

# Delivering a Better Future for the Next Generation

Leveraging Our Strong Presence Under  
Our Medium-Term Management Plan

Annual Report 2018

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**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, and the final year covered by the plan is the March 2019 fiscal year. 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 2018 fiscal year—the second year of the Seventh Management Plan—earnings were strong, as we marked our fifth consecutive year of record revenue from operations, operating income, ordinary profit and profit attributable to owners of parent. As a result, we have steadily moved forward with our Seventh Management Plan and have already made roughly 70% progress toward the aggregate three-year sales and profit targets in the plan.

While the operating environment has recently been favorable, the outlook in Japan and overseas remains unclear. We will redouble 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 sincerest gratitude to our shareholders and ask for their continuous, long-term support.

**Junji Takashima**  
Chairman of the Board

**Kojun Nishima**  
President

## Our Mission

# Creating Even Better Social Assets for the Next Generation





## Our Position Today

# Office Building Owner with More Than 220 Buildings in Tokyo

- Supply of new condominiums in both the Tokyo metropolitan area and Japan
- Sales of condominium remodeling in Japan

# No. 1

Going forward, we will continue to earnestly pursue our mission as we aim to realize sustainable growth



# Our Track Record

## Sumitomo Realty Constantly Pursues Challenges to Ensure Continuous Growth

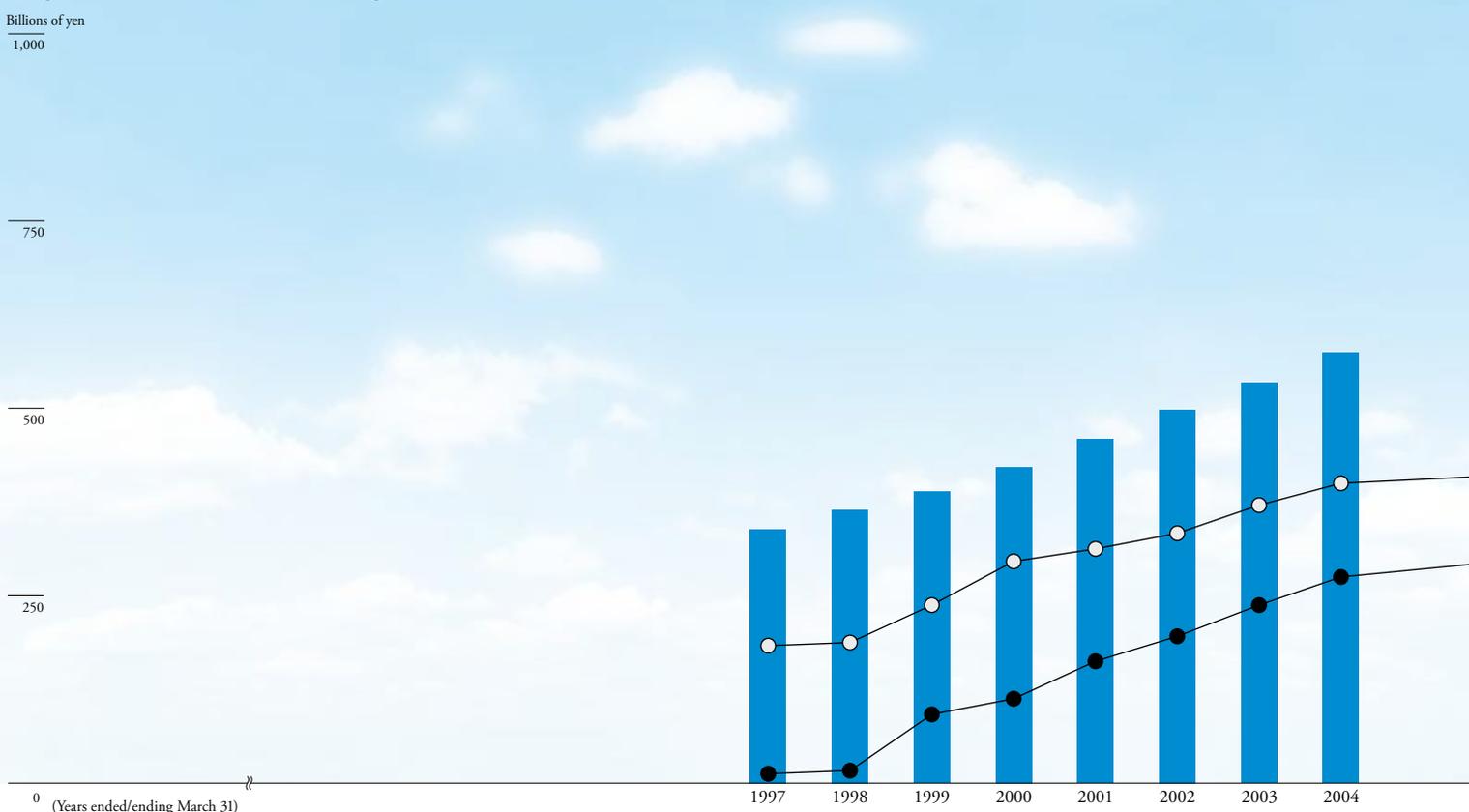
Since its establishment in 1949, Sumitomo Realty has continued to expand the scope of its operations to become one of Japan's leading comprehensive real estate companies and a core company of the Sumitomo Group, which has a history going back 400 years. Our operations are expanding beyond our core business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

### Progress under Medium-term Management Plans

Billions of yen  
1,000



### Three-year Cumulative totals

	1st Plan* 1998–2001	2nd Plan 2002–2004
■ Revenue from operations	1,270	1,606
○ Operating income (right)	202	265
● Ordinary profit (right)	87	170

Major Office Projects Completed	1997–1998	1998–2001	2002–2004
	<ul style="list-style-type: none"> <li>Shinjuku Sumitomo Building (1974)</li> <li>Shinjuku NS Building (1983)</li> </ul>	<ul style="list-style-type: none"> <li>Sumitomo Fudosan Iidabashi First Building</li> <li>Sumitomo Fudosan Shibakoen First Building</li> </ul>	<ul style="list-style-type: none"> <li>Izumi Garden Tower</li> <li>Shinjuku Oak City</li> <li>Chiyoda First Building West</li> </ul>

Corporate History	1997–1998	1998–2001	2002–2004
	<ul style="list-style-type: none"> <li>Established Sumitomo Real Estate Sales Co., Ltd., a consolidated subsidiary. (1975)</li> <li>Commenced Shinchiku Sokkurisan remodeling business. (1997)</li> <li>Entered high-quality business hotel market. Opened Villa Fontaine Nihombashi and hotels at two other locations. (1998)</li> </ul>	Commenced luxury condominium leasing business. Completed construction of La Tour Shibakoen.	Commenced sales of J-URBAN fixed-price urban-style housing series.

Note: 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.

ROE  
(%)

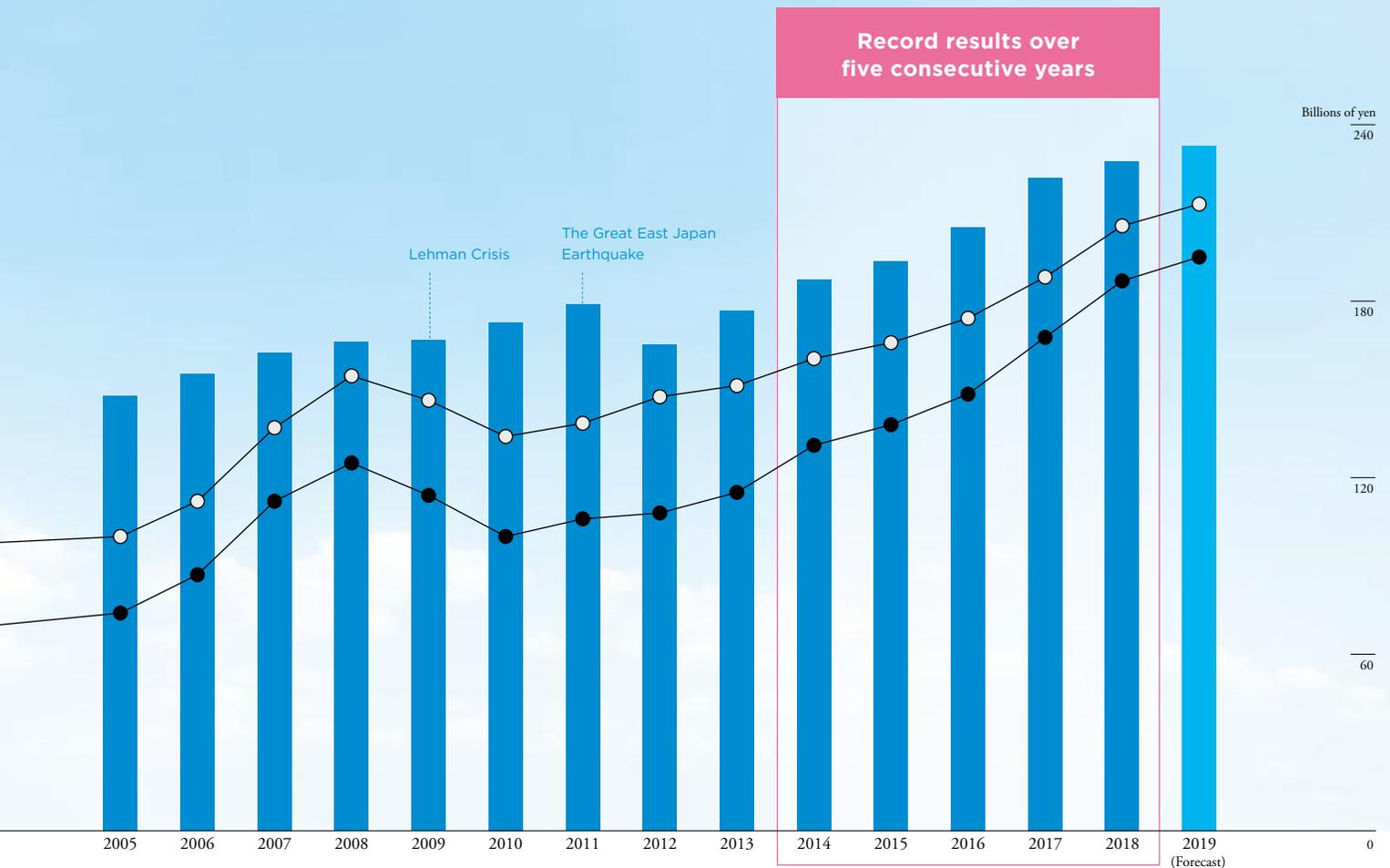
5.7 → 11.3  
1999 2018

Ordinary Profit  
(Billions of yen)

21.7 → 186.9  
1999 2018

Cash Flows from Leasing Business  
(Billions of yen)

53.4 → 178.3  
1999 2018



3rd Plan 2005–2007	4th Plan 2008–2010	5th Plan 2011–2013	6th Plan 2014–2016	7th Plan 2017–2019 (Forecast)
1,939	2,107	2,170	2,442	2,700
350	435	437	501	550
274	339	329	418	480
<ul style="list-style-type: none"> <li>Shiodome Sumitomo Building</li> <li>Tokyo Shiodome Building</li> <li>Sumitomo Fudosan Mita Twin Building</li> </ul>	<ul style="list-style-type: none"> <li>Sumitomo Fudosan Aobadai Tower</li> <li>Shinjuku Central Park City</li> </ul> <p>Established Sumitomo Fudosan Bellesalle Co., Ltd., a consolidated subsidiary.</p>	<ul style="list-style-type: none"> <li>Sumitomo Fudosan Iidabashi First Tower</li> <li>Sumitomo Fudosan Shinjuku Grand Tower</li> <li>Sumitomo Fudosan Shibuya Garden Tower</li> </ul> <p>Opened Grand Mansion Gallery.</p>	<ul style="list-style-type: none"> <li>Tokyo Nihombashi Tower</li> <li>Sumitomo Fudosan Shinjuku Garden Tower</li> </ul> <p>Cumulative units contracted topped 100,000 in Shinchiku Sökkurisan remodeling operations.</p>	<ul style="list-style-type: none"> <li>Sumitomo Fudosan Roppongi Grand Tower</li> <li>Sumitomo Fudosan Osaka Garden Tower</li> </ul> <p>Number of condominium units brought to market over the full year was the highest in Japan for the fourth consecutive year.</p>

# At a Glance

Sumitomo Realty has set forth its fundamental mission as “to create even better social assets for the next generation.” The Company works to achieve this mission through its business, which comprises four operational fields: Sales, Construction, Brokerage and the core business of Leasing—the driver of the Company.

The Company’s steady growth to date is the result of its complementary businesses with different individual characteristics that have different risk profiles and capital requirements. The Company will work to achieve sustainable growth going forward by strengthening these complementary businesses.

## Business Portfolio



## LEASING

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

### 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.
  - Refer to pages 7-9.
- Our “central, new and large” leasing portfolio gives us strong market competitiveness.
  - Refer to page 10.

#### Major Consolidated Subsidiaries

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

## CONSTRUCTION

Custom home construction and remodeling and related activities

### Unique Features and Competitive Advantages

- Please refer to page 23 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.

#### Major Consolidated Subsidiary

- Sumitomo Fudosan Syscon Co., Ltd.

## SALES

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

### 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.
  - Refer to page 20.

## BROKERAGE

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

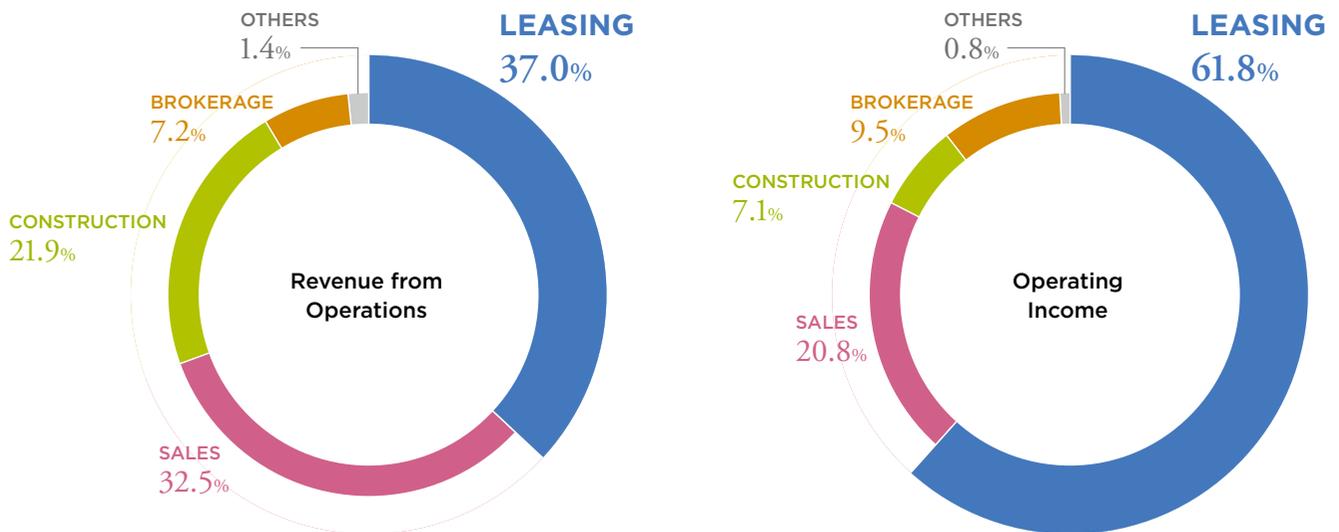
### Unique Features and Competitive Advantages

- Our network of brokerage offices has close ties to local communities.
- The network has steadily expanded to 266 offices nationwide as of the end of March 2018.
- As all brokerage offices are directly operated, the network boasts efficient operations and the industry’s high profit margins.

#### Major Consolidated Subsidiary

- Sumitomo Real Estate Sales Co., Ltd.

## Significantly Driving Growth with the Leasing Business



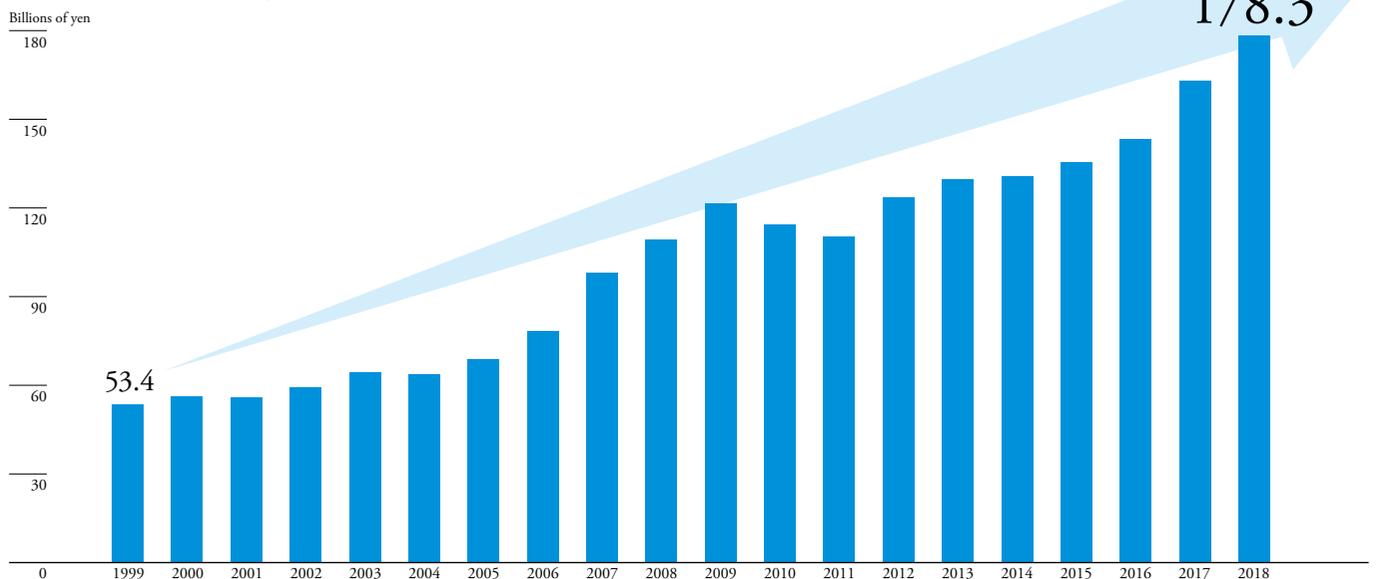
## No. 1 Owner of Office Buildings in Tokyo

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 220 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 10 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 Strengths

## Our Ability to Create Valuable Properties

Whether it is negotiating land purchases or forming associations to plan new projects, the honest efforts made by our employees have allowed us to accumulate a great deal of know-how on developing land. By purchasing plots of land one by one and putting together several parcels to redevelop the land on a larger scale, we will continue forward with initiatives to enhance asset value primarily in the Tokyo metropolitan area.

### Acquisition of Land for Redevelopment (Assembling Land) Is Our Building Development “DNA”

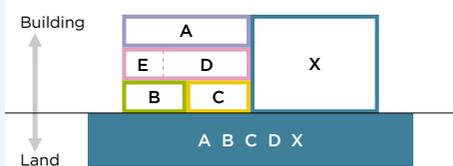
#### Before



#### After

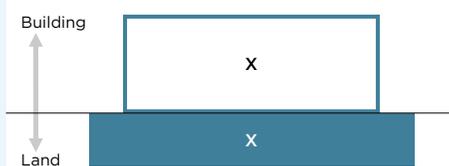
##### Equal value exchange

Through the conversion of the rights of rights holders, sites can be acquired with equal value exchanges.



##### Purchases of individual rights

(Amalgamation of rights)



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

Sumitomo Fudosan Shinjuku Grand Tower

### Characteristics of Redevelopment Projects under Urban Renewal Act

#### 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.)

## 60% of the Office Buildings Are Redevelopment Projects

Approximately 60% of the office buildings we develop are redevelopment projects. We have the highest level of 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.



Sumitomo Fudosan Roppongi Grand Tower & Izumi Garden Tower

Shinjuku Central Park City

Chiyoda First Building West

### Major Flagship Buildings

Name	Location (Tokyo CBD)	No. of floors (above ground/ below ground)	Completion	Gross floor area (m <sup>2</sup> )
1. Izumi Garden Tower	Minato Ward	43/4	Oct 2002	204,444
2. Sumitomo Fudosan Roppongi Grand Tower	Minato Ward	43/2	Oct 2016	202,525
3. Sumitomo Fudosan Osaki Garden Tower	Shinagawa Ward	24/2	Jan 2018	177,822
4. Shinjuku Sumitomo Building	Shinjuku Ward	52/4	Mar 1974	177,467
5. Sumitomo Fudosan Shinjuku Grand Tower	Shinjuku Ward	40/3	Dec 2011	168,329
6. Sumitomo Fudosan Shinjuku Garden Tower	Shinjuku Ward	37/2	Mar 2016	143,372
7. Shinjuku Central Park City	Shinjuku Ward	44/2	Feb 2010	130,519
8. Shinjuku Oak City	Shinjuku Ward	38/2	Jan 2003	117,606
9. Tokyo Nihombashi Tower	Chuo Ward	35/4	Apr 2015	105,837
10. Shiodome Sumitomo Building	Minato Ward	25/3	Jul 2004	99,913
11. Sumitomo Fudosan Mita Twin Building West	Minato Ward	43/2	Sep 2006	98,338
12. Tokyo Shiodome Building	Minato Ward	37/4	Jan 2005	95,128
13. Shinjuku NS Building	Shinjuku Ward	30/3	Sep 1982	75,046
14. Sumitomo Fudosan Shibakoen First Building	Minato Ward	35/2	Jun 2000	70,381
15. Sumitomo Fudosan Iidabashi First Tower	Bunkyo Ward	34/3	Apr 2010	68,514
16. Chiyoda First Building West	Chiyoda Ward	32/2	Jan 2004	61,209
17. Sumitomo Fudosan Shibuya Garden Tower	Shibuya Ward	24/3	Jun 2012	59,417
18. Sumitomo Fudosan Aobadai Tower	Meguro Ward	33/3	Aug 2009	55,773
19. Sumitomo Fudosan Iidabashi First Building	Bunkyo Ward	14/2	Mar 2000	53,322
20. Sumitomo Fudosan Iidabashi Building No. 3	Shinjuku Ward	24/2	Oct 2002	53,047

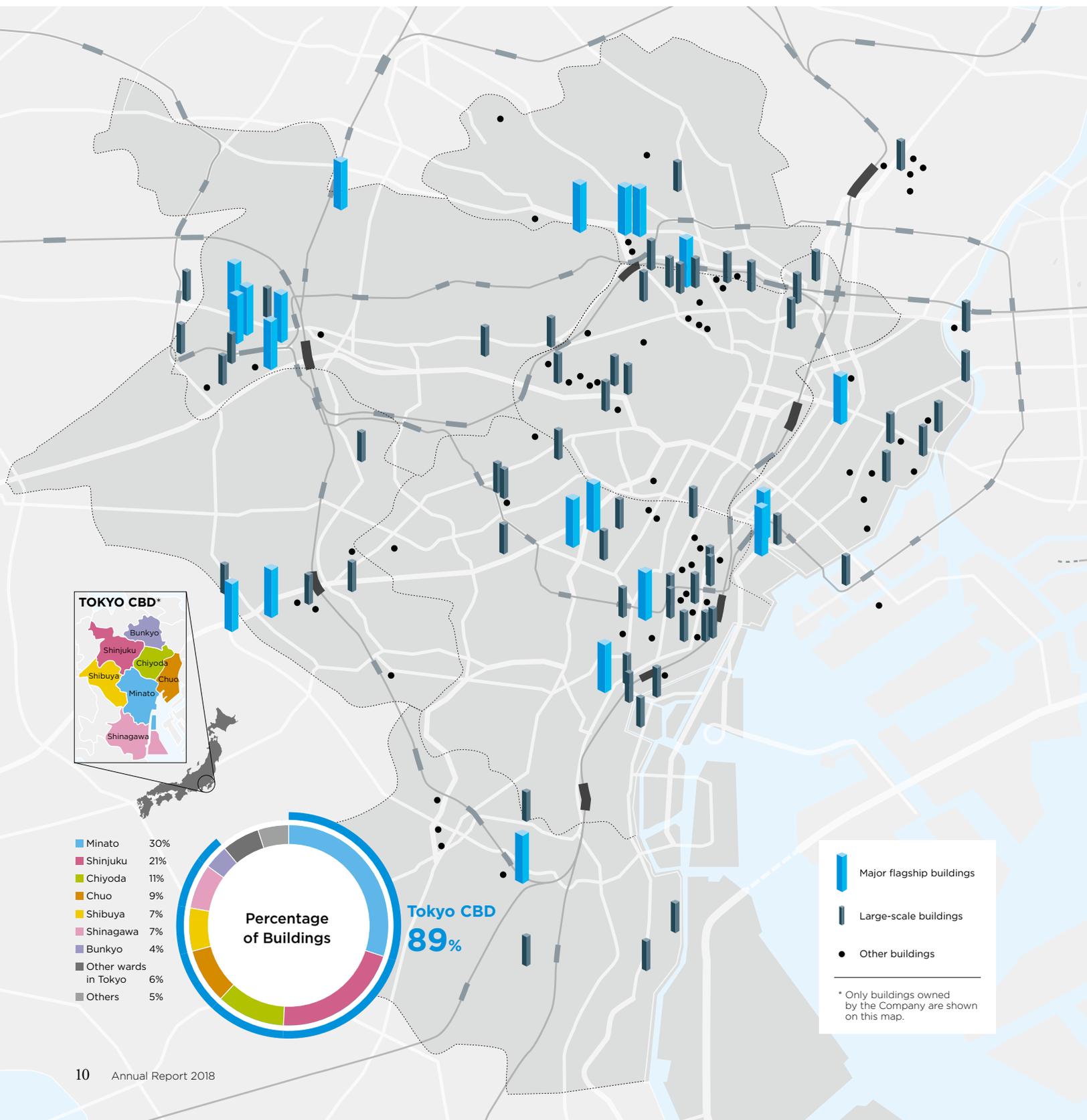
: Redevelopment projects

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

# Leasing Portfolio that Meets Diverse Needs

Tokyo's No. 1 office building owner, managing more than **220** buildings in central Tokyo's major office districts

Gross Floor Area **4.84** million m<sup>2</sup>



## Our Portfolio's Strengths (As of March 31, 2018)

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

New Quake-resistant\*1 Structure **99%** Seismic Isolation and/or Damping System Construction **80%**\*2 Emergency Power Generators **70%**\*2

\*1 New standards that took effect in 1981  
\*2 Approx.



#### Buildings with Excellent BCP Compliance

The average age of the buildings in our portfolio is 16 years, the lowest figure among major Japanese real estate companies, and 65% 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 (BCP). 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 <sup>2</sup>	300–500 kg/m <sup>2</sup>	500–1,000 kg/m <sup>2</sup>
Air-conditioning	Central air-conditioning system	Climate control zones	Separate climate control systems
Power capacity	45 VA/m <sup>2</sup>	60–70 VA/m <sup>2</sup>	85 VA/m <sup>2</sup> and over

\* Includes raised floors

### Large

Over 10,000 m<sup>2</sup> (gross floor area) **87%**



#### Large-scale Buildings

Large-scale buildings with gross floor area of at least 10,000 square meters make up 87% 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.

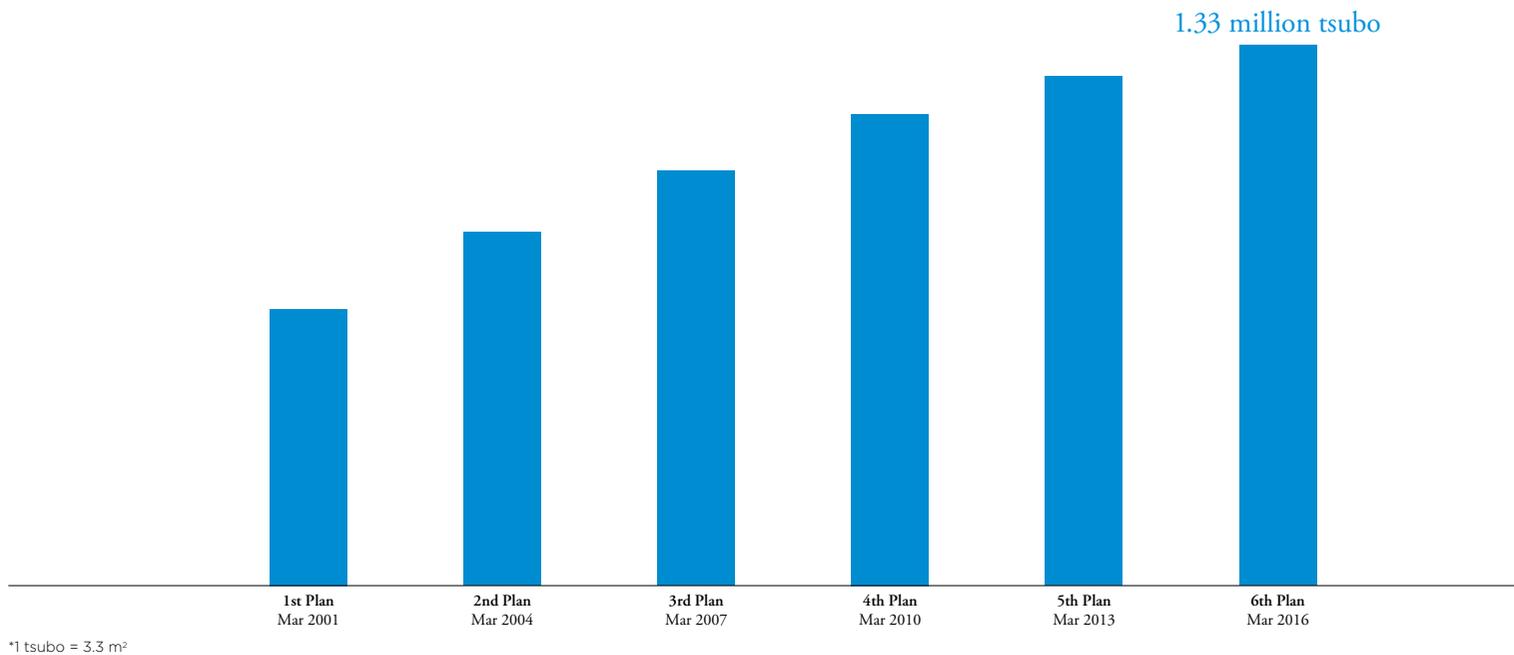
# Office Building Development Projects

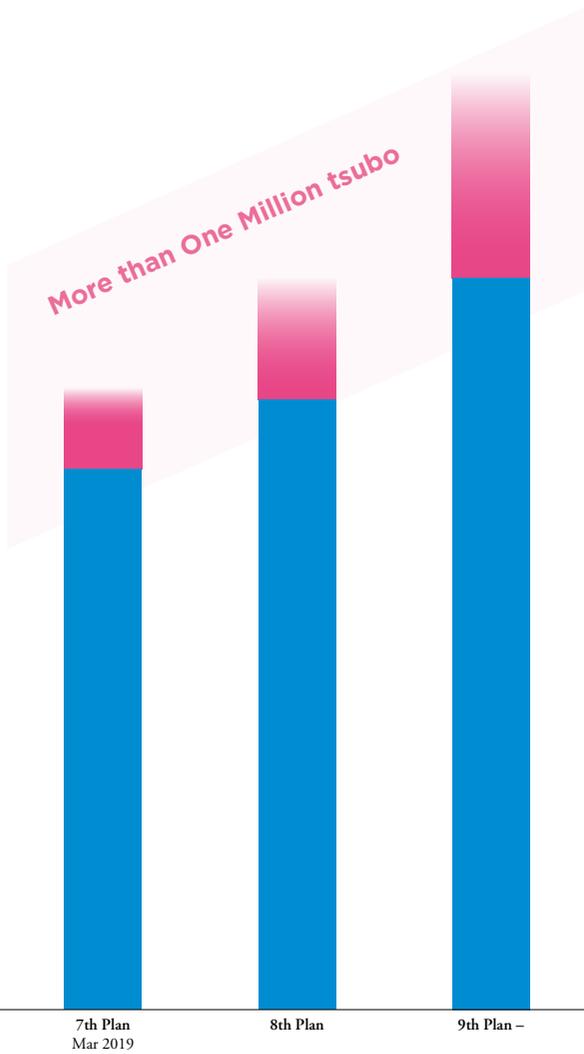
## Further Promotion of Development Plans

To make our core business of office building development and leasing in Tokyo even stronger and to 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.

### Pace of Gross Floor Area Development





### Major New Building Development Projects

Project	Location (Tokyo CBD)	Gross floor area (tsubo)	Expected completion
Sumitomo Fudosan Kojimachi First Building	Chiyoda Ward	4,000	Apr 2018
<b>A</b> Sumitomo Fudosan Onarimon Tower	Minato Ward	9,900	May 2018
Sumitomo Fudosan Fukuoka Hanzomon Building	Chiyoda Ward	3,500	Oct 2018
Sumitomo Fudosan Akihabara Kita Building	Taito Ward	3,500	Nov 2018
<b>B</b> Sumitomo Fudosan Shibuya Tower	Shibuya Ward	11,500	Feb 2019
<b>C</b> Akihabara Ekimae Project (Kanda Neribeicho)	Chiyoda Ward	9,300	Jun 2019
<b>D</b> Nishi Shinjuku 6-chome Project	Shinjuku Ward	18,500	Jun 2019
Higashi Ikebukuro Project	Toshima Ward	4,900	Jul 2019
Akihabara Manseibashi Project (Sotokanda 1-chome)	Chiyoda Ward	8,200	Aug 2019
Sumitomo Fudosan Kojimachi Garden Tower	Chiyoda Ward	14,500	Apr 2020

### New Building Development Projects



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

*K. Nishima*

**Kojun Nishima**  
President



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

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

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

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

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

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

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

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

We will continue to focus on the Tokyo office building market, which is one of the largest office building markets in the world, as we steadily make progress on redevelopment projects in central Tokyo, including those in National Strategic Special Zones such as Yaesu, Roppongi and Mita. To further establish our strong position as Tokyo's No. 1 office building owner, operating more than 220 office buildings, we will work to accelerate the pace of development from the previous average annual pace of 50,000 tsubo of gross floor area to 100,000 tsubo during and after the Seventh Management Plan. In this way, we will achieve continuous growth in the leasing business by providing a new total gross floor area of more than one million tsubo in the period covered by the Seventh, Eighth and Ninth Management Plan. As far as such investment costs are concerned, we expect them to be within the scope of operating cash

flows. In addition to the above projects, we will make sure to pursue as many entirely new development projects as possible when such opportunities arise. We will also expand into new business fields with an eye to the future, including large-scale development projects that are currently in progress in Ariake and Haneda, which are focused on commercial facilities and hotels.

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**Please tell us about the Company's financial strategy.**

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

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

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**What is your basic policy regarding returns to shareholders?**

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

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

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

# Seventh Management Plan (Issued on May 12, 2016)

## (April 2016 to March 2019)

# 1

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

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

#### Three-year cumulative earnings targets

Revenue from operations	<b>¥2,700 billion</b> (+¥258.0 billion, +11%)*
Operating income	<b>¥550 billion</b> (+¥49.4 billion, +10%)*
Ordinary profit	<b>¥480 billion</b> (+¥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	<b>¥2,700 billion</b>
Operating income	¥435 billion	¥437 billion	¥501 billion	<b>¥550 billion</b>
Ordinary profit	¥339 billion	¥329 billion	¥418 billion	<b>¥480 billion</b>

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	<b>220,000</b>

# 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)	<b>¥430.0 billion</b> <b>(+¥94.0 billion)</b>
Percent of total	11%	11%	14%	<b>16%</b>

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

# LEASING

## Sumitomo Fudosan Osaki Garden Tower

**Location**  
Shinagawa Ward

**Gross floor area**  
53,791 tsubo\*

**Completion**  
Jan 2018

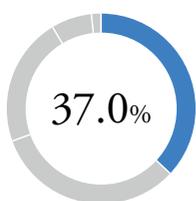
**No. of floors**  
24 above ground  
2 below ground

## No. 1 in Tokyo

Office Building Owner with More Than 220 Buildings

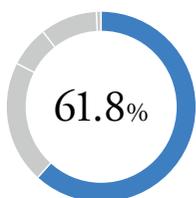
### History

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.



### Revenue from Operations

¥353.9 billion



### Operating Income

¥139.4 billion

### 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"

### 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 2018 fiscal year based on higher rents from existing buildings and full-year contribution from new buildings completed during the previous fiscal year, including Sumitomo Fudosan Roppongi Grand Tower and Sumitomo Fudosan Azabujuban Building. The segment's revenue from operations and operating income both reached record-high levels for the third consecutive year.

The vacancy rate for existing buildings remained low at 4.9% (4.5% at the end of the previous fiscal year), and tenant acquisition for new buildings is on a good track, including Sumitomo Fudosan Osaki Garden Tower, which was completed during the fiscal year under review.



Entrance Hall of Sumitomo Fudosan Osaki Garden Tower

### Outlook

We are aiming for record-high revenue from operations and operating income in the March 2019 fiscal year, based on improved earnings from existing buildings and full-year contribution from the buildings completed during the fiscal year under review, such as Sumitomo Fudosan Osaki Garden Tower.

As a result, we are projecting a 3.1% increase in revenue from operations, to ¥365.0 billion, with a 4.0% rise in operating income, to ¥145.0 billion.



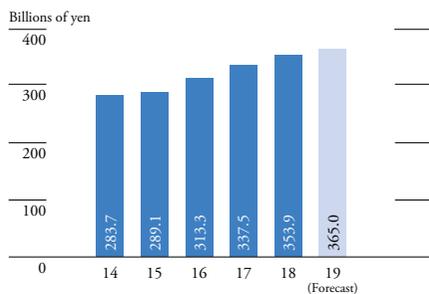
### Sumitomo Fudosan Roppongi Grand Tower

**Location**  
Minato Ward  
**Gross floor area**  
61,264 tsubo\*

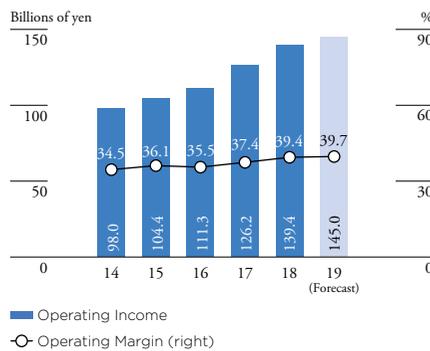
**Completion**  
Oct 2016  
**No. of floors**  
43 above ground  
2 below ground

\* 1 tsubo = 3.3 m<sup>2</sup>

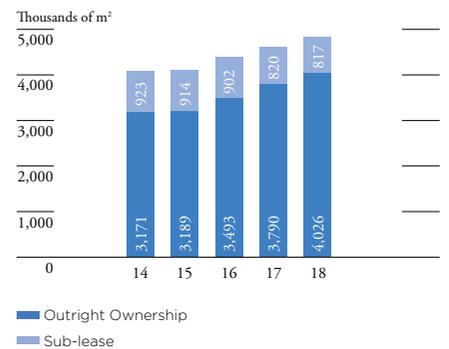
### Revenue from Operations



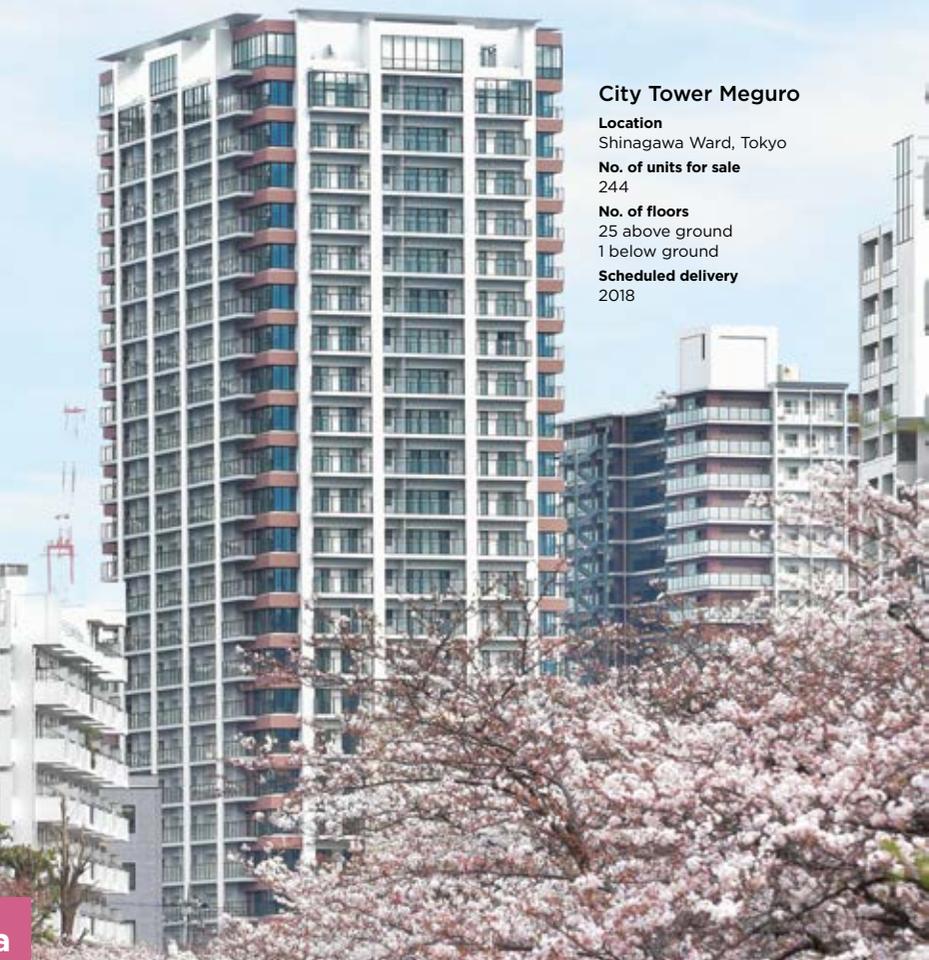
### Operating Income and Operating Margin



### Gross Floor Area



# SALES



## City Tower Meguro

**Location**  
Shinagawa Ward, Tokyo

**No. of units for sale**  
244

**No. of floors**  
25 above ground  
1 below ground

**Scheduled delivery**  
2018

## No. 1 in the Tokyo Metropolitan Area in Japan

### Supply of New Condominiums

#### 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.

#### Basic Growth Strategy

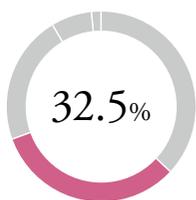
Enhancing our brand strength by providing high-quality properties via a unique sales strategy, to build a strong position that is less susceptible to changes in market conditions

#### Overview of the Fiscal Year

The condominium market, which represents more than 90% of the segment's portfolio, saw continued firm demand from consumers looking to purchase condominiums owing to low interest rates as prices remained high, especially in central Tokyo.

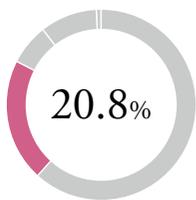
In such an environment, we delivered a total of 5,881 condominium units, detached houses and land lots during the March 2018 fiscal year, an increase of 165 units from the previous fiscal year, owing to the start of delivering units in projects such as City Tower Meguro, Garden Hills Yotsuya and City Terrace Koganei Kouen. As a result, despite a decline in revenue from land lots & others, revenue from condominiums & detached houses rose for the sixth consecutive year, due to an increase in the number of units delivered, and segment operating income reached a record high for the fourth consecutive year.

The number of condominium units sold increased by 888 units from the previous fiscal year, to 7,355 units, surpassing the 7,000 mark for the first time and reaching a new historical high for the second consecutive year. 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 fourth consecutive year.



#### Revenue from Operations

¥ 311.2 billion



#### Operating Income

¥ 46.8 billion



### City Terrace Suginami-Honancho

**Location**  
Suginami Ward, Tokyo

**No. of units for sale**  
298

**No. of floors**  
North : 6 above ground  
South : 11 above ground  
1 below ground

**Scheduled delivery**  
2018



### City Towers Tokyo Bay

**Location**  
Koto Ward, Tokyo

**No. of floors**  
West : 32 above ground  
1 below ground  
Central : 33 above ground  
East : 33 above ground

**No. of units for sale**  
1,539

**Scheduled delivery**  
2020

### Principal Condominium Development Projects (2019-2020)

Name	Location	No. of units for sale	Scheduled delivery*
Grand Hills Motoazabu	Minato Ward, Tokyo	30	2019
City House Nakameguro Station Court	Meguro Ward, Tokyo	126	2019
City House Meguro the Grand	Meguro Ward, Tokyo	78	2019
City Tower Kokubunji the Twin	Kokubunji, Tokyo	554	2019
City Terrace Yokohama-Nakamachidai	Yokohama	405	2019
City Terrace Yokohama Nagatsuta	Yokohama	362	2019
City Tower Higashi Umeda Park Front	Osaka	490	2019
City Tower Ginza East	Chuo Ward, Tokyo	483	2020
Shinagawa East City Tower	Shinagawa Ward, Tokyo	363	2020
City Tower Ebisu	Shibuya Ward, Tokyo	307	2020
City Towers Tokyo Bay	Koto Ward, Tokyo	1,539	2020

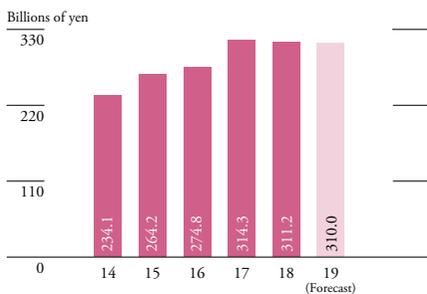
\* Fiscal year ending March 31

### Outlook

We are projecting stable year-on-year deliveries of a total of 5,800 condominium units, detached houses and land lots, and are aiming for a fifth consecutive year of record-high operating income.

As a result, we are forecasting a 0.4% decrease in revenue from operations, to ¥310.0 billion, with a 0.3% rise in operating income, to ¥47.0 billion.

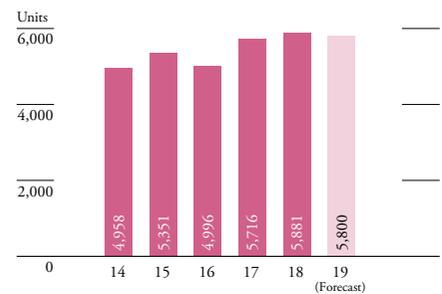
### Revenue from Operations



### Operating Income and Operating Margin



### Units Delivered\*



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

# CONSTRUCTION

**No. 1** in Tokyo

Sales of Condominium Remodeling

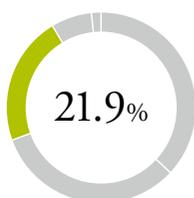
## History

### ■ 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 120,000 units contracted.

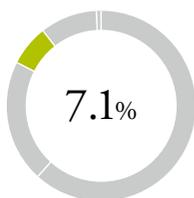
### ■ Custom Homes

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.



## Revenue from Operations

¥209.4 billion



## Operating Income

¥16.1 billion

## Basic Growth Strategy

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

## Overview of the Fiscal Year

During the March 2018 fiscal year, both the Shinchiku Sokkurisan remodeling business and custom homes operations showed strong performance, posting record high units contracted, units delivered and revenue from operations. As a result, segment revenue and profit rose on growth in units delivered and improved profit margins.

In the Shinchiku Sokkurisan remodeling business, orders for both detached houses and condominiums increased, contributing to earnings growth. In the custom homes business, housing and facility equipment with stylish exterior designs and specifications befitting high-end condominiums continued to be well-received.

## Outlook

In order to achieve continued growth in both revenue and profit, we are responding to customers' needs by continuing with efforts to expand our product lineup and strengthen our sales and management systems in both the Shinchiku Sokkurisan remodeling business and the custom homes business.

Our March 2019 fiscal year projections are for a 5.1% increase in revenue from operations, to ¥220.0 billion, with an 11.7% rise in operating income, to ¥18.0 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.

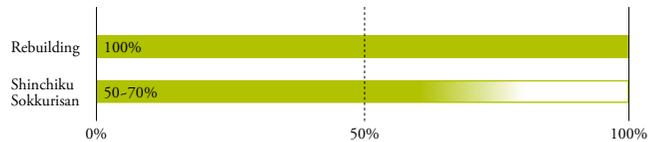


Before



After

### Cost Comparison



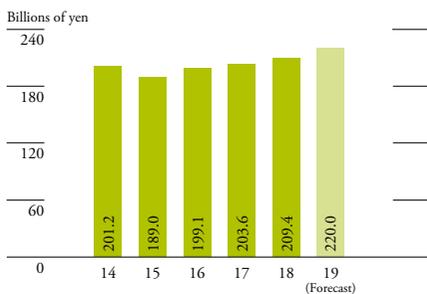
## Custom Homes

### Key Features

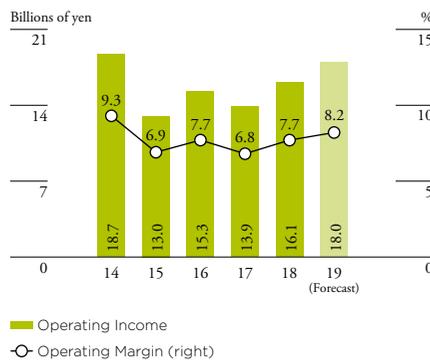
- Advanced performance: We have developed proprietary earthquake-resistant technologies, namely the New Power Column, New Power Cube and Super Power Wall construction methods, and are actively incorporating these technologies in all our products.
- Top-class equipment and specifications: Leveraging our 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.



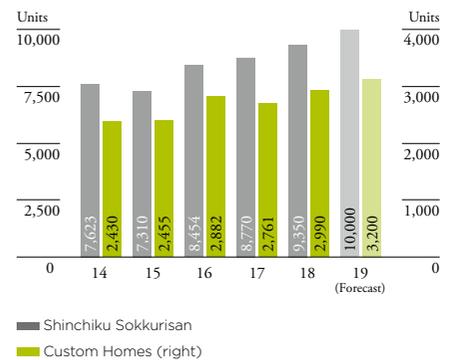
## Revenue from Operations



## Operating Income and Operating Margin



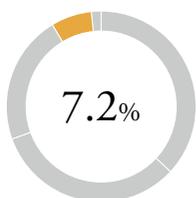
## Shinchiku Sokkurisan and Custom Home Units Contracted



# BROKERAGE

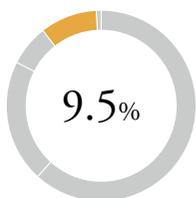
## History

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.



### Revenue from Operations

¥69.2 billion



### Operating Income

¥21.5 billion

## Basic Growth Strategy

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

## Overview of the Fiscal Year

The number of sales contracts concluded in the Tokyo metropolitan area in the existing home market remained steady and average contract prices continued to rise.

In this environment, the segment recorded a 2.6% increase in the number of transactions, to 37,058 units, led by existing-home sale transactions, reaching a record high for the third consecutive year. In addition, rising transaction values, especially in central Tokyo, contributed to segment earnings growth as the total transaction value rose to ¥1,257.5 billion, topping ¥1 trillion for a fourth consecutive year and reaching a new high.

As a result, the segment maintained revenue growth for a ninth consecutive year and profit growth for a third consecutive year, bringing about record-high revenue from operations and operating income.

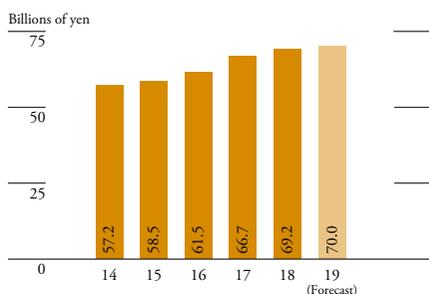
With the addition of six directly operated offices during the fiscal year, the network had a total of 266 offices nationwide as of March 31, 2018.

## Outlook

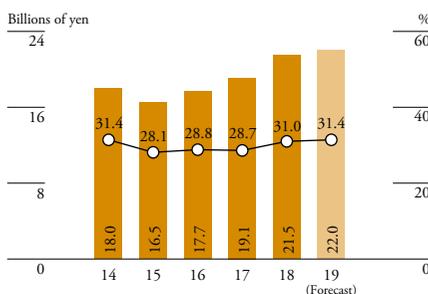
In the March 2019 fiscal year, our brokerage operations will continue to open new offices and upgrade existing offices, while at the same time striving to raise marketing efficiency, with the aim of achieving a record-high number of brokerage transactions and growth in revenue and profit.

As a result, we are forecasting a 1.2% increase in revenue from operations, to ¥70.0 billion, with a 2.5% rise in operating income, to ¥22.0 billion, for the March 2019 fiscal year.

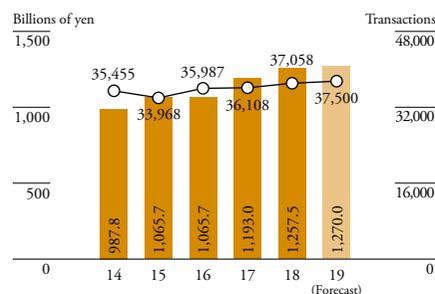
## Revenue from Operations



## Operating Income and Operating Margin



## Number of Transactions and Transaction Value



■ Operating Income  
○ Operating Margin (right)

■ Transaction Value  
○ Number of Transactions (right)

## Corporate Governance

# Board of Directors and Statutory Auditors (As of June 28, 2018)



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  
**Hisatoshi Katayama**



Director  
**Yoshiyuki Odai**



Director  
**Koji Ito**



Director  
**Toshikazu Tanaka**

\* Executive Managing Director

### Outside Director



**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)

### Statutory Auditors

**Yozo Izuhara\***

**Takaaki Ono\***

**Tadashi Kitamura**

**Yoshifumi Nakamura**

\* Outside Statutory Auditor

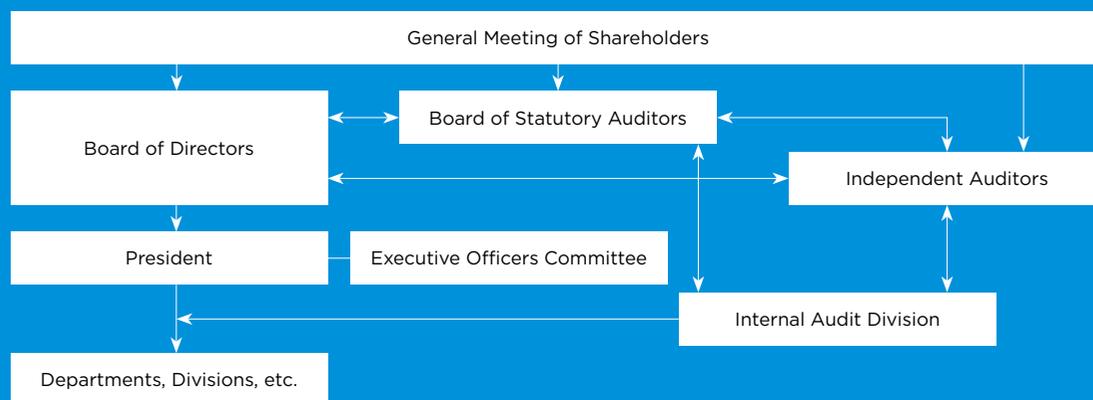
\* Owing to the sudden death of an outside director in May 2018, the Board of Directors currently includes only one outside director. As the process of identifying a nominee for this position will take some time, a successor will be selected at the ordinary General Meeting of Shareholders to be held in June 2019, at which time the number of outside directors will return to two.

# 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 Structure



### Corporate Governance Bodies

The Board of Directors consists of 11 directors, including one outside director. 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.

One outside director was elected at the ordinary General Meeting of Shareholders held in June 2015. This director possesses a wealth of management experience and was nominated as a director in light of his 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 history of the outside director is on page 25.

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

### Independent Auditors

In accordance with the 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, we established a structure in June 2015 for appointing two outside directors 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.

Owing to the sudden death of an outside director in May 2018, the Board of Directors currently includes only one outside director. As the process of identifying a nominee for this position will take some time, a successor will be selected at the ordinary General Meeting of Shareholders to be held in June 2019, at which time the number of outside directors will return to two.

### **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, the Company's Internal Audit Department shall conduct internal audits of the Company and its subsidiaries. Also, we have established multiple internal reporting systems both inside and outside the Company. 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 ¥1,525 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. These measures will be taken for the purpose of contributing to the Company's corporate value and the common interests of its shareholders and not for the purpose of maintaining the status of the Company's officers.

# 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.

## Create even better social assets for the next generation

### DISASTER RESISTANT

#### Protecting Office Workers and Businesses

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

#### Contributing to Regional Disaster Prevention

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

### PEOPLE FRIENDLY

#### Enhancing Regional Convenience and Promoting Barrier-free Access

Our redevelopment business creates people-friendly cities. A case in point is Sumitomo Fudosan Roppongi Grand Tower, where an underground walkway is being built so that pedestrians of all abilities can move more easily from city areas to train stations.

#### AEDs

In order to be better prepared for 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.



### ENVIRONMENT FRIENDLY

#### 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

LEASING

## Shinjuku Garden

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

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

### Large, Multipurpose Development Amid Lush Greenery



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

### People-friendly Network of Pleasant Pedestrian Routes

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



### Regional Disaster-response Base



In the event of an earthquake or other disaster, many commuters in the area around Shinjuku Garden are expected to have difficulty returning home\*, and it is crucial for buildings in such a location to have a large

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

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

CONSTRUCTION

## Shinchiku Sokkurisan Remodeling Operations

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

### Earthquake Reinforcement, Extended Life and Energy Conservation for Housing

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

### Harmony with Building's History



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

## Eleven-year Financial Summary

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

	Millions of yen				
	2018	2017	2016	2015	2014
<b>For the Year</b>					
Revenue from operations	¥ 948,402	¥ 925,151	¥ 854,964	¥ 806,835	¥ 780,273
Leasing	353,881	337,466	313,340	289,117	283,730
Sales	311,193	314,299	274,761	264,207	234,093
Construction	209,356	203,623	199,115	188,995	201,190
Brokerage	69,169	66,714	61,496	58,486	57,211
Cost of revenue from operations	664,015	664,184	614,191	579,964	558,987
SG&A expenses	78,750	72,796	66,532	60,976	60,815
% of revenue from operations	8.3%	7.9%	7.8%	7.6%	7.8%
Operating income	205,637	188,171	174,241	165,895	160,471
% of revenue from operations	21.7%	20.3%	20.4%	20.6%	20.6%
Ordinary profit*2	186,871	167,697	148,424	139,055	130,537
% of revenue from operations	19.7%	18.1%	17.4%	17.2%	16.7%
Profit attributable to owners of parent	119,731	103,489	87,798	80,567	69,697
Depreciation and amortization	41,628	39,446	34,574	33,519	35,311
<b>At Year-end</b>					
Current assets	¥1,147,911	¥1,197,508	¥1,122,189	¥1,025,703	¥ 924,452
Inventories	783,308	845,214	855,816	801,950	715,779
Total assets	5,186,902	4,980,040	4,675,915	4,523,804	4,220,429
Shareholders' equity*3	1,114,975	1,007,347	888,100	832,462	707,948
Net interest-bearing debt	3,210,302	3,101,162	2,971,667	2,875,660	2,652,929
<b>Per Share Amounts (Yen)</b>					
Profit attributable to owners of parent	¥ 252.62	¥ 218.34	¥ 185.23	¥ 169.97	¥ 147.02
Shareholders' equity	2,352.53	2,125.36	1,873.71	1,756.25	1,493.48
Cash dividend applicable to the year	27.00	24.00	22.00	21.00	20.00
<b>Key Ratios</b>					
Equity ratio (%)	21.5	20.2	19.0	18.4	16.8
ND/E ratio*4 (Times)	2.9	3.1	3.3	3.5	3.7
ROE (%)	11.3	10.9	10.2	10.5	10.4
ROA (%)	4.2	4.0	3.9	3.9	4.0
Long-term debt ratio (%)	98	98	98	97	95
Fixed-interest rate debt ratio (%)	94	95	94	87	82
Interest coverage ratio*5 (Times)	10.5	9.0	7.3	6.5	6.1

\*1. U.S. dollar amounts in this report are translated, for convenience only, at the rate of ¥106.25 = U.S.\$1, the prevailing exchange rate at March 31, 2018.

\*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

Thousands of U.S. dollars\*\*

	2013	2012	2011	2010	2009	2008	2018
	¥ 736,652	¥ 688,662	¥ 744,756	¥ 719,636	¥ 695,240	¥ 691,928	\$ 8,926,136
	278,317	271,812	292,875	293,533	298,359	279,568	3,330,645
	232,149	198,154	239,709	219,662	191,224	193,575	2,928,875
	171,082	165,995	162,924	158,214	160,134	156,606	1,970,409
	50,957	49,397	46,430	44,621	43,105	58,542	651,002
	529,913	490,437	551,364	534,270	496,547	488,202	6,249,553
	55,394	50,760	54,929	51,387	52,327	49,118	741,176
	7.5%	7.4%	7.4%	7.1%	7.5%	7.1%	
	151,345	147,465	138,463	133,979	146,366	154,608	1,935,407
	20.5%	21.4%	18.6%	18.6%	21.1%	22.3%	
	114,916	107,912	106,296	100,464	113,582	125,176	1,758,786
	15.6%	15.7%	14.3%	14.0%	16.3%	18.1%	
	59,825	53,236	50,908	52,662	46,205	63,133	1,126,880
	37,761	36,049	23,705	18,065	17,886	17,150	391,793
	¥ 965,786	¥ 801,142	¥ 805,958	¥ 802,693	¥ 759,816	¥ 784,195	\$10,803,869
	679,496	586,170	558,091	521,871	518,885	511,868	7,372,311
	4,105,500	3,859,698	3,234,203	3,168,098	3,006,412	2,894,004	48,817,901
	627,012	553,844	526,227	488,896	436,667	427,423	10,493,882
	2,424,932	2,407,639	1,901,850	1,785,854	1,722,733	1,548,509	30,214,607
	¥ 126.18	¥ 112.28	¥ 107.35	¥ 111.04	¥ 97.39	¥ 133.00	\$ 2.38
	1,322.52	1,168.11	1,109.78	1,030.93	920.74	900.57	22.14
	20.00	20.00	20.00	20.00	20.00	18.00	0.25
	15.3	14.3	16.3	15.4	14.5	14.8	
	3.9	4.3	3.6	3.7	3.9	3.6	
	10.1	9.9	10.0	11.4	10.7	15.1	
	3.9	4.3	4.4	4.4	5.1	5.6	
	93	93	89	83	76	83	
	80	80	79	81	77	85	
	4.9	4.2	4.7	4.6	4.9	6.2	

# Management's Discussion and Analysis

## Review of the March 2018 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 17.)

During the March 2018 fiscal year, the second year of the Seventh Management Plan, revenue from operations was ¥948.4 billion, operating income totaled ¥205.6 billion, ordinary profit amounted to ¥186.9 billion, and profit attributable to owners of parent was ¥119.7 billion. We therefore marked the sixth consecutive year of revenue growth, the eighth consecutive year of increases in operating income and ordinary profit, and the fifth consecutive year of record revenue from operations, operating income, ordinary profit, and profit attributable to owners of parent.

These results correspond to roughly 70% of the cumulative targets for revenue and profit for the three-year period covered by the plan, making for smooth progress toward the goals in the Seventh Management Plan.

Although the outlook in Japan and overseas remains unclear, the operating environment has recently been favorable amid continued gradual economic expansion and we expect the Leasing segment to continue to drive earnings growth. We will stay focused and aim for a sixth consecutive year of record earnings in the March 2019 fiscal year. We will therefore 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.

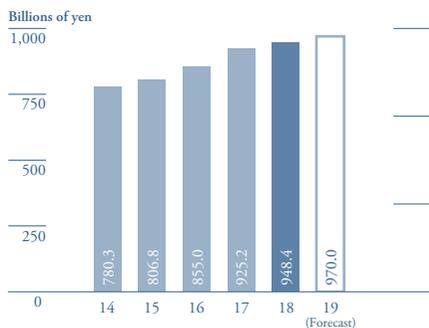
Specifically, we have aggressively introduced development securitization methods using SPEs (SPEs have been included in the scope of consolidation since the March 2012 fiscal year). In addition, we have formed Sumitomo Realty & Development Fund (SURF) investment partnerships backed by leased buildings, 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.

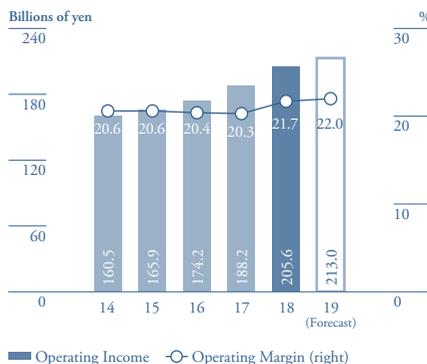
Since the second half of the 2000s, it has become increasingly difficult to acquire large prime sites that meet our investment criteria, in part because of intensified competition. Given this situation, Sumitomo Realty has implemented a policy centered on urban redevelopment for future site acquisition. 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. 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

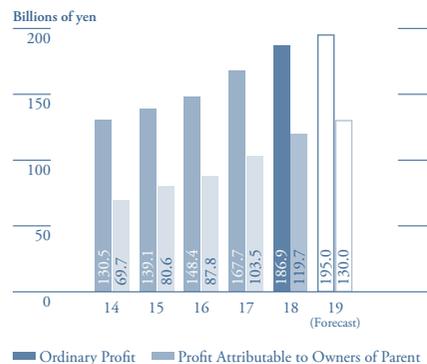
### Revenue from Operations



### Operating Income and Operating Margin



### Ordinary Profit\* and Profit Attributable to Owners of Parent



\* Please see note \*2 on page 30.

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. In the five-year period since the beginning of the period covered by the Sixth Management Plan in April 2013, interest-bearing debt has increased by ¥822.8 billion, but owing to retained earnings, shareholders' equity has increased by ¥488.0 billion, topping ¥1 trillion. As a result, the equity ratio stood at 21.5% as of March 31, 2018, compared with 15.3% at the beginning of the period covered by the Sixth Management Plan, and the ND/E ratio improved to 2.9 times from 3.9 times. In addition, the fair value of investment and rental properties stood at ¥5.7 trillion as of March 31, 2018. This included unrealized gains of ¥2.3 trillion, which we recognize as a useful buffer against financial risks. Factoring in these unrealized gains, the equity ratio as of March 31, 2018, would be 36.5% and the ND/E ratio would be 1.2 times (for more information, please refer to page 57, Note 20 "Investment and rental properties"). Ratings agencies have evaluated our results highly, and we have maintained our ratings even in difficult financial environments, such as after the Lehman crisis. As of June 2018, 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 10.6% over the past five years (please refer to page 30 "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 ¥30.0 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, 2018, long-term debt accounted for 98% of consolidated interest-bearing debt, and fixed-rate debt for 94%.

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

## Dividend Policy

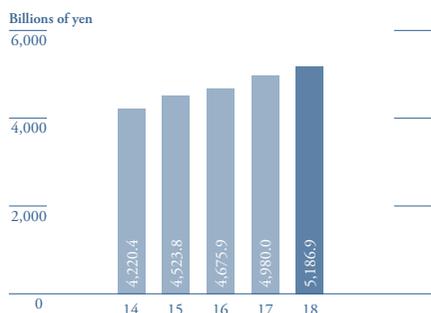
Our fundamental policy for the distribution of profit is to maintain a stable base level of dividends and, while retaining a sufficient level of earnings for steady, long-term operational growth, to increase dividends in line with growth in profit.

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 a dividend increase after the 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 for two years in a row, in the March 2015 fiscal year and the March 2016 fiscal year, to ¥21.00 per share and ¥22.00 per share, respectively.

For the March 2017 fiscal year, we increased the full-year dividend by ¥2.0, to ¥24.00 per share. In the March 2018 fiscal year, we had intended to again increase the full-year dividend by ¥2.0, to ¥26.00 per share, but reflecting the fact that this was our fifth consecutive year of record earnings, we increased the full-year dividend by ¥3.0, to ¥27.00 per share. In the March 2019 fiscal year, we intend to increase the full-year dividend by ¥2.0, to ¥29.00 per share (including an interim dividend of ¥14.00 per share). Moving forward, we will make efforts to continue profit growth and bolster equity, while further enhancing shareholder returns.

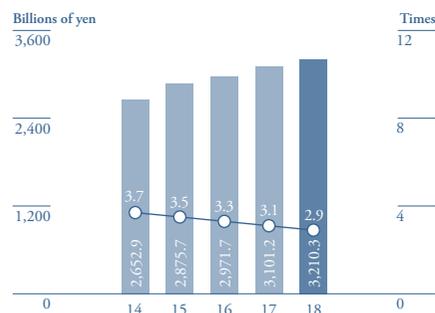
### Total Assets



### Shareholders' Equity and Equity Ratio



### Net Interest-bearing Debt and ND/E Ratio



■ Shareholders' Equity  
(Net Assets – Profit Attributable to Non-controlling Interests)  
○ Equity Ratio (right)

■ Net Interest-bearing Debt ○ ND/E Ratio (right)

# Consolidated Balance Sheets

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries  
As of March 31, 2018 and 2017

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Current assets:</b>			
Cash, time and notice deposits (Notes 3, 5 and 6)	¥ 263,210	¥ 269,312	\$ 2,477,271
Notes and accounts receivable—trade (Note 6)	23,773	18,475	223,746
Allowance for doubtful accounts	(66)	(55)	(621)
Inventories (Note 4)	783,308	845,214	7,372,311
Deferred income taxes (Note 12)	21,793	18,539	205,111
Other current assets	55,893	46,023	526,051
Total current assets	1,147,911	1,197,508	10,803,869
<b>Investments:</b>			
Investments in unconsolidated subsidiaries and affiliates (Note 6)	68,083	64,372	640,781
Investments in securities and other (Notes 6 and 7)	435,615	368,445	4,099,906
Allowance for doubtful accounts	(9,469)	(10,193)	(89,120)
Total investments	494,229	422,624	4,651,567
<b>Property and equipment:</b>			
Land (Notes 4, 5 and 20)	2,464,161	2,390,151	23,192,104
Buildings and structures (Notes 4, 5 and 20)	1,287,335	1,176,049	12,116,094
Machinery and equipment (Notes 4, 5 and 20)	33,576	31,097	316,009
Leased assets	1,778	2,167	16,734
Construction in progress (Notes 4, 5 and 20)	94,397	34,486	888,442
	3,881,247	3,633,950	36,529,383
Accumulated depreciation and accumulated impairment losses	(510,894)	(471,474)	(4,808,414)
Net property and equipment	3,370,353	3,162,476	31,720,969
<b>Other assets:</b>			
Guarantee and lease deposits paid to lessors (Note 6)	71,064	97,324	668,838
Leasehold rights and other intangible assets (Note 4)	54,753	53,802	515,322
Deferred income taxes (Note 12)	12,205	12,024	114,871
Other	36,387	34,282	342,465
Total other assets	174,409	197,432	1,641,496
Total assets	¥5,186,902	¥4,980,040	\$48,817,901

See accompanying notes.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Current liabilities:</b>			
Short-term debt (Notes 6 and 8)	¥ 61,416	¥ 66,108	\$ 578,033
Long-term debt due within one year (Notes 6 and 8)	275,752	289,622	2,595,313
Long-term non-recourse debt due within one year (Notes 5, 6 and 8)	49,410	22,958	465,035
Notes and accounts payable—trade (Note 6)	28,751	41,374	270,598
Accrued income taxes	34,198	29,330	321,864
Accrued bonuses	5,283	5,049	49,722
Deposits received (Note 14)	60,382	68,861	568,301
Other current liabilities (Notes 12 and 14)	153,447	134,745	1,444,207
Total current liabilities	668,639	658,047	6,293,073
<b>Long-term liabilities:</b>			
Long-term debt due after one year (Notes 6 and 8)	2,725,646	2,595,397	25,653,139
Long-term non-recourse debt due after one year (Notes 5, 6 and 8)	361,289	396,389	3,400,367
Guarantee and deposits received (Notes 6 and 14)	267,215	250,103	2,514,965
Net defined benefit liability (Note 9)	5,965	6,144	56,141
Other long-term liabilities (Notes 12 and 14)	43,173	34,857	406,334
Total long-term liabilities	3,403,288	3,282,890	32,030,946
<b>Contingent liabilities</b> (Note 21)			
<b>Net assets</b> (Note 15):			
Shareholders' equity			
Common stock:			
Authorized —1,900,000 thousand shares			
Issued —476,086 thousand shares	122,805	122,805	1,155,812
Capital surplus	104,154	132,748	980,273
Retained earnings	765,326	662,802	7,203,068
Treasury stock	(4,443)	(4,379)	(41,817)
Total shareholders' equity	987,842	913,976	9,297,336
Accumulated other comprehensive income (loss)			
Net unrealized holding gains on securities	131,115	97,192	1,234,024
Net deferred losses on hedges	(2,049)	(2,529)	(19,285)
Foreign currency translation adjustments	(2,093)	(1,265)	(19,699)
Remeasurements of defined benefit plans	160	(27)	1,506
Total accumulated other comprehensive income	127,133	93,371	1,196,546
Non-controlling interests	—	31,756	—
Total net assets	1,114,975	1,039,103	10,493,882
Total liabilities and net assets	¥5,186,902	¥4,980,040	\$48,817,901

## Consolidated Statements of Income

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries  
For the years ended March 31, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	2018
<b>Revenue from operations</b>	¥948,402	¥925,151	¥854,964	\$8,926,136
<b>Costs and expenses:</b>				
Cost of revenue from operations	664,015	664,184	614,191	6,249,553
Selling, general and administrative expenses	78,750	72,796	66,532	741,176
	742,765	736,980	680,723	6,990,729
<b>Operating income</b>	205,637	188,171	174,241	1,935,407
<b>Other income (expenses):</b>				
Interest expense, net	(20,096)	(21,469)	(24,398)	(189,140)
Dividend income	8,229	6,588	5,483	77,449
Gain on sale of property and equipment	38	15	115	358
Loss on sale of property and equipment	(217)	(3)	—	(2,042)
Loss on impairment of fixed assets (Note 10)	(10,635)	(15,538)	(10,806)	(100,094)
Loss on disposal of property and equipment	(601)	(1,522)	(1,146)	(5,656)
Gain on sale of investments in securities	1,010	43	428	9,506
Loss on sale of investments in securities	(47)	—	(76)	(442)
Loss on devaluation of investments in securities	—	—	(466)	—
Dividend to partnership investors	(795)	(1,143)	(1,387)	(7,482)
Other, net	(6,079)	(4,519)	(6,434)	(57,215)
	(29,193)	(37,548)	(38,687)	(274,758)
<b>Income before income taxes</b>	176,444	150,623	135,554	1,660,649
<b>Income taxes (Note 12):</b>				
Current	62,098	53,161	49,989	584,452
Deferred	(6,180)	(9,533)	(5,259)	(58,165)
Total	55,918	43,628	44,730	526,287
<b>Profit</b>	120,526	106,995	90,824	1,134,362
<b>Profit attributable to non-controlling interests</b>	795	3,506	3,026	7,482
<b>Profit attributable to owners of parent</b>	¥119,731	¥103,489	¥ 87,798	\$1,126,880

	Yen			U.S. dollars (Note 1)
	2018	2017	2016	2018
<b>Amounts per share of common stock:</b>				
Profit attributable to owners of parent:				
—Basic	¥252.62	¥218.34	¥185.23	\$2.38
—Diluted	—	—	—	—
Cash dividend applicable to the year	27.00	24.00	22.00	0.25

See accompanying notes.

## Consolidated Statements of Comprehensive Income

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries  
For the years ended March 31, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	2018
<b>Profit</b>	¥120,526	¥106,995	¥ 90,824	\$1,134,362
<b>Other comprehensive income (loss) (Note 19)</b>				
Net unrealized holding gains (losses) on securities	33,935	24,930	(16,514)	319,388
Net deferred gains (losses) on hedges	538	1,705	(2,649)	5,064
Foreign currency translation adjustments	(1,098)	(927)	59	(10,334)
Remeasurements of defined benefit plans	188	442	(710)	1,769
Total other comprehensive income (loss)	33,563	26,150	(19,814)	315,887
<b>Comprehensive income</b>	¥154,089	¥133,145	¥ 71,010	\$1,450,249
<b>Comprehensive income attributable to:</b>				
Owners of the parent	¥153,493	¥129,719	¥ 68,061	\$1,444,640
Non-controlling interests	596	3,426	2,949	5,609

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, 2018, 2017 and 2016

	Thousands						Millions of yen						Non-controlling interests	Total net assets
	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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)			
<b>Balance at April 1, 2015</b>	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)	
<b>Balance at April 1, 2016</b>	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	
<b>Balance at April 1, 2017</b>	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	
Profit attributable to owners of parent	—	—	—	119,731	—	119,731	—	—	—	—	—	—	119,731	
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(828)	—	(828)	—	(828)	
Net unrealized holding gains on securities	—	—	—	—	—	—	33,923	—	—	—	33,923	—	33,923	
Acquisition of treasury stock	—	—	—	—	(64)	(64)	—	—	—	—	—	—	(64)	
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—	—	—	
Change in scope of consolidation	—	—	—	(4,885)	—	(4,885)	—	—	—	—	—	—	(4,885)	
Cash dividends paid:														
Final for prior year (¥13 per share)	—	—	—	(6,161)	—	(6,161)	—	—	—	—	—	—	(6,161)	
Interim for current year (¥13 per share)	—	—	—	(6,161)	—	(6,161)	—	—	—	—	—	—	(6,161)	
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	(28,594)	—	—	(28,594)	—	—	—	—	—	—	(28,594)	
Profit attributable to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(31,756)	(31,756)	
Net deferred gains on hedges	—	—	—	—	—	—	—	480	—	—	480	—	480	
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	187	187	—	187	
<b>Balance at March 31, 2018</b>	476,086	¥122,805	¥104,154	¥765,326	¥(4,443)	¥987,842	¥131,115	¥(2,049)	¥(2,093)	¥ 160	¥127,133	¥ —	¥1,114,975	

	Thousands of U.S. dollars (Note 1)											Non-controlling interests	Total net assets	
	Shareholders' equity						Accumulated other comprehensive income (loss)							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains (losses) on securities	Net deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)				
<b>Balance at April 1, 2017</b>	\$1,155,812	\$1,249,393	\$6,238,136	\$(41,214)	\$8,602,127	\$ 914,748	\$(23,802)	\$(11,906)	\$ (254)	\$ 878,786	\$ 298,880	\$ 9,779,793		
Profit attributable to owners of parent	—	—	1,126,880	—	1,126,880	—	—	—	—	—	—	1,126,880		
Foreign currency translation adjustments	—	—	—	—	—	—	—	(7,793)	—	(7,793)	—	(7,793)		
Net unrealized holding gains on securities	—	—	—	—	—	319,276	—	—	—	319,276	—	319,276		
Acquisition of treasury stock	—	—	—	(603)	(603)	—	—	—	—	—	—	(603)		
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—	—		
Change in scope of consolidation	—	—	(45,976)	—	(45,976)	—	—	—	—	—	—	(45,976)		
Cash dividends paid:														
Final for prior year (\$0.12 per share)	—	—	(57,986)	—	(57,986)	—	—	—	—	—	—	(57,986)		
Interim for current year (\$0.12 per share)	—	—	(57,986)	—	(57,986)	—	—	—	—	—	—	(57,986)		
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	(269,120)	—	—	(269,120)	—	—	—	—	—	—	(269,120)		
Profit attributable to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(298,880)	(298,880)		
Net deferred gains on hedges	—	—	—	—	—	—	4,517	—	—	4,517	—	4,517		
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	1,760	1,760	—	1,760		
<b>Balance at March 31, 2018</b>	\$1,155,812	\$ 980,273	\$7,203,068	\$(41,817)	\$9,297,336	\$1,234,024	\$(19,285)	\$(19,699)	\$1,506	\$1,196,546	\$ —	\$10,493,882		

See accompanying notes.

# Consolidated Statements of Cash Flows

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries  
For the years ended March 31, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	2018
<b>Cash flows from operating activities:</b>				
Income before income taxes	¥ 176,444	¥ 150,623	¥ 135,554	\$ 1,660,649
Depreciation and amortization	41,628	39,446	34,574	391,793
Loss on impairment of fixed assets (Note 10)	10,635	15,538	10,806	100,094
Provision for (Reversal of) allowance for doubtful accounts	(525)	411	(2,095)	(4,941)
Increase (Decrease) in net defined benefit liability	91	702	(388)	856
Loss (Gain) on sale of property and equipment, net	179	(12)	(115)	1,685
Loss on disposal of property and equipment	601	1,522	1,146	5,656
Loss (Gain) on sale of investments in securities, net	(963)	(43)	(352)	(9,064)
Loss (Gain) on devaluation of investments in securities	—	—	466	—
Interest and dividend income	(8,484)	(6,707)	(5,574)	(79,849)
Interest expense	20,352	21,588	24,489	191,548
Decrease (Increase) in notes and accounts receivable—trade	(5,669)	1,090	7,442	(53,355)
Decrease (Increase) in inventories	25,915	5,574	(51,302)	243,906
Increase (Decrease) in notes and accounts payable—trade	(12,536)	(12,936)	(12,363)	(117,986)
Increase (Decrease) in advances received	17,076	7,816	10,981	160,715
Other, net	(6,648)	5,029	9,119	(62,568)
<b>Total</b>	<b>258,096</b>	<b>229,641</b>	<b>162,388</b>	<b>2,429,139</b>
Proceeds from interest and dividend income	8,484	6,707	5,574	79,849
Payments for interest	(20,395)	(22,295)	(24,870)	(191,953)
Payments for income tax and other taxes	(56,252)	(55,545)	(46,985)	(529,430)
<b>Net cash provided by operating activities</b>	<b>189,933</b>	<b>158,508</b>	<b>96,107</b>	<b>1,787,605</b>
<b>Cash flows from investing activities:</b>				
Payments for purchases of property and equipment	(220,017)	(254,931)	(91,297)	(2,070,749)
Proceeds from sale of property and equipment	357	125	404	3,360
Payments for purchases of investments in securities	(28,835)	(21,249)	(18,118)	(271,388)
Proceeds from sale and redemption of investments in securities	2,197	1,858	1,838	20,678
Payments for guarantee and lease deposits paid to lessors	(1,317)	(1,720)	(1,373)	(12,395)
Proceeds from guarantee and lease deposits paid to lessors	28,462	8,361	4,658	267,878
Payments for guarantee and lease deposits received	(11,276)	(11,260)	(12,400)	(106,127)
Proceeds from guarantee and lease deposits received	25,271	22,974	26,047	237,845
Receipts of deposits from partnership investors	2,420	2,757	721	22,776
Restitution of deposits from partnership investors	(11,544)	(13,626)	(24,835)	(108,649)
Other, net	(6,252)	(7,451)	8,971	(58,843)
<b>Net cash used in investing activities</b>	<b>(220,534)</b>	<b>(274,162)</b>	<b>(105,384)</b>	<b>(2,075,614)</b>
<b>Cash flows from financing activities:</b>				
Increase (Decrease) in short-term debt, net	(2,892)	(12,610)	(8,282)	(27,219)
Proceeds from issuance of bonds	30,000	20,000	40,000	282,353
Redemption of bonds	(80,000)	(20,000)	(60,000)	(752,941)
Proceeds from non-recourse bonds	1,700	14,500	5,000	16,000
Redemption of non-recourse bonds	(1,700)	(16,460)	(8,264)	(16,000)
Proceeds from long-term loans payable	376,000	520,200	566,200	3,538,824
Repayment of long-term loans payable	(209,622)	(296,737)	(380,863)	(1,972,913)
Proceeds from long-term non-recourse loans	12,610	109,500	39,600	118,682
Repayment of long-term non-recourse loans	(21,258)	(106,820)	(61,518)	(200,075)
Increase (Decrease) in assignment of receivables	(3,000)	(300)	(1,700)	(28,235)
Decrease (Increase) in treasury stocks, net	(64)	(43)	(88)	(602)
Cash dividends paid	(12,337)	(11,276)	(11,277)	(116,113)
Payments for purchases of investments in subsidiaries not resulting in change in scope of consolidation	(60,910)	—	—	(573,271)
Other, net	(2,066)	(1,957)	(73,827)	(19,445)
<b>Net cash provided by financing activities</b>	<b>26,461</b>	<b>197,997</b>	<b>44,981</b>	<b>249,045</b>
Effect of exchange rate changes on cash and cash equivalents	(124)	(388)	126	(1,168)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(4,264)</b>	<b>81,955</b>	<b>35,830</b>	<b>(40,132)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>267,944</b>	<b>185,989</b>	<b>150,265</b>	<b>2,521,826</b>
<b>Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation</b>	<b>(1,634)</b>	<b>—</b>	<b>(106)</b>	<b>(15,379)</b>
<b>Cash and cash equivalents at end of year (Note 3)</b>	<b>¥ 262,046</b>	<b>¥ 267,944</b>	<b>¥ 185,989</b>	<b>\$ 2,466,315</b>

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, 2018, 2017 and 2016

## 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, 2018, which was ¥106.25 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.

### (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) New accounting pronouncements (Accounting standards and guidance issued but not yet effective)**

“Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018)

“Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26 (revised in 2018), February 16, 2018)

**(1) Overview**

The guidance was revised in regard to the treatments for taxable temporary differences for investments in subsidiaries within the context of non-consolidated financial statements, and to clarify the treatments in determining recoverability of deferred tax assets in a company which was categorized as ‘Type 1’ according to the guidance.

**(2) Effective date**

Effective from the beginning of the fiscal year ending March 31, 2019

**(3) Effects of the application of the standards**

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018)

“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018)

**(1) Overview**

The standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the following 5 steps:

Step 1: Identify contract(s) with customers

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligation in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

**(2) Effective date**

Effective from the beginning of the fiscal year ending March 31, 2022

**(3) Effects of the application of the standards**

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

**3 Cash and cash equivalents**

Cash and cash equivalents at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash, time and notice deposits	¥263,210	¥269,312	\$2,477,271
Time deposits	(1,164)	(1,368)	(10,956)
Cash and cash equivalents	¥262,046	¥267,944	\$2,466,315

**4 Inventories**

Inventories at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Real estate for sale	¥380,736	¥345,185	\$3,583,398
Real estate for sale in process	395,730	492,340	3,724,518
Costs on uncompleted construction contracts	5,015	6,023	47,200
Other	1,827	1,666	17,195
Total	¥783,308	¥845,214	\$7,372,311

The Company transferred amounts between inventories and property and equipment. Such transfers at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Inventories:			
Transferred to property and equipment	¥(38,047)	¥(5,140)	\$(358,089)
Transferred to other assets	—	(88)	—
Transferred from property and equipment	2,490	603	23,435
Net decrease	¥(35,557)	¥(4,625)	\$(334,654)

## 5 Pledged assets

Assets pledged as collateral at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash, time and notice deposits	¥ 2,081	¥ 2,081	\$ 19,586
Buildings and structures	108,319	110,668	1,019,473
Land	393,316	393,316	3,701,798
Construction in progress	99	74	932
Machinery and equipment	268	285	2,522
<b>Total</b>	<b>¥504,083</b>	<b>¥506,424</b>	<b>\$4,744,311</b>

Secured liabilities at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Long-term non-recourse debt due within one year	¥ 49,410	¥ 22,958	\$ 465,035
Long-term non-recourse debt due after one year	361,289	396,389	3,400,367
<b>Total</b>	<b>¥410,699</b>	<b>¥419,347</b>	<b>\$3,865,402</b>

Specified assets for non-recourse debts at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash, time and notice deposits	¥ 10,652	¥ 9,542	\$ 100,254
Buildings and structures	108,319	110,668	1,019,473
Land	393,316	393,316	3,701,798
Construction in progress	99	74	932
Machinery and equipment	268	285	2,522
<b>Total</b>	<b>¥512,654</b>	<b>¥513,885</b>	<b>\$4,824,979</b>

(Note) "Specified assets for non-recourse debts" includes a portion of the amount of "Assets pledged as collateral" for the years ended March 31, 2018 and 2017.

## 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, and corporate bonds.

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 17 "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, 2018 and 2017 are as follows. (Financial instruments whose fair value is extremely difficult to estimate are not included; please see (Note 2).)

## For 2018

	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	¥ 263,210	¥ 263,210	¥ —	\$ 2,477,271	\$ 2,477,271	\$ —
(2) Notes and accounts receivable—trade	23,773	23,773	—	223,746	223,746	—
(3) Investments in securities						
Available-for-sale securities	417,841	417,841	—	3,932,621	3,932,621	—
(4) Guarantee and lease deposits						
Held-to-maturity securities	789	791	2	7,426	7,445	19
Available-for-sale securities	1,180	1,180	—	11,106	11,106	—
Total assets	¥ 706,793	¥ 706,795	¥ 2	\$ 6,652,170	\$ 6,652,189	\$ 19
Liabilities:						
(1) Notes and accounts payable—trade	¥ 28,751	¥ 28,751	¥ —	\$ 270,598	\$ 270,598	\$ —
(2) Short-term debt	61,416	61,416	—	578,033	578,033	—
(3) Long-term debt (including due within one year)	3,001,398	3,032,800	31,402	28,248,452	28,544,000	295,548
(4) Long-term non-recourse debt (including due within one year)	410,699	415,716	5,017	3,865,402	3,912,621	47,219
Total liabilities	¥3,502,264	¥3,538,683	¥36,419	\$32,962,485	\$33,305,252	\$342,767
Derivative transactions*:						
Hedge accounting	¥ (2,983)	¥ (2,983)	¥ —	\$ (28,075)	\$ (28,075)	\$ —
Total derivative transactions	¥ (2,983)	¥ (2,983)	¥ —	\$ (28,075)	\$ (28,075)	\$ —

## For 2017

	Millions of yen		
	Carrying amount	Fair value	Difference
Assets:			
(1) Cash, time and notice deposits	¥ 269,312	¥ 269,312	¥ —
(2) Notes and accounts receivable—trade	18,475	18,475	—
(3) Investments in securities			
Available-for-sale securities	344,577	344,577	—
(4) Guarantee and lease deposits			
Held-to-maturity securities	1,313	1,319	6
Available-for-sale securities	1,193	1,193	—
Total assets	¥ 634,870	¥ 634,876	¥ 6
Liabilities:			
(1) Notes and accounts payable—trade	¥ 41,374	¥ 41,374	¥ —
(2) Short-term debt	66,108	66,108	—
(3) Long-term debt (including due within one year)	2,885,019	2,911,058	26,039
(4) Long-term non-recourse debt (including due within one year)	419,347	424,954	5,607
Total liabilities	¥3,411,848	¥3,443,494	¥31,646
Derivative transactions*:			
Hedge accounting	¥ (3,702)	¥ (3,702)	¥ —
Total derivative transactions	¥ (3,702)	¥ (3,702)	¥ —

\* 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 17 “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 17 “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 17 “Derivative transactions.”

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

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Investments in subsidiaries and affiliates* <sup>1</sup>	¥ 42,745	¥ 42,734	\$ 402,306
Unlisted equity securities* <sup>1</sup>	1,297	1,402	12,207
Preferred equity securities, etc.* <sup>1</sup>	25,338	21,638	238,475
Investments in limited partnerships, etc.* <sup>1</sup>	352	852	3,313
Guarantee and lease deposits (excluding held-to-maturity securities and available-for-sale securities)* <sup>2</sup>	69,095	94,819	650,306
Guarantee and deposits received* <sup>3</sup>	207,824	193,111	1,955,991

\*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. 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.

\*3. 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 2018

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash, time and notice deposits	¥263,210	¥ —	¥ —	¥—
Notes and accounts receivable—trade	23,773	—	—	—
Guarantee and lease deposits:				
Held-to-maturity securities (National government bonds)	328	462	—	—
Available-for-sale securities with maturities (National government bonds)	—	842	298	—
Total	¥287,311	¥1,304	¥298	¥—

## 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 2018

	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	\$2,477,271	\$ —	\$ —	\$—
Notes and accounts receivable—trade	223,746	—	—	—
Guarantee and lease deposits:				
Held-to-maturity securities (National government bonds)	3,087	4,348	—	—
Available-for-sale securities with maturities (National government bonds)	—	7,925	2,805	—
Total	\$2,704,104	\$12,273	\$2,805	\$—

(Note 4) Repayment schedule of corporate bonds, long-term debt, long-term non-recourse debt and other interest-bearing debt  
For 2018

Year ending March 31	Millions of yen					
	2019	2020	2021	2022	2023	2024 and thereafter
Short-term debt	¥ 61,416	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt (including due within one year)	275,752	169,619	131,281	221,256	237,196	1,966,294
Long-term non-recourse debt (including due within one year)	49,410	101,514	69,129	14,160	2,716	173,770
Total	¥386,578	¥271,133	¥200,410	¥235,416	¥239,912	¥2,140,064

## For 2017

Year ending March 31	Millions of yen					
	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 2018

Year ending March 31	Thousands of U.S. dollars					
	2019	2020	2021	2022	2023	2024 and thereafter
Short-term debt	\$ 578,033	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt (including due within one year)	2,595,313	1,596,414	1,235,586	2,082,409	2,232,433	18,506,297
Long-term non-recourse debt (including due within one year)	465,035	955,426	650,626	133,271	25,562	1,635,482
Total	\$3,638,381	\$2,551,840	\$1,886,212	\$2,215,680	\$2,257,995	\$20,141,779

## 7 Securities

### For 2018

A. The following tables summarize the acquisition costs, carrying amounts and fair values of securities with available fair values as of March 31, 2018:

(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.	¥789	¥791	¥2	\$7,426	\$7,445	\$19
Securities whose fair value does not exceed carrying amount:						
National and local government bonds, etc.	—	—	—	—	—	—
<b>Total</b>	<b>¥789</b>	<b>¥791</b>	<b>¥2</b>	<b>\$7,426</b>	<b>\$7,445</b>	<b>\$19</b>

(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	¥394,231	¥202,083	¥192,148	\$3,710,409	\$1,901,958	\$1,808,451
Debt securities*	1,180	1,140	40	11,106	10,729	377
Other	—	—	—	—	—	—
Subtotal	395,411	203,223	192,188	3,721,515	1,912,687	1,808,828
Securities whose carrying amount does not exceed acquisition cost:						
Equity securities	23,281	26,368	(3,087)	219,115	248,169	(29,054)
Debt securities	—	—	—	—	—	—
Other	329	329	—	3,097	3,097	—
Subtotal	23,610	26,697	(3,087)	222,212	251,266	(29,054)
<b>Total</b>	<b>¥419,021</b>	<b>¥229,920</b>	<b>¥189,101</b>	<b>\$3,943,727</b>	<b>\$2,163,953</b>	<b>\$1,779,774</b>

\* 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, 2018 amounted to ¥1,663 million (\$15,652 thousand) and the related gains and losses amounted to ¥1,010 million (\$9,506 thousand) and ¥47 million (\$442 thousand), respectively.

### 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		
	Carrying amount	Fair value	Difference
Securities whose fair value exceeds carrying amount:			
National and local government bonds, etc.	¥1,313	¥1,319	¥6
Securities whose fair value does not exceed carrying amount:			
National and local government bonds, etc.	—	—	—
<b>Total</b>	<b>¥1,313</b>	<b>¥1,319</b>	<b>¥6</b>

(b) Available-for-sale securities:

	Millions of yen		
	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds acquisition cost:			
Equity securities	¥302,228	¥156,391	¥145,837
Debt securities*	1,193	1,140	53
Other	—	—	—
Subtotal	303,421	157,531	145,890
Securities whose carrying amount does not exceed acquisition cost:			
Equity securities	41,986	47,682	(5,696)
Debt securities	—	—	—
Other	363	373	(10)
Subtotal	42,349	48,055	(5,706)
<b>Total</b>	<b>¥345,770</b>	<b>¥205,586</b>	<b>¥140,184</b>

\* 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 and the related gains amounted to ¥43 million.

## 8 Short-term debt and long-term debt

Short-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	2018	Average interest rate (%)	2017	Average interest rate (%)	2018
Loans, principally from banks	¥61,416	0.25	¥66,108	0.26	\$578,033
Commercial paper	—	—	—	—	—
<b>Total</b>	<b>¥61,416</b>		<b>¥66,108</b>		<b>\$578,033</b>

The interest rates represent weighted-average rates in effect at March 31, 2018 and 2017, regardless of borrowing currencies, though the range of the interest rate varies by borrowing currency.

Long-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
2.50% domestic straight bonds, due 2019	¥ 10,000	¥ 10,000	\$ 94,118
0.75% domestic straight bonds, due 2017	—	10,000	—
0.55% domestic straight bonds, due 2017	—	10,000	—
0.50% domestic straight bonds, due 2017	—	10,000	—
0.50% domestic straight bonds, due 2017	—	10,000	—
0.486% domestic straight bonds, due 2017	—	10,000	—
0.444% domestic straight bonds, due 2017	—	10,000	—
0.388% domestic straight bonds, due 2018	—	20,000	—
0.329% domestic straight bonds, due 2018	10,000	10,000	94,118
0.563% domestic straight bonds, due 2020	10,000	10,000	94,118
0.877% domestic straight bonds, due 2020	20,000	20,000	188,235
0.462% domestic straight bonds, due 2018	10,000	10,000	94,118
1.098% domestic straight bonds, due 2023	10,000	10,000	94,118
0.426% domestic straight bonds, due 2018	20,000	20,000	188,235
0.355% domestic straight bonds, due 2018	10,000	10,000	94,118
0.950% domestic straight bonds, due 2023	10,000	10,000	94,118
0.344% domestic straight bonds, due 2018	10,000	10,000	94,118
0.968% domestic straight bonds, due 2023	10,000	10,000	94,118
0.987% domestic straight bonds, due 2024	20,000	20,000	188,235
0.914% domestic straight bonds, due 2024	20,000	20,000	188,235
0.904% domestic straight bonds, due 2024	20,000	20,000	188,235
0.884% domestic straight bonds, due 2024	20,000	20,000	188,235
0.836% domestic straight bonds, due 2024	20,000	20,000	188,235
0.809% domestic straight bonds, due 2024	20,000	20,000	188,235
0.429% domestic straight bonds, due 2021	10,000	10,000	94,118
0.392% domestic straight bonds, due 2022	10,000	10,000	94,118
0.670% domestic straight bonds, due 2025	10,000	10,000	94,118
0.826% domestic straight bonds, due 2025	20,000	20,000	188,235
0.992% domestic straight bonds, due 2025	20,000	20,000	188,235
0.400% domestic straight bonds, due 2026	10,000	10,000	94,118
0.230% domestic straight bonds, due 2026	10,000	10,000	94,118
0.400% domestic straight bonds, due 2027	30,000	—	282,353
Loans, principally from banks and insurance companies, with interest at weighted-average rates of 0.32% in 2018 and 2017, respectively:			
Secured	—	—	—
Unsecured	2,631,398	2,465,019	24,766,097
Subtotal	3,001,398	2,885,019	28,248,452
Amount due within one year	(275,752)	(289,622)	(2,595,313)
<b>Total</b>	<b>¥2,725,646</b>	<b>¥2,595,397</b>	<b>\$25,653,139</b>

## Notes to Consolidated Financial Statements

Non-recourse debt at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Non-recourse bonds, with interest at weighted-average rates of 0.11% in 2018 and 0.13% in 2017:			
Due within one year	¥ 4,900	¥ 1,700	\$ 46,118
Due after one year	34,200	37,400	321,882
Subtotal	39,100	39,100	368,000
Non-recourse loans, with interest at weighted-average rates of 0.15% in 2018 and 0.18% in 2017:			
Due within one year	44,510	21,258	418,918
Due after one year	327,089	358,989	3,078,484
Subtotal	371,599	380,247	3,497,402
<b>Total</b>	<b>410,699</b>	<b>419,347</b>	<b>3,865,402</b>
Secured	410,699	419,347	3,865,402
Unsecured	—	—	—
<b>Total</b>	<b>¥410,699</b>	<b>¥419,347</b>	<b>\$3,865,402</b>

The aggregate annual maturities of long-term debt at March 31, 2018 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥ 275,752	\$ 2,595,313
2020	169,619	1,596,414
2021	131,281	1,235,586
2022	221,256	2,082,409
2023	237,196	2,232,433
2024 and thereafter	1,966,294	18,506,297
<b>Total</b>	<b>¥3,001,398</b>	<b>\$28,248,452</b>

The aggregate annual maturities of non-recourse debt at March 31, 2018 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥ 49,410	\$ 465,035
2020	101,514	955,426
2021	69,129	650,626
2022	14,160	133,271
2023	2,716	25,562
2024 and thereafter	173,770	1,635,482
<b>Total</b>	<b>¥410,699</b>	<b>\$3,865,402</b>

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 2018 and 2017

### 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
	2018	2017	2018
Retirement benefit obligations at beginning of year	¥11,316	¥10,851	\$106,504
Service costs	717	709	6,748
Interest costs	47	45	442
Actuarial differences	(53)	157	(499)
Retirement benefits paid	(412)	(446)	(3,878)
Retirement benefit obligations at end of year	¥11,615	¥11,316	\$109,317

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Plan assets at beginning of year	¥5,172	¥4,770	\$48,678
Expected return on plan assets	103	95	969
Actuarial differences	176	116	1,656
Employer contributions	398	406	3,746
Retirement benefits paid	(199)	(215)	(1,873)
Plan assets at end of year	¥5,650	¥5,172	\$53,176

(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
	2018	2017	2018
Obligations under retirement benefit plans (funded)	¥ 6,241	¥ 6,184	\$ 58,738
Fair value of plan assets	(5,650)	(5,172)	(53,176)
	591	1,012	5,562
Obligations under retirement benefit plans (unfunded)	5,374	5,132	50,579
Net amount of liabilities on the consolidated balance sheets	5,965	6,144	56,141
Net defined benefit liability	5,965	6,144	56,141
Net amount of liabilities on the consolidated balance sheets	¥ 5,965	¥ 6,144	\$ 56,141

(4) Components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service costs	¥ 717	¥ 709	\$6,748
Interest costs	47	45	442
Expected return on plan assets	(103)	(95)	(969)
Actuarial differences	41	681	386
Retirement benefit expenses	¥ 702	¥1,340	\$6,607

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Actuarial differences	¥(270)	¥(640)	\$(2,541)
Total	¥(270)	¥(640)	\$(2,541)

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized actuarial differences	¥(229)	¥41	\$(2,155)
Total	¥(229)	¥41	\$(2,155)

## (7) Major breakdown of plan assets

	2018	2017
Debt securities	26.8%	25.3%
Equity securities	34.4	34.2
General life insurance accounts	37.7	39.0
Other	1.1	1.5
Total	100.0%	100.0%

## (8) Actuarial assumptions

	2018	2017
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 ¥380 million (\$3,576 thousand) and ¥368 million for the years ended March 31, 2018 and 2017, 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, 2018, 2017 and 2016, respectively.

For 2018

Use	Location	Number of properties
Asset leased to others	Tokyo	1

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

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 value of the asset has been reduced to its recoverable amount by ¥10,635 million (\$100,094 thousand) since the total amount of its future cash flow is estimated to be less than the carrying value for the year ended March 31, 2018. The recoverable amount is calculated by discounting the future cash flow at 4.0%.

The carrying values of the land holdings summarized above have been reduced to their recoverable amounts by ¥15,538 million 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.

These write-downs were recognized as impairment losses in other expenses.

The recoverable amounts of these assets for the years ended March 31, 2017 and 2016 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.

## 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, 2018 and 2017, 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, 2018 and 2017, 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 years ended March 31, 2018 and 2017, and 33.06% for the year ended March 31, 2016.

Details of deferred tax assets and liabilities at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Loss on impairment of fixed assets	¥ 17,146	¥ 13,890	\$ 161,374
Loss on devaluation of real estate for sale	10,885	8,788	102,447
Depreciation and amortization of consolidated adjustment	7,977	8,668	75,078
Allowance for doubtful accounts	3,521	2,905	33,139
Accrued enterprise tax and business office tax	2,165	1,774	20,376
Net operating loss carryforwards	1,939	2,033	18,249
Net defined benefit liability	1,873	1,889	17,628
Accrued bonuses	1,739	1,715	16,367
Loss on devaluation of investments in SPEs' holding properties for sale	1,413	1,413	13,299
Net deferred losses on hedges	951	1,140	8,951
Elimination of unrealized profit	943	982	8,875
Loss on devaluation of investments in securities	844	844	7,944
Other	12,851	9,820	120,951
Subtotal of deferred tax assets	64,247	55,861	604,678
Valuation allowance	(6,824)	(4,379)	(64,226)
Total deferred tax assets	¥ 57,423	¥ 51,482	\$ 540,452
Deferred tax liabilities:			
Net unrealized holding gains on securities	¥(57,916)	¥(42,931)	\$(545,092)
Retained earnings appropriated for tax allowable reserves	(3,731)	(3,731)	(35,115)
Other	(738)	(636)	(6,946)
Total deferred tax liabilities	¥(62,385)	¥(47,298)	\$(587,153)
Net deferred tax assets	¥ (4,962)	¥ 4,184	\$ (46,701)

## Notes to Consolidated Financial Statements

The difference between the statutory tax rate and the effective tax rate for the years ended March 31, 2018 and 2016 was insignificant and not presented.

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%

## 13 Business Combination

(Transactions conducted by commonly controlled entities)

### 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%

#### (6) Other matters concerning business combination

The Company acquired the shares to strengthen the Group's management foundations.

### 2. 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).

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

Consideration paid for acquisition Cash ¥60,910 million (\$573,271 thousand)

Acquisition cost ¥60,910 million (\$573,271 thousand)

### 4. Information relating to changes in shares arising from transactions with non-controlling shareholders

#### (1) Main cause of changes in capital surplus

Additional acquisition of shares in the subsidiary

#### (2) Decrease in capital surplus arising from transactions with non-controlling shareholders

¥28,594 million (\$269,120 thousand)

## 14 Deposits received and accounts payable with interest rate

Guarantee and deposits received at March 31, 2018 and 2017 are as follows:

	Millions of yen				Thousands of U.S. dollars
	2018	Average interest rate (%)	2017	Average interest rate (%)	2018
Short-term deposits and long-term deposits due within one year:					
Non-interest-bearing	¥ 60,382	—	¥ 68,861	—	\$ 568,301
Interest-bearing	—	—	—	—	—
	60,382		68,861		568,301
Guarantee and lease deposits from tenants:					
Non-interest-bearing	207,824	—	193,111	—	1,955,991
Interest-bearing	—	—	—	—	—
Long-term deposits:					
Non-interest-bearing	59,391	—	56,992	—	558,974
Interest-bearing	—	—	—	—	—
	267,215		250,103		2,514,965
<b>Total</b>	<b>¥327,597</b>		<b>¥318,964</b>		<b>\$3,083,266</b>

Accounts payable with interest rate at March 31, 2018 and 2017 are as follows:

	Millions of yen				Thousands of U.S. dollars
	2018	Average interest rate (%)	2017	Average interest rate (%)	2018
Due within one year	¥1,543	0.98	¥1,544	0.98	\$14,522
Due after one year	—	—	1,543	0.98	—
<b>Total</b>	<b>¥1,543</b>		<b>¥3,087</b>		<b>\$14,522</b>

(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, 2018 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥1,543	\$14,522
2020	—	—
2021	—	—
2022	—	—
2023	—	—
2024 and thereafter	—	—
<b>Total</b>	<b>¥1,543</b>	<b>\$14,522</b>

## 15 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.

## 16 Information for certain lease transactions

Future lease payments and receipts under such non-cancelable operating leases at March 31, 2018, 2017 and 2016 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	2018
Operating leases:				
Future lease payments:				
Due within one year	¥ 1,401	¥ 1,387	¥ 1,116	\$ 13,186
Due after one year	38,241	39,053	16,962	359,915
Total	¥ 39,642	¥ 40,440	¥ 18,078	\$ 373,101
Future lease receipts:				
Due within one year	¥ 83,254	¥ 86,294	¥ 73,456	\$ 783,567
Due after one year	153,777	138,086	111,546	1,447,313
Total	¥237,031	¥224,380	¥185,002	\$2,230,880

## 17 Derivative transactions

Hedge accounting was applied to all derivative transactions for the years ended March 31, 2018 and 2017.

The summary of these transactions is as follows:

For 2018

### (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	¥15,105	¥—	¥133

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	Foreign exchange forward contracts Receipts in U.S. dollars / Payments in yen	Foreign currency-denominated transactions	\$142,165	\$—	\$1,252

(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	¥ 243,800	¥ 233,800	¥(3,116)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	1,577,137	1,454,966	—(*)
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	—	—(*)

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	\$ 2,294,588	\$ 2,200,471	\$(29,327)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	14,843,642	13,693,798	—(*)
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	28,235	—	—(*)

(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 2017

## (1) Foreign currency-related derivatives

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

(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	—(*)

(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.

## 18 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, 2018, 2017 and 2016 is summarized as follows:

	Millions of yen							Consolidated financial statements amounts
	Reportable segments						Adjustments	
For 2018	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total		
Revenue from operations:								
Customers	¥ 350,211	¥310,914	¥206,839	¥68,858	¥11,580	¥ 948,402	¥ —	¥ 948,402
Intersegment	3,670	279	2,517	311	1,297	8,074	(8,074)	—
Total	353,881	311,193	209,356	69,169	12,877	956,476	(8,074)	948,402
Segment profit	¥ 139,368	¥ 46,839	¥ 16,109	¥21,457	¥ 1,628	¥ 225,401	¥(19,764)	¥ 205,637
Segment assets	¥3,565,088	¥826,574	¥ 27,946	¥12,200	¥25,203	¥4,457,011	¥729,891	¥5,186,902
Other:								
Depreciation and amortization	¥ 38,981	¥ 174	¥ 1,022	¥ 471	¥ 217	¥ 40,865	¥ 763	¥ 41,628
Loss on impairment of fixed assets	10,635	—	—	—	—	10,635	—	10,635
Increase in property and equipment, and intangible assets	220,785	672	1,027	859	428	223,771	4,523	228,294
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

## Notes to Consolidated Financial Statements

For 2016	Millions of yen								
	Reportable segments						Total	Adjustments	Consolidated financial statements amounts
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses				
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	

For 2018	Thousands of U.S. dollars								
	Reportable segments						Total	Adjustments	Consolidated financial statements amounts
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses				
Revenue from operations:									
Customers	\$ 3,296,104	\$2,926,249	\$1,946,720	\$648,075	\$108,988	\$ 8,926,136	\$ —	\$ 8,926,136	
Intersegment	34,541	2,626	23,689	2,927	12,208	75,991	(75,991)	—	
Total	3,330,645	2,928,875	1,970,409	651,002	121,196	9,002,127	(75,991)	8,926,136	
Segment profit	\$ 1,311,699	\$ 440,838	\$ 151,614	\$201,948	\$ 15,322	\$ 2,121,421	\$ (186,014)	\$ 1,935,407	
Segment assets	\$33,553,769	\$7,779,520	\$ 263,021	\$114,824	\$237,205	\$41,948,339	\$6,869,562	\$48,817,901	
Other:									
Depreciation and amortization	\$ 366,880	\$ 1,638	\$ 9,619	\$ 4,433	\$ 2,042	\$ 384,612	\$ 7,181	\$ 391,793	
Loss on impairment of fixed assets	100,094	—	—	—	—	100,094	—	100,094	
Increase in property and equipment, and intangible assets	2,077,976	6,325	9,666	8,085	4,028	2,106,080	42,569	2,148,649	

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, 2018, 2017 and 2016.

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, 2018, 2017 and 2016.

## 19 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, 2018, 2017 and 2016 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	2018
Unrealized holding gains (losses) on securities:				
Increase (Decrease) during the fiscal year	¥ 50,290	¥ 36,067	¥(27,205)	\$ 473,318
Reclassification adjustments	(1,373)	(128)	130	(12,923)
Amounts before tax effects	48,917	35,939	(27,075)	460,395
Tax effects	(14,982)	(11,009)	10,561	(141,007)
Total	¥ 33,935	¥ 24,930	¥(16,514)	\$ 319,388
Deferred gains (losses) on hedges:				
Increase (Decrease) during the fiscal year	¥ (453)	¥ 482	¥ (5,098)	\$ (4,264)
Reclassification adjustments	1,208	1,978	1,327	11,370
Amounts before tax effects	755	2,460	(3,771)	7,106
Tax effects	(217)	(755)	1,122	(2,042)
Total	¥ 538	¥ 1,705	¥ (2,649)	\$ 5,064
Foreign currency translation adjustments:				
Increase (Decrease) during the fiscal year	¥ (1,098)	¥ (927)	¥ 59	\$ (10,334)
Remeasurements of defined benefit plans:				
Increase (Decrease) during the fiscal year	¥ 229	¥ (41)	¥ (680)	\$ 2,155
Reclassification adjustments	41	681	(355)	386
Amounts before tax effects	270	640	(1,035)	2,541
Tax effects	(82)	(198)	325	(772)
Total	¥ 188	¥ 442	¥ (710)	\$ 1,769
Total other comprehensive income (loss)	¥ 33,563	¥ 26,150	¥(19,814)	\$ 315,887

## 20 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, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Investment and rental properties			
Balance at beginning of fiscal year	¥3,001,274	¥2,696,196	\$28,247,285
Changes during the fiscal year	207,051	305,078	1,948,715
Balance at end of fiscal year	3,208,325	3,001,274	30,196,000
Fair value at end of fiscal year	5,316,335	4,800,727	50,036,094
A portion used as investment and rental properties			
Balance at beginning of fiscal year	¥ 143,906	¥ 277,776	\$ 1,354,409
Changes during the fiscal year	(1,956)	(133,870)	(18,409)
Balance at end of fiscal year	141,950	143,906	1,336,000
Fair value at end of fiscal year	362,081	340,894	3,407,821

(Notes)

\* Carrying amounts on the consolidated balance sheets are the amounts determined by deducting accumulated depreciation and accumulated impairment losses from the acquisition costs.

\* Fair values as of March 31, 2018 and 2017 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, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Increase:			
Acquired real estate	¥214,777	¥218,918	\$2,021,431
Transferred from real estate for sale in process, etc.	38,047	5,228	358,089
Decrease:			
Depreciation and amortization	¥(37,177)	¥(31,765)	\$ (349,901)
Transferred to real estate for sale in process	(2,490)	(600)	(23,435)
Loss on impairment of fixed assets	(10,635)	(15,537)	(100,094)

## Notes to Consolidated Financial Statements

Income and expenses for investment and rental properties for the years ended March 31, 2018 and 2017 are as follows:

		Millions of yen		Thousands of U.S. dollars
		2018	2017	2018
Investment and rental properties	Income	¥236,446	¥220,511	\$2,225,374
	Expenses	121,736	116,247	1,145,751
	Balance	114,710	104,264	1,079,623
	Other income (expenses)	(10,938)	(15,776)	(102,946)
A portion used as investment and rental properties		¥ 21,475	¥ 18,970	\$ 202,118
	Income			
	Expenses	11,926	10,655	112,245
	Balance	9,549	8,315	89,873
	Other income (expenses)	(3)	—	(28)

(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.

### 21 Contingent liabilities

The Company and its consolidated subsidiaries were contingently liable as guarantors of borrowings by customers and others in an amount aggregating to ¥6,298 million (\$59,275 thousand) and ¥3,513 million at March 31, 2018 and 2017, respectively.

### 22 Subsequent events

On June 29, 2018, the shareholders of the Company approved payments of a year-end cash dividend of ¥14 (\$0.13) per share or a total of ¥6,635 million (\$62,447 thousand) to shareholders of record at March 31, 2018. 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, 2018 and 2017, 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, 2018, 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 judgment, 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, 2018 and 2017, and their financial performance and cash flows for each of the years in the three-year period ended March 31, 2018, in accordance with accounting principles generally accepted in Japan.

## Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 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 27, 2018  
Tokyo, Japan

## 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

12,934 (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

10,579

### Stock Exchange Listing

Tokyo Stock Exchange

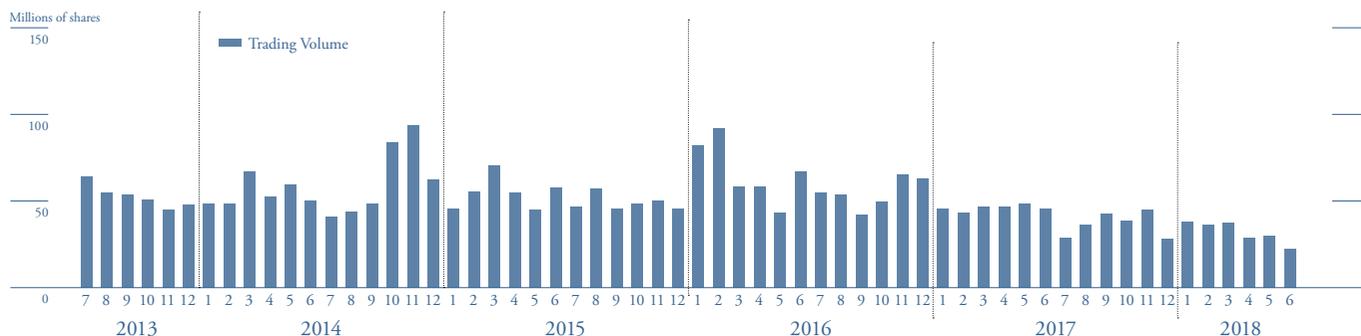
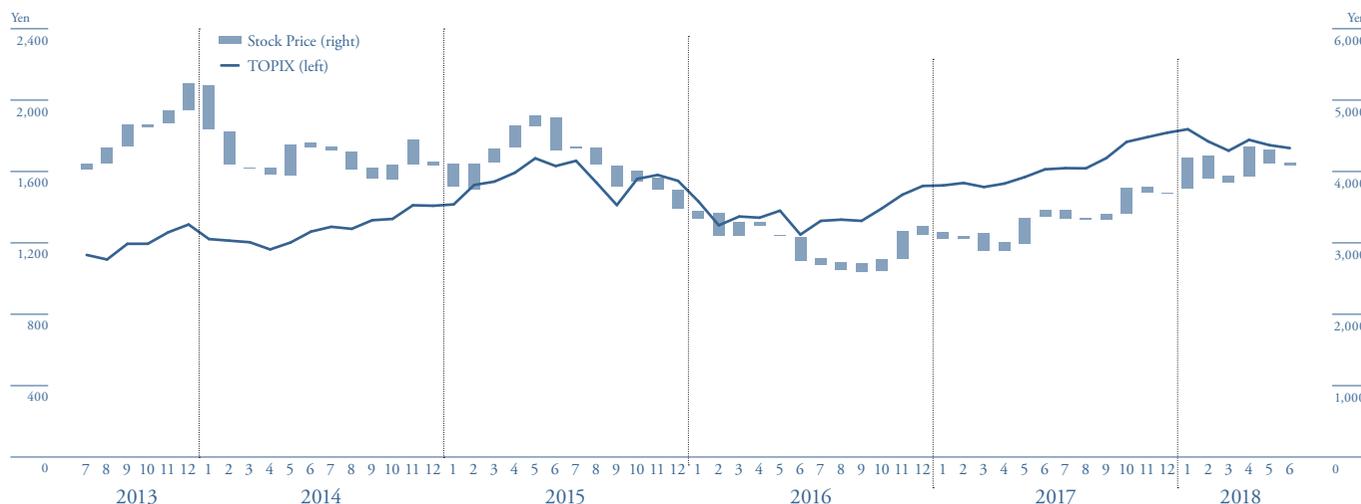
### Major Shareholders

Name	Number of shares held (Thousands)	Percentage of shares held
The Master Trust Bank of Japan, Ltd. (Trust account)	35,559	7.50%
Japan Trustee Services Bank, Ltd. (Trust account)	26,731	5.64%
Sumitomo Mitsui Banking Corporation	11,990	2.53%
Japan Trustee Services Bank, Ltd. (Trust account 4)	10,937	2.31%
Japan Trustee Services Bank, Ltd. (Trust account 5)	9,038	1.91%
Daikin Industries, Ltd.	8,367	1.77%
State Street Bank - West Client - Treaty 505234	8,211	1.73%
State Street Bank-West Pension Fund Clients-Exempt 505233	7,701	1.62%
Shimizu Corporation	7,500	1.58%
Obayashi Corporation	7,090	1.50%



Trust Accounts	27.66%
Financial Institutions	9.40%
Other Companies	30.87%
Foreign Companies	28.69%
Individuals and Others	3.38%

## Stock Price and Trading Volume on Tokyo Stock Exchange



# History

		Global Events	
1949   1980	1949	<ul style="list-style-type: none"> <li>Izumi Real Estate Co., Ltd. established as the successor to the holding company of the Sumitomo <i>zaibatsu</i> following the breakup of the conglomerate.</li> </ul>	<b>1964</b> <ul style="list-style-type: none"> <li>Tokyo Olympic Games</li> </ul> <b>1973</b> <ul style="list-style-type: none"> <li>First oil crisis</li> </ul> <b>1978</b> <ul style="list-style-type: none"> <li>Second oil crisis</li> </ul>
	1957	<ul style="list-style-type: none"> <li>Izumi Real Estate Co., Ltd. changed its name to Sumitomo Realty &amp; Development Co., Ltd.</li> </ul>	
	1963	<ul style="list-style-type: none"> <li>Merged with the holding company of the former Sumitomo <i>zaibatsu</i> during its liquidation.</li> </ul>	
	1964	<ul style="list-style-type: none"> <li>Entered condominium sales business with Hama-Ashiya Mansion in Kobe, Hyogo Prefecture.</li> </ul>	
	1970	<ul style="list-style-type: none"> <li>Listed on the Tokyo Stock Exchange and Osaka Securities Exchange.</li> </ul>	
	1973	<ul style="list-style-type: none"> <li>Established Sumitomo Fudosan Tatemono Service Co., Ltd., a consolidated subsidiary.</li> </ul>	
	1974	<ul style="list-style-type: none"> <li>Completed construction of 52-story Shinjuku Sumitomo Building in Shinjuku, Tokyo; moved Company head office there from Tokyo Sumitomo Building in Marunouchi, Tokyo.</li> </ul>	
	1975	<ul style="list-style-type: none"> <li>Established Sumitomo Real Estate Sales Co., Ltd., a consolidated subsidiary.</li> </ul>	
1981   2000	1980	<ul style="list-style-type: none"> <li>Established Sumitomo Fudosan Syscon Co., Ltd., a consolidated subsidiary.</li> </ul>	<b>1985</b> <ul style="list-style-type: none"> <li>The Plaza Accord</li> </ul> <b>1987</b> <ul style="list-style-type: none"> <li>Black Monday</li> </ul> <b>1989</b> <ul style="list-style-type: none"> <li>Collapse of Berlin Wall</li> <li>Nikkei Stock Average all-time high</li> </ul> <b>1999</b> <ul style="list-style-type: none"> <li>Introduction of euro</li> </ul>
	1982	<ul style="list-style-type: none"> <li>Completed construction of 30-story Shinjuku NS Building in Shinjuku, Tokyo; moved Company head office there from Shinjuku Sumitomo Building.</li> </ul>	
	1995	<ul style="list-style-type: none"> <li>Commenced American Comfort custom home construction business.</li> </ul>	
	1996	<ul style="list-style-type: none"> <li>Commenced Shinchiku Sokkurisan remodeling business.</li> </ul>	
	1997	<ul style="list-style-type: none"> <li>Entered high-quality business hotel market. Opened Villa Fontaine Nihombashi and hotels at two other locations.</li> </ul>	
	1998	<ul style="list-style-type: none"> <li>Sumitomo Real Estate Sales Co., Ltd., a consolidated subsidiary, listed on the Tokyo Stock Exchange.</li> </ul>	
	1999	<ul style="list-style-type: none"> <li>Commenced real estate joint investment trust fund. Launched sales of Sumitomo Realty &amp; Development Fund (SURF) series.</li> <li>Implemented the Sumquest bond issue, which was the first public issue of real estate securities in Japan.</li> </ul>	
	2000	<ul style="list-style-type: none"> <li>Commenced luxury condominium leasing business. Completed construction of La Tour Shibakoen.</li> </ul>	
2001   2018	2001	<ul style="list-style-type: none"> <li>The number of managed STEP brokerage offices exceeded 200.</li> </ul>	<b>2001</b> <ul style="list-style-type: none"> <li>September 11 terrorist attacks</li> </ul> <b>2008</b> <ul style="list-style-type: none"> <li>Lehman crisis</li> </ul> <b>2011</b> <ul style="list-style-type: none"> <li>The Great East Japan Earthquake</li> <li>European sovereign debt crisis</li> <li>Record-high yen against the U.S. dollar</li> </ul> <b>2015</b> <ul style="list-style-type: none"> <li>China stock market crash</li> </ul> <b>2016</b> <ul style="list-style-type: none"> <li>Brexit referendum</li> </ul>
	2002	<ul style="list-style-type: none"> <li>Completed construction of Izumi Garden Tower (Minato Ward, Tokyo).</li> </ul>	
	2003	<ul style="list-style-type: none"> <li>Commenced sales of J-URBAN fixed-price urban-style housing series.</li> </ul>	
	2004	<ul style="list-style-type: none"> <li>Commenced sales of World City Towers (Minato Ward, Tokyo).</li> </ul>	
	2008	<ul style="list-style-type: none"> <li>Established Sumitomo Fudosan Bellesalle Co., Ltd., a consolidated subsidiary.</li> <li>Commenced sales of City Towers Toyosu (Koto Ward, Tokyo).</li> </ul>	
	2010	<ul style="list-style-type: none"> <li>Completed construction of Shinjuku Central Park City (Shinjuku Ward, Tokyo).</li> </ul>	
	2011	<ul style="list-style-type: none"> <li>Opened Grand Mansion Gallery.</li> <li>Completed construction of Sumitomo Fudosan Shinjuku Grand Tower (Shinjuku Ward, Tokyo).</li> </ul>	
	2012	<ul style="list-style-type: none"> <li>Launched a Custom-order Condominium service.</li> <li>Commenced sales of J-RESIDENCE.</li> </ul>	
	2014	<ul style="list-style-type: none"> <li>Number of condominium units brought to market over the full year was the highest in Japan for the first time.</li> </ul>	
	2015	<ul style="list-style-type: none"> <li>Completed construction of Tokyo Nihombashi Tower (Chuo Ward, Tokyo).</li> <li>Cumulative units contracted topped 100,000 in Shinchiku Sokkurisan remodeling operations.</li> </ul>	
	2016	<ul style="list-style-type: none"> <li>Completed construction of Shinjuku Garden (Shinjuku Ward, Tokyo).</li> <li>Completed construction of Sumitomo Fudosan Roppongi Grand Tower (Minato Ward, Tokyo).</li> </ul>	
	2017	<ul style="list-style-type: none"> <li>Commenced sales of City Towers Tokyo Bay (Koto Ward, Tokyo).</li> <li>Number of condominium units brought to market over the full year was the highest in Japan for the fourth consecutive year.</li> </ul>	
2018	<ul style="list-style-type: none"> <li>Completed construction of Sumitomo Fudosan Osaki Garden Tower (Shinagawa Ward, Tokyo).</li> </ul>		



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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