of Corporate Auditors meets regularly once a month and holds additional meetings as necessary, and met 23 times in the year ended March 31, 2014. Corporate auditors conduct their duties according to the audit plan established by the Board of Corporate Auditors. The corporate auditors attend Board of Directors meetings and other important meetings, evaluate the directors' execution of their duties, conduct management audits, and audit the status of the Company's assets.

As of June 25, 2014, the Board of Directors comprised 13 directors (two members were outside directors; all members were male), and the Board of Corporate Auditors comprised four members (all were outside corporate auditors; three members were male and one member was female).

Revision of the Internal Control System

The President is in charge of business execution involving the creation and upgrade of an internal control system, under the supervision of the Board of Directors and the audits of the Board of Corporate Auditors. In accordance with the Companies Act, which came into effect on May 1, 2006, the Board of Directors passed a resolution on May 11, 2006, in favor of an internal control system basic policy. Since then, the Company has improved the basic policy by flexibly responding to changing circumstances through revisions to enhance the scope and content, clarification of the Company's policy on antisocial forces, compliance with the Financial Instruments and Exchange Law, appropriate measures

◆ Corporate Governance/CSR Management System



to deal with natural disasters, and proper risk management. In March 2013, with further clarification of risk identification and assessment processes and the formation of a basic policy on risk management, the Company established the Risk Management Committee.

NTT Urban Development has an Internal Audit Office that is independent of other operations and that objectively examines and evaluates the performance of business in each organization at the head office, branches, and Group companies. To verify the effectiveness of internal control and make improvements on an ongoing basis, the results of internal audits are submitted to the Management Council twice a year, and reports on the internal control system are presented to the Management Council and the Board of Directors once a year.

Revision of the Risk Management System

NTT Urban Development believes that the risk management system is an essential part of its internal control system and that, by understanding internal and external risks and implementing appropriate initiatives, it can carry out more appropriate and bolder management decisions in order to maintain and increase corporate value.

By setting up a risk management committee, appropriately implementing risk management rules and regulations, and appropriately managing a variety of risks arising in its business operations, the Company secures business continuity and stable growth in business.

In order to improve risk management when the Company approves an investment in a project for example, it seeks to identify a broad range of potential risks associated with changes in the environment and the status of new business initiatives. Such risks include rent decreases, construction delays, neighborhood backlash, ground pollution or other environmental risks, and overseas risks.

The Company has a business continuity plan (BCP) in preparation for disasters such as a large-scale earthquake. The Group established the Disaster Risk Management Promotion Office in 2008, and executes measures such as upgrading organizational systems, creating guidelines and manuals, implementing anti-earthquake and anti-flooding measures for buildings, and conducting disaster drills.

The Company's basic stance on eliminating antisocial forces and how it is implemented is stated in its internal control basic policy. The General Affairs Department is tasked with dealing with unreasonable demands from antisocial forces on behalf of the entire Company.

The Company cooperates closely with the police and other law-enforcement authorities for smooth information sharing during non-emergency times and to respond appropriately when an emergency occurs.

The Company works to disseminate its basic stance and measures for the above issues within the Company through an internal framework that includes Corporate Ethics and Compliance Regulations, Risk Management Rules and Regulations, and the Crisis Management Manual.

Corporate Ethics and Compliance

To maintain corporate ethics and ensure legal compliance, the Company's Corporate Ethics Promotion Committee discusses its basic policy on the matter. The committee provides corporate ethics and compliance training to employees, informs all employees that they can use a corporate ethics and compliance helpline as their advice desk, and works to ensure that corporate ethics and compliance measures will be implemented appropriately. By continuing to make such efforts, the Company strives to establish corporate ethics and legal compliance.

Matters Relating to Outside Directors and Outside Corporate Auditors

The Company maintains two outside directors and four outside corporate auditors to gain a wide range of management perspectives. The Company has appointed an executive from Nippon Telegraph and Telephone Corporation (NTT) as an outside director and another as an outside corporate auditor. NTT maintains a shareholding ratio of 67.3% in the Company. However, the Company requested these appointments and conducts its management decisions independently. Moreover, the Company uses independent officer guidelines that are based on Tokyo Stock Exchange Group, Inc. rules under which an independent officer cannot be a former employee of the parent company or related companies, a major stockholder, or a former employee of a major customer. These are among the criteria the Company uses to ensure that its independent officers have no conflict of interest with shareholders in light of criteria for judging independence adopted by the Tokyo Stock Exchange Group, Inc.

Outside directors attend meetings of the Board of Directors and provide appropriate advice from a perspective that is independent of business execution. Such discussion enhances supervision.

Outside corporate auditors attend meetings of the Board of Corporate Auditors, which then makes decisions regarding audit policies, plans and methods and other relevant issues. The Board of Corporate Auditors also receives reports as needed on the status of audits of each outside corporate auditor. According to the audit plan established by the Board of Corporate Auditors, the outside corporate auditors attend Board of Directors meetings and other important meetings, evaluate directors' execution of duties, conduct management audits, and audit the status of the Company's assets. All outside corporate auditors audit the execution of management duties from an independent perspective.

In executing internal control system audits, outside corporate auditors, in cooperation with relevant departments (as described in the basic policy on the internal control system), have access to reports and commentaries, as necessary, from these departments, in line with the basic policy of the internal control system. Through such means, outside corporate auditors audit the implementation of internal control measures. In addition, outside directors supervise the execution of duties of internal control system departments through means such as receiving reports on the status of the internal control system at the meetings of the Board of Directors.

Attendance of Outside Officers at Board of Directors Meetings and Board of Corporate Auditors Meetings in the Year Ended March 31, 2014

	Board of Directors		Board of Corporate Auditors	
	Attendance	Attendance Rate	Attendance	Attendance Rate
Outside Director Akira Komatsu	15 of 15	100.0%	—	—
Outside Director Toyosei Sugimura	21 of 21	100.0%	—	—
Outside Corporate Auditor Akira Sakashita	21 of 21	100.0%	23 of 23	100.0%
Outside Corporate Auditor Akio Enomoto	21 of 21	100.0%	23 of 23	100.0%
Outside Corporate Auditor Hiroshi Ikegawa	21 of 21	100.0%	23 of 23	100.0%
Outside Corporate Auditor Takashi Hiroi	14 of 15	93.3%	14 of 15	93.3%

Note: Director Toyosei Sugimura, full-time Corporate Auditors Akira Sakashita and Akio Enomoto, and Corporate Auditor Takashi Hiroi resigned on June 24, 2014.

Compensation

The Board of Directors determines directors' remunerations.

Remuneration for directors (excluding outside directors) comprises a monthly salary and bonus payments. Monthly salaries are determined based on each director's role and level of responsibility. Bonus payments are largely tied to the Company's business performance for the latest year. In addition, a minimum specified amount of each director's monthly salary is utilized to acquire Company stock, all of which is administered under a director's stock accumulation plan during the director's term of service. The plan is designed to reflect the Company's medium- and long-term performance in directors' remunerations.

Outside directors receive a monthly salary that is not linked to corporate performance, to ensure a high level of independence.

Corporate auditors receive a monthly salary that is not linked to corporate performance, to ensure a high level of independence.

Compensation Paid to Directors and Corporate Auditors in the Year Ended March 31, 2014

Classification	Total Compensation (Millions of yen)	Compensation by Type (Millions of yen)		Number of Persons
		Base Salary	Bonus	
Directors (excluding outside directors)	316	274	42	14
Corporate Auditors (excluding outside corporate auditors)	—	—	—	—
Outside Directors and Corporate Auditors	64	64	—	4

Notes: 1. By a resolution approved at the Company's 22nd General Ordinary Meeting of Shareholders held on June 21, 2007, the maximum annual allowances for compensation of directors and corporate auditors were set at ¥480 million and ¥80 million, respectively.
2. Included in the above are two directors who retired as of the conclusion of the 28th General Ordinary Meeting of Shareholders held on June 18, 2013.
3. In addition to the above, ¥21 million in employee compensation was paid to six employees who serve concurrently as directors.

Message from an Outside Director

Akira Komatsu
Outside Director

The capabilities demanded of today's enterprises are profitability and the ability to contribute to society.

In the globalized, competitive marketplace, a forward-looking management strategy is indispensable, but this strategy can only be justified when proven to meet the demands of society for social responsibility. In order to ensure that the Company continues to take pride in the trust and support from society, irrespective of prevailing conditions, I will take it upon myself to execute my duties, ever mindful of my mission as an outside director.

Message from an Outside Corporate Auditor

Mitsuhiro Watanabe
Outside Corporate Auditor (full-time)

Having an independent perspective, the Company's outside corporate auditors have received a mandate from shareholders to promote sound corporate development and boost corporate value, whilst auditing the execution of duties by directors. We believe that building a refined corporate structure that fulfills social responsibilities constitutes the basic philosophy of auditing. Furthermore, amid expectations of yet further reinforcement of corporate governance, we will continue to discharge our duties by scrutinizing the structuring and operational conditions of our internal governance systems going forward, while at the same time further intensifying communication with accounting auditors and others and engaging in a frank exchange of views with management to enable it to make accurate decisions.

Selected Financial Data

For the years ended and as of March 31

	2006	2007	2008
For the year:			
Operating revenue	¥110,833	¥128,215	¥138,206
Operating income	21,716	25,091	28,718
Net income	11,401	12,995	14,758
Net cash provided by (used in) operating activities	22,243	(5,076)	5,700
Net cash provided by (used in) investing activities	(45,157)	(32,995)	(77,893)
Net cash provided by (used in) financing activities	32,214	20,823	85,038
Free cash flow	(22,913)	(38,072)	(72,192)
Investment	54,622	48,595	93,367
Depreciation and amortization	23,828	23,657	23,246
EBITDA	45,544	48,748	51,964
At year-end:			
Total assets	543,792	581,848	900,325
Net assets	—	125,169	177,969
Net worth	115,696	125,091	136,395
Interest-bearing debt	268,942	293,069	451,849
Financial indicators:			
Net operating income (NOI)*	47,237	50,504	52,748
Return on assets (ROA) (%)	4.3	4.7	4.2
Return on equity (ROE) (%)	10.1	10.8	11.3
Equity ratio (%)	21.3	21.5	15.1
Dividend on equity (DOE) (%)	2.9	2.7	3.0
Dividend payout ratio (%)	29.1	25.3	26.8
Net debt-to-equity (D/E) ratio (times)	2.16	2.32	2.44
Interest coverage ratio (times)	6.9	—	1.2
Net interest-bearing debt/EBITDA ratio (times)	5.5	6.0	8.4

Per share data:			
Net assets	—	¥380.08	¥414.43
Net income	¥34.40	39.49	44.84
Dividends	10	10	12

Notes: 1. The Company has applied “Accounting Standard for Presentation of Net Assets in the Balance Sheet” since the year ended March 31, 2007.
2. NOI is shown on a consolidated basis, since the year ended March 31, 2007.
3. In calculating investment for the years ended March 31, 2008 and 2009, purchases of investment securities include the amount necessary for the purchase of additional preferred equity securities of UDX Tokutei Mokuteki Kaisha.
4. Per share data is calculated based on the number of issued and outstanding shares after a five-for-one stock split executed on January 1, 2007, and a 100-for-one stock split executed on October 1, 2013, which raised the total number of outstanding shares to 329,120,000 shares, and has been prepared based on figures adjusted to reflect the stock split.

(Millions of yen)

2009	2010	2011	2012	2013	**2014**
¥144,277	¥149,224	¥145,693	¥136,842	¥163,168	**¥189,186**
25,244	16,129	24,324	25,365	27,401	**30,458**
15,989	6,116	9,307	15,586	12,073	**11,343**
(12,091)	35,168	40,417	3,704	48,089	**51,870**
(57,397)	6,695	(28,257)	(23,033)	(39,885)	**(37,962)**
63,079	(30,028)	(14,641)	12,650	(6,660)	**(8,656)**
(69,488)	41,863	12,159	(19,329)	8,203	**13,907**
75,638	24,714	29,925	28,807	46,856	**62,778**
25,762	25,520	23,388	24,765	23,766	**24,566**
51,006	41,649	47,713	50,130	51,168	**55,025**
936,650	916,725	910,492	928,537	941,050	**985,507**
183,593	185,537	190,783	203,727	213,835	**228,591**
148,150	150,232	155,534	166,012	176,221	**185,616**
521,070	496,682	487,780	505,805	505,993	**507,253**
64,277	61,480	56,722	54,318	53,499	**51,489**
3.0	2.0	2.9	3.0	3.1	**3.4**
11.2	4.1	6.1	9.7	7.1	**6.3**
15.8	16.4	17.1	17.9	18.7	**18.8**
2.8	2.6	2.6	2.9	3.1	**2.9**
24.7	64.6	42.4	29.6	43.6	**46.4**
2.78	2.55	2.45	2.42	2.30	**2.14**
—	4.3	5.1	0.5	6.2	**7.3**
10.0	11.4	9.8	9.8	9.6	**8.9**
					(Yen)
¥450.14	¥456.47	¥472.58	¥504.41	¥535.43	**¥563.98**
48.58	18.58	28.28	47.36	36.68	**34.46**
12	12	12	14	16	**16**

Calculation of Financial Indicators:

- Investment = Capital expenditure + Purchases of investment securities (based on cash flow from investing activities)
- EBITDA = Operating income + Depreciation and amortization
- Net worth = Net assets – Stock acquisition rights – Minority interests in consolidated subsidiaries
- *Net operating income (NOI)= Property rent income – Property rental costs + Depreciation expenses (including long-term prepaid expenses), excluding the effects of property sales, etc.
- Return on assets = (Operating income + Equity in earnings of affiliates + Gain on amortization of negative goodwill) ÷ Average total assets
- Return on equity = Net income ÷ Average Shareholders' equity
- Dividend on equity = Dividends (annual) ÷ Average Shareholders' equity
- Dividend payout ratio = Dividends per share (annual) ÷ Net income per share
- Net interest-bearing debt = Interest-bearing debt –Cash and cash equivalents –Time deposits held for 3 months or longer
- Net D/E ratio = Net interest-bearing debt ÷ Net assets
- Interest coverage ratio = Net cash provided by (used in) operating activities ÷ Interest expense (based on cash flow from operating activities)
- Net interest-bearing debt/EBITDA ratio = Net interest-bearing debt ÷ EBITDA (Operating income + Depreciation and amortization)
- Net income per share = Net income ÷ Number of shares outstanding

Segment Information

For the years ended and as of March 31

(Millions of yen)

	2010	2011	2012	2013	2014
Operating revenue	149,224	145,693	136,842	163,168	**189,186**
Leasing	98,092	92,608	91,069	94,509	**96,595**
Residential property sales	41,643	41,725	28,484	54,939	**79,537**
Other	14,553	16,383	23,223	18,930	**18,532**
Eliminations	(5,064)	(5,022)	(5,934)	(5,209)	**(5,478)**
Operating income	16,129	24,324	25,365	27,401	**30,458**
Leasing	31,521	29,226	27,482	29,216	**27,189**
Residential property sales	(10,498)	533	1,374	2,914	**8,222**
Other	1,358	1,212	3,090	1,580	**1,729**
Eliminations/Corporate	(6,252)	(6,647)	(6,583)	(6,310)	**(6,682)**
Operating income margin (%)	10.8	16.7	18.5	16.8	**16.1**
Leasing (%)	32.1	31.6	30.2	30.9	**28.1**
Residential property sales (%)	(25.2)	1.3	4.8	5.3	**10.3**
Other (%)	9.3	7.4	13.3	8.3	**9.3**

Leasing Business

(Millions of yen)

	2010	2011	2012	2013	2014
Operating revenue	98,092	92,608	91,069	94,509	**96,595**
Office, Commercial	90,758	85,807	84,713	88,621	**90,833**
Residential, Other	7,333	6,800	6,356	5,887	**5,762**
Rentable floor space (Office, Commercial) (m^2)	1,138,997	1,149,628	1,168,526	1,199,215	**1,193,561**
Nationwide vacancy rate (%)	6.4	5.7	5.4	6.5	**7.4**
Five wards of central Tokyo (%)	6.5	3.6	2.0	4.0	**6.4**
Nationwide NOI*	61,480	56,722	54,318	53,499	**51,489**
Five wards of central Tokyo	33,445	31,305	29,907	29,121	**25,617**
Tokyo metropolitan area (excluding five wards of central Tokyo)	6,144	4,289	4,153	4,059	**3,940**
Other regions	21,891	21,128	20,257	20,318	**21,932**
Fair value of rental properties	—	1,180,817	1,155,467	1,159,902	**1,210,052**
Book value of rental properties	—	737,113	743,939	758,300	**805,911**

Residential Property Sales Business

(Millions of yen)

	2010	2011	2012	2013	2014
Operating revenue	41,643	41,725	28,484	54,939	**79,537**
Condominiums					
Operating revenue	30,677	31,627	22,392	47,372	**75,486**
Tokyo metropolitan area	15,959	22,948	16,330	27,979	**54,073**
Other regions	14,718	8,678	6,062	19,392	**21,413**
Units delivered (units)	843	717	458	1,052	**1,423**
Tokyo metropolitan area (units)	421	463	351	564	**876**
Other regions (units)	422	253	107	488	**547**
Completed in inventory (units)	267	91	99	207	**207**
Residential lots, etc.					
Operating revenue	9,040	7,785	4,099	6,618	**4,050**
Units/lots delivered (units/lots)	254	326	48	63	**136**
Completed in inventory (units/lots)	42	27	14	37	**33**
Other					
Operating revenue	1,925	2,312	1,993	948	—
Units/lots delivered (units/lots)	2	1	1	1	—

Notes: 1. Five wards of central Tokyo are Chiyoda-ku, Chuo-ku, Minato-ku, Shibuya-ku, and Shinjuku-ku.
2. Tokyo metropolitan area includes Tokyo, Kanagawa, Chiba, Saitama, Ibaraki, Gunma and Tochigi prefectures.
3. For units delivered and units completed in inventory on joint projects, the respective numbers correspond to the Company's share in such projects and are rounded down to the nearest unit.
4. "Other" includes the sale of condominiums (apartment buildings) and others.

Calculation of Financial Indicators

*Net operating income (NOI) = Property rent income – Property rental costs + Depreciation expenses (including long-term prepaid expenses), excluding the effects of property sales, etc.

1. Analysis of Operating Results

In the year ended March 31, 2014, the Japanese economy followed a moderate recovery track. The trend is expected to continue for the time being thanks to positive effects from government economy-boosting measures, which are likely to offset the weak consumer demand following brisk spending prior to the April 1 consumption tax hike. Weak demand is expected to linger but its effects on the overall economy are likely to wane. Meanwhile, downward risks exist due to the downtrend of overseas economies.

In the office leasing market, the vacancy rate showed signs of moderate recovery. On the other hand, market rents continued to weaken. In the condominium sales market, demand was strong backed by firm consumer appetite for buying condominium units amid low interest rates.

According to the official announcement on land prices as of January 1, 2014, average land prices continued to decline nationwide, but the falling trend shrank in terms of percentage in the year under review. In particular, the average land price in Japan's three major metropolitan areas turned higher, showing signs of recovery in the Japanese land market.

Under these circumstances, the Company and its subsidiaries (collectively referred to as the "Group") steadily engaged in business operations in the year under review in a bid to attain sustainable growth. Specifically, the Group strived to enhance its profitability through revenue from the leasing of newly completed office buildings and an increase in the number of condominium units to be delivered to customers. The Group also stepped up efforts to expand its global operations, including acquiring an office building called "265 Strand" in London, United Kingdom, and establishing a U.S. subsidiary to participate in a redevelopment project in New York City involving the construction of office/commercial complex buildings.

As a consequence, operating revenue in the year ended March 31, 2014 amounted to ¥189,186 million (up ¥26,017 million, or 15.9% year on year), operating income was ¥30,458 million (up ¥3,057 million, or 11.2%), and ordinary income was ¥24,865 million (up ¥2,848 million, or 12.9%). The Group posted extraordinary income and loss in connection with sales of non-current assets, and paid corporate income tax. As a result, net income came to ¥11,343 million (down ¥730 million, or 6.1% year on year).

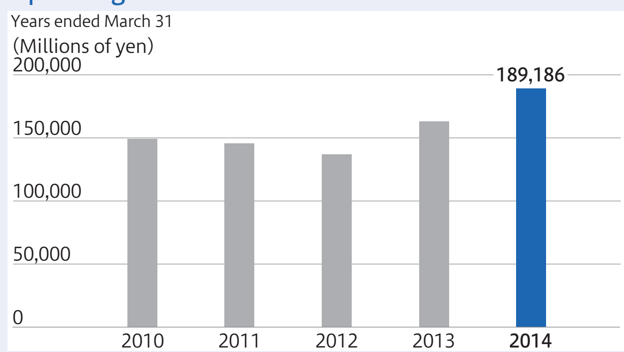
(1) Operating revenue ➡ GRAPH 1

Operating revenue amounted to ¥189,186 million (up ¥26,017 million, or 15.9% year on year). Operating cost totaled ¥136,519 million (up ¥19,355 million, or 16.5% year on year). As a result, operating income amounted to ¥30,458 million (up ¥3,057 million, or 11.2% year on year).

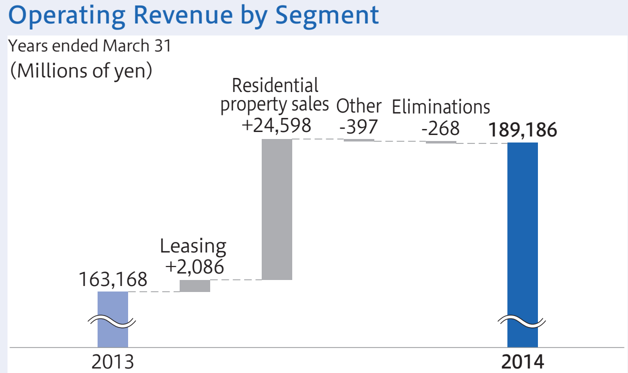
Earnings by segment are as follows.

GRAPH 1

Operating Revenue

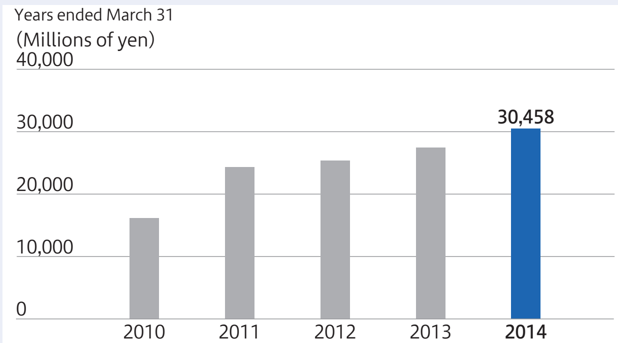


Operating Revenue by Segment

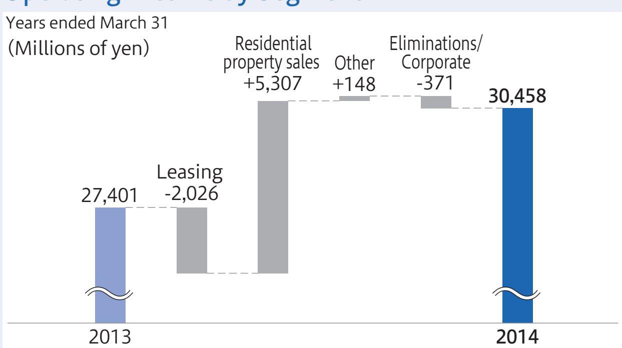


GRAPH 1

Operating Income



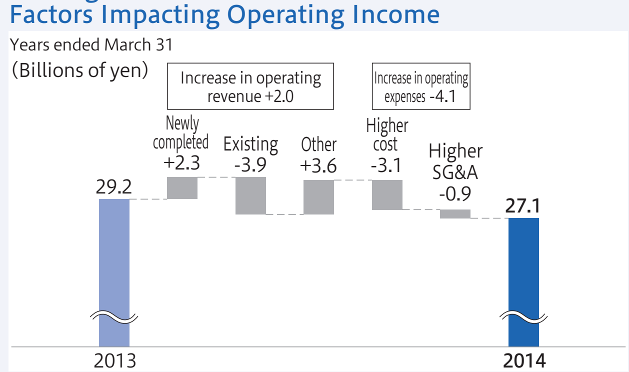
Operating Income by Segment



GRAPH 2

Leasing Business Operating Revenue

Leasing Business Factors Impacting Operating Income



Leasing Business ➡ GRAPH 2

In the year ended March 31, 2014, operating revenue from the leasing of properties newly completed increased ¥2,355 million from the previous year, while operating revenue from the leasing of existing properties decreased ¥3,915 million due to an increase in the vacancy rate. Operating revenue from other factors grew ¥3,646 million, due to the sale of four properties in Japan, such as Urbannet Irifune Building, in the first quarter of the year ended March 31, 2014, and the absence of revenue from sales of overseas properties in the first quarter of the previous year. As a result, operating revenue in the leasing business for the year ended March 31, 2014 totaled ¥96,595 million (up ¥2,086 million, or 2.2% year on year).

Operating expenses amounted to ¥69,406 million (up ¥4,113 million, or 6.3% year on year), reflecting an increase of ¥2,563 million in costs associated with newly completed properties, and a rise of ¥1,507 million in costs related to sales of domestic properties and other factors.

Consequently, operating income in the leasing business totaled ¥27,189 million (down ¥2,026 million, or 6.9% year on year).

Residential Property Sales Business ➡ GRAPH 3

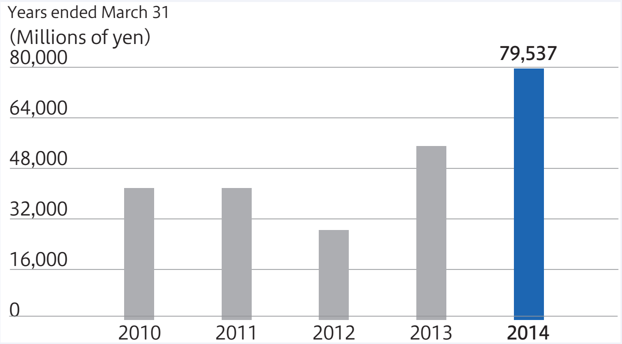
In the residential property sales business, revenue from sales of condominiums saw a year-on-year increase of ¥28,114 million in the year ended March 31, 2014, supported by an increase in the number of condominium units delivered to customers and a larger number of transactions involving high-priced condominiums. Sales of residential lots, etc., fell ¥3,516 million due to the absence of large-scale sales of land in the previous year. As a result, in the year ended March 31, 2014, operating revenue in the residential property sales business amounted to ¥79,537 million (up ¥24,598 million, or 44.8% year on year).

Operating expenses came to ¥71,315 million (up ¥19,290 million, or 37.1% year on year), reflecting the increased costs that accompany higher operating revenue.

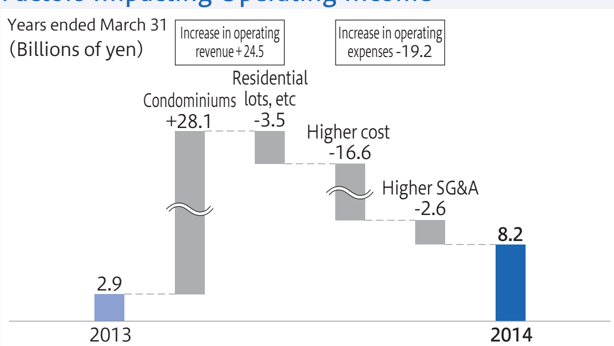
Consequently, operating income in the residential property sales business in the year ended March 31, 2014 stood at ¥8,222 million (up ¥5,307 million, or 182.1% year on year).

GRAPH ❸

Residential Property Sales Business Operating Revenue



Residential Property Sales Business Factors Impacting Operating Income



(2) Non-operating revenue, ordinary income

Non-operating revenue in the year ended March 31, 2014 decreased ¥174 million from the previous year to ¥2,326 million, mainly affected by a fall in amortization of negative goodwill. Non-operating expenses grew ¥33 million to ¥7,919 million, due to ¥470 million being charged in commissions for pre-maturity redemption of part of borrowings and a decrease of ¥588 million in interest expenses.

As a result, ordinary income came to ¥24,865 million (up ¥2,848 million, or 12.9% year on year).

(3) Income before income taxes and minority interests

Extraordinary income came to ¥8,576 million (up ¥8,186 million, or 2,101.1% year on year). The gain was attributed to ¥6,434 million in income stemming from sales of non-current assets as part of asset reorganization and ¥2,142 million in income resulting from sales of securities of subsidiaries and affiliates.

Extraordinary losses stood at ¥13,103 million (up ¥9,666 million, or 281.3% year on year). The rise was traced to ¥8,779 million in losses stemming from sales of non-current assets as part of asset reorganization and ¥2,848 million in impairment loss and other factors. Consequently, income before income taxes and minority interests amounted to ¥20,338 million (up ¥1,368 million, or 7.2% year on year).

(4) Net income

Income before income taxes and minority interests in the year ended March 31, 2014 advanced from the previous year, but net income dropped ¥730 million, or 6.1% year on year, to ¥11,343 million, weighed by an increase of ¥1,990 million in income taxes and a rise of ¥109 million in minority interests in income.

(5) Review by segment

Leasing Business

In the leasing business, rent income from existing properties and other income decreased in the year ended March 31, 2014. Meanwhile, the Group worked hard during the same year to secure profit, ensuring rent income from properties completed in fiscal 2012 and fiscal 2013. Among them are the Urbannet Kanda Building (Chiyoda-ku, Tokyo), Otemachi Financial City North Tower (Chiyoda-ku, Tokyo), and Grand Front Osaka (Osaka-shi, Osaka), all of them completed in fiscal 2012. In fiscal 2013, the Group sold Urbannet Irifune Building (Chuo-ku, Tokyo).

In the new building development business, various projects are under way, including Shinagawa Season Terrace (the upper-level section redevelopment project associated with the reconstruction of the Shibaura Water Reclamation Center) (Minato-ku, Tokyo). Also under way are the tentatively named Mejiro 2-chome Project (Toshima-ku, Tokyo), the Urbannet Nihonbashi 2-chome Building (Chuo-ku, Tokyo), and the Urbannet Ginza 1-chome Building (Chuo-ku, Tokyo).

In fiscal 2013, Resola South Terrace was completed in Fukuoka-shi, Fukuoka.

As a result of these activities, the leasing business recorded operating revenue of ¥96,595 million (up ¥2,086 million, or 2.2% year on year), operating expenses of ¥69,406 million (up ¥4,113 million, or 6.3%), and operating income of ¥27,189 million (down ¥2,026 million, or 6.9%).

NOI by Type of Property and Area

The Group emphasizes net operating income, or NOI[1], as an indicator for estimating the value of properties of the leasing business. The nationwide NOI for the year ended March 31, 2014 was ¥56,109 million (down ¥287 million, or 0.5% year on year). NOI in the Tokyo metropolitan area was ¥33,809 million (up ¥628 million, or 1.9% year on year), mainly aided by proceeds from property sales, which more than offset a decline in rent revenue from existing buildings., etc. In other regions including overseas, NOI amounted to ¥22,300 million (down ¥916 million, or 3.9% year on year), reflecting the effects of the sale of an office building in London, United Kingdom, in the previous year, which is more than the income from properties completed in the year, such as Grand Front Osaka (Osaka-shi, Osaka).

[1]**NOI (net operating income) = Property rental income – Property rental costs + Depreciation expenses (including prepaid long-term expenses)**

March 31	2013			**2014**		
Area	Total (Millions of yen)	Office/ Commercial	Residential/ Other	Total (Millions of yen)	Office/ Commercial	Residential/ Other
Five wards of central Tokyo	33,180	28,007	1,779	**33,809**	**28,901**	**1,535**
Tokyo metropolitan area (excluding five wards of central Tokyo)		3,393			**3,372**	
Other regions	23,216	20,858	2,358	**22,300**	**19,930**	**2,369**
Total	56,397	52,259	4,137	**56,109**	**52,204**	**3,905**

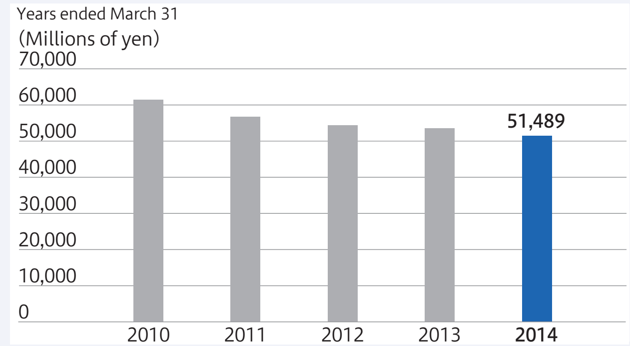
Notes: 1. Five wards of central Tokyo = Chiyoda-ku, Chuo-ku, Minato-ku, Shibuya-ku, and Shinjuku-ku
2. Tokyo metropolitan area (excluding five wards of central Tokyo) = Tokyo excluding the five central wards, and Kanagawa, Chiba, Saitama, Ibaraki, Gunma and Tochigi prefectures

NOI by Type of Property and Area, Excluding Effects from Property Sales, etc. ➡ GRAPH 4

March 31	2013			**2014**		
Area	Total (Millions of yen)	Office/ Commercial	Residential/ Other	Total (Millions of yen)	Office/ Commercial	Residential/ Other
Five wards of central Tokyo	33,180	28,007	1,779	**29,557**	**24,649**	**1,535**
Tokyo metropolitan area (excluding five wards of central Tokyo)		3,393			**3,372**	
Other regions	20,318	17,960	2,358	**21,932**	**19,611**	**2,320**
Total	53,499	49,361	4,137	**51,489**	**47,633**	**3,856**

GRAPH 4

NOI*



*NOI (net operating income) = Property rental income -Property rental costs + Depreciation expenses (including prepaid long-term expenses), excluding the effects of property sales, etc.

Consolidated Balance Sheet Amount and Fair Value for Rental Properties

(Millions of yen)

Consolidated balance sheet amount			Fair value at the end of fiscal 2013
Amount at the beginning of fiscal 2013	Change during fiscal 2013	Amount at the end of fiscal 2013	
758,300	47,611	805,911	1,210,052

Notes: 1. The consolidated balance sheet amount is the acquisition cost less the accumulated depreciation and the accumulated impairment loss.
2. The change during fiscal 2013 comprises various factors. The main positive factors include real estate acquisitions (¥83,412 million), while the main negative factors include the shift of properties from leasing to real estate for sale (¥5,078 million), sales of real estate (¥22,559 million) and impairment loss (¥2,838 million).
3. The fair value of major properties at the end of fiscal 2013 is based on appraised values determined by outside real estate appraisers. The fair value of other properties is calculated by the Company, which used indicators that it considered reflected market prices appropriately.

Residential Property Sales Business

The Group's residential property sales business during the year ended March 31, 2014 centered on condominium sales under the brand of WELLITH, aimed at creating quality residences with sustained high asset value over the long term. Properties delivered during the year included WELLITH Daikanyama Sarugakucho (Shibuya-ku, Tokyo); WELLITH Arisugawa (Minato-ku, Tokyo); WELLITH Inage (Chiba-shi, Chiba); and WELLITH Maiko (Kobe-shi, Hyogo). As a result, the number of condominium units the Group delivered during the year hit an all-time high of 1,423 units, including properties completed in the previous year or earlier. In the year ended March 31, 2014, sales of other properties also began, including WELLITH Tsukuba

Operating Revenue in the Residential Property Sales Business by Type and Area

March 31		2013		2014	
		Units/Lots	Operating revenue (Millions of yen)	**Units/Lots**	**Operating revenue (Millions of yen)**
Condominiums					
Units delivered	Tokyo metropolitan area	564	27,979	**876**	**54,073**
	Other regions	488	19,392	**547**	**21,413**
Completed in inventory		207	—	**207**	—
Residential lots, etc.					
Units/Lots delivered	Tokyo metropolitan area	6	4,195	**19**	**519**
	Other regions	57	2,423	**117**	**3,530**
Completed in inventory		37	—	**33**	—
Residential subtotal (Condominiums, Residential lots, etc.)					
Units/Lots delivered	Tokyo metropolitan area	570	32,175	**895**	**54,593**
	Other regions	545	21,815	**664**	**24,943**
Completed in inventory		244	—	**240**	—
Other					
Units/Lots delivered	Tokyo metropolitan area	1	948	—	—
	Other regions	—	—	—	—
Completed in inventory		—	—	—	—
Grand total (Operating revenue)		—	54,939	—	**79,537**

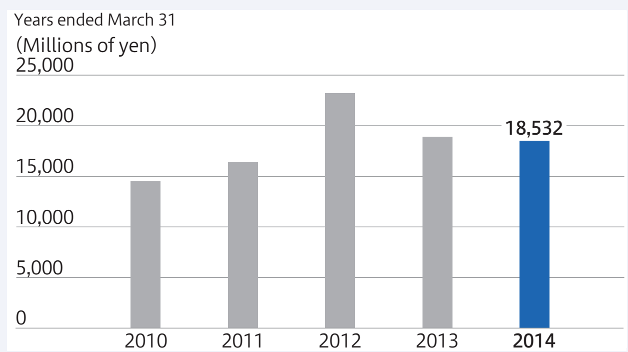
Notes: 1. For joint projects, the number of units, corresponding to the Company's share in the project, is rounded down to the nearest unit.
2. "Completed in inventories" figures are as of the end of each fiscal year. The condominiums completed in inventory for the year ended March 31, 2013 and the year ended March 31, 2014 include 30 units and 76 units, respectively, for which a contract has been completed but ownership has not yet been transferred. The residential lots completed in inventory for the year ended March 31, 2013 and the year ended March 31, 2014 include 5 lots and 11 lots, respectively, for which a contract has been completed but ownership has not yet been transferred.
3. Two lots (worth ¥5,276 million) of residential lots delivered for the year ended March 31, 2013 and two lots (worth ¥1,714 million) of residential lots delivered for the year ended March 31, 2014 were delivered through a sale of land.
4. "Other" in the year ended March 31, 2013 is the sale of condominiums (apartment buildings) and others.
5. Tokyo metropolitan area includes Tokyo, Kanagawa, Chiba, Saitama, Ibaraki, Gunma and Tochigi prefectures.

Kenkyugakuen Terrace (Tsukuba-shi, Ibaraki) and WELLITH Tsurumi Ryokuchi (Osaka-shi, Osaka). Residential lots and detached houses sold during the year included WELLITH Park Shingu Morinomiya (Kasuya-gun, Fukuoka).

Consequently, the Group's residential property sales business recorded operating revenue of ¥79,537 million (up ¥24,598 million, or 44.8% year on year), operating expenses of ¥71,315 million (up ¥19,290 million, or 37.1%), and operating income of ¥8,222 million (up ¥5,307 million, or 182.1%). The strong performance was attributed to an increase in the number of condominium units delivered and a rise in per-unit prices.

GRAPH 5

Other Business Operating Revenue



Other Business ➡ GRAPH 5

In the other business segment, revenue had yet to be generated in the year ended March 31, 2014 at the Otemachi Financial City North Tower, because the property, to which the percentage-of-completion method is applied, was completed in the previous year. Meanwhile, revenue from construction contracts outsourced to consolidated subsidiaries increased in the year ended March 31, 2014. As a result, operating revenue in the segment came to ¥18,532 million for the year (down ¥397 million, or 2.1% year on year), while operating expenses totaled ¥16,802 million (down ¥546 million, or 3.2%). Operating income amounted to ¥1,729 million (up ¥148 million, or 9.4% year on year).

2. Analysis of Financial Position

(1) Consolidated balance sheets

● Assets ➡ GRAPH 6

Total assets as of March 31, 2014, stood at ¥985,507 million, up ¥44,456 million from the end of the previous year.

Current assets decreased ¥6,491 million to ¥125,351 million, reflecting a fall of ¥19,016 million in real estate for sale in process due to an excess of completed condominiums over purchases, which more than offset an increase of ¥9,851 million in real estate for sale amid property transfers from non-current assets to inventories.

Non-current assets increased ¥50,948 million to

¥860,155 million, thanks to an increase of ¥63,003 million in land as a result of new investments and an acquisition of property rights for the Otemachi 2-Chome Area 1st Class Urban Redevelopment Project, which more than offset a decrease of ¥19,089 million in buildings and structures (net) due to property sales as part of asset reorganization and advancement of depreciation.

GRAPH 6

Total Assets

● Liabilities

Total liabilities as of March 31, 2014, came to ¥756,915 million, up by ¥29,700 million from the end of the previous year. The rise was attributed to an increase of ¥40,138 million in long-term liabilities deriving from the purchase of land plots for the Otemachi 2-Chome Area 1st Class Urban Redevelopment Project, which is included in other non-current liabilities. This factor more than offsets a fall of ¥4,934 million in lease and guarantee deposits received and a decrease of ¥3,682 million in negative goodwill.

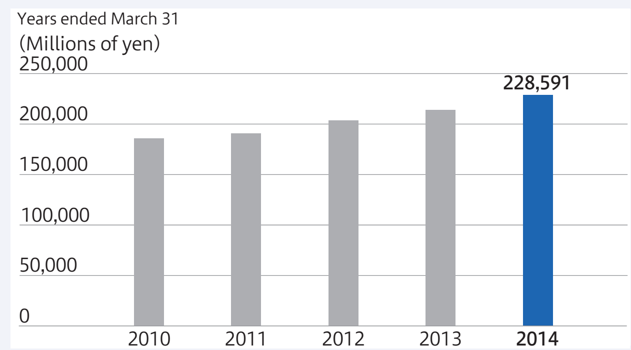
The balance of interest-bearing debt stood at ¥507,253 million as of March 31, 2014 (¥473 million for short-term debt, ¥57,412 million for current portion of long-term debt, ¥100,967 million for bonds payable, and ¥348,400 million for long-term debt). The sum represented a gain of ¥1,260 million from March 31, 2013, mainly reflecting an increase in long-term debt from UD EUROPE LTD. The balance of net interest-bearing debt (calculated by deducting cash and cash equivalents) came to ¥488,345 million, falling ¥3,028 million from March 31, 2013.

● Net assets ➡ GRAPH 7

Net assets as of March 31, 2014, amounted to ¥228,591 million, up ¥14,755 million from the end of the preceding year. The gain was ascribed to an increase of ¥5,747 million in shareholders' equity, a rise of ¥3,647 million in accumulated other comprehensive income as a result of larger foreign currency translation adjustments, and an increase of ¥5,360 million in minority interests following the equity sales of UDX Tokutei Mokuteki Kaisha.

GRAPH 7

Net Assets



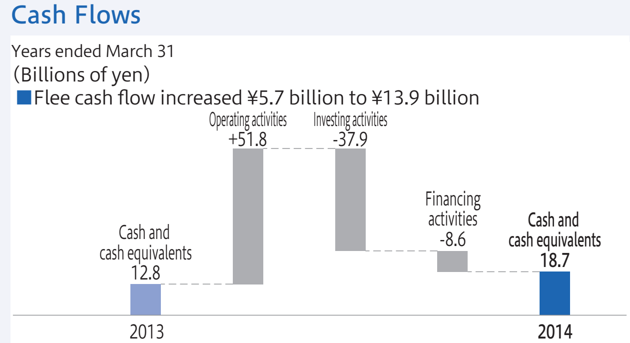
(2) Consolidated cash flows ➡ GRAPH 8

Cash and cash equivalents as of March 31, 2014 increased ¥5,989 million from the end of the previous year to ¥18,798 million. Free cash flow* was ¥13,907 million, up ¥5,704 million from the previous year.

*Free cash flow = Net cash provided by (used in) operating activities + Net cash provided by (used in) investing activities

GRAPH 8

Cash Flows



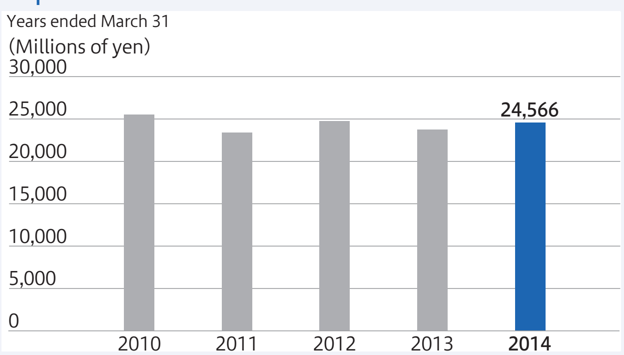
Note: The effect of exchange rate change on cash and cash equivalents is omitted. Any discrepancy due to the omission is adjusted.

● Net cash provided by (used in) operating activities
➡ GRAPH 9

Net cash provided by operating activities of the Group in the year ended March 31, 2014 totaled ¥51,870 million, up ¥3,780 million from the previous year. Income before income taxes and minority interests provided cash totaling ¥1,368 million, inventories fell by ¥5,515 million, and notes and accounts payable–trade increased by ¥3,537 million. These factors more than offset an increase of ¥5,973 million in notes and accounts receivable–trade, leading to the rise in net cash provided by operating activities.

GRAPH 9

Depreciation and Amortization



● Net cash provided by (used in) investing activities

Net cash used in investing activities totaled ¥37,962 million in the year ended March 31, 2014, down ¥1,923 million from the previous year. Proceeds from sales of property, plant and equipment and those from sales of securities of subsidiaries and affiliates increased by ¥17,043 million yen and ¥5,639 million yen, respectively, from the previous year. These factors more than offset an increase of ¥26,221 million in spending for purchasing non-current assets, leading to a decrease in net cash used in investing activities.

● Net cash provided by (used in) financing activities

Net cash used in financing activities totaled ¥8,656 million. Payments associated with repayments of long-term loans payable (¥64,689 million); repayment of bonds payable issued in the past (¥62,123 million); and payout of dividends (¥5,594 million), more than offset proceeds–¥119,222 million from long-term borrowings and ¥15,990 million through the issuance of bonds.

(3) Fund raising and dividend policy

● Fund raising

During the year ended March 31, 2014, the Company raised funds primarily through borrowings from financial institutions and the issuing of bonds, among other sources, in response to such capital needs as capital expenditures, investments, and the acquisition of inventory assets.

In accordance with its capital policy, NTT Urban Development Group has acquired the credit rating shown in the table below for its commercial paper (short-term debt) and bonds (long-term debt) from Rating and Investment Information, Inc., to support continued flexibility in procuring funds for future investment, purchase of inventories, and other activities.

The NTT Urban Development Group will work to maintain or improve its current credit rating.

As of March 31, 2014	Rating and Investment Information, Inc.
Commercial paper	a − 1
Bonds	A+

● Dividend policy

NTT Urban Development's basic policy on the distribution of profits is to maintain adequate internal reserves to contribute to ongoing growth in corporate value and to strengthen its ability to provide a stable and long-term profit return to shareholders by taking a long-term perspective on its business operations in the real estate industry. Internal reserves are primarily used to invest in competitive properties for future development, with the objective of further raising corporate value.

The per-share dividend was set at ¥16 for the year ended March 31, 2014. The dividend for the year ending March 31, 2015 will be decided by taking into account various factors such as future earnings, and medium- and long-term business trends and plans. At present, the Company plans to keep the dividend unchanged at ¥16 per share.

Note: A stock split was implemented on October 1, 2013 at a ratio of 100 shares per share of common stock based on the price as of September 30, 2013. The planned per-share dividend took into account possible effects of the stock split.

These dividends are expected to be paid two times, with a year-end dividend payment and an interim dividend payment. The year-end dividend payment shall be authorized at the general shareholders' meeting and the interim dividend payment shall be authorized by the Board of Directors.

The Articles of Incorporation specifies that the Company may pay interim dividends on September 30 (record date) of every year by resolution of the Board of Directors.

3. Investment ➡ GRAPH ⑩

The NTT Urban Development Group, consisting of the Company and its consolidated subsidiaries, invests in new construction sites to increase the level of contribution to earnings provided by the leasing business while acquiring commercial land to expand its overall business activities.

Capital investment was distributed as follows in the year ended March 31, 2014.

March 31, 2014

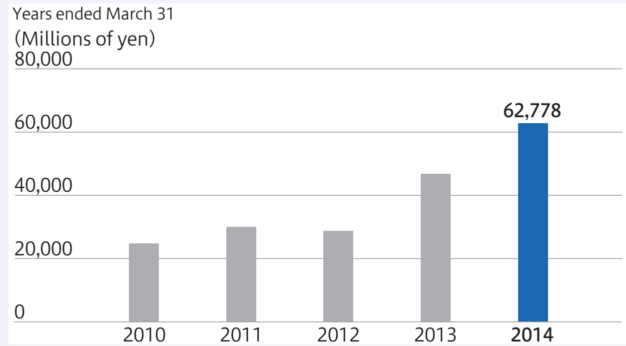
Business Segment	(Millions of yen)
Leasing	61,255
Residential property sales	13
Other	85
Total	61,354
Corporate	140
Total	**61,495**

The main investments in the leasing business were a ¥26,260 million project for the Toshin Building (Minato-ku, Tokyo), a ¥12,368 million project (£80 million) called 265 Strand in London, United Kingdom, a renewal investment project worth ¥8,266 million, and a ¥7,306 million redevelopment project called the upper-level section redevelopment project associated with the reconstruction of the Shibaura Water Reclamation Center (Shinagawa Season Terrace, Minato-ku, Tokyo).

Under other, the Company used ¥1,282 million to purchase investment securities, pushing total investments to ¥62,778 million.

GRAPH ⑩

Investment



4. Significant Management Contracts

None.

5. Operating Risks

The following principal categories of business risks and other risks in Japan and overseas affecting the NTT Urban Development Group's businesses may have a material impact on investment decisions. Although the risks below are those currently recognized by the NTT Urban Development Group, it is not necessarily an exhaustive list of risks. These risk categories are presented in the interest of information disclosure to investors and should be given due importance in investment decisions or when reviewing the Company's business activities. The Group manages the operating risks under its risk management regulations. The forward-looking statements included in the following text reflect judgments by the Group as of June 25, 2014.

Risks concerning the businesses of the Group

(1) General Risks

1. Leasing Business Risk

In the year ended March 31, 2014, the leasing business accounted for 49.6% of consolidated operating revenue. The leasing business tends to be susceptible to changes in the operating environment, and the Company is considering action against falls in rents and an increase in vacancies, assuming business trends over the medium and long terms. However, a worsening supply-demand situation in the real estate market could cause vacancies to increase and the leasing rate to decline, which could substantially affect the operating performance of the NTT Urban Development Group. Moreover, changes in the financial status of the Group's major tenants, the departure of a major tenant, or changes in the conditions of property use could have repercussions for the overall occupancy rate of Group properties and consequently could significantly affect business real estate revenues.

2. Residential Property Sales Business Risk

If the residential property sales business market deteriorates due to intensified competition among condominium providers, a rise in housing-loan interest rates, or a downturn in consumer sentiment caused by higher selling prices following a surge in land prices and building costs, the Group's revenue in the condominium business may decline as a result of potentially slower sales in the long run, and inventories may increase, affecting the Group's overall performance.

3. Asset Devaluation Risk

In the year ended March 31, 2006, the Company adopted impairment loss accounting for business real estate based on the "Opinion Regarding Accounting Standard for Impairment of Fixed Assets" issued by the Corporate Accounting Standards Committee on August 9, 2002. In the year ended March 31, 2009, the Company applied the "Accounting Standards for Measurement of Inventories" (ASBJ Statement No. 9 on July 5, 2006). A substantial deterioration of the real estate market could necessitate the recording of impairment losses on the properties in the leasing business and the revaluation of inventory assets maintained for the residential property sales business, and this in turn could impact the Group's business performance.

The Group holds investment securities and other non-current assets and depreciation in the value of these assets from changes in economic and financial conditions in Japan and overseas could produce a revaluation loss that might impact the Group's business performance.

4. Effects of Interest-Bearing Debt

The Group raises funds both in Japan and abroad, with the balance of its consolidated interest-bearing debt as of the year ended March 31, 2014, all of which was procured at fixed interest rates, standing at ¥507,253 million. If the market interest rates rise significantly in the future, the Group's business operation may be negatively affected.

In addition, the Group's capital procurement activities could be hampered by instability in capital markets, credit limits extended by financial institutions, business failures (including payoffs) of such institutions, or downgrades in the Company's credit ratings and other factors.

March 31	2013	2014
Total assets (Millions of yen)	941,050	**985,507**
Interest-bearing debt (Millions of yen)	505,993	**507,253**
Interest-bearing debt / Total assets (%)	53.8	**51.5**
Operating revenue (Millions of yen)	163,168	**189,186**
Interest expenses (Millions of yen)	7,665	**7,077**
Interest expenses / Operating revenue (%)	4.7	**3.7**

5. Risks Concerning New or Revised Real Estate-Related and Other Laws, Ordinances, and Other Regulations

The Group is subject to real estate-related laws and regulations, the Act on the Protection of Personal Information, and other laws and regulations, and revisions to these laws or the establishment of new laws could impact the Group's business performance.

6. Risks Concerning Selection and Credit of Business Partners

The Company makes every effort to verify the credit standing of its business partners before entering into business relations. However, if unforeseen events lower a business partner's credit and the Company is unable to collect receivables from business partners owed to the Company, an economic loss could result that could impact the Group's business performance.

Selected contractors for construction work could be involved in scandals, conflicts, or financial difficulties, among others and could cause economic losses for the

Group or the erosion of the Group's credibility, which in turn could affect the Group's performance. To prevent and avoid such risks, the Company has set up an internal committee that investigates the creditworthiness of chosen contractors and their ability to complete construction and has established termination criteria should contractors fail to meet standard quality or delivery periods or cause incidents or accidents.

(2) Business Risks

1. Risks Concerning Development Project Investment Decisions

The Company invests in quality properties for future development with the objective of further raising corporate value. Every effort is made to ensure the decisions to invest in new development projects do not lead to economic loss or a loss of credibility of the Company. Relevant laws, rights, site conditions, market studies, and other subjects are thoroughly researched and verified. Construction plans and business revenue and expenditure plans are drawn up, and internal meetings are held to determine business viability. The final decisions to invest are made by the Board of Directors and other relevant groups. Despite careful preparation and consideration, fluctuations in demand arising from changes in the business climate or in the real estate market can reduce the profitability of investments and could impact the Group's business performance.

2. Risks Concerning Contracts for Sales Transactions, Construction, Design and Engineering

Inadequate documents for sales transactions and construction contracts, flawed contract stipulations, or other deficiencies in the design and engineering phases could result in an economic loss, liability for damages, or compromise trust in the Company, possibly impacting the Group's business performance. The Group seeks to prevent and avoid risks by checking contracts in advance using contract check sheets.

3. Risks Concerning Damage to and Deterioration of Buildings in Building Management Operations

The Group regularly inspects and maintains the buildings that it holds for leasing. However, damage to or deterioration in the buildings, or accidents resulting from the deterioration or failures of the buildings could lead to increases in the financial burden in association with complaints about damage to or the deterioration of the buildings and accidents caused by them, liability for damage, the erosion of trust in the Group, renovations, and rebuilding and could impact the Group's business performance.

4. Risks Concerning the Handling of Large-Scale Disasters in Building Management Operations

Risks including major earthquakes, floods or other natural disasters, or infectious diseases, fires, accidents or terrorist attacks could cause damage to, the loss of, or the deterioration of buildings the Group holds for leasing, or could interrupt the business operations of the Group, which in turn could affect the Group's performance. The Group has developed a business continuity plan (BCP) designed to protect against the spread of damage from possible large-scale disasters such as the above and to minimize any economic loss from them, identifying types of disasters and considering the effects of the disasters on tenants and the management of buildings, emergency communication systems, and emergency action in accordance with each type of disaster.

Relationships with NTT and Its Group Companies

(1) Position of NTT Urban Development in Relation to NTT Corporate Group (NTT Group)

NTT Urban Development is the only comprehensive real estate company in the NTT Group and manages its businesses independently, taking responsibility for management. The Company consults its parent company, Nippon Telegraph and Telephone Corporation (hereinafter NTT), about important issues and reports to NTT. However, NTT does not prevent the Company from making its own decisions nor does it make the Company's decisions legally binding.

NTT owns 67.3% of the stock of the Company as of March 31, 2013 and holds rights as the majority shareholder of the Company under the Companies Act.

(2) Business Relations with NTT Group

The Company and NTT have concluded an agreement relating to the management of the NTT Group to respect each other's independence and autonomy and to maximize the profits of each NTT Group company by maximizing the profits of the overall NTT Group. Based on this agreement, the Company pays the Group operating and managing expenses. In exchange for this payment, NTT provides the Company with comprehensive services and benefits, including advice on a range of issues, the use of the NTT brand, and Group publicity. In particular, we believe using the NTT brand as a member of the NTT Group enhances the creditworthiness and reliability of the Company and gives the Company advantages in the execution of operations.

The Company has concluded a building lease agreement with the NTT Group and receives rent income from the Group. The Company determines rental prices for the NTT Group through mutual consultation, based on essentially the same conditions as those for general customers, considering market prices and prices for neighboring properties.

The Company acquires land, primarily land for the property sales business, from the NTT Group. Both parties determine acquisition prices through consultation, taking profitability into consideration, as in the acquisition of land from the general market.

The table below shows the status of transactions between the Company and the NTT Group in the Leasing Business.

Transactions Between the NTT Group and the Company in the Leasing Business (Non-Consolidated)

March 31	2013	**2014**
Operating revenue from Leasing Business (Millions of yen)	82,208	**87,730**
Operating revenue from NTT Group (Millions of yen)	26,341	**28,366**
Operating revenue from NTT Group / Operating revenue from Leasing Business (%)	32.0	**32.3**

(3) Personnel Relationships with NTT Group

The Company accepts employees from other NTT Group companies not as employees on loan but as employees who have been transferred. The Company had an outside director and an outside corporate auditor from NTT as of June 25, 2014. They have taken up their appointments at the request of the Company, and the Company makes management decisions independently.

(4) Independence from NTT Group

As a company engaged in nationwide real estate business as part of the NTT Group, the Company manages its businesses independently, taking responsibility for management.

As stated in (1), (2) and (3), we believe that the Company has a considerable degree of independence from the parent company.

6. Basic Policy on Control of the Company

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

Consolidated Balance Sheets

As of March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	**2014**	**2014**
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 2, 8 and 17)	¥ 12,809	**¥ 18,798**	**$ 182,655**
Time deposits and short-term investments (Note 17)	1,810	**1,210**	**11,757**
Notes and operating accounts receivable (Note 17)	13,786	**18,058**	**175,462**
Inventories (Note 5)	87,684	**78,497**	**762,707**
Lease investment assets (Note 9)	3,617	**3,689**	**35,850**
Deferred tax assets (Note 15)	1,141	**933**	**9,074**
Other (Note 8)	10,994	**4,163**	**40,454**
Allowance for doubtful accounts (Note 17)	(0)	**(1)**	**(11)**
Total current assets	131,843	**125,351**	**1,217,948**
Non-current assets:			
Property, plant and equipment (Note 8):			
Buildings and structures	719,274	**703,758**	**6,837,920**
Machinery, equipment and vehicles	14,027	**13,630**	**132,442**
Tools, furniture and fixtures	16,136	**15,458**	**150,200**
Land	409,130	**472,133**	**4,587,382**
Lease assets (Note 9)	399	**332**	**3,234**
Construction in progress	7,012	**14,099**	**136,997**
Subtotal	1,165,981	**1,219,414**	**11,848,175**
Accumulated depreciation	(405,074)	**(408,378)**	**(3,967,925)**
Total property, plant and equipment	760,907	**811,035**	**7,880,250**
Investments and other assets:			
Investment securities (Note 6)	19,056	**19,986**	**194,192**
Long-term prepaid expenses (Note 8)	16,765	**16,176**	**157,173**
Intangible assets (Note 8)	5,756	**5,427**	**52,738**
Deferred tax assets (Note 15)	422	**394**	**3,829**
Other	6,299	**7,136**	**69,337**
Total investments and other assets	48,300	**49,120**	**477,269**
Total non-current assets	809,207	**860,155**	**8,357,519**
Total assets	¥ 941,050	**¥ 985,507**	**$9,575,467**

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	**2014**	**2014**
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities:			
Notes and operating accounts payable–trade (Note 17)	¥ 10,742	**¥ 11,850**	**$ 115,144**
Short-term debt (Notes 7 and 17)	10,321	**473**	**4,599**
Current portion of lease obligations (Note 9)	45	**48**	**473**
Current portion of long-term debt (Notes 7, 8 and 17)	118,165	**57,412**	**557,839**
Income taxes payable (Notes 15 and 17)	3,351	**1,657**	**16,109**
Other	34,811	**29,578**	**287,393**
Total current liabilities	177,439	**101,021**	**981,557**
Non-current liabilities:			
Long-term debt (Notes 7, 8 and 17)	377,505	**449,367**	**4,366,186**
Lease obligations (Note 9)	133	**143**	**1,396**
Deferred tax liabilities (Note 15)	61,116	**63,841**	**620,305**
Provision for directors' retirement benefits	102	**67**	**652**
Net defined benefit liability (Notes 3 and 10)	6,388	**6,404**	**62,233**
Lease and guarantee deposits received (Note 17)	74,628	**69,694**	**677,169**
Negative goodwill (Notes 2 and 22)	26,617	**22,935**	**222,845**
Asset retirement obligations	3,172	**3,180**	**30,901**
Other	110	**40,258**	**391,164**
Total non-current liabilities	549,775	**655,893**	**6,372,851**
Total liabilities	¥727,215	**¥756,915**	**$7,354,408**
NET ASSETS			
Shareholders' equity (Note 11):			
Capital stock: (Note 16):			
Authorized – 1,050,000 shares			
Issued – 329,120,000 shares	48,760	**48,760**	**473,766**
Capital surplus	34,109	**34,109**	**331,420**
Retained earnings	91,402	**97,150**	**943,940**
Total shareholders' equity	174,272	**180,020**	**1,749,126**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	1,131	**976**	**9,493**
Foreign currency translation adjustments	817	**4,447**	**43,214**
Remeasurements of defined benefit plans (Notes 3 and 10)	–	**171**	**1,668**
Total accumulated other comprehensive income	1,948	**5,596**	**54,375**
Minority interests	37,614	**42,975**	**417,558**
Total net assets	213,835	**228,591**	**2,221,059**
Total liabilities and net assets	¥941,050	**¥985,507**	**$9,575,467**

The accompanying notes are an integral part of the financial in statements.

Consolidated Statements of Income

For the years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	**2014**	**2014**
Operating revenue (Note 22)	¥163,168	**¥189,186**	**$1,838,187**
Operating cost (Note 5)	117,163	**136,519**	**1,326,464**
Operating gross profit	46,004	**52,666**	**511,723**
Selling, general and administrative expenses (Note 12)	18,603	**22,207**	**215,776**
Operating income (Notes 20 and 22)	27,401	**30,458**	**295,947**
Other income (expenses):			
Interest income	79	**44**	**429**
Interest expenses	(7,665)	**(7,077)**	**(68,766)**
Amortization of negative goodwill	1,926	**1,853**	**18,009**
Equity in earnings of affiliates	82	**71**	**694**
Impairment loss (Notes 13, 20 and 22)	(800)	**(2,848)**	**(27,673)**
Other, net (Notes 14 and 20)	(2,053)	**(2,164)**	**(21,028)**
	(8,431)	**(10,120)**	**(98,335)**
Income before income taxes and minority interests	18,969	**20,338**	**197,612**
Income taxes (Note 15):			
Current	5,747	**4,593**	**44,634**
Deferred	(202)	**2,940**	**28,574**
Total income taxes	5,544	**7,534**	**73,208**
Income before minority interests	13,425	**12,803**	**124,404**
Minority interests in income	1,351	**1,460**	**14,192**
Net income (Note 16)	¥ 12,073	**¥ 11,343**	**$ 110,212**

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	**2014**	**2014**
Income before minority interests	¥13,425	**¥12,803**	**$124,404**
Other comprehensive income (Note 18)			
Valuation difference on available-for-sale securities	1,022	**(158)**	**(1,545)**
Foreign currency translation adjustment	2,039	**3,629**	**35,268**
Total other comprehensive income	3,062	**3,470**	**33,723**
Comprehensive income	¥16,487	**¥16,274**	**$158,127**
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	¥15,145	**¥14,818**	**$143,982**
Comprehensive income attributable to minority interests	¥ 1,341	**¥ 1,455**	**$14,145**

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2014	2014
Changes in shareholders' equity			
Capital stock:			
Balance at the beginning of the year	¥ 48,760	**¥ 48,760**	**$ 473,766**
Balance at the end of the year	¥ 48,760	**¥ 48,760**	**$ 473,766**
Capital surplus:			
Balance at the beginning of the year	¥ 34,109	**¥ 34,109**	**$ 331,420**
Balance at the end of the year	¥ 34,109	**¥ 34,109**	**$ 331,420**
Retained earnings:			
Balance at the beginning of the year	¥ 84,265	**¥ 91,402**	**$ 888,091**
Net income	12,073	**11,343**	**110,212**
Dividends from surplus	(4,936)	**(5,595)**	**(54,363)**
Balance at the end of the year	¥ 91,402	**¥ 97,150**	**$ 943,940**
Total shareholders' equity	¥174,272	**¥180,020**	**$1,749,126**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities			
Balance at the beginning of the year	¥ 98	**¥ 1,131**	**$ 10,991**
Net change of items other than shareholders' equity	1,032	**(154)**	**(1,498)**
Balance at the end of the year	¥ 1,131	**¥ 976**	**$ 9,493**
Foreign currency translation adjustment			
Balance at the beginning of the year	¥ (1,221)	**¥ 817**	**$ 7,946**
Net change of items other than shareholders' equity	2,039	**3,629**	**$ 35,268**
Balance at the end of the year	817	**4,447**	**43,214**
Remeasurements of defined benefit plans (Note 10)			
Balance at the beginning of the year	¥ –	**¥ –**	**$ –**
Net change of items other than shareholders' equity	–	**171**	**1,668**
Balance at the end of the year	–	**171**	**1,668**
Total accumulated other comprehensive income	¥ 1,948	**¥ 5,596**	**$ 54,375**
Minority interests in consolidated subsidiaries:			
Balance at the beginning of the year	¥ 37,714	**¥ 37,614**	**$ 365,474**
Net change of items other than shareholders' equity	(100)	**5,360**	**52,084**
Balance at the end of the year	¥ 37,614	**¥ 42,975**	**$ 417,558**
Total net assets	¥213,835	**¥228,591**	**$2,221,059**

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2014	2014
Operating activities:			
Income before income taxes and minority interests	¥ 18,969	**¥ 20,338**	**$ 197,612**
Adjustment for:			
Depreciation and amortization	23,766	**24,566**	**238,694**
Amortization of negative goodwill	(1,926)	**(1,853)**	**(18,010)**
Impairment loss	800	**2,848**	**27,673**
Amortization of goodwill	141	**136**	**1,330**
Increase (decrease) in allowance for doubtful accounts	(0)	**0**	**2**
Increase in net defined benefit liability	362	**16**	**156**
Interest and dividends income	(164)	**(120)**	**(1,174)**
Interest expenses	7,665	**7,077**	**68,767**
Equity in earnings of affiliates	(82)	**(71)**	**(694)**
Gain on sales of property, plant and equipment	(389)	**(6,434)**	**(62,515)**
Loss on disposal of property, plant and equipment	2,119	**1,476**	**14,344**
Loss on sales of property, plant and equipment	508	**8,779**	**85,302**
Gain on sales of securities of subsidiaries and affiliates	–	**(2,142)**	**(20,813)**
Increase in lease investment assets	(444)	**(72)**	**(700)**
Decrease (increase) in notes and accounts receivable–trade	1,702	**(4,270)**	**(41,497)**
Decrease in inventories	13,208	**18,724**	**181,934**
Increase (decrease) in notes and accounts payable–trade	(2,433)	**1,104**	**10,729**
Decrease in lease and guarantee deposits received	(3,691)	**(9,362)**	**(90,971)**
Other, net	(1,629)	**4,344**	**42,213**
Subtotal	58,483	**65,084**	**632,382**
Interest and dividends income received	189	**146**	**1,421**
Interest expenses paid	(7,804)	**(7,073)**	**(68,728)**
Income taxes paid	(2,779)	**(6,287)**	**(61,089)**
Net cash provided by operating activities	48,089	**51,870**	**503,986**
Investing activities:			
Proceeds from repayment of securities	–	**3,900**	**37,894**
Purchase of property, plant and equipment	(40,689)	**(66,911)**	**(650,126)**
Proceeds from sales of property, plant and equipment	3,228	**20,271**	**196,962**
Purchase of investment securities	(465)	**(1,282)**	**(12,466)**
Proceeds from sales of securities of subsidiaries and affiliates	–	**5,639**	**54,799**
Other, net	(1,958)	**420**	**4,085**
Net cash used in investing activities	(39,885)	**(37,962)**	**(368,852)**
Financing activities:			
Net increase (decrease) in short-term loans payable	10,321	**(9,848)**	**(95,691)**
Proceeds from long-term loans payable	29,793	**119,222**	**1,158,399**
Repayments of long-term loans payable	(48,712)	**(64,689)**	**(628,545)**
Proceeds from issuance of bonds	10,000	**15,990**	**155,363**
Redemption of bonds	(1,611)	**(62,123)**	**(603,613)**
Cash dividends paid	(4,936)	**(5,594)**	**(54,356)**
Cash dividends paid to minority shareholders	(1,441)	**(1,559)**	**(15,150)**
Other, net	(72)	**(53)**	**(516)**
Net cash used in financing activities	(6,660)	**(8,656)**	**(84,109)**
Effect of exchange rate change on cash and cash equivalents	305	**737**	**7,171**
Net increase in cash and cash equivalents	1,848	**5,989**	**58,196**
Cash and cash equivalents at the beginning of the year	10,960	**12,809**	**124,459**
Cash and cash equivalents at the end of the year	¥ 12,809	**¥ 18,798**	**$ 182,655**

The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The accompanying consolidated financial statements of NTT Urban Development Corporation (the "Company") and its consolidated subsidiaries are prepared on the basis of generally accepted accounting principles in Japan, which are different in certain respects from the application and disclosure requirements of the International Financial Reporting Standards, and are compiled from consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

The information disclosed in the accompanying consolidated financial statements is translated from the original Japanese text and the scope and nature of the information is limited to that disclosed therein. However, certain reclassifications have been made to present the accompanying consolidated financial statements in a format that is familiar to readers outside Japan.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both in Japanese yen and U.S. dollars) do not necessarily agree with the sum of the individual accounts.

2. Summary of Significant Accounting Policies

(a) Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all companies controlled directly or indirectly by the Company. All significant inter-company balances and transactions have been eliminated upon consolidation.

Consolidated subsidiaries as of March 31, 2013 and 2014 are as follows:

2013	2014
NTT Urban Development Builservice Co.	NTT Urban Development Builservice Co.
NTT Urban Development West BS Co.	NTT Urban Development West BS Co.
NTT Urban Development Hokkaido BS Co.	NTT Urban Development Hokkaido BS Co.
Otemachi First Square Inc.	Otemachi First Square Inc.
DAY・NITE Co., Ltd.	DAY・NITE Co., Ltd.
Knox Twenty-One Co., Ltd.	Knox Twenty-One Co., Ltd.
Motomachi Parking Access Co., Ltd.	Motomachi Parking Access Co., Ltd.
UDX Tokutei Mokuteki Kaisha	UDX Tokutei Mokuteki Kaisha
UD EUROPE LIMITED	UD EUROPE LIMITED
Premier REIT Advisors Co., Ltd.	Premier REIT Advisors Co., Ltd.
UD AUSTRALIA PTY LIMITED	UD AUSTRALIA PTY LIMITED
—	UD USA Inc.
—	Two other consolidated subsidiaries

The Company established UD USA Inc. and two consolidated subsidiaries affiliated with UD USA Inc., which became consolidated subsidiaries from the year ended March 31, 2014.

The companies over which the Company exercises significant influence in terms of operating and financial policies are included in the consolidated financial statements on an equity basis.

The affiliated companies accounted for by the equity method as of March 31, 2013 and 2014 are as follows:

2013	**2014**
Tokyo Opera City Building Co., Ltd.	**Tokyo Opera City Building Co., Ltd.**
DHC Tokyo Co., Ltd.	**DHC Tokyo Co., Ltd.**
Tokyo Opera City District Heating & Cooling Co., Ltd.	**Tokyo Opera City District Heating & Cooling Co., Ltd.**
Harumi Yonchome City Planning Design Co.	**Harumi Yonchome City Planning Design Co.**
335 GRICES ROAD PTY LTD	**335 GRICES ROAD PTY LTD**
—	**Four other equity method affiliates**

The Company invested in four companies affiliated with UD USA Inc., which became affiliated companies accounted for by the equity method, effective for the year ended March 31, 2014.

The balance sheet date of UD EUROPE LIMITED, UD AUSTRALIA PTY LIMITED, UD USA Inc. and two consolidated subsidiaries affiliated with UD USA Inc. is December 31. Financial statements for their financial periods are used to prepare the consolidated financial statements, and any significant subsequent transactions for the period from January 1 to March 31 are reflected in the consolidated financial statements. Aside from these consolidated subsidiaries, all consolidated subsidiaries disclosed above use a fiscal year ending on March 31, the same as that of the Company.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand, bank deposits that can be withdrawn at any time, and short-term investments with an original maturity of three months or less that can be easily converted to cash and are subject to an insignificant risk of change in value.

Certain debt securities with original maturities of less than three months represented ¥1,099 million as of March 31, 2013. There were no such balances as of March 31, 2014. These securities are included in cash and cash equivalents.

(c) Inventories

Real estate inventory is basically stated at cost determined mainly by the specific identification method, but real estate for sale and real estate for sale in process is written down when the value of inventories declines.

(d) Investment Securities

Marketable securities are stated at fair value adjusted for changes in unrealized gain or loss, whose changes, net of applicable income taxes, are recognized directly in net assets. Non-marketable securities are stated at cost. The cost of securities sold is determined by the moving average method.

Investments in limited liability investment partnerships and similar associations are evaluated based on the most recent financial information available, and the net amounts of equity in earnings for these entities are accounted for as additions to or deductions from the book values of these investments.

(e) Accounting for the Impairment of Fixed Assets

The Company and its consolidated subsidiaries follow the accounting standard for impairment of fixed assets (the Accounting Standard for Impairment of Fixed Assets (the “Standard”) and implementation guidance for the Standard (the “Guidance”). The Standard and Guidance require that fixed assets be reviewed for impairment when events or changes in circumstance indicate that the book value of an asset may not be recoverable. An impairment loss is recognized in the statements of income by directly reducing the book value of impairment assets or a group of assets to the recoverable amount (either the net selling price or the value in use, whichever is higher).

(f) Property, Plant and Equipment (Excluding Lease Assets)

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is calculated principally using the declining balance method; however, the straight-line method is applied to NTT Makuhari Building, Granpark Building, NTT Cred Motomachi Building, and buildings (except attached facilities) acquired on or after April 1, 1998, based on their estimated useful lives (15 to 50 years for buildings and structures, 5 to 17 years for machinery, equipment and vehicles, and 2 to 20 years for tools, furniture and fixtures). Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income when incurred.

(g) Lease Assets

Depreciation of lease assets, held under finance leases without transfer of ownership, is calculated using the same method as owned property, plant and equipment.

(h) Intangible Assets

Intangible assets are stated at cost. Amortization of intangible assets is calculated using the straight-line method. Capitalized software for internal use is amortized over its estimated useful life of five years.

(i) Long-term Prepaid Expenses

Amortization of long-term prepaid expenses is calculated using the straight-line method.

(j) Bond Issuance Expenses

Expenses relating to bond issuance are charged to income when incurred.

(k) Allowance for Doubtful Accounts

The Company and its consolidated subsidiaries provide for an allowance for doubtful accounts to cover estimated probable losses on collection. The allowance consists of a general reserve calculated based on the historical write-off rate of each company, and a specific reserve that is the estimated uncollectible amount with respect to identified doubtful accounts.

(l) Retirement Benefits

Net defined benefit liability has been provided mainly at an amount calculated based on the retirement benefit obligations and the fair value of pension plan assets as of the balance sheet date, adjusted for unrecognized actuarial gains and losses and unrecognized prior service costs. The retirement benefit obligations are attributed, using the straight-line method, to each period over the estimated years of service of eligible employees.

When actuarial gains and losses are recognized, they are amortized using the straight-line method over the average remaining service period for eligible employees from the following year.

Prior service costs are amortized using the straight-line method over the average remaining service period for eligible employees from the fiscal year in which the cost is incurred.

Unrecognized actuarial gains and losses and unrecognized prior service costs are recorded in the remeasurements of defined benefit plans within the net asset section (accumulated other comprehensive income), after adjusting for tax effects.

Directors and corporate auditors of certain subsidiaries are entitled to lump-sum payments under their respective unfunded severance benefit plans. Provision for directors' retirement benefits represents the estimated amounts that would be payable if all such beneficiaries were to retire on the balance sheet date.

(m) Goodwill and Negative Goodwill

Negative goodwill is the excess of the fair value of the identifiable net assets acquired over the cost of acquisition. The Company amortizes goodwill and negative goodwill that was recognized on or before March 31, 2010 over 20 years using the straight-line method.

Negative goodwill recognized on or before March 31, 2010 is offset by goodwill on the consolidated balance sheets. The amounts of goodwill before offsetting as of March 31, 2013 and 2014 are ¥2,280 million and ¥1,992 million ($19,361 thousand), respectively. The amounts of negative goodwill before offsetting as of March 31, 2013 and 2014 are ¥28,897 million and ¥24,927 million ($242,206 thousand), respectively.

(n) Income Taxes

Deferred income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for estimated future tax consequences attributable to temporary differences between the financial statement book values and the tax bases of assets and liabilities.

Deferred tax assets and liabilities are measured using the enacted tax rates applicable to taxable income for the years in which those temporary differences are expected to be recovered or settled.

(o) Revenue Recognition

Revenues from the sale of land and residential homes are recognized when units are delivered and accepted by customers.

Revenues from leasing land and buildings are recognized as rent is accrued over the lease term. Revenues from finance lease transactions and their costs are recognized when corresponding lease payments are made by customers.

Revenue from construction contracts is recognized based on the percentage-of-completion method, based on the percentage of cost incurred in relation to the estimated total cost, as long as the activity is expected to be profitable. Otherwise, the completed-contract method is applied.

(p) Consumption Tax

Transactions subject to consumption tax are recorded at amounts exclusive of the tax.

(q) Derivatives

The Company and certain subsidiaries have entered into derivative transactions in order to manage certain risks arising from adverse fluctuations in interest rates. Derivative financial instruments are stated at fair value, with changes in unrealized gains or losses charged to income, except for those that meet the criteria for deferral hedge accounting, in which case unrealized gains or losses are deferred as a component of net assets. Interest rate swaps that meet the specific criteria are not re-measured at market value but the differences paid or received under swap agreements are recognized as interest expenses or income.

(r) Appropriation of Retained Earnings

In accordance with the Companies Act of Japan, distribution of capital surplus and retained earnings can be made at any time provided that certain conditions are met, by resolution of the shareholders or by the Board of Directors.

(s) Standards Issued but Not Yet Effective

Accounting standards for retirement benefits

On May 17, 2012, the Accounting Standards Board of Japan (ASBJ) revised accounting standard for retirement benefits, and issued “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25). The major changes are as follows:

(1) Overview

The accounting treatment for unrecognized actuarial gains and losses and unrecognized prior service costs, the calculation method of retirement benefit obligations and service costs, and the disclosures have been revised.

(2) Planned date of application

The revised accounting standard and guidance were adopted as of the end of the fiscal year ended March 31, 2014. However, the revised calculation method for retirement benefit obligations and service costs will be applied from the beginning of the fiscal year ending March 31, 2015. The revised accounting standard includes a transitional treatment, which states that the revision will not be applied retrospectively to consolidated financial statements of past periods.

(3) Impact of applying these accounting standards

The Company is currently evaluating the effect of these revised standards on its consolidated financial statements.

Accounting standards for business combinations

On September 13, 2013, the Accounting Standards Board of Japan (ASBJ) issued “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22), “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7), “Revised Accounting Standard for Earnings Per Share” (ASBJ

Statement No. 2), "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10) and "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4). The major changes are as follows:

(1) Overview

In these accounting standards, the revision was made primarily in (i) the treatment of changes in a parent's ownership interest in its subsidiary when the control over the subsidiary continues after the additional acquisition of shares in the subsidiary, (ii) the treatment of acquisition-related costs, (iii) the presentation method of net income and the change from minority interests to non-controlling interests, and (iv) the handling of provisional accounting treatments.

(2) Planned date of application

These accounting standards and guidance will be applied from the beginning of the fiscal year ending March 31, 2016.

(3) Impact of applying these accounting standards

The Company is currently evaluating the effect of adopting these revised standards on its consolidated financial statements.

(t) Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

3. Change in Accounting Policies

From the fiscal year ended March 31, 2014, the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26 on May 17, 2012) and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25 on May 17, 2012) have been applied (however, the provisions set forth in the text of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits were excluded).

The accounting method was changed so that the amount obtained by subtracting plan assets from retirement benefit obligations are recorded as net defined benefit liability. Unrecognized actuarial gains and losses and unrecognized prior service costs are therefore recorded as net defined benefit liability.

As the application of these accounting standards follows the transitional treatment as provided for in Paragraph 37 of the Accounting Standard for Retirement Benefits, an adjustment was made for the amount affected by the said change to the remeasurements of defined benefit plans in accumulated other comprehensive income in the fiscal year ended March 31, 2014.

As a result, ¥6,404 million ($62,233 thousand) of net defined benefit liability was recorded at the end of the fiscal year ended March 31, 2014, and accumulated other comprehensive income increased by ¥171 million ($1,668 thousand).

Net assets per share increased by ¥0.52 ($0.01).

4. U.S. Dollar Amounts

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, and uses the exchange rate as of March 31, 2014, which was ¥102.92 to U.S.$1. This translation should not be construed as a representation that Japanese yen amounts have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate of exchange.

5. Inventories

Inventories as of March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Real estate for sale	¥21,706	**¥31,558**	**$306,627**
Real estate for sale in process	65,576	**46,559**	**452,386**
Costs on uncompleted construction contracts	346	**300**	**2,916**
Raw materials and supplies	55	**80**	**778**
Total	¥87,684	**¥78,497**	**$762,707**

Losses on valuation of inventories of ¥1,934 million and ¥688 million ($6,692 thousand) were included in operating cost for the years ended March 31, 2013 and 2014, respectively.

6. Securities

(a) The acquisition cost, book value and unrealized gains and losses of marketable available-for-sale securities as of March 31, 2013 and 2014 are as follows:

	Unrealized gains		
	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Acquisition cost:			
Equity securities	¥ 936	**¥ 936**	**$ 9,097**
Debt securities	4,066	**168**	**1,635**
Other	3,116	**3,116**	**30,277**
Total	¥8,119	**¥4,220**	**$ 41,009**
Book value:			
Equity securities	¥1,327	**¥2,062**	**$ 20,042**
Debt securities	4,112	**191**	**1,856**
Other	4,445	**3,484**	**33,855**
Total	¥9,885	**¥5,738**	**$ 55,753**
Unrealized gains:			
Equity securities	¥ 391	**¥1,126**	**$ 10,945**
Debt securities	45	**22**	**221**
Other	1,329	**368**	**3,578**
Total	¥1,765	**¥1,517**	**$ 14,744**

	Unrealized losses		
	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Acquisition cost:			
Debt securities	¥1,100	**¥ –**	**$ –**
Other	1,600	**1,909**	**18,557**
Total	¥2,700	**¥1,909**	**$18,557**
Book value:			
Debt securities	¥1,099	**¥ –**	**$ –**
Other	1,429	**1,663**	**16,167**
Total	¥2,529	**¥1,663**	**$16,167**
Unrealized losses:			
Debt securities	¥ (0)	**¥ –**	**$ –**
Other	(170)	**(246)**	**(2,391)**
Total	¥ (170)	**¥ (246)**	**$ (2,391)**

Fair value is the market price on stock markets or financial instrument exchanges.
No marketable available-for-sale securities were sold in the years ended March 31, 2013 and 2014.

(b) The redemption schedule for securities with maturity dates as of March 31, 2013 and 2014, all of which are Japanese government bonds, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Due within one year	¥5,000	¥ –	$ –
Due after one year and within five years	–	–	–
Due after five years and within ten years	–	–	–
Due after ten years	203	191	1,856
Total	¥5,203	¥191	$1,856

(c) The aggregate book value of securities with no available fair value as of March 31, 2013 and 2014 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Unlisted stocks	¥ 500	¥ 500	$ 4,859
Investments in limited partnerships	9,646	9,189	89,292
Other investments	57	53	521
Total	¥10,203	¥9,743	$94,672

(d) Investments in affiliates as of March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Capital stock	¥1,648	¥3,031	$29,456
Total	¥1,648	¥3,031	$29,456

Unlisted stocks, investments in limited partnerships, other investments and investments in affiliates have no quoted market prices available and it is extremely difficult to determine the fair value. Therefore, fair values of these securities are not disclosed.

There were no securities on which impairment losses were recognized for the years ended March 31, 2013 and 2014.

7. Short-term and Long-term Debt

Short-term debt and the corresponding weighted average interest rates as of March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars	Weighted average interest rate	
	2013	2014	2014	2013	2014
Borrowings	¥10,321	¥473	$4,599	0.22%	0.20%
Total	¥10,321	¥473	$4,599		

As of March 31, 2013 and 2014, long-term debt consists of the following:

Description	Interest rate	Maturity	Millions of yen 2013	Millions of yen 2014	Thousands of U.S. dollars 2014
Unsecured bonds	1.9 %	2016	¥ 19,997	**¥ 19,997**	**$ 194,306**
Unsecured bonds	2.0 %	2018	19,990	**19,992**	**194,255**
Unsecured bonds	1.5 %	2019	9,994	**9,995**	**97,115**
Unsecured bonds	1.0 %	2020	9,995	**9,996**	**97,125**
Unsecured bonds	1.1 %	2021	9,996	**9,997**	**97,134**
Unsecured bonds	2.0 %	2031	4,997	**4,997**	**48,560**
Unsecured bonds	0.9 %	2022	10,000	**10,000**	**97,163**
Unsecured bonds	0.8 %	2023	–	**9,995**	**97,117**
Unsecured bonds	1.3 %	2028	–	**4,995**	**48,534**
Secured bonds	2.1 %	2013	62,123	**–**	**–**
Secured bonds	0.5 %	2018	–	**1,000**	**9,716**
Borrowings from banks and other financial institutions:					
Secured	0.5 %	2014 – 2018	¥ 11,036	**¥ 58,400**	**$ 567,431**
Unsecured	0.3 – 2.1 %	2014 – 2028	337,539	**347,413**	**3,375,569**
			495,671	**506,780**	**4,924,025**
Less current portion			118,165	**57,412**	**557,839**
Total			¥377,505	**¥449,367**	**$4,366,186**

The contractual repayment schedule of long-term debt as of March 31, 2014 is summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2015	**¥ 57,412**	**$ 557,839**
2016	**53,200**	**516,907**
2017	**53,200**	**516,907**
2018	**52,200**	**507,190**
2019	**72,000**	**699,580**
2020 and thereafter	**218,800**	**2,125,923**
Total	**¥506,813**	**$4,924,346**

8. Mortgaged Assets

Mortgaged assets and corresponding debt as of March 31, 2013 and 2014 are as follows:

(a) Mortgaged assets:

	Millions of yen 2013	Millions of yen 2014	Thousands of U.S. dollars 2014
Buildings and structures	¥ 92,612	**–**	**–**
Land	9,769	**–**	**–**
Total	¥102,382	**–**	**–**

(b) Corresponding debt secured by the above collateral:

	Millions of yen 2013	Millions of yen 2014	Thousands of U.S. dollars 2014
Current portion of long-term debt	¥ 2,988	**–**	**–**
Long-term debt	8,048	**–**	**–**
Total	¥11,036	**–**	**–**

Mortgaged assets, and corresponding debt, regarding debt with limited recourse(*) as of March 31, 2013 and 2014 are as follows:

(a) Mortgaged assets:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Cash and cash equivalents	¥ 5,871	¥ 5,299	$ 51,491
Other current assets	149	142	1,380
Buildings and structures	47,087	44,960	436,850
Land	171,402	171,402	1,665,398
Other property, plant and equipment	172	163	1,587
Intangible assets	0	0	7
Long-term prepaid expenses	326	308	3,001
Other	–	0	0
Total	¥225,011	¥222,277	$2,159,714

(b) Corresponding debt secured by the above collateral:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Current portion of bonds	¥62,123	¥ –	$ –
Current portion of long-term loans payable	–	1,200	11,660
Bonds payable	–	1,000	9,716
Long-term loans payable	–	57,200	555,771
Total	¥62,123	¥59,400	$577,147

(*) Debt with limited recourse includes bonds issued by UDX Tokutei Mokuteki Kaisha as of March 31, 2013, and UDX Tokutei Mokuteki Kaisha as of March 31, 2014. Repayment of debt is limited to assets of these companies such as the above-mentioned mortgaged assets.

9. Lease Transactions

Finance lease transactions

(a) Lessee—Lease assets under finance leases as of March 31, 2014 mainly consist of servers, computers (included in "Tools, furniture and fixtures") and software, all of which are used for the leasing business.

The contractual repayment schedule of lease obligations in the 5 years as of March 31, 2014 is summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2015	¥ 60	$ 587
2016	53	517
2017	35	340
2018	26	262
2019	21	213
2020 and thereafter	18	178
Total	¥215	$2,097

(b) Lessor – Lease investment assets as of March 31, 2013 and 2014 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Current assets:			
Lease receivables portion	¥ 7,690	¥ 7,551	$ 73,376
Estimated residual value of lease assets	–	–	–
Interests receivable equivalent	(4,073)	(3,862)	(37,526)
Lease investment assets	¥ 3,617	¥ 3,689	$ 35,850

The contractual receipt schedule of finance lease receivables and the lease receivables portion of lease investment assets as of March 31, 2014 are summarized as follows:

	Finance lease receivables		Lease investment assets	
Years ending March 31	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2015	¥ 420	$ 4,084	¥ 137	$ 1,332
2016	420	4,084	144	1,401
2017	420	4,084	151	1,476
2018	420	4,084	160	1,558
2019	420	4,084	169	1,645
2020 and thereafter	5,450	52,956	2,926	28,438
Total	¥7,551	$73,376	¥3,689	$35,850

Operating lease transactions

(a) Lessee – The amounts of outstanding future minimum lease payments of non-cancelable operating leases as of March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Due within one year	¥ 1,612	¥ 1,389	$ 13,502
Due after one year	19,750	15,844	153,951
Total	¥21,362	¥17,234	$167,453

(b) Lessor – The amounts of outstanding future minimum lease receipts of non-cancelable operating leases as of March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Due within one year	¥14,543	¥14,533	$141,211
Due after one year	58,159	53,940	524,102
Total	¥72,703	¥68,473	$665,313

10. Retirement Benefit Plans

For the year ended March 31, 2013

The Company and its consolidated subsidiaries have defined benefit plans for employees, consisting of a corporate defined benefit pension plan, contract-type corporate pension plans and lump-sum payment plans. These plans are based on an employee's base salary, length of service, and conditions under which termination of employment occurs.

The following table sets forth the plan's funding and accrual status and the amounts recognized in the consolidated balance sheets as of March 31, 2013 for defined benefit plans of the Company and its consolidated subsidiaries:

	Millions of yen
	2013
Retirement benefit obligations	¥(13,138)
Plan assets at fair value	6,069
Unfunded retirement benefit obligations	(7,068)
Unrecognized actuarial gains and losses	680
Unrecognized prior service costs	(0)
Net defined benefit liability	¥ (6,388)

The components of retirement benefit expenses for the year ended March 31, 2013 are as follows:

	Millions of yen
	2013
Service costs	¥ 412
Interest costs	264
Expected return on plan assets	(121)
Amortization of actuarial gains and losses	(62)
Amortization of prior service costs	(0)
Employees' contribution	(18)
Retirement benefit expenses	¥ 474

The assumptions used in accounting for the above plans as of March 31, 2013 are as follows:

	2013
Discount rates	1.5 %
Expected rate of return on assets	2.0~2.5 %
Amortization period of unrecognized gains and losses	8.5~13.7 years
Amortization period of unrecognized prior service costs	11.2~11.5 years

For the year ended March 31, 2014

The Company and its consolidated subsidiaries have defined benefit plans for employees, consisting of a corporate defined benefit pension plan, contract-type corporate pension plans and lump-sum payment plans. These plans are based on an employee's base salary, length of service, and conditions under which termination of employment occurs.

Four consolidated subsidiaries of the Company joined the NTT Corporate Defined Benefit Pension Plan in the year ended March 31, 2014.

The Company has shifted its contract-type corporate pension plan to a defined contribution pension plan since April 2014.

The changes in the retirement benefit obligations during the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligations at the beginning of the period	¥(13,138)	$(127,658)
Service costs	(509)	(4,951)
Interest costs	(191)	(1,864)
Actuarial gains and losses	58	572
Retirement benefits paid	598	5,817
Prior service costs	383	3,724
Other (costs of employees transferred, etc.)	(470)	(4,576)
Retirement benefit obligations at the end of the period	¥(13,270)	$(128,936)

The changes in plan assets during the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Plan assets at the beginning of the period	¥6,069	$58,974
Expected return on plan assets	139	1,354
Actuarial gains and losses	496	4,827
Contributions by the employer	174	1,698
Retirement benefits paid	(187)	(1,817)
Other (costs of employees transferred, etc.)	171	1,667
Plan assets at the end of the period	¥6,865	$66,703

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligations of the NTT Corporate Defined Benefit Pension Plan	¥(5,746)	$(55,839)
Plan assets at fair value	3,966	38,542
	(1,780)	(17,297)
Other retirement benefit obligations (unfunded pension plan, etc.)	(7,523)	(73,097)
Plan assets at fair value	2,898	28,161
	(4,624)	(44,936)
Net defined benefit liability	¥(6,404)	$(62,233)

The components of retirement benefit expenses for the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service costs	¥509	$4,951
Interest costs	191	1,864
Expected return on plan assets	(139)	(1,354)
Amortization of actuarial gains and losses	36	358
Amortization of prior service costs	(13)	(135)
Retirement benefit expenses	¥585	$5,684

Unrecognized prior service costs and unrecognized actuarial gains and losses included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized prior service costs	¥366	$3,562
Unrecognized actuarial gains and losses	(97)	(949)
Total	¥268	$2,613

The assumptions used in accounting for the above plans as of March 31, 2014 are as follows:

	2014
Discount rates	1.5%
Expected rate of return on assets	
NTT Corporate Defined Benefit Pension Plan	2.5%
Contract-type corporate pension	2.0%

11. Shareholders' Equity

The Companies Act provides that an amount equal to 10% of a distribution of surplus (aggregate of capital surplus and retained earnings) must be appropriated as legal reserve or as additional paid-in capital depending on which surplus is distributed, until the total of such a reserve and additional paid-in capital equals 25% of capital stock. The Company has appropriated retained earnings to the legal reserve in relation to the distribution of retained earnings. The legal reserves amounted to ¥3,437 million and ¥3,437 million ($33,398 thousand) as of March 31, 2013 and 2014, respectively, which are included in retained earnings.

12. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2013 and 2014 consist primarily of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Salaries, allowances and bonuses	¥4,990	**¥5,227**	**$50,792**
Business consignment expenses	3,535	**4,565**	**44,358**
Advertising expenses	3,676	**5,138**	**49,931**
Taxes and dues	1,565	**1,929**	**18,751**
Retirement benefit expenses	326	**385**	**3,745**
Provision for directors' retirement benefits	14	**11**	**113**
Provision of allowance for doubtful accounts	0	**0**	**6**

13. Impairment Loss on Non-current Assets

In the year ended March 31, 2013, the Company and its consolidated subsidiaries recognized an impairment loss on the following asset group:

Description	Classification	Location	Millions of yen
Land for development	Land	Taito-ku, Tokyo	**¥800**

As a general rule, the Company and its consolidated subsidiaries examine individual properties for impairment. As a result, its land above was recognized as impaired due to the change in purpose of ownership from leasing to sale. The book value of the land was reduced to the recoverable amounts, and the reduced values were recorded as "Impairment loss," which is included in "Other income (expenses)." The recoverable value of the assets above is measured at their net selling value appraised by an external real estate appraiser.

In the year ended March 31, 2014, the Company and its consolidated subsidiaries recognized impairment losses on the following asset group:

Description	Classification	Location	Millions of yen	Thousands of U.S. dollars
Three commercial/ office buildings in total	Land, buildings and structures	Kumamoto-shi, Kumamoto, etc.	**¥2,848**	**$27,673**

As a general rule, the Company and its consolidated subsidiaries examine individual properties for impairment. As a result, its three commercial / office buildings in total above were recognized as impaired due to the sharp decline in profitability with the worsening of market conditions. The book value of the land, buildings and structures was reduced to the recoverable amounts, and the reduced values were recorded as "Impairment loss," which is included in "Other income (expenses)." The recoverable value of the assets above is measured at their net selling value appraised by an external real estate appraiser.

14. Other Income (Expenses)

The components of "Other, net" in "Other income (expenses)" for the years ended March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Dividends income	¥ 85	**¥ 76**	**$ 744**
Contributions received in aid of construction	249	**138**	**1,346**
Gain on donated non-current assets	1	**60**	**583**
Gain on sales of property, plant and equipment	389	**6,434**	**62,515**
Gain on sales of securities of subsidiaries and affiliates	–	**2,142**	**20,813**
Loss on sales of property, plant and equipment	(508)	**(8,779)**	**(85,301)**
Loss on disposal of property, plant and equipment	(2,119)	**(1,476)**	**(14,344)**
Other	(152)	**(759)**	**(7,384)**
Total	¥(2,053)	**¥(2,164)**	**$(21,028)**

The components of "Gain on sales of property, plant and equipment" and "Loss on sales of property, plant and equipment" in "Other income (expenses)" for the years ended March 31, 2013 and 2014 are as follows.

For sales of non-current assets comprising a building with attached land, the Company offsets the gains and losses from the transactions. A net gain or loss resulting from such transactions was recorded as "Gain (loss) on sales of property, plant and equipment."

(a) Gain on sales of property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Buildings and structures	¥(187)	**¥(1,715)**	**$(16,671)**
Land	576	**8,149**	**79,186**
Total	¥ 389	**¥ 6,434**	**$ 62,515**

(b) Loss on sales of property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Buildings and structures	¥(111)	¥ (9)	$ (87)
Land	(396)	(8,770)	(85,214)
Total	¥(508)	¥(8,779)	$(85,301)

The components of "Loss on disposal of property, plant and equipment" in "Other income (expenses)" for the years ended March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Buildings and structures	¥ (963)	¥ (698)	$ (6,783)
Machinery and equipment	(27)	(11)	(110)
Removal cost	(1,109)	(743)	(7,224)
Tools, furniture, fixtures and others	(17)	(23)	(227)
Total	¥(2,119)	¥(1,476)	$(14,344)

15. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitant taxes and enterprise taxes, which, in aggregate, resulted in statutory tax rates of 38.0% and 38.0% for the years ended March 31, 2013 and 2014, respectively.

The following table presents a reconciliation of the difference between the statutory tax rate and the effective tax rate after the application of tax effect accounting for the year ended March 31, 2013. For the year ended March 31, 2014, notes are omitted since the difference between the effective tax rate and the actual effective tax rate after applying tax effect accounting is equal to or varies by less than 5% as compared to the effective tax rate.

	2013
Statutory tax rate	38.0%
Adjustments:	
Amortization of negative goodwill	(3.9)
Earnings of subsidiaries (*tokutei mokuteki kaisha*) attributable to minority interests	(2.7)
Valuation allowance	(0.3)
Other	(1.9)
Effective tax rate after the application of tax effect accounting	29.2%

The significant components of deferred tax assets and liabilities as of March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Deferred tax assets:			
Accrued bonuses in excess of the limit for income tax deduction	¥ 191	¥ 181	$ 1,759
Accrued enterprise taxes	316	164	1,596
Accrued real estate acquisition tax	204	220	2,146
Loss on valuation of inventory	94	23	226
Valuation loss on land	3,684	3,684	35,801
Depreciation of unused building volume	1,924	2,046	19,882
Net defined benefit liability	2,284	2,280	22,154
Impairment loss	716	1,462	14,206
Compensation for loss	128	–	–
Other	2,414	2,468	23,986
Subtotal	11,960	12,531	121,756
Valuation allowance	(6,088)	(6,820)	(66,275)
Total	5,871	5,710	55,481
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets for tax purposes	(11,102)	(14,079)	(136,799)
Non-current assets valuation difference	(52,715)	(52,513)	(510,232)
Other	(1,922)	(2,008)	(19,515)
Total	(65,740)	(68,600)	(666,546)
Net deferred tax liabilities	¥(59,868)	¥(62,890)	$(611,065)

16. Amounts Per Share

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Net income	¥12,073	¥11,343	$110,212
Amounts not attributable to common stock	–	–	–
Net income attributable to common stock	¥12,073	¥11,343	$110,212
Average number of common stock outstanding during the fiscal year	329,120,000 shares	329,120,000 shares	

	Yen		U.S. dollars
	2013	2014	2014
Net income per share	¥36.68	¥ 34.46	$0.33
Cash dividends per share	16	16	0.16

	Yen		U.S. dollars
	2013	2014	2014
Net assets per share	¥535.43	¥563.98	$5.48

Diluted net income per share is not disclosed because the Company does not have any dilutive securities.

The Company implemented the 100-for one stock split for its common shares with October 1, 2013 as the effective date and adopted the unit share system that sets one share unit at 100 shares. Net income per share is calculated as if the stock split had been implemented at the beginning of the previous fiscal year.

Net income per share was computed by dividing the net income available for distribution to shareholders of common stock by the weighted average number of shares of common stock outstanding during the year. Cash dividends per share represent cash dividends proposed by the Board of Directors as applicable to the respective years plus interim dividends from surplus. Net assets per share were computed by dividing net assets available for distribution to shareholders of common stock by the number of shares of common stock outstanding at the end of the fiscal year.

17. Financial Instruments

Overview

(a) Policy for financial instruments

The Company and its subsidiaries raise funds required mainly for investment in and operation of the leasing business and residential property sales business mainly through bank borrowings and bond issuances. The Company and certain subsidiaries also raise short-term operating funds by participating in the cash management system of the NTT Group. When temporary cash surpluses are realized, such surpluses are invested in the cash management system. The Company and its subsidiaries use derivatives to hedge the fluctuation risk of interest rates and never use derivatives for speculative purposes.

(b) Types of financial instruments and related risks

Notes and operating accounts receivable are exposed to credit risk in relation to customers. Short-term and long-term investment securities, consisting of Japanese government bonds, stocks of enterprises with which the Company has business relationships and investments in limited liability partnerships, are exposed to credit risk in relation to issuers and the fluctuation risk of the quoted market price.

Most of the payment due for notes and operating accounts payable–trade is within 1 year. Short-term and long-term debts are mainly for the purpose of raising funds for investments and the operation of the Company. The longest redemption periods of long-term debts as of March 31, 2013 and 2014 are 18 years and 6 months, and 17 years and 6 months, respectively. However, as some debts bearing interest at variable rates are exposed to interest rate risk, the Company and its consolidated subsidiaries utilize derivatives (interest rate swaps) as hedging instruments.

Interest rate swap transactions are designated to hedge the interest rate risk arising from adverse fluctuations in floating interest rates. Please refer to Note 2 (q), Derivatives, for information about hedge accounting.

(c) Risk management for financial instruments

(1) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the Company's accounting manual for managing the credit risk of the Company and certain subsidiaries arising from trade receivables, a responsible person from each related division of the Company and certain subsidiaries monitors the condition of individual customers, manages trade receivables during the period from recognition until derecognition and takes provisional measures on receivables which have been uncollected over a certain period.

For short-term and long-term investment securities, financial conditions of issuers (mainly customers) are periodically monitored. Taking the business relationships with issuers into account, continuance of investments is continuously reviewed for all investments other than Japanese government bonds. Credit risk is hardly recognized for Japanese government bonds.

The Company's management believes that credit risk arising from derivative transactions would be immaterial because the counterparties of such transactions are limited to banks with high credit ratings.

(2) Monitoring of market risk (the risk arising from fluctuations in interest rates)

The Company and certain subsidiaries raise funds mainly through bank borrowings bearing interest at fixed rates. For some borrowings bearing interest at variable rates, interest rate swap transactions are utilized to reduce the risk related to adverse fluctuations in the interest expenses.

For short-term and long-term investment securities, their quoted market prices, market conditions and the financial conditions of issuers are periodically monitored.

Derivative transactions are executed by the accounting and finance department of the Company with approval of an authorized person in accordance with the risk management guidelines related to financial instruments which prescribe hedging items, authorized persons and limits for transaction amounts.

(3) Monitoring of liquidity risk (the risk that the Company and its subsidiaries may not be able to meet their obligations on scheduled payment due dates)

The Company and certain subsidiaries manage liquidity risk by securing flexibility in liquidity, using a cash flow plan which is prepared on a timely basis and updated by the accounting and finance department of the Company based on related reports from each relevant division and with participation in the cash management system of the NTT Group.

(d) Supplemental information of the fair value of financial instruments

The fair value of financial instruments is measured using the quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated using certain valuation techniques such as discounting the future cash flows. Since variable assumptions and factors are reflected in estimating fair value, different assumptions and factors could result in a different fair value. In addition, the notional amounts of derivatives in Note 19, Derivative transactions, are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated Fair Value of Financial Instruments

The book value, fair value and its difference of financial instruments as of March 31, 2013 and 2014 are as follows. Financial assets and liabilities whose fair values are extremely difficult to determine or insignificant are not included in the following table.

	Millions of yen		
	2013		
Financial assets (liabilities):	Book value	Fair value	Difference
Cash and cash equivalents	¥ 12,809	¥ 12,809	¥ –
Time deposits and short-term investments	1,810	1,810	–
Notes and operating accounts receivable	13,786	13,785	(0)
Notes and operating accounts payable–trade	(10,742)	(10,742)	–
Short-term debt	(10,321)	(10,321)	–
Income taxes payable	(3,351)	(3,351)	–
Long-term debt	(495,670)	(511,808)	(16,137)
Lease and guarantee deposits received	(17,218)	(16,996)	222

	Millions of yen		
	2014		
Financial assets (liabilities):	Book value	Fair value	Difference
Cash and cash equivalents	¥ 18,798	¥ 18,798	¥ –
Time deposits and short-term investments	1,210	1,210	–
Notes and operating accounts receivable	18,058	18,057	(1)
Notes and operating accounts payable–trade	(11,850)	(11,850)	–
Short-term debt	(473)	(473)	–
Income taxes payable	(1,657)	(1,657)	–
Long-term debt	(506,780)	(518,543)	(11,762)
Lease and guarantee deposits received	(9,899)	(9,610)	288

	Thousands of U.S. dollars		
	2014		
Financial assets (liabilities):	Book value	Fair value	Difference
Cash and cash equivalents	$ 182,655	$ 182,655	$ –
Time deposits and short-term investments	11,757	11,757	–
Notes and operating accounts receivable	175,462	175,451	(11)
Notes and operating accounts payable–trade	(115,144)	(115,144)	–
Short-term debt	(4,599)	(4,599)	–
Income taxes payable	(16,109)	(16,109)	–
Long-term debt	(4,924,025)	(5,038,316)	(114,291)
Lease and guarantee deposits received	(96,185)	(93,381)	2,803

Long-term debt includes its current portion.

Deposits received of ¥65,588 million and ¥63,544 million ($617,421 thousand) (excluding the deposits for which the timing of return has been determined) are not included in "Lease and guarantee deposits received" for the years ended March 31, 2013 and 2014, respectively, because their remaining terms are not identifiable and it is extremely difficult to determine fair values.

Please refer to Note 6 and Note 19 for investment securities and derivative transactions, respectively.

(a) Measurement method of fair value of financial instruments

Financial Assets

Since cash and cash equivalents and time deposits and short-term investments are settled in a short period of time, their book values approximate fair value.

Since notes and operating accounts receivable are settled in a short period of time, their book values approximate fair value. For accounts receivable for which allowance for doubtful accounts are specifically recorded, however, their fair values are regarded as their book values less the estimated uncollectible amount (allowance).

For short-term and long-term investment securities, fair values of stocks and bonds having market prices refer to prices set by exchange markets.

Financial Liabilities

Since notes and operating accounts payable, short-term debt, and income taxes payable are settled in a short period of time, their book values approximate fair value.

The fair value of long-term debt with a quoted market price is based on the quoted market price. The fair value of long-term debt without a market price is estimated based on the present value of the total of principal and interest discounted using their remaining term and interest rates, for which the credit risk has been taken into account.

The fair value of lease and guarantee deposits received is estimated based on the present value of deposits received (for which the timing of return has been determined) and guarantee deposits discounted using their remaining term and interest rates, for which the credit risk has been taken into account.

(b) The future redemption schedule of financial assets and liabilities with maturities as of March 31, 2013 and 2014 is as follows:

	Millions of yen			
	2013			
Financial assets:	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
Cash and cash equivalents	¥12,809	¥ –	¥ –	¥ –
Time deposits and short-term investments	1,810	–	–	–
Notes and operating accounts receivable	13,786	–	–	–

	Millions of yen			
	2014			
Financial assets:	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
Cash and cash equivalents	**¥18,798**	**¥** –	**¥** –	**¥** –
Time deposits and short-term investments	**1,210**	–	–	–
Notes and operating accounts receivable	**18,058**	–	–	–

	Thousands of U.S. dollars			
	2014			
Financial assets:	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
Cash and cash equivalents	**$182,655**	**$** –	**$** –	**$** –
Time deposits and short-term investments	**11,757**	–	–	–
Notes and operating accounts receivable	**175,462**	–	–	–

Please refer to Note 7 for the future contractual repayment schedule of long-term debts.

18. Other Comprehensive Income

Recycling adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Valuation difference on available-for-sale securities:			
Amount arising during fiscal year	¥1,585	**¥(248)**	**$(2,414)**
Recycling	–	**–**	**–**
Before tax effect adjustment	1,585	**(248)**	**(2,414)**
Tax effect	(563)	**89**	**869**
Valuation difference on available-for-sale securities	1,022	**(158)**	**(1,545)**
Foreign currency translation adjustment:			
Amount arising during fiscal year	2,039	**3,629**	**35,269**
Total other comprehensive income	¥3,062	**¥3,470**	**$33,724**

19. Derivative Transactions

Derivative transactions into which the Company and certain subsidiaries have entered are as follows:

Hedging instruments: Interest rate swap (interest expenses at fixed rate – interest income at variable rate)
Hedged items: Long-term borrowings
Hedge accounting: Special matching criteria method for interest rate swap

A periodic assessment of hedge effectiveness is not performed because the special matching criteria are met for the Group's interest rate swap transactions.

The notional amounts of derivative transactions as of March 31, 2013 and 2014 are as follows. The interest rate swap transactions for which the special matching criteria method is applied are treated together with the long-term borrowings (which are hedged items), and the fair value of such interest rate swaps is included in the fair value of the long-term borrowings.

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Notional amounts	¥42,185	**¥55,212**	**$536,463**
Due after 1 year	39,185	**50,000**	**485,814**

20. Rental Properties

The Company and certain subsidiaries own rental properties including office buildings, rental commercial facilities, and residential rental housing in Tokyo and other areas. For the year ended March 31, 2013, the result of operation of those rental properties was ¥24,914 million. In addition, gain and loss on sales of property, plant and equipment, loss on disposal of property, plant and equipment, and impairment loss amounted to ¥388 million, ¥508 million, ¥2,065 million and ¥800 million, respectively. For the year ended March 31, 2014, the result of operation of those rental properties was ¥21,791 million ($211,728 thousand). In addition, gain and loss on sales of property, plant and equipment, loss on disposal of property, plant and equipment, and impairment loss amounted to ¥6,386 million ($62,055 thousand), ¥8,739 million ($84,914 thousand), ¥1,317 million ($12,801 thousand) and ¥2,838 million ($27,581 thousand), respectively.

The book value, net changes during the years ended March 31, 2013 and 2014, and fair value of rental properties as of March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
Book value:	2013	**2014**	**2014**
Amount at the beginning of fiscal year	¥ 743,939	**¥ 758,300**	**$ 7,367,863**
Change during fiscal year	14,360	**47,611**	**462,602**
Amount at the end of fiscal year	¥ 758,300	**¥ 805,911**	**$ 7,830,465**
Market value at the end of fiscal year	¥1,159,902	**¥1,210,052**	**$11,757,214**

The book value is the acquisition cost less accumulated depreciation and impairment loss.

For the year ended March 31, 2013, the components of net change in book values included increases mainly due to acquisitions in the amount of ¥28,002 million and decreases mainly due to the transfer to real estate for sale and to real estate for sale in progress, the sales of real estate, and impairment loss in the amounts of ¥5,378 million, ¥3,381 million and ¥800 million, respectively. For the year ended March 31, 2014, the components of net change in book values included increases mainly due to acquisitions in the amount of ¥83,412 million ($810,462 thousand) and decreases mainly due to the transfer to real estate for sale, the sales of real estate, and impairment loss in the amounts of ¥5,078 million ($49,347 thousand), ¥22,559 million ($219,191 thousand) and ¥2,838 million ($27,581 thousand), respectively.

The fair values for main properties were estimated by licensed third-party real estate appraisal agents. The fair values for the other properties were calculated by the Company using indices which are considered to reasonably reflect market prices.

21. Related Party Transactions

The Company has, in the ordinary course of business, engaged in transactions with NTT, NTT's other consolidated subsidiaries, and its affiliated companies.

Related party transactions for the year ended March 31, 2013 are as follows:

	2013
Nature of relationship	Subsidiary of parent company
Name of related party	NTT FINANCE CORPORATION
Equity ownership percentage	(Owned) 1.0%
Description of transaction	Long-term loans payable
Transaction amount	¥5,000 million
Balance at year-end	Deposit paid: ¥1,370 million
	Short-term loans payable: ¥10,321 million
	Current portion of long-term loans payable: ¥3,000 million
	Long-term loans payable: ¥38,000 million

Related party transactions for the year ended March 31, 2014 are as follows:

	2014
Nature of relationship	**Subsidiary of parent company**
Name of related party	**NTT FINANCE CORPORATION**
Equity ownership percentage	**(Owned) 1.0%**
Description of transaction	**Long-term loans payable**
Transaction amount	**¥33,900 million ($329,390 thousand)**
Balance at year-end	**Deposit paid: ¥1,695 million ($16,471 thousand)**
	Short-term loans payable: ¥473 million ($4,599 thousand)
	Current portion of long-term loans payable: ¥5,400 million ($52,468 thousand)
	Long-term loans payable: ¥66,300 million ($644,197 thousand)

The terms and conditions of the above related party transactions were the same as those for general third-party transactions.

22. Segment Information

The segment information for the Company and its consolidated subsidiaries for years ended March 31, 2013 and 2014 is as follows.

(a) Overview of reported segments

The reported segments of the Company and its consolidated subsidiaries are components for which discrete financial information is available and reviewed regularly by the Board of Directors to decide the allocation of management resources and assess business performance.

The reported segments of the Company and its consolidated subsidiaries are the leasing business and the residential property sales business.

In the leasing business, the Company and its consolidated subsidiaries lease properties, including office buildings, commercial facilities and rental housing, which the Company and its consolidated subsidiaries have developed and/or own. In the residential property sales business, the Company and its consolidated subsidiaries sell residential properties, which are mainly condominiums.

(b) Calculation methods of operating revenue, operating income, total assets and other items by reported segments

The accounting treatment of the reported business segments is generally the same as those stated in the Summary of Significant Accounting Policies.

Operating revenue from inter-segment transactions and transfers is based on the price in arm's-length transactions.

(c) Information about the amounts of operating revenue, operating income, total assets and other items by reported segments

	Millions of yen				
	2013				
	Reported segments				
	Leasing	Residential property sales	Total	Other	Total
Operating revenue:					
External customers	¥ 93,745	¥54,939	¥148,684	¥14,483	¥163,168
Inter-segment transactions and transfers	763	–	763	4,446	5,209
Total operating revenue	94,509	54,939	149,448	18,930	168,378
Operating income	¥ 29,216	¥ 2,914	¥ 32,131	¥ 1,580	¥ 33,711
Total assets	¥841,527	¥88,306	¥929,834	¥11,099	¥940,934
Other items:					
Depreciation and amortization	¥ 22,751	¥ 5	¥ 22,756	¥ 52	¥ 22,809
Increases in property, plant and equipment and intangible assets (investment amount)	46,136	3	46,139	160	46,299

	Millions of yen				
	2014				
	Reported segments				
	Leasing	Residential property sales	Total	Other	Total
Operating revenue:					
External customers	¥ 95,709	¥79,527	¥175,237	¥13,949	¥189,186
Inter-segment transactions and transfers	885	10	895	4,583	5,478
Total operating revenue	96,595	79,537	176,132	18,532	194,665
Operating income	¥ 27,189	¥ 8,222	¥ 35,411	¥ 1,729	¥ 37,140
Total assets	¥898,408	¥74,258	¥972,666	¥12,079	¥984,745
Other items:					
Depreciation and amortization	¥ 23,560	¥ 5	¥ 23,565	¥ 61	¥ 23,627
Increases in property, plant and equipment and intangible assets (investment amount)	103,146	13	103,160	85	103,245

	Thousands of U.S. dollars				
	2014				
	Reported segments				
	Leasing	Residential property sales	Total	Other	Total
Operating revenue:					
External customers	$ 929,944	$772,710	$1,702,654	$135,533	$1,838,187
Inter-segment transactions and transfers	8,604	98	8,702	44,532	53,234
Total operating revenue	938,548	772,808	1,711,356	180,065	1,891,421
Operating income	$ 264,178	$ 79,888	$ 344,066	$ 16,805	$ 360,871
Total assets	$8,729,188	$721,517	$9,450,705	$117,365	$9,568,070
Other items:					
Depreciation and amortization	$ 228,920	$ 53	$ 228,973	$ 597	$ 229,571
Increases in property, plant and equipment and intangible assets (investment amount)	1,002,201	133	1,002,334	828	1,003,162

"Other" consists of transactions that are not included in reported segments. In relation to the leasing segment, it includes office building maintenance and air-conditioning services, construction for leasing buildings upon requests from tenants for office renovation, and management of restaurant facilities as incidental facilities of office buildings.

Depreciation and amortization, and increases in property, plant and equipment and intangible assets (investment amount) include long-term prepaid expenses and related amortization.

(d) Differences between the total amount in reported segments and the amount in the consolidated financial statements, and details of the differences

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Operating revenue:			
Total amounts for reported segments	¥149,448	¥176,132	$1,711,356
Other	18,930	18,532	180,065
Elimination of inter-segment transactions	(5,209)	(5,478)	(53,234)
Operating revenue in consolidated financial statements	¥163,168	¥189,186	$1,838,187

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Operating income:			
Total amounts for reported segments	¥32,131	**¥35,411**	**$344,066**
Other	1,580	**1,729**	**16,805**
Elimination of inter-segment transactions	48	**5**	**51**
Company-wide expenses	(6,358)	**(6,687)**	**(64,975)**
Operating income in consolidated financial statements	¥27,401	**¥30,458**	**$295,947**

Company-wide expenses are primarily selling, general and administrative expenses which are not allocable to reported segments.

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Total assets:			
Total amounts for reported segments	¥929,834	**¥972,666**	**$9,450,705**
Other	11,099	**12,079**	**117,365**
Elimination of inter-segment transactions	(49,493)	**(50,048)**	**(486,289)**
Company-wide assets	49,610	**50,810**	**493,686**
Total assets in consolidated financial statements	¥941,050	**¥985,507**	**$9,575,467**

Company-wide assets are mainly surplus funds (cash and deposits), investment securities and assets for administration.

	Millions of yen 2013			
	Total amounts for reported segments	Other	Adjustments	Amounts stated in consolidated financial statements
Other items:				
Depreciation and amortization	¥22,756	¥52	¥957	¥23,766
Increases in property, plant and equipment and intangible assets (investment amount)	46,139	160	90	46,390

	Millions of yen 2014			
	Total amounts for reported segments	Other	Adjustments	Amounts stated in consolidated financial statements
Other items:				
Depreciation and amortization	**¥ 23,565**	**¥61**	**¥938**	**¥ 24,566**
Increases in property, plant and equipment and intangible assets (investment amount)	**103,160**	**85**	**140**	**103,385**

	Thousands of U.S. dollars 2014			
	Total amounts for reported segments	Other	Adjustments	Amounts stated in consolidated financial statements
Other items:				
Depreciation and amortization	**$ 228,973**	**$597**	**$9,124**	**$ 238,694**
Increases in property, plant and equipment and intangible assets (investment amount)	**1,002,334**	**828**	**1,362**	**1,004,524**

(e) Related information

(1) Information by product and service

Similar information is disclosed in the segment information, and therefore information by product and service has been omitted.

(2) Information by region

The segment information by region has been omitted, because operating revenue and property, plant and equipment in the domestic segment constituted more than 90% of total operating revenue and property, plant and equipment.

(3) Information by main customers

The segment information by main customers has been omitted for the years ended March 31, 2013 and 2014, because operating revenue for each specific customer account is less than 10% of operating revenue in the consolidated financial statements.

(f) Information about impairment loss on fixed assets by reported segments

For the year ended March 31, 2013, the Company and its consolidated subsidiaries recognized impairment loss of ¥800 million in the leasing segment. For the year ended March 31, 2014, the Company and its consolidated subsidiaries recognized impairment loss of ¥2,848 million ($27,673 thousand) in the leasing segment.

(g) Information on the amortized amount and unamortized balance of goodwill in reported segments

The following table presents the amortized amount and unamortized balance of goodwill as of and for the years ended March 31, 2013 and 2014 in reported segments.

	Millions of yen				
	2013				
	Leasing	Residential property sales	Other	Corporate / Eliminations	Total
Amortized amount	¥ 128	¥ –	¥ 13	¥ –	¥ 141
Balance as of March 31	2,056	–	223	–	2,280

	Millions of yen				
	2014				
	Leasing	Residential property sales	Other	Corporate / Eliminations	Total
Amortized amount	**¥ 123**	**¥ –**	**¥ 13**	**¥ –**	**¥ 136**
Balance as of March 31	**1,781**	**–**	**210**	**–**	**1,992**

	Thousands of U.S. dollars				
	2014				
	Leasing	Residential property sales	Other	Corporate / Eliminations	Total
Amortized amount	**$ 1,202**	**$ –**	**$ 128**	**$ –**	**$ 1,330**
Balance as of March 31	**17,314**	**–**	**2,047**	**–**	**19,361**

(h) Information on the amortized amount and unamortized balance of negative goodwill in reported segments

The following table presents the amortized amount and unamortized balance of negative goodwill as of and for the years ended March 31, 2013 and 2014 in reported segments.

	Millions of yen				
	2013				
	Leasing	Residential property sales	Other	Corporate / Eliminations	Total
Amortized amount	¥ 1,926	¥ –	¥ –	¥ –	¥ 1,926
Balance as of March 31	28,897	–	–	–	28,897

	Millions of yen				
	2014				
	Leasing	Residential property sales	Other	Corporate / Eliminations	Total
Amortized amount	**¥ 1,853**	**¥ –**	**¥ –**	**¥ –**	**¥ 1,853**
Balance as of March 31	**24,927**	**–**	**–**	**–**	**24,927**

	Thousands of U.S. dollars				
	2014				
	Leasing	Residential property sales	Other	Corporate / Eliminations	Total
Amortized amount	**$ 18,009**	**$ –**	**$ –**	**$ –**	**$ 18,009**
Balance as of March 31	**242,206**	**–**	**–**	**–**	**242,206**

23. Subsequent Events

Dividends

The following appropriation of retained earnings for the Company (which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2014) was approved at the general shareholders' meeting held on June 24, 2014:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥8 per share ($0.08))	¥2,632	$25,583

Independent Auditor's Report

To the Board of Directors of
NTT Urban Development Corporation

We have audited the accompanying consolidated financial statements of NTT Urban Development Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in net assets and the consolidated statements of cash flows for the years then ended, and the notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of NTT Urban Development Corporation and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

KPMG AZSA LLC

July 4, 2014
Tokyo, Japan

Affiliated Companies and Branch Network

Affiliated Companies (As of March 31, 2014)

Consolidated Subsidiaries

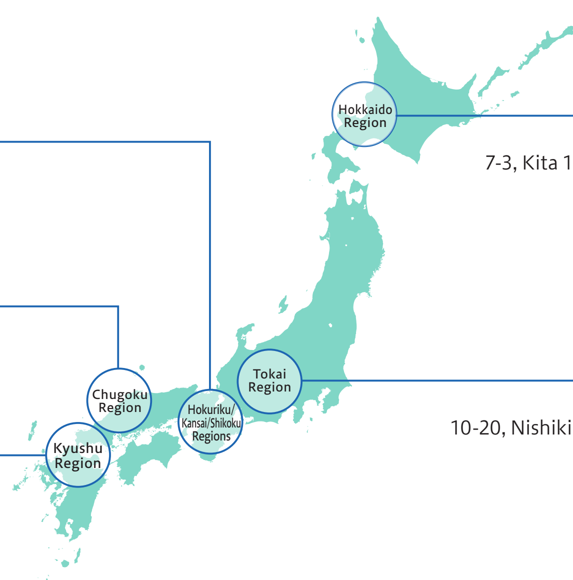
		Capitalization (Millions of yen)	Ownership Including voting rights (%)	Operations
NTT Urban Development Hokkaido BS Co.	Chuo-ku, Sapporo-shi	50	100.0	Maintenance and management of buildings and condominiums and management of parking lots in Hokkaido
Otemachi First Square Inc.	Chiyoda-ku, Tokyo	50	56.5	Management of Otemachi First Square and its land
NTT Urban Development Builservice Co.	Chiyoda-ku, Tokyo	300	100.0	Design, construction, remodeling, property management operations including the management and operation of buildings owned by NTT Urban Development in the greater Tokyo metropolitan area
Knox Twenty-One Co., Ltd.	Minato-ku, Tokyo	24	100.0	Operation of NTT Group's convention facilities
DAY·NITE Co., Ltd.	Chiyoda-ku, Tokyo	40	100.0	Operation of restaurants, halls and conference facilities, etc.
NTT Urban Development West BS Co.	Nishi-ku, Osaka-shi	100	100.0	Design, construction, remodeling, property management operations including the management and operation of buildings owned by NTT Urban Development in western Japan
Motomachi Parking Access Co., Ltd.	Naka-ku, Hiroshima-shi	60	58.3	Maintenance of underground passages in Hiroshima's Motomachi area
UDX Tokutei Mokuteki Kaisha	Chuo-ku, Tokyo	14,100	61.0	Development and ownership of Akihabara UDX
UD EUROPE LIMITED	London, U.K.	GBP 200	100.0	Investment in and management of real estate in the U.K.
Premier REIT Advisors Co., Ltd.	Minato-ku, Tokyo	300	53.1	Investment management business under the Financial Instruments and Exchange Act
UD AUSTRALIA PTY LIMITED	Melbourne, Australia	AUD 17,000,000	100.0	Investment in and management of real estate in Australia
UD USA Inc.	State of Delaware, U.S.A.	USD 100	100.0	Investment in and management of real estate in the U.S.A.
Two consolidated subsidiaries of UD USA Inc.	State of Delaware, U.S.A.	–	–	–

Equity-Method Affiliates

Tokyo Opera City Building Co., Ltd.	Shinjuku-ku, Tokyo	20	23.7	Management of Tokyo Opera City
DHC Tokyo Co., Ltd.	Minato-ku, Tokyo	200	50.0	District heating and cooling services for Granpark Tower
Tokyo Opera City District Heating & Cooling Co., Ltd.	Shinjuku-ku, Tokyo	980	36.2	District heating and cooling services for Tokyo Opera City
Harumi Yonchome City Planning Design Co.	Chuo-ku, Tokyo	50	36.0	Investigation and planning relating to the development of the Harumi 4-chome area
335 GRICES ROAD PTY LTD	Melbourne, Australia	AUD 1	50.0	Development and sales of residential land
Four equity-method affiliates of UD USA Inc.	State of Delaware, U.S.A.	–	–	–

Note: UDX Tokutei Mokuteki Kaisha is a specified subsidiary.

Branch Network (As of July 1, 2014)



Kansai Branch

Higobashi Shimizu Building
3-7, Tosabori 1-chome, Nishi-ku, Osaka-shi,
Osaka 550-0001, Japan
Tel: +81-6-6441-0022 Fax: +81-6-6441-0026

Chugoku Branch

NTT Cred Motomachi Building
6-78, Motomachi, Naka-ku, Hiroshima-shi,
Hiroshima 730-0011, Japan
Tel: +81-82-222-8623 Fax: +81-82-222-8620

Kyushu Branch

2-16, Imaizumi 1-chome, Chuo-ku, Fukuoka-shi,
Fukuoka 810-0021, Japan
Tel: +81-92-731-6633 Fax: +81-92-731-0978

Hokkaido Branch

Kita Ichijo Ohwada Building
7-3, Kita 1-jo Nishi, Chuo-ku, Sapporo-shi,
Hokkaido 060-0001, Japan
Tel: +81-11-261-6750
Fax: +81-11-261-5008

Tokai Branch

Urbannet Fushimi Building
10-20, Nishiki 1-chome, Naka-ku, Nagoya-shi,
Aichi 460-0003, Japan
Tel: +81-52-232-1011
Fax: +81-52-232-1012

History

Information on Operations		Completed Construction
December: Began participation in a redevelopment project in New York City, U.S.A. October: Established a subsidiary in U.S.A. May: Developed the Medium-Term Vision 2018 –For Further Growth–, a new medium-term vision	2013	● March: Grand Front Osaka completed
January: Established a corporation in Australia and commenced the residential land sales business in the suburbs of Melbourne	2012	● October: Otemachi Financial City North Tower completed ● July: Urbannet Kanda Building completed
November: Package sale of the real estate fund “NU-5 Fund” to Premier Investment Corporation March: Commenced operation of real estate fund “NU-7 Fund”	2011	● September: UD Nakasu Building completed ● August: Urbannet Tenjin Building completed ● June: Urbannet Uchihonmachi Building completed
May: Formulated “NTT Urban Development Group Medium-Term Management Plan 2012” May: Began participation in J-REIT business by acquiring investment units in Premier Investment Corporation through a third-party allotment and acquiring the shares of Premier REIT Advisors Co., Ltd. March: Commenced operation of real estate fund “NU-6 Fund”	2010	● October: Urbannet Shijo-Karasuma Building completed ● April: WELLITH Olive Shinkoiwa, residences for elderly people with services, completed
November: Established a subsidiary in London, U.K. and acquired an office building March: Commenced operation of real estate fund “NU-5 Fund”	2009	● October: WELLITH i-S Magome compact urban condominium completed ● April: JA Building and Keidanren Kaikan (Otemachi 1-Chome Urban Area Redevelopment Project Type 1) completed
December: Established brand logo for condominium brand “WELLITH”	2008	● February: WELLITH Azabu Mamiana completed
November: Formulated “Medium-Term Management Plan 2010” April: Commenced new graduate recruitment	2007	● October: WELLITH Garden Urawa Kishicho completed
December: Established NTT Urban Development West BS Co. November: Won joint bid with Mitsubishi Estate Co., Ltd., for the Osaka Station North District Phase 1 Development Area Project Blocks A and C May: Won joint bid with ORIX Real Estate Corporation for the Osaka Station North District Phase 1 Development Area Project Block B March: Commenced operation of real estate fund “NU-1 Fund”	2006	● March: Grand WELLITH Seta completed ● January: Akihabara UDX completed
June: Announced participation in the Otemachi redevelopment project May: Formulated Medium-term management plan, “Change & Proceed to 2007 (C&P07)”	2005	● September: Urbannet Nagoya Building completed
November: Company shares listed on the First Section of the Tokyo Stock Exchange	2004	● October: Urbannet Sapporo Building completed ● January: Quest Court Harajuku completed
	2003	● May: Urbannet Hakata Building completed ● February: Grand WELLITH Tetsugakudo Koen completed
March: Formulated Long-term vision, “Change & Proceed to 2015 (C&P15)” February: Bid on and acquired “Akihabara lots 1 and 3” in cooperation with Daibiru Corporation and Kajima Corporation	2002	
	2001	● August: WELLITH Nagatsuda completed ● January: Shin-Puh-Kan completed
September: Condominium brand “WELLITH” launched June: NTT Urban Development BuilService Co. established April: Residential property sales business began	2000	
April: Merger with NTT Tokai Real Estate Co., NTT Kansai Building Co., NTT Cred Co., NTT Kyushu Real Estate Co., and NTT Hokkaido Estate Co.	1999	
	1997	● May: Stage II of Otemachi First Square (East Tower) completed
	1996	● August: Granpark Tower completed ● July: Tokyo Opera City completed
February: Merger with NTT Estate Co.	1995	
	1994	● March: NTT Cred Motomachi Building (Pacela) completed
April: Merger with NTT Actif Co. and NTT Crais Co.	1993	● June: NTT Makuhari Building completed
	1992	● February: Stage I of Otemachi First Square (West Tower) completed
	1991	● January: Seavans Building completed
	1990	● June: Urbannet Otemachi Building completed
October: Merger with NTT Building Co.	1988	● April: Harajuku Quest completed
	1987	● June: Urbannet Kojimachi Building completed
January: NTT Urban Development Corporation established	1986	● March: Construction began on Urbannet Kojimachi Building, the Company’s first building

● Leasing Business ● Residential Property Sales Business

Investor Information (As of March 31, 2014)

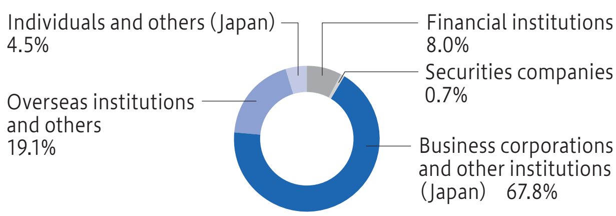
Company Information

Corporate name	NTT Urban Development Corporation
Headquarters	14-1, Sotokanda 4-chome, Chiyoda-ku, Tokyo 101-0021, Japan
Established	January 21, 1986
Paid-in Capital	¥48,760 million
Employees	776 (consolidated basis)
Branches	Tokai, Kansai, Chugoku, Kyushu, Hokkaido

Share Information

Common Stock:	
Number of authorized shares	1,050,000,000
Number of issued and outstanding shares	329,120,000
Shareholders	18,601
Number of shareholders with less than one unit	60

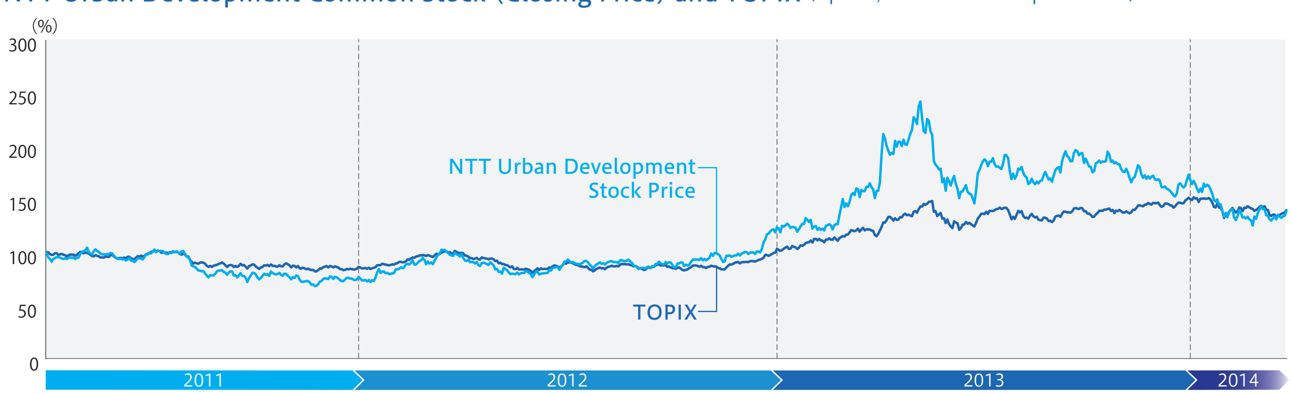
Shareholder Distribution (Percentage investment)



Major Shareholders (Top 10)

Name of Shareholder	Number of Shares Held	Equity Position (%)
Nippon Telegraph and Telephone Corporation (NTT)	221,481,500	67.30%
Japan Trustee Services Bank, Ltd. (Trust Account)	7,849,900	2.39%
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,484,000	2.27%
THE BANK OF NEW YORK – JASDEC TREATY ACCOUNT	3,390,200	1.03%
RBC IST OMNIBUS 15.315 PCT NON LENDING ACCOUNT	3,071,100	0.93%
THE BANK OF NEW YORK 133522	2,555,400	0.78%
GOLDMAN, SACHS & CO. REG	2,144,685	0.65%
STATE STREET BANK AND TRUST COMPANY 505223	1,849,942	0.56%
MORGAN STANLEY & CO. LLC	1,771,945	0.54%
RBC ISB A/C DUB NON RESIDENT - TREATY RATE	1,638,000	0.50%

NTT Urban Development Common Stock (Closing Price) and TOPIX (April 1, 2011 Value Is Equal to 100)



Note: The Company implemented a 100-for-one stock split for its common shares with October 1, 2013 as the effective date. The stock price has been retroactively adjusted to reflect the stock split.

NTT URBAN DEVELOPMENT CORPORATION
〒101-0021
Akihabara UDX, 14-1, Sotokanda 4-chome, Chiyoda-ku, Tokyo 101-0021, Japan
Tel: +81-3-6811-6300 Fax: +81-3-5294-8500
URL:http://www.nttud.co.jp/

UD FONT
MIX
Paper from responsible sources
FSC® C007391
VEGETABLE OIL INK™