Sumitomo Realty & Development Co., Ltd.

POTENTIAL FOR FUTURE GROWTH

Leveraging Our Strong Presence Under
Our New Medium-Term Management Plan

ANNUAL REPORT 2016

Beginnings of New Growth

Seventh Management Plan

—Office Building Development Projects

To make our core business of office building development and leasing in Tokyo even stronger and solidify our position as No. 1 owner of office buildings in Tokyo, Sumitomo Reality is striving to expand its business foundation by giving the highest priority to investment for redevelopment in central Tokyo.

Specifically, we will work to accelerate the pace of office building development during and after the Seventh Management Plan. We are moving forward with development projects that target total gross floor area of more than one million tsubo. This target includes the gross floor area of 220,000 tsubo to be brought to market under the Seventh Management Plan.

New Building Development Projects in the 7th Management Plan

Projects	Location (Tokyo CBD)	Gross floor area (tsubo*2)	Expected completion
Sumitomo Fudosan Shinbashi Building	Minato Ward	2,500	Jul. 2016
Sumitomo Fudosan Roppongi Grand Tower	Minato Ward	63,100	Oct. 2016*3
Azabujuban Project	Minato Ward	13,900	Dec. 2016
Total: 2017*1		79,500	
Shibaura 3-chome Project	Minato Ward	3,700	Jun. 2017
Osaki Project	Shinagawa Ward	54,400	Jan. 2018
Kojimachi 4-chome Project	Chiyoda Ward	3,800	Mar. 2018
Total: 2018*1		61,900	
Onarimon Project	Minato Ward	9,900	May 2018
Kojimachi 1-chome Project	Chiyoda Ward	3,600	Sep. 2018
Kanda Neribeicho Project	Chiyoda Ward	9,300	Oct. 2018
Ueno 5-chome Project	Taito Ward	3,500	Oct. 2018
Shibuya Udagawacho Project	Shibuya Ward	11,500	Feb. 2019
Sotokanda 1-chome Project	Chiyoda Ward	8,100	Feb. 2019
Nishi Shinjuku 6-chome Project	Shinjuku Ward	16,700	Mar. 2019
Total: 2019*1		62,600	
Others		16,800	
Total: 7th Management Plan		**220,800**	

*1. Fiscal year ending March 31
*2. 1 tsubo = 3.3 m^2
*3. Partial occupation commenced in April 2016

Osaki Project

LOCATION
Shinagawa Ward

GROSS FLOOR AREA
54,400 tsubo

EXPECTED COMPLETION
Jan. 2018

NO. OF FLOORS
24 above ground
2 below ground

Onarimon Project

LOCATION
Minato Ward

GROSS FLOOR AREA
9,900 tsubo

EXPECTED COMPLETION
May 2018

NO. OF FLOORS
22 above ground
2 below ground

Shibaura 3-chome Project

LOCATION
Minato Ward

GROSS FLOOR AREA
3,700 tsubo

EXPECTED COMPLETION
Jun. 2017

NO. OF FLOORS
12 above ground
1 below ground

Shibuya Udagawacho Project

LOCATION
Shibuya Ward

GROSS FLOOR AREA
11,500 tsubo

EXPECTED COMPLETION
Feb. 2019

NO. OF FLOORS
18 above ground
2 below ground

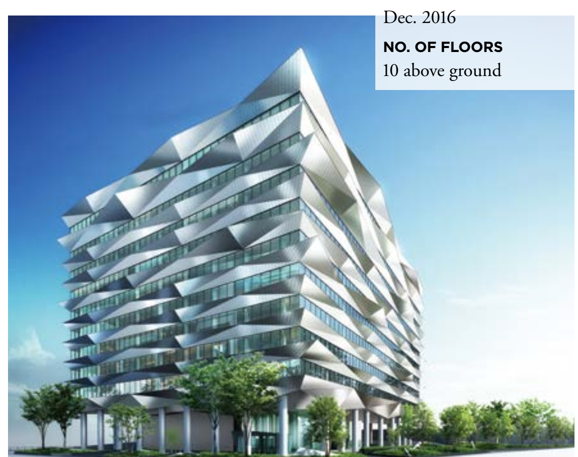
Azabujuban Project

LOCATION
Minato Ward

GROSS FLOOR AREA
13,900 tsubo

EXPECTED COMPLETION
Dec. 2016

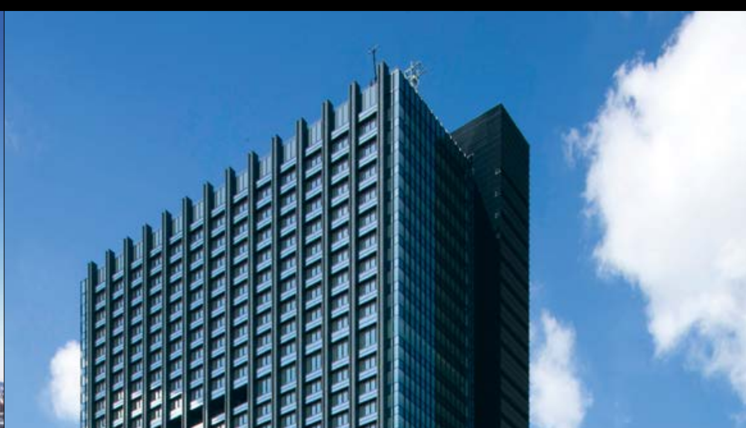
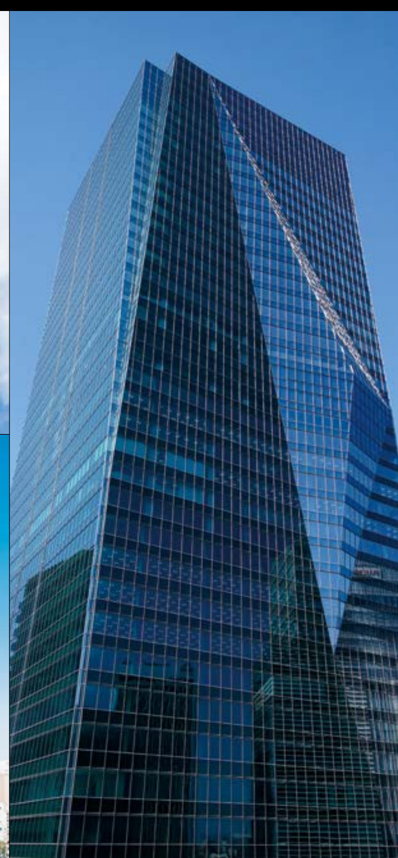
NO. OF FLOORS
10 above ground







POSSIBILITIES FOR THE FUTURE

No. 1 Owner of Office Buildings in Tokyo

We made our full-scale entry into the leasing business in the second half of the 1970s, somewhat later than other major domestic real estate companies. However, as a result of our steady pace of office building development since then, we currently manage more than 200 office buildings, making us the No. 1 developer in Tokyo. With our lineup of various types of buildings, mostly in the Tokyo CBD*, we are able to meet a broad range of diverse tenant needs.

➜ Please refer to page 16 for more details on our portfolio.

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

LEASING

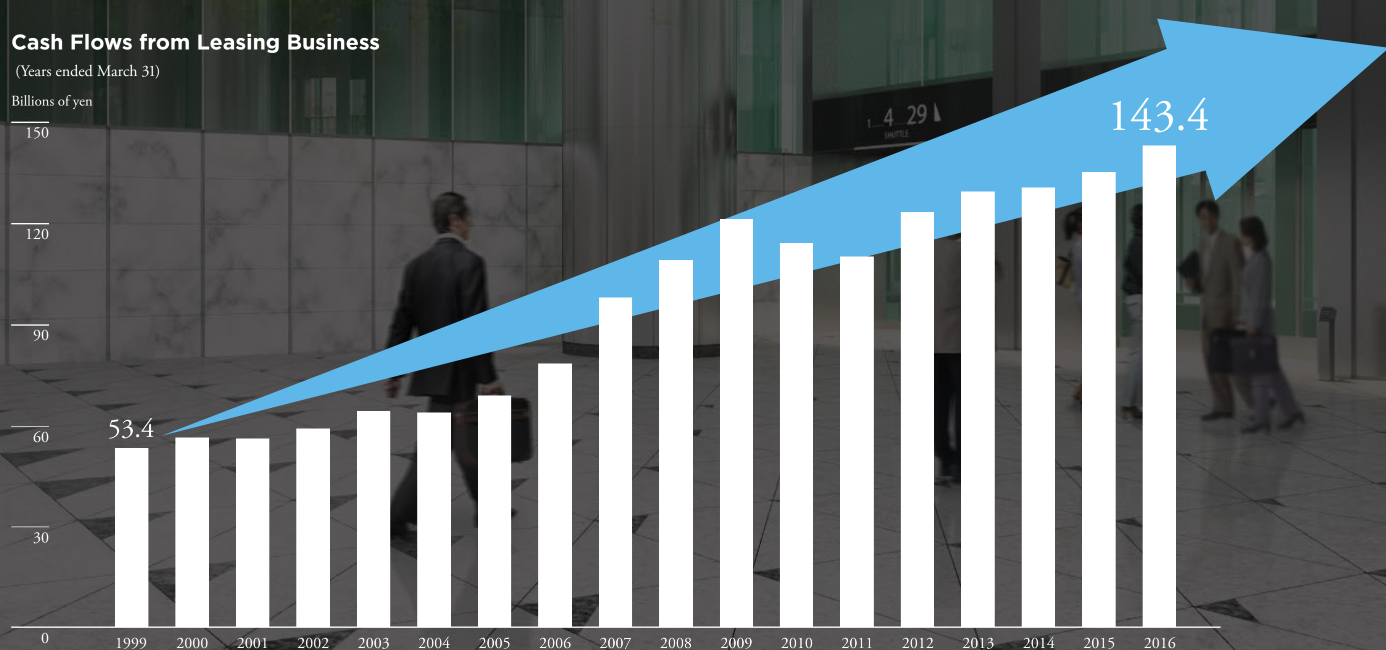
OVER 200

TOKYO'S NO. 1
OFFICE BUILDING OWNER

INDUSTRY'S
NO. 1
TRACK
RECORD

Cash Flows from Leasing Business

(Years ended March 31)



OUR FUNDAMENTAL

Our Redevelopment Projects in Central Tokyo

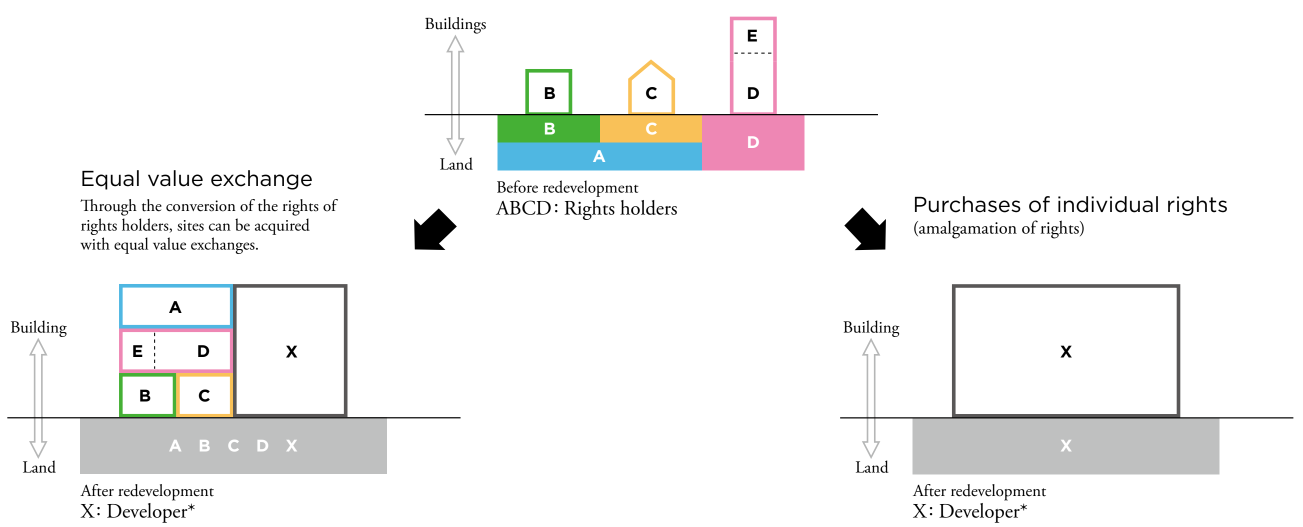
Approximately 60% of the office buildings we develop are redevelopment projects. We have the No. 1* track record in "redevelopment" among developers. Using the expertise we have cultivated to date, we will continue to grow by building a pipeline focused on redevelopment projects.

* In terms of number of buildings (Sumitomo Realty data)

Acquisition of Land for Redevelopment Is Our Building Development "DNA"

The acquisition of land for construction via "redevelopment" has been the driving force behind our successful office building development.

The Company places priority on redevelopment, rather than simply rebuilding; we focus in particular on putting together several parcels by reaching agreements with multiple landowners to redevelop the land on a larger scale.



* Acquirer of property other than that received by rights holders in equal value exchange (developer)

CHARACTERISTICS OF LEGAL REDEVELOPMENT PROJECTS

MERITS

Substantial benefits in terms of investment return and profitability

○ In comparison with methods where the land is first purchased, such as competitive tenders, projects are completed with small initial investments.

○ Developing blocks of land enhances the convenience of the area, and makes it possible to receive government subsidies and approvals for higher utilization (ratio of total floor space to land area).

DEMERITS

Substantial behind-the-scenes work is required

○ It is necessary to form a consensus among multiple property rights holders, and there are also consultations with administrative bodies, resulting in longer development times.
(The government is currently promoting shorter development periods through simplified approval procedures and other measures.)

STRENGTH

Shinjuku Central Park City

Sumitomo Fudosan Shinjuku Grand Tower

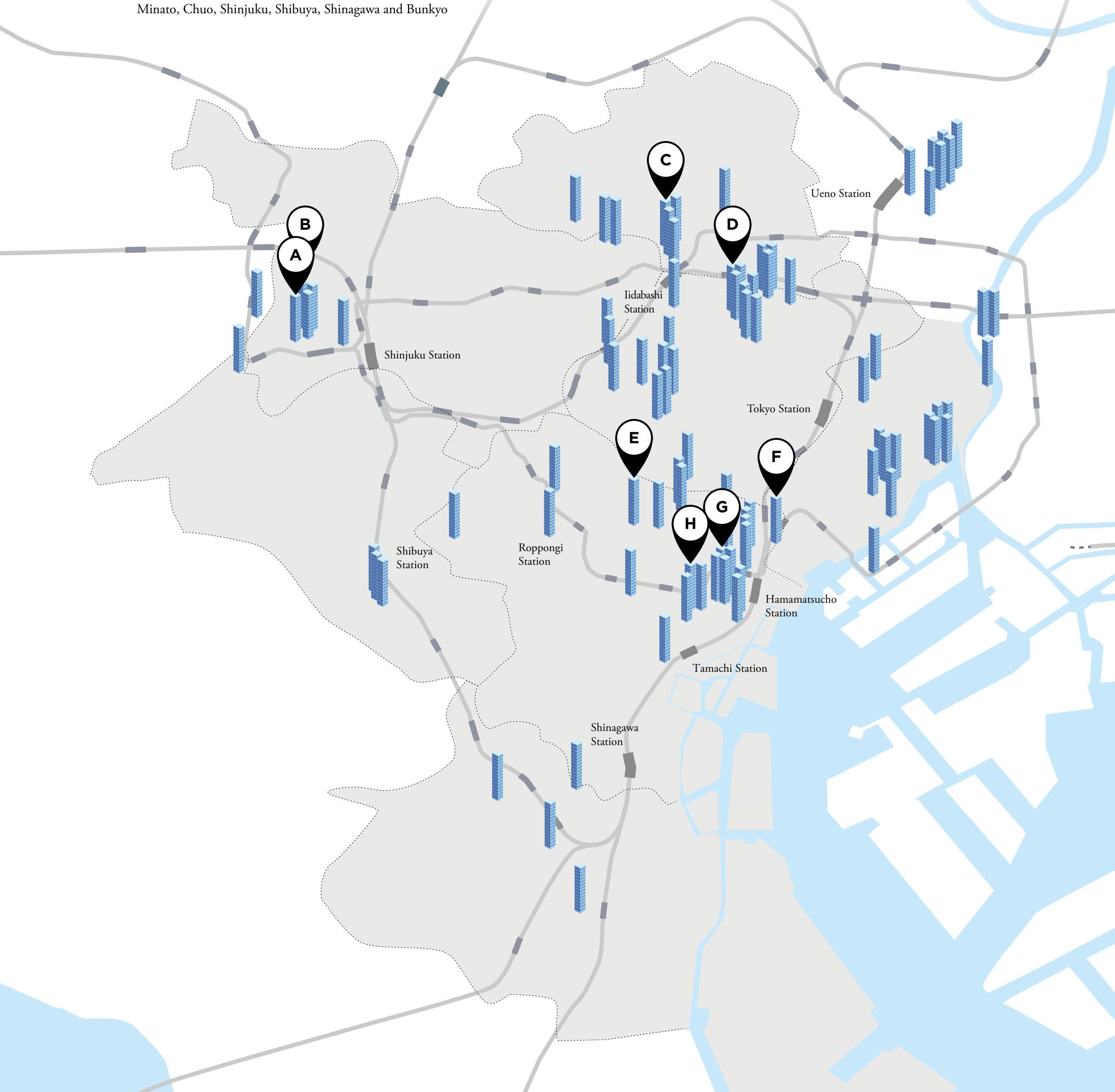
Sumitomo Fudosan Iidabashi First Tower

Chiyoda First Building West

Izumi Garden Tower

Tokyo CBD

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



Shiodome Sumitomo Building

Sumitomo Fudosan Shibakoen Tower

Sumitomo Fudosan Shibakoen First Building

OUR TRACK RECORD

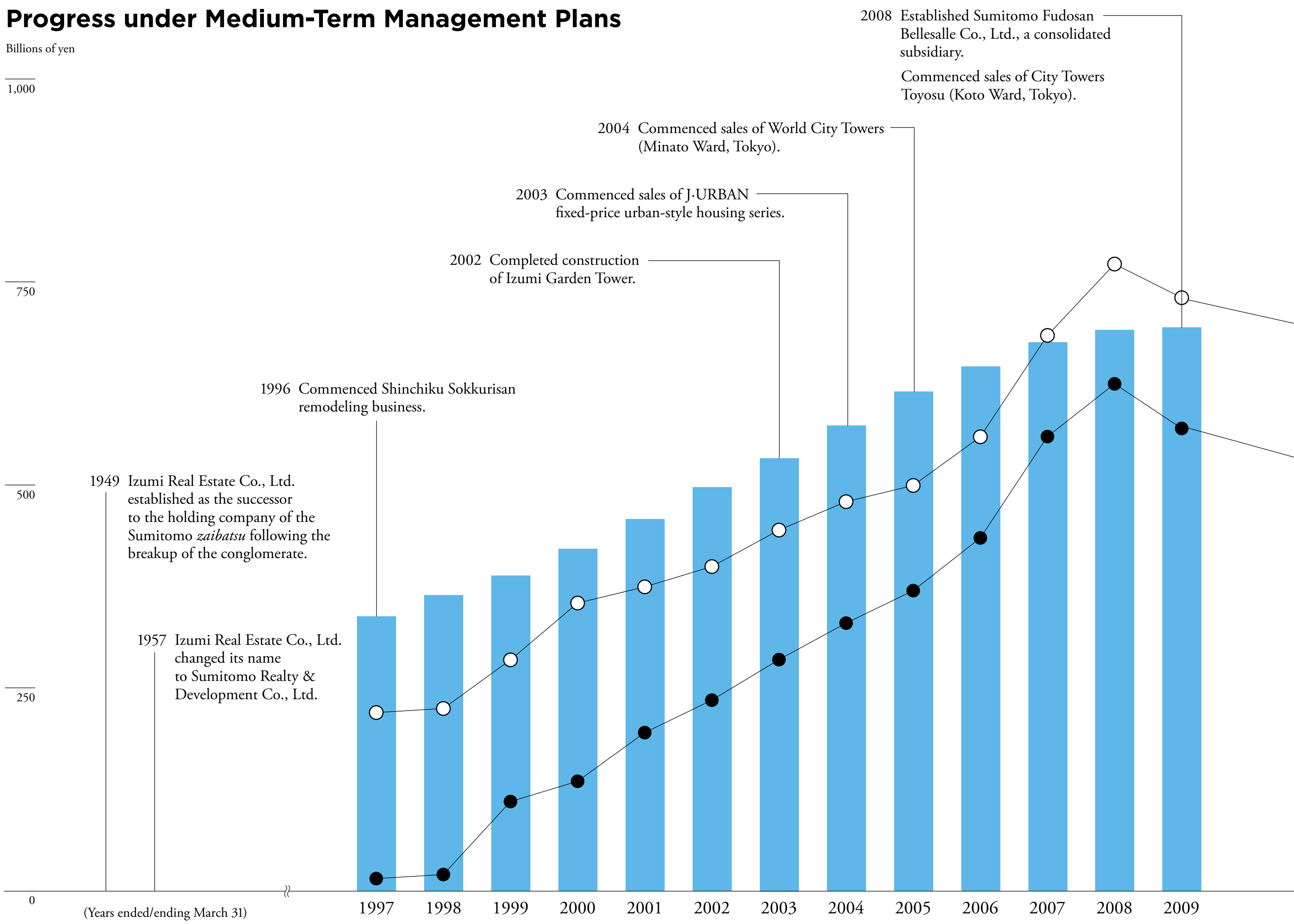
Sumitomo Realty Constantly Pursues Challenges to Ensure Continuous Growth

Since its establishment in 1949, Sumitomo Realty has continued to expand the scope of its operations to become one of Japan's leading comprehensive real estate companies and a core company of the Sumitomo Group, which has a history going back 400 years. Our operations are expanding beyond our core business of office building leasing to a range of areas including condominium sales, custom homes and remodeling, and real estate brokerage.

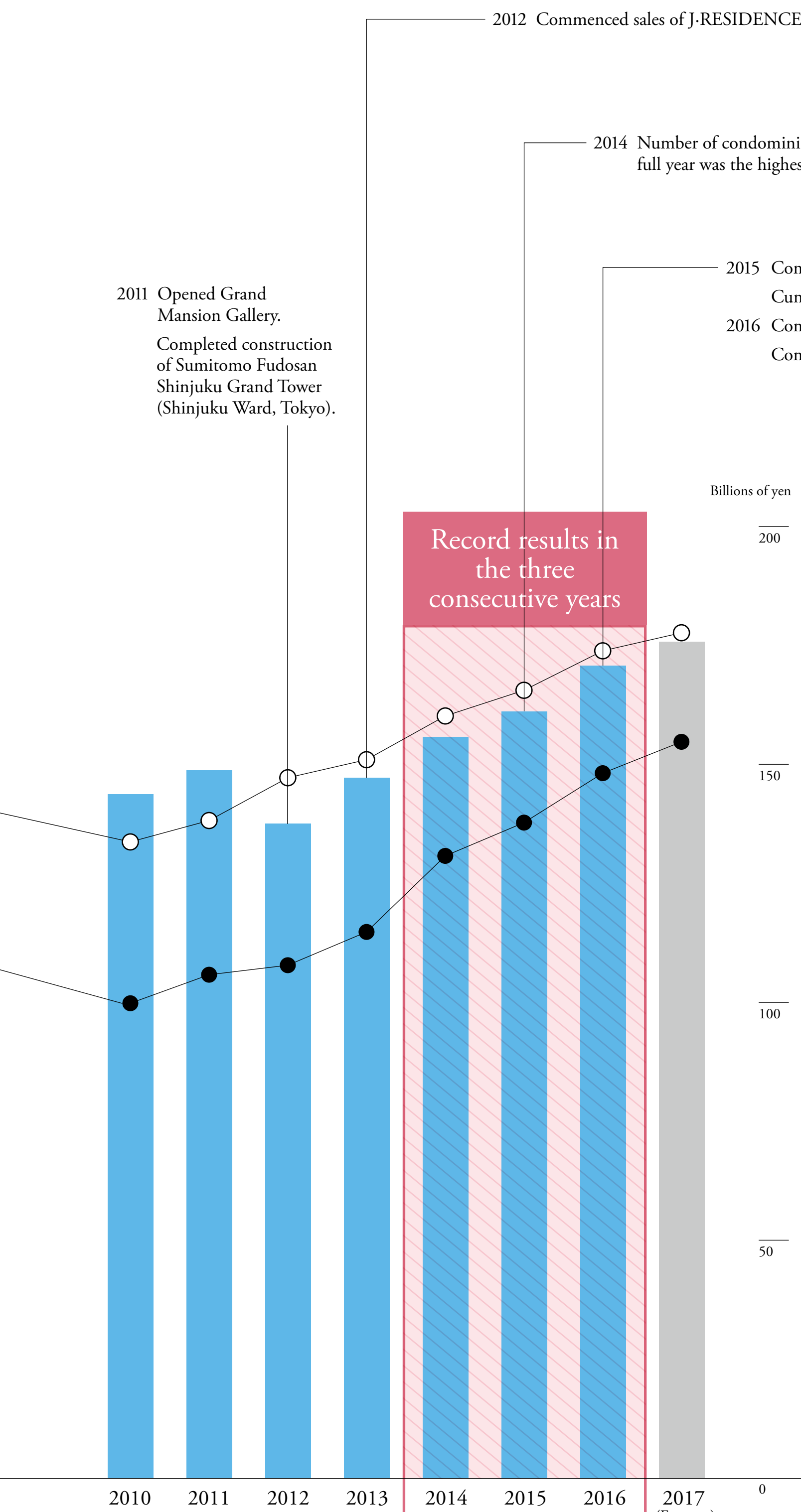
The First Medium-Term Management Plan was launched in 1998, and with the Sixth Management Plan having concluded, we began operating under the Seventh Management Plan from the March 2017 fiscal year. By placing top priority on the achievement of these plans, Sumitomo Realty has been able to grow to where we are today.

Going forward, we will continue to expand existing businesses while pursuing the challenges of new business development, to ensure even higher, continuous growth.

Progress under Medium-Term Management Plans



	1st Plan* 1998–2001	2nd Plan 2002–2004	3rd Plan 2005–2007	4th Plan 2008–2010
Revenue from operations	1,270	1,606	1,939	2,107
Operating income (right scale)	202	265	350	435
Ordinary profit (right scale)	87	170	274	339



	5th Plan 2011–2013	6th Plan 2014–2016	7th Plan 2017–2019 (Forecast)
	2,170	2,442	2,700
	437	501	550
	329	418	480

Note: The figures represent cumulative totals for the period covered by each plan.
* The 1st Plan began in 1998 and spanned four years. Figures shown represent cumulative totals for the final three years of the plan.

ROE

(%)

5.7 → 10.2

1999 2016

Ordinary Profit

(Billions of yen)

21.7 → 148.4

1999 2016

Cash Flows from Leasing Business

(Billions of yen)

53.4 → 143.4

1999 2016

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 addition to achieving the targets set under the Sixth Management Plan, which commenced in April 2013, we were able to achieve record results in the three consecutive years covered by the plan.

In the midst of an uncertain economic environment, the Seventh Management Plan was commenced in April 2016. We will strive to achieve the targets under the Seventh Management Plan and for continuous growth.

We greatly appreciate your continued support.

J. Takashima
Junji Takashima
Chairman of the Board

K. Nishima
Kojun Nishima
President

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.

To further establish our strong position as Tokyo's No. 1 office building owner, we will continue to focus on redevelopment projects in central Tokyo, and aim for sustainable growth.

K. Nishima

Kojun Nishima
President

Q1 Please recap Sumitomo Realty's results for the March 2016 fiscal year and under the Sixth Management Plan.

For the March 2016 fiscal year, we recorded ¥855.0 billion in revenue from operations, with operating income of ¥174.2 billion, ordinary profit of ¥148.4 billion, and profit attributable to owners of parent of ¥87.8 billion. This marked our fourth consecutive year of revenue growth, our sixth consecutive year of increases in operating income and ordinary profit, and our third consecutive year of record revenue from operations, operating income, ordinary profit, and profit attributable to owners of parent. By business segment, the Leasing segment achieved record profit, and along with Sales, Construction, and Brokerage, all four main segments recorded revenue and profit growth.

The March 2016 fiscal year was the final year of the Sixth Management Plan, whose initial target was to achieve a record-high single-year and a three-year cumulative revenue and profit. During the period covered by the plan, the Company experienced a favorable operating environment as the Japanese government's "Abenomics" policies boosted the economy with a weaker yen and higher stock prices. The Construction and Brokerage segments were adversely affected by an increase in the consumption tax rate, yet the main segments, Leasing and Sales, drove performance. As a result, we achieved record results for revenue and profits for three consecutive years and on a three-year cumulative basis.

Q 2 What is your basic policy regarding returns to shareholders?

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

In light of our business results for the March 2016 fiscal year, we paid a full-year dividend of ¥22 per share (including an interim dividend of ¥11 per share), which represented a ¥1 increase from the previous year. For the March 2017 fiscal year, we intend to increase the dividend by ¥1 per share and pay a full-year dividend of ¥23 per share (including an interim dividend of ¥11 per share).

In terms of our equity ratio, there remains much more possibility for growth relative to other companies in the industry. Accordingly, we intend to maintain a stable dividend payout while keeping a sufficient amount of retained earnings to strengthen our financial standing. In addition, there are plenty of development projects to invest in for future growth. Our aim is to meet the expectations of shareholders by undertaking investments to increase profit, which will eventually lead to higher corporate value.

Q 3 What are your basic policies under the Seventh Management Plan and your forecasts for the March 2017 fiscal year, the first year under the plan?

We do not expect the favorable operating environment that underpinned the Sixth Management Plan to continue for the next three years. This was taken into account when we formulated our projections, but for the period covered by the Seventh Management Plan, which began from April 2016, we aim to remain on a path to revenue and profit growth, mainly driven by growth in profit in the main Leasing segment, and to repeat record cumulative results for the three-year period.

In the main Leasing business, we expect to bring a total of 220,000 tsubo of gross floor area to market during the three years covered by the Seventh Management Plan. We are looking to finalize our plans for the allocation of land and commencement of construction.

We will also focus on accelerating the growth of peripheral businesses. As a part of this effort, we are upgrading the profile of four businesses—custom homes, rental condominiums, hotels, and multipurpose halls—to become full-fledged departments, and working to establish a fifth business pillar along with the existing four business pillars consisting of office building leasing, condominium sales, brokerage, and Shinchiku Sokkurisan remodeling.

For the March 2017 fiscal year—the first year under the Seventh Management Plan—we see the main Leasing segment continuing to drive results, and as such have forecast revenue and profit growth in all four main business segments. Nevertheless, uncertainty over the economic environment remains high, so we will stay focused and aim for a fourth consecutive year of achieving record results following the March 2016 fiscal year.

Q 4 What is the medium-term business policy for the Leasing segment, which is set to drive growth?

To further establish our strong position as Tokyo's No. 1 office building owner, operating more than 200 office buildings, we will continue to focus on redevelopment projects in central Tokyo, including those in National Strategic Special Zones such as Yaesu, Roppongi, and Mita. We will work to accelerate the pace of development, from the previous average annual pace of 50,000 tsubo of gross floor area during and after the Seventh Management Plan, thereby providing a new total gross floor area of more than one million tsubo. As far as such investment costs are concerned, they are generally within the scope of operating cash flows. In addition to the above projects, we will make sure to take advantage of opportunities for entirely new projects when they appear. Accordingly, we will definitely be able to strengthen our Leasing business and expect further, continuous growth.

Q 5 What is your policy going forward in terms of investment strategy and financial strategy?

We are very thorough in our selection of, yet very active in acquisition of, development sites. Not only have we been relying on making successful tender offers, which can become relatively expensive due to competition, we are also emphasizing the practice of aggregating small parcels of land for possible larger redevelopment projects, as we believe this multiplies the value of those properties. We have found our strength within this practice and have certainly developed competitive advantages in our Leasing business. (Please refer to Page 2 for further information regarding our redevelopment projects.)

During the March 2016 fiscal year, our interest-bearing debt grew by ¥131.9 billion, as we had many opportunities to acquire excellent development sites for office buildings and condominiums. In line with the favorable financial environment, long-term interest rates remain low as for now, with the rate applied to our long-term financing of more than 10-year tenors being less than 1%. We will continue to secure long-term and fixed-rate funding in order to maintain a robust financial position.

In the March 2016 fiscal year, we recorded profit attributable to owners of parent of ¥87.8 billion, which is a 9% increase from the previous year. With the accumulated profit and corresponding growth in shareholders' equity, our net debt-equity (ND/E) ratio improved to 3.3 times. In addition, because the conditions for early repayment of the ¥60.0 billion subordinated loan with a repayment option that we procured in February 2013 were met, we repaid the loan in a lump sum in February 2016. We will continue to make active investments with the aim of accumulating profits in order to increase shareholders' equity and to further improve our financial balance.

SEVENTH MANAGEMENT PLAN
(April 2016 to March 2019)

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

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

Three-year cumulative earnings targets

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

* Compared with Sixth Management Plan

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

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

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

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

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

Pace of development

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

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

We will upgrade custom homes, rental condominiums, hotels, and multipurpose halls operations to full-fledged departments, and work to develop these businesses to a level that will rival our four business pillars*.

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

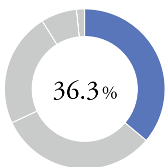
Management Plan	4th Plan	5th Plan	6th Plan	7th Plan
Revenue from operations	¥222.0 billion (+¥24.0 bn)	¥249.0 billion (+¥27.0 bn)	¥336.0 billion (+¥86.0 bn)	**¥430.0 billion (+¥94.0 bn)**
Percent of total	11%	11%	14%	**16%**

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

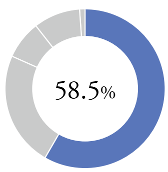
LEASING

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 strengths 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 1.

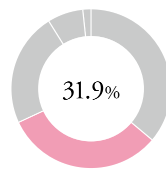
- Our "close, new and large" leasing portfolio gives us strong market competitiveness.

→ Please refer to page 16.

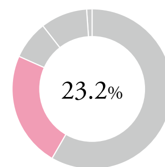
SALES

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

REVENUE FROM OPERATIONS



OPERATING INCOME



HISTORY

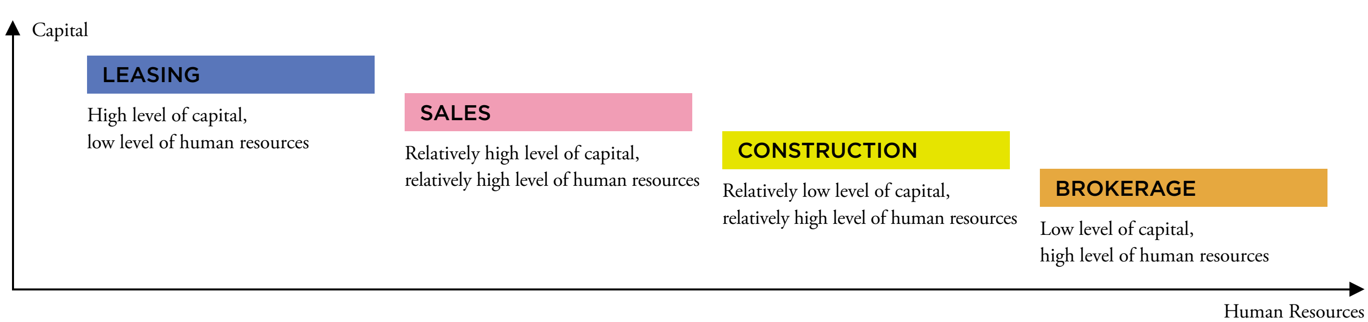
Having entered the condominium sales business in the first half of the 1960s, Sumitomo Realty is a pioneer in the domestic market for condominium development and sales. We have become a leading company for condominium sales in Japan by staying ahead of our competitors, strategically focusing on city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

UNIQUE FEATURES AND COMPETITIVE ADVANTAGES

- We have businesses in cities across Japan, and 80% 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 18.

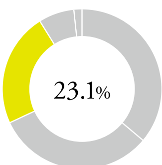
Balanced Portfolio



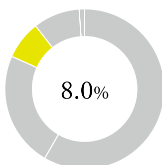
CONSTRUCTION

Custom home construction and remodeling and related activities

REVENUE FROM OPERATIONS



OPERATING INCOME



MAJOR CONSOLIDATED SUBSIDIARY

· 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 100,000 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 on Shinchiku Sokkurisan and Custom Homes.

Remodeling—Shinchiku Sokkurisan

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

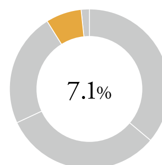
Custom Homes

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

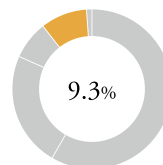
BROKERAGE

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 SUBSIDIARY

· 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 257 offices nationwide as of the end of March 2016.
- 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.

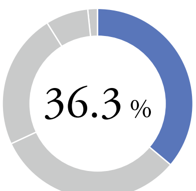
The leasing and sales businesses involve projection-based production that requires large upfront investment for land. Risk and returns are high, and the operational cycle is long at roughly 3 to 10 years, but human resource levels are relatively low. The construction and brokerage businesses are order-based 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 by also establishing new core businesses.

LEASING

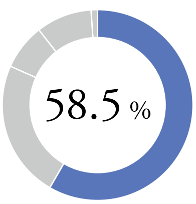
BASIC GROWTH STRATEGY

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

¥313.3 billion



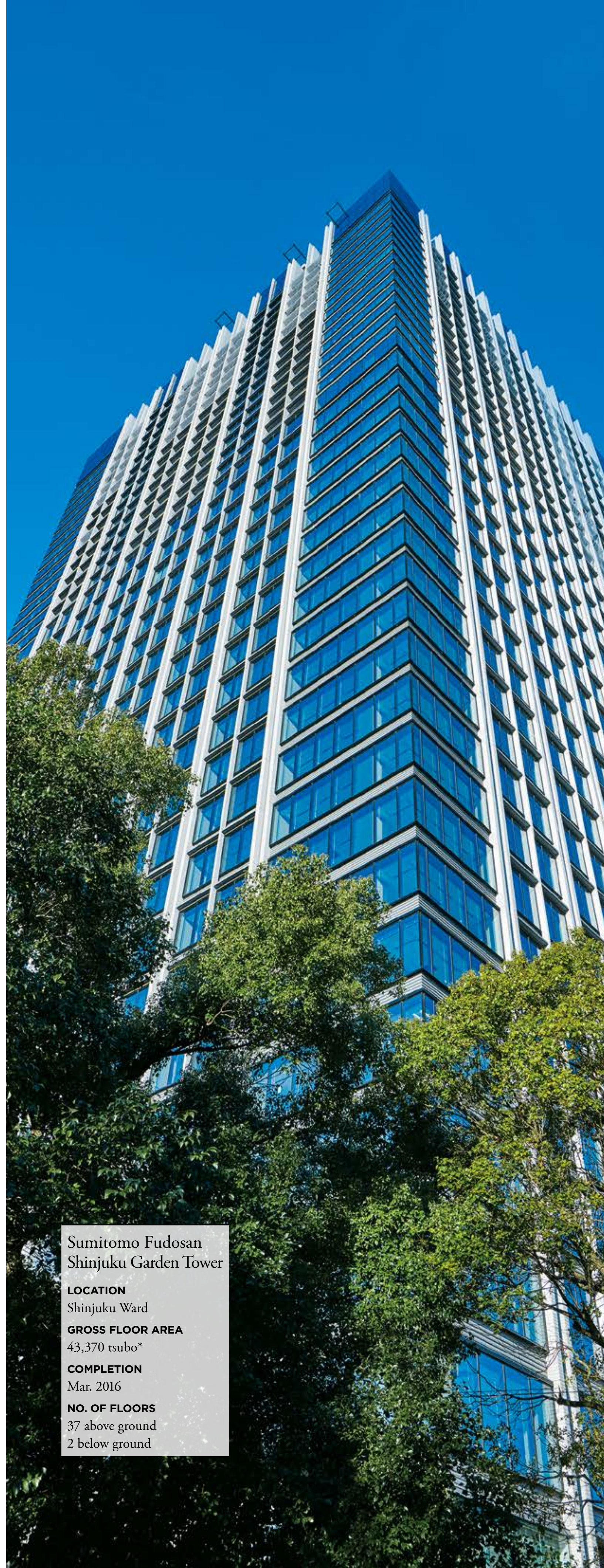
OPERATING INCOME

¥111.3 billion

OVERVIEW OF THE FISCAL YEAR

The Tokyo office building market, where roughly 200 of the segment's buildings, representing more than 90% of its portfolio, are concentrated, experienced solid tenant demand and a stable, low vacancy rate against a backdrop of improved economic sentiment and a recovery in corporate earnings. This favorable environment led to higher margins of rent increases for both new and renewed leases.

Reflecting such an environment, the segment recorded revenue and profit growth for the March 2016 fiscal year, with higher rents and improved vacancy rates at existing buildings and full-year contributions from Sumitomo Fudosan Onarimon Ekimae Building and Sumitomo Fudosan Hirakawacho Building, which were completed during the previous fiscal year. The segment's revenue from operations and operating income both reached record levels for the first time in seven years, surpassing the previous records in the March 2009 fiscal year.



Sumitomo Fudosan Shinjuku Garden Tower

LOCATION
Shinjuku Ward

GROSS FLOOR AREA
43,370 tsubo*

COMPLETION
Mar. 2016

NO. OF FLOORS
37 above ground
2 below ground

Sumitomo Fudosan Mita Building

LOCATION
Minato Ward

GROSS FLOOR AREA
7,544 tsubo*

COMPLETION
Nov. 2015

NO. OF FLOORS
13 above ground

Tokyo Nihonbashi Tower

LOCATION
Chuo Ward

GROSS FLOOR AREA
32,016 tsubo*

COMPLETION
Apr. 2015

NO. OF FLOORS
35 above ground
4 below ground

* 1 tsubo=3.3m²

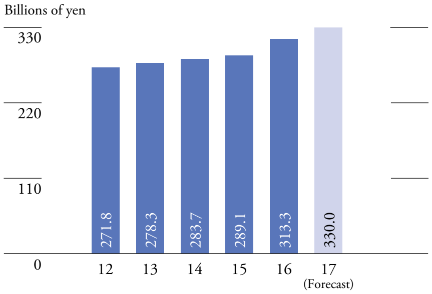
The vacancy rate for existing buildings showed a slight improvement, to 4.7% from 4.9% at the end of March 2015, and tenant acquisition for new buildings is on a good track, including for Tokyo Nihonbashi Tower and Sumitomo Fudosan Shinjuku Garden Tower (Takadanobaba), which were completed in the March 2016 fiscal year and are almost fully contracted.

OUTLOOK

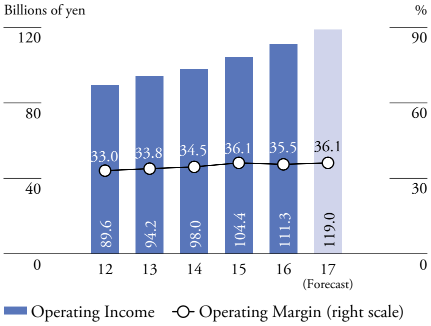
We are aiming for record revenue from operations and operating income in the March 2017 fiscal year, based on an improved earnings structure from existing buildings and full-year contributions from the buildings completed during the year under review, such as Tokyo Nihonbashi Tower.

Specifically, we are projecting a 5.3% increase in revenue from operations, to ¥330.0 billion, with a 6.9% increase in operating income, to ¥119.0 billion.

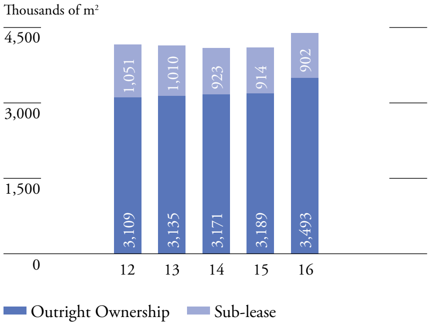
Revenue from Operations



Operating Income and Operating Margin



Gross Floor Area

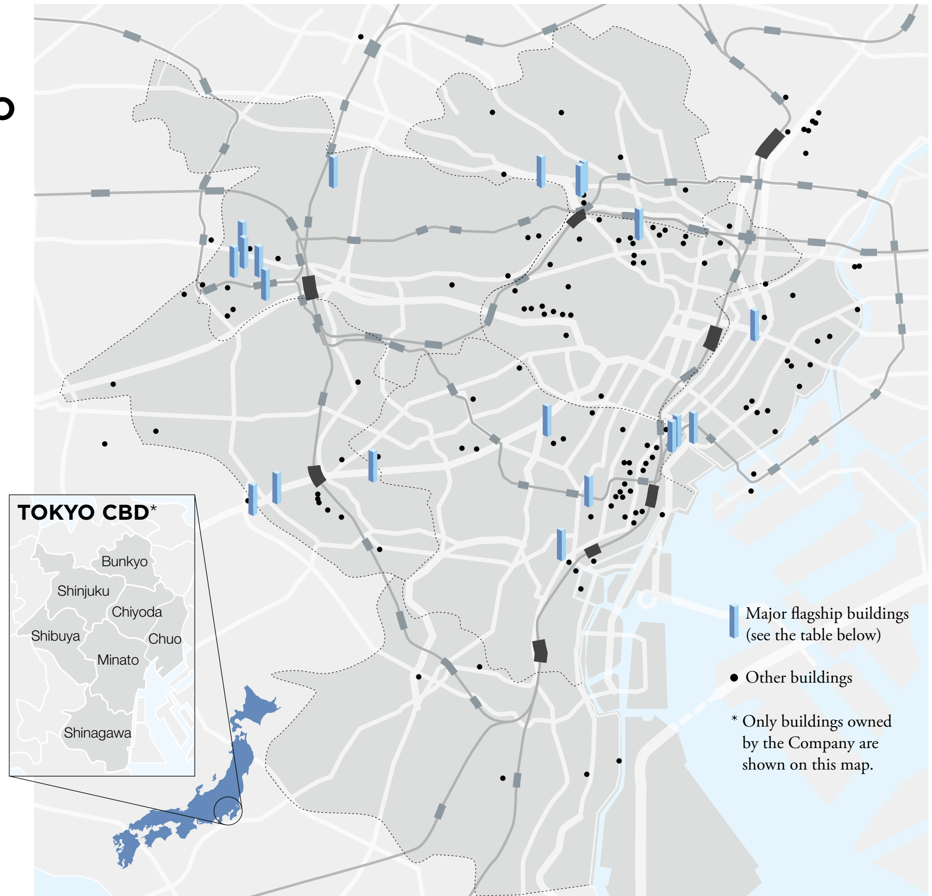


OUR LEASING PORTFOLIO

(As of March 31, 2016)

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



TOKYO'S NO. 1 OFFICE BUILDING OWNER, MANAGING

MORE THAN 200 BUILDINGS

IN CENTRAL TOKYO'S MAJOR OFFICE DISTRICTS

GROSS FLOOR AREA

4.40 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	204,456
2. Shinjuku Sumitomo Building	Shinjuku Ward	52/4	Mar. '74	177,467
3. Sumitomo Fudosan Shinjuku Grand Tower	Shinjuku Ward	40/3	Dec. '11	168,329
4. Sumitomo Fudosan Shinjuku Garden Tower	Shinjuku Ward	37/2	Mar. '16	143,372
5. Shinjuku Central Park City	Shinjuku Ward	44/2	Feb. '10	130,299
6. Shinjuku Oak City	Shinjuku Ward	38/2	Jan. '03	117,575
7. Tokyo Nihonbashi Tower	Chuo Ward	35/4	Apr. '15	105,837
8. Shiodome Sumitomo Building	Minato Ward	25/3	July '04	99,913
9. Sumitomo Fudosan Mita Twin Building West	Minato Ward	43/2	Sept. '06	98,338
10. Tokyo Shiodome Building	Minato Ward	37/4	Jan. '05	95,128
11. Shinjuku NS Building	Shinjuku Ward	30/3	Sept. '82	75,046
12. Sumitomo Fudosan Shibakoen First Building	Minato Ward	35/2	June '00	70,381
13. Sumitomo Fudosan Iidabashi First Tower	Bunkyo Ward	34/3	Apr. '10	68,454
14. Chiyoda First Building West	Chiyoda Ward	32/2	Jan. '04	61,209
15. Sumitomo Fudosan Shibuya Garden Tower	Shibuya Ward	24/3	June '12	59,417
16. Sumitomo Fudosan Aobadai Tower	Meguro Ward	33/3	Aug. '09	55,773
17. Sumitomo Fudosan Iidabashi First Building	Bunkyo Ward	14/2	Mar. '00	53,205
18. Sumitomo Fudosan Iidabashi Building No. 3	Shinjuku Ward	24/2	Oct. '02	53,047
19. Sumitomo Fudosan Shibuya First Tower	Shibuya Ward	25/3	Aug. '10	52,942
20. Sumitomo Fudosan Shiodome Hamarikyu Building	Chuo Ward	21/2	Aug. '09	47,951

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

OUR PORTFOLIO'S STRENGTHS

(As of March 31, 2016)

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 strengths by focusing on providing high-quality office buildings with these qualities.

Close

Tokyo CBD*

88%

23 Wards

95%

LOCATIONS IN THE TOKYO CBD

Our leasing portfolio emphasizes locations in central Tokyo; 95% of our portfolio is in Tokyo's 23 wards, and 88% 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 strengths 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

60%

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 16 years, the lowest figure among major Japanese real estate companies, and 60% 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. 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 10,000 m² (gross floor area)

86%

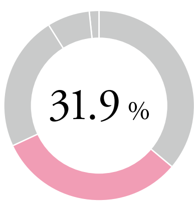
LARGE-SCALE BUILDINGS

Large-scale buildings with gross floor area of at least 10,000 square meters make up 86% 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

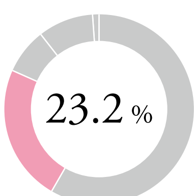
BASIC GROWTH STRATEGY

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



REVENUE FROM OPERATIONS

¥274.8 billion



OPERATING INCOME

¥44.2 billion

OVERVIEW OF THE FISCAL YEAR

The condominium market, which represents more than 90% of the segment's portfolio, continued to experience a favorable sales environment as interest rates stayed low. Results were boosted by a significant rise in sales prices for properties in attractive prime locations. Despite an uncertain outlook for the economy and the financial market, consumers continue to show robust purchasing appetite and traffic at model units remained high.

In such an environment, we delivered a total number of 4,996 condominium units, detached houses, and land lots this year, including Deux Tours Canal & Spa (Harumi), City Tower Musashi Kosugi, and The Tennoji Residence Garden & Vista (355 units less than the previous year). Although the number of units declined, a rise in prices per unit led to revenue and profit growth, for a second consecutive year of record revenue from operations and operating income.

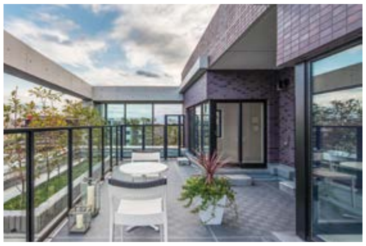
Deux Tours

LOCATION
Chuo Ward, Tokyo

NO. OF UNITS FOR SALE
1,450

NO. OF FLOORS
52 above ground
1 below ground

SCHEDULED DELIVERY
2016



City Terrace Kichijojiminami

LOCATION
Mitaka, Tokyo

NO. OF UNITS FOR SALE
268

NO. OF FLOORS
6 above ground
1 below ground

SCHEDULED DELIVERY
2016

The number of condominium units sold increased by 320 units from the previous year, to 5,524 units, achieving over 5,000 units of annual sales for a fourth consecutive year. As of the beginning of the March 2017 fiscal year, contracts had been concluded for approximately 60% of the 5,000 condominium units and detached houses planned for delivery during the year (approximately 45% at the beginning of the March 2016 fiscal year).

OUTLOOK

We are projecting a 104-unit increase, to 5,100, in the number of condominium units, detached houses, and land lots delivered, and are aiming for a third consecutive year of record units delivered, revenue from operations, and operating income.

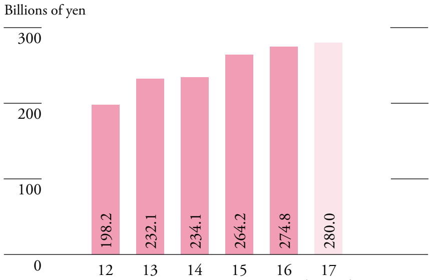
We are therefore forecasting a 1.9% increase in revenue from operations, to ¥280.0 billion, with a 0.7% rise in operating income, to ¥44.5 billion.

Principal Condominium Development Projects (2016–2017)

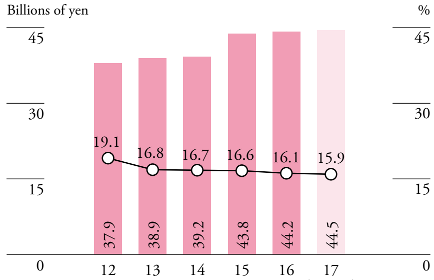
Name	Location	No. of units for sale	Scheduled delivery*1
Deux Tours	Chuo Ward, Tokyo	1,450*2	2016
City Tower Kanamachi	Katsushika Ward, Tokyo	840	2016
City Terrace Kichijojiminami	Mitaka, Tokyo	268	2016
City Tower Musashi Kosugi	Kawasaki	800	2016
The Tennoji Residence Garden & Vista	Osaka	413	2016
City Terrace Toyocho	Koto Ward, Tokyo	522	2017
City Terrace Hirai	Edogawa Ward, Tokyo	357	2017
City Terrace Omori Nishi	Ota Ward, Tokyo	279	2017
City House Nakameguro Residence	Meguro Ward, Tokyo	115	2017
City Terrace Yokohama Tsunashima Gardens	Yokohama	243	2017
City Tower Umeda Higashi	Osaka	501	2017
City Tower Nagamachi Shintoshin	Sendai	414	2017
City Tower Hiroshima	Hiroshima	471	2017

*1. Fiscal years ended/ending March 31
*2. Excluding 216 units for SOHO use

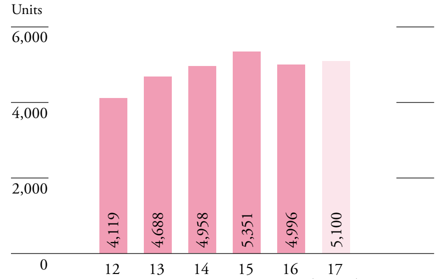
Revenue from Operations



Operating Income and Operating Margin



Units Delivered*

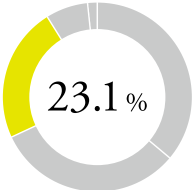


* Number of units includes condominium units, detached houses and land lots.

CONSTRUCTION

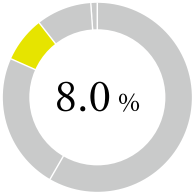
BASIC GROWTH STRATEGY

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



REVENUE FROM OPERATIONS

¥199.1 billion



OPERATING INCOME

¥15.3 billion

OVERVIEW OF THE FISCAL YEAR

The number of units contracted during the year grew to record levels, at both the Shinchiku Sokkurisan remodeling business, with a 15.6% increase, to 8,454 units, and for custom homes operations, with a 17.4% increase, to 2,882 units. With this turnaround to growth in the number of units and in revenue, segment results rebounded from the negative effect of the increase in the consumption tax rate and revenue and profit rose for the first time in two years.

To maintain this revenue and profit growth, both businesses are proactively expanding their product lineups and strengthening the structure of their marketing operations. The Shinchiku Sokkurisan business is strengthening its condominium remodeling operations, where high future growth is expected, and custom homes operations is adding a new wood panel construction method to its existing two-by-four method.

OUTLOOK

We are aiming for a return to a solid trajectory of revenue and profit growth from the March 2017 fiscal year. Both the Shinchiku Sokkurisan remodeling business and custom homes operations will continuously strive to expand and enhance their product lineups as well as strengthen the structure of their marketing operations.

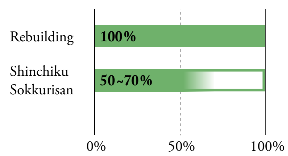
Our March 2017 fiscal year projections are for a 0.4% increase in revenue from operations, to ¥200.0 billion, with a 1.3% increase in operating income, to ¥15.5 billion.

REMODELING—SHINCHIKU SOKKURISAN

KEY FEATURES

- Sales engineer system: Most of our sales personnel have engineering qualifications.
- Carpenters: We employ 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.

Cost Comparison

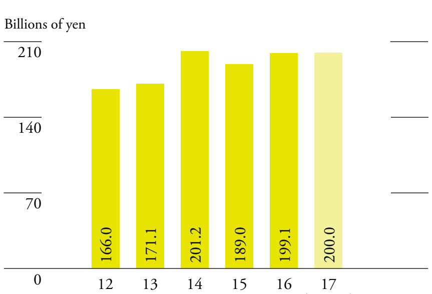


CUSTOM HOMES

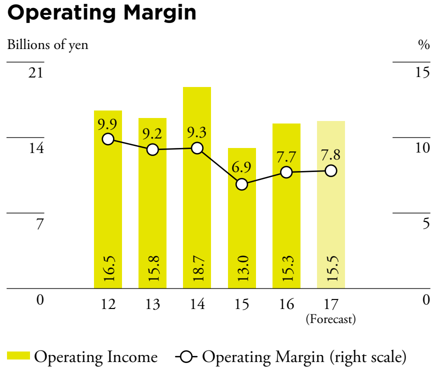
KEY FEATURES

- 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.

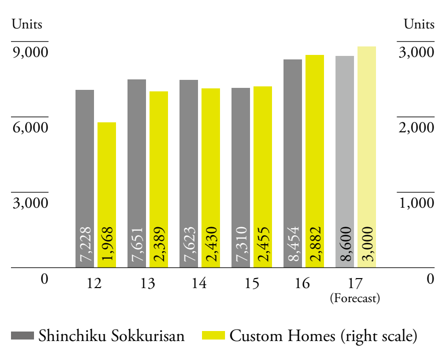
Revenue from Operations



Operating Income and Operating Margin



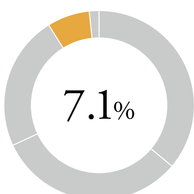
Shinchiku Sokkurisan and Custom Home Units Contracted



BROKERAGE

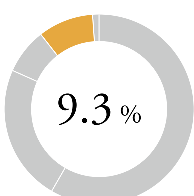
BASIC GROWTH STRATEGY

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



REVENUE FROM OPERATIONS

¥61.5 billion



OPERATING INCOME

¥17.7 billion

OVERVIEW OF THE FISCAL YEAR

The existing home market experienced an increase in the number of contracts concluded in the Tokyo metropolitan area, and the trend of rising average contract prices, especially for condominiums, continued.

Given this environment, the segment, which is handled by Sumitomo Real Estate Sales Co., Ltd., recorded a 5.9% increase, to 35,987 units, in the number of transactions, led by retail transactions for existing homes. This marked a turnaround to growth from the previous year's decrease triggered by the increase in the consumption tax rate, and a record number of transactions. Transaction value per contract decreased on a decline in the number of corporate transactions, but strong results at the retail division held the total transaction value to last year's level, at ¥1,065.7 billion, for a second consecutive year above ¥1 trillion.

As a result, the segment maintained revenue growth for a seventh consecutive year, for record revenue from operations, and an increase in operating income for the first time in two years.

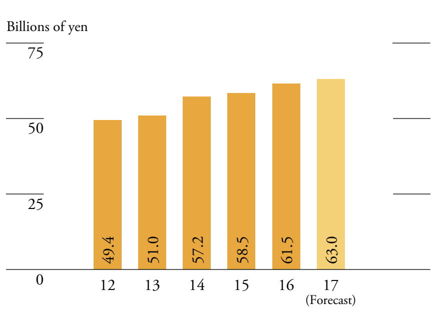
With the addition of two directly operated offices during the year, the network had a total of 257 offices nationwide as of March 31, 2016.

OUTLOOK

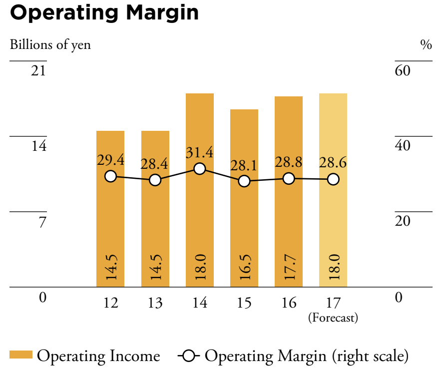
Our brokerage operations will continue to open new offices and upgrade existing offices, while at the same time striving to raise marketing efficiency, with the aim of achieving revenue and profit growth on a record number of brokerage transactions.

We are therefore forecasting a 2.4% increase in revenue from operations, to ¥63.0 billion, with a 1.6% increase in operating income, to ¥18.0 billion, for the March 2017 fiscal year.

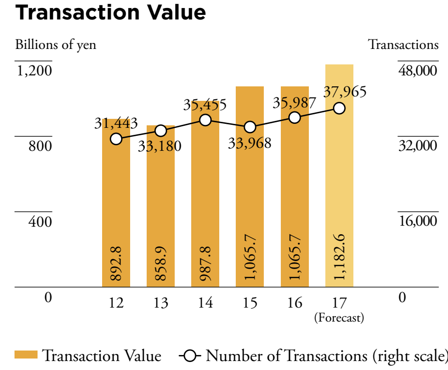
Revenue from Operations



Operating Income and Operating Margin



Number of Transactions and Transaction Value



BOARD OF DIRECTORS AND STATUTORY AUDITORS (As of June 29, 2016)

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
Hiroshi Kato

Director
Koji Ito

Director
Masumi Aoki

Director
Yoshiyuki Odai

Director
Toshikazu Tanaka

* Executive Managing Director

OUTSIDE DIRECTORS

Hiromasa Yonekura

(Date of birth: March 31, 1937)
April 1960 Entered Sumitomo Chemical Co., Ltd.
June 2000 President, Sumitomo Chemical Co., Ltd.
April 2009 Chairman, Sumitomo Chemical Co., Ltd.
May 2010 Chairman, KEIDANREN (Japan Business Federation)
June 2014 Honorary Chairman, KEIDANREN (present)
Counselor, Sumitomo Chemical Co., Ltd. (present)
June 2015 Outside Director, Sumitomo Realty & Development Co., Ltd. (present)

Shoichi Abbe

(Date of birth: September 20, 1940)
April 1963 Entered The Sumitomo Warehouse Co., Ltd.
June 1994 Director, The Sumitomo Warehouse Co., Ltd.
June 1997 Executive Managing Director – Managing Director, The Sumitomo Warehouse Co., Ltd.
June 2000 Executive Managing Director – President, The Sumitomo Warehouse Co., Ltd.
June 2010 President – Executive Officer, The Sumitomo Warehouse Co., Ltd.
June 2013 Statutory Auditor, Sumitomo Realty & Development Co., Ltd.
June 2015 Executive Managing Director – Chairman of the Board, The Sumitomo Warehouse Co., Ltd. (present)
June 2015 Outside Director, Sumitomo Realty & Development Co., Ltd. (present)

(Note) Mr. Yonekura and Mr. Abbe both meet the requirements for independent directors stipulated by the Tokyo Stock Exchange, and the Company has notified the Tokyo Stock Exchange that both individuals are designated as independent directors.
Mr. Yonekura is a member of the special committee established in accordance with the Company's takeover defense measures.

STATUTORY AUDITORS

Yozo Izuhara*
Takaaki Ono*
Tadashi Kitamura
Yoshifumi Nakamura

* Outside Statutory Auditor

CORPORATE GOVERNANCE INITIATIVES

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 12 directors, including two outside 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 four members, including two 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.

Two outside directors were elected at the ordinary General Meeting of Shareholders held in June 2015. Both of these directors possess a wealth of company management experience and were nominated as directors in light of their appropriate personal character, knowledge and judgment. The Company has appointed outside directors to further enhance management efficiency and strengthen the corporate governance structure by contributing points of view that are not bound by preconceived ideas of the real estate industry and advice from a global perspective. The professional histories of the two outside directors are on page 23.

Each of the two 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 directors and 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 nine 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.

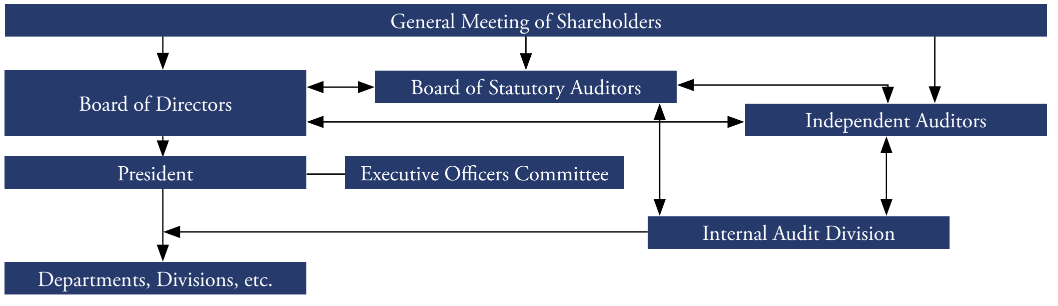
INDEPENDENT AUDITORS

In accordance with the Japanese Corporate Law and the Financial Instruments and Exchange Law, the Company has concluded an auditing contract with KPMG AZSA LLC 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

In addition to directors who are well-acquainted with the Company's business, two outside directors have been appointed from June 2015, for the further enhancement of management efficiency and strengthening of the corporate governance structure. To strengthen the management oversight system, we have also adopted a structure for



the Board of Statutory Auditors that includes two outside statutory auditors, and we therefore believe that sufficient corporate governance functions are in place.

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.

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 (excluding outside directors) was ¥1,297 million, compensation for statutory auditors (excluding outside statutory auditors) was ¥31 million and compensation for outside directors and outside statutory auditors was ¥101 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, again at the 80th General Meeting of Shareholders held in 2013, and again at the 83rd General Meeting of Shareholders held in 2016 (with shareholders approving its continuation or renewal), the policy has been extended to the conclusion of the 86th General Meeting of Shareholders, scheduled to be held in 2019.

OVERVIEW OF TAKEOVER DEFENSE MEASURES AND BOARD OF DIRECTORS' JUDGMENT

The Company believes that if a large-scale purchase of the Company's 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 concept, 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. The Board shall also take measures in the event that, even though the large-scale purchaser complies with the large-scale purchase rules, it is clear that the large-scale purchase will cause unrecoverable damage to the Company or in the event that the large-scale purchase significantly damages the corporate value and common interests of shareholders.

BASIC APPROACH TO CSR

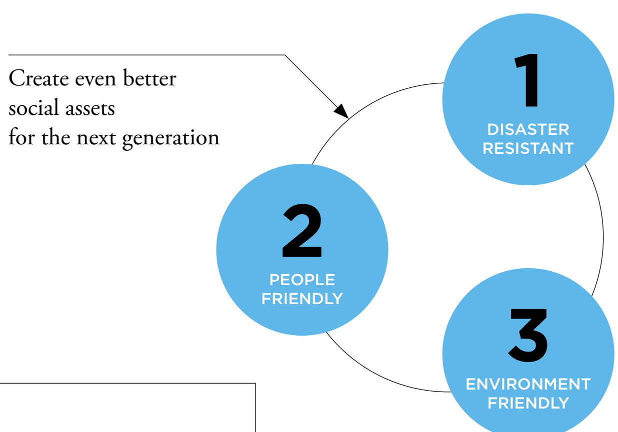
SUMITOMO'S BUSINESS PHILOSOPHY

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.



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 re-create 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 creates people-friendly cities. A case in point is Sumitomo Fudosan Roppongi Grand Tower, 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 operate and manage, we have installed automated external defibrillators (AEDs). Moreover, all personnel undertake first-aid training.

3 ENVIRONMENT FRIENDLY

IMPROVING THE ENVIRONMENTAL PERFORMANCE OF BUILDINGS

We make efforts to preserve and utilize the lands' existing trees and plants in our development projects. We also improve buildings' thermal insulation and landscapes by planting trees on sites and creating green rooftops and green public arenas. Our development projects are always concerned for global environment and ecology.

PROMOTING ENERGY CONSERVATION

Our latest office buildings feature decentralized HVAC (heating, ventilation, and air-conditioning) systems with independent air-conditioning units so that they can be turned on and off to adjust temperature in each zone. The systems certainly enhance tenant convenience and contribute to energy conservation. We also save energy used in lighting systems with the installation of highly energy-efficient HF-type fluorescent light and LED light bulbs.

CSR THROUGH BUSINESS

SHINJUKU GARDEN

—Close to work, surrounded by greenery, and with superior disaster preparedness that provides peace of mind

Completed in March 2016, Shinjuku Garden is a large-scale, multipurpose development on 2.4 hectares of land in a convenient urban location. The property was developed to blend in with its surroundings, and was built as a location for safety and peace of mind even in the event of a disaster, with open public spaces and roads so that it can function as a community disaster response center.

LARGE, MULTIPURPOSE DEVELOPMENT AMID LUSH GREENERY

Approximately 66% of the site, or 1.5 hectares, is open space with lots of greenery. In addition to reducing the environmental burden and improving the heat island phenomenon, we have created a "lawn plaza" and "shade grove" where people can relax. Roughly 40% of the entire land site is planted with greenery.

PEOPLE-FRIENDLY NETWORK OF PLEASANT PEDESTRIAN ROUTES

Many pedestrians coming from Takadanobaba Station pass through the area around Shinjuku Garden, and we have sought to improve the geographical feature that had been broken up by retaining walls. We have removed the retaining walls in order to level out the differences of approximately four meters in elevation within the site and created barrier-free pathways to offer a space that can be used comfortably by all pedestrians, including both young children and elderly people.

REGIONAL DISASTER-RESPONSE BASE

In the event of an earthquake or other disaster, many commuters in the area around Shinjuku Garden are expected to have difficulty returning home*, and it is crucial for buildings in such a location to have a large multipurpose hall that could be opened as a place for these people to stay. This hall is equipped with telecommunications equipment (rechargers, Wi-Fi, etc.) so that people can notify their families or companies that they are safe, and information regarding the status of public transportation, conditions in other areas, and other disaster-related information can be displayed on large screens. In addition to the open space on the site where people can stay, the functionality as an evacuation center has been further enhanced with a warehouse for disaster-response equipment (approximately 50 square meters), 10 emergency toilets that can be installed directly to manholes, and well water for cleaning the toilets.

* Approximately 350,000 people, the fourth highest number in Tokyo, according to a 2004 report by the Shinjuku City government.

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 striving to reinvigorate old houses more than 100 years old, helping to ensure that tradition stays alive.

ELEVEN-YEAR FINANCIAL SUMMARY

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
As of and for the years ended March 31

	Millions of yen				
	2016	2015	2014	2013	2012
For the Year					
Revenue from operations	¥ 854,964	¥ 806,835	¥ 780,273	¥ 736,652	¥ 688,662
Leasing	313,340	289,117	283,730	278,317	271,812
Sales	274,761	264,207	234,093	232,149	198,154
Construction	199,115	188,995	201,190	171,082	165,995
Brokerage	61,496	58,486	57,211	50,957	49,397
Cost of revenue from operations	614,191	579,964	558,987	529,913	490,437
SG&A expenses	66,532	60,976	60,815	55,394	50,760
% of revenue from operations	7.8%	7.6%	7.8%	7.5%	7.4%
Operating income	174,241	165,895	160,471	151,345	147,465
% of revenue from operations	20.4%	20.6%	20.6%	20.5%	21.4%
Ordinary profit*2	148,424	139,055	130,537	114,916	107,912
% of revenue from operations	17.4%	17.2%	16.7%	15.6%	15.7%
Profit attributable to owners of parent	87,798	80,567	69,697	59,825	53,236
Depreciation and amortization	34,574	33,519	35,311	37,761	36,049
At Year-end					
Current assets	¥1,122,189	¥1,025,703	¥ 924,452	¥ 965,786	¥ 801,142
Inventories	855,816	801,950	715,779	679,496	586,170
Total assets	4,675,915	4,523,804	4,220,429	4,105,500	3,859,698
Shareholders' equity*3	888,100	832,462	707,948	627,012	553,844
Net interest-bearing debt	2,971,667	2,875,660	2,652,929	2,424,932	2,407,639
Per Share Amounts (Yen)					
Profit attributable to owners of parent	¥ 185.23	¥ 169.97	¥ 147.02	¥ 126.18	¥ 112.28
Shareholders' equity	1,873.71	1,756.25	1,493.48	1,322.52	1,168.11
Cash dividend applicable to the year	22.00	21.00	20.00	20.00	20.00
Key Ratios					
Equity ratio (%)	19.0	18.4	16.8	15.3	14.3
ND/E ratio*4 (Times)	3.3	3.5	3.7	3.9	4.3
ROE (%)	10.2	10.5	10.4	10.1	9.9
ROA (%)	3.9	3.9	4.0	3.9	4.3
Long-term debt ratio (%)	98	97	95	93	93
Fixed-interest rate debt ratio (%)	94	87	82	80	80
Interest coverage ratio*5 (Times)	7.3	6.5	6.1	4.9	4.2

*1. U.S. dollar amounts in this report are translated, for convenience only, at the rate of ¥112.62 = U.S.$1, the prevailing exchange rate at March 31, 2016.
*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 – Profit attributable to non-controlling 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]

	2011	2010	2009	2008	2007	2006	2016
	¥ 744,756	¥ 719,636	¥ 695,240	¥ 691,928	¥ 676,834	¥ 646,525	**$ 7,591,582**
	292,875	293,533	298,359	279,568	262,620	234,280	**2,782,277**
	239,709	219,662	191,224	193,575	211,035	224,735	**2,439,717**
	162,924	158,214	160,134	156,606	142,564	135,158	**1,768,025**
	46,430	44,621	43,105	58,542	56,532	49,217	**546,049**
	551,364	534,270	496,547	488,202	490,491	487,805	**5,453,658**
	54,929	51,387	52,327	49,118	49,167	46,697	**590,765**
	7.4%	7.1%	7.5%	7.1%	7.3%	7.2%	—
	138,463	133,979	146,366	154,608	137,176	112,023	**1,547,159**
	18.6%	18.6%	21.1%	22.3%	20.3%	17.3%	—
	106,296	100,464	113,582	125,176	112,406	87,038	**1,317,919**
	14.3%	14.0%	16.3%	18.1%	16.6%	13.5%	—
	50,908	52,662	46,205	63,133	50,300	32,506	**779,595**
	23,705	18,065	17,886	17,150	15,677	16,330	**306,997**
	¥ 805,958	¥ 802,693	¥ 759,816	¥ 784,195	¥ 756,488	¥ 619,219	**$ 9,964,385**
	558,091	521,871	518,885	511,868	489,093	330,700	**7,599,148**
	3,234,203	3,168,098	3,006,412	2,894,004	2,747,900	2,460,080	**41,519,402**
	526,227	488,896	436,667	427,423	409,197	375,656	**7,885,811**
	1,901,850	1,785,854	1,722,733	1,548,509	1,343,824	1,150,880	**26,386,672**
	¥ 107.35	¥ 111.04	¥ 97.39	¥ 133.00	¥ 105.92	¥ 68.33	**$ 1.64**
	1,109.78	1,030.93	920.74	900.57	861.93	790.74	**16.64**
	20.00	20.00	20.00	18.00	14.00	10.00	**0.20**
	16.3	15.4	14.5	14.8	14.9	15.3	—
	3.6	3.7	3.9	3.6	3.3	3.1	—
	10.0	11.4	10.7	15.1	12.8	9.3	—
	4.4	4.4	5.1	5.6	5.4	5.0	—
	89	83	76	83	79	80	—
	79	81	77	85	83	77	—
	4.7	4.6	4.9	6.2	6.8	6.5	—

Review of the Sixth Management Plan and Start of the Seventh Management Plan

For the March 2016 fiscal year, we recorded a fourth consecutive year of revenue growth, a sixth consecutive year of operating income and ordinary profit growth, and a third consecutive year of record levels for revenue from operations, operating income, ordinary profit, and profit attributable to owners of parent.

Sumitomo Realty places the highest priority on the achievement of its medium-term management plans, and the March 2016 fiscal year marked the conclusion of the Sixth Management Plan. The plan initially set targets of "record financial results, with cumulative ordinary profit of ¥400 billion for the three-year period." As a result of the Japanese government's "Abenomics" economic policies, stock prices rose and the yen weakened, boosting the economy for a generally favorable operating environment. Although the construction and brokerage businesses were adversely affected by a consumption tax rate increase, the main leasing and sales businesses drove results, and the initial targets for both operating income and ordinary profit were surpassed. Cumulative ordinary profit for the three-year period covered by the Sixth Management Plan totaled ¥418.0 billion, which was also a record for a period covered by a management plan. The initial target of record single-year results was achieved in the plan's first year, followed by new records in the subsequent two years as well.

From April 2016, we are operating under the Seventh Management Plan, which commences in the March 2017 fiscal year. We do not expect the favorable operating environment that underpinned the Sixth Management Plan to continue, but we are aiming to maintain "a path of revenue and profit growth" and to surpass the record results achieved under the Sixth Management Plan. For more details on the new plan, please refer to "Seventh Management Plan" on page 11.

Financial Strategy

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.

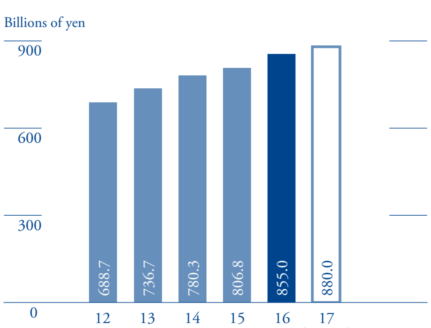
Specifically, we have aggressively introduced development securitization methods using SPEs (SPEs have been included in the scope of consolidation since the March 2012 fiscal year). In addition, to diversify our fund-raising methods in order to control interest-bearing debt, we have formed SURF (Sumitomo Realty & Development Fund) investment partnerships backed by leased buildings, making effective use of our assets in our fund-raising activities.

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 as well as improve our financial structure over a decade.

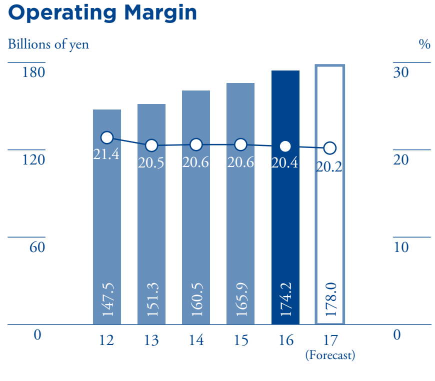
Since the second half of the 2000s, it has become increasingly difficult to acquire large prime sites that meet our investment criteria, in part because of intensified competition. Given this situation, Sumitomo Realty has implemented a policy centered on urban redevelopment for future site acquisition. 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 220,000 tsubo for leasing to market, mainly at large-scale redevelopment projects in Roppongi and Osaki, during the Seventh Management Plan (please refer to page 11 for more information regarding specific projects in the Seventh Management Plan). We are aiming to further accelerate the annual development pace of 50,000 tsubo of gross floor area during and after the Seventh Management Plan. We intend to cover the investment for these future development projects generally with operating cash flows. In addition to this investment, we will consider

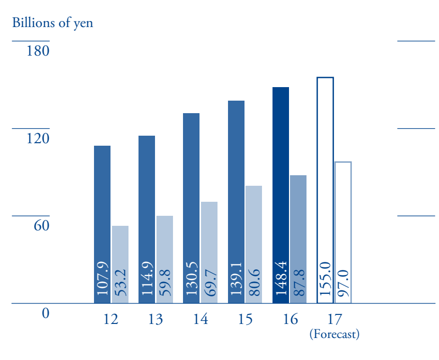
Revenue from Operations



Operating Income and Operating Margin



Ordinary Profit* and Profit Attributable to Owners of Parent



* Please see note *2 on page 28.

bond issues or other debt financing if additional investment opportunities arise, recognizing that current low interest rates present a favorable environment for financing.

Sumitomo Realty's financial position has continued to improve. During the three years covered by the Sixth Management Plan, interest-bearing debt increased ¥508.1 billion, but with the accumulation of profit, shareholders' equity also increased ¥261.0 billion. As a result, the equity ratio stood at 19.0% as of March 31, 2016, compared with 15.3% at the beginning of the period covered by the Plan, and the ND/E ratio improved to 3.3 times from 3.9 times. In addition, the market value of real estate for leasing stood at ¥4.7 trillion as of March 31, 2016, and this included unrealized gains of ¥1.7 trillion, which we recognize as a useful buffer against financial risks. Factoring in these unrealized gains (please refer to page 58 "Notes to consolidated financial statements; #19. Investment and rental properties" for more information), the equity ratio as of March 31, 2016, would be 32.4% and the ND/E ratio would be 1.4 times. Ratings agencies have evaluated these strengths highly, and we have maintained our rating even in difficult financial environments, such as after the Lehman crisis. As of June 2016, JCR and R&I issued ratings of A+ and A–, respectively.

In terms of ROE, we remain at the top level of our industry with an average level of 10.2% over the past five years (please refer to page 28 "Eleven-year financial summary").

In addition, 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 ¥40.0 billion of 10-year corporate bonds with an interest 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, 2016, long-term debt accounted for 98% of consolidated interest-bearing debt, and fixed-rate debt for 94%.

Site acquisition is essential to the achievement of sustained growth. 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.

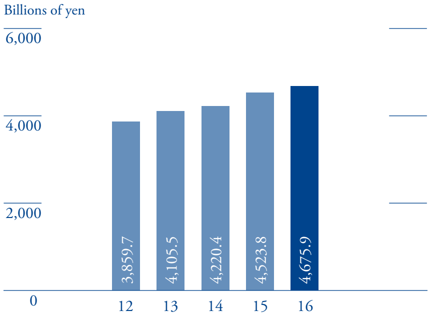
Dividend Policy

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.

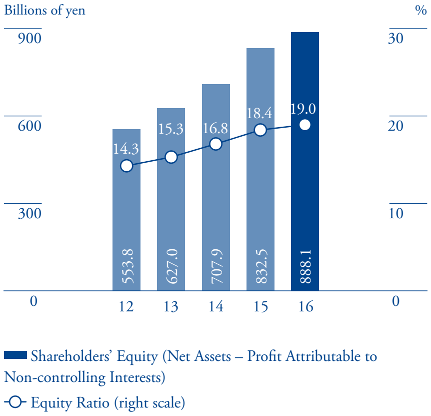
We have implemented six plans since April 1997. We worked to respond to various changes in accounting standards and to reduce unrealized losses under the First Management Plan and the Second Management Plan. Under the Third Management Plan, which began in April 2004, we completed the implementation of 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 crisis. Nevertheless, we focused on the continuation of stable dividends and maintained the dividend per share at ¥20.00. Reflecting the fact that the March 2016 fiscal year was our third consecutive year of record earnings, as in the previous year, we increased the full-year dividend by ¥1.0, to ¥22.00 per share. In addition, at this time we intend to pay a full-year dividend of ¥23.00 per share for the March 2017 fiscal year. Moving forward, we will make efforts to continue profit growth and advance the expansion of equity, while further enhancing shareholder returns.

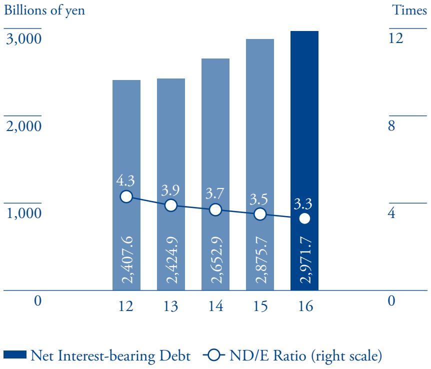
Total Assets



Shareholders' Equity and Equity Ratio



Net Interest-bearing Debt and ND/E Ratio



CONSOLIDATED BALANCE SHEETS

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
As of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2016**	**2015**	**2016**
Current assets:			
Cash, time and notice deposits (Notes 3, 5 and 6)	¥ 187,234	¥ 151,367	$ 1,662,529
Notes and accounts receivable—trade (Note 6)	19,665	27,597	174,614
Allowance for doubtful accounts	(48)	(78)	(426)
Inventories (Note 4)	855,816	801,950	7,599,148
Deferred income taxes (Note 12)	13,638	10,825	121,097
Other current assets	45,884	34,042	407,423
Total current assets	1,122,189	1,025,703	9,964,385
Investments:			
Investments in unconsolidated subsidiaries and affiliates (Note 6)	57,401	56,233	509,687
Investments in securities and other (Notes 6 and 7)	321,296	337,427	2,852,921
Allowance for doubtful accounts	(9,801)	(11,914)	(87,026)
Total investments	368,896	381,746	3,275,582
Property and equipment:			
Land (Notes 4, 5 and 19)	2,317,729	2,259,845	20,580,083
Buildings and structures (Notes 4, 5 and 19)	1,039,019	933,641	9,225,884
Machinery and equipment (Notes 5 and 19)	28,851	26,224	256,180
Leased assets	3,040	3,396	26,993
Construction in progress (Notes 4, 5 and 19)	36,448	106,738	323,637
	3,425,087	3,329,844	30,412,777
Accumulated depreciation	(436,504)	(406,489)	(3,875,901)
Net property and equipment	2,988,583	2,923,355	26,536,876
Other assets:			
Guarantee and lease deposits paid to lessors (Note 6)	103,981	107,252	923,291
Leasehold rights and other intangible assets	51,718	54,015	459,226
Deferred income taxes (Note 12)	12,684	13,534	112,627
Other	27,864	18,199	247,415
Total other assets	196,247	193,000	1,742,559
Total assets	¥4,675,915	¥4,523,804	$41,519,402

See accompanying notes.

Liabilities and Net Assets	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Current liabilities:			
Short-term debt (Notes 6 and 8)	¥ 78,718	¥ 87,000	$ 698,970
Long-term debt due within one year (Notes 6 and 8)	316,737	380,863	2,812,440
Long-term non-recourse debt due within one year (Notes 5, 6 and 8)	121,964	69,191	1,082,969
Notes and accounts payable—trade (Note 6)	54,316	66,963	482,294
Accrued income taxes	30,046	26,519	266,791
Accrued bonuses	4,216	3,726	37,436
Deposits received (Notes 6 and 13)	71,619	61,172	635,935
Other current liabilities (Notes 12 and 13)	154,799	102,109	1,374,525
Total current liabilities	832,415	797,543	7,391,360
Long-term liabilities:			
Long-term debt due after one year (Notes 6 and 8)	2,344,819	2,115,356	20,820,627
Long-term non-recourse debt due after one year (Notes 5, 6 and 8)	296,663	374,618	2,634,195
Guarantee and deposits received (Notes 6 and 13)	249,800	328,393	2,218,078
Net defined benefit liability (Note 9)	6,081	5,434	53,996
Other long-term liabilities (Notes 12 and 13)	28,860	42,921	256,260
Total long-term liabilities	2,926,223	2,866,722	25,983,156
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	1,090,437
Capital surplus	132,748	132,750	1,178,725
Retained earnings	569,740	494,276	5,058,959
Treasury stock	(4,335)	(4,247)	(38,492)
Total shareholders' equity	820,958	745,584	7,289,629
Accumulated other comprehensive income (loss)			
Net unrealized holding gains on securities	72,262	88,799	641,644
Net deferred losses on hedges	(4,247)	(1,615)	(37,711)
Foreign currency translation adjustments	(510)	(550)	(4,529)
Remeasurements of defined benefit plans	(364)	244	(3,232)
Total accumulated other comprehensive income	67,141	86,878	596,172
Non-controlling interests	29,178	27,077	259,085
Total net assets	917,277	859,539	8,144,886
Total liabilities and net assets	¥4,675,915	¥4,523,804	$41,519,402

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2016, 2015 and 2014

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	2016
Revenue from operations	¥854,964	¥806,835	¥780,273	$7,591,582
Costs and expenses:				
Cost of revenue from operations	614,191	579,964	558,987	5,453,658
Selling, general and administrative expenses	66,532	60,976	60,815	590,765
	680,723	640,940	619,802	6,044,423
Operating income	174,241	165,895	160,471	1,547,159
Other income (expenses):				
Interest expense, net	(24,398)	(26,049)	(26,911)	(216,640)
Dividend income	5,483	5,063	4,569	48,686
Gain on sale of property and equipment	115	4	19	1,021
Loss on sale of property and equipment	—	(3)	(3)	—
Loss on impairment of fixed assets (Note 10)	(10,806)	(3,811)	(15,068)	(95,951)
Loss on disposal of property and equipment	(1,146)	(3,105)	(1,919)	(10,176)
Gain on sale of investments in securities	428	—	1,430	3,800
Loss on sale of investments in securities	(76)	—	—	(675)
Loss on devaluation of investments in securities	(466)	(30)	(96)	(4,138)
Dividend to partnership investors	(1,387)	(1,776)	(2,174)	(12,316)
Other, net	(6,434)	(5,521)	(5,196)	(57,129)
	(38,687)	(35,228)	(45,349)	(343,518)
Income before income taxes	135,554	130,667	115,122	1,203,641
Income taxes (Note 12)**:**				
Current	49,989	44,785	45,125	443,873
Deferred	(5,259)	2,661	(2,521)	(46,696)
Total	44,730	47,446	42,604	397,177
Profit	90,824	83,221	72,518	806,464
Profit attributable to non-controlling interests	3,026	2,654	2,821	26,869
Profit attributable to owners of parent	¥ 87,798	¥ 80,567	¥ 69,697	$ 779,595

	Yen			U.S. dollars (Note 1)
	2016	2015	2014	2016
Amounts per share of common stock:				
Profit attributable to owners of parent:				
—Basic	¥185.23	¥169.97	¥147.02	$1.64
—Diluted	—	—	—	—
Cash dividend applicable to the year	22.00	21.00	20.00	0.20

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2016, 2015 and 2014

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	2016
Profit	¥ 90,824	¥ 83,221	¥72,518	$ 806,464
Other comprehensive income (loss) (Note 18)				
Net unrealized holding gains (losses) on securities	(16,514)	51,057	17,796	(146,635)
Net deferred gains (losses) on hedges	(2,649)	10	(262)	(23,522)
Foreign currency translation adjustments	59	3,498	4,220	524
Remeasurements of defined benefit plans	(710)	65	—	(6,304)
Total other comprehensive income (loss)	(19,814)	54,630	21,754	(175,937)
Comprehensive income	¥ 71,010	¥137,851	¥94,272	$ 630,527
Comprehensive income attributable to:				
Owners of the parent	¥ 68,061	¥134,511	¥90,604	$ 604,342
Non-controlling interests	2,949	3,340	3,668	26,185

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, 2016, 2015 and 2014

	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 shareholders' equity	Net unrealized holding gains (losses) on securities	Net deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
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
Profit attributable to owners of parent	—	—	—	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)
Profit attributable to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	2,730	2,730
Net deferred losses on hedges	—	—	—	—	—	—	—	(248)	—	—	(248)	—	(248)
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	174	174	—	174
Balance at April 1, 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
Cumulative effects of changes in accounting policies	—	—	—	(410)	—	(410)	—	—	—	—	—	—	(410)
Restated balance	476,086	122,805	132,750	423,190	(4,141)	674,604	37,763	(1,641)	(3,362)	174	32,934	24,584	732,122
Profit attributable to owners of parent	—	—	—	80,567	—	80,567	—	—	—	—	—	—	80,567
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	2,812	—	2,812	—	2,812
Net unrealized holding gains on securities	—	—	—	—	—	—	51,036	—	—	—	51,036	—	51,036
Acquisition of treasury stock	—	—	—	—	(106)	(106)	—	—	—	—	—	—	(106)
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)
Profit attributable to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	2,493	2,493
Net deferred gains on hedges	—	—	—	—	—	—	—	26	—	—	26	—	26
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	70	70	—	70
Balance at April 1, 2015	476,086	¥122,805	¥132,750	¥494,276	¥(4,247)	¥745,584	¥ 88,799	¥(1,615)	¥ (550)	¥ 244	¥ 86,878	¥27,077	¥859,539
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—
Restated balance	476,086	122,805	132,750	494,276	(4,247)	745,584	88,799	(1,615)	(550)	244	86,878	27,077	859,539
Profit attributable to owners of parent	—	—	—	87,798	—	87,798	—	—	—	—	—	—	87,798
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	40	—	40	—	40
Net unrealized holding losses on securities	—	—	—	—	—	—	(16,537)	—	—	—	(16,537)	—	(16,537)
Acquisition of treasury stock	—	—	—	—	(89)	(89)	—	—	—	—	—	—	(89)
Disposal of treasury stock	—	—	0	—	1	1	—	—	—	—	—	—	1
Change in scope of consolidation	—	—	—	(1,906)	—	(1,906)	—	—	—	—	—	—	(1,906)
Cash dividends paid:													
Final for prior year (¥11 per share)	—	—	—	(5,214)	—	(5,214)	—	—	—	—	—	—	(5,214)
Interim for current year (¥11 per share)	—	—	—	(5,214)	—	(5,214)	—	—	—	—	—	—	(5,214)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	(2)	—	—	(2)	—	—	—	—	—	—	(2)
Profit attributable to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	2,101	2,101
Net deferred losses on hedges	—	—	—	—	—	—	—	(2,632)	—	—	(2,632)	—	(2,632)
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	(608)	(608)	—	(608)
Balance at March 31, 2016	476,086	¥122,805	¥132,748	¥569,740	¥(4,335)	¥820,958	¥ 72,262	¥(4,247)	¥ (510)	¥(364)	¥ 67,141	¥29,178	¥917,277

	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Accumulated other comprehensive income (loss)						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains (losses) on securities	Net deferred losses on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
Balance at April 1, 2015	$1,090,437	$1,178,743	$4,388,883	$(37,711)	$6,620,352	$ 788,483	$(14,340)	$(4,884)	$ 2,167	$ 771,426	$240,428	$7,632,206
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—
Restated balance	1,090,437	1,178,743	4,388,883	(37,711)	6,620,352	788,483	(14,340)	(4,884)	2,167	771,426	240,428	7,632,206
Profit attributable to owners of parent	—	—	779,595	—	779,595	—	—	—	—	—	—	779,595
Foreign currency translation adjustments	—	—	—	—	—	—	—	355	—	355	—	355
Net unrealized holding losses on securities	—	—	—	—	—	(146,839)	—	—	—	(146,839)	—	(146,839)
Acquisition of treasury stock	—	—	—	(790)	(790)	—	—	—	—	—	—	(790)
Disposal of treasury stock	—	0	—	9	9	—	—	—	—	—	—	9
Change in scope of consolidation	—	—	(16,925)	—	(16,925)	—	—	—	—	—	—	(16,925)
Cash dividends paid:												
Final for prior year ($0.10 per share)	—	—	(46,297)	—	(46,297)	—	—	—	—	—	—	(46,297)
Interim for current year ($0.10 per share)	—	—	(46,297)	—	(46,297)	—	—	—	—	—	—	(46,297)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	(18)	—	—	(18)	—	—	—	—	—	—	(18)
Profit attributable to non-controlling interests	—	—	—	—	—	—	—	—	—	—	18,657	18,657
Net deferred losses on hedges	—	—	—	—	—	—	(23,371)	—	—	(23,371)	—	(23,371)
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	(5,399)	(5,399)	—	(5,399)
Balance at March 31, 2016	$1,090,437	$1,178,725	$5,058,959	$(38,492)	$7,289,629	$ 641,644	$(37,711)	$(4,529)	$(3,232)	$ 596,172	$259,085	$8,144,886

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2016, 2015 and 2014

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	2016
Cash flows from operating activities:				
Income before income taxes	¥ 135,554	¥ 130,667	¥ 115,122	$ 1,203,641
Depreciation and amortization	34,574	33,519	35,311	306,997
Loss on impairment of fixed assets (Note 10)	10,806	3,811	15,068	95,951
Provision for (Reversal of) allowance for doubtful accounts	(2,095)	(583)	(3,006)	(18,602)
Decrease in net defined benefit liability	(388)	(212)	(155)	(3,445)
Gain on sale of property and equipment, net	(115)	(1)	(16)	(1,021)
Loss on disposal of property and equipment	1,146	3,105	1,919	10,176
Gain on sale of investments in securities, net	(352)	—	(1,430)	(3,126)
Loss on devaluation of investments in securities	466	30	96	4,138
Interest and dividend income	(5,574)	(5,261)	(4,629)	(49,494)
Interest expense	24,489	26,247	26,971	217,448
Increase (Decrease) in notes and accounts receivable—trade	7,442	(8,741)	(530)	66,081
Increase in inventories	(51,302)	(88,915)	(24,292)	(455,532)
Increase (Decrease) in notes and accounts payable—trade	(12,363)	21,446	6,671	(109,776)
Increase (Decrease) in advances received	10,981	(3,507)	4,261	97,505
Other, net	9,118	(7,725)	7,549	80,961
Total	162,387	103,880	178,910	1,441,902
Proceeds from interest and dividend income	5,574	5,261	4,629	49,494
Payments for interest	(24,870)	(26,747)	(28,205)	(220,831)
Payments for income tax and other taxes	(46,985)	(47,327)	(38,340)	(417,199)
Net cash provided by operating activities	96,106	35,067	116,994	853,366
Cash flows from investing activities:				
Payments for purchases of property and equipment	(91,297)	(149,517)	(181,471)	(810,664)
Proceeds from sale of property and equipment	404	141	109	3,587
Payments for purchases of investments in securities	(18,118)	(22,335)	(26,813)	(160,877)
Proceeds from sale and redemption of investments in securities	1,838	14,324	3,857	16,320
Payments for guarantee and lease deposits paid to lessors	(1,373)	(1,088)	(1,296)	(12,191)
Proceeds from guarantee and lease deposits paid to lessors	4,658	5,691	14,813	41,360
Payments for guarantee and lease deposits received	(12,400)	(11,635)	(13,992)	(110,105)
Proceeds from guarantee and lease deposits received	26,047	18,415	15,395	231,282
Receipts of deposits from partnership investors	721	1,994	2,381	6,402
Restitution of deposits from partnership investors	(24,835)	(74,876)	(105,667)	(220,520)
Other, net	8,971	(2,032)	(2,765)	79,657
Net cash used in investing activities	(105,384)	(220,918)	(295,449)	(935,749)
Cash flows from financing activities:				
Decrease in short-term debt, net	(8,282)	(57,900)	(52,500)	(73,539)
Proceeds from issuance of bonds	40,000	110,000	140,000	355,177
Redemption of bonds	(60,000)	(80,000)	(70,000)	(532,765)
Proceeds from non-recourse bonds	5,000	3,000	8,000	44,397
Redemption of non-recourse bonds	(8,264)	(8,348)	(8,848)	(73,380)
Proceeds from long-term loans payable	566,200	505,800	354,500	5,027,526
Repayment of long-term loans payable	(380,863)	(200,085)	(213,392)	(3,381,842)
Proceeds from long-term non-recourse loans	39,600	23,800	67,900	351,625
Repayment of long-term non-recourse loans	(61,518)	(69,440)	(76,190)	(546,244)
Decrease in assignment of receivables	(1,700)	(2,777)	(7,829)	(15,095)
Increase in treasury stocks, net	(88)	(106)	(360)	(781)
Cash dividends paid	(11,277)	(10,323)	(10,327)	(100,133)
Other, net	(73,827)	(25,806)	(33,499)	(655,541)
Net cash provided by financing activities	44,981	187,815	97,455	399,405
Effect of exchange rate changes on cash and cash equivalents	126	2,078	2,491	1,119
Net increase (decrease) in cash and cash equivalents	35,830	4,042	(78,509)	318,150
Cash and cash equivalents at beginning of year	150,265	146,223	224,732	1,334,265
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(106)	—	—	(941)
Cash and cash equivalents at end of year (Note 3)	¥ 185,989	¥ 150,265	¥ 146,223	$ 1,651,474

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
As of and for the years ended March 31, 2016, 2015 and 2014

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, 2016, which was ¥112.62 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.

(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

(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, 2015, the Company and its consolidated subsidiaries ("the Group") adopted the main clause of Article 35 of "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 on May 17, 2012) and the main clause of Article 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 on March 26, 2015). Accordingly, the Group reviewed the calculation methods of retirement benefit obligations and service costs, and revised the method of determining the discount rate from the method using the discount rate based on approximate number of the average remaining service years of employees to the method using the single weighted-average discount rate reflecting the estimated period and amount of benefit payment.

In accordance with the transitional treatment set forth in Article 37 of the Accounting Standard for Retirement Benefits, the effect of the changes in the calculation methods of retirement benefit obligations and service costs is recognized as an adjustment to retained earnings at the beginning of the year ended March 31, 2015.

As a result, net defined benefit liability increased by ¥637 million and retained earnings decreased by ¥410 million as of April 1, 2014. In addition, operating income and income before income taxes and minority interests on the consolidated statement of income for the year ended March 31, 2015 decreased by ¥11 million, respectively.

(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 earnings per share is based on the weighted-average number of shares of common stock outstanding during each year.

Diluted earnings per share is computed based on the amount of profit attributable to owners of parent on common stock 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 earnings per share is not presented as there are no potential shares.

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

(16) Business combinations and related matters

Effective from the year ended March 31, 2016, the Group adopted “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) and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7 on September 13, 2013), and then records the amount of difference of the changes in equity in subsidiaries which the Company keeps its control as capital surplus, and expenses acquisition-related cost in the fiscal year which such cost is incurred. For business combinations conducted after the beginning of the fiscal year, the Group has changed to the method to reflect the effect of change in the allocation of acquisition cost based on finalization of provisional accounting treatment in consolidated financial statements for a fiscal year which a date of business combinations belongs to. In addition, the Group has changed the presentation of net income, and also changed the presentation from minority interests to non-controlling interests. Certain reclassifications have been made to consolidated financial statements for the previous fiscal year to reflect the change of the presentation.

The Group adopted the Accounting Standard for Business Combinations and other standards in accordance with the transitional treatments stipulated in Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and Article 57-4 (4) of the Accounting Standard for Business Divestitures from the beginning of the fiscal year.

In the consolidated statements of cash flows for the fiscal year, cash flow related to the acquisition or sale of shares of subsidiaries not accompanied by a change in the scope of consolidation is classified as “cash flows from financing activities,” while costs related to acquisition of shares of subsidiaries accompanied by a change in the scope of consolidation and cash flow for expenses incurred by acquisition or sale of shares of subsidiaries not accompanied by a change in the scope of consolidation are classified as “cash flows from operating activities.”

The impacts on the consolidated financial statements and per share information are insignificant.

(17) New accounting pronouncements (Accounting standards issued not but yet effective)

“Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26 on March 28, 2016)

(1) Outline

The implementation guideline for the recoverability of deferred tax assets, reviews and reflects the following treatments basically following the framework of Audit Committee Report No. 66 “Audit Treatment of Judgments with Regard to Recoverability of Deferred Tax Assets” in which companies are classified into five categories and the amount of deferred tax assets are estimated according to such categories.

(i) Treatment of companies which do not meet any of the requirements to be classified as Category 1 to 5
(ii) Requirements for Category 2 or Category 3
(iii) Treatment of future deductible temporary differences of which scheduling is impracticable for companies that fall under Category 2
(iv) Treatment of a period in which taxable income before adjusting future temporary differences can be rationally estimated for companies that fall under Category 3
(v) Treatment of a case in which companies which meet the requirement to be classified as Category 4 fall under Category 2 or 3

(2) Scheduled date of adoption

The implementation guidance is scheduled to be adopted from the beginning of the year ending March 31, 2017.

(3) Impact of the adoption

The impact of adopting the implementation guidance is under evaluation at the time of preparation of the consolidated financial statements.

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash, time and notice deposits	¥187,234	¥151,367	$1,662,529
Time deposits	(1,245)	(1,102)	(11,055)
Cash and cash equivalents	¥185,989	¥150,265	$1,651,474

4. Inventories

Inventories at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Real estate for sale	¥311,306	¥189,771	$2,764,216
Real estate for sale in process	535,399	604,455	4,754,031
Costs on uncompleted construction contracts	7,277	5,708	64,616
Other	1,834	2,016	16,285
Total	¥855,816	¥801,950	$7,599,148

The Company transferred amounts between inventories and property and equipment. Such transfers at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Inventories:			
Transferred to property and equipment	¥ —	¥(19,737)	$ —
Transferred from property and equipment	4,524	8,873	40,170
Net increase (decrease)	¥4,524	¥(10,864)	$40,170

5. Pledged assets

Assets pledged as collateral at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash, time and notice deposits	¥ 2,081	¥ 1,833	$ 18,478
Buildings and structures	114,451	149,004	1,016,258
Land	390,486	446,113	3,467,288
Construction in progress	37	17	329
Machinery and equipment	282	654	2,504
Total	¥507,337	¥597,621	$4,504,857

Secured liabilities at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Long-term non-recourse debt due within one year	¥121,964	¥ 69,191	$1,082,969
Long-term non-recourse debt due after one year	296,663	374,618	2,634,195
Total	¥418,627	¥443,809	$3,717,164

Specified assets for non-recourse debts at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash, time and notice deposits	¥ 12,787	¥ 16,761	$ 113,541
Buildings and structures	114,451	149,004	1,016,258
Land	390,486	446,113	3,467,288
Construction in progress	37	17	329
Machinery and equipment	282	654	2,504
Total	¥518,043	¥612,549	$4,599,920

(Note) "Specified assets for non-recourse debts" includes a portion of the amount of "Assets pledged as collateral" for the years ended March 31, 2016 and 2015.

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, 2016 and 2015 are as follows. (Financial instruments whose fair value is extremely difficult to estimate are not included; please see (Note 2).)

For 2016

	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	¥ 187,234	¥ 187,234	¥ —	$ 1,662,529	$ 1,662,529	$ —
(2) Notes and accounts receivable—trade	19,665	19,665	—	174,614	174,614	—
(3) Investments in securities						
Available-for-sale securities	296,518	296,518	—	2,632,907	2,632,907	—
(4) Guarantee and lease deposits						
Held-to-maturity securities	1,311	1,322	11	11,641	11,739	98
Available-for-sale securities	1,210	1,210	—	10,744	10,744	—
Total assets	¥ 505,938	¥ 505,949	¥ 11	$ 4,492,435	$ 4,492,533	$ 98
Liabilities:						
(1) Notes and accounts payable—trade	¥ 54,316	¥ 54,316	¥ —	$ 482,294	$ 482,294	$ —
(2) Short-term debt	78,718	78,718	—	698,970	698,970	—
(3) Long-term debt (including due within one year)	2,661,556	2,713,205	51,649	23,633,067	24,091,680	458,613
(4) Long-term non-recourse debt (including due within one year)	418,627	425,033	6,406	3,717,164	3,774,046	56,882
Total liabilities	¥3,213,217	¥3,271,272	¥58,055	$28,531,495	$29,046,990	$515,495
Derivative transactions*2:						
Hedge accounting	¥ (6,161)	¥ (6,161)	¥ —	$ (54,706)	$ (54,706)	$ —
Total derivative transactions	¥ (6,161)	¥ (6,161)	¥ —	$ (54,706)	$ (54,706)	$ —

For 2015

	Millions of yen		
	Carrying amount	Fair value	Difference
Assets:			
(1) Cash, time and notice deposits	¥ 151,367	¥ 151,367	¥ —
(2) Notes and accounts receivable—trade	27,597	27,597	—
(3) Investments in securities			
Available-for-sale securities	308,122	308,122	—
(4) Guarantee and lease deposits			
Held-to-maturity securities	1,305	1,308	3
Available-for-sale securities	1,065	1,065	—
Total assets	¥ 489,456	¥ 489,459	¥ 3
Liabilities:			
(1) Notes and accounts payable—trade	¥ 66,963	¥ 66,963	¥ —
(2) Short-term debt	87,000	87,000	—
(3) Long-term debt (including due within one year)	2,496,219	2,505,944	9,725
(4) Long-term non-recourse debt (including due within one year)	443,809	449,740	5,931
(5) Guarantee and deposits received*1	66,000	66,000	—
Total liabilities	¥3,159,991	¥3,175,647	¥15,656
Derivative transactions*2:			
Hedge accounting	¥ (2,391)	¥ (2,391)	¥ —
Total derivative transactions	¥ (2,391)	¥ (2,391)	¥ —

*1. The amounts only included in financial liabilities are disclosed.
*2. 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 on 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 has not 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) **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
	2016	2015	2016
Investments in subsidiaries and affiliates*1	¥ 35,763	¥ 34,596	$ 317,555
Unlisted equity securities*1 *2	1,428	1,429	12,680
Preferred equity securities, etc.*1	21,638	22,388	192,133
Investments in limited partnerships, etc.*1	352	745	3,126
Guarantee and lease deposits (excluding held-to-maturity securities and available-for-sale securities)*3	101,460	104,882	900,906
Guarantee and deposits received*4	181,498	168,273	1,611,597

*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 ¥16 million ($142 thousand) of impairment loss on investments in securities for the year ended March 31, 2016.
*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 2016

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash, time and notice deposits	¥187,234	¥ —	¥ —	¥—
Notes and accounts receivable—trade	19,484	181	—	—
Guarantee and lease deposits:				
Held-to-maturity securities (National government bonds)	—	1,315	—	—
Available-for-sale securities with maturities (National government bonds)	—	613	526	—
Total	¥206,718	¥2,109	¥526	¥—

For 2015

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash, time and notice deposits	¥151,367	¥ —	¥ —	¥—
Notes and accounts receivable—trade	27,596	1	—	—
Guarantee and lease deposits:				
Held-to-maturity securities (National government bonds)	195	1,115	—	—
Available-for-sale securities with maturities (National government bonds)	—	408	605	—
Total	¥179,158	¥1,524	¥605	¥—

For 2016

	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	$1,662,529	$ —	$ —	$—
Notes and accounts receivable—trade	173,007	1,607	—	—
Guarantee and lease deposits:				
Held-to-maturity securities (National government bonds)	—	11,676	—	—
Available-for-sale securities with maturities (National government bonds)	—	5,444	4,671	—
Total	$1,835,536	$18,727	$4,671	$—

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

For 2016

	Millions of yen					
Year ending March 31	2017	2018	2019	2020	2021	2022 and thereafter
Short-term debt	**¥ 78,718**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Long-term debt (including due within one year)	**316,737**	**289,622**	**275,752**	**169,619**	**131,281**	**1,478,545**
Long-term non-recourse debt (including due within one year)	**121,964**	**20,734**	**47,009**	**99,054**	**66,809**	**63,057**
Total	**¥517,419**	**¥310,356**	**¥322,761**	**¥268,673**	**¥198,090**	**¥1,541,602**

For 2015

	Millions of yen					
Year ending March 31	2016	2017	2018	2019	2020	2021 and thereafter
Short-term debt	¥ 87,000	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt (including due within one year)	380,863	316,737	289,622	275,752	169,619	1,063,626
Long-term non-recourse debt (including due within one year)	69,191	120,992	19,762	46,037	98,082	89,745
Guarantee and deposits received	—	40,000	—	—	—	26,000
Total	¥537,054	¥477,729	¥309,384	¥321,789	¥267,701	¥1,179,371

For 2016

	Thousands of U.S. dollars					
Year ending March 31	2017	2018	2019	2020	2021	2022 and thereafter
Short-term debt	**$ 698,970**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Long-term debt (including due within one year)	**2,812,440**	**2,571,675**	**2,448,517**	**1,506,118**	**1,165,699**	**13,128,618**
Long-term non-recourse debt (including due within one year)	**1,082,969**	**184,106**	**417,413**	**879,542**	**593,225**	**559,909**
Total	**$4,594,379**	**$2,755,781**	**$2,865,930**	**$2,385,660**	**$1,758,924**	**$13,688,527**

7. Securities

For 2016

A. The following tables summarize the acquisition costs, carrying amounts and fair values of securities with available fair values as of March 31, 2016:

(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.	¥1,311	¥1,322	¥11	$11,641	$11,739	$98
Securities whose fair value does not exceed carrying amount:						
National and local government bonds, etc.	—	—	—	—	—	—
Total	¥1,311	¥1,322	¥11	$11,641	$11,739	$98

(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	¥236,945	¥122,206	¥114,739	$2,103,933	$1,085,118	$1,018,815
Debt securities*	1,210	1,140	70	10,744	10,123	621
Other	582	502	80	5,168	4,457	711
Subtotal	238,737	123,848	114,889	2,119,845	1,099,698	1,020,147
Securities whose carrying amount does not exceed acquisition cost:						
Equity securities	58,373	68,880	(10,507)	518,318	611,614	(93,296)
Debt securities	—	—	—	—	—	—
Other	618	755	(137)	5,488	6,704	(1,216)
Subtotal	58,991	69,635	(10,644)	523,806	618,318	(94,512)
Total	¥297,728	¥193,483	¥104,245	$2,643,651	$1,718,016	$ 925,635

* 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 ¥466 million ($4,138 thousand) of impairment loss on investments in securities (¥449 million ($3,987 thousand) on equity securities in available-for-sale securities).

B. Total sales of available-for-sale securities sold in the year ended March 31, 2016 amounted to ¥1,371 million ($12,174 thousand) and the related gains and losses amounted to ¥428 million ($3,800 thousand) and ¥76 million ($675 thousand), respectively.

For 2015

A. The following tables summarize the acquisition costs, carrying amounts and fair values of securities with available fair values as of March 31, 2015:

(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.	¥1,305	¥1,308	¥3
Securities whose fair value does not exceed carrying amount:			
National and local government bonds, etc.	—	—	—
Total	¥1,305	¥1,308	¥3

(b) Available-for-sale securities:

	Millions of yen		
	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds acquisition cost:			
Equity securities	¥287,487	¥154,178	¥133,309
Debt securities*	1,065	1,013	52
Other	124	76	48
Subtotal	288,676	155,267	133,409
Securities whose carrying amount does not exceed acquisition cost:			
Equity securities	19,360	21,297	(1,937)
Debt securities	—	—	—
Other	1,151	1,305	(154)
Subtotal	20,511	22,602	(2,091)
Total	¥309,187	¥177,869	¥131,318

* 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 ¥30 million of impairment loss on investments in securities (¥30 million on equity securities in available-for-sale securities).

B. The Company lent the equity securities temporarily to financial institutions under securities lending agreements. Lent securities, included in investments in securities and other, were ¥81,108 million as of March 31, 2015.

8. Short-term debt and long-term debt

Short-term debt at March 31, 2016 and 2015 consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	2016	Average interest rate (%)	2015	Average interest rate (%)	2016
Loans, principally from banks	¥78,718	0.32	¥87,000	0.39	$698,970
Commercial paper	—	—	—	—	—
Total	¥78,718		¥87,000		$698,970

The interest rates represent weighted-average rates in effect at March 31, 2016 and 2015, regardless of borrowing currencies, though the range of the interest rate varies by borrowing currency.

Long-term debt at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
2.50% domestic straight bonds, due 2019	¥ 10,000	¥ 10,000	$ 88,794
0.96% domestic straight bonds, due 2015	—	30,000	—
0.94% domestic straight bonds, due 2015	—	10,000	—
0.80% domestic straight bonds, due 2015	—	20,000	—
0.74% domestic straight bonds, due 2016	10,000	10,000	88,794
0.68% domestic straight bonds, due 2016	10,000	10,000	88,794
0.75% domestic straight bonds, due 2017	10,000	10,000	88,794
0.55% domestic straight bonds, due 2017	10,000	10,000	88,794
0.50% domestic straight bonds, due 2017	10,000	10,000	88,794
0.50% domestic straight bonds, due 2017	10,000	10,000	88,794
0.486% domestic straight bonds, due 2017	10,000	10,000	88,794
0.444% domestic straight bonds, due 2017	10,000	10,000	88,794
0.388% domestic straight bonds, due 2018	20,000	20,000	177,588
0.329% domestic straight bonds, due 2018	10,000	10,000	88,794
0.563% domestic straight bonds, due 2020	10,000	10,000	88,794
0.877% domestic straight bonds, due 2020	20,000	20,000	177,588
0.462% domestic straight bonds, due 2018	10,000	10,000	88,794
1.098% domestic straight bonds, due 2023	10,000	10,000	88,794
0.426% domestic straight bonds, due 2018	20,000	20,000	177,588
0.355% domestic straight bonds, due 2018	10,000	10,000	88,794
0.950% domestic straight bonds, due 2023	10,000	10,000	88,794
0.344% domestic straight bonds, due 2018	10,000	10,000	88,794
0.968% domestic straight bonds, due 2023	10,000	10,000	88,794
0.987% domestic straight bonds, due 2024	20,000	20,000	177,588
0.914% domestic straight bonds, due 2024	20,000	20,000	177,588
0.904% domestic straight bonds, due 2024	20,000	20,000	177,588
0.884% domestic straight bonds, due 2024	20,000	20,000	177,588
0.836% domestic straight bonds, due 2024	20,000	20,000	177,588
0.809% domestic straight bonds, due 2024	20,000	20,000	177,588
0.429% domestic straight bonds, due 2021	10,000	10,000	88,794
0.392% domestic straight bonds, due 2022	10,000	10,000	88,794
0.670% domestic straight bonds, due 2025	10,000	10,000	88,794
0.826% domestic straight bonds, due 2025	20,000	—	177,588
0.992% domestic straight bonds, due 2025	20,000	—	177,588
Loans, principally from banks and insurance companies, with interest at weighted-average rates of 0.34% in 2016 and 0.49% in 2015:			
Secured	—	—	—
Unsecured*	2,241,556	2,056,219	19,903,719
Subtotal	2,661,556	2,496,219	23,633,067
Amount due within one year	(316,737)	(380,863)	(2,812,440)
Total	¥2,344,819	¥2,115,356	$20,820,627

* Unsecured long-term debt as of March 31, 2015 includes a subordinated loan of ¥60,000 million.

Non-recourse debt at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Non-recourse bonds, with interest at weighted-average rates of 0.60% in 2016 and 0.82% in 2015:			
Due within one year	¥ 16,460	¥ 8,264	$ 146,155
Due after one year	24,600	36,060	218,434
Subtotal	41,060	44,324	364,589
Non-recourse loans, with interest at weighted-average rates of 0.51% in 2016 and 0.72% in 2015:			
Due within one year	105,504	60,927	936,814
Due after one year	272,063	338,558	2,415,761
Subtotal	377,567	399,485	3,352,575
Total	¥418,627	¥443,809	$3,717,164
Secured	¥418,627	¥443,809	$3,717,164
Unsecured	—	—	—
Total	¥418,627	¥443,809	$3,717,164

The aggregate annual maturities of long-term debt at March 31, 2016 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2017	¥ 316,737	$ 2,812,440
2018	289,622	2,571,675
2019	275,752	2,448,517
2020	169,619	1,506,118
2021	131,281	1,165,699
2022 and thereafter	1,478,545	13,128,618
Total	¥2,661,556	$23,633,067

The aggregate annual maturities of non-recourse debt at March 31, 2016 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2017	¥121,964	$1,082,969
2018	20,734	184,106
2019	47,009	417,413
2020	99,054	879,542
2021	66,809	593,225
2022 and thereafter	63,057	559,909
Total	¥418,627	$3,717,164

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 2016 and 2015

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
	2016	**2015**	**2016**
Retirement benefit obligations at beginning of year	**¥10,094**	¥ 9,097	**$89,629**
Cumulative effects of changes in accounting policies	**—**	637	**—**
Restated balance	**¥10,094**	¥ 9,734	**$89,629**
Service costs	**635**	671	**5,638**
Interest costs	**88**	84	**781**
Actuarial differences	**452**	14	**4,013**
Retirement benefits paid	**(417)**	(409)	**(3,702)**
Decrease from the change in the scope of consolidation	**(1)**	—	**(8)**
Retirement benefit obligations at end of year	**¥10,851**	¥10,094	**$96,351**

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

	Millions of yen		Thousands of U.S. dollars
	2016	**2015**	**2016**
Plan assets at beginning of year	**¥4,660**	¥4,005	**$41,378**
Expected return on plan assets	**93**	80	**826**
Actuarial differences	**(228)**	369	**(2,025)**
Employer contributions	**402**	403	**3,570**
Retirement benefits paid	**(157)**	(197)	**(1,394)**
Plan assets at end of year	**¥4,770**	¥4,660	**$42,355**

(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 sheets

	Millions of yen		Thousands of U.S. dollars
	2016	**2015**	**2016**
Obligations under retirement benefit plans (funded)	**¥ 5,930**	¥ 5,840	**$ 52,655**
Fair value of plan assets	**(4,770)**	(4,660)	**(42,355)**
	1,160	1,180	**10,300**
Obligations under retirement benefit plans (unfunded)	**4,921**	4,254	**43,696**
Net amount of liabilities on the consolidated balance sheets	**¥ 6,081**	¥ 5,434	**$ 53,996**
Net defined benefit liability	**¥ 6,081**	¥ 5,434	**$ 53,996**
Net amount of liabilities on the consolidated balance sheets	**¥ 6,081**	¥ 5,434	**$ 53,996**

(4) Components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2016	**2015**	**2016**
Service costs	**¥ 635**	¥ 671	**$ 5,638**
Interest costs	**88**	84	**781**
Expected return on plan assets	**(93)**	(80)	**(826)**
Actuarial differences	**(355)**	(271)	**(3,152)**
Retirement benefit expenses	**¥ 275**	¥ 404	**$ 2,441**

(5) Remeasurements of defined benefit plans (before deducting tax effect)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Actuarial differences	¥1,035	¥(84)	$9,190
Total	¥1,035	¥(84)	$9,190

(6) Components of remeasurements of defined benefit plans (before deducting tax effect)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized actuarial differences	¥680	¥(355)	$6,038
Total	¥680	¥(355)	$6,038

(7) Major breakdown of plan assets

	2016	2015
Debt securities	22.4%	18.6%
Equity securities	35.4	41.5
General life insurance accounts	40.0	37.8
Other	2.2	2.1
Total	100.0%	100.0%

(8) Actuarial assumptions

	2016	2015
Discount rate	0.4%	0.9%
Rate of expected return on plan assets	2.0	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 ¥352 million ($3,126 thousand) and ¥352 million for the years ended March 31, 2016 and 2015, respectively.

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, 2016, 2015 and 2014, respectively.

For 2016

Use	Location	Number of properties
Land for development	**Tokyo, etc.**	**8**

For 2015

Use	Location	Number of properties
Land for development	Ibaraki	1
Assets leased to others	Tokyo	1

For 2014

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

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.

The carrying values of the land holdings summarized above have been reduced to their recoverable amounts by ¥10,806 million ($95,951 thousand) as a result of the determination of reviewing their business plans for the year ended March 31, 2016, and ¥3,811 million and ¥15,068 million as a result of transferring from property and equipment to inventories for the years ended March 31, 2015 and 2014, 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
	2016	**2015**	**2014**	**2016**
Land	**¥10,806**	¥3,811	¥15,068	**$95,951**

The recoverable amounts of these assets were determined as the net disposal value. The net disposal value for land for leased buildings and land for development are based on the amount equivalent to the publicly notified land price, 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, 2016 and 2015, 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, 2016 and 2015, 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 33.06% for the year ended March 31, 2016, 35.64% for the year ended March 31, 2015 and 38.01% for the year ended March 31, 2014.

Details of deferred tax assets and liabilities at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Depreciation and amortization of consolidated adjustment	¥ 9,306	¥ 10,359	$ 82,632
Loss on impairment of fixed assets	9,174	6,225	81,460
Loss on devaluation of real estate for sale	6,015	5,087	53,410
Allowance for doubtful accounts	2,503	2,222	22,225
Accrued enterprise tax and business office tax	2,466	2,375	21,897
Net operating loss carryforwards	2,170	2,264	19,268
Net deferred losses on hedges	1,895	773	16,826
Net defined benefit liability	1,876	2,095	16,658
Accrued bonuses	1,449	1,373	12,866
Loss on devaluation of investments in SPEs' holding properties for sale	1,413	1,492	12,547
Elimination of unrealized profit	980	1,013	8,702
Loss on devaluation of investments in securities	853	862	7,574
Other	6,846	4,666	60,788
Subtotal of deferred tax assets	46,946	40,806	416,853
Valuation allowance	(4,049)	(4,262)	(35,953)
Total deferred tax assets	¥ 42,897	¥ 36,544	$ 380,900
Deferred tax liabilities:			
Net unrealized holding gains on securities	(31,925)	(42,481)	(283,475)
Retained earnings appropriated for tax allowable reserves	(3,731)	(3,941)	(33,129)
Other	(626)	(773)	(5,559)
Total deferred tax liabilities	(36,282)	(47,195)	(322,163)
Net deferred tax assets	¥ 6,615	¥(10,651)	$ 58,737

Following the approval of "Act for Partial Revision of the Income Tax Act" (Act No. 15 of 2016) and "Act for Partial Revision of the Local Tax Act" (Act No. 13 of 2016) by the National Diet on March 29, 2016, the corporate tax rate will be reduced from fiscal years beginning on or after April 1, 2016. Accordingly, the effective statutory tax rate used to measure deferred tax assets and liabilities is changed from 32.34% to 30.86% for temporary differences expected to be eliminated in the fiscal year beginning on April 1, 2016 and the fiscal year beginning on April 1, 2017, and to 30.62% for temporary differences expected to be eliminated in the fiscal years beginning on or after April 1, 2018. As a result, net deferred tax assets decreased by ¥61 million ($542 thousand) and deferred income taxes increased by ¥1,785 million ($15,850 thousand), respectively.

The differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2016 and 2015 were insignificant and not presented.

13. Deposits received and accounts payable with interest rate

Guarantee and deposits received at March 31, 2016 and 2015 are as follows:

	Millions of yen				Thousands of U.S. dollars
	2016	Average interest rate (%)	2015	Average interest rate (%)	**2016**
Short-term deposits and long-term deposits due within one year:					
Non-interest-bearing	**¥ 71,619**	—	¥ 61,172	—	**$ 635,935**
Interest-bearing	**—**	—	—	—	**—**
	71,619		61,172		**635,935**
Guarantee and lease deposits from tenants:					
Non-interest-bearing	**181,498**	—	168,274	—	**1,611,596**
Interest-bearing	**—**	—	—	—	**—**
Long-term deposits:					
Non-interest-bearing	**68,302**	—	94,119	—	**606,482**
Interest-bearing	**—**	—	66,000	0.28	**—**
	249,800		328,393		**2,218,078**
Total	**¥321,419**		¥389,565		**$2,854,013**

Accounts payable with interest rate at March 31, 2016 and 2015 are as follows:

	Millions of yen				Thousands of U.S. dollars
	2016	Average interest rate (%)	2015	Average interest rate (%)	**2016**
Due within one year	**¥1,544**	**0.98**	¥1,544	0.98	**$13,710**
Due after one year	**3,087**	**0.98**	4,630	0.98	**27,411**
Total	**¥4,631**		¥6,174		**$41,121**

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

The aggregate annual maturities of accounts payable at March 31, 2016 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2017	**¥1,544**	**$13,710**
2018	**1,544**	**13,710**
2019	**1,543**	**13,701**
2020	**—**	**—**
2021	**—**	**—**
2022 and thereafter	**—**	**—**
Total	**¥4,631**	**$41,121**

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, 2016, 2015 and 2014 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2016	**2015**	**2014**	**2016**
Operating leases:				
Future lease payments:				
Due within one year	**¥ 1,116**	¥ 995	¥ 942	**$ 9,909**
Due after one year	**16,962**	17,449	17,736	**150,613**
Total	**¥ 18,078**	¥ 18,444	¥ 18,678	**$ 160,522**
Future lease receipts:				
Due within one year	**¥ 73,456**	¥ 58,934	¥ 52,024	**$ 652,246**
Due after one year	**111,546**	90,226	91,614	**990,464**
Total	**¥185,002**	¥149,160	¥143,638	**$1,642,710**

16. Derivative transactions

Hedge accounting was applied to all derivative transactions for the years ended March 31, 2016 and 2015.

The summary of these transactions is as follows:

For 2016

(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	**¥15,249**	**¥—**	**¥(98)**

			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	**$135,402**	**$—**	**$(870)**

(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	¥ 616,000	¥ 406,000	¥(6,063)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	1,507,665	1,338,501	—(*)
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	3,000	—(*)

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	$ 5,469,721	$ 3,605,044	$(53,836)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	13,387,187	11,885,109	—(*)
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	35,518	26,638	—(*)

(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 2015

(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	¥14,996	¥—	¥(12)

(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	¥(2,379)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	1,280,626	1,136,956	—(*)
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, 2016, 2015 and 2014 is summarized as follows:

Millions of yen

For 2016	Reportable segments: Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Adjustments	Consolidated financial statements amounts
Revenue from operations:								
Customers	¥ 309,847	¥274,515	¥197,548	¥60,555	¥12,499	¥ 854,964	¥ —	¥ 854,964
Intersegment	3,493	246	1,567	941	997	7,244	(7,244)	—
Total	313,340	274,761	199,115	61,496	13,496	862,208	(7,244)	854,964
Segment profit	¥ 111,327	¥ 44,188	¥ 15,300	¥17,722	¥ 1,790	¥ 190,327	¥ (16,086)	¥ 174,241
Segment assets	¥3,194,740	¥888,578	¥ 18,167	¥19,135	¥17,783	¥4,138,403	¥537,512	¥4,675,915
Other:								
Depreciation and amortization	¥ 32,098	¥ 233	¥ 1,038	¥ 365	¥ 169	¥ 33,903	¥ 671	¥ 34,574
Loss on impairment of fixed assets	6,414	4,392	—	—	—	10,806	—	10,806
Increase in property and equipment, and intangible assets	122,809	843	1,478	763	244	126,137	305	126,442

Millions of yen

For 2015	Reportable segments: Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Adjustments	Consolidated financial statements amounts
Revenue from operations:								
Customers	¥ 285,942	¥263,963	¥187,260	¥57,724	¥11,946	¥ 806,835	¥ —	¥ 806,835
Intersegment	3,175	244	1,735	762	2,420	8,336	(8,336)	—
Total	289,117	264,207	188,995	58,486	14,366	815,171	(8,336)	806,835
Segment profit	¥ 104,442	¥ 43,781	¥ 12,963	¥16,462	¥ 1,882	¥ 179,530	¥ (13,635)	¥ 165,895
Segment assets	¥3,123,993	¥844,623	¥ 16,327	¥18,404	¥19,674	¥4,023,021	¥500,783	¥4,523,804
Other:								
Depreciation and amortization	¥ 31,047	¥ 184	¥ 958	¥ 263	¥ 149	¥ 32,601	¥ 918	¥ 33,519
Loss on impairment of fixed assets	1,188	2,623	—	—	—	3,811	—	3,811
Increase in property and equipment, and intangible assets	140,475	3,924	1,572	640	1,781	148,392	4,632	153,024

Millions of yen

For 2014	Reportable segments: 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

For 2016	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	$ 2,751,261	$2,437,533	$1,754,111	$537,693	$110,984	$ 7,591,582	$ —	$ 7,591,582
Intersegment	31,016	2,184	13,914	8,356	8,853	64,323	(64,323)	—
Total	2,782,277	2,439,717	1,768,025	546,049	119,837	7,655,905	(64,323)	7,591,582
Segment profit	$ 988,519	$ 392,364	$ 135,855	$157,361	$ 15,894	$ 1,689,993	$ (142,834)	$ 1,547,159
Segment assets	$28,367,430	$7,890,055	$ 161,312	$169,908	$157,903	$36,746,608	$4,772,794	$41,519,402
Other:								
Depreciation and amortization	$ 285,012	$ 2,069	$ 9,217	$ 3,241	$ 1,500	$ 301,039	$ 5,958	$ 306,997
Loss on impairment of fixed assets	56,953	38,998	—	—	—	95,951	—	95,951
Increase in property and equipment, and intangible assets	1,090,472	7,485	13,124	6,775	2,167	1,120,023	2,708	1,122,731

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, 2016, 2015 and 2014.

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, 2016, 2015 and 2014.

18. Comprehensive income

Amounts reclassified to profit in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income (loss) for the years ended March 31, 2016, 2015 and 2014 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	2016
Unrealized holding gains (losses) on securities:				
Increase (Decrease) during the fiscal year	¥(27,205)	¥ 72,459	¥28,994	$(241,565)
Reclassification adjustments	130	145	(1,335)	1,155
Amounts before tax effects	(27,075)	72,604	27,659	(240,410)
Tax effects	10,561	(21,547)	(9,863)	93,775
Total	(16,514)	51,057	17,796	(146,635)
Deferred gains (losses) on hedges:				
Decrease during the fiscal year	(5,098)	(693)	(1,283)	(45,267)
Reclassification adjustments	1,327	832	880	11,783
Amounts before tax effects	(3,771)	139	(403)	(33,484)
Tax effects	1,122	(129)	141	9,962
Total	(2,649)	10	(262)	(23,522)
Foreign currency translation adjustments:				
Increase during the fiscal year	59	3,498	4,220	524
Remeasurements of defined benefit plans:				
Increase (Decrease) during the fiscal year	(680)	355	—	(6,038)
Reclassification adjustments	(355)	(272)	—	(3,152)
Amounts before tax effects	(1,035)	83	—	(9,190)
Tax effects	325	(18)	—	2,886
Total	(710)	65	—	(6,304)
Total other comprehensive income (loss)	¥(19,814)	¥ 54,630	¥21,754	$(175,937)

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, 2016 and 2015 are as follows:

		Millions of yen		Thousands of U.S. dollars
		2016	2015	2016
Investment and rental properties	Balance at beginning of fiscal year	¥2,767,130	¥2,504,743	$24,570,503
	Changes during the fiscal year	(70,934)	262,387	(629,853)
	Balance at end of fiscal year	2,696,196	2,767,130	23,940,650
	Fair value at end of fiscal year	4,147,483	3,921,410	36,827,233
A portion used as investment and rental properties	Balance at beginning of fiscal year	¥ 147,140	¥ 289,596	$ 1,306,517
	Changes during the fiscal year	130,636	(142,456)	1,159,972
	Balance at end of fiscal year	277,776	147,140	2,466,489
	Fair value at end of fiscal year	524,052	283,006	4,653,277

(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, 2016 and 2015 are calculated by the Company primarily based on their fair values according to Real Estate Appraisal Standards.

Significant changes during the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Increase:			
Acquired real estate	¥122,220	¥144,858	$1,085,242
Transferred from real estate for sale in process	—	19,737	—
Decrease:			
Depreciation and amortization	¥ (30,360)	¥ (29,458)	$ (269,579)
Transferred to real estate for sale	(4,425)	—	(39,291)
Transferred to real estate for sale in process	—	(6,383)	—
Loss on impairment of fixed assets	(9,275)	(3,811)	(82,357)

Income and expenses for investment and rental properties for the years ended March 31, 2016 and 2015 are as follows:

		Millions of yen		Thousands of U.S. dollars
		2016	2015	2016
Investment and rental properties	Income	¥185,566	¥178,920	$1,647,718
	Expenses	95,164	93,587	845,001
	Balance	90,402	85,333	802,717
	Other income (expenses)	(10,117)	(5,659)	(89,833)
A portion used as investment and rental properties	Income	¥ 30,892	¥ 17,665	$ 274,303
	Expenses	17,454	10,092	154,981
	Balance	13,438	7,573	119,322
	Other income (expenses)	(12)	1	(107)

(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 ¥3,849 million ($34,177 thousand) and ¥2,075 million at March 31, 2016 and 2015, respectively.

21. Subsequent events

On June 29, 2016, the shareholders of the Company approved payments of a year-end cash dividend of ¥11 ($0.10) per share or a total of ¥5,214 million ($46,297 thousand) to shareholders of record at March 31, 2016. 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, 2016 and 2015, 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, 2016, 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 misstatement, 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, 2016 and 2015, and their financial performance and cash flows for each of the years in the three-year period ended March 31, 2016, 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, 2016 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

July 28, 2016
Tokyo, Japan

CORPORATE DATA / INVESTOR INFORMATION

(As of March 31, 2016)

CORPORATE DATA

Head Office
Shinjuku NS Building,
4-1, Nishi-Shinjuku 2-chome
Shinjuku-ku, Tokyo 163-0820, Japan

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

Date of Establishment
December 1, 1949

Number of Employees
12,116 (Consolidated)

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

INVESTOR INFORMATION

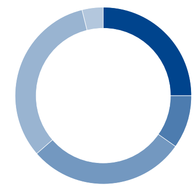
Paid-in Capital
¥122,805 million

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

Number of Shareholders
11,681

Stock Exchange Listing
Tokyo Stock Exchange

Breakdown of Shareholders

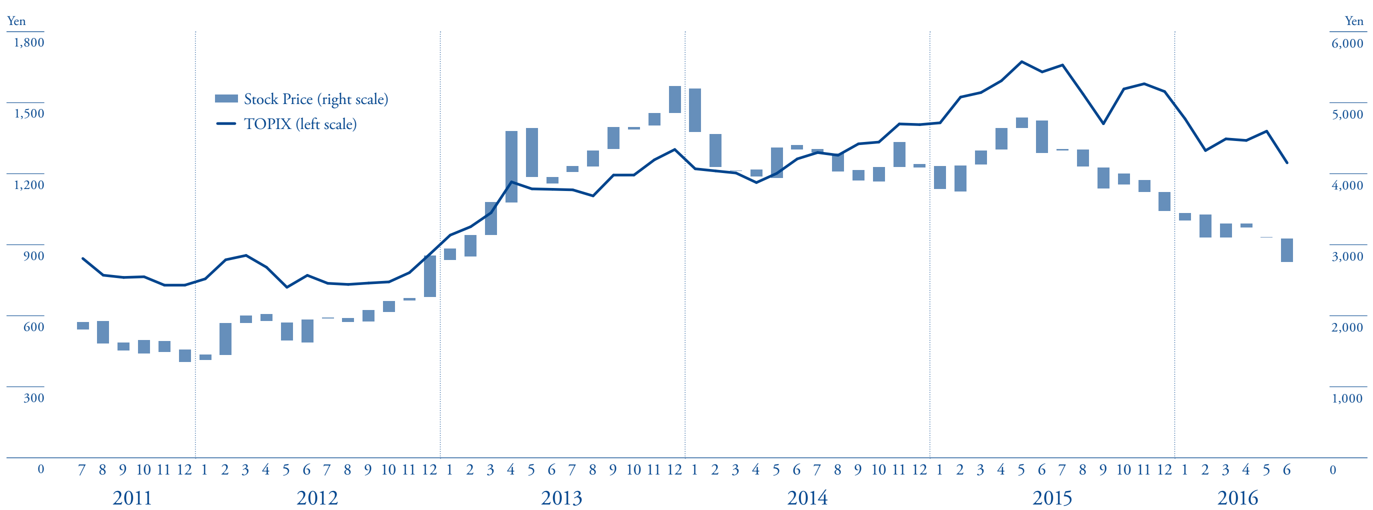


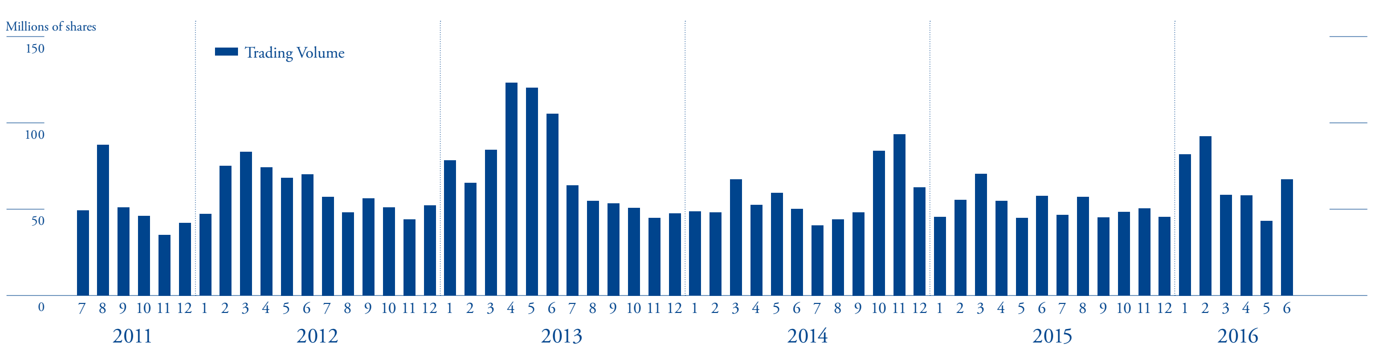
Trust Accounts	25.20%
Financial Institutions	9.69%
Other Companies	28.75%
Foreign Companies	32.50%
Individuals and Others	3.86%

Major Shareholders

Name	Number of shares held (Thousands)	Percentage of shares held
The Master Trust Bank of Japan, Ltd. (Trust account)	26,626	5.59%
Japan Trustee Services Bank, Ltd. (Trust account)	26,202	5.50%
Sumitomo Mitsui Banking Corporation	11,990	2.52%
Japan Trustee Services Bank, Ltd. (Trust account 4)	10,650	2.24%
Obayashi Corporation	7,527	1.58%
Shimizu Corporation	7,500	1.58%
The Bank of New York Mellon SA/NV10	7,224	1.52%
Mitsui Sumitomo Insurance Co., Ltd.	6,740	1.42%
State Street Bank-West Pension Fund Clients-Exempt 505233	6,551	1.38%
State Street Bank West Client-Treaty 505234	6,528	1.37%

Stock Price and Trading Volume on Tokyo Stock Exchange





HISTORY

1949 – 1980

Year	Event
1949	▪ Izumi Real Estate Co., Ltd. established as the successor to the holding company of the Sumitomo *zaibatsu* following the breakup of the conglomerate.
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 head office 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.

Global Events

1964
▪ Tokyo Olympic Games

1973
▪ First oil crisis

1978
▪ Second oil crisis

1981 – 2000

Year	Event
1982	▪ Completed construction of 30-story Shinjuku NS Building in Shinjuku, Tokyo; moved Company head office there from Shinjuku Sumitomo Building.
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.

Global Events

1985
▪ The Plaza Accord

1987
▪ Black Monday

1989
▪ Collapse of Berlin Wall
▪ Nikkei Stock Average all-time high

1999
▪ Introduction of euro

2001 – 2016

Year	Event
2001	▪ The number of managed STEP brokerage offices exceeded 200.
2002	▪ Completed construction of Izumi Garden Tower (Minato Ward, Tokyo).
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 construction of 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 Roppongi 3-chome Project (Minato Ward, Tokyo).
2014	▪ Number of condominium units brought to market over the full year was the highest in Japan for the first time.
2015	▪ Completed construction of Tokyo Nihonbashi Tower (Chuo Ward, Tokyo). ▪ Cumulative units contracted topped 100,000 in Shinchiku Sokkurisan remodeling operations. ▪ Number of condominium units brought to market over the full year was the highest in Japan for the second consecutive year.
2016	▪ Completed construction of Deux Tours Canal & Spa (Chuo Ward, Tokyo). ▪ Completed construction of Shinjuku Garden (Shinjuku Ward, Tokyo).

Global Events

2001
▪ September 11 terrorist attacks

2008
▪ Lehman crisis

2011
▪ The Great East Japan Earthquake
▪ European sovereign debt crisis
▪ Record-high yen against the U.S. dollar

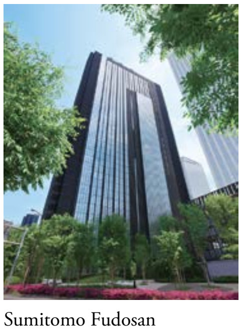
2015
▪ China stock market crash

Shinjuku NS Building (Head office)

World City Towers

City Towers Toyosu the Twin

Izumi Garden Tower



Sumitomo Fudosan Shinjuku Grand Tower

Sumitomo Realty & Development Co., Ltd.

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