We continue to pursue sustainable progress through redevelopment in central Tokyo and growth in the leasing business.

K. Nishima

Kojun Nishima
President

Please recap Sumitomo Realty's results for the March 2018 fiscal year.

For the March 2018 fiscal year, we recorded ¥948.4 billion in revenue from operations, with operating income of ¥205.6 billion, ordinary profit of ¥186.9 billion and profit attributable to owners of parent of ¥119.7 billion. This marked our sixth consecutive year of revenue growth, our eighth consecutive year of increases in operating income and ordinary profit, and our fifth consecutive year of record revenue from operations, operating income, ordinary profit and profit attributable to owners of parent.

All four of our mainstay business segments achieved growth in operating income. The Leasing segment, which is focused on office buildings in central Tokyo, achieved record profit for a third consecutive year and continued to drive the Company's earnings growth. We also saw strong performance from the Sales segment, where the number of condominium units delivered increased, especially for large-scale properties, in addition to the Construction and Brokerage segments.

Please tell us about progress toward the targets in the Seventh Management Plan, and the Company's forecast for the March 2019 fiscal year.

Since April 2016, we have been working toward the targets in our Seventh Management Plan (please see page 17 for details). In the space of two years, including our business performance for the March 2018 fiscal year, we have realized steady progress toward the goals in our Seventh Management Plan, making roughly 70% progress toward our aggregate three-year targets for revenue from operations, operating income and ordinary profit.

In the March 2019 fiscal year—the final year of the Seventh Management Plan—we expect the Leasing segment to continue to drive the Company's earnings growth, with all four mainstay business segments achieving growth in operating income, resulting in the sixth consecutive year of record-high earnings.

What are the investment plan and business policy for the Leasing segment, which is set to drive growth?

Our investment strategy is to carefully select high-quality development sites and actively seek to acquire them. Not only have we been relying on making successful tender offers, which can become relatively expensive due to competition, we are also emphasizing the practice of aggregating small parcels of land for possible larger redevelopment projects, as we believe this multiplies the value of those properties. We view these practices as the source of our competitive advantages in the leasing business. (Please refer to pages 8–9 for further information regarding our redevelopment projects.)

We will continue to focus on the Tokyo office building market, which is one of the largest office building markets in the world, as we steadily make progress on redevelopment projects in central Tokyo, including those in National Strategic Special Zones such as Yaesu, Roppongi and Mita. To further establish our strong position as Tokyo's No. 1 office building owner, operating more than 220 office buildings, we will work to accelerate the pace of development from the previous average annual pace of 50,000 tsubo of gross floor area to 100,000 tsubo during and after the Seventh Management Plan. In this way, we will achieve continuous growth in the leasing business by providing a new total gross floor area of more than one million tsubo in the period covered by the Seventh, Eighth and Ninth Management Plan. As far as such investment costs are concerned, we expect them to be within the scope of operating cash flows. In addition to the above projects, we will make sure to pursue as many entirely new development projects as possible when such opportunities arise. We will also expand into new business fields with an eye to the future, including large-scale development projects that are currently in progress in Ariake and Haneda, which are focused on commercial facilities and hotels.

Please tell us about the Company's financial strategy.

During the March 2018 fiscal year, our interest-bearing debt grew by ¥103.0 billion, as we had many excellent investment opportunities, including the acquisition of office building sites. In line with this favorable financial environment, long-term interest rates remain low for now and interest costs declined by ¥1.2 billion from the previous year, with the rate applied to our long-term financing of, for instance, 10-year tenors being less than 1%. We will continue to secure long-term and fixed-rate funding in order to maintain a robust financial position.

In the March 2018 fiscal year, we recorded profit attributable to owners of parent of ¥119.7 billion, which is a 16% increase from the previous year and the second consecutive year that our bottom line has topped ¥100 billion. We were therefore able to increase shareholders' equity, resulting in our net debt-equity (ND/E) ratio improving to 2.9 times. We will continue to make active investments with the aim of accumulating profits in order to increase shareholders' equity and to further improve our financial balance.

What is your basic policy regarding returns to shareholders?

Our first priority is to maintain a steady dividend payout to our shareholders. At the same time, we endeavor to set aside a sufficient amount of retained earnings to ensure stable, long-term growth of our business.

In the March 2018 fiscal year, we had planned to increase annual per-share dividends by ¥2 compared with the previous fiscal year. However, in light of our business results for the year, we increased this by an additional ¥1 per share, resulting in a year-on-year increase of ¥3, bringing annual dividend distributions to ¥27 per share (including an interim dividend of ¥13 per share). For the March 2019 fiscal year, we intend to again increase the dividend by ¥2 per share and pay a full-year dividend of ¥29 per share (including an interim dividend of ¥14 per share).

At the same time, we cannot consider our equity ratio to be sufficient relative to other companies in our industry, and there are still investments to be made in development projects to fuel future growth. Accordingly, we intend to focus on maintaining a stable dividend payout while keeping a sufficient amount of retained earnings to strengthen our financial standing. Our aim is to meet the expectations of shareholders by undertaking investments to increase earnings and thereby continuously increasing profit per share and dividend distributions. For these reasons, we currently have no plans to repurchase the Company's shares.

Seventh Management Plan (Issued on May 12, 2016)
(April 2016 to March 2019)

1 Achieve consecutive record results for the three-year period covered, with cumulative ordinary profit of ¥480 billion

Although we do not expect the favorable conditions that were present during the previous three years to continue during the period covered by the Seventh Management Plan, we will firmly maintain our “revenue and profit growth trajectory” to surpass the record results achieved under the Sixth Management Plan.

Three-year cumulative earnings targets

Revenue from operations	**¥2,700 billion** (+¥258.0 billion, +11%)*
Operating income	**¥550 billion** (+¥49.4 billion, +10%)*
Ordinary profit	**¥480 billion** (+¥62.0 billion, +15%)*

* Compared with Sixth Management Plan

Comparison of results for each medium-term management plan (Years ended/ending March 31)

Management Plan	4th Plan 2008–2010	5th Plan 2011–2013	6th Plan 2014–2016	7th Plan 2017–2019 (Forecast)
Revenue from operations	¥2,107 billion	¥2,170 billion	¥2,442 billion	**¥2,700 billion**
Operating income	¥435 billion	¥437 billion	¥501 billion	**¥550 billion**
Ordinary profit	¥339 billion	¥329 billion	¥418 billion	**¥480 billion**

Note: All figures are cumulative totals within the period of the plan.

2 Continue to invest for growth in leased buildings, further accelerate the pace of development from the previous 50,000 tsubo of gross floor area annually

Our basic policy of further strengthening our mainstay leasing business with a primary focus on redevelopment in central Tokyo is unchanged. We will work to secure properties equivalent to more than one million tsubo of gross floor area to be brought to market during and after the Seventh Management Plan.

Pace of development

Management Plan	4th Plan	5th Plan	6th Plan	7th Plan
Gross floor area (tsubo)	160,000	150,000	110,000	**220,000**

3 Promote growth of peripheral businesses to develop fifth pillar of operations

We will stimulate and encourage further growth in operations of custom homes, rental condominiums, hotels and multipurpose halls, and work to develop these businesses to a level that will rival our four business pillars*.

Revenue from operations and portion of total revenue from operations for custom homes, rental condominiums, hotels and multipurpose halls

Management Plan	4th Plan	5th Plan	6th Plan	7th Plan
Revenue from operations	¥222.0 billion (+¥24.0 billion)	¥249.0 billion (+¥27.0 billion)	¥336.0 billion (+¥86.0 billion)	**¥430.0 billion (+¥94.0 billion)**
Percent of total	11%	11%	14%	**16%**

* The current four business pillars are office building leasing, condominium sales, brokerage and Shinchiku Sokkurisan remodeling.