Consolidated Financial Report for FY2022

Ended March 31, 2023

Sumitomo Realty & Development Co., Ltd.

Eleven-year Financial Summary

Millions of yen

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	**FY2022**
For the Year											
Revenue from operations	736,652	780,273	806,835	854,964	925,151	948,402	1,012,198	1,013,513	917,473	939,431	**939,905**
Leasing	278,317	283,730	289,117	313,340	337,466	353,881	381,764	395,592	398,238	425,082	**425,369**
Sales	232,149	234,093	264,207	274,761	314,299	311,193	331,752	324,928	263,395	233,788	**222,077**
Construction	171,082	201,190	188,995	199,115	203,623	209,356	221,693	218,931	188,708	204,362	**213,584**
Brokerage	50,957	57,211	58,486	61,496	66,714	69,169	71,867	71,199	65,793	73,484	**75,107**
Cost of revenue from operations	529,913	558,987	579,964	614,191	664,184	664,015	711,050	691,832	629,565	636,988	**625,452**
SG&A expenses	55,394	60,815	60,976	66,532	72,796	78,750	81,759	87,349	68,664	68,560	**73,179**
% of revenue from operations	7.5%	7.8%	7.6%	7.8%	7.9%	8.3%	8.1%	8.6%	7.5%	7.3%	**7.8%**
Operating income	151,345	160,471	165,895	174,241	188,171	205,637	219,389	234,332	219,244	233,883	**241,274**
% of revenue from operations	20.5%	20.6%	20.6%	20.4%	20.3%	21.7%	21.7%	23.1%	23.9%	24.9%	**25.7%**
Ordinary profit*1	114,916	130,537	139,055	148,424	167,697	186,871	203,227	220,521	209,950	225,115	**236,651**
Profit attributable to owners of parent	59,825	69,697	80,567	87,798	103,489	119,731	130,103	140,997	141,389	150,452	**161,926**
Depreciation and amortization	37,761	35,311	33,519	34,574	39,446	41,628	46,313	48,974	57,813	60,645	**64,635**
At Year-end											
Total assets	4,105,500	4,220,429	4,523,804	4,675,915	4,980,040	5,167,199	5,130,120	5,317,623	5,673,666	5,806,040	**6,365,436**
Equity*2	627,012	707,948	832,462	888,100	1,007,347	1,114,975	1,202,104	1,295,000	1,503,021	1,634,049	**1,799,372**
Net interest-bearing debt	2,424,932	2,652,929	2,875,660	2,971,667	3,101,162	3,210,302	3,170,595	3,245,547	3,372,953	3,408,600	**3,752,902**
Unrealized gains on investment and rental properties	1,001,547	1,132,644	1,290,145	1,697,562	1,996,441	2,328,140	2,703,263	3,176,151	3,432,632	3,494,974	**3,736,711**
Per Share Amounts (Yen)											
Profit attributable to owners of parent	126.18	147.02	169.97	185.23	218.34	252.62	274.51	297.5	298.33	317.45	**341.66**
Net assets	1,322.52	1,493.48	1,756.25	1,873.71	2,125.36	2,352.53	2,536.40	2,732.41	3,171.34	3,447.81	**3,796.64**
Cash dividend applicable to the year	20	20.00	21.00	22.00	24.00	27.00	30.00	35.00	40.00	45.00	**52.00**
Key Ratios											
Equity ratio (%)	15.3	16.8	18.4	19.0	20.2	21.6	23.4	24.4	26.5	28.1	**28.3**
ROE (%)	10.1	10.4	10.5	10.2	10.9	11.3	11.2	11.3	10.1	9.6	**9.4**
ROA (%)	3.9	4.0	3.9	3.9	4.0	4.2	4.5	4.7	4.2	4.3	**4.2**
Return on leasing business*3 (%)	4.8	4.7	4.7	4.8	5.3	5.5	5.6	6.0	5.5	5.5	**5.4**
Long-term debt ratio (%)	93	95	97	98	98	98	99	96	96	98	**95**
Fixed-interest rate debt ratio (%)	80	82	87	94	95	94	96	95	94	96	**86**
ND/E ratio*4 (Times)	3.9	3.7	3.5	3.3	3.1	2.9	2.6	2.5	2.2	2.1	**2.1**
Interest coverage ratio*5 (Times)	4.9	6.1	6.5	7.3	9.0	10.5	11.4	12.8	12.6	13.7	**14.6**

*1. Ordinary profit, which equals operating income after adjustment for non-operating income/expenses, is a management index that is widely used in Japan.
Ordinary profit is not referred to in the consolidated financial statements but is included here because it plays an important role in the calculation of compensation for directors.
*2. Equity = Shareholders' equity + Accumulated other comprehensive income (loss)
*3. Return on leasing business = Cash flows from leasing business / Net investments of leasing business
*4. ND/E ratio = Net interest-bearing debt / Equity
*5. Interest coverage ratio = (Operating income + Interest and dividend income) / Interest expense

Notes: 1. The Company changed its accounting policy (revenue recognition standards of Sumitomo Real Estate Sales) from the beginning of FY2019. The figures provided for FY2018 are those after retroactive application.
2. From the beginning of FY2020, the business segments for revenue and income from Sumitomo Real Estate Sales have been changed, from the allocation to "Sales," "Brokerage" and "Adjustments (not presented in the document)," to be consolidated into "Brokerage." Financial results for FY2019 have been adjusted retroactively.

Management’s Discussion and Analysis for FY2022 (Fiscal year ended March 31, 2023)

Overview

The financial results were as follows: revenue from operations recorded ¥939.9 billion (¥0.5 billion increase year on year), operating income ¥241.3 billion (¥7.4 billion increase year on year), ordinary profit ¥236.7 billion (¥11.5 billion increase year on year), and profit attributable to owners of parent ¥161.9 billion (¥11.5 billion increase year on year). Revenue from operations, operating income, ordinary profit and profit all increased from the previous fiscal year. Ordinary profit achieved a record high for the second consecutive year, while profit attributable to owners of parent achieved a record high for the tenth consecutive year.

Revenue from operations and operating income

The steady progress in the mainstay office building business underpinned the achievement, and the decline due to COVID-19 in commercial facility business such as hotels and event halls shrank, resulting in increased revenue and profit in the leasing business. In addition, the construction business including “Shinchiku Sokkurisan” remodeling, as well as the brokerage business with good performance in brokerage of existing homes, both contributed to overall performance with their record high profits.

In the sales business primarily for condominium sales, even though revenue decreased owing to a decline in the number of units delivered, it achieved higher operating income by improved profit margins.

Other income (expenses)

Non-operating income recorded ¥16.6 billion (¥2.4 billion increase year on year), mainly due to an increase in dividend income.

Non-operating expenses decreased to ¥21.2 billion (¥1.8 billion decrease year on year), mainly due to decreases in interest expense. As a result, non-operating loss recorded ¥4.6 billion (an improvement of ¥4.1 billion year on year).

Extraordinary income recorded ¥4.7 billion (¥2.2 billion increase year on year), mainly owing to gain on sale of investment securities, while extraordinary loss recorded ¥11.0 billion (¥2.1 billion increase year on year), mainly due to loss on impairment of fixed assets and loss on disposal of property and equipment. As a result, extraordinary income/loss deteriorated to ¥6.3 billion, recording an improvement of ¥0.1 billion from the previous fiscal year.

Notes: 1. Non-operating income and expenses = Operating income – Ordinary profit. They refer to Other income and expenses except for Extraordinary income and loss.
2. Extraordinary income and loss = Ordinary profit – Income before income taxes. They refer to the part of Other income and expenses that are occasional and the company deems them as extraordinary items.

Cash flows

Cash flows were as follows:

Cash flows from operating activities: ¥165.1 billion (¥27.9 billion decrease year on year)

Cash flows from investing activities: ¥(489.8) billion (¥279.8 billion decrease year on year)

Cash flows from financing activities: ¥355.6 billion (¥377.5 billion increase year on year)

Cash and cash equivalents increased to ¥184.1 billion (¥33.7 billion increase year on year).

<Cash flows from operating activities>

Ordinary profit recorded ¥236.7 billion. In addition to ¥55.5 billion increase in inventories, with payments for income tax and other taxes, net cash provided by operating activities amounted to ¥165.1 billion.

<Cash flows from investing activities>

As the result of investments in property and equipment totaling ¥449.3 billion mainly for the purpose of augmenting the leasing business, net cash used in investing activities amounted to ¥489.8 billion.

<Cash flows from financing activities>

Issuance of bonds and long-term loans payable (including non-recourse debt) amounted to ¥482.6 billion to make repayments of long-term loans payable at maturity totaled ¥244.6 billion and investments in property and equipment for augmenting the leasing business. With the net commercial paper issuance of ¥140.0 billion, net cash provided by financing activities amounted to ¥355.6 billion.

Financial resources for capital and liquidity of funds

Assets

Total assets as of the end of the fiscal year under review amounted to ¥6,365.4 billion (¥559.4 billion increase year on year). Property and equipment increased to ¥4,464.5 billion (¥350.1 billion increase year on year) mainly due to investments in buildings for leasing.

Liabilities

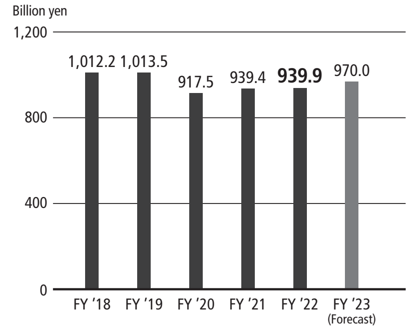
Total liabilities amounted to ¥4,566.1 billion (¥394.1 billion increase year on year). Consolidated interest-bearing debt increased to ¥3,938.0 billion (¥378.0 billion increase year on year). ND/E ratio was 2.1 times, same as the previous fiscal year.

Net assets

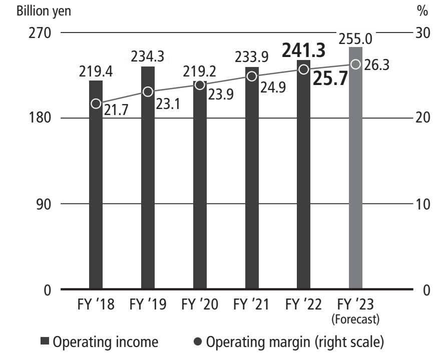
Total net assets amounted to ¥1,799.4 billion (¥165.3 billion increase year on year). Profit attributable to owners of parent as of the end of the fiscal year under review stood at ¥161.9 billion, and retained earnings increased. As a result, the equity ratio improved from 28.1% at the end of the previous fiscal year to 28.3%, and ROE was 9.4% (9.6% at the end of the previous fiscal year).

As of the end of the fiscal year under review, long-term debt accounted for 95% of consolidated interest-bearing debt, and fixed-interest rate debt for 86% (those numbers were 98% and 96%, respectively, at the end of the previous fiscal year).

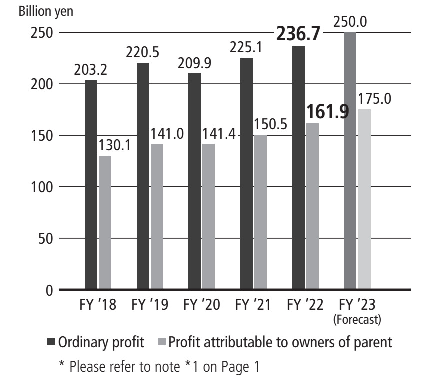
Revenue from Operations



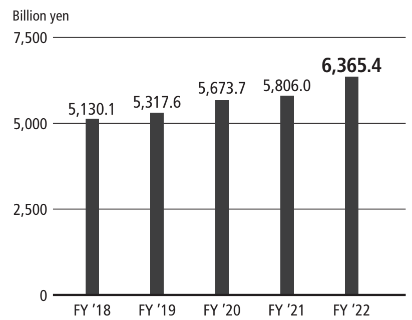
Operating Income and Operating Margin



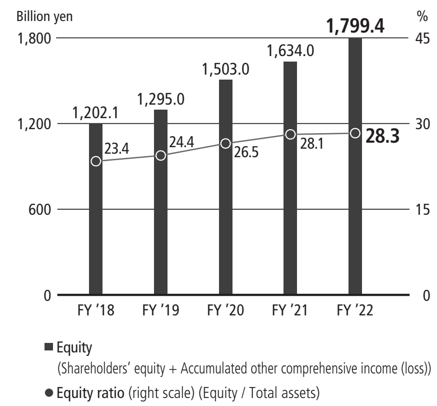
Ordinary Profit* and Profit Attributable to Owners of Parent



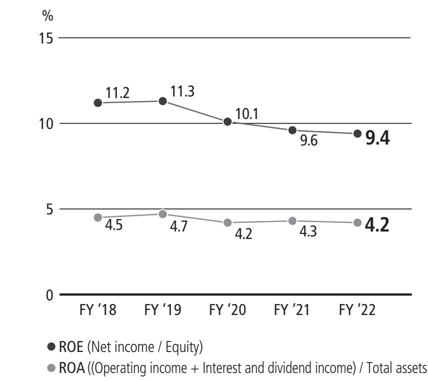
Total Assets



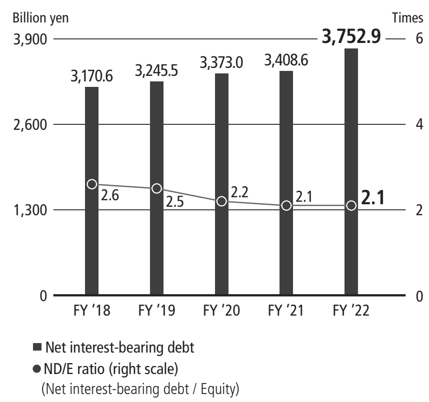
Equity and Equity Ratio



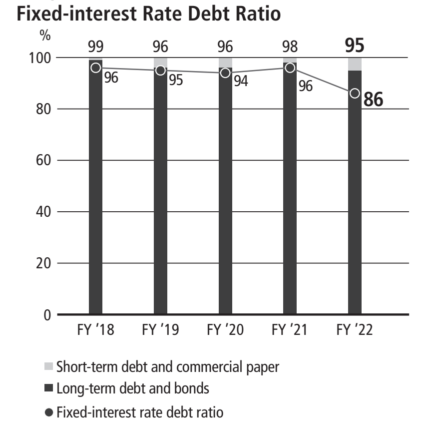
ROE and ROA



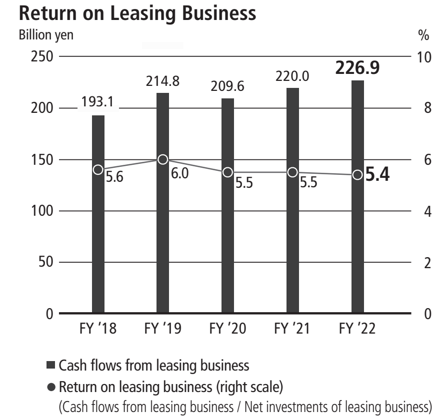
Net Interest-bearing Debt and ND/E Ratio



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



Cash Flows from Leasing Business and Return on Leasing Business



Consolidated Balance Sheets

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
As of March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Assets			
Current assets:			
Cash and deposits (Notes 5, 7 and 8)	**¥ 185,120**	¥ 151,393	**$ 1,386,251**
Accounts receivable—trade (Note 18)	**38,047**	23,286	**284,911**
Allowance for doubtful accounts	**(24)**	(44)	**(180)**
Inventories (Notes 3, 6 and 21)	**790,070**	712,451	**5,916,355**
Other current assets	**73,659**	54,447	**551,588**
Total current assets	**1,086,872**	941,533	**8,138,925**
Property and equipment (Notes 3, 6, 19 and 21):			
Land (Note 7)	**3,057,437**	2,847,702	**22,895,290**
Buildings and structures (Note 7)	**1,965,322**	1,759,702	**14,717,103**
Construction in progress (Note 7)	**126,592**	139,860	**947,971**
Other property and equipment (Note 7)	**54,765**	48,718	**410,102**
Subtotal of property and equipment	**5,204,116**	4,795,982	**38,970,466**
Accumulated depreciation and accumulated impairment losses	**(739,651)**	(681,665)	**(5,538,798)**
Total property and equipment	**4,464,465**	4,114,317	**33,431,668**
Intangibles (Note 19):			
Leasehold rights (Notes 3 and 21)	**60,846**	61,803	**455,639**
Other intangibles	**2,447**	2,191	**18,324**
Total intangibles	**63,293**	63,994	**473,963**
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates (Note 8)	**104,557**	70,274	**782,964**
Investment securities (Notes 8 and 9)	**523,839**	503,230	**3,922,712**
Guarantee and lease deposits (Notes 8 and 9)	**67,044**	66,994	**502,052**
Net defined benefit asset (Note 11)	**293**	258	**2,194**
Deferred income taxes (Note 14)	**13,250**	11,457	**99,221**
Other investments and other assets (Notes 8 and 17)	**42,728**	34,642	**319,964**
Allowance for doubtful accounts	**(905)**	(659)	**(6,777)**
Total investments and other assets	**750,806**	686,196	**5,622,330**
Total assets	**¥6,365,436**	¥5,806,040	**$47,666,886**

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Liabilities and Net Assets			
Current liabilities:			
Short-term debt (Notes 8 and 10)	**¥ 208,610**	¥ 68,610	**$ 1,562,154**
Long-term debt due within one year (Notes 7, 8 and 10)	**289,472**	237,386	**2,167,680**
Long-term non-recourse debt due within one year (Notes 7, 8 and 10)	**4,640**	4,786	**34,746**
Notes and accounts payable—trade	**29,067**	42,308	**217,665**
Accrued income taxes	**30,827**	40,145	**230,845**
Provison for bonuses	**4,924**	5,804	**36,873**
Deposits received	**75,118**	55,156	**562,513**
Other current liabilities (Notes 13 and 18)	**198,870**	185,836	**1,489,216**
Total current liabilities	**841,528**	640,031	**6,301,692**
Long-term liabilities:			
Long-term debt due after one year (Notes 7, 8 and 10)	**3,148,053**	2,957,325	**23,573,858**
Long-term non-recourse debt due after one year (Notes 7, 8 and 10)	**287,247**	291,887	**2,151,018**
Guarantee and lease deposits received (Note 8)	**254,009**	249,276	**1,902,119**
Long-term deposits received	**2,325**	8,764	**17,411**
Net defined benefit liability (Note 11)	**5,534**	5,796	**41,441**
Other long-term liabilities (Notes 8, 13, 14 and 17)	**27,368**	18,912	**204,942**
Total long-term liabilities	**3,724,536**	3,531,960	**27,890,789**
Contingent liabilities (Note 22)			
Net assets (Note 15):			
Shareholders' equity			
Common stock:			
Authorized —1,900,000 thousand shares			
Issued —476,086 thousand shares	**122,805**	122,805	**919,612**
Capital surplus	**104,154**	104,154	**779,946**
Retained earnings (Note 23)	**1,396,393**	1,256,742	**10,456,740**
Treasury stock	**(4,477)**	(4,475)	**(33,526)**
Total shareholders' equity	**1,618,875**	1,479,226	**12,122,772**
Accumulated other comprehensive income (loss)			
Net unrealized holding gains on securities (Note 9)	**171,827**	155,863	**1,286,709**
Net deferred gains (losses) on hedges (Note 17)	**5,979**	705	**44,773**
Foreign currency translation adjustments	**2,660**	(1,450)	**19,919**
Remeasurements of defined benefit plans (Note 11)	**31**	(295)	**232**
Total accumulated other comprehensive income	**180,497**	154,823	**1,351,633**
Total net assets	**1,799,372**	1,634,049	**13,474,405**
Total liabilities and net assets	**¥6,365,436**	¥5,806,040	**$47,666,886**

Consolidated Statements of Income

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2023, 2022 and 2021

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2023	2022	2021	2023
Revenue from operations (Notes 16, 18, 19 and 21)	**¥939,905**	¥939,431	¥917,473	**$7,038,378**
Costs and expenses (Note 16):				
Cost of revenue from operations (Note 21)	**625,452**	636,988	629,565	**4,683,630**
Selling, general and administrative expenses (Note 11)	**73,179**	68,560	68,664	**547,993**
	698,631	705,548	698,229	**5,231,623**
Operating income (Note 19)	**241,274**	233,883	219,244	**1,806,755**
Other income (expenses) (Note 21):				
Interest income	**454**	131	275	**3,400**
Interest expense (Notes 10 and 17)	**(17,577)**	(18,034)	(18,318)	**(131,623)**
Dividend income	**15,625**	12,662	11,561	**117,006**
Gain on sale of property and equipment	**15**	98	536	**112**
Loss on sale of property and equipment	**—**	(0)	—	**—**
Loss on impairment of fixed assets (Notes 12, 19 and 21)	**(8,100)**	(3,453)	(3,876)	**(60,656)**
Loss on disposal of property and equipment (Note 21)	**(1,742)**	(4,015)	(7,890)	**(13,045)**
Gain on sale of investment securities (Note 9)	**4,713**	2,427	13,116	**35,293**
Loss on sale of investment securities (Note 9)	**(7)**	(2)	(312)	**(52)**
Loss on devaluation of investment securities (Note 9)	**(214)**	(1,160)	(489)	**(1,603)**
Loss related to COVID-19	**—**	—	(629)	**—**
Other, net	**(4,105)**	(3,883)	(2,859)	**(30,740)**
	(10,938)	(15,229)	(8,885)	**(81,908)**
Income before income taxes	**230,336**	218,654	210,359	**1,724,847**
Income taxes (Note 12):				
Current	**69,675**	77,311	64,930	**521,754**
Deferred	**(1,265)**	(9,109)	4,040	**(9,473)**
Total	**68,410**	68,202	68,970	**512,281**
Profit	**161,926**	150,452	141,389	**1,212,566**
Profit attributable to non-controlling interests	**—**	—	—	**—**
Profit attributable to owners of parent	**¥161,926**	¥150,452	¥141,389	**$1,212,566**

	Yen			U.S. dollars (Note 1)
	2023	2022	2021	2023
Amounts per share of common stock:				
Profit attributable to owners of parent:				
—Basic	**¥341.66**	¥317.45	¥298.33	**$2.56**
—Diluted	**—**	—	—	**—**
Cash dividend applicable to the year (Note 23)	**52.00**	45.00	40.00	**0.39**

See accompanying notes.

Consolidated Statements of Comprehensive Income

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2023, 2022 and 2021

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2023	2022	2021	2023
Profit	**¥161,926**	¥150,452	¥141,389	**$1,212,566**
Other comprehensive income (loss) (Note 20)				
Net unrealized holding gains (losses) on securities	**15,964**	(4,578)	84,106	**119,546**
Net deferred gains (losses) on hedges	**5,274**	3,694	571	**39,494**
Foreign currency translation adjustments	**4,110**	2,816	(1,548)	**30,777**
Remeasurements of defined benefit plans	**326**	(976)	858	**2,440**
Total other comprehensive income (loss)	**25,674**	956	83,987	**192,257**
Comprehensive income	**¥187,600**	¥151,408	¥225,376	**$1,404,823**
Comprehensive income attributable to:				
Owners of the parent	**¥187,600**	¥151,408	¥225,376	**$1,404,823**
Non-controlling interests	**—**	—	—	**—**

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, 2023, 2022 and 2021

	Thousands	Millions of yen										
		Shareholders' equity					Accumulated other comprehensive income (loss)					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains (losses) on securities	Net deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	Total net assets
Balance at April 1, 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
Profit attributable to owners of parent	—	—	—	141,389	—	141,389	—	—	—	—	—	141,389
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(1,548)	—	(1,548)	(1,548)
Net unrealized holding gains (losses) on securities	—	—	—	—	—	—	84,106	—	—	—	84,106	84,106
Acquisition of treasury stock	—	—	—	—	(2)	(2)	—	—	—	—	—	(2)
Change in scope of consolidation	—	—	—	657	—	657	—	—	—	—	—	657
Cash dividends paid:												
Final for prior year (¥19 per share)	—	—	—	(9,005)	—	(9,005)	—	—	—	—	—	(9,005)
Interim for current year (¥19 per share)	—	—	—	(9,005)	—	(9,005)	—	—	—	—	—	(9,005)
Net deferred gains (losses) on hedges	—	—	—	—	—	—	—	571	—	—	571	571
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	858	858	858
Balance at April 1, 2021	476,086	¥122,805	¥104,154	¥1,126,670	¥(4,475)	¥1,349,154	¥160,441	¥(2,989)	¥(4,266)	¥681	¥153,867	¥1,503,021
Profit attributable to owners of parent	—	—	—	150,452	—	150,452	—	—	—	—	—	150,452
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	2,816	—	2,816	2,816
Net unrealized holding gains (losses) on securities	—	—	—	—	—	—	(4,578)	—	—	—	(4,578)	(4,578)
Acquisition of treasury stock	—	—	—	—	(0)	(0)	—	—	—	—	—	(0)
Change in scope of consolidation	—	—	—	(0)	—	(0)	—	—	—	—	—	(0)
Cash dividends paid:												
Final for prior year (¥21 per share)	—	—	—	(9,953)	—	(9,953)	—	—	—	—	—	(9,953)
Interim for current year (¥22 per share)	—	—	—	(10,427)	—	(10,427)	—	—	—	—	—	(10,427)
Net deferred gains (losses) on hedges	—	—	—	—	—	—	—	3,694	—	—	3,694	3,694
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	(976)	(976)	(976)
Balance at April 1, 2022	**476,086**	**¥122,805**	**¥104,154**	**¥1,256,742**	**¥(4,475)**	**¥1,479,226**	**¥155,863**	**¥ 705**	**¥(1,450)**	**¥(295)**	**¥154,823**	**¥1,634,049**
Profit attributable to owners of parent	**—**	**—**	**—**	**161,926**	**—**	**161,926**	**—**	**—**	**—**	**—**	**—**	**161,926**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**4,110**	**—**	**4,110**	**4,110**
Net unrealized holding gains (losses) on securities	**—**	**—**	**—**	**—**	**—**	**—**	**15,964**	**—**	**—**	**—**	**15,964**	**15,964**
Acquisition of treasury stock	**—**	**—**	**—**	**—**	**(2)**	**(2)**	**—**	**—**	**—**	**—**	**—**	**(2)**
Change in scope of consolidation	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Cash dividends paid:												
Final for prior year (¥23 per share)	**—**	**—**	**—**	**(10,900)**	**—**	**(10,900)**	**—**	**—**	**—**	**—**	**—**	**(10,900)**
Interim for current year (¥24 per share)	**—**	**—**	**—**	**(11,375)**	**—**	**(11,375)**	**—**	**—**	**—**	**—**	**—**	**(11,375)**
Net deferred gains (losses) on hedges	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**5,274**	**—**	**—**	**5,274**	**5,274**
Remeasurements of defined benefit plans	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**326**	**326**	**326**
Balance at March 31, 2023	**476,086**	**¥122,805**	**¥104,154**	**¥1,396,393**	**¥(4,477)**	**¥1,618,875**	**¥171,827**	**¥5,979**	**¥2,660**	**¥31**	**¥180,497**	**¥1,799,372**

	Thousands of U.S. dollars (Note 1)										
	Shareholders' equity					Accumulated other comprehensive income (loss)					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains (losses) on securities	Net deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	Total net assets
Balance at April 1, 2022	**$919,612**	**$779,946**	**$ 9,410,978**	**$(33,511)**	**$11,077,025**	**$1,167,163**	**$ 5,279**	**$(10,858)**	**$(2,208)**	**$1,159,376**	**$12,236,401**
Profit attributable to owners of parent	**—**	**—**	**1,212,566**	**—**	**1,212,566**	**—**	**—**	**—**	**—**	**—**	**1,212,566**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**30,777**	**—**	**30,777**	**30,777**
Net unrealized holding gains (losses) on securities	**—**	**—**	**—**	**—**	**—**	**119,546**	**—**	**—**	**—**	**119,546**	**119,546**
Acquisition of treasury stock	**—**	**—**	**—**	**(15)**	**(15)**	**—**	**—**	**—**	**—**	**—**	**(15)**
Change in scope of consolidation	**—**	**—**	**(0)**	**—**	**(0)**	**—**	**—**	**—**	**—**	**—**	**(0)**
Cash dividends paid:											
Final for prior year ($0.17 per share)	**—**	**—**	**(81,623)**	**—**	**(81,623)**	**—**	**—**	**—**	**—**	**—**	**(81,623)**
Interim for current year ($0.17 per share)	**—**	**—**	**(85,181)**	**—**	**(85,181)**	**—**	**—**	**—**	**—**	**—**	**(85,181)**
Net deferred gains (losses) on hedges	**—**	**—**	**—**	**—**	**—**	**—**	**39,494**	**—**	**—**	**39,494**	**39,494**
Remeasurements of defined benefit plans	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,440**	**2,440**	**2,440**
Balance at March 31, 2023	**$919,612**	**$779,946**	**$10,456,740**	**$(33,526)**	**$12,122,772**	**$1,286,709**	**$44,773**	**$19,919**	**$ 232**	**$1,351,633**	**$13,474,405**

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2023, 2022 and 2021

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2023	2022	2021	2023
Cash flows from operating activities:				
Income before income taxes	**¥ 230,336**	¥ 218,654	¥ 210,359	**$ 1,724,846**
Depreciation and amortization (Notes 19 and 21)	**64,635**	60,645	57,813	**484,012**
Loss on impairment of fixed assets	**8,100**	3,453	3,876	**60,656**
Provision for (Reversal of) allowance for doubtful accounts	**226**	135	(21)	**1,692**
Increase (Decrease) in net defined benefit liability	**(328)**	(196)	226	**(2,456)**
Loss (Gain) on sale of property and equipment, net	**(15)**	(98)	(536)	**(112)**
Loss on disposal of property and equipment	**1,742**	4,015	7,890	**13,045**
Loss (Gain) on sale of investment securities, net	**(4,705)**	(2,425)	(12,803)	**(35,233)**
Loss (Gain) on devaluation of investment securities	**214**	1,160	489	**1,603**
Interest and dividend income	**(16,080)**	(12,793)	(11,836)	**(120,413)**
Interest expense	**17,577**	18,034	18,318	**131,623**
Decrease (Increase) in accounts receivable—trade	**(14,761)**	(4,572)	(1,185)	**(110,536)**
Decrease (Increase) in inventories	**(55,461)**	(48,327)	7,304	**(415,314)**
Increase (Decrease) in notes and accounts payable—trade	**(13,283)**	17,611	(12,041)	**(99,468)**
Increase (Decrease) in advances received	**7,189**	2,082	(4,922)	**53,834**
Other, net	**19,959**	18,965	26,434	**149,461**
Total	**245,345**	276,343	289,365	**1,837,240**
Proceeds from interest and dividend income	**16,080**	12,793	11,836	**120,413**
Payments for interest	**(17,602)**	(18,150)	(18,224)	**(131,811)**
Payments for income tax and other taxes	**(78,711)**	(78,019)	(57,030)	**(589,419)**
Net cash provided by operating activities	**165,112**	192,967	225,947	**1,236,423**
Cash flows from investing activities:				
Payments for purchases of property and equipment	**(449,345)**	(179,553)	(355,432)	**(3,364,872)**
Proceeds from sale of property and equipment	**597**	525	1,659	**4,471**
Payments for purchases of investment securities	**(39,603)**	(9,024)	(20,500)	**(296,563)**
Proceeds from sale and redemption of investment securities	**12,088**	4,241	49,141	**90,520**
Payments for guarantee and lease deposits	**(2,631)**	(1,278)	(748)	**(19,702)**
Proceeds from guarantee and lease deposits	**2,435**	2,731	1,954	**18,234**
Repayments for guarantee and lease deposits received	**(20,541)**	(35,829)	(16,549)	**(153,819)**
Proceeds from guarantee and lease deposits received	**27,072**	27,858	24,264	**202,726**
Other, net	**(19,871)**	(19,656)	(20,471)	**(148,802)**
Net cash used in investing activities	**(489,799)**	(209,985)	(336,682)	**(3,667,807)**
Cash flows from financing activities:				
Increase (Decrease) in short-term debt, net	**140,000**	(78,010)	(106)	**1,048,375**
Proceeds from issuance of bonds	**30,000**	40,000	—	**224,652**
Redemption of bonds	**—**	(20,000)	—	**—**
Proceeds from non-recourse bonds	**—**	—	6,000	**—**
Redemption of non-recourse bonds	**—**	(1,500)	(8,000)	**—**
Proceeds from long-term loans payable	**450,200**	264,500	259,500	**3,371,275**
Repayments of long-term loans payable	**(237,386)**	(191,446)	(131,471)	**(1,777,640)**
Proceeds from long-term non-recourse loans	**2,420**	—	57,140	**18,122**
Repayments of long-term non-recourse loans	**(7,206)**	(14,844)	(62,678)	**(53,961)**
Decrease (Increase) in treasury stocks, net	**(1)**	(0)	(2)	**(7)**
Cash dividends paid	**(22,271)**	(20,375)	(18,005)	**(166,774)**
Other, net	**(200)**	(242)	(292)	**(1,499)**
Net cash provided by (used in) financing activities	**355,556**	(21,917)	102,086	**2,662,543**
Effect of exchange rate changes on cash and cash equivalents	**2,874**	1,964	(1,088)	**21,522**
Net increase (decrease) in cash and cash equivalents	**33,743**	(36,971)	(9,737)	**252,681**
Cash and cash equivalents at beginning of year	**150,310**	187,281	193,448	**1,125,580**
Increase in cash and cash equivalents of newly consolidated subsidiaries	**—**	0	3,570	**—**
Cash and cash equivalents at end of year (Note 3)	**¥ 184,053**	¥ 150,310	¥ 187,281	**$ 1,378,261**

See accompanying notes.

Notes to Consolidated Financial Statements

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
As of March 31, 2023 and 2022, and for the years ended March 31, 2023, 2022 and 2021

1 Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Sumitomo Realty & Development Co., Ltd. (the "Company") and its consolidated subsidiaries (collectively referred to as the "Group") 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 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. In addition, the notes to the consolidated financial statements include information which may not be required under Japanese GAAP but is presented herein as additional information.

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, 2023, which was ¥133.54 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. Non-consolidated subsidiaries are excluded from the scope of consolidation because they are small and their combined total assets, revenues from operations, profit (amount corresponding to the Company's equity interest), retained earnings (amount corresponding to the Company's equity interest), and any other figures do not have a material impact on the consolidated financial statements.

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

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

(2) Cash and cash equivalents in the consolidated statements of cash flows

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. Reconciliation between cash and deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2023 and 2022 is presented in Note 5 "Cash and cash equivalents."

(3) Recognition of significant revenue

In relation to recognition of revenue from contracts with customers, the nature of principal performance obligations for major businesses of the Group and typical timing of the satisfaction of these performance obligations (typical timing of revenue recognition) are as follows:

(Leasing Business)
Leasing business mainly consists of leasing of office buildings and high-grade rental apartments. The Group recognizes revenue in accordance with "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13) based on lease contracts with customers.

(Sales Business)
Sales business mainly consists of sales of condominium units and detached houses. The Group recognizes revenue at the time the buyer (the customer) acquires control of the real estate by fulfilling the delivery obligations stipulated in the sales contract.

(Construction Business)
Construction business mainly consists of construction and renovation of custom homes and "Shinchiku Sokkurisan" remodeling. The Group recognizes revenue at the time the owner (the customer) acquires control of the real estate by fulfilling delivery obligations stipulated in the construction contract.

(Brokerage Business)
Brokerage business mainly consists of brokerage of real estate sales. The Group recognizes revenue at the time the delivery of the real estate from the seller to the buyer is completed by fulfilling the brokerage obligations for the sale and purchase of real estate stipulated in the brokerage contract.

(4) 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.

(5) Securities

Investments in unconsolidated subsidiaries and affiliates are stated at moving-average cost. Available-for-sale securities except for equity securities without market prices are stated at fair value, and equity securities without market prices are mainly stated at moving-average cost. Investments in investment limited partnerships, regarded as securities under Article 2-2 of the Financial Investment and Exchange Act, are stated at the net amount of equities based on the most recent financial statements available as of the financial reporting date stipulated in the respective partnership agreements.

(6) Property and equipment (except for leased assets)

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.

(7) Intangibles (except for leased assets)

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

(8) Allowance for doubtful accounts

The Group provides 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.

(9) Leased assets
Leased assets are recognized as other property and equipment or other intangibles. 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.

(10) 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.

(11) Net defined benefit asset and liability
For the calculation of defined benefit obligations, the estimated amount of defined 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 defined benefit obligations are equal to the amount that would be paid if all employees resigned voluntarily at the end of the fiscal year.

Actuarial gains and losses are wholly recognized in the next fiscal year.

(12) Derivatives
The Group states derivatives at fair value. If derivatives are used as hedges and meet certain hedging criteria, the Group defers 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.

The assessment of hedge effectiveness is performed by comparing the accumulated cash flows of the hedged item to those of the hedging instrument over the term of the relationship. Interest rate swap contracts adopting exceptional accounting are excluded from the effectiveness assessment. Foreign exchange forward contracts are also excluded from the effectiveness assessment, as the terms of the transaction are the same as those of the hedged items.

(13) 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 not presented as there are no potential shares.

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

3 Significant accounting estimates

(Evaluation of real estate for sale including that in process)

(1) Carrying amounts in the consolidated financial statements for the years ended March 31, 2023 and 2022:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Inventories:			
Real estate for sale	¥399,245	¥308,156	$2,989,703
Real estate for sale in process	381,753	394,922	2,858,716

(2) Information on the nature of significant accounting estimates for identified items

Real estate for sale including that in process is recognized as inventories in the consolidated balance sheets and stated at cost. In case the net realizable value is lower than the book value, the profitability is regarded to have declined, and the net realizable value is used as the carrying amount. The difference between the book value and the net realizable value (loss on devaluation of real estate for sale including that in process) is recognized as cost of revenue from operations for the current fiscal year.

The net realizable value is estimated based on business plans with the consideration of expected selling price, trends in building costs, and other data. The business plans are mainly based on unit sales price and construction cost, and these assumptions are determined by comparable data in the same sales area or actual data in the Group.

In case a loss on devaluation of real estate for sale including that in process is to be recognized due to the change of the above-mentioned assumption, the impact on the consolidated financial statements may be significant.

(Loss on impairment of fixed assets)

(1) Carrying amounts in the consolidated financial statements for the years ended March 31, 2023 and 2022:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Property and equipment	¥4,464,465	¥4,114,317	$33,431,668
Leasehold rights	60,846	61,803	455,639

(2) Information on the nature of significant accounting estimates for identified items

The amounts of property and equipment are determined by deducting accumulated depreciation and accumulated impairment losses from the acquisition costs, and used as the carrying amount. When a property's profitability has declined and an impairment indicator exists, the Group is required to determine whether an impairment loss should be recognized. Impairment indicators include recurring operating losses, changes that significantly reduce the recoverable amount in the extent to which, or manner in which, a property is used or is expected to be used, a significant deterioration of business environment and a significant decrease in the market prices. Such market prices are calculated by the Company using income approach, and future cash flow and discount rate is estimated based on current rent per unit, rent level in the market, occupancy rate, discount rate and other assumptions.

For fixed assets of which the impairment indicator exists, the impairment loss is recognized if the total amount of their future cash flow before discount is lower than the book value.

The carrying amount of fixed assets of which the impairment loss is to be recognized, have been reduced to the recoverable amounts, and the amount of the reduction is recognized as impairment loss for the current fiscal year. The recoverable amounts are measured by the amounts calculated based on the productive value or assessed value of fixed assets for tax purposes or the amounts calculated by discounting the future cash flow.

In case the impairment indicator exists, and an impairment loss is to be recognized due to the change of the above-mentioned assumption, the impact on the consolidated financial statements may be significant.

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

"Accounting Standard for Current Income Taxes" (ASBJ Statement No.27, October 28, 2022)
"Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25, October 28, 2022)
"Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28, October 28, 2022)

(1) Overview
The standards and guidance are set for (i) the classification of tax expenses in case of taxation on other comprehensive income and (ii) the tax effects on the sale of shares of subsidiaries or affiliates in case of application of group taxation.

(2) Effective date
Effective from the beginning of the year ending March 31, 2025

(3) Effects of the application of the standards and the guidance
The Group is currently in the process of evaluating the effects of the application of the new standards and the guidance on the consolidated financial statements.

5 Cash and cash equivalents

Cash and cash equivalents at March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Cash and deposits	¥185,120	¥151,393	$1,386,251
Restricted deposits in trust	(781)	(783)	(5,848)
Time deposits with maturities exceeding three months	(286)	(300)	(2,142)
Cash and cash equivalents	¥184,053	¥150,310	$1,378,261

6 Inventories

Inventories at March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Real estate for sale	¥399,245	¥308,156	$2,989,703
Real estate for sale in process	381,753	394,922	2,858,716
Costs on uncompleted construction contracts	8,002	8,210	59,922
Other	1,070	1,163	8,014
Total	¥790,070	¥712,451	$5,916,355

(Change in purpose of holding inventories)

As a result of review of holding purposes, the Company transferred amounts to inventories from property and equipment and intangibles. Such transfers at March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Inventories:			
Transferred from property and equipment	¥30,645	¥37,860	$229,482
Transferred from intangibles	2,014	—	15,082

7 Pledged assets

Assets pledged as collateral at March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Cash and deposits	¥ 2,057	¥ 1,988	$ 15,404
Buildings and structures	123,733	129,469	926,561
Land	396,008	396,008	2,965,463
Construction in progress	704	772	5,272
Other property and equipment	635	823	4,755
Total	¥523,137	¥529,060	$3,917,455

Secured liabilities at March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Long-term debt due within one year	¥ 190	¥ 190	$ 1,423
Long-term non-recourse debt due within one year	4,640	4,786	34,746
Long-term debt due after one year	134,240	134,430	1,005,242
Long-term non-recourse debt due after one year	287,247	291,887	2,151,018
Total	¥426,317	¥431,293	$3,192,429

Specified assets for non-recourse debts at March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Cash and deposits	¥ 2,167	¥ 2,042	$ 16,227
Buildings and structures	66,916	70,334	501,093
Land	250,361	250,361	1,874,802
Other property and equipment	81	82	607
Total	¥319,525	¥322,819	$2,392,729

(Note) "Specified assets for non-recourse debts" is included in "Assets pledged as collateral" for the years ended March 31, 2023 and 2022 except for cash and deposits.

8 Financial instruments

1. Overview

(1) Policy for financial instruments

The Group has the policy to limit its fund management to short-term deposits, and also raise funds through loans from banks, the issuance of corporate bonds and commercial paper.

The Group utilizes interest rate swap contracts within the amount of fundraising and foreign exchange forward contracts within the amount of foreign currency transaction, and does not utilize derivatives for any speculative purposes.

(2) Details of financial instruments, these risks, and risk management systems

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

Floating rate debt are exposed to interest rate fluctuation risk, so the Group utilizes derivatives (interest swap contracts) to hedge these risks for certain loans and corporate bonds interest.

For derivative transactions, the Group utilizes interest rate swap contracts for interests on fundraising, and foreign exchange forward contracts for foreign currency denominated transactions. Interest rate swap contracts are exposed to risks of interest rate fluctuation, and foreign exchange forward contracts are exposed to risks of exchange rate fluctuations. The derivative transactions are executed with creditworthy financial institutions, so the Group management believes there are few risks of default by counterparties. Derivative transactions are executed by the Company'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 derivatives that are provided to the director of the Finance Department periodically.

Guarantee and lease deposits received is mainly for avoiding customers' credit risk.

(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.

Contract amounts of derivatives shown in Note 17 "Derivative transactions" itself are not representing the market risks related to derivatives.

2. Matters concerning fair values and breakdown by level of fair value of financial instruments

The carrying amounts of financial instruments on the consolidated balance sheets, their fair values and the differences between them as of March 31, 2023 and 2022 are as follows. (Equity securities with no market price are not included; please see (Note 3).)

The fair value of financial instruments is classified into the following three levels based on observability and significance of the inputs used to measure the fair value.

Level 1: Fair value measured based on unadjusted quoted prices in an active market for identical assets or liabilities
Level 2: Fair value measured based on direct or indirect observable inputs for the assets or liabilities other than level 1 inputs
Level 3: Fair value measured based on significant unobservable inputs for the assets or liabilities

In cases where multiple inputs are used that have a significant impact on fair value, the fair value level is classified into the lowest priority level among the levels to which those inputs respectively belong.

(1) Financial instruments whose fair values are regarded as their carrying amounts on the consolidated balance sheets

For 2023

	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Equity securities	¥519,693	¥ —	¥—	¥519,693
Debt securities*	—	421	—	421
Derivative transactions				
(1) Non-hedge accounting	—	—	—	—
(2) Hedge accounting				
Interest-related derivatives	—	9,514	—	9,514
Foreign currency related derivatives	—	1	—	1
Total assets	¥519,693	¥9,936	¥—	¥529,629
Derivative transactions				
(1) Non-hedge accounting	¥ —	¥ —	¥—	¥ —
(2) Hedge accounting				
Interest-related derivatives	—	896	—	896
Total derivative transactions	¥ —	¥ 896	¥—	¥ 896

* Debt securities account as guarantee and lease deposits in the consolidated balance sheets.

For 2022

	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Equity securities	¥499,521	¥ —	¥—	¥499,521
Debt securities*	—	536	—	536
Derivative transactions				
(1) Non-hedge accounting	—	—	—	—
(2) Hedge accounting				
Interest-related derivatives	—	3,363	—	3,363
Foreign currency related derivatives	—	—	—	—
Total assets	¥499,521	¥3,899	¥—	¥503,420
Derivative transactions				
(1) Non-hedge accounting	¥ —	¥ —	¥—	¥ —
(2) Hedge accounting				
Interest-related derivatives	—	2,348	—	2,348
Total derivative transactions	¥ —	¥2,348	¥—	¥ 2,348

* Debt securities account as guarantee and lease deposits in the consolidated balance sheets.

For 2023

	Thousands of U.S. dollars			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Equity securities	**$3,891,665**	**$ —**	**$—**	**$3,891,665**
Debt securities*	**—**	**3,153**	**—**	**3,153**
Derivative transactions				
(1) Non-hedge accounting	**—**	**—**	**—**	**—**
(2) Hedge accounting				
Interest-related derivatives	**—**	**71,245**	**—**	**71,245**
Foreign currency related derivatives	**—**	**7**	**—**	**7**
Total assets	**$3,891,665**	**$74,405**	**$—**	**$3,966,070**
Derivative transactions				
(1) Non-hedge accounting	**$ —**	**$ —**	**$—**	**$ —**
(2) Hedge accounting				
Interest-related derivatives	**—**	**6,710**	**—**	**6,710**
Total derivative transactions	**$ —**	**$ 6,710**	**$—**	**$ 6,710**

* Debt securities account as guarantee and lease deposits in the consolidated balance sheets.

(2) Financial instruments whose fair values are not regarded as their carrying amounts on the consolidated balance sheets

Cash and deposits and short-term debt are not presented below tables because their fair values approximate their carrying amounts due to their short-term maturities.

For 2023

	Millions of yen					
	Carrying amount	Fair value				Difference
		Level 1	Level 2	Level 3	Total	
(1) Long-term debt (including due within one year)	**¥3,437,524**	**¥—**	**¥3,414,298**	**¥—**	**¥3,414,298**	**¥(23,226)**
(2) Long-term non-recourse debt (including due within one year)	**291,887**	**—**	**285,105**	**—**	**285,105**	**(6,782)**
(3) Guarantee and lease deposits received	**254,009**	**—**	**252,766**	**—**	**252,766**	**(1,243)**
Total liabilities	**¥3,983,420**	**¥—**	**¥3,952,169**	**¥—**	**¥3,952,169**	**¥(31,251)**

For 2022

	Millions of yen					
	Carrying amount	Fair value				Difference
		Level 1	Level 2	Level 3	Total	
(1) Long-term debt (including due within one year)	¥3,194,711	¥—	¥3,205,136	¥—	¥3,205,136	¥10,425
(2) Long-term non-recourse debt (including due within one year)	296,673	—	299,447	—	299,447	2,774
(3) Guarantee and lease deposits received	249,276	—	248,475	—	248,475	(801)
Total liabilities	¥3,740,660	¥—	¥3,753,058	¥—	¥3,753,058	¥12,398

For 2023

	Thousands of U.S. dollars					
	Carrying amount	Fair value				Difference
		Level 1	Level 2	Level 3	Total	
(1) Long-term debt (including due within one year)	**$25,741,530**	**$—**	**$25,567,605**	**$—**	**$25,567,605**	**$(173,925)**
(2) Long-term non-recourse debt (including due within one year)	**2,185,765**	**—**	**2,134,978**	**—**	**2,134,978**	**(50,787)**
(3) Guarantee and lease deposits received	**1,902,119**	**—**	**1,892,811**	**—**	**1,892,811**	**(9,308)**
Total liabilities	**$29,829,414**	**$—**	**$29,595,394**	**$—**	**$29,595,394**	**$(234,020)**

(Note 1) Explanation of valuation techniques and inputs used in the measurement of fair value

(1) Investment securities and Derivative transactions

The fair values of listed equity securities are measured using quoted market price and are classified as level 1.

The fair values of debt securities are measured mainly based on reference bond trading statistics published by the Japan Securities Dealers Association and the fair values of interest rate swap contracts and foreign exchange forward contracts are calculated by discounting the future cash flows using observable inputs including interest rates and foreign exchange rates. Their fair values are classified as level 2.

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

The fair value of floating rate debt (excluding hedged item subject to the exceptional accounting for interest rate swaps*) are measured based on their carrying amounts because the market interest rate is reflected in such debt within a short time period, and the credit standing of the Company and status of specified assets for non-recourse debts have not changed significantly from the time when these transactions occurred.

The fair value of floating rate debt which is hedged item subject to the exceptional accounting for interest rate swaps, and the fixed-coupon debt are calculated by discounting the combined total of principal and interest including interest rate swap receipts and payments using interest rates expected to be currently available. They are classified as level 2.

* If interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contracts is added to or deducted from the interest on hedged item.

(3) Guarantee and lease deposits received

The fair values of the guarantee and lease deposits received are calculated based on the deposit period expected to be returned and discounting its future cash flows using the credit risk-adjusted discount rate over the remaining deposit period, and they are classified as level 2.

(Note 2) Financial instruments whose fair values are regarded as their carrying amounts on the consolidated balance sheets and are classified as level 3

Not applicable

(Note 3) Equity securities with no market price are not included in investment securities. The carrying amounts of such financial instruments are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Investments in unconsolidated subsidiaries and affiliates	**¥104,557**	¥70,274	**$782,964**
Unlisted equity securities	**4,146**	3,709	**31,047**
Total	**¥108,703**	¥73,983	**$814,011**

(Note 4) Redemption schedule of pecuniary claims and securities with maturities

For 2023

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash and deposits	**¥185,120**	**¥ —**	**¥ —**	**¥—**
Investment securities*				
Available-for-sale securities with maturities (National government bonds)	**127**	**173**	**121**	**—**
Total	**¥185,247**	**¥173**	**¥121**	**¥—**

* Investment securities account as guarantee and lease deposits in the consolidated balance sheets.

For 2022

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash and deposits	¥151,393	¥ —	¥ —	¥—
Investment securities*				
Available-for-sale securities with maturities (National government bonds)	112	302	122	—
Total	¥151,505	¥302	¥122	¥—

* Investment securities account as guarantee and lease deposits in the consolidated balance sheets.

For 2023

	Thousands of U.S. dollars			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash and deposits	**$1,386,251**	**$ —**	**$ —**	**$—**
Investment securities*				
Available-for-sale securities with maturities (National government bonds)	**951**	**1,295**	**906**	**—**
Total	**$1,387,202**	**$1,295**	**$906**	**$—**

* Investment securities account as guarantee and lease deposits in the consolidated balance sheets.

(Note 5) Repayment schedule of short-term debt, long-term debt and long-term non-recourse debt

For 2023

	Millions of yen					
Year ending March 31	2024	2025	2026	2027	2028	2029 and thereafter
Short-term debt	**¥208,610**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Long-term debt (including due within one year)	**289,472**	**379,415**	**293,855**	**333,063**	**300,715**	**1,841,005**
Long-term non-recourse debt (including due within one year)	**4,640**	**4,374**	**52,007**	**107,502**	**1,656**	**121,708**
Total	**¥502,722**	**¥383,789**	**¥345,862**	**¥440,565**	**¥302,371**	**¥1,962,713**

For 2022

	Millions of yen					
Year ending March 31	2023	2024	2025	2026	2027	2028 and thereafter
Short-term debt	¥ 68,610	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt (including due within one year)	237,386	289,472	379,415	293,855	313,063	1,681,520
Long-term non-recourse debt (including due within one year)	4,786	4,640	4,374	52,007	107,502	123,364
Total	¥310,782	¥294,112	¥383,789	¥345,862	¥420,565	¥1,804,884

For 2023

	Thousands of U.S. dollars					
Year ending March 31	2024	2025	2026	2027	2028	2029 and thereafter
Short-term debt	**$1,562,154**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Long-term debt (including due within one year)	**2,167,680**	**2,841,209**	**2,200,502**	**2,494,107**	**2,251,872**	**13,786,169**
Long-term non-recourse debt (including due within one year)	**34,746**	**32,754**	**389,449**	**805,017**	**12,401**	**911,397**
Total	**$3,764,580**	**$2,873,963**	**$2,589,951**	**$3,299,124**	**$2,264,273**	**$14,697,566**

9 Securities

For 2023

1. The following tables summarize the book value, carrying amounts and fair values of securities with available fair values as of March 31, 2023:

(1) Available-for-sale securities:

	Millions of yen			Thousands of U.S. dollars		
	Carrying amount	Book value	Difference	Carrying amount	Book value	Difference
Securities whose carrying amount exceeds book value:						
Equity securities	**¥468,227**	**¥210,575**	**¥257,652**	**$3,506,267**	**$1,576,868**	**$1,929,399**
Debt securities*	**300**	**298**	**2**	**2,247**	**2,232**	**15**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Subtotal	**468,527**	**210,873**	**257,654**	**3,508,514**	**1,579,100**	**1,929,414**
Securities whose carrying amount does not exceed book value:						
Equity securities	**51,466**	**61,459**	**(9,993)**	**385,398**	**460,229**	**(74,831)**
Debt securities*	**121**	**123**	**(2)**	**906**	**921**	**(15)**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Subtotal	**51,587**	**61,582**	**(9,995)**	**386,304**	**461,150**	**(74,846)**
Total	**¥520,114**	**¥272,455**	**¥247,659**	**$3,894,818**	**$2,040,250**	**$1,854,568**

* Debt securities account as guarantee and lease deposits in the consolidated balance sheets.
(Note) The Group recognized impairment loss on investment securities of ¥171 million ($1,281 thousand) related to equity securities in available-for-sale securities.

2. Total sales of available-for-sale securities sold in the year ended March 31, 2023 amounted to ¥12,036 million ($90,130 thousand) and the related gains and losses amounted to ¥4,713 million ($35,293 thousand) and ¥7 million ($52 thousand), respectively.

For 2022

1. The following tables summarize the book value, carrying amounts and fair values of securities with available fair values as of March 31, 2022:

(1) Available-for-sale securities:

	Millions of yen		
	Carrying amount	Book value	Difference
Securities whose carrying amount exceeds book value:			
Equity securities	¥442,654	¥203,995	¥238,659
Debt securities*	414	409	5
Other	—	—	—
Subtotal	443,068	204,404	238,664
Securities whose carrying amount does not exceed book value:			
Equity securities	56,866	70,887	(14,021)
Debt securities*	122	123	(1)
Other	—	—	—
Subtotal	56,988	71,010	(14,022)
Total	¥500,056	¥275,414	¥224,642

* Debt securities account as guarantee and lease deposits in the consolidated balance sheets.
(Note) The Group recognized impairment loss on investment securities of ¥1,160 million related to equity securities in available-for-sale securities.

2. Total sales of available-for-sale securities sold in the year ended March 31, 2022 amounted to ¥4,226 million and the related gains and losses amounted to ¥2,427 million and ¥2 million, respectively.

10 Short-term debt and long-term debt

Short-term debt at March 31, 2023 and 2022 consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	2023	Average interest rate (%)	2022	Average interest rate (%)	**2023**
Loans, principally from banks	**¥ 28,610**	**0.27**	¥28,610	0.27	**$ 214,243**
Commercial paper	**180,000**	**0.04**	40,000	(0.08)	**1,347,911**
Total	**¥208,610**		¥68,610		**$1,562,154**

All of short-term debts are raised in yen, and the interest rates represent weighted-average rates in effect balance at March 31, 2023 and 2022.

Long-term debt at March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
1.098% domestic straight bonds, due 2023	**¥ 10,000***	¥ 10,000	**$ 74,884***
0.950% domestic straight bonds, due 2023	**10,000***	10,000	**74,884***
0.968% domestic straight bonds, due 2023	**10,000***	10,000	**74,884***
0.987% domestic straight bonds, due 2024	**20,000***	20,000	**149,768***
0.914% domestic straight bonds, due 2024	**20,000***	20,000	**149,768***
0.904% domestic straight bonds, due 2024	**20,000**	20,000	**149,768**
0.884% domestic straight bonds, due 2024	**20,000**	20,000	**149,768**
0.836% domestic straight bonds, due 2024	**20,000**	20,000	**149,768**
0.809% domestic straight bonds, due 2024	**20,000**	20,000	**149,768**
0.670% domestic straight bonds, due 2025	**10,000**	10,000	**74,884**
0.826% domestic straight bonds, due 2025	**20,000**	20,000	**149,768**
0.992% domestic straight bonds, due 2025	**20,000**	20,000	**149,768**
0.400% domestic straight bonds, due 2026	**10,000**	10,000	**74,884**
0.230% domestic straight bonds, due 2026	**10,000**	10,000	**74,884**
0.400% domestic straight bonds, due 2027	**30,000**	30,000	**224,651**
0.310% domestic straight bonds, due 2031	**30,000**	30,000	**224,651**
0.260% domestic straight bonds, due 2031	**10,000**	10,000	**74,884**
0.520% domestic straight bonds, due 2028 (Green bonds)	**30,000**	—	**224,651**
Loans from banks and insurance companies, with interest at weighted-average rates of 0.31% in 2023 and 0.32% in 2022, respectively:			
Secured	**134,430**	134,620	**1,006,665**
Unsecured	**2,983,095**	2,770,091	**22,338,584**
Subtotal	**3,437,525**	3,194,711	**25,741,534**
Amount due within one year	**(289,472)**	(237,386)	**(2,167,680)**
Total	**¥3,148,053**	¥2,957,325	**$23,573,854**

* Due within one year

All of long-term debts are raised in yen, and the interest rates represent weighted-average rates in effect balance at March 31, 2023 and 2022.

Non-recourse debt at March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Non-recourse bonds, with interest at weighted-average rates of 0.11% in 2023 and 0.09% in 2022, respectively:			
Due within one year	**¥ —**	¥ —	**$ —**
Due after one year	**35,600**	35,600	**266,587**
Subtotal	**35,600**	35,600	**266,587**
Non-recourse loans, with interest at weighted-average rates of 0.15% in 2023 and 0.12% in 2022, respectively:			
Due within one year	**4,640**	4,786	**34,746**
Due after one year	**251,647**	256,287	**1,884,432**
Subtotal	**256,287**	261,073	**1,919,178**
Total	**¥291,887**	¥296,673	**$2,185,765**
Secured	**¥291,887**	¥296,673	**$2,185,765**
Unsecured	**—**	—	**—**
Total	**¥291,887**	¥296,673	**$2,185,765**

All of non-recourse debts are raised in yen, and the interest rates represent weighted-average rates in effect balance at March 31, 2023 and 2022.

The aggregate annual maturities of long-term debt and long-term non-recourse debt are seen Note 8 “Financial instruments.”

11 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.

As explained in Note 2 (11), “Net defined benefit asset and liability” 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 2023 and 2022

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
	2023	2022	**2023**
Retirement benefit obligations at beginning of year	**¥12,823**	¥12,153	**$96,024**
Service costs	**697**	732	**5,219**
Interest costs	**55**	49	**412**
Actuarial differences	**(111)**	565	**(831)**
Retirement benefits paid	**(734)**	(676)	**(5,496)**
Retirement benefit obligations at end of year	**¥12,730**	¥12,823	**$95,328**

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Plan assets at beginning of year	**¥7,285**	¥6,895	**$54,553**
Expected return on plan assets	**146**	138	**1,093**
Actuarial differences	**(69)**	138	**(516)**
Employer contributions	**333**	361	**2,494**
Retirement benefits paid	**(206)**	(247)	**(1,543)**
Plan assets at end of year	**¥7,489**	¥7,285	**$56,081**

(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 2023	Millions of yen 2022	Thousands of U.S. dollars 2023
Obligations under retirement benefit plans (funded)	**¥ 7,277**	¥ 7,108	**$ 54,493**
Fair value of plan assets	**(7,489)**	(7,285)	**(56,081)**
	(212)	(177)	**(1,588)**
Obligations under retirement benefit plans (unfunded)	**5,453**	5,715	**40,835**
Net amount of liabilities on the consolidated balance sheets	**¥ 5,241**	¥ 5,538	**$ 39,247**
Net defined benefit liability	**¥ 5,534**	¥ 5,796	**$ 41,441**
Net defined benefit asset	**(293)**	(258)	**(2,194)**
Net amount of liabilities on the consolidated balance sheets	**¥ 5,241**	¥ 5,538	**$ 39,247**

(4) Components of retirement benefit expenses

	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars 2023
Service costs	**¥ 697**	¥ 732	**$ 5,219**
Interest costs	**55**	49	**412**
Expected return on plan assets	**(146)**	(138)	**(1,093)**
Actuarial differences	**427**	(980)	**3,197**
Retirement benefit expenses	**¥1,033**	¥(337)	**$ 7,735**

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

	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars 2023
Actuarial differences	**¥(469)**	¥1,407	**$(3,512)**
Total	**¥(469)**	¥1,407	**$(3,512)**

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

	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars 2023
Unrecognized actuarial differences	**¥(42)**	¥427	**$(315)**
Total	**¥(42)**	¥427	**$(315)**

(7) Major breakdown of plan assets

	2023	2022
Debt securities	**29.1%**	28.0%
Equity securities	**35.4**	36.5
General life insurance accounts	**34.3**	34.1
Other	**1.2**	1.4
Total	**100.0%**	100.0%

(8) Actuarial assumptions

	2023	2022
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 ¥340 million ($2,546 thousand) and ¥360 million for the years ended March 31, 2023 and 2022, respectively.

12 Loss on impairment of fixed assets

The Group recognized impairment losses on the following assets for the years ended March 31, 2023, 2022 and 2021, respectively.

For 2023

Use	Location	Number of properties
Land for development	**Tokyo and other cities in Japan**	**11**

For 2022

Use	Location	Number of properties
Asset leased to others	Tokyo	1
Idle asset	Nagano	1

For 2021

Use	Location	Number of properties
Assets leased to others	Tokyo and other cities in Japan	4

The Group recognized losses on the impairment of certain properties, which are generally assessed individually for impairment. The Company houses and other welfare facilities are treated as common assets.

For 2023

The carrying values of the land holdings summarized above have been reduced to their recoverable amounts by ¥8,100 million ($60,656 thousand) as a result of the determination of reviewing their business plans, and the amount of the reduction is recognized as loss on impairment of fixed assets for the year ended March 31, 2023. It consists of ¥1,598 million ($11,966 thousand) of land and ¥6,502 million ($48,690 thousand) of construction in progress.

The recoverable amounts are measured by the net realizable value calculated based on productive value or assessed value of fixed assets for tax purposes.

For 2022

For the asset leased to others, loss on sales of property and equipment of ¥3,053 million was recognized by a consolidated subsidiary as a result of reorganization of assets within the Group. The selling price of the asset was determined as its recoverable amount, and the loss on sales of property and equipment was recognized as loss on impairment of fixed assets for the year ended March 31, 2022.

For the idle asset, the carrying value has been reduced to its recoverable amount by ¥400 million due to a change in use from common assets.

The selling price of the asset leased to others above was based on the appraisal value by a real estate appraiser, and the recoverable amount of the idle asset above was measured by net realizable value calculated based on assessed value of fixed assets for tax purposes.

For 2021

The carrying value of assets have been reduced to their recoverable amounts by ¥3,578 million since the total amount of the future cash flow is estimated to be lower than the carrying value for the year ended March 31, 2021. The recoverable amounts were calculated by discounting the future cash flow at 3.6%.

Loss on sales of property and equipment of ¥299 million was recognized by a consolidated subsidiary due to restructuring of assets within the Group. The selling price of the assets were based on the amounts equivalent to the publicly notified land price. These amounts were determined as their recoverable amounts, and the loss on sales of property and equipment of the assets was recognized as loss on impairment of fixed assets for the year ended March 31, 2021.

13 Asset retirement obligations

Even though removing asbestos is required for some buildings the Group operates 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, 2023 and 2022, 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, 2023 and 2022, asset retirement obligations related to such a case are not recorded (except for the asset retirement obligations recorded on the financial statements).

14 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, 2023, 2022 and 2021 respectively.

Details of deferred tax assets and liabilities at March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Deferred tax assets:			
Loss on devaluation of real estate for sale including that in process	¥ 21,444	¥ 22,646	$ 160,581
Loss on impairment of fixed assets	17,023	15,124	127,475
Loss on transfer involving wholly owned subsidiaries	12,709	12,164	95,170
Net operating loss carryforwards	7,156	7,368	53,587
Adjustments of book value in consolidation	6,370	6,501	47,701
Loss on devaluation of investments and other loss, in subsidiaries and affiliates	2,423	2,187	18,144
Accrued enterprise tax and other taxes	2,104	2,592	15,756
Net defined benefit liability	1,701	1,782	12,738
Provision for bonuses	1,592	1,855	11,922
Loss on devaluation of investment securities	1,502	2,047	11,248
Other	19,263	20,069	144,248
Subtotal of deferred tax assets	93,287	94,335	698,570
Valuation allowance	(18,779)	(20,488)	(140,625)
Total deferred tax assets	¥ 74,508	¥ 73,847	$ 557,945
Deferred tax liabilities:			
Net unrealized holding gains on securities	¥(75,886)	¥(68,826)	$(568,264)
Retained earnings appropriated for tax allowable reserves	(3,731)	(3,731)	(27,939)
Deferred gains on hedges	(2,913)	(1,030)	(21,814)
Other	(1,992)	(2,006)	(14,917)
Total deferred tax liabilities	¥(84,522)	¥(75,593)	$(632,934)
Net deferred tax liabilities	¥(10,014)	¥ (1,746)	$ (74,989)

(Note) Net deferred tax liabilities are included in the following items on the consolidated balance sheets for the years ended March 31, 2023 and 2022.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Investments and other assets—Deferred income taxes	¥13,250	¥11,457	$ 99,221
Long-term liabilities—Other long-term liabilities	23,264	13,203	174,210

The difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2023 and 2022 is less than five-hundredths of the statutory tax rate and not presented.

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, 2023, 2022 and 2021 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2023	2022	2021	2023
Operating leases:				
Future lease payments:				
Due within one year	¥ 1,596	¥ 1,538	¥ 1,574	$ 11,951
Due after one year	41,866	41,134	41,880	313,510
Total	¥ 43,462	¥ 42,672	¥ 43,454	$ 325,461
Future lease receipts:				
Due within one year	¥ 89,980	¥ 87,055	¥ 91,310	$ 673,806
Due after one year	166,227	124,271	140,152	1,244,773
Total	¥256,207	¥211,326	¥231,462	$1,918,579

17 Derivative transactions

Hedge accounting was applied to all derivative transactions for the years ended March 31, 2023 and 2022.

The summary of these transactions is as follows:

1. Foreign currency-related derivatives

For 2023

Hedging accounting	Types of derivative transactions	Hedged items	Contract amounts (Millions of yen)	Contract amounts due after one year (Millions of yen)	Fair value (Millions of yen)
Deferred hedge accounting	Foreign Exchange forward contracts Receipts in Indian rupee / Payments in yen	Investments in unconsolidated subsidiaries and affiliates	**¥3,214**	**¥—**	**¥1**

Hedging accounting	Types of derivative transactions	Hedged items	Contract amounts (Thousands of U.S. dollars)	Contract amounts due after one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Deferred hedge accounting	Foreign Exchange forward contracts Receipts in Indian rupee / Payments in yen	Investments in unconsolidated subsidiaries and affiliates	**$24,068**	**$—**	**$7**

2. Interest-related derivatives

For 2023

Hedging accounting	Types of derivative transactions	Hedged items	Contract amounts (Millions of yen)	Contract amounts due after one year (Millions of yen)	Fair value (Millions of yen)
Deferred hedge accounting	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans	**¥ 468,400**	**¥ 468,400**	**¥8,618**
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	**1,165,339**	**1,040,300**	**—(*)**

For 2022

Hedging accounting	Types of derivative transactions	Hedged items	Contract amounts (Millions of yen)	Contract amounts due after one year (Millions of yen)	Fair value (Millions of yen)
Deferred hedge accounting	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans	¥ 447,400	¥ 447,400	¥1,016
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	1,329,433	1,142,274	—(*)

For 2023

Hedging accounting	Types of derivative transactions	Hedged items	Contract amounts (Thousands of U.S. dollars)	Contract amounts due after one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Deferred hedge accounting	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans	**$3,507,563**	**$3,507,563**	**$64,535**
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	**8,726,516**	**7,790,175**	**—(*)**

(*) Interest rate swap contracts adopting exceptional accounting for interest rate swaps which 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 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 or the long-term non-recourse debt.

18 Revenue recognition

1. Information for breakdown of revenues from contracts with customers

For 2023

	Millions of yen					
	Reportable segments					
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total
Office buildings and other properties leasing*	**¥358,910**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥358,910**
Condominiums and detached houses	**—**	**200,358**	**—**	**—**	**—**	**200,358**
Shinchiku Sokkurisan remodeling	**—**	**—**	**110,749**	**—**	**—**	**110,749**
Custom homes	**—**	**—**	**91,952**	**—**	**—**	**91,952**
Real estate brokerage	**—**	**—**	**—**	**71,438**	**—**	**71,438**
Others	**64,045**	**21,595**	**9,464**	**2,558**	**8,836**	**106,498**
Total	**¥422,955**	**¥221,953**	**¥212,165**	**¥73,996**	**¥8,836**	**¥939,905**

For 2022

	Millions of yen					
	Reportable segments					
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total
Office buildings and other properties leasing*	¥365,402	¥ —	¥ —	¥ —	¥ —	¥365,402
Condominiums and detached houses	—	218,177	—	—	—	218,177
Shinchiku Sokkurisan remodeling	—	—	105,747	—	—	105,747
Custom homes	—	—	88,432	—	—	88,432
Real estate brokerage	—	—	—	70,106	—	70,106
Others	57,271	15,499	9,129	2,205	7,463	91,567
Total	¥422,673	¥233,676	¥203,308	¥72,311	¥7,463	¥939,431

For 2023

	Thousands of U.S. dollars					
	Reportable segments					
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total
Office buildings and other properties leasing*	**$2,687,659**	**$ —**	**$ —**	**$ —**	**$ —**	**$2,687,659**
Condominiums and detached houses	**—**	**1,500,359**	**—**	**—**	**—**	**1,500,359**
Shinchiku Sokkurisan remodeling	**—**	**—**	**829,332**	**—**	**—**	**829,332**
Custom homes	**—**	**—**	**688,573**	**—**	**—**	**688,573**
Real estate brokerage	**—**	**—**	**—**	**534,956**	**—**	**534,956**
Others	**479,594**	**161,712**	**70,870**	**19,155**	**66,168**	**797,499**
Total	**$3,167,253**	**$1,662,071**	**$1,588,775**	**$554,111**	**$66,168**	**$7,038,378**

* Revenue from office buildings and other properties leasing is mainly leasing revenue based on lease contracts and includes revenue from contracts with customers associated with such contracts.

2. Information for understanding the amount of revenue in the current and subsequent fiscal years

(1) Receivables arising from contracts with customers and contract liabilities

	Millions of yen				Thousands of U.S. dollars	
	2023		2022		2023	
	Beginning of fiscal year	End of fiscal year	Beginning of fiscal year	End of fiscal year	Beginning of fiscal year	End of fiscal year
Receivables arising from contracts with customers*	**¥23,286**	**¥38,047**	¥18,714	¥23,286	**$174,375**	**$284,911**
Contract liabilities	**61,180**	**68,453**	57,879	61,180	**458,140**	**512,603**

* Receivables arising from contracts with customers include receivables from revenue from leases based on lease contracts.

Contract liabilities are (1) advances received from customers such as deposits and other advances based on real estate sales contracts in Sales business, (2) advances received on construction contracts in progress from customers such as deposits and intermediate payments based on construction contracts in Construction business, (3) advances received from customers such as advances received at the time of the conclusion of real estate sales contracts based on real estate brokerage contracts in Brokerage business and other advances from customers. Contract liabilities are transferred to revenue upon satisfaction of related performance obligations.

Out of the amount of revenue from operations for the year ended March 31, 2023 and 2022, ¥41,562 million ($311,233 thousand) and ¥41,062 million are transferred from contract liabilities of the beginning of the year, respectively.

(2) Transaction price allocated to remaining performance obligations

The aggregate amounts of transaction prices allocated to the remaining performance obligations by each segment are as follows. The amount in Sales business includes the amount expected to be recognized as revenue after over one year.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Sales business	**¥255,446**	¥230,902	**$1,912,880**
Construction business	**122,731**	134,859	**919,058**
Brokerage business	**21,718**	21,051	**162,633**
Total	**¥399,895**	¥386,812	**$2,994,571**

19 Segment information

The Group operates their business in five segments: (1) Leasing business consists of leasing and management of office buildings, rental apartments, etc., and operation and management of hotels, multipurpose halls, retail facilities, etc.; (2) Sales business consists of sales of condominium units, detached houses, etc.; (3) Construction business consists of construction and remodeling of detached houses, condominiums, etc.; (4) Brokerage business consists of brokerage of real estate sales and sales agent of residential properties; and (5) Other businesses including fitness business and restaurant business.

Information by business segment for the years ended March 31, 2023, 2022 and 2021 is summarized as follows:

For 2023

	Millions of yen							
	Reportable segments							
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total	Adjustments	Consolidated financial statements amounts
Revenue from operations:								
Customers	**¥ 422,955**	**¥221,953**	**¥212,165**	**¥ 73,996**	**¥ 8,836**	**¥ 939,905**	**¥ —**	**¥ 939,905**
Intersegment	**2,414**	**124**	**1,419**	**1,111**	**1,227**	**6,295**	**(6,295)**	**—**
Total	**425,369**	**222,077**	**213,584**	**75,107**	**10,063**	**946,200**	**(6,295)**	**939,905**
Segment profit	**¥ 165,693**	**¥ 53,928**	**¥ 21,422**	**¥ 20,031**	**¥ 1,181**	**¥ 262,255**	**¥ (20,981)**	**¥ 241,274**
Segment assets	**¥4,588,063**	**¥927,788**	**¥ 22,977**	**¥230,095**	**¥153,726**	**¥5,922,649**	**¥442,787**	**¥6,365,436**
Other:								
Depreciation and amortization	**¥ 61,172**	**¥ 286**	**¥ 860**	**¥ 655**	**¥ 264**	**¥ 63,237**	**¥ 1,398**	**¥ 64,635**
Loss on impairment of fixed assets	**7,413**	**687**	**—**	**—**	**—**	**8,100**	**—**	**8,100**
Increase in property and equipment, and intangibles	**444,776**	**16,524**	**888**	**1,042**	**54**	**463,284**	**467**	**463,751**

For 2022

	Millions of yen							
	Reportable segments							
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total	Adjustments	Consolidated financial statements amounts
Revenue from operations:								
Customers	¥ 422,673	¥233,676	¥203,308	¥ 72,311	¥ 7,463	¥ 939,431	¥ —	¥ 939,431
Intersegment	2,409	112	1,054	1,173	1,621	6,369	(6,369)	—
Total	425,082	233,788	204,362	73,484	9,084	945,800	(6,369)	939,431
Segment profit	¥ 162,650	¥ 50,486	¥ 18,523	¥ 18,026	¥ 617	¥ 250,302	¥ (16,419)	¥ 233,883
Segment assets	¥4,297,595	¥761,443	¥ 23,626	¥193,444	¥125,049	¥5,401,157	¥404,883	¥5,806,040
Other:								
Depreciation and amortization	¥ 57,394	¥ 167	¥ 1,032	¥ 676	¥ 293	¥ 59,562	¥ 1,083	¥ 60,645
Loss on impairment of fixed assets	3,453	—	—	—	—	3,453	—	3,453
Increase in property and equipment, and intangibles	164,430	21,741	281	802	286	187,540	286	187,826

For 2021

	Millions of yen							
	Reportable segments							
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total	Adjustments	Consolidated financial statements amounts
Revenue from operations:								
Customers	¥ 395,288	¥263,303	¥187,564	¥ 64,026	¥ 7,292	¥ 917,473	¥ —	¥ 917,473
Intersegment	2,950	92	1,144	1,767	979	6,932	(6,932)	—
Total	398,238	263,395	188,708	65,793	8,271	924,405	(6,932)	917,473
Segment profit	¥ 155,246	¥ 53,932	¥ 15,566	¥ 11,480	¥ (49)	¥ 236,175	¥ (16,931)	¥ 219,244
Segment assets	¥4,226,734	¥658,010	¥ 23,460	¥179,632	¥71,731	¥5,159,567	¥514,099	¥5,673,666
Other:								
Depreciation and amortization	¥ 54,332	¥ 97	¥ 1,209	¥ 673	¥ 330	¥ 56,641	¥ 1,172	¥ 57,813
Loss on impairment of fixed assets	3,876	—	—	—	—	3,876	—	3,876
Increase in property and equipment, and intangibles	363,798	2,262	341	550	663	367,614	107	367,721

For 2023

	Thousands of U.S. dollars							
	Reportable segments							
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total	Adjustments	Consolidated financial statements amounts
Revenue from operations:								
Customers	**$ 3,167,253**	**$1,662,071**	**$1,588,775**	**$ 554,111**	**$ 66,168**	**$ 7,038,378**	**$ —**	**$ 7,038,378**
Intersegment	**18,077**	**929**	**10,626**	**8,320**	**9,187**	**47,139**	**(47,139)**	**—**
Total	**3,185,330**	**1,663,000**	**1,599,401**	**562,431**	**75,355**	**7,085,517**	**(47,139)**	**7,038,378**
Segment profit	**$ 1,240,774**	**$ 403,834**	**$ 160,416**	**$ 150,000**	**$ 8,845**	**$ 1,963,869**	**$ (157,114)**	**$ 1,806,755**
Segment assets	**$34,357,219**	**$6,947,641**	**$ 172,061**	**$1,723,042**	**$1,151,160**	**$44,351,123**	**$3,315,763**	**$47,666,886**
Other:								
Depreciation and amortization	**$ 458,080**	**$ 2,142**	**$ 6,440**	**$ 4,905**	**$ 1,977**	**$ 473,544**	**$ 10,468**	**$ 484,012**
Loss on impairment of fixed assets	**55,511**	**5,145**	**—**	**—**	**—**	**60,656**	**—**	**60,656**
Increase in property and equipment, and intangibles	**3,330,657**	**123,738**	**6,650**	**7,803**	**405**	**3,469,253**	**3,497**	**3,472,750**

Adjustments of segment profit consist mainly of intersegment transaction eliminations and undistributed corporate expenses to each segment, and the Group classified these expenses of the general administrative division in the Company and its certain consolidated subsidiaries into corporate expenses.

Adjustments of segment assets consist mainly of intersegment transaction eliminations and undistributed corporate assets to each segment, and the Group classified cash and deposits, investments in unconsolidated subsidiaries and affiliates, investment securities, and assets of the general administrative division in the Company and its certain consolidated subsidiaries into corporate assets.

20 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, 2023, 2022 and 2021 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2023	2022	2021	**2023**
Unrealized holding gains (losses) on securities:				
Increase (Decrease) during fiscal year	**¥27,560**	¥(5,332)	¥133,468	**$206,380**
Reclassification adjustments	**(4,535)**	(1,266)	(12,272)	**(33,959)**
Amounts before tax effects	**23,025**	(6,598)	121,196	**172,421**
Tax effects	**(7,061)**	2,020	(37,090)	**(52,875)**
Total	**¥15,964**	¥(4,578)	¥ 84,106	**$119,546**
Deferred gains (losses) on hedges:				
Increase (Decrease) during fiscal year	**¥ 6,654**	¥ 4,343	¥ (112)	**$ 49,828**
Reclassification adjustments	**948**	981	935	**7,099**
Amounts before tax effects	**7,602**	5,324	823	**56,927**
Tax effects	**(2,328)**	(1,630)	(252)	**(17,433)**
Total	**¥ 5,274**	¥ 3,694	¥ 571	**$ 39,494**
Foreign currency translation adjustments:				
Increase (Decrease) during fiscal year	**¥ 4,110**	¥ 2,816	¥ (1,548)	**$ 30,777**
Remeasurements of defined benefit plans:				
Increase (Decrease) during fiscal year	**¥ 42**	¥ (427)	¥ 980	**$ 315**
Reclassification adjustments	**427**	(980)	257	**3,197**
Amounts before tax effects	**469**	(1,407)	1,237	**3,512**
Tax effects	**(143)**	431	(379)	**(1,072)**
Total	**¥ 326**	¥ (976)	¥ 858	**$ 2,440**
Total other comprehensive income (loss)	**¥25,674**	¥ 956	¥ 83,987	**$192,257**

21 Investment and rental properties

The Company and its certain consolidated subsidiaries own some rental properties such as office buildings and rental apartments in Tokyo and other areas. The carrying amount on the consolidated balance sheets for the year ended March 31, 2023 is ¥4,310,628 million ($32,279,677 thousand). Certain domestic office buildings are not recognized as 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, 2023 and 2022 are as follows:

			Millions of yen		Thousands of U.S. dollars
			2023	2022	2023
Investment and rental properties	Carrying amount	Balance at beginning of fiscal year	**¥3,643,736**	¥3,705,532	**$27,285,727**
		Changes during fiscal year, net	**381,639**	(61,796)	**2,857,863**
		Balance at end of fiscal year	**4,025,375**	3,643,736	**30,143,590**
	Fair value at end of fiscal year		**7,438,152**	6,807,876	**55,699,805**
A portion used as investment and rental properties	Carrying amount	Balance at beginning of fiscal year	**¥ 301,331**	¥ 133,004	**$ 2,256,485**
		Changes during fiscal year, net	**(16,078)**	168,327	**(120,398)**
		Balance at end of fiscal year	**285,253**	301,331	**2,136,087**
	Fair value at end of fiscal year		**609,187**	632,166	**4,561,832**

(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, 2023 and 2022 are calculated by the Group primarily based on their fair values according to Japanese Real Estate Appraisal Standards.

Significant changes during the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Increase:			
Acquired real estate	**¥454,795**	¥196,018	**$3,405,684**
Decrease:			
Depreciation and amortization	**¥ (53,699)**	¥ (48,862)	**$ (402,119)**
Transferred to inventories	**(32,659)**	(37,860)	**(244,563)**
Loss on impairment of fixed assets	**(8,100)**	—	**(60,656)**

Income and expenses for investment and rental properties for the years ended March 31, 2023 and 2022 are as follows:

		Millions of yen		Thousands of U.S. dollars
		2023	2022	2023
Investment and rental properties	Revenue from operations	**¥296,696**	¥299,165	**$2,221,776**
	Cost of revenue from operations	**145,462**	148,260	**1,089,276**
	Operating income	**151,234**	150,905	**1,132,500**
	Other income (expenses), net	**(8,158)**	(3,480)	**(61,090)**
A portion used as investment and rental properties	Revenue from operations	**¥ 26,248**	¥ 29,965	**$ 196,555**
	Cost of revenue from operations	**16,515**	17,853	**123,670**
	Operating income	**9,733**	12,112	**72,885**
	Other income (expenses), net	**(368)**	(309)	**(2,756)**

(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, revenue from operation for these are not recorded above. On the other hand, cost of revenue from operations for these (mainly rent, depreciation, taxes and dues) is included above.
*Other income (expenses), net for investment and rental properties is mostly loss on impairment of fixed assets and that for a portion used as investment and rental properties is mostly loss on disposal of property and equipment.

22 Contingent liabilities

The Group is contingently liable mainly for defects in condominiums, detached houses and other real estate, to our brokerage business customers who bought or sold these, in an amount aggregating to ¥16,150 million ($120,938 thousand) and ¥13,913 million at March 31, 2023 and 2022, respectively.

23 Subsequent events

(Dividends)

On June 29, 2023, the shareholders of the Company approved payments of a year-end cash dividend of ¥28 ($0.21) per share or a total of ¥13,270 million ($99,371 thousand) to shareholders of record at March 31, 2023. Such appropriations are recognized in the period in which they are approved by the shareholders.

Independent Auditor's Report

KPMG

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, 2023 and 2022, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for each of the years in the three-year period ended, and notes, comprising a summary of significant accounting policies and 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, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for each of the years in the three-year period ended 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of management's judgments concerning the identification of an impairment indicator for the Investment and rental properties

The key audit matter	How the matter was addressed in our audit
Office buildings, rental apartments and other properties (including construction in progress and those held for development, hereinafter referred to as the "Investment and rental properties") owned by the Group were recognized as property and equipment in the consolidated balance sheet of the Group as of March 31, 2023. As described in Note 21, "Investment and rental properties" to the consolidated financial statements, the Investment and rental properties amounted to ¥4,310,628 million and accounted for approximately 68% of the total assets in the consolidated financial statements. As described in Note 3, "Significant accounting estimates" to the consolidated financial statements, when the profitability of the Investment and rental properties which is recognized as property and equipment has declined and an impairment indicator exists, the Group is required to determine whether an impairment loss should be recognized. Impairment indicators include recurring operating losses, changes that significantly reduce the recoverable amount in the extent to which, or manner in which, a property is used or is expected to be used, a significant deterioration of business environment and a significant decrease in the market prices. The probability of achieving the business plans including the development plans which were basis for estimating the recoverable amount and the assumptions used for calculating the market prices such as expected rents, occupancy rates and discount rates were determined by management with subjective judgments. Also, these judgments are largely influenced by economic trends, corporate performance, trends in land prices, financial market situations, taxation system and other social aspects. Accordingly, these estimates involved a high degree of uncertainty. We, therefore, determined that our assessment of the appropriateness of management's judgments as to whether there was an impairment indicator for the Investment and rental properties was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	The primary procedures we performed to assess the appropriateness of management's judgments as to whether there was an impairment indicator for the Investment and rental properties included the following: (1) Internal control testing We tested the design and operating effectiveness of certain of the Group's internal controls to identify impairment indicators for the Investment and rental properties. (2) Assessment of the appropriateness of the judgments concerning the identification of an impairment indicator for the Investment and rental properties. 1. The probability of achieving the business plans • We inquired of management and the personnel in the responsible divisions their judgments about the current progress against the business plans, the probability of achieving the business plans and whether any events which cause changes of the business plans incurred. In addition, we inspected the supporting documents including contracts and other relevant materials regarding their judgments about the current progress of the business plans and their responses to our inquiries. • We observed certain properties which have been completed or whose occupancy rates had fluctuated in the current fiscal year, and certain projects in progress, in order to assess if these properties have been actually rented or if the current progress against the business plan was consist with their judgments. 2. Reasonableness of the calculated market prices • We assessed that the expected rents and occupancy rates were determined based on the actual results or current contract rents in the same project, or the observable actual rent data of comparable properties. • With the assistance of our own real-estate valuation specialists, we assessed the appropriateness of the discount rates determined by management and evaluated the reasonableness of the calculated market prices.

Reasonableness of the valuation of the Real Estate for Sale

The key audit matter	How the matter was addressed in our audit
Condominium units, detached houses and land lots for sale (including those in process and those held for development, hereinafter referred to as the "Real Estate for Sale") owned by the Group were recognized as inventories in the consolidated balance sheet of the Group as of March 31, 2023. As described in Note 6 "Inventories" to the consolidated financial statements, real estate for sale and real estate for sale in process amounted to ¥399,245 million and ¥381,753 million, respectively, which accounted for approximately 12% of the total assets in the consolidated financial statements. As described in Note 3, "Significant accounting estimates" to the consolidated financial statements, in case the net realizable value of the Real Estate for Sale is lower than the book value, the profitability is regarded to have declined, and the net realizable value is used as the carrying amount. The difference between the book value and the net realizable value (loss on devaluation of the Real Estate for Sale) is recognized as cost of revenue from operations for the current fiscal year. The probability of achieving the business plans including the development plans which were basis for estimating the net realizable value and the assumptions underlying the business plan including expected selling prices were determined by management with subjective judgments. Also, these judgments are largely influenced by economic trends, trends in personal income, trends in land prices, trends in building costs, financial market situations, taxation system and other social aspects. Accordingly, these estimates involved a high degree of uncertainty. We, therefore, determined that the reasonableness of the valuation of the Real Estate for Sale was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	The primary procedures we performed to assess the reasonableness of the valuation of the Real Estate for Sale included the following: (1) Internal control testing We tested the design and operating effectiveness of certain of the Group's internal controls relevant to the valuation of the Real Estate for Sale. (2) Assessment of the reasonableness of the valuation of the Real Estate for Sale 1. The probability of achieving the business plans • We inquired of management and the personnel in the responsible divisions their judgments about the current progress against the business plans and the probability of achieving the business plans considering the outlook of the expected selling prices and the building costs. In addition, we inspected the supporting documents including contracts and other relevant materials regarding their judgments about the current progress of the business plans and their responses to our inquiries. • We observed certain properties in order to assess if the current progress against the business plan was consistent with their judgments. 2. Appropriateness of the expected selling prices • With regard to the Real Estate for Sale whose certain units have been sold or contracted, we assessed that the expected selling prices were determined based on the actual sales results in the same project. • With regard to the Real Estates for Sale which have no sales transaction record, we assessed that the expected selling prices were determined based on the actual price data or observable selling prices of comparable properties in the same sales area. • With the assistance of our own real-estate valuation specialists, we evaluated the appropriateness of the expected selling prices.

Other Information

The other information comprises the information included in the Consolidated Financial Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 with regard to 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.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 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
Atsuji Maeno
Designated Engagement Partner
Certified Public Accountant

/S/ Hidekazu Takahashi
Hidekazu Takahashi
Designated Engagement Partner
Certified Public Accountant

/S/ Yoshimori Takahashi
Yoshimori Takahashi
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
July 31, 2023

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.