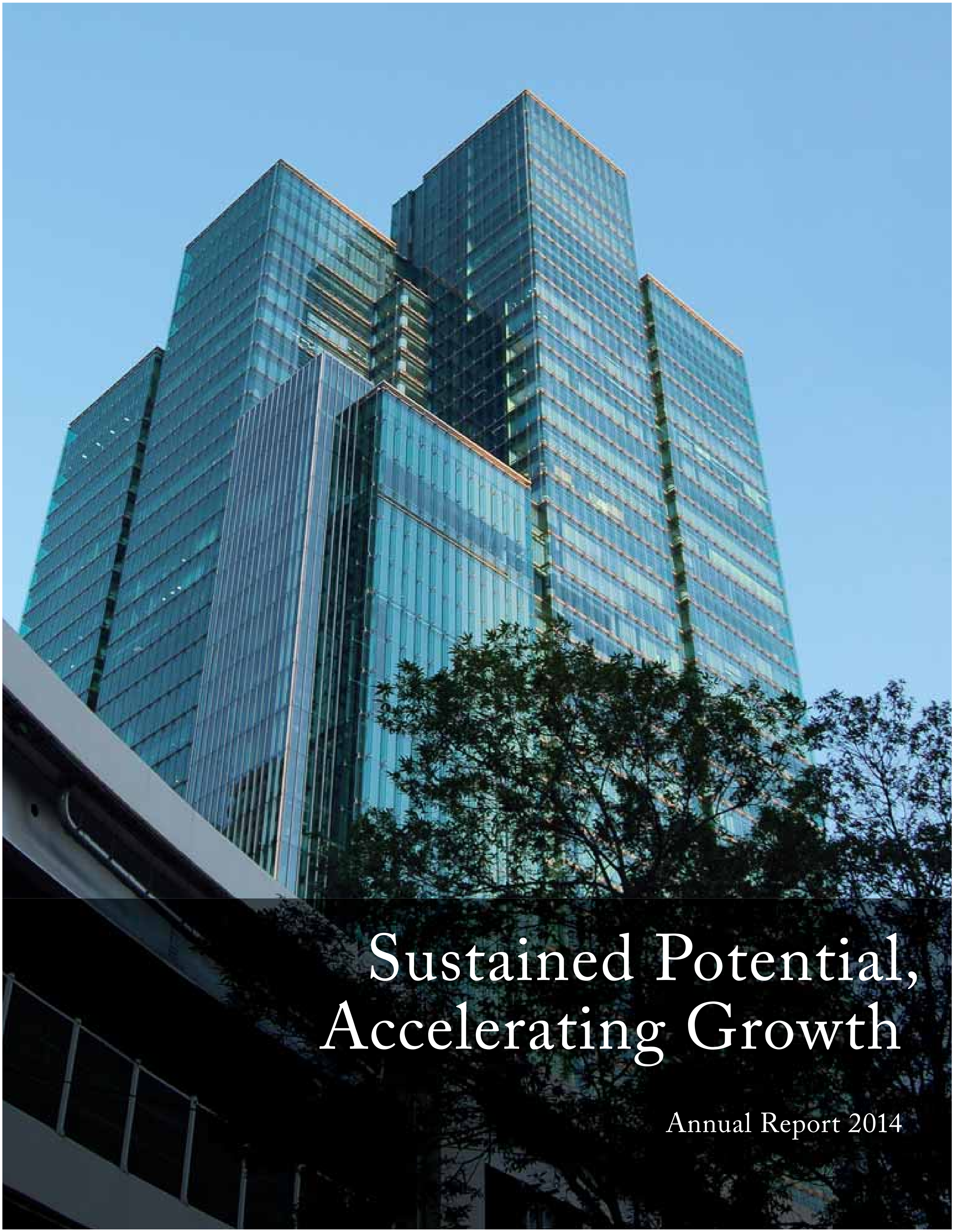
Sumitomo Realty & Development Co., Ltd.



Sustained Potential, Accelerating Growth

Annual Report 2014

Contents

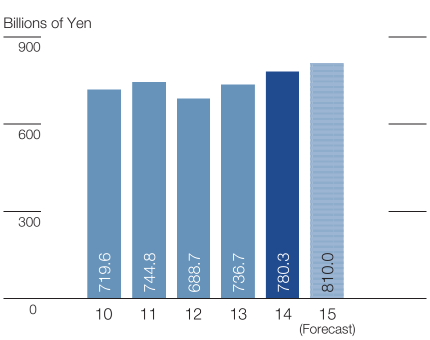
Cautionary Statement with Respect to Forward-looking Statements

Statements made in this annual report with respect to plans, targets and future performance that are not historical fact are forward-looking statements. These statements are based on management's assumptions and beliefs in light of the information currently available. Sumitomo Realty & Development Co., Ltd., cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements. Such factors include but are not limited to macroeconomic conditions, supply and demand in the real estate market and interest rate trends.

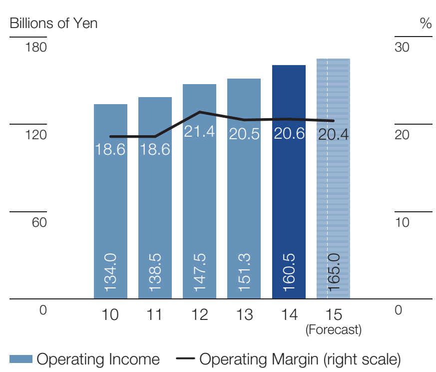
Consolidated Financial Highlights

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
Years ended March 31

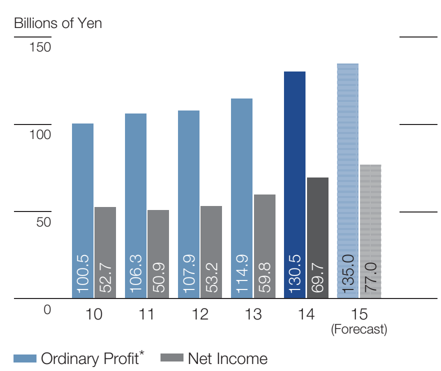
Revenue from Operations



Operating Income and Operating Margin



Ordinary Profit* and Net Income



* Ordinary profit, which equals operating income after adjustment for non-operating gains/losses, is a management index that is widely used in Japan. Due to differences in accounting standards, ordinary profit is not broken out in the Company's English-language financial statements, but it is included here because it plays an important role in the calculation of incentive payments for directors.

To Our Shareholders,

We would first like to take this opportunity to express our thanks on behalf of the Sumitomo Realty & Development Group for your ongoing support. Sumitomo Realty's business has expanded in scope and continued to grow since our establishment in 1949. We are currently a core company of the Sumitomo Group and a leading comprehensive developer within the Japanese real estate industry, with operations in a wide range of areas including office building leasing, condominium sales, custom homes and remodeling (Shinchiku Sokkurisan), and real estate brokerage.

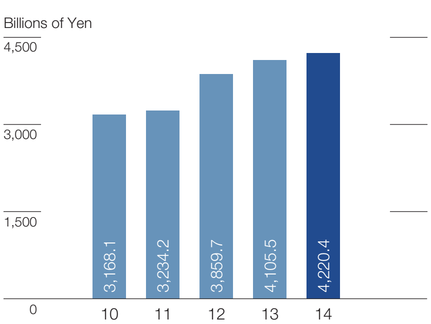
We have formulated a medium-term management plan every three years since 1997, and have achieved sustained growth through the achievement of these plans. In April 2013, we began operating under the Sixth Management Plan, which targets record cumulative earnings for the three years covered by the Plan.

In the March 2014 fiscal year, we were able to achieve record high single-year results and made solid progress toward the achievement of the Plan's targets, but the future of the economy remains uncertain with rising construction costs and the effect of the consumption tax increase. Going forward, the Group will continue to flexibly respond to changes in our operating environment, and make every effort to achieve the targets in the Sixth Management Plan and sustained growth under the following Management Plan and beyond. We ask for your continued support.

J. Takashima
Junji Takashima
Chairman

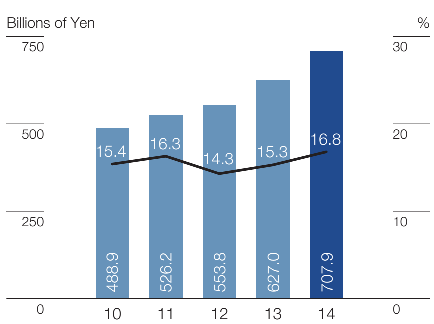
K. Nishima
Kojun Nishima
President

Total Assets



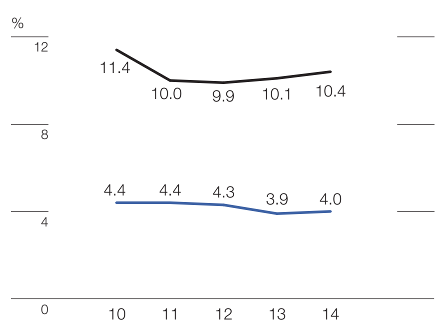
* SPEs have been included in the scope of consolidation since the March 2012 fiscal year.

Shareholders' Equity and Equity Ratio



Shareholders' Equity (Net Assets – Minority Interests)
Equity Ratio (right scale)

ROE and ROA

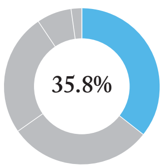


ROE (Net Income / Shareholders' Equity)
ROA (Operating Income + Interest and Dividend Income / Total Assets)

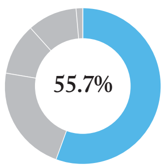
LEASING

Office building, condominium and other property leasing and management and related activities

Revenue from Operations



Operating Income



Major Consolidated Subsidiaries

– Sumitomo Fudosan Tatemono Service Co., Ltd.
– Sumitomo Fudosan Villa Fontaine Co., Ltd.
– Sumitomo Fudosan Bellesalle Co., Ltd.

History

Sumitomo Realty made its full-scale entry into the leasing business in the latter half of the 1970s. We demonstrated our strong business development capabilities by being the first company in the industry to restart construction work on office buildings following the collapse of Japan's economic bubble in the 1990s. Our competitive strength and focus on large-scale redevelopment projects have enabled us to build our current leading position in the domestic real estate industry.

Unique Features and Competitive Advantages

– The fact that we primarily engage in all aspects ourselves, from land purchases and tenant acquisition to property management, means that we can quickly address tenant needs in our developments.
– We have an extensive track record in redevelopment.

Please refer to page 8. ▶

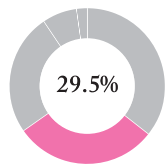
– Our "close, new, large" leasing portfolio gives us strong market competitiveness.

Please refer to page 16. ▶

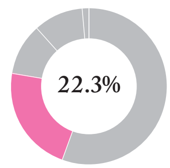
SALES

Mid- and high-rise condominium, detached house and housing lot development and sales and related activities

Revenue from Operations



Operating Income



History

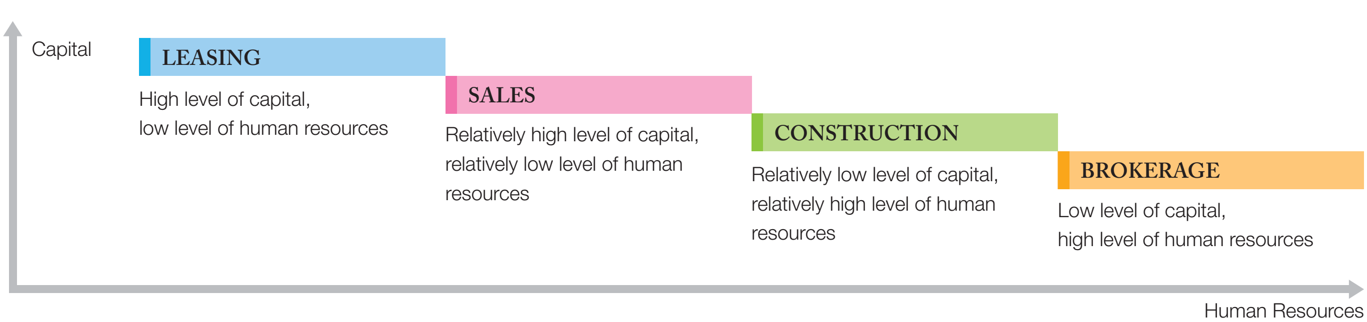
Having entered the condominium sales business in the first half of the 1960s, Sumitomo Realty is a pioneer in the domestic market for condominium development and sales. We have become a leading company for condominium sales in Japan by staying ahead of our competitors, strategically focusing on city centers and proactively developing large, high-rise properties.

Unique Features and Competitive Advantages

– We have businesses in cities across Japan, and 70% of our portfolio is in the Tokyo metropolitan area.
– In order to maintain asset value for the future, we are bolstering distinct characteristics such as modern appliances and stylish designs, including landmark exteriors, a rich array of common facilities, and elegant entrances.
– We are employing a unique sales strategy in order for the customer to understand the value of our condominiums.

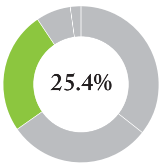
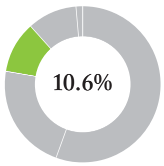
Please refer to page 9. ▶

Balanced Portfolio



CONSTRUCTION

Custom home construction and remodeling and related activities

Revenue from Operations	Operating Income	Major Consolidated Subsidiaries
		– Sumitomo Fudosan Syscon Co., Ltd.

History

Remodeling—Shinchiku Sokkurisan

Sumitomo Realty launched the Shinchiku Sokkurisan full remodeling package in 1996. It has become the top brand in the market with a cumulative total of more than 80,000 units contracted.

Custom Homes

We launched the American Comfort line in 1995. To keep up with the needs of the times, we followed this with the J·URBAN line in 2003 and J·RESIDENCE in 2012. We are also enhancing our marketing strength with a nationwide network of over 100 model house units.

Unique Features and Competitive Advantages

Please refer to page 21 for details of Shinchiku Sokkurisan and Custom Homes. ▶

Remodeling—Shinchiku Sokkurisan

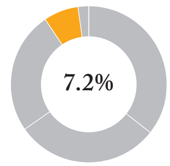
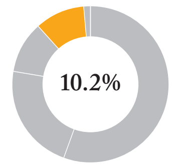
– We can remodel a home in half the time and at 50–70% of the cost of rebuilding.
– With a fixed price per unit of floor area, customers do not need to worry about additional charges.

Custom Homes

– We use our expertise in condominium development to offer homes with both functionality and an attractive design.
– We develop original earthquake-resistant technologies, and we continue to enhance our technical capabilities.

BROKERAGE

Brokerage and sales on consignment of real estate and related activities by Sumitomo Real Estate Sales Co., Ltd.

Revenue from Operations	Operating Income	Major Consolidated Subsidiaries
		– Sumitomo Real Estate Sales Co., Ltd.

History

Sumitomo Real Estate Sales Co., Ltd., was established in 1975 to conduct sales of condominiums developed by Sumitomo Realty. After entering the real estate brokerage sector in 1979, Sumitomo Real Estate Sales achieved significant success and was listed on the Tokyo Stock Exchange in 1998. We are strengthening our sales network to further increase our market share.

Unique Features and Competitive Advantages

– Our network of brokerage offices has close ties to local communities.
– The network has steadily expanded to 251 offices as of the end of March 2014.
– Because all brokerage offices are directly operated, the network boasts efficient operations and the industry's high profit margins.

Our achievement of sustained growth has been the result of our well-balanced operations. We have a balanced portfolio in four operational fields—leasing, sales, construction and brokerage—that have different risk profiles and capital requirements.

The leasing and sales businesses involve projection-based production that requires large upfront investment for land. Risk and returns are high, and the operational cycle is long at roughly 3–10 years, but human resource levels are relatively low. The construction and brokerage businesses are order-based businesses that do not require upfront investment and have a short operational cycle of less than one year, but require substantial human resources.

Our steady growth to date is the result of complementary core businesses with different individual characteristics, which has led to balanced growth. We will work to achieve sustained growth going forward by strengthening our existing businesses, and also establishing new core businesses.

We will not rest on our past achievements as we continue to endeavor toward the achievement of the targets in the Sixth Management Plan and sustained growth beyond that.

Q.1

Please give us an overview of the March 2014 fiscal year, the first year under the Sixth Management Plan.

A.1

We launched the Sixth Management Plan in April 2013. The details are outlined below, but the main points are to increase cumulative ordinary profit for the three-year period to ¥400 billion, and to achieve record revenue and profit for the three-year period.

During the March 2014 fiscal year, the first year under the new Plan, we recorded revenue and profit growth at all four main business segments, resulting in revenue from operations of ¥780.3 billion, with operating income of ¥160.5 billion, ordinary profit of ¥130.5 billion, and net income of ¥69.7 billion. These revenue and profit figures correspond to roughly one-third of the Plan's cumulative targets, for an acceptable result. With record-high single-year results, we have already achieved one of the targets of the Sixth Management Plan.

Sixth Medium-Term Management Plan (April 2013 to March 2016)

1. Surpass single-year record and achieve 3-year cumulative ordinary profit of ¥400 billion

For single-year business results, we will work to surpass, at an early date, our record high for ordinary profit, which was set in the March 2008 fiscal year (ordinary profit of ¥125.2 billion). In addition, we will aim for a further increase in the level of cumulative ordinary profit under the new plan, compared with what we achieved under the previous management plans, to ¥400 billion.

Billions of Yen		vs. 5th Plan
Revenue from operations	2,500	15.2%
Operating income	500	14.3%
Ordinary profit	400	21.5%

2. Strengthen financial position

We will strengthen our financial position by bolstering internal reserves and extending repayment periods. We have not set specific numerical targets, but aim to maintain continuously higher credit ratings.

3. Diversify our businesses

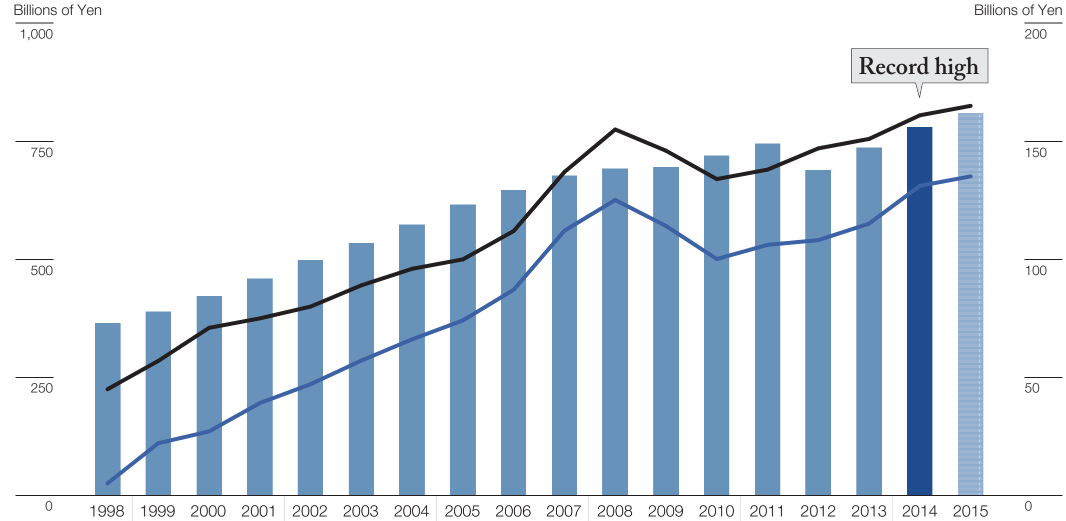
We will look for new directions and develop new businesses (including overseas development) in our four existing areas of operations (leasing, sales, construction and brokerage). We will also pursue completely new areas of operations.

Kojun Nishima
President

Progress of 6th Management Plan

Billions of Yen	Targets of 6th Plan (Cumulative three-year total)	2014 (Result) (First year)	Achievement ratio	Amount to achieve target (Remaining two years)
Revenue from operations	2,500	780	31%	1,720
Operating income	500	160	32%	340
Ordinary profit	400	131	33%	270

Progress under Medium-Term Management Plans



(Years ended March 31)	1st Plan* 1999–2001	2nd Plan 2002–2004	3rd Plan 2005–2007	4th Plan 2008–2010	5th Plan 2011–2013	6th Plan 2014–2016 (Forecast)
Revenue from operations	1,270	1,606	1,939	2,107	2,170	**2,500**
Operating income (right scale)	202	265	350	435	437	**500**
Ordinary profit (right scale)	87	170	274	339	329	**400**

Note: The figures represent cumulative totals for the period covered by each plan.
* The figures shown for the 1st Plan are the cumulative totals for the final three years of the plan.

Q.2

What issues do you see the company facing at this time?

A.2

Our main issue right now is to build a platform that will make it possible to maintain sustained growth into the future. With changes in the operating environment, such as Japan's falling birthrate and aging population, we recognize that it will be difficult to maintain the same pace of growth using our current business platform as is.

We are therefore focusing on building a platform for growth under the following Management Plan and beyond. I became president in June 2013, and I consider "building a platform for growth" to be my mission as president.

Q.3

What specifically do you mean by "building a platform for growth"?

A.3

First, we are thoroughly reviewing our existing businesses. When I joined Sumitomo Realty, the Company had roughly 500 employees and owned 10 buildings, but today we have more than 10,000 employees and own or manage more than 200 buildings. Given this degree of change in both the size of the Company and the operating environment, we need to go back to the starting point in all areas of our business. I believe it is important to review our existing businesses and see if there are any things that we could be doing as extensions of those businesses.

Along with this thorough review of existing businesses, we also need to put effort into developing new business areas. For example, the Shinchiku Sokkurisan business that we launched in 1996 has grown to become one of our core businesses, with cumulative contracts of 80,000 units and annual revenue from operations surpassing ¥100 billion. We are aiming to develop businesses in new areas as successors to Shinchiku Sokkurisan, and we have set up a dedicated unit to study new businesses.

Q.4

Would you tell us about your investment policy and financial strategy going forward?

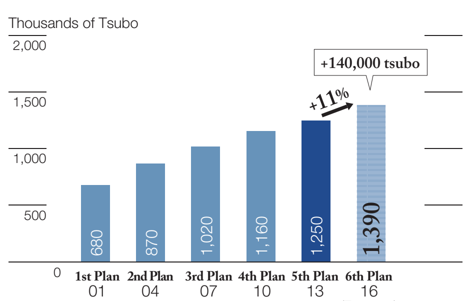
A.4

We have an investment policy of not letting a good pitch go by. In other words, if there is an attractive development site for our company, we will reliably acquire it. Competition has intensified, and market conditions for the acquisition of land for development are difficult at this time, but we will use the expertise we have built up to date to create a pipeline with a focus on redevelopment projects.

For office buildings in leasing operations, the Sixth Management Plan calls for completing construction of 140,000 tsubo of floor space, and we are currently securing land to continue this pace of construction under the Seventh Management Plan. We plan to invest for the Sixth

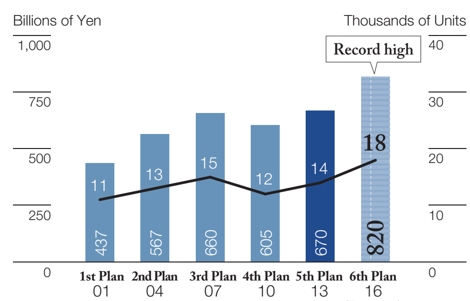
LEASING

Gross Floor Area (Years ended March 31)



SALES

Revenue from Operations and Units Delivered (Years ended March 31)



* Cumulative totals for the period covered by each plan.

Management Plan and subsequent development to be approximately ¥400 billion during the three years covered by the Sixth Management Plan, and we intend to cover this with cash flow on hand.

At the condominium sales operations, we have acquired the land to accommodate the planned increase in cumulative sales to 18,000 units under the Sixth Management Plan, and are already acquiring land for more than 20,000 cumulative units under the Seventh Management Plan and beyond.

In addition, one of the targets under the Sixth Management Plan is to "strengthen our financial position," and we intend to improve the ND/E ratio through the accumulation of profit. Furthermore, given the favorable financial environment, we are increasing our long-term borrowings and bond issuance at tenors of roughly 10 years, enhancing the long-term stability of our liabilities.

Q.5

What is your policy for returns to shareholders?

A.5

Our basic policy is to first maintain a stable dividend, while also striving to supplement internal reserves needed for stable business growth.

Our current annual dividend of ¥20 per share was set in the March 2008 fiscal year, and we maintained this amount despite profit declines in the following two years from the effects of the Lehman crisis. Even though we recorded record profit in the March 2014 fiscal year, we are keeping the annual dividend at ¥20 per share, including an interim dividend of ¥10 per share, based on a decision that giving priority to long-term investment for the future will lead to long-term shareholder returns. We intend to maintain the full-year dividend at ¥20 per share, including an interim dividend of ¥10 per share, again in the March 2015 fiscal year.

Q.6

What is your forecast for market developments and Sumitomo Realty's results for the March 2015 fiscal year and beyond?

A.6

In terms of the economic situation, the policies known as "Abenomics" are bringing about an improvement in business sentiment, and conditions are also benefitting from expectations regarding Tokyo's hosting of the Olympic and Paralympic Games and deregulation through the establishment of national strategic special zones. There are also causes of concern, however, including the effect of the consumption tax increase on the economy and rising construction costs. Nevertheless, despite this uncertain outlook, we will flexibly respond to changes in our operating environment.

We are aiming for another year of record earnings in the March 2015 fiscal year, the second year under the Sixth Management Plan, and are projecting revenue from operations of ¥810.0 billion, operating income of ¥165.0 billion, ordinary profit of ¥135.0 billion, and net income of ¥77.0 billion. Going forward, we will not rest on our past achievements as we continue to endeavor toward the achievement of the targets in the Sixth Management Plan and sustained growth beyond that.

I ask for the continued support of our shareholders as we move forward on these initiatives.

Outlook for the March 2015 Fiscal Year

Billions of Yen	2014 (Result)	2015 (Forecast)	YoY
Revenue from operations	780	810	+30
Operating income	160	165	+ 5
Ordinary profit	131	135	+ 4

Sumitomo Realty's Competitive Advantages

The Company's business activities are based on the principle of direct involvement in all operations. As a result, Sumitomo Realty has unique strengths in each stage of the value chain, from acquiring land for building to development and sales. These strengths create our competitive advantages, and allow us to achieve sustained growth.

1

Basic Policy—Direct Involvement in All Operations

Our Value Chain

LEASING SALES

Strength 1

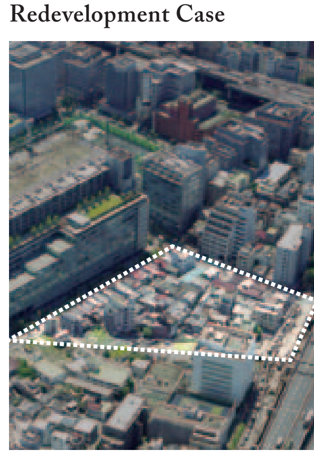
Proprietary Expertise in Assembling Commercial Land for Leasing

We did not inherit assets from the Sumitomo *zaibatsu* business group, and made our full-scale entry into the leasing business in the second half of the 1970s, somewhat later than the major, *zaibatsu*-affiliated, domestic real estate companies. At that time we did not own buildings that were generating cash flow, which meant that instead of bidding on one large site, we needed to focus on the low-cost approach of assembling small pieces of land.

Against that backdrop, we began purchasing land one lot at a time. Our employees implemented a variety of initiatives, such as visiting landowners and negotiating land purchases as well as creating associations through which land owners can also participate in the project. In this way, we built up our expertise in "assembling land" for redevelopment. Assembling these scattered lots increases their asset value, and buildings constructed on the land generate cash flow. This expertise will be the source of our strength going forward.

Large parcels of land in Tokyo have become increasingly scarce in recent years, and there are limits to what can be achieved through bidding. Using the expertise we have cultivated to date, we will continue to grow by building a pipeline focused on redevelopment projects.

Redevelopment Case



Before redevelopment

Sumitimo Fudosan Iidabashi First Tower (completed in April 2010)




LEASING 1 Sumitomo Fudosan Shinjuku Grand Tower 2 Mita Twin Building West (Entrance hall)
SALES 3 World City Towers 4 City Tower Azabu Juban

Planning
Development

Sales
Property Management

LEASING

Strength 2

Product Planning in Office Building Development

Our office building development is based on product planning that incorporates the changing needs of tenants. In addition to being chosen by tenants for unique, attractive features and added value, we aim to help revitalize the area surrounding the property.

We develop office buildings that incorporate functionality, safety in the event of a disaster, and comfort. These buildings' main features include entrances that project a sense of high quality as the face of the tenant, and the use of seismic isolation and vibration control structures that are compatible with advanced business continuity planning. We also strive to improve the surrounding environment by creating open spaces that can be used as evacuation sites in emergencies.

SALES

Strength 3

Marketing Activities in Condominium Sales

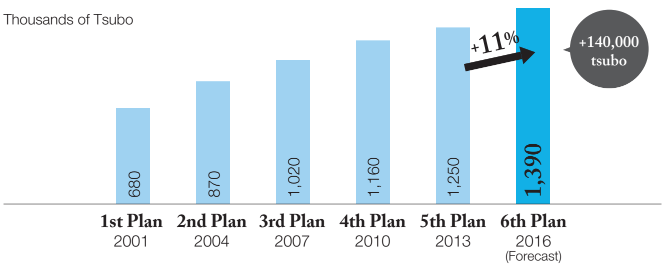
We aim to develop condominiums that retain their value in the future. We also take the time to ensure the customer understands that value. To that end, we employ a unique sales strategy that clearly sets us apart from the industry standard of aiming to sell all units prior to the completion of construction. We believe that being able to actually show a completed property is the best way to promote the property. We understand this may create some inventory risk, but as a comprehensive developer that has core businesses with different individual characteristics, including an office leasing business, we are able to comprehensively control this risk. This strategy in turn contributes to stable profits in the sales business.

2 Specific Projects in Sixth Management Plan

LEASING

Under the Sixth Management Plan, we are aiming for cumulative revenue and profit growth for the 3-year period, with record profit as well as record-setting business results on a single-year basis. Including redevelopment projects in Nihonbashi and Roppongi scheduled for completion during the period of the Sixth Management Plan, we expect to make a solid contribution to business results with the addition of 140,000 tsubo of gross floor area. Going forward, we will continue to work for profit growth by expanding the earnings base and enhancing the quality of our buildings.

Gross Floor Area (Years ended March 31)



Principal Projects during the 6th Management Plan (2014–2016*1)

Name	Location (Tokyo CBD*2)	Gross floor area (Tsubo*3)	Expected completion
Total gross floor area of projects completed in 2014*1		4,496	
Sumitomo Fudosan Onarimon Ekimae Building	Minato Ward	2,691	Apr. 2014
Hanzomon Rebuilding Project	Chiyoda Ward	3,700	Dec. 2014
Nihonbashi 2-Chome Project	Chuo Ward	42,000	Feb. 2015
Total: 2015*1		48,391	
Mita Rebuilding Project	Minato Ward	7,400	Aug. 2015
Roppongi 3-Chome Project	Minato Ward	61,000	Mar. 2016
Nibancho Project	Chiyoda Ward	6,000	Mar. 2016
3 Other Buildings		13,000	
Total: 2016*1		87,400	
Total: 6th Management Plan		140,287	

*1. Fiscal year ending March 31
*2. Tokyo CBD (Central Business District): 7 wards, comprising Chiyoda, Minato, Chuo, Shinjuku, Shibuya, Shinagawa and Bunkyo
*3. 1 tsubo = 3.3 m²

Sumitomo Fudosan Onarimon Ekimae Building

Location
Minato Ward

Gross floor area
2,691 tsubo

Completion
Apr. 2014

No. of floors
11 above ground

Hanzomon Rebuilding Project

Location
Chiyoda Ward

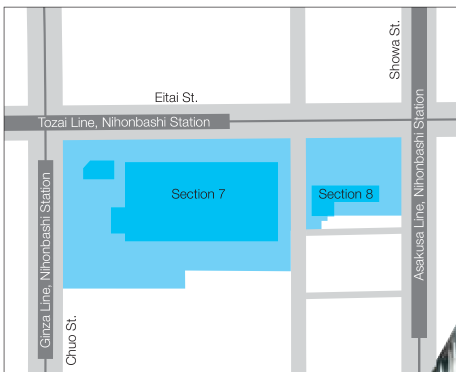
Gross floor area
3,700 tsubo

Expected completion
Dec. 2014

No. of floors
10 above ground
1 below ground

Nihonbashi 2-Chome Project

Located at Nihonbashi intersection, one of Japan's leading business districts, this site is about 8,800 square meters. This large-scale project will have a gross floor area of approximately 138,000 square meters, or 42,000 tsubo, and include office space, commercial space and multipurpose halls.



Project site

Location
Chuo Ward

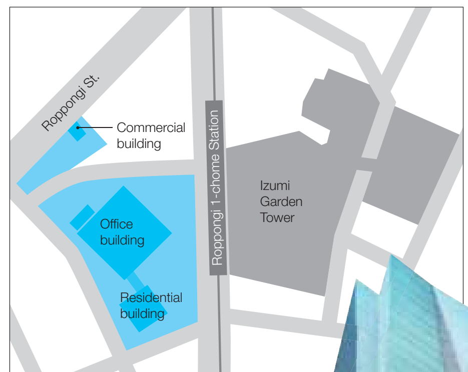
Gross floor area
42,000 tsubo

Expected completion
Feb. 2015

No. of floors
35 above ground
4 below ground

Roppongi 3-Chome Project

On a large site of about 2.7 hectares adjacent to both Roppongi 1-chome Station and our flagship property Izumi Garden Tower, this large-scale project will have a gross floor area of approximately 200,000 square meters, or 61,000 tsubo. It will include three types of facilities—office, residential and commercial—in north and south sections.



Project site

Location
Minato Ward

Gross floor area
61,000 tsubo

Expected completion
Mar. 2016

No. of floors
40 above ground
5 below ground

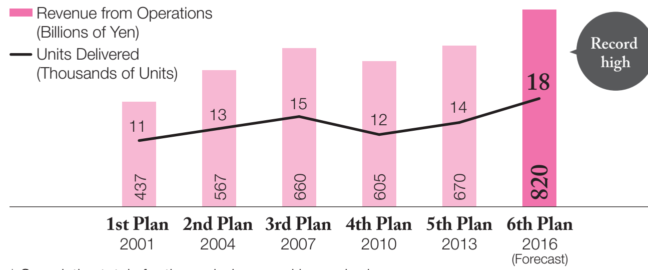
2 Specific Projects in Sixth Management Plan

SALES

Under the Sixth Management Plan, we aim to increase deliveries volume to achieve growth in cumulative revenue and profit for the 3-year period. We are targeting cumulative deliveries of 18,000 condominium units under the Sixth Management Plan, a roughly 30% increase from 14,000 units delivered during the period of the Fifth Management Plan. This target is equivalent to deliveries of roughly 6,000 units annually, which would be a record level for the Company.

During the period covered by the Fifth Management Plan, we launched the Grand Mansion Gallery and Custom-order Service as new initiatives to strengthen our product planning and sales structure. We aim to achieve our new targets by making maximum use of the results of these initiatives.

Revenue from Operations and Units Delivered (Years ended March 31)



* Cumulative totals for the period covered by each plan.

Principal Projects during the 6th Management Plan (2015–2016*)

Name	Location	No. of units for sale	Scheduled delivery*
Sky Forest Residence	Shinjuku Ward, Tokyo	361	2015
The Grand Millennia	Toshima Ward, Tokyo	411	2015
Sky Tiara	Itabashi Ward, Tokyo	621	2015
Grove Avenue Kunitachi	Kunitachi, Tokyo	277	2015
City Terrace Imafuku Tsurumi	Osaka	294	2015
Deux Tours	Chuo Ward, Tokyo	1,450	2016
City Tower Kanamachi	Katsushika Ward, Tokyo	840	2016
City Terrace Kichijoji Minami	Mitaka, Tokyo	268	2016
City Tower Musashi Kosugi	Kawasaki	800	2016
The Tennoji Residence	Osaka	413	2016

* Fiscal years ending March 31

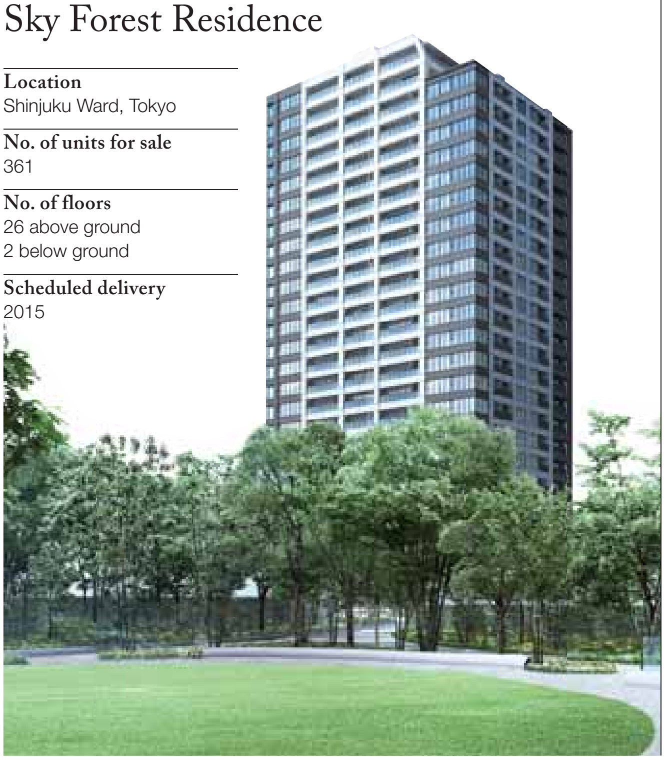
Sky Forest Residence

Location
Shinjuku Ward, Tokyo

No. of units for sale
361

No. of floors
26 above ground
2 below ground

Scheduled delivery
2015



Sky Tiara

Location
Itabashi Ward, Tokyo

No. of units for sale
621

No. of floors
West: 19 above ground
East: 13 above ground

Scheduled delivery
2015

Deux Tours

Deux Tours is one of our flagship projects, located in the Harumi district of Tokyo's Chuo Ward, an area that is expected to see an increasing pace of development. In addition to being a competitive condominium property in a prime location, the project is being designed as a condominium package that aims to deliver customer satisfaction through residential functionality and lifestyle enrichment.

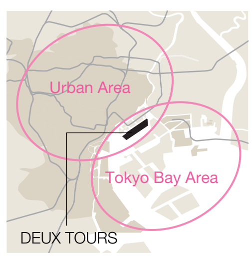
Key Features

Large, earthquake-resistant twin towers soaring 180 meters high

With 52 floors and a total of 1,450 units, the scale of the twin tower complex makes a powerful statement as a landmark property. The extensive use of glass and materials that blend in beautifully with the waterfront landscape creates a striking exterior design that sets the development apart from other nearby towers.

Offering both convenient downtown access and the waterfront's feeling of relaxing at a resort

Harumi, the district in Chuo Ward where Deux Tours is being built, is roughly 2.2 kilometers from Ginza for convenient access to central Tokyo, while the Tokyo Bay location feels like a waterfront resort. As part of its program to boost Tokyo's international competitiveness, the Tokyo Metropolitan Government's Bureau of Urban Development has designated Harumi as a priority zone, and the area is expected to become increasingly developed.



Sky Deck

Waterfront Location

Diverse public facilities include spa and View Lounge & Bar

In addition to the waterfront scenery and lush, green surroundings, Deux Tours has a diverse offering of public facilities possible only in a large-scale property, including a large entrance that conveys the property's landmark status, a large spa with sauna, the View Lounge & Bar, and a parent's salon with kids' room.

Entrance

Location
Chuo Ward, Tokyo

No. of units for sale
1,450

No. of floors
52 above ground
1 below ground

Scheduled delivery
2016

LEASING

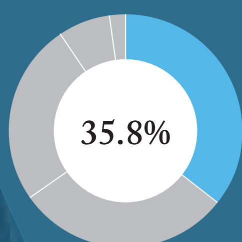
Basic Growth Strategy

Continuing new investment to build a platform for growth, by further increasing the portfolio's portion of prime properties that are "Close, New, and Large"

Revenue from Operations

¥283.7 billion

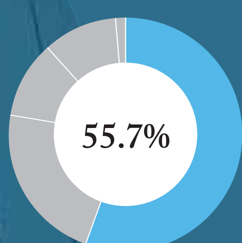
% of Revenue from Operations



Operating Income

¥98.0 billion

% of Operating Income



Overview of the Fiscal Year

The Tokyo office building market, which represents more than 90% of the segment's portfolio, experienced steady tenant demand against a backdrop of improved economic sentiment and a recovery in corporate earnings. This led to a continued trend of improvement in vacancy rates, and in addition to actual rents for new buildings, rents under new leases for existing buildings began to rise as well. With new demand for additional floor space and relocation for expansion gradually increasing, there was a growing sense of recovery throughout the entire market.

Against this backdrop, revenue from operations rose 1.9% from the previous year, to ¥283.7 billion, and operating income grew 4.0%, to ¥98.0 billion. This revenue and profit growth reflected improved vacancy rates at existing buildings, as well as full-year contributions from buildings completed during the previous year, including Sumitomo Fudosan Shibuya Garden Tower and Sumitomo Fudosan Tamachi First Building.

The vacancy rate for existing buildings continued to improve, from 7.1% at the end of the previous fiscal year to 5.9% at the end of the year under review. Tenant solicitations for new buildings were also solid, including for Sumitomo Fudosan Chiyoda First Wing and Sumitomo Fudosan Motoakasaka Building, which were completed during the year under review, and for the Nihonbashi 2-Chome Project and the Hanzomon Rebuilding Project, which are scheduled for completion during the March 2015 fiscal year.

Sumitomo Fudosan Chiyoda First Wing
Location Chiyoda Ward
Gross floor area 8,888 m²
Completion Jan. 2014
No. of floors 7 above ground, 1 below ground

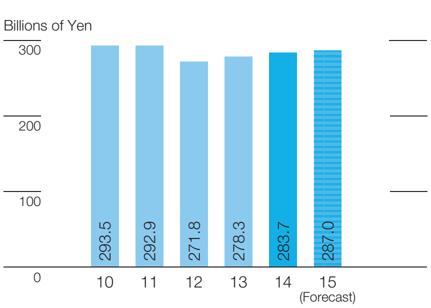
Sumitomo Fudosan Motoakasaka Building
Location Minato Ward
Gross floor area 5,974 m²
Completion Feb. 2014
No. of floors 9 above ground, 1 below ground

Outlook

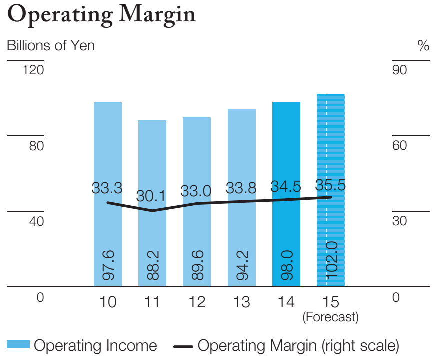
We are forecasting revenue and profit growth in the March 2015 fiscal year, on improved earnings from existing buildings and full-year contributions from Sumitomo Fudosan Motoakasaka Building and Sumitomo Fudosan Chiyoda First Wing, which were completed during the year under review.

As a result, we are projecting a 1.2% increase in revenue from operations, to ¥287.0 billion, with a 4.1% increase in operating income, to ¥102.0 billion.

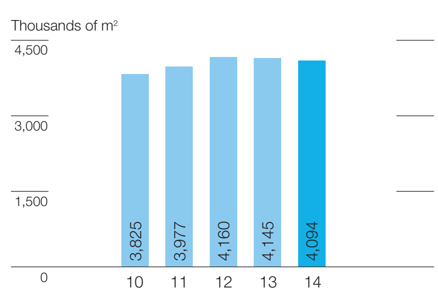
Revenue from Operations



Operating Income and Operating Margin



Gross Floor Area

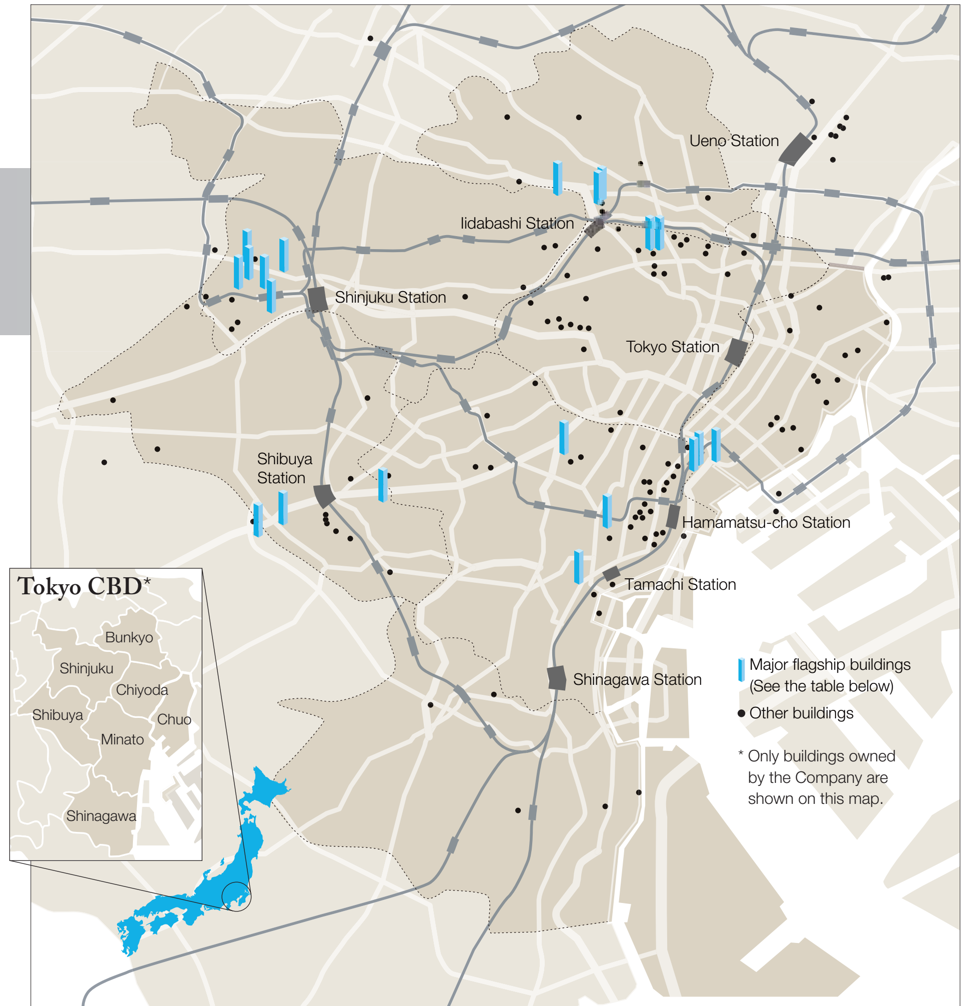


Our Leasing Portfolio

(as of March 31, 2014)

In the Tokyo CBD (Central Business District)*, where buildings that meet the three conditions for prime properties—close, new and large—are in strong demand, our competitive portfolio will provide a strong foundation for us to utilize our strengths—development of high-value-added office buildings, tenant leasing and property management. We will utilize that foundation to maximize the earnings potential of our office building operations and build a strong base for the achievement of sustainable growth in the years ahead.

* Tokyo CBD (Central Business District): 7 wards, comprising Chiyoda, Minato, Chuo, Shinjuku, Shibuya, Shinagawa and Bunkyo



Office Building for Leasing
Over 200 buildings

Gross Floor Area
4.09 million m²

Major Flagship Buildings

Name	Location (Tokyo CBD)	No. of floors (Above ground/ Below ground)	Completion	Gross floor area (m²)
1. Izumi Garden Tower	Minato Ward	43/4	Oct. 02	204,268
2. Shinjuku Sumitomo Building	Shinjuku Ward	52/4	Mar. 74	177,467
3. Sumitomo Fudosan Shinjuku Grand Tower	Shinjuku Ward	40/3	Dec. 11	168,295
4. Shinjuku Central Park City	Shinjuku Ward	44/2	Feb. 10	130,355
5. Shinjuku Oak City	Shinjuku Ward	38/2	Jan. 03	117,446
6. Shiodome Sumitomo Building	Minato Ward	25/3	July 04	99,913
7. Sumitomo Fudosan Mita Twin Building West	Minato Ward	43/2	Sept. 06	98,338
8. Tokyo Shiodome Building	Minato Ward	37/4	Jan. 05	95,128
9. Shinjuku NS Building	Shinjuku Ward	30/3	Sept. 82	75,046
10. Sumitomo Fudosan Iidabashi First Tower	Bunkyo Ward	34/3	Apr. 10	68,382
11. Sumitomo Fudosan Shibakoen First Building	Minato Ward	35/2	June 00	63,822
12. Chiyoda First Building West	Chiyoda Ward	32/2	Jan. 04	61,209
13. Sumitomo Fudosan Shibuya Garden Tower	Shibuya Ward	24/3	June 12	59,417
14. Sumitomo Fudosan Aobadai Tower	Meguro Ward	33/3	Aug. 09	55,773
15. Sumitomo Fudosan Iidabashi Building No.3	Shinjuku Ward	24/2	Oct. 02	53,047
16. Sumitomo Fudosan Shibuya First Tower	Shibuya Ward	25/3	Aug. 10	52,942
17. Sumitomo Fudosan Iidabashi First Building	Bunkyo Ward	14/2	Mar. 00	52,747
18. Sumitomo Fudosan Shiodome Hamarikyu Building	Chuo Ward	21/2	Aug. 09	47,951
19. Chiyoda First Building East	Chiyoda Ward	17/2	Oct. 98	37,593
20. Sumitomo Fudosan Nishi Shinjuku Building	Shinjuku Ward	33/2	Apr. 09	37,317

Note: Figures for gross floor area indicate the area managed by Sumitomo Realty.

Our Portfolio's Strengths

(as of March 31, 2014)

Sumitomo Realty's leasing portfolio is highly competitive, in terms of the three distinct features of being "close, new, and large." Going forward, we will endeavor to maintain and enhance our competitive strength by focusing on providing high-quality office buildings with these qualities.

Close

Tokyo CBD*

87%

23 Wards

94%

Locations in the Tokyo CBD

Our leasing portfolio emphasizes locations in central Tokyo; 94% of our portfolio is in Tokyo's 23 wards, and 87% is in the Tokyo CBD (Central Business District)*. A location near other office buildings and major train and subway stations is a key condition for a prime property, and our properties' locations are one of our competitive strengths. In particular, the Tokyo CBD is being developed as an area with a high concentration of office buildings, and stable demand can be expected in this area going forward. We will therefore work to enhance our competitive strength by continuing to acquire land in this area.

* Tokyo CBD (Central Business District): 7 wards, comprising Chiyoda, Minato, Chuo, Shinjuku, Shibuya, Shinagawa and Bunkyo

New

Completed since 2000

57%

New quake-resistance*

99%

* New standards that took effect in 1981

Brand-new and Recently Constructed Buildings

The average age of the buildings in our portfolio is 15 years, the lowest figure among major Japanese real estate companies, and about 57% of the buildings in our portfolio have been completed since 2000. New buildings are able to generate strong demand by meeting tenant needs in areas like facilities and design, making the relative age of the buildings in a portfolio a key factor affecting leasing businesses.

As shown in the table below, our buildings are equipped with the latest facilities and features, and are popular among tenants for their functionality, comfort, and safety in the event of a major disaster. Approximately 99% of our portfolio meets or exceeds earthquake-resistance standards that took effect in 1981, which are a key yardstick for earthquake safety. In recent years, emergency generators that provide electricity in the event of a power outage have also become a feature sought by tenants as part of their business continuity planning.

State-of-the-art Facilities	Before 1981	1982–1996	1997 and after
Earthquake protection	Previous quake-resistant structure	New quake-resistant structure	Anti-sway structure
Ceiling height*	2.5 m	2.7 m	2.9–3.3 m
Floor load	300 kg/m²	300–500 kg/m²	500–1,000 kg/m²
Air conditioning	Central air conditioning system	Climate control zones	Separate climate control systems
Power capacity	45 VA/m²	60–70 VA/m²	85 VA/m² and over

* Includes raised floors

Large

Over 10,000m² (gross floor area)

85%

Large-scale Buildings

Large-scale buildings with gross floor area of at least 10,000 square meters make up 85% of our portfolio. When a tenant moves, being able to consolidate multiple business offices on one floor facilitates internal communication and reduces space redundancies, helping to make operations more efficient. These types of needs are behind the increased demand in recent years for large-scale buildings with large amounts of floor space per floor.

SALES

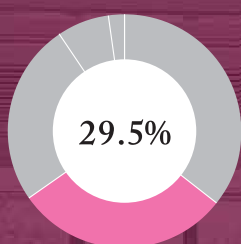
Basic Growth Strategy

Enhancing our brand strength by providing high-quality properties via a unique sales strategy, to build a strong position that is less susceptible changes in market conditions

Revenue from Operations

¥234.1 billion

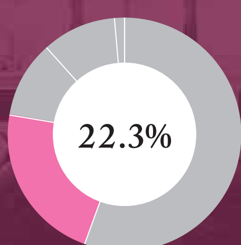
% of Revenue from Operations



Operating Income

¥39.2 billion

% of Operating Income



Overview of the Fiscal Year

In the condominium market, which represents more than 90% of the segment's portfolio, the number of new units put on market in greater Tokyo exceeded 50,000 units for the first time in six years, as a favorable sales environment backed by improved economic sentiment continued. With consumers showing robust purchasing appetite from low mortgage interest rates and an anticipation of higher prices going forward, the number of visitors to our showrooms remained high.

Reflecting this environment, the number of condominium units, detached houses and land lots delivered, including City Tower Kobe Sannomiya, City Tower Ageo Ekimae, and City Terrace Kaga, increased 270 from the previous year, to 4,958 units.

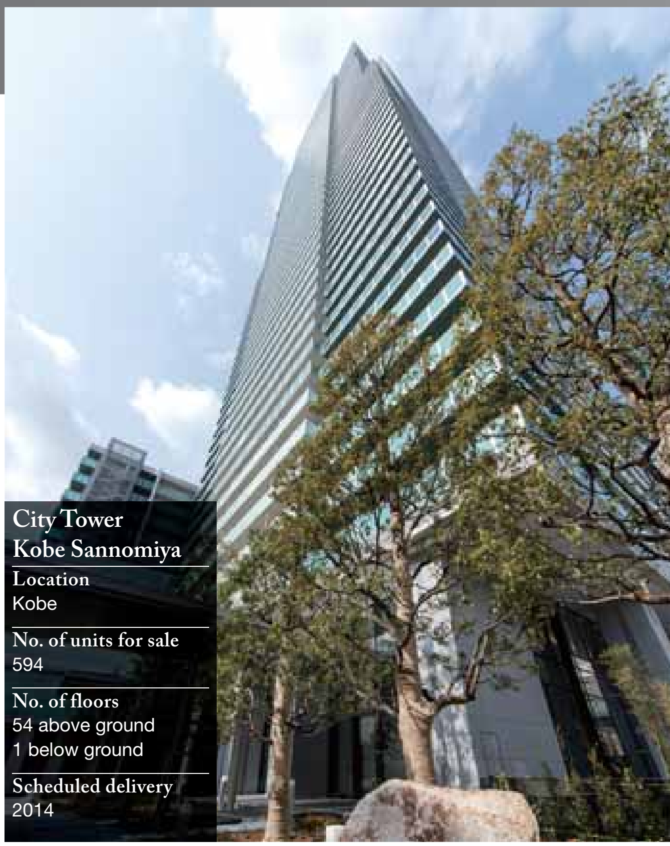
The number of condominium units sold increased 483, to a record high of 5,634 units, surpassing our initial plan of 5,500 units.

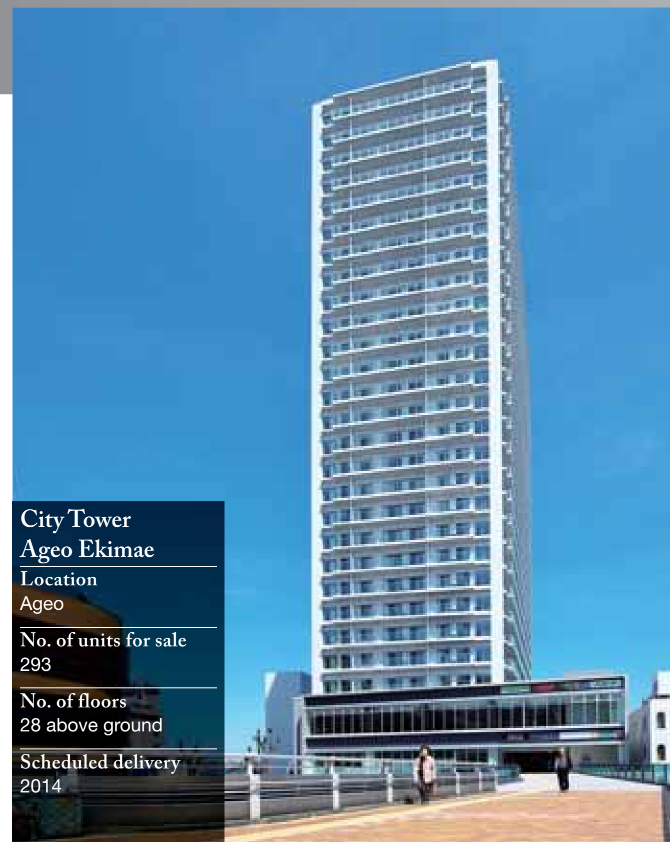
As a result, revenue from operations grew 0.8%, to ¥234.1 billion, with a 0.7% increase in operating income, to ¥39.2 billion. With the increase in the number of units sold, the segment achieved an increase in revenue from operations for the second consecutive year, and operating income growth for the fourth year in a row.

Principal Condominium Development Projects (2014–2015)

Name	Location	No. of units for sale	Scheduled delivery*
City Tower Kobe Sannomiya	Kobe	594	2014
City Tower Ageo Ekimae	Ageo	293	2014
City Terrace Kaga	Itabashi Ward, Tokyo	385	2014
City Terrace Itabashi Hasune	Itabashi Ward, Tokyo	350	2014
City House Yokohama Katakura-cho Station Court	Yokohama	112	2014
City Towers Maruyama	Sapporo	101	2014
Sky Forest Residence	Shinjuku Ward, Tokyo	361	2015
The Grand Millennia	Toshima Ward, Tokyo	410	2015
Sky Tiara	Itabashi Ward, Tokyo	621	2015
Grove Avenue Kunitachi	Kunitachi, Tokyo	277	2015
City Terrace Imafuku Tsurumi	Osaka	294	2015

* Fiscal years ending March 31





* Fiscal year ending March 31

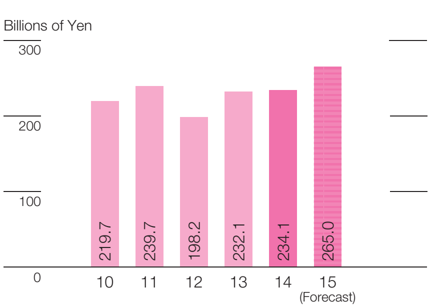
Outlook

We are aiming for revenue and profit growth in the March 2015 fiscal year, with a plan to deliver a total of 5,600 condominium units, detached houses and land lots, for an increase of 642 units year on year.

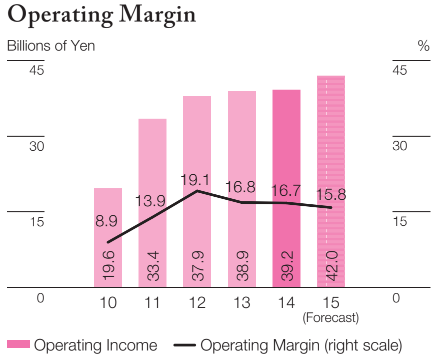
Of the 5,500 condominium units and detached houses that we expect to deliver during the March 2015 fiscal year, contracts had already been concluded for approximately 45% as of April 1, 2014, which was five percentage points higher year on year.

We are therefore forecasting a 13.2% increase in revenue from operations, to ¥265.0 billion, with a 7.1% rise in operating income, to ¥42.0 billion.

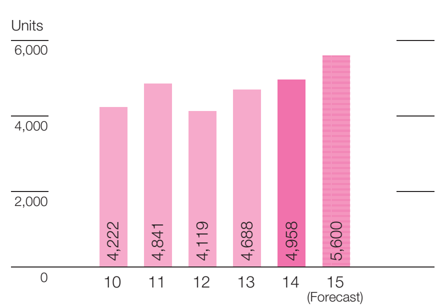
Revenue from Operations



Operating Income and Operating Margin



Units Delivered*



* Number of units includes condominium units, detached houses and land lots.

CONSTRUCTION

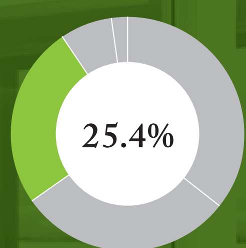
Basic Growth Strategy

Further raising our competitiveness by refining our planning, technical, and sales capabilities without being bound by conventional thinking

Revenue from Operations

¥201.2 billion

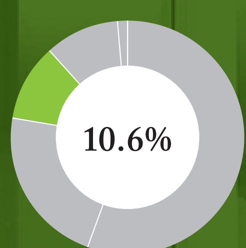
% of Revenue from Operations



Operating Income

¥18.7 billion

% of Operating Income



Overview of the Fiscal Year

Due to a reactionary decrease following the expiry of transitional measures that accompanied the consumption tax increase, the number of units contracted during the second half declined year on year at both the Shinchiku Sokkurisan remodeling business and custom homes operations, and as a result for the full year the number of units contracted at both businesses was roughly flat with the previous year.

At the same time, the number of units delivered and revenue from operations at the Shinchiku Sokkurisan remodeling business both rose to record levels, surpassing 8,000 units and ¥100.0 billion for the first time. The number of units delivered rose 10.7%, to 8,038 units, and revenue from operations grew 13.5%, to ¥105.4 billion.

Custom homes operations also recorded large year-on-year earnings growth, with a 27.1% increase, to 2,376 units, in the number of units delivered, and a 31.6% increase in revenue from operations, to ¥69.3 billion.

As a result, the construction segment recorded large, double-digit revenue and profit growth, with record revenue from operations and operating income. Revenue from operations rose 17.6%, to ¥201.2 billion, and operating income grew 18.7%, to ¥18.7 billion.

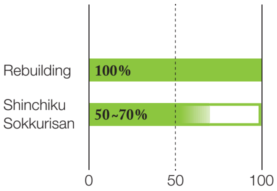
Outlook

During the March 2015 fiscal year, we will strive to continuously enhance our product lineups and strengthen our marketing structures for both the Shinchiku Sokkurisan remodeling business and custom home operations, with the aim of bringing about an early recovery in the number of units contracted.

Our March 2015 fiscal year projections are for a 5.6% decline in revenue from operations, to ¥190.0 billion, and a 14.5% decline in operating income, to ¥16.0 billion.

Remodeling—Shinchiku Sokkurisan

Cost Comparison



Key Features

– Sales engineer system: Most of our sales personnel have engineering qualifications.
– Carpenters: We use carpenters who work exclusively for Sumitomo Realty.
– Fixed price: We provide the customer with a fixed price per unit of floor area, so there are no concerns about additional construction charges.
– No need for temporary moves: We remodel homes while the customers continue to live in them, which is a major advantage.
– Earthquake resistance: We incorporate earthquake-resistance strengthening measures based on a computerized analysis of the home as well as measures to prevent damage from termites and moisture.

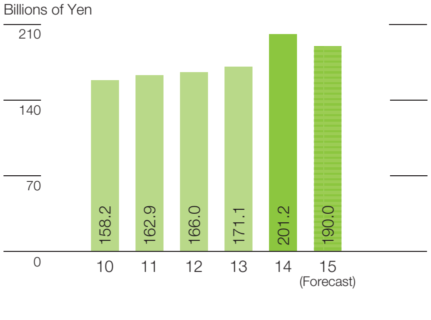
Custom Homes

Key Features

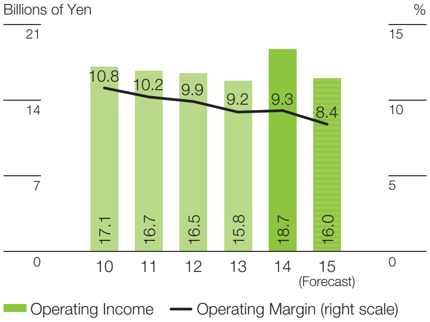
– Advanced performance: We have developed proprietary earthquake-resistant technologies, namely the New Power Column, New Power Cube and Super Power Wall construction methods, and are actively incorporating these technologies in all our products.
– Top-class equipment and specifications: Leveraging our strengths in the form of our track record in condominiums and economies of scale as a comprehensive developer, we employ high-grade condominium interior materials as a standard specification.
– Complete after-sales support: Our homes are backed by a 30-year guarantee, and we have a dedicated contact line for customers.

Please refer to page 22 for information about new custom homes initiatives. ▶

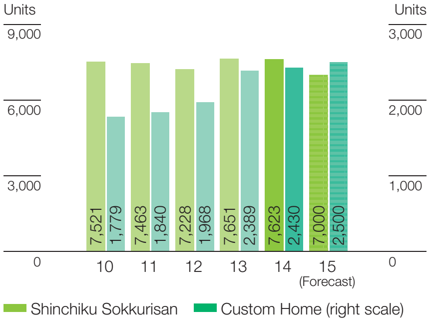
Revenue from Operations



Operating Income and Operating Margin



Shinchiku Sokkurisan and Custom Home Units Contracted



TOPICS

Custom Homes

Building a Structure for 3,000 Contracts by Expanding a Nationwide Network

To further expand its operations, the custom homes operations business is enhancing both its marketing and product strength. During the March 2014 fiscal year, we opened 17 new model houses across Japan, creating a network of 100 model houses. We plan to open at least 10 new locations again in the March 2015 fiscal year, and with this structure in place we aim to meet our target of annual contracts for 3,000 units under the Sixth Management Plan.

Our model houses to date have primarily displayed our flagship J·URBAN series launched in 2003, and J·RESIDENCE, which has had a strong reception since its launch in 2012. During the March 2014 fiscal year, we opened the new Aoyama Model House as a new concept that clearly differentiates itself from previous model houses in terms of interior, exterior, and floor plans. This will broaden our appeal in terms of product planning and design to a wider range of customers, and we expect this to attract a new customer base.

J·RESIDENCE

Features

- Accommodates people of all ages and can blend in with any location
- A residential style that incorporates the equipment and specifications found in high-grade condominiums
- The proprietary earthquake-resistant technology New Power Cube is incorporated as a standard specification

Aoyama Model House

Features

- Located in Tokyo's prestigious Aoyama neighborhood to attract discerning buyers
- Features a unique, modern exterior design
- Provides a relaxing space with amenities including a light garden, covered terrace, and spa

Light Garden

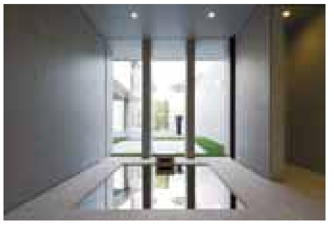
A glassed-in atrium between the entrance and living room with plants and natural sunlight provides a bright, warm feeling.

Roof Balcony

A large, private balcony extends beyond the bedroom. A space for a sofa-bed at the far end offers the relaxed feeling of being at a resort.

Garden and Terrace

An open space provides a seamless transition from indoor to outdoor, while giving a sense of the season.



Spa

Relax in this open area connected to the garden and terrace through a row of columns.

BROKERAGE

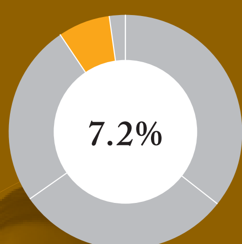
Basic Growth Strategy

Strengthening our business platform by further expanding our network and pursuing closer ties between existing offices and their local communities

Revenue from Operations

¥57.2 billion

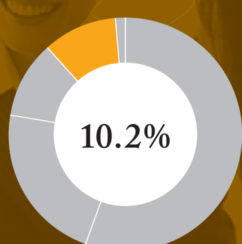
% of Revenue from Operations



Operating Income

¥18.0 billion

% of Operating Income



Overview of the Fiscal Year

Japan's existing home market was solid during the year, reflecting a low mortgage interest rate and anticipation of higher prices going forward. This resulted in a third consecutive year of growth in the number of contracts in greater Tokyo, and a turnaround to the first rise in average transaction prices in three years.

Given this environment, the segment, which is handled by Sumitomo Real Estate Sales Co., Ltd., recorded a 6.9% increase, to 35,455 units, in the number of transactions in our mainstay brokerage operations, primarily for retail transactions for existing homes, for a fifth consecutive record result. With an additional contribution from higher transaction prices on growth in the number of large corporate transactions, transaction value increased 15.0% from the previous year.

As a result, there was a double-digit increase in both revenue and profit. Revenue from operations rose 12.3%, to ¥57.2 billion, and operating income grew 23.9%, to ¥18.0 billion.

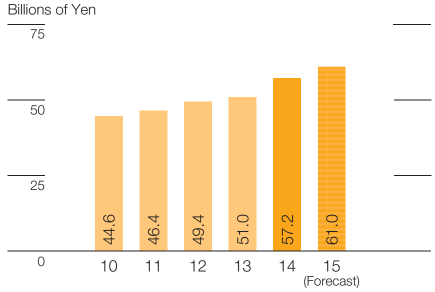
With the addition of two directly operated offices during the year – one in Sapporo and one in Nagoya – the network boasted a total of 251 offices nationwide as of March 31, 2014.

Outlook

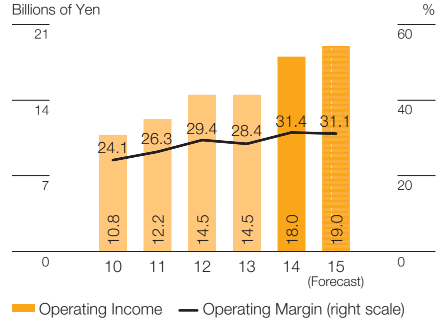
Our brokerage operations will continue to open new offices and upgrade existing offices, while at the same time striving to raise marketing efficiency, with the aim of achieving revenue and profit growth on a record number of brokerage transactions.

We are therefore forecasting a 6.6% increase in revenue from operations, to ¥61.0 billion, with a 5.8% increase in operating income, to ¥19.0 billion, for the March 2015 fiscal year.

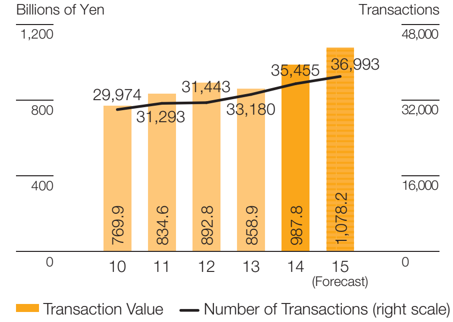
Revenue from Operations



Operating Income and Operating Margin



Number of Transactions and Transaction Value



Basic Approach to CSR

Sumitomo's Business Philosophy

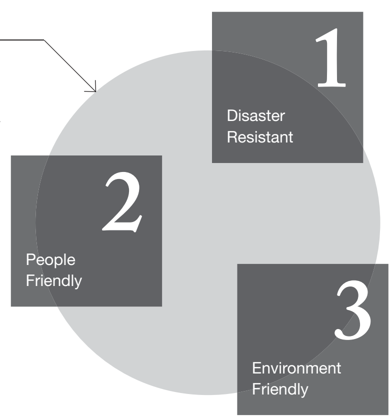
The Sumitomo Group's business philosophy is encapsulated by the following precepts—"Place prime importance on integrity and sound management in the conduct of its business" and "Under no circumstances, shall it pursue easy gains or act imprudently."

These have been inherited as teachings since the time of the Sumitomo Group's founder. They are still regarded as the touchstone for the Sumitomo Realty Group's business activities.

The Sumitomo Realty Group's Fundamental Mission

Guided by Sumitomo's business philosophy, we have set forth our fundamental mission as being "to create even better social assets for the next generation" through our business. Based on this fundamental stance, we engage in business with the aim of creating cities and urban spaces that are resilient to disasters and friendly to people and the environment.

Create even better social assets for the next generation



1 Disaster Resistant

Protecting office workers and businesses

Sumitomo Realty's latest office buildings actively employ earthquake-resistant features to protect office workers. Furthermore, we install emergency generators in buildings to supply power for a certain period of time during a blackout, enabling tenants to continue operations.

Contributing to regional disaster prevention

Sumitomo Realty has contributed to regional development through various redevelopment projects in cities. By redeveloping areas with densely packed wooden houses, we recreate cities so they are more resistant to disasters. The open spaces that are a feature of our redevelopment projects also serve as places for temporary refuge in a disaster.

2 People Friendly

Enhancing regional convenience and promoting barrier-free access

Our redevelopment business makes people-friendly cities. A case in point is the Roppongi 3-Chome Project (East District), where an underground walkway is being built so that pedestrians of all abilities can move more easily from city areas to train stations.

AEDs

In order to be better prepared for a medical emergency at an office building, hotel or other key facility we run and manage, we have installed automated external defibrillators (AEDs). What's more, all personnel undertake first-aid training.

3 Environment Friendly

Improving the environmental performance of buildings

When we build condominiums, we give consideration to the environment, including by planting trees, adding greenery to rooftops and creating open green areas. Furthermore, the soil excavated during construction is processed into soil blocks.

We have developed technology for reusing soil from condominium construction sites to create blocks with few CO_2 emissions. The blocks are environmentally friendly because they are made of natural materials, which will eventually return to the ground at the end of their life. The blocks are used in planted zones in condominium sites.

Promoting energy conservation

In buildings we operate, we work to reduce CO_2 emissions, such as by actively introducing highly energy-efficient HF fluorescent lamps and LED lighting.

CSR through Business

Urban Redevelopment That Improves Cities—Sumitomo Fudosan Shinjuku Grand Tower

In December 2011, we completed redeveloping an approximate 2 hectare area in the western part of Shinjuku Ward, Tokyo, under the basic concept of creating a multipurpose urban area combining offices, residences, an event hall and shops with a gross floor area of 168,295 m^2.

Redevelopment of an Area of Densely Packed Old Wooden Houses

Prior to redevelopment, the area was disaster-prone, with old wooden houses densely packed around narrow streets. The redevelopment has turned it into a safe and pleasant area with the infrastructure expected of a modern city, such as fire-resistant buildings, public spaces and roads.

Disaster Preparedness

We have created open spaces that can serve as refuge areas for locals in a disaster, and provided spaces for temporary toilets as well as emergency water wells. Furthermore, we will open the large, multipurpose Belle Salle hall to provide shelter for people who cannot return home in a disaster.

To further enhance our disaster preparedness, in March 2012 we installed an electric power supply system that uses the battery that drives the Nissan LEAF electric car. This will be used as an auxiliary power source in the event of a disaster, and the battery for one Nissan LEAF vehicle will be able to supply power to the multipurpose hall for approximately 42 hours, or emergency-use well pumps and water purification equipment for roughly eight hours.

Creating Green and Open Spaces

The redevelopment features an approximate 4,000 m^2 open area along the road. Our aim was to create an urban space with a pleasant environment that is easy to work in. We also endeavored to ease the "heat island" effect and improve the environment by adding greenery to the roofs of buildings. Furthermore, by equipping the area with community roads primarily for non-automobile use and walkways, we have enhanced convenience and safety for pedestrians.

Introduction of Solar Power Generation and Energy-saving Facilities

To supply electricity to some common areas, we installed solar panels on the roof for generating power. And we are working to reduce energy use as well by employing a highly efficient electrical air-conditioning system and LED lighting, as well as motion-sensing lights.

Shinchiku Sokkurisan Remodeling Operations

Our Shinchiku Sokkurisan remodeling operations facilitate remodeling of existing buildings. We reduce remodeling costs, improve earthquake resistance and make other improvements in response to customer demand.

Earthquake Reinforcement, Extended Life and Energy Conservation for Housing

Shinchiku Sokkurisan is contributing to efforts to promote earthquake-proofing of existing homes through low-cost remodeling. It also extends the life of existing housing through earthquake reinforcement work requiring no dismantlement, while leaving the main structural elements intact. The process also does not waste resources and generates little industrial waste; for instance, old tatami mats are reused as material for cement.

Harmony with Building's History

Shinchiku Sokkurisan can also breathe new life into old houses. We add value suited to modern living, while taking care to preserve the history and character of a house that may have been home to many generations of a family. Sumitomo Realty is giving its all to reinvigorate old houses more than 100 years old, helping to ensure that tradition stays alive.

Fundamental Approach to Corporate Governance

To achieve sound management, Sumitomo Realty believes that it is important to share information on a Companywide basis, ensure that everyone is aware of problems, enhance internal management supervision and achieve highly transparent management through appropriate information disclosure. We have implemented a number of corporate governance initiatives to realize these practices efficiently.

Corporate Governance Bodies

The Board of Directors is made up of ten directors. The Board makes decisions on important Company matters, and oversees the directors' execution of duties. Furthermore, internal information, awareness of issues and other matters are shared through the Board of Directors, internal meetings and other forums, promoting quick and rational decision-making.

The Board of Statutory Auditors has five members, including three outside statutory auditors. To strengthen management oversight, we continue working to enhance outside auditing. The statutory auditors attend meetings of the Board of Directors and other important meetings, and track internal issues that are important for robust auditing.

Each of the three outside statutory auditors has abundant management experience at other companies, and they were nominated because their character and knowledge were considered to be appropriate for the Company's statutory auditors. The outside statutory auditors fulfill their roles by expressing objective opinions on governance from an independent standpoint from the Company without being influenced by executives responsible for operational execution. They also work together to improve auditing by, for example, exchanging opinions as needed with other statutory auditors, the Internal Audit Division and the independent auditors. At the same time, they provide timely advice and guidance to internal departments associated with internal control.

Sumitomo Realty does not have standards or a policy regarding independence from the Company for selecting outside statutory auditors. However, the Company does refer to the Tokyo Stock Exchange's evaluation standards regarding the independence of directors and corporate auditors when appointing such individuals.

The Internal Audit Division, which has seven staff members, monitors the operational execution of divisions throughout the Group and the operation of internal control systems. The division also works to prevent misconduct and mistakes, and proposes operational improvements. Moreover, the division reports the results of its audits to the statutory auditors and the independent auditors and exchanges opinions with them in an appropriate manner. These activities help to improve the quality and efficiency of the audit work of the Internal Audit Division, the statutory auditors and the independent auditors. At the same time, the Internal Audit Division, the statutory auditors and the independent auditors provide timely advice and guidance to internal departments that are associated with internal control.

Independent Auditors

In accordance with the Corporate Law and the Financial Instruments and Exchange Law, the Company has concluded an auditing contract with KPMG AZSA & Co. for the auditing of the Company's accounts.

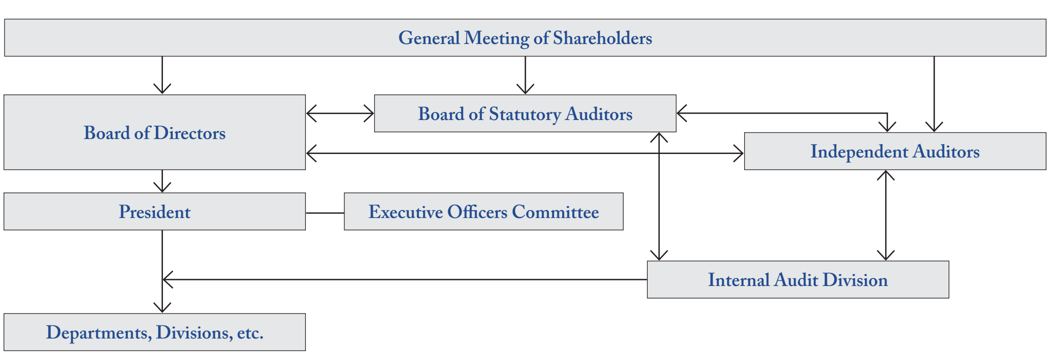
There are no conflicts of interest between Sumitomo Realty and the independent auditing company or its employees.

Reason for Adopting the Current Structure

The current Board of Directors is comprised of directors who are familiar with the nature of the Company's business. The Company therefore believes that the current Board of Directors is most suitable for promoting management. While Sumitomo Realty has not appointed any outside directors, the Company ensures corporate governance is maintained by enhancing management oversight through the Board of Statutory Auditors and through proper information disclosure. The Company has judged that corporate governance is functioning effectively with a system of five statutory auditors at present, three of whom are outside statutory auditors.

Internal Control and Risk Management Systems

To efficiently institute sound management practices, the Company has established a range of internal control systems and is working to enhance those systems.



To further enhance our compliance with laws and regulations and to ensure ethical business practices, we established the Risk Management Committee. In addition, through the Compliance Department, we have established internal auditing and internal reporting systems. In these ways, we are working to prevent inappropriate and illegal actions.

In regard to information management, to ensure proper storage and control of documents, we have established internal standards for document control. Furthermore, in terms of risk management systems, each department tracks and manages the risks associated with its operations on a daily basis, while important issues are discussed and decided upon by the Board of Directors and the Executive Officers Committee. In the future, we will consider further enhancement of regulations and systems as needed.

Compensation of Directors and Statutory Auditors

At the ordinary General Meeting of Shareholders held in June 2004, we introduced a new performance-based compensation system for directors. Under this system, the annual compensation for directors is based on the Company's performance. The new system combines the three elements that made up the previous system—monthly compensation, annual bonuses and retirement allowances.

Under the new system, total annual (July to June) compensation for directors is set at 1% of consolidated ordinary profit. In the year under review, compensation for directors was ¥1,131 million, compensation for statutory auditors (excluding outside statutory auditors) was ¥30 million and compensation for outside statutory auditors was ¥39 million.

Takeover Defense Measures

The Group endeavors to increase corporate value through integrated Group management. This entails striving for well-balanced growth whereby mainstay businesses of a different nature—leasing, sales, construction and brokerage—complement each other.

Of our business segments, the real property leasing business and the real property sales business are "development businesses based on market anticipation" requiring anticipatory investments. In other words, we need to acquire land and construct a building within a planned period before we are allowed to record revenue. The Company's main business is to always make appropriate anticipatory investments for the future. The characteristic of the two businesses mentioned above is that investments lead to revenues and enhancement of our corporate value after an interval.

However, considering the existence of a large number of market participants who are capable of making huge investments, we are cautious about the risk of abnormal investment activity in the stock of the Company amid an enormous variety of decisions and speculations. Hence as a company aiming to improve shareholder value steadily over the medium and long term, we have determined that it promotes the common interests of shareholders to take certain measures to avoid disturbance by abnormal speculations to our business approach, which has brought significant achievements. The Company therefore introduced a policy for responding to large-scale purchases of its shares, and at the ordinary General Meeting of Shareholders held on June 28, 2007 the policy was approved by more than 70% of shareholders, which is the level of support required for the approval of special resolutions. With the approval of shareholders at the 77th General Meeting of Shareholders held in 2010, and again at the 80th General Meeting of Shareholders held in 2013, the policy has been extended to the conclusion of the 83rd General Meeting of Shareholders, scheduled to be held in June 2016.

Overview of Takeover Defense Measures and Board of Directors' Judgment

The Company believes that if a large-scale purchase of the Company shares is initiated, the shareholders, in principle, should decide to accept or reject the large-scale purchase. To enable the shareholders to correctly understand the large-scale purchase's effect on the corporate value and the common interests of shareholders, however, it is necessary that both the party making the large-scale purchase and the Board of Directors of the Company provide to the shareholders necessary and sufficient information, opinions, alternative proposals, etc. and that the shareholders are given sufficient time to consider the provided information, opinions, alternative proposals, etc.

The large-scale purchase rules stipulate that the large-scale purchase shall begin after necessary and sufficient information is provided to the Board of Directors by the large-scale purchaser and a certain period for evaluation by the Board of Directors has elapsed.

To ensure the objectivity, fairness and rationality of decisions of the Board of Directors, a special committee will be established that consists of members selected from among external academic experts, lawyers, certified public accountants, etc.

If the large-scale purchase will significantly damage the corporate value and common interests of shareholders, after considering the opinions of external experts, including lawyers and financial advisors, and taking into the fullest account the recommendations of the special committee, the Board of Directors may take countermeasures to deter the purchase, such as the issuance of stock options.

Based on the above basic conceptions, we set out rules on large-scale purchases and request the large-scale purchaser to comply with the large-scale purchase rules. The Board of Directors shall take certain measures if the large-scale purchaser does not comply with the large-scale purchase rules, or even though the large-scale purchaser complies with the large-scale purchase rules, if it is clear that the large-scale purchase will cause unrecoverable damage to the Company or if the large-scale purchase significantly damages the corporate value and common interests of shareholders.

Board of Directors and Statutory Auditors

As of June 27, 2014

Chairman of the Board
Junji Takashima*

Deputy Chairman of the Board
Kenichi Onodera

President
Kojun Nishima*

Deputy President
Nobuaki Takemura*

Deputy President
Masato Kobayashi*

Director
Yoshiyuki Odai*

* Executive Managing Director

Director
Yoshinobu Sakamoto

Director
Hiroshi Kato

Director
Koji Ito

Director
Toshikazu Tanaka

Statutory Auditors

Shoichi Abbe

Yozo Izuhara

Hiroshi Tomoyasu

Tadashi Kitamura

Yoshifumi Nakamura

Financial Section

Eleven-year Financial Summary

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
Years ended March 31

	Millions of yen				
	2014	2013	2012	2011	2010
For the Year					
Revenue from operations	¥ 780,273	¥ 736,652	¥ 688,662	¥ 744,756	¥ 719,636
Leasing	283,730	278,317	271,812	292,875	293,533
Sales	234,093	232,149	198,154	239,709	219,662
Construction	201,190	171,082	165,995	162,924	158,214
Brokerage	57,211	50,957	49,397	46,430	44,621
Cost of revenue from operations	558,987	529,913	490,437	551,364	534,270
SG&A expenses	60,815	55,394	50,760	54,929	51,387
% of revenue from operations	7.8%	7.5%	7.4%	7.4%	7.1%
Operating income	160,471	151,345	147,465	138,463	133,979
% of revenue from operations	20.6%	20.5%	21.4%	18.6%	18.6%
Ordinary profit*2	130,537	114,916	107,912	106,296	100,464
% of revenue from operations	16.7%	15.6%	15.7%	14.3%	14.0%
Net income	69,697	59,825	53,236	50,908	52,662
Depreciation and amortization	35,311	37,761	36,049	23,705	18,065
At Year-end					
Current assets	¥ 924,452	¥ 965,786	¥ 801,142	¥ 805,958	¥ 802,693
Inventories	715,779	679,496	586,170	558,091	521,871
Total assets	4,220,429	4,105,500	3,859,698	3,234,203	3,168,098
Shareholders' equity*3	707,948	627,012	553,844	526,227	488,896
Net interest-bearing debt	2,652,929	2,424,932	2,407,639	1,901,850	1,785,854
Per Share Amounts (Yen)					
Net income	¥ 147.02	¥ 126.18	¥ 112.28	¥ 107.35	¥ 111.04
Shareholders' equity	1,493.48	1,322.52	1,168.11	1,109.78	1,030.93
Cash dividend applicable to the year	20.00	20.00	20.00	20.00	20.00
Key Ratios					
Equity ratio (%)	16.8	15.3	14.3	16.3	15.4
ND/E ratio*4 (Times)	3.7	3.9	4.3	3.6	3.7
ROE (%)	10.4	10.1	9.9	10.0	11.4
ROA (%)	4.0	3.9	4.3	4.4	4.4
Long-term debt ratio (%)	95	93	93	89	83
Fixed-interest rate debt ratio (%)	82	80	80	79	81
Interest coverage ratio*5 (Times)	6.1	4.9	4.2	4.7	4.6

*1. U.S. dollar amounts in this report are translated, for convenience only, at the rate of ¥102.88 = U.S.$1, the prevailing exchange rate at March 31, 2014.
*2. Ordinary profit, which equals operating income after adjustment for non-operating gains/losses, is a management index that is widely used in Japan.
Due to differences in accounting standards, ordinary profit is not broken out in the Company's English-language financial statements, but it is included here because it plays an important role in the calculation of incentive payments for directors.
*3. Shareholders' equity = Net assets – Minority interests
*4. ND/E ratio = Net interest-bearing debt (Interest-bearing debt – Cash, time and notice deposits) / Shareholders' equity
*5. Interest coverage ratio = (Operating income + Interest and dividend income) / Interest expense

						Thousands of U.S. dollars*1
2009	2008	2007	2006	2005	2004	2014
¥ 695,240	¥ 691,928	¥ 676,834	¥ 646,525	¥ 616,115	¥ 573,862	$ 7,584,302
298,359	279,568	262,620	234,280	221,234	202,776	2,757,873
191,224	193,575	211,035	224,735	224,191	213,303	2,275,399
160,134	156,606	142,564	135,158	127,388	125,086	1,955,579
43,105	58,542	56,532	49,217	43,445	39,809	556,094
496,547	488,202	490,491	487,805	470,636	435,078	5,433,388
52,327	49,118	49,167	46,697	45,188	42,807	591,126
7.5%	7.1%	7.3%	7.2%	7.3%	7.5%	—
146,366	154,608	137,176	112,023	100,291	95,977	1,559,788
21.1%	22.3%	20.3%	17.3%	16.3%	16.7%	—
113,582	125,176	112,406	87,038	74,393	65,976	1,268,828
16.3%	18.1%	16.6%	13.5%	12.1%	11.5%	—
46,205	63,133	50,300	32,506	15,548	6,320	677,459
17,886	17,150	15,677	16,330	14,019	12,211	343,225
¥ 759,816	¥ 784,195	¥ 756,488	¥ 619,219	¥ 481,341	¥ 503,911	$ 8,985,731
518,885	511,868	489,093	330,700	211,180	189,547	6,957,416
3,006,412	2,894,004	2,747,900	2,460,080	2,136,329	2,090,970	41,022,832
436,667	427,423	409,197	375,656	320,098	303,875	6,881,299
1,722,733	1,548,509	1,343,824	1,150,880	935,155	916,156	25,786,635
¥ 97.39	¥ 133.00	¥ 105.92	¥ 68.33	¥ 32.64	¥ 15.34	$ 1.43
920.74	900.57	861.93	790.74	673.40	639.01	14.52
20.00	18.00	14.00	10.00	9.00	9.00	0.19
14.5	14.8	14.9	15.3	15.0	14.5	—
3.9	3.6	3.3	3.1	2.9	3.0	—
10.7	15.1	12.8	9.3	5.0	2.5	—
5.1	5.6	5.4	5.0	4.8	4.7	—
76	83	79	80	83	80	—
77	85	83	77	87	82	—
4.9	6.2	6.8	6.5	5.2	4.1	—

Review of the March 2014 Fiscal Year and Progress under the Sixth Management Plan

Sumitomo Realty began operating under the Sixth Management Plan from April 2013. The Plan sets cumulative three-year targets of ¥400 billion of ordinary profit, with single-year record revenue and profit.

During the March 2014 fiscal year, the first year of the Sixth Management Plan, improved economic and business conditions contributed to revenue and profit growth at all four of our main business segments, resulting in revenue from operations of ¥780.3 billion, with operating income of ¥160.5 billion and ordinary profit of ¥130.5 billion. These results correspond to roughly one-third of the Plan’s cumulative targets, for a solid start for the Sixth Management Plan. In addition, we recorded record ordinary profit for the first time in six years, surpassing the previous record set in the March 2008 fiscal year. This marked the achievement of one of the Plan’s targets—for record single-year ordinary profit—during the Plan’s first year.

At the same time, the future of the economy remains uncertain with rising construction costs and the effect of the consumption tax increase. Going forward, we will flexibly respond to changes in the operating environment, while redoubling our efforts to achieve the targets set in the Sixth Management Plan and chart a course for sustained growth.

Please refer to “President Interview” on pages 4 to 5 for detailed information regarding the Sixth Management Plan.

Results of Operations

Revenue from Operations and Operating Income

Both revenue and profit grew at all four main business segments during the fiscal year under review, thanks to factors including solid leasing operations on continued improvement in office leasing market conditions and an encouraging pace of condominium sales in sales operations. As a result, revenue from operations grew ¥43.6 billion, or 5.9%, to ¥780.3 billion, and operating income rose ¥9.1 billion, or 6.0%, to ¥160.5 billion.

Please refer to “Review of Operations” on pages 14 to 23 for detailed segment information.

Other Income and Expenses

Net other expenses decreased ¥9.9 billion, to ¥45.3 billion, mainly from a ¥4.9 billion decline in interest expense, net.

Net Income

Income before income taxes and minority interests grew 19.8%, to ¥115.1 billion. After the payment of income taxes in the amount of ¥42.6 billion, net income rose 16.5%, to ¥69.7 billion, and the net profit margin improved to 8.9% from 8.1%.

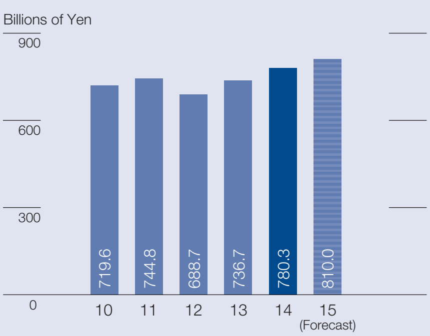
Cash Flows

Cash and cash equivalents at the end of year totaled ¥146.2 billion, a decrease of ¥78.5 billion from the end of the previous fiscal year. Cash flows were as follows.

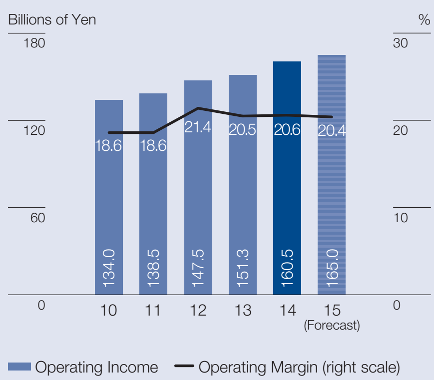
Cash Flows from Operating Activities

Net cash provided by operating activities was ¥117.0 billion, which was ¥83.4 billion more than in the previous year. In addition to the recording of ¥130.5 billion in ordinary profit, this reflected an improvement in cash flow due to the reduction of decline in inventories compared to last year.

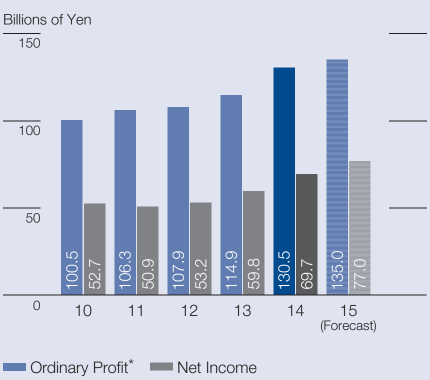
Revenue from Operations



Operating Income and Operating Margin



Ordinary Profit* and Net Income



* Please see note *2 on page 30.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥295.4 billion. In addition to ¥181.5 billion of payments for purchases of property and equipment, primarily to strengthen leasing operations, net receipts of deposits from partnership investors were ¥103.3 billion.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥97.5 billion. To enhance long-term fund-raising stability, proceeds from the issuance of bonds and from long-term loans payable totaled ¥494.5 billion, exceeding the total amount of ¥283.4 billion in redemption of bonds and repayment of long-term loans payable, and net decrease in short-term debt, including commercial paper was ¥52.5 billion. In addition, as a result of the amount repaid exceeding the amount raised, the year-end balance of long-term nonrecourse loans and nonrecourse bonds by SPC was a net decrease of ¥9.1 billion.

Capital Resources and Liquidity

Assets

Total assets as of March 31, 2014, were ¥4,220.4 billion, an increase of ¥114.9 billion from the previous fiscal year-end. Current assets decreased ¥41.3 billion, to ¥924.5 billion, mainly from a decrease in cash, time and notice deposits, and despite an increase in real estate for sale. Property and equipment, net increased ¥115.8 billion, to ¥2,800.0 billion.

Liabilities

Total liabilities as of March 31, 2014, were ¥3,487.9 billion, an increase of ¥31.3 billion from the previous fiscal year-end. Consolidated interest-bearing debt increased ¥149.5 billion, to ¥2,800.2 billion, while deposits received decreased.

	Millions of yen			
	2014	**2013**	**Amount change**	**% change**
Short-term debt:				
Principally from banks	¥ 113,000	¥ 137,500	¥−24,500	−17.8%
Commercial paper	31,996	59,977	−27,981	−46.7%
Subtotal	144,996	197,477	−52,481	−26.6%
Long-term debt:				
Bonds	410,000	340,000	70,000	20.6%
Non-recourse bonds	49,672	50,520	−848	−1.7%
Loans principally from banks	1,690,403	1,549,295	141,108	9.1%
Non-recourse loans	445,125	453,415	−8,290	−1.8%
Subordinated loan	60,000	60,000	0	0.0%
Subtotal	2,655,200	2,453,230	201,970	8.2%
Interest-bearing debt	¥2,800,196	¥2,650,707	¥149,489	5.6%

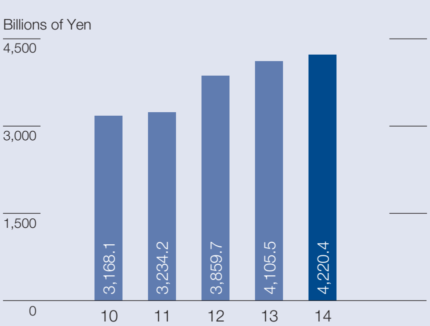
Shareholders' Equity*

Shareholders' equity as of March 31, 2014, was ¥707.9 billion, a ¥80.9 billion increase from the previous fiscal year-end. This included net income of ¥69.7 billion, as well as a ¥37.8 billion net unrealized holding gains on securities (a ¥17.8 billion increase from the previous fiscal year-end). As a result, the equity ratio improved to 16.8%, from the previous year's 15.3%. ROE also improved to 10.4%, from 10.1%. ROA was 4.0%, compared with 3.9% for the March 2013 fiscal year.

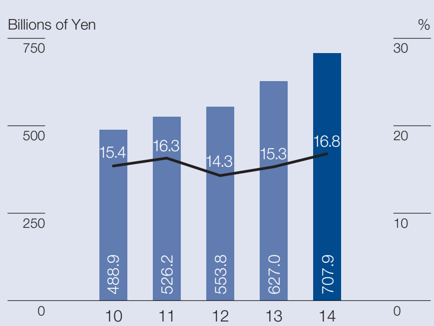
* Shareholders' equity = Net assets – Minority interests

* SPEs have been included in the scope of consolidation since the March 2012 fiscal year.

Total Assets



Shareholders' Equity and Equity Ratio



Shareholders' Equity (Net Assets – Minority Interests)
Equity Ratio (right scale)

ROE and ROA

ROE (Net Income / Shareholders' Equity)
ROA (Operating Income + Interest and Dividend Income / Total Assets)

Financial Strategy

Characteristics of Operations and Diversification of Fund-raising

In leasing and sales, which are our mainstay business segments, several years are required from the acquisition of a site to the completion of a building and the generation of revenue. In addition, significant advance investment is required. In consideration of these factors, under the three medium-term management plans from April 1997 to reinforce our financial position and achieve operational growth, we worked to diversify our fund-raising methods so as to control interest-bearing debt while making investments needed for growth.

Specifically, we have aggressively introduced development securitization methods using SPEs. With SPEs where off-balance sheet funds are raised through non-recourse loans, we have worked to conduct development on a large scale with a small amount of equity money without placing a burden on our balance sheet (SPEs have been included in the scope of consolidation since the March 2012 fiscal year.). In addition, to diversify our fund-raising methods in order to control interest-bearing debt, we have formed SURF (Sumitomo Realty & Development Fund) investment partnerships backed by leased buildings, making effective use of our assets in our fund-raising activities. At the end of March 2014, the balance of investment received in SURF investment partnerships was ¥119 billion, which was recorded on the balance sheet as deposits received.

By actively utilizing these types of fund-raising methods that do not rely on interest-bearing debt, in the first half of the 2000s, we raised large amounts of funds without having to sell assets at low prices, and have aggressively acquired sites when site acquisition costs are low and there are investment opportunities. Consequently, our site acquisition has proceeded according to plan, and we were able to achieve substantial growth in revenue and profit over a decade.

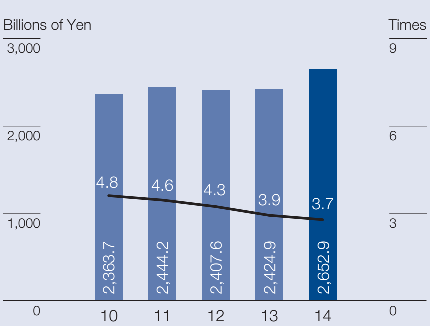
Investing in Line with Changes in the Market Environment and Strengthening Financial Position

Since the second half of the 2000s, it has become increasingly difficult to acquire large prime sites that meet our investment criteria, in part because of intensified competition. Given this situation, Sumitomo Realty has implemented a policy centered on urban redevelopment for future site acquisition. As a result, we are making steady progress with the preparations for future development projects in the pipeline. We plan to bring gross floor area of approximately 140,000 tsubo for leasing to market, mainly at large-scale redevelopment projects in Nihonbashi and Roppongi, during the Sixth Management Plan (please refer to pages 8 to 11 for more information regarding Sumitomo Realty's strength in land acquisition and projects in the Sixth Management Plan). We intend to maintain this level under the Seventh Management Plan, bringing gross floor area of 50,000 tsubo to market annually (150,000 tsubo per three-year plan) going forward, focusing on redevelopment.

For these future development projects, we plan to invest approximately ¥400.0 billion during the three years covered by the Sixth Management Plan, and we intend to cover this investment with operating cash flow. In addition to this investment, we will consider bond issues or other debt financing if additional investment opportunities arise, recognizing that current low interest rates present a favorable environment for financing.

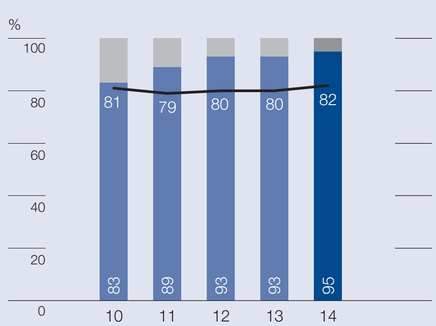
As one of the goals of our Sixth Management Plan, we are working to strengthen our financial position, and have been able to increase shareholders' equity through the accumulation of profit. Including the debt of SPEs, our net debt-equity (ND/E) ratio improved to 3.7 times as of the fiscal year-end, compared with 4.8 times five years earlier. We believe we will be able to continue to invest for growth while improving our financial balance going forward.

ND and ND/E Ratio



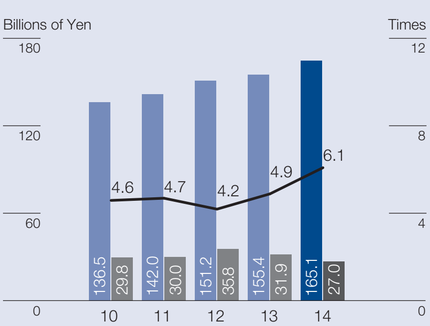
ND (Net Interest-bearing Debt)
ND/E Ratio (right scale)
* ND up to the March 2011 fiscal year includes debt of non-consolidated SPEs.

Long-term Debt Ratio and Fixed-interest Rate Debt Ratio



Short-term Loans and Commercial Paper
Long-term Loans and Bonds
Fixed-interest Rate Debt Ratio

Interest Coverage Ratio



Operating Income + Interest and Dividend Income
Interest Expense
Interest Coverage Ratio (right scale)

At the same time, we are enhancing the stability of our debt portfolio by procuring funds for longer tenors and at fixed rates, to hedge against the risk of higher interest rates going forward. During the year under review, we issued a total of ¥140.0 billion of corporate bonds, of which ¥70.0 billion were10-year bonds that we were able to issue at an average rate of less than 1%. We will continue to closely observe market conditions and extend the tenor of our debt portfolio going forward. As of March 31, 2014, long-term debt accounted for 95% of consolidated interest-bearing debt, and fixed-rate debt for 82%.

In addition, cash flow generated by our core leasing business was ¥130.9 billion in the year under review, surpassing ¥100.0 billion for the seventh consecutive year. This demonstrates the stability of our business performance, and although there has been a slight increase in net debt (ND) compared with five years earlier, the balance between ND and cash flow is improving.

Also, properties for leasing, including SPEs, have about ¥1 trillion in unrealized gains (the difference between the carrying amount and the fair value). Ratings agencies have evaluated these two strengths highly, and we have maintained our rating even in difficult financial environments, such as after the Lehman Shock. Presently, we maintain A and A– ratings with JCR and R&I, respectively.

Site acquisition is essential to the achievement of sustained growth. In the Sixth Management Plan, we will continue to strengthen our financial position through the generation of profit and work to achieve increased fund-raising stability as we continue to invest in growth, centered on the core leasing business.

Dividend Policy

Our fundamental policy for the distribution of profit is to maintain a stable base level of dividends and, while retaining a sufficient level of earnings for stable, long-term operational growth, to increase dividends in line with growth in profit.

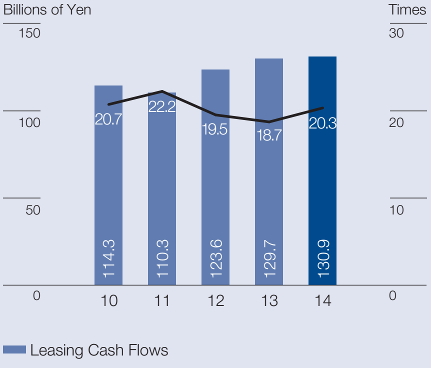
We have implemented five plans since April 1997. We steadily strengthened our profit foundation under two management plans—the First Plan and the Second Plan. In addition, we worked to respond to various changes in accounting standards and to reduce unrealized losses. Over this period, due to comparatively large special losses, net income fluctuated, but we maintained annual dividends at ¥6.00 per share. At the conclusion of the Second Plan, we raised dividends to the bubble period level: ¥9.00 per share.

Under the Third Plan, which began in April 2004, we completed the implementation of measures to deal with unrealized losses, and laid the foundation for full-scale growth in EPS. Thereafter, we continued to increase the dividend in line with profit growth to the extent that we raised the dividend for the March 2009 fiscal year, the year after we recorded record high profit, to ¥20.00 per share.

However, profit subsequently declined due to the Lehman Shock. Nevertheless, we focused on the continuation of stable dividends and maintained the dividend per share at ¥20.00. Although revenue and profit grew, based on this dividend policy we will pay a full-year dividend of ¥20.00 per share for the March 2014 fiscal year. In addition, we expect to pay a ¥20.00 per-share dividend for the March 2015 fiscal year. Moving forward, we will make efforts to continue profit growth and advance the expansion of equity, while further enhancing shareholder returns.

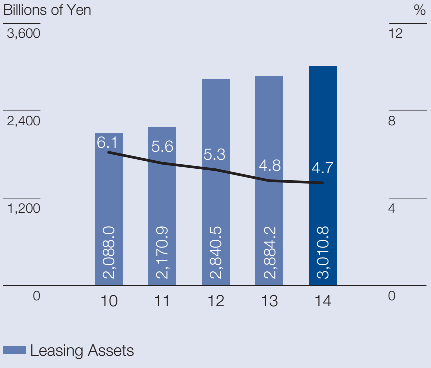
* SPEs have been included in the scope of consolidation since the March 2012 fiscal year.

Leasing Cash Flows

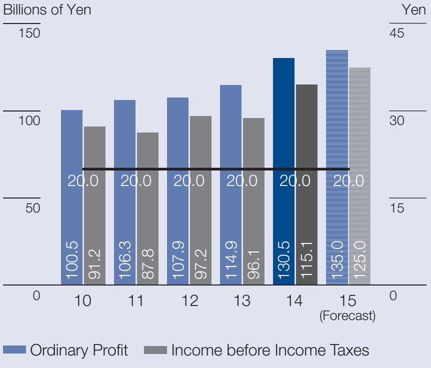


* ND up to the March 2011 fiscal year includes debt of non-consolidated SPEs.

Leasing Assets and Return on Leasing Assets



Cash Dividends per Share, Ordinary Profit and Income Before Income Taxes



Consolidated Balance Sheets

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
As of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2014**	**2013**	**2014**
Current assets:			
Cash, time and notice deposits (Notes 3, 5 and 6)	¥ 147,267	¥ 225,774	$ 1,431,444
Notes and accounts receivable—trade (Note 6)	18,813	17,886	182,864
Allowance for doubtful accounts (Note 6)	(76)	(112)	(739)
Inventories (Note 4)	715,779	679,496	6,957,416
Deferred income taxes (Note 12)	11,443	10,796	111,227
Other current assets	31,226	31,946	303,519
Total current assets	924,452	965,786	8,985,731
Investments:			
Investments in unconsolidated subsidiaries and affiliates (Note 6)	55,922	39,373	543,565
Investments in securities and other (Notes 6 and 7)	255,269	222,970	2,481,231
Allowance for doubtful accounts	(12,513)	(15,506)	(121,627)
Total investments	298,678	246,837	2,903,169
Property and equipment:			
Land (Notes 4, 5 and 19)	2,149,668	2,042,669	20,894,907
Buildings and structures (Notes 4, 5 and 19)	928,694	918,316	9,026,963
Machinery and equipment (Notes 5 and 19)	25,740	25,331	250,194
Leased assets	3,189	3,005	30,997
Construction in progress (Notes 4, 5 and 19)	73,017	43,581	709,730
	3,180,308	3,032,902	30,912,791
Accumulated depreciation	(380,263)	(348,702)	(3,696,180)
Net property and equipment	2,800,045	2,684,200	27,216,611
Other assets:			
Guarantee and lease deposits paid to lessors (Note 6)	111,914	125,855	1,087,811
Leasehold rights and other intangible assets	53,961	51,538	524,504
Deferred income taxes (Note 12)	14,952	14,978	145,334
Other	16,427	16,306	159,672
Total other assets	197,254	208,677	1,917,321
Total assets	¥4,220,429	¥4,105,500	$41,022,832

See accompanying notes.

Liabilities and Net Assets	Millions of yen 2014	2013	Thousands of U.S. dollars (Note 1) 2014
Current liabilities:			
Short-term debt (Notes 6 and 8)	¥ 144,996	¥ 197,477	$ 1,409,370
Long-term debt due within one year (Notes 6 and 8)	280,085	278,392	2,722,444
Long-term non-recourse debt due within one year (Notes 5, 6 and 8)	77,683	84,538	755,084
Notes and accounts payable—trade (Note 6)	45,502	38,811	442,282
Accrued income taxes	28,988	22,156	281,765
Accrued bonuses	3,774	3,351	36,683
Deposits received (Notes 6 and 13)	146,690	206,865	1,425,836
Other current liabilities (Note 13)	101,799	98,795	989,492
Total current liabilities	829,517	930,385	8,062,956
Long-term liabilities:			
Long-term debt due after one year (Notes 6 and 8)	1,880,319	1,670,903	18,276,818
Long-term non-recourse debt due after one year (Notes 5, 6 and 8)	417,114	419,397	4,054,374
Guarantee and deposits received (Notes 6 and 13)	325,138	404,411	3,160,362
Allowance for employees' severance and retirement benefits (Note 9)	—	5,518	—
Net defined benefit liability (Note 9)	5,092	—	49,495
Other long-term liabilities (Notes 12 and 13)	30,717	26,021	298,570
Total long-term liabilities	2,658,380	2,526,250	25,839,619
Contingent liabilities (Note 20)			
Net assets (Note 14):			
Shareholders' equity			
Common stock:			
Authorized —1,900,000 thousand shares			
Issued —476,086 thousand shares	122,805	122,805	1,193,672
Capital surplus	132,750	132,749	1,290,338
Retained earnings	423,600	363,384	4,117,418
Treasury stock	(4,141)	(3,779)	(40,250)
Total shareholders' equity	675,014	615,159	6,561,178
Accumulated other comprehensive income (loss)			
Net unrealized holding gains on securities	37,763	19,981	367,059
Net deferred losses on hedges	(1,641)	(1,393)	(15,951)
Foreign currency translation adjustments	(3,362)	(6,736)	(32,678)
Remeasurements of defined benefit plans	174	—	1,691
Total accumulated other comprehensive income	32,934	11,852	320,121
Minority interests	24,584	21,854	238,958
Total net assets	732,532	648,865	7,120,257
Total liabilities and net assets	¥4,220,429	¥4,105,500	$41,022,832

Consolidated Statements of Income

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2014, 2013 and 2012

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2014	2013	2012	2014
Revenue from operations	¥780,273	¥736,652	¥688,662	$7,584,302
Costs and expenses:				
Cost of revenue from operations	558,987	529,913	490,437	5,433,388
Selling, general and administrative expenses	60,815	55,394	50,760	591,126
	619,802	585,307	541,197	6,024,514
Operating income	160,471	151,345	147,465	1,559,788
Other income (expenses):				
Interest expense, net	(26,911)	(31,820)	(35,748)	(261,577)
Dividend income	4,569	4,021	3,684	44,411
Gain on sale of property and equipment	19	21	429	185
Loss on sale of property and equipment	(3)	(10)	(399)	(29)
Loss on impairment of fixed assets (Note 10)	(15,068)	(16,967)	(5,618)	(146,462)
Loss on disposal of property and equipment	(1,919)	(1,405)	(555)	(18,653)
Gain on sale of investments in securities	1,430	1,769	—	13,900
Loss on sale of investments in securities	—	(187)	—	—
Loss on devaluation of investments in securities	(96)	(2,087)	(3,740)	(933)
Dividend to partnership investors	(2,174)	(2,566)	(2,853)	(21,131)
Loss on devaluation of common stocks of affiliates	—	—	(854)	—
Other, net	(5,196)	(6,052)	(4,644)	(50,506)
	(45,349)	(55,283)	(50,298)	(440,795)
Income before income taxes and minority interests	115,122	96,062	97,167	1,118,993
Income taxes (Note 12):				
Current	45,125	37,432	37,616	438,618
Deferred	(2,521)	(3,508)	4,224	(24,504)
Total	42,604	33,924	41,840	414,114
Income before minority interests	72,518	62,138	55,327	704,879
Minority interests	2,821	2,313	2,091	27,420
Net income	¥ 69,697	¥ 59,825	¥ 53,236	$ 677,459

	Yen			U.S. dollars (Note 1)
	2014	2013	2012	2014
Amounts per share of common stock:				
Net income:				
—Basic	¥147.02	¥126.18	¥112.28	$1.43
—Diluted	—	—	99.83	—
Cash dividend applicable to the year	20.00	20.00	20.00	0.19

Consolidated Statements of Comprehensive Income

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2014, 2013 and 2012

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2014	2013	2012	2014
Income before minority interests	¥72,518	¥62,138	¥55,327	$704,879
Other comprehensive income (loss) (Note 18)				
Net unrealized holding gains on securities	17,796	21,919	4,780	172,978
Net deferred gains (losses) on hedges	(262)	(387)	1,212	(2,546)
Foreign currency translation adjustments	4,220	1,741	(1,067)	41,019
Total other comprehensive income	21,754	23,273	4,925	211,451
Comprehensive income	¥94,272	¥85,411	¥60,252	$916,330
Comprehensive income attributable to:				
Owners of the parent	¥90,604	¥82,724	¥58,352	$880,677
Minority interests	3,668	2,687	1,900	35,653

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2014, 2013 and 2012

	Thousands	Millions of yen											
		Shareholders' equity					Accumulated other comprehensive income (loss)						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total share-holders' equity	Net unrealized holding gains (losses) on securities	Net deferred gains (losses) on hedges	Foreign currency translation adjustments	Remea-surements of defined benefit plans	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at April 1, 2011	476,086	¥122,805	¥132,748	¥290,260	¥(3,645)	¥542,168	¥ (6,701)	¥(1,925)	¥(7,315)	¥ —	¥(15,941)	¥19,102	¥545,329
Net income	—	—	—	53,236	—	53,236	—	—	—	—	—	—	53,236
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(826)	—	(826)	—	(826)
Net unrealized holding gains on securities	—	—	—	—	—	—	4,768	—	—	—	4,768	—	4,768
Acquisition of treasury stock	—	—	—	—	(61)	(61)	—	—	—	—	—	—	(61)
Disposal of treasury stock	—	—	—	—	2	2	—	—	—	—	—	—	2
Change of scope of consolidation	—	—	—	(20,971)	—	(20,971)	—	—	—	—	—	—	(20,971)
Cash dividends paid:													
Final for prior year (¥10 per share)	—	—	—	(4,742)	—	(4,742)	—	—	—	—	—	—	(4,742)
Interim for current year (¥10 per share)	—	—	—	(4,742)	—	(4,742)	—	—	—	—	—	—	(4,742)
Minority interests	—	—	—	—	—	—	—	—	—	—	—	9,721	9,721
Net deferred gains on hedges	—	—	—	—	—	—	—	953	—	—	953	—	953
Balance at April 1, 2012	476,086	¥122,805	¥132,748	¥313,041	¥(3,704)	¥564,890	¥ (1,933)	¥ (972)	¥(8,141)	¥ —	¥(11,046)	¥28,823	¥582,667
Net income	—	—	—	59,825	—	59,825	—	—	—	—	—	—	59,825
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	1,405	—	1,405	—	1,405
Net unrealized holding gains on securities	—	—	—	—	—	—	21,914	—	—	—	21,914	—	21,914
Acquisition of treasury stock	—	—	—	—	(77)	(77)	—	—	—	—	—	—	(77)
Disposal of treasury stock	—	—	1	—	2	3	—	—	—	—	—	—	3
Cash dividends paid:													
Final for prior year (¥10 per share)	—	—	—	(4,741)	—	(4,741)	—	—	—	—	—	—	(4,741)
Interim for current year (¥10 per share)	—	—	—	(4,741)	—	(4,741)	—	—	—	—	—	—	(4,741)
Minority interests	—	—	—	—	—	—	—	—	—	—	—	(6,969)	(6,969)
Net deferred losses on hedges	—	—	—	—	—	—	—	(421)	—	—	(421)	—	(421)
Balance at April 1, 2013	476,086	¥122,805	¥132,749	¥363,384	¥(3,779)	¥615,159	¥19,981	¥(1,393)	¥(6,736)	¥ —	¥ 11,852	¥21,854	¥648,865
Net income	—	—	—	69,697	—	69,697	—	—	—	—	—	—	69,697
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	3,374	—	3,374	—	3,374
Net unrealized holding gains on securities	—	—	—	—	—	—	17,782	—	—	—	17,782	—	17,782
Acquisition of treasury stock	—	—	—	—	(363)	(363)	—	—	—	—	—	—	(363)
Disposal of treasury stock	—	—	1	—	1	2	—	—	—	—	—	—	2
Cash dividends paid:													
Final for prior year (¥10 per share)	—	—	—	(4,741)	—	(4,741)	—	—	—	—	—	—	(4,741)
Interim for current year (¥10 per share)	—	—	—	(4,740)	—	(4,740)	—	—	—	—	—	—	(4,740)
Minority interests	—	—	—	—	—	—	—	—	—	—	—	2,730	2,730
Net deferred losses on hedges	—	—	—	—	—	—	—	(248)	—	—	(248)	—	(248)
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	174	174	—	174
Balance at March 31, 2014	476,086	¥122,805	¥132,750	¥423,600	¥(4,141)	¥675,014	¥37,763	¥(1,641)	¥(3,362)	¥174	¥ 32,934	¥24,584	¥732,532

	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Accumulated other comprehensive income (loss)						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total share-holders' equity	Net unrealized holding gains on securities	Net deferred losses on hedges	Foreign currency translation adjustments	Remea-surements of defined benefit plans	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at April 1, 2013	$1,193,672	$1,290,329	$3,532,115	$(36,732)	$5,979,384	$194,217	$(13,540)	$(65,474)	$ —	$115,203	$212,422	$6,307,009
Net income	—	—	677,459	—	677,459	—	—	—	—	—	—	677,459
Foreign currency translation adjustments	—	—	—	—	—	—	—	32,796	—	32,796	—	32,796
Net unrealized holding gains on securities	—	—	—	—	—	172,842	—	—	—	172,842	—	172,842
Acquisition of treasury stock	—	—	—	(3,528)	(3,528)	—	—	—	—	—	—	(3,528)
Disposal of treasury stock	—	9	—	10	19	—	—	—	—	—	—	19
Cash dividends paid:												
Final for prior year ($0.10 per share)	—	—	(46,083)	—	(46,083)	—	—	—	—	—	—	(46,083)
Interim for current year ($0.10 per share)	—	—	(46,073)	—	(46,073)	—	—	—	—	—	—	(46,073)
Minority interests	—	—	—	—	—	—	—	—	—	—	26,536	26,536
Net deferred losses on hedges	—	—	—	—	—	—	(2,411)	—	—	(2,411)	—	(2,411)
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	1,691	1,691	—	1,691
Balance at March 31, 2014	$1,193,672	$1,290,338	$4,117,418	$(40,250)	$6,561,178	$367,059	$(15,951)	$(32,678)	$1,691	$320,121	$238,958	$7,120,257

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2014, 2013 and 2012

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2014	2013	2012	2014
Cash flows from operating activities:				
Income before income taxes and minority interests	¥115,122	¥96,062	¥97,167	$1,118,993
Depreciation and amortization	35,311	37,761	36,049	343,225
Loss on impairment of fixed assets (Note 10)	15,068	16,967	5,618	146,462
Provision for (Reversal of) allowance for doubtful accounts	(3,006)	39	(839)	(29,219)
Increase in allowance for employees' severance and retirement benefits	—	417	219	—
Decrease in net defined benefit liability	(155)	—	—	(1,507)
Gain on sale of property and equipment, net	(16)	(11)	(30)	(156)
Loss on disposal of property and equipment	1,919	1,405	555	18,653
Gain on sale of investments in securities, net	(1,430)	(1,582)	—	(13,900)
Loss on devaluation of investments in securities	96	2,087	3,740	933
Loss on devaluation of common stocks of affiliates	—	—	854	—
Interest and dividend income	(4,629)	(4,090)	(3,761)	(44,994)
Interest expense	26,971	31,889	35,825	262,160
Increase in notes and accounts receivable—trade	(530)	(1,243)	(2,867)	(5,152)
Increase in inventories	(24,292)	(104,737)	(14,347)	(236,120)
Increase in notes and accounts payable—trade	6,671	4,160	2,908	64,843
Increase (Decrease) in advances received	4,261	15,963	(2,145)	41,417
Other, net	7,549	6,264	5,798	73,378
Total	178,910	101,351	164,744	1,739,016
Proceeds from interest and dividend income	4,629	4,090	3,761	44,994
Payments for interest	(28,205)	(32,507)	(36,360)	(274,154)
Payments for income tax and other taxes	(38,340)	(39,339)	(30,742)	(372,667)
Net cash provided by operating activities	116,994	33,595	101,403	1,137,189
Cash flows from investing activities:				
Payments for purchases of property and equipment	(181,471)	(57,623)	(112,294)	(1,763,909)
Proceeds from sale of property and equipment	109	678	1,485	1,059
Payments for purchases of investments in securities	(26,813)	(52,334)	(8,316)	(260,624)
Proceeds from sale of investments in securities	3,857	6,194	52	37,490
Payments for guarantee and lease deposits paid to lessors	(1,296)	(1,343)	(2,291)	(12,597)
Proceeds from guarantee and lease deposits paid to lessors	14,813	9,171	10,713	143,983
Payments for guarantee and lease deposits received	(13,992)	(16,747)	(18,305)	(136,003)
Proceeds from guarantee and lease deposits received	15,395	12,781	19,115	149,640
Receipts of deposits from partnership investors	2,381	86,327	91,115	23,143
Restitution of deposits from partnership investors	(105,667)	(44,085)	(51,971)	(1,027,090)
Other, net	(2,765)	4,449	(1,403)	(26,875)
Net cash used in investing activities	(295,449)	(52,532)	(72,100)	(2,871,783)
Cash flows from financing activities:				
Increase (Decrease) in short-term debt, net	(52,500)	27,783	(46,045)	(510,303)
Proceeds from issuance of bonds	140,000	90,000	30,000	1,360,809
Redemption of bonds	(70,000)	(90,000)	(90,000)	(680,404)
Proceeds from non-recourse bonds	8,000	2,000	4,900	77,760
Redemption of non-recourse bonds	(8,848)	(89,828)	(6,140)	(86,003)
Proceeds from long-term loans payable	354,500	431,400	390,895	3,445,762
Repayment of long-term loans payable	(213,392)	(334,773)	(284,087)	(2,074,184)
Proceeds from long-term non-recourse loans	67,900	109,000	42,340	659,992
Repayment of long-term non-recourse loans	(76,190)	(48,990)	(50,985)	(740,572)
Increase (Decrease) in assignment of receivables	(7,829)	7,102	(1,878)	(76,098)
Increase in treasury stocks, net	(360)	(73)	(60)	(3,499)
Cash dividends paid	(10,327)	(10,639)	(10,334)	(100,379)
Other, net	(33,499)	9,776	(8,672)	(325,612)
Net cash provided by (used in) financing activities	97,455	102,758	(30,066)	947,269
Effect of exchange rate changes on cash and cash equivalents	2,491	711	(464)	24,213
Net increase (decrease) in cash and cash equivalents	(78,509)	84,532	(1,227)	(763,112)
Cash and cash equivalents at beginning of year	224,732	140,200	119,749	2,184,409
Increase in cash and cash equivalents of newly consolidated subsidiaries	—	—	21,678	—
Cash and cash equivalents at end of year (Note 3)	¥146,223	¥224,732	¥140,200	$1,421,297

See accompanying notes.

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Sumitomo Realty & Development Co., Ltd. ("the Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese-language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.88 to U.S. $1. The translation should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Accounting policies

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

All significant intercompany balances, transactions and profits have been eliminated in consolidation.

Effective from the year ended March 31, 2012, the Company early adopted the new accounting standard, "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 on March 25, 2011), "Guidance on Disclosures about Certain Special Purpose Entities" (ASBJ Guidance No. 15 on March 25, 2011), "Guidance on Determining a Subsidiary and an Affiliate" (ASBJ Guidance No. 22 on March 25, 2011) and "Practical Solution on Applications of the Control Criteria and Influence Criteria to Investment Associations" (ASBJ PITF No. 20 on March 25, 2011).

Accordingly, 23 Special Purpose Entities, including Shiodome Hamarikyu Special Purpose Company, Ltd., and 1 limited partnership ("*Tokumei kumiai*") have been newly included within the scope of consolidation at April 1, 2011.

This early adoption of the new accounting standard is according to the rules under paragraph 44-4, item (3) of "Accounting Standard for Consolidated Financial Statements", and assets or liabilities belonging to newly consolidated subsidiaries are evaluated by their fair carrying amount at April 1, 2011.

As a result, retained earnings decreased by ¥19,386 million at April 1, 2011.

(2) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rate.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate, except for shareholders' equity accounts, which are translated at historical rates, and income statement items resulting from transactions with the Company, which are translated at the rates used by the Company.

Differences arising from translation are presented as "Foreign currency translation adjustments" in net assets.

(3) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term, highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(4) Recognition of revenue

Revenues from sales operations of condominiums, detached houses and land lots are recognized when the units are delivered and accepted by customers. Revenues from leasing operations of office buildings, residences and other properties are recognized as rent accrues over the lease term.

(5) Inventories

Inventories are stated at cost, determined by the specific identification method principally. The carrying amount of inventories is written down when the profitability declines.

(6) Securities

Held-to-maturity securities are stated at amortized cost. Investments in subsidiaries and affiliates that are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair values are stated at fair value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving-average cost.

Preferred equity securities are stated at cost determined by the specific identification method, and securities with no available fair value are stated at moving-average cost.

Investments in limited partnerships, which are regarded as securities under the Financial Instruments and Exchange Law, are accounted for in a manner similar to the equity method based on the recent financial statements.

If the market value of held-to-maturity securities, investments in subsidiaries and affiliates and available-for-sale securities declines significantly, such securities are stated at fair value and the difference between fair value and the carrying amount is recognized as a loss in the period of the decline. If the fair value of investments in unconsolidated subsidiaries and affiliated companies not accounted for using the equity method is not readily available, such securities should be written down to the net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair value or the net asset value will be the carrying amount of the securities at the beginning of the next fiscal year.

(7) Property and equipment

The Company and its consolidated domestic subsidiaries depreciate buildings using the straight-line method, and other property and equipment using the declining-balance method over their estimated useful lives. The consolidated overseas subsidiaries depreciate property and equipment using primarily the straight-line method in accordance with the accounting principles in the respective countries.

Leased assets related to finance lease transactions without title transfer are depreciated using the straight-line method over the lease periods as their useful lives with no residual value.

Estimated useful lives used in the computation of depreciation are generally as follows:

Buildings and structures	6 to 60 years
Machinery and equipment	2 to 20 years
Leased assets	Lease periods

Effective from the year ended March 31, 2013, in accordance with the revision of the Corporation Tax Act (Law) of Japan, the Company and its consolidated domestic subsidiaries have computed depreciation by the method based on the revised Corporation Tax Act (Law) for the property and equipment acquired on or after April 1, 2012.

This accounting change has an immaterial impact on operating income and income before income taxes and minority interests.

(8) Software costs

Software costs are amortized using the straight-line method over the estimated useful lives (five years).

(9) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide for doubtful accounts at an estimated uncollectable amount based on the evaluation of certain identified doubtful and bankrupt receivables plus an amount calculated using the percentage of actual collection losses in certain reference periods with respect to remaining receivables.

(10) Lease transactions

Leased assets related to finance lease transactions without title transfer are depreciated using the straight-line method over the lease periods as their useful lives with no residual value.

The Company and its consolidated subsidiaries use the accounting procedures that conform to methods related to normal lease transactions with respect to finance lease transactions without title transfer with a lease transaction start date prior to March 31, 2009.

(11) Income taxes

Income taxes are provided for on the basis of income for financial statement purposes. The tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statements and income tax purposes are recognized as deferred income taxes.

(12) Employees' severance and retirement benefits

The Company and certain of its consolidated subsidiaries provide two types of post-employment benefit plans, lump-sum payment plans and defined benefit corporate pension plans, under which all eligible employees are entitled to benefits based on their current rate of pay, length of service and the conditions under which termination occurs.

For the calculation of retirement benefit obligations, the estimated amount of retirement benefits is allocated to the respective fiscal years by the straight-line method.

Some of the Company's consolidated subsidiaries calculate net defined benefit liability and retirement benefit expenses by using a simplified method in which retirement benefit obligations are equal to the amount that would be paid if all employees resigned voluntarily at the end of the fiscal year.

Prior service costs are recognized as expenses in the period in which they are incurred, and actuarial gains and losses are recognized as expenses in the following period.

Effective from the year ended March 31, 2014, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 on May 17, 2012) (excluding provisions set forth in the main clauses of Article 35 of the Accounting Standard of Retirement Benefits and of Article 67 of the Guidance on Accounting Standard for Retirement Benefits). Consequently, the amount of retirement benefit obligations after deducting pension plan assets is recorded as net defined benefit liability, and unrecognized actuarial gains and losses are included in net defined benefit liability.

In accordance with the transitional treatment set forth in article 37 of the Accounting Standard for Retirement Benefits, the effect of the changes on the accounting policies is reflected on remeasurements of defined benefit plans in accumulated other comprehensive income.

As a result of adopting the new accounting standard, net defined benefit liability of ¥5,092 million ($49,495 thousand) is recorded and accumulated other comprehensive income increased by ¥174 million ($1,691 thousand) on the consolidated balance sheet as of March 31, 2014.

The Company and certain of its consolidated subsidiaries provided an allowance for employees' severance and retirement benefits at March 31, 2013 and 2012 based on the estimated retirement benefit obligations at those dates.

(13) Construction contracts

The construction projects for which the outcome of the portion completed by the end of the fiscal year under review can be reliably estimated are accounted for by the percentage-of-completion method (the degree of completion of each construction project is estimated using the cost-comparison method), while other construction projects are accounted for by the completed-contract method.

(14) Derivative transactions and hedge accounting

The Company and its consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes and qualify for hedge accounting.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of the derivative financial instruments until the related gains or losses on the hedged items are recognized.

However, in cases where foreign exchange forward contracts are used as hedges and meet certain hedging criteria (regarding foreign exchange contracts), the foreign exchange forward contracts and hedged items are accounted for in the following manner:

1. If a foreign exchange forward contract is executed to hedge an existing foreign currency receivable or payable,
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the carrying amount of the receivable or payable is recognized in the income statement in the period which includes the inception date; and
   (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
2. If a foreign exchange forward contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the foreign exchange forward contract are recognized.

Also, if interest rate swap contracts are used as a hedge and meet certain hedging criteria (regarding interest rate swap contracts), the net amount to be paid or received under the interest rate swap contracts is added to or deducted from the interest on the assets or liabilities relative to which the swap contract was executed as a hedge.

(15) Amounts per share of common stock

The computation of net income per share is based on the weighted-average number of shares of common stock outstanding during each year.

Diluted net income per share is computed based on the amount of net income available to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options.

Diluted net income per share for the year ended March 31, 2014 is not listed since dilutive shares of the Company had been extinguished by repayment of perpetual subordinated loans.

Cash dividends per share represent actual amounts applicable to the respective year.

(16) New accounting pronouncements (Accounting standards issued not yet effective)

1. Accounting Standard for Business Combinations

“Accounting Standard for Business Combinations” (ASBJ Statement No. 21 on September 13, 2013)

“Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 on September 13, 2013)

“Accounting Standard for Business Divestitures” (ASBJ Statement No. 7 on September 13, 2013)

“Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2 on September 13, 2013)

“Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10 on December 26, 2008)

“Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4 on September 13, 2013)

(1) Outline

The accounting standards were revised mainly with a focus on (i) the treatment of a change of the parent company’s ownership interest in its subsidiary in case of the parent company continuing to control upon additional acquisition of shares of the subsidiary, (ii) the treatment of acquisition costs, (iii) the presentation of net income and the change from minority interests to non-controlling interests and (iv) the treatment of provisional accounting.

(2) Effective date

They are scheduled to be effective from the beginning of the year ending March 31, 2016.

The treatment of provisional accounting is scheduled to be effective to business combinations after the beginning of the year ending March 31, 2016.

(3) Impact of the adoption

The impact of the accounting change is under evaluation at the time of the preparation of the consolidated financial statements.

2. Accounting Standard for Retirement Benefits

“Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26 on May 17, 2012)

“Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25 on May 17, 2012)

(1) Outline

In consideration of improvement of financial reporting and international trends, “Accounting Standard for Retirement Benefits” and “Guidance on Accounting Standard for Retirement Benefits” were revised mainly with a focus on the accounting method of unrecognized actuarial differences and unrecognized prior service costs, the calculation method of retirement benefit obligations and service costs, and the expansion of disclosure.

(2) Effective date

The revisions of calculation method of retirement benefit obligations and service costs are scheduled to be effective from the beginning of the year ending March 31, 2015.

(3) Impact of the adoption of the accounting standard and the guidance

The impact of the adoption of the accounting standard and the guidance is under evaluation at the time of the preparation of the consolidated financial statements.

(17) Reclassifications and restatement

Certain prior year amounts have been reclassified to conform to the 2014 presentation.

These reclassifications had no impact on previously reported results of operations or retained earnings.

(18) Accounting changes and error corrections

Effective from the year ended March 31, 2012, the Company and its consolidated subsidiaries adopted the new accounting standard, “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No. 24 on December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24 on December 4, 2009).

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash, time and notice deposits	¥147,267	¥225,774	$1,431,444
Time deposits	(1,044)	(1,042)	(10,147)
Cash and cash equivalents	¥146,223	¥224,732	$1,421,297

4. Inventories

Inventories at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Real estate for sale	¥161,438	¥203,452	$1,569,187
Real estate for sale in process	545,534	469,550	5,302,624
Costs on uncompleted construction contracts	7,048	5,142	68,507
Other	1,759	1,352	17,098
Total	¥715,779	¥679,496	$6,957,416

The Company transferred amounts between inventories and property and equipment. Such transfers at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Inventories:			
Transferred to property and equipment	¥ —	¥(34,504)	$ —
Transferred from property and equipment	10,163	22,328	98,785
Net increase (decrease)	¥10,163	¥(12,176)	$98,785

5. Pledged assets

Assets pledged as collateral at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash, time and notice deposits	¥ 1,991	¥ 2,031	$ 19,353
Buildings and structures	157,519	167,145	1,531,094
Land	446,113	446,113	4,336,246
Construction in progress	15	17	146
Machinery and equipment	851	1,128	8,272
Total	¥606,489	¥616,434	$5,895,111

Secured liabilities at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Long-term non-recourse debt due within one year	¥ 77,683	¥ 84,538	$ 755,084
Long-term non-recourse debt due after one year	417,114	419,397	4,054,374
Total	¥494,797	¥503,935	$4,809,458

Specified assets for non-recourse debts at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash, time and notice deposits	¥ 16,274	¥ 17,450	$ 158,184
Buildings and structures	157,519	167,145	1,531,094
Land	446,113	446,113	4,336,246
Construction in progress	15	17	146
Machinery and equipment	851	1,128	8,272
Total	¥620,772	¥631,853	$6,033,942

(Note) “Specified assets for non-recourse debts” includes a portion of the amount of “Assets pledged as collateral” for the years ended March 31, 2014 and 2013.

6. Financial instruments

1. Policy for financial instruments

The Company and its consolidated subsidiaries ("the Group") have the policy to limit its fund management to short-term deposits with funds through loans from banks and the issuance of corporate bonds and commercial paper.

The Group utilizes derivative financial instruments only for the purpose of hedging the foreign exchange risk associated with foreign currency-denominated transactions or hedging the interest rate risk associated with the Group's loans payable, and does not utilize derivative financial instruments for any speculative purposes.

2. Details of financial instruments, risks, and policies and systems of risk management

Operating receivables such as notes and accounts receivable—trade are exposed to customers' credit risk, but this risk is generally avoided through the receipt of deposits.

Investments in securities are business-related equities and are exposed to market price fluctuation risk. The Group regularly checks the market value of the securities and the financial condition of the issuers, and continuously reviews whether it continues to hold securities with consideration for its relationships with the issuers.

Guarantee and lease deposits are mostly deposits related to leasing properties, and are exposed to the counterparty credit risk.

In addition, the Group accommodates counterparties with loans and consequently is exposed to the borrowers' credit risk. However, the Group constantly checks the financial condition of principal borrowers and their performance using the funds lent to those borrowers even after accommodation.

The majority of due dates of operating debt, such as notes and accounts payable, are within one year.

Interest rate swap contracts are used to hedge risks arising from fluctuations in interest rates on certain loans, corporate bonds, commercial paper and deposits.

In regard to derivative transactions, the Group utilizes interest rate swaps for bank loans and deposits, and utilizes foreign exchange forward contracts and cross currency swap contracts for foreign currency-denominated transactions. Interest rate swap contracts are exposed to the risks of interest rate changes, and foreign exchange forward contracts and cross currency swap contracts are exposed to the risks of foreign exchange rate changes. The derivative financial instruments are executed with creditworthy financial institutions, and the Group's management believes there is insignificant risk of default by counterparties. Derivative transactions are executed by the Group's Finance Department in accordance with the decisions of a committee whose chairman is the director of the Finance Department. The Finance Department prepares reports on derivative transactions that are provided to the director of the Finance Department periodically.

3. Supplemental information on fair values of financial instruments

The fair values of financial instruments are based on their market prices, and if the market price is not available, other rational valuation techniques are used instead. The rational valuation techniques incorporate variable factors, and as a result the values may change due to using different assumptions.

The amounts of derivative transactions shown in Note 16 "Derivative transactions," are not representing the market risks related to derivative transactions.

The carrying amounts of financial instruments on the consolidated balance sheets, their fair values and the differences between them as of March 31, 2014 and 2013 are as follows. (Financial instruments whose fair value is extremely difficult to estimate are not included; please see (Note 2).)

For 2014

	Millions of yen			Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Assets:						
(1) Cash, time and notice deposits	¥ 147,267	¥ 147,267	¥ —	$ 1,431,444	$ 1,431,444	$ —
(2) Notes and accounts receivable—trade	18,813	18,813	—	182,864	182,864	—
(3) Investments in securities						
Available-for-sale securities	210,902	210,902	—	2,049,981	2,049,981	—
(4) Guarantee and lease deposits						
Held-to-maturity securities	1,299	1,300	1	12,626	12,636	10
Available-for-sale securities	953	953	—	9,263	9,263	—
Total assets	¥ 379,234	¥ 379,235	¥ 1	$ 3,686,178	$ 3,686,188	$ 10
Liabilities:						
(1) Notes and accounts payable—trade	¥ 45,502	¥ 45,502	¥ —	$ 442,282	$ 442,282	$ —
(2) Short-term debt	144,996	144,996	—	1,409,370	1,409,370	—
(3) Long-term debt (including due within one year)	2,160,404	2,168,585	8,181	20,999,262	21,078,781	79,519
(4) Long-term non-recourse debt (including due within one year)	494,797	499,404	4,607	4,809,458	4,854,238	44,780
(5) Deposits received*2	10,000	10,000	—	97,201	97,201	—
(6) Guarantee and deposits received*2	66,000	66,000	—	641,524	641,524	—
Total liabilities	¥2,921,699	¥2,934,487	¥12,788	$28,399,097	$28,523,396	$124,299
Derivative transactions*3:						
Non-hedge accounting	¥ —	¥ —	¥ —	$ —	$ —	$ —
Hedge accounting	(2,530)	(2,530)	—	(24,592)	(24,592)	—
Total derivative transactions	¥ (2,530)	¥ (2,530)	¥ —	$ (24,592)	$ (24,592)	$ —

For 2013

	Millions of yen		
	Carrying amount	Fair value	Difference
Assets:			
(1) Cash, time and notice deposits	¥ 225,774	¥ 225,774	¥ —
(2) Notes and accounts receivable—trade	17,886		
Allowance for doubtful accounts*1	(1)		
Balance	17,885	17,885	—
(3) Investments in securities			
Available-for-sale securities	176,131	176,131	—
(4) Guarantee and lease deposits			
Held-to-maturity securities	1,294	1,297	3
Available-for-sale securities	820	820	—
Total assets	¥ 421,904	¥ 421,907	¥ 3
Liabilities:			
(1) Notes and accounts payable—trade	¥ 38,811	¥ 38,811	¥ —
(2) Short-term debt	197,477	197,477	—
(3) Long-term debt (including due within one year)	1,949,295	1,963,978	14,683
(4) Long-term non-recourse debt (including due within one year)	503,935	511,766	7,831
(5) Deposits received*2	39,000	39,000	—
(6) Guarantee and deposits received*2	66,000	66,000	—
Total liabilities	¥2,794,518	¥2,817,032	¥22,514
Derivative transactions*3:			
Non-hedge accounting	¥ —	¥ —	¥ —
Hedge accounting	(2,127)	(2,127)	—
Total derivative transactions	¥ (2,127)	¥ (2,127)	¥ —

*1 The carrying amount of notes and accounts receivable—trade is stated at net of allowance for doubtful accounts.
*2 The amounts only included in financial liabilities are disclosed.
*3 Derivative transactions are stated at net of assets and liabilities. Figures in parentheses indicate net liabilities.

(Note 1) The calculation methods of fair value for financial instruments

Assets:

(1) Cash, time and notice deposits

The fair value of cash, time and notice deposits approximates their carrying amounts because of their short-term maturities.

(2) Notes and accounts receivable—trade

The fair value of notes and accounts receivable—trade approximates their carrying amounts unless the credit standing of debtors has changed significantly since the loan origination.

The allowance for doubtful receivables is estimated based on expected recoverable amounts, considering the possibility of individual collections. Therefore the fair value of doubtful receivables approximates the carrying amount deducted by the estimated allowance for doubtful accounts on the consolidated balance sheets as of the end of the fiscal year.

(3) Investments in securities

The fair value of listed shares is based on the exchange prices at market. For floating rate notes, the carrying amount is presented as the fair value, as the fair value approximates the carrying amount because the market interest rate is reflected in such notes within a short time period. The fair value of the fixed-coupon debt is determined based on the present value discounted at the interest rate which reflects the period remaining to maturity and the credit risk.

For notes on securities classified by purpose of holding, please see Note 7 “Securities.”

(4) Guarantee and lease deposits

The fair value of guarantee and lease deposits are based on the value offered by correspondent financial institutions.

For notes and securities classified by purpose of holding, please see Note 7 “Securities.”

Liabilities:

(1) Notes and accounts payable—trade and (2) Short-term debt

The fair value of these items approximates their carrying amounts because of their short-term maturities.

(3) Long-term debt (including due within one year)

For floating rate notes, the carrying amount is used as the fair value because the market interest rate is reflected in such notes within a short time period and because the credit standing of the Company is the same after borrowing. The fixed-coupon debt is calculated by discounting the combined total of principal and interest at an interest rate assumed for similar new borrowings.

The specific matching criteria of interest rate swaps and cross currency interest rate swaps are applicable to some long-term debts with floating interest rates (please see Note 16 “Derivative transactions”). The fair value of these items is calculated by discounting the combined total of interest and principal, with which the interest rate swap and cross currency interest rate swap have been accounted for, at an interest rate rationally estimated for similar borrowings.

The fair value of corporate bonds issued by the Company (included in (3) Long-term debt (including due within one year)) is based on the market price.

(4) Long-term non-recourse debt (including due within one year)

For floating rate notes, the carrying amount is used as the fair value because the market interest rate is reflected in such notes within a short time period and the value of its non-exempt properties hasn’t been changed.

The fixed-coupon debt is calculated by discounting the combined total of principal and interest at an interest rate assumed for similar new borrowings or bonds.

The specific matching criteria of interest rate swaps are applicable to some long-term non-recourse debts with floating interest rates (please see Note 16 "Derivative transactions"). The fair value of these items is calculated by discounting the combined total of interest and principal, with which the interest rate swap has been accounted for, at an interest rate rationally estimated for similar borrowings or bonds.

(5) Deposits received and (6) Guarantee and deposits received
The fair value of these items approximates their carrying amounts because the market interest rate is reflected in deposits with floating interest rates within a short time period and the credit standing of the Company is the same after borrowing.

Derivative transactions:

Please see Note 16 "Derivative transactions."

(Note 2) Financial instruments whose fair value is extremely difficult to estimate

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Investments in subsidiaries and affiliates*1	¥ 34,284	¥ 17,735	$ 333,243
Unlisted equity securities*1 *2	18,885	18,981	183,563
Preferred equity securities, etc.*1	22,388	22,288	217,613
Investments in limited partnerships, etc.*1	297	496	2,887
Guarantee and lease deposits (excluding held-to-maturity securities and available-for-sale securities)*3	109,662	123,743	1,065,921
Guarantee and deposits received*4	161,487	160,470	1,569,664

*1 The fair value of these items are not disclosed since their market price is unavailable and the assessment of their fair value is deemed extremely difficult.
*2 The Company recognized ¥96 million ($933 thousand) of impairment loss on investments in securities for the year ended March 31, 2014.
*3 Guarantee and lease deposits (excluding held-to-maturity securities and available-for-sale securities) are not included in "Assets (4) Guarantee and lease deposits" because their remaining terms cannot be determined and the assessment of their fair value is deemed extremely difficult.
*4 The fair value of guarantee and deposits received (mainly consisting of lease deposits) are not disclosed because their remaining terms cannot be determined and the assessment of their fair value is deemed extremely difficult.

(Note 3) Redemption schedule of pecuniary claims and securities with maturities

For 2014

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash, time and notice deposits	¥147,267	¥ —	¥ —	¥—
Notes and accounts receivable—trade	18,724	89	—	—
Investments in securities				
Available-for-sale securities with maturities (Corporate bonds)	—	—	—	—
Guarantee and lease deposits				
Held-to-maturity securities (National government bonds)	257	1,048	—	—
Available-for-sale securities with maturities (National government bonds)	—	—	908	—
Total	¥166,248	¥1,137	¥908	¥—

For 2013

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash, time and notice deposits	¥225,774	¥ —	¥ —	¥—
Notes and accounts receivable—trade	17,718	168	—	—
Investments in securities				
Available-for-sale securities with maturities (Corporate bonds)	—	—	700	—
Guarantee and lease deposits				
Held-to-maturity securities (National government bonds)	324	976	—	—
Available-for-sale securities with maturities (National government bonds)	—	—	770	—
Total	¥243,816	¥1,144	¥1,470	¥—

For 2014

	Thousands of U.S. dollars			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash, time and notice deposits	$1,431,444	$ —	$ —	$—
Notes and accounts receivable—trade	181,999	865	—	—
Investments in securities				
Available-for-sale securities with maturities (Corporate bonds)	—	—	—	—
Guarantee and lease deposits				
Held-to-maturity securities (National government bonds)	2,498	10,187	—	—
Available-for-sale securities with maturities (National government bonds)	—	—	8,826	—
Total	$1,615,941	$11,052	$8,826	$—

(Note 4) Repayment schedule of corporate bonds, long-term debt, long-term non-recourse debt and other interest-bearing debt

For 2014

	Millions of yen					
Year ending March 31	2015	2016	2017	2018	2019	2020 and thereafter
Short-term debt	¥144,996	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt (including due within one year)	280,085	380,863	316,737	289,622	275,752	617,345
Long-term non-recourse debt (including due within one year)	77,683	68,689	120,490	19,260	45,535	163,140
Deposits received	10,000	—	—	—	—	—
Guarantee and deposits received	—	—	40,000	—	—	26,000
Total	¥512,764	¥449,552	¥477,227	¥308,882	¥321,287	¥806,485

For 2013

	Millions of yen					
Year ending March 31	2014	2015	2016	2017	2018	2019 and thereafter
Short-term debt	¥197,477	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt (including due within one year)	278,392	285,085	380,863	316,612	289,372	398,971
Long-term non-recourse debt (including due within one year)	84,538	76,043	67,049	118,850	17,620	139,835
Deposits received	39,000	—	—	—	—	—
Guarantee and deposits received	—	—	—	66,000	—	—
Total	¥599,407	¥361,128	¥447,912	¥501,462	¥306,992	¥538,806

For 2014

	Thousands of U.S. dollars					
Year ending March 31	2015	2016	2017	2018	2019	2020 and thereafter
Short-term debt	$1,409,370	$ —	$ —	$ —	$ —	$ —
Long-term debt (including due within one year)	2,722,444	3,702,012	3,078,703	2,815,144	2,680,327	6,000,632
Long-term non-recourse debt (including due within one year)	755,084	667,661	1,171,171	187,208	442,603	1,585,731
Deposits received	97,201	—	—	—	—	—
Guarantee and deposits received	—	—	388,802	—	—	252,722
Total	$4,984,099	$4,369,673	$4,638,676	$3,002,352	$3,122,930	$7,839,085

7. Securities

For 2014

A. The following tables summarize the acquisition costs, carrying amounts and fair values of securities with available fair values as of March 31, 2014:

(a) Held-to-maturity securities:

	Millions of yen			Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Securities whose fair value exceeds carrying amount:						
National and local government bonds, etc.	¥ 776	¥ 778	¥ 2	$ 7,543	$ 7,562	$19
Securities whose fair value does not exceed carrying amount:						
National and local government bonds, etc.	523	522	(1)	5,083	5,074	(9)
Total	¥1,299	¥1,300	¥ 1	$12,626	$12,636	$10

(b) Available-for-sale securities:

	Millions of yen			Thousands of U.S. dollars		
	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds acquisition cost:						
Equity securities	¥178,465	¥112,558	¥65,907	$1,734,691	$1,094,071	$640,620
Debt securities*	953	908	45	9,263	8,826	437
Other	686	652	34	6,668	6,337	331
Subtotal	180,104	114,118	65,986	1,750,622	1,109,234	641,388
Securities whose carrying amount does not exceed acquisition cost:						
Equity securities	30,921	38,068	(7,147)	300,554	370,023	(69,469)
Debt securities	—	—	—	—	—	—
Other	830	954	(124)	8,068	9,273	(1,205)
Subtotal	31,751	39,022	(7,271)	308,622	379,296	(70,674)
Total	¥211,855	¥153,140	¥58,715	$2,059,244	$1,488,530	$570,714

* Debt securities in securities whose carrying amount exceeds acquisition cost are included in "Guarantee and lease deposits paid to lessors" on the consolidated balance sheets.

B. Total sales of available-for-sale securities sold in the year ended March 31, 2014 amounted to ¥3,656 million ($35,537 thousand) and the related gains amounted to ¥1,430 million ($13,900 thousand).

C. The Company lent the equity securities temporarily to financial institutions under securities lending agreements. Lent securities, included in investments in securities and other, were ¥96,140 million ($934,487 thousand) as of March 31, 2014.

For 2013

A. The following tables summarize the acquisition costs, carrying amounts and fair values of securities with available fair values as of March 31, 2013:

(a) Held-to-maturity securities:

	Millions of yen		
	Carrying amount	Fair value	Difference
Securities whose fair value exceeds carrying amount:			
National and local government bonds, etc.	¥ 771	¥ 775	¥ 4
Securities whose fair value does not exceed carrying amount:			
National and local government bonds, etc.	523	522	(1)
Total	¥1,294	¥1,297	¥ 3

(b) Available-for-sale securities:

	Millions of yen		
	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds acquisition cost:			
Equity securities	¥124,162	¥ 81,426	¥42,736
Debt securities*	819	770	49
Other	435	433	2
Subtotal	125,416	82,629	42,787
Securities whose carrying amount does not exceed acquisition cost:			
Equity securities	49,716	61,271	(11,555)
Debt securities	700	700	—
Other	1,118	1,294	(176)
Subtotal	51,534	63,265	(11,731)
Total	¥176,950	¥145,894	¥31,056

* Debt securities in securities whose carrying amount exceeds acquisition cost are included in “Guarantee and lease deposits paid to lessors” on the consolidated balance sheets.

(Note) The Company recognized ¥2,087 million of impairment loss on investments in securities (¥1,861 million on equity securities in available-for-sale securities).

B. Total sales of available-for-sale securities sold in the year ended March 31, 2013 amounted to ¥6,121 million and the related gains and losses amounted to ¥1,769 million and ¥187 million, respectively.

C. The Company lent the equity securities temporarily to financial institutions under securities lending agreements. Lent securities, included in investments in securities and other, were ¥129,719 million as of March 31, 2013.

8. Short-term debt and long-term debt

Short-term debt at March 31, 2014 and 2013 consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	2014	Average interest rate (%)	2013	Average interest rate (%)	2014
Loans, principally from banks	¥113,000	0.45	¥137,500	0.52	$1,098,367
Commercial paper	31,996	0.09	59,977	0.11	311,003
Total	¥144,996		¥197,477		$1,409,370

The interest rates represent weighted average rates in effect at March 31, 2014 and 2013, regardless of borrowing currencies, though the range of the interest rate varies by borrowing currency.

Long-term debt at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
1.89% domestic straight bonds, due 2013	¥ —	¥ 10,000	$ —
1.70% domestic straight bonds, due 2013	—	20,000	—
1.68% domestic straight bonds, due 2013	—	20,000	—
1.63% domestic straight bonds, due 2013	—	20,000	—
2.50% domestic straight bonds, due 2019	10,000	10,000	97,201
1.81% domestic straight bonds, due 2014	20,000	20,000	194,400
1.87% domestic straight bonds, due 2014	10,000	10,000	97,201
1.48% domestic straight bonds, due 2014	10,000	10,000	97,201
1.28% domestic straight bonds, due 2015	10,000	10,000	97,201
1.17% domestic straight bonds, due 2015	30,000	30,000	291,602
0.96% domestic straight bonds, due 2015	30,000	30,000	291,602
0.94% domestic straight bonds, due 2015	10,000	10,000	97,201
0.80% domestic straight bonds, due 2015	20,000	20,000	194,400
0.74% domestic straight bonds, due 2016	10,000	10,000	97,201
0.68% domestic straight bonds, due 2016	10,000	10,000	97,201
0.75% domestic straight bonds, due 2017	10,000	10,000	97,201
0.55% domestic straight bonds, due 2017	10,000	10,000	97,201
0.50% domestic straight bonds, due 2017	10,000	10,000	97,201
0.50% domestic straight bonds, due 2017	10,000	10,000	97,201
0.486% domestic straight bonds, due 2017	10,000	10,000	97,201
0.444% domestic straight bonds, due 2017	10,000	10,000	97,201
0.388% domestic straight bonds, due 2018	20,000	20,000	194,400
0.329% domestic straight bonds, due 2018	10,000	10,000	97,201
0.563% domestic straight bonds, due 2020	10,000	10,000	97,201
0.877% domestic straight bonds, due 2020	20,000	—	194,400
0.462% domestic straight bonds, due 2018	10,000	—	97,201
1.098% domestic straight bonds, due 2023	10,000	—	97,201
0.426% domestic straight bonds, due 2018	20,000	—	194,400
0.355% domestic straight bonds, due 2018	10,000	—	97,201
0.950% domestic straight bonds, due 2023	10,000	—	97,201
0.344% domestic straight bonds, due 2018	10,000	—	97,201
0.968% domestic straight bonds, due 2023	10,000	—	97,201
0.987% domestic straight bonds, due 2024	20,000	—	194,400
0.914% domestic straight bonds, due 2024	20,000	—	194,400
Loans, principally from banks and insurance companies, with interest at weighted average rates of 0.62% in 2014, and 0.73% in 2013, respectively:			
Secured	—	—	—
Unsecured*	1,750,404	1,609,295	17,014,037
Subtotal	2,160,404	1,949,295	20,999,262
Amount due within one year	(280,085)	(278,392)	(2,722,444)
Total	¥1,880,319	¥1,670,903	$18,276,818

* Unsecured long-term debt as of March 31, 2014 and 2013 includes a subordinated loan of ¥60,000 million ($583,204 thousand) and ¥60,000 million, respectively.

Non-recourse debt at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Non-recourse bonds, with interest at weighted average rate of 0.93% in 2014, and 1.09% in 2013, respectively:			
Due within one year	¥ 8,348	¥ 8,848	$ 81,143
Due after one year	41,324	41,672	401,672
Subtotal	49,672	50,520	482,815
Non-recourse loans, with interest at weighted average rate of 0.82 % in 2014, and 0.95% in 2013, respectively:			
Due within one year	69,335	75,690	673,941
Due after one year	375,790	377,725	3,652,702
Subtotal	445,125	453,415	4,326,643
Total	¥494,797	¥503,935	$4,809,458
Secured	¥494,797	¥503,935	$4,809,458
Unsecured	—	—	—
Total	¥494,797	¥503,935	$4,809,458

The aggregate annual maturities of long-term debt at March 31, 2014 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2015	¥ 280,085	$ 2,722,444
2016	380,863	3,702,012
2017	316,737	3,078,703
2018	289,622	2,815,144
2019	275,752	2,680,327
2020 and thereafter	617,345	6,000,632
Total	¥2,160,404	$20,999,262

The aggregate annual maturities of non-recourse debt at March 31, 2014 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2015	¥ 77,683	$ 755,084
2016	68,689	667,661
2017	120,490	1,171,171
2018	19,260	187,208
2019	45,535	442,603
2020 and thereafter	163,140	1,585,731
Total	¥494,797	$4,809,458

It is customary in Japan that security must be given if requested by lending banks under certain circumstances, and generally banks have the right to offset cash deposited with them against any debt or obligations payable to the bank that becomes due in the case of default and certain other specified events. The Company and its consolidated subsidiaries have never received such a request.

9. Employees' severance and retirement benefits

As explained in Note 2 (12), the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations except for the cases using the simplified method.

For 2014

1. Defined benefit plan

(1) Adjustment table of retirement benefit obligations between the beginning and the end of the fiscal year

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligations at beginning of year	¥8,861	$86,129
Service costs	651	6,328
Interest costs	129	1,254
Actuarial differences	(9)	(87)
Retirement benefits paid	(535)	(5,200)
Retirement benefit obligations at end of year	¥9,097	$88,424

(2) Adjustment table of plan assets between the beginning and the end of the fiscal year

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Plan assets at beginning of year	¥3,471	$33,738
Expected return on plan assets	69	671
Actuarial differences	262	2,547
Employer contributions	407	3,956
Retirement benefits paid	(204)	(1,983)
Plan assets at end of year	¥4,005	$38,929

(3) Adjustment table of retirement benefit obligations and plan assets at the end of the fiscal year and net defined benefit liability on the consolidated balance sheet

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Obligations under retirement benefit plans (funded)	¥ 5,089	$ 49,466
Fair value of plan assets	(4,005)	(38,929)
	1,084	10,537
Obligations under retirement benefit plans (unfunded)	4,008	38,958
Net amount of liabilities on the consolidated balance sheet	¥ 5,092	$ 49,495
Net defined benefit liability	¥ 5,092	$ 49,495
Net amount of liabilities on the consolidated balance sheet	¥ 5,092	$ 49,495

(4) The components of retirement benefit expenses

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service costs	¥ 651	$ 6,328
Interest costs	129	1,254
Expected return on plan assets	(69)	(671)
Actuarial differences	(129)	(1,254)
Other	1	10
Retirement benefit expenses	¥ 583	$ 5,667

(5) The components of remeasurements of defined benefit plans (before deducting tax effect)

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized actuarial differences	¥(271)	$(2,634)
Total	¥(271)	$(2,634)

(6) Major breakdown of plan assets

	2014
Debt securities	17.8%
Equity securities	39.0
General life insurance accounts	41.1
Other	2.1
Total	100.0%

(7) Actuarial assumptions

	2014
Discount rate	1.5%
Rate of expected return on plan assets	2.0

2. Defined contribution plan

The required contribution amount for a defined contribution plan that one of the Company's consolidated subsidiaries adopted is ¥337 million ($3,276 thousand).

For 2013 and 2012

The allowance for severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2013 consisted of the following:

	Millions of yen
	2013
Retirement benefit obligations	¥ 8,861
Fair value of plan assets	(3,471)
Unrecognized actuarial differences	128
Allowance for employees' severance and retirement benefits	¥ 5,518

Included in the consolidated statements of income for the years ended March 31, 2013 and 2012 are severance and retirement benefit expenses comprised of the following:

	Millions of yen	
	2013	2012
Service costs – benefits earned during year	¥ 557	¥ 492
Interest cost on retirement benefit obligations	130	152
Expected return on plan assets	(60)	(58)
Amortization of actuarial differences	392	228
Other	318	311
Severance and retirement benefit expenses	¥1,337	¥1,125

Other of ¥318 million for the year ended March 31, 2013 and ¥311 million for the year ended March 31, 2012 is the amount paid for a defined contribution plan that one of the Company's consolidated subsidiaries adopted.

The discount rate and the rate of expected return on plan assets for the years ended March 31, 2013 and 2012 are as follows:

	2013	2012
Discount rate	1.0, 2.0%	1.0, 2.0%
Rate of expected return on plan assets	2.0	2.0

10. Loss on impairment of fixed assets

The Company and its consolidated domestic subsidiaries recognized impairment losses on the following assets for the years ended March 31, 2014, 2013 and 2012, respectively.

For 2014

Use	Location	Number of properties
Land for development	Tokyo, etc.	4
Assets leased to others	Tokyo	2

For 2013

Use	Location	Number of properties
Land for development	Tokyo	1

For 2012

Use	Location	Number of properties
Land for development	Setagaya-ku, Tokyo, etc.	3

The Company and its consolidated domestic subsidiaries recognized losses on the impairment of certain properties, which are generally assessed individually for impairment. The Company's houses are treated as common assets.

As a result of transferring inventories from property and equipment, the carrying values of the land holdings summarized above have been reduced to their recoverable amounts by ¥15,068 million ($146,462 thousand), ¥16,967 million and ¥5,618 million for the years ended March 31, 2014, 2013 and 2012, respectively. These write-downs were recognized as impairment losses in other expenses.

Details of loss on impairment of fixed assets are as follows:

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	2014
Land	¥15,068	¥16,967	¥5,618	$146,462

The recoverable amounts of these assets were determined as the net disposal value. The net disposal value for land for leased buildings and lands for development are based on the income approach, and that for the others is based mainly on the sales comparison approach.

11. Asset retirement obligations

Even though removing asbestos is required for some buildings the Company and its consolidated subsidiaries ("the Group") operate at the time of demolishing, it is difficult to estimate the fair value of obligations associated with such assets reasonably since the timing and/or method of settlement for the retirement obligations are not clear enough. Therefore, for the years ended March 31, 2014 and 2013, asset retirement obligations related to such a case are not recorded (except for the asset retirement obligations recorded on the financial statements).

In addition, under the partial lease contracts, the Group has obligations for restoring office spaces when they move out. For the asset retirement obligations associated with such a case, the duration of use of the assets is not clear enough and these assets do not have any relocation plans. Therefore, the Group is unable to estimate the asset retirement obligations since it is difficult to estimate the timing of fulfillment of the obligations. Consequently, for the years ended March 31, 2014 and 2013, asset retirement obligations related to such a case are not recorded (except for the asset retirement obligations recorded on the financial statements).

12. Income taxes

The normal effective statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants' taxes was approximately 38.01% for the years ended March 31, 2014 and 2013, and 40.69% for the year ended March 31, 2012.

Details of deferred tax assets and liabilities at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Depreciation and amortization of consolidated adjustment	¥ 11,963	¥ 12,129	$ 116,281
Loss on impairment of fixed assets	8,830	6,156	85,828
Loss on devaluation of real estate for sale	2,913	2,394	28,315
Net operating loss carryforwards	2,485	3,383	24,154
Accrued enterprise tax and business office tax	2,196	2,197	21,345
Net defined benefit liability	1,977	—	19,217
Allowance for employees' severance and retirement benefits	—	1,972	—
Allowance for doubtful accounts	1,762	1,503	17,127
Loss on devaluation of investments in SPEs' holding properties for sale	1,645	1,645	15,990
Accrued bonuses	1,496	1,414	14,541
Elimination of unrealized profit	1,017	1,054	9,885
Loss on devaluation of investments in securities	951	1,031	9,244
Net deferred losses on hedges	925	809	8,991
Other	5,931	6,651	57,649
Subtotal of deferred tax assets	44,091	42,338	428,567
Valuation allowance	(4,497)	(5,526)	(43,711)
Total deferred tax assets	¥ 39,594	¥ 36,812	$ 384,856
Deferred tax liabilities:			
Net unrealized holding gains on securities	(20,936)	(11,079)	(203,499)
Retained earnings appropriated for tax allowable reserves	(4,343)	(4,343)	(42,214)
Other	(850)	(655)	(8,262)
Total deferred tax liabilities	(26,129)	(16,077)	(253,975)
Net deferred tax assets	¥ 13,465	¥ 20,735	$ 130,881

"Act for Partial Revision of the Income Tax Act etc. for the purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" and "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction Following the Great Japan Earthquake" were enacted into law on December 2, 2011 and became effective from April 1, 2012. The Company and its consolidated subsidiaries were subject to the new corporate tax rate based on these laws. As a result, net deferred tax assets decreased by ¥3,354 million and deferred income taxes increased by ¥3,161 million for the year ended March 31, 2012.

Following the promulgation of "Act for Partial Revision of the Income Tax Act, etc." on March 31, 2014, the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 38.01% to 35.64% for temporary differences expected to be eliminated in the fiscal year beginning on April 1, 2014. As a result, net deferred tax assets decreased by ¥543 million ($5,278 thousand) and deferred income taxes increased by ¥543 million ($5,278 thousand) for the year ended March 31, 2014.

The differences between the statutory tax rate and the effective tax rate for the year ended March 31, 2014 were insignificant and not presented.

The differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2013 and 2012 are as follows:

	2013	2012
Statutory tax rate	38.01%	40.69%
Adjustment:		
Dividends and other income not taxable permanently	(3.35)	(1.33)
Inhabitant tax on per capita basis	0.30	0.28
Elimination of dividend income	0.95	0.84
Adjustment of deferred income taxes	—	3.25
Other	(0.60)	(0.67)
Effective tax rate	35.31%	43.06%

13. Deposits received and accounts payable with interest rate

Guarantee and deposits received at March 31, 2014 and 2013 are as follows:

	Millions of yen				Thousands of U.S. dollars
	2014	Average interest rate (%)	**2013**	Average interest rate (%)	**2014**
Short-term deposits and long-term deposits due within one year:					
Non-interest-bearing	¥136,690	—	¥167,865	—	$1,328,635
Interest-bearing	10,000	0.26	39,000	0.27	97,201
	146,690		206,865		1,425,836
Guarantee and lease deposits from tenants:					
Non-interest-bearing	161,487	—	160,470	—	1,569,664
Interest-bearing	—	—	—	—	—
Long-term deposits:					
Non-interest-bearing	97,651	—	177,941	—	949,174
Interest-bearing	66,000	0.31	66,000	0.34	641,524
	325,138		404,411		3,160,362
Total	¥471,828		¥611,276		$4,586,198

Accounts payable with interest rate at March 31, 2014 and 2013 are as follows:

	Millions of yen				Thousands of U.S. dollars
	2014	Average interest rate (%)	**2013**	Average interest rate (%)	**2014**
Due within one year	¥ 3,277	1.28	¥ 3,277	1.53	$ 31,853
Due after one year	13,974	1.30	17,251	1.53	135,828
Total	¥17,251		¥20,528		$167,681

(Note) Accounts payable due within one year is included in “Other current liabilities” and accounts payable due after one year is included in “Other long-term liabilities” on the consolidated balance sheets.

The aggregate annual maturities of deposits received at March 31, 2014 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2015	¥10,000	$ 97,201
2016	—	—
2017	40,000	388,802
2018	—	—
2019	—	—
2020 and thereafter	26,000	252,722
Total	¥76,000	$738,725

The aggregate annual maturities of accounts payable at March 31, 2014 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2015	¥ 3,277	$ 31,853
2016	3,277	31,853
2017	3,277	31,853
2018	3,277	31,853
2019	3,277	31,853
2020 and thereafter	866	8,416
Total	¥17,251	$167,681

14. Net assets

Under the Japanese Corporate Law ("the Law") and its regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings on the accompanying consolidated balance sheets.

Under the Law, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit and capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law and its regulations.

15. Information for certain lease transactions

Future lease payments and receipts under such non-cancelable operating leases at March 31, 2014, 2013 and 2012 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	2014
Operating leases				
Future lease payments:				
Due within one year	¥ 942	¥ 2,036	¥ 2,056	$ 9,156
Due after one year	17,736	14,129	15,448	172,395
Total	¥ 18,678	¥ 16,165	¥ 17,504	$ 181,551
Future lease receipts:				
Due within one year	¥ 52,024	¥ 59,375	¥ 57,989	$ 505,677
Due after one year	91,614	76,303	94,602	890,493
Total	¥143,638	¥135,678	¥152,591	$1,396,170

16. Derivative transactions

Hedge accounting was applied for all derivative transactions for the years ended March 31, 2014 and 2013.

The summary of these transactions is as follows:

For 2014

(1) Foreign currency-related derivatives

			Millions of yen		
Hedging accounting	Types of derivative transactions	Hedged items	Contract amounts	Contract amounts due after one year	Fair value
Deferred hedge accounting	Foreign exchange forward contracts Receipts in U.S. dollars / Payments in yen	Foreign currency-denominated transactions	¥11,757	¥—	¥67

			Thousands of U.S. dollars		
Hedging accounting	Types of derivative transactions	Hedged items	Contract amounts	Contract amounts due after one year	Fair value
Deferred hedge accounting	Foreign exchange forward contracts Receipts in U.S. dollars / Payments in yen	Foreign currency-denominated transactions	$114,279	$ —	$651

(Note) Fair value is determined based on the quoted price obtained from relevant financial institutions.

(2) Interest-related derivatives

Hedging accounting	Types of derivative transactions	Hedged items	Millions of yen		
			Contract amounts	Contract amounts due after one year	Fair value
Deferred hedge accounting	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans	¥472,000	¥472,000	¥(2,597)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	987,222	844,131	—
Exceptional accounting for interest rate and currency swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts Receipts in U.S. dollars / Payments in yen	Foreign currency-denominated loans	4,000	4,000	—

Hedging accounting	Types of derivative transactions	Hedged items	Thousands of U.S. dollars		
			Contract amounts	Contract amounts due after one year	Fair value
Deferred hedge accounting	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans	$4,587,869	$4,587,869	$(25,243)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	9,595,859	8,205,006	—
Exceptional accounting for interest rate and currency swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts Receipts in U.S. dollars / Payments in yen	Foreign currency-denominated loans	38,880	38,880	—

(Note) Fair value is determined based on the quoted price obtained from relevant financial institutions.

(*) Interest rate swap contracts and cross currency interest rate swap contracts which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expenses or income of the long-term debt or the long-term non-recourse debt as hedged items. Thus, the fair value of such interest rate swap contracts is included in the fair value of the long-term debt.

For 2013

(1) Foreign currency-related derivatives

Hedging accounting	Types of derivative transactions	Hedged items	Millions of yen		
			Contract amounts	Contract amounts due after one year	Fair value
Deferred hedge accounting	Foreign exchange forward contracts Receipts in U.S. dollars / Payments in yen	Foreign currency-denominated transactions	¥ 286	¥—	¥ 5
	Cross currency swap contracts Receipts in U.S. dollars / Payments in yen		9,184	—	134
Total			¥9,470	¥—	¥139

(Note) Fair value is determined based on the quoted price obtained from relevant financial institutions.

(2) Interest-related derivatives

Hedging accounting	Types of derivative transactions	Hedged items	Millions of yen		
			Contract amounts	Contract amounts due after one year	Fair value
Deferred hedge accounting	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans	¥432,000	¥422,000	¥(2,266)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	847,706	676,822	—(*)
Exceptional accounting for interest rate and currency swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts Receipts in U.S. dollars / Payments in yen	Foreign currency-denominated loans	4,000	4,000	—(*)

(Note) Fair value is determined based on the quoted price obtained from relevant financial institutions.

(*) Interest rate swap contracts and cross currency interest rate swap contracts which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expenses or income of the long-term debt or the long-term non-recourse debt as hedged items. Thus, the fair value of such interest rate swap contracts is included in the fair value of the long-term debt.

17. Segment information

The Company and its consolidated subsidiaries mainly operate their business in five segments: (1) Leasing business consists of leasing of office buildings, residences and other properties, and management of these properties; (2) Sales business consists of sale of condominiums, detached houses and land lots; (3) Construction business consists of construction of housing, condominiums and buildings; (4) Brokerage business; and (5) Other business including fitness business and restaurant business.

Information by business segment for the years ended March 31, 2014, 2013 and 2012 is summarized as follows:

	Millions of yen							
	Reportable segments							
For 2014	Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Adjustments	Consolidated financial statements amounts
Revenue from operations:								
Customers	¥ 280,105	¥233,869	¥198,324	¥56,591	¥11,384	¥ 780,273	¥ —	¥ 780,273
Intersegment	3,625	224	2,866	620	4,706	12,041	(12,041)	—
Total	283,730	234,093	201,190	57,211	16,090	792,314	(12,041)	780,273
Segment profit	¥ 97,952	¥ 39,209	¥ 18,709	¥17,962	¥ 1,910	¥ 175,742	¥ (15,271)	¥ 160,471
Segment assets	¥3,010,807	¥749,259	¥ 17,924	¥13,813	¥17,567	¥3,809,370	¥411,059	¥4,220,429
Other:								
Depreciation and amortization	¥ 32,975	¥ 230	¥ 744	¥ 185	¥ 143	¥ 34,277	¥ 1,034	¥ 35,311
Loss on impairment of fixed assets	26	15,042	—	—	—	15,068	—	15,068
Increase in property and equipment, and intangible assets	173,648	2,474	1,891	286	294	178,593	327	178,920

	Millions of yen							
	Reportable segments							
For 2013	Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Adjustments	Consolidated financial statements amounts
Revenue from operations:								
Customers	¥ 275,379	¥231,928	¥168,608	¥50,397	¥10,340	¥ 736,652	¥ —	¥ 736,652
Intersegment	2,938	221	2,474	560	5,451	11,644	(11,644)	—
Total	278,317	232,149	171,082	50,957	15,791	748,296	(11,644)	736,652
Segment profit	¥ 94,187	¥ 38,924	¥ 15,758	¥14,494	¥ 1,667	¥ 165,030	¥ (13,685)	¥ 151,345
Segment assets	¥2,884,179	¥732,713	¥ 15,358	¥12,490	¥24,874	¥3,669,614	¥435,886	¥4,105,500
Other:								
Depreciation and amortization	¥ 35,558	¥ 275	¥ 552	¥ 195	¥ 123	¥ 36,703	¥ 1,058	¥ 37,761
Loss on impairment of fixed assets	—	16,967	—	—	—	16,967	—	16,967
Increase in property and equipment, and intangible assets	55,346	3,394	1,367	134	251	60,492	159	60,651

	Millions of yen							
	Reportable segments							
For 2012	Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Adjustments	Consolidated financial statements amounts
Revenue from operations:								
Customers	¥ 269,225	¥198,070	¥163,246	¥48,882	¥ 9,239	¥ 688,662	¥ —	¥ 688,662
Intersegment	2,587	84	2,749	515	4,932	10,867	(10,867)	—
Total	271,812	198,154	165,995	49,397	14,171	699,529	(10,867)	688,662
Segment profit	¥ 89,636	¥ 37,892	¥ 16,476	¥14,540	¥ 1,757	¥ 160,301	¥ (12,836)	¥ 147,465
Segment assets	¥2,840,515	¥678,886	¥ 13,824	¥12,809	¥39,236	¥3,585,270	¥274,428	¥3,859,698
Other:								
Depreciation and amortization	¥ 33,990	¥ 227	¥ 448	¥ 215	¥ 104	¥ 34,984	¥ 1,065	¥ 36,049
Loss on impairment of fixed assets	—	5,618	—	—	—	5,618	—	5,618
Increase in property and equipment, and intangible assets	113,185	1,499	641	125	215	115,665	299	115,964

For 2014	Thousands of U.S. dollars							
	Reportable segments							
	Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Adjustments	Consolidated financial statements amounts
Revenue from operations:								
Customers	$ 2,722,638	$2,273,221	$1,927,722	$550,068	$110,653	$ 7,584,302	$ —	$ 7,584,302
Intersegment	35,235	2,178	27,857	6,026	45,743	117,039	(117,039)	—
Total	2,757,873	2,275,399	1,955,579	556,094	156,396	7,701,341	(117,039)	7,584,302
Segment profit	$ 952,100	$ 381,114	$ 181,853	$174,592	$ 18,564	$ 1,708,223	$ (148,435)	$ 1,559,788
Segment assets	$29,265,231	$7,282,844	$ 174,222	$134,263	$170,753	$37,027,313	$3,995,519	$41,022,832
Other:								
Depreciation and amortization	$ 320,519	$ 2,236	$ 7,232	$ 1,798	$ 1,390	$ 333,175	$ 10,050	$ 343,225
Loss on impairment of fixed assets	253	146,209	—	—	—	146,462	—	146,462
Increase in property and equipment, and intangible assets	1,687,869	24,047	18,381	2,780	2,858	1,735,935	3,179	1,739,114

Intercompany eliminations between the Company and its consolidated subsidiaries and undistributed corporate expenses to each segment are included in adjustments of segment profit, and the Company classified expenses of the general administrative division in the Company and certain of its consolidated subsidiaries to corporate expenses for the years ended March 31, 2014, 2013 and 2012.

Intercompany eliminations between the Company and its consolidated subsidiaries and undistributed corporate assets to each segment are included in adjustments of segment assets, and the Company classified cash, time and notice deposits, investments in securities and assets of the general administrative division in the Company and certain of its consolidated subsidiaries to corporate assets for the years ended March 31, 2014, 2013 and 2012.

18. Comprehensive income

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous period and tax effects for each component of other comprehensive income (loss) for the years ended March 31, 2014, 2013 and 2012 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	2014
Unrealized holding gains on securities:				
Increase during the fiscal year	¥28,994	¥ 33,694	¥ 4,479	$281,823
Reclassification adjustments	(1,335)	329	3,814	(12,976)
Amounts before tax effect	27,659	34,023	8,293	268,847
Tax effects	(9,863)	(12,104)	(3,513)	(95,869)
Net unrealized holding gains on securities	17,796	21,919	4,780	172,978
Deferred gains (losses) on hedges:				
Decrease during the fiscal year	(1,283)	(2,501)	(293)	(12,471)
Reclassification adjustments	880	1,943	2,379	8,554
Amounts before tax effect	(403)	(558)	2,086	(3,917)
Tax effects	141	171	(874)	1,371
Net deferred gains (losses) on hedges	(262)	(387)	1,212	(2,546)
Foreign currency transaction adjustments:				
Increase (decrease) during the fiscal year	4,220	1,741	(1,067)	41,019
Total other comprehensive income	¥21,754	¥ 23,273	¥ 4,925	$211,451

19. Investment and rental properties

The Company and certain of its consolidated subsidiaries own some rental properties such as office buildings and residences in Tokyo and other areas. Certain domestic office buildings are not recognized as rental properties but as a portion used as investment and rental properties since the Company or certain of its consolidated subsidiaries use some of the floor space of these properties.

The carrying amounts of these properties on the consolidated balance sheets, their changes during the fiscal year and their fair values at March 31, 2014 and 2013 are as follows:

		Millions of yen		Thousands of U.S. dollars
		2014	2013	2014
Investment and rental properties	Balance at beginning of fiscal year	¥2,383,506	¥2,444,016	$23,167,827
	Changes during the fiscal year	121,237	(60,510)	1,178,431
	Balance at end of fiscal year	2,504,743	2,383,506	24,346,258
	Fair value at end of fiscal year	3,494,748	3,293,202	33,969,168
A portion used as investment and rental properties	Balance at beginning of fiscal year	¥ 292,981	¥ 221,738	$ 2,847,794
	Changes during the fiscal year	(3,385)	71,243	(32,903)
	Balance at end of fiscal year	289,596	292,981	2,814,891
	Fair value at end of fiscal year	432,235	384,834	4,201,351

(Notes)
* Carrying amounts on the consolidated balance sheets are the amounts determined by deducting accumulated depreciation from the acquisition costs.
* Fair values as of March 31, 2014 and 2013 are calculated by the Company primarily based on their fair values according to the "Real Estate Appraisal Standards."

Significant changes during the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Increase:			
Acquired real estate	¥186,432	¥ 56,302	$1,812,131
Transferred from real estate for sale in process	—	32,762	—
Decrease:			
Depreciation and amortization	¥ (31,420)	¥(33,996)	$ (305,404)
Transferred to real estate for sale in process	(9,522)	(22,328)	(92,554)
Loss on impairment of fixed assets	(14,570)	(16,967)	(141,621)

Income and expenses for investment and rental properties for the years ended March 31, 2014 and 2013 are as follows:

		Millions of yen		Thousands of U.S. dollars
		2014	2013	2014
Investment and rental properties	Income	¥167,364	¥165,264	$1,626,788
	Expenses	87,454	85,742	850,058
	Balance	79,910	79,522	776,730
	Other income (expenses)	(15,884)	(17,753)	(154,393)
A portion used as investment and rental properties	Income	¥ 24,136	¥ 24,227	$ 234,603
	Expenses	15,104	15,410	146,812
	Balance	9,032	8,817	87,791
	Other income (expenses)	(13)	(72)	(126)

(Notes)
* As a portion used as investment and rental properties includes a portion used by the Company or certain of its consolidated subsidiaries for providing services as well as management and administration, income for these are not recorded above. The expenses primarily consist of rent, depreciation, taxes and dues, and others.
* Other income (expenses) for investment and rental properties is mostly the loss on impairment of fixed assets and the one for a portion used as investment and rental properties is mostly the loss on disposal of property and equipment.

20. Contingent liabilities

The Company and its consolidated subsidiaries were contingently liable as guarantors of borrowings by customers and others in an amount aggregating to ¥2,734 million ($26,575 thousand) at March 31, 2014 and as guarantors of borrowings by customers in an amount aggregating to ¥351 million at March 31, 2013.

21. Subsequent events

On June 27, 2014, the shareholders of the Company approved payments of a year-end cash dividend of ¥10 ($0.10) per share or a total of ¥4,740 million ($46,073 thousand) to shareholders of record at March 31, 2014. Such appropriations are recognized in the period in which they are approved by the shareholders.

Independent Auditor's Report

To the Board of Directors of Sumitomo Realty & Development Co., Ltd.:

We have audited the accompanying consolidated financial statements of Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the years in the three-year period ended March 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for each of the years in the three-year period ended March 31, 2014, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

August 8, 2014
Tokyo, Japan

Corporate Data / Investor Information

As of March 31, 2014

Corporate Data

Head Office
Shinjuku NS Building,
4-1, Nishi-Shinjuku 2-chome
Shinjuku-ku, Tokyo 163-0820, Japan
Phone: +81-3-3346-2342
Facsimile: +81-3-3346-1918

Corporate Website
http://www.sumitomo-rd.co.jp/english/

Date of Establishment
December 1, 1949

Number of Employees
11,473 (Consolidated)

Major Consolidated Subsidiaries
Sumitomo Real Estate Sales Co., Ltd.
Sumitomo Fudosan Tatemono Service Co., Ltd.
Sumitomo Fudosan Syscon Co., Ltd.
Sumitomo Fudosan Esforta Co., Ltd.
Sumitomo Fudosan Villa Fontaine Co., Ltd.
Sumitomo Fudosan Finance Co., Ltd.
Sumitomo Fudosan Bellesalle Co., Ltd.

Investor Information

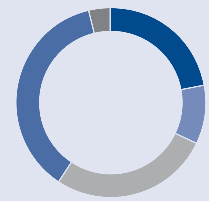
Paid-in Capital
¥122,805 million

Number of Common Stock
Authorized: 1,900,000,000 shares
Issued: 476,085,978 shares

Number of Shareholders
11,656

Stock Exchange Listings
Tokyo Stock Exchange

Breakdown of Shareholders

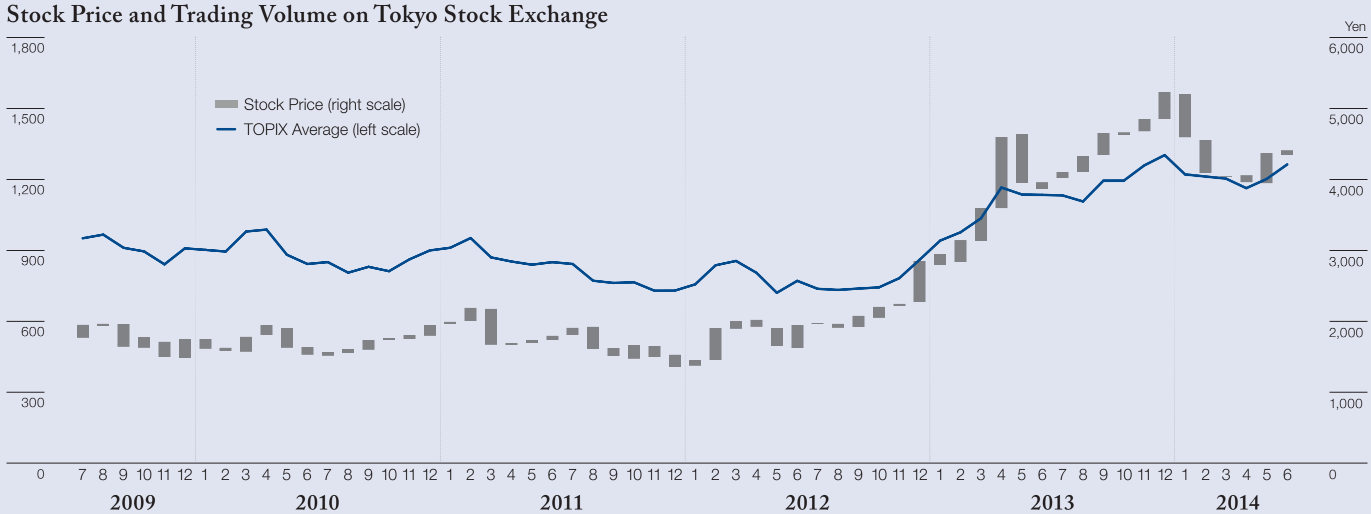


Trust Accounts	22.12%
Financial Institutions	9.94%
Other Companies	27.33%
Foreign Companies	36.90%
Individuals and Others	3.71%

Major Shareholders

Name	Number of shares held (Thousands)	Percentage of shares held
The Master Trust Bank of Japan, Ltd. (Trust account)	25,223	5.30%
Japan Trustee Services Bank, Ltd. (Trust account)	22,919	4.81%
Sumitomo Mitsui Banking Corporation	11,990	2.52%
Japan Trustee Services Bank, Ltd. (Trust account 4)	9,973	2.09%
The Bank of New York, Non-Treaty Jasdec Account	9,911	2.08%
Obayashi Corporation	7,527	1.58%
Shimizu Corporation	7,500	1.58%
Mitsui Sumitomo Insurance Co., Ltd.	6,740	1.42%
The Sumitomo Warehouse Co., Ltd.	6,130	1.29%
Daikin Industries, Ltd.	5,836	1.23%

Stock Price and Trading Volume on Tokyo Stock Exchange



History

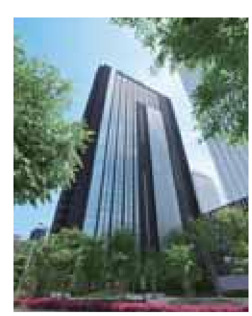
			Global Events
1949–1980	1949	– Izumi Real Estate Co., Ltd. established as the successor to the holding company of the Sumitomo *zaibatsu* following the breakup of the conglomerate.	1964 – Tokyo Olympic Games 1973 – First oil crisis 1978 – Second oil crisis
	1957	– Izumi Real Estate Co., Ltd. changed its name to Sumitomo Realty & Development Co., Ltd.	
	1963	– Merged with the holding company of the former Sumitomo *zaibatsu* during its liquidation.	
	1964	– Entered condominium sales business with Hama-Ashiya Mansion in Kobe, Hyogo Prefecture.	
	1970	– Listed on the Tokyo Stock Exchange and Osaka Securities Exchange.	
	1973	– Established Sumitomo Fudosan Tatemono Service Co., Ltd., a consolidated subsidiary.	
	1974	– Completed construction of 52-story Shinjuku Sumitomo Building in Shinjuku, Tokyo; moved Company headquarters there from Tokyo Sumitomo Building in Marunouchi, Tokyo.	
	1975	– Established Sumitomo Real Estate Sales Co., Ltd., a consolidated subsidiary.	
	1980	– Established Sumitomo Fudosan Syscon Co., Ltd., a consolidated subsidiary.	
1981–2000	1982	– Completed construction of 30-story Shinjuku NS Building in Shinjuku, Tokyo; moved Company headquarters there from Shinjuku Sumitomo Building.	1985 – The Plaza Accord 1987 – Black Monday 1989 – Collapse of Berlin Wall – Nikkei Stock Average all-time high 1999 – Introduction of euro
	1995	– Commenced American Comfort custom home construction business.	
	1996	– Commenced Shinchiku Sokkurisan remodeling business.	
	1997	– Entered high-quality business hotel market. Opened Villa Fontaine Nihonbashi and hotels at two other locations.	
	1998	– Sumitomo Real Estate Sales Co., Ltd., a consolidated subsidiary, listed on the Tokyo Stock Exchange.	
	1999	– Commenced real estate joint investment trust fund. Launched sales of Sumitomo Realty & Development Fund (SURF) series. – Implemented the Sumquest bond issue, which was the first public issue of real estate securities in Japan.	
	2000	– Commenced luxury condominium leasing business. Completed construction of La Tour Shibakoen.	
2001–2014	2001	– The number of managed STEP brokerage offices exceeded 200.	2001 – September 11th terrorist attacks 2008 – Lehman crisis 2011 – The Great East Japan Earthquake – European sovereign debt crisis – Record high yen against the U.S. dollar
	2002	– Completed construction of Izumi Garden Tower (Roppongi 1-Chome Redevelopment Project).	
	2003	– Commenced sales of J·URBAN fixed-price urban-style housing series.	
	2004	– Commenced sales of World City Towers (Minato Ward, Tokyo).	
	2006	– Established Sumitomo Fudosan Reform Co., Ltd., a consolidated subsidiary.	
	2008	– Established Sumitomo Fudosan Bellesalle Co., Ltd., a consolidated subsidiary. – Commenced sales of City Towers Toyosu (Koto Ward, Tokyo).	
	2010	– Completed construction of Shinjuku Central Park City (Shinjuku Ward, Tokyo).	
	2011	– Opened Grand Mansion Gallery. – Completed Sumitomo Fudosan Shinjuku Grand Tower (Shinjuku Ward, Tokyo).	
	2012	– Completed construction of Sumitomo Fudosan Shibuya Garden Tower (Shibuya Ward, Tokyo). – Launched a Custom-order Condominium service. – Commenced sales of J·RESIDENCE.	
	2013	– Commenced construction of Nihonbashi 2-Chome Project (Chuo Ward, Tokyo). – Cumulative units contracted topped 80,000 in Shinchiku Sokkurisan remodeling operations. – Commenced construction of Roppongi 3-Chome Project (Minato Ward, Tokyo).	


Shinjuku NS building (Head office)


World City Towers


City Towers Toyosu the Twin


Shinjuku Central Park City


Sumitomo Fudosan Shinjuku Grand Tower

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