

Consolidated Financial Statements for FY2021

Ended March 31, 2022

Consolidated Balance Sheets

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
As of March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Assets			
Current assets:			
Cash and deposits (Notes 5, 7 and 8)	¥ 151,393	¥ 188,340	\$ 1,236,770
Accounts receivable—trade (Note 19)	23,286	18,714	190,230
Allowance for doubtful accounts	(44)	(38)	(359)
Inventories (Notes 3, 6 and 22)	712,451	636,803	5,820,203
Other current assets	54,447	68,377	444,791
Total current assets	941,533	912,196	7,691,635
Property and equipment (Notes 3, 6, 20 and 22):			
Land (Note 7)	2,847,702	2,778,475	23,263,639
Buildings and structures (Note 7)	1,759,702	1,705,467	14,375,476
Construction in progress (Note 7)	139,860	107,850	1,142,554
Other property and equipment (Note 7)	48,718	46,854	397,990
Subtotal of property and equipment	4,795,982	4,638,646	39,179,659
Accumulated depreciation and accumulated impairment losses	(681,665)	(626,477)	(5,568,704)
Total property and equipment	4,114,317	4,012,169	33,610,955
Intangibles (Note 20):			
Leasehold rights (Notes 3 and 22)	61,803	60,162	504,885
Other intangibles	2,191	2,249	17,899
Total intangibles	63,994	62,411	522,784
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates (Note 8)	70,274	68,689	574,087
Investment securities (Notes 8 and 9)	503,230	505,448	4,111,020
Guarantee and lease deposits (Notes 8 and 9)	66,994	68,743	547,292
Net defined benefit asset (Note 11)	258	—	2,108
Deferred income taxes (Note 14)	11,457	11,071	93,595
Other investments and other assets (Notes 8 and 18)	34,642	35,023	283,000
Allowance for doubtful accounts	(659)	(2,084)	(5,384)
Total investments and other assets	686,196	686,890	5,605,718
Total assets	¥5,806,040	¥5,673,666	\$47,431,092

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Liabilities and Net Assets			
Current liabilities:			
Short-term debt (Notes 8 and 10)	¥ 68,610	¥ 146,620	\$ 560,493
Long-term debt due within one year (Notes 7, 8 and 10)	237,386	211,446	1,939,270
Long-term non-recourse debt due within one year (Notes 7, 8 and 10)	4,786	16,344	39,098
Notes and accounts payable—trade	42,308	24,697	345,625
Accrued income taxes	40,145	40,742	327,955
Provision for bonuses	5,804	4,023	47,414
Deposits received	55,156	65,964	450,584
Other current liabilities (Notes 13 and 19)	185,836	152,124	1,518,145
Total current liabilities	640,031	661,960	5,228,584
Long-term liabilities:			
Long-term debt due after one year (Notes 7, 8 and 10)	2,957,325	2,890,210	24,159,178
Long-term non-recourse debt due after one year (Notes 7, 8 and 10)	291,887	296,673	2,384,503
Guarantee and lease deposits received (Note 8)	249,276	258,219	2,036,402
Long-term deposits received	8,764	27,932	71,596
Net defined benefit liability (Note 11)	5,796	5,258	47,349
Other long-term liabilities (Notes 8, 13, 14 and 18)	18,912	30,393	154,497
Total long-term liabilities	3,531,960	3,508,685	28,853,525
Contingent liabilities (Note 23)			
Net assets (Note 16):			
Shareholders' equity			
Common stock:			
Authorized —1,900,000 thousand shares			
Issued —476,086 thousand shares	122,805	122,805	1,003,227
Capital surplus	104,154	104,154	850,862
Retained earnings (Note 24)	1,256,742	1,126,670	10,266,661
Treasury stock	(4,475)	(4,475)	(36,557)
Total shareholders' equity	1,479,226	1,349,154	12,084,193
Accumulated other comprehensive income (loss)			
Net unrealized holding gains on securities (Note 9)	155,863	160,441	1,273,286
Net deferred gains (losses) on hedges (Note 18)	705	(2,989)	5,759
Foreign currency translation adjustments	(1,450)	(4,266)	(11,845)
Remeasurements of defined benefit plans (Note 11)	(295)	681	(2,410)
Total accumulated other comprehensive income	154,823	153,867	1,264,790
Total net assets	1,634,049	1,503,021	13,348,983
Total liabilities and net assets	¥5,806,040	¥5,673,666	\$47,431,092

Consolidated Statements of Income

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2022, 2021 and 2020

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2022	2021	2020	2022
Revenue from operations (Notes 17, 19, 20 and 22)	¥939,431	¥917,473	¥1,013,513	\$7,674,463
Costs and expenses (Note 17):				
Cost of revenue from operations (Note 22)	636,988	629,565	691,832	5,203,725
Selling, general and administrative expenses (Note 11)	68,560	68,664	87,349	560,085
	705,548	698,229	779,181	5,763,810
Operating income (Note 20)	233,883	219,244	234,332	1,910,653
Other income (expenses) (Note 22):				
Interest income	131	275	656	1,070
Interest expense (Notes 10 and 18)	(18,034)	(18,318)	(19,186)	(147,325)
Dividend income	12,662	11,561	11,024	103,439
Gain on sale of property and equipment	98	536	278	801
Loss on sale of property and equipment	(0)	—	(2,131)	(0)
Loss on impairment of fixed assets (Notes 12, 20 and 22)	(3,453)	(3,876)	(9,660)	(28,208)
Loss on disposal of property and equipment (Note 22)	(4,015)	(7,890)	(1,567)	(32,800)
Gain on sale of investment securities (Note 9)	2,427	13,116	1,417	19,827
Loss on sale of investment securities (Note 9)	(2)	(312)	—	(16)
Loss on devaluation of investment securities (Note 9)	(1,160)	(489)	(7,838)	(9,476)
Loss related to COVID-19	—	(629)	—	—
Reversal of allowance for doubtful accounts	—	—	4,824	—
Other, net	(3,883)	(2,859)	(6,339)	(31,722)
	(15,229)	(8,885)	(28,522)	(124,410)
Income before income taxes	218,654	210,359	205,810	1,786,243
Income taxes (Note 12):				
Current	77,311	64,930	68,180	631,574
Deferred	(9,109)	4,040	(3,367)	(74,414)
Total	68,202	68,970	64,813	557,160
Profit	150,452	141,389	140,997	1,229,083
Profit attributable to non-controlling interests	—	—	—	—
Profit attributable to owners of parent	¥150,452	¥141,389	¥ 140,997	\$1,229,083

	Yen			U.S. dollars (Note 1)
	2022	2021	2020	2022
Amounts per share of common stock:				
Profit attributable to owners of parent:				
—Basic	¥317.45	¥298.33	¥297.50	\$2.59
—Diluted	—	—	—	—
Cash dividend applicable to the year (Note 24)	45.00	40.00	35.00	0.37

See accompanying notes.

Consolidated Statements of Comprehensive Income

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2022, 2021 and 2020

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2022	2021	2020	2022
Profit	¥150,452	¥141,389	¥140,997	\$1,229,083
Other comprehensive income (loss) (Note 21)				
Net unrealized holding gains (losses) on securities	(4,578)	84,106	(32,875)	(37,399)
Net deferred gains (losses) on hedges	3,694	571	412	30,177
Foreign currency translation adjustments	2,816	(1,548)	(366)	23,005
Remeasurements of defined benefit plans	(976)	858	(103)	(7,974)
Total other comprehensive income (loss)	956	83,987	(32,932)	7,809
Comprehensive income	¥151,408	¥225,376	¥108,065	\$1,236,892
Comprehensive income attributable to:				
Owners of the parent	¥151,408	¥225,376	¥108,065	\$1,236,892
Non-controlling interests	—	—	—	—

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2022, 2021 and 2020

	Thousands	Millions of yen						Total net assets				
	Number of shares of common stock	Shareholders' equity				Accumulated other comprehensive income (loss)						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains (losses) on securities	Net deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)		
Balance at April 1, 2019	476,086	¥122,805	¥104,154	¥ 876,803	¥(4,470)	¥1,099,292	¥109,210	¥(3,972)	¥(2,352)	¥ (74)	¥102,812	¥1,202,104
Profit attributable to owners of parent	—	—	—	140,997	—	140,997	—	—	—	—	—	140,997
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(366)	—	(366)	(366)
Net unrealized holding gains (losses) on securities	—	—	—	—	—	—	(32,875)	—	—	—	(32,875)	(32,875)
Acquisition of treasury stock	—	—	—	—	(3)	(3)	—	—	—	—	—	(3)
Disposal of treasury stock	—	—	0	—	0	0	—	—	—	—	—	0
Change in scope of consolidation	—	—	—	—	—	—	—	—	—	—	—	—
Cash dividends paid:												
Final for prior year (¥16 per share)	—	—	—	(7,583)	—	(7,583)	—	—	—	—	—	(7,583)
Interim for current year (¥16 per share)	—	—	—	(7,583)	—	(7,583)	—	—	—	—	—	(7,583)
Net deferred gains (losses) on hedges	—	—	—	—	—	—	—	412	—	—	412	412
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	(103)	(103)	(103)
Balance at April 1, 2020	476,086	¥122,805	¥104,154	¥1,002,634	¥(4,473)	¥1,225,120	¥ 76,335	¥(3,560)	¥(2,718)	¥(177)	¥ 69,880	¥1,295,000
Profit attributable to owners of parent	—	—	—	141,389	—	141,389	—	—	—	—	—	141,389
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(1,548)	—	(1,548)	(1,548)
Net unrealized holding gains (losses) on securities	—	—	—	—	—	—	84,106	—	—	—	84,106	84,106
Acquisition of treasury stock	—	—	—	—	(2)	(2)	—	—	—	—	—	(2)
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—	—
Change in scope of consolidation	—	—	—	657	—	657	—	—	—	—	—	657
Cash dividends paid:												
Final for prior year (¥19 per share)	—	—	—	(9,005)	—	(9,005)	—	—	—	—	—	(9,005)
Interim for current year (¥19 per share)	—	—	—	(9,005)	—	(9,005)	—	—	—	—	—	(9,005)
Net deferred gains (losses) on hedges	—	—	—	—	—	—	—	571	—	—	571	571
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	858	858	858
Balance at April 1, 2021	476,086	¥122,805	¥104,154	¥1,126,670	¥(4,475)	¥1,349,154	¥160,441	¥(2,989)	¥(4,266)	¥681	¥153,867	¥1,503,021
Profit attributable to owners of parent	—	—	—	150,452	—	150,452	—	—	—	—	—	150,452
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	2,816	—	2,816	2,816
Net unrealized holding gains (losses) on securities	—	—	—	—	—	—	(4,578)	—	—	—	(4,578)	(4,578)
Acquisition of treasury stock	—	—	—	—	(0)	—	—	—	—	—	—	(0)
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—	—
Change in scope of consolidation	—	—	—	(0)	—	—	—	—	—	—	—	(0)
Cash dividends paid:												
Final for prior year (¥21 per share)	—	—	—	(9,953)	—	(9,953)	—	—	—	—	—	(9,953)
Interim for current year (¥22 per share)	—	—	—	(10,427)	—	(10,427)	—	—	—	—	—	(10,427)
Net deferred gains (losses) on hedges	—	—	—	—	—	—	—	3,694	—	—	3,694	3,694
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	—	(976)	(976)	(976)
Balance at March 31, 2022	476,086	¥122,805	¥104,154	¥1,256,742	¥(4,475)	¥1,479,226	¥155,863	¥ 705	¥(1,450)	¥(295)	¥154,823	¥1,634,049

	Thousands of U.S. dollars (Note 1)						Total net assets				
	Shareholders' equity				Accumulated other comprehensive income (loss)						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains (losses) on securities	Net deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	
Balance at April 1, 2021	\$1,003,227	\$850,862	\$ 9,204,068	\$(36,557)	\$11,021,600	\$1,310,685	\$(24,418)	\$(34,850)	\$ 5,564	\$1,256,981	\$12,278,581
Profit attributable to owners of parent	—	—	1,229,083	—	1,229,083	—	—	—	—	—	1,229,083
Foreign currency translation adjustments	—	—	—	—	—	—	—	23,005	—	23,005	23,005
Net unrealized holding gains (losses) on securities	—	—	—	—	—	(37,399)	—	—	—	(37,399)	(37,399)
Acquisition of treasury stock	—	—	—	(0)	(0)	—	—	—	—	—	(0)
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Change in scope of consolidation	—	—	(0)	—	(0)	—	—	—	—	—	(0)
Cash dividends paid:											
Final for prior year (\$0.17 per share)	—	—	(81,309)	—	(81,309)	—	—	—	—	—	(81,309)
Interim for current year (\$0.17 per share)	—	—	(85,181)	—	(85,181)	—	—	—	—	—	(85,181)
Net deferred gains (losses) on hedges	—	—	—	—	—	—	30,177	—	—	30,177	30,177
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	(7,974)	(7,974)	(7,974)
Balance at March 31, 2022	\$1,003,227	\$850,862	\$10,266,661	\$(36,557)	\$12,084,193	\$1,273,286	\$ 5,759	\$(11,845)	\$(2,410)	\$1,266,790	\$13,348,983

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2022, 2021 and 2020

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2022	2021	2020	2022
Cash flows from operating activities:				
Income before income taxes	¥ 218,654	¥ 210,359	¥ 205,810	\$ 1,786,243
Depreciation and amortization (Notes 20 and 22)	60,645	57,813	48,974	495,425
Loss on impairment of fixed assets	3,453	3,876	9,660	28,208
Provision for (Reversal of) allowance for doubtful accounts	135	(21)	(4,848)	1,103
Increase (Decrease) in net defined benefit liability	(196)	226	60	(1,601)
Loss (Gain) on sale of property and equipment, net	(98)	(536)	1,853	(801)
Loss on disposal of property and equipment	4,015	7,890	1,567	32,800
Loss (Gain) on sale of investment securities, net	(2,425)	(12,803)	(1,417)	(19,810)
Loss (Gain) on devaluation of investment securities	1,160	489	7,838	9,476
Interest and dividend income	(12,793)	(11,836)	(11,680)	(104,509)
Interest expense	18,034	18,318	19,186	147,325
Decrease (Increase) in accounts receivable—trade	(4,572)	(1,185)	4,637	(37,350)
Decrease (Increase) in inventories	(48,327)	7,304	46,767	(394,796)
Increase (Decrease) in notes and accounts payable—trade	17,611	(12,041)	(18,543)	143,869
Increase (Decrease) in advances received	2,082	(4,922)	(416)	17,008
Other, net	18,965	26,434	(6,117)	154,930
Total	276,343	289,365	303,331	2,257,520
Proceeds from interest and dividend income	12,793	11,836	11,680	104,509
Payments for interest	(18,150)	(18,224)	(19,334)	(148,272)
Payments for income tax and other taxes	(78,019)	(57,030)	(65,218)	(637,358)
Net cash provided by operating activities	192,967	225,947	230,459	1,576,399
Cash flows from investing activities:				
Payments for purchases of property and equipment	(179,553)	(355,432)	(270,347)	(1,466,816)
Proceeds from sale of property and equipment	525	1,659	11,307	4,289
Payments for purchases of investment securities	(9,024)	(20,500)	(46,695)	(73,719)
Proceeds from sale and redemption of investment securities	4,241	49,141	2,676	34,646
Payments for guarantee and lease deposits	(1,278)	(748)	(1,121)	(10,440)
Proceeds from guarantee and lease deposits	2,731	1,954	804	22,310
Repayments for guarantee and lease deposits received	(35,829)	(16,549)	(10,950)	(292,697)
Proceeds from guarantee and lease deposits received	27,858	24,264	29,525	227,579
Other, net	(19,656)	(20,471)	(5,318)	(160,575)
Net cash used in investing activities	(209,985)	(336,682)	(290,119)	(1,715,423)
Cash flows from financing activities:				
Increase (Decrease) in short-term debt, net	(78,010)	(106)	121,083	(637,285)
Proceeds from issuance of bonds	40,000	—	—	326,771
Redemption of bonds	(20,000)	—	(40,000)	(163,385)
Proceeds from non-recourse bonds	—	6,000	2,000	—
Redemption of non-recourse bonds	(1,500)	(8,000)	(2,000)	(12,254)
Proceeds from long-term loans payable	264,500	259,500	153,300	2,160,771
Repayments of long-term loans payable	(191,446)	(131,471)	(129,619)	(1,563,974)
Proceeds from long-term non-recourse loans	—	57,140	93,720	—
Repayments of long-term non-recourse loans	(14,844)	(62,678)	(100,363)	(121,265)
Decrease (Increase) in treasury stocks, net	(0)	(2)	(3)	(0)
Cash dividends paid	(20,375)	(18,005)	(15,163)	(166,449)
Other, net	(242)	(292)	(310)	(1,976)
Net cash provided by (used in) financing activities	(21,917)	102,086	82,645	(179,046)
Effect of exchange rate changes on cash and cash equivalents	1,964	(1,088)	(244)	16,044
Net increase (decrease) in cash and cash equivalents	(36,971)	(9,737)	22,741	(302,026)
Cash and cash equivalents at beginning of year	187,281	193,448	170,707	1,529,949
Increase in cash and cash equivalents of newly consolidated subsidiaries	0	3,570	—	0
Cash and cash equivalents at end of year (Note 3)	¥ 150,310	¥ 187,281	¥ 193,448	\$ 1,227,923

See accompanying notes.

Notes to Consolidated Financial Statements

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
As of March 31, 2022 and 2021, and for the years ended March 31, 2022, 2021 and 2020

1 Basis of presenting consolidated financial statements

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

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. In addition, the notes to the consolidated financial statements include information which may not be required under Japanese GAAP but is presented herein as additional information.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2022, which was ¥122.41 to U.S. \$. The translation should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 Accounting policies

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. Non-consolidated subsidiaries are excluded from the scope of consolidation because they are small and their combined total assets, revenues from operations, profit (amount corresponding to the Company's equity interest), retained earnings (amount corresponding to the Company's equity interest), and any other figures do not have a material impact on the consolidated financial statements.

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

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

In the year ended March 31, 2022, SRD Finance Co., Ltd. is included in the scope of consolidation due to increasing its materiality on the consolidated financial statement, and Sumitomo Fudosan Finance Co., Ltd. was dissolved and excluded from the scope of consolidation because of the absorption-type merger with the Company as the surviving company.

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

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

31, 2022 and 2021 is presented in Note 5 "Cash and cash equivalents."

(3) Recognition of significant revenue

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

(Leasing Business)

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

(Sales Business)

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

(Construction Business)

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

(Brokerage Business)

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

(4) Inventories

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

(5) Securities

Investments in unconsolidated subsidiaries and affiliates are stated at moving-average cost. Available-for-sale securities except for equity securities without market prices are stated at fair value, and equity securities without market prices are mainly stated at moving-average cost.

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

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

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

(7) Intangibles (except for leased assets)

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

(8) Allowance for doubtful accounts

The Group provides for doubtful accounts at an estimated uncollectable amount based on the evaluation of certain identified doubtful and bankrupt receivables plus an amount calculated using the

percentage of actual collection losses in certain reference periods with respect to remaining receivables.

(9) Leased assets

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

(10) Income taxes

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

(11) Net defined benefit asset and liability

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

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

3 Significant accounting estimates

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

(1) Carrying amounts in the consolidated financial statements for the years ended March 31, 2022 and 2021:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Inventories:			
Real estate for sale	¥308,156	¥260,825	\$2,517,409
Real estate for sale in process	394,922	366,597	3,226,223

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

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

(Loss on impairment of fixed assets)

(1) Carrying amounts in the consolidated financial statements for the years ended March 31, 2022 and 2021:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Property and equipment	¥4,114,317	¥4,012,169	\$33,610,955
Leasehold rights	61,803	60,162	504,885

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

The amounts of property and equipment are determined by deducting accumulated depreciation and accumulated impairment losses from the acquisition costs, and used as the carrying amount. When a property's profitability has declined and an impairment indicator exists, the Group is required to determine whether an impairment loss should be recognized. Impairment indicators include recurring operating losses, a significant adverse change that could affect the recoverable amount, a significant deterioration of business environment and a significant decrease in the market prices. Such market prices are calculated by the Company using income approach, and future cash flow and discount

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

(12) Derivatives

The Group states derivatives at fair value. If derivatives are used as hedges and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from changes in fair value of the derivative financial instruments until the related gains or losses on the hedged items are recognized.

The assessment of hedge effectiveness is performed by comparing the accumulated cash flows of the hedged item to those of the hedging instrument over the term of the relationship. Interest rate swap contracts adopting exceptional accounting is excluded from the effectiveness assessment.

(13) Amounts per share of common stock

The computation of earnings per share is based on the weighted-average number of shares of common stock outstanding during each year. Diluted earnings per share is not presented as there are no potential shares.

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

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

In case a loss on devaluation of inventories is to be recognized due to the change of the above-mentioned assumption, the impact on the consolidated financial statements may be significant.

rate is estimated based on current rent per unit, rent level in the market, occupancy rate, discount rate and other assumptions.

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

The carrying amount of fixed assets of which the impairment loss is to be recognized, have been reduced to the recoverable amounts, and the amount of the reduction is recognized as impairment loss for the current fiscal year. The recoverable amounts are determined based on the appraisal value by a real estate appraiser, the amounts equivalent to the publicly notified land price and the amounts calculated by discounting the future cash flow.

In case the impairment indicator exists, and an impairment loss is to be recognized due to the change of the above-mentioned assumption,

4 Changes in accounting policies

(Application of the Accounting Standard for Revenue Recognition)

Effective from the beginning of the year ended March 31, 2022, the Group adopted "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and the related standard, and the Group recognizes the amount expected to be received for promised goods or services as revenue when they are transferred to customers.

The new accounting policy was applied from the balance of retained earnings as of the beginning of the year ended March 31, 2022 in which the cumulative effect of applying the new accounting policy retrospectively was recognized, in accordance with transitional provision set out in the proviso of Article 84 of the Standard.

As a result, there is no impact on retained earnings for the beginning of the year ended March 31, 2022 and the impact on the consolidated financial statements for the year is immaterial.

Note 19 "Revenue recognition" for the year ended March 31, 2021 is not provided in accordance with the transitional provision set out in Article 89-3 of the Standard.

5 Cash and cash equivalents

Cash and cash equivalents at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Cash and deposits	¥151,393	¥188,340	\$1,236,770
Restricted deposits in trust	(783)	(773)	(6,397)
Time deposits with maturities exceeding three months	(300)	(286)	(2,450)
Cash and cash equivalents	¥150,310	¥187,281	\$1,227,923

6 Inventories

Inventories at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Real estate for sale	¥308,156	¥260,825	\$2,517,409
Real estate for sale in process	394,922	366,597	3,226,223
Costs on uncompleted construction contracts	8,210	8,638	67,070
Other	1,163	743	9,501
Total	¥712,451	¥636,803	\$5,820,203

(Change in purpose of holding inventories and property and equipment)

As a result of review of holding purposes, the Company transferred amounts between inventories and property and equipment. Such transfers at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Inventories:			
Transferred to property and equipment	¥ —	¥(5,759)	\$ —
Transferred from property and equipment	37,860	6,164	309,288

the impact on the consolidated financial statements may be significant.

(Application of Accounting Standard for Fair Value Measurement)

Effective from the beginning of the year ended March 31, 2022, the Group adopted "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) and other related standards, and henceforth adopts prospectively the new accounting policies in accordance with the transitional provision set out in Article 19 of the "Accounting Standard for Fair Value Measurement" and Article 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). There is no impact on the consolidated financial statements.

In addition, breakdown by level of fair value of financial instruments for the year ended March 31, 2022 is disclosed in Note 8 "Financial instruments." Such information for the year ended March 31, 2021 is not provided in accordance with the transitional provision set out in Article 7-4 of "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020).

7 Pledged assets

Assets pledged as collateral at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Cash and deposits	¥ 1,988	¥ 2,087	\$ 16,241
Buildings and structures	129,469	98,200	1,057,667
Land	396,008	404,372	3,235,095
Construction in progress	772	—	6,307
Other property and equipment	823	107	6,723
Total	¥529,060	¥504,766	\$4,322,033

Secured liabilities at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Long-term debt due within one year	¥ 190	¥ 190	\$ 1,552
Long-term non-recourse debt due within one year	4,786	16,344	39,098
Long-term debt due after one year	134,430	104,620	1,098,195
Long-term non-recourse debt due after one year	291,887	296,673	2,384,503
Total	¥431,293	¥417,827	\$3,523,348

Specified assets for non-recourse debts at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Cash and deposits	¥ 2,042	¥ 2,995	\$ 16,682
Buildings and structures	70,334	77,088	574,577
Land	250,361	258,725	2,045,266
Other property and equipment	82	85	670
Total	¥322,819	¥338,893	\$2,637,195

(Note) "Specified assets for non-recourse debts" is included in "Assets pledged as collateral" for the years ended March 31, 2022 and 2021 except for cash and deposits.

8 Financial instruments**1. Overview****(1) Policy for financial instruments**

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

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

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

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

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

transactions are executed with creditworthy financial institutions, so the Group management believes there are few risks of default by counterparties. Derivative transactions are executed by the Company's Finance Department in accordance with the decisions of a committee whose chairman is the director of the Finance Department. The Finance Department prepares reports on derivatives that are provided to the director of the Finance Department periodically.

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

(3) Supplemental information on fair values of financial instruments

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

Contract amounts of derivatives shown in Note 18 "Derivative transactions" itself are not representing the market risks related to derivatives.

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

The carrying amounts of financial instruments on the consolidated balance sheets, their fair values and the differences between them as of March 31, 2022 and 2021 are as follows. (Financial instruments whose fair values are extremely difficult to estimate and equity securities with no market price are not included; please see (Note 3) and (Note 4).)

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

Level 1: Fair value measured based on unadjusted quoted prices in an active market for identical assets or liabilities

Level 2: Fair value measured based on direct or indirect observable inputs for the assets or liabilities other than level 1 inputs

Level 3: Fair value measured based on significant unobservable inputs for the assets or liabilities

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

(1) Financial instruments whose fair values are regarded as their carrying amounts on the consolidated balance sheets**For 2022**

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

* Of investment securities, ¥536 million (\$4,379 thousand) accounts as guarantee and lease deposits in the consolidated balance sheets.

For 2021

	Millions of yen		
	Carrying amount	Fair value	Difference
Investment securities*1			
Available-for-sale securities			
Equity securities	¥503,108	¥503,108	¥—
Debt securities	535	535	—
Total assets	¥503,643	¥503,643	¥—
Derivative transactions*2			
(1) Non-hedge accounting	¥ —	¥ —	¥—
(2) Hedge accounting	(4,310)	(4,310)	—
Total derivative transactions	¥ (4,310)	¥ (4,310)	¥—

*1 Of investment securities, ¥535 million accounts as guarantee and lease deposits in the consolidated balance sheets.

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

For 2022

	Thousands of U.S. dollars			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Equity securities	\$4,080,721	\$ —	\$—	\$4,080,721
Debt securities	—	4,379	—	4,379
Derivative transactions				
(1) Non-hedge accounting	—	—	—	—
(2) Hedge accounting				
Interest-related derivatives	—	27,473	—	27,473
Total assets	\$4,080,721	\$31,852	\$—	\$4,112,573
Derivative transactions				
(1) Non-hedge accounting	\$ —	\$ —	\$—	\$ —
(2) Hedge accounting				
Interest-related derivatives	—	19,181	—	19,181
Total derivative transactions	\$ —	\$19,181	\$—	\$ 19,181

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

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

For 2022

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

For 2021

	Carrying amount	Millions of yen			Difference
		Fair value			
		Level 1	Level 2	Level 3	
(1) Long-term debt (including due within one year)	¥3,101,656	¥3,137,030	—	—	¥35,374
(2) Long-term non-recourse debt (including due within one year)	313,017	317,321	—	—	4,304
Total liabilities	¥3,414,673	¥3,454,351	—	—	¥39,678

For 2022

	Carrying amount	Thousands of U.S. dollars				Difference
		Fair value				
		Level 1	Level 2	Level 3	Total	
(1) Long-term debt (including due within one year)	\$26,098,448	\$—	\$26,183,613	\$—	\$26,183,613	\$ 85,165
(2) Long-term non-recourse debt (including due within one year)	2,423,601	—	2,446,263	—	2,446,263	22,662
(3) Guarantee and lease deposits received	2,036,402	—	2,029,858	—	2,029,858	(6,544)
Total liabilities	\$30,558,451	\$—	\$30,659,734	\$—	\$30,659,734	\$101,283

(Note 1) Explanation of valuation techniques and inputs used in the measurement of fair value**(1) Investment securities and Derivative transactions**

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

The fair values of debt securities are measured mainly based on reference bond trading statistics published by the Japan Securities Dealers Association and the fair values of derivative transactions are measured based on quoted price provided by financial institutions which are counterparties. Their fair values are classified as level 2.

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

The fair value of floating rate debt (excluding hedged item subject to the exceptional accounting for interest rate swaps*) are measured based on their carrying amounts because the market interest rate is

reflected in such debt within a short time period, and the credit standing of the Company and status of specified assets for non-recourse debts have not changed significantly from the time when these transactions occurred.

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

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

(3) Guarantee and lease deposits received

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

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

Not applicable

(Note 3) Carrying amounts of financial instruments whose fair values are extremely difficult to estimate

For 2021

	Millions of yen
Investments in unconsolidated subsidiaries and affiliates*1	¥ 68,689
Unlisted equity securities*1	2,340
Guarantee and lease deposits received*2	258,219

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

*2 The fair values of guarantee and lease deposits received are not estimated because their remaining terms cannot be determined and the assessment of their fair value is deemed extremely difficult.

(Note 4) Equity Securities with no market price are not included in investment securities. The carrying amounts of such financial instruments are as follows:

For 2022

	Millions of yen	Thousands of U.S. dollars
Investments in unconsolidated subsidiaries and affiliates	¥70,274	\$574,087
Unlisted equity securities	3,709	30,300
Total	¥73,983	\$604,387

(Note 5) Redemption schedule of pecuniary claims and securities with maturities

For 2022

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

* Investment securities include guarantee and lease deposits of ¥536 million (\$4,379 thousand).

For 2021

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash and deposits	¥188,340	¥ —	¥—	¥—
Investment securities*				
Held-to-maturity securities (National government bonds)	—	—	—	—
Available-for-sale securities with maturities (National government bonds)	118	417	—	—
Total	¥188,458	¥417	¥—	¥—

* Investment securities include guarantee and lease deposits of ¥535 million.

For 2022

	Thousands of U.S. dollars			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Cash and deposits	\$1,236,770	\$ —	\$ —	\$—
Investment securities				
Available-for-sale securities with maturities (National government bonds)	915	2,467	997	—
Total	\$1,237,685	\$2,467	\$997	\$—

(Note 6) Repayment schedule of short-term debt, long-term debt and long-term non-recourse debt**For 2022**

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

For 2021

Year ending March 31	Millions of yen					
	2022	2023	2024	2025	2026	2027 and thereafter
Short-term debt	¥146,620	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt (including due within one year)	211,446	237,386	289,472	379,415	293,855	1,690,082
Long-term non-recourse debt (including due within one year)	16,344	4,786	4,640	4,374	52,007	230,866
Total	¥374,410	¥242,172	¥294,112	¥383,789	¥345,862	¥1,920,948

For 2022

Year ending March 31	Thousands of U.S. dollars					
	2023	2024	2025	2026	2027	2028 and thereafter
Short-term debt	\$ 560,493	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt (including due within one year)	1,939,270	2,364,774	3,099,543	2,400,580	2,557,495	13,736,786
Long-term non-recourse debt (including due within one year)	39,098	37,905	35,732	424,859	878,213	1,007,794
Total	\$2,538,861	\$2,402,679	\$3,135,275	\$2,825,439	\$3,435,708	\$14,744,580

9 Securities**For 2022**

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

(1) Available-for-sale securities:

	Millions of yen			Thousands of U.S. dollars		
	Carrying amount	Book value	Difference	Carrying amount	Book value	Difference
Securities whose carrying amount exceeds book value:						
Equity securities	¥442,654	¥203,995	¥238,659	\$3,616,159	\$1,666,490	\$1,949,669
Debt securities*	414	409	5	3,382	3,341	41
Other	—	—	—	—	—	—
Subtotal	443,068	204,404	238,664	3,619,541	1,669,831	1,949,710
Securities whose carrying amount does not exceed book value:						
Equity securities	56,866	70,887	(14,021)	464,554	579,095	(114,541)
Debt securities*	122	123	(1)	997	1,005	(8)
Other	—	—	—	—	—	—
Subtotal	56,988	71,010	(14,022)	465,551	580,100	(114,549)
Total	¥500,056	¥275,414	¥224,642	\$4,085,092	\$2,249,931	\$1,835,161

* Debt securities are included in "Guarantee and lease deposits" on the consolidated balance sheets.

(Note) The Group recognized impairment loss on investment securities of ¥1,160 million (\$9,476 thousand) related to equity securities in available-for-sale securities.

2. Total sales of available-for-sale securities sold in the year ended March 31, 2022 amounted to ¥4,226 million (\$34,523 thousand) and the related gains and losses amounted to ¥2,427 million (\$19,827 thousand) and ¥2 million (\$16 thousand), respectively.

For 2021

1. The following tables summarize the book value, carrying amounts and fair values of securities with available fair values as of March 31, 2021:

(1) Available-for-sale securities:

	Millions of yen		
	Carrying amount	Book value	Difference
Securities whose carrying amount exceeds book value:			
Equity securities	¥460,551	¥217,650	¥242,901
Debt securities*	535	526	9
Other	423	409	14
Subtotal	461,509	218,585	242,924
Securities whose carrying amount does not exceed book value:			
Equity securities	41,474	53,019	(11,545)
Debt securities*	—	—	—
Other	660	677	(17)
Subtotal	42,134	53,696	(11,562)
Total	¥503,643	¥272,281	¥231,362

* Debt securities are included in "Guarantee and lease deposits" on the consolidated balance sheets.

(Note) The Group recognized impairment loss on investment securities of ¥489 million related to equity securities in available-for-sale securities.

2. Total sales of available-for-sale securities sold in the year ended March 31, 2021 amounted to ¥3,743 million and the related gains and losses amounted to ¥1,243 million and ¥312 million, respectively. Although gain on sale of investment securities in the consolidated statements of income is ¥13,116 million, this difference from above ¥1,243 million is because ¥13,116 million includes the gain on sale of the equity interests with no market price. It is mainly the gain on sale of equity interests of Dalian Qingyun Sky Realty and Development Co., Ltd. whose amount is ¥11,873 million.

10 Short-term debt and long-term debt

Short-term debt at March 31, 2022 and 2021 consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	2022	Average interest rate (%)	2021	Average interest rate (%)	2022
Loans, principally from banks	¥28,610	0.27	¥ 26,620	0.28	\$233,723
Commercial paper	40,000	(0.08)	120,000	(0.04)	326,770
Total	¥68,610		¥146,620		\$560,493

All of short-term debts are raised in yen, and the interest rates represent weighted-average rates in effect balance at March 31, 2022 and 2021.

Long-term debt at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
1.098% domestic straight bonds, due 2023	¥ 10,000	¥ 10,000	\$ 81,693
0.950% domestic straight bonds, due 2023	10,000	10,000	81,693
0.968% domestic straight bonds, due 2023	10,000	10,000	81,693
0.987% domestic straight bonds, due 2024	20,000	20,000	163,385
0.914% domestic straight bonds, due 2024	20,000	20,000	163,385
0.904% domestic straight bonds, due 2024	20,000	20,000	163,385
0.884% domestic straight bonds, due 2024	20,000	20,000	163,385
0.836% domestic straight bonds, due 2024	20,000	20,000	163,385
0.809% domestic straight bonds, due 2024	20,000	20,000	163,385
0.429% domestic straight bonds, due 2021	—	10,000	—
0.392% domestic straight bonds, due 2022	—	10,000	—
0.670% domestic straight bonds, due 2025	10,000	10,000	81,693
0.826% domestic straight bonds, due 2025	20,000	20,000	163,385
0.992% domestic straight bonds, due 2025	20,000	20,000	163,385
0.400% domestic straight bonds, due 2026	10,000	10,000	81,693
0.230% domestic straight bonds, due 2026	10,000	10,000	81,693
0.400% domestic straight bonds, due 2027	30,000	30,000	245,078
0.310% domestic straight bonds, due 2031	30,000	—	245,078
0.260% domestic straight bonds, due 2031	10,000	—	81,693
Loans from banks and insurance companies, with interest at weighted-average rates of 0.32% in 2022 and 0.30% in 2021:			
Secured	134,620	104,810	1,099,747
Unsecured	2,770,091	2,726,846	22,629,614
Subtotal	3,194,711	3,101,656	26,098,448
Amount due within one year	(237,386)	(211,446)	(1,939,270)
Total	¥2,957,325	¥2,890,210	\$24,159,178

All of long-term debts are raised in yen, and the interest rates represent weighted-average rates in effect balance at March 31, 2022 and 2021.

Non-recourse debt at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Non-recourse bonds, with interest at weighted-average rates of 0.09% in 2022 and 2021, respectively:			
Due within one year	¥ —	¥ 1,500	\$ —
Due after one year	35,600	35,600	290,826
Subtotal	35,600	37,100	290,826
Non-recourse loans, with interest at weighted-average rates of 0.12% in 2022 and 2021, respectively:			
Due within one year	4,786	14,844	39,098
Due after one year	256,287	261,073	2,093,677
Subtotal	261,073	275,917	2,132,775
Total	¥296,673	¥313,017	\$2,423,601
Secured	¥296,673	¥313,017	\$2,423,601
Unsecured	—	—	—
Total	¥296,673	¥313,017	\$2,423,601

All of non-recourse debts are raised in yen, and the interest rates represent weighted-average rates in effect balance at March 31, 2022 and 2021.

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

11 Employees' severance and retirement benefits

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

As explained in Note 2 (11), "Net defined benefit asset and liability" the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations except for the cases using the simplified method.

For 2022 and 2021

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
	2022	2021	2022
Retirement benefit obligations at beginning of year	¥12,153	¥12,069	\$ 99,281
Service costs	732	754	5,980
Interest costs	49	49	400
Actuarial differences	565	(194)	4,616
Retirement benefits paid	(676)	(525)	(5,523)
Retirement benefit obligations at end of year	¥12,823	¥12,153	\$104,754

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

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Plan assets at beginning of year	¥6,895	¥5,799	\$56,327
Expected return on plan assets	138	116	1,127
Actuarial differences	138	786	1,128
Employer contributions	361	366	2,949
Retirement benefits paid	(247)	(172)	(2,018)
Plan assets at end of year	¥7,285	¥6,895	\$59,513

(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
	2022	2021	2022
Obligations under retirement benefit plans (funded)	¥ 7,108	¥ 6,328	\$ 58,067
Fair value of plan assets	(7,285)	(6,895)	(59,513)
	(177)	(567)	(1,446)
Obligations under retirement benefit plans (unfunded)	5,715	5,825	46,687
Net amount of liabilities on the consolidated balance sheets	¥ 5,538	¥ 5,258	\$ 45,241
Net defined benefit liability	¥ 5,796	¥ 5,258	\$ 47,349
Net defined benefit asset	(258)	—	(2,108)
Net amount of liabilities on the consolidated balance sheets	¥ 5,538	¥ 5,258	\$ 45,241

(4) Components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Service costs	¥ 732	¥ 754	\$ 5,980
Interest costs	49	49	400
Expected return on plan assets	(138)	(116)	(1,127)
Actuarial differences	(980)	257	(8,006)
Retirement benefit expenses	¥(337)	¥ 944	\$(2,753)

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

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Actuarial differences	¥1,407	¥(1,237)	\$11,494
Total	¥1,407	¥(1,237)	\$11,494

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

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Unrecognized actuarial differences	¥427	¥(980)	\$3,488
Total	¥427	¥(980)	\$3,488

(7) Major breakdown of plan assets

	2022	2021
	Debt securities	28.0%
Equity securities	36.5	35.9
General life insurance accounts	34.1	34.8
Other	1.4	1.4
Total	100.0%	100.0%

(8) Actuarial assumptions

	2022	2021
	Discount rate	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 ¥360 million (\$2,941 thousand) and ¥388 million for the years ended March 31, 2022 and 2021, respectively.

12 Loss on impairment of fixed assets

The Group recognized impairment losses on the following assets for the years ended March 31, 2022, 2021 and 2020, respectively.

For 2022

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

For 2021

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

For 2020

Use	Location	Number of properties
Assets leased to others	Tokyo	2

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

For 2022

For the asset leased to others, loss on sales of property and equipment of ¥3,053 million (\$24,941 thousand) was recognized by a consolidated subsidiary as a result of reorganization of assets within the Group. The selling price of the asset was determined as its recoverable amount, and the loss on sales of property and equipment was recognized as loss on impairment of fixed assets for the year ended March 31, 2022.

For the idle asset, the carrying value has been reduced to its recoverable amount by ¥400 million (\$3,268 thousand) due to a change in use from common assets.

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

For 2021

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

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

For 2020

Loss on sales of property and equipment of ¥9,660 million was recognized by a consolidated subsidiary due to restructuring of assets within the Group. The selling price of the assets were based on the appraisal value by a real estate appraiser. These amounts were determined as their recoverable amounts, and the loss on sales of property and equipment of the assets was recognized as loss on impairment of fixed assets for the year ended March 31, 2020.

13 Asset retirement obligations

Even though removing asbestos is required for some buildings the Group operates at the time of demolishing, it is difficult to estimate the fair value of obligations associated with such assets reasonably since the timing and/or method of settlement for the retirement obligations are not clear enough. Therefore, for the years ended March 31, 2022 and 2021, 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, 2022 and 2021, asset retirement obligations related to such a case are not recorded (except for the asset retirement obligations recorded on the financial statements).

14 Income taxes

The normal effective statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants' taxes was approximately 30.62% for the years ended March 31, 2022, 2021 and 2020 respectively.

Details of deferred tax assets and liabilities at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Deferred tax assets:			
Loss on devaluation of real estate for sale including that in process	¥ 22,646	¥ 18,807	\$ 185,001
Loss on impairment of fixed assets	15,124	15,001	123,552
Loss on transfer involving wholly owned subsidiaries	12,164	11,632	99,371
Net operating loss carryforwards	7,368	7,977	60,191
Adjustments of book value in consolidation	6,501	6,583	53,108
Accrued enterprise tax and other taxes	2,592	2,728	21,175
Loss on devaluation of investments and other loss, in subsidiaries and affiliates	2,187	1,853	17,866
Loss on devaluation of investment securities	2,047	2,101	16,722
Provision for bonuses	1,855	1,304	15,154
Net defined benefit liability	1,782	1,917	14,558
Other	20,069	15,312	163,950
Subtotal of deferred tax assets	94,335	85,215	770,648
Valuation allowance	(20,488)	(19,785)	(167,372)
Total deferred tax assets	¥ 73,847	¥ 65,430	\$ 603,276
Deferred tax liabilities:			
Net unrealized holding gains on securities	¥(68,826)	¥(70,728)	\$(562,258)
Retained earnings appropriated for tax allowable reserves	(3,731)	(3,731)	(30,480)
Deferred gains on hedges	(1,030)	—	(8,414)
Other	(2,006)	(2,648)	(16,388)
Total deferred tax liabilities	¥(75,593)	¥(77,107)	\$(617,540)
Net deferred tax liabilities	¥ (1,746)	¥(11,677)	\$ (14,264)

(Note) Net deferred tax liabilities are included in the following items on the consolidated balance sheets for the years ended March 31, 2022 and 2021.

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Investments and other assets—Deferred income taxes	¥11,457	¥11,071	\$ 93,595
Long-term liabilities—Other long-term liabilities	13,203	22,748	107,859

The difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2022 is insignificant and not presented.

The difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2021 is as follows:

	2021
Statutory tax rate	30.62%
Adjustment:	
Valuation allowance	2.45
Inhabitant tax on per capita basis	0.14
Dividends and other income not taxable permanently	(0.35)
Other	(0.08)
Effective tax rate	32.78%

15 Business combination**(Transactions conducted by commonly controlled entities)**

(An absorption-type merger of consolidated subsidiaries)

The Company resolved at its board of directors meeting held on January 14, 2022 to merger by absorption with its consolidated subsidiary, Sumitomo Fudosan Finance Co., Ltd. The merger agreement was executed on the same date, and the subsidiary was absorbed and merged as of March 1, 2022.

1. Overview of business combination

(1) Name and business of the target company

Name: Sumitomo Fudosan Finance Co., Ltd.

Business: Property leasing

(2) Date of business combination

March 1, 2022

(3) Legal form of business combination

An absorption-type merger in which the Company is the surviving company and Sumitomo Fudosan Finance Co., Ltd. is absorbed.

(4) Name of company after combination

No change

(5) Purpose of business combination

The purpose is to streamline the Group's property leasing business, as Sumitomo Fudosan Finance Co., Ltd. had been engaged in financing operations within the Group (the financing business had been transferred to another subsidiary in the Group), as well as holding multiple rental properties and leasing them to the Company under a master lease agreement.

2. Overview of accounting treatments

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

16 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.

17 Information for certain lease transactions

Future lease payments and receipts under such non-cancelable operating leases at March 31, 2022, 2021 and 2020 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2022	2021	2020	2022
Operating leases:				
Future lease payments:				
Due within one year	¥ 1,538	¥ 1,574	¥ 1,526	\$ 12,564
Due after one year	41,134	41,880	39,395	336,035
Total	¥ 42,672	¥ 43,454	¥ 40,921	\$ 348,599
Future lease receipts:				
Due within one year	¥ 87,055	¥ 91,310	¥ 89,154	\$ 711,176
Due after one year	124,271	140,152	122,544	1,015,203
Total	¥211,326	¥231,462	¥211,698	\$1,726,379

18 Derivative transactions

Hedge accounting was applied to all derivative transactions for the years ended March 31, 2022 and 2021.

The summary of these transactions is as follows:

1. Foreign currency-related derivatives

Not applicable

2. Interest-related derivatives

For 2022

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	¥ 447,400	¥ 447,400	¥1,016
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	1,329,433	1,142,274	— (*)

Hedging accounting	Types of derivative transactions	Hedged items	Thousands of U.S. dollars		
			Contract amounts	Contract amounts due after one year	Fair value
Deferred hedge accounting	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans	\$ 3,654,930	\$3,654,930	\$8,300
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	10,860,493	9,331,542	— (*)

For 2021

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	¥ 348,900	¥ 347,400	¥(4,310)
Exceptional accounting for interest rate swaps	Interest rate swap contracts Fixed rate payments / Floating rate receipts	Bank loans and bonds	1,440,247	1,271,549	— (*)

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

19 Revenue recognition**1. Information for breakdown of revenues from contracts with customers**

For 2022	Millions of yen					
	Reportable segments					
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total
Office buildings and other properties leasing*	¥365,402	¥ —	¥ —	¥ —	¥ —	¥365,402
Condominiums and detached houses	—	218,177	—	—	—	218,177
Shinchiku Sokkurisan remodeling	—	—	105,747	—	—	105,747
Custom homes	—	—	88,432	—	—	88,432
Real estate brokerage	—	—	—	70,106	—	70,106
Others	57,271	15,499	9,129	2,205	7,463	91,567
Total	¥422,673	¥233,676	¥203,308	¥72,311	¥7,463	¥939,431

For 2022	Thousands of U.S. dollars					
	Reportable segments					
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total
Office buildings and other properties leasing*	\$2,985,067	\$ —	\$ —	\$ —	\$ —	\$2,985,067
Condominiums and detached houses	—	1,782,346	—	—	—	1,782,346
Shinchiku Sokkurisan remodeling	—	—	863,876	—	—	863,876
Custom homes	—	—	722,425	—	—	722,425
Real estate brokerage	—	—	—	572,715	—	572,715
Others	467,862	126,616	74,576	18,013	60,967	748,034
Total	\$3,452,929	\$1,908,962	\$1,660,877	\$590,728	\$60,967	\$7,674,463

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

2. Information for understanding the amount of revenue in the current and subsequent fiscal years**(1) Receivables arising from contracts with customers and contract liabilities**

For 2022	Millions of yen		Thousands of U.S. dollars	
	Beginning of fiscal year	End of fiscal year	Beginning of fiscal year	End of fiscal year
Receivables arising from contracts with customers*	¥18,714	¥23,286	\$152,880	\$190,230
Contract liabilities	57,879	61,180	472,829	499,796

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

Contract liabilities are (1) advances received from customers such as deposits and other advances based on real estate sales contracts in Sales business, (2) advances received on construction contracts in progress from customers such as deposits and intermediate payments based on construction contracts in Construction business, (3) advances received from customers such as advances received at the time of the conclusion of real estate sales contracts based on real estate brokerage

contracts in Brokerage business and other advances from customers. Contract liabilities are transferred to revenue upon satisfaction of related performance obligations.

Out of the amount of revenue from operations for the year ended March 31, 2022, ¥41,062 million (\$335,446 thousand) is transferred from contract liabilities of the beginning of the year.

(2) Transaction price allocated to remaining performance obligations

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

For 2022

	Millions of yen	Thousands of U.S. dollars
	Sales business	¥230,902
Construction business	134,859	1,101,699
Brokerage business	21,051	171,972
Total	¥386,812	\$3,159,971

20 Segment information

The Group operates their business in five segments: (1) Leasing business consists of leasing and management of office buildings, rental apartments, etc., and operation and management of hotels, multipurpose halls, retail facilities, etc.; (2) Sales business consists of sales of condominium units, detached houses, etc.; (3) Construction

business consists of construction and remodeling of detached houses, condominiums, etc.; (4) Brokerage business consists of brokerage of real estate sales and sales agent of residential properties; and (5) Other businesses including fitness business and restaurant business.

Information by business segment for the years ended March 31, 2022, 2021 and 2020 is summarized as follows:

For 2022	Millions of yen							Consolidated financial statements amounts
	Reportable segments							
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total	Adjustments	
Revenue from operations:								
Customers	¥ 422,673	¥233,676	¥203,308	¥ 72,311	¥ 7,463	¥ 939,431	¥ —	¥ 939,431
Intersegment	2,409	112	1,054	1,173	1,621	6,369	(6,369)	—
Total	425,082	233,788	204,362	73,484	9,084	945,800	(6,369)	939,431
Segment profit	¥ 162,650	¥ 50,486	¥ 18,523	¥ 18,026	¥ 617	¥ 250,302	¥ (16,419)	¥ 233,883
Segment assets	¥4,297,595	¥761,443	¥ 23,626	¥193,444	¥125,049	¥5,401,157	¥404,883	¥5,806,040
Other:								
Depreciation and amortization	¥ 57,394	¥ 167	¥ 1,032	¥ 676	¥ 293	¥ 59,562	¥ 1,083	¥ 60,645
Loss on impairment of fixed assets	3,453	—	—	—	—	3,453	—	3,453
Increase in property and equipment, and intangibles	164,430	21,741	281	802	286	187,540	286	187,826

For 2021	Millions of yen							
	Reportable segments						Adjustments	Consolidated financial statements amounts
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total		
Revenue from operations:								
Customers	¥ 395,288	¥263,303	¥187,564	¥ 64,026	¥ 7,292	¥ 917,473	¥ —	¥ 917,473
Intersegment	2,950	92	1,144	1,767	979	6,932	(6,932)	—
Total	398,238	263,395	188,708	65,793	8,271	924,405	(6,932)	917,473
Segment profit	¥ 155,246	¥ 53,932	¥ 15,566	¥ 11,480	¥ (49)	¥ 236,175	¥ (16,931)	¥ 219,244
Segment assets	¥4,226,734	¥658,010	¥ 23,460	¥179,632	¥71,731	¥5,159,567	¥514,099	¥5,673,666
Other:								
Depreciation and amortization	¥ 54,332	¥ 97	¥ 1,209	¥ 673	¥ 330	¥ 56,641	¥ 1,172	¥ 57,813
Loss on impairment of fixed assets	3,876	—	—	—	—	3,876	—	3,876
Increase in property and equipment, and intangibles	363,798	2,262	341	550	663	367,614	107	367,721

For 2020	Millions of yen							
	Reportable segments						Adjustments	Consolidated financial statements amounts
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total		
Revenue from operations:								
Customers	¥ 392,110	¥324,661	¥216,622	¥ 69,158	¥10,962	¥1,013,513	¥ —	¥1,013,513
Intersegment	3,482	267	2,309	2,041	1,135	9,234	(9,234)	—
Total	395,592	324,928	218,931	71,199	12,097	1,022,747	(9,234)	1,013,513
Segment profit	¥ 169,416	¥ 46,490	¥ 20,583	¥ 14,593	¥ 775	¥ 251,857	¥ (17,525)	¥ 234,332
Segment assets	¥3,922,764	¥673,420	¥ 25,053	¥170,884	¥72,476	¥4,864,597	¥453,026	¥5,317,623
Other:								
Depreciation and amortization	¥ 45,421	¥ 113	¥ 1,283	¥ 658	¥ 314	¥ 47,789	¥ 1,185	¥ 48,974
Loss on impairment of fixed assets	9,660	—	—	—	—	9,660	—	9,660
Increase in property and equipment, and intangibles	273,245	2,904	1,553	816	608	279,126	248	279,374

For 2022	Thousands of U.S. dollars							
	Reportable segments						Adjustments	Consolidated financial statements amounts
	Leasing business	Sales business	Construction business	Brokerage business	Other businesses	Total		
Revenue from operations:								
Customers	\$ 3,452,929	\$1,908,962	\$1,660,877	\$ 590,728	\$ 60,967	\$ 7,674,463	\$ —	\$ 7,674,463
Intersegment	19,679	915	8,611	9,582	13,243	52,030	(52,030)	—
Total	3,472,608	1,909,877	1,669,488	600,310	74,210	7,726,493	(52,030)	7,674,463
Segment profit	\$ 1,328,731	\$ 412,434	\$ 151,319	\$ 147,259	\$ 5,041	\$ 2,044,784	\$ (134,131)	\$ 1,910,653
Segment assets	\$35,108,202	\$6,220,431	\$ 193,007	\$1,580,296	\$1,021,559	\$44,123,495	\$3,307,597	\$47,431,092
Other:								
Depreciation and amortization	\$ 468,867	\$ 1,364	\$ 8,431	\$ 5,522	\$ 2,394	\$ 486,578	\$ 8,847	\$ 495,425
Loss on impairment of fixed assets	28,208	—	—	—	—	28,208	—	28,208
Increase in property and equipment, and intangibles	1,343,273	177,608	2,296	6,552	2,336	1,532,065	2,336	1,534,401

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

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

21 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, 2022, 2021 and 2020 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2022	2021	2020	
Unrealized holding gains (losses) on securities:				
Increase (Decrease) during the fiscal year	¥(5,332)	¥133,468	¥(53,788)	\$ (43,559)
Reclassification adjustments	(1,266)	(12,272)	6,434	(10,342)
Amounts before tax effects	(6,598)	121,196	(47,354)	(53,901)
Tax effects	2,020	(37,090)	14,479	16,502
Total	¥(4,578)	¥ 84,106	¥(32,875)	\$ (37,399)
Deferred gains (losses) on hedges:				
Increase (Decrease) during the fiscal year	¥ 4,343	¥ (112)	¥ (349)	\$ 35,479
Reclassification adjustments	981	935	942	8,014
Amounts before tax effects	5,324	823	593	43,493
Tax effects	(1,630)	(252)	(181)	(13,316)
Total	¥ 3,694	¥ 571	¥ 412	\$ 30,177
Foreign currency translation adjustments:				
Increase (Decrease) during the fiscal year	¥ 2,816	¥ (1,548)	¥ (366)	\$ 23,005
Remeasurements of defined benefit plans:				
Increase (Decrease) during the fiscal year	¥ (427)	¥ 980	¥ (257)	\$ (3,488)
Reclassification adjustments	(980)	257	66	(8,006)
Amounts before tax effects	(1,407)	1,237	(191)	(11,494)
Tax effects	431	(379)	88	3,520
Total	¥ (976)	¥ 858	¥ (103)	\$ (7,974)
Total other comprehensive income (loss)	¥ 956	¥ 83,987	¥(32,932)	\$ 7,809

22 Investment and rental properties

The Company and its certain consolidated subsidiaries own some rental properties such as office buildings and rental apartments in Tokyo and other areas. The carrying amount on the consolidated balance sheets for the year ended March 31, 2022 is ¥3,945,068 million (\$32,228,315 thousand). Certain domestic office buildings are not recognized as rental properties since the Company or its certain consolidated subsidiaries use some of the floor space of these properties.

The carrying amounts of these properties on the consolidated balance sheets, their changes during the fiscal year and their fair values at March 31, 2022 and 2021 are as follows:

		Millions of yen		Thousands of U.S. dollars	
		2022	2021		
Investment and rental properties	Carrying amount	Balance at beginning of fiscal year	¥3,705,532	¥3,415,982	\$30,271,481
		Changes during the fiscal year, net	(61,796)	289,550	(504,828)
	Fair value at end of fiscal year	Balance at end of fiscal year	3,643,736	3,705,532	29,766,653
			6,807,876	6,873,990	55,615,358
A portion used as investment and rental properties	Carrying amount	Balance at beginning of fiscal year	¥ 133,004	¥ 139,090	\$ 1,086,545
		Changes during the fiscal year, net	168,327	(6,086)	1,375,108
	Fair value at end of fiscal year	Balance at end of fiscal year	301,331	133,004	2,461,653
			632,166	397,179	5,164,333

(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, 2022 and 2021 are calculated by the Group primarily based on their fair values according to Japanese Real Estate Appraisal Standards.

Significant changes during the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Increase:			
Acquired real estate	¥196,018	¥337,931	\$1,601,323
Transferred from inventories	—	5,759	—
Decrease:			
Depreciation and amortization	¥ (48,862)	¥ (46,944)	\$ (399,167)
Transferred to inventories	(37,860)	(6,164)	(309,288)
Loss on impairment of fixed assets	—	(3,741)	—

Income and expenses for investment and rental properties for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2022	2021	2022	
Investment and rental properties	Revenue from operations	¥299,165	¥298,596	\$2,443,959
	Cost of revenue from operations	148,260	146,879	1,211,176
	Operating income	150,905	151,717	1,232,783
	Other income (expenses), net	(3,480)	(10,084)	(28,429)
A portion used as investment and rental properties	Revenue from operations	¥ 29,965	¥ 18,960	\$ 244,792
	Cost of revenue from operations	17,853	11,321	145,846
	Operating income	12,112	7,639	98,946
	Other income (expenses), net	(309)	(0)	(2,524)

(Notes)
 *As a portion used as investment and rental properties includes a portion used by the Company or its certain consolidated subsidiaries for providing services as well as management and administration, revenue from operation for these are not recorded above. On the other hand, cost of revenue from operations for these (mainly rent, depreciation, taxes and dues) is included above.
 *Other income (expenses), net for investment and rental properties and a portion used as investment and rental properties are mostly loss on disposal of property and equipment.

23 Contingent liabilities

The Group is contingently liable mainly for defects in condominiums, detached houses and other real estate, to our brokerage business customers who bought or sold these, in an amount aggregating to ¥13,913 million (\$113,659 thousand) and ¥11,305 million at March 31, 2022 and 2021, respectively.

24 Subsequent events

(Dividends)

On June 29, 2022, the shareholders of the Company approved payments of a year-end cash dividend of ¥23 (\$0.19) per share or a total of ¥10,901 million (\$89,053 thousand) to shareholders of record at March 31, 2022. 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.:

Opinion

We have audited the accompanying consolidated financial statements of Sumitomo Realty & Development Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2022 and 2021, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for each of the years in the three year period ended , and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for each of the years in the three-year period ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

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

The key audit matter	How the matter was addressed in our audit
<p>Office buildings, rental apartments and other properties (including construction in progress and those held for development, hereinafter referred to as the "Investment and rental properties") owned by the Group were recognized as property and equipment in the consolidated balance sheet of the Group as of March 31, 2022. As described in Note 22, "Investment and rental properties" to the consolidated financial statements, the Investment and rental properties amounted to ¥3,945,068 million and accounted for approximately 68% of the total assets in the consolidated financial statements.</p> <p>As described in Note 3, "Significant accounting estimates" to the consolidated financial statements, when a property's profitability has declined and an impairment indicator exists, the Group is required to determine whether an impairment loss should be recognized. Impairment indicators include recurring operating losses, changes that significantly reduce the recoverable amount, a significant deterioration of business environment and a significant decrease in the market prices.</p> <p>The probability of achieving the business plans including the development plans which were basis for estimating the recoverable amount and the assumptions used for calculating the market prices of the Investment and rental properties such as expected rents, occupancy rates and discount rates were determined by management with subjective judgments. Also, these judgments are largely influenced by economic trends, corporate performance, trends in land prices, financial market situations, taxation system and other social aspects. Accordingly, these estimates involved a high degree of uncertainty.</p> <p>In addition, in case the impairment indicator exists, and an impairment loss is to be recognized, the impact on the consolidated financial statements may be significant.</p> <p>We, therefore, determined that the appropriateness of management's judgment concerning the identification of an impairment indicator for the Investment and rental properties was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p>The primary procedures we performed to evaluate whether management's judgment concerning the identification of an impairment indicator for the Investment and rental properties was appropriate included the following:</p> <p>(1) Internal control testing We tested the design and operating effectiveness of certain of the Group's internal controls relevant to management's judgment concerning the identification of an impairment indicator for the Investment and rental properties.</p> <p>(2) Evaluation of the appropriateness of management's judgment concerning the identification of an impairment indicator for the Investment and rental properties.</p> <p>1. The probability of achieving the business plans</p> <ul style="list-style-type: none"> • We inquired of management and the personnel in the responsible divisions their judgments about the current progress against the business plans and the probability of achieving the business plans considering the effect of COVID-19 and the military conflict between Russia and Ukraine, and also inspected the supporting documents including approved documents, contracts and other relevant materials regarding the current progress of the business plans. • We observed certain properties which have been completed or whose occupancy rates had fluctuated in the current fiscal year, and certain projects in progress, in order to assess if these properties have been actually rented or if the current progress against the business plan was consistent with their judgments. <p>2. Reasonableness of the calculated market prices</p> <ul style="list-style-type: none"> • We assessed the appropriateness of the expected rents and occupancy rates by comparing them with actual results or current contract rents in the same project, or observable actual rent data of comparable properties. • We assessed the appropriateness of the discount rates by comparing them with information published by external organizations. • With the assistance of our own real-estate valuation specialists, we evaluated the reasonableness of the calculated market prices and assessed the appropriateness of the discount rates determined by management.

The reasonableness of the valuation of the Real Estate for Sale

The key audit matter	How the matter was addressed in our audit
<p>Condominium units, detached houses and land lots for sale (including those in process and those held for development, hereinafter referred to as the "Real Estate for Sale") owned by the Group were recognized as inventories in the consolidated balance sheet of the Group as of March 31, 2022. As described in Note 6 "Inventories" to the consolidated financial statements, real estate for sale and real estate for sale in process amounted to ¥308,156 million and ¥394,922 million, respectively, accordingly the Real Estate for Sale accounted for approximately 12% of the total assets in the consolidated financial statements.</p> <p>As described in Note 3, "Significant accounting estimates" to the consolidated financial statements, in case the net realizable value is lower than the book value, the profitability is regarded to have declined, and the net realizable value is used as the carrying amount. The difference between the book value and the net realizable value is recognized as cost of revenue from operations for the current fiscal year.</p> <p>The probability of achieving the business plans including the development plans which were basis for estimating the net realizable value and the assumptions underlying the business plan including expected selling prices were determined by management with subjective judgments. Also, these judgments are largely influenced by economic trends, trends in personal income, trends in land prices, financial market situations, taxation system and other social aspects.</p> <p>Accordingly, these estimates involved a high degree of uncertainty.</p> <p>In addition, in case a loss on devaluation of inventories is to be recognized, the impact on the consolidated financial statements may be significant.</p> <p>We, therefore, determined that the reasonableness of the valuation of the Real Estate for Sale was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p>The primary procedures we performed to evaluate whether the valuation of the Real Estate for Sale was reasonable included the following:</p> <p>(1) Internal control testing We tested the design and operating effectiveness of certain of the Group's internal controls relevant to the valuation of the Real Estate for Sale.</p> <p>(2) Evaluation of the reasonableness of the valuation of the Real Estate for Sale</p> <p>1. The probability of achieving the business plans</p> <ul style="list-style-type: none"> • We inquired of management and the personnel in the responsible divisions their judgments about the current progress against the business plans and the probability of achieving the business plans considering the effect of COVID-19 and the military conflict between Russia and Ukraine, and also inspected the supporting documents including approved documents, contracts and other relevant materials regarding the current progress of the business plans. • We observed certain properties in order to assess if the current progress against the business plan was consistent with their judgments. <p>2. Appropriateness of the expected selling prices</p> <ul style="list-style-type: none"> • With regard to the Real Estate for Sale whose certain units have been sold or contracted, we assessed the appropriateness of the expected selling prices by comparing them with the actual sales results in the same project. • With regard to the Real Estates for Sale which have no sales transaction record, we assessed the appropriateness of the expected selling prices by comparing them with the actual price data or observable selling prices of comparable properties in the same sales area. • With the assistance of our own real-estate valuation specialists, we evaluated the reasonableness of the net realizable value based on the expected selling price.

Other Information

The other information comprises the information included in the Consolidated Financial Statements issued by the Company, but does not include the consolidated financial statements and our auditor's report thereon.

We do not perform any work on the other information as we determine such information does not exist.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

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

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

/S/ Atsuji Maeno
Atsuji Maeno
Designated Engagement Partner
Certified Public Accountant

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

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

KPMG AZSA LLC
Tokyo Office, Japan
July 29, 2022

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