

4. Others

- (1) Changes in Important Subsidiaries during the Period (Changes in Specified Subsidiaries in accordance with Changes in the Scope of Consolidation): No
- (2) Adoption of the Simplified Accounting Method and Special Accounting Practices in the Preparation of Quarterly Consolidated Financial Statements: No
- (3) Changes in Accounting Principles, Procedures, Presentation Methods, etc., Concerning the Preparation of Consolidated Financial Statements (Recorded under “Changes in Significant Matters in the Preparation of Consolidated Financial Statements”)
- 1) Changes of accompanying revisions in accounting standards: Yes
 - 2) Changes of accompanying revisions other than 1. above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No

(4) Number of Outstanding Shares (Common Stock)

- 1) Number of outstanding shares at the fiscal period-end (including treasury stock)

Dec. 31, 2022	1,324,288,306 shares	Mar. 31, 2022	1,391,478,706 shares
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- 2) Number of shares of treasury stock at the fiscal period-end

Dec. 31, 2022	10,058,959 shares	Mar. 31, 2022	68,852,376 shares
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- 3) Average number of shares for the period (quarterly consolidated cumulative basis)

Dec. 31, 2022	1,321,578,906 shares	Dec. 31, 2021	1,334,857,968 shares
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Implementation status of review processes

This Summary of Consolidated Financial Results is not subject to the review processes under the Financial Products and Exchange Law.

Cautionary Statement with respect to Forecast of Consolidated Financial Results

The forecasts and projected operating results contained in this report are based on information and data available to the Company at the time of disclosure as well as certain assumptions deemed rational. Therefore, actual performance may differ significantly from such forecasts due to various factors.

Details can be found on our website. (<https://www.mec.co.jp/en/ir/library/>)

Please refer to FACT BOOK for the details of revisions to the forecast of consolidated financial results announced today.

5. Notes to Quarterly Consolidated Financial Statements

(Notes on Significant changes in shareholders' equity)

(The Cancellation of Treasury Stocks)

The Company announces that, pursuant to the delegation of authority approved by resolutions of the Board of Directors of the Company, the President and Chief Executive Officer of the Company decided to cancel the treasury shares in accordance with Article 178 of the Companies Act on November 10, 2022 and carried out the cancellation of 67,190,400 shares on November 30, 2022. By doing so, retained earnings and treasury shares decreased by 129,285 million yen during the third quarter under review, thus outstanding amounts of retained earnings and treasury shares at the end of the said period was 1,085,325 million yen and 18,795 million yen, respectively.

(Significant Subsequent Events)

(Business combinations through acquisition)

(1) Outline of business combination

①Name of acquired company and its business description

Name of acquired company: Regus Japan Holdings Co., Ltd.

Business: Management and operations of rental offices, co-working spaces, etc.

②Primary reason for business combination

By succeeding existing domestic business sites of Regus Japan and acquiring an exclusive partnership as well as development and operating rights of IWG plc (hereafter “IWG”), one of the world's largest workspace provider (Main office: Switzerland, CEO : Mark Dixon), we aim to expand our flexible and workspace business through integration of both strengths: our Group's customer network in various businesses and property development capabilities and IWG's competitive advantages based on global standard.

③Date of business combination

February 1, 2023

④Legal form of business combination

Acquisition of shares

⑤Name of the acquired company after business combination

Regus Japan Holdings Co., Ltd.

⑥Acquired percentage of voting rights

100%

⑦Bases for choosing the acquiring company

The Company substitutionally gained control over the acquired company through share acquisition.

- (2) Acquisition cost of the acquired company and breakdown by type of consideration
 - Payment for the acquisition on the date (cash and deposits): 34,797 million yen
 - Acquisition cost: 34,797 million yen
 - Acquisition cost will be determined after making price adjustment based on the share transfer agreement.
- (3) Description and amount of major acquisition-related expense
 - To be determined.
- (4) Amount, origin, amortization method, and amortization period of Goodwill resulting from the acquisition
 - To be determined.
- (5) Breakdown of assets acquired and liabilities assumed on the acquisition date
 - To be determined.

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	233,117	276,112
Trade notes, accounts receivable, and contract assets	60,645	49,019
Securities	4,280	6,735
Real estate for sale	41,239	130,527
Real estate for sale in process	299,532	472,080
Real estate for development	724	719
Costs on construction contracts in progress	4,316	6,933
Other inventories	1,575	1,749
Equity investments	624,521	770,672
Other	87,260	117,035
Allowance for doubtful accounts	(422)	(609)
Total current assets	1,356,789	1,830,977
Non-current assets		
Property, plant and equipment		
Buildings and structures	2,919,944	2,947,263
Accumulated depreciation and impairment	(1,689,430)	(1,752,009)
Buildings and structures, net	1,230,513	1,195,254
Machinery, equipment and vehicles	99,855	100,412
Accumulated depreciation and impairment	(68,647)	(71,447)
Machinery, equipment and vehicles, net	31,208	28,965
Land	2,310,551	2,316,207
Land in trust	585,470	575,342
Construction in progress	169,700	221,328
Other	61,398	64,139
Accumulated depreciation and impairment	(42,852)	(44,474)
Other, net	18,545	19,665
Total property, plant and equipment	4,345,989	4,356,763
Intangible assets		
Leasehold interests in land	82,541	82,804
Other	25,550	25,415
Total intangible assets	108,092	108,219
Investments and other assets		
Investment securities	299,617	296,199
Long-term loans receivable	2,324	2,566
Leasehold and guarantee deposits	140,230	138,682
Retirement benefit asset	45,998	51,010
Deferred tax assets	25,887	24,253
Other	169,535	204,729
Allowance for doubtful accounts	(548)	(633)
Total investments and other assets	683,045	716,808
Total non-current assets	5,137,127	5,181,791
Total assets	6,493,917	7,012,769

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Trade notes and accounts payable	60,516	45,139
Short-term borrowings	182,052	207,348
Current portion of long-term borrowings	79,928	90,551
Commercial papers	—	200,000
Current portion of bonds payable	90,000	30,000
Income taxes payable	29,445	9,024
Other	189,099	299,315
Total current liabilities	631,043	881,379
Non-current liabilities		
Bonds payable	786,335	827,824
Long-term borrowings	1,598,562	1,662,912
Leasehold and guarantee deposits received	451,749	445,224
Deferred tax liabilities	274,176	287,021
Deferred tax liabilities for land revaluation	264,082	264,082
Retirement benefit liability	27,402	28,585
Provision for retirement benefits for directors (and other officers)	464	502
Provision for environmental measures	888	885
Negative goodwill	85,526	86,939
Other	137,252	111,805
Total non-current liabilities	3,626,441	3,715,784
Total liabilities	4,257,484	4,597,163
Net assets		
Shareholders' equity		
Share capital	142,414	142,414
Capital surplus	159,749	159,721
Retained earnings	1,165,344	1,085,325
Treasury shares	(132,483)	(18,795)
Total shareholders' equity	1,335,024	1,368,666
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	130,841	133,264
Deferred gains or losses on hedges	103	4,594
Revaluation reserve for land	526,417	526,417
Foreign currency translation adjustment	2,162	133,121
Remeasurements of defined benefit plans	8,675	6,403
Total accumulated other comprehensive income	668,200	803,801
Share acquisition rights	201	193
Non-controlling interests	233,005	242,945
Total net assets	2,236,432	2,415,605
Total liabilities and net assets	6,493,917	7,012,769

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

(Quarterly Consolidated Statements of Income)

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Operating revenue	904,570	906,324
Operating costs	664,140	634,631
Operating gross profit	240,429	271,693
Selling, general and administrative expenses	68,088	71,680
Operating profit	172,340	200,012
Non-operating income		
Interest income	555	557
Dividend income	6,495	7,293
Share of profit of entities accounted for using equity method	354	315
Contribution for construction	1,455	—
Other	4,055	3,605
Total non-operating income	12,917	11,771
Non-operating expenses		
Interest expenses	15,487	18,449
Loss on retirement of non-current assets	10,063	3,371
Other	8,945	6,957
Total non-operating expenses	34,496	28,779
Ordinary profit	150,760	183,004
Extraordinary income		
Gain on sale of non-current assets	—	6,401
Gain on sale of investment securities	7,756	2,459
Gain on sale of shares of subsidiaries and associates	1,853	—
Total extraordinary income	9,609	8,860
Extraordinary losses		
Loss related to retirement of non-current assets	14,060	16,249
Loss on valuation of investment securities	—	2,637
Loss on valuation of equity investments	—	4,543
Total extraordinary losses	14,060	23,430
Profit before income taxes	146,309	168,435
Income taxes - current	39,254	38,598
Income taxes - deferred	5,199	6,859
Total income taxes	44,454	45,458
Profit	101,855	122,977
Profit attributable to non-controlling interests	14,712	20,167
Profit attributable to owners of parent	87,142	102,809

(Quarterly Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Profit	101,855	122,977
Other comprehensive income		
Valuation difference on available-for-sale securities	(17)	2,426
Deferred gains or losses on hedges	493	3,243
Foreign currency translation adjustment	41,392	141,468
Remeasurements of defined benefit plans, net of tax	(1,032)	(2,254)
Share of other comprehensive income of entities accounted for using equity method	(165)	2,195
Total other comprehensive income	40,670	147,079
Comprehensive income	142,525	270,056
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	125,588	238,410
Comprehensive income attributable to non-controlling interests	16,936	31,645

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Cash flows from operating activities		
Profit before income taxes	146,309	168,435
Depreciation	67,933	69,775
Loss (gain) on sale and retirement of property, plant and equipment	16,722	1,006
Loss (gain) on sale of securities	(7,756)	(2,459)
Loss (gain) on valuation of securities	—	2,637
Loss (gain) on sale of shares of subsidiaries and associates	(1,853)	—
Loss on valuation of equity investments	—	4,543
Bond issuance costs	282	269
Amortization of goodwill	1,901	2,236
Proceeds from contribution for construction	(1,455)	—
Share of loss (profit) of entities accounted for using equity method	(354)	(315)
Increase (decrease) in provisions	213	289
Increase (decrease) in retirement benefit liability	(2,372)	(7,210)
Interest and dividend income	(7,051)	(7,850)
Interest expenses	15,487	18,449
Decrease (increase) in trade receivables and contract assets	7,068	13,182
Decrease (increase) in inventories	71,409	(122,862)
Decrease (increase) in equity investments	(15,858)	3,343
Decrease (increase) in advance payments to suppliers	2,900	333
Decrease (increase) in leasehold and guarantee deposits	(5,793)	1,559
Increase (decrease) in trade payables	(17,211)	(15,371)
Increase (decrease) in accrued consumption taxes	5,759	2,245
Increase (decrease) in leasehold and guarantee deposits received	(9,554)	(6,524)
Other, net	(28,074)	(15,836)
Subtotal	238,653	109,876
Interest and dividends received	6,759	8,452
Interest paid	(15,309)	(17,315)
Income taxes refund (paid)	(55,254)	(60,776)
Net cash provided by (used in) operating activities	174,848	40,236
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	2	67
Payments into time deposits	(407)	(1)
Proceeds from sale and redemption of securities	833	2,015
Purchase of securities	(887)	(1,945)
Proceeds from sale of property, plant and equipment	7	10,189
Purchase of property, plant and equipment	(217,310)	(205,278)

Proceeds from sale and redemption of investment securities	8,398	5,847
Purchase of investment securities	(6,802)	(3,565)
Purchase of leasehold interests in land	(523)	—
Proceeds from collection of short-term loans receivable	50	—
Short-term loan advances	(3,960)	(352)
Proceeds from collection of long-term loans receivable	285	9
Long-term loan advances	(66)	(212)
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	1,883	—
Proceeds from contribution received for construction	1,455	—
Other, net	(6,368)	(7,682)
Net cash provided by (used in) investing activities	(223,410)	(200,909)

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	23,973	6,124
Net increase (decrease) in commercial papers	14,000	200,000
Repayments of finance lease liabilities	(228)	(628)
Proceeds from long-term borrowings	222,190	184,338
Repayments of long-term borrowings	(87,699)	(83,215)
Proceeds from issuance of bonds	69,717	59,730
Redemption of bonds	(45,000)	(80,000)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(7,958)	—
Net decrease (increase) in treasury shares	(19,858)	(16,163)
Decrease (increase) in deposit paid for purchase of treasury stock	—	(10,345)
Dividends paid	(46,815)	(51,613)
Dividends paid to non-controlling interests	(8,791)	(12,278)
Proceeds from share issuance to non-controlling shareholders	4,547	2,773
Other, net	27	(68)
Net cash provided by (used in) financing activities	118,105	198,654
Effect of exchange rate change on cash and cash equivalents	4,025	9,045
Net increase (decrease) in cash and cash equivalents	73,568	47,027
Cash and cash equivalents at beginning of period	172,307	234,244
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	740
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(2,629)
Cash and cash equivalents at end of period	245,875	279,384