

Integrated Report 2019



Continue creating new value with "Integrity and Innovation"

Placing top priority on Integrity, we will go beyond simple development and relentlessly pursue value creation through our innovative and challenging spirit.



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Sumitomo's Business Philosophy

The Sumitomo Realty Group, as the heir of Sumitomo Honsha, Ltd., has developed into a comprehensive real estate enterprise of the Sumitomo Group with a history of 400 years. The business philosophy—"Placing prime importance on integrity and sound management in the conduct of its business" and "Under no circumstances, shall it pursue easy gains"—which have been handed down as a guiding principle throughout the Sumitomo's history, live on in the form of our corporate slogan, "Integrity and Innovation."



Source: Sumitomo Historical Archives

Fundamental Mission

"Create even better social assets for the next generation."

We have set forth our fundamental mission as "to create even better social assets for the next generation" through our businesses closely associated with people's daily lives. Based on this fundamental stance, the Sumitomo Realty Group is engaging in business with the aim of creating cities and urban spaces that are resilient to disasters, friendly to people and the environment, and harmonious with history and culture.

Cautionary Statement with Respect to Forward-looking Statements

Statements made in this annual report with respect to plans, targets and future performance that are not historical fact are forward-looking statements. These statements are based on management's assumptions and beliefs in light of the information currently available. Sumitomo Realty & Development Co., Ltd. cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements. Such factors include but are not limited to macroeconomic conditions, supply and demand in the real estate market and interest rate trends.

Editorial Policy

This report was compiled based on this focus with consideration paid to the disclosure framework of the International Integrated Reporting Council (IIRC).

Sustainable Growth as Tokyo's No.1 Office Owner

History of Corporate Value Creation by "Land Innovation"

The real estate leasing business primarily involving office buildings in central Tokyo has been the driving force of our growth to date. Accounting for nearly 70% of the Company's operating income overall, the leasing business is clearly the main pillar of the Company's operations and the core of its corporate value.

We have been expanding our business platform by promoting development of office buildings with a specific focus on central Tokyo over roughly half a century since the early 1970s. Despite various changes in the business environment, we have consistently persisted with respect to unwaveringly adhering to the management policies based on a long-term perspective, such that, (i) the Company will not pursue temporary gains by selling assets; (ii) the Company will hold ownerships of buildings constructed on sites it has developed; and (iii) the Company will generate stable leasing income over the long term by owning and leasing such buildings.

As a result, we have grown to become Tokyo's No. 1 office building owner with more than 220 buildings for lease in central Tokyo. Acquisition of development sites is the most important aspect of the office building leasing business. We have been redeveloping sites, in other words innovating land, through purchasing and assembling land by coordinating rights and interests of landowners. These capabilities of "Land Innovation" constitute our greatest strength and are the source of corporate value creation.

Capitalizing on the capabilities of "Land Innovation" as well as the management foundation and other strengths we have cultivated so far, we intend to further expand our earnings base and increase corporate value.



1974 Shinjuku Sumitomo Building
 1998 Shibuya Infoss Tower
 2002 Izumi Garden Tower
 2004 Shiodome Sumitomo Building
 2011 Sumitomo Fudosan Shinjuku Grand Tower

Ordinary Profit / Gross Floor Area

■ Ordinary Profit ● Gross Floor Area

Non-consolidated figures
 (Years ended / ending March 31)

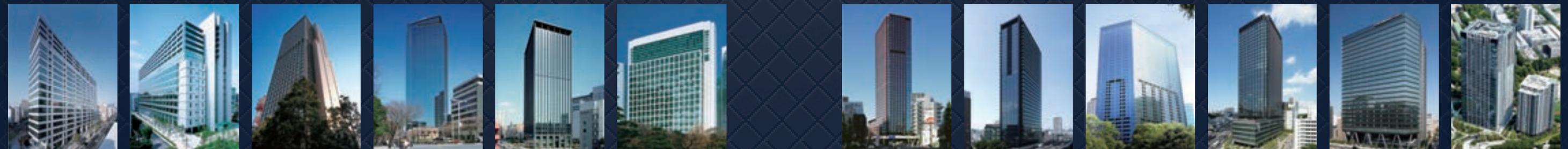
Listed on the Tokyo Stock Exchange and Osaka Securities Exchange.



2015 Tokyo Nihombashi Tower
 2016 Sumitomo Fudosan Roppongi Grand Tower
 2018 Sumitomo Fudosan Osaki Garden Tower



Major Building Development Projects



1998 Chiyoda First Building East
 2000 Sumitomo Fudosan Iidabashi First Building
 2000 Sumitomo Fudosan Shibakoen First Building
 2003 Shinjuku Oak Tower
 2004 Chiyoda First Building West
 2005 Tokyo Shiodome Building
 2006 Sumitomo Fudosan Mita Twin Building West
 2009 Sumitomo Fudosan Aobadai Tower
 2010 Shinjuku Central Park City
 2010 Sumitomo Fudosan Iidabashi First Tower
 2012 Sumitomo Fudosan Shibuya Garden Tower
 2016 Sumitomo Fudosan Shinjuku Garden Tower

Our Strengths

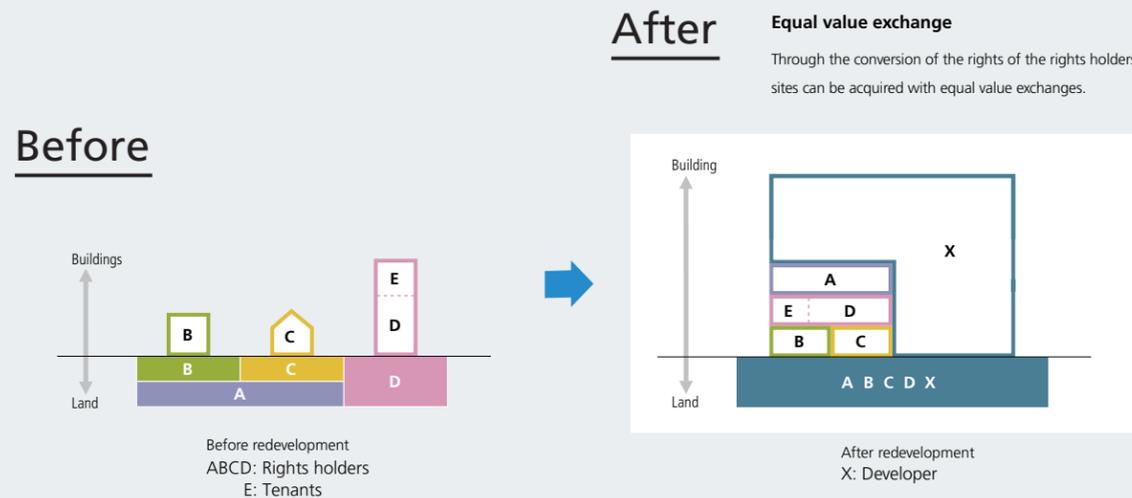
Capabilities of "Land Innovation"

Unlike competitors, we did not own real property in Tokyo when we started a business, and we had to purchase land for developing buildings. Therefore, instead of reconstructing buildings we owned or purchasing sites through competitive bidding and constructing new buildings, which tends to be expensive, we focused on redevelopment by integrating multiple small parcels into a larger scale through persistent, long-term efforts to maximize the site value. In this way, we continued to develop superior assets and enhanced our corporate value.

The capabilities of "Land Innovation" that we cultivated through engagement in redevelopment over many years are our greatest strength. They are also a driving force enabling us to undertake many large development projects in central Tokyo, an area where it is difficult to acquire excellent large sites.

We have an industry-leading track record in urban redevelopment in central Tokyo, including in Roppongi, Nishishinjuku, and Iidabashi, pursuant to the Urban Renewal Act, which involves achieving an agreement with many landowners and consultation with the authorities. Through redevelopment, we are improving central Tokyo's infrastructure, including enhancement of disaster prevention, such as by eliminating densely built-up areas of wooden houses and widening narrow streets, and are contributing significantly to vitalization of communities. As a result, our projects enjoy benefits of deregulation, such as increased floor-area ratios, contributing to greater profitability.

Urban Redevelopment under the Urban Renewal Act of Japan



Example 1 Iidabashi Redevelopment Project (two major redevelopment buildings, Sumitomo Fudosan Iidabashi First Building and Sumitomo Fudosan Iidabashi First Tower)

	Sumitomo Fudosan Iidabashi First Building	Sumitomo Fudosan Iidabashi First Tower
Completion	March 2000	April 2010
Gross floor area	63,000 m ²	78,400 m ²
Purposes	Office, residence, retail	Office, residence, retail, multipurpose hall

Major Flagship Buildings Mainly Comprising Redevelopment Projects

	Name	Location (Tokyo CBD)	No. of floors (above ground/below ground)	Completion	Gross floor area (m ²)
1.	Izumi Garden Tower	Minato Ward	43/4	Oct 2002	204,444
2.	Sumitomo Fudosan Roppongi Grand Tower	Minato Ward	43/2	Oct 2016	202,549
3.	Sumitomo Fudosan Osaki Garden Tower	Shinagawa Ward	24/2	Jan 2018	201,560
4.	Shinjuku Sumitomo Building	Shinjuku Ward	52/4	Mar 1974	177,467
5.	Sumitomo Fudosan Shinjuku Grand Tower	Shinjuku Ward	40/3	Dec 2011	168,372
6.	Sumitomo Fudosan Shinjuku Garden Tower	Shinjuku Ward	37/2	Mar 2016	143,372
7.	Shinjuku Central Park City	Shinjuku Ward	44/2	Feb 2010	130,695
8.	Shinjuku Oak City	Shinjuku Ward	38/2	Jan 2003	117,606
9.	Tokyo Nihombashi Tower	Chuo Ward	35/4	Apr 2015	105,837
10.	Shiodome Sumitomo Building	Minato Ward	25/3	Jul 2004	99,913
11.	Sumitomo Fudosan Mita Twin Building West	Minato Ward	43/2	Sep 2006	98,338
12.	Tokyo Shiodome Building	Minato Ward	37/4	Jan 2005	95,128
13.	Shinjuku NS Building	Shinjuku Ward	30/3	Sep 1982	75,046
14.	Sumitomo Fudosan Iidabashi First Tower	Bunkyo Ward	34/3	Apr 2010	68,514
15.	Sumitomo Fudosan Shibakoen First Building	Minato Ward	35/2	Jun 2000	63,822
16.	Chiyoda First Building West	Chiyoda Ward	32/2	Jan 2004	61,274
17.	Sumitomo Fudosan Shibuya Garden Tower	Shibuya Ward	24/3	Jun 2012	59,417
18.	Sumitomo Fudosan Aobadai Tower	Meguro Ward	33/3	Aug 2009	55,773
19.	Sumitomo Fudosan Iidabashi First Building	Bunkyo Ward	14/2	Mar 2000	53,322
20.	Sumitomo Fudosan Iidabashi Building No. 3	Shinjuku Ward	24/2	Oct 2002	53,047

Redevelopment projects

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

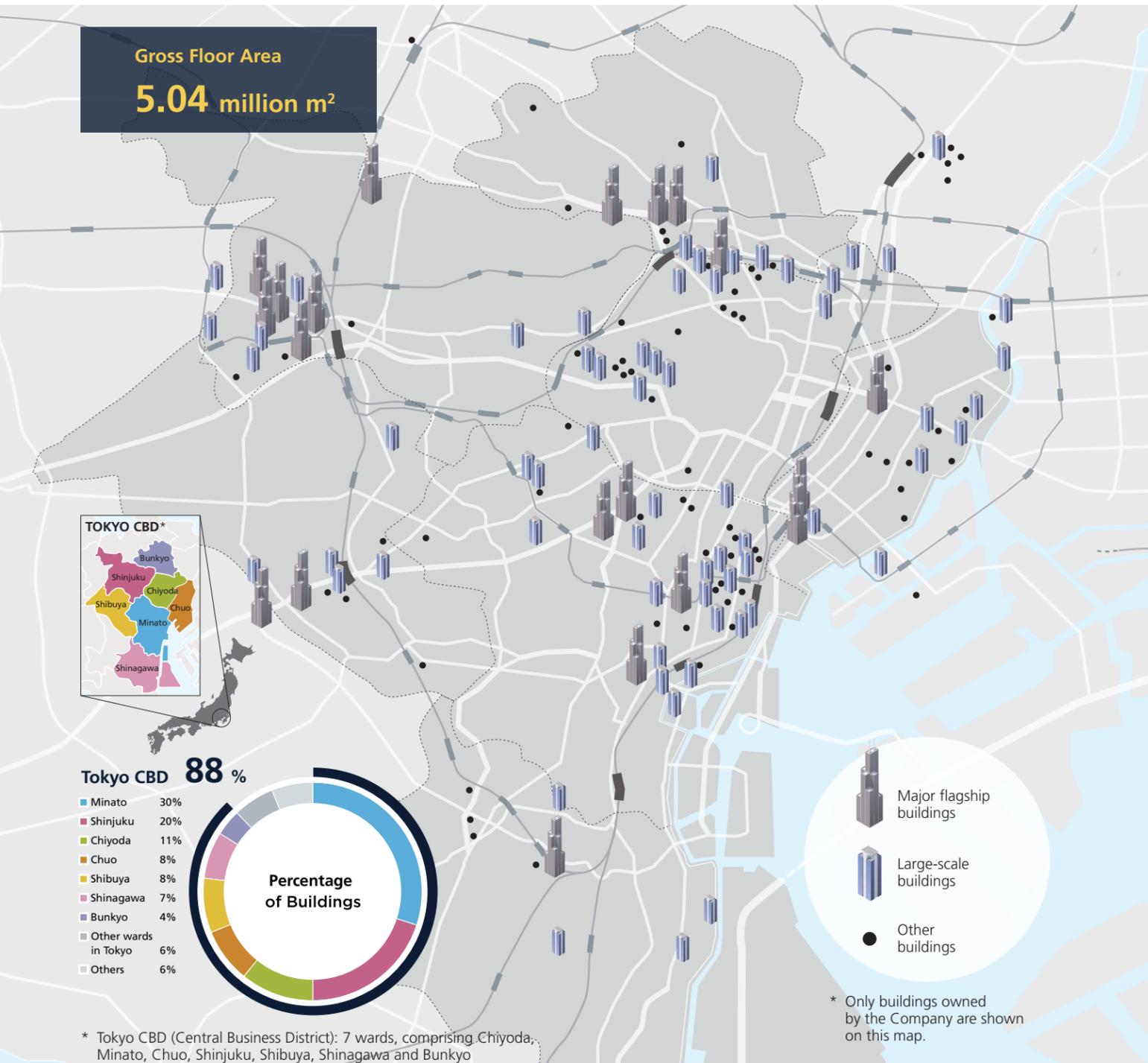
Example 2 Izumi Garden (two major redevelopment buildings, Izumi Garden Tower and Sumitomo Fudosan Roppongi Grand Tower)



	Izumi Garden Tower	Sumitomo Fudosan Roppongi Grand Tower
Completion	October 2002	October 2016
Gross floor area	208,400 m ²	210,500 m ²
Purposes	Office, residence, hotel, retail, museum, multipurpose hall, conference room	Office, residence, retail

Leasing Portfolio that Meets Diverse Needs

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



Our Portfolio's Strengths (As of March 31, 2019)

Sumitomo Realty's leasing portfolio is highly competitive in terms of the three distinct features of being "central, newest and large" that meet diverse tenants' needs. Going forward, we will endeavor to maintain and enhance our competitive strengths by focusing on providing high-quality office buildings with these qualities.

Central

Tokyo CBD* **88%**
23 Wards **94%**

Diversified throughout major business areas

Our leasing portfolio emphasizes on locations in central Tokyo; 94% of our portfolio is in Tokyo's 23 wards, and 88% is in the Tokyo CBD (Central Business District)*. Proximity to other office buildings and major train and subway stations is a key condition for a prime property, and having been located in such areas is one of our portfolio's competitive strengths. In particular, the Tokyo CBD is designed as a district with a high concentration of office buildings, and strong and stable demand is expected in this district going forward. Therefore, we will work to enhance our competitive strengths by continuing to acquire development sites in this district.

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



Newest

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

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

Buildings with Excellent BCP Compliance

The average age of the buildings in our portfolio is 16 years, the lowest figure among major Japanese real estate companies. New buildings are capable of generating strong demand by meeting tenants' needs for facilities and design to name a few, making the relative age of the buildings in a portfolio a key factor affecting the leasing business.

As shown in the table below, our buildings are equipped with the latest facilities and features, and are popular among tenants for their functionality, comfort and safety in the event of a major disaster. 99% of our portfolio meets or exceeds earthquake-resistance standards that took effect in 1981, which are a key yardstick for earthquake safety. Further, approximately 80% of the buildings we own are structured with a seismic isolation system and/or a damping system. In recent years, emergency generators that provide electricity in the event of a power outage have also become a feature sought by tenants as a part of their business continuity planning (BCP). Thus, emergency generators are installed in about 70% of the buildings we own, which include all newly completed buildings after 2001.

State-of-the-art Facilities	1981 and earlier	1982-1996	1997 and after
Earthquake protection	Previous quake-resistant structure	New quake-resistant structure	Anti-sway structure
Ceiling height*	2.5 m	2.7 m	2.9-3.3 m
Floor load	300 kg/m ²	300-500 kg/m ²	500-1,000 kg/m ²
Air-conditioning	Central air-conditioning system	Climate control zones	Separate climate control systems
Power capacity	45 VA/m ²	60-70 VA/m ²	85 VA/m ² and over

* Includes raised floors

Large

Over 10,000 m² (gross floor area) **87%**

Large-scale Buildings with large amounts of floor space per floor

Large-scale buildings with gross floor area of at least 10,000 square meters make up 87% of our portfolio. Consolidating multiple offices of a business on one floor helps to facilitate internal communication and reduce space redundancies, making operations more efficient. These types of needs are behind the increased demand in recent years for large-scale buildings with large amounts of floor space per floor. Being able to offer such spaces is definitely one of our strengths.

A Message from the Management



Positioning redevelopment and leasing of office buildings in central Tokyo as growth drivers, we will continue creating new value.

K. Nishima
Kojun Nishima
President

Results of the Seventh Management Plan

The Seventh Management Plan launched in April 2016 was concluded in the fiscal year ended March 31, 2019. The operating environment remained favorable overall, particularly with respect to leasing of office buildings in Tokyo. As a result, ordinary profit over the cumulative three-year period amounted to ¥557.8 billion, a record-high result exceeding the initial target of ¥480 billion by a wide margin. Moreover, in the fiscal year ended March 2019, the final year of the plan, we achieved record-high financial results for the sixth consecutive fiscal year, with revenue from operations exceeding ¥1 trillion and operating income and ordinary profit exceeding ¥200 billion. The Seventh Management Plan ended on a successful note with the Company having achieved substantial profit growth.

Results for the Seventh Management Plan (Apr 2016 – Mar 2019)

	Targets* (Cumulative Totals)	FY '16 Results	FY '17 Results	FY '18 Results	Cumulative Totals	Change from Targets
Revenue from Operations	2,700	925	948	1,012	2,886	+ 186
Operating Income	550	188	206	219	613	+63
Ordinary Profit	480	168	187	203	558	+78

* Announced on May 12, 2016

* The Company changed its accounting policy (revenue recognition standards of Sumitomo Real Estate Sales) from the beginning of the fiscal year ending March 31, 2020. The figures provided for the fiscal year ended March 31, 2019 (7th Plan) are those after retrospective application.

Outline of the Eighth Management Plan: Office building leasing business as the driving force of growth

We launched the Eighth Management Plan in April 2019. As indicated in Figure Three-year cumulative earnings targets, the performance targets are to achieve consecutive record results for the three-year period covered, with cumulative ordinary profit of ¥700 billion, by maintaining the pace of growth attained under the Seventh Management Plan with which substantial profit increase was achieved. We also aim to achieve record results for the ninth consecutive fiscal year with respect to results for single fiscal years.

Whereas ordinary profit during the Seventh Management Plan totaled slightly more than ¥550 billion, we target ordinary profit of ¥700 billion under the Eighth Management Plan. The pace of profit increase

from the Sixth Management Plan to the Seventh Management Plan was 30% and we intend to maintain this pace of profit increase from the Seventh Management Plan to the Eighth Management Plan. The plan calls for an increase of over ¥140 billion for ordinary profit from the Seventh Management Plan and its core driver is the building leasing business. The current office building market in central Tokyo has been buoyant. In view of the steady progress of tenant acquisition for new buildings to be completed from now on, growth of the building leasing business is foreseeable and thus we believe the targets for the Eighth Management Plan are highly feasible.

Performance targets

Achieve consecutive record results for the three-year period covered, with cumulative ordinary profit of ¥700 billion.

Achieve record results for the ninth consecutive fiscal year under the three management plans since the Sixth Management Plan by maintaining the pace of growth attained under the Seventh Management Plan with which substantial profit increase was achieved.

Three-year cumulative earnings targets

Revenue from Operations	¥ 3,100.0 billion	(+ ¥ 214.2 billion, + 7%)*
Operating Income	¥ 740.0 billion	(+ ¥ 126.8 billion, + 21%)*
Ordinary Profit	¥ 700.0 billion	(+ ¥ 142.2 billion, + 25%)*

* Compared with results for the Seventh Management Plan

(Reference) Comparison of Management Plan results (Years ended/ending March 31)

	5th Plan 2011-2013	6th Plan 2014-2016	7th Plan 2017-2019	8th Plan 2020-2022
Revenue from Operations	2,170.0 (+63.2)	2,442.0 (+272.0)	2,885.8 (+443.7)	3,100.0 (+214.2)
Operating Income	437.2 (+2.3)	500.6 (+63.3)	613.2 (+112.6)	740.0 (+126.8)
Ordinary Profit	329.1 (10.0)	418.0 (+88.8)	557.8 (+139.8)	700.0 (+142.2)

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

* The Company changed its accounting policy (revenue recognition standards of Sumitomo Real Estate Sales) from the beginning of the fiscal year ending March 31, 2020. The figures provided for the fiscal year ended March 31, 2019 (7th Plan) are those after retrospective application.

A Message from the Management

Performance targets by segment

Figure Performance targets and strategies by segment shows performance targets by segment. The Leasing segment is expected to grow significantly from the Seventh Management Plan to the Eighth Management Plan. In addition to the full-year contribution from buildings completed by the Seventh Management Plan and increases in rents, new buildings will steadily be completed under the Eighth Management Plan. As tenant acquisition for these new buildings has been proceeding well at a high pace, the building leasing business will be the driving force for growth in the period covered by the Eighth Management Plan.

In the Sales segment, in order to maintain the high level of profit

exceeding ¥40 billion a year achieved under the Seventh Management Plan, we will strive to maintain and enhance product planning and sales capabilities for condominiums. We have already secured land banking for projects for the Eighth Management Plan and contracts have been concluded for projects to be completed in the next 12 months or so. Thus, for the time being, we expect to attain the targets for the Sales segment.

Both the Construction segment consisting of remodeling (Shinchiku Sokkurisan) and custom home construction and the Brokerage segment for real estate brokerage contribute to industry-leading profits and the Company aims to maintain and expand those profits.

Further investment in leasing office assets in central Tokyo

We will continue investment in leasing office assets in central Tokyo in order to strengthen the earnings base. We will steadily implement the development plan for over 800 thousand tsubo (one tsubo is roughly 3.3 m²) of gross floor area (equivalent to over 50% of the gross floor area for leasing currently available) to generate profits.

Figure below is a graph indicating operating income of the leasing business and gross floor area over some 40 years. At its foundation 70 years ago, the Company owned three buildings with gross floor area of 6 thousand tsubo. Ever since, we have focused on redevelopment by

integrating multiple small parcels into a larger scale, constructed buildings and owned them for leasing without selling them off. As a result, we have now grown to be Tokyo's No. 1 building owner and operate more than 220 buildings with gross floor area exceeding 1.5 million tsubo. Despite difficulties associated with the bursting of Japan's bubble economy, financial crises, and the Lehman crisis, we have accumulated building assets step by step. This policy has supported the Company's sustainable growth and financial stability. In view of our experience, we intend to maintain this policy.

Performance targets and strategies by segment

Office building leasing in Tokyo to be the driving force of growth.

Strategies

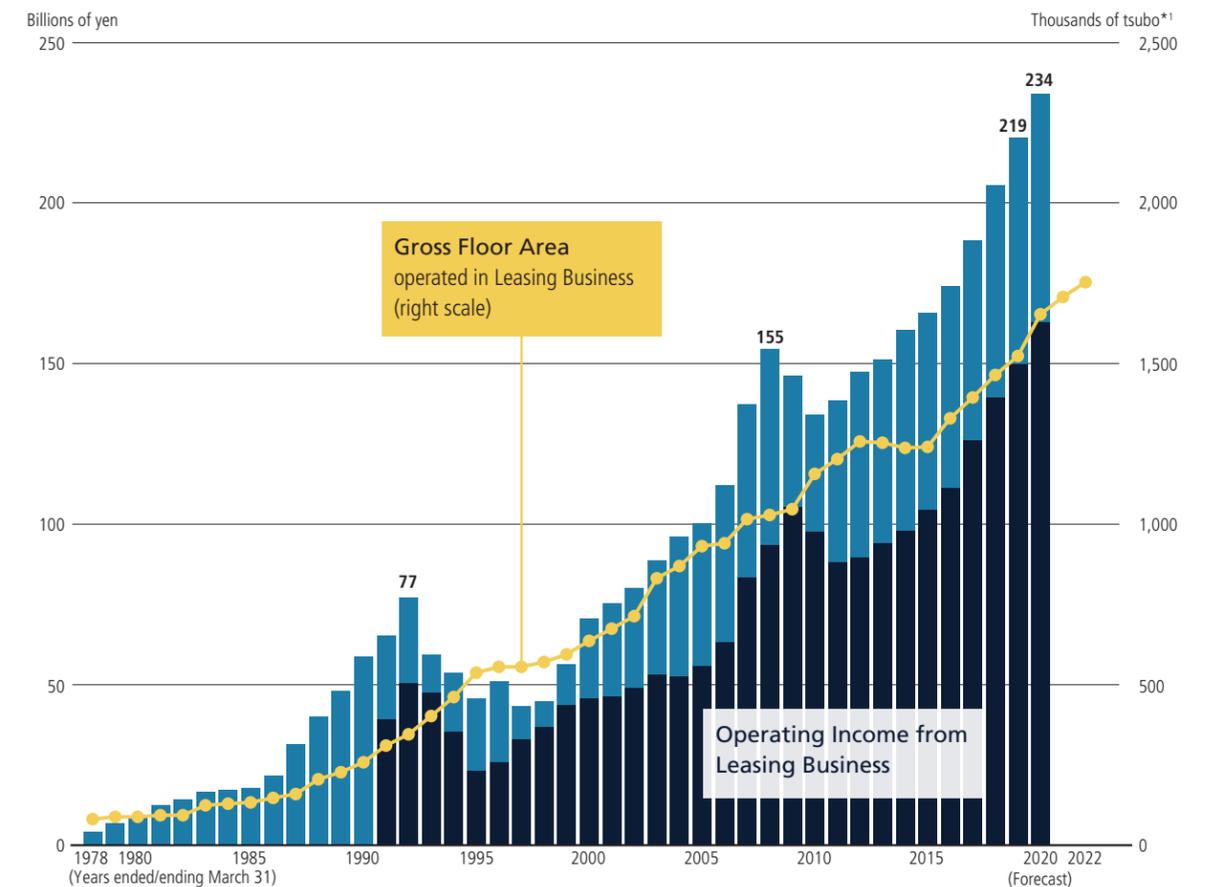
Leasing Profit growth of the Seventh Management Plan, supported by the buoyant market environment, to be surpassed.	Construction Remodeling (Shinchiku Sokkurisan): Growth track, recovered in the Seventh Management Plan following the sluggish period until the Sixth Management Plan, to be maintained. Custom Homes: Business base to be strengthened through improvement of construction systems and quality control.
Sales High level of profit of the Seventh Management Plan to be maintained.	Brokerage Group collaboration to be strengthened, establishing the base for growth in the Ninth Management Plan onward.

Performance targets by segment

	5th Plan	6th Plan	7th Plan	8th Plan
Billions of yen				
Leasing	843.0	886.2	1,073.1	1,200.0
Sales	670.0	773.1	957.2	950.0
Construction	500.0	589.3	634.7	720.0
Brokerage	146.8	177.2	207.7	220.0
Revenue from operations	2,170.0	2,442.0	2,885.8	3,100.0
Leasing	272.1	313.7	415.5	530.0
Sales	110.2	127.2	140.1	140.0
Construction	48.9	47.0	50.4	70.0
Brokerage	41.2	52.1	61.6	65.0
Operating income	437.2	500.6	613.2	740.0

* The Company changed its accounting policy (revenue recognition standards of Sumitomo Real Estate Sales) from the beginning of the fiscal year ending March 31, 2020. The figures provided for the fiscal year ended March 31, 2019 (7th Plan) are those after retrospective application.

Consolidated Operating Income and Gross Floor Area



*1 1 tsubo = 3.3 m²

*2 Segment information has been disclosed since the March 1991 fiscal year

* The Company changed its accounting policy (revenue recognition standards of Sumitomo Real Estate Sales) from the beginning of the fiscal year ending March 31, 2020. The figures provided for the fiscal year ended March 31, 2019 are those after retrospective application.

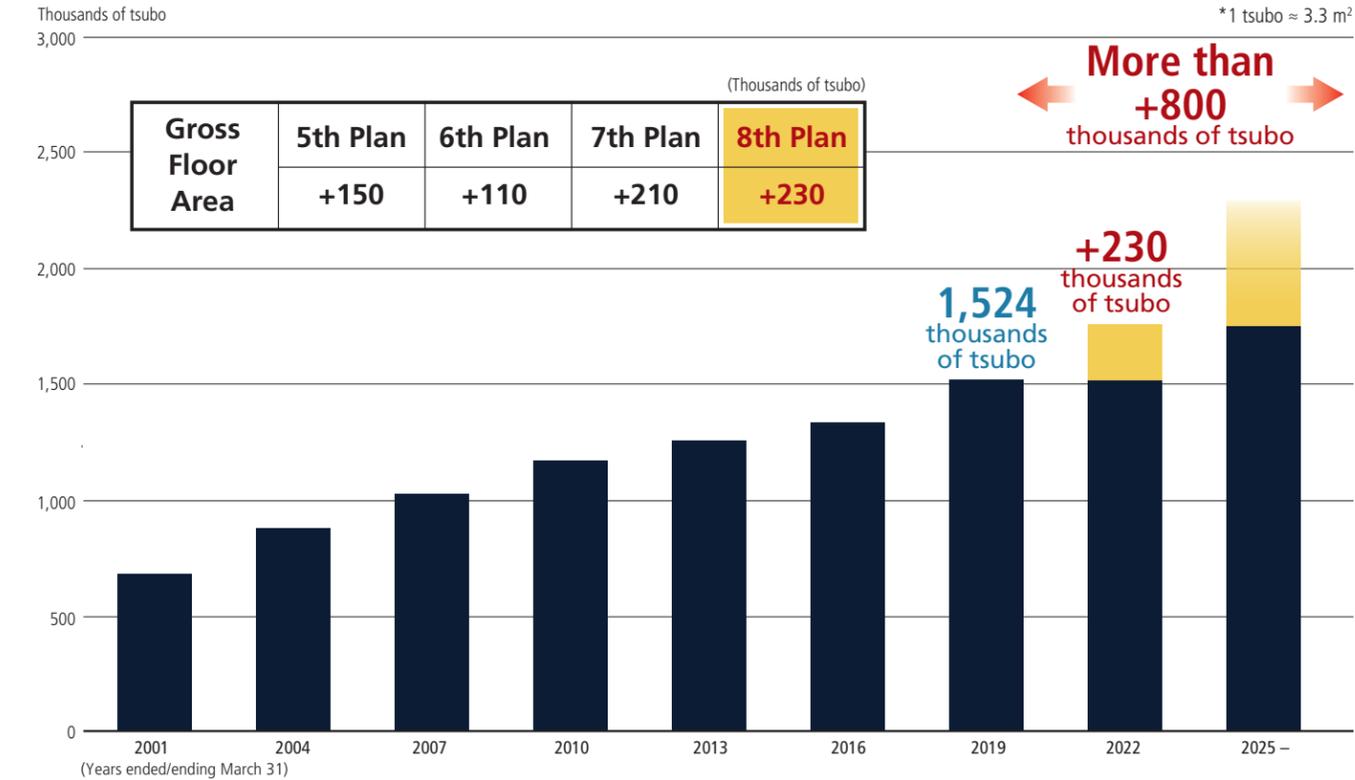
A Message from the Management

Investment and financing for growth from now on

In addition to the 1.5 million tsubo we have developed so far, we intend to develop 800 thousand tsubo in total, including 230 thousand tsubo during the Eighth Management Plan and development under the Ninth Management Plan and beyond. The floor area to be newly developed

exceeds 50% of the gross floor area of the buildings currently owned by the Company. The 800 thousand tsubo is the sum of the concrete development projects for which we have already acquired land and redevelopment projects for which we are taking the initiative.

Pace of Gross Floor Area Development



Project Name	Location	Gross Floor Area (Tsubo*)	Expected Completion
① Sumitomo Fudosan Shinjuku Central Park Tower	Shinjuku Ward	18,100	Aug 2019
② Sumitomo Fudosan Akihabara Ekimae Building	Chiyoda Ward	7,800	Aug 2019
③ Sumitomo Fudosan Ikebukuro Higashi Building	Toshima Ward	4,900	Sep 2019
④ Sumitomo Fudosan Akihabara first Building	Chiyoda Ward	8,200	Oct 2019
⑤ Haneda Airport Project	Ota Ward	27,700	Mar 2020
⑥ Ariake Project	Koto Ward	60,000	Mar 2020
⑦ Sumitomo Fudosan Kojimachi Garden Tower	Chiyoda Ward	14,500	Apr 2020
Kita-shinagawa 5-chome Project	Shinagawa Ward	14,300	Mar 2021
Sumitomo Fudosan Tamachi Building East	Minato Ward	3,800	Mar 2021
Sumitomo Fudosan Ochanomizu Building	Bunkyo Ward	3,800	Mar 2021
Sumitomo Fudosan Kanda Izumicho Building	Chiyoda Ward	3,800	Apr 2021
Higashi-gotanda 2-chome Project	Shinagawa Ward	6,300	May 2021
Others		56,000	
8th Plan Total		229,200	
⑧ Mita 3- and 4-chome Project (Fudanotsuji)	Minato Ward	69,000	Jul 2022
⑨ Nishi-shinjuku 5-chome Kita Project	Shinjuku Ward	40,800	Oct 2022

* 1 Tsubo ≈ 3.3m²

Major New Building Development Projects



⑧ Mita 3- and 4-chome Project (Fudanotsuji)
Expected Completion: Jul 2022



⑨ Nishi-shinjuku 5-Chome Kita Project
Expected Completion: Oct 2022



① Sumitomo Fudosan Shinjuku Central Park Tower
Completion: Aug 2019



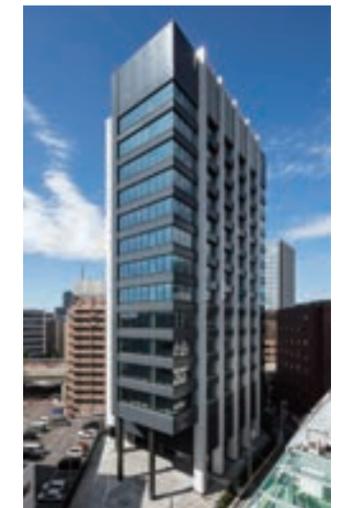
⑦ Sumitomo Fudosan Kojimachi Garden Tower
Expected Completion: Apr 2020



② Sumitomo Fudosan Akihabara Ekimae Building
Completion: Aug 2019



④ Sumitomo Fudosan Akihabara first Building
Completion: Oct 2019



③ Sumitomo Fudosan Ikebukuro Higashi Building
Completion: Sep 2019



⑤ Haneda Airport Project
Expected Completion: Mar 2020



⑥ Ariake Project
Expected Completion: Mar 2020

A Message from the Management

Development on this scale will require investment of approximately ¥2 trillion of which around ¥600 billion will be required for the Eighth Management Plan. With a portfolio of buildings with a gross floor area of 1.5 million tsubo, we are now capable of covering the necessary funds for investment in new buildings with cash flows from the leasing business.

As shown in Figure below, whereas borrowings increased in step

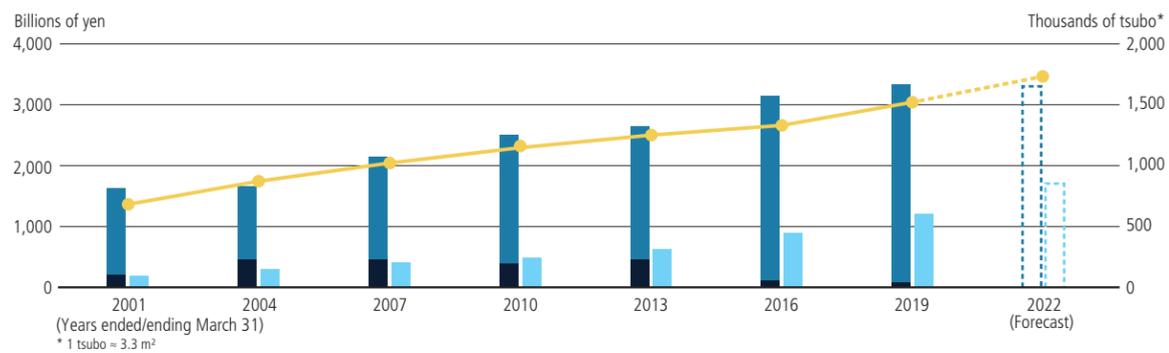
with the increase in gross floor area through to the end of the Seventh Management Plan, under the Eighth Management Plan expansion of cash flows from the leasing business will enable us to make new investment without increasing borrowings. We have advanced to a new stage in terms of financing thanks to a stable revenue stream from the 1.5 million tsubo of leased assets that we have accumulated step by step.

Interest-bearing Debt and Gross Floor Area

	5th Plan	6th Plan	7th Plan	8th Plan
Capital Investment	(268)	(422)	(664)	(600)
Cash Flows from the Leasing Business	364	410	535	680
Interest-bearing Debt	2,651	3,159	3,343	3,300

* Cash flows from the leasing business: Operating income of the leasing business + Depreciation and amortization

■ Interest-bearing Debt ■ Deposits from Partnership Investors ■ Net Assets ● Gross Floor Area (right scale)



Policy for shareholder returns

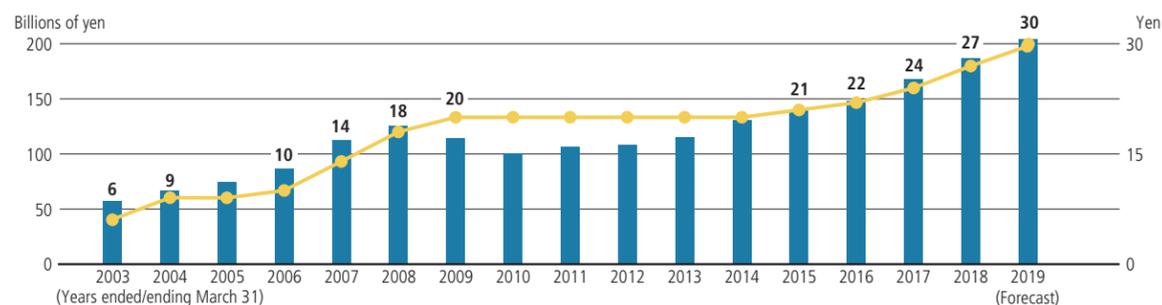
Reflecting the record results for the sixth consecutive year, we increased annual dividends for the fiscal year ended March 31, 2019 by ¥1 from the initial plan and paid ¥30 per share (including an interim dividend of ¥14), an increase of ¥3 per share. For the fiscal year ending March 31, 2020, we intend to pay annual dividends of ¥32 per share (including an interim dividend of ¥16), an increase of ¥2 per share.

Our basic dividend policy is unchanged, namely, to achieve steady profit growth and sustainable dividend increase reflecting the profit

growth. As our aim is further profit growth by continuing developing and leasing office buildings, we intend to allocate profit to investment in office buildings on a priority basis. Looking back at past results, as shown in Figure Consolidated Operating Income and Gross Floor Area, we maintained dividend payment at the time of the Lehman crisis without decreasing the dividends and subsequently have increased dividends in line with the Company's financial performance.

Consolidated Operating Income and Gross Floor Area

■ Ordinary Profit ● Cash Dividends per Share (right scale)



CSR through Business

Based on our fundamental mission "to create even better social assets for the next generation" through our business we are committed to creating cities and urban spaces that are resilient to disasters, friendly to people and the environment, and in harmony with history and culture.

In the development of office buildings for lease, we have long focused on redevelopment that makes significant contributions to enhancement of disaster prevention, such as through elimination of areas with densely packed wooden houses and widening of narrow streets, and to vitalization of communities. Together with local residents and various other stakeholders, we are promoting development of thriving communities that are safe and secure.

In the Shinchiku Sokkurisan remodeling business, we are extending the lifespan of houses through full remodeling, including seismic reinforcement. Making use of existing buildings to the extent possible leads to far less industrial waste than in the case of rebuilding while also contributing to energy saving and reduction of other environmental impacts. We are also developing communities in harmony with history and culture, such as by remodeling traditional wooden houses that are

more than 100 years old and restoring streetscapes.

In these ways, by working to resolve various social issues through business, we are striving to achieve sustainable growth of the Sumitomo Realty Group and contribute to attainment of SDGs.



Redevelopment business: Izumi Garden (Roppongi, Tokyo)



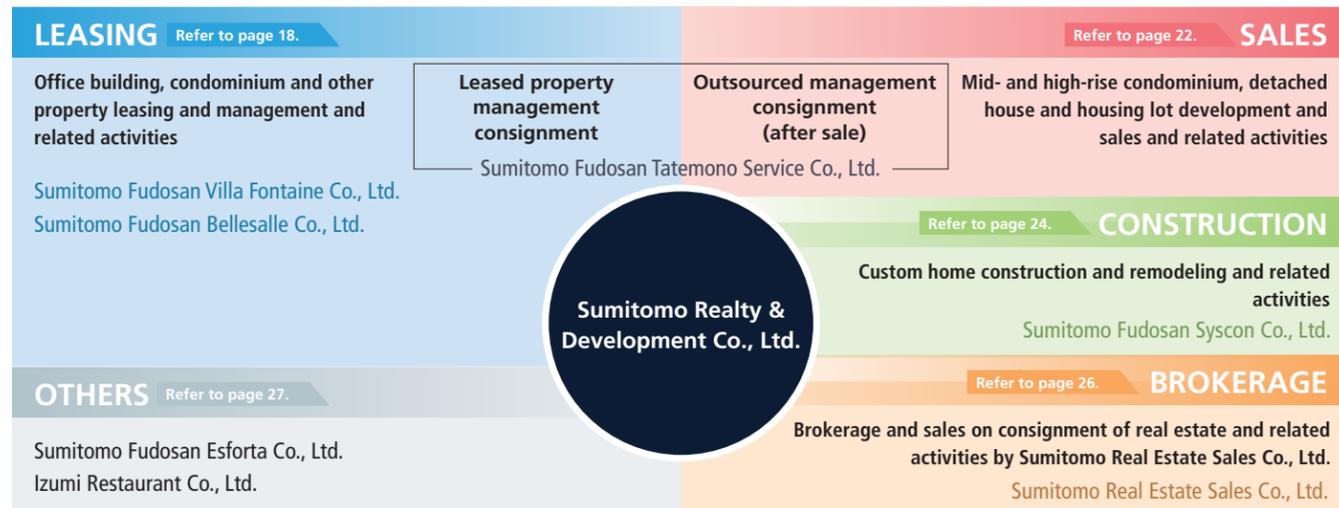
Shinchiku Sokkurisan remodeling business: Remodeling of traditional wooden houses



- Please refer to page 30 for further information regarding our redevelopment business.
- Please refer to page 28 for further information regarding our CSR activities through business.

The Sumitomo Realty Group will redouble our efforts to reach the targets set out in the Eighth Management Plan and continue moving forward to achieve sustainable growth. We would like to express our gratitude to our shareholders, investors and all our stakeholders, and ask for their continuous, long-term support.

At a Glance



Business Portfolio



LEASING Unique Features and Competitive Advantages

- Vigorous promotion of redevelopment projects in central Tokyo and an extensive track record
- Tokyo's No. 1 office building owner with a portfolio of over 220 high-performance buildings, primarily in the seven central districts of Tokyo, with cutting-edge exteriors and the latest facilities and specifications
- Strong market competitiveness due to a portfolio centering on buildings that are "located in central Tokyo, new, and large-scale"
- Active promotion of BCP compliance through introduction of seismic isolation/vibration control structures at 80% of the buildings we own as well as by implementing uninterrupted power supply systems

SALES Unique Features and Competitive Advantages

- No.1 supplier of condominium units for five consecutive years both nationwide and in the Tokyo Metropolitan area
- Operating in major cities throughout Japan. Stable supply with properties in the Tokyo Metropolitan area accounting for 80% of the portfolio
- Strengthening product planning to maintain asset value for the future, such as signature stylish exteriors, elegant entrances, rich array of facilities in common areas, disaster-resistant high specifications for standardized performance, and introduction of the latest household appliance
- Operating Grand Mansion Gallery that offers wide-ranging information on selecting condominiums and enables customers to review at a single location all the properties available

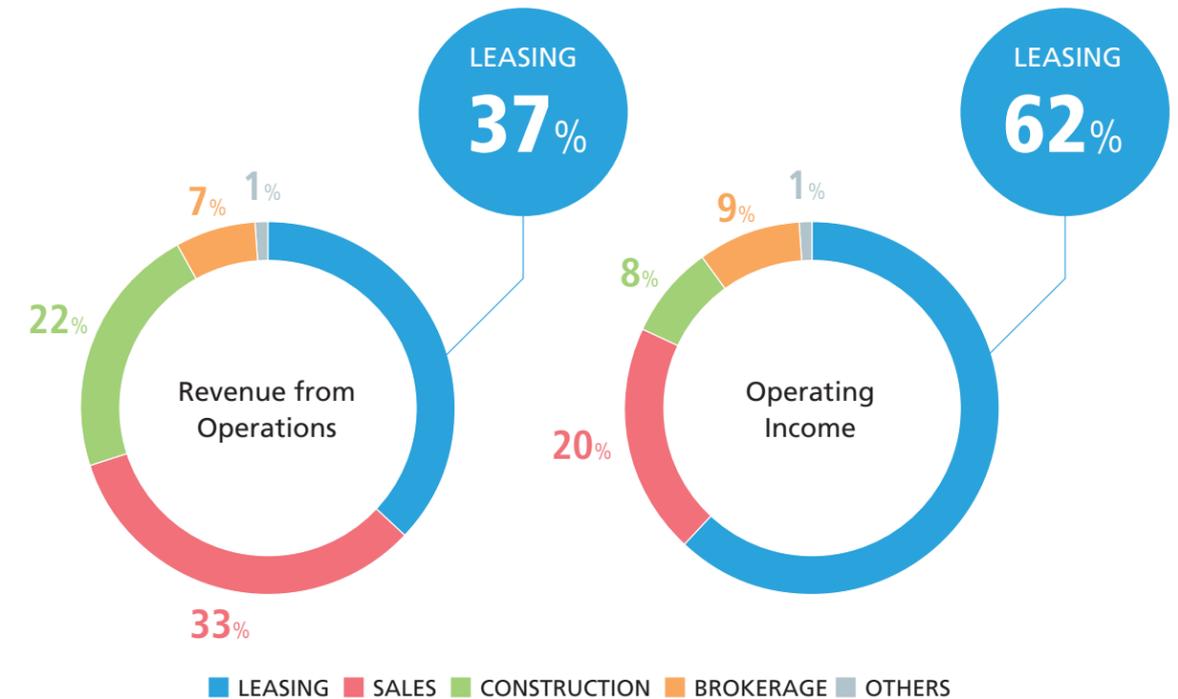
CONSTRUCTION Unique Features and Competitive Advantages

- Remodeling—Shinchiku Sokkurisan**
- No. 1 in the industry with an innovative "full remodeling package" system, an alternative option to the conventional rebuilding
 - Possible to offer seismic reinforcement optimal for implementation at houses of all ages
 - 50-70% of the rebuilding cost. Worry-free fixed pricing based on the floor area
 - Each project managed entirely by a dedicated sales engineer and construction overseen by a dedicated master carpenter with proven knowledge and skills
 - In addition to remodeling detached houses, promoting skeleton reform of exclusively owned areas of condominiums nationwide enabling flexible layout changes. No. 1 in the industry for five consecutive years
- Custom Homes**
- Model home exhibitions at 123 locations primarily in major cities throughout Japan
 - Offering advanced functional homes with attractive design utilizing expertise in condominium development
 - Emphasizing product planning to enhance safety of homes, including development of proprietary earthquake-resistant technologies, such as "seismic control systems" and "power panels" (patented)

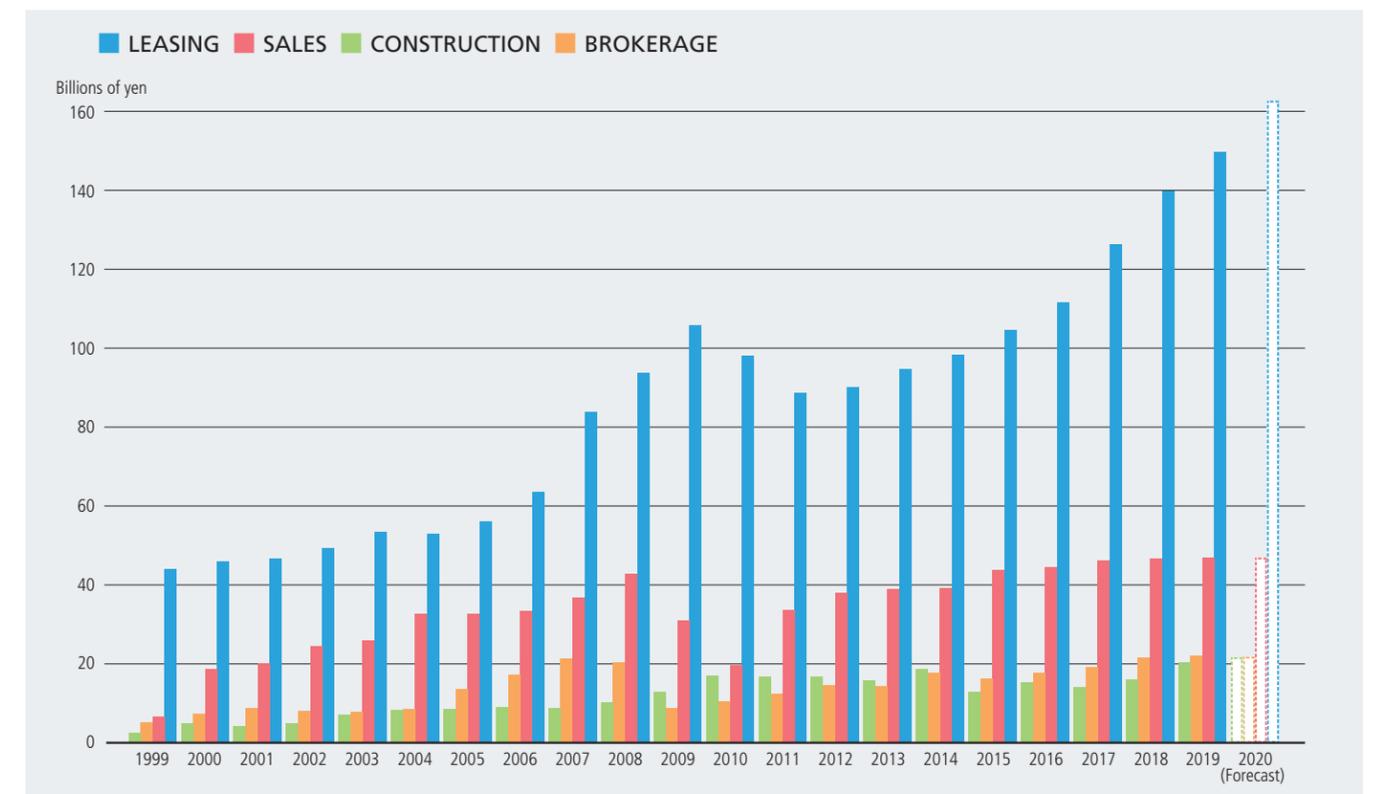
BROKERAGE Unique Features and Competitive Advantages

- A network of 270 directly operated brokerage offices nationwide with a leading track record in the industry
- Sales system rooted in the community based on the customer-first principle
- Operating Mansion Plaza, a brokerage office specialized in premium condominiums, at five locations in central Tokyo; strengthening initiatives to capture new needs in the expanding market for pre-owned condominiums margins.

Significantly Driving Growth with the Leasing Business



Operating Income (Years ended/ending March 31)



* The Company changed its accounting policy (revenue recognition standards of Sumitomo Real Estate Sales) from the beginning of the fiscal year ending March 31, 2020. The figures provided for the composition of business portfolios and the fiscal year ended March 31, 2019 are those after retrospective application.

Business activities to support value creation

Review of Operations

LEASING

Office Building

Sumitomo Realty made its full-scale entry into the office building leasing business in the latter half of the 1970s. Ever since, we have continued to develop excellent office buildings focusing on redevelopment projects in central Tokyo. We weathered the bursting of Japan's economic bubble in the 1990s and the Lehman crisis in the 2000s without selling off buildings we own and steadily increased the number of buildings. As a result, Sumitomo Realty has become the No. 1 owner of office buildings in Tokyo with more than 220 buildings in central Tokyo.

Overview of the Fiscal Year

The Tokyo office building market, where more than 90% of our leasing portfolio is concentrated, experienced continued strong new demand from relocations and floor space expansions of existing tenants, against the backdrop of companies' vigorous recruitment plans and improvement of the working environment in response to work style reform. Vacancy rates remained low and rents for renewed leases continued on an upward trend.

Reflecting such an environment, the segment recorded revenue and profit growth for the March 2019 fiscal year based on improved vacancy rate and higher rents from existing buildings as well as full-year contribution from new buildings completed during the previous fiscal year, including Sumitomo Fudosan Osaki Garden Tower. The segment's revenue from operations and operating income both reached record-high levels for the fourth consecutive year.

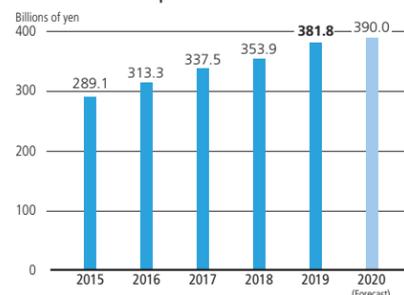
The vacancy rate for existing buildings decreased below 3% for the first time in 18 years, to 2.8% (4.9% at the end of the previous fiscal year). Buildings completed during the fiscal year under review, including Sumitomo Fudosan Onarimon Tower and Sumitomo Fudosan Shibuya Tower, are already fully occupied and in operation. Buildings scheduled for completion in the next fiscal year and subsequent years, including Sumitomo Fudosan Akihabara First Building and Sumitomo Fudosan Kojimachi Garden Tower, are approaching 100% occupancy. Thus, tenant acquisition for new buildings is on a good track, at a pace exceeding initial expectations.



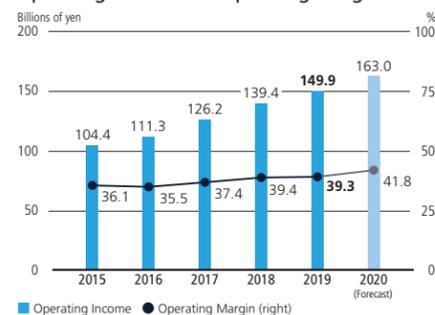
Sumitomo Fudosan Shibuya Tower

Location: Shibuya Ward
Gross Floor Area: 10,573 tsubo
Completion: Feb 2019
No. of Floor: 21 above ground/2 below ground

Revenue from Operations



Operating Income and Operating Margin



Gross Floor Area



Outlook

For the March 2020 fiscal year, we forecast a 2.2% year-on-year increase in revenue from operations to ¥390.0 billion and an 8.7% year-on-year increase in operating income to ¥163.0 billion, owing to rent increases and lower vacancy rates for existing buildings as well as full-year contribution from new buildings, including Sumitomo Fudosan Onarimon Tower and Sumitomo Fudosan Shibuya Tower. We aim to achieve record-high earnings for the fifth consecutive year.

Sumitomo Fudosan Shinjuku Central Park Tower

Location: Shinjuku Ward
Gross Floor Area: 18,178 tsubo
Completion: Aug 2019
No. of Floor: 33 above ground/2 below ground

Sumitomo Fudosan Akihabara Ekimae Building

Location: Chiyoda Ward
Gross Floor Area: 7,819 tsubo
Completion: Aug 2019
No. of Floor: 21 above ground/2 below ground

Sumitomo Fudosan Akihabara First Building

Location: Chiyoda Ward
Gross Floor Area: 8,216 tsubo
Completion: Oct 2019
No. of Floor: 23 above ground/1 below ground

TOPICS

All-weather event area available throughout the year

"Sankaku Hiroba" (triangular plaza) of Shinjuku Sumitomo Building will debut in June 2020

Our flagship Shinjuku Sumitomo Building is located near Shinjuku Station, which is the world's busiest railway station, used by more than three million people each day. A large-scale refurbishment plan is underway for the Shinjuku Sumitomo Building and "Sankaku Hiroba" (triangular plaza), a huge event space, will open in June 2020.

With capacity sufficient for some 2,000 people, Sankaku Hiroba will be an all-weather atrium unaffected by the weather or the temperature outside while maintaining the look and feel of an outdoor venue. Taking advantage of the lofty structure with a height equivalent to that of a six-story building, Sankaku Hiroba will be suitable for diverse large-scale events, such as sports and festivals. It will also contribute to urban disaster mitigation in the event of an earthquake or other disaster, providing shelter for people unable to return home.

In addition to Sankaku Hiroba, taking advantage of the location near Shinjuku Station, plans also call for development of an international conference center for business conferences and large-scale international events. Through this project, the Shinjuku Sumitomo Building will contribute to further vitalization of Shinjuku as a bustling urban hub.

This project was approved by the Ministry of Land, Infrastructure, Transport and Tourism as a private urban reconstruction project plans in August 2017. Certified by the Prime Minister of Japan as a project for a national strategic special zone, this project is highly regarded as one that will contribute to enhancement of the international business environment and attractiveness for tourists while also strengthening urban disaster mitigation capabilities.



Public viewing



Sports event



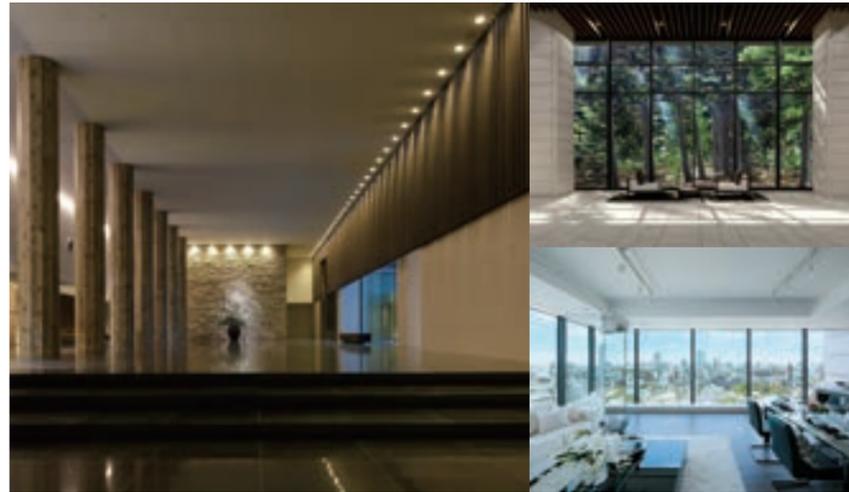
Exterior rendering

Business activities to support value creation

Review of Operations **LEASING**

Condominium Leasing

We manage and operate about 5,300 condominium units for leasing primarily in the 23 wards of Tokyo. Of these, 3,400 units of 25 buildings are the La Tour series of premium residences for leasing in central Tokyo, such as in Daikanyama, Roppongi, Shibuya, and Shinjuku. Offering good views, high-grade specifications and facilities, hotel-style bilingual concierge services, and advanced security systems, the La Tour series is well received by affluent clients worldwide. (As of July 31, 2019)



Hotels

Sumitomo Fudosan Villa Fontaine Co., Ltd.

The Villa Fontaine series is our high-grade business hotels at prime locations that offer slightly larger guest rooms than average, spacious beds and bathrooms, and stylish interiors. We operate 13 Villa Fontaine hotels in central Tokyo and one each in Osaka and Kobe.

We operate 2,764 guest rooms (as of March 31, 2019), including Village Izukogen and Village Kyoto, which are resort/tourist hotels.



Multipurpose Halls

Sumitomo Fudosan Bellesalle Co., Ltd.

We operate 29 event halls/conference centers in central Tokyo from which customers can select the optimum venues and packages according to their preferred location and purpose. We are an industry leader in terms of the number of facilities in Tokyo Metropolis. All our venues are equipped with an array of equipment and fixtures and are easily accessible, and there is a wide choice of venues to meet diverse needs of events ranging from large events such as exhibitions and entertainment, and seminars such as academic conferences and lectures, to outdoor events. We also operate eight belle salle LOUNGES, which offer pay-by-the-hour work spaces available even for one person.



Two Major Large-scale Complex Development Projects

Haneda Airport Project

With 1,717 rooms consisting of 160 luxury rooms and 1,557 high-grade rooms, and direct access to Haneda Airport one of the largest airport hotels in Japan

A complex consisting of a hotel, retail, a bus terminal, a spa, and other facilities with direct access to Haneda Airport International Terminal, the gateway to Japan, will debut in spring 2020. With 1,717 rooms, this will be one of the largest* airport hotels in Japan, meeting the diverse needs of inbound and outbound tourists and business people as well as VIPs.

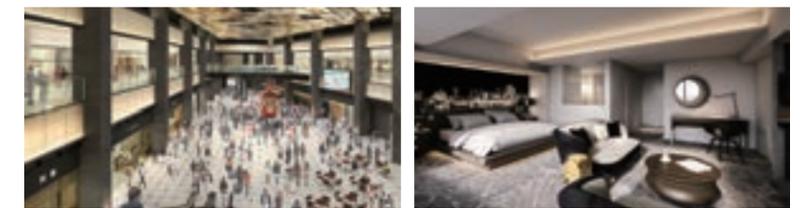
On the top floor of the hotel, travelers will be able to relieve their fatigue at a natural hot spring offering a view of Mt. Fuji, the first such facility at an airport hotel in Japan.



* The number of rooms, 1,717 rooms, is the largest among hotels located within airport sites in Japan (as of January 2019, based on research by Sumitomo Realty)

Project outline

Location	Haneda Airport 2-chome, Ota ward, Tokyo
Site area	43,035 m ²
Gross floor area	91,680 m ²
No. of floors	12 above ground
Scheduled opening	Spring 2020



Ariake Garden

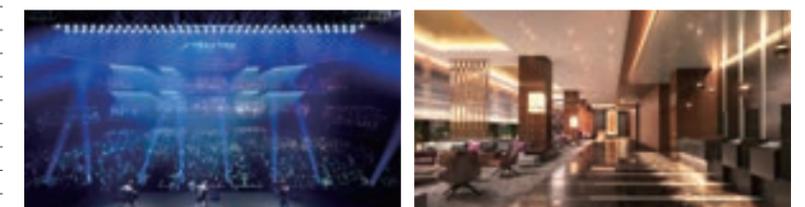
Large complex consisting of retail, a hotel, a hall, residences, and a theater

In spring 2020 a large complex is scheduled to open in Ariake of the Tokyo Bay area. The complex will consist of a commercial facility with some 200 retail tenants, a hall to be used for concerts and other events with a maximum audience capacity of about 8,000 people, a high-grade hotel with 749 rooms, a spa, a park, a theater, and a seismically-isolated triple-tower for condominiums with total units of 1,539.



Project outline

Location	Ariake 2-chome, Koto Ward, Tokyo
Site area	Approx. 107,000 m ²
Gross floor area	Commercial district: approx. 172,500 m ² Residential district: approx. 161,000 m ²
No. of floors	Commercial building: 5 above ground, 1 below ground Annex: 6 above ground, 1 below ground Hotel: 16 above ground, 1 below ground Hall: 5 above ground, 1 below ground Residential towers: 33 above ground, 1 below ground
Scheduled opening	From spring 2020 onward



Business activities to support value creation

Review of Operations

SALES

Condominiums

Having entered the condominium sales business in the first half of the 1960s, Sumitomo Realty is a pioneer in the domestic market for condominium development and sales. We have become a leading company for condominium sales in Japan by staying ahead of our competitors, strategically focusing on city centers and proactively developing large, high-rise properties. We have been the No. 1 supplier of condominium units both nationwide and in the Tokyo Metropolitan area for five consecutive years.

Overview of the Fiscal Year

The condominium market saw continued firm demand from consumers looking to purchase condominiums owing to low interest rates as prices remained high, especially in central Tokyo, reflecting the limited supply of new condominiums.

In such an environment, we delivered a total of 5,970 condominium units, detached houses and land lots during the March 2019 fiscal year, an increase of 89 units from the previous fiscal year, owing to the start of delivery of units in projects such as Grand Hills Motoazabu, City Tower Kokubunji the Twin, City Terrace Yokohama Nagatsuta, and City Tower Higashi Umeda Park Front. As a result, the segment achieved record results in terms of the number of units delivered, revenue from operations, and operating income. The segment, with income at a high level, achieved an increase in operating income for the ninth consecutive year.

The number of condominium units sold decreased by 2,244 units from the previous fiscal year to 5,111 units. We controlled the pace of concluding contracts, including for units whose sales are to be recorded in the next fiscal year, because progress exceeded our initial expectations. As a result, the number of condominium units sold during the fiscal year under review was lower than the level for the previous fiscal year when the number of new condominium units brought to market was particularly high. Contracts have already been concluded for about 80% (about 65% for the previous fiscal year) of a total of 5,300 condominium units to be delivered in the next fiscal year. We are making good progress toward achievement of the earnings targets for the next fiscal year.

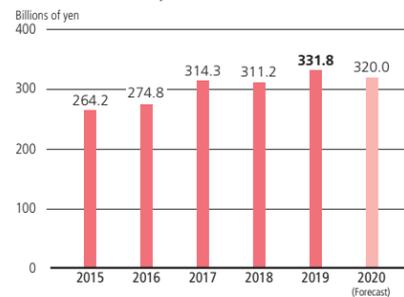
City Tower Kokubunji the Twin

Location: Kokubunji, Tokyo
No. of units for sale: 554

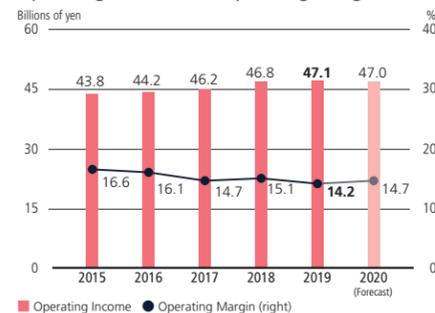
No. of Floor: (West) 36 above ground/3 below ground
(East) 35 above ground/2 below ground
Scheduled Delivery: 2019



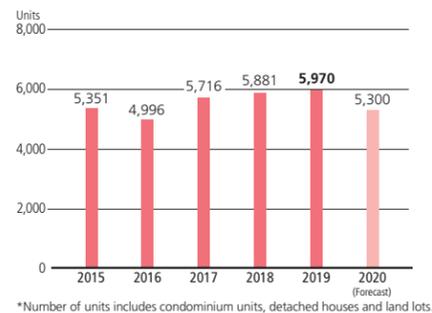
Revenue from Operations



Operating Income and Operating Margin



Units Delivered*



City Towers Tokyo Bay

Location: Koto Ward, Tokyo
No. of units for sale: 1,539
No. of floors: (West) 32 above ground
1 below ground
(Central) 33 above ground
(East) 33 above ground
Scheduled delivery: 2020



Shinagawa East City Tower

Location: Shinagawa Ward, Tokyo
No. of units for sale: 363
No. of floors: 26 above ground/
1 below ground
Scheduled delivery: 2020

Outlook

5,300 condominium units are expected to be delivered and contracts had already been concluded for about 80% of them as of the beginning of the March 2020 fiscal year. Although we forecast a 3.5% year-on-year decrease in revenue from operations to ¥320.0 billion, we plan to maintain operating income of ¥47.0 billion, the same level as for the March 2019 fiscal year.

Our target for the number of condominium units sold is 5,000 units for the March 2020 fiscal year, including units to be delivered thereafter.



TOPICS

Principal Condominium Projects in the Eight Management Plan

In 2018, Sumitomo Realty became the No. 1 supplier of condominium units both nationwide and in the Tokyo Metropolitan area for the fifth consecutive year.

In the Eighth Management Plan, numerous projects are scheduled in central Tokyo and in Osaka, Sapporo and other major cities, including City Towers Tokyo Bay, which is a large-scale condominium building with 1,539 units; City Tower Oimachi comprising residences, commercial facilities, and greenery; and City Tower Osaka Honmachi, which is one of the largest projects in Osaka City.

Name	Location	No. of Units for sale	No. of Floors
City Tower Ginza Higashi	Chuo Ward, Tokyo	483	22 above ground/ 1 below ground
Shinagawa East City Tower	Shinagawa Ward, Tokyo	363	26 above ground/ 1 below ground
City Tower Ebisu	Shibuya Ward, Tokyo	307	23 above ground/ 2 below ground
City Towers Tokyo Bay	Koto Ward, Tokyo	1,539	32 above ground/ 1 below ground (West) 33 above ground (Central / East)
City Tower Shinagawa Park Front	Shinagawa Ward, Tokyo	312	23 above ground/ 1 below ground
City Tower Sapporo	Sapporo	165	31 above ground/ 1 below ground
City Tower Oimachi	Shinagawa Ward, Tokyo	493	29 above ground/ 1 below ground
City Tower Tokorozawa Classy	Tokorozawa	276	29 above ground/ 2 below ground
City Tower Aoi	Nagoya	354	20 above ground
City Tower Musashi-koyama	Shinagawa Ward, Tokyo	318	41 above ground/ 2 below ground
City Tower Osaka Honmachi	Osaka	855	48 above ground
Grand Hills Minami Aoyama	Minato Ward, Tokyo	115	18 above ground/ 2 below ground



City Tower Ginza Higashi



City Tower Ebisu



City Tower Musashi-koyama



City Tower Osaka Honmachi

Review of Operations

CONSTRUCTION

Remodeling—Shinchiku Sokkurisan

Sumitomo Realty launched the Shinchiku Sokkurisan, an innovative, first-of-its-kind full remodeling package in the industry, in 1996. Rolled out nationwide step-by-step, it has become the top brand in the market with a cumulative total of more than 130,000 units contracted. Furthermore, we started skeleton renovation business for condominiums in 2000, ahead of industry peers, and have been No. 1 in revenue from condominium remodeling five years running.

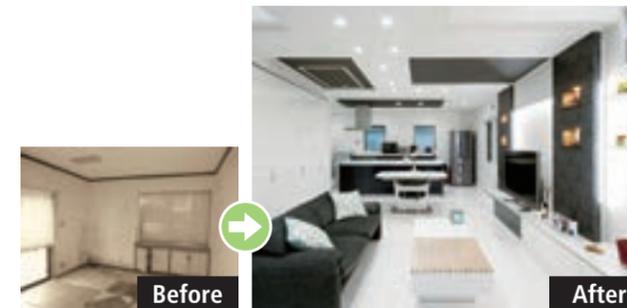
Custom Homes

In 1972 Sumitomo Realty established a subsidiary in the U.S. where platform wood-frame construction is widely used, subsequently introducing technology cultivated in the U.S. to a business in Japan. We launched American Comfort custom home construction business in 1995, followed by the debut of J-URBAN urban-style housing series in 2003, and their urban exteriors were well received. Aiming for further expansion of the business, we added the "wood panel method" to our lineup in 2014 to strengthen the appeal of our products.

Remodeling—Shinchiku Sokkurisan



Detached house



Condominium

Custom Homes



PREMIUM.J



J-LECONTE



PREMIUM.J

Overview of the Fiscal Year

In the housing construction market, although owner-occupied housing starts were higher than the level for the previous fiscal year, the level remained below 300,000 units. On the other hand, remodeling is a promising growth market, and we expect rising demand for remodeling given that the need to accumulate a stock of high-quality residential properties is an issue in Japan.

During the March 2019 fiscal year, both the Shinchiku Sokkurisan remodeling business and the custom homes business achieved new records in terms of the number of units contracted, exceeding 10,000 units and 3,000 units, respectively.

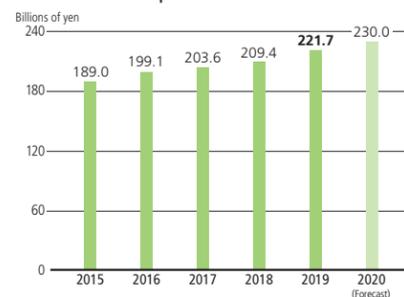
Both businesses also set new records in terms of the number of units delivered and revenue from operations. As a result, the segment

achieved higher revenue and higher profit owing to an increase in the number of units delivered and improvement in profitability. Operating income increased more than 20%, setting a new record after a five-year hiatus since the March 2014 fiscal year.

Outlook

The segment plans to increase the number of units contracted centering on the Shinchiku Sokkurisan remodeling business. We forecast a 3.7% year-on-year increase in revenue from operations to ¥230.0 billion and a 7.8% year-on-year increase in operating income to ¥22.0 billion. We aim to achieve record highs for both revenue from operations and operating income.

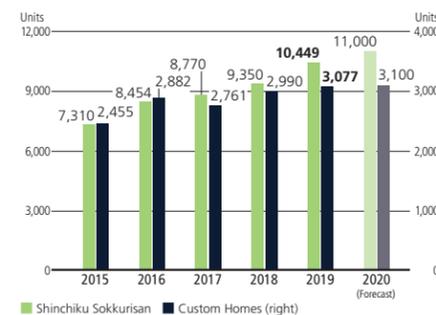
Revenue from Operations



Operating Income and Operating Margin



Shinchiku Sokkurisan and Custom Home Units Contracted



T O P I C S

Remodeling—Shinchiku Sokkurisan

Special Award received at the Housing Renovation Competition

—For an aged house remodeled to be as good as or superior to a newly built one—

One of our projects in Shinchiku Sokkurisan remodeling business received a Special Award (Association of Housing Warranty Insurers Chairman's Award) at the 35th Housing Renovation Competition held by the Center for Housing Renovation and Dispute Settlement Support. This was the 11th award that we have received at this competition since the March 2006 fiscal year.

With this project, the customer, who had initially intended to build a new house, was able to achieve what he had in mind thanks to our renovation technology. Moreover, since remodeling has increased earthquake resistance and improved thermal insulation while also realizing ease of maintenance for water supply and drainage pipes, the house is expected to endure over the long term so that it can be handed down in good condition to the next generation. This renovation project was highly regarded as a proposal for remodeling an aged house so that it would be as good as or better than a newly built house while extending the life of the house.



Business activities to support value creation



Review of Operations

BROKERAGE

Sumitomo Real Estate Sales Co., Ltd. was established in 1975 to conduct sales of condominiums developed by Sumitomo Realty. Sumitomo Real Estate Sales entered the real estate brokerage sector in 1979, gaining a listing on the Tokyo Stock Exchange in 1998 and achieving significant success. To achieve further growth as the Sumitomo Realty Group, Sumitomo Real Estate Sales delisted in 2017 and became a wholly owned subsidiary of Sumitomo Realty. We will strive to use our sales network more effectively so as to further increase market share.

Overview of the Fiscal Year

In the existing home market, the number of sales contracts concluded for condominium units in the Tokyo metropolitan area remained high and average contract prices continued to rise.

In this environment, the segment recorded a 1.6% increase in the number of transactions, to 37,643 units, led by existing-home sale transactions, achieving a record high for the fourth consecutive year. In addition, the total transaction value rose to ¥1,326.3 billion, also a record high, largely attributable to an increase in the unit transaction value that was particularly marked in central Tokyo.

As a result, the segment maintained revenue growth for the tenth consecutive year and operating income growth for the fourth consecutive year, resulting in record-high revenue from operations and record-high operating income.

With the addition of four directly operated offices during the fiscal

year, the network had a total of 270 offices nationwide as of March 31, 2019.

Outlook

We will strive to increase the number of transactions and aim to secure profit on a par with the level for the March 2019 fiscal year. We forecast a 1.6% increase in revenue from operations to ¥73.0 billion and operating income of ¥22.0 billion, the same level as the March 2019 fiscal year.

TOPICS

Mansion Plaza specializing in brokerage of premium condominiums in central Tokyo opens

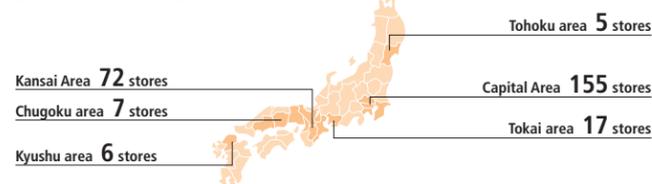
—Services offered by professionals with excellent track records, experience, and knowledge of condominium brokerage—

In July 2019 Sumitomo Real Estate Sales Co., Ltd. opened Mansion Plaza at five locations in central Tokyo. Mansion Plaza specializes in sales and brokerage of premium condominiums in central Tokyo that have high asset value based on a comprehensive assessment in terms of location, scale, management, etc.

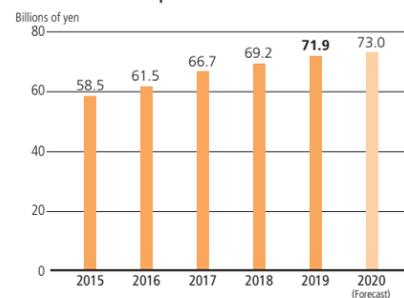
At Mansion Plaza, professionals who possess the Mansion Expert in-house qualification offer brokerage services. These Mansion Experts have knowledge of condominium structures, facilities, market conditions, transactions, etc., as well as excellent track records and a wealth of experience in brokerage of premium condominiums in central Tokyo.

270 directly managed stores

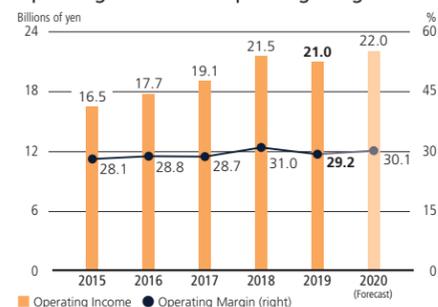
(As of the end of March 2019)



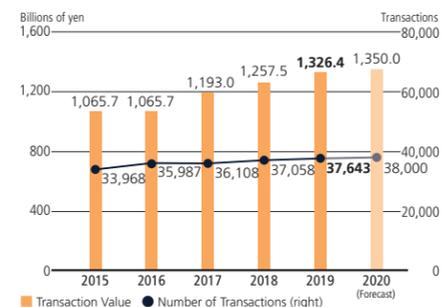
Revenue from Operations



Operating Income and Operating Margin



Number of Transactions and Transaction Value



* The Company changed its accounting policy (revenue recognition standards of Sumitomo Real Estate Sales) from the beginning of the fiscal year ending March 31, 2020. The figures provided for the fiscal year ended March 31, 2019 are those after retrospective application.

GROUP COMPANIES

Sumitomo Fudosan Tatemono Service Co., Ltd.

Sumitomo Fudosan Tatemono Service Co., Ltd. conducts property management for about 190,000 units nationwide centering on Sumitomo Realty's condominiums. In pursuit of comfortable, safe and secure living environments for customers, offering services ranging from daily building management to concierge services (consultancy for minor repair of rooms and equipment replacement, introduction of special benefits available from the Sumitomo Group's businesses), the company responds to various customer needs based on abundant know-how and solid technological capabilities. Residents of condominiums managed by the company can use professional housecleaning services, housekeeping services, and other useful lifestyle-related services and benefits.



Sumitomo Fudosan Esforta Co., Ltd.

Sumitomo Fudosan Esforta Co., Ltd. directly manages six esforta fitness clubs, primarily in Tokyo. Based on the concept of "assigned instructor system," at each outlet instructors propose comprehensive fitness menus according to the member's needs by combining gym, pool, studio, and nutritional programs and provide support. The company also operates a golf academy and fitness studios primarily offering yoga and dance programs. In addition, utilizing the know-how cultivated through operation of a wide range of facilities, the company is contracted by nine municipalities to operate and manage public sports facilities (as of April 1, 2019).



Sumitomo Realty & Development CA., Inc.

Sumitomo Realty & Development CA, Inc. owns and manages InterContinental Los Angeles Century City, a luxury hotel that boasts excellent quality.



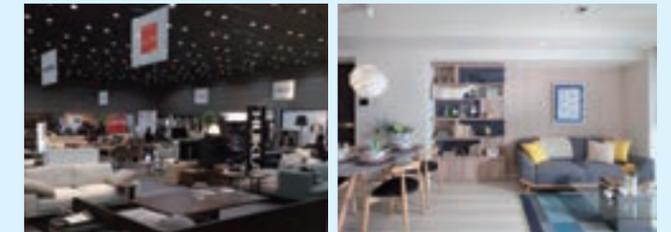
Sumitomo Fudosan Villa Fontaine Co., Ltd.

Sumitomo Fudosan Bellesalle Co., Ltd.

Refer to page 20.

Sumitomo Fudosan Syscon Co., Ltd.

Sumitomo Fudosan Syscon Co., Ltd. sells interiors to mainly Sumitomo Realty's customers of their condominiums, custom homes, and remodeling. The company's interior concierges propose interiors according to customers' requests from among the products of over 300 manufacturers in Japan and overseas. The company also constructs Mansion Gallery and carries out interior design and finishing for hotels and commercial facilities, as well as offers proposals for effective land use, such as car park operation.



Izumi Restaurant Co., Ltd.

Izumi Restaurant Co., Ltd. provides catering services for social gatherings and various parties. Its services are popular among tenants of Sumitomo Realty's office buildings and users of Sumitomo Fudosan Bellesalle (event halls).

The company runs Rieven House convenience stores within Sumitomo Realty's office buildings that offer a product mix geared to the needs of office workers.



Izumi Country Club

Izumi Country Club is a golf club with convenient access, located about 50 km, or a one-hour drive, away from central Tokyo. Taking advantage of the flat landscape, the refined layout with effectively placed ponds and greens as well as the scenery replete with seasonal plants and flowers are enjoyed by players.



Addressing Social Issues through Business Activities

The Sumitomo Realty Group is engaged in a range of businesses, closely related to people's daily lives, such as office buildings, condominiums, remodeling, custom homes and brokerage. Thus, to achieve sustainable development of the Group, it is indispensable to create even better social assets and pass them down to the next generation through these businesses.

By accurately responding to changes in the social environment, Sumitomo Realty is committed to development of safe and secure communities that will continue to deliver value far into the future and contribute to the attainment of SDGs.

Changes in the external environment

Decline in Japan's working population

Advent of the super-aged society

Concentration of population in cities

Climate change

Increasing need to extend healthy life expectancy

Disaster prevention BCP compliance

Development of safe and secure communities that withstand disasters, ensure business continuity, and protect the livelihoods of people

People-friendly community development

Development of vibrant communities where everyone can live with peace of mind

Development of safe and secure communities that will continue to deliver value far into the future



Harmony with history and culture

Creation of new value in harmony with history and culture by utilizing contemporary design technology

Reduction of environmental impacts

Introduction of technology and design contributing to reduction of impacts on the global environment



Utilization of Sumitomo Realty's experience, knowhow, and networks

Human resources development

Customer support

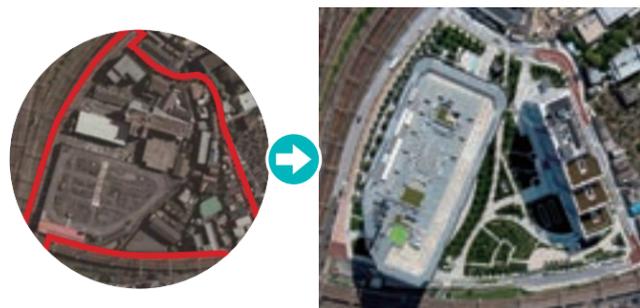
Sustainable urban redevelopment —Osaki Garden City—

Relevant SDGs



Osaki Garden City, completed in October 2018, is a large complex development project with a total floor area of about 220,000 m² consisting of an office tower, a residential tower, and spacious green open public spaces. The site used to be characterized by a densely built-up area with wooden houses, an elevated land creating steep slopes, and narrow streets preventing emergency vehicles from

approaching. In addition to these challenges for disaster response, the area had no linkage with the downtown area adjacent to Osaki Station. The completion of Osaki Garden City improved the area's linkage with the downtown area adjacent to the station and helped to tackle the challenges it had faced, contributing to development of the community and enhancing its disaster prevention.



	Block A	Block B
Principal purpose	Office, retail, etc.	Residence (423 units), office, etc.
Site area (30,080 m ²)	19,927 m ²	10,153 m ²
Gross floor area (219,565 m ²)	178,141 m ²	41,424 m ²
Floor area ratio	Approx. 780%	Approx. 250%
No. of floors	24 above ground 2 below ground	22 above ground 2 below ground

Key points of the Osaki Garden City Redevelopment Project

- Formulation of urban functions and a complex urban area to promote development of the area around the station
- Development of a safe and secure community with enhanced disaster-prevention functions, including elimination of a densely built-up area of wooden houses and widening of narrow streets
- Promotion of universal design of the community, including elimination of the large difference in elevation of the site
- Spacious green open public spaces covering some 8,000 m² to facilitate community building and serve as a disaster-prevention base
- Widen and improve a transportation route connecting Shinagawa City Hall, which will serve as the disaster control center in the event of a major disaster, with the surrounding area (roads to be cleared in the event of an emergency)

City development to tackle the challenges facing the community

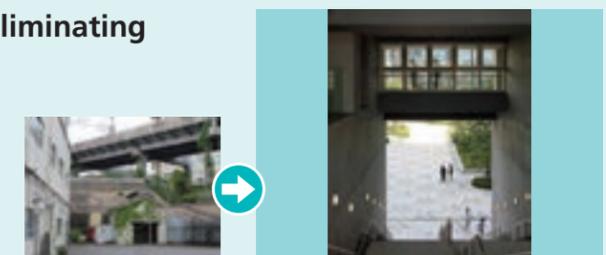
1 Enhancement of disaster prevention by eliminating the area overcrowded with wooden houses and of narrow streets

This area used to be a densely built-up area with wooden houses exposed to high risk of fire and the streets were narrow, making it difficult for emergency vehicles to enter the area. As a result of the redevelopment project, roads around the site were improved and a fireproof condominium building was constructed, realizing a safe and secure community.



2 Promotion of universal design of the area by eliminating a large difference in elevation

The site used to have a difference in elevation as large as eight meters and experienced land collapse. The project created a landscape design with gentle undulations and eliminated the large difference in elevation. It also built stairs and installed elevators connecting the area with the surrounding downtown area and the station to allow everyone to move easily.



3 Widening sidewalks to ensure pedestrian safety

Sidewalks in the area, indispensable infrastructure for daily activities of residents, used to be so narrow that safety of pedestrians was at risk. The project widened sidewalks in the area and ensured that pedestrians can walk without fear.



Spacious public space to facilitate community building and strengthen disaster prevention

Since the Osaki area had few public spaces where local people could gather, it needed to facilitate community building and create a place that could serve as a base in the event of a disaster. The project built an expansive public space exceeding 8,000 square meters between the office tower and the residential tower. People in the area, not only residents but also tenants of the office tower, are involved in community building and improving disaster prevention.



Starting point of the portable shrine carried by children for the Kifune Shrine Annual Festival



Osaki Garden City Fire and Disaster Prevention Fair 2019



Ceremony for planting cherry trees from Washington D.C.



Osaki Garden City Cherry Blossom Festival

Public area rich in greenery and tree planting for local greening

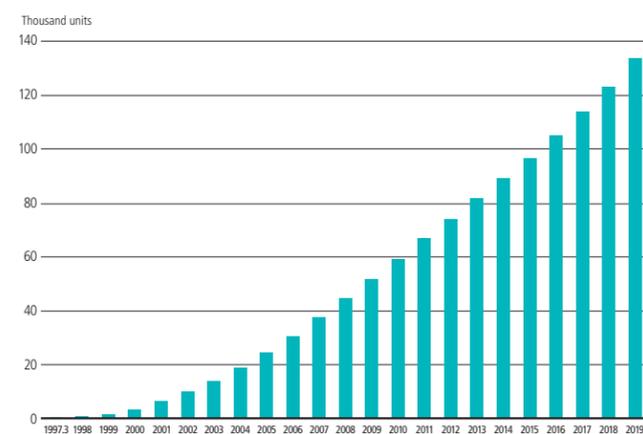
The Osaki area previously had many small factories and lacked greenery. The project developed a spacious green public space, contributing to greening of the local area. Cherry trees from Washington D.C., which have historical links with this area, were planted to pass down the local history to future generations and express the desire for sustainable development of the community.



The Shinchiku Sokkurisan remodeling business based on our concept of safe and secure housing has the industry's foremost track record for full remodeling with seismic reinforcement as part of the standard package. Shinchiku Sokkurisan has met with a positive response among customers with its remodeling proposals corresponding to the lifestyles of individual households as well as fixed-price system and Sumitomo Realty's unique business model of appointment of a dedicated sales engineer from the first consultation to delivery. The cumulative total of units contracted for Shinchiku Sokkurisan reached 130,000 units (as of December 2018).

The lives of houses in Japan are typically much shorter than those of houses in Europe and the U.S. From the viewpoint of efficient utilization of limited resources, Shinchiku Sokkurisan fulfills an important role as the remodeling greatly reduces waste compared with rebuilding. Through Shinchiku Sokkurisan, we will provide highly sustainable houses in which people can live for longer period of time in comfort.

Cumulative total of units contracted for Shinchiku Sokkurisan



Conventional remodeling	Remodeling—Shinchiku Sokkurisan
Principally remodeling certain parts of the house	New system: neither conventional remodeling nor rebuilding
Seismic reinforcement by remodeling not considered	Full remodeling with a price roughly 50% of rebuilding
unclear pricing	Seismic reinforcement as standard specification
Additional charges incurred due to unexpected circumstances	Clear fixed-price system
	No additional charges

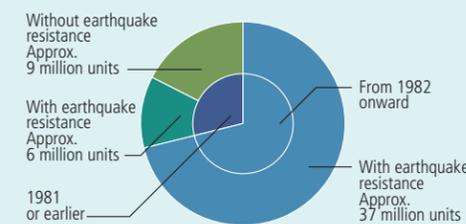


Social issues concerning houses in Japan

Although the penetration rate of earthquake-resistant house in Japan is increasing every year, there are still many houses with low earthquake resistance.

Moreover, the lives of houses in Japan tend to be short compared with those of houses in Europe and the U.S. and the short rebuilding cycle has emerged as an issue in contemporary Japan. Waste due to demolition of houses accounts for a large share of waste discharged by the construction industry. It is required that lives of houses should be extended, which facilitate the shift to stock-type society where houses could be used by successive generations.

Earthquake-resistance of housing stock



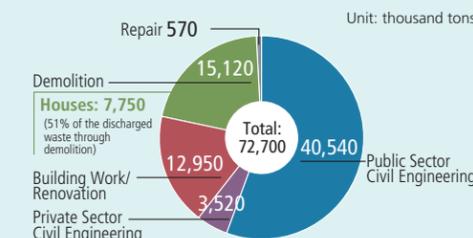
Source: "Progress of Earthquake Proofing of Houses" Ministry of Land, Infrastructure, Transport and Tourism (data as of 2013)

International comparison of the average age of houses



Source: "International Comparison of the Average Age of Houses Deregistered in 2018" Ministry of Land, Infrastructure, Transport and Tourism

Industrial waste discharged (construction industry)

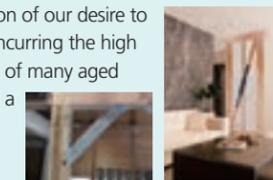


Source: Reference Material 7 of "Residential Land Session, Panel on Infrastructure Development (36th)" Ministry of Land, Infrastructure, Transport and Tourism

Shinchiku Sokkurisan initiatives concerning social issues

Seismic reinforcement

The launch of Shinchiku Sokkurisan remodeling is the practical expression of our desire to renovate houses, endowing them with earthquake resistance without incurring the high cost associated with rebuilding. This idea was prompted by the collapse of many aged houses in the Great Hanshin Awaji Earthquake of 1995. We introduced a clear fixed-price system with a price roughly 50% of that of normal rebuilding and seismic reinforcement based on earthquake resistance diagnosis as a standard specification.



In the Kumamoto Earthquake of 2016, a series of powerful tremors caused houses to collapse that had previously been considered not to need seismic reinforcement. In view of these circumstances, we have developed a proprietary method to address the issues due to such a series of powerful tremors. With the addition of this new method, we now offer seismic reinforcement and damping plans suitable for houses of all ages.

Environmentally friendly

In Shinchiku Sokkurisan remodeling, the principal structural elements of a house are retained, and the life of the house is extended through the reinforcement of earthquake resistance, which makes it possible to minimize discharge of industrial waste, CO2 emissions, and waste of resources.

Moreover, customers can live in the house while remodeling work is executed, resulting in elimination of waste, such as packing for moving to temporary accommodation.

People friendly

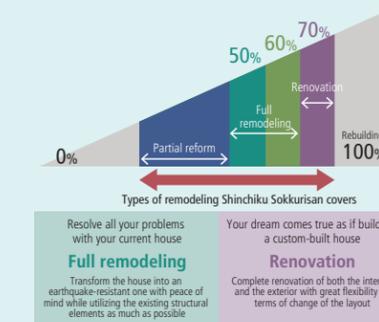
Another aspect of Shinchiku Sokkurisan is people-friendly remodeling which includes thermal insulation, waterproofing, and barrier-free design, in addition to seismic reinforcement. Furthermore, in response to change of the family structure and population aging, we offer homes suitable for contemporary lifestyles without rebuilding, such as change of the layout, extension, downsizing, change from a two-story house to a one-story house, and change to a two-family house.



Lower cost than rebuilding

The cost of Shinchiku Sokkurisan remodeling is about 50-70% of that of rebuilding.

We respond to various customer needs corresponding to lifestyles, desires, and budgets, and execute house remodeling at lower cost than rebuilding. In addition to conventional "partial reform," we also offer "full remodeling" to transform the existing house into an earthquake-resistant one while utilizing the existing structural elements as much as possible and "renovation" to completely refurbish both the interior and the exterior with great flexibility in terms of change of the layout.



Harmony with history and culture

We launched a regional revitalization support service for local cities confronting issues such as depopulation, in order to contribute to invigoration of local regions by utilizing our expertise. The first project was regional revitalization support of Bandai Town in Fukushima Prefecture.

Utilizing the expertise of remodeling of traditional wooden houses in the Shinchiku Sokkurisan business, we refurbished buildings with the aim of enhancing functions while retaining the external appearance of the historic townscape.



First traditional wooden house remodeling project: house built over 70 years ago



We consider that creating social assets, such as office buildings and condominiums, and surely handing them over to the next generation are central to the fulfillment of our mission. We aspire to develop safe and secure communities, not only for the residents but also for everyone in the neighborhood, through our focus on buildings that can prevent or withstand damage in the event of disaster, such as a fire or an earthquake, as well as regional disaster preparedness as a communal function.

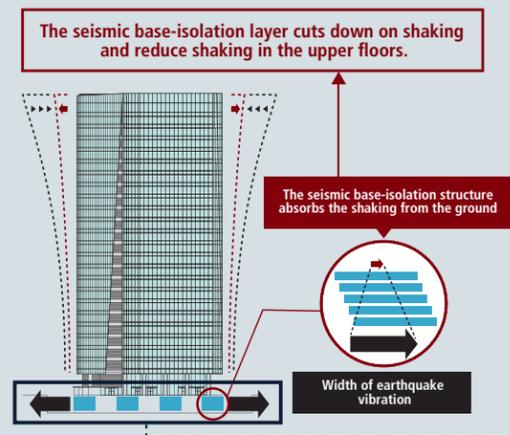
Action

Protection of office workers and business

Sumitomo Realty's office buildings actively employ seismic isolation/control structures whose ability to significantly reduce tremors provides protection for office workers and office automation equipment. Moreover, we are promoting implementation of measures effective for tenants' business continuity, including installation of large-capacity emergency power generators in buildings to offer sectional supply power in office zones during a blackout.

Example case: Sumitomo Fudosan Osaki Garden Tower

Seismic isolation structure designed to protect people and business



Seismic isolation devices

Isolators

While supporting the building's weight, they move gently from side to side to reduce intermittent vibrations during an earthquake.



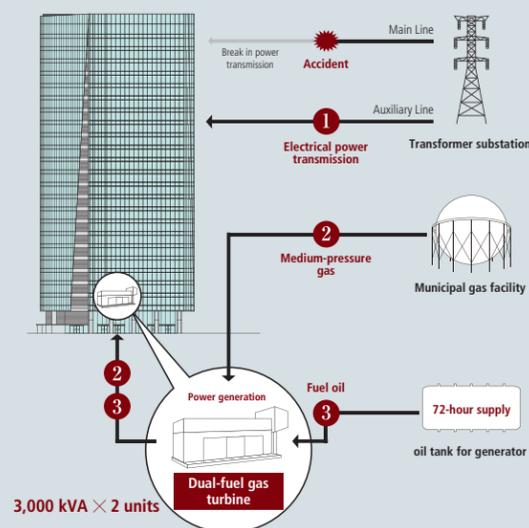
U-shaped dampers

An earthquake's seismic energy is absorbed with their stable restoring force characteristics, reducing vibration.



Business continuity planning (BCP) support through multiple safety measures

Three-layer backup system avoids the risk of power outages.



STEP 1

2-line power receiving system

Use an extra-high voltage of 66 kV and a 2-line power receiving system in order to cope with emergencies

STEP 2

Electricity generated with medium-pressure gas

Electricity is generated with medium-pressure gas in the event of power supplied by substations being cut off due to an emergency. (Supplies 15 VA/m² for lighting and power sockets, and 7 VA/m² for air conditioning for at least ten days.)

STEP 3

Electricity generated with fuel oil

In the event of the supply from medium-pressure gas being halted, electricity will be generated with the use of the heavy oil stored in the oil tank installed within the premises. (Supplies 15 VA/m² for lighting and power sockets, and 7 VA/m² for air conditioning for 72 hours.)

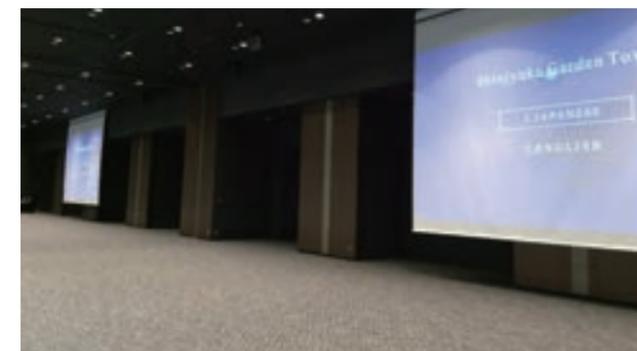
Providing a regional disaster-response base

Public space, created through large-scale development, and halls within office buildings will be used as temporary shelter for people unable to return home in the event of an earthquake or other disaster.

In addition to the open space on the site where people can stay, the functionality as an evacuation center has been further enhanced with a warehouse for disaster-response equipment, emergency toilet that can be installed directly to manholes and well water for cleaning the toilet.



Plaza



multipurpose hall

Disaster prevention activities involving local residents and customers

Sumitomo Realty regularly conducts various disaster drills jointly with tenants of office buildings, local residents, and customers. At Sumitomo Fudosan Shinjuku Garden Tower, in cooperation with the fire station, the police station, and the local government, large-scale drills were conducted, including traffic hand signals exercise with traffic lights off, exercise for rescue from high places, and water-discharge drills. At Hotel Villa Fontaine Tokyo-Shiodome, with the cooperation of an NPO, an emergency instructions and evacuation drill for foreign guests was conducted in four languages.



Traffic hand signals training by the Shinjuku Police Station with traffic lights turned off

Disaster prevention for condominiums

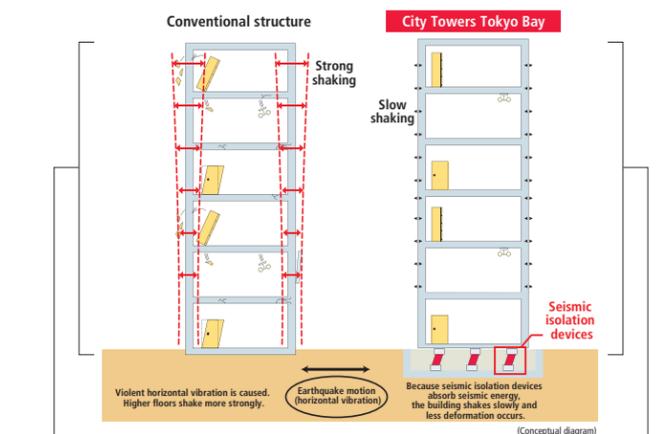
Sumitomo Realty's condominiums feature seismic isolation/control structures to prevent deformation of buildings and alleviate shaking during an earthquake. In addition, various disaster countermeasures are implemented, such as installation of emergency power generators, elevator safety functions, storerooms for emergency supplies, and emergency wells.

Key disaster countermeasures (City Towers Tokyo Bay)

Basic structure

Absorb seismic energy

Seismic isolation structure



Cracking of pillars and beams
Deformation of door frames tends to occur
Glass tends to shatter and fall
Concrete tends to fracture and fall
Lighting equipment tends to fall
Sashes tend to come off

Frame tends not to fracture
Deformation of door frames tends not to occur
Furniture tends not to topple over
Lighting equipment shakes less

Firm ground and piles
110 piles installed

Robust pillars to increase earthquake resistance
Welded closed hoops

Disaster countermeasures

For power supply in the event of power outage
Emergency power generator

Automatically stop at the closest floor in the event of an earthquake
Elevator safety device

Useful for extinguishing fire
Fire cistern

Water supply available even if the pump stops
Water supply measures in the event of a disaster

Securing water for domestic use, such as for a toilet
Emergency wells

Available even in power outage
Disaster-ready vending machines

Useful in the event of a disaster
Emergency toilets connectable to a manhole

For emergency rescue
Helicopter hovering space

In the event of an emergency, such as an earthquake
Emergency supplies

Provided to each household



First-aid kit



Long-life drinking water



Emergency backpack

Actions

To Reduce CO2 Emissions

Although various initiatives have been implemented since the adoption of the Kyoto Protocol in 1997, it is reported that CO2 emissions from business operations are still trending upward. Sumitomo Realty is striving to reduce CO2 emissions in various aspects of its business through a shift to energy-saving design and by pursuing other initiatives.

Reduction of energy consumption

Sumitomo Realty has gained the S rank (excellent business operator) evaluation under the "Business Operator Classification Evaluation System" (SABC Evaluation System) of the Ministry of Economy, Trade, and Industry whereby business operators are ranked according to the degree of their reduction of energy consumption.

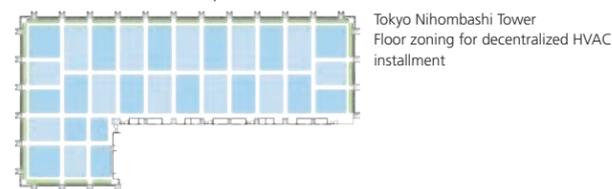
Energy consumption

	2016	2017	2018
Energy consumption (kl crude oil equivalent per year)	120,403	123,516	135,320
Intensity (kl/m ² crude oil equivalent per year)	0.03851	0.03785	0.03742

Initiatives for office buildings

Decentralized HVAC system

Sumitomo Realty's office buildings adopt decentralized HVAC systems. Unlike a centralized system for management of an entire building using a single heat source, a decentralized system allows specific air-conditioning setting for each zone, which enhances tenants' convenience and saves energy. By dividing a floor into zones, it is possible to turn on or off air conditioning and adjust the temperature of each zone. Moreover, the use of natural vents installed at window frames minimizes unnecessary use of air conditioning. This system capable of achieving big energy savings is offered as a standard specification.



Tokyo Nihombashi Tower
Floor zoning for decentralized HVAC installation

Low-e double glazing glass

As well as enhancing insulation performance of external walls for air-conditioning efficiency, low-e double glazing glass is adopted to reduce transmission of solar radiation heat indoors in summer and outflow of heat from indoors in winter.



LED lighting

Energy-efficient LED lighting with brightness sensors is adopted. In addition to low power consumption, it contributes to reduction of CO2 emissions.



Power-sharing, energy-saving system

Sumitomo Realty has introduced a power-sharing, energy-saving system centering on Izumi Garden Tower. In addition to electricity supply from a utility, this system employs private power generation using a co-generation system to supply electricity to Izumi Garden Annex adjacent to Izumi Garden Tower and uses waste heat for highly efficient district heating and cooling on a daily basis, thus contributing to reduction of CO2 emissions (by approx. 2,600 tons, about 8% of current CO2 emissions).

Initiatives for condominium buildings

In planning condominium buildings, as well as enhancing insulation performance of floors, walls, and ceilings, we vigorously adopt technologies to enhance energy-saving effects, including roof greening, double glazing, total heat exchange systems, heat pump systems for efficient cooling and heating using heat in the air, heat-recovery-type gas-powered hot water supply systems, bathtubs that retain hot water temperature, and gas cookers with inner flame burners.

Photovoltaic power generation facilities and charging stations for electric vehicles are also installed to contribute to energy saving.



To Protect the Water Environment

Use of recycled water

At our office buildings and condominium buildings, facilities for reclaiming and treating rainwater and non-fecal wastewater have been vigorously introduced for use of recycled water. Recycled water is used for flushing toilets and for watering greenery and trees.

Building name	No. of floors	Gross floor area (m ²)	Completion
Shibuya Infoss Tower	21	34,460	March 1998
Sumitomo Fudosan Iidabashi First Building	14	53,322	March 2000
Sumitomo Fudosan Shibakoen First Building	35	63,822	June 2000
Sumitomo Fudosan Shibakoen Tower	30	36,300	October 2001
Sumitomo Fudosan Iidabashi Building No. 3	24	53,047	October 2002
Izumi Garden Tower	43	204,444	October 2002
Sumitomo Fudosan Mita Twin Building West	43	98,338	September 2006
Shinjuku Central Park City	44	130,695	February 2010
Sumitomo Fudosan Shinjuku Grand Tower	40	168,372	December 2011
Sumitomo Fudosan Tamachi First Building	11	21,802	April 2012
Tokyo Nihombashi Tower	35	105,837	April 2015
Sumitomo Fudosan Shinjuku Garden Tower	37	143,372	March 2016
Sumitomo Fudosan Roppongi Grand Tower	43	202,549	October 2016
Sumitomo Fudosan Osaki Garden Tower	24	201,560	January 2018
Sumitomo Fudosan Shibuya Tower	21	34,952	February 2019

To Reduce Industrial Waste

In accordance with the Basic Law for Establishing the Recycling-based Society promulgated in 2000, businesses are required to take action to address the continuing high volume of waste generation, which is considered a pressing issue in Japan. Sumitomo Realty is striving to minimize waste generation when remodeling buildings and upgrading facilities and also working to extend the life of buildings.

Initiatives through Shinchiku Sökkurisan remodeling

The strength and rigidity of timber increases in the course of 100 years or so. Short-cycle rebuilding wastes resources, imposing substantial unnecessary costs and generating large amounts of industrial waste because usable robust pillars and beams are discarded. In addition, conventional remodeling involves repeated piecemeal projects, resulting in generation of industrial waste each time.

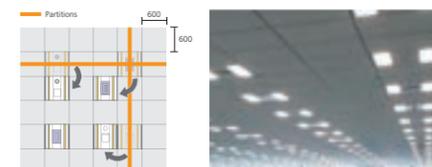
Shinchiku Sökkurisan is a systematic approach to extend the life of existing housing through earthquake-reinforcement work while retaining the main structural elements, thereby minimizing waste of resources and generation of industrial waste.

Refer to page 32.

Design of long-life office buildings

Extending the life of buildings through architectural design that ensures they are usable for many years with minimal deterioration will minimize resources wasted and industrial waste generated in reconstruction works, thus contributing greatly to reduction of environmental impacts. For office buildings, as well as design for superior earthquake resistance and fire resistance, we emphasize securing of space and design capable of responding to change in workstyles, change in office layout, and evolution of IT. For example, the "ceiling grid system" whereby ceiling equipment is incorporated in lighting panels makes relocation of the equipment easy.

Flexible response to changing office layout can minimize waste generation.



Design of long-life detached houses

Our custom home business employs the "wood panel construction method" for balanced distribution and adsorption of external forces such as earthquakes. In addition, standard specifications include "power panels," which are strong bearing walls with high magnification.

Enhancement of durability of houses extends their life, postponing the need for refurbishment and rebuilding, thus contributing to reduction of industrial waste.



To Protect and Promote Greenery —Vigorous promotion of roof greening and tree planting in development projects

Retaining and increasing greenery in cities, that is, creating communities in harmony with natural diversity, is integral to Sumitomo Realty's approach to environmental protection and urban redevelopment. The provision of public spaces rich in greenery is an indispensable theme incorporated in development plans. These public spaces can be used not only as venues for local people to relax but also contribute to mitigation of global warming and are useful in the event of a disaster.

Roof greening

Roof greening is an effective and efficient approach to tree planting in urban areas where space is limited. Green rooftops provide insulation by blocking direct sunshine and contribute to energy saving by enhancing the heating and cooling efficiency of the entire building. Roof greening also helps suppress temperature increases due to the heat island phenomenon.



Green open spaces

In urban areas with few parks or open spaces, the creation of green open spaces is a vital aspect of new development projects. City Tower Kanamachi has a spacious green area of some 3,800m², which is open to the public. The planting includes tall trees as well as various shrubs and flowers. This rare place where one can enjoy the changing beauty of the four seasons in an urban setting is a source of delight throughout the year for local residents.



Protecting nature

Urban development projects tend to involve the removal of mature trees that are already on sites earmarked for development. In contrast, instead of destroying nature, Sumitomo Realty seeks to preserve them so that they can be utilized as greenery to accomplish attractive urban development in harmony with nature. La Tour Sapporo Ito Garden was developed on the site formerly occupied by Kairakuen, one of the first municipal parks in Japan. The site, which includes a tract of virgin forest conserved since the time of Kairakuen, remains notable as a place where nature flourishes in an urban setting.



Creating a Workplace Environment Suitable for Diverse Human Resources

Sumitomo Realty is working to create a superior workplace environment and implementing various initiatives with the aim of becoming an enterprise where all employees are valued and experience a powerful sense of purpose.

Hiring of Diverse Human Resources

Sumitomo Realty hires diverse human resources, with an emphasis on individuals with distinctive personalities, through recruitment of new graduates and mid-career professionals with particular expertise and experience. Bonus assessment is conducted on a uniform basis regardless of age and position, promotion is not in accordance with the number of years of service so as to give young employees opportunities, and the progressive performance-linked pay with high-percentage commissions is among the highest in the industry. Within the framework of a flexible personnel system focused on job descriptions and roles, we are working to create a workplace environment where all employees can display their full potential.

Initiatives for Empowerment of Women

Our action plan in accordance with the Act on Promotion of Women's Participation and Advancement in the Workplace is to increase the ratio of women among new hires. Our target is to increase the ratio of women among new hires for sales and engineering, two job categories with promising career opportunities for women, from 17.9% to 25% and from 5.4% to 8%, respectively, in the period from April 2016 to March 2021. The ratio improved every year, and we achieved the target as of March 31, 2019, ahead of the plan, with 26.5% and 9.2%, respectively. We will continue our efforts to create a workplace where women are empowered.

Education and Training

In order to enhance the professional and managerial capabilities of individual employees according to the skills they require, we hold various training sessions, conduct OJT, and support employees who are endeavoring to gain qualifications.

Moreover, we strive to achieve optimal personnel assignment and to create a workplace where employees can work with peace of mind. For that purpose, we emphasize communication, including through interviews with employees conducted by the Human Resources Department.

Creating a Good Working Environment

Measures to ensure compliance and prevent harassment

We are taking steps to raise the awareness of our employees about human rights issues, prevention of different types of harassment, compliance, prevention of long working hours and other issues from various perspectives by periodically holding personnel training programs. Furthermore, internal points of contact have been established for consultation about sexual harassment and other issues and for whistleblowing, respectively. When reports are received at these points of contact, matters are dealt with fairly and strictly, and steps are taken to ensure confidentiality.

Flexible work styles

Various systems are available to enable flexible work styles, including variable working hours for job categories with considerable variation in workload from month to month or year to year, remote work, and staggered working hours available for female employees with young children. We are endeavoring to create a working environment where all employees can work efficiently by making the best use of the various systems available.

Employees' Health and Safety

Health

In addition to financial support for employees receiving a comprehensive medical checkup and free-of-charge influenza vaccination, we conduct an annual health checkup of all employees.

Furthermore, employees can seek advice from medical specialists free of charge about mental and physical health. Free-of-charge consultation is also available over the phone, considering privacy.

Employees' working hours are strictly managed to prevent excessively long hours of work. Employees who do more than a certain amount of overtime receive a medical check by an industrial physician based on an interview sheet and, if necessary, employees receive face-to-face health guidance. In these ways, we are implementing careful management of employees' health.

Also, as part of the initiatives to support employee health, Sumitomo Realty has become a corporate member of fitness clubs operated by Sumitomo Fudosan Esforta and has encouraged employees' use of those facilities.

Elimination of occupational accidents

With the aim of eliminating occupational accidents, the Construction Divisions hold an annual occupational health and safety conference and each site holds a monthly safety meeting to ensure safety management. Staff of the Construction Safety Management Section which is an organization dedicated to safety management, patrol construction sites throughout Japan and provide guidance.



Providing Products and Services to Support Customers' Comfortably Affluent Daily Lives

Sumitomo Realty's products, namely office and residential properties, are important venues where customers conduct business or where their private lives are centered. In order to ensure superior quality management and enhance services, each division is adopting direct marketing and management systems emphasizing communication with customers.

Communication with Customers

Sumitomo Realty employees are directly involved in marketing and management of office buildings and condominiums. Directly communicating with customers, they feed back the voice of the customer to product development so that customers' perspectives are reflected in products attuned to customer needs.

Feedback Meeting

For condominium development, the feedback meeting is held periodically with staff from the after-sales service department as well as sales, architectural design, and management departments participating. Issues reported at the Feedback Meeting are fed back to product development to be reflected as necessary, in review of the architectural design criteria and management, sales, and after-sales service systems.

For example, at condominiums with 24-hour manned management, interphones were modified to enable two-way communication between the disaster prevention center and each residence.



Questionnaire Surveys of Customers

Our condominium sales, Shinchiku Sokkurisan remodeling, custom home construction, and hotel operations conduct questionnaire surveys of customers with a view to enhancing customer satisfaction. Sumitomo Fudosan Tatemono Service also conducts questionnaire surveys of directors of home-owner associations of condominium buildings in order to enhance the quality of management.

Customer Center (Call Center)

In 1999, ahead of industry peers, Sumitomo Realty established within the head office a department dedicated to after-sales services, which was previously a unit of a condominium management company. In April 2007 contacts for customers, which were previously separate according to products (condominiums, custom homes, and Shinchiku Sokkurisan remodeling) and regions, were integrated in the Customer Center in order to effectively and speedily respond to the voice of the customer to further enhance customer satisfaction.

Calls to the Customer Center's toll-free number are handled around the clock throughout the year by operators exclusively assigned for that purpose. Customer inquiries, etc. are transferred to appropriate departments to ensure accurate and swift responses. The Customer Center is striving to become a contact point that customers will call whenever they wish to seek advice or for troubleshooting, not just in emergencies.

Investor Relations

In addition to swift disclosure of material information to shareholders and investors, the Company posts the latest management information, including the financial summary and other financial data, on its website to enhance management transparency.

At a meeting held semiannually to present financial results to analysts and institutional investors, the President and officers in charge make presentations. We also actively engage in small meetings and individual meetings, at which we provide briefings and answer questions, and hold teleconferences in response to inquiries. In addition, we are enriching the provision of information in English.

Information for Investors

Japanese: <http://www.sumitomo-rd.co.jp/ir/>

English: <http://www.sumitomo-rd.co.jp/english/>

Corporate Governance

Board of Directors and Statutory Auditors (As of September 30, 2019)



Chairman of the Board
Kenichi Onodera

Apr 1970 Joined the Company
June 1998 Director
June 2007 Director - President
Sept 2019 Director - Chairman of the Board (present)



President
Kojun Nishima*

Apr 1984 Joined the Company
June 2009 Director
June 2010 Representative Director (present)
June 2013 Director - President (present)
May 2017 Head of Building Development Division (present)



Deputy President
Nobuaki Takemura*

Apr 1981 Joined the Company
June 2008 Director
June 2010 Representative Director (present)
June 2013 Director - Deputy President (present)
Mar 2016 Head of Management Division (present)

(Significant concurrent positions outside the Company)
Director of Sumitomo Real Estate Sales Co., Ltd.



Deputy President
Masato Kobayashi*

Apr 1983 Joined the Company
June 2009 Director
June 2010 Representative Director (present)
June 2013 Director - Deputy President (present)
Nov 2017 Head of Residential Business Division (present)



Director
Hiroshi Kato

Apr 1984 Joined the Company
June 2013 Director (present)
Sept 2016 Head of Shinchiku - Sokkurisan Remodeling Division (present)



Director
Hisatoshi Katayama

Apr 1985 Joined the Company
Sept 2016 Head of Urban Property Development Division (present)
June 2018 Director (present)



Director
Yoshiyuki Odai

Apr 1985 Joined the Company
June 2011 Director (present)
Nov 2016 General Manager of Finance and Accounting Department, Management Division (present)



Director
Koji Ito

Apr 1984 Joined the Company
June 2013 Director (present)
Apr 2019 Representative Director - President of Sumitomo Real Estate Sales Co., Ltd. (present)

(Significant concurrent positions outside the Company)
Representative Director - President of Sumitomo Real Estate Sales Co., Ltd.

Outside Director



Outside Director
Yoza Izuhara

Apr 1962 Joined Nippon Sheet Glass Co., Ltd.
June 1996 Managing Director
June 1998 Representative Director, President
June 2004 Representative Director, Chairman
June 2008 Director, Chairman of the Board
Oct 2009 Director, Chairman of the Board - Chairman
June 2010 Executive Advisor
June 2012 Honorary Senior Advisor (present)
June 2014 Statutory Auditor of the Company (present)



Outside Director
Nobumasa Kemori

Sept 1980 Joined Sumitomo Metal Mining Co., Ltd.
June 2006 Director, Managing Executive Officer
June 2007 President, Representative Director
June 2013 Chairman, Representative Director
June 2016 Chairman
June 2017 Executive Advisor (present)

(Significant concurrent positions outside the Company)
Executive Advisor of Sumitomo Metal Mining Co., Ltd.
Outside Director of NAGASE & CO., LTD.
Outside Director of JFE Holdings, Inc.

Statutory Auditors

Yoshifumi Nakamura

Toshikazu Tanaka

Takaaki Ono*

Yoshiyuki Norihisa*

*Outside Statutory Auditors

Relationship with the Company and Reasons for Appointment

Name	Designation as Independent Officer	Supplementary Explanation of the Relationship	Reasons for Appointment
Yoza Izuhara	○	Mr. Izuhara previously worked for Nippon Sheet Glass Co., Ltd., with which the Company has some transactions, etc. Considering the scale and nature of such transactions, the Company judges it is unlikely the relationship would have any impact on decisions of shareholders and investors.	Mr. Izuhara has a wealth of managerial experience at another company. In view of his personality, insight, experience, etc., the Company judges he is suitable and qualified to serve as an outside director and has appointed him to that position.
Nobumasa Kemori	○	Mr. Kemori previously worked for Sumitomo Metal Mining Co., Ltd., with which the Company has some transactions, etc. Considering the scale and nature of such transactions, the Company judges it is unlikely the relationship would have any impact on decisions of shareholders and investors.	Mr. Kemori has a wealth of managerial experience at another company. In view of his personality, insight, experience, etc., the Company judges he is suitable and qualified to serve as an outside director and has appointed him to that position.
Takaaki Ono	○	There is no special conflict of interest between Mr. Ono and the Company.	Mr. Ono has a wealth of managerial experience. In view of his personality, insight, experience, etc., the Company judges he is suitable and qualified to serve as an outside statutory auditor and has appointed him to that position.
Yoshiyuki Norihisa	○	Mr. Norihisa previously worked for Sumitomo Mitsui Construction Co., Ltd., with which the Company has some transactions, etc. Considering the scale and nature of such transactions, the Company judges it is unlikely the relationship would have any impact on decisions of shareholders and investors.	Mr. Norihisa has a wealth of managerial experience at another company. In view of his personality, insight, experience, etc., the Company judges he is suitable and qualified to serve as an outside statutory auditor and has appointed him to that position.

*Representative Director

Matters concerning Corporate Governance

Corporate Governance Overview

Fundamental Approach to Corporate Governance

To achieve sound management, Sumitomo Realty believes that it is important to share information on a companywide basis, ensure that everyone is aware of problems, enhance internal management supervision and achieve highly transparent management through appropriate information disclosure. We have implemented a number of corporate governance initiatives to realize these practices efficiently.

Institutional design	Company with Auditors
Number of directors (of whom outside directors)	10 (2)
Number of statutory auditors (of whom outside statutory auditors)	4 (2)
Terms of office of directors	2 years
Analysis and evaluation of effectiveness of the Board of Directors	At the meeting of the Board of Directors held on March 29, 2019, analysis and evaluation of the structure and the operational status of the Board of Directors were performed, and it was confirmed that effectiveness of the Board of Directors is secured appropriately.
Opportunities for outside directors and statutory auditors for gaining information	The Company periodically briefs outside directors and statutory auditors on the industry to which the Company belongs, the Company's history, business overview, financial information, strategies, organizations, etc. and offers all directors and statutory auditors opportunities for gaining information necessary for them to fulfill their roles and responsibilities.
Compensation system for directors and statutory auditors	Performance-based compensation system
Auditing company	KPMG AZSA LLC



Corporate Governance Bodies

The Board of Directors consists of 10 directors, including two outside directors. The Board makes decisions on important Company matters and oversees the directors' execution of duties. Furthermore, internal information, awareness of issues and other matters are shared through the Board of Directors, internal meetings and other forums, promoting quick and rational decision-making.

The Board of Directors as a whole has knowledge, experience, and capabilities necessary for corporate management, and balance, diversity and scale are secured that enable swift decision-making.

At the meeting of the Board of Directors held on March 29, 2019, analysis and evaluation of the structure and the operational status of the Board of Directors were performed, and it was confirmed that effectiveness of the Board of Directors is secured appropriately.

The Board of Statutory Auditors has four members, including two outside statutory auditors. To strengthen management oversight, we continue working to enhance outside auditing. The statutory auditors attend meetings of the Board of Directors and other important meetings and track internal issues that are important for robust auditing.

Two outside directors were elected at the ordinary General Meeting of Shareholders held in June 2019. These directors possess a wealth of management experience and were nominated as a director in light of their appropriate personal character, knowledge and judgment. The Company has appointed outside directors to

further enhance management efficiency and strengthen the corporate governance structure by contributing points of view that are not bound by preconceived ideas of the real estate industry and advice from a global perspective. The professional history of the outside director is on page 41.

Both of the outside statutory auditors has abundant management experience at other companies, and they were nominated because their character and knowledge were considered to be appropriate for the Company's statutory auditors. The outside statutory auditors fulfill their roles by expressing objective opinions on governance from an independent standpoint from the Company without being influenced by executives responsible for operational execution. They also work together to improve auditing by, for example, exchanging opinions as needed with other statutory auditors, the Internal Audit Division and the independent auditors. At the same time, they provide timely advice and guidance to internal departments associated with internal control.

Sumitomo Realty does not have standards or a policy regarding independence from the Company for selecting outside directors and outside statutory auditors. However, the Company does refer to the Tokyo Stock Exchange's evaluation standards regarding the independence of directors and corporate auditors when appointing such individuals.

The Company periodically briefs outside directors and statutory auditors on the industry to which the Company belongs, the Company's history, business overview, financial information, strategies, organizations, etc. The Company also offers all directors and statutory auditors opportunities for gaining information necessary for

them to fulfill their roles and responsibilities.

The Internal Audit Division, which has 10 staff members, monitors the operational execution of divisions throughout the Group and the operation of internal control systems. The division also works to prevent misconduct and mistakes, and proposes operational improvements. Moreover, the division reports the results of its audits to the statutory auditors and the independent auditors and exchanges opinions with them in an appropriate manner. These activities help to improve the quality and efficiency of the audit work of the Internal Audit Division, the statutory auditors and the independent auditors. At the same time, the Internal Audit Division, the statutory auditors and the independent auditors provide timely advice and guidance to internal departments that are associated with internal control.

At meetings with the independent auditor and by means of communications with the independent auditor, as necessary, the statutory auditors receive information about audits and reports on the audit plan, audit results, etc. from the independent auditor, and exchange opinions with them, and moreover exchange necessary information with them in an effort to achieve smooth and effective audits. The statutory auditors also monitor and examine whether the independent auditor is maintaining independence, and is executing appropriate audits.

Reasons for Adopting the Current Corporate Governance Structure

In addition to directors who are well-acquainted with the Company's business, we established a structure in June 2015 for appointing two outside directors for further enhancement of management efficiency and strengthening of the corporate governance structure. To strengthen the management oversight system, we have also adopted a structure for the Board of Statutory Auditors that includes two outside statutory auditors, and we therefore believe that sufficient corporate governance functions are in place.

Although no voluntary committees have been established, the Company has adopted the following system for strengthening independence and objectivity of the functions of the Board of Directors concerning nomination, compensation, etc. of senior executives and directors as well as accountability.

Regarding nomination of candidates for positions as senior executives and directors, persons with rich experience, high-level insight and sophisticated expertise who will contribute to the Company's sustainable growth and medium- to long-term enhancement of corporate value are selected as candidates, and the candidates are determined by the Board of Directors based on thorough deliberation, reflecting independent and objective opinions of independent outside directors and outside statutory auditors in addition to opinions of internal directors who are familiar with the Company's business.

Compensation etc. of Directors and Statutory Auditors

At the ordinary General Meeting of Shareholders held in June 2004, we introduced a new performance-based compensation system for directors. Under this system, the annual compensation for directors is based on the Company's performance. The new system combines the three elements that made up the previous system—monthly compensation, annual bonuses and retirement allowances.

Under the new system, total annual (July to June) compensation for directors is set at just 1% of consolidated ordinary profit. In the year under review, compensation for directors (excluding outside directors) was ¥1,782 million, compensation for statutory auditors (excluding outside statutory auditors) was ¥30 million and compensation for outside directors and outside statutory auditors was ¥64 million.

The number of directors at the time of the resolution concerning the system was 12. Compensation of statutory auditors who are independent from business execution is in fixed amounts, and is determined to be within ¥6.5 million per month in accordance with the resolution made at the ordinary general meeting of shareholders held on June 29, 1999.

The above-mentioned amount of compensation of directors is not paid to each of the directors in whole in the year under review, but around 50% of the whole amount is paid. Payment of the rest is reserved in preparation for retirement benefit for directors, making up for possible decreases in directors' compensation if the Company's financial performance deteriorates in the future, salaries to be paid to persons who will become advisors or counsellors of the Company after retirement, etc. Regarding the reserved amount, the timing of payment and the amount for each director or statutory auditor cannot be determined, and thus, the reserved amount will become subject to calculation of compensation etc. of each director or statutory auditor upon payment in the future or upon confirmation of future payment. The total amount of directors' compensation is determined clearly based on performance, as

described above, and the allocation is determined based on thorough deliberation at meetings of the Board of Directors also attended by independent outside directors and outside statutory auditors.

The total amount etc. of consolidated compensation etc. of each director or statutory auditor is not presented because no one receives compensation amounting to ¥100 million or more.

Overview of Limited Liability Agreements

The Company has entered into a limited liability agreement with each of its all outside directors and outside statutory auditors in accordance with laws and regulations and provisions of the articles of incorporation. Under the agreements, their liabilities are limited to the minimum limit stipulated by laws and regulations.

Number of Directors

The number of directors of the Company shall be 12 or fewer as specified in the articles of incorporation.

Requirements for a Resolution of Election of Directors

In the Company's articles of incorporation, it is specified that a resolution for election of Directors shall be adopted at a General Meeting of Shareholders by a majority vote of the shareholders in attendance who hold one-third (1/3) or more of the voting rights of shareholders entitled to exercise voting rights, and the resolution shall not be adopted by cumulative voting.

Purchase of Own Shares

By the resolution of the Ordinary General Meeting of Shareholders held on June 28, 2007, the Company partially amended the articles of incorporation, and in the amended articles of incorporation it is specified that the Company may purchase its own shares through market transactions, etc. by a resolution of the Board of Directors.

The purpose is to enable flexible implementation of a capital policy in response to change in the business environment and to diversify the means of returning profit to shareholders.

Requirements for Special Resolutions of a General Meeting of Shareholders

In the Company's articles of incorporation, it is specified that a resolution of a General Meeting of Shareholders pursuant to Article 309, Paragraph 2 of the Japanese Corporate Law shall be adopted by two-thirds (2/3) or more of the votes of the shareholders in attendance who hold one-third (1/3) or more of the voting rights of shareholders entitled to exercise voting rights. The purpose is to ensure smooth operation of a General Meeting of Shareholders by easing the quorum required for special resolutions of a General Meeting of Shareholders.

Interim Dividend

In the Company's articles of incorporation, it is specified that the Company may pay an interim dividend with the record date of September 30 of each year by a resolution of the Board of Directors for flexibly returning profit to shareholders.

Exemptions of Liabilities of Directors and Statutory Auditors

In the Company's articles of incorporation, it is specified that the Company may exempt directors and statutory auditors from liability for damages to the Company within the scope stipulated by laws and regulations by a resolution of the Board of Directors so that directors and statutory auditors can fulfill the roles and functions expected of them.

Independent Auditors

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

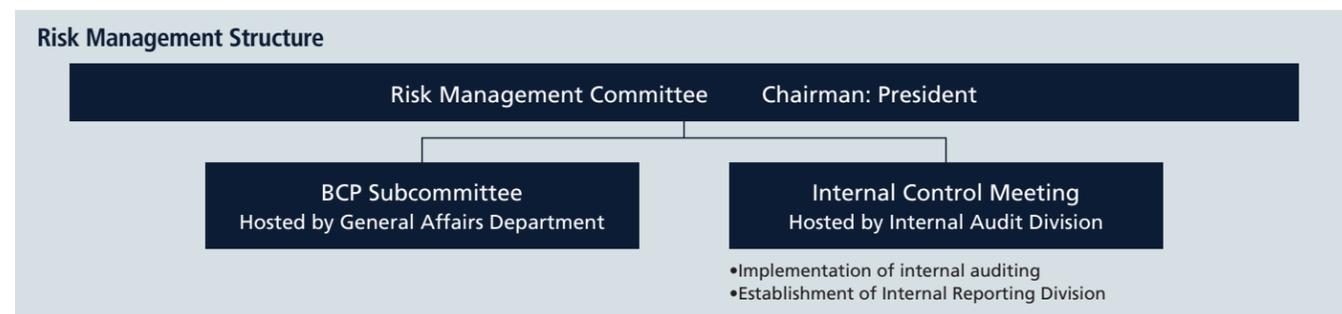
There are no conflicts of interest between Sumitomo Realty and the independent auditing company or its employees.

Regarding election of the independent auditor, the Company makes a comprehensive judgment, taking into consideration the appropriateness of the quality control system, independence of the auditing company, validity of the audit plan and audit fees, etc.

The statutory auditors and the Board of Statutory Auditors deem that there are no grounds for dismissal of or refusal to reappoint the independent auditor concerning the status of independent auditor's execution of duties, audit system, independence, etc.

The fees paid to auditing certified public accountants, etc. during the year ended March 31, 2019 amounted to ¥203 million.

Risk Management



Systems for ensuring appropriateness of business operations

The Company considers that establishment of internal control systems is one of the important management issues concerning the enhancement of corporate value and sustainable development of the Company and its subsidiaries (hereinafter referred to as the "Group") as a whole. With regard to the matters listed below, the Company shall establish systems in which roles and responsibilities of the Group's directors and employees are clarified, and through operation and appropriate review of such systems, the Company shall strive to establish appropriate systems for governance of the Group's directors and employees.

(1) Systems for ensuring that the execution of duties of the Group's directors and employees complies with laws and regulations and with the articles of incorporation

In order to enhance and strengthen internal control of the Group, the Company has established the Risk Management Committee chaired by the Company's President. The Internal Control Meeting (hosted by the Company's Internal Audit Division), which is a subordinate organization of the Risk Management Committee, monitors compliance promotion activities of the Group, and reports the result to the Risk Management Committee.

The Company's Internal Audit Division performs internal audits including those of subsidiaries, and several contacts for whistleblowing are established within and outside the Company to detect and prevent any misconduct or illegal acts.

(2) Systems for retention and management of information concerning the execution of duties of the Company's directors

Minutes of meetings of the Board of Directors of the Company, requests for managerial decision, and other documents (including electromagnetic records) are prepared, and these documents are retained and managed by the respective responsible departments in accordance with the Criteria for Document Retention Periods and the Information Management Rules.

(3) Rules and other systems related to management of risks of losses of the Group

Among the risks of the Group, the risks associated with the business, such as investment risk and market risk, are monitored and addressed by the respective departments and subsidiaries properly, and important matters are discussed and determined at meetings of the Company's Board of Directors and other important meetings such as management meetings. Moreover, in order to address risks of large-scale disasters, etc. affecting business continuity, the BCP Subcommittee (hosted by the Company's General Affairs Department), a subordinate organization of the Risk Management Committee, monitors the status of development of business continuity planning (BCP) by the Group, and reports the result to the Risk Management Committee.

(4) Systems for ensuring that the execution of duties of the Group's directors is performed efficiently

The Group's directors direct and supervise business operations of the respective departments and subsidiaries in accordance with the Company's management plan. Moreover, the Group's employees efficiently perform their duties under the direction and supervision of the Board of Directors and heads of respective departments, etc.

(5) Systems for ensuring appropriateness of business operations of the Group consisting of the Company and its subsidiaries and systems related to reporting of matters concerning the execution of duties to the Company

The Company periodically receives reports from each subsidiary on the execution of

duties, such as the status of business execution and financial conditions, and provides advice and guidance concerning business operations properly, depending on the nature of the matter in question.

Moreover, the Company's statutory auditors and the Company's Internal Audit Division audit each subsidiary, as necessary.

(6) Particulars related to employees when the Company's statutory auditors request that employees be appointed to assist with the duties of the statutory auditors and particulars related to ensuring independence of such employees from directors and effectiveness of the instructions of the Company's statutory auditors to the employees

If the Company's statutory auditors make requests to personnel of the Company's Internal Audit Division concerning matters necessary for audit practices, such personnel shall proactively offer cooperation. In such a case, the personnel who provide assistance shall not be in the chain of command of directors or any other personnel concerning the matters for which they are requested to provide assistance.

(7) Systems for reporting to the Company's statutory auditors by the Group's directors etc. and employees or by a person who received reports from such persons and other systems related to reporting to the Company's statutory auditors

When the Group's directors, etc. and employees or a person who received reports from such persons report to the Company's statutory auditors, or when they are requested by the Company's statutory auditors to report, necessary reports shall be provided swiftly and persons who make reports shall not be treated disadvantageously for reasons of making such reports. Moreover, the independent auditor and the Company's Internal Audit Office shall report to the Company's statutory auditors concerning the audit status properly.

(8) Particulars related to policies concerning the procedures for advance payment or reimbursement of expenses that arise with regard to the execution of duties of the Company's statutory auditors or any other processing of expenses or obligations that arise with regard to the execution of duties

When, concerning the execution of duties, a statutory auditor of the Company requests advance payment or reimbursement, etc. of expenses in accordance with the Japanese Corporate Law, the Company shall process such expenses or obligations, excluding any cases deemed unnecessary for the execution of duties of the said statutory auditor.

(9) Other systems for ensuring that audits by the Company's statutory auditors are performed effectively

Opportunities are ensured for the Company's statutory auditors to attend meetings of the Board of Directors and other important meetings so that they can comprehend the Group's important issues, etc., and state opinions, as necessary.

(10) Basic view for elimination of antisocial forces and the status of establishment of such systems

The Company shall take a resolute attitude toward antisocial forces that threaten social order and safety, and have no relationships with such antisocial forces. Designating the General Affairs Department as a division in charge of countermeasures against antisocial forces, the Company has appointed a person responsible for the prevention of unjust claims. Furthermore, the Company collects and manages information concerning antisocial forces by collaborating with the police and other relevant institutions, and shares such information internally along with cautionary notices.

Other Information Concerning Governance

The Policy on Large-Scale Purchase of Shares of the Company (Takeover Defense Measures)

The real estate leasing business primarily involving office buildings in central Tokyo has been a driving force underpinning the Company's growth thus far. Given that this business accounts for nearly 70% of the Company's operating income overall, it clearly forms the core aspect of its corporate value acting as a major pillar of operations.

The Eighth Management Plan cites as its secondary objective the notion of steadily promoting new building development plans in central Tokyo to achieve gross floor area exceeding 800,000 tsubo (one tsubo is roughly 3.3m²), which constitutes more than 50% of the 1,520,000 tsubo in gross floor area for leasing as of March 31, 2019. The Company aims to further expand its earnings base, increase its corporate value and augment shareholder returns by successively completing such developments and putting them into operation.

Such large-scale development plans involve ultimately generating revenues from the substantial amount of cumulative upfront investment made thus far. The Company has long managed to continuously expand its business platform by developing lease buildings while avoiding exposure to vicissitudes of the real estate market and business conditions, given that it has normally been buoyed by its leasing business cash flows which have been a stable source of revenues. As such, the Company needs to maintain and further expand its cash flows from the leasing business, which have grown to around ¥200 billion, in order to confidently carry out such upfront investment without having to continually resort to interest-bearing debt. Moreover, it is likely to take another six or seven years before the Company achieves full profitability given that the focus has been on large-scale redevelopment.

Meanwhile, if the Company adopts a short-term management policy to seek temporary earnings and realizes latent gains by selling real estate holdings prior to having accomplished the objectives of the development plans formulated to contribute to higher corporate value in the future, the leasing business cash flows that act as a stable revenue source will decrease, thereby exposing the development plans to financial risk. As such, the Company is unable to rule out a possible threat of damage to the foundations of the Company's corporate value.

The Company's management policy aims to steadily increase corporate value based on a medium- to long-term outlook, and is consequently incompatible with such short-term goals. As such, if an investor seeking to orchestrate a takeover emerges, the Company believes that it must seek a mandate from its shareholders upon having ensured sufficient information and time for completing discussions, and the Company deems that preliminary development of procedures through "the Policy on Large-Scale Purchase of Shares of the Company (Takeover Defense Measures)" (hereinafter referred to as the "Policy") aligns with the common interests of shareholders. The Policy was adopted based on the decision of the meeting of its Board of Directors dated May 17, 2007, was continued or renewed upon receiving approval from shareholders at each of the shareholders' meetings of the 74th fiscal year dated June 28, 2007, the 77th fiscal year dated June 29, 2010, the 80th fiscal year dated June 27, 2013, the 83rd fiscal year dated June 29, 2016, and the 86th

fiscal year dated June 27, 2019. The term of the Policy will expire upon the conclusion of the shareholders' meeting of the 89th fiscal year scheduled to be held in June 2022.

The Company believes that if a large-scale purchase of the Company shares ("Large-Scale Purchase") is initiated, the shareholders should decide to accept or reject the Large-Scale Purchase. In order for the shareholders to correctly recognize the effect on the corporate value and common interests of shareholders, however, it is necessary that both the party making the Large-Scale Purchase (the "Large-Scale Purchaser") and the Board of Directors of our company provide to the shareholders necessary and sufficient information, opinions, alternative proposals etc., and necessary and sufficient time to consider the provided information, opinions, alternative proposals etc.

The Policy sets out rules on Large-Scale Purchases (hereinafter referred to as "Large-Scale Purchase Rules") and requests the Large-Scale Purchaser to comply with the Large-Scale Purchase Rules. The Large-Scale Purchase Rules state that the Large-Scale Purchaser provide the Board of Directors of the Company necessary and sufficient information regarding the Large-Scale Purchase in advance, and only commence the Large-Scale Purchase after a certain period of evaluation by the Board of Directors of the Company has elapsed. The Board of Directors shall take countermeasures that it deems necessary if the Large-Scale Purchaser does not comply with the Large-Scale Purchase Rules, or even though the Large-Scale Purchaser complies with the Large-Scale Purchase Rules, if it is clear that the Large-Scale Purchase will cause unrecoverable damages to the Company or if the Large-Scale Purchase significantly damages the corporate value and common interests of shareholders.

Additionally, the Board of Directors of the Company shall consult with a Special Committee consisting of external academic experts, lawyers, certified public accountants, etc., and shall receive the recommendations of the Committee when taking decisions as to whether or not the Large-Scale Purchaser complies with the Large-Scale Purchase Rules, whether or not it is clear that the Large-Scale Purchase will cause unrecoverable damages to the Company, whether or not the Large-Scale Purchase will significantly damage the corporate value and common interests of shareholders, and whether or not countermeasures should be taken. The Board of Directors of the Company shall take the Special Committee's recommendations into the fullest account.

As stated above, the Policy stipulates rules to secure the necessary information and time for shareholders to deliberate on the Large-Scale Purchase, as well as countermeasures if the Large-Scale Purchaser does not comply with the Large-Scale Purchase Rules or if it is clear that the Large-Scale Purchase will cause unrecoverable damages to the Company. The purpose of the Policy is not to maintain the status of the Company's officers but to contribute to the Company's corporate value and the common interests of its shareholders.

Timely and Appropriate Information Disclosure and Communication with Shareholders and Investors

The Company considers that it is important to ensure soundness and transparency of management by means of timely and appropriate information disclosure.

In accordance with this basic policy, the Company has put in place systems that enable swift reporting to the responsible department at the head office and implementation of appropriate information management measures, if a material fact that may have an impact on investors' investment decisions arises at the Company's departments or at subsidiaries.

Upon emergence of a material fact and reporting thereof, the responsible department, the General Affairs Department, the Finance and Accounting Department, and other relevant departments, discuss whether there is need for timely disclosure, and if it is judged that disclosure is necessary, timely disclosure is performed without delay following the necessary internal procedures. Subsequently, the disclosure materials are posted on the Company's website for thorough information disclosure.

The Company strives to provide explanation of the Company's corporate management and business activities through General Meetings of Shareholders, financial results briefing sessions, individual meetings, and other opportunities for communication with shareholders and investors.

If a shareholder requests a dialogue, the Company's policy is that the department responsible for IR or other departments respond to such request appropriately under the supervision of the responsible director, etc. depending on the objective of the dialogue, the method of communication, the number of shares held, the attributes, etc.

Regarding dialogues with shareholders, the Company exercises due care concerning the handling of insider information, and notifies, as necessary, important meetings such as management meetings attended by directors and senior executives, of the details of the dialogues.

Financial Section

Eleven-year Financial Summary

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2019
	Millions of yen											Thousands of U.S. dollars*1
For the Year												
Revenue from operations	¥1,013,230	¥ 948,402	¥ 925,151	¥ 854,964	¥ 806,835	¥ 780,273	¥ 736,652	¥ 688,662	¥ 744,756	¥ 719,636	¥ 695,240	\$ 9,128,198
Leasing	381,764	353,881	337,466	313,340	289,117	283,730	278,317	271,812	292,875	293,533	298,359	3,439,315
Sales	331,752	311,193	314,299	274,761	264,207	234,093	232,149	198,154	239,709	219,662	191,224	2,988,757
Construction	221,693	209,356	203,623	199,115	188,995	201,190	171,082	165,995	162,924	158,214	160,134	1,997,234
Brokerage	72,899	69,169	66,714	61,496	58,486	57,211	50,957	49,397	46,430	44,621	43,105	656,748
Cost of revenue from operations	711,052	664,015	664,184	614,191	579,964	558,987	529,913	490,437	551,364	534,270	496,547	6,405,874
SG&A expenses	81,759	78,750	72,796	66,532	60,976	60,815	55,394	50,760	54,929	51,387	52,327	736,567
% of revenue from operations	8.1%	8.3%	7.9%	7.8%	7.6%	7.8%	7.5%	7.4%	7.4%	7.1%	7.5%	
Operating income	220,419	205,637	188,171	174,241	165,895	160,471	151,345	147,465	138,463	133,979	146,366	1,985,757
% of revenue from operations	21.8%	21.7%	20.3%	20.4%	20.6%	20.6%	20.5%	21.4%	18.6%	18.6%	21.1%	
Ordinary profit**2	204,257	186,871	167,697	148,424	139,055	130,537	114,916	107,912	106,296	100,464	113,582	1,840,153
% of revenue from operations	20.2%	19.7%	18.1%	17.4%	17.2%	16.7%	15.6%	15.7%	14.3%	14.0%	16.3%	
Profit attributable to owners of parent	130,817	119,731	103,489	87,798	80,567	69,697	59,825	53,236	50,908	52,662	46,205	1,178,532
Depreciation and amortization	46,313	41,628	39,446	34,574	33,519	35,311	37,761	36,049	23,705	18,065	17,886	417,234
At Year-end												
Current assets	¥ 933,011	¥1,126,118	¥1,197,508	¥1,122,189	¥1,025,703	¥ 924,452	¥ 965,786	¥ 801,142	¥ 805,958	¥ 802,693	¥ 759,816	\$ 8,405,504
Inventories	679,903	783,308	845,214	855,816	801,950	715,779	679,496	586,170	558,091	521,871	518,885	6,125,252
Total assets	5,127,465	5,167,199	4,980,040	4,675,915	4,523,804	4,220,429	4,105,500	3,859,698	3,234,203	3,168,098	3,006,412	46,193,378
Shareholders' equity*3	1,208,117	1,114,975	1,007,347	888,100	832,462	707,948	627,012	553,844	526,227	488,896	436,667	10,883,936
Net interest-bearing debt	3,170,595	3,210,302	3,101,162	2,971,667	2,875,660	2,652,929	2,424,932	2,407,639	1,901,850	1,785,854	1,722,733	28,563,919
Per Share Amounts (Yen)												
Profit attributable to owners of parent	¥ 276.02	¥ 252.62	¥ 218.34	¥ 185.23	¥ 169.97	¥ 147.02	¥ 126.18	¥ 112.28	¥ 107.35	¥ 111.04	¥ 97.39	\$ 2.49
Shareholders' equity	2,549.09	2,352.53	2,125.36	1,873.71	1,756.25	1,493.48	1,322.52	1,168.11	1,109.78	1,030.93	920.74	22.96
Cash dividend applicable to the year	30.00	27.00	24.00	22.00	21.00	20.00	20.00	20.00	20.00	20.00	20.00	0.27
Key Ratios												
Equity ratio (%)	23.6	21.6	20.2	19.0	18.4	16.8	15.3	14.3	16.3	15.4	14.5	
ND/E ratio*4 (Times)	2.6	2.9	3.1	3.3	3.5	3.7	3.9	4.3	3.6	3.7	3.9	
ROE (%)	11.3	11.3	10.9	10.2	10.5	10.4	10.1	9.9	10.0	11.4	10.7	
ROA (%)	4.5	4.2	4.0	3.9	3.9	4.0	3.9	4.3	4.4	4.4	5.1	
Long-term debt ratio (%)	99	98	98	98	97	95	93	93	89	83	76	
Fixed-interest rate debt ratio (%)	96	94	95	94	87	82	80	80	79	81	77	
Interest coverage ratio*5 (Times)	11.4	10.5	9.0	7.3	6.5	6.1	4.9	4.2	4.7	4.6	4.9	

*1. U.S. dollar amounts in this report are translated, for convenience only, at the rate of ¥111.00 = U.S. \$1, the prevailing exchange rate at March 31, 2019.

*2. Ordinary profit, which equals operating income after adjustment for non-operating gains/losses, is a management index that is widely used in Japan.

Due to differences in accounting standards, ordinary profit is not referred to in the Company's English-language financial statements but is included here because it plays an important role in the calculation of incentive payments for directors.

*3. Shareholders' equity = Net assets - Non-controlling interests

*4. ND/E ratio = Net interest-bearing debt (Interest-bearing debt - Cash, time and notice deposits) / Shareholders' equity

*5. Interest coverage ratio = (Operating income + Interest and dividend income) / Interest expense

Management's Discussion and Analysis

Business Results for the Fiscal Year under Review

During the March 2019 fiscal year, the final year of the Seventh Management Plan, we marked the seventh consecutive year of revenue growth, the ninth consecutive year of increases in operating income and ordinary profit, and the sixth consecutive year of record revenue from operations, operating income, ordinary profit, and profit attributable to owners of parent.

In addition, revenue from operations exceeded the ¥1 trillion mark, and ordinary profit the ¥200 billion mark, for the first time.

By segment, the leasing business centered on office building leasing in Tokyo continued to perform well, driving growth in results, while all four of our mainstay business segments achieved revenue and profit growth with both revenue from operations and operating income reaching a record high. As a result, revenue from operations stood at ¥1,013.2 billion (6.8% increase year on year), and operating income totaled ¥220.4 billion (7.2% increase year on year).

Non-operating gains/losses improved by ¥2.6 billion from the previous fiscal year due to an increase in dividend income, and contributed to an increase in ordinary profit. As a result, ordinary profit amounted to ¥204.2 billion (9.3% increase year on year), and profit attributable to owners of parent amounted to ¥130.8 billion (9.3% increase year on year).

Cash Flows

Cash flows for the consolidated fiscal year under review were as follows:

Cash flows from operating activities: ¥260,057 million (¥70,124 million increase year on year)

Cash flows from investing activities: ¥(209,212) million (¥11,322 million increase year on year)

Cash flows from financing activities: ¥(146,058) million (¥172,519 million decrease year on year)

Cash and cash equivalents decreased ¥91,338 million to ¥170,707 million.

Cash flows from operating activities

With an ordinary profit of ¥204.2 billion for the fiscal year under review, net cash provided by operating activities amounted to ¥260.0 billion. This was an improvement of ¥70.1 billion from the previous fiscal year, mainly attributable to a decrease in inventories in addition to an increase in ordinary profit.

Cash flows from investing activities

Investment in property and equipment totaled ¥188.5 billion mainly for the purpose of augmenting the leasing business, while the net amount of restitution of deposits from partnership investors was ¥9.4 billion. As a result, net cash used in investing activities amounted to ¥209.2 billion.

Cash flows from financing activities

Long-term loans payable amounted to ¥198.3 billion to provide flexibility through financial policy. Redemption of bonds and repayment of long-term loans payable totaled ¥285.7 billion, and the net amount of short-term debt repaid was ¥35.7 billion. As a result, net cash used in financing activities amounted to ¥146.0 billion.

Financial Resources for Capital and Liquidity of Funds

Assets

Total assets as of the end of the fiscal year under review amounted to ¥5,127.4 billion (¥39.7 billion decrease from the end of the previous fiscal year). Although real estate for sale (including real estate for sale in process) decreased due to an increase in the number of condominium units delivered, property and equipment increased through investment in buildings for leasing.

Liabilities

Total liabilities amounted to ¥3,919.3 billion (¥132.8 billion decrease from the end of the previous fiscal year). Consolidated interest-bearing debt decreased to ¥3,342.7 billion (¥130.7 billion decrease from the end of the previous fiscal year). ND/E ratio continued to improve from 2.9 times at the end of the previous fiscal year to 2.6 times.

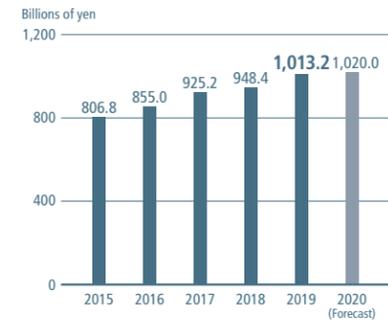
Net assets

Total net assets amounted to ¥1,208.1 billion (¥93.1 billion increase from the end of the previous fiscal year). Profit attributable to owners of parent stood at ¥130.8 billion, shareholders' equity increased to ¥1,208.1 billion (¥93.1 billion increase from the end of the previous fiscal year), and the equity ratio improved from 21.6% at the end of the previous fiscal year to 23.6%. As a result, ROE remains at an industry-leading level of 11.3%.

Furthermore, unrealized gains on investment and rental properties increased from ¥2.3 trillion at the end of the previous fiscal year to ¥2.7 trillion as of the end of the fiscal year under review (Refer to page 72.), and have been highly evaluated by rating agencies as a buffer against financial risks. JCR and R&I have issued ratings of A+ and A (positive), respectively.

As of the end of the fiscal year under review, long-term debt accounted for 99% of consolidated interest-bearing debt, and fixed-rate debt for 96% (98% and 94% respectively at the end of the previous fiscal year). We will continue to strive for stable financial management.

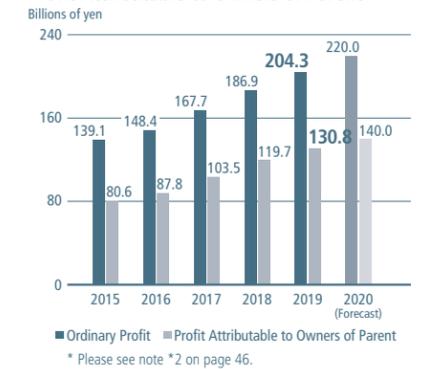
Revenue from Operations



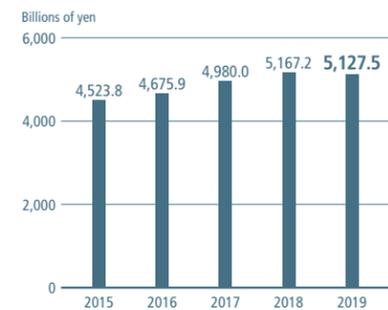
Operating Income and Operating Margin



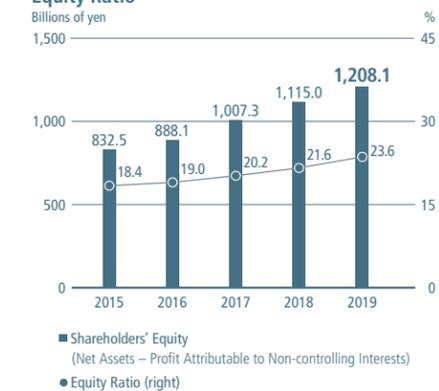
Ordinary Profit* and Profit Attributable to Owners of Parent



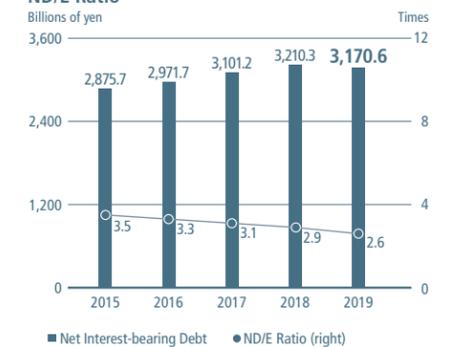
Total Assets



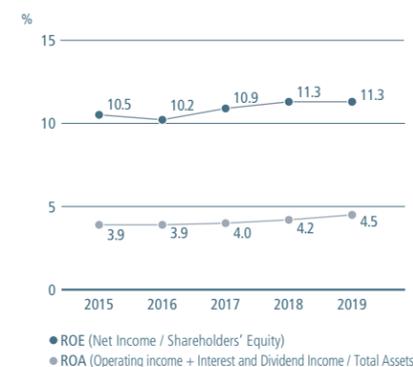
Shareholders' Equity and Equity Ratio



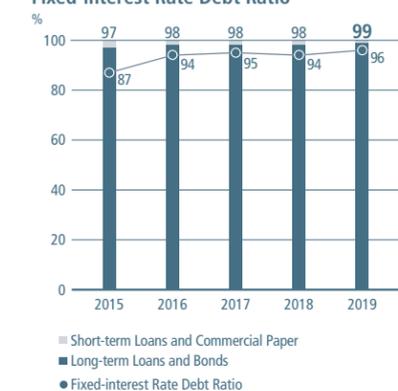
Net Interest-bearing Debt and ND/E Ratio



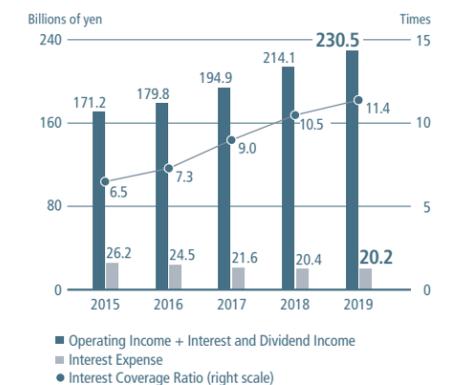
ROE and ROA



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



Interest Coverage Ratio



Consolidated Balance Sheets

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
As of March 31, 2019 and 2018

	Millions of yen		Thousands of
	2019	2018	U.S. dollars (Note 1)
Assets			2019
Current assets:			
Cash, time and notice deposits (Notes 3, 5 and 6)	¥ 172,192	¥ 263,210	\$ 1,551,279
Notes and accounts receivable—trade (Note 6)	21,567	23,773	194,297
Allowance for doubtful accounts	(73)	(66)	(658)
Inventories (Note 4)	679,903	783,308	6,125,252
Other current assets	59,422	55,893	535,334
Total current assets	933,011	1,126,118	8,405,504
Investments:			
Investments in unconsolidated subsidiaries and affiliates (Note 6)	61,544	68,083	554,450
Investments in securities and other (Notes 6 and 7)	433,301	435,615	3,903,613
Allowance for doubtful accounts	(9,154)	(9,469)	(82,468)
Total investments	485,691	494,229	4,375,595
Property and equipment:			
Land (Notes 4, 5 and 19)	2,523,937	2,464,161	22,738,171
Buildings and structures (Notes 4, 5 and 19)	1,378,337	1,287,335	12,417,450
Machinery and equipment (Notes 4, 5 and 19)	35,518	33,576	319,982
Leased assets	2,150	1,778	19,369
Construction in progress (Notes 4, 5 and 19)	139,451	94,397	1,256,316
	4,079,393	3,881,247	36,751,288
Accumulated depreciation and accumulated impairment losses	(548,382)	(510,894)	(4,940,378)
Net property and equipment	3,531,011	3,370,353	31,810,910
Other assets:			
Guarantee and lease deposits paid to lessors (Note 6)	70,299	71,064	633,324
Leasehold rights and other intangible assets	56,752	54,753	511,279
Deferred income taxes (Note 12)	14,809	14,295	133,414
Other	35,892	36,387	323,352
Total other assets	177,752	176,499	1,601,369
Total assets	¥5,127,465	¥5,167,199	\$46,193,378

See accompanying notes.

	Millions of yen		Thousands of
	2019	2018	U.S. dollars (Note 1)
Liabilities and Net Assets			2019
Current liabilities:			
Short-term debt (Notes 6 and 8)	¥ 25,643	¥ 61,416	\$ 231,018
Long-term debt due within one year (Notes 6 and 8)	169,619	275,752	1,528,099
Long-term non-recourse debt due within one year (Notes 5, 6 and 8)	102,298	49,410	921,604
Notes and accounts payable—trade (Note 6)	54,939	28,751	494,946
Accrued income taxes	29,260	34,198	263,604
Accrued bonuses	5,573	5,283	50,207
Deposits received (Note 13)	61,582	60,382	554,793
Other current liabilities (Note 13)	128,458	153,388	1,157,279
Total current liabilities	577,372	668,580	5,201,550
Long-term liabilities:			
Long-term debt due after one year (Notes 6 and 8)	2,744,327	2,725,646	24,723,667
Long-term non-recourse debt due after one year (Notes 5, 6 and 8)	300,900	361,289	2,710,811
Guarantee and deposits received (Notes 6 and 13)	278,766	267,215	2,511,405
Net defined benefit liability (Note 9)	6,019	5,965	54,225
Other long-term liabilities (Notes 12 and 13)	11,964	23,529	107,784
Total long-term liabilities	3,341,976	3,383,644	30,107,892
Contingent liabilities (Note 20)			
Net assets (Note 14):			
Shareholders' equity			
Common stock:			
Authorized —1,900,000 thousand shares			
Issued —476,086 thousand shares	122,805	122,805	1,106,351
Capital surplus	104,154	104,154	938,324
Retained earnings	882,816	765,326	7,953,297
Treasury stock	(4,470)	(4,443)	(40,270)
Total shareholders' equity	1,105,305	987,842	9,957,702
Accumulated other comprehensive income (loss)			
Net unrealized holding gains on securities	109,210	131,115	983,874
Net deferred losses on hedges	(3,972)	(2,049)	(35,784)
Foreign currency translation adjustments	(2,352)	(2,093)	(21,189)
Remeasurements of defined benefit plans	(74)	160	(667)
Total accumulated other comprehensive income	102,812	127,133	926,234
Total net assets	1,208,117	1,114,975	10,883,936
Total liabilities and net assets	¥5,127,465	¥5,167,199	\$46,193,378

Financial Section

Consolidated Statements of Income

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2019, 2018 and 2017

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2019	2018	2017	2019
Revenue from operations	¥1,013,230	¥948,402	¥925,151	\$9,128,198
Costs and expenses:				
Cost of revenue from operations	711,052	664,015	664,184	6,405,874
Selling, general and administrative expenses	81,759	78,750	72,796	736,567
	792,811	742,765	736,980	7,142,441
Operating income	220,419	205,637	188,171	1,985,757
Other income (expenses):				
Interest expense, net	(19,589)	(20,096)	(21,469)	(176,477)
Dividend income	9,472	8,229	6,588	85,333
Gain on sale of property and equipment	75	38	15	676
Loss on sale of property and equipment	(3,724)	(217)	(3)	(33,550)
Loss on impairment of fixed assets (Note 10)	(8,576)	(10,635)	(15,538)	(77,261)
Loss on disposal of property and equipment	(1,280)	(601)	(1,522)	(11,532)
Gain on sale of investments in securities	12	1,010	43	108
Loss on sale of investments in securities	—	(47)	—	—
Loss on devaluation of investments in securities	(1,105)	—	—	(9,955)
Other, net	(6,115)	(6,874)	(5,662)	(55,090)
	(30,830)	(29,193)	(37,548)	(277,748)
Income before income taxes	189,589	176,444	150,623	1,708,009
Income taxes (Note 12):				
Current	62,823	62,098	53,161	565,973
Deferred	(4,051)	(6,180)	(9,533)	(36,496)
Total	58,772	55,918	43,628	529,477
Profit	130,817	120,526	106,995	1,178,532
Profit attributable to non-controlling interests	—	795	3,506	—
Profit attributable to owners of parent	¥ 130,817	¥119,731	¥103,489	\$1,178,532
		Yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2017	2019
Amounts per share of common stock:				
Profit attributable to owners of parent:				
—Basic	¥276.02	¥252.62	¥218.34	\$2.49
—Diluted	—	—	—	—
Cash dividend applicable to the year	30.00	27.00	24.00	0.27

See accompanying notes.

Consolidated Statements of Comprehensive Income

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2019, 2018 and 2017

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2019	2018	2017	2019
Profit	¥130,817	¥120,526	¥106,995	\$1,178,532
Other comprehensive income (loss) (Note 18)				
Net unrealized holding gains (losses) on securities	(21,905)	33,935	24,930	(197,342)
Net deferred gains (losses) on hedges	(1,923)	538	1,705	(17,325)
Foreign currency translation adjustments	(259)	(1,098)	(927)	(2,333)
Remeasurements of defined benefit plans	(234)	188	442	(2,108)
Total other comprehensive income (loss)	(24,321)	33,563	26,150	(219,108)
Comprehensive income	¥106,496	¥154,089	¥133,145	\$ 959,424
Comprehensive income attributable to:				
Owners of the parent	¥106,496	¥153,493	¥129,719	\$ 959,424
Non-controlling interests	—	596	3,426	—

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, 2019, 2018 and 2017

	Thousands						Millions of yen						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains (losses) on securities	Net deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
Balance at April 1, 2016	476,086	¥122,805	¥132,748	¥569,740	¥(4,335)	¥ 820,958	¥ 72,262	¥(4,247)	¥ (510)	¥(364)	¥ 67,141	¥ 29,178	¥917,277
Profit attributable to owners of parent	—	—	—	103,489	—	103,489	—	—	—	—	—	—	103,489
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(755)	—	(755)	—	(755)
Net unrealized holding gains (losses) on securities	—	—	—	—	—	—	24,930	—	—	—	24,930	—	24,930
Acquisition of treasury stock	—	—	—	—	(47)	(47)	—	—	—	—	—	—	(47)
Disposal of treasury stock	—	—	2	—	3	5	—	—	—	—	—	—	5
Cash dividends paid:													
Final for prior year (¥11 per share)	—	—	—	(5,214)	—	(5,214)	—	—	—	—	—	—	(5,214)
Interim for current year (¥11 per share)	—	—	—	(5,213)	—	(5,213)	—	—	—	—	—	—	(5,213)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	(2)	—	—	(2)	—	—	—	—	—	—	(2)
Profit attributable to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	2,578	2,578
Net deferred gains (losses) on hedges	—	—	—	—	—	—	—	1,718	—	—	1,718	—	1,718
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	337	337	—	337
Balance at April 1, 2017	476,086	¥122,805	¥132,748	¥662,802	¥(4,379)	¥ 913,976	¥ 97,192	¥(2,529)	¥(1,265)	¥ (27)	¥ 93,371	¥ 31,756	¥1,039,103
Profit attributable to owners of parent	—	—	—	119,731	—	119,731	—	—	—	—	—	—	119,731
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(828)	—	(828)	—	(828)
Net unrealized holding gains (losses) on securities	—	—	—	—	—	—	33,923	—	—	—	33,923	—	33,923
Acquisition of treasury stock	—	—	—	—	(64)	(64)	—	—	—	—	—	—	(64)
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in scope of consolidation	—	—	—	(4,885)	—	(4,885)	—	—	—	—	—	—	(4,885)
Cash dividends paid:													
Final for prior year (¥13 per share)	—	—	—	(6,161)	—	(6,161)	—	—	—	—	—	—	(6,161)
Interim for current year (¥13 per share)	—	—	—	(6,161)	—	(6,161)	—	—	—	—	—	—	(6,161)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	(28,594)	—	—	(28,594)	—	—	—	—	—	—	(28,594)
Profit attributable to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(31,756)	(31,756)
Net deferred gains (losses) on hedges	—	—	—	—	—	—	—	480	—	—	480	—	480
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	187	187	—	187
Balance at April 1, 2018	476,086	¥122,805	¥104,154	¥765,326	¥(4,443)	¥ 987,842	¥131,115	¥(2,049)	¥(2,093)	¥ 160	¥127,133	¥ —	¥1,114,975
Profit attributable to owners of parent	—	—	—	130,817	—	130,817	—	—	—	—	—	—	130,817
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(259)	—	(259)	—	(259)
Net unrealized holding gains (losses) on securities	—	—	—	—	—	—	(21,905)	—	—	—	(21,905)	—	(21,905)
Acquisition of treasury stock	—	—	—	—	(27)	(27)	—	—	—	—	—	—	(27)
Disposal of treasury stock	—	—	0	—	0	0	—	—	—	—	—	—	0
Change in scope of consolidation	—	—	—	(57)	—	(57)	—	—	—	—	—	—	(57)
Cash dividends paid:													
Final for prior year (¥14 per share)	—	—	—	(6,635)	—	(6,635)	—	—	—	—	—	—	(6,635)
Interim for current year (¥14 per share)	—	—	—	(6,635)	—	(6,635)	—	—	—	—	—	—	(6,635)
Profit attributable to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	—
Net deferred gains (losses) on hedges	—	—	—	—	—	—	—	(1,923)	—	—	(1,923)	—	(1,923)
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	(234)	(234)	—	(234)
Balance at March 31, 2019	476,086	¥122,805	¥104,154	¥882,816	¥(4,470)	¥1,105,305	¥109,210	¥(3,972)	¥(2,352)	¥ (74)	¥102,812	¥ —	¥1,208,117

	Thousands of U.S. dollars (Note 1)											
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains (losses) on securities	Net deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
Balance at April 1, 2018	\$1,106,351	\$938,324	\$6,894,829	\$(40,027)	\$8,899,477	\$1,181,216	\$(18,459)	\$(18,856)	\$1,441	\$1,145,342	\$—	\$10,044,819
Profit attributable to owners of parent	—	—	1,178,532	—	1,178,532	—	—	—	—	—	—	1,178,532
Foreign currency translation adjustments	—	—	—	—	—	—	—	(2,333)	—	(2,333)	—	(2,333)
Net unrealized holding gains (losses) on securities	—	—	—	—	—	(197,342)	—	—	—	(197,342)	—	(197,342)
Acquisition of treasury stock	—	—	—	(243)	(243)	—	—	—	—	—	—	(243)
Disposal of treasury stock	—	—	0	0	0	—	—	—	—	—	—	0
Change in scope of consolidation	—	—	(514)	—	(514)	—	—	—	—	—	—	(514)
Cash dividends paid:												
Final for prior year (\$0.13 per share)	—	—	(59,775)	—	(59,775)	—	—	—	—	—	—	(59,775)
Interim for current year (\$0.13 per share)	—	—	(59,775)	—	(59,775)	—	—	—	—	—	—	(59,775)
Profit attributable to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—
Net deferred gains (losses) on hedges	—	—	—	—	—	—	(17,325)	—	—	(17,325)	—	(17,325)
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	(2,108)	(2,108)	—	(2,108)
Balance at March 31, 2019	\$1,106,351	\$938,324	\$7,953,297	\$(40,270)	\$9,957,702	\$ 983,874	\$(35,784)	\$(21,189)	\$(667)	\$ 926,234	\$—	\$10,883,936

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2019, 2018 and 2017

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2019	2018	2017	2019
Cash flows from operating activities:				
Income before income taxes	¥ 189,589	¥ 176,444	¥ 150,623	\$ 1,708,009
Depreciation and amortization	46,313	41,628	39,446	417,234
Loss on impairment of fixed assets (Note 10)	8,576	10,635	15,538	77,261
Provision for (Reversal of) allowance for doubtful accounts	(309)	(525)	411	(2,784)
Increase (Decrease) in net defined benefit liability	(242)	91	702	(2,180)
Loss (Gain) on sale of property and equipment, net	3,649	179	(12)	32,874
Loss on disposal of property and equipment	1,280	601	1,522	11,532
Loss (Gain) on sale of investments in securities, net	(12)	(963)	(43)	(108)
Loss (Gain) on devaluation of investments in securities	1,105	—	—	9,955
Interest and dividend income	(10,067)	(8,484)	(6,707)	(90,694)
Interest expense	20,184	20,352	21,588	181,838
Decrease (Increase) in notes and accounts receivable—trade	2,233	(5,669)	1,090	20,117
Decrease (Increase) in inventories	65,981	25,915	5,574	594,423
Increase (Decrease) in notes and accounts payable—trade	26,190	(12,536)	(12,936)	235,946
Increase (Decrease) in advances received	(13,104)	17,076	7,816	(118,054)
Other, net	(1,800)	(6,648)	5,029	(16,216)
Total	339,566	258,096	229,641	3,059,153
Proceeds from interest and dividend income	10,066	8,484	6,707	90,685
Payments for interest	(20,147)	(20,395)	(22,295)	(181,505)
Payments for income tax and other taxes	(69,427)	(56,252)	(55,545)	(625,468)
Net cash provided by operating activities	260,058	189,933	158,508	2,342,865
Cash flows from investing activities:				
Payments for purchases of property and equipment	(188,573)	(220,017)	(254,931)	(1,698,856)
Proceeds from sale of property and equipment	6,617	357	125	59,613
Payments for purchases of investments in securities	(31,281)	(28,835)	(21,249)	(281,811)
Proceeds from sale and redemption of investments in securities	334	2,197	1,858	3,009
Payments for guarantee and lease deposits paid to lessors	(738)	(1,317)	(1,720)	(6,649)
Proceeds from guarantee and lease deposits paid to lessors	4,475	28,462	8,361	40,315
Payments for guarantee and lease deposits received	(14,324)	(11,276)	(11,260)	(129,045)
Proceeds from guarantee and lease deposits received	35,664	25,271	22,974	321,297
Receipts of deposits from partnership investors	1,004	2,420	2,757	9,045
Restitution of deposits from partnership investors	(10,442)	(11,544)	(13,626)	(94,072)
Other, net	(11,949)	(6,252)	(7,451)	(107,648)
Net cash used in investing activities	(209,213)	(220,534)	(274,162)	(1,884,802)
Cash flows from financing activities:				
Increase (Decrease) in short-term debt, net	(35,773)	(2,892)	(12,610)	(322,279)
Proceeds from issuance of bonds	—	30,000	20,000	—
Redemption of bonds	(60,000)	(80,000)	(20,000)	(540,541)
Proceeds from non-recourse bonds	4,900	1,700	14,500	44,144
Redemption of non-recourse bonds	(4,900)	(1,700)	(16,460)	(44,144)
Proceeds from long-term loans payable	198,300	376,000	520,200	1,786,486
Repayment of long-term loans payable	(225,752)	(209,622)	(296,737)	(2,033,802)
Proceeds from long-term non-recourse loans	37,110	12,610	109,500	334,324
Repayment of long-term non-recourse loans	(44,611)	(21,258)	(106,820)	(401,901)
Decrease (Increase) in treasury stocks, net	(27)	(64)	(43)	(243)
Cash dividends paid	(13,269)	(12,337)	(11,276)	(119,541)
Payments for purchases of investments in subsidiaries not resulting in change in scope of consolidation	—	(60,910)	—	—
Other, net	(2,036)	(5,066)	(2,257)	(18,341)
Net cash provided by (used in) financing activities	(146,058)	26,461	197,997	(1,315,838)
Effect of exchange rate changes on cash and cash equivalents	243	(124)	(388)	2,189
Net increase (decrease) in cash and cash equivalents	(94,970)	(4,264)	81,955	(855,586)
Cash and cash equivalents at beginning of year	262,046	267,944	185,989	2,360,775
Increase in cash and cash equivalents of a newly consolidated subsidiary	3,631	—	—	32,712
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(1,634)	—	—
Cash and cash equivalents at end of year (Note 3)	¥ 170,707	¥ 262,046	¥ 267,944	\$ 1,537,901

See accompanying notes.

Notes to Consolidated Financial Statements

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
As of and for the years ended March 31, 2019, 2018 and 2017

1 Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Sumitomo Realty & Development Co., Ltd. (“the Company”) and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards (“IFRS”).

The accounts of the Company’s overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese-language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2019, which was ¥111.00 to U.S. \$1. The translation should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 Accounting policies

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company.

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

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

(2) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rate.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate, except for shareholders’ equity accounts, which are translated at historical rates, and income statement items resulting from transactions with the Company, which are translated at the rates used by the Company.

Differences arising from translation are presented as “Foreign currency translation adjustments” in net assets.

(3) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term, highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(4) Recognition of revenue

Revenues from sales operations of condominiums, detached houses and land lots are recognized when the units are delivered and customers accepted the delivery. Revenues from leasing operations of office buildings, residences and other properties are recognized as rent accrues over the lease term.

(5) Inventories

Inventories are stated at cost, determined by the specific identification method principally. The carrying amount of inventories is written down when the profitability declines.

(6) Securities

Held-to-maturity securities are stated at amortized cost. Investments in subsidiaries and affiliates that are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair values are stated at fair value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving-average cost.

Preferred equity securities are stated at cost determined by the specific identification method, and securities with no available fair value are stated at moving-average cost.

Investments in limited partnerships, which are regarded as securities under the Financial Instruments and Exchange Act, are accounted for in a manner similar to the equity method based on the recent financial statements.

If the market value of held-to-maturity securities, investments in subsidiaries and affiliates and available-for-sale securities declines significantly, such securities are stated at fair value and the difference between fair value and the carrying amount is recognized as a loss in the period of the decline. If the fair value of investments in unconsolidated subsidiaries and affiliated companies not accounted for using the equity method is not readily available, such securities should be written down to the net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair value or the net asset value will be the carrying amount of the securities at the beginning of the next fiscal year.

(7) Property and equipment

The Company and its consolidated domestic subsidiaries depreciate buildings using the straight-line method, and other property and equipment (excluding facilities attached to buildings and structures acquired on or after April 1, 2016) using the declining-balance method over their estimated useful lives. The consolidated overseas subsidiaries depreciate property and equipment using primarily the straight-line method in accordance with the accounting principles in the respective countries.

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

Leased assets related to finance lease transactions without title transfer are depreciated using the straight-line method over the lease periods as their useful lives with no residual value.

Estimated useful lives used in the computation of depreciation are generally as follows:

Buildings and structures	6 to 60 years
Machinery and equipment	2 to 20 years
Leased assets	Lease periods

Financial Section

(8) Software costs

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

(9) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide for doubtful accounts at an estimated uncollectable amount based on the evaluation of certain identified doubtful and bankrupt receivables plus an amount calculated using the percentage of actual collection losses in certain reference periods with respect to remaining receivables.

(10) Lease transactions

Leased assets related to finance lease transactions without title transfer are depreciated using the straight-line method over the lease periods as their useful lives with no residual value.

(11) Income taxes

Income taxes are provided for on the basis of income for financial statement purposes. The tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statements and income tax purposes are recognized as deferred income taxes.

(12) Employees' severance and retirement benefits

The Company and its certain consolidated subsidiaries provide two types of post-employment benefit plans, lump-sum payment plans and defined benefit corporate pension plans, under which all eligible employees are entitled to benefits based on their current rate of pay, length of service and the conditions under which termination occurs.

For the calculation of retirement benefit obligations, the estimated amount of retirement benefits is allocated to the respective fiscal years by the straight-line method.

Some of the Company's consolidated subsidiaries calculate net defined benefit liability and retirement benefit expenses by using a simplified method in which retirement benefit obligations are equal to the amount that would be paid if all employees resigned voluntarily at the end of the fiscal year.

Prior service costs are recognized as expenses in the period in which they are incurred, and actuarial gains and losses are recognized as expenses in the following period.

(13) Construction contracts

The construction projects for which the outcome of the portion completed by the end of the fiscal year under review can be reliably estimated are accounted for by the percentage-of-completion method (the degree of completion of each construction project is estimated using the cost-comparison method), while other construction projects are accounted for by the completed-contract method.

(14) Derivative transactions and hedge accounting

The Company and its consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes and qualify for hedge accounting.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of the derivative financial instruments until the related gains or losses on the hedged items are recognized.

However, in cases where foreign exchange forward contracts are used as hedges and meet certain hedging criteria (regarding foreign exchange contracts), the foreign exchange forward contracts and hedged items are accounted for in the following manner:

- If a foreign exchange forward contract is executed to hedge an existing foreign currency receivable or payable,
 - the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the carrying amount of the receivable or payable is recognized in the income statement in the period which includes the inception date; and
 - the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
- If a foreign exchange forward contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the foreign exchange forward contract are recognized. Also, if interest rate swap contracts are used as a hedge and meet certain hedging criteria (regarding interest rate swap contracts), the net amount to be paid or received under the interest rate swap contracts is added to or deducted from the interest on the assets or liabilities relative to which the swap contract was executed as a hedge.

(15) Amounts per share of common stock

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

Diluted earnings per share is computed based on the amount of profit attributable to owners of parent on common stock and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options.

Diluted earnings per share is not presented as there are no potential shares.

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

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

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

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

(1) Overview

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

Step 1: Identify contract(s) with customers

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

(2) Effective date

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

(3) Effects of the application of the standards

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

(17) Changes in presentation methods

(Changes due to adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

Effective from the beginning of the year ended March 31, 2019, the Company and its consolidated subsidiaries adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and changed the presentation and related notes of deferred tax assets and deferred tax liabilities, such that deferred tax assets and deferred tax liabilities are classified as part of "Other assets" and "Long-term liabilities", respectively.

As a result, "Deferred income taxes" in "Current assets" decreased by ¥21,793 million and "Deferred income taxes" in "Other assets" increased by ¥2,090 million in the consolidated balance sheet as of March 31, 2018. In addition, "Other current liabilities" and "Other long-term liabilities" decreased by ¥59 million and ¥19,644 million as of March 31, 2018, respectively.

Total assets decreased by ¥19,703 million as of March 31, 2018 as a result of offsetting deferred tax assets and deferred tax liabilities relating to the same taxable entity.

3 Cash and cash equivalents

Cash and cash equivalents at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash, time and notice deposits	¥172,192	¥263,210	\$1,551,279
Time deposits	(1,485)	(1,164)	(13,378)
Cash and cash equivalents	¥170,707	¥262,046	\$1,537,901

4 Inventories

Inventories at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Real estate for sale	¥390,026	¥380,736	\$3,513,748
Real estate for sale in process	282,595	395,730	2,545,901
Costs on uncompleted construction contracts	5,827	5,015	52,495
Other	1,455	1,827	13,108
Total	¥679,903	¥783,308	\$6,125,252

The Company transferred amounts between inventories and property and equipment. Such transfers at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Inventories:			
Transferred to property and equipment	¥(23,162)	¥(38,047)	\$(208,666)
Transferred from property and equipment	4,822	2,490	43,441
Net decrease	¥(18,340)	¥(35,557)	\$(165,225)

Financial Section

5 Pledged assets

Assets pledged as collateral at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash, time and notice deposits	¥ 2,068	¥ 2,081	\$ 18,631
Buildings and structures	103,708	108,319	934,306
Land	393,316	393,316	3,543,387
Construction in progress	85	99	766
Machinery and equipment	210	268	1,892
Total	¥499,387	¥504,083	\$4,498,982

Secured liabilities at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Long-term non-recourse debt due within one year	¥102,298	¥ 49,410	\$ 921,604
Long-term non-recourse debt due after one year	300,900	361,289	2,710,811
Total	¥403,198	¥410,699	\$3,632,415

Specified assets for non-recourse debts at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash, time and notice deposits	¥ 11,345	¥ 10,652	\$ 102,207
Buildings and structures	103,708	108,319	934,306
Land	393,316	393,316	3,543,387
Construction in progress	85	99	766
Machinery and equipment	210	268	1,893
Total	¥508,664	¥512,654	\$4,582,559

(Note) "Specified assets for non-recourse debts" includes a portion of the amount of "Assets pledged as collateral" for the years ended March 31, 2019 and 2018.

6 Financial instruments

1. Policy for financial instruments

The Company and its consolidated subsidiaries ("the Group") have the policy to limit its fund management to short-term deposits with funds through loans from banks and the issuance of corporate bonds and commercial paper.

The Group utilizes derivative financial instruments only for the purpose of hedging the foreign exchange risk associated with foreign currency-denominated transactions or hedging the interest rate risk associated with the Group's loans payable, and does not utilize derivative financial instruments for any speculative purposes.

2. Details of financial instruments, risks, and policies and systems of risk management

Operating receivables such as notes and accounts receivable—trade are exposed to customers' credit risk, but this risk is generally avoided through the receipt of deposits.

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

Guarantee and lease deposits are mostly deposits related to leasing properties, and are exposed to the counterparty credit risk.

In addition, the Group accommodates counterparties with loans and consequently is exposed to the borrowers' credit risk. However, the Group constantly checks the financial condition of principal borrowers and their performance using the funds lent to those borrowers even after accommodation.

The majority of due dates of operating debt, such as notes and accounts payable, are within one year.

Interest rate swap contracts are used to hedge risks arising from fluctuations in interest rates on certain loans and corporate bonds.

In regard to derivative transactions, the Group utilizes interest rate swaps for bank loans and deposits, and utilizes foreign exchange forward contracts and cross currency swap contracts for foreign currency-denominated transactions. Interest rate swap contracts are exposed to the risks of interest rate changes, and foreign exchange forward contracts and cross currency swap contracts are exposed to the risks of foreign exchange rate changes. The derivative financial instruments are executed with creditworthy financial institutions, and the Group's management believes there is insignificant risk of default by counterparties. Derivative transactions are executed by the Group's Finance Department in accordance with the decisions of a committee whose chairman is the director of the Finance Department. The Finance Department prepares reports on derivative transactions that are provided to the director of the Finance Department periodically.

3. Supplemental information on fair values of financial instruments

The fair values of financial instruments are based on their market prices, and if the market price is not available, other rational valuation techniques are used instead. The rational valuation techniques incorporate variable factors, and as a result the values may change due to using different assumptions.

The amounts of derivative transactions shown in Note 16 "Derivative

transactions" are not representing the market risks related to derivative transactions.

The carrying amounts of financial instruments on the consolidated balance sheets, their fair values and the differences between them as of March 31, 2019 and 2018 are as follows. (Financial instruments whose fair value is extremely difficult to estimate are not included; please see (Note 2).)

For 2019

	Millions of yen			Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Assets:						
(1) Cash, time and notice deposits	¥ 172,192	¥ 172,192	¥ —	\$ 1,551,279	\$ 1,551,279	\$ —
(2) Notes and accounts receivable—trade	21,567	21,567	—	194,297	194,297	—
(3) Investments in securities						
Available-for-sale securities	414,743	414,743	—	3,736,423	3,736,423	—
(4) Guarantee and lease deposits						
Held-to-maturity securities	3,169	3,167	(2)	28,550	28,532	(18)
Available-for-sale securities	1,170	1,170	—	10,541	10,541	—
Total assets	¥ 612,841	¥ 612,839	¥ (2)	\$ 5,521,090	\$ 5,521,072	\$ (18)
Liabilities:						
(1) Notes and accounts payable—trade	¥ 54,939	¥ 54,939	¥ —	\$ 494,946	\$ 494,946	\$ —
(2) Short-term debt	25,643	25,643	—	231,018	231,018	—
(3) Long-term debt (including due within one year)	2,913,946	2,964,782	50,836	26,251,766	26,709,747	457,981
(4) Long-term non-recourse debt (including due within one year)	403,198	410,218	7,020	3,632,414	3,695,658	63,244
Total liabilities	¥3,397,726	¥3,455,582	¥57,856	\$30,610,144	\$31,131,369	\$521,225
Derivative transactions*:						
Hedge accounting	¥ (5,733)	¥ (5,733)	¥ —	\$ (51,649)	\$ (51,649)	\$ —
Total derivative transactions	¥ (5,733)	¥ (5,733)	¥ —	\$ (51,649)	\$ (51,649)	\$ —

For 2018

	Millions of yen		
	Carrying amount	Fair value	Difference
Assets:			
(1) Cash, time and notice deposits	¥ 263,210	¥ 263,210	¥ —
(2) Notes and accounts receivable—trade	23,773	23,773	—
(3) Investments in securities			
Available-for-sale securities	417,841	417,841	—
(4) Guarantee and lease deposits			
Held-to-maturity securities	789	791	2
Available-for-sale securities	1,180	1,180	—
Total assets	¥ 706,793	¥ 706,795	¥ 2
Liabilities:			
(1) Notes and accounts payable—trade	¥ 28,751	¥ 28,751	¥ —
(2) Short-term debt	61,416	61,416	—
(3) Long-term debt (including due within one year)	3,001,398	3,032,800	31,402
(4) Long-term non-recourse debt (including due within one year)	410,699	415,716	5,017
Total liabilities	¥3,502,264	¥3,538,683	¥36,419
Derivative transactions*:			
Hedge accounting	¥ (2,983)	¥ (2,983)	¥ —
Total derivative transactions	¥ (2,983)	¥ (2,983)	¥ —

* Derivative transactions are stated at net of assets and liabilities. Figures in parentheses indicate net liabilities.

Financial Section

(Note 1) The calculation methods of fair value for financial instruments

Assets:

(1) Cash, time and notice deposits

The fair value of cash, time and notice deposits approximates their carrying amounts because of their short-term maturities.

(2) Notes and accounts receivable—trade

The fair value of notes and accounts receivable—trade approximates their carrying amounts unless the credit standing of debtors has changed significantly since the loan origination.

The allowance for doubtful receivables is estimated based on expected recoverable amounts, considering the possibility of individual collections. Therefore the fair value of doubtful receivables approximates the carrying amount deducted by the estimated allowance for doubtful accounts on the consolidated balance sheets as of the end of the fiscal year.

(3) Investments in securities

The fair value of listed shares is based on the exchange prices at market. For floating rate notes, the carrying amount is presented as the fair value, as the fair value approximates the carrying amount because the market interest rate is reflected in such notes within a short time period. The fair value of the fixed-coupon debt is determined based on the present value discounted at the interest rate which reflects the period remaining to maturity and the credit risk.

For notes on securities classified by purpose of holding, please see Note 7 "Securities."

(4) Guarantee and lease deposits

The fair value of guarantee and lease deposits are based on the value offered by correspondent financial institutions.

For notes on securities classified by purpose of holding, please see Note 7 "Securities."

Derivative transactions:

Please see Note 16 "Derivative transactions."

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

	Carrying amount		Thousands of U.S. dollars
	Millions of yen	2018	
	2019	2018	2019
Investments in subsidiaries and affiliates* ¹	¥ 35,856	¥ 42,745	\$ 323,027
Unlisted equity securities* ¹	2,327	1,297	20,964
Preferred equity securities, etc.* ¹	25,688	25,338	231,423
Investments in limited partnerships, etc.* ¹	352	352	3,171
Guarantee and lease deposits (excluding held-to-maturity securities and available-for-sale securities)* ²	65,960	69,095	594,234
Guarantee and deposits received* ³	228,959	207,824	2,062,694

*1. The fair value of these items are not disclosed since their market price is unavailable and the assessment of their fair value is deemed extremely difficult.

*2. Guarantee and lease deposits (excluding held-to-maturity securities and available-for-sale securities) are not included in "Assets (4) Guarantee and lease deposits" because their remaining terms cannot be determined and the assessment of their fair value is deemed extremely difficult.

*3. The fair value of guarantee and deposits received (mainly consisting of lease deposits) are not disclosed because their remaining terms cannot be determined and the assessment of their fair value is deemed extremely difficult.

Liabilities:

(1) Notes and accounts payable—trade and (2) Short-term debt

The fair value of these items approximates their carrying amounts because of their short-term maturities.

(3) Long-term debt (including due within one year)

For floating rate notes, the carrying amount is used as the fair value because the market interest rate is reflected in such notes within a short time period and because the credit standing of the Company is the same after borrowing. The fixed-coupon debt is calculated by discounting the combined total of principal and interest at an interest rate assumed for similar new borrowings.

The specific matching criteria of interest rate swaps and cross currency interest rate swaps are applicable to some long-term debts with floating interest rates (please see Note 16 "Derivative transactions"). The fair value of these items is calculated by discounting the combined total of interest and principal, with which the interest rate swap and cross currency interest rate swap have been accounted for, at an interest rate rationally estimated for similar borrowings.

The fair value of corporate bonds issued by the Company (included in (3) Long-term debt (including due within one year)) is based on the market price.

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

For floating rate notes, the carrying amount is used as the fair value because the market interest rate is reflected in such notes within a short time period and the value of its non-exempt properties has not been changed.

The fixed-coupon debt is calculated by discounting the combined total of principal and interest at an interest rate assumed for similar new borrowings or bonds.

The specific matching criteria of interest rate swaps are applicable to some long-term non-recourse debts with floating interest rates (please see Note 16 "Derivative transactions"). The fair value of these items is calculated by discounting the combined total of interest and principal, with which the interest rate swap has been accounted for, at an interest rate rationally estimated for similar borrowings or bonds.

(Note 3) Redemption schedule of pecuniary claims and securities with maturities

For 2019

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

For 2018

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

For 2019

	Thousands of U.S. dollars			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash, time and notice deposits	\$1,551,279	\$ —	\$ —	\$ —
Notes and accounts receivable—trade	194,297	—	—	—
Guarantee and lease deposits:				
Held-to-maturity securities (National government bonds)	26,748	1,802	—	—
Available-for-sale securities with maturities (National government bonds)	3,667	5,054	1,541	—
Total	\$1,775,991	\$6,856	\$1,541	\$ —

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

For 2019

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

For 2018

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

For 2019

Year ending March 31	Thousands of U.S. dollars					
	2020	2021	2022	2023	2024	2025 and thereafter
Short-term debt	\$ 231,018	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt (including due within one year)	1,528,099	1,182,712	1,903,207	2,136,901	2,606,144	16,894,703
Long-term non-recourse debt (including due within one year)	921,604	629,847	134,631	30,504	29,189	1,886,639
Total	\$2,680,721	\$1,812,559	\$2,037,838	\$2,167,405	\$2,635,333	\$18,781,342

7 Securities

For 2019

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

(a) Held-to-maturity securities:

	Millions of yen			Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Securities whose fair value exceeds carrying amount:						
National and local government bonds, etc.	¥ 461	¥ 462	¥ 1	\$ 4,153	\$ 4,162	\$ 9
Securities whose fair value does not exceed carrying amount:						
National and local government bonds, etc.	2,708	2,705	(3)	24,397	24,370	(27)
Total	¥3,169	¥3,167	¥(2)	\$28,550	\$28,532	\$(18)

(b) Available-for-sale securities:

	Millions of yen			Thousands of U.S. dollars		
	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds acquisition cost:						
Equity securities	¥348,562	¥180,791	¥167,771	\$3,140,198	\$1,628,748	\$1,511,450
Debt securities*	1,171	1,140	31	10,550	10,270	280
Other	—	—	—	—	—	—
Subtotal	349,733	181,931	167,802	3,150,748	1,639,018	1,511,730
Securities whose carrying amount does not exceed acquisition cost:						
Equity securities	65,517	75,824	(10,307)	590,243	683,099	(92,856)
Debt securities	—	—	—	—	—	—
Other	664	664	—	5,982	5,982	—
Subtotal	66,181	76,448	(10,307)	596,225	689,081	(92,856)
Total	¥415,914	¥258,419	¥157,495	\$3,746,973	\$2,328,099	\$1,418,874

* Debt securities in securities whose carrying amount exceeds acquisition cost are included in "Guarantee and lease deposits paid to lessors" on the consolidated balance sheets.
(Note) The Company recognized impairment loss on investments in securities of ¥1,105 million (\$9,955 thousand) related to equity securities in available-for-sale securities.

B. Total sales of available-for-sale securities sold in the year ended March 31, 2019 amounted to ¥264 million (\$2,378 thousand) and the related gains amounted to ¥12 million (\$108 thousand).

For 2018

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

(a) Held-to-maturity securities:

	Millions of yen		
	Carrying amount	Fair value	Difference
Securities whose fair value exceeds carrying amount:			
National and local government bonds, etc.	¥789	¥791	¥ 2
Securities whose fair value does not exceed carrying amount:			
National and local government bonds, etc.	—	—	—
Total	¥789	¥791	¥ 2

(b) Available-for-sale securities:

	Millions of yen		
	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds acquisition cost:			
Equity securities	¥394,231	¥202,083	¥192,148
Debt securities*	1,180	1,140	40
Other	—	—	—
Subtotal	395,411	203,223	192,188
Securities whose carrying amount does not exceed acquisition cost:			
Equity securities	23,281	26,368	(3,087)
Debt securities	—	—	—
Other	329	329	—
Subtotal	23,610	26,697	(3,087)
Total	¥419,021	¥229,920	¥189,101

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

B. Total sales of available-for-sale securities sold in the year ended March 31, 2018 amounted to ¥1,663 million and the related gains and losses amounted to ¥1,010 million and ¥47 million, respectively.

8 Short-term debt and long-term debt

Short-term debt at March 31, 2019 and 2018 consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	2019	Average interest rate (%)	2018	Average interest rate (%)	
Loans, principally from banks	¥25,643	0.27	¥61,416	0.25	\$231,018
Commercial paper	—	—	—	—	—
Total	¥25,643		¥61,416		\$231,018

The interest rates represent weighted-average rates in effect at March 31, 2019 and 2018, regardless of borrowing currencies, though the range of the interest rate varies by borrowing currency.

Long-term debt at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	
2.50% domestic straight bonds, due 2019	¥ 10,000	¥ 10,000	\$ 90,090
0.329% domestic straight bonds, due 2018	—	10,000	—
0.563% domestic straight bonds, due 2020	10,000	10,000	90,090
0.877% domestic straight bonds, due 2020	20,000	20,000	180,180
0.462% domestic straight bonds, due 2018	—	10,000	—
1.098% domestic straight bonds, due 2023	10,000	10,000	90,090
0.426% domestic straight bonds, due 2018	—	20,000	—
0.355% domestic straight bonds, due 2018	—	10,000	—
0.950% domestic straight bonds, due 2023	10,000	10,000	90,090
0.344% domestic straight bonds, due 2018	—	10,000	—
0.968% domestic straight bonds, due 2023	10,000	10,000	90,090
0.987% domestic straight bonds, due 2024	20,000	20,000	180,180
0.914% domestic straight bonds, due 2024	20,000	20,000	180,180
0.904% domestic straight bonds, due 2024	20,000	20,000	180,180
0.884% domestic straight bonds, due 2024	20,000	20,000	180,180
0.836% domestic straight bonds, due 2024	20,000	20,000	180,180
0.809% domestic straight bonds, due 2024	20,000	20,000	180,180
0.429% domestic straight bonds, due 2021	10,000	10,000	90,090
0.392% domestic straight bonds, due 2022	10,000	10,000	90,090
0.670% domestic straight bonds, due 2025	10,000	10,000	90,090
0.826% domestic straight bonds, due 2025	20,000	20,000	180,180
0.992% domestic straight bonds, due 2025	20,000	20,000	180,180
0.400% domestic straight bonds, due 2026	10,000	10,000	90,090
0.230% domestic straight bonds, due 2026	10,000	10,000	90,090
0.400% domestic straight bonds, due 2027	30,000	30,000	270,271

Loans, principally from banks and insurance companies, with interest at weighted-average rates of 0.31% in 2019 and 0.32% in 2018:

	2019	2018	2019
Secured	—	—	—
Unsecured	2,603,946	2,631,398	23,458,975
Subtotal	2,913,946	3,001,398	26,251,766
Amount due within one year	(169,619)	(275,752)	(1,528,099)
Total	¥2,744,327	¥2,725,646	\$24,723,667

Non-recourse debt at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Non-recourse bonds, with interest at weighted-average rates of 0.07% in 2019 and 0.11% in 2018:			
Due within one year	¥ 2,000	¥ 4,900	\$ 18,018
Due after one year	37,100	34,200	334,234
Subtotal	39,100	39,100	352,252
Non-recourse loans, with interest at weighted-average rates of 0.11% in 2019 and 0.15% in 2018:			
Due within one year	100,298	44,510	903,586
Due after one year	263,800	327,089	2,376,576
Subtotal	364,098	371,599	3,280,162
Total	¥403,198	¥410,699	\$3,632,414
Secured	¥403,198	¥410,699	\$3,632,414
Unsecured	—	—	—
Total	¥403,198	¥410,699	\$3,632,414

The aggregate annual maturities of long-term debt at March 31, 2019 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2020	¥ 169,619	\$ 1,528,099
2021	131,281	1,182,712
2022	211,256	1,903,207
2023	237,196	2,136,901
2024	289,282	2,606,144
2025 and thereafter	1,875,312	16,894,703
Total	¥2,913,946	\$26,251,766

The aggregate annual maturities of non-recourse debt at March 31, 2019 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2020	¥102,298	\$ 921,604
2021	69,913	629,847
2022	14,944	134,631
2023	3,386	30,504
2024	3,240	29,189
2025 and thereafter	209,417	1,886,639
Total	¥403,198	\$3,632,414

It is customary in Japan that security must be given if requested by lending banks under certain circumstances, and generally banks have the right to offset cash deposited with them against any debt or obligations payable to the bank that becomes due in the case of default and certain other specified events. The Company and its consolidated subsidiaries have never received such a request.

9 Employees' severance and retirement benefits

As explained in Note 2 (12), the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations except for the cases using the simplified method.

For 2019 and 2018

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
	2019	2018	2019
Retirement benefit obligations at beginning of year	¥11,615	¥11,316	\$104,640
Service costs	714	717	6,432
Interest costs	48	47	432
Actuarial differences	(1)	(53)	(9)
Retirement benefits paid	(500)	(412)	(4,504)
Retirement benefit obligations at end of year	¥11,876	¥11,615	\$106,991

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Plan assets at beginning of year	¥5,650	¥5,172	\$50,901
Expected return on plan assets	113	103	1,018
Actuarial differences	(67)	176	(604)
Employer contributions	388	398	3,496
Retirement benefits paid	(227)	(199)	(2,045)
Plan assets at end of year	¥5,857	¥5,650	\$52,766

(3) Adjustment table of retirement benefit obligations and plan assets at the end of the fiscal year and net defined benefit liability on the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Obligations under retirement benefit plans (funded)	¥ 6,295	¥ 6,241	\$ 56,712
Fair value of plan assets	(5,857)	(5,650)	(52,766)
	438	591	3,946
Obligations under retirement benefit plans (unfunded)	5,581	5,374	50,279
Net amount of liabilities on the consolidated balance sheets	¥ 6,019	¥ 5,965	\$ 54,225
Net defined benefit liability	¥ 6,019	¥ 5,965	\$ 54,225
Net amount of liabilities on the consolidated balance sheets	¥ 6,019	¥ 5,965	\$ 54,225

(4) Components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service costs	¥ 714	¥ 717	\$ 6,432
Interest costs	48	47	432
Expected return on plan assets	(113)	(103)	(1,018)
Actuarial differences	(229)	41	(2,063)
Retirement benefit expenses	¥ 420	¥ 702	\$ 3,783

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Actuarial differences	¥295	¥(270)	\$2,658
Total	¥295	¥(270)	\$2,658

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized actuarial differences	¥66	¥(229)	\$595
Total	¥66	¥(229)	\$595

(7) Major breakdown of plan assets

	2019	2018
Debt securities	25.6%	26.8%
Equity securities	34.9	34.4
General life insurance accounts	37.8	37.7
Other	1.7	1.1
Total	100.0%	100.0%

(8) Actuarial assumptions

	2019	2018
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 ¥389 million (\$3,505 thousand) and ¥380 million for the years ended March 31, 2019 and 2018, respectively.

10 Loss on impairment of fixed assets

The Company and its consolidated domestic subsidiaries recognized impairment losses on the following assets for the years ended March 31, 2019, 2018 and 2017, respectively.

For 2019

Use	Location	Number of properties
Asset leased to others	Tokyo	1

For 2018

Use	Location	Number of properties
Asset leased to others	Tokyo	1

For 2017

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

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

Loss on sales of property and equipment of ¥8,576 million (\$77,261 thousand) was recognized by a consolidated subsidiary by restructuring of assets within the Group for the year ended March 31, 2019. The selling price of the asset, based on evaluation by a real estate appraiser, was determined as its recoverable amount, and loss on sales of property and equipment of the asset was recognized as impairment losses in other expenses for the year ended March 31, 2019.

The carrying value of the asset has been reduced to its recoverable amount by ¥10,635 million since the total amount of its future cash flow

is estimated to be less than the carrying value for the year ended March 31, 2018. The recoverable amount is calculated by discounting the future cash flow at 4.0%.

The carrying values of the land holdings summarized above have been reduced to their recoverable amounts by ¥15,538 million as a result of mainly the determination of reviewing their business plans for the year ended March 31, 2017. The recoverable amounts of the assets for the years ended March 31, 2017 were determined as the net disposal value. The net disposal value for land for leased buildings and land for development are based on the amount equivalent to the publicly notified land price.

These write-downs were recognized as impairment losses in other expenses for the years ended March 31, 2018 and 2017, respectively.

11 Asset retirement obligations

Even though removing asbestos is required for some buildings the Company and its consolidated subsidiaries ("the Group") operate at the time of demolishing, it is difficult to estimate the fair value of obligations associated with such assets reasonably since the timing and/or method of settlement for the retirement obligations are not clear enough. Therefore, for the years ended March 31, 2019 and 2018, 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, 2019 and 2018, asset retirement obligations related to such a case are not recorded (except for the asset retirement obligations recorded on the financial statements).

12 Income taxes

The normal effective statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants' taxes was approximately 30.62% for the years ended March 31, 2019, and 30.86% for the years ended March 31, 2018 and 2017.

Details of deferred tax assets and liabilities at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Loss on impairment of fixed assets	¥ 17,077	¥ 17,146	\$ 153,847
Loss on devaluation of real estate for sale	14,415	10,885	129,865
Depreciation and amortization of consolidated adjustment	7,258	7,977	65,387
Loss on adjustment of profit and loss on transfer	4,254	—	38,324
Allowance for doubtful accounts	3,439	3,521	30,982
Accrued bonuses	1,875	1,739	16,892
Accrued enterprise tax and business office tax	1,834	2,165	16,523
Net defined benefit liability	1,759	1,873	15,847
Net deferred losses on hedges	1,752	951	15,784
Net operating loss carryforwards	1,593	1,939	14,351
Loss on devaluation of investments in SPEs' holding properties for sale	1,413	1,413	12,730
Elimination of unrealized profit	926	943	8,342
Loss on devaluation of investments in securities	797	844	7,180
Other	13,113	12,851	118,135
Subtotal of deferred tax assets	71,505	64,247	644,189
Valuation allowance	(9,247)	(6,824)	(83,306)
Total deferred tax assets	¥ 62,258	¥ 57,423	\$ 560,883
Deferred tax liabilities:			
Net unrealized holding gains on securities	¥(48,241)	¥(57,916)	\$(434,604)
Retained earnings appropriated for tax allowable reserves	(3,731)	(3,731)	(33,613)
Other	(637)	(738)	(5,738)
Total deferred tax liabilities	¥(52,609)	¥(62,385)	\$(473,955)
Net deferred tax assets	¥ 9,649	¥ (4,962)	\$ 86,928

(Note) Valuation allowance increased by ¥2,423 million (\$21,829 thousand) as a result of mainly the recognition of loss on adjustment of profit and loss on transfer.

Financial Section

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

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

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

13 Deposits received and accounts payable with interest rate

Guarantee and deposits received at March 31, 2019 and 2018 are as follows:

	Millions of yen				Thousands of U.S. dollars
	2019	Average interest rate (%)	2018	Average interest rate (%)	2019
Short-term deposits and long-term deposits due within one year:					
Non-interest-bearing	¥ 61,582		¥ 60,382		\$ 554,793
Interest-bearing	—		—		—
	61,582		60,382		554,793
Guarantee and lease deposits from tenants:					
Non-interest-bearing	228,959		207,824		2,062,693
Interest-bearing	—		—		—
Long-term deposits:					
Non-interest-bearing	49,807		59,391		448,712
Interest-bearing	—		—		—
	278,766		267,215		2,511,405
Total	¥340,348		¥327,597		\$3,066,198

Accounts payable with interest rate at March 31, 2019 and 2018 are as follows:

	Millions of yen				Thousands of U.S. dollars
	2019	Average interest rate (%)	2018	Average interest rate (%)	2019
Due within one year	¥—		¥1,543	0.98	\$—
Due after one year	—		—		—
Total	¥—		¥1,543		\$—

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

14 Net assets

Under the Japanese Corporate Law ("the Law") and its regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings on the accompanying consolidated balance sheets.

Under the Law, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit and capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law and its regulations.

15 Information for certain lease transactions

Future lease payments and receipts under such non-cancelable operating leases at March 31, 2019, 2018 and 2017 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2019	2018	2017	2019
Operating leases:				
Future lease payments:				
Due within one year	¥ 1,526	¥ 1,401	¥ 1,387	\$ 13,748
Due after one year	42,211	38,241	39,053	380,279
Total	¥ 43,737	¥ 39,642	¥ 40,440	\$ 394,027
Future lease receipts:				
Due within one year	¥ 95,607	¥ 83,254	¥ 86,294	\$ 861,324
Due after one year	142,321	153,777	138,086	1,282,171
Total	¥237,928	¥237,031	¥224,380	\$2,143,495

16 Derivative transactions

Hedge accounting was applied to all derivative transactions for the years ended March 31, 2019 and 2018.

The summary of these transactions is as follows:

(1) Foreign currency-related derivatives

For 2018

Hedging accounting	Types of derivative transactions	Hedged items	Millions of yen		
			Contract amounts	Contract amounts due after one year	Fair value
Deferred hedge accounting	Foreign exchange forward contracts Receipts in U.S. dollars / Payments in yen	Foreign currency-denominated transactions	¥15,105	¥—	¥133

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

(2) Interest-related derivatives

For 2019

Hedging accounting	Types of derivative transactions	Hedged items	Millions of yen		
			Contract amounts	Contract amounts due after one year	Fair value
Deferred hedge accounting	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans	¥ 248,600	¥ 208,600	¥(5,733)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	1,507,198	1,415,693	— (*)

Hedging accounting	Types of derivative transactions	Hedged items	Thousands of U.S. dollars		
			Contract amounts	Contract amounts due after one year	Fair value
Deferred hedge accounting	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans	\$ 2,239,640	\$ 1,879,279	\$(51,649)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	13,578,360	12,753,991	— (*)

For 2018

Hedging accounting	Types of derivative transactions	Hedged items	Millions of yen		
			Contract amounts	Contract amounts due after one year	Fair value
Deferred hedge accounting	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans	¥ 243,800	¥ 233,800	¥(3,116)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	1,577,137	1,454,966	— (*)
Exceptional accounting for interest rate and currency swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts Receipts in U.S. dollars / Payments in yen	Foreign currency-denominated loans	3,000	—	— (*)

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

(*) Interest rate swap contracts and cross currency interest rate swap contracts which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expenses or income of the long-term debt or the long-term non-recourse debt as hedged items. Thus, the fair value of such interest rate swap contracts is included in the fair value of the long-term debt.

Financial Section

17 Segment information

The Company and its consolidated subsidiaries mainly operate their business in five segments: (1) Leasing business consists of leasing of office buildings, residences and other properties, and management of these properties; (2) Sales business consists of sale of condominiums,

detached houses and land lots; (3) Construction business consists of construction of housing, condominiums and buildings; (4) Brokerage business; and (5) Other businesses including fitness business and restaurant business.

Information by business segment for the years ended March 31, 2019, 2018 and 2017 is summarized as follows:

For 2019	Millions of yen						Adjustments	Consolidated financial statements amounts
	Reportable segments					Total		
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total		
Revenue from operations:								
Customers	¥ 378,091	¥331,516	¥219,776	¥72,522	¥11,325	¥1,013,230	¥ —	¥1,013,230
Intersegment	3,673	236	1,917	377	1,419	7,622	(7,622)	—
Total	381,764	331,752	221,693	72,899	12,744	1,020,852	(7,622)	1,013,230
Segment profit	¥ 149,933	¥ 47,115	¥ 20,407	¥22,008	¥ 1,528	¥ 240,991	¥ (20,572)	¥ 220,419
Segment assets	¥3,737,136	¥713,300	¥ 30,057	¥14,074	¥32,545	¥4,527,112	¥600,353	¥5,127,465
Other:								
Depreciation and amortization	¥ 43,201	¥ 145	¥ 1,182	¥ 458	¥ 227	¥ 45,213	¥ 1,100	¥ 46,313
Loss on impairment of fixed assets	8,576	—	—	—	—	8,576	—	8,576
Increase in property and equipment, and intangible assets	179,872	590	2,015	920	1,001	184,398	397	184,795

For 2018	Millions of yen						Adjustments	Consolidated financial statements amounts
	Reportable segments					Total		
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total		
Revenue from operations:								
Customers	¥ 350,211	¥310,914	¥206,839	¥68,858	¥11,580	¥ 948,402	¥ —	¥ 948,402
Intersegment	3,670	279	2,517	311	1,297	8,074	(8,074)	—
Total	353,881	311,193	209,356	69,169	12,877	956,476	(8,074)	948,402
Segment profit	¥ 139,368	¥ 46,839	¥ 16,109	¥21,457	¥ 1,628	¥ 225,401	¥ (19,764)	¥ 205,637
Segment assets	¥3,565,088	¥826,574	¥ 27,946	¥12,200	¥25,203	¥4,457,011	¥710,187	¥5,167,199
Other:								
Depreciation and amortization	¥ 38,981	¥ 174	¥ 1,022	¥ 471	¥ 217	¥ 40,865	¥ 763	¥ 41,628
Loss on impairment of fixed assets	10,635	—	—	—	—	10,635	—	10,635
Increase in property and equipment, and intangible assets	220,785	672	1,027	859	428	223,771	4,523	228,294

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

For 2019

	Thousands of U.S. dollars						Adjustments	Consolidated financial statements amounts
	Reportable segments					Total		
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total		
Revenue from operations:								
Customers	\$ 3,406,225	\$2,986,631	\$1,979,964	\$653,351	\$102,027	\$ 9,128,198	\$ —	\$ 9,128,198
Intersegment	33,090	2,126	17,270	3,397	12,784	68,667	(68,667)	—
Total	3,439,315	2,988,757	1,997,234	656,748	114,811	9,196,865	(68,667)	9,128,198
Segment profit	\$ 1,350,748	\$ 424,459	\$ 183,847	\$198,270	\$ 13,766	\$ 2,171,090	\$ (185,333)	\$ 1,985,757
Segment assets	\$33,667,892	\$6,426,126	\$ 270,784	\$126,793	\$293,198	\$40,784,793	\$5,408,585	\$46,193,378
Other:								
Depreciation and amortization	\$ 389,198	\$ 1,306	\$ 10,649	\$ 4,126	\$ 2,045	\$ 407,324	\$ 9,910	\$ 417,234
Loss on impairment of fixed assets	77,261	—	—	—	—	77,261	—	77,261
Increase in property and equipment, and intangible assets	1,620,468	5,315	18,153	8,288	9,019	1,661,243	3,577	1,664,820

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

Intercompany eliminations between the Company and its consolidated subsidiaries and undistributed corporate expenses to each segment are included in adjustments of segment profit, and the Company classified expenses of the general administrative division in the Company and its certain consolidated subsidiaries to corporate expenses for the years ended March 31, 2019, 2018 and 2017.

Intercompany eliminations between the Company and its consolidated subsidiaries and undistributed corporate assets to each segment are included in adjustments of segment assets, and the Company classified cash, time and notice deposits, investments in securities and assets of the general administrative division in the Company and its certain consolidated subsidiaries to corporate assets for the years ended March 31, 2019, 2018 and 2017.

18 Comprehensive income

Amounts reclassified to profit in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income (loss) for the years ended March 31, 2019, 2018 and 2017 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2019	2018	2017	2019
Unrealized holding gains (losses) on securities:				
Increase (Decrease) during the fiscal year	¥(32,668)	¥ 50,290	¥ 36,067	\$ (294,306)
Reclassification adjustments	1,088	(1,373)	(128)	9,802
Amounts before tax effects	(31,580)	48,917	35,939	(284,504)
Tax effects	9,675	(14,982)	(11,009)	87,162
Total	¥(21,905)	¥ 33,935	¥ 24,930	\$ (197,342)
Deferred gains (losses) on hedges:				
Increase (Decrease) during the fiscal year	¥ (3,628)	¥ (453)	¥ 482	\$ (32,685)
Reclassification adjustments	876	1,208	1,978	7,892
Amounts before tax effects	(2,752)	755	2,460	(24,793)
Tax effects	829	(217)	(755)	7,468
Total	¥ (1,923)	¥ 538	¥ 1,705	\$ (17,325)
Foreign currency translation adjustments:				
Increase (Decrease) during the fiscal year	¥ (259)	¥ (1,098)	¥ (927)	\$ (2,333)
Remeasurements of defined benefit plans:				
Increase (Decrease) during the fiscal year	¥ (66)	¥ 229	¥ (41)	\$ (595)
Reclassification adjustments	(229)	41	681	(2,063)
Amounts before tax effects	(295)	270	640	(2,658)
Tax effects	61	(82)	(198)	550
Total	¥ (234)	¥ 188	¥ 442	\$ (2,108)
Total other comprehensive income (loss)	¥(24,321)	¥ 33,563	¥ 26,150	\$ (219,108)

19 Investment and rental properties

The Company and its certain consolidated subsidiaries own some rental properties such as office buildings and residences in Tokyo and other areas. Certain domestic office buildings are not recognized as rental properties but as a portion used as investment and rental properties since the Company or its certain consolidated subsidiaries use some of the floor space of these properties.

The carrying amounts of these properties on the consolidated balance sheets, their changes during the fiscal year and their fair values at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2019	2018	2019	
Investment and rental properties	Balance at beginning of fiscal year	¥3,208,325	¥3,001,274	\$28,903,829
	Changes during the fiscal year	165,124	207,051	1,487,603
	Balance at end of fiscal year	3,373,449	3,208,325	30,391,432
	Fair value at end of fiscal year	5,838,717	5,316,335	52,601,054
A portion used as investment and rental properties	Balance at beginning of fiscal year	¥ 141,950	¥ 143,906	\$ 1,278,829
	Changes during the fiscal year	(61)	(1,956)	(550)
	Balance at end of fiscal year	141,889	141,950	1,278,279
	Fair value at end of fiscal year	379,883	362,081	3,422,369

(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, 2019 and 2018 are calculated by the Company primarily based on their fair values according to Real Estate Appraisal Standards.

Significant changes during the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Increase:			
Acquired real estate	¥173,144	¥214,777	\$1,559,856
Transferred from real estate for sale in process, etc.	23,162	38,047	208,666
Decrease:			
Depreciation and amortization	¥ (42,374)	¥ (37,177)	\$ (381,748)
Transferred to real estate for sale	(4,822)	—	(43,441)
Transferred to real estate for sale in process	—	(2,490)	—
Loss on impairment of fixed assets	(8,576)	(10,635)	(77,261)

Income and expenses for investment and rental properties for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2019	2018	2019	
Investment and rental properties	Income	¥269,493	¥236,446	\$2,427,865
	Expenses	137,784	121,736	1,241,297
	Balance	131,709	114,710	1,186,568
	Other income (expenses)	(9,193)	(10,938)	(82,820)
A portion used as investment and rental properties	Income	¥ 18,413	¥ 21,475	\$ 165,883
	Expenses	9,176	11,926	82,667
	Balance	9,237	9,549	83,216
	Other income (expenses)	(4)	(3)	(36)

(Notes)
 * As a portion used as investment and rental properties includes a portion used by the Company or its certain consolidated subsidiaries for providing services as well as management and administration, income for these are not recorded above. The expenses primarily consist of rent, depreciation, taxes and dues, and others.
 * Other income (expenses) for investment and rental properties is mostly the loss on impairment of fixed assets, and Other income (expenses) for a portion used as investment and rental properties is mostly the loss from prior period adjustment.

20 Contingent liabilities

The Company and its consolidated subsidiaries were contingently liable as guarantors of borrowings by customers and others in an amount aggregating to ¥7,316 million (\$65,910 thousand) and ¥6,298 million at March 31, 2019 and 2018, respectively.

21 Subsequent events

On June 28, 2019, the shareholders of the Company approved payments of a year-end cash dividend of ¥16 (\$0.14) per share or a total of ¥7,583 million (\$68,315 thousand) to shareholders of record at March 31, 2019. Such appropriations are recognized in the period in which they are approved by the shareholders.

Independent Auditor's Report



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

We have audited the accompanying consolidated financial statements of Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2019 and 2018, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the years in the three-year period ended March 31, 2019, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries as at March 31, 2019 and 2018, and their financial performance and cash flows for each of the years in the three-year period ended March 31, 2019, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 31, 2019
 Tokyo, Japan

Company Information (As of March 31, 2019)

Corporate Data

Head Office

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

Corporate Website

<http://www.sumitomo-rd.co.jp/english/>

Date of Establishment

December 1, 1949

Number of Employees

13,238 (Consolidated)

Major Consolidated Subsidiaries

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

Investor Information

Paid-in Capital

¥122,805 million

Number of Common Stock

Authorized: 1,900,000,000 shares

Issued: 476,085,978 shares

Number of Shareholders

10,365

Stock Exchange Listing

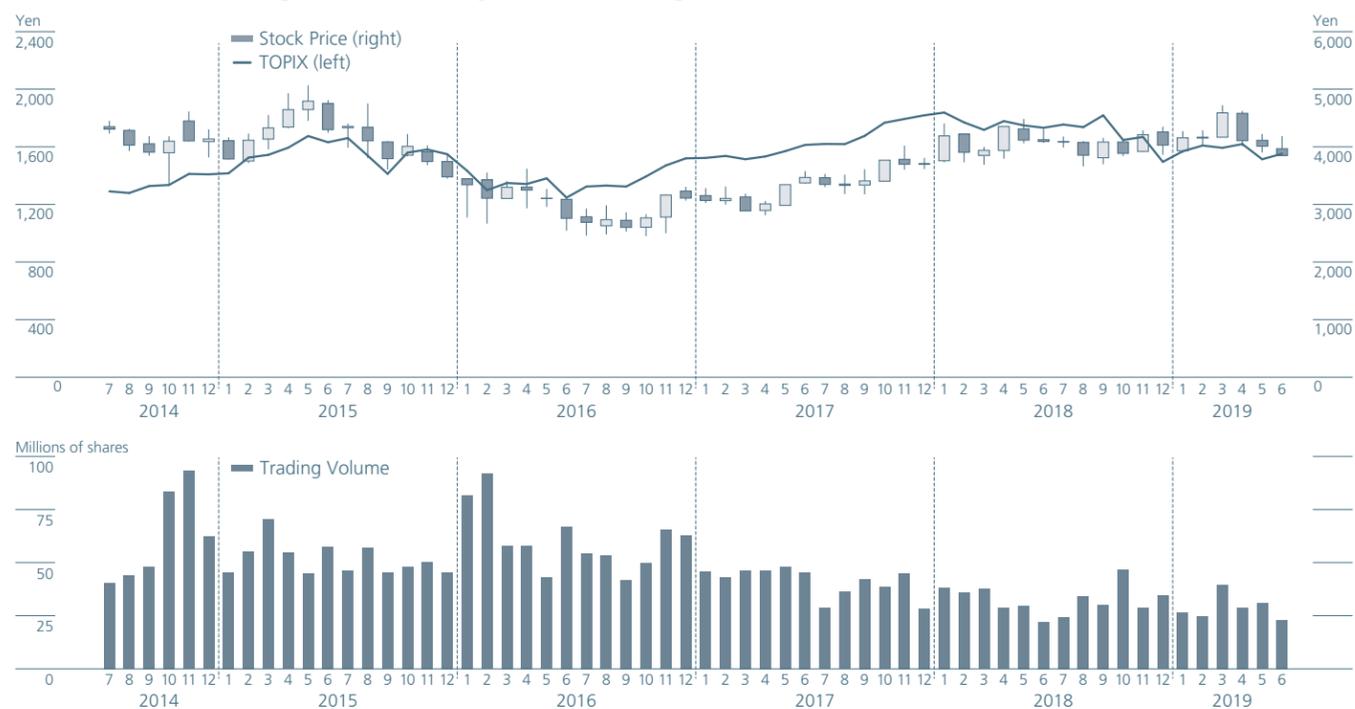
Tokyo Stock Exchange

Major Shareholders

Name	Number of shares held (Thousands)	Percentage of shares held
The Master Trust Bank of Japan, Ltd. (Trust account)	40,414	8.53%
Japan Trustee Services Bank, Ltd. (Trust account)	25,715	5.43%
Sumitomo Mitsui Banking Corporation	11,990	2.53%
Japan Trustee Services Bank, Ltd. (Trust account 4)	10,561	2.23%
Japan Trustee Services Bank, Ltd. (Trust account 5)	8,710	1.84%
Daikin Industries, Ltd.	8,367	1.77%
Taisei Corporation	7,550	1.59%
JP MORGAN CHASE BANK 385151	7,537	1.59%
Shimizu Corporation	7,500	1.58%
SSBTC CLIENT OMNIBUS ACCOUNT	7,429	1.57%



Stock Price and Trading Volume on Tokyo Stock Exchange



History

- 1949** • Izumi Real Estate Co., Ltd. established as the successor to the holding company of the Sumitomo *zaibatsu* following the breakup of the conglomerate.
- 1957** • Izumi Real Estate Co., Ltd. changed its name to Sumitomo Realty & Development Co., Ltd.
- 1963** • Merged with the holding company of the former Sumitomo *zaibatsu* during its liquidation.
- 1964** • Entered condominium sales business with Hama-Ashiya Mansion in Kobe, Hyogo Prefecture.
- 1970** • Listed on the Tokyo Stock Exchange and Osaka Securities Exchange.
- 1972** • Established Sumitomo Realty & Development CA., Inc., a consolidated subsidiary.
- 1973** • Established Sumitomo Fudosan Tatemono Service Co., Ltd., a consolidated subsidiary.
- 1974** • Completed construction of 52-story Shinjuku Sumitomo Building in Shinjuku, Tokyo; moved Company head office there from Tokyo Sumitomo Building in Marunouchi, Tokyo.
- 1975** • Established Sumitomo Real Estate Sales Co., Ltd., a consolidated subsidiary.
- 1980** • Established Sumitomo Fudosan Syscon Co., Ltd., a consolidated subsidiary.
- 1982** • Completed construction of 30-story Shinjuku NS Building in Shinjuku, Tokyo; moved Company head office there from Shinjuku Sumitomo Building.
- 1984** • Established Sumitomo Fudosan Finance Co., Ltd., a consolidated subsidiary.
- 1986** • Established Sumitomo Fudosan Fitness Co., Ltd. (currently Sumitomo Fudosan Esforta Co., Ltd.), a consolidated subsidiary.
- 1995** • Commenced American Comfort custom home construction business.
- 1996** • Commenced Shinchiku Sokkurisan remodeling business.
- 1997** • Entered high-quality business hotel market. Opened Villa Fontaine Nihombashi and hotels at two other locations.
- 1998** • Sumitomo Real Estate Sales Co., Ltd., a consolidated subsidiary, listed on the Tokyo Stock Exchange.
- 1999** • Commenced real estate joint investment trust fund. Launched sales of Sumitomo Realty & Development Fund (SURF) series.
• Implemented the Sumquest bond issue, which was the first public issue of real estate securities in Japan.
- 2000** • Commenced luxury condominium leasing business. Completed construction of La Tour Shibakoen.
- 2001** • The number of managed STEP brokerage offices exceeded 200.
- 2002** • Completed construction of Izumi Garden Tower (Minato Ward, Tokyo).
- 2003** • Commenced sales of J-URBAN fixed-price urban-style housing series.
- 2004** • Commenced sales of World City Towers (Minato Ward, Tokyo).
• Established Sumitomo Fudosan Bellesalle Co., Ltd., a consolidated subsidiary.
- 2008** • Commenced sales of City Towers Toyosu (Koto Ward, Tokyo).
- 2010** • Completed construction of Shinjuku Central Park City (Shinjuku Ward, Tokyo).
• Opened Grand Mansion Gallery.
- 2011** • Completed construction of Sumitomo Fudosan Shinjuku Grand Tower (Shinjuku Ward, Tokyo).
- 2012** • Launched a Custom-order Condominium service.
• Commenced sales of J-RESIDENCE.
- 2014** • Number of condominium units brought to market over the full year was the highest in Japan for the first time.
- 2015** • Completed construction of Tokyo Nihombashi Tower (Chuo Ward, Tokyo).
• Cumulative units contracted topped 100,000 in Shinchiku Sokkurisan remodeling operations.
- 2016** • Completed construction of Shinjuku Garden (Shinjuku Ward, Tokyo).
• Completed construction of Sumitomo Fudosan Roppongi Grand Tower (Minato Ward, Tokyo).
- 2017** • Commenced sales of City Towers Tokyo Bay (Koto Ward, Tokyo).
• Sumitomo Real Estate Sales Co., Ltd. delisted as it became a wholly owned subsidiary.
- 2018** • Completed construction of Sumitomo Fudosan Osaki Garden Tower (Shinagawa Ward, Tokyo).
• Number of condominium units brought to market over the full year was the highest in Japan for the fifth consecutive year.

Global Events

- 1964** • Tokyo Olympic Games
- 1973** • First oil crisis
- 1978** • Second oil crisis
- 1985** • The Plaza Accord
- 1987** • Black Monday
- 1989** • Collapse of Berlin Wall
• Nikkei Stock Average all-time high
- 1999** • Introduction of euro
- 2001** • September 11 terrorist attacks
- 2008** • Lehman crisis
- 2011** • The Great East Japan Earthquake
• European sovereign debt crisis
• Record-high yen against the U.S. dollar
- 2015** • China stock market crash
- 2016** • Brexit referendum



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