Ichigo Preserves and Improves Real Estate

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Ichigo
(2337)

Additional Accounting Notes
for the Seventeenth Annual Shareholder Meeting

- **Notes to the Consolidated Financial Statements**
- **Notes to the Parent Financial Statements**

Pursuant to Japanese law and Article 14 of Ichigo's Articles of Incorporation, notes to the consolidated and parent financial statements are posted on Ichigo's website at www.ichigo.gr.jp

Notes to Consolidated Financial Statements

I. Material Matters for Preparation of Consolidated Financial Statements

A. Scope of Consolidation

1. Consolidated Subsidiaries

Number of consolidated subsidiaries: 59

Major consolidated subsidiaries

Ichigo Investment Advisors Co., Ltd.
Ichigo Estate Co., Ltd.
Ichigo ECO Energy Co., Ltd.
Ichigo Real Estate Services Fukuoka Co., Ltd.
Ichigo Global Capital Co., Ltd.
Ichigo Marché Co., Ltd.
Miyako City Co., Ltd.
Takara Building Maintenance Co., Ltd.

Seven investment associations in which Ichigo newly invested during the current fiscal year have been included in the scope of consolidation.

Seventeen investment associations have been excluded from the scope of consolidation because their importance has decreased during the current fiscal year.

2. Major Non-Consolidated Subsidiaries

N/A

3. Reason Why Some Companies Were Not Classified as Subsidiaries Despite the Possession of a Majority of their Voting Rights

N/A

B. Equity-Method Consolidation

1. Equity-Method Affiliates

Number of Equity-Method Affiliate(s): 1

Major Equity-Method Affiliate(s)

I Think Rent Co., Ltd. became a major equity-method affiliate from the current fiscal year because of its increased significance to the consolidated financial statements.

2. Non-Consolidated Equity-Method Affiliates

N/A

3. Non-Consolidated Non-Equity-Method Affiliates

N/A

4. Non-Equity-Method Affiliates

N/A

5. Reason Why Some Companies Were Not Classified as Affiliates despite Ichigo Possessing 20% to 50% or Less of Their Voting Rights

   N/A

C. Fiscal Year of Consolidated Subsidiaries

The fiscal years of consolidated subsidiaries are as follows:

January-end	28 companies
February-end	14 companies
December-end	17 companies

For subsidiaries whose fiscal year ends in December or January, financial data as of that date have been used. All necessary adjustments for consolidation have been made with respect to significant transactions which occurred by the current fiscal year-end in February.

D. Accounting Standards

1. Valuation of Material Assets

   a. Other Securities

Securities with market prices	Mark-to-market on the last date of fiscal year (valuation difference is reported as a component of shareholders' equity; cost of goods sold is calculated with moving average cost method)
Securities without market prices	Moving average cost method (Valuation method for investment associations is noted in 6. (c) Investment Associations.)
b. Derivatives	Mark-to-market
c. Real Estate for Sale	Cost (however, impair assets whose profitability declines)

2. Depreciation Methods for Material Depreciable Assets

Property, Plant, and Equipment	Primarily straight-line method
Useful life	Buildings and structures 7–52 years Solar power plant equipment 20 years

3. Accounting Standards for Material Allowances

   a. Allowance for Doubtful Accounts

   Reserved based on the record of bad debts with respect to ordinary receivables, plus an estimate of uncollectible amounts determined with reference to specific doubtful receivables from customers experiencing financial difficulties.

   b. Allowance for Employee Bonuses

   Reserved based on an estimated amount for the current fiscal year.

4. Material Hedge Accounting

a. Hedge accounting method

In general, Ichigo adopts the deferral hedge accounting method. However, with respect to interest rate swaps which meet certain criteria, Ichigo may use another appropriate method.

b. Hedging instruments and hedged items

Hedging instruments	Interest rate swaps
Hedged items	Loans

c. Hedging policy

Ichigo hedges the risk from changes in foreign exchange rates and interest rates in its operational securities investments and financing activities based on internal policies.

d. Evaluation method for the effectiveness of hedging activities

Ichigo evaluates the effectiveness of hedging activities with reference to the accumulated gain or loss on the hedging instruments and related hedged items for a period from the commencement of the hedges to the time of evaluation. The evaluation of the effectiveness is omitted for interest-rate swaps that meet requirements for special treatments.

5. Goodwill Amortization Period and Method

Goodwill is amortized on a straight-line basis for a period of 10 to 20 years depending on the specific characteristics of the respective subsidiary.

6. Other Material Matters for Preparation of Consolidated Financial Statements

a. Consumption tax

For most items, consumption taxes are excluded from the relevant revenue, costs, or expenses.

Non-deductible consumption taxes are generally accounted for as periodic costs in the current fiscal year; however, certain items paid in connection with the acquisition of assets are amortized based on the straight-line method over five years.

b. Operational investments

Operational investments conducted by Ichigo are classified as Operational Securities Investments and Operational Loan Investments within Current Assets. Gains and losses arising from Operational Investments are shown under Operating Profit and Operational securities investments Expense.

Although Ichigo may control the decision-making body of investment vehicles or hold significant influence over them by holding shares, shares are held solely for operational investment purposes and Ichigo has no intention of holding them as subsidiaries or affiliates. Therefore such investment vehicles are excluded from subsidiaries or affiliates.

c. Investment associations

Ichigo accounts for investments in investment associations as Operational Securities Investments. Such investments are recorded at the time the investments are made. Gains and losses distributed from the investment associations are recorded as Revenue and the investments in associations increase or decrease by the same amount. Refunds received from the investment associations are credited to the Investments in associations.

d. Consolidated tax treatment

Ichigo qualifies for consolidated tax treatment.

E. Changes in Accounting Policy

Adoption of Accounting Standard for Business Combination

Starting from the current fiscal year, Ichigo adopted the Revised Accounting Standard for Business Combination (Accounting Standards Board of Japan (ASBJ) Statement No. 21 issued on September 13, 2013), the Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22 issued on September 13, 2013), and the Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7 issued on September 13, 2013). Ichigo thus records the difference caused by change in Ichigo's equity in a subsidiary as Capital Reserve, and records the acquisition-related expenses as an Expense on the consolidated financial statements of the fiscal year in which the costs were incurred.

For business combinations conducted from the beginning of the current fiscal year onward, reallocation of acquisition costs, caused by finalization of provisional accounting on the relevant business combination, are reflected in the consolidated financial statements of the fiscal year in which the relevant business combination occurred. Ichigo has changed the presentation of some accounting titles related to Net Income and Minority Interests.

With respect to the adoption of the above Accounting Standards, Ichigo complies with the transitional measures prescribed under the Business Combinations Accounting Standard, Article 58-2 (4), the Consolidated Accounting Standard, Article 44-5 (4), and the Business Divestitures Accounting Standard, Article 57-4 (4), and thus the actual adoption of changes start from the current consolidated fiscal year onward.

There is no impact to the consolidated financial statements from these changes.

Adoption of Depreciation Method Change in line with the FY2016 Tax Reform

Starting from the current fiscal year, Ichigo adopted the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016 (ASBJ Practical issues Task Force No. 32 issued on June 17, 2016). Ichigo hereby changed its depreciation method from the declining-balance method to straight-line method with respect to building accessories and structures acquired on April 1, 2016 onward.

The impact to the consolidated financial statements from these changes is immaterial.

F. Changes in Presentation

Consolidated Balance Sheet

Starting from the current fiscal year, in order to increase the transparency of its balance sheet, Ichigo has created a separate line-item for Solar Power Plant Equipment, which had been included in Equipment under Property, Plant, and Equipment. This Solar Power Plant Equipment was JPY 12,981 million in the previous fiscal year. After separating out Solar Power Plant Equipment, the amount of Equipment which had been recorded separately has decreased to an insignificant level (JPY 110 million in the current fiscal year), thus it is now included in Other under Property, Plant, and Equipment.

Also to increase transparency, Solar Power Plants under Construction which had been included in Buildings under Construction in the previous fiscal year are now recorded separately. Solar Power Plants under Construction were JPY 3,172 million in the previous fiscal year.

Consolidated Income Statement

Starting from the current fiscal year, Debt Financing-Related Fees, which had been included in Other under Non-Operating Expenses in the previous fiscal year are recorded separately due to their increased size. Debt Financing-Related Fees were JPY 86 million in the previous fiscal year.

G. Additional Information

Change in the Purpose of Ownership of Real Estate Inventory

As of the current fiscal year-end, the purpose of ownership of some of the real estate on the balance sheet has been changed to Buildings and Structures, and Land from Real Estate for Sale in the amounts shown below:

Buildings and Structures	JPY 4,540 million
Land	JPY 7,474 million
Total	JPY 12,015 million

Change in the Purpose of Ownership of Property, Plant, and Equipment

As of the current fiscal year-end, the purpose of ownership of some of the real estate on the balance sheet has been changed to Real Estate for Sale in the amounts shown below:

Buildings and Structures	JPY 116 million
Depreciation	-JPY 4 million
Buildings and Structures (net)	JPY 112 million
Land	JPY 593 million
Total	JPY 706 million

During the current fiscal year, the purpose of ownership of the below solar power plant equipment on the balance sheet was changed to Solar Power Plant Equipment for Sale, and the equipment was sold, with the balance sheet value recorded as Cost of Goods Sold.

Solar Power Plant Equipment	JPY 7,030 million
Depreciation	-JPY 188 million
Solar Power Plant Equipment (net)	JPY 6,842 million
Land	JPY 78 million
Leasehold Rights	JPY 330 million
Total	JPY 7,251 million

Impairment Loss

Ichigo recorded an impairment loss on the below asset in the current fiscal year.

1. Asset and Amount Recognized as Impairment Loss

Purpose	Type	Location	Impairment Loss
Real Estate for Lease	Building/Land	Miyazaki Prefecture	JPY 1,090 million

2. Reason for Impairment

Due to a change in business environment, the expected profitability of the asset has decreased. Thus, Ichigo impaired the asset’s book value to the recoverable amount, and an impairment loss has been recorded under Extraordinary Losses.

3. Asset Grouping Method for Impairments

When applying impairment accounting, Ichigo classifies assets into discrete groups using the minimum asset unit that generates independent cash flow. This asset grouping method was used in this asset impairment.

4. Calculation Method for Recoverable Amount

Ichigo calculates the recoverable amount for Real Estate for Lease using net sale value, and the net sale value is based on a third-party real estate appraisal.

II. Notes to Consolidated Balance Sheet

A. Assets Provided as Collateral

Assets Provided as Collateral

Cash and cash equivalents	JPY 2,345 million
Trade notes and accounts receivable	JPY 113 million
Operational loan investments	JPY 1,324 million
Real estate for sale	JPY 68,188 million
Current assets – other	JPY 2 million
Buildings and structures	JPY 2,587 million
Solar power plant equipment	JPY 6,667 million
Land	JPY 10,957 million
Solar power plants under construction	JPY 652 million
Solar power plants under construction (reserved for collateral)	JPY 11,451 million
Property, plant, and equipment – other	JPY 49 million
Leasehold rights	JPY 62 million
Investments and other assets – other	JPY 136 million
Total	JPY 104,541 million

In addition to the above, JPY 2,630 million of shares in affiliates excluded from consolidation are collateralized. Furthermore, Ichigo has borrowed securities (market value: JPY 752 million) to be used for collateral, but these borrowed securities are not recorded on the balance sheet as they are not Ichigo's assets.

Figures shown in Buildings and Structures, Solar Power Plant Equipment, and Property, Plant, and Equipment – Other are net amounts.

Secured Obligations

Long-term loans (due within one year)	JPY 4,039 million
Long-term loans	JPY 87,385 million
Total	JPY 91,424 million

B. Non-Recourse Loans and Non-Recourse Bonds

Non-recourse loans and non-recourse bonds are borrowings where funds for repayment are limited only to the value of the underlying real estate and profits from such real estate. The lender has no recourse to Ichigo in the event of a failure of payment.

Assets provided as collateral and secured obligations with respect to the non-recourse loans and non-recourse bonds are as follows:

Assets Provided as Collateral

Cash and cash equivalents	JPY 10,533 million
Real estate for sale	JPY 97,780 million
Buildings and structures	JPY 3,292 million
Land	JPY 5,240 million
Property, plant, and equipment – other	JPY 0 million
Total	JPY 116,846 million

Figures shown in Buildings and Structures and Property, Plant, and Equipment – Other are net amounts.

Secured Obligations

Short-term non-recourse loans	JPY 611 million
Long-term non-recourse loans (due within one year)	JPY 6,825 million
Non-recourse bonds	JPY 100 million
Long-term non-recourse loans	JPY 68,319 million
Total	JPY 75,857 million

C. Deferred Gain (Loss) on Long-Term Interest Rate Hedges

Using interest rate hedges, Ichigo has significantly reduced its interest rate risk should Japanese interest rates rise. Unrealized gains or losses on these hedges are recorded in Deferred Gain (Loss) on Long-Term Interest Rate Hedges.

III. Notes to Consolidated Statement of Changes in Shareholders' Equity

A. Type and Number of Shares Issued and Type and Number of Treasury Shares

	Number of shares at the beginning of the current fiscal year	Increase in shares during the current fiscal year[1]	Decrease in shares during the current fiscal year[2]	Number of shares at the end of the current fiscal year
Shares issued				
Common shares	502,523,100	1,189,200	–	503,712,300
Total	502,523,100	1,189,200	–	503,712,300
Treasury shares				
Common shares	884,200	–	554,600	329,600
Total	884,200	–	554,600	329,600

[1] Increase in shares issued due to employee exercise of stock options: 1,189,200 shares

[2] Decrease in treasury shares due to employee exercise of stock options: 554,600 shares

B. Stock Options

Stock Options	Type of shares	Underlying number of shares				Value (as of February 28, 2017)
		March 1, 2016	Increase in current fiscal year	Decrease in current fiscal year	February 28, 2017	
9th stock option issuance	Common shares	113,200	–	113,200	–	–
10th stock option issuance	Common shares	659,200	–	579,600	79,600	JPY 1 million
11th stock option issuance	Common shares	1,817,000	–	979,000	838,000	JPY 17 million
12th stock option issuance	Common shares	1,005,000	–	133,900	871,100	JPY 136 million
13th stock option issuance	Common shares	1,859,200	–	41,900	1,817,300	JPY 177 million
14th[1] stock option issuance	Common shares	1,500,000	–	40,000	1,460,000	JPY 149 million
15th[1] stock option issuance	Common shares	–	2,000,000	–	2,000,000	JPY 9 million
Total	–	6,953,600	2,000,000	1,887,600	7,066,000	JPY 491 million

[1] The 14th and 15th stock option issuances are currently not exercisable, because their exercise dates are in the future.

C. Dividends

1. Dividends Paid

In the Regular Meeting of the Board of Directors on April 19, 2016, the following was resolved.

(a)	Total Dividend	JPY 1,504 million
(b)	Source	Retained earnings
(c)	Dividend per Share	JPY 3
(d)	Record Date	February 29, 2016
(e)	Payment Date	May 30, 2016

2. Dividends where Record Date is in the Current Fiscal Year but the Payment Date is in the Next Fiscal Year

In the Regular Meeting of the Board of Directors on April 19, 2017, the following was resolved.

(a)	Total Dividend	JPY 2,516 million
(b)	Source	Retained earnings
(c)	Dividend per Share	JPY 5
(d)	Record Date	February 28, 2017
(e)	Payment Date	May 29, 2017

IV. Notes on Financial Instruments

A. Matters Concerning Status of Financial Instruments

1. Policies on Financial Instruments

Ichigo finances its necessary operating capital primarily via bank loans and bonds in light of new investment and asset disposition plans. Short-term excess funds are managed in liquid financial instruments such as bank deposits, and short-term working capital is financed via bank loans. As Company policy, derivatives transactions are used for the purpose to avert risks mentioned below. Speculative derivatives transactions are not conducted.

2. Details and Risks of Financial Instruments

Trade notes, accounts receivable, and operational loan investments are operating receivables that are exposed to customer credit risks. Foreign currency-denominated financial instruments in overseas business operations are exposed to currency risks.

Operational securities investments include investments in corporate equities both inside and outside of Japan and domestic real estate funds, and securities investments primarily take the form of equity and are typically investments in companies with which Ichigo has a business relationship. All of these investments are exposed to issuer credit risk, interest rate risk and price fluctuation risks. Financial instruments denominated in foreign currencies are exposed to currency risk.

Most of trade notes and accounts payable are operating payables that are due within three months and denominated in Japanese yen.

Bank loans, bonds, non-recourse bonds, and non-recourse loans are for the purpose of financing investments and capital expenditures, and are expected to be redeemed or repaid within approximately thirty years after the fiscal year end. Floating-rate loans are exposed to interest rate risk, a part of which is hedged using derivatives transactions (e.g., interest rate swaps and caps). Please refer to 1. Material Matters for Preparation of Consolidated Financial Statements (4) Material Hedge Accounting, (D) Accounting Standards for method, objects, policies, and evaluation of effectiveness of hedging activities.

3. Risk Management of Financial Instruments

(a) Management of Credit Risk

Operating receivables exist primarily at subsidiaries. Responsible departments monitor the collection status pursuant to the designated procedure for mitigation of collection risk. Other operating receivables arise irregularly, e.g., at time of investment monetization, the responsible department determines the execution of the transaction based on the time needed for collection and the credit worthiness of the counterparty, and monitors the receivable until it is collected in accordance with the agreement. Ichigo monitors operational securities investments and securities investments with respect to the financial status of the issuers and reviews holding policies, as necessary and appropriate.

(b) Management of Market Risk

Ichigo uses interest rate swaps and caps for the purpose of reducing interest rate risk on loans. Ichigo monitors operational securities investments and securities investments, which have market risks (e.g., real estate funds) or are denominated in foreign currencies regularly for the impact from changes in market value and currency rates and reviews the holding policies as necessary. Derivative transactions are executed and controlled in the Finance Department in accordance with the designated procedure.

(c) Management of Liquidity Risk

Ichigo establishes and updates its funding plan as necessary based on new investment and disposition plans established by the responsible departments, as well as manages liquidity risk by maintaining short-term liquidity.

4. Supplement to Matters Concerning Market Values of Financial Instruments

Market values of financial instruments include prices based on market prices as well as prices calculated based on rational assumptions where market price are not available. Such prices may fluctuate, since they include variables that can vary based on assumptions.

B. Adjustments to Market Values of Financial Instruments

Amounts recorded on the consolidated balance sheet, corresponding market values, and their differences as of February 28, 2017 are shown below. Items for which it was deemed highly difficult to obtain market values are not included (See Note 2 on the following page).

(JPY million)

	Amount Recorded on Consolidated Balance Sheet	Market Value	Difference
(1) Cash and cash equivalents	47,678	47,678	–
(2) Trade notes and accounts receivable	913	913	–
(3) Operational loan investments	1,324	1,324	–
(4) Operational securities investments	18	18	–
(5) Securities investments	1,176	1,176	–
(6) Long-term loans[1]	–	–	–
Total Assets	51,111	51,111	–
(1) Trade notes and accounts payable	110	110	–
(2) Short-term loans	805	805	–
(3) Short-term non-recourse loans	611	611	–
(4) Bonds (due within one year)	112	112	
(5) Long-term loans (due within one year)	5,209	5,209	–
(6) Long-term non-recourse loans (due within one year)	6,825	6,825	–
(7) Income taxes payable	1,655	1,655	–
(8) Bonds	632	622	-9
(9) Non-recourse bonds	100	100	–
(10) Long-term loans	91,604	92,308	703
(11) Long-term non-recourse loans	68,319	68,587	267
Total Liabilities	175,987	176,948	961
Derivatives[2]	-337	-337	–

[1] Excluding allowance for doubtful accounts which are recorded separately.

[2] The receivables and payables related to derivative transactions are shown as a net amount.

(Note1) Calculation Method of Market Value of Financial Instruments and Matters Concerning Securities and Derivatives Transactions

Assets

(1) Cash and Cash Equivalents

Carried at book value due to short settlement period.

(2) Trade Notes and Accounts Receivable

Carried at book value less allowance for doubtful accounts due to short settlement period and because allowance for doubtful accounts appropriately takes into consideration credit risks.

(3) Operational Loan Investments

Carried at book value less allowance for doubtful accounts due to short settlement period and because allowance for doubtful accounts appropriately takes into consideration credit risks.

(4) Operational Securities investments and (5) Securities Investments

The market values of equities are the last traded exchange price, and bonds are the last-traded exchange price or dealer-indicated price.

(6) Long-Term Loans

The market values of long-term loans are calculated based on the present value of the total amount of the principal and interest using a discount rate for similar new loans. Certain debts such as loans with default risk are at book value less the estimated doubtful accounts.

Liabilities

(1) Trade Notes and Accounts Payable, (2) Short-Term Loans, (3) Short-Term Non-Recourse Loans, (4) Bonds (due within one year), (5) Long-Term Loans (due within one year), (6) Long-Term Non-Recourse Loans (due within one year), and (7) Income Tax Payable

Carried at book value due to short settlement period.

(8) Bonds

The fair value of bonds issued by Ichigo is calculated based on the current value by applying a discount rate to the total of principal and interest.

(9) Non-Recourse Bonds, (10) Long-term loans, and (11) Long-Term Non-Recourse Loans

Floating-rate borrowings for non-recourse bonds, long-term loans, and long-term non-recourse loans are carried at book value because their book values closely track their market values. The market values of partial floating-rate long-term loans and long-term non-recourse loans are subject to the special accounting treatment of interest rate swaps. They are therefore calculated based on the present value of the total amount of principal and interest reflecting the interest rate swap arrangements using a discount rate for similar new loans.

The market values of fixed-rate loans are calculated based on the present value of the total amount of principal and interest using a discount rate for similar new loans.

Derivative Transactions

The market values of derivative transactions are the prices presented by financial institutions. The market value of interest rate swaps under special treatment is included in long-term loans and long-term non-recourse loans since it is accounted for along with the instrument it hedges.

(Note 2) Financial Instruments for which it is Difficult to Obtain Market Values

(JPY million)

Classification	Amount Recorded in Consolidated Balance Sheet
(1) Operational Securities Investments*	1, 007
(2) Securities Investments*	175
(3) Long-term Security Deposits Received	8,038

* Excluding allowance for doubtful accounts which are recorded separately.

(1) Operational Securities investments are not subject to market value disclosure despite being investment securities, because they are not priced in the market and it is difficult to estimate their market values.

(2) Securities investments are not subject to market value disclosure because they are non-listed securities with no market price and it is difficult to estimate their market values.

(3) Long-term security deposits received which are security deposits received from tenants of rental properties are not subject to market value disclosure because they are not priced in the market and it is difficult to estimate the cash flow in advance of the security deposit period.

V. Notes on Leased Real Estate not Currently Held for Sale

A. Income from Leased Real Estate not Currently Held for Sale

Ichigo and some of its consolidated subsidiaries own leased real estate in Tokyo and other locations that are not currently held for sale. Income on this leased real estate in the current fiscal year is JPY 1,508 million (rental revenue is recorded in Revenue and the cost of lease is recorded in Costs of Goods Sold), and impairment loss is JPY 1,090 million (recorded as Extraordinary Losses).

B. Market Value of Leased Real Estate not Currently Held for Sale

(JPY million)

Book Value on Consolidated Balance Sheet[1]			Market Value as of Feb 28, 2017[3]
Mar 1, 2016	Increase/Decrease[2]	Feb 28, 2017	
15,969	10,016	25,986	30,219

[1] Book Value on Consolidated Balance Sheet = Acquisition Cost – (Cumulative Depreciation + Cumulative Impairment)

[2] The main component of the increase for the fiscal year is JPY 12,015 million transferred from Real Estate for Sale due to the change in the purpose of ownership and JPY 58 million increase in Capital Expenditures. The main component of the decrease for the fiscal year is JPY 1,090 million recorded in Impairment Loss, JPY 706 million transferred to Real Estate for Sale due to the change in the purpose of ownership, and JPY 241 million of Depreciation.

[3] Market value as of February 2017 is primarily based upon third-party real estate appraisals.

VI. Per Share Data

Net assets per share	JPY 159.60
Net income per share	JPY 29.66
Net income per share (fully diluted)	JPY 29.59

VII. Material Subsequent Events

Sale of Subsidiary

Ichigo completed the sale of its 100% consolidated subsidiary Takara Building Maintenance on March 1, 2017.

A. Reason for Sale

Ichigo acquired Takara Building Maintenance as a wholly-owned subsidiary in March 2010 and worked since then to increase its corporate value.

Ichigo decided that further growth in Takara Building Maintenance can be best achieved by selling it to Sinanen Holdings, which is building out property management as one of its core businesses and thus seeking to offer comprehensive property management services.

This sale marks the beginning of a cooperative relationship between Ichigo and Sinanen Holdings in the energy and property management businesses, and can be expected to contribute to the growth in corporate value at both companies.

B. Buyer Name

Sinanen Holdings Co., Ltd.

C. Settlement Date

March 1, 2017

D. Takara Building Maintenance Overview

(1) Name

Takara Building Maintenance Co., Ltd.

(2) Business

Comprehensive facility management services (building management, outsourced operations, staffing services, and security services)

(3) Relationship with Ichigo

100% subsidiary

E. Shares Sold and Post-Sale Ichigo Ownership

(1) Shares Sold

20,000 shares

(2) Post-Sale Ichigo Ownership

None

F. Earnings Outlook

Ichigo expects to record an extraordinary gain of JPY 1 billion in FY18/2.

Notes to Parent Financial Statements

I. Material Accounting Policies

A. Valuation Method for Securities

1. Shares in subsidiaries and affiliates	Moving average cost method
2. Other securities	
Securities with market prices	Mark-to-market on the last date of fiscal year (valuation difference is reported as a component of shareholders' equity; cost of goods sold is calculated with moving average cost method)
Securities without market prices	Moving average cost method. (Valuation method for investment associations is noted in (F) Material Changes in Presentation (3) Investment Associations.)
3. Derivatives	Mark-to-market
4. Real estate for sale	Cost (however, impair assets whose profitability declines)

B. Depreciation Method for Fixed Assets

1. Property, Plant, and Equipment:	Primarily straight-line method
Useful life	Buildings and Structures 8–39 years
2. Intangible Assets	Straight-line method
Useful life	Software 5 years

C. Amortization of Deferred Assets

Issuance cost of shares: Full amount is recorded as cost.

D. Accounting Standards for Allowances

Allowance for doubtful accounts

The allowance is provided for doubtful accounts based on the historical experience for normal receivables and an estimate of the collectability for receivables from companies which are experiencing financial difficulties.

E. Hedge Accounting Method

1. Hedge accounting method

   In general, Ichigo adopts the deferral hedge accounting method. However, with respect to some interest rate swaps which meet certain criteria, Ichigo uses an alternative accounting method, as reasonable and appropriate.

2. Hedging instruments and hedged items

Hedging instruments	Interest rate swaps
Hedged items	Loans

3. Hedging Policy

   Ichigo uses derivative financial instruments in its financing activities to hedge possible future movements in interest rates.

4. Assessment of Hedge Effectiveness

   Ichigo omits evaluating hedge effectiveness since it only applies to interest rate swaps which meet certain criteria.

F. Material Changes in Presentation

1. Consumption Tax

   Consumption taxes are excluded from the relevant revenue, costs or expenses. Non-deductible consumption taxes are generally accounted for as expenses, depreciated equally over five years.

2. Operating Investments

   Operational securities investments are included in operational securities investments and operational loan investments in current assets, separate from non-operating investments. Profits and losses incurred from operating investments are recorded as operating profits and losses. Operating investments in which Ichigo has a control stake are not considered as subsidiaries or affiliates since Ichigo does not have an intention to control management.

3. Investment Associations

   Assets held by investment associations are categorized as operational securities investments and investment in securities of other affiliates (Investments in investment associations) in proportion to the holding percentage. Profits on dividends are recorded as revenue and an adjustment to Investments in investment associations. Redemption of principal is recorded as a decrease of Investments in investment associations.

4. Consolidated Tax Treatment

   Ichigo qualifies for consolidated tax treatment.

II. Changes in Accounting Policy

Adoption of Depreciation Method Change in line with the FY2016 Tax Reform

Starting from the current fiscal year, Ichigo adopted the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016 (ASBJ Practical Issues Task Force No.32 issued on June 17, 2016). Ichigo thus changed depreciation method from the declining-balance method to straight-line method with respect to building accessories and structures acquired on April 1, 2016 onward.

The impact to the financial statements from this change is immaterial.

III. Changes in Presentation

Parent Balance Sheet

Starting from the current fiscal year, Accounts Receivable due to Consolidated Taxation which had been included in Other under Current Assets in the previous fiscal year are recorded separately, because they have increased in size.

Accounts Receivable due to Consolidated Taxation were JPY 420 million in the previous fiscal year.

Parent Income Statement

Starting from the current fiscal year, Deposits Received which had been included in Other under Non-Operating Profit are recorded separately, because they have increased in size. Deposits Received were JPY 11 million in the previous fiscal year.

Debt Financing-Related Fees which had been included in Other under Non-Operating Expenses are recorded separately as well, because they have increased in size. Debt Financing-Related Fees were JPY 47 million in the previous fiscal year.

IV. Balance Sheet

A. Assets Provided as Collateral and Secured Obligations

Assets provided as collateral are as follows:

Cash and cash equivalents	JPY 39 million
Real estate for sale	JPY 2,374 million
Buildings and structure	JPY 171 million
Land	JPY 2,094 million
Property, plant, and equipment – other	JPY 1 million
Shares of affiliated companies	JPY 2,630 million
Long-term loans to affiliates	JPY 1,399 million
Total	JPY 8,710 million

In addition, Ichigo has borrowed securities (market value: JPY 752 million) to be used for collateral. However, these borrowed securities are not presented on the balance sheet, because they are not Ichigo's assets.

Figures in Buildings and Structures and Property, Plant, and Equipment – Other are net amounts.

Secured obligations are as follows:

Long-term loans (due within one year)	JPY 484 million
Long-term loans	JPY 2,873 million
Total	JPY 3,357 million

B. Contingent Liabilities

1. Ichigo is guaranteeing the following subsidiaries' loans from financial institutions:

Ichigo Estate Co., Ltd.	JPY 33,744 million
Ichigo Real Estate Services Fukuoka Co, Ltd.	JPY 4,297 million
Ichigo ECO Energy Co., Ltd.	JPY 1,501 million
GK Daiba Jisho	JPY 8,000 million
GK Kawabata Holdings	JPY 3,700 million
GK Nakasu Holdings	JPY 2,600 million
GK Ichigaya Jisho	JPY 2,424 million
GK Shinsaibashi Jisho	JPY 2,365 million
GK Azabu Juban Jisho	JPY 690 million
GK Nagoya Sakae Holdings	JPY 400 million
GK Naha Holdings	JPY 100 million
GK Ichigo Showamura Ogose ECO Power Plant	JPY 10,797 million
GK Ichigo Hamanaka Bokujo ECO Power Plant	JPY 1,353 million
GK Ichigo Yonago Izumi ECO Power Plant	JPY 676 million
GK Ichigo Yamaguchi Sayama ECO Power Plant	JPY 638 million
GK Sera Aomizu Ushinoro ECO Power Plant	JPY 520 million
GK Ichigo Higashi Hiroshima Saijocho Taguchi ECO Power Plant	JPY 488 million
GK Ichigo Toride Shimotakai ECO Power Plant	JPY 383 million
GK Ichigo Yamaguchi Aionishi ECO Power Plant	JPY 381 million
GK Ichigo Toki Oroshicho ECO Power Plant	JPY 377 million
GK Ichigo Yubetsu Barou ECO Power Plant	JPY 256 million
GK Ichigo Kijo Takajo ECO Power Plant	JPY 231 million
GK Ichigo Betsukai Kawakamicho ECO Power Plant	JPY 216 million
GK Ichigo Akkeshi Shirahama ECO Power Plant	JPY 197 million
GK Ichigo ECO Fuchu Jogecho Yano Power Plant	JPY 166 million
GK Ichigo Toyokoro Sasadamachi ECO Power Plant	JPY 151 million

2. Ichigo is also guaranteeing the payment of a construction assistance fund and the return of a security deposit by GK Myodani Fudosan.

	JPY 259 million
Total	JPY 76,916 million

C. Affiliate Receivables and Payables (excluding items separately indicated)

Short-term receivables from affiliates	JPY 915 million
Long-term receivables from affiliates	JPY 26 million
Short-term payables to affiliates	JPY 10 million
Long-term payables to affiliates	JPY 40 million

D. Deferred Gain (Loss) on Long-Term Interest Rate Hedges

Using interest rate hedges, Ichigo has significantly reduced its interest rate risk should Japanese interest rates rise. Unrealized gains or losses on these hedges are recorded in Deferred Gain (Loss) on Long-Term Interest Rate Hedges.

V. Income Statement

Transactions with affiliates

Revenue	
Revenue	JPY 18,556 million
Operating Expenses	JPY 67 million
Non-operational transactions	JPY 753 million

VI. Statement of Changes in Shareholders' Equity

Type and Number of Treasury Shares	
Common shares	329,600

VII. Taxes

A. Breakdown of Deferred Tax Assets and Liabilities

Deferred Tax Assets

Accrued income taxes	JPY 141 million
Surplus for provision of allowance for doubtful accounts	JPY 426 million
Valuation loss on operational securities investments	JPY 59 million
Valuation loss on securities investments	JPY 16 million
Valuation loss on investments in real estate	JPY 1,839 million
Valuation loss on securities of affiliates	JPY 747 million
Deferred gain (loss) on long-term interest rate hedges	JPY 150 million
Loss carried forward	JPY 44 million
Other	JPY 319 million
Subtotal	JPY 3,746 million
Allowance for valuation	-JPY 3,218 million
Deferred Tax Assets total	JPY 528 million

Deferred Tax Liabilities

Unrealized gain on other securities	-JPY 39 million
Adjustments to carrying value due to consolidated taxation	-JPY 94 million
Asset retirement obligation expense	-JPY 1 million
Deferred Tax Liabilities Total	-JPY 134 million
Net Deferred Tax Assets	JPY 393 million

B. Revisions to Deferred Tax Assets and Liabilities Due to Change in Corporate Tax Rate

Based on the Partial Amendment of the Income Tax Act (Act No. 15, 2016) and the Partial Amendment to Regional Tax Act (Act No.13, 2016) issued on March 29, 2016, corporate taxes will decrease from the fiscal year starting on April 1, 2016.

The consumption tax increase to 10% was postponed from April 1, 2017 to October 1, 2019 via a tax reform proposal that was passed on November 18, 2016, amending the Act for Partial Amendment of the Consumption Tax Act and Others for the Fundamental Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security (Act No. 85, 2016) and the Act for Partial Amendment of the Local Allocation Tax System and Others for the Fundamental Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security (Act No. 86, 2016). Consequently, the abolishment of the special local corporate tax and restoration of the corporate enterprise tax, revision of the local corporate tax, and revision of the corporation levy for corporate inhabitant taxes have been postponed for the fiscal year starting after April 1, 2017 to the fiscal year starting after October 1, 2019.

Reflecting this change, the effective statutory tax rate used for the calculation of deferred tax assets and liabilities has been reduced from 32.26% to 30.86% for temporary differences that become taxable in the fiscal year beginning on March 1, 2017 and March 1, 2018, and from 32.26% to 30.62% for temporary differences that become taxable in the fiscal year beginning on March 1, 2019.

The impact from this change in tax rate is minimal.

VIII. Related Party Transactions

(JPY million)

Affiliation	Name	Voting Rights Held by Ichigo	Nature of Relationship	Transaction	Transaction Amount	Account	Balance Outstanding
Subsidiary	Ichigo Estate Co., Ltd.	100%	Service contract	Lending[1]	9,838	Short-term loans to affiliates	5,898
						Long-term loans to affiliates	6,634
				Interest received	256	Other current assets	57
						Other current liabilities	3
				Provision of credit guarantee[2]	33,744	–	–
				Receipt of credit guarantee[3,4]	1,920	–	–
				Receipt of credit guarantee and collateral[5]	6,150	–	–
				Payment of credit guarantee fee	–	Advance payment	0
						Other investments and assets	3
Subsidiary	Ichigo ECO Energy Co., Ltd.	100%	Service contract	Lending[1]	4,840	Short-term loans to affiliates	984
				Interest received	68	Other current assets	4
				Provision of credit guarantee[2]	1,501	–	–

Affiliation	Name	Voting Rights Held by Ichigo	Nature of Relationship	Transaction	Transaction Amount	Account	Balance Outstanding
Subsidiary	Ichigo Real Estate Services Fukuoka Co., Ltd.	100%	Service contract	Lending[1]	1,168	Short-term loans to affiliates	1,168
				Interest received	40	Other current assets	11
				Provision of credit guarantee[2]	4,297	–	–
Subsidiary	A. F. Co., Ltd.	100%	Financial Support	Lending[1]	–	Long-term loans to affiliates[6]	1,207
				Interest received	–	Other investments and assets[6]	26
Subsidiary	KK Kimura Building	100% (Indirectly held)	Subsidiary TK Equity	Receipt of credit guarantee and collateral[4, 5]	1,920	–	–
Subsidiary	YK Satsuki Holdings	100%	Financial support	Lending[1]	–	Long-term loans to affiliates	1,399
				Interest received	83	Other current assets	16
Subsidiary	GK Minami Ikebukuro Jisho	0[7]	TK Equity	Receipt of credit guarantee and collateral[4, 5]	1,920	–	–
Subsidiary	GK Gotanda Holdings	0[7]	TK Equity	Receipt of credit guarantee and collateral[5]	1,290	–	–
				Payment of credit guarantee fee to guarantor	–	Advance payment	–
						Other investments and assets	1

Affiliation	Name	Voting Rights Held by Ichigo	Nature of Relationship	Transaction	Transaction Amount	Account	Balance Outstanding
Subsidiary	GK Shinagawa Holdings	0[7]	TK Equity	Receipt of credit guarantee and collateral[5]	1,816	–	–
				Payment of credit guarantee fee to guarantor	–	Advance payment	–
						Other investments and assets	2
Subsidiary	GK Ichigaya Jisho	0[7]	Subsidiary TK Equity	Provision of credit guarantee[2]	2,424	–	–
				Receipt of credit guarantee fee	–	Advance received	5
Subsidiary	GK Shinsaibashi Jisho	0[7]	TK Equity	Provision of credit guarantee[2]	2,365	–	–
				Receipt of credit guaranty fee	3	Advance received	5
Subsidiary	GK Daiba Jisho	0[7]	TK Equity	Provision of credit guarantee[2]	8,000	–	–
				Receipt of credit guarantee fee	–	Advance received	23
Subsidiary	GK Kawabata Holdings	0[7]	TK Equity	Provision of credit guarantee[2]	3,700	–	–
				Receipt of credit guarantee fee	1	Advance received	9
Subsidiary	GK Nakasu Holdings	0[7]	TK Equity	Provision of credit guarantee[2]	2,600	–	–
				Receipt of credit guarantee fee	–	Advance received	7

Affiliation	Name	Voting Rights Held by Ichigo	Nature of Relationship	Transaction	Transaction Amount	Account	Balance Outstanding
Subsidiary	GK Nishinihon Holdings	0[7]	TK Equity	Additional equity for asset acquisition	2,130	Securities of other affiliates	4,245
Subsidiary	GK Ichigo Showamura Ogose ECO Power Plant	0[7]	TK Equity	Provision of credit guarantee[2]	10,797	–	–
Subsidiary	GK Ichigo Hamanaka Bokujo ECO Power Plant	0[7]	TK Equity	Provision of credit guarantee[2]	1,353	–	–
Subsidiary	GK Ichigo ECO Nago Futami Power Plant	0[7]	TK Equity	Advance payment[8]	1,660	–	–

[1] The interest rate on loans from Ichigo to affiliates is based upon Ichigo's actual borrowing costs, with due consideration to the particular circumstances of the affiliates.
[2] Ichigo has guaranteed loans from banks.
[3] Ichigo has received guarantees for loans from banks.
[4] Ichigo has received guarantees or collaterals from its subsidiaries for a loan of JPY 1,920 million from banks.
[5] Ichigo has received both guarantees and collateral for loans from banks.
[6] Ichigo has reserved JPY 865 million of allowances for bad accounts for long-term loans to affiliates. In addition, Ichigo reversed JPY 35 million of allowances for bad accounts in the current fiscal year.
[7] Ichigo holds 0% of voting rights and the subsidiary holds 100% of managerial authority over the Tokumei Kumiai. However, the subsidiary is considered to be Ichigo's subsidiary, because Ichigo has adopted the accounting standard Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations (Accounting Standards Board of Japan Practical Issues Task Force No. 20, March 25, 2011).
[8] Ichigo has repaid the bank loans, and the claims pertaining to this transaction have been recovered in full.
[9] The above amounts do not include consumption tax and other taxes. However, the amounts recorded on the balance sheet do include consumption tax and other taxes.

IX. Per Share Data

A. Net assets per share	JPY 146.31
B. Net income per share	JPY 27.53
C. Net income per share (diluted)	JPY 27.46

X. Material Subsequent Events

Sale of Subsidiary

Ichigo completed the sale of its 100% consolidated subsidiary Takara Building Maintenance on March 1, 2017.

A. Reason for Sale

Ichigo acquired Takara Building Maintenance as a wholly-owned subsidiary in March 2010 and worked since then to increase its corporate value.

Ichigo decided that further growth in Takara Building Maintenance can be best achieved by selling it to Sinanen Holdings, which is building out property management as one of its core businesses and thus seeking to offer comprehensive property management services.

This sale marks the beginning of a cooperative relationship between Ichigo and Sinanen Holdings in the energy and property management businesses, and can be expected to contribute to the growth in corporate value at both companies.

B. Buyer Name

Sinanen Holdings Co., Ltd.

C. Settlement Date

March 1, 2017

D. Takara Building Maintenance Overview

(1) Name
Takara Building Maintenance Co., Ltd.

(2) Business
Comprehensive facility management services (building management, outsourced operations, staffing services, and security services)

(3) Relationship with Ichigo
100% subsidiary

E. Shares Sold and Post-Sale Ichigo Ownership

(1) Shares Sold
20,000 shares

(2) Post-Sale Ichigo Ownership
None

F. Earnings Outlook

Ichigo expects to record an extraordinary gain of JPY 1 billion in FY18/2.