



Ichigo Preserves and Improves Real Estate

[Provisional Translation Only]

*This English translation of the original Japanese document is provided solely for information purposes.
Should there be any discrepancies between this translation and the Japanese original, the latter shall prevail.*

Ichigo (2337)

Additional Accounting Notes for the Eighteenth 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/en

Notes to the Consolidated Financial Statements

I. Material Matters for Preparation of the 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 Owners Co., Ltd.

Ichigo Land Shinchiku Co., Ltd.

Ichigo Marché Co., Ltd.

Miyako City Co., Ltd.

Ichigo Owners Co., Ltd., Ichigo Land Shinchiku Co., Ltd., and one investment partnership were newly created and included in the scope of consolidation during FY18/2.

Takara Building Maintenance Co., Ltd. and one investment partnership have been excluded from the scope of consolidation because Ichigo sold all of its holdings in them during FY18/2.

Centro Co., Ltd., Storage Plus Corp., and seven investment partnerships in which Ichigo newly invested FY18/2 have been included in the scope of consolidation.

Nine investment partnerships have been excluded from the scope of consolidation because their importance has decreased during FY18/2.

One investment partnership which has been dissolved during FY18/2 has been excluded from the scope of consolidation.

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 Accounting

1. Equity-Method Affiliates

Number of Equity-Method Affiliate(s): 1

Major Equity-Method Affiliate(s): I Think Rent Co., Ltd.

2. Non-Consolidated Subsidiaries Accounted for Under the Equity-Method

N/A

3. Material Non-Consolidated Subsidiaries Not Accounted for Under the Equity-Method

N/A

4. Non-Equity-Method Affiliates

N/A

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

N/A

C. Fiscal Year of Consolidated Subsidiaries

The fiscal year-ends of consolidated subsidiaries are as follows:

January-end	25 companies
February-end	13 companies
March-end	2 companies
December-end	19 companies

For subsidiaries whose fiscal year-ends in December or January, financial data as of that date have been used. For subsidiaries whose fiscal year-ends in March, provisional financial data (created at a point in time within three-months from March-end) have been used. All necessary adjustments for consolidation have been made with respect to significant transactions which occurred by the end of FY18/2 in February.

D. Accounting Standards

1. Valuation of Material Assets

a. Other Securities

Securities with market prices	Mark-to-market on the last day of the 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 (The valuation method for investment partnerships is noted in 6. (c) Investment Partnerships.)
----------------------------------	---

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: 7~45 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 and loans, 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 Method

a. Hedge Accounting Method

In general, Ichigo adopts the deferral hedge accounting method. However, interest rate swaps and interest rate caps that meet the criteria for special treatment are accounted for under the special treatment method.

b. Hedging Instruments and Hedging Targets

Hedging instruments	Interest rate swaps, interest rate caps
Hedging targets	Loans

c. Hedging Policy

Pursuant with its internal rules, Ichigo hedges against interest rate fluctuations that arise from its operational and financial activities.

d. Evaluation Method of the Effectiveness of Hedges

Ichigo evaluates the effectiveness of hedging activities with reference to the accumulated gain or loss on the hedging instruments and related hedging targets for a period from the commencement of the hedges to the time of evaluation. Interest-rate swaps and interest rate caps accounted for under the special treatment method are omitted from this evaluation.

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 each subsidiary.

6. Other Material Matters Related to the Preparation of the 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 costs in the current fiscal year; however, certain items paid in connection with the acquisition of assets are amortized over 5 years using the straight-line method or are included in acquisition costs.

b. Operational Investments

Operational investments are separated from non-operational investments and are accounted for under Operational Securities Investments and Operational Loan Investments within Current Assets. Profits and losses arising from operational investments are accounted for under Operating Profits and Losses.

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 Partnerships

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

d. Consolidated Tax Treatment

Ichigo qualifies for consolidated tax treatment.

E. Additional Information

Adoption of the Guidance on Recoverability of Deferred Tax Assets

Starting in FY18/2, Ichigo has adopted the “Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

Change in the Purpose of Ownership of Real Estate for Sale

As of the end of FY18/2, 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 1,624 million
Land	JPY 6,153 million
Total	<u>JPY 7,777 million</u>

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

As of the end of FY18/2, 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 1,173 million
Depreciation	-JPY 209 million
Buildings and Structures (net)	<u>JPY 963 million</u>
Other	JPY 1 million
Depreciation	JPY 0 million
Other (net)	<u>JPY 0 million</u>
Land	<u>JPY 1,977 million</u>
Total	<u>JPY 2,941 million</u>

During FY18/2, 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 1,014 million
Depreciation	-JPY 60 million
Solar Power Plant Equipment (net)	<u>JPY 953 million</u>
Land	JPY 43 million
Total	<u>JPY 996 million</u>

Impairment Loss

Ichigo recorded an impairment loss on the below asset grouping in FY18/2.

1. Asset and Amount Recognized as Impairment Loss

Purpose	Type	Location	Impairment Loss
Unused Land	Land	Chiba Prefecture	JPY 327 million

2. Reason for Impairment

Ichigo impaired the book values of unused land to their respective recoverable amount based on the current business environment, and an equivalent 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 unused land based on net sale values determined using third-party real estate appraisal values.

II. Notes to the Consolidated Balance Sheet

A. Assets Provided as Collateral and Secured Obligations

Assets Provided as Collateral

Cash and cash equivalents	JPY 2,385 million
Trade notes and accounts receivable	JPY 114 million
Operational loan investments	JPY 1,324 million
Real estate for sale	JPY 83,287 million
Current assets – other	JPY 2 million
Buildings and structures	JPY 5,574 million
Solar power plant equipment	JPY 6,573 million
Land	JPY 16,751 million
Property, plant, and equipment – other	JPY 69 million
Leasehold rights	JPY 62 million
Buildings under construction (reserved for collateral)	JPY 56 million
Total	<u>JPY 116,203 million</u>

Figures shown in Buildings and structures, Solar power plant equipment, and Property, plant, and equipment – other are net amounts.

Secured Obligations

Short-term loans	JPY 620 million
Long-term loans (due within one year)	JPY 3,424 million
Long-term loans	JPY 91,993 million
Total	<u>JPY 96,037 million</u>

B. Non-Recourse Loans

Non-recourse loans 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 the related non-recourse loans are as follows:

Assets Provided as Collateral

Cash and cash equivalents	JPY 10,272 million
Trade notes and accounts receivable	JPY 117 million
Real estate for sale	JPY 77,604 million
Current assets – other	JPY 2 million
Buildings and structures	JPY 516 million
Solar power plant equipment	JPY 10,940 million
Land	JPY 1,268 million
Investment and other assets – other	JPY 367 million
Total	<u>JPY 101,089 million</u>

Figures shown in Buildings and structures and Solar power plant equipment are net amounts.

Non-Recourse Loans

Long-term non-recourse loans (due within one year)	JPY 3,921 million
Long-term non-recourse loans	JPY 63,588 million
Total	<u>JPY 67,509 million</u>

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.

D. Overdraft, Loan Commitment, and Term Loan Agreements

To secure funding flexibility and stability, Ichigo has overdraft, loan commitment, and term loan agreements with financial institutions.

Unused balance of the above agreements (as of the end of FY18/2)

Total amount of overdraft, loan commitment, and term loan agreements	JPY 26,737 million
Draw-down amount	JPY 9,377 million
Unused balance	<u>JPY 17,359 million</u>

III. Notes to the Consolidated Income Statement

Valuation Loss on Derivatives

Ichigo hedges against a future rise in long-term interest rates using interest rate swaps and interest rate caps. A decrease in the market value of such derivative instruments is recorded as a valuation loss on derivatives.

IV. Notes to the 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 FY18/2	Increase in shares during FY18/2 ¹	Decrease in shares during FY18/2 ²	Number of shares at the end of FY18/2
Shares issued				
Common shares	503,712,300	771,900	–	504,484,200
Total	503,712,300	771,900	–	504,484,200
Treasury shares				
Common shares	329,600	8,436,500	59,600	8,706,500
Total	329,600	8,436,500	59,600	8,706,500

¹ Increase in shares issued due to employee exercise of stock options: 771,900 shares

² Increase in treasury shares due to share buyback: 8,436,500 shares

Decrease in treasury shares due to employee exercise of stock options: 59,600 shares

B. Stock Options

Stock Options	Share Type	Underlying Number of Shares				Value (as of February 28, 2018)
		March 1, 2017	Increase in FY18/2	Decrease in FY18/2	February 28, 2018	
10th stock option issuance	Common shares	79,600	–	59,600	20,000	–
11th stock option issuance	Common shares	838,000	–	567,000	271,000	JPY 5 million
12th stock option issuance	Common shares	871,100	–	136,100	735,000	JPY 115 million
13th stock option issuance	Common shares	1,817,300	–	140,800	1,676,500	JPY 163 million
14th stock option issuance	Common shares	1,460,000	–	86,800	1,373,200	JPY 259 million
15th ¹ stock option issuance	Common shares	2,000,000	–	95,500	1,904,500	JPY 111 million
16th ¹ stock option issuance	Common shares	–	1,800,000	–	1,800,000	JPY 10 million
Total	–	7,066,000	1,800,000	1,085,800	7,780,200	JPY 666 million

¹ The 15th and 16th stock option issuances are currently not exercisable, because their exercise dates are in the future.

C. Dividends

1. Dividends Paid

In a 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 |

2. Dividends where Record Date is in FY18/2, but the Payment Date is in FY19/2

In a meeting of the Board of Directors on April 18, 2018, the following was resolved:

- | | |
|------------------------|-------------------|
| (a) Total Dividend | JPY 2,974 million |
| (b) Source | Retained earnings |
| (c) Dividend per Share | JPY 6 |
| (d) Record Date | February 28, 2018 |
| (e) Payment Date | May 28, 2018 |

V. 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. Ichigo's policy is to use derivatives only for hedging purposes and not for speculative transactions.

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 are primarily investments in Japanese corporate equities, 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 market price fluctuation risk.

Bank loans, 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 derivative transactions (e.g. interest rate swaps and interest rate caps). Please refer to (I) Material Matters for Preparation of the Consolidated Financial Statements (D) Accounting Standards, (4) Material Hedge Accounting.

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 the time of investment monetization, and 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 interest rate caps for the purpose of reducing interest rate risk on loans and non-recourse 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 set by the responsible departments, and 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 prices are not available. Such prices may fluctuate, since their calculations 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, 2018 are shown below. Items for which it was deemed highly difficult to obtain market values are not included. (See Note 2 below).

(JPY million)

	Amount Recorded on Consolidated Balance Sheet	Market Value	Difference
Assets	45,510	45,510	—
(1) Cash and cash equivalents			
(2) Trade notes and accounts receivable ¹	1,072	1,072	—
(3) Operational loan investments	1,324	1,324	—
(4) Securities investments	1,904	1,904	—
(5) Long-term loan investments ¹	—	—	—
Total Assets	49,812	49,812	—
Liabilities	1,042	1,042	—
(1) Short-term loans			
(2) Bonds (due within one year)	112	112	—
(3) Long-term loans (due within one year)	4,449	4,449	—
(4) Long-term non-recourse loans (due within one year)	3,921	3,921	—
(5) Income taxes payable	1,609	1,609	—
(6) Bonds	520	514	-5
(7) Long-term loans	112,366	112,791	425
(8) Long-term non-recourse loans	63,588	64,371	783
Total Liabilities	187,609	188,813	1,204
Derivative Transactions ²	-466	-466	—

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.

(Note 1) 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) 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.
- (5) 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) Short-Term Loans, (2) Bonds due within One Year, (3) Long-Term Loans due within One Year, (4) Long-Term Non-Recourse Loans due within One Year, and (5) Income Tax Payable
Carried at book value due to short settlement period.
- (6) 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.
- (7) Long-Term Loans, and (8) Long-Term Non-Recourse Loans
Floating-rate borrowings for long-term loans, and long-term non-recourse loans are carried at book value because their book values closely track their market values. Partial floating-rate long-term loans and long-term non-recourse loans are subject to the special accounting treatment of interest rate swaps, and their market values are calculated by taking the present value of their principal and interest along with the corresponding interest rate swap, 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 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	2
(2) Securities Investments ¹	204
(3) Long-term Security Deposits Received	8,492

¹ Excluding allowance for doubtful accounts which are recorded separately

- (1) Operational Securities Investments are Japanese non-listed equities that don't have market prices, and are not subject to market value disclosures.
- (2) Securities Investments are investment in Japanese and foreign non-listed equities as well as Japanese real estate funds that don't have market prices and whose future cash flow cannot be easily estimated, and are not subject to market value disclosures.
- (3) Long-term Security Deposits Received which are security deposits received from tenants of rental properties are not subject to market value disclosures because they are not priced in the market and it is difficult to estimate future cash flow because the actual period of deposit is not known.

VI. 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 FY18/2 was JPY 1,704 million (rental revenue is recorded in Revenue and the cost of lease is recorded in Costs of Goods Sold), and impairment loss is JPY 327 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, 2018 ³
Mar 1, 2017	Increase/Decrease ²	Feb 28, 2018	
25,986	11,069	37,055	48,612

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

² The main components of the increase for the fiscal year is JPY 7,777 million transferred from Real Estate for Sale due to a change in the purpose of ownership, JPY 4,701 million due to the acquisition of Centro Co., Ltd., JPY 1,730 million due to the acquisition of Storage Plus Corp., and JPY 501 million from Capital Expenditures. The main components of the decrease for the fiscal year is JPY 2,941 million transferred to Real Estate for Sale due to a change in the purpose of ownership, JPY 378 million of Depreciation, and JPY 327 million recorded in Impairment Loss.

³ Market value as of February 28, 2018 is primarily based upon third-party real estate appraisals.

VII. Per Share Data

Net assets per share	JPY 180.20
Net income per share	JPY 28.12
Net income per share (fully diluted)	JPY 28.10

VIII. Material Subsequent Events

N/A

Notes to the 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 day of the 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 partnerships is noted in (F) Material Changes in Presentation (3) Investment Partnerships.) |
| 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

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

E. Hedge Accounting Method

1. Hedge Accounting Method

In general, Ichigo adopts the deferral hedge accounting method. However, interest rate swaps that meet the criteria for special treatment are accounted for under the special treatment method.

2. Hedging Instruments and Hedging Targets

Hedging instruments	Interest rate swaps
Hedging targets	Loans

3. Hedging Policy

Pursuant with its internal rules, Ichigo hedges against interest rate fluctuations that arise from its operational and financial activities.

4. Evaluation of Hedge Effectiveness

Ichigo evaluates the effectiveness of hedging activities with reference to the accumulated gain or loss on the hedging instruments and related hedging targets for a period from the commencement of the hedges to the time of evaluation. Interest-rate swaps accounted for under the special treatment method are omitted from this evaluation.

F. Other Material Matters Related to the Preparation of the Financial Statements

1. Consumption Tax

Consumption taxes are excluded from the relevant revenue, costs or expenses. Non-deductible consumption taxes are generally accounted for as costs in the current fiscal year; however, certain items paid in connection with the acquisition of assets are amortized over 5 years using the straight-line method.

2. Operational Investments

Operational investments are separated from non-operational investments and are accounted for under Operational Securities Investments and Operational Loan Investments within Current Assets. Profits and losses arising from operational investments are accounted for under Operating Profits and Losses.

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.

3. Investment Partnerships

Ichigo accounts for investments in investment partnerships as Operational Securities Investments or Investment Securities in Other Affiliates. Such investments are recorded at the time the investments are made. Gains and losses distributed from the investment partnerships are recorded as Revenue, and the corresponding balance sheet item increases or decreases by the same amount. Refunds received from the investment partnerships are credited to the corresponding balance sheet item.

4. Consolidated Tax Treatment

Ichigo qualifies for consolidated tax treatment.

II. Additional Information

Adoption of the Guidance on Recoverability of Deferred Tax Assets

Starting in FY18/2, Ichigo has adopted the “Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

III. Notes to the Balance Sheet

A. Assets Provided as Collateral and Secured Obligations

Assets provided as collateral

Cash and cash equivalents	JPY 39 million
Real estate for sale	JPY 623 million
Buildings and structures	JPY 167 million
Land	JPY 2,099 million
Property, plant, and equipment – other	JPY 1 million
Shares of affiliated companies	JPY 1 million
Long-term loans to affiliates	JPY 1,399 million
Total	<u>JPY 4,333 million</u>

Figures in Buildings and structures and Property, plant, and equipment – other are net amounts.

Secured obligations

Long-term loans (due within one year)	JPY 116 million
Long-term loans	JPY 1,666 million
Total	<u>JPY 1,783 million</u>

B. Contingent Liabilities

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

Ichigo Estate Co., Ltd.	JPY 35,088 million
Ichigo Real Estate Services Fukuoka Co, Ltd.	JPY 6,860 million
Ichigo Owners Co., Ltd.	JPY 2,700 million
Ichigo ECO Energy Co., Ltd.	JPY 1,410 million
GK Daiba Jisho	JPY 8,000 million
GK Chouan	JPY 6,140 million
GK Kawabata Holdings	JPY 3,604 million
GK Nakasu Holdings	JPY 2,556 million
GK Ichigaya Jisho	JPY 2,346 million
GK Shinsaibashi Jisho	JPY 2,270 million
GK SA3	JPY 2,218 million
GK Asakusa Jisho	JPY 1,580 million
GK Gyoutatsu	JPY 1,445 million
GK Azabu Juban Jisho	JPY 670 million
GK Nagoya Sakae Holdings	JPY 300 million
GK Ichigo Hamanaka Bokujo ECO Power Plant	JPY 1,259 million
GK Ichigo Minakami Aramaki ECO Power Plant	JPY 730 million
GK Ichigo Yonago Izumi ECO Power Plant	JPY 628 million
GK Sera Aomizu Ushinoro ECO Power Plant	JPY 502 million
GK Ichigo Higashi Hiroshima Saijocho Taguchi ECO Power Plant	JPY 447 million
GK Ichigo Toride Shimotakai ECO Power Plant	JPY 357 million
GK Ichigo Toki Oroshicho ECO Power Plant	JPY 351 million
GK Ichigo Yubetsu Barou ECO Power Plant	JPY 238 million
GK Ichigo Kijo Takajo ECO Power Plant	JPY 217 million
GK Ichigo Betsukai Kawakamicho ECO Power Plant	JPY 199 million
GK Ichigo Akkeshi Shirahama ECO Power Plant	JPY 182 million
GK Ichigo ECO Fuchu Jogecho Yano Power Plant	JPY 153 million
GK Ichigo Toyokoro Sasadamachi ECO Power Plant	JPY 139 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 194 million
Total	<u>JPY 82,794 million</u>

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

Short-term receivables from affiliates	JPY 1,171 million
Short-term payables to affiliates	JPY 52 million
Long-term payables to affiliates	JPY 41 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.

IV. Income Statement

Transactions with affiliates	
Operational Transactions	
Revenue	JPY 19,446 million
Operating expenses	JPY 36 million
Non-Operational Transactions	JPY 819 million

V. Statement of Changes in Shareholders' Equity

Type and Number of Treasury Shares	
Common shares	8,706,500 shares

VI. Taxes

Breakdown of Deferred Tax Assets and Liabilities

Deferred Tax Assets	
Accrued income taxes	JPY 165 million
Surplus for provision of allowance for doubtful accounts	JPY 33 million
Valuation loss on securities investments	JPY 25 million
Valuation loss on investments in real estate	JPY 1,150 million
Valuation loss on securities of affiliates	JPY 578 million
Deferred gain (loss) on long-term interest rate hedges	JPY 155 million
Other	JPY 225 million
Subtotal	JPY 2,335 million
Allowance for valuation	-JPY 1,833 million
Deferred Tax Assets Total	JPY 501 million
Deferred Tax Liabilities	
Unrealized gain on other securities	-JPY 216 million
Asset retirement obligation expense	—
Deferred Tax Liabilities Total	-JPY 216 million
Net Deferred Tax Assets	JPY 285 million

VII. 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	5,150	Short-term loans to affiliates	6,961
						Long-term loans to affiliates	8,050
				Interest received	293	Current assets – other	75
						Current liabilities – other	2
				Provision of credit guarantee ²	35,088	–	–
				Receipt of credit guarantee ^{3,4}	5,290	–	–
				Receipt of collateral ^{5,6}	2,451	–	–
				Receipt of credit guarantee and collateral ⁷	4,121	–	–
				Payment of credit guarantee fee to guarantor	–	Prepaid expenses	–
Investment and other assets – other	3						
Subsidiary	Ichigo ECO Energy Co., Ltd.	100%	Service contract	Lending ¹	2,914	Short-term loans to affiliates	1,734
						Long-term loans to affiliates	2,164
				Interest received	52	Current assets – other	18
				Provision of credit guarantee ²	1,410	–	–

(JPY million)

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	2,152	Short-term loans to affiliates	1,900
				Interest received	34	Current assets - other	–
				Provision of credit guarantee ²	6,860	–	–
Subsidiary	Ichigo Owners Co., Ltd.	100%	Service contract	Lending ¹	5,850	Short-term loans to affiliates	3,600
						Long-term loans to affiliates	850
				Interest received	48	Current assets – other	20
				Provision of credit guarantee ²	2,700	–	–
Subsidiary	Ichigo Land Shinchiku Co., Ltd.	100%	Service contract	Succession of business due to company absorption	Note ⁸	–	–
Subsidiary	GK Amethyst	0 ¹¹	TK Equity	Additional investments associated with refinance	6,300	Securities of other affiliates	6,375
Subsidiary	KK Kimura Building	100% (Indirectly held)	Subsidiary TK Equity	Receipt of credit guarantee and collateral ^{4,7}	1,840	–	–
Subsidiary	YK Satsuki Holdings	100%	Financial support	Lending ¹	–	Long-term loans to affiliates	1,399
				Interest received	83	Current assets – other	16
Subsidiary	GK Minami Ikebukuro Jisho	0 ¹¹	TK Equity	Receipt of credit guarantee and collateral ^{4,7}	1,840	–	–

(JPY million)

Affiliation	Name	Voting Rights Held by Ichigo	Nature of Relationship	Transaction	Transaction Amount	Account	Balance Outstanding
Subsidiary	GK Gotanda Holdings	0 ¹¹	TK Equity	Receipt of credit guarantee and collateral ⁷	1,232	–	–
				Payment of credit guarantee fee to guarantor	–	Prepaid expenses	–
						Investment and other assets – other	–
Subsidiary	GK Ichigaya Jisho	0 ¹¹	Subsidiary TK Equity	Provision of credit guarantee ²	2,346	–	–
				Receipt of credit guarantee fee	–	Advances received	4
Subsidiary	GK Shinsaibashi Jisho	0 ¹¹	TK Equity	Provision of credit guarantee ²	2,270	–	–
				Receipt of credit guarantee fee	1	Advances received	4
				Receipt of collateral ^{5,6}	2,888	–	–
Subsidiary	GK Daiba Jisho	0 ¹¹	TK Equity	Provision of credit guarantee ²	8,000	–	–
				Receipt of credit guarantee fee	2	Advances received	20
Subsidiary	GK Kawabata Holdings	0 ¹¹	TK Equity	Provision of credit guarantee ²	3,604	–	–
				Receipt of credit guarantee fee	1	Advances received	8
Subsidiary	GK Nakasu Holdings	0 ¹¹	TK Equity	Provision of credit guarantee ²	2,556	–	–
				Receipt of credit guarantee fee	–	Advances received	6

(JPY million)

Affiliation	Name	Voting Rights Held by Ichigo	Nature of Relationship	Transaction	Transaction Amount	Account	Balance Outstanding
Subsidiary	GK SA3	0 ¹¹	TK Equity	Provision of credit guarantee ²	2,218	–	–
				Receipt of credit guarantee fee	–	Advances received	6
				Receipt of collateral ^{5,6}	2,718	–	–
Subsidiary	GK Asakusa Jisho	0 ¹¹	TK Equity	Provision of credit guarantee ²	1,580	–	–
				Receipt of credit guarantee fee	–	Advances received	4
				Receipt of collateral ^{5,6}	1,859	–	–
Subsidiary	GK Chouan	0 ¹¹	TK Equity	Receipt of collateral ^{5,6}	5,789	–	–
				Provision of credit guarantee and collateral ⁹	6,140	–	–
Subsidiary	GK Gyoutatsu	0 ¹¹	TK Equity	Receipt of collateral ^{5,6}	1,310	–	–
				Provision of credit guarantee and collateral ⁹	1,445	–	–
Subsidiary	GK Kinjo	0 ¹¹	TK Equity	Receipt of credit guarantee ³	2,894	–	–
				Payment of credit guarantee fee to guarantor	1	Advance payment	4
						Investment and other assets – other	2
Subsidiary	GK Ichigo Showamura Ogose ECO Power Plant	0 ¹¹	TK Equity	Provision of collateral ¹⁰	1,374	–	–
Subsidiary	GK Ichigo Hamanaka Bokujo ECO Power Plant	0 ¹¹	TK Equity	Provision of credit guarantee ²	1,259	–	–

- 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 provided credit guarantees to banks on loans to the subsidiary.
- ³ The subsidiary has received credit guarantees from Ichigo on loans from banks.
- ⁴ Ichigo has received credit guarantees or collateral from its subsidiaries for a loan of JPY 1,840 million from banks.
- ⁵ The subsidiary has received collateral from Ichigo for loans from banks.
- ⁶ Ichigo has received collateral from its subsidiaries for a loan of JPY 6,344 million from banks.
- ⁷ The subsidiary has received both guarantees and collateral from Ichigo for the loans from banks.
- ⁸ The transferred assets and liabilities due to the company absorption are JPY 1,755 million and JPY 135 million, respectively. The company absorption does not require any share or monetary transfer, because the successor company owns all shares of the absorbed company.
- ⁹ Ichigo has guaranteed and provided collateral for loans from banks.
- ¹⁰ Ichigo has provided collateral for loans from banks.
- ¹¹ Although Ichigo holds 0% of the voting rights, its wholly-owned subsidiary holds 100% of managerial authority over the investment partnership (aka TK or Tokumei Kumiai). However, the entity 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 Partnerships” (Accounting Standards Board of Japan Practical Issues Task Force No. 20, March 25, 2011).
- ¹² 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.

XIII. Per Share Data

A. Net assets per share	JPY 161.55
B. Net income per share	JPY 26.11
C. Net income per share (diluted)	JPY 26.10

IX. Material Subsequent Events

N/A