

Consolidated Balance Sheets

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
As of March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Assets			
Current assets:			
Cash, time and notice deposits (Notes 3, 5 and 6)	¥ 195,361	¥ 172,192	\$ 1,795,432
Notes and accounts receivable—trade (Note 6)	17,406	21,567	159,967
Allowance for doubtful accounts	(61)	(73)	(561)
Inventories (Note 4)	648,881	679,903	5,963,432
Other current assets	54,447	59,422	500,386
Total current assets	916,034	933,011	8,418,656
Investments:			
Investments in unconsolidated subsidiaries and affiliates (Note 6)	100,156	61,544	920,467
Investments in securities and other (Notes 6 and 7)	372,414	433,301	3,422,608
Allowance for doubtful accounts	(2,082)	(9,154)	(19,134)
Total investments	470,488	485,691	4,323,941
Property and equipment:			
Land (Notes 4, 5 and 20)	2,558,356	2,523,937	23,512,140
Buildings and structures (Notes 4, 5 and 20)	1,584,047	1,378,337	14,557,917
Machinery and equipment (Notes 4, 5 and 20)	40,382	35,518	371,124
Leased assets	2,054	2,150	18,877
Construction in progress (Notes 4, 5 and 20)	133,718	139,451	1,228,914
	4,318,557	4,079,393	39,688,972
Accumulated depreciation and accumulated impairment losses	(578,302)	(548,382)	(5,314,788)
Net property and equipment	3,740,255	3,531,011	34,374,184
Other assets:			
Guarantee and lease deposits paid to lessors (Notes 6 and 7)	70,172	70,299	644,904
Leasehold rights and other intangible assets	57,562	56,752	529,014
Deferred income taxes (Note 12)	30,067	17,464	276,326
Other	33,045	35,892	303,695
Total other assets	190,846	180,407	1,753,939
Total assets	¥5,317,623	¥5,130,120	\$48,870,720

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Liabilities and Net Assets			
Current liabilities:			
Short-term debt (Notes 6 and 8)	¥ 146,726	¥ 25,643	\$ 1,348,461
Long-term debt due within one year (Notes 5, 6 and 8)	131,471	169,619	1,208,262
Long-term non-recourse debt due within one year (Notes 5, 6 and 8)	70,373	102,298	646,751
Notes and accounts payable—trade (Note 6)	36,393	54,937	334,464
Accrued income taxes	32,344	29,260	297,252
Accrued bonuses	5,440	5,573	49,995
Deposits received (Note 14)	51,196	61,582	470,508
Other current liabilities	148,102	137,128	1,361,108
Total current liabilities	622,045	586,040	5,716,801
Long-term liabilities:			
Long-term debt due after one year (Notes 5, 6 and 8)	2,842,156	2,744,327	26,120,357
Long-term non-recourse debt due after one year (Notes 5, 6 and 8)	250,182	300,900	2,299,256
Guarantee and deposits received (Notes 6 and 14)	293,505	278,766	2,697,408
Net defined benefit liability (Note 9)	6,270	6,019	57,623
Other long-term liabilities (Note 12)	8,465	11,964	77,796
Total long-term liabilities	3,400,578	3,341,976	31,252,440
Contingent liabilities (Note 21)			
Net assets (Note 15):			
Shareholders' equity			
Common stock:			
Authorized —1,900,000 thousand shares			
Issued —476,086 thousand shares	122,805	122,805	1,128,619
Capital surplus	104,154	104,154	957,210
Retained earnings	1,002,634	876,803	9,214,539
Treasury stock	(4,473)	(4,470)	(41,109)
Total shareholders' equity	1,225,120	1,099,291	11,259,259
Accumulated other comprehensive income (loss)			
Net unrealized holding gains on securities	76,335	109,210	701,544
Net deferred losses on hedges	(3,560)	(3,972)	(32,718)
Foreign currency translation adjustments	(2,718)	(2,352)	(24,979)
Remeasurements of defined benefit plans	(177)	(74)	(1,627)
Total accumulated other comprehensive income	69,880	102,812	642,220
Total net assets	1,295,000	1,202,104	11,901,479
Total liabilities and net assets	¥5,317,623	¥5,130,120	\$48,870,720

Consolidated Statements of Income

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2020, 2019 and 2018

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	2020
Revenue from operations	¥1,013,513	¥1,012,198	¥948,402	\$9,314,521
Costs and expenses:				
Cost of revenue from operations	691,832	711,050	664,015	6,358,166
Selling, general and administrative expenses	87,349	81,759	78,750	802,766
	779,181	792,809	742,765	7,160,932
Operating income	234,332	219,389	205,637	2,153,589
Other income (expenses):				
Interest expense, net	(18,530)	(19,589)	(20,096)	(170,297)
Dividend income	11,024	9,472	8,229	101,314
Gain on sale of property and equipment	278	75	38	2,555
Loss on sale of property and equipment	(2,131)	(3,724)	(217)	(19,585)
Loss on impairment of fixed assets (Note 10)	(9,660)	(8,576)	(10,635)	(88,779)
Loss on disposal of property and equipment	(1,567)	(1,280)	(601)	(14,401)
Gain on sale of investments in securities (Note 7)	1,417	12	1,010	13,023
Loss on sale of investments in securities	—	—	(47)	—
Loss on devaluation of investments in securities (Note 7)	(7,838)	(1,105)	—	(72,034)
Reversal of allowance for doubtful accounts	4,824	—	—	44,334
Other, net	(6,339)	(6,115)	(6,874)	(58,257)
	(28,522)	(30,830)	(29,193)	(262,127)
Income before income taxes	205,810	188,559	176,444	1,891,462
Income taxes (Note 12):				
Current	68,180	62,823	62,098	626,597
Deferred	(3,367)	(4,367)	(6,180)	(30,944)
Total	64,813	58,456	55,918	595,653
Profit	140,997	130,103	120,526	1,295,809
Profit attributable to non-controlling interests	—	—	795	—
Profit attributable to owners of parent	¥ 140,997	¥ 130,103	¥119,731	\$1,295,809

	Yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	2020
Amounts per share of common stock:				
Profit attributable to owners of parent:				
—Basic	¥297.50	¥274.51	¥252.62	\$2.73
—Diluted	—	—	—	—
Cash dividend applicable to the year	35.00	30.00	27.00	0.32

See accompanying notes.

Consolidated Statements of Comprehensive Income

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2020, 2019 and 2018

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	2020
Profit	¥140,997	¥130,103	¥120,526	\$1,295,809
Other comprehensive income (loss) (Note 19)				
Net unrealized holding gains (losses) on securities	(32,875)	(21,905)	33,935	(302,132)
Net deferred gains (losses) on hedges	412	(1,923)	538	3,786
Foreign currency translation adjustments	(366)	(259)	(1,098)	(3,364)
Remeasurements of defined benefit plans	(103)	(234)	188	(946)
Total other comprehensive income (loss)	(32,932)	(24,321)	33,563	(302,656)
Comprehensive income	¥108,065	¥105,782	¥154,089	\$ 993,153
Comprehensive income attributable to:				
Owners of the parent	¥108,065	¥105,782	¥153,493	\$ 993,153
Non-controlling interests	—	—	596	—

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, 2020, 2019 and 2018

	Thousands						Millions of yen						
	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)	Non-controlling interests	Total net assets
Balance at April 1, 2017	476,086	¥122,805	¥132,748	¥ 662,802	¥(4,379)	¥ 913,976	¥ 97,192	¥(2,529)	¥(1,265)	¥ (27)	¥ 93,371	¥ 31,756	¥1,039,103
Profit attributable to owners of parent	—	—	—	119,731	—	119,731	—	—	—	—	—	—	119,731
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(828)	—	(828)	—	(828)
Net unrealized holding gains (losses) 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 (losses) on hedges	—	—	—	—	—	—	—	480	—	—	480	—	480
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	187	187	—	187
Balance at April 1, 2018	476,086	¥122,805	¥104,154	¥ 765,326	¥(4,443)	¥ 987,842	¥131,115	¥(2,049)	¥(2,093)	¥ 160	¥127,133	¥ —	¥1,114,975
Cumulative effects of changes in accounting policies	—	—	—	(5,299)	—	(5,299)	—	—	—	—	—	—	(5,299)
Restated balance	476,086	122,805	104,154	760,027	(4,443)	982,543	131,115	(2,049)	(2,093)	160	127,133	—	1,109,676
Profit attributable to owners of parent	—	—	—	130,103	—	130,103	—	—	—	—	—	—	130,103
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(259)	—	(259)	—	(259)
Net unrealized holding gains (losses) on securities	—	—	—	—	—	—	(21,905)	—	—	—	(21,905)	—	(21,905)
Acquisition of treasury stock	—	—	—	—	(27)	(27)	—	—	—	—	—	—	(27)
Disposal of treasury stock	—	—	0	—	0	0	—	—	—	—	—	—	0
Change in scope of consolidation	—	—	—	(57)	—	(57)	—	—	—	—	—	—	(57)
Cash dividends paid:													
Final for prior year (¥14 per share)	—	—	—	(6,635)	—	(6,635)	—	—	—	—	—	—	(6,635)
Interim for current year (¥14 per share)	—	—	—	(6,635)	—	(6,635)	—	—	—	—	—	—	(6,635)
Profit attributable to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	—
Net deferred gains (losses) on hedges	—	—	—	—	—	—	—	(1,923)	—	—	(1,923)	—	(1,923)
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	(234)	(234)	—	(234)
Balance at April 1, 2019	476,086	¥122,805	¥104,154	¥ 876,803	¥(4,470)	¥1,099,292	¥109,210	¥(3,972)	¥(2,352)	¥ (74)	¥102,812	¥ —	¥1,202,104
Profit attributable to owners of parent	—	—	—	140,997	—	140,997	—	—	—	—	—	—	140,997
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(366)	—	(366)	—	(366)
Net unrealized holding gains (losses) on securities	—	—	—	—	—	—	(32,875)	—	—	—	(32,875)	—	(32,875)
Acquisition of treasury stock	—	—	—	—	(3)	(3)	—	—	—	—	—	—	(3)
Disposal of treasury stock	—	—	0	—	0	0	—	—	—	—	—	—	0
Change in scope of consolidation	—	—	—	—	—	—	—	—	—	—	—	—	—
Cash dividends paid:													
Final for prior year (¥16 per share)	—	—	—	(7,583)	—	(7,583)	—	—	—	—	—	—	(7,583)
Interim for current year (¥16 per share)	—	—	—	(7,583)	—	(7,583)	—	—	—	—	—	—	(7,583)
Profit attributable to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	—
Net deferred gains (losses) on hedges	—	—	—	—	—	—	—	412	—	—	412	—	412
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	(103)	(103)	—	(103)
Balance at March 31, 2020	476,086	¥122,805	¥104,154	¥1,002,634	¥(4,473)	¥1,225,120	¥ 76,335	¥(3,560)	¥(2,718)	¥(177)	¥ 69,880	¥ —	¥1,295,000

	Thousands of U.S. dollars (Note 1)											
	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)	Non-controlling interests	Total net assets
Balance at April 1, 2019	\$1,128,619	\$957,210	\$8,058,110	\$(41,081)	\$10,102,858	\$1,003,676	\$(36,504)	\$(21,616)	\$ (680)	\$944,876	\$—	\$11,047,734
Profit attributable to owners of parent	—	—	1,295,809	—	1,295,809	—	—	—	—	—	—	1,295,809
Foreign currency translation adjustments	—	—	—	—	—	—	—	(3,363)	—	(3,363)	—	(3,363)
Net unrealized holding gains (losses) on securities	—	—	—	—	—	(302,132)	—	—	—	(302,132)	—	(302,132)
Acquisition of treasury stock	—	—	—	(28)	(28)	—	—	—	—	—	—	(28)
Disposal of treasury stock	—	—	0	0	0	—	—	—	—	—	—	0
Change in scope of consolidation	—	—	—	—	—	—	—	—	—	—	—	—
Cash dividends paid:												
Final for prior year (\$0.15 per share)	—	—	(69,690)	—	(69,690)	—	—	—	—	—	—	(69,690)
Interim for current year (\$0.15 per share)	—	—	(69,690)	—	(69,690)	—	—	—	—	—	—	(69,690)
Profit attributable to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—
Net deferred gains (losses) on hedges	—	—	—	—	—	—	3,786	—	—	3,786	—	3,786
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	(947)	(947)	—	(947)
Balance at March 31, 2020	\$1,128,619	\$957,210	\$9,214,539	\$(41,109)	\$11,259,259	\$ 701,544	\$(32,718)	\$(24,979)	\$(1,627)	\$642,220	\$—	\$11,901,479

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2020, 2019 and 2018

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	2020
Cash flows from operating activities:				
Income before income taxes	¥ 205,810	¥ 188,559	¥ 176,444	\$ 1,891,462
Depreciation and amortization	48,974	46,313	41,628	450,087
Loss on impairment of fixed assets (Note 10)	9,660	8,576	10,635	88,779
Provision for (Reversal of) allowance for doubtful accounts	(4,848)	(309)	(525)	(44,555)
Increase (Decrease) in net defined benefit liability	60	(242)	91	551
Loss (Gain) on sale of property and equipment, net	1,853	3,649	179	17,030
Loss on disposal of property and equipment	1,567	1,280	601	14,401
Loss (Gain) on sale of investments in securities, net	(1,417)	(12)	(963)	(13,023)
Loss (Gain) on devaluation of investments in securities	7,838	1,105	—	72,034
Interest and dividend income	(11,680)	(10,067)	(8,484)	(107,343)
Interest expense	19,186	20,184	20,352	176,326
Decrease (Increase) in notes and accounts receivable—trade	4,637	2,233	(5,669)	42,616
Decrease (Increase) in inventories	46,767	65,981	25,915	429,804
Increase (Decrease) in notes and accounts payable—trade	(18,543)	26,189	(12,536)	(170,416)
Increase (Decrease) in advances received	(416)	(12,073)	17,076	(3,823)
Other, net	(6,117)	(1,800)	(6,648)	(56,217)
Total	303,331	339,566	258,096	2,787,713
Proceeds from interest and dividend income	11,680	10,066	8,484	107,343
Payments for interest	(19,334)	(20,147)	(20,395)	(177,686)
Payments for income tax and other taxes	(65,218)	(69,427)	(56,252)	(599,375)
Net cash provided by operating activities	230,459	260,058	189,933	2,117,995
Cash flows from investing activities:				
Payments for purchases of property and equipment	(270,347)	(188,573)	(220,017)	(2,484,579)
Proceeds from sale of property and equipment	11,307	6,617	357	103,915
Payments for purchases of investments in securities	(46,695)	(31,281)	(28,835)	(429,143)
Proceeds from sale and redemption of investments in securities	2,676	334	2,197	24,593
Payments for guarantee and lease deposits paid to lessors	(1,121)	(738)	(1,317)	(10,302)
Proceeds from guarantee and lease deposits paid to lessors	804	4,475	28,462	7,389
Payments for guarantee and lease deposits received	(10,950)	(14,324)	(11,276)	(100,634)
Proceeds from guarantee and lease deposits received	29,525	35,664	25,271	271,345
Receipts of deposits from partnership investors	23	1,004	2,420	211
Restitution of deposits from partnership investors	(22,208)	(10,442)	(11,544)	(204,099)
Other, net	16,867	(11,949)	(6,252)	155,013
Net cash used in investing activities	(290,119)	(209,213)	(220,534)	(2,666,291)
Cash flows from financing activities:				
Increase (Decrease) in short-term debt, net	121,083	(35,773)	(2,892)	1,112,793
Proceeds from issuance of bonds	—	—	30,000	—
Redemption of bonds	(40,000)	(60,000)	(80,000)	(367,613)
Proceeds from non-recourse bonds	2,000	4,900	1,700	18,381
Redemption of non-recourse bonds	(2,000)	(4,900)	(1,700)	(18,381)
Proceeds from long-term loans payable	153,300	198,300	376,000	1,408,878
Repayment of long-term loans payable	(129,619)	(225,752)	(209,622)	(1,191,242)
Proceeds from long-term non-recourse loans	93,720	37,110	12,610	861,318
Repayment of long-term non-recourse loans	(100,363)	(44,611)	(21,258)	(922,369)
Decrease (Increase) in treasury stocks, net	(3)	(27)	(64)	(28)
Cash dividends paid	(15,163)	(13,269)	(12,337)	(139,353)
Payments for purchases of investments in subsidiaries not resulting in change in scope of consolidation	—	—	(60,910)	—
Other, net	(310)	(2,036)	(5,066)	(2,849)
Net cash provided by (used in) financing activities	82,645	(146,058)	26,461	759,535
Effect of exchange rate changes on cash and cash equivalents	(244)	243	(124)	(2,242)
Net increase (decrease) in cash and cash equivalents	22,741	(94,970)	(4,264)	208,997
Cash and cash equivalents at beginning of year	170,707	262,046	267,944	1,568,854
Increase in cash and cash equivalents of a newly consolidated subsidiary	—	3,631	—	—
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	—	(1,634)	—
Cash and cash equivalents at end of year (Note 3)	¥ 193,448	¥ 170,707	¥ 262,046	\$ 1,777,851

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, 2020, 2019 and 2018

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, 2020, which was ¥108.81 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.

In the year ended March 31, 2020, the Company acquired the entire shares of PrimeQuest Three Co., Ltd. (the operator of PrimeQuest Three silent partnership) and PrimeQuest Four Co., Ltd (the operator of PrimeQuest Four silent partnership), to make them wholly owned subsidiaries, after which the Company merged the two companies in an absorption-type merger with the Company as the surviving company. As a result, the two companies were included in the scope of consolidation while the silent partnerships were excluded, then the two companies were dissolved and excluded from the scope of 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.

The Company’s consolidated subsidiary, Sumitomo Real Estate Sales Co., Ltd. recognizes brokerage fees as revenue at the delivery of the property. However, the amount received of the brokerage fees was previously recognized as revenue on the date it was received in case of which the brokerage fees are received after the conclusion of the sales contracts and before the delivery of property. From the year ended March 31, 2020, its revenue recognition has been changed and the total amount received of the brokerage fees are recognized as revenue at the timing of the delivery of the property.

This change was made as a result of reviewing the revenue recognition policy of Sumitomo Real Estate Sales Co., Ltd. to be aligned with the policy of the Company, after it was delisted and became a wholly owned subsidiary to the Company, and implemented as the Company completed the preparation of the operation system to accommodate the change at the timing of formulating the Eighth Management Plan starting from the year ended March 31, 2020.

The consolidated financial statements for the year ended March 31, 2019 have been adjusted reflecting the retroactive application of the new accounting policy.

As a result, revenue from operations decreased by ¥1,032 million, operating income and income before income taxes decreased by ¥1,030 million respectively. In addition, the balance of retained earnings at April 1, 2018 decreased by ¥5,299 million reflecting cumulative effects to net assets at the beginning of the year ended March 31, 2019.

As the effect of the change on amounts per share of common stock, earnings per share decreased by ¥1.51 for the year ended March 31, 2019.

(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.

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)

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020)

"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020)

(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 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.

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)

"Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)

"Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

In order to enhance comparability with internationally recognized accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (together, hereinafter referred

to as "Fair Value Accounting Standards") were developed and guidance on methods measuring fair value was issued. Fair Value Accounting Standards are applicable to the fair value measurement of the following items:

* Financial instruments in "Accounting Standard for Financial Instruments"; and

* Inventories held for trading purposes in "Accounting Standard for Measurement of Inventories."

In addition, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" has been revised, and items of notes such as the breakdown by the fair value level of financial instruments are required.

(2) Effective date

Effective from the beginning of the 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.

"Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

For the purpose of disclosing information that contributes to the users of financial statements to understand, the standard addresses figures recorded in the financial statements for the current fiscal year based on accounting estimates for items that have a risk of a significantly impacting financial statements in the next fiscal year.

(2) Effective date

Effective from the end of the year ending March 31, 2021

(17) Additional information

(Accounting estimates regarding the impact of COVID-19 pandemic)

The accounting estimates such as the valuation of real estate for sale and the loss on impairment of fixed assets are calculated reasonably based on data available at the time of preparing the consolidated financial statements.

The Company and its consolidated subsidiaries calculated the accounting estimates based on the assumption that the impact of COVID-19 shall be temporary. However, its effect to the business activities and business results is unclear for the time being. Despite the anticipation that business activities will be gradually resumed and return toward normal from the second quarter of the next fiscal year, the Company assumes that they will not return to the level of the previous fiscal year during the next fiscal year and will take 1 – 2 years to recover.

3 Cash and cash equivalents

Cash and cash equivalents at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash, time and notice deposits	¥195,361	¥172,192	\$1,795,432
Time deposits	(1,913)	(1,485)	(17,581)
Cash and cash equivalents	¥193,448	¥170,707	\$1,777,851

4 Inventories

Inventories at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Real estate for sale	¥351,369	¥390,026	\$3,229,198
Real estate for sale in process	286,254	282,595	2,630,769
Costs on uncompleted construction contracts	10,370	5,827	95,304
Other	888	1,455	8,161
Total	¥648,881	¥679,903	\$5,963,432

The Company transferred amounts between inventories and property and equipment. Such transfers at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Inventories:			
Transferred to property and equipment	¥(6,785)	¥(23,162)	\$(62,356)
Transferred from property and equipment	3,523	4,822	32,378
Net decrease	¥(3,262)	¥(18,340)	\$(29,978)

5 Pledged assets

Assets pledged as collateral at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash, time and notice deposits	¥ 2,091	¥ 2,068	\$ 19,217
Buildings and structures	108,863	103,708	1,000,487
Land	418,971	393,316	3,850,482
Construction in progress	—	85	—
Machinery and equipment	127	210	1,168
Total	¥530,052	¥499,387	\$4,871,354

Secured liabilities at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Long-term debt due within one year	¥ 190	¥ —	\$ 1,746
Long-term non-recourse debt due within one year	70,373	102,298	646,751
Long-term debt due after one year	94,810	—	871,335
Long-term non-recourse debt due after one year	250,182	300,900	2,299,256
Total	¥415,555	¥403,198	\$3,819,088

Specified assets for non-recourse debts at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash, time and notice deposits	¥ 3,261	¥ 11,345	\$ 29,970
Buildings and structures	86,741	103,708	797,179
Land	273,324	393,316	2,511,938
Construction in progress	—	85	—
Machinery and equipment	96	210	882
Total	¥363,422	¥508,664	\$3,339,969

(Note) "Specified assets for non-recourse debts" includes a portion of the amount of "Assets pledged as collateral" for the years ended March 31, 2020 and 2019.

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 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, 2020 and 2019 are as follows. (Financial instruments whose fair value is extremely difficult to estimate are not included; please see (Note 2).)

For 2020

	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	¥ 195,361	¥ 195,361	¥ —	\$ 1,795,432	\$ 1,795,432	\$ —
(2) Notes and accounts receivable—trade	17,406	17,406	—	159,967	159,967	—
(3) Investments in securities						
Available-for-sale securities	366,734	366,734	—	3,370,407	3,370,407	—
(4) Guarantee and lease deposits						
Held-to-maturity securities	200	200	0	1,838	1,838	0
Available-for-sale securities	747	747	—	6,865	6,865	—
Total assets	¥ 580,448	¥ 580,448	¥ 0	\$ 5,334,509	\$ 5,334,509	\$ 0
Liabilities:						
(1) Notes and accounts payable—trade	¥ 36,393	¥ 36,393	¥ —	\$ 334,464	\$ 334,464	\$ —
(2) Short-term debt	146,726	146,726	—	1,348,461	1,348,461	—
(3) Long-term debt (including due within one year)	2,973,627	3,026,438	52,811	27,328,619	27,813,969	485,350
(4) Long-term non-recourse debt (including due within one year)	320,555	325,637	5,082	2,946,007	2,992,712	46,705
Total liabilities	¥3,477,301	¥3,535,194	¥57,893	\$31,957,551	\$32,489,606	\$532,055
Derivative transactions*:						
Hedge accounting	¥ (5,134)	¥ (5,134)	¥ —	\$ (47,183)	\$ (47,183)	\$ —
Total derivative transactions	¥ (5,134)	¥ (5,134)	¥ —	\$ (47,183)	\$ (47,183)	\$ —

For 2019

	Millions of yen		
	Carrying amount	Fair value	Difference
Assets:			
(1) Cash, time and notice deposits	¥ 172,192	¥ 172,192	¥ —
(2) Notes and accounts receivable—trade	21,567	21,567	—
(3) Investments in securities			
Available-for-sale securities	414,743	414,743	—
(4) Guarantee and lease deposits			
Held-to-maturity securities	3,169	3,167	(2)
Available-for-sale securities	1,170	1,170	—
Total assets	¥ 612,841	¥ 612,839	¥ (2)
Liabilities:			
(1) Notes and accounts payable—trade	¥ 54,937	¥ 54,937	¥ —
(2) Short-term debt	25,643	25,643	—
(3) Long-term debt (including due within one year)	2,913,946	2,964,782	50,836
(4) Long-term non-recourse debt (including due within one year)	403,198	410,218	7,020
Total liabilities	¥3,397,724	¥3,455,580	¥57,856
Derivative transactions*:			
Hedge accounting	¥ (5,733)	¥ (5,733)	¥ —
Total derivative transactions	¥ (5,733)	¥ (5,733)	¥ —

* 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 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 has 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
	2020	2019	2020
Investments in subsidiaries and affiliates* ¹	¥ 74,468	¥ 35,856	\$ 684,386
Unlisted equity securities* ¹	2,338	2,327	21,487
Preferred equity securities, etc.* ¹	25,688	25,688	236,081
Investments in limited partnerships, etc.* ¹	2	352	18
Guarantee and lease deposits (excluding held-to-maturity securities and available-for-sale securities)* ²	69,224	65,960	636,192
Guarantee and deposits received* ³	247,610	228,959	2,275,618

*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 2020

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash, time and notice deposits	¥195,361	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	17,406	—	—	—
Guarantee and lease deposits:				
Held-to-maturity securities (National government bonds)	200	—	—	—
Available-for-sale securities with maturities (National government bonds)	206	483	43	—
Total	¥213,173	¥483	¥43	¥ —

For 2019

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash, time and notice deposits	¥172,192	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	21,567	—	—	—
Guarantee and lease deposits:				
Held-to-maturity securities (National government bonds)	2,969	200	—	—
Available-for-sale securities with maturities (National government bonds)	407	561	171	—
Total	¥197,135	¥761	¥171	¥ —

For 2020

	Thousands of U.S. dollars			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash, time and notice deposits	\$1,795,432	\$ —	\$ —	\$ —
Notes and accounts receivable—trade	159,967	—	—	—
Guarantee and lease deposits:				
Held-to-maturity securities (National government bonds)	1,838	—	—	—
Available-for-sale securities with maturities (National government bonds)	1,893	4,439	395	—
Total	\$1,959,130	\$4,439	\$395	\$ —

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

For 2020

Year ending March 31	Millions of yen					
	2021	2022	2023	2024	2025	2026 and thereafter
Short-term debt	¥146,726	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt (including due within one year)	131,471	211,446	237,386	289,472	379,414	1,724,438
Long-term non-recourse debt (including due within one year)	70,373	15,404	3,846	3,700	3,434	223,798
Total	¥348,570	¥226,850	¥241,232	¥293,172	¥382,848	¥1,948,236

For 2019

Year ending March 31	Millions of yen					
	2020	2021	2022	2023	2024	2025 and thereafter
Short-term debt	¥ 25,643	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt (including due within one year)	169,619	131,281	211,256	237,196	289,282	1,875,312
Long-term non-recourse debt (including due within one year)	102,298	69,913	14,944	3,386	3,240	209,417
Total	¥297,560	¥201,194	¥226,200	¥240,582	¥292,522	¥2,084,729

For 2020

Year ending March 31	Thousands of U.S. dollars					
	2021	2022	2023	2024	2025	2026 and thereafter
Short-term debt	\$1,348,461	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt (including due within one year)	1,208,262	1,943,259	2,181,656	2,660,344	3,486,941	15,848,157
Long-term non-recourse debt (including due within one year)	646,751	141,568	35,346	34,004	31,560	2,056,778
Total	\$3,203,474	\$2,084,827	\$2,217,002	\$2,694,348	\$3,518,501	\$17,904,935

7 Securities

For 2020

A. The following tables summarize the acquisition costs, carrying amounts and fair values of securities with available fair values as of March 31, 2020:

(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.	¥200	¥200	¥ 0	\$1,838	\$1,838	\$ 0
Securities whose fair value does not exceed carrying amount:						
National and local government bonds, etc.	—	—	—	—	—	—
Total	¥200	¥200	¥ 0	\$1,838	\$1,838	\$ 0

(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	¥257,807	¥124,727	¥133,080	\$2,369,332	\$1,146,283	\$1,223,049
Debt securities*	747	732	15	6,865	6,727	138
Other	—	—	—	—	—	—
Subtotal	258,554	125,459	133,095	2,376,197	1,153,010	1,223,187
Securities whose carrying amount does not exceed acquisition cost:						
Equity securities	108,045	130,965	(22,920)	992,969	1,203,612	(210,643)
Debt securities	—	—	—	—	—	—
Other	882	891	(9)	8,106	8,189	(83)
Subtotal	108,927	131,856	(22,929)	1,001,075	1,211,801	(210,726)
Total	¥367,481	¥257,315	¥110,166	\$3,377,272	\$2,364,811	\$1,012,461

* Debt securities in securities whose carrying amount exceeds acquisition cost are included in "Guarantee and lease deposits paid to lessors" on the consolidated balance sheets.
(Note) The Company recognized impairment loss on investments in securities of ¥7,838 million (\$7,034 thousand) related to equity securities in available-for-sale securities.

B. Total sales of available-for-sale securities sold in the year ended March 31, 2020 amounted to ¥2,302 million (\$21,156 thousand) and the related gains amounted to ¥1,417 million (\$13,023 thousand).

For 2019

A. The following tables summarize the acquisition costs, carrying amounts and fair values of securities with available fair values as of March 31, 2019:

(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.	¥ 461	¥ 462	¥ 1
Securities whose fair value does not exceed carrying amount:			
National and local government bonds, etc.	2,708	2,705	(3)
Total	¥3,169	¥3,167	¥(2)

(b) Available-for-sale securities:

	Millions of yen		
	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds acquisition cost:			
Equity securities	¥348,562	¥180,791	¥167,771
Debt securities*	1,171	1,140	31
Other	—	—	—
Subtotal	349,733	181,931	167,802
Securities whose carrying amount does not exceed acquisition cost:			
Equity securities	65,517	75,824	(10,307)
Debt securities	—	—	—
Other	664	664	—
Subtotal	66,181	76,488	(10,307)
Total	¥415,914	¥258,419	¥157,495

* Debt securities in securities whose carrying amount exceeds acquisition cost are included in "Guarantee and lease deposits paid to lessors" on the consolidated balance sheets.
(Note) The Company recognized impairment loss on investments in securities of ¥1,105 million related to equity securities in available-for-sale securities.

B. Total sales of available-for-sale securities sold in the year ended March 31, 2019 amounted to ¥264 million and the related gains amounted to ¥12 million.

8 Short-term debt and long-term debt

Short-term debt at March 31, 2020 and 2019 consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	2020	Average interest rate (%)	2019	Average interest rate (%)	2020
Loans, principally from banks	¥ 26,726	0.27	¥25,643	0.27	\$ 245,621
Commercial paper	120,000	0.00	—	—	1,102,840
Total	¥146,726		¥25,643		\$1,348,461

The interest rates represent weighted-average rates in effect at March 31, 2020 and 2019, regardless of borrowing currencies, though the range of the interest rate varies by borrowing currency.

Long-term debt at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
2.50% domestic straight bonds, due 2019	¥ —	¥ 10,000	\$ —
0.563% domestic straight bonds, due 2020	—	10,000	—
0.877% domestic straight bonds, due 2020	—	20,000	—
1.098% domestic straight bonds, due 2023	10,000	10,000	91,903
0.950% domestic straight bonds, due 2023	10,000	10,000	91,903
0.968% domestic straight bonds, due 2023	10,000	10,000	91,903
0.987% domestic straight bonds, due 2024	20,000	20,000	183,807
0.914% domestic straight bonds, due 2024	20,000	20,000	183,807
0.904% domestic straight bonds, due 2024	20,000	20,000	183,807
0.884% domestic straight bonds, due 2024	20,000	20,000	183,807
0.836% domestic straight bonds, due 2024	20,000	20,000	183,807
0.809% domestic straight bonds, due 2024	20,000	20,000	183,807
0.429% domestic straight bonds, due 2021	10,000	10,000	91,903
0.392% domestic straight bonds, due 2022	10,000	10,000	91,903
0.670% domestic straight bonds, due 2025	10,000	10,000	91,903
0.826% domestic straight bonds, due 2025	20,000	20,000	183,807
0.992% domestic straight bonds, due 2025	20,000	20,000	183,807
0.400% domestic straight bonds, due 2026	10,000	10,000	91,903
0.230% domestic straight bonds, due 2026	10,000	10,000	91,903
0.400% domestic straight bonds, due 2027	30,000	30,000	275,710
Loans, principally from banks and insurance companies, with interest at weighted-average rates of 0.31% in 2020 and 2019, respectively:			
Secured	95,000	—	873,082
Unsecured	2,608,627	2,603,946	23,974,147
Subtotal	2,973,627	2,913,946	27,328,619
Amount due within one year	(131,471)	(169,619)	(1,208,262)
Total	¥2,842,156	¥2,744,327	\$26,120,357

Non-recourse debt at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Non-recourse bonds, with interest at weighted-average rates of 0.09% in 2020 and 0.07% in 2019:			
Due within one year	¥ 8,000	¥ 2,000	\$ 73,523
Due after one year	31,100	37,100	285,819
Subtotal	39,100	39,100	359,342
Non-recourse loans, with interest at weighted-average rates of 0.11% in 2020 and 2019, respectively:			
Due within one year	62,373	100,298	573,229
Due after one year	219,082	263,800	2,013,436
Subtotal	281,455	364,098	2,586,665
Total	¥320,555	¥403,198	\$2,946,007
Secured	¥320,555	¥403,198	\$2,946,007
Unsecured	—	—	—
Total	¥320,555	¥403,198	\$2,946,007

The aggregate annual maturities of long-term debt at March 31, 2020 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2021	¥ 131,471	\$ 1,208,262
2022	211,446	1,943,259
2023	237,386	2,181,656
2024	289,472	2,660,344
2025	379,414	3,486,941
2026 and thereafter	1,724,438	15,848,157
Total	¥2,973,627	\$27,328,619

The aggregate annual maturities of non-recourse debt at March 31, 2020 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2021	¥ 70,373	\$ 646,751
2022	15,404	141,568
2023	3,846	35,346
2024	3,700	34,004
2025	3,434	31,560
2026 and thereafter	223,798	2,056,778
Total	¥320,555	\$2,946,007

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 2020 and 2019

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
	2020	2019	2020
Retirement benefit obligations at beginning of year	¥11,876	¥11,615	\$109,144
Service costs	732	714	6,727
Interest costs	48	48	441
Actuarial differences	(64)	(1)	(588)
Retirement benefits paid	(523)	(500)	(4,806)
Retirement benefit obligations at end of year	¥12,069	¥11,876	\$110,918

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Plan assets at beginning of year	¥5,857	¥5,650	\$53,828
Expected return on plan assets	117	113	1,075
Actuarial differences	(321)	(67)	(2,950)
Employer contributions	380	388	3,492
Retirement benefits paid	(234)	(227)	(2,150)
Plan assets at end of year	¥5,799	¥5,857	\$53,295

(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
	2020	2019	2020
Obligations under retirement benefit plans (funded)	¥ 6,307	¥ 6,295	\$ 57,963
Fair value of plan assets	(5,799)	(5,857)	(53,295)
	508	438	4,668
Obligations under retirement benefit plans (unfunded)	5,762	5,581	52,955
Net amount of liabilities on the consolidated balance sheets	¥ 6,270	¥ 6,019	\$ 57,623
Net defined benefit liability	¥ 6,270	¥ 6,019	\$ 57,623
Net amount of liabilities on the consolidated balance sheets	¥ 6,270	¥ 6,019	\$ 57,623

(4) Components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service costs	¥ 732	¥ 714	\$ 6,727
Interest costs	48	48	441
Expected return on plan assets	(117)	(113)	(1,075)
Actuarial differences	66	(229)	607
Retirement benefit expenses	¥ 729	¥ 420	\$ 6,700

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Actuarial differences	¥191	¥295	\$1,755
Total	¥191	¥295	\$1,755

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized actuarial differences	¥257	¥66	\$2,362
Total	¥257	¥66	\$2,362

(7) Major breakdown of plan assets

	2020	2019
	Debt securities	29.7%
Equity securities	29.1	34.9
General life insurance accounts	39.5	37.8
Other	1.7	1.7
Total	100.0%	100.0%

(8) Actuarial assumptions

	2020	2019
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 ¥394 million (\$3,621 thousand) and ¥389 million for the years ended March 31, 2020 and 2019, 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, 2020, 2019 and 2018, respectively.

For 2020

Use	Location	Number of properties
Assets leased to others	Tokyo	2

For 2019

Use	Location	Number of properties
Asset leased to others	Tokyo	1

For 2018

Use	Location	Number of properties
Asset leased to others	Tokyo	1

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

Loss on sales of property and equipment of ¥9,660 million (\$88,779 thousand) and ¥8,576 million were recognized by a consolidated subsidiary by restructuring of assets within the Group for the years ended March 31, 2020 and 2019, respectively. The selling price of the asset, based on evaluation by a real estate appraiser, was determined as its

recoverable amount, and loss on sales of property and equipment of the asset was recognized as impairment losses in other expenses for the years ended March 31, 2020 and 2019, respectively.

The carrying value of the asset has been reduced to its recoverable amount by ¥10,635 million 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 write-down was recognized as impairment losses in other expenses for the years ended March 31, 2018.

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, 2020 and 2019, 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, 2020 and 2019, 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 30.62% for the years ended March 31, 2020 and 2019 respectively, and 30.86% for the year ended March 31, 2018.

Details of deferred tax assets and liabilities at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Loss on devaluation of real estate for sale	¥ 18,582	¥ 14,415	\$ 170,775
Loss on impairment of fixed assets	13,899	17,077	127,736
Loss on adjustment of profit and loss on transfer	11,633	4,254	106,911
Depreciation and amortization of consolidated adjustment	6,312	7,258	58,009
Net operating loss carryforwards	3,136	1,593	28,821
Accrued enterprise tax and business office tax	2,284	1,834	20,991
Loss on devaluation of investments in securities	1,951	797	17,930
Net defined benefit liability	1,847	1,759	16,975
Accrued bonuses	1,742	1,875	16,010
Net deferred losses on hedges	1,571	1,752	14,438
Loss on devaluation of investments in SPEs' holding properties for sale	1,413	1,413	12,986
Allowance for doubtful accounts	1,290	3,439	11,856
Elimination of unrealized profit	909	926	8,354
Other	17,495	15,767	160,784
Subtotal of deferred tax assets	84,064	74,159	772,576
Valuation allowance	(14,613)	(9,247)	(134,298)
Total deferred tax assets	¥ 69,451	¥ 64,912	\$ 638,278
Deferred tax liabilities:			
Net unrealized holding gains on securities	¥(33,756)	¥(48,241)	\$(310,229)
Retained earnings appropriated for tax allowable reserves	(3,731)	(3,731)	(34,289)
Other	(1,908)	(637)	(17,535)
Total deferred tax liabilities	¥(39,395)	¥(52,609)	\$(362,053)
Net deferred tax assets	¥ 30,056	¥ 12,303	\$ 276,225

(Notes)
 1. Valuation allowance increased by ¥5,366 million (\$49,315 thousand) as a result of mainly the recognition of loss on adjustment of profit and loss on transfer.
 2. The amounts of deferred tax assets for the year ended March 31, 2019 are restated after reflecting retroactive application of the new accounting policy as stated in (4) "Recognition of revenue" in Note 2 "Accounting policies."

The difference between the statutory tax rate and the effective tax rate for the years ended March 31, 2020, 2019 and 2018 was insignificant and not presented.

13 Business Combination

(Transactions conducted by commonly controlled entities)
 (An absorption-type merger of consolidated subsidiaries)
 The Company resolved at its board of directors meeting held on August 13, 2019 to merger by absorption with its consolidated subsidiaries, PrimeQuest Three Co., Ltd. and PrimeQuest Four Co., Ltd. The merger agreement had been executed on the same date, and these subsidiaries were absorbed and merged as of October 1, 2019.

- Overview of business combination
 - Name and business of the target companies
 Name: PrimeQuest Three Co., Ltd. and PrimeQuest Four Co., Ltd.
 Business: Property leasing
 - Date of business combination
 October 1, 2019
 - Legal form of business combination
 An absorption-type merger in which the Company is the surviving company and PrimeQuest Three Co., Ltd. and PrimeQuest Four Co., Ltd. are absorbed.

- Name of company after combination
 No change
- Purpose of business combination
 The purpose is to simplify the organization of the Company's consolidated Group as PrimeQuest Three Co., Ltd. and PrimeQuest Four Co., Ltd. jointly own 100% of the trust beneficiary rights of Shinjuku Sumitomo Building.

- Overview of accounting treatments
 The transaction is treated as a common control transaction pursuant to "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019), as well as "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).

14 Deposits received with interest rate

Guarantee and deposits received at March 31, 2020 and 2019 are as follows:

	Millions of yen				Thousands of U.S. dollars
	2020	Average interest rate (%)	2019	Average interest rate (%)	2020
Short-term deposits and long-term deposits due within one year:					
Non-interest-bearing	¥ 51,196	—	¥ 61,582	—	\$ 470,508
Interest-bearing	—	—	—	—	—
	51,196		61,582		470,508
Guarantee and lease deposits from tenants:					
Non-interest-bearing	247,610	—	228,959	—	2,275,618
Interest-bearing	—	—	—	—	—
Long-term deposits:					
Non-interest-bearing	45,895	—	49,807	—	421,790
Interest-bearing	—	—	—	—	—
	293,505		278,766		2,697,408
Total	¥344,701		¥340,348		\$3,167,916

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, 2020, 2019 and 2018 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2020	2019	2018	2020
Operating leases:				
Future lease payments:				
Due within one year	¥ 1,526	¥ 1,526	¥ 1,401	\$ 14,024
Due after one year	39,395	42,211	38,241	362,053
Total	¥ 40,921	¥ 43,737	¥ 39,642	\$ 376,077
Future lease receipts:				
Due within one year	¥ 89,154	¥ 95,607	¥ 83,254	\$ 819,355
Due after one year	122,544	142,321	153,777	1,126,220
Total	¥211,698	¥237,928	¥237,031	\$1,945,575

17 Derivative transactions

Hedge accounting was applied to all derivative transactions for the years ended March 31, 2020 and 2019.

The summary of these transactions is as follows:

(1) Foreign currency-related derivatives

Not applicable

(2) Interest-related derivatives

For 2020

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	¥ 342,900	¥ 302,900	¥(5,134)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	1,474,995	1,333,990	— (*)

Hedging accounting	Types of derivative transactions	Hedged items	Thousands of U.S. dollars		
			Contract amounts	Contract amounts due after one year	Fair value
Deferred hedge accounting	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans	\$ 3,151,365	\$ 2,783,751	\$(47,183)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	13,555,693	12,259,811	— (*)

For 2019

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	¥ 248,600	¥ 208,600	¥(5,733)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	1,507,198	1,415,693	— (*)

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

(*) 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.

The calculation method for segment profit/loss has been changed reflecting the change of the revenue recognition method of brokerage fees as stated in (4) "Recognition of revenue" in Note 2 "Accounting policies". The segment information for the year ended March 31, 2019 has been adjusted retroactively, and as a result, revenue from operations from customers decreased ¥1,032 million and segment profit decreased ¥1,030 million, respectively, compared to the amount before its application.

Information by business segment for the years ended March 31, 2020, 2019 and 2018 is summarized as follows:

For 2020	Millions of yen							Adjustments	Consolidated financial statements amounts
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total			
Revenue from operations:									
Customers	¥ 392,110	¥324,700	¥216,622	¥69,119	¥10,962	¥1,013,513	¥ —	¥1,013,513	
Intersegment	3,482	267	2,309	212	1,135	7,405	(7,405)	—	
Total	395,592	324,967	218,931	69,331	12,097	1,020,918	(7,405)	1,013,513	
Segment profit	¥ 169,416	¥ 47,374	¥ 20,583	¥19,337	¥ 775	¥ 257,485	¥ (23,153)	¥ 234,332	
Segment assets	¥3,922,318	¥670,079	¥ 25,053	¥ 8,181	¥72,476	¥4,698,107	¥619,516	¥5,317,623	
Other:									
Depreciation and amortization	¥ 45,421	¥ 119	¥ 1,283	¥ 462	¥ 314	¥ 47,599	¥ 1,375	¥ 48,974	
Loss on impairment of fixed assets	9,660	—	—	—	—	9,660	—	9,660	
Increase in property and equipment, and intangible assets	273,245	2,919	1,553	429	608	278,754	620	279,374	

For 2019

For 2019	Millions of yen							Adjustments	Consolidated financial statements amounts
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total			
Revenue from operations:									
Customers	¥ 378,091	¥331,516	¥219,776	¥71,490	¥11,325	¥1,012,198	¥ —	¥1,012,198	
Intersegment	3,673	236	1,917	377	1,419	7,622	(7,622)	—	
Total	381,764	331,752	221,693	71,867	12,744	1,019,820	(7,622)	1,012,198	
Segment profit	¥ 149,933	¥ 47,115	¥ 20,407	¥20,978	¥ 1,528	¥ 239,961	¥ (20,572)	¥ 219,389	
Segment assets	¥3,737,136	¥713,300	¥ 30,057	¥14,074	¥32,545	¥4,527,112	¥603,008	¥5,130,120	
Other:									
Depreciation and amortization	¥ 43,201	¥ 145	¥ 1,182	¥ 458	¥ 227	¥ 45,213	¥ 1,100	¥ 46,313	
Loss on impairment of fixed assets	8,576	—	—	—	—	8,576	—	8,576	
Increase in property and equipment, and intangible assets	179,872	590	2,015	920	1,001	184,398	397	184,795	

For 2018

For 2018	Millions of yen							Adjustments	Consolidated financial statements amounts
	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	¥710,187	¥5,167,199	
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 2020	Thousands of U.S. dollars						Adjustments	Consolidated financial statements amounts
	Reportable segments					Total		
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses			
Revenue from operations:								
Customers	\$ 3,603,621	\$ 2,984,101	\$ 1,990,828	\$ 635,227	\$ 100,744	\$ 9,314,521	\$ —	\$ 9,314,521
Intersegment	32,001	2,454	21,220	1,948	10,431	68,054	(68,054)	—
Total	3,635,622	2,986,555	2,012,048	637,175	111,175	9,382,575	(68,054)	9,314,521
Segment profit	\$ 1,556,989	\$ 435,383	\$ 189,165	\$ 177,713	\$ 7,123	\$ 2,366,373	\$ (212,784)	\$ 2,153,589
Segment assets	\$36,047,404	\$6,158,248	\$ 230,245	\$ 75,186	\$666,079	\$43,177,162	\$5,693,558	\$48,870,720
Other:								
Depreciation and amortization	\$ 417,434	\$ 1,094	\$ 11,791	\$ 4,246	\$ 2,886	\$ 437,451	\$ 12,636	\$ 450,087
Loss on impairment of fixed assets	88,779	—	—	—	—	88,779	—	88,779
Increase in property and equipment, and intangible assets	2,511,212	26,827	14,273	3,943	5,587	2,561,842	5,698	2,567,540

(Note) Information for the year ended March 31, 2018 has been adjusted retroactively reflecting the adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) effective from the beginning of the year ended March 31, 2019.

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, 2020, 2019 and 2018.

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, 2020, 2019 and 2018.

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, 2020, 2019 and 2018 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2020	2019	2018	2020
Unrealized holding gains (losses) on securities:				
Increase (Decrease) during the fiscal year	¥(53,788)	¥(32,668)	¥ 50,290	\$ (494,330)
Reclassification adjustments	6,434	1,088	(1,373)	59,131
Amounts before tax effects	(47,354)	(31,580)	48,917	(435,199)
Tax effects	14,479	9,675	(14,982)	133,067
Total	¥(32,875)	¥(21,905)	¥ 33,935	\$ (302,132)
Deferred gains (losses) on hedges:				
Increase (Decrease) during the fiscal year	¥ (349)	¥ (3,628)	¥ (453)	\$ (3,207)
Reclassification adjustments	942	876	1,208	8,657
Amounts before tax effects	593	(2,752)	755	5,450
Tax effects	(181)	829	(217)	(1,664)
Total	¥ 412	¥ (1,923)	¥ 538	\$ 3,786
Foreign currency translation adjustments:				
Increase (Decrease) during the fiscal year	¥ (366)	¥ (259)	¥ (1,098)	\$ (3,364)
Remeasurements of defined benefit plans:				
Increase (Decrease) during the fiscal year	¥ (257)	¥ (66)	¥ 229	\$ (2,362)
Reclassification adjustments	66	(229)	41	607
Amounts before tax effects	(191)	(295)	270	(1,755)
Tax effects	88	61	(82)	809
Total	¥ (103)	¥ (234)	¥ 188	\$ (946)
Total other comprehensive income (loss)	¥(32,932)	¥(24,321)	¥ 33,563	\$ (302,656)

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, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Investment and rental properties			
Balance at beginning of fiscal year	¥3,373,449	¥3,208,325	\$31,003,116
Changes during the fiscal year	42,533	165,124	390,892
Balance at end of fiscal year	3,415,982	3,373,449	31,394,008
Fair value at end of fiscal year	6,330,951	5,838,717	58,183,540
A portion used as investment and rental properties			
Balance at beginning of fiscal year	¥ 141,889	¥ 141,950	\$ 1,304,007
Changes during the fiscal year	(2,798)	(61)	(25,715)
Balance at end of fiscal year	139,091	141,889	1,278,292
Fair value at end of fiscal year	400,272	379,883	3,678,632

(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, 2020 and 2019 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, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Increase:			
Acquired real estate	¥181,035	¥173,144	\$1,663,772
Transferred from real estate for sale in process, etc.	6,785	23,162	62,356
Decrease:			
Depreciation and amortization	¥ (42,436)	¥ (42,374)	\$ (390,001)
Transferred to real estate for sale, etc.	(1,940)	(4,822)	(17,829)
Loss on impairment of fixed assets	(9,660)	(8,576)	(88,779)
Transferred to owner-occupied properties, etc.	(67,244)	—	(617,995)

Income and expenses for investment and rental properties for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Investment and rental properties			
Income	¥291,163	¥269,493	\$2,675,885
Expenses	135,568	137,784	1,245,915
Balance	155,595	131,709	1,429,970
Other income (expenses)	(12,197)	(9,193)	(112,094)
A portion used as investment and rental properties			
Income	¥ 18,536	¥ 18,413	\$ 170,352
Expenses	8,869	9,176	81,509
Balance	9,667	9,237	88,843
Other income (expenses)	(45)	(4)	(414)

(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 on disposal of property and equipment.

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 ¥9,407 million (\$86,453 thousand) and ¥7,316 million at March 31, 2020 and 2019, respectively.

22 Subsequent events

(Change in ownership of its subsidiary with transfer of equity interest)

The Company decided to transfer all of its equity interest in its subsidiary, Dalian Qingyun Sky Realty and Development Co., Ltd., to Dalian Jiaguan Guangcheng Corporate Management Centre (Limited Partnership) as of June 12, 2020.

1. Reason for transfer of equity interest

The Company established the subsidiary in 2013, with business objectives of development and sales of condominiums, as a joint-venture with Yida Group Co., Ltd., a prominent developer in Dalian, China (due to the reorganization of Yida Group, the current partner is Dalian Yida Management Consultancy Co., Ltd., herein referred to as "Yida"). Although the subsidiary had been promoting its business thereafter, Yida offered to dissolve the joint venture and the Company decided to transfer all of its equity interest in the subsidiary to a LLP led by Yida, in which the Company holds no stake.

2. Overview of the subsidiary transferred

Name: Dalian Qingyun Sky Realty and Development Co., Ltd.

Address: Room 524, 9-1 Kuiying Street, Zhongshan District, Dalian City, Liaoning Province, PRC

Position and name of representative: Executive Director, Yusuke Menjo

Description of business: Development, construction, sale, lease and related operations of real estate

Paid-in capital: RMB 2,963,280,000

Establishment: February, 2013

Shareholding ratio: Sumitomo Realty & Development Co., Ltd. 75%, Dalian Yida Management Consultancy Co., Ltd. 25%

3. Name of the counterparty of the transfer

Dalian Jiaguan Guangcheng Corporate Management Centre (Limited Partnership)

4. Amount of transfer

RMB 3,030,000,000

5. Date of transfer

June 12, 2020

6. Effect on the financial statements

The gain on sale of investments in securities of ¥12,293 million (¥15.06/RMB) will be recognized as Other income for the year ending March 31, 2021.

(Dividends)

On June 26, 2020, the shareholders of the Company approved payments of a year-end cash dividend of ¥19 (\$0.17) per share or a total of ¥9,004 million (\$82,750 thousand) to shareholders of record at March 31, 2020. Such appropriations are recognized in the period in which they are approved by the shareholders.



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

Opinion

We have audited the accompanying consolidated financial statements of Sumitomo Realty & Development Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for each of the years in the three-year period ended March 31, 2020, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for each of the years in the three-year period ended March 31, 2020, in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/ Atsuji Maeno
Designated Engagement Partner
Certified Public Accountant

/S/ Hidekazu Takahashi
Designated Engagement Partner
Certified Public Accountant

/S/ Masako Kanno
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
July 29, 2020

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.