Financial Report 2016

For the Fiscal Year Ended March 31, 2016

NTT URBAN DEVELOPMENT CORPORATION

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

CONSOLIDATED BALANCE SHEETS

As of March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	**2016**	**2016**
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 7 and 16)	¥ 20,153	¥ **16,106**	$ **142,944**
Time deposits and short-term investments (Note 16)	150	**100**	**887**
Notes and operating accounts receivable (Note 16)	5,569	**9,170**	**81,381**
Inventories (Notes 4 and 7)	93,571	**141,418**	**1,255,042**
Lease investment assets (Note 8)	3,837	**2,224**	**19,742**
Deferred tax assets (Note 14)	1,075	**425**	**3,780**
Other (Note 7)	4,189	**8,665**	**76,903**
Allowance for doubtful accounts (Note 16)	(35)	**(0)**	**(4)**
Total current assets	128,512	**178,110**	**1,580,675**
Non-current assets:			
Property, plant and equipment (Notes 7 and 19)**:**			
Buildings and structures (Note 12)	714,920	**617,052**	**5,476,153**
Machinery, equipment and vehicles	13,593	**11,902**	**105,633**
Tools, furniture and fixtures	15,486	**13,675**	**121,369**
Land (Note 12)	505,999	**494,722**	**4,390,506**
Lease assets (Note 8)	347	**315**	**2,798**
Construction in progress	2,212	**3,604**	**31,984**
Subtotal	1,252,559	**1,141,272**	**10,128,443**
Accumulated depreciation	(417,767)	**(359,377)**	**(3,189,366)**
Total property, plant and equipment	834,792	**781,895**	**6,939,077**
Investments and other assets:			
Investment securities (Note 5)	22,841	**24,311**	**215,761**
Long-term prepaid expenses (Note 7)	15,635	**15,072**	**133,761**
Net defined benefit asset (Note 9)	396	**147**	**1,312**
Intangible assets (Notes 7 and 19)	24,556	**25,994**	**230,695**
Deferred tax assets (Note 14)	354	**556**	**4,937**
Other (Note 7)	6,131	**7,468**	**66,284**
Total investments and other assets	69,916	**73,551**	**652,750**
Total non-current assets	904,708	**855,447**	**7,591,827**
Total assets	¥ 1,033,220	¥ **1,033,557**	$ **9,172,502**

CONSOLIDATED BALANCE SHEETS – (CONTINUED)

As of March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	**2016**	**2016**
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities:			
Notes and operating accounts payable-trade (Note 16)	¥ 8,473	¥ **9,182**	$ **81,491**
Short-term loans payable (Notes 6, 16, and 20)	–	**6,530**	**57,957**
Current portion of lease obligations (Note 8)	48	**40**	**363**
Current portion of long-term loans payable (Notes 6, 7, 16, and 20)	53,200	**36,775**	**326,372**
Current portion of bonds payable (Notes 6, 7, and 16)	–	**19,999**	**177,490**
Income taxes payable (Note 16)	2,684	**1,064**	**9,443**
Deferred tax liabilities (Note 14)	405	**380**	**3,378**
Other	34,062	**41,488**	**368,196**
Total current liabilities	98,874	**115,462**	**1,024,690**
Non-current liabilities:			
Bonds payable (Notes 6, 7, and 16)	130,968	**110,975**	**984,875**
Long-term loans payable (Notes 6, 7, 16, and 20)	363,020	**371,739**	**3,299,075**
Lease obligations (Note 8)	123	**87**	**775**
Deferred tax liabilities (Note 14)	59,555	**58,658**	**520,580**
Provision for directors' retirement benefits	23	**27**	**246**
Net defined benefit liability (Note 9)	6,335	**8,215**	**72,909**
Lease and guarantee deposits received (Note 16)	68,715	**69,424**	**616,121**
Negative goodwill (Note 21)	21,286	**22,951**	**203,691**
Asset retirement obligations	3,267	**2,424**	**21,517**
Other	35,407	**21,684**	**192,440**
Total non-current liabilities	688,704	**666,189**	**5,912,229**
Total liabilities	¥ 787,579	¥ **781,651**	$ **6,936,919**
NET ASSETS			
Shareholders' equity (Note 10)**:**			
Capital stock (Note 15):			
Authorized – 1,050,000,000 shares			
Issued – 329,120,000 shares	48,760	**48,760**	**432,730**
Capital surplus	34,109	**31,648**	**280,872**
Retained earnings	108,264	**118,437**	**1,051,098**
Treasury shares	–	**(0)**	**(1)**
Total shareholders' equity	191,134	**198,846**	**1,764,699**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	2,837	**3,003**	**26,651**
Foreign currency translation adjustments	6,429	**5,261**	**46,692**
Deferred gains or losses on hedges	–	**(9)**	**(88)**
Remeasurements of defined benefit plans (Note 9)	509	**(1,066)**	**(9,465)**
Total accumulated other comprehensive income	9,776	**7,187**	**63,790**
Non-controlling interests in consolidated subsidiaries	44,730	**45,871**	**407,094**
Total net assets	245,641	**251,905**	**2,235,583**
Total liabilities and net assets	¥ 1,033,220	¥ **1,033,557**	$ **9,172,502**

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

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	**2016**	**2016**
Operating revenue (Note 21)	¥ 152,052	**¥ 183,016**	**$ 1,624,214**
Operating cost (Note 4)	109,333	**127,078**	**1,127,779**
Operating gross profit	42,718	**55,938**	**496,435**
Selling, general and administrative expenses (Note 11)	17,881	**18,166**	**161,225**
Operating income (Notes 19 and 21)	24,836	**37,771**	**335,210**
Other income (expenses):			
Interest income	22	**11**	**101**
Interest expenses	(6,300)	**(5,936)**	**(52,687)**
Amortization of negative goodwill	1,780	**1,926**	**17,097**
Equity in earnings of affiliates	45	**251**	**2,229**
Gain on sales of property, plant and equipment (Notes 13)	1,850	**3,285**	**29,156**
Loss on sales of property, plant and equipment (Notes 13)	(699)	**(8,020)**	**(71,176)**
Impairment loss (Notes 12, 19, and 21)	(1,455)	**(4,917)**	**(43,646)**
Other, net (Notes 13 and 19)	(1,209)	**(1,250)**	**(11,099)**
	(5,967)	**(14,651)**	**(130,025)**
Profit before income taxes	18,869	**23,120**	**205,185**
Income taxes (Note 14):			
Current	4,806	**3,861**	**34,268**
Deferred	(5,426)	**265**	**2,359**
Total income taxes	(620)	**4,127**	**36,627**
Profit	19,490	**18,993**	**168,558**
Profit attributable to non-controlling interests	3,255	**2,435**	**21,612**
Profit attributable to owners of the parent (Note 15)	¥ 16,235	**¥ 16,557**	**$ 146,946**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2015 and 2016

		Millions of yen			Thousands of U.S. dollars (Note 1)
		2015		**2016**	**2016**
Profit	¥	19,490	¥	**18,993**	$ **168,558**
Other comprehensive income (Note 17)					
Valuation difference on available-for-sale securities		1,860		**165**	**1,472**
Foreign currency translation adjustment		1,982		**(1,168)**	**(10,369)**
Deferred gains or losses on hedges		–		**(9)**	**(87)**
Remeasurements of defined benefit plans (Note 9)		338		**(1,581)**	**(14,036)**
Total other comprehensive income		4,180		**(2,593)**	**(23,020)**
Comprehensive income	¥	23,671	¥	**16,399**	$ **145,538**
Comprehensive income attributable to:					
Comprehensive income attributable to owners of the parent	¥	20,415	¥	**13,969**	$ **123,977**
Comprehensive income attributable to non-controlling interests	¥	3,256	¥	**2,429**	$ **21,561**

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	**2016**	**2016**
Changes in shareholders' equity			
Capital stock:			
Balance at the beginning of the year	¥ 48,760	¥ **48,760**	$ **432,730**
Balance at the end of the year	¥ 48,760	¥ **48,760**	$ **432,730**
Capital surplus:			
Balance at the beginning of the year	¥ 34,109	¥ **34,109**	$ **302,714**
Cumulative effect of change in accounting policies (Note 3)	–	**(2,461)**	**(21,842)**
Restated balance at the beginning of the year	34,109	**31,648**	**280,872**
Balance at the end of the year	¥ 34,109	¥ **31,648**	$ **280,872**
Retained earnings:			
Balance at the beginning of the year	¥ 97,150	¥ **108,264**	$ **960,814**
Cumulative effect of change in accounting policies (Notes 3 and 9)	144	**(1,118)**	**(9,930)**
Restated balance at the beginning of the year	97,294	**107,145**	**950,884**
Profit attributable to owners of the parent	16,235	**16,557**	**146,947**
Dividends from surplus	(5,265)	**(5,265)**	**(46,733)**
Balance at the end of the year	¥ 108,264	¥ **118,437**	$ **1,051,098**
Treasury shares:			
Balance at the beginning of the year	¥ –	¥ **–**	$ —
Acquisition of treasury shares	–	**(0)**	**(1)**
Balance at the end of the year	¥ –	¥ **(0)**	$ **(1)**
Total shareholders' equity	¥ 191,134	¥ **198,846**	$ **1,764,699**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities			
Balance at the beginning of the year	¥ 976	¥ **2,837**	$ **25,179**
Net change of items other than shareholders' equity	1,860	**165**	**1,472**
Balance at the end of the year	¥ 2,837	¥ **3,003**	$ **26,651**
Foreign currency translation adjustment			
Balance at the beginning of the year	¥ 4,447	¥ **6,429**	$ **57,061**
Net change of items other than shareholders' equity	1,982	**(1,168)**	**(10,369)**
Balance at the end of the year	¥ 6,429	¥ **5,261**	$ **46,692**
Deferred gains or losses on hedges			
Balance at the beginning of the year	¥ –	¥ **–**	$ —
Net change of items other than shareholders' equity	–	**(9)**	**(88)**
Balance at the end of the year	¥ –	¥ **(9)**	$ **(88)**
Remeasurements of defined benefit plans (Note 9)			
Balance at the beginning of the year	¥ 171	¥ **509**	$ **4,520**
Net change of items other than shareholders' equity	337	**(1,575)**	**(13,985)**
Balance at the end of the year	¥ 509	¥ **(1,066)**	$ **(9,465)**
Total accumulated other comprehensive income	¥ 9,776	¥ **7,187**	$ **63,790**
Non-controlling interests in consolidated subsidiaries:			
Balance at the beginning of the year	¥ 42,975	¥ **44,730**	$ **396,974**
Net change of items other than shareholders' equity	1,755	**1,140**	**10,120**
Balance at the end of the year	¥ 44,730	¥ **45,871**	$ **407,094**
Total net assets	¥ 245,641	¥ **251,905**	$ **2,235,583**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	**2016**	**2016**
Operating activities:			
Profit before income taxes	¥ 18,869	¥ **23,120**	$ **205,185**
Adjustment for:			
Depreciation and amortization	23,474	**23,914**	**212,235**
Amortization of negative goodwill	(1,780)	**(1,926)**	**(17,097)**
Impairment loss	1,455	**4,917**	**43,646**
Amortization of goodwill	131	**11**	**105**
Increase (decrease) in allowance for doubtful accounts	34	**(34)**	**(308)**
Increase (decrease) in net defined benefit liability	644	**(420)**	**(3,733)**
Interest and dividend income	(95)	**(104)**	**(929)**
Interest expenses	6,300	**5,936**	**52,687**
Equity in earnings of affiliates	(45)	**(251)**	**(2,229)**
Gain on sales of non-current assets	(1,850)	**(3,285)**	**(29,156)**
Loss on disposal of non-current assets	1,220	**1,073**	**9,524**
Loss on sales of non-current assets	699	**8,020**	**71,176**
(Increase) decrease in lease investment assets	(80)	**681**	**6,045**
Decrease (increase) in notes and accounts receivable-trade	12,489	**(3,600)**	**(31,951)**
Increase in inventories	(8,006)	**(29,294)**	**(259,978)**
(Decrease) increase in notes and accounts payable-trade	(3,407)	**731**	**6,493**
(Decrease) increase in lease and guarantee deposits received	(2,206)	**307**	**2,726**
Other, net	(855)	**1,401**	**12,436**
Subtotal	46,993	**31,198**	**276,877**
Interest and dividend income received	120	**102**	**911**
Interest expenses paid	(6,340)	**(6,045)**	**(53,653)**
Income taxes paid	(3,785)	**(7,824)**	**(69,443)**
Net cash provided by operating activities	36,988	**17,430**	**154,692**

CONSOLIDATED STATEMENTS OF CASH FLOWS – (CONTINUED)

For the years ended March 31, 2015 and 2016

		Millions of yen			Thousands of U.S. dollars (Note 1)
		2015		2016	2016
Investing activities:					
Purchase of property, plant and equipment		(74,635)		**(47,400)**	**(420,666)**
Proceeds from sales of property, plant and equipment		6,604		**41,519**	**368,476**
Purchase of investment securities		(711)		**(6,764)**	**(60,029)**
Proceeds from repayment of investment securities		855		**505**	**4,489**
Proceeds from sales of securities of subsidiaries and affiliates		–		**26**	**237**
Other, net		108		**(2,457)**	**(21,813)**
Net cash used in investing activities		(67,778)		**(14,570)**	**(129,306)**
Financing activities:					
Net (decrease) increase in short-term loans payable		(473)		**6,651**	**59,033**
Proceeds from long-term loans payable		66,500		**56,383**	**500,385**
Repayments of long-term loans payable		(57,425)		**(63,215)**	**(561,022)**
Proceeds from issuance of bonds		29,996		**–**	**—**
Proceeds from share issuance to minority shareholders		14		**264**	**2,345**
Payment for acquisition of treasury shares		–		**(0)**	**(1)**
Cash dividends paid		(5,265)		**(5,266)**	**(46,738)**
Cash dividends paid to non-controlling interests		(1,515)		**(1,552)**	**(13,775)**
Other, net		(53)		**(46)**	**(414)**
Net cash provided by (used in) financing activities		31,777		**(6,781)**	**(60,187)**
Effect of exchange rate change on cash and cash equivalents		367		**(125)**	**(1,112)**
Net increase (decrease) in cash and cash equivalents		1,354		**(4,046)**	**(35,913)**
Cash and cash equivalents at the beginning of the year		18,798		**20,153**	**178,857**
Cash and cash equivalents at the end of the year	¥	20,153	**¥**	**16,106**	**$ 142,944**

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 are rounded down to the nearest million. Consequently, the totals shown in the accompanying consolidated financial statements in Japanese yen do not necessarily agree with the sum of the individual accounts.

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, 2016, which was ¥112.68 to U.S.$1. Amounts less than one thousand U.S. dollars are rounded off. 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.

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, 2015 and 2016, are as follows:

2015	**2016**
NTT Urban Development Builservice Co.	**NTT Urban Development Builservice Co.**
NTT Urban Development West BS Co.	**NTT Urban Development Hokkaido Co.**
NTT Urban Development Hokkaido 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	**Premier REIT Advisors Co., Ltd.**
Premier REIT Advisors Co., Ltd.	**Shinagawa Season Terrace Building Management Corporation**
Shinagawa Season Terrace Building Management Corporation	**NTT Urban Development Asset Management Corporation**
NTT Urban Development Asset Management Corporation	**UD EUROPE LIMITED**
UD EUROPE LIMITED	**UD AUSTRALIA PTY LIMITED**
UD AUSTRALIA PTY LIMITED	**UD USA Inc.**
UD USA Inc.	**Nine other consolidated subsidiaries**
Five other consolidated subsidiaries	

The Group established four consolidated subsidiaries affiliated with UD USA Inc. and made them consolidated subsidiaries of the Company in the year ended March 31, 2016.

On October 1, 2015, the Company conducted an absorption-type merger in which the surviving company was NTT Urban Development Builservice Co., and the absorbed company was NTT Urban Development West BS Co.

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, 2015 and 2016, are as follows:

2015	**2016**
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 4-chome City Planning Design Co.	**Harumi 4-chome City Planning Design Co.**
335 GRICES ROAD PTY LTD	**335 GRICES ROAD PTY LTD**
Four other equity method affiliates	**Annadale Development Partners Pty Limited**
	Seragaki Resort Tokutei Mokuteki Kaisha
	Seven other equity method affiliates

The Group invested in Annadale Development Partners Pty Limited, Seragaki Resort Tokutei Mokuteki Kaisha, and three subsidiaries of UD USA Inc. and has made them affiliated companies accounted for by the equity method.

The balance sheet date of UD EUROPE LIMITED, UD AUSTRALIA PTY LIMITED, UD USA Inc., and nine consolidated subsidiaries affiliated with UD USA Inc. is December 31. Financial statements as of December 31 are used to prepare the consolidated financial statements, and any significant transactions that occurred during the period from January 1 to March 31 are reflected in the consolidated financial statements. The fiscal year end of all other consolidated subsidiaries disclosed above is March 31, the same as that of the Company.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on 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 exposed to an insignificant risk of change in value.

(c) Inventories

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

Costs on uncompleted construction contracts are determined by the cost method based on the specific cost method.

Raw materials and supplies are stated at cost determined by the last purchase price method.

(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. The cost of marketable securities sold is calculated by the moving average method. Non-marketable securities are stated at cost, which 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 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, five to 17 years for machinery, equipment and vehicles, and two 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 (Excluding Lease 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, and a specific reserve that is the estimated uncollectible amount with respect to identified doubtful accounts.

(l) Retirement Benefits

Net defined benefit liability and net defined benefit asset have 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 benefit formula 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 (eight to 13 years) for eligible employees from the following year.

Prior service costs are amortized using the straight-line method over the average remaining service period (10 to 13 years) for eligible employees from the fiscal year in which 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 represents 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 were 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, 2015 and 2016, are ¥1,860 million and ¥166 million ($1,475 thousand), respectively. The amounts of negative goodwill before offsetting as of March 31, 2015 and 2016, are ¥23,147 million and ¥23,118 million ($205,166 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 respective 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 ownership is transferred to and accepted by customers.

Revenues from leasing land and buildings are recognized as rent and are 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 conduct 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. The hedge effectiveness is assessed based on the changes in either accumulated fluctuations of the market or cash flows of a hedged item, and either accumulated fluctuations of the market or cash flows of a hedging instrument. Interest rate swaps that meet the specific criteria are not re-measured at fair value but the net amount of money received or paid under swap agreements is 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 by resolution of the shareholders or by the Board of Directors provided that certain conditions are met.

(s) Standards Issued but Not Yet Effective

Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016)

(1) Overview

The Implementation Guidance on Recoverability of Deferred Tax Assets is a guideline on the application of the Accounting Standard for Tax Effect Accounting (Business Accounting Council) to the recoverability of deferred tax assets. The practical accounting guidelines and practical audit guidelines (related to accounting) of the Japanese Institute of Certified Public Accountants (JICPA) on tax effect accounting are being transferred to the Accounting Standards Board of Japan (ASBJ). Of the practical guidelines, the guidelines on the recoverability of deferred tax assets specified in the accounting treatments for the recoverability of deferred tax assets prescribed within Auditing Guidance No. 66, Auditing Treatment regarding the Judgment of Recoverability of Deferred Assets, issued by JICPA prescribe that companies shall be classified into one of five types and that the amount of deferred tax assets to be recorded shall be estimated in accordance with the type. The ASBJ has fundamentally adhered to this framework and has changed the requirements for classifications and treatment related to the amount of deferred tax assets to be recorded as necessary.

(Revision to the requirements for classification and treatment related to the amount of deferred tax assets to be posted)

- Treatment for an entity that does not meet any of the criteria for types 1 to 5;
- Criteria for types 2 and 3;
- Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
- Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
- Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Effective date

The Company plans to apply the implementation guidance at the beginning of the fiscal year beginning on or after April 1, 2016.

(3) Impact of applying these accounting standards

The amount of the impact on the consolidated financial statements by applying the Implementation Guidance on Recoverability of Deferred Tax Assets is currently being evaluated.

(t) Reclassification

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

3. Changes in Accounting Principles

The Company and its consolidated subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013 ("Statement No. 21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013 ("Statement No. 22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013 ("Statement No.7")) (together, the "Business Combinations Accounting Standards"), effective from the fiscal year beginning on or after April1, 2014. As a result, the Company changed the accounting policies to recognize the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to control in capital surplus; and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed the accounting policies for the reallocation of acquisition costs due to the completion of the provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. It also changed the title of net income and related other items to profit and minority interests to non-controlling interest. To reflect these changes, the consolidated financial statements for the fiscal years ended March 31, 2015, have been replaced.

With regard to the application of the Business Combinations Accounting Standards, the Company followed the provisional treatments in article 58-2(3) of Statement No. 21, article 44-5(3) of Statement No. 22 and article 57-4(3) of Statement No. 7, and recognized the cumulative effect as of the beginning of the current fiscal year that resulted from the retrospective application of the new accounting policies for all of the prior fiscal years in capital surplus or retained earnings.

As a result, goodwill, capital surplus, and retained earnings as of the beginning of the current fiscal year decreased by ¥1,682 million ($14,933 thousand), ¥2,461 million ($21,841 thousand), and ¥1,118 million ($9,930 thousand), respectively, and negative goodwill increased by ¥1,897 million ($16,838 thousand). For the current fiscal year, operating income increased by ¥120 million ($1,066 thousand), and profit before income taxes increased by ¥266 million ($2,361 thousand).

Since the cumulative effect is reflected in net assets as of the beginning of the current fiscal year, the beginning balance of capital surplus and retained earnings in the consolidated statement of changes in net assets decreased by ¥2,461 million ($21,841 thousand) and ¥1,118 million ($9,930 thousand), respectively.

Net assets per share decreased by ¥10.07 ($0.09) and earnings per share increased by ¥0.81 ($0.01).

4. Inventories

Inventories as of March 31, 2015, and 2016, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Real estate for sale	¥ 33,361	¥ **41,736**	$ **370,395**
Real estate for sale – construction in progress	59,987	**99,374**	**881,917**
Costs on uncompleted construction contracts	169	**248**	**2,210**
Raw materials and supplies	52	**58**	**520**
Total	¥ 93,571	¥ **141,418**	$ **1,255,042**

Losses on valuation of inventories of ¥1,188 million and ¥828 million ($7,348 thousand) were included in operating cost for the years ended March 31, 2015 and 2016, respectively.

5. Securities

(a) The acquisition cost, book value, and unrealized gains and losses on marketable available-for-sale securities as of March 31, 2015 and 2016, are as follows:

	Unrealized gains		
	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Acquisition cost:			
Equity securities	¥ 936	¥ **1,903**	$ **16,889**
Debt securities	170	**173**	**1,539**
Other	3,116	**3,116**	**27,654**
Total	¥ 4,223	¥ **5,192**	$ **46,082**
Book value:			
Equity securities	¥ 2,197	¥ **3,273**	$ **29,053**
Debt securities	201	**214**	**1,907**
Other	6,011	**6,050**	**53,700**
Total	¥ 8,411	¥ **9,539**	$ **84,660**
Unrealized gains:			
Equity securities	¥ 1,261	¥ **1,370**	$ **12,164**
Debt securities	30	**41**	**369**
Other	2,895	**2,934**	**26,045**
Total	¥ 4,187	¥ **4,346**	$ **38,578**

	Unrealized losses		
	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Acquisition cost:			
Other	¥ 985	¥ **385**	$ **3,425**
Total	¥ 985	¥ **385**	$ **3,425**
Book value:			
Other	¥ 861	¥ **341**	$ **3,031**
Total	¥ 861	¥ **341**	$ **3,031**
Unrealized losses:			
Other	¥ (124)	¥ **(44)**	$ **(394)**
Total	¥ (124)	¥ **(44)**	$ **(394)**

Fair value is the market price on stock markets or financial instrument exchanges.

No marketable available-for-sale securities were sold in the year ended March 31, 2015. Marketable available-for-sale securities sold in the year ended March 31, 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Sales price:			
Equity securities	¥ –	¥ **26**	$ **237**
Total	¥ –	¥ **26**	$ **237**
Total amount of the gain on sale			
Equity securities	¥ –	¥ **13**	$ **118**
Total	¥ –	¥ **13**	$ **118**
Total amount of the loss on sale			
Equity securities	¥ –	¥ **–**	$ **—**
Total	¥ –	¥ **–**	$ **—**

(b) The redemption schedule for securities with maturity dates as of March 31, 2015 and 2016, all of which are Japanese government bonds, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Due within one year	¥ –	¥ **–**	$ **—**
Due after one year and within five years	–	**–**	**—**
Due after five years and within ten years	–	**–**	**—**
Due after ten years	201	**214**	**1,907**
Total	¥ 201	¥ **214**	$ **1,907**

(c) The aggregate book value of securities with no available fair value as of March 31, 2015 and 2016, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Unlisted stocks	¥ 778	¥ **765**	$ **6,796**
Investments in limited partnerships	9,298	**4,189**	**37,177**
Other investments	50	**2,027**	**17,989**
Total	¥ 10,127	¥ **6,981**	$ **61,962**

(d) Investments in affiliates as of March 31, 2015 and 2016, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Capital stock	¥ 3,643	¥ **7,287**	$ **64,676**
Preferred equity securities	–	**376**	**3,339**
Total	¥ 3,643	¥ **7,663**	$ **68,015**

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, 2015 and 2016.

6. Short-term and Long-term Loans Payable, and Bonds Payable

Short-term loans payable and the corresponding weighted average interest rates as of March 31, 2015 and 2016, are as follows:

	Millions of yen		Thousands of U.S. dollars	Weighted average interest rate	
	2015	**2016**	**2016**	2015	**2016**
Borrowings	¥ –	**¥ 6,530**	**$ 57,957**	–	**1.1%**
Total	¥ –	**¥ 6,530**	**$ 57,957**		

As of March 31, 2015 and 2016, long-term loans payable and bonds payable consist of the following:

Description	Interest rate	Maturity	Millions of yen 2015	Millions of yen **2016**	Thousands of U.S. dollars **2016**
Unsecured bonds	1.9%	2016	¥ 19,998	**¥ 19,999**	**$ 177,490**
Unsecured bonds	2.0%	2018	19,994	**19,996**	**177,461**
Unsecured bonds	1.5%	2019	9,995	**9,996**	**88,719**
Unsecured bonds	1.0%	2020	9,996	**9,997**	**88,723**
Unsecured bonds	1.1%	2021	9,997	**9,997**	**88,727**
Unsecured bonds	2.0%	2031	4,997	**4,998**	**44,356**
Unsecured bonds	0.9%	2022	10,000	**10,000**	**88,747**
Unsecured bonds	0.8%	2023	9,995	**9,996**	**88,714**
Unsecured bonds	1.3%	2028	4,995	**4,995**	**44,336**
Unsecured bonds	0.2%	2019	9,996	**9,997**	**88,722**
Unsecured bonds	0.6%	2024	15,000	**15,000**	**133,120**
Unsecured bonds	1.1%	2029	5,000	**5,000**	**44,373**
Secured bonds	0.5%	2018	1,000	**1,000**	**8,875**
Borrowings from banks and other financial institutions:					
Secured	0.5 – 4.1 %	2016 - 2018	¥ 57,217	**¥ 56,000**	**$ 496,984**
Unsecured	0.1 – 2.4 %	2016 - 2029	359,003	**352,515**	**3,128,465**
			547,189	**539,490**	**4,787,812**
Less current portion			53,200	**56,775**	**503,862**
Total			¥ 493,989	**¥ 482,715**	**$ 4,283,950**

The contractual repayment schedule of long-term loans payable and bonds payable as of March 31, 2016, is summarized as follows:

Fiscal years ending March 31	Millions of yen	Thousands of U.S. dollars
2017	¥ **56,775**	$ **503,866**
2018	**53,406**	**473,963**
2019	**92,332**	**819,419**
2020	**45,500**	**403,798**
2021	**51,501**	**457,060**
2022 and thereafter	**240,000**	**2,129,925**
Total	¥ **539,515**	$ **4,788,031**

7. Pledged Assets

The assets pledged as collateral and corresponding debt regarding debt with limited recourse (*) as of March 31, 2015 and 2016, are as follows:

(a) Pledged assets:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Cash and cash equivalents	¥ 5,399	¥ **6,009**	$ **53,332**
Real estate for sale – construction in progress	1,383	**1,386**	**12,300**
Other current assets	160	**174**	**1,550**
Buildings and structures	42,842	**44,727**	**396,947**
Land	171,402	**171,402**	**1,521,147**
Other property, plant and equipment	122	**461**	**4,097**
Intangible assets	0	**14**	**128**
Long-term prepaid expenses	285	**264**	**2,349**
Other	0	**0**	**2**
Total	¥ 221,596	¥ **224,441**	$ **1,991,852**

(b) Corresponding debt secured by the above collateral:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Current portion of long-term loans payable	¥ 1,200	¥ **1,200**	$ **10,650**
Bonds payable	1,000	**1,000**	**8,875**
Long-term loans payable	56,017	**54,800**	**486,332**
Total	¥ 58,217	¥ **57,000**	$ **505,857**

(*) Debt with limited recourse includes bonds issued by UDX Tokutei Mokuteki Kaisha as of March 31, 2015, and UDX Tokutei Mokuteki Kaisha as of March 31, 2016. Repayment of debt is limited to assets of these companies such as the above-mentioned pledged assets.

8. Lease Transactions

Finance lease transactions

(a) Lessee - Lease assets under finance leases as of March 31, 2016, mainly consist of servers, computers (included in “Tools, furniture and fixtures”) and software, all of which are used for the leasing business.
The maturity schedule of lease obligations as of March 31, 2016, is summarized as follows:

Fiscal years ending March 31	Millions of yen	Thousands of U.S. dollars
2017	¥ **42**	$ **374**
2018	**34**	**307**
2019	**29**	**260**
2020	**14**	**132**
2021	**8**	**74**
2022 and thereafter	**6**	**56**
Total	¥ **135**	$ **1,203**

(b) Lessor - Net investment in finance leases as of March 31, 2015 and 2016, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Current assets:			
Undiscounted lease payments to be received	¥ 7,556	¥ **3,510**	$ **31,159**
Estimated residual value of lease assets	–	**–**	**–**
Unearned finance income	(3,719)	**(1,286)**	**(11,417)**
Net investment in finance leases	¥ 3,837	¥ **2,224**	$ **19,742**

The maturity schedule of undiscounted lease payments to be received and net investment in finance leases as of March 31, 2016, are summarized as follows:

	Undiscounted lease payments to be received		Net investment in finance leases	
Fiscal years ending March 31	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2017	¥ **317**	$ **2,820**	¥ **150**	$ **1,333**
2018	**317**	**2,820**	**161**	**1,437**
2019	**317**	**2,820**	**177**	**1,571**
2020	**296**	**2,628**	**170**	**1,509**
2021	**296**	**2,628**	**180**	**1,606**
2022 and thereafter	**1,965**	**17,443**	**1,384**	**12,286**
Total	¥ **3,510**	$ **31,159**	¥ **2,224**	$ **19,742**

Operating lease transactions

(a) Lessee - The amounts of outstanding future minimum lease payments of non-cancelable operating leases as of March 31, 2015, and 2016, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Due within one year	¥ 1,488	¥ **3,252**	$ **28,862**
Due after one year	16,100	**29,108**	**258,331**
Total	¥ 17,589	¥ **32,360**	$ **287,193**

(b) Lessor - The amounts of outstanding future minimum lease payments to be received of non-cancelable operating leases as of March 31, 2015, and 2016, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Due within one year	¥ 16,084	¥ **19,996**	$ **177,463**
Due after one year	51,940	**119,543**	**1,060,914**
Total	¥ 68,025	¥ **139,540**	$ **1,238,377**

9. Retirement Benefit Plans

The Company and its consolidated subsidiaries have employees' defined benefit plans, 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 Company and three consolidated subsidiaries are covered by the NTT Corporate Defined Benefit Pension Plan.

The Company has shifted the accumulated funds (future portion) of its contract-type corporate pension effective April 1, 2014, to the defined contribution plan. The accumulated funds up to March 31, 2014, are maintained as the current contract-type corporate pension.

(a) Defined benefit plans

The changes in the retirement benefit obligations during the years ended March 31, 2015 and 2016, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Retirement benefit obligations at the beginning of the year	¥ (13,270)	¥ **(13,381)**	$ **(118,756)**
Cumulative effect of change in accounting policies	224	**–**	**–**
Restated balance at the beginning of the year	(13,045)	**(13,381)**	**(118,756)**
Service costs	(435)	**(443)**	**(3,936)**
Interest costs	(191)	**(194)**	**(1,727)**
Actuarial gains and losses	124	**(2,134)**	**(18,944)**
Retirement benefits paid	378	**749**	**6,656**
Other (e.g. costs of employees transferred)	(211)	**(117)**	**(1,046)**
Retirement benefit obligations at the end of the year	¥ (13,381)	¥ **(15,521)**	$ **(137,753)**

The changes in plan assets during the years ended March 31, 2015 and 2016, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Plan assets at the beginning of the year	¥ 6,865	¥ **7,442**	$ **66,050**
Expected return on plan assets	156	**166**	**1,482**
Actuarial gains and losses	427	**(70)**	**(627)**
Contributions by the employer	103	**104**	**931**
Retirement benefits paid	(188)	**(224)**	**(1,989)**
Other (e.g. costs of employees transferred)	78	**34**	**308**
Plan assets at the end of the year	¥ 7,442	¥ **7,454**	$ **66,155**

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2015 and 2016, for the Company’s and the consolidated subsidiaries’ defined benefit plans:

		Millions of yen			Thousands of U.S. dollars	
		2015		**2016**		**2016**
Retirement benefit obligations of the funded system	¥	(8,453)	¥	**(10,307)**	$	**(91,472)**
Plan assets at fair value		7,442		**7,454**		**66,156**
		(1,010)		**(2,852)**		**(25,316)**
Other retirement benefit obligations of the unfunded system		(4,928)		**(5,214)**		**(46,281)**
Total net liability for retirement benefits	¥	(5,938)	¥	**(8,067)**	$	**(71,597)**
Net defined benefit liability	¥	(6,335)	¥	**(8,215)**	$	**(72,909)**
Net defined benefit asset		396		**147**		**1,312**
Total net liability for retirement benefits	¥	(5,938)	¥	**(8,067)**	$	**(71,597)**

The components of retirement benefit expenses for the years ended March 31, 2015 and 2016, are as follows:

		Millions of yen			Thousands of U.S. dollars	
		2015		**2016**		**2016**
Service costs	¥	435	¥	**443**	$	**3,936**
Interest costs		191		**194**		**1,727**
Expected return on plan assets		(156)		**(166)**		**(1,482)**
Amortization of actuarial gains and losses		(24)		**(58)**		**(523)**
Amortization of prior service costs		(37)		**(35)**		**(319)**
Retirement benefit expenses	¥	408	¥	**376**	$	**3,339**

Prior service costs, and actuarial gains and losses included in other comprehensive income (before tax effect) for the years ended March 31, 2015 and 2016, are as follows:

		Millions of yen			Thousands of U.S. dollars	
		2015		**2016**		**2016**
Prior service costs	¥	(35)	¥	**(42)**	$	**(377)**
Actuarial gains and losses		524		**(2,257)**		**(20,036)**
Total	¥	488	¥	**(2,300)**	$	**(20,413)**

Unrecognized prior service costs, and unrecognized actuarial gains and losses included in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2016, are as follows:

		Millions of yen			Thousands of U.S. dollars	
		2015		**2016**		**2016**
Unrecognized prior service costs	¥	330	¥	**288**	$	**2,558**
Unrecognized actuarial gains and losses		426		**(1,830)**		**(16,247)**
Total	¥	757	¥	**(1,542)**	$	**(13,689)**

The fair values of plan assets, by major category, as a percentage of total plan assets as of March 31, 2015 and 2016, are as follows:

	NTT Corporate Defined Benefit Pension Plan		Contract-type Corporate Pension	
	2015	**2016**	2015	**2016**
Cash and cash equivalents	0.77%	**0.66%**	0.46 %	**3.07 %**
Debt securities	42.73	**41.02**	46.10	**57.20**
Equity securities	29.08	**18.18**	17.79	**8.83**
Securities investment trusts beneficiary certificates	7.51	**20.55**	4.09	**5.78**
Pooled funds	8.12	**7.50**	12.26	**6.36**
Life insurance company general accounts	11.58	**11.94**	19.30	**18.76**
Other	0.21	**0.15**	―	**―**
Total	100.00%	**100.00%**	100.00 %	**100.00 %**

The expected return on plan assets has been estimated based on the anticipated allocation to each asset class, and the expected long-term returns on plan assets held in each category and risks based on the analysis of actual yields in the past of various long-term investments.

The actuarial assumptions used in accounting for the above plans as of March 31, 2015 and 2016, are as follows:

	2015	**2016**
Discount rates	1.5%	**0.5%**
Expected rate of return on plan assets		
NTT Corporate Defined Benefit Pension Plan	2.5%	**2.5%**
Contract-type Corporate Pension	2.0%	**2.0%**

(b) Defined Contribution Plan

The contributions made by the Company to the defined contribution plan for the years ended March 31, 2015 and 2016, were ¥63 million and ¥60 million ($533 thousand).

10. 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 ($30,505 thousand) as of March 31, 2015 and 2016, respectively, which are included in retained earnings.

11. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2015 and 2016, consist primarily of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Salaries, allowances and bonuses	¥ 5,053	**¥ 4,666**	**$ 41,414**
Business consignment expenses	3,402	**3,663**	**32,515**
Advertising expenses	3,037	**3,303**	**29,316**
Taxes and dues	1,899	**1,975**	**17,533**
Retirement benefit expenses	343	**281**	**2,500**
Provision for directors' retirement benefits	13	**11**	**100**
Provision of allowance for doubtful accounts	34	**(34)**	**(305)**

12. Impairment Loss on Fixed Assets

In the year ended March 31, 2015, the Company and its consolidated subsidiaries recognized impairment losses on the following asset group:

Description	Classification	Location		Millions of yen
Two office buildings in total	Land, buildings and structures	Sendai-shi, Miyagi and others	¥	1,455

As a general rule, the Company and its consolidated subsidiaries examine individual properties for impairment. As a result, its two 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 breakdown of the impairment loss is as follows: ¥862 million in buildings and structures and ¥593 million in land. 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, 2016, 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
Seven commercial / office buildings in total	Land, buildings and structures	Osaka-shi, Osaka and others	**¥**	**4,917**	**$**	**43,646**

As a general rule, the Company and its consolidated subsidiaries examine individual properties for impairment. As a result, its seven 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 breakdown of the impairment loss is as follows: ¥1,607 million ($14,265 thousand) of buildings and structures and ¥3,310 million ($29,381 thousand) of land. The recoverable value of the assets above is measured at their net selling value appraised by an external real estate appraiser.

13. Other Income (Expenses)

The components of “Other, net” in “Other income (expenses)” for the years ended March 31, 2015 and 2016, are as follows:

		Millions of yen				Thousands of U.S. dollars
		2015		**2016**		**2016**
Dividends income	¥	73	**¥**	**93**	**$**	**828**
Contributions received in aid of construction		93		**262**		**2,326**
Gain on donated of non-current assets		17		**22**		**200**
Gain on sales of non-current assets		1,850		**3,285**		**29,156**
Loss on sales of non-current assets		(699)		**(8,020)**		**(71,176)**
Loss on disposal of non-current assets		(1,220)		**(1,073)**		**(9,524)**
Other		(173)		**(555)**		**(4,929)**
Total	¥	(58)	**¥**	**(5,985)**	**$**	**(53,119)**

The components of “Gain on sales of non-current assets” and “Loss on sales of non-current assets” in “Other income (expenses)” for the years ended March 31, 2015 and 2016, are as follows.

For sales of non-current assets comprising a building and structures 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 non-current assets.”

(a) Gain on sales of non-current assets

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Buildings and structures	¥ (102)	¥ **(216)**	$ **(1,923)**
Land	1,952	**3,501**	**31,079**
Total	¥ 1,850	¥ **3,285**	$ **29,156**

(b) Loss on sales of non-current assets

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Buildings and structures	¥ —	¥ **(14,310)**	$ **(127,000)**
Land	(697)	**6,290**	**55,824**
Other	(1)	**—**	**—**
Total	¥ (699)	¥ **(8,020)**	$ **(71,176)**

The components of “Loss on disposal of non-current assets” in “Other income (expenses)” for the years ended March 31, 2015 and 2016, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Buildings and structures	¥ (521)	¥ **(354)**	$ **(3,148)**
Machinery and equipment	(3)	**(0)**	**(3)**
Removal cost	(676)	**(678)**	**(6,024)**
Tools, furniture, fixtures and others	(19)	**(39)**	**(349)**
Total	¥ (1,220)	¥ **(1,073)**	$ **(9,524)**

14. 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 the aggregate, resulted in statutory tax rates of 35.6% and 33.0% for the years ended March 31, 2015 and 2016, respectively.

The following table presents a reconciliation of the statutory tax rate and the average effective tax rate for the years ended March 31, 2015 and 2016.

	2015	**2016**
Statutory tax rate	35.6 %	**33.0 %**
Adjustments:		
Reduction in year-end deferred tax liabilities due to tax rate change	(31.6)	**(13.2)**
Amortization of negative goodwill	(3.4)	**(2.8)**
Earnings of subsidiaries (*tokutei mokuteki kaisha*) attributable to non-controlling interests	(2.6)	**(2.2)**
Valuation allowance	(0.8)	**2.9**
Other	(0.5)	**0.0**
Average effective tax rate	(3.3)	**17.8**

The Japanese Diet passed the “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 15 of 2016) and the “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 13 of 2016) on March 29, 2016, to reduce the income tax rates for the fiscal years beginning on or after April 1, 2016. As a result, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized during the fiscal years beginning on April 1, 2016 and 2017, and on or after April 1, 2018, were changed from 32.2% to 30.8% and to 30.6%, respectively.

Due to these changes in statutory income tax rates, deferred tax liabilities (after deducting the deferred tax assets) decreased by ¥3,102 million ($27,533 thousand) as of March 31, 2016, deferred income tax expense recognized for the fiscal year ended March 31, 2016, decreased by ¥3,056 million ($27,123 thousand), accumulated remeasurements of defined benefit plans decreased by ¥24 million ($221 thousand), and valuation difference on available-for-sale securities increased by ¥71 million ($631 thousand).

The significant components of deferred tax assets and liabilities as of March 31, 2015 and 2016, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Deferred tax assets:			
Accrued bonuses in excess of the limit for income tax deduction	¥ 169	**¥ 153**	**$ 1,362**
Accrued enterprise taxes	222	**148**	**1,318**
Accrued real estate acquisition tax	169	**93**	**831**
Loss on valuation of inventory	9	**—**	**—**
Valuation loss on land	2,962	**2,811**	**24,954**
Depreciation of unused building volume	1,962	**1,968**	**17,468**
Net defined benefit liability	1,988	**2,559**	**22,712**
Impairment loss	1,668	**2,536**	**22,515**
Other	2,944	**3,544**	**31,457**
Subtotal	12,097	**13,816**	**122,617**
Valuation allowance	(6,119)	**(6,446)**	**(57,212)**
Total	¥ 5,977	**¥ 7,369**	**$ 65,405**
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets for tax purposes	¥ (14,245)	**¥ (17,607)**	**$ (156,262)**
Non-current assets valuation difference	(47,375)	**(44,812)**	**(397,698)**
Other	(2,887)	**(3,006)**	**(26,684)**
Total	¥ (64,508)	**¥ (65,426)**	**$ (580,644)**
Net deferred tax liabilities	¥ (58,530)	**¥ (58,057)**	**$ (515,239)**

15. Amounts Per Share

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Profit attributable to owners of the parent	¥ 16,235	¥ **16,557**	$ **146,946**
Amounts not attributable to common stock	–	**–**	**—**
Profit related to common stock that is attributable to owners of the parent	¥ 16,235	¥ **16,557**	$ **146,946**
Average number of common stock outstanding during the fiscal year	329,120,000 shares	**329,119,966 shares**	**329,119,966 shares**

	Yen		U.S. dollars
	2015	**2016**	**2016**
Earnings per share	¥ 49.33	¥ **50.31**	$ **0.45**
Cash dividends per share	¥ 16	¥ **17**	$ **0.15**

	Yen		U.S. dollars
	2015	**2016**	**2016**
Net assets per share	¥ 610.45	¥ **626.02**	$ **5.56**

Diluted earnings per share are not disclosed because the Company does not have any dilutive securities.

Earnings per share were computed by dividing the profit 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.

16. Financial Instruments

Overview

(a) Policy for financial instruments

The Company and its consolidated subsidiaries raise funds required mainly for investment in and operation of the leasing business and residential property sales business mostly 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 available, such surpluses are invested in the cash management system. It is the policy for the Company and its consolidated subsidiaries to use derivatives to hedge fluctuation risk of interest rates but 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 fluctuation risk of the quoted market prices.

Notes and operating accounts payable-trade are mostly due within one year. Short-term and long-term loans payable, and bonds payable are mainly for the purpose of raising funds for investments and the operation of the Company. The longest redemption periods of long-term loans payable and bonds payable as of March 31, 2015 and 2016, are 16 years and six months, and 15 years and six months, respectively. However, as some debts with variable interest 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. Refer to Note 2, Summary of Significant Accounting Policies, (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 financial condition of each customer, traces trade receivables during the period from recognition until derecognition, and takes provisional measures on receivables which are overdue for 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, holdings of investments are continuously reviewed for all investments other than Japanese government bonds. Credit risk is not usually 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 exchange rates and interest rates)

The Company and certain consolidated subsidiaries raise funds mainly through fixed-rate bank borrowings. For some borrowings with variable interest, interest rate swaps 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.

Derivatives 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 instruments, authorized persons, and limits for transaction amounts.

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

The Company and certain consolidated subsidiaries manage liquidity risk by securing flexibility in liquidity, using a cash flow plan, which is timely prepared and updated by the Accounting and Finance Department of the Company based on related reports from each relevant division and participating 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 used in estimating fair value, different assumptions and factors could result in a different fair value. In addition, the notional amounts of derivatives in Note 18, 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 the difference thereof for financial instruments as of March 31, 2015 and 2016, 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		
	2015		
	Book value	Fair value	Difference
Financial assets (liabilities):			
Cash and cash equivalents	¥ 20,153	¥ 20,153	¥ –
Time deposits and short-term investments	150	150	–
Notes and operating accounts receivable	5,569	5,534	(35)
Notes and operating accounts payable-trade	(8,473)	(8,473)	–
Income taxes payable	(2,684)	(2,684)	–
Bonds payable	(130,968)	(135,781)	(4,812)
Long-term loans payable	(416,220)	(427,095)	(10,875)
Lease and guarantee deposits received	(10,315)	(10,061)	254

	Millions of yen		
	2016		
	Book value	Fair value	Difference
Financial assets (liabilities):			
Cash and cash equivalents	¥ **16,106**	¥ **16,106**	¥ **–**
Time deposits and short-term investments	**100**	**100**	**–**
Notes and operating accounts receivable	**9,170**	**9,169**	**(0)**
Notes and operating accounts payable-trade	**(9,182)**	**(9,182)**	**–**
Short-term loans payable	**(6,530)**	**(6,530)**	**–**
Income taxes payable	**(1,064)**	**(1,064)**	**–**
Bonds payable	**(130,975)**	**(136,348)**	**(5,373)**
Long-term loans payable	**(408,515)**	**(424,241)**	**(15,726)**
Lease and guarantee deposits received	**(12,058)**	**(11,950)**	**107**

	Thousands of U.S. dollars		
	2016		
	Book value	Fair value	Difference
Financial assets (liabilities):			
Cash and cash equivalents	$ **142,944**	$ **142,944**	$ **–**
Time deposits and short-term investments	**887**	**887**	**–**
Notes and operating accounts receivable	**81,381**	**81,377**	**(4)**
Notes and operating accounts payable-trade	**(81,491)**	**(81,491)**	**–**
Short-term loans payable	**(57,957)**	**(57,957)**	**–**
Income taxes payable	**(9,443)**	**(9,443)**	**–**
Bonds payable	**(1,162,365)**	**(1,210,053)**	**(47,688)**
Long-term loans payable	**(3,625,447)**	**(3,765,015)**	**(139,568)**
Lease and guarantee deposits received	**(107,016)**	**(106,058)**	**958**

Long-term loans payable and bonds payable include their current portion.

Deposits received of ¥60,922 million and ¥59,486 million ($527,927 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, 2015 and 2016, respectively, because their remaining terms are not identifiable and it is extremely difficult to determine fair values.

Refer to Note 5 and Note 18 for investment securities and derivatives, respectively.

(a) Measurement Method for 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. The fair value of accounts receivable for which allowance for doubtful accounts are specifically recorded is 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 loans payable, and income taxes payable are settled in a short period of time, their book values approximate fair value.

Fair values of bonds payable with a quoted market price are based on the quoted market price. Fair values of bonds payable without a market price are estimated based on the present value of the total of principal and interest discounted using their remaining terms and interest rates for which the credit risk has been taken into account.

Fair values of long-term loans payable are estimated based on the present value of the total of principal and interest discounted using their remaining terms and interest rates for which the credit risk has been taken into account.

Fair value of lease and guarantee deposits received are 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, 2015 and 2016, is as follows:

Millions of yen

	2015			
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
Financial assets:				
Cash and cash equivalents	¥ 20,153	¥ –	¥ –	¥ –
Time deposits and short-term investments	150	–	–	–
Notes and operating accounts receivable	5,569	–	–	–

Millions of yen

	2016			
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
Financial assets:				
Cash and cash equivalents	**¥ 16,106**	**¥ –**	**¥ –**	**¥ –**
Time deposits and short-term investments	**100**	**–**	**–**	**–**
Notes and operating accounts receivable	**9,170**	**–**	**–**	**–**

Thousands of U.S. dollars

	2016			
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
Financial assets:				
Cash and cash equivalents	**$ 142,944**	**$ –**	**$ –**	**$ –**
Time deposits and short-term investments	**887**	**–**	**–**	**–**
Notes and operating accounts receivable	**81,381**	**–**	**–**	**–**

Refer to Note 6 for the future contractual repayment schedule of long-term loans payable and bonds payable.

17. Other Comprehensive Income

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2015 and 2016, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Valuation difference on available-for-sale securities:			
Amount arising during fiscal year	¥ 2,670	¥ **159**	$ **1,417**
Reclassification adjustments for gains and losses included in net income	—	**(13)**	**(118)**
Amount before tax effect	2,670	**146**	**1,299**
Tax effect	(810)	**19**	**173**
Valuation difference on available-for-sale securities	1,860	**165**	**1,472**
Foreign currency translation adjustments:			
Amount arising during fiscal year	1,982	**(1,168)**	**(10,369)**
Deferred gains or losses on hedges			
Amount arising during fiscal year	—	**(9)**	**(87)**
Remeasurements of defined benefit plans:			
Amount arising during fiscal year	546	**(2,205)**	**(19,571)**
Reclassification adjustments for gains and losses included in net income	(57)	**(94)**	**(842)**
Amount before tax effect	488	**(2,300)**	**(20,413)**
Tax effect	(150)	**718**	**6,377**
Remeasurements of defined benefit plans	338	**(1,581)**	**(14,036)**
Total other comprehensive income	¥ 4,180	¥ **(2,593)**	$ **(23,020)**

18. Derivative Transactions

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

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, 2015, and 2016, 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
	2015	**2016**	**2016**
Notional amounts	¥ 57,740	¥ **54,575**	$ **484,341**
Due after 1 year	54,740	**49,000**	**434,860**

Hedging instruments: Interest rate swap (interest expenses at fixed rate – interest income at variable rate)
Hedged items: Long-term borrowings
Hedge accounting: Deferred hedge

The notional amounts of derivative transactions as of March 31, 2015, and 2016, are as follows. The fair value is calculated based on the price presented by financial institutions or other organizations.

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Notional amounts	¥ —	¥ **4,341**	$ **38,534**
Due after 1 year	—	**4,341**	**38,534**
Fair value	—	**(9)**	**(87)**

19. 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, 2015, the result of lease operation of those rental properties was ¥19,206 million. In addition, gain and loss on sales of non-current assets, loss on disposal of non-current assets, and impairment loss amounted to ¥1,848 million, ¥697 million, ¥1,080 million, and ¥1,429 million, respectively. For the year ended March 31, 2016, the result of lease operation of those rental properties was ¥19,289 million ($171,191 thousand). In addition, gain and loss on sales of non-current assets, loss on disposal of non-current assets, and impairment loss amounted to ¥3,281 million ($29,119 thousand), ¥8,020 million ($71,176 thousand), ¥937 million ($8,321 thousand), and ¥4,911 million ($43,590 thousand), respectively.

The book value, net of changes during the years ended March 31, 2015 and 2016, and fair value of rental properties as of March 31, 2015 and 2016, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Book Value:			
Amount at the beginning of fiscal year	¥ 805,911	¥ **845,486**	$ **7,503,429**
Change during fiscal year	39,574	**(49,616)**	**(440,329)**
Amount at the end of fiscal year	¥ 845,486	¥ **795,870**	$ **7,063,100**
Market value at the end of fiscal year	¥ 1,327,642	¥ **1,357,982**	$ **12,051,669**

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

For the year ended March 31, 2015, the components of net change in book values included increases mainly due to acquisitions in the amount of ¥66,259 million and decreases mainly due to the transfer to real estate for sale, the sales of real estate, and impairment loss in the amounts of ¥6,438 million, ¥5,542 million, and ¥1,429 million, respectively. For the year ended March 31, 2016, the components of net change in book values included increases mainly due to acquisitions in the amount of ¥38,288 million ($339,797 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 ¥20,104 million ($178,423 thousand), ¥44,648 million ($396,244 thousand), and ¥4,911 million ($43,590 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.

20. 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, 2015, are as follows:

	2015
Nature of relationship	Subsidiary of parent company
Name of related party	NTT FINANCE CORPORATION
Equity ownership percentage	(Owned) 1.0%
Description of transaction	Deposit paid and long-term loans payable
Transaction amount	—
Balance at year-end	Deposit paid ¥1,282 million Current portion of long-term loans payable ¥24,000 million Long-term loans payable ¥9,000 million

Related party transactions for the year ended March 31, 2016, are as follows:

	2016
Nature of relationship	**Subsidiary of parent company**
Name of related party	**NTT FINANCE CORPORATION**
Equity ownership percentage	**(Owned) 1.0%**
Description of transaction	**Short-term loans payable and long-term loans payable**
Transaction amount	**Long-term loans payable** **¥25,000 million ($221,867 thousand)**
Balance at year-end	**Short-term loans payable** **¥2,459 million ($21,828 thousand)** **Long-term loans payable** **¥31,000 million ($275,115 thousand)**

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

21. Segment Information

The segment information for the Company and its consolidated subsidiaries for years ended March 31, 2015 and 2016, is as follows:

(a) Overview of reportable segments

The reportable 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 reportable 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 reportable segment

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

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

(Adaption of “Revised Accounting Standard for Business Combinations” and other standards)
As stated in “Changes in accounting principles,” the Company and its consolidated subsidiaries adopted these accounting standards from this current fiscal year and, as a result, changed the accounting policies to recognize the differences arising from the changes in the Company’s ownership interest of subsidiaries over which the Company continues to control in capital surplus; and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed the accounting policies for the reallocation of acquisition costs due to the completion of the provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place.

As a result, profits by segment of the current fiscal year increased by ¥118 million ($1,054 thousand) in the leasing business and ¥1 million ($12 thousand) in the other businesses, respectively, compared with those accounted for under the previous accounting method.

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

Millions of yen

	2015				
	Reportable segments				
	Leasing	Residential property sales	Total	Other	Total
Operating revenue:					
External customers	¥ 90,819	¥ 46,620	¥ 137,439	¥ 14,612	¥ 152,052
Inter-segment transactions and transfers	920	5	926	4,213	5,140
Total operating revenue	91,739	46,626	138,366	18,825	157,192
Operating income	¥ 23,566	¥ 4,405	¥ 27,972	¥ 2,485	¥ 30,457
Total assets	¥ 954,681	¥ 64,530	¥ 1,019,211	¥ 12,519	¥ 1,031,731
Other items:					
Depreciation and amortization	¥ 22,695	¥ 7	¥ 22,703	¥ 68	¥ 22,771
Increases in property, plant and equipment and intangible assets (investment amount)	76,589	31	76,621	76	76,698

Millions of yen

	2016				
	Reportable segments				
	Leasing	Residential property sales	Total	Other	Total
Operating revenue:					
External customers	**¥ 120,083**	**¥ 48,859**	**¥ 168,942**	**¥ 14,073**	**¥ 183,016**
Inter-segment transactions and transfers	**883**	**6**	**889**	**5,527**	**6,416**
Total operating revenue	**120,966**	**48,865**	**169,832**	**19,600**	**189,433**
Operating income	**¥ 36,722**	**¥ 5,074**	**¥ 41,797**	**¥ 2,199**	**¥ 43,996**
Total assets	**¥ 898,143**	**¥ 110,280**	**¥ 1,008,424**	**¥ 14,223**	**¥ 1,022,648**
Other items:					
Depreciation and amortization	**¥ 23,237**	**¥ 9**	**¥ 23,247**	**¥ 69**	**¥ 23,316**
Increases in property, plant and equipment and intangible assets (investment amount)	**40,964**	**12**	**40,977**	**195**	**41,172**

Thousands of U.S. dollars

	2016				
	Reportable segments				
	Leasing	Residential property sales	Total	Other	Total
Operating revenue:					
External customers	**$ 1,065,702**	**$ 433,613**	**$ 1,499,315**	**$ 124,899**	**$ 1,624,214**
Inter-segment transactions and transfers	**7,839**	**57**	**7,896**	**49,050**	**56,946**
Total operating revenue	**1,073,541**	**433,670**	**1,507,211**	**173,949**	**1,681,160**
Operating income	**$ 325,899**	**$ 45,037**	**$ 370,936**	**$ 19,520**	**$ 390,456**
Total assets	**$ 7,970,748**	**$ 978,708**	**$ 8,949,456**	**$ 126,232**	**$ 9,075,688**
Other items:					
Depreciation and amortization	**$ 206,228**	**$ 83**	**$ 206,311**	**$ 614**	**$ 206,925**
Increases in property, plant and equipment and intangible assets (investment amount)	**363,547**	**112**	**363,659**	**1,734**	**365,393**

"Other" consists of transactions that are not included in the reportable segments. 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) The breakdown of operating revenue, operating income, total assets, and other items by reportable segment total, other, and elimination of inter-segment transactions are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Operating revenue:			
Total amounts for reportable segments	¥ 138,366	¥ **169,832**	$ **1,507,211**
Other	18,825	**19,600**	**173,949**
Elimination of inter-segment transactions	(5,140)	**(6,416)**	**(56,946)**
Operating revenue in consolidated financial statements	¥ 152,052	¥ **183,016**	$ **1,624,214**

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Operating income:			
Total amounts for reportable segments	¥ 27,972	¥ **41,797**	$ **370,936**
Other	2,485	**2,199**	**19,520**
Elimination of inter-segment transactions	17	**(8)**	**(73)**
Company-wide expenses	(5,637)	**(6,216)**	**(55,173)**
Operating income in consolidated financial statements	¥ 24,836	¥ **37,771**	$ **335,210**

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

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Total assets:			
Total amounts for reportable segments	¥ 1,019,211	¥ **1,008,424**	$ **8,949,456**
Other	12,519	**14,223**	**126,232**
Elimination of inter-segment transactions	(51,393)	**(57,212)**	**(507,746)**
Company-wide assets	52,882	**68,121**	**604,560**
Total assets in consolidated financial statements	¥ 1,033,220	¥ **1,033,557**	$ **9,172,502**

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

				Millions of yen
	2015			
	Total amounts for reportable segments	Other	Adjustments	Amounts stated in consolidated financial statements
Other items:				
Depreciation and amortization	¥ 22,703	¥ 68	¥ 702	¥ 23,474
Increases in property, plant and equipment and intangible assets (investment amount)	76,621	76	885	77,583

				Millions of yen
	2016			
	Total amounts for reportable segments	Other	Adjustments	Amounts stated in consolidated financial statements
Other items:				
Depreciation and amortization	**¥ 23,247**	**¥ 69**	**¥ 598**	**¥ 23,914**
Increases in property, plant and equipment and intangible assets (investment amount)	**40,977**	**195**	**1,562**	**42,735**

				Thousands of U.S. dollars
	2016			
	Total amounts for reportable segments	Other	Adjustments	Amounts stated in consolidated financial statements
Other items:				
Depreciation and amortization	**$ 206,311**	**$ 614**	**$ 5,310**	**$ 212,235**
Increases in property, plant and equipment and intangible assets (investment amount)	**363,659**	**1,734**	**13,869**	**379,262**

(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 each 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 year ended March 31, 2015, because operating revenue for each specific customer account is less than 10% of operating revenue in the consolidated financial statements. The segment information by main customer for the year ended March 31, 2016, is as follows:

Name of main customer	NTT Urban Development Asset Management Corporation
Operating revenue	¥20,179 million ($179,091 thousand)
Related segment	Leasing

(f) Information about impairment loss on fixed assets by reportable segment

For the year ended March 31, 2015, the Company and its consolidated subsidiaries recognized impairment loss of ¥1,455 million in the leasing segment. For the year ended March 31, 2016, the Company and its consolidated subsidiaries recognized impairment loss of ¥4,917 million ($43,646 thousand) in the leasing segment.

(g) Information on the amortized amount and unamortized balance of goodwill by reportable segment

The following table presents the amortized amount and unamortized balance of goodwill as of and for the years ended March 31, 2015 and 2016, by reportable segment.

Millions of yen

	2015				
	Leasing	Residential property sales	Other	Corporate / Eliminations	Total
Amortized amount	¥ 118	¥ —	¥ 13	¥ —	¥ 131
Balance as of March 31	1,663	—	197	—	1,860

Millions of yen

	2016				
	Leasing	Residential property sales	Other	Corporate / Eliminations	Total
Amortized amount	**¥ —**	**¥ —**	**¥ 11**	**¥ —**	**¥ 11**
Balance as of March 31	**—**	**—**	**166**	**—**	**166**

Thousands of U.S. dollars

	2016				
	Leasing	Residential property sales	Other	Corporate / Eliminations	Total
Amortized amount	**$ —**	**$ —**	**$ 105**	**$ —**	**$ 105**
Balance as of March 31	**—**	**—**	**1,475**	**—**	**1,475**

(h) Information on the amortized amount and unamortized balance of negative goodwill by reportable segment

The following table presents the amortized amount and unamortized balance of negative goodwill that was generated on or before March 31, 2010, as of and for the years ended March 31, 2015 and 2016, by reportable segment.

Millions of yen

	2015				
	Leasing	Residential property sales	Other	Corporate / Eliminations	Total
Amortized amount	¥ 1,780	¥ —	¥ —	¥ —	¥ 1,780
Balance as of March 31	23,147	—	—	—	23,147

Millions of yen

	2016				
	Leasing	Residential property sales	Other	Corporate / Eliminations	Total
Amortized amount	**¥ 1,926**	**¥ —**	**¥ —**	**¥ —**	**¥ 1,926**
Balance as of March 31	**23,118**	**—**	**—**	**—**	**23,118**

Thousands of U.S. dollars

	2016				
	Leasing	Residential property sales	Other	Corporate / Eliminations	Total
Amortized amount	**$ 17,097**	**$ —**	**$ —**	**$ —**	**$ 17,097**
Balance as of March 31	**205,166**	**—**	**—**	**—**	**205,166**

22. Subsequent Events

Not applicable.

KPMG

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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 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 1 to the consolidated financial statements.

KPMG AZSA LLC

October 26, 2016
Tokyo, Japan