Sumitomo Realty & Development Co., Ltd.

Endeavor for Persistent Growth

Leveraging Our Strong Presence
Under Our Medium-Term
Management Plan

Annual Report 2017

Ceaseless Efforts for

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 the No. 1 owner of office buildings in Tokyo, Sumitomo Realty 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

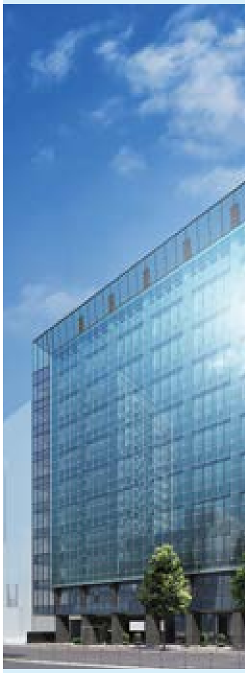
Project	Location (Tokyo CBD)	Gross floor area (tsubo*2)	Expected completion
Sumitomo Fudosan Shimbashi Building	Minato Ward	2,500	Jul 2016
Sumitomo Fudosan Roppongi Grand Tower	Minato Ward	61,100	Oct 2016
Sumitomo Fudosan Azabujuban Building	Minato Ward	14,000	Jan 2017
Total: 2017*1		77,600	
Shibaura 3-chome Project	Minato Ward	3,700	Aug 2017
Osaki Project	Shinagawa Ward	54,400	Jan 2018
Kojimachi 4-chome Project	Chiyoda Ward	4,000	Mar 2018
Total: 2018*1		62,100	
Sumitomo Fudosan Onarimon Tower	Minato Ward	9,900	May 2018
Ueno 5-chome Project	Taito Ward	3,500	Oct 2018
Kojimachi 1-chome Project	Chiyoda Ward	3,600	Nov 2018
Shibuya Udagawacho Project	Shibuya Ward	11,500	Feb 2019
Nishi Shinjuku 6-chome Project	Shinjuku Ward	16,700	Mar 2019
Kanda Neribeicho Project	Chiyoda Ward	9,300	Mar 2019
Total: 2019*1		54,500	
Others		27,800	
Total: 7th Management Plan		**222,000**	

*1. Fiscal year ending March 31
*2. 1 tsubo = 3.3 m²

Sumitomo Fudosan Grand Tower

Location
Minato Ward

Gross floor area
61,100 tsubo



Kojimachi 4-chome

Location
Chiyoda Ward

Gross floor area
4,000 tsubo

Further Growth

Roppongi

Completion
Oct 2016

No. of floors
43 above ground
2 below ground

Osaki Project

Location
Shinagawa Ward

Gross floor area
54,400 tsubo

Expected completion
Jan 2018

No. of floors
24 above ground
2 below ground

Project

Expected completion
Mar 2018

No. of floors
10 above ground
1 below ground

Sumitomo Fudosan Onarimon Tower

Location
Minato Ward

Gross floor area
9,900 tsubo

Expected completion
May 2018

No. of floors
22 above ground
2 below ground

Shibuya Udagawacho Project

Location
Shibuya Ward

Gross floor area
11,500 tsubo

Expected completion
Feb 2019

No. of floors
21 above ground
2 below ground

Kanda Neribeicho Project

Location
Chiyoda Ward

Gross floor area
9,300 tsubo

Expected completion
Mar 2019

No. of floors
21 above ground
2 below ground

Pursuing Ambitious Growth Targets

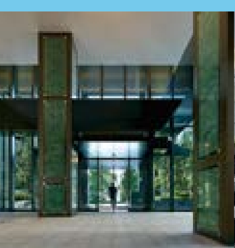
Supply of new condominiums in both the Tokyo metropolitan area and Japan

Sales of condominium remodeling in Japan

No.1

Number of real estate brokerage transactions and directly operated brokerage offices in Japan

Number of event venue facilities operated in Japan



OVER 210
TOKYO'S OFFICE BUILDING OWNER No.1

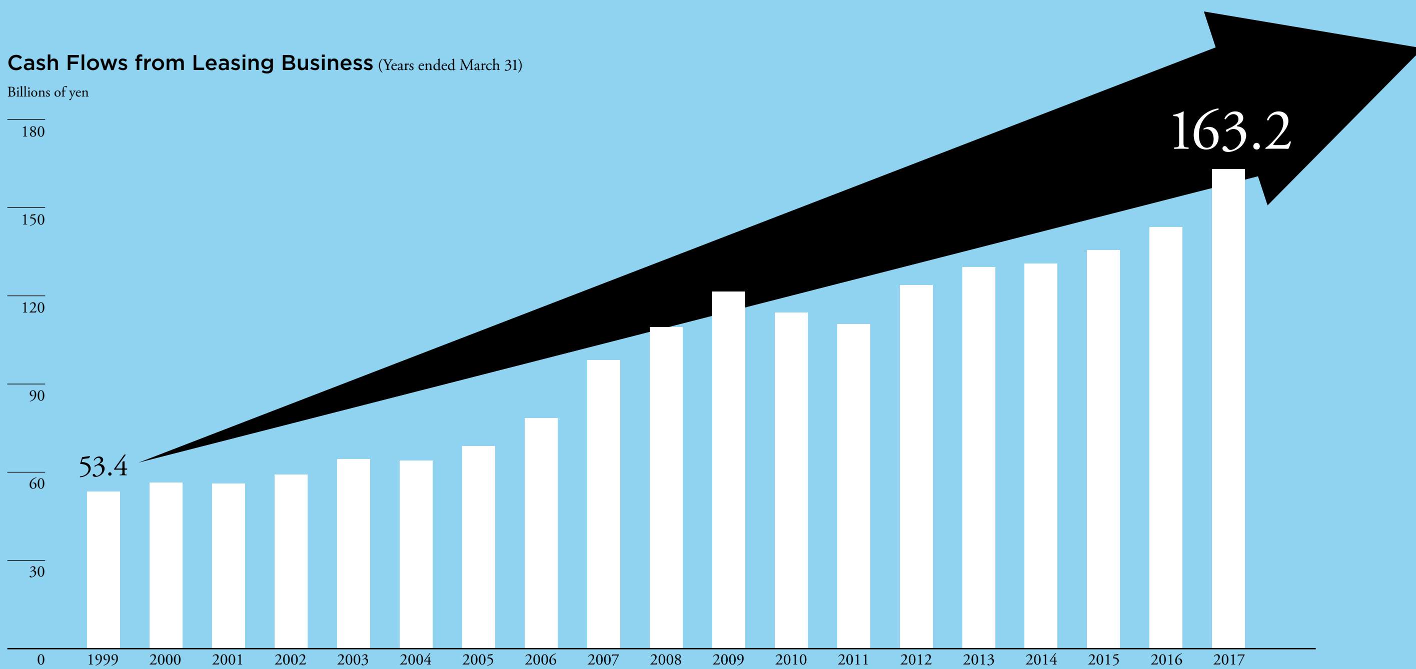
No. 1 Owner of Office Buildings in Tokyo

We made our full-scale entry into the leasing business in the second half of the 1970s, 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 210 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 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

Cash Flows from Leasing Business (Years ended March 31)



Our Fundamental Strength

Our Redevelopment Projects in Central Tokyo

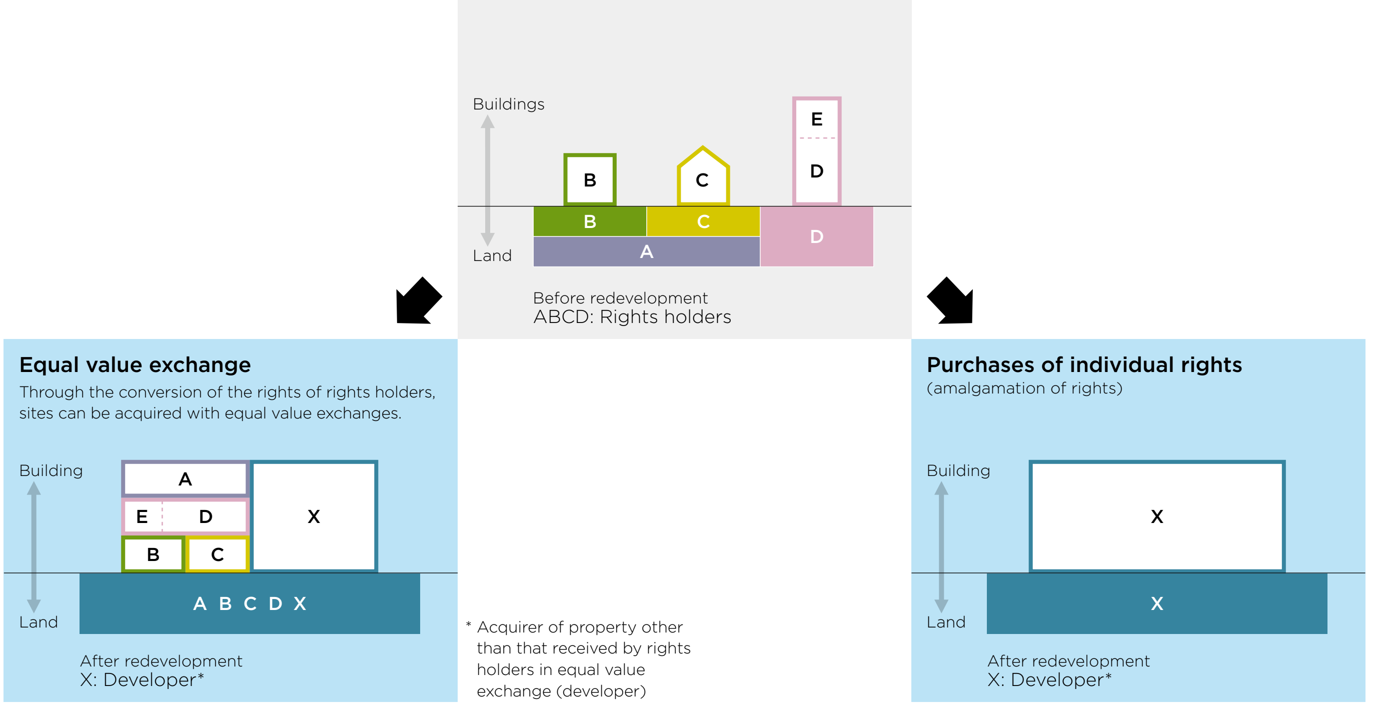
Approximately 60% of the office buildings we develop are redevelopment projects. We have the No. 1* track record in "redevelopment" among developers. Using the expertise we have cultivated to date, we will continue to grow by building a pipeline focused on redevelopment projects.

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

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

The acquisition of land for "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.



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

Enormous 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.)

(A) Shinjuku Central Park City

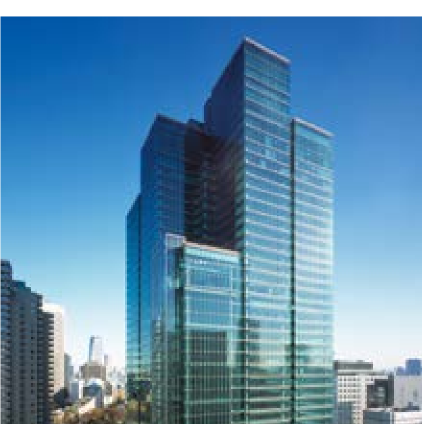
(B) Sumitomo Fudosan Shinjuku Grand Tower

(C) Sumitomo Fudosan Iidabashi First Tower

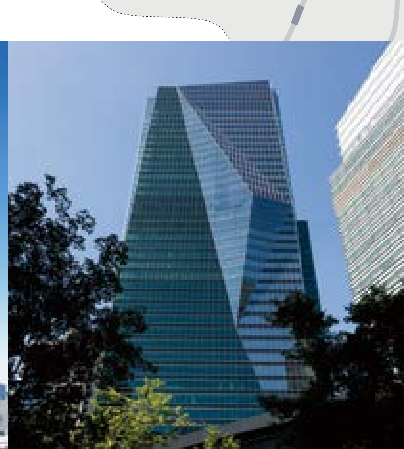
(D) Chiyoda First Building West

Tokyo CBD

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

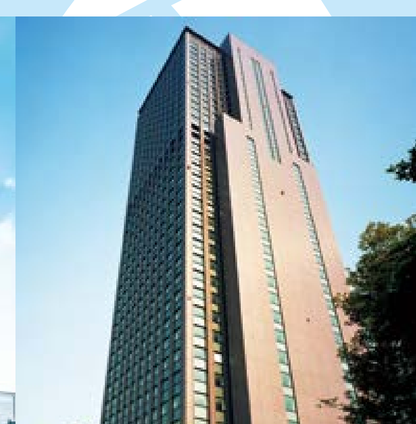


(E) Izumi Garden Tower



(F) Sumitomo Fudosan Roppongi Grand Tower

(G) Shiodome Sumitomo Building



(H) 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 the March 1998 fiscal year, and 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.

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.

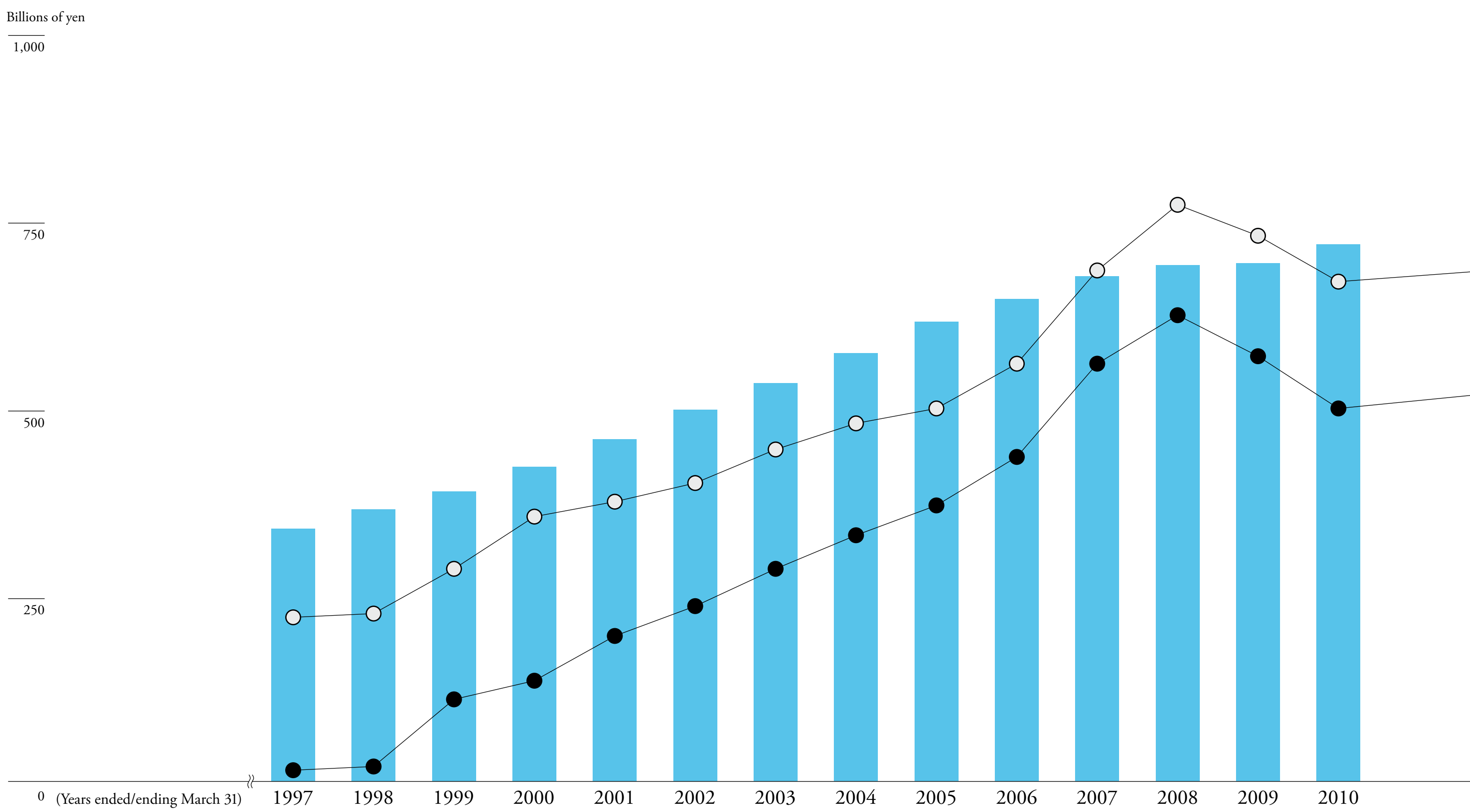
1996
Commenced Shinchiku Sokkurisan remodeling business.

2002
Completed construction of Izumi Garden Tower (Minato Ward, Tokyo).

2003
Commenced sales of J·URBAN fixed-price urban-style housing series.

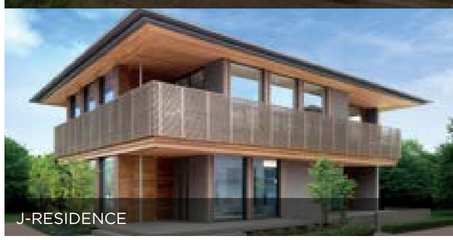
2004
Commenced sales of World City Towers (Minato Ward, Tokyo).

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)	202	265	350	435
Ordinary profit (right)	87	170	274	339


Shinchiku Sokkurisan


J-RESIDENCE


Deux Tours Canal & Spa


Izumi Garden Tower

2008
Established Sumitomo Fudosan Bellesalle Co., Ltd., a consolidated subsidiary.
Commenced sales of City Towers Toyosu (Koto Ward, Tokyo).

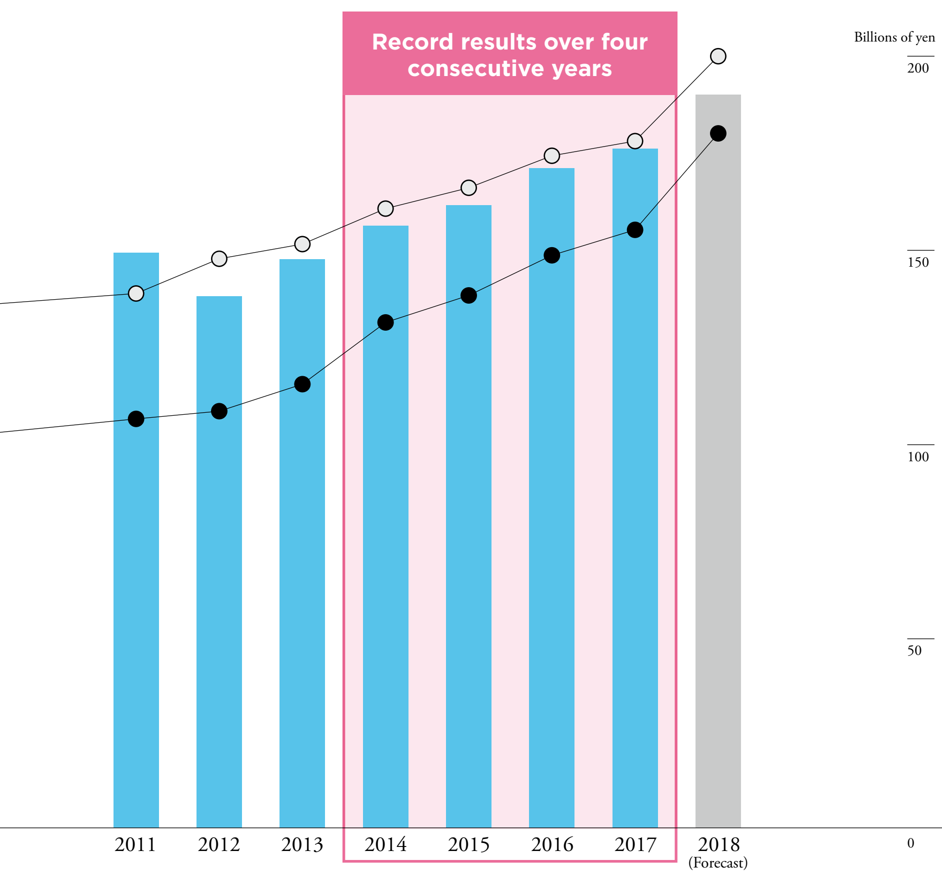
2011
Opened Grand Mansion Gallery.
Completed construction of Sumitomo Fudosan Shinjuku Grand Tower (Shinjuku Ward, Tokyo).

2012
Commenced sales of J·RESIDENCE.

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 Nihombashi Tower (Chuo Ward, Tokyo).
Cumulative units contracted topped 100,000 in Shinchiku Sokkurisan remodeling operations.

2016
Completed construction of Deux Tours Canal & Spa (Chuo Ward, Tokyo).
Completed construction of Sumitomo Fudosan Roppongi Grand Tower (Minato Ward, Tokyo).



	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

ROE
(%)

5.7 → **10.9**
1999 2017

Ordinary Profit
(Billions of yen)

21.7 → **167.7**
1999 2017

Cash Flows from Leasing Business
(Billions of yen)

53.4 → **163.2**
1999 2017

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

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 Our Shareholders

We would first like to take this opportunity to express our gratitude 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 medium-term management plans every three years since 1997, and have achieved sustained growth through the achievement of these plans. The Seventh Management Plan commenced in April 2017. Under this plan, we will firmly maintain our "revenue and profit growth trajectory" to surpass the record results achieved under the Sixth Management Plan.

During the March 2017 fiscal year, the first year of the Seventh Management Plan, we marked our fourth consecutive year of record revenue from operations, operating income, ordinary profit and profit attributable to owners of parent, thereby getting off to a strong start on our Seventh Management Plan.

While the operating environment has recently been favorable, the outlook remains unclear and conditions in Japan and overseas bear close monitoring. We will redouble our efforts to reach the targets set out in the Seventh Management Plan and continue moving forward to achieve sustainable growth. We would like to express our gratitude to our shareholders and ask for their continuous, long-term support.

J. Takashima
Junji Takashima
Chairman of the Board

K. Nishima
Kojun Nishima
President

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.

Kojun Nishima
President

Q Please recap Sumitomo Realty's results for the March 2017 fiscal year, progress toward the targets in the Seventh Management Plan, and the Company's forecast for the March 2018 fiscal year.

For the March 2017 fiscal year, we recorded ¥925.2 billion in revenue from operations, with operating income of ¥188.2 billion, ordinary profit of ¥167.7 billion and profit attributable to owners of parent of ¥103.5 billion. This marked our fifth consecutive year of revenue growth, our seventh consecutive year of increases in operating income and ordinary profit, and our fourth 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 for a second consecutive year and the Sales and Brokerage segments also achieved growth in income and profit.

As a result of the above, during the March 2017 fiscal year—the first year of the Seventh Management Plan (please see page 11 for details)—the figures for revenue from operations, operating income and ordinary profit all correspond to roughly one-third of the plan's cumulative targets and the Company got off to a smooth start in terms of progress toward its goal of reaching record-high results in three consecutive years for the second consecutive three-year period.

In the March 2018 fiscal year, we forecast growth in revenue and profit in all four main segments with the Leasing segment remaining an engine of growth as we strive to achieve record earnings for the fifth consecutive year.

Q 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 2017 fiscal year, we paid a full-year dividend of ¥24.00 per share (including an interim dividend of ¥11.00 per share), which represented a ¥2.0 increase from the previous year. For the March 2018 fiscal year, we intend to again increase the dividend by ¥2.0 per share and pay a full-year dividend of ¥26.00 per share (including an interim dividend of ¥13.00 per share).

At the same time, we cannot consider our equity ratio to be sufficient relative to other companies in our industry, and there are still investments to be made in development projects to fuel future growth. Accordingly, we intend to focus on maintaining a stable dividend payout while keeping a sufficient amount of retained earnings to strengthen our financial standing. Our aim is to meet the expectations of shareholders by undertaking investments to increase earnings and thereby continuously increasing profit per share and dividend distributions.

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

We will continue to make progress on planned redevelopment projects in central Tokyo, including those in National Strategic Special Zones such as Yaesu, Roppongi and Mita. To further establish our strong position as Tokyo's No. 1 office building owner, operating more than 210 office buildings, we will work to accelerate the pace of development from the previous average annual pace of 50,000 tsubo of gross floor area during and after the Seventh Management Plan, thereby providing a new total gross floor area of more than one million tsubo in order to achieve continuous growth in the leasing business. As far as such investment costs are concerned, we expect them to be within the scope of operating cash flows. In addition to the above projects, we will make sure to pursue as many entirely new development projects as possible when such opportunities arise. As well, we will expand into new business fields with an eye to the future, including large-scale development projects that are currently in progress in Ariake and Haneda, which are focused on commercial facilities and hotels.

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

Our investment strategy is to carefully select high-quality development sites and actively seek to acquire them. Not only have we been relying on making successful tender offers, which can become relatively expensive due to competition, we are also emphasizing the practice of aggregating small parcels of land for possible larger redevelopment projects, as we believe this multiplies the value of those properties. We view these practices as the source of our competitive advantages in the leasing business. (Please refer to pages 2–3 for further information regarding our redevelopment projects.)

During the March 2017 fiscal year, our interest-bearing debt grew by ¥211.6 billion, as we had many excellent investment opportunities, including the acquisition of office building sites. In line with this favorable financial environment, long-term interest rates remain low for now and interest costs declined by ¥2.9 billion from the previous year, with the rate applied to our long-term financing of, for instance, 10-year tenors being less than 1%. We will continue to secure long-term and fixed-rate funding in order to maintain a robust financial position.

In the March 2017 fiscal year, we recorded profit attributable to owners of parent of ¥103.5 billion, which is an 18% increase from the previous year and the first time our bottom line has topped ¥100 billion. We were therefore able to increase shareholders' equity to over ¥1 trillion, resulting in our net debt-equity (ND/E) ratio improving to 3.1 times. We will continue to make active investments with the aim of accumulating profits in order to increase shareholders' equity and to further improve our financial balance.

Q Why did you convert Sumitomo Real Estate Sales Co., Ltd. into a wholly owned subsidiary?

We expect market growth and fiercer competition in housing-related recurring revenue businesses such as the real estate brokerage and remodeling businesses. In this environment, we believe the concentration of the Group's management resources and centralized management of information are essential to the further growth of the Group. In addition, amid increased focus around the world on issues related to corporate governance and rising criticism of the practice of the listing of subsidiaries, we are concerned that, over the medium to long term, conflicts of interest could emerge between the minority shareholders of Sumitomo Real Estate Sales and the investment and business strategies of the Group as a whole. It was determined that the best way to resolve such issues would be to convert Sumitomo Real Estate Sales into a wholly owned subsidiary. We will endeavor to continue to respond quickly and appropriately to changes in the market and maximize the corporate value of the Group.

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

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

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

Three-year cumulative earnings targets

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

* Compared with Sixth Management Plan

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

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

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

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

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

Pace of development

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

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

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

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

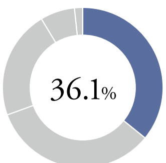
Management Plan	4th Plan	5th Plan	6th Plan	7th Plan
Revenue from operations	¥222.0 billion (+¥24.0 billion)	¥249.0 billion (+¥27.0 billion)	¥336.0 billion (+¥86.0 billion)	**¥430.0 billion (+¥94.0 billion)**
Percent of total	11%	11%	14%	**16%**

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

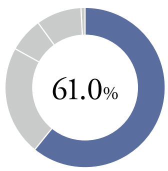
LEASING

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.

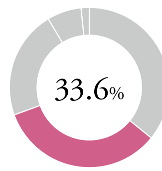
- Our "central, new and large" leasing portfolio gives us strong market competitiveness.

→ Please refer to page 16.

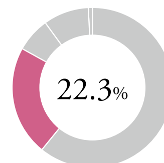
SALES

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

Revenue from Operations



Operating Income



History

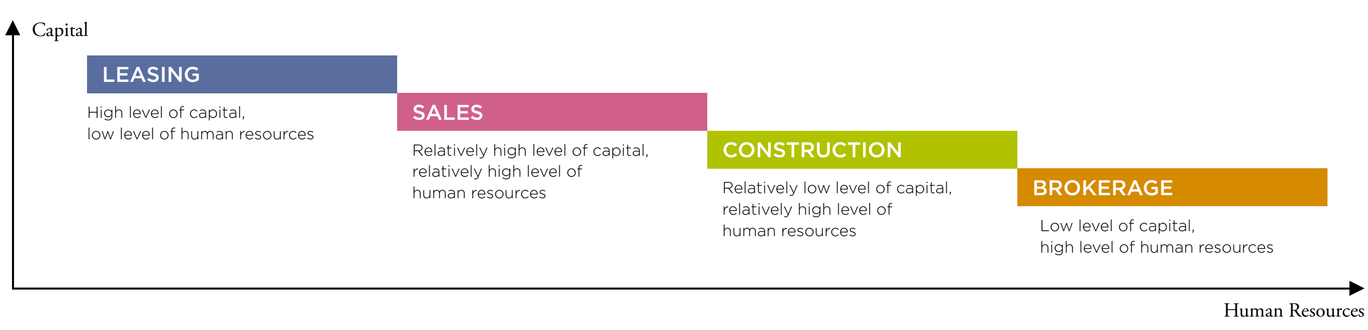
Having entered the condominium sales business in the first half of the 1960s, Sumitomo Realty is a pioneer in the domestic market for condominium development and sales. We have become a leading company for condominium sales in Japan by staying ahead of our competitors, strategically focusing on city 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 customers to understand the value of our condominiums.

→ Please refer to page 18.

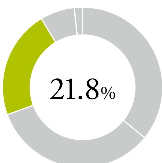
Balanced Portfolio



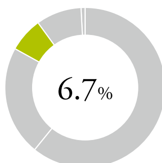
CONSTRUCTION

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 110,000 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 110 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 construction charges.

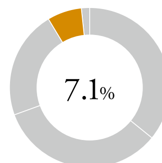
Custom Homes

- 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.

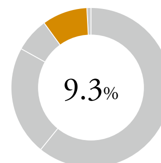
BROKERAGE

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. 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 260 offices nationwide as of the end of March 2017.
- As all brokerage offices are directly operated, the network boasts efficient operations and the industry's high profit margins.

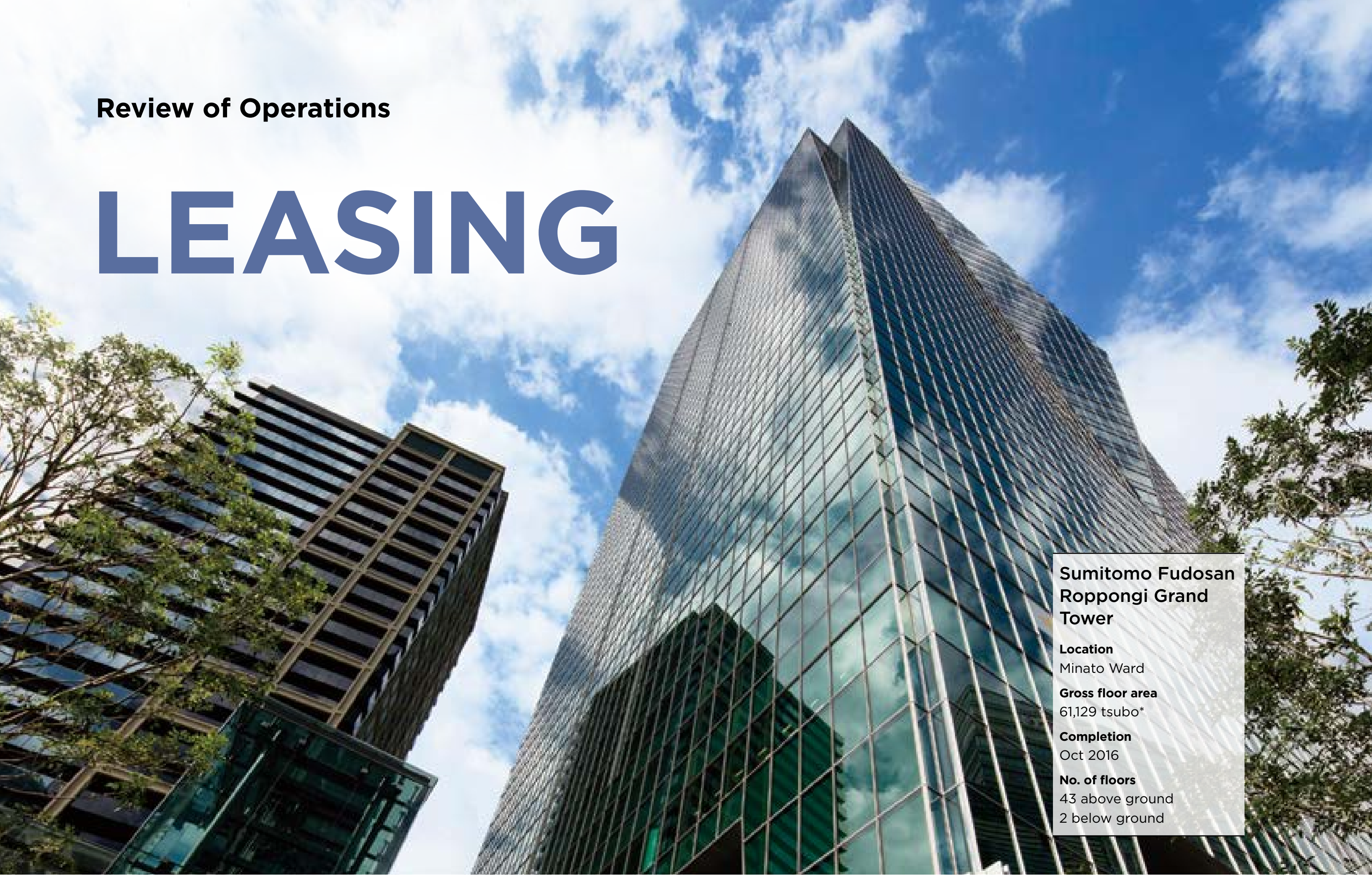
Our achievement of sustained growth has been the result of our well-balanced operations. We have a balanced portfolio in four operational fields—leasing, sales, construction and brokerage—that have different risk profiles and capital requirements.

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.

Review of Operations

LEASING



Sumitomo Fudosan Roppongi Grand Tower

Location
Minato Ward

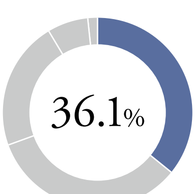
Gross floor area
61,129 tsubo*

Completion
Oct 2016

No. of floors
43 above ground
2 below ground

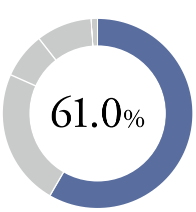
Basic Growth Strategy

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



Revenue from Operations

¥337.5 billion



Operating Income

¥126.2 billion

Overview of the Fiscal Year

The Tokyo office building market, where more than 90% of our leasing portfolio is concentrated, experienced continued strong new demand from relocations and floor space expansions while vacancy rates remained low and rents for renewed leases continued on an upward trend.

Reflecting such an environment, the segment recorded revenue and profit growth for the March 2017 fiscal year based on improved vacancy rates and higher rents as well as full-year contribution from new buildings completed during the previous fiscal year, including Tokyo Nihombashi Tower, Sumitomo Fudosan Mita Building and Sumitomo Fudosan Shinjuku Garden Tower. The segment's revenue from operations and operating income both reached record-high levels for the second consecutive year.

The vacancy rate for existing buildings improved slightly from 4.7% to 4.5% during the fiscal year, and tenant acquisition for new buildings is on a good track, including Sumitomo Fudosan Roppongi Grand Tower and Sumitomo Fudosan Azabujuban Building.

Interior of Sumitomo Fudosan Roppongi Grand Tower

Outlook

We are aiming for record-high revenue from operations and operating income in the March 2018 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 Sumitomo Fudosan Roppongi Grand Tower, Sumitomo Fudosan Azabujuban Building and Sumitomo Fudosan Shimbashi Building.

As a result, we are projecting a 3.7% increase in revenue from operations, to ¥350.0 billion, with a 9.3% rise in operating income, to ¥138.0 billion.

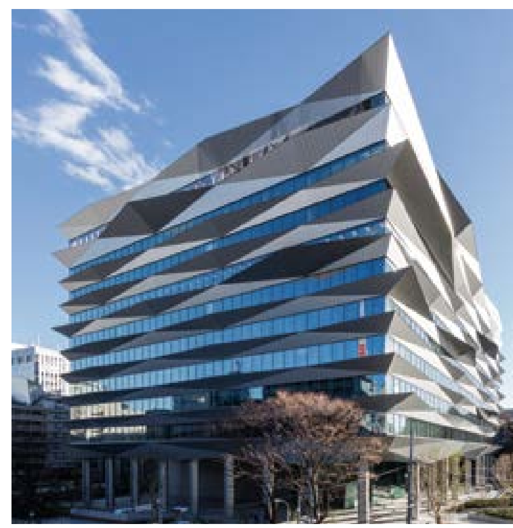
Sumitomo Fudosan Azabujuban Building

Location
Minato Ward

Gross floor area
13,961 tsubo*

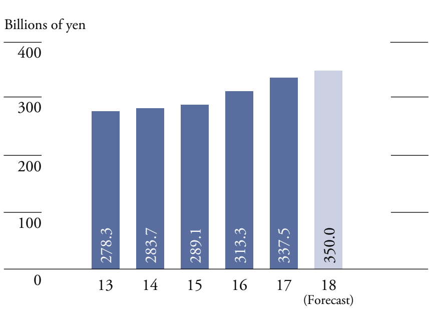
Completion
Jan 2017

No. of floors
10 above ground

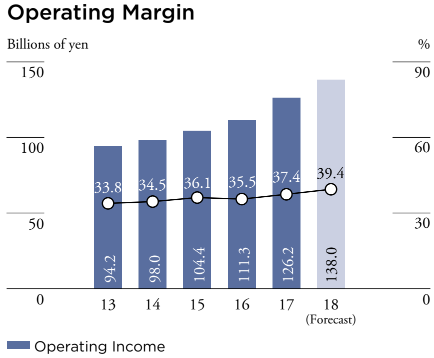


* 1 tsubo = 3.3 m²

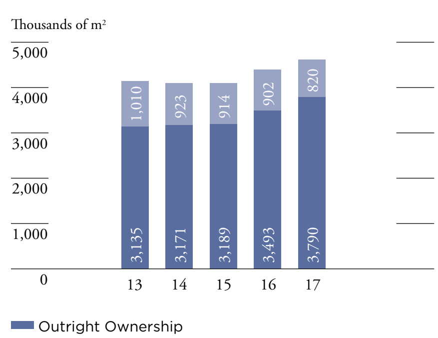
Revenue from Operations



Operating Income and Operating Margin



Gross Floor Area

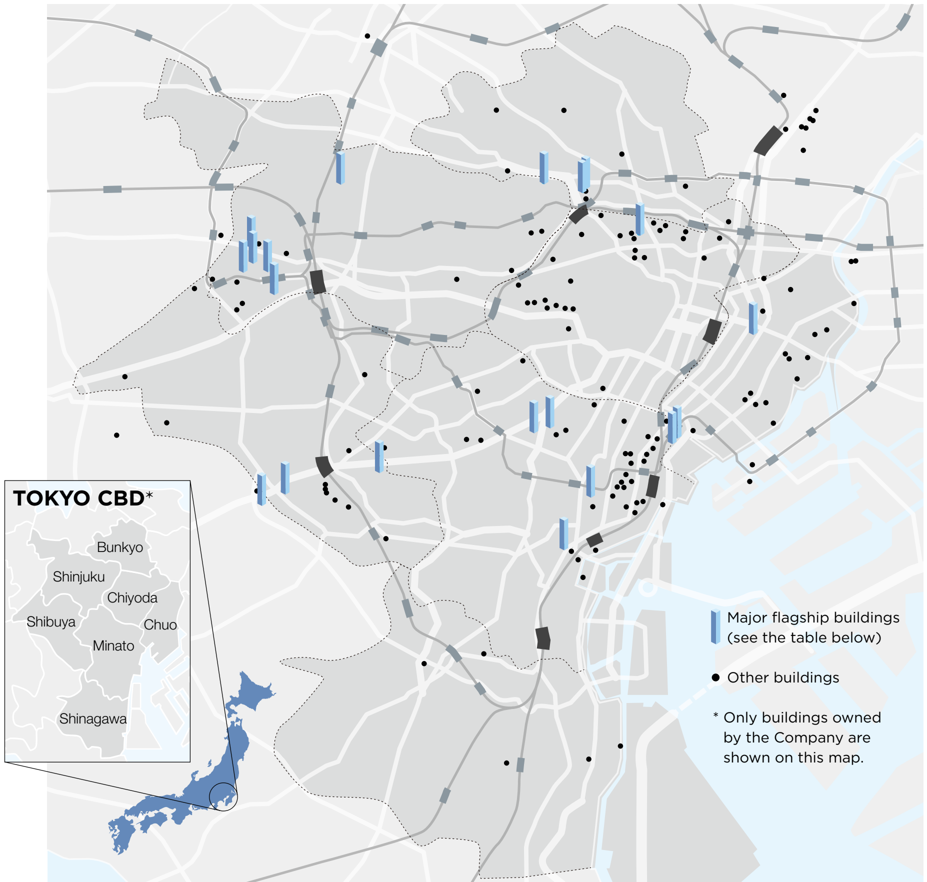


Our Leasing Portfolio

(As of March 31, 2017)

In the Tokyo CBD (Central Business District)*, where buildings that meet the three conditions for prime properties—central, 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 210 BUILDINGS IN CENTRAL TOKYO'S MAJOR OFFICE DISTRICTS

GROSS FLOOR AREA 4.61 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 2002	204,383
2. Sumitomo Fudosan Roppongi Grand Tower	Minato Ward	43/2	Oct 2016	202,078
3. Shinjuku Sumitomo Building	Shinjuku Ward	52/4	Mar 1974	177,467
4. Sumitomo Fudosan Shinjuku Grand Tower	Shinjuku Ward	40/3	Dec 2011	168,329
5. Sumitomo Fudosan Shinjuku Garden Tower	Shinjuku Ward	37/2	Mar 2016	143,372
6. Shinjuku Central Park City	Shinjuku Ward	44/2	Feb 2010	130,362
7. Shinjuku Oak City	Shinjuku Ward	38/2	Jan 2003	117,575
8. Tokyo Nihombashi Tower	Chuo Ward	35/4	Apr 2015	105,837
9. Shiodome Sumitomo Building	Minato Ward	25/3	Jul 2004	99,913
10. Sumitomo Fudosan Mita Twin Building West	Minato Ward	43/2	Sep 2006	98,338
11. Tokyo Shiodome Building	Minato Ward	37/4	Jan 2005	95,128
12. Shinjuku NS Building	Shinjuku Ward	30/3	Sep 1982	75,046
13. Sumitomo Fudosan Shibakoen First Building	Minato Ward	35/2	Jun 2000	70,381
14. Sumitomo Fudosan Iidabashi First Tower	Bunkyo Ward	34/3	Apr 2010	68,454
15. Chiyoda First Building West	Chiyoda Ward	32/2	Jan 2004	61,209
16. Sumitomo Fudosan Shibuya Garden Tower	Shibuya Ward	24/3	Jun 2012	59,417
17. Sumitomo Fudosan Aobadai Tower	Meguro Ward	33/3	Aug 2009	55,773
18. Sumitomo Fudosan Iidabashi First Building	Bunkyo Ward	14/2	Mar 2000	53,322
19. Sumitomo Fudosan Iidabashi Building No.3	Shinjuku Ward	24/2	Oct 2002	53,047
20. Sumitomo Fudosan Shibuya First Tower	Shibuya Ward	25/3	Aug 2010	52,942

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

Our Portfolio's Strengths

(As of March 31, 2017)

Sumitomo Realty's leasing portfolio is highly competitive in terms of the three distinct features of being "central, 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.

Central

Tokyo CBD*

89%

23 Wards

95%

Locations in the Tokyo CBD

Our leasing portfolio emphasizes on locations in central Tokyo; 95% of our portfolio is in Tokyo's 23 wards, and 89% is in the Tokyo CBD (Central Business District)*. Proximity to other office buildings and major train and subway stations is a key condition for a prime property, and having been located in such areas is one of our portfolio's competitive strengths. In particular, the Tokyo CBD is designed as a district with a high concentration of office buildings, and strong and stable demand is expected in this district going forward. Therefore, we will work to enhance our competitive strengths by continuing to acquire development sites in this district.

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

New

Completed since 2000

63%

New quake-resistant structure*

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 63% of them have been completed since 2000. New buildings are capable of generating strong demand by meeting tenants' needs for facilities and design to name a few, making the relative age of the buildings in a portfolio a key factor affecting the leasing business.

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. Further, approximately 80% of the buildings we own are structured with a seismic isolation system and/or a damping system. In recent years, emergency generators that provide electricity in the event of a power outage have also become a feature sought by tenants as a part of their business continuity planning. Thus, emergency generators are installed in about 70% of the buildings we own, which includes all newly completed buildings after 2001.

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/m^2	300–500 kg/m^2	500–1,000 kg/m^2
Air-conditioning	Central air-conditioning system	Climate control zones	Separate climate control systems
Power capacity	45 VA/m^2	60–70 VA/m^2	85 VA/m^2 and over

* Includes raised floors

Large

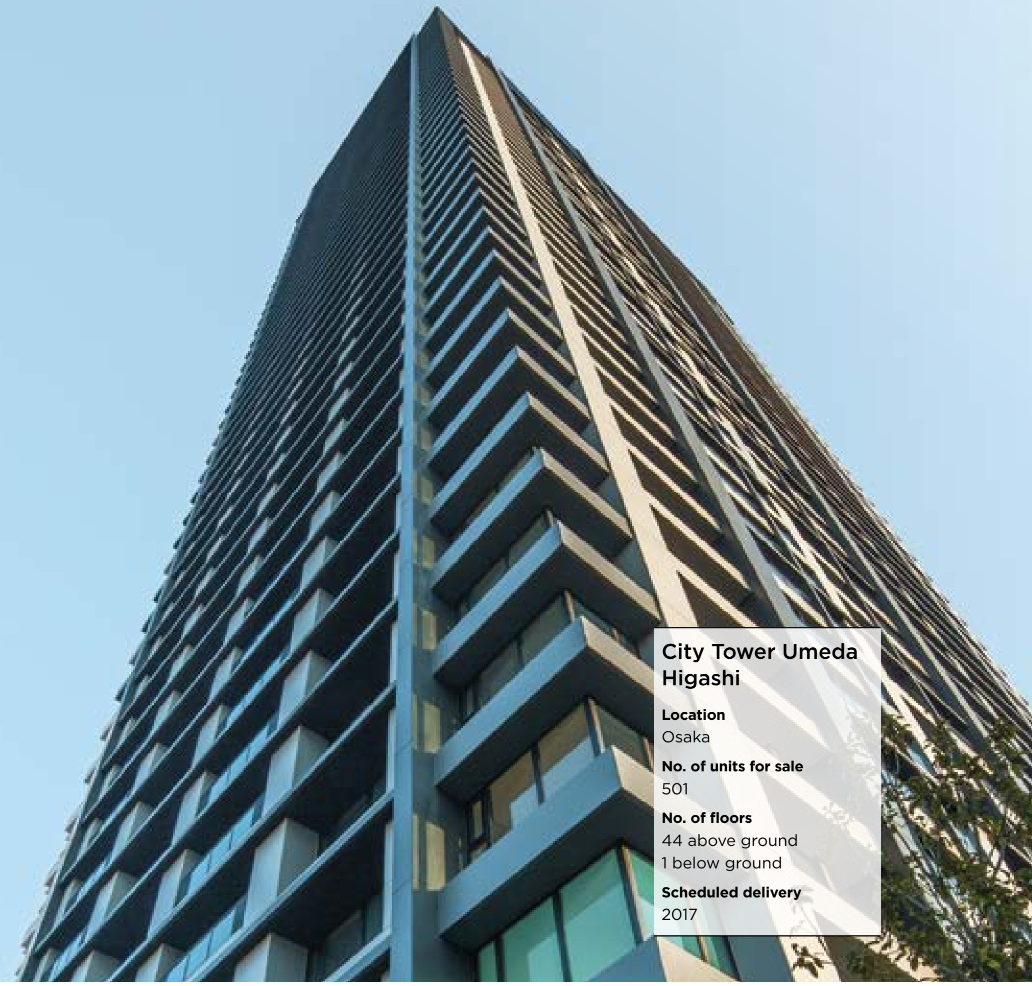
Over 10,000 m^2 (gross floor area)

86%

Large-scale Buildings

Large-scale buildings with gross floor area of at least 10,000 square meters make up 86% of our portfolio. Consolidating multiple offices of a business on one floor helps to facilitate internal communication and reduce space redundancies, making 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. Being able to offer such spaces is definitely one of our strengths.

SALES



City Tower Umeda Higashi

Location
Osaka

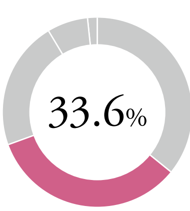
No. of units for sale
501

No. of floors
44 above ground
1 below ground

Scheduled delivery
2017

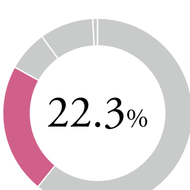
Basic Growth Strategy

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

¥314.3 billion



Operating Income

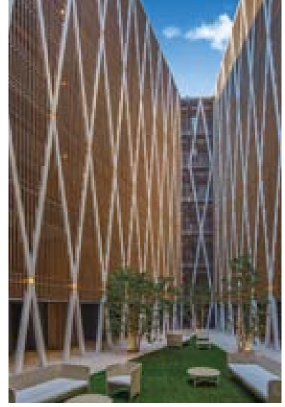
¥46.2 billion

Overview of the Fiscal Year

The condominium market, which represents more than 90% of the segment's portfolio, saw supply in the Tokyo metropolitan area decline to mid-30,000s in terms of number of units, yet demand remained firm as interest rates stayed low and customer traffic at model homes remained high.

In such an environment, we delivered a total of 5,716 condominium units, detached houses and land lots during the March 2017 fiscal year, an increase of 720 units from the previous year due to steady delivery of units in projects completed last year, including Deux Tours Canal & Spa (Harumi), City Tower Kanamachi and City Tower Musashi Kosugi, as well as the start of delivering units in projects such as City Terrace Hirai, City Tower Hiroshima and City Tower Umeda Higashi. As a result of a sizable increase in sales volume, revenue and income grew for the fifth consecutive year, with both revenue from operations and operating income reaching record highs for the third consecutive year.

The number of condominium units sold increased by 943 units from the previous year, to 6,467 units, surpassing the 6,000 mark for the first time. Also, the number of condominium units brought to market over the full year was the highest in both the Tokyo metropolitan area and Japan for the third consecutive year.

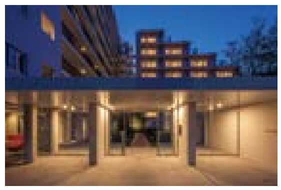


Garden Hills Yotsuya

Location	**No. of floors**
Shinjuku Ward, Tokyo	7 above ground, 2 below ground
No. of units for sale	**Scheduled delivery**
139	2018

City Terrace Omori Nishi

Location	**No. of floors**
Ota Ward, Tokyo	11 above ground
No. of units for sale	**Scheduled delivery**
279	2017



City Terrace Toyocho

Location	**No. of floors**
Koto Ward, Tokyo	15 above ground
No. of units for sale	**Scheduled delivery**
522	2017

Outlook

We are projecting an 84-unit increase, to 5,800, in the number of condominium units, detached houses and land lots delivered, and are aiming for a fourth consecutive year of record-high revenue from operations and operating income and a second consecutive year of record-high units delivered.

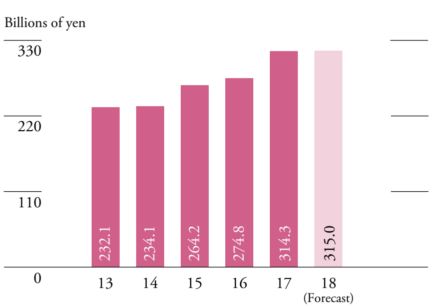
As a result, we are forecasting a 0.2% increase in revenue from operations, to ¥315.0 billion, with a 1.8% rise in operating income, to ¥47.0 billion.

Principal Condominium Development Projects (2017–2018)

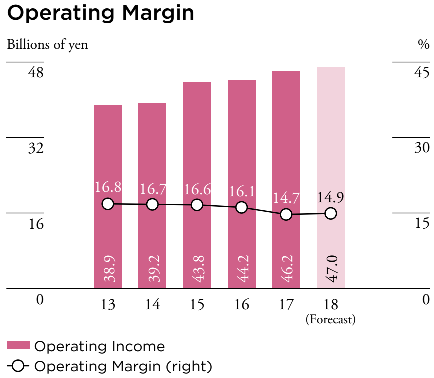
Name	Location	No. of units for sale	Scheduled delivery*
City Terrace Toyocho	Koto Ward, Tokyo	522	2017
City Terrace Hirai	Edogawa Ward, Tokyo	357	2017
City Terrace Omori Nishi	Ota Ward, Tokyo	279	2017
City House Nakameguro Residence	Meguro Ward, Tokyo	115	2017
City Terrace Yokohama Tsunashima Gardens	Yokohama	243	2017
City Tower Umeda Higashi	Osaka	501	2017
City Tower Nagamachi Shintoshin	Sendai	414	2017
City Tower Hiroshima	Hiroshima	471	2017
City Terrace Suginami-Honancho	Suginami Ward, Tokyo	298	2018
City Tower Meguro	Meguro Ward, Tokyo	244	2018
City Terrace Ogikubo	Suginami Ward, Tokyo	225	2018
Garden Hills Yotsuya	Shinjuku Ward, Tokyo	139	2018
City House Higashiazabu	Minato Ward, Tokyo	122	2018
City Terrace Koganei Kouen	Kodaira, Tokyo	922	2018

* Fiscal year ended/ending March 31

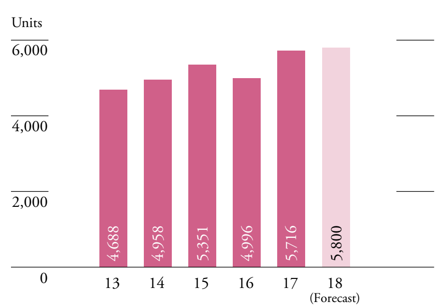
Revenue from Operations



Operating Income and Operating Margin



Units Delivered*

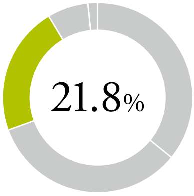


* Number of units includes condominium units, detached houses and land lots.

CONSTRUCTION

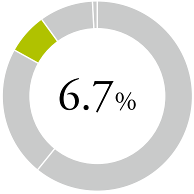
Basic Growth Strategy

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



Revenue from Operations

¥203.6 billion



Operating Income

¥13.9 billion

Overview of the Fiscal Year

Both the Shinchiku Sokkurisan remodeling business and custom homes operations posted high order levels. Shinchiku Sokkurisan showed a 3.7% increase, to 8,770 units, hitting a record high for the second consecutive year. Although custom homes orders fell short of last year's mark, declining by 4.2%, to 2,761 units, fourth quarter (January–March) orders of 841 units reached a record high.

Although revenue from operations increased because a higher number of units were delivered than last year, operating income declined year on year. This was due to the fact that the revenue increase was outweighed by a decline in average order value in the Shinchiku Sokkurisan remodeling business and rising costs related to expansion of operations including the condominium remodeling business. In order to return to growth in both revenue and income, we are responding to customers' needs by continuing with efforts to expand our product lineup and strengthen our sales and management systems.

Outlook

We are aiming for a return to a solid trajectory of revenue and profit growth from the March 2018 fiscal year by continuing with efforts to enhance the appeal of our products and strengthen our sales and management systems in the Shinchiku Sokkurisan remodeling business and the custom homes business.

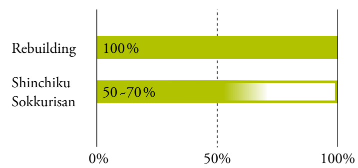
Our March 2018 fiscal year projections are for a 3.1% increase in revenue from operations, to ¥210.0 billion, with a 7.7% rise in operating income, to ¥15.0 billion.

Remodeling—Shinchiku Sokkurisan

Key Features

- Sales engineering 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 customers continue to live in their homes, which is a major advantage.
- Earthquake resistance: We incorporate earthquake-resistance strengthening measures based on a computerized analysis of the homes as well as measures to prevent damage from termites and moisture.

Cost Comparison

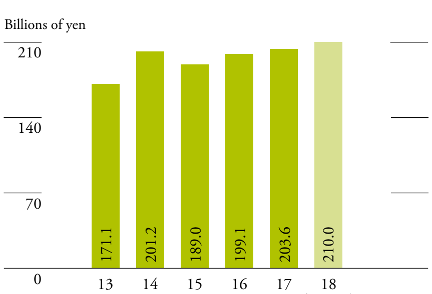


Custom Homes

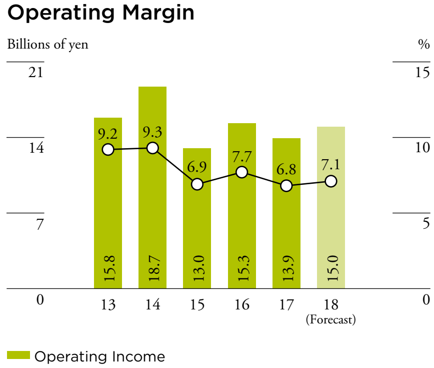
Key Features

- 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 the condominium business and economies of scale as a comprehensive developer, we employ high-grade condominium interior materials as a standard specification.
- Thorough after-sales support: Our homes are backed by a 30-year guarantee, and we have a dedicated customer service line.

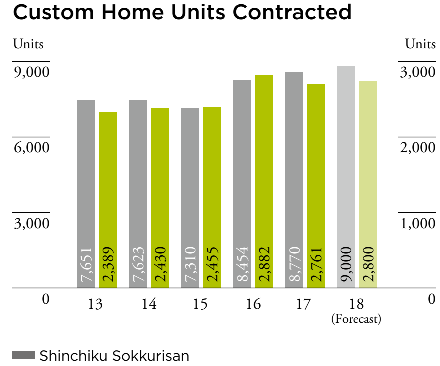
Revenue from Operations



Operating Income and Operating Margin



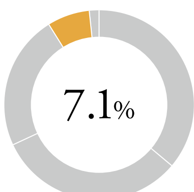
Shinchiku Sokkurisan and Custom Home Units Contracted



BROKERAGE

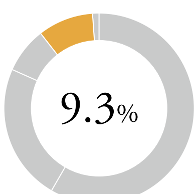
Basic Growth Strategy

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



Revenue from Operations

¥66.7 billion



Operating Income

¥19.1 billion

Overview of the Fiscal Year

The number of sales contracts concluded in the Tokyo metropolitan area in the existing home market reached a record high and average contract prices continued to rise.

Given this environment, the segment, organized by Sumitomo Real Estate Sales Co., Ltd., recorded a 0.3% increase, to 36,108 units, in the number of transactions, led by existing-home sale transactions, reaching a record high for the second consecutive year. In addition, rising transaction values, especially in city centers, contributed to segment earnings growth as the total transaction value rose to ¥1,193.0 billion, topping ¥1 trillion for a third consecutive year and reaching a new high.

As a result, the segment maintained revenue growth for an eighth consecutive year, resulting in the second consecutive year of revenue growth and record-high operating income.

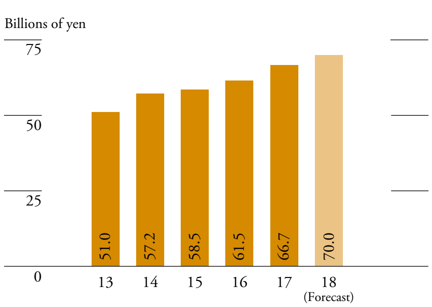
With the addition of four directly operated offices during the year, the network had a total of 260 offices nationwide as of March 31, 2017.

Outlook

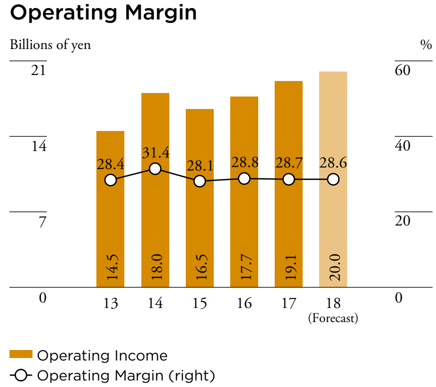
Our brokerage operations will continue to open new offices and upgrade existing offices, while at the same time striving to raise marketing efficiency, with the aim of achieving a record-high number of brokerage transactions and growth in revenue and profit.

As a result, we are forecasting a 4.9% increase in revenue from operations, to ¥70.0 billion, with a 4.5% rise in operating income, to ¥20.0 billion, for the March 2018 fiscal year.

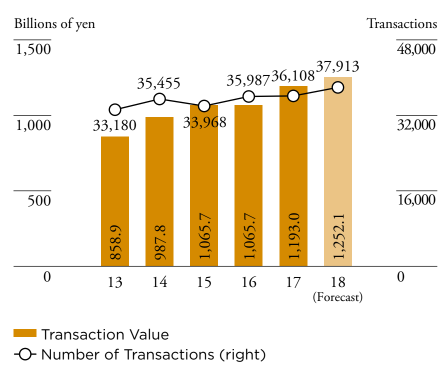
Revenue from Operations



Operating Income and Operating Margin



Number of Transactions and Transaction Value



Board of Directors and Statutory Auditors (As of June 29, 2017)

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
Masumi Aoki

Director
Yoshiyuki Odai

Director
Koji Ito

Director
Toshikazu Tanaka

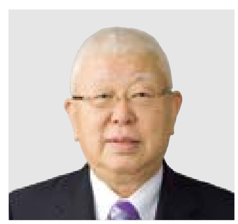
* Executive Managing Director

Outside Directors

Hiromasa Yonekura

(Date of birth: March 31, 1937)

April 1960	Joined 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	Joined 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 consists 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 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.

Both of the 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

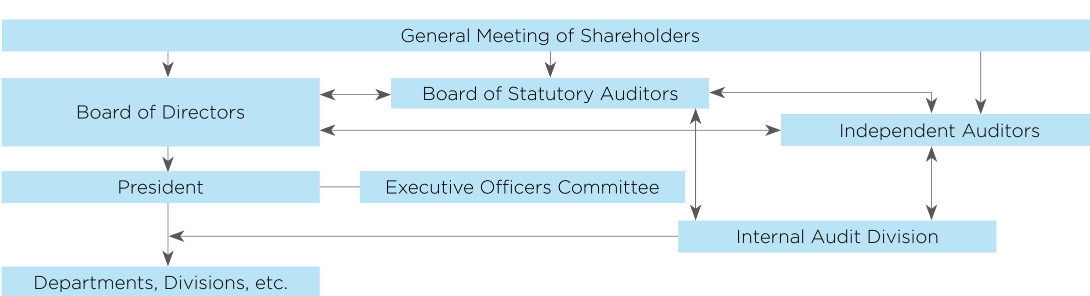
In accordance with the Japanese Corporate Law and the Financial Instruments and Exchange Act, the Company has concluded an auditing contract with KPMG AZSA LLC for the auditing of the Company's accounts.

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

Corporate Governance Structure



for 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 ¥1,358 million, compensation for statutory auditors (excluding outside statutory auditors) was ¥30 million and compensation for outside directors and outside statutory auditors was ¥129 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, at the 80th General Meeting of Shareholders held in 2013 and 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, it is inevitable 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 it is clear that the large-scale purchase will cause unrecoverable damage to the Company even though the large-scale purchaser complies with the large-scale purchase rules, or in the event the large-scale purchase significantly damages the corporate value and common interests of shareholders.

Basic Approach to CSR

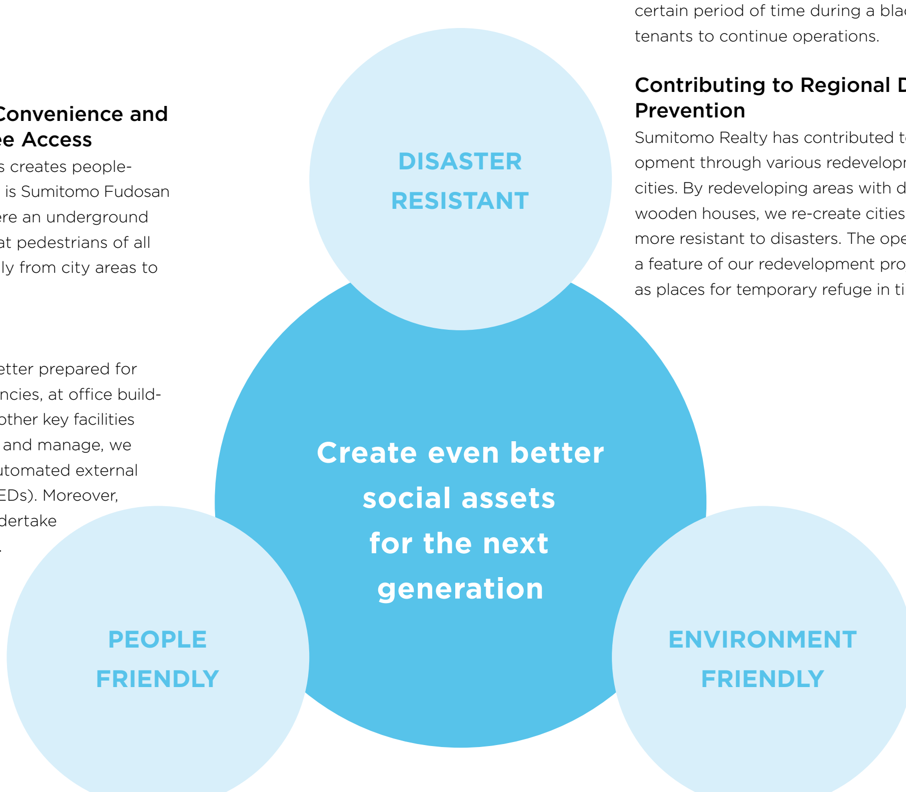
The Sumitomo Group's Business Philosophy

The Sumitomo Group's business philosophy is encapsulated by the following precepts—"Integrity and sound management are of prime importance 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 the Sumitomo Group's business philosophy, we have set forth our fundamental mission as "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.



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

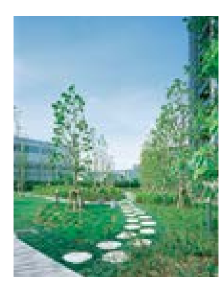
Sumitomo Realty has contributed to regional development through various redevelopment projects in cities. By redeveloping areas with densely packed wooden houses, we re-create cities so they are more resistant to disasters. The open spaces, a feature of our redevelopment projects, also serve as places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

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 medical emergencies, at office buildings, hotels and other key facilities that we operate and manage, we have installed automated external defibrillators (AEDs). Moreover, all personnel undertake first-aid training.



Improving the Environmental Performance of Buildings

We make efforts to preserve and utilize the existing trees and plants of the lands 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 with the 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 significantly 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 lights 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 multi-purpose 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.

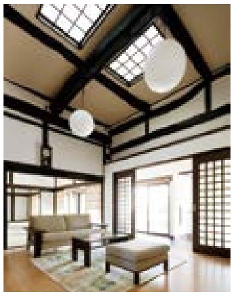
Shinchiku Sokkurisan Remodeling Operations

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.

Financial Section

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				
	2017	2016	2015	2014	2013
For the Year					
Revenue from operations	¥ 925,151	¥ 854,964	¥ 806,835	¥ 780,273	¥ 736,652
Leasing	337,466	313,340	289,117	283,730	278,317
Sales	314,299	274,761	264,207	234,093	232,149
Construction	203,623	199,115	188,995	201,190	171,082
Brokerage	66,714	61,496	58,486	57,211	50,957
Cost of revenue from operations	664,184	614,191	579,964	558,987	529,913
SG&A expenses	72,796	66,532	60,976	60,815	55,394
% of revenue from operations	7.9%	7.8%	7.6%	7.8%	7.5%
Operating income	188,171	174,241	165,895	160,471	151,345
% of revenue from operations	20.3%	20.4%	20.6%	20.6%	20.5%
Ordinary profit*2	167,697	148,424	139,055	130,537	114,916
% of revenue from operations	18.1%	17.4%	17.2%	16.7%	15.6%
Profit attributable to owners of parent	103,489	87,798	80,567	69,697	59,825
Depreciation and amortization	39,446	34,574	33,519	35,311	37,761
At Year-end					
Current assets	¥1,197,508	¥1,122,189	¥1,025,703	¥ 924,452	¥ 965,786
Inventories	845,214	855,816	801,950	715,779	679,496
Total assets	4,980,040	4,675,915	4,523,804	4,220,429	4,105,500
Shareholders' equity*3	1,007,347	888,100	832,462	707,948	627,012
Net interest-bearing debt	3,101,162	2,971,667	2,875,660	2,652,929	2,424,932
Per Share Amounts (Yen)					
Profit attributable to owners of parent	¥ 218.34	¥ 185.23	¥ 169.97	¥ 147.02	¥ 126.18
Shareholders' equity	2,125.36	1,873.71	1,756.25	1,493.48	1,322.52
Cash dividend applicable to the year	24.00	22.00	21.00	20.00	20.00
Key Ratios					
Equity ratio (%)	20.2	19.0	18.4	16.8	15.3
ND/E ratio*4 (Times)	3.1	3.3	3.5	3.7	3.9
ROE (%)	10.9	10.2	10.5	10.4	10.1
ROA (%)	4.0	3.9	3.9	4.0	3.9
Long-term debt ratio (%)	98	98	97	95	93
Fixed-interest rate debt ratio (%)	95	94	87	82	80
Interest coverage ratio*5 (Times)	9.0	7.3	6.5	6.1	4.9

*1. U.S. dollar amounts in this report are translated, for convenience only, at the rate of ¥112.19 = U.S.$1, the prevailing exchange rate at March 31, 2017.
*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 referred to in the Company's English-language financial statements but 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

2012	2011	2010	2009	2008	2007	Thousands of U.S. dollars*1 2017
¥ 688,662	¥ 744,756	¥ 719,636	¥ 695,240	¥ 691,928	¥ 676,834	**$ 8,246,288**
271,812	292,875	293,533	298,359	279,568	262,620	**3,007,976**
198,154	239,709	219,662	191,224	193,575	211,035	**2,801,489**
165,995	162,924	158,214	160,134	156,606	142,564	**1,814,984**
49,397	46,430	44,621	43,105	58,542	56,532	**594,652**
490,437	551,364	534,270	496,547	488,202	490,491	**5,920,171**
50,760	54,929	51,387	52,327	49,118	49,167	**648,864**
7.4%	7.4%	7.1%	7.5%	7.1%	7.3%	
147,465	138,463	133,979	146,366	154,608	137,176	**1,677,253**
21.4%	18.6%	18.6%	21.1%	22.3%	20.3%	
107,912	106,296	100,464	113,582	125,176	112,406	**1,494,759**
15.7%	14.3%	14.0%	16.3%	18.1%	16.6%	
53,236	50,908	52,662	46,205	63,133	50,300	**922,444**
36,049	23,705	18,065	17,886	17,150	15,677	**351,600**
¥ 801,142	¥ 805,958	¥ 802,693	¥ 759,816	¥ 784,195	¥ 756,488	**$10,673,929**
586,170	558,091	521,871	518,885	511,868	489,093	**7,533,773**
3,859,698	3,234,203	3,168,098	3,006,412	2,894,004	2,747,900	**44,389,340**
553,844	526,227	488,896	436,667	427,423	409,197	**8,978,938**
2,407,639	1,901,850	1,785,854	1,722,733	1,548,509	1,343,824	**27,642,054**
¥ 112.28	¥ 107.35	¥ 111.04	¥ 97.39	¥ 133.00	¥ 105.92	**$ 1.95**
1,168.11	1,109.78	1,030.93	920.74	900.57	861.93	**18.94**
20.00	20.00	20.00	20.00	18.00	14.00	**0.21**
14.3	16.3	15.4	14.5	14.8	14.9	
4.3	3.6	3.7	3.9	3.6	3.3	
9.9	10.0	11.4	10.7	15.1	12.8	
4.3	4.4	4.4	5.1	5.6	5.4	
93	89	83	76	83	79	
80	79	81	77	85	83	
4.2	4.7	4.6	4.9	6.2	6.8	

Management's Discussion and Analysis

Review of the March 2017 Fiscal Year and Progress under the Seventh Management Plan

Sumitomo Realty began operating under the Seventh Management Plan from April 2016. Our goals are to remain on our "revenue and profit growth trajectory" and once again post record-high earnings for the three-year period covered by the plan. (For more details regarding the Seventh Management Plan, please see page 11.)

During the March 2017 fiscal year, the first year of the Seventh Management Plan, revenue from operations was ¥925.2 billion, operating income totaled ¥188.2 billion, ordinary profit amounted to ¥167.7 billion, and profit attributable to owners of parent was ¥103.5 billion. We therefore marked the fifth consecutive year of revenue growth, the seventh consecutive year of increases in operating income and ordinary profit, and the fourth consecutive year of record revenue from operations, operating income, ordinary profit, and profit attributable to owners of parent.

These results correspond to roughly one-third of the cumulative targets for revenue and profit for the three-year period covered by the plan, making for a smooth start for the Seventh Management Plan.

Although conditions in Japan and overseas bear close monitoring and the outlook remains unclear, the operating environment has recently been favorable and we expect the Leasing segment to continue to drive earnings growth. We will stay focused and aim for a fifth consecutive year of record earnings in the March 2018 fiscal year. We will also strive to reach the goals in the Seventh Management Plan and work toward achieving continuous growth thereafter.

Financial Strategy

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

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, we have formed Sumitomo Realty & Development Fund (SURF) investment partnerships backed by leased buildings, making effective use of our assets in our fund-raising activities.

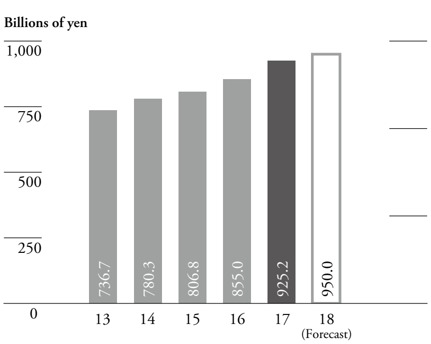
By actively utilizing these types of fund-raising methods that do not rely on interest-bearing debt in the first half of the 2000s, we were able to raise large amounts of funds without having to sell assets at low prices and aggressively acquire sites at low costs quickly responding to each investment opportunity. Consequently, our site acquisition strategy has proceeded according to the plan, and we were able to achieve substantial growth in revenue and profits 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 have been making steady progress with the preparations for future pipeline redevelopment projects.

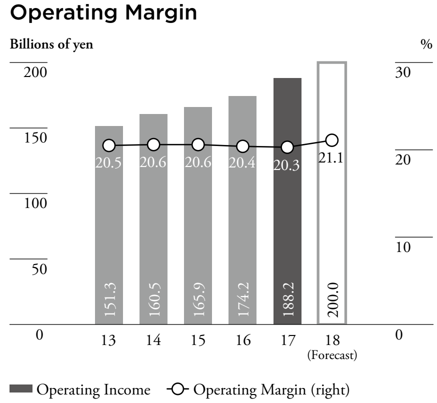
We plan to bring gross floor area of approximately 220,000 tsubo for leasing to market, mainly at large-scale redevelopment projects in Roppongi and Osaki, during the Seventh Management Plan (please refer to page 11 for more information regarding specific projects in the Seventh Management Plan). We are aiming to further accelerate the pace of development from the previous 50,000 tsubo of gross floor area annually and to achieve in excess of 1,000,000 tsubo of gross floor area during and after the Seventh Management Plan. We intend to invest for these future development projects generally with operating cash flows. Further, we will consider bond issues or other debt financing if additional investment opportunities arise, given that current low interest rates present a favorable environment for financing.

Sumitomo Realty's financial position has continued to improve. Since the beginning of the period covered by the Sixth Management Plan in April 2013, interest-bearing debt has increased by ¥719.8 billion, but owing to retained earnings, shareholders' equity has increased by

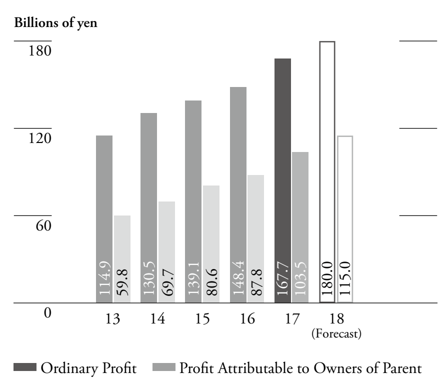
Revenue from Operations



Operating Income and Operating Margin



Ordinary Profit* and Profit Attributable to Owners of Parent



* Please see note *2 on page 28.

¥380.3 billion, topping ¥1 trillion for the first time. As a result, the equity ratio stood at 20.2% as of March 31, 2017, compared with 15.3% at the beginning of the period covered by the Sixth Management Plan, and the ND/E ratio improved to 3.1 times from 3.9 times. In addition, the fair value of investment and rental properties stood at ¥5.1 trillion as of March 31, 2017. This included unrealized gains of ¥2.0 trillion, which we recognize as a useful buffer against financial risks. Factoring in these unrealized gains, the equity ratio as of March 31, 2017, would be 34.5% and the ND/E ratio would be 1.3 times (for more information, please refer to page 55, Note 19 “Investment and rental properties”). Ratings agencies have evaluated our results highly, and we have maintained our rating even in difficult financial environments, such as after the Lehman crisis. As of June 2017, 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 10.4% 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 ¥20.0 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. As of March 31, 2017, long-term debt accounted for 98% of consolidated interest-bearing debt, and fixed-rate debt for 95%.

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 growing businesses, centered on the core leasing business.

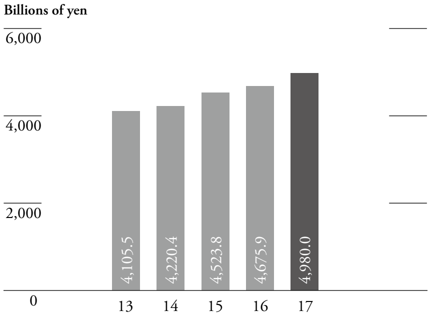
Dividend Policy

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 steady, long-term operational growth, to increase dividends in line with growth in profit.

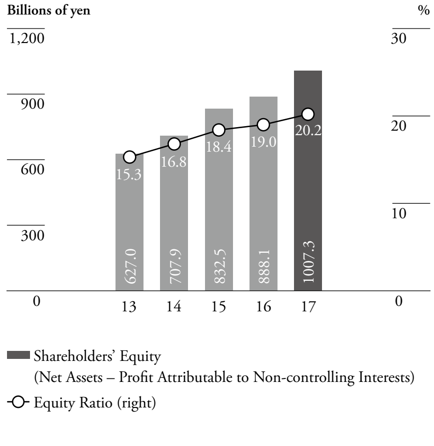
We have implemented six plans since April 1997. We worked to respond to various changes in accounting standards and to reduce unrealized losses under the First Management Plan and the Second Management Plan. Under the Third Management Plan, which began in April 2004, we completed the implementation of 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 where we raised the dividend for the March 2009 fiscal year, the year after we posted 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. We were back on track for dividend increase after March 2014 fiscal year, which was the first year of the Sixth Management Plan, when we achieved record earnings. We increased the full year dividend by ¥1.0, in two years in a row in March 2015 fiscal year and March 2016 fiscal year, to ¥21.00 per share and ¥22.00 per share respectively. Reflecting the fact that the March 2017 fiscal year was our fourth consecutive year of record earnings, we increased the full-year dividend by ¥2.0, to ¥24.00 per share (including an interim dividend of ¥11.00 per share). In the March 2018 fiscal year, we intend to again increase the full-year dividend by ¥2.0, to ¥26.00 per share (including an interim dividend of ¥13.00 per share). Moving forward, we will make efforts to continue profit growth and bolster equity, while further enhancing shareholder returns.

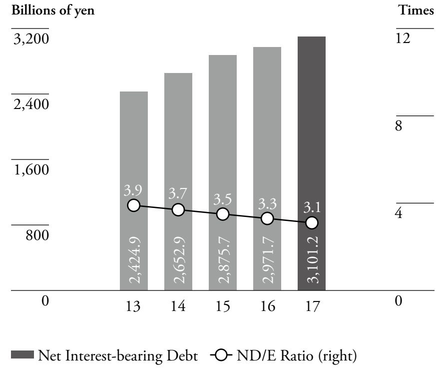
Total Assets



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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2017**	**2016**	**2017**
Current assets:			
Cash, time and notice deposits (Notes 3, 5 and 6)	¥ 269,312	¥ 187,234	$ 2,400,499
Notes and accounts receivable—trade (Note 6)	18,475	19,665	164,676
Allowance for doubtful accounts	(55)	(48)	(490)
Inventories (Note 4)	845,214	855,816	7,533,773
Deferred income taxes (Note 12)	18,539	13,638	165,246
Other current assets	46,023	45,884	410,225
Total current assets	1,197,508	1,122,189	10,673,929
Investments:			
Investments in unconsolidated subsidiaries and affiliates (Note 6)	64,372	57,401	573,777
Investments in securities and other (Notes 6 and 7)	368,445	321,296	3,284,116
Allowance for doubtful accounts	(10,193)	(9,801)	(90,855)
Total investments	422,624	368,896	3,767,038
Property and equipment:			
Land (Notes 4, 5 and 19)	2,390,151	2,317,729	21,304,492
Buildings and structures (Notes 4, 5 and 19)	1,176,049	1,039,019	10,482,654
Machinery and equipment (Notes 5 and 19)	31,097	28,851	277,182
Leased assets	2,167	3,040	19,315
Construction in progress (Notes 4, 5 and 19)	34,486	36,448	307,390
	3,633,950	3,425,087	32,391,033
Accumulated depreciation	(471,474)	(436,504)	(4,202,460)
Net property and equipment	3,162,476	2,988,583	28,188,573
Other assets:			
Guarantee and lease deposits paid to lessors (Note 6)	97,324	103,981	867,493
Leasehold rights and other intangible assets (Note 4)	53,802	51,718	479,561
Deferred income taxes (Note 12)	12,024	12,684	107,175
Other	34,282	27,864	305,571
Total other assets	197,432	196,247	1,759,800
Total assets	¥4,980,040	¥4,675,915	$44,389,340

See accompanying notes.

Liabilities and Net Assets	Millions of yen 2017	2016	Thousands of U.S. dollars (Note 1) 2017
Current liabilities:			
Short-term debt (Notes 6 and 8)	¥ 66,108	¥ 78,718	$ 589,250
Long-term debt due within one year (Notes 6 and 8)	289,622	316,737	2,581,532
Long-term non-recourse debt due within one year (Notes 5, 6 and 8)	22,958	121,964	204,635
Notes and accounts payable—trade (Note 6)	41,374	54,316	368,785
Accrued income taxes	29,330	30,046	261,432
Accrued bonuses	5,049	4,216	45,004
Deposits received (Notes 13)	68,861	71,619	613,789
Other current liabilities (Notes 12 and 13)	134,745	154,799	1,201,043
Total current liabilities	658,047	832,415	5,865,470
Long-term liabilities:			
Long-term debt due after one year (Notes 6 and 8)	2,595,397	2,344,819	23,133,942
Long-term non-recourse debt due after one year (Notes 5, 6 and 8)	396,389	296,663	3,533,194
Guarantee and deposits received (Notes 6 and 13)	250,103	249,800	2,229,281
Net defined benefit liability (Note 9)	6,144	6,081	54,764
Other long-term liabilities (Notes 12 and 13)	34,857	28,860	310,696
Total long-term liabilities	3,282,890	2,926,223	29,261,877
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	1,094,616
Capital surplus	132,748	132,748	1,183,243
Retained earnings	662,802	569,740	5,907,853
Treasury stock	(4,379)	(4,335)	(39,032)
Total shareholders' equity	913,976	820,958	8,146,680
Accumulated other comprehensive income (loss)			
Net unrealized holding gains on securities	97,192	72,262	866,316
Net deferred losses on hedges	(2,529)	(4,247)	(22,542)
Foreign currency translation adjustments	(1,265)	(510)	(11,276)
Remeasurements of defined benefit plans	(27)	(364)	(241)
Total accumulated other comprehensive income	93,371	67,141	832,257
Non-controlling interests	31,756	29,178	283,056
Total net assets	1,039,103	917,277	9,261,993
Total liabilities and net assets	¥4,980,040	¥4,675,915	$44,389,340

Consolidated Statements of Income

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2017, 2016 and 2015

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2017	2016	2015	2017
Revenue from operations	¥925,151	¥854,964	¥806,835	$8,246,288
Costs and expenses:				
Cost of revenue from operations	664,184	614,191	579,964	5,920,171
Selling, general and administrative expenses	72,796	66,532	60,976	648,864
	736,980	680,723	640,940	6,569,035
Operating income	188,171	174,241	165,895	1,677,253
Other income (expenses):				
Interest expense, net	(21,469)	(24,398)	(26,049)	(191,363)
Dividend income	6,588	5,483	5,063	58,722
Gain on sale of property and equipment	15	115	4	134
Loss on sale of property and equipment	(3)	—	(3)	(27)
Loss on impairment of fixed assets (Note 10)	(15,538)	(10,806)	(3,811)	(138,497)
Loss on disposal of property and equipment	(1,522)	(1,146)	(3,105)	(13,566)
Gain on sale of investments in securities	43	428	—	383
Loss on sale of investments in securities	—	(76)	—	—
Loss on devaluation of investments in securities	—	(466)	(30)	—
Dividend to partnership investors	(1,143)	(1,387)	(1,776)	(10,188)
Other, net	(4,519)	(6,434)	(5,521)	(40,280)
	(37,548)	(38,687)	(35,228)	(334,682)
Income before income taxes	150,623	135,554	130,667	1,342,571
Income taxes (Note 12)**:**				
Current	53,161	49,989	44,785	473,848
Deferred	(9,533)	(5,259)	2,661	(84,972)
Total	43,628	44,730	47,446	388,876
Profit	106,995	90,824	83,221	953,695
Profit attributable to non-controlling interests	3,506	3,026	2,654	31,251
Profit attributable to owners of parent	¥103,489	¥ 87,798	¥ 80,567	$ 922,444

	Yen			U.S. dollars (Note 1)
	2017	2016	2015	2017
Amounts per share of common stock:				
Profit attributable to owners of parent:				
—Basic	¥218.34	¥185.23	¥169.97	$1.95
—Diluted	—	—	—	—
Cash dividend applicable to the year	24.00	22.00	21.00	0.21

See accompanying notes.

Consolidated Statements of Comprehensive Income

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2017, 2016 and 2015

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2017	2016	2015	2017
Profit	¥106,995	¥ 90,824	¥ 83,221	$ 953,695
Other comprehensive income (loss) (Note 18)				
Net unrealized holding gains (losses) on securities	24,930	(16,514)	51,057	222,212
Net deferred gains (losses) on hedges	1,705	(2,649)	10	15,197
Foreign currency translation adjustments	(927)	59	3,498	(8,263)
Remeasurements of defined benefit plans	442	(710)	65	3,940
Total other comprehensive income (loss)	26,150	(19,814)	54,630	233,086
Comprehensive income	¥133,145	¥ 71,010	¥137,851	$1,186,781
Comprehensive income attributable to:				
Owners of the parent	¥129,719	¥ 68,061	¥134,511	$1,156,244
Non-controlling interests	3,426	2,949	3,340	30,537

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, 2017, 2016 and 2015

	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, 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
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 April 1, 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
Profit attributable to owners of parent	—	—	—	103,489	—	103,489	—	—	—	—	—	—	103,489
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(755)	—	(755)	—	(755)
Net unrealized holding gains on securities	—	—	—	—	—	—	24,930	—	—	—	24,930	—	24,930
Acquisition of treasury stock	—	—	—	—	(47)	(47)	—	—	—	—	—	—	(47)
Disposal of treasury stock	—	—	2	—	3	5	—	—	—	—	—	—	5
Cash dividends paid:													
Final for prior year (¥11 per share)	—	—	—	(5,214)	—	(5,214)	—	—	—	—	—	—	(5,214)
Interim for current year (¥11 per share)	—	—	—	(5,213)	—	(5,213)	—	—	—	—	—	—	(5,213)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	(2)	—	—	(2)	—	—	—	—	—	—	(2)
Profit attributable to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	2,578	2,578
Net deferred gains on hedges	—	—	—	—	—	—	—	1,718	—	—	1,718	—	1,718
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	337	337	—	337
Balance at March 31, 2017	476,086	¥122,805	¥132,748	¥662,802	¥(4,379)	¥913,976	¥97,192	¥(2,529)	¥(1,265)	¥ (27)	¥93,371	¥31,756	¥1,039,103

	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 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, 2016	$1,094,616	$1,183,243	$5,078,349	$(38,640)	$7,317,568	$644,104	$(37,855)	$ (4,546)	$(3,244)	$598,459	$260,077	$8,176,104
Profit attributable to owners of parent	—	—	922,444	—	922,444	—	—	—	—	—	—	922,444
Foreign currency translation adjustments	—	—	—	—	—	—	—	(6,730)	—	(6,730)	—	(6,730)
Net unrealized holding gains on securities	—	—	—	—	—	222,212	—	—	—	222,212	—	222,212
Acquisition of treasury stock	—	—	—	(419)	(419)	—	—	—	—	—	—	(419)
Disposal of treasury stock	—	18	—	27	45	—	—	—	—	—	—	45
Cash dividends paid:												
Final for prior year ($0.10 per share)	—	—	(46,475)	—	(46,475)	—	—	—	—	—	—	(46,475)
Interim for current year ($0.10 per share)	—	—	(46,465)	—	(46,465)	—	—	—	—	—	—	(46,465)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	(18)	—	—	(18)	—	—	—	—	—	—	(18)
Profit attributable to non-controlling interests	—	—	—	—	—	—	—	—	—	—	22,979	22,979
Net deferred gains on hedges	—	—	—	—	—	—	15,313	—	—	15,313	—	15,313
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	3,003	3,003	—	3,003
Balance at March 31, 2017	$1,094,616	$1,183,243	$5,907,853	$(39,032)	$8,146,680	$866,316	$(22,542)	$(11,276)	$ (241)	$832,257	$283,056	$9,261,993

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2017, 2016 and 2015

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2017	2016	2015	2017
Cash flows from operating activities:				
Income before income taxes	¥ 150,623	¥ 135,554	¥ 130,667	$ 1,342,571
Depreciation and amortization	39,446	34,574	33,519	351,600
Loss on impairment of fixed assets (Note 10)	15,538	10,806	3,811	138,497
Provision for (Reversal of) allowance for doubtful accounts	411	(2,095)	(583)	3,663
Increase (Decrease) in net defined benefit liability	702	(388)	(212)	6,257
Gain on sale of property and equipment, net	(12)	(115)	(1)	(107)
Loss on disposal of property and equipment	1,522	1,146	3,105	13,566
Gain on sale of investments in securities, net	(43)	(352)	—	(383)
Loss on devaluation of investments in securities	—	466	30	—
Interest and dividend income	(6,707)	(5,574)	(5,261)	(59,783)
Interest expense	21,588	24,489	26,247	192,424
Increase (Decrease) in notes and accounts receivable—trade	1,090	7,442	(8,741)	9,716
Increase (Decrease) in inventories	5,574	(51,302)	(88,915)	49,684
Increase (Decrease) in notes and accounts payable—trade	(12,936)	(12,363)	21,446	(115,304)
Increase (Decrease) in advances received	7,816	10,981	(3,507)	69,668
Other, net	5,029	9,119	(7,725)	44,825
Total	229,641	162,388	103,880	2,046,894
Proceeds from interest and dividend income	6,707	5,574	5,261	59,783
Payments for interest	(22,295)	(24,870)	(26,747)	(198,725)
Payments for income tax and other taxes	(55,545)	(46,985)	(47,327)	(495,098)
Net cash provided by operating activities	158,508	96,107	35,067	1,412,854
Cash flows from investing activities:				
Payments for purchases of property and equipment	(254,931)	(91,297)	(149,517)	(2,272,315)
Proceeds from sale of property and equipment	125	404	141	1,114
Payments for purchases of investments in securities	(21,249)	(18,118)	(22,335)	(189,402)
Proceeds from sale and redemption of investments in securities	1,858	1,838	14,324	16,561
Payments for guarantee and lease deposits paid to lessors	(1,720)	(1,373)	(1,088)	(15,331)
Proceeds from guarantee and lease deposits paid to lessors	8,361	4,658	5,691	74,525
Payments for guarantee and lease deposits received	(11,260)	(12,400)	(11,635)	(100,365)
Proceeds from guarantee and lease deposits received	22,974	26,047	18,415	204,778
Receipts of deposits from partnership investors	2,757	721	1,994	24,574
Restitution of deposits from partnership investors	(13,626)	(24,835)	(74,876)	(121,455)
Other, net	(7,451)	8,971	(2,032)	(66,414)
Net cash used in investing activities	(274,162)	(105,384)	(220,918)	(2,443,730)
Cash flows from financing activities:				
Decrease in short-term debt, net	(12,610)	(8,282)	(57,900)	(112,399)
Proceeds from issuance of bonds	20,000	40,000	110,000	178,269
Redemption of bonds	(20,000)	(60,000)	(80,000)	(178,269)
Proceeds from non-recourse bonds	14,500	5,000	3,000	129,245
Redemption of non-recourse bonds	(16,460)	(8,264)	(8,348)	(146,715)
Proceeds from long-term loans payable	520,200	566,200	505,800	4,636,777
Repayment of long-term loans payable	(296,737)	(380,863)	(200,085)	(2,644,951)
Proceeds from long-term non-recourse loans	109,500	39,600	23,800	976,023
Repayment of long-term non-recourse loans	(106,820)	(61,518)	(69,440)	(952,135)
Decrease in assignment of receivables	(300)	(1,700)	(2,777)	(2,674)
Increase in treasury stocks, net	(43)	(88)	(106)	(383)
Cash dividends paid	(11,276)	(11,277)	(10,323)	(100,508)
Other, net	(1,957)	(73,827)	(25,806)	(17,444)
Net cash provided by financing activities	197,997	44,981	187,815	1,764,836
Effect of exchange rate changes on cash and cash equivalents	(388)	126	2,078	(3,458)
Net increase in cash and cash equivalents	81,955	35,830	4,042	730,502
Cash and cash equivalents at beginning of year	185,989	150,265	146,223	1,657,804
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(106)	—	—
Cash and cash equivalents at end of year (Note 3)	¥ 267,944	¥ 185,989	¥ 150,265	$ 2,388,306

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, 2017, 2016 and 2015

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 Act 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 ("IFRS").

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 Act. 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, 2017, which was ¥112.19 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 customers accepted the delivery. 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 Act, 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 (excluding facilities attached to buildings and structures acquired on or after April 1, 2016) 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.

In addition, the Company and its consolidated domestic subsidiaries depreciate facilities attached to buildings and structures acquired on or after April 1, 2016 using the straight-line method.

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.

(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 its certain 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 the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and the main clause of Article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, 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 each decreased by ¥11 million.

(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) Application of the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

Following the revision to the Corporation Tax Act, the Company and its domestic subsidiaries adopted the "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (ASBJ Practical Issue Task Force (PITF) No.32, June 17, 2016) from the fiscal year ended March 31, 2017. The Company and its domestic subsidiaries changed the method to calculate depreciation costs from the declining-balance method to the straight-line method for facilities attached to buildings and structures acquired on or after April 1, 2016. The effects on the consolidated financial statements are insignificant.

(17) Additional Information (Application of the Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the fiscal year ended March 31, 2017, the Company and its domestic subsidiaries adopted the "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash, time and notice deposits	¥269,312	¥187,234	$2,400,499
Time deposits	(1,368)	(1,245)	(12,193)
Cash and cash equivalents	¥267,944	¥185,989	$2,388,306

4. Inventories

Inventories at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Real estate for sale	¥345,185	¥311,306	$3,076,789
Real estate for sale in process	492,340	535,399	4,388,448
Costs on uncompleted construction contracts	6,023	7,277	53,686
Other	1,666	1,834	14,850
Total	¥845,214	¥855,816	$7,533,773

The Company transferred amounts between inventories and property and equipment. Such transfers at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Inventories:			
Transferred to property and equipment	¥(5,140)	¥ —	$(45,815)
Transfer to other assets	(88)	—	(784)
Transferred from property and equipment	603	4,524	5,374
Net increase (decrease)	¥(4,625)	¥4,524	$(41,225)

5. Pledged assets

Assets pledged as collateral at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash, time and notice deposits	¥ 2,081	¥ 2,081	$ 18,549
Buildings and structures	110,668	114,451	986,434
Land	393,316	390,486	3,505,803
Construction in progress	74	37	660
Machinery and equipment	285	282	2,539
Total	¥506,424	¥507,337	$4,513,985

Secured liabilities at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Long-term non-recourse debt due within one year	¥ 22,958	¥121,964	$ 204,635
Long-term non-recourse debt due after one year	396,389	296,663	3,533,194
Total	¥419,347	¥418,627	$3,737,829

Specified assets for non-recourse debts at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash, time and notice deposits	¥ 9,542	¥ 12,787	$ 85,052
Buildings and structures	110,668	114,451	986,434
Land	393,316	390,486	3,505,803
Construction in progress	74	37	660
Machinery and equipment	285	282	2,539
Total	¥513,885	¥518,043	$4,580,488

(Note) "Specified assets for non-recourse debts" includes a portion of the amount of "Assets pledged as collateral" for the years ended March 31, 2017 and 2016.

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, 2017 and 2016 are as follows. (Financial instruments whose fair value is extremely difficult to estimate are not included; please see (Note 2).)

For 2017

	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	¥ 269,312	¥ 269,312	¥ —	$ 2,400,499	$ 2,400,499	$ —
(2) Notes and accounts receivable—trade	18,475	18,475	—	164,676	164,676	—
(3) Investments in securities						
Available-for-sale securities	344,577	344,577	—	3,071,370	3,071,370	—
(4) Guarantee and lease deposits						
Held-to-maturity securities	1,313	1,319	6	11,703	11,757	54
Available-for-sale securities	1,193	1,193	—	10,634	10,634	—
Total assets	¥ 634,870	¥ 634,876	¥ 6	$ 5,658,882	$ 5,658,936	$ 54
Liabilities:						
(1) Notes and accounts payable—trade	¥ 41,374	¥ 41,374	¥ —	$ 368,785	$ 368,785	$ —
(2) Short-term debt	66,108	66,108	—	589,250	589,250	—
(3) Long-term debt (including due within one year)	2,885,019	2,911,058	26,039	25,715,474	25,947,571	232,097
(4) Long-term non-recourse debt (including due within one year)	419,347	424,954	5,607	3,737,829	3,787,807	49,978
Total liabilities	¥3,411,848	¥3,443,494	¥31,646	$30,411,338	$30,693,413	$282,075
Derivative transactions*:						
Hedge accounting	¥ (3,702)	¥ (3,702)	¥ —	$ (32,998)	$ (32,998)	$ —
Total derivative transactions	¥ (3,702)	¥ (3,702)	¥ —	$ (32,998)	$ (32,998)	$ —

For 2016

	Millions of yen		
	Carrying amount	Fair value	Difference
Assets:			
(1) Cash, time and notice deposits	¥ 187,234	¥ 187,234	¥ —
(2) Notes and accounts receivable—trade	19,665	19,665	—
(3) Investments in securities			
Available-for-sale securities	296,518	296,518	—
(4) Guarantee and lease deposits			
Held-to-maturity securities	1,311	1,322	11
Available-for-sale securities	1,210	1,210	—
Total assets	¥ 505,938	¥ 505,949	¥ 11
Liabilities:			
(1) Notes and accounts payable—trade	¥ 54,316	¥ 54,316	¥ —
(2) Short-term debt	78,718	78,718	—
(3) Long-term debt (including due within one year)	2,661,556	2,713,205	51,649
(4) Long-term non-recourse debt (including due within one year)	418,627	425,033	6,406
Total liabilities	¥3,213,217	¥3,271,272	¥58,055
Derivative transactions *:			
Hedge accounting	¥ (6,161)	¥ (6,161)	¥ —
Total derivative transactions	¥ (6,161)	¥ (6,161)	¥ —

* 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.

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
	2017	2016	2017
Investments in subsidiaries and affiliates *1	¥ 42,734	¥ 35,763	$ 380,907
Unlisted equity securities *1 *2	1,402	1,428	12,497
Preferred equity securities, etc. *1	21,638	21,638	192,870
Investments in limited partnerships, etc. *1	852	352	7,594
Guarantee and lease deposits (excluding held-to-maturity securities and available-for-sale securities) *3	94,819	101,460	845,164
Guarantee and deposits received *4	193,111	181,498	1,721,285

*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 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 2017

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash, time and notice deposits	¥269,312	¥ —	¥ —	¥—
Notes and accounts receivable—trade	18,475	—	—	—
Guarantee and lease deposits:				
Held-to-maturity securities (National government bonds)	525	790	—	—
Available-for-sale securities with maturities (National government bonds)	—	731	409	—
Total	¥288,312	¥1,521	¥409	¥—

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 2017

	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	$2,400,499	$ —	$ —	$—
Notes and accounts receivable—trade	164,676	—	—	—
Guarantee and lease deposits:				
Held-to-maturity securities (National government bonds)	4,680	7,042	—	—
Available-for-sale securities with maturities (National government bonds)	—	6,515	3,646	—
Total	$2,569,855	$13,557	$3,646	$—

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

For 2017

	Millions of yen					
Year ending March 31	2018	2019	2020	2021	2022	2023 and thereafter
Short-term debt	¥ 66,108	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt (including due within one year)	289,622	275,752	169,619	131,281	221,256	1,797,489
Long-term non-recourse debt (including due within one year)	22,958	49,233	101,278	68,893	13,924	163,061
Total	¥378,688	¥324,985	¥270,897	¥200,174	¥235,180	¥1,960,550

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 2017

	Thousands of U.S. dollars					
Year ending March 31	2018	2019	2020	2021	2022	2023 and thereafter
Short-term debt	$ 589,250	$ —	$ —	$ —	$ —	$ —
Long-term debt (including due within one year)	2,581,532	2,457,902	1,511,891	1,170,167	1,972,154	16,021,828
Long-term non-recourse debt (including due within one year)	204,635	438,836	902,736	614,074	124,111	1,453,437
Total	$3,375,417	$2,896,738	$2,414,627	$1,784,241	$2,096,265	$17,475,265

7. Securities

For 2017

A. The following tables summarize the acquisition costs, carrying amounts and fair values of securities with available fair values as of March 31, 2017:

(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.	¥1,313	¥1,319	¥6	$11,703	$11,757	$54
Securities whose fair value does not exceed carrying amount:						
National and local government bonds, etc.	—	—	—	—	—	—
Total	¥1,313	¥1,319	¥6	$11,703	$11,757	$54

(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	¥302,228	¥156,391	¥145,837	$2,693,894	$1,393,983	$1,299,911
Debt securities*	1,193	1,140	53	10,634	10,162	472
Other	—	—	—	—	—	—
Subtotal	303,421	157,531	145,890	2,704,528	1,404,145	1,300,383
Securities whose carrying amount does not exceed acquisition cost:						
Equity securities	41,986	47,682	(5,696)	374,240	425,011	(50,771)
Debt securities	—	—	—	—	—	—
Other	363	373	(10)	3,236	3,325	(89)
Subtotal	42,349	48,055	(5,706)	377,476	428,336	(50,860)
Total	¥345,770	¥205,586	¥140,184	$3,082,004	$1,832,481	$1,249,523

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

B. Total sales of available-for-sale securities sold in the year ended March 31, 2017 amounted to ¥590 million ($5,259 thousand) and the related gains amounted to ¥43 million ($383 thousand).

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		
	Carrying amount	Fair value	Difference
Securities whose fair value exceeds carrying amount:			
National and local government bonds, etc.	¥1,311	¥1,322	¥11
Securities whose fair value does not exceed carrying amount:			
National and local government bonds, etc.	—	—	—
Total	¥1,311	¥1,322	¥11

(b) Available-for-sale securities:

	Millions of yen		
	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds acquisition cost:			
Equity securities	¥236,945	¥122,206	¥114,739
Debt securities*	1,210	1,140	70
Other	582	502	80
Subtotal	238,737	123,848	114,889
Securities whose carrying amount does not exceed acquisition cost:			
Equity securities	58,373	68,880	(10,507)
Debt securities	—	—	—
Other	618	755	(137)
Subtotal	58,991	69,635	(10,644)
Total	¥297,728	¥193,483	¥104,245

* 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 of impairment loss on investments in securities (¥449 million on equity securities in available-for-sale securities).

B. Total sales of available-for-sale securities sold in the year ended March 2016 amounted to ¥1,371 million and the related gains and losses amounted to ¥428 million and ¥76 million, respectively.

8. Short-term debt and long-term debt

Short-term debt at March 31, 2017 and 2016 consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	2017	Average interest rate (%)	2016	Average interest rate (%)	2017
Loans, principally from banks	¥66,108	0.26	¥78,718	0.32	$589,250
Commercial paper	—	—	—	—	—
Total	¥66,108		¥78,718		$589,250

The interest rates represent weighted-average rates in effect at March 31, 2017 and 2016, regardless of borrowing currencies, though the range of the interest rate varies by borrowing currency.

Long-term debt at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
2.50% domestic straight bonds, due 2019	¥ 10,000	¥ 10,000	$ 89,135
0.74% domestic straight bonds, due 2016	—	10,000	—
0.68% domestic straight bonds, due 2016	—	10,000	—
0.75% domestic straight bonds, due 2017	10,000	10,000	89,135
0.55% domestic straight bonds, due 2017	10,000	10,000	89,135
0.50% domestic straight bonds, due 2017	10,000	10,000	89,135
0.50% domestic straight bonds, due 2017	10,000	10,000	89,135
0.486% domestic straight bonds, due 2017	10,000	10,000	89,135
0.444% domestic straight bonds, due 2017	10,000	10,000	89,135
0.388% domestic straight bonds, due 2018	20,000	20,000	178,268
0.329% domestic straight bonds, due 2018	10,000	10,000	89,135
0.563% domestic straight bonds, due 2020	10,000	10,000	89,135
0.877% domestic straight bonds, due 2020	20,000	20,000	178,268
0.462% domestic straight bonds, due 2018	10,000	10,000	89,135
1.098% domestic straight bonds, due 2023	10,000	10,000	89,135
0.426% domestic straight bonds, due 2018	20,000	20,000	178,268
0.355% domestic straight bonds, due 2018	10,000	10,000	89,135
0.950% domestic straight bonds, due 2023	10,000	10,000	89,135
0.344% domestic straight bonds, due 2018	10,000	10,000	89,135
0.968% domestic straight bonds, due 2023	10,000	10,000	89,135
0.987% domestic straight bonds, due 2024	20,000	20,000	178,268
0.914% domestic straight bonds, due 2024	20,000	20,000	178,268
0.904% domestic straight bonds, due 2024	20,000	20,000	178,268
0.884% domestic straight bonds, due 2024	20,000	20,000	178,268
0.836% domestic straight bonds, due 2024	20,000	20,000	178,268
0.809% domestic straight bonds, due 2024	20,000	20,000	178,268
0.429% domestic straight bonds, due 2021	10,000	10,000	89,135
0.392% domestic straight bonds, due 2022	10,000	10,000	89,135
0.670% domestic straight bonds, due 2025	10,000	10,000	89,135
0.826% domestic straight bonds, due 2025	20,000	20,000	178,268
0.992% domestic straight bonds, due 2025	20,000	20,000	178,268
0.400% domestic straight bonds, due 2026	10,000	—	89,135
0.230% domestic straight bonds, due 2026	10,000	—	89,135
Loans, principally from banks and insurance companies, with interest at weighted-average rates of 0.32% in 2017 and 0.34% in 2016:			
Secured	—	—	—
Unsecured	2,465,019	2,241,556	21,971,815
Subtotal	2,885,019	2,661,556	25,715,474
Amount due within one year	(289,622)	(316,737)	(2,581,532)
Total	¥2,595,397	¥2,344,819	$23,133,942

Non-recourse debt at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Non-recourse bonds, with interest at weighted-average rates of 0.13% in 2017 and 0.60% in 2016:			
Due within one year	¥ 1,700	¥ 16,460	$ 15,153
Due after one year	37,400	24,600	333,363
Subtotal	39,100	41,060	348,516
Non-recourse loans, with interest at weighted-average rates of 0.18% in 2017 and 0.51% in 2016:			
Due within one year	21,258	105,504	189,482
Due after one year	358,989	272,063	3,199,831
Subtotal	380,247	377,567	3,389,313
Total	¥419,347	¥418,627	$3,737,829
Secured	¥419,347	¥418,627	$3,737,829
Unsecured	—	—	—
Total	¥419,347	¥418,627	$3,737,829

The aggregate annual maturities of long-term debt at March 31, 2017 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2018	¥ 289,622	$ 2,581,532
2019	275,752	2,457,902
2020	169,619	1,511,891
2021	131,281	1,170,167
2022	221,256	1,972,154
2023 and thereafter	1,797,489	16,021,828
Total	¥2,885,019	$25,715,474

The aggregate annual maturities of non-recourse debt at March 31, 2017 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2018	¥ 22,958	$ 204,635
2019	49,233	438,836
2020	101,278	902,736
2021	68,893	614,074
2022	13,924	124,111
2023 and thereafter	163,061	1,453,437
Total	¥419,347	$3,737,829

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 2017 and 2016

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
	2017	2016	2017
Retirement benefit obligations at beginning of year	¥10,851	¥10,094	$ 96,720
Service costs	709	635	6,320
Interest costs	45	88	401
Actuarial differences	157	452	1,399
Retirement benefits paid	(446)	(417)	(3,975)
Decrease from the change in the scope of consolidation	—	(1)	—
Retirement benefit obligations at end of year	¥11,316	¥10,851	$100,865

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Plan assets at beginning of year	¥4,770	¥4,660	$42,517
Expected return on plan assets	95	93	847
Actuarial differences	116	(228)	1,034
Employer contributions	406	402	3,619
Retirement benefits paid	(215)	(157)	(1,916)
Plan assets at end of year	¥5,172	¥4,770	$46,101

(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
	2017	2016	2017
Obligations under retirement benefit plans (funded)	¥ 6,184	¥ 5,930	$ 55,121
Fair value of plan assets	(5,172)	(4,770)	(46,101)
	1,012	1,160	9,020
Obligations under retirement benefit plans (unfunded)	5,132	4,921	45,744
Net amount of liabilities on the consolidated balance sheets	¥ 6,144	¥ 6,081	$ 54,764
Net defined benefit liability	¥ 6,144	¥ 6,081	$ 54,764
Net amount of liabilities on the consolidated balance sheets	¥ 6,144	¥ 6,081	$ 54,764

(4) Components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service costs	¥ 709	¥ 635	$ 6,320
Interest costs	45	88	401
Expected return on plan assets	(95)	(93)	(847)
Actuarial differences	681	(355)	6,070
Retirement benefit expenses	¥1,340	¥ 275	$11,944

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial differences	¥(640)	¥1,035	$(5,705)
Total	¥(640)	¥1,035	$(5,705)

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized actuarial differences	¥41	¥680	$365
Total	¥41	¥680	$365

(7) Major breakdown of plan assets

	2017	2016
Debt securities	25.3%	22.4%
Equity securities	34.2	35.4
General life insurance accounts	39.0	40.0
Other	1.5	2.2
Total	100.0%	100.0%

(8) Actuarial assumptions

	2017	2016
Discount rate	0.4%	0.4%
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 ¥368 million ($3,280 thousand) and ¥352 million for the years ended March 31, 2017 and 2016, 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, 2017, 2016 and 2015, respectively.

For 2017

Use	Location	Number of properties
Land for development	**Tokyo, etc.**	**5**

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

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 ¥15,538 million ($138,497 thousand) and ¥10,806 million as a result of mainly the determination of reviewing their business plans for the years ended March 31, 2017 and 2016 respectively, and ¥3,811 million as a result of transferring from property and equipment to inventories for the year ended March 31, 2015. 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
	2017	2016	2015	2017
Land	¥15,538	¥10,806	¥3,811	$138,497

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, 2017 and 2016, 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, 2017 and 2016, 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 30.86% for the year ended March 31, 2017, 33.06% for the year ended March 31, 2016 and 35.64% for the year ended March 31, 2015.

Details of deferred tax assets and liabilities at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Loss on impairment of fixed assets	¥ 13,890	¥ 9,174	$ 123,808
Loss on devaluation of real estate for sale	8,788	6,015	78,331
Depreciation and amortization of consolidated adjustment	8,668	9,306	77,262
Allowance for doubtful accounts	2,905	2,503	25,894
Net operating loss carryforwards	2,033	2,170	18,121
Net defined benefit liability	1,889	1,876	16,838
Accrued enterprise tax and business office tax	1,774	2,466	15,812
Accrued bonuses	1,715	1,449	15,287
Loss on devaluation of investments in SPEs' holding properties for sale	1,413	1,413	12,595
Net deferred losses on hedges	1,140	1,895	10,161
Elimination of unrealized profit	982	980	8,753
Loss on devaluation of investments in securities	844	853	7,523
Other	9,820	6,846	87,529
Subtotal of deferred tax assets	55,861	46,946	497,914
Valuation allowance	(4,379)	(4,049)	(39,032)
Total deferred tax assets	¥ 51,482	¥ 42,897	$ 458,882
Deferred tax liabilities:			
Net unrealized holding gains on securities	(42,931)	(31,925)	(382,663)
Retained earnings appropriated for tax allowable reserves	(3,731)	(3,731)	(33,256)
Other	(636)	(626)	(5,669)
Total deferred tax liabilities	(47,298)	(36,282)	(421,588)
Net deferred tax assets	¥ 4,184	¥ 6,615	$ 37,294

The difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2017 is as follows:

	2017
Statutory tax rate	30.86%
Adjustment:	
Tax credit	(1.89)
Dividends and other income not taxable permanently	(0.70)
Elimination of dividend income	0.41
Inhabitant tax on per capita basis	0.21
Other	0.07
Effective tax rate	28.96%

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

13. Deposits received and accounts payable with interest rate

Guarantee and deposits received at March 31, 2017 and 2016 are as follows:

	Millions of yen				Thousands of U.S. dollars
	2017	Average interest rate (%)	2016	Average interest rate (%)	2017
Short-term deposits and long-term deposits due within one year:					
Non-interest-bearing	¥ 68,861	—	¥ 71,619	—	$ 613,789
Interest-bearing	—	—	—	—	—
	68,861		71,619		613,789
Guarantee and lease deposits from tenants:					
Non-interest-bearing	193,111	—	181,498	—	1,721,285
Interest-bearing	—	—	—	—	—
Long-term deposits:					
Non-interest-bearing	56,992	—	68,302	—	507,996
Interest-bearing	—	—	—	—	—
	250,103		249,800		2,229,281
Total	¥318,964		¥321,419		$2,843,070

Accounts payable with interest rate at March 31, 2017 and 2016 are as follows:

	Millions of yen				Thousands of U.S. dollars
	2017	Average interest rate (%)	2016	Average interest rate (%)	2017
Due within one year	¥1,544	0.98	¥1,544	0.98	$13,762
Due after one year	1,543	0.98	3,087	0.98	13,754
Total	¥3,087		¥4,631		$27,516

(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, 2017 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2018	¥1,544	$13,762
2019	1,543	13,754
2020	—	—
2021	—	—
2022	—	—
2023 and thereafter	—	—
Total	¥3,087	$27,516

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, 2017, 2016 and 2015 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	2017
Operating leases:				
Future lease payments:				
Due within one year	¥ 1,387	¥ 1,116	¥ 995	$ 12,363
Due after one year	39,053	16,962	17,449	348,097
Total	¥ 40,440	¥ 18,078	¥ 18,444	$ 360,460
Future lease receipts:				
Due within one year	¥ 86,294	¥ 73,456	¥ 58,934	$ 769,177
Due after one year	138,086	111,546	90,226	1,230,823
Total	¥224,380	¥185,002	¥149,160	$2,000,000

16. Derivative transactions

Hedge accounting was applied to all derivative transactions for the years ended March 31, 2017 and 2016.

The summary of these transactions is as follows:

For 2017

(1) Foreign currency-related derivatives

Hedging accounting	Types of derivative transactions	Hedged items	Contract amounts (Millions of yen)	Contract amounts due after one year (Millions of yen)	Fair value (Millions of yen)
Deferred hedge accounting	Foreign exchange forward contracts Receipts in U.S. dollars / Payments in yen	Foreign currency-denominated transactions	¥14,979	¥—	¥(166)

Hedging accounting	Types of derivative transactions	Hedged items	Contract amounts (Thousands of U.S. dollars)	Contract amounts due after one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Deferred hedge accounting	Foreign exchange forward contracts Receipts in U.S. dollars / Payments in yen	Foreign currency-denominated transactions	$133,515	$—	$(1,480)

(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	¥ 406,000	¥ 194,000	¥(3,536)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	1,563,185	1,515,827	—(*)
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	3,000	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	$ 3,618,861	$ 1,729,209	$(31,518)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	13,933,372	13,511,249	—(*)
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	26,740	26,740	—(*)

(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 2016

(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	¥15,249	¥—	¥(98)

(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	—(*)

(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 businesses including fitness business and restaurant business.

Information by business segment for the years ended March 31, 2017, 2016 and 2015 is summarized as follows:

	Millions of yen							
	Reportable segments							
For 2017	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total	Adjustments	Consolidated financial statements amounts
Revenue from operations:								
Customers	¥ 333,605	¥313,992	¥200,565	¥65,616	¥11,373	¥ 925,151	¥ —	¥ 925,151
Intersegment	3,861	307	3,058	1,098	843	9,167	(9,167)	—
Total	337,466	314,299	203,623	66,714	12,216	934,318	(9,167)	925,151
Segment profit	¥ 126,214	¥ 46,190	¥ 13,933	¥19,148	¥ 1,491	¥ 206,976	¥ (18,805)	¥ 188,171
Segment assets	¥3,359,262	¥890,869	¥ 27,424	¥18,506	¥17,271	¥4,313,332	¥666,708	¥4,980,040
Other:								
Depreciation and amortization	¥ 36,949	¥ 207	¥ 970	¥ 516	¥ 177	¥ 38,819	¥ 627	¥ 39,446
Loss on impairment of fixed assets	14,035	1,502	—	—	—	15,537	1	15,538
Increase in property and equipment, and intangible assets	219,606	3,244	1,765	1,096	294	226,005	811	226,816

	Millions of yen							
	Reportable segments							
For 2016	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	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							
	Reportable segments							
For 2015	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	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

For 2017	Thousands of U.S. dollars							
	Reportable segments							
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total	Adjustments	Consolidated financial statements amounts
Revenue from operations:								
Customers	$ 2,973,572	$2,798,752	$1,787,726	$584,865	$101,373	$ 8,246,288	$ —	$ 8,246,288
Intersegment	34,414	2,737	27,258	9,787	7,514	81,710	(81,710)	—
Total	3,007,986	2,801,489	1,814,984	594,652	108,887	8,327,998	(81,710)	8,246,288
Segment profit	$ 1,125,002	$ 411,712	$ 124,191	$170,675	$ 13,290	$ 1,844,870	$ (167,617)	$ 1,677,253
Segment assets	$29,942,615	$7,940,717	$ 244,442	$164,952	$153,945	$38,446,671	$5,942,669	$44,389,340
Other:								
Depreciation and amortization	$ 329,343	$ 1,845	$ 8,646	$ 4,599	$ 1,578	$ 346,011	$ 5,589	$ 351,600
Loss on impairment of fixed assets	125,100	13,388	—	—	—	138,488	9	138,497
Increase in property and equipment, and intangible assets	1,957,447	28,915	15,732	9,769	2,621	2,014,484	7,229	2,021,713

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 its certain consolidated subsidiaries to corporate expenses for the years ended March 31, 2017, 2016 and 2015.

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 its certain consolidated subsidiaries to corporate assets for the years ended March 31, 2017, 2016 and 2015.

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, 2017, 2016 and 2015 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	2017
Unrealized holding gains (losses) on securities:				
Increase (Decrease) during the fiscal year	¥ 36,067	¥(27,205)	¥ 72,459	$321,481
Reclassification adjustments	(128)	130	145	(1,141)
Amounts before tax effects	35,939	(27,075)	72,604	320,340
Tax effects	(11,009)	10,561	(21,547)	(98,128)
Total	24,930	(16,514)	51,057	222,212
Deferred gains (losses) on hedges:				
Increase (Decrease) during the fiscal year	482	(5,098)	(693)	4,296
Reclassification adjustments	1,978	1,327	832	17,631
Amounts before tax effects	2,460	(3,771)	139	21,927
Tax effects	(755)	1,122	(129)	(6,730)
Total	1,705	(2,649)	10	15,197
Foreign currency translation adjustments:				
Increase (Decrease) during the fiscal year	(927)	59	3,498	(8,263)
Remeasurements of defined benefit plans:				
Increase (Decrease) during the fiscal year	(41)	(680)	355	(365)
Reclassification adjustments	681	(355)	(272)	6,070
Amounts before tax effects	640	(1,035)	83	5,705
Tax effects	(198)	325	(18)	(1,765)
Total	442	(710)	65	3,940
Total other comprehensive income (loss)	¥ 26,150	¥(19,814)	¥ 54,630	$233,086

19. Investment and rental properties

The Company and its certain 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 its certain 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, 2017 and 2016 are as follows:

		Millions of yen		Thousands of U.S. dollars
		2017	2016	2017
Investment and rental properties	Balance at beginning of fiscal year	¥2,696,196	¥2,767,130	$24,032,409
	Changes during the fiscal year	305,078	(70,934)	2,719,298
	Balance at end of fiscal year	3,001,274	2,696,196	26,751,707
	Fair value at end of fiscal year	4,800,727	4,147,483	42,791,042
A portion used as investment and rental properties	Balance at beginning of fiscal year	¥ 277,776	¥ 147,140	$ 2,475,943
	Changes during the fiscal year	(133,870)	130,636	(1,193,244)
	Balance at end of fiscal year	143,906	277,776	1,282,699
	Fair value at end of fiscal year	340,894	524,052	3,038,542

(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, 2017 and 2016 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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Increase:			
Acquired real estate	¥218,918	¥122,220	$1,951,315
Transferred from real estate for sale	5,228	—	46,600
Decrease:			
Depreciation and amortization	¥ (31,765)	¥ (30,360)	$ (283,136)
Transferred to real estate for sale	—	(4,425)	—
Transferred to real estate for sale in process	(600)	—	(5,348)
Loss on impairment of fixed assets	(15,537)	(9,275)	(138,488)

Income and expenses for investment and rental properties for the years ended March 31, 2017 and 2016 are as follows:

		Millions of yen		Thousands of U.S. dollars
		2017	2016	2017
Investment and rental properties	Income	¥220,511	¥185,566	$1,965,514
	Expenses	116,247	95,164	1,036,162
	Balance	104,264	90,402	929,352
	Other income (expenses)	(15,776)	(10,117)	(140,619)
A portion used as investment and rental properties	Income	¥ 18,970	¥ 30,892	$ 169,088
	Expenses	10,655	17,454	94,973
	Balance	8,315	13,438	74,115
	Other income (expenses)	—	(12)	—

(Notes)
* As a portion used as investment and rental properties includes a portion used by the Company or its certain 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 Other income (expenses) for a portion used as investment and rental properties is mostly the loss from prior period adjustment.

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 ¥3,513 million ($31,313 thousand) and ¥3,849 million at March 31, 2017 and 2016, respectively.

21. Subsequent events

(Transactions conducted by commonly controlled entities)
(Acquisition of shares from non-controlling shareholders)
The Company resolved at its board of directors meeting held on March 17, 2017 to implement a tender offer (the "Tender Offer") under the Financial Instruments and Exchange Act as part of a transaction aimed at making Sumitomo Real Estate Sales Co., Ltd. (the "Target Company") a wholly-owned subsidiary of the Company by acquiring all of the Target Company's common shares (the "Common Shares")(excluding the Common Shares held by the Company and treasury shares held by the Target Company). The Tender Offer was completed as of May 1, 2017.

After the settlement of the Tender Offer, the Company required all shareholders of the Target Company (excluding the Company and the Target Company) to sell their Target Company's shares to the Company (the "Demand for Sale of Shares") pursuant to Article 179 Paragraph 1 of the Companies Act and the Target Company became a wholly-owned subsidiary of the Company as of June 7, 2017.

1. Overview of business combination
(1) Name and business of the Target Company
Name: Sumitomo Real Estate Sales Co., Ltd.
Business: Brokerage, Consignment sales, Property leasing, Sales, Others
(2) Date of business combination
Date of acquisition through the Tender Offer: May 11, 2017 (Deemed acquisition date: June 30, 2017)
Date of acquisition through the Demand for Sale of Shares: June 7, 2017 (Deemed acquisition date: June 30, 2017)
(3) Legal form of business combination
Acquisition of shares with cash as consideration
(4) Name of the Target Company after the combination
No change
(5) Change in ownership ratio of shares

Number of voting rights represented by shares held by the Company before business combination	70.38%
Number of voting rights represented by shares held by the Company after the Tender Offer	97.24%
Number of voting rights represented by shares held by the Company after the Demand for Sale of Shares	100.00%

2. Acquisition cost and consideration paid (including both of the Tender Offer and the Demand for Sale of Shares)

Consideration paid for acquisition	Cash	¥60,947 million ($543,248 thousand)
Acquisition cost		¥60,947 million ($543,248 thousand)

3. Overview of accounting treatments
The transaction is treated as a common control transaction pursuant to the Accounting Standard for Business Combinations (ASBJ Statement No.21, September 13, 2013), as well as the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, September 13, 2013).

(Dividends)
On June 29, 2017, the shareholders of the Company approved payments of a year-end cash dividend of ¥13 ($0.12) per share or a total of ¥6,162 million ($54,925 thousand) to shareholders of record at March 31, 2017. 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, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and their financial performance and cash flows for each of the years in the three-year period ended March 31, 2017, in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 21 to the consolidated financial statements, the Company implemented a tender offer (the "Tender Offer") as part of a transaction aimed at making Sumitomo Real Estate Sales Co., Ltd. (the "Target Company") a wholly-owned subsidiary of the Company by acquiring all of the Target Company's common shares (the "Common Shares"). After the settlement of the Tender Offer, the Company required all shareholders of the Target Company (excluding the Company and the Target Company) to sell their Target Company's shares to the Company and the Target Company became a wholly-owned subsidiary of the Company as of June 7, 2017.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 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, 2017
Tokyo, Japan

Corporate Data / Investor Information (As of March 31, 2017)

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
12,574 (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

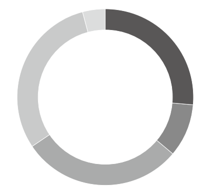
Paid-in Capital
¥122,805 million

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

Number of Shareholders
11,853

Stock Exchange Listing
Tokyo Stock Exchange

Breakdown of Shareholders

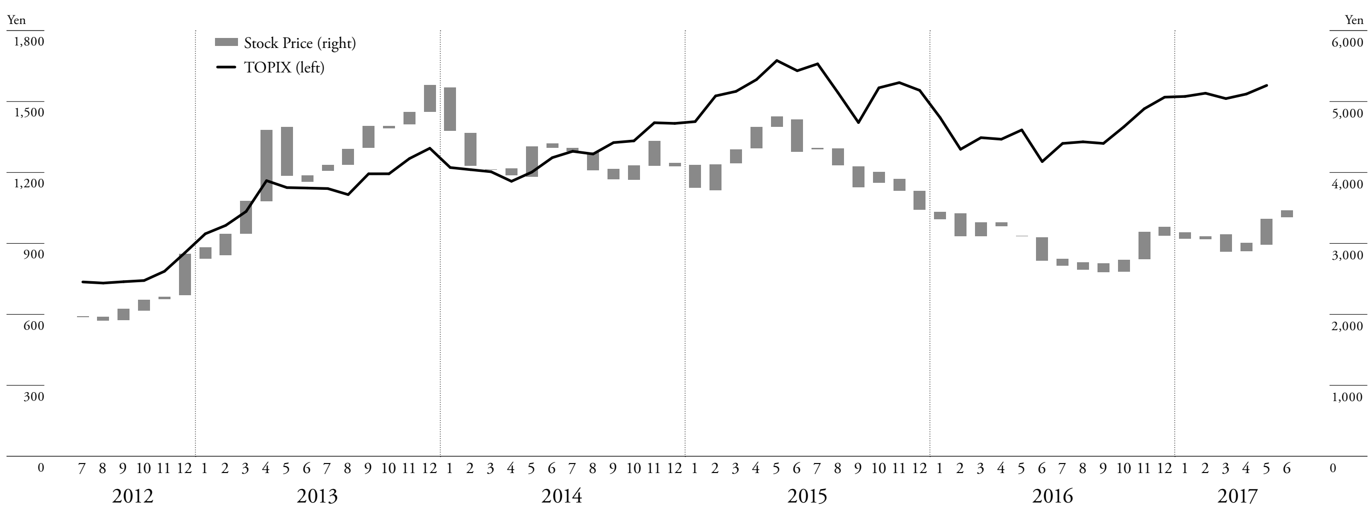


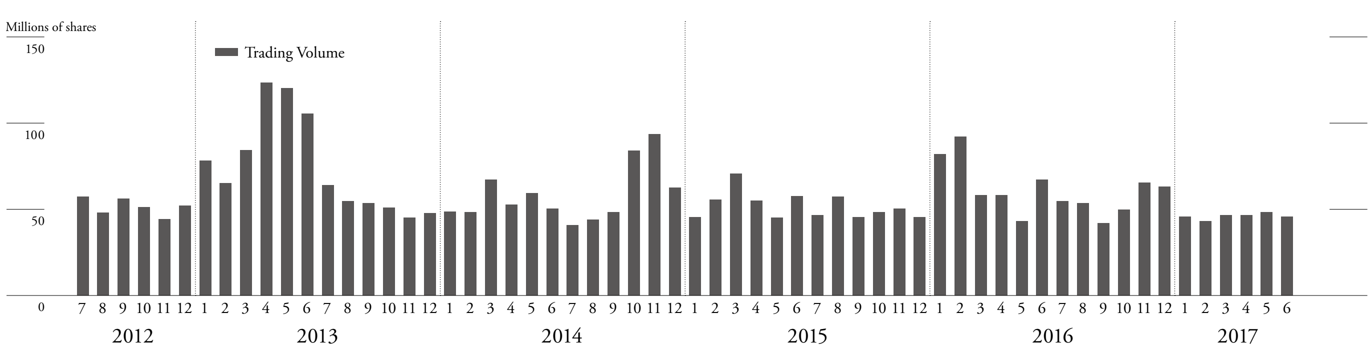
Trust Accounts	26.48%
Financial Institutions	9.64%
Other Companies	29.53%
Foreign Companies	30.39%
Individuals and Others	3.96%

Major Shareholders

Name	Number of shares held (Thousands)	Percentage of shares held
The Master Trust Bank of Japan, Ltd. (Trust account)	30,360	6.38%
Japan Trustee Services Bank, Ltd. (Trust account)	25,310	5.32%
Sumitomo Mitsui Banking Corporation	11,990	2.52%
Japan Trustee Services Bank, Ltd. (Trust account 4)	10,882	2.29%
Japan Trustee Services Bank, Ltd. (Trust account 5)	8,690	1.83%
Obayashi Corporation	7,527	1.58%
Shimizu Corporation	7,500	1.58%
State Street Bank-West Pension Fund Clients-Exempt 505233	7,449	1.56%
The Bank of New York Mellon SA/NV10	7,273	1.53%
Mitsui Sumitomo Insurance Co., Ltd.	6,740	1.42%

Stock Price and Trading Volume on Tokyo Stock Exchange





History

			Global Events
1949 – 1980	1949	▪ Izumi Real Estate Co., Ltd. established as the successor to the holding company of the Sumitomo *zaibatsu* following the breakup of the conglomerate.	**1964** ▪ Tokyo Olympic Games **1973** ▪ First oil crisis **1978** ▪ Second oil crisis
	1957	▪ Izumi Real Estate Co., Ltd. changed its name to Sumitomo Realty & Development Co., Ltd.	
	1963	▪ Merged with the holding company of the former Sumitomo *zaibatsu* during its liquidation.	
	1964	▪ Entered condominium sales business with Hama-Ashiya Mansion in Kobe, Hyogo Prefecture.	
	1970	▪ Listed on the Tokyo Stock Exchange and Osaka Securities Exchange.	
	1973	▪ Established Sumitomo Fudosan Tatemono Service Co., Ltd., a consolidated subsidiary.	
	1974	▪ Completed construction of 52-story Shinjuku Sumitomo Building in Shinjuku, Tokyo; moved Company 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.	
1981 – 2000	1982	▪ Completed construction of 30-story Shinjuku NS Building in Shinjuku, Tokyo; moved Company head office there from Shinjuku Sumitomo Building.	**1985** ▪ The Plaza Accord **1987** ▪ Black Monday **1989** ▪ Collapse of Berlin Wall ▪ Nikkei Stock Average all-time high **1999** ▪ Introduction of euro
	1995	▪ Commenced American Comfort custom home construction business.	
	1996	▪ Commenced Shinchiku Sokkurisan remodeling business.	
	1997	▪ Entered high-quality business hotel market. Opened Villa Fontaine Nihombashi and hotels at two other locations.	
	1998	▪ Sumitomo Real Estate Sales Co., Ltd., a consolidated subsidiary, listed on the Tokyo Stock Exchange.	
	1999	▪ Commenced real estate joint investment trust fund. Launched sales of Sumitomo Realty & Development Fund (SURF) series. ▪ Implemented the Sumquest bond issue, which was the first public issue of real estate securities in Japan.	
	2000	▪ Commenced luxury condominium leasing business. Completed construction of La Tour Shibakoen.	
2001 – 2017	2001	▪ The number of managed STEP brokerage offices exceeded 200.	**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 **2016** ▪ Brexit referendum
	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).	
	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	▪ Launched a Custom-order Condominium service. ▪ Commenced sales of J·RESIDENCE.	
	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 Nihombashi Tower (Chuo Ward, Tokyo). ▪ Cumulative units contracted topped 100,000 in Shinchiku Sokkurisan remodeling operations.	
	2016	▪ Completed construction of Deux Tours Canal & Spa (Chuo Ward, Tokyo). ▪ Completed construction of Shinjuku Garden (Shinjuku Ward, Tokyo). ▪ Completed construction of Sumitomo Fudosan Roppongi Grand Tower (Minato Ward, Tokyo). ▪ Number of condominium units brought to market over the full year was the highest in Japan for the third consecutive year.	


Shinjuku NS Building (Head office)


Shinjuku Sumitomo Building


World City Towers


City Towers Toyosu the Twin


Sumitomo Fudosan Roppongi Grand Tower & Izumi Garden Tower

Sumitomo Realty & Development Co., Ltd.

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