ANNUAL REVIEW 2018

Fiscal Year Ended December 31, 2018

Tokyo Tatemono Co., Ltd.

MANAGEMENT REVIEW

Operating Environment

In the fiscal year under review (fiscal year ended December 31, 2018 (FY2018)), Japan's economy continued its moderate recovery as evidenced by such factors as an increase in capital investment as corporate earnings continued to expand as well as private consumption, too, continuing to show signs of uplift due to improvement in the employment and income situation.

In the real estate industry, momentum remains strong in the rental office market as evidenced by such factors as vacancy rates continuing to be at a low level and rents, too, continuing to be on an increasing trend. In the residential housing market, demand was robust, mainly for the central Tokyo area, highly convenient properties, etc., but there was an increasingly stronger trend of polarization in sales by location, etc. as sales prices hovered at high levels. Meanwhile, in the real estate investment market, there were further signs of diversification in investment target assets amid ongoing intense property acquisition competition against the backdrop of highly accommodative financial conditions.

Results

Amid this business environment, the Tokyo Tatemono Group's consolidated results for the fiscal year under review were increase in revenue and income compared with the previous fiscal year. Specifically, revenue from operations was ¥273,302 million (US$2,462,188 thousand), a growth of 2.4% from ¥266,983 million for the previous fiscal year, and operating income was ¥46,765 million (US$421,310 thousand), a growth of 4.5% from ¥44,757 million for the previous fiscal year. This was due in part to increase in leasing revenue in the Commercial Properties business. In addition, recurring income was ¥42,036 million (US$378,709 thousand), a growth of 6.6% from ¥39,416 million for the previous fiscal year, and profit attributable to owners of the parent was ¥27,277 million (US$245,740 thousand), a growth of 20.7% from ¥22,599 million for the previous fiscal year. This was due in part to improvement in financial balance.

Outlook

Going forward, Japan's economy is expected to continue to gradually trend toward recovery underpinned in part by an improvement in corporate earnings. However, close attention needs to be paid to impact to financial and capital markets due to political and economic uncertainties overseas, and the impact from the consumption tax rate hike scheduled for October 2019.

In the real estate industry, the rental office market is expected to trend strong owing to corporate business expansion. Meanwhile, in the residential housing market, further close monitoring of demand trends, including trends in the formerly-owned housing market is essential given the downward trend in contract rates.

Foundations

Amid this business climate, the Tokyo Tatemono Group is entering the final fiscal year of the FY2015- FY2019 Medium-term Business Plan—our scheme to continue to be the leading choice—which was established in FY2015. The Group aims to work as one to achieve its goals and also to undertake various measures that focus FY2020 and the years beyond.

In the commercial properties business, we plan to steadily carry out projects, which will be core properties in the future, develop diverse assets and expand investments. In the residences business, we aim to continue to fortify the Brillia brand while increasing endeavors to provide products and services that accurately fulfill customer needs. In addition, we look to undertake the strengthening of earnings power for the group overall, including fortifying the real estate solution services business and pouring energies into improving earnings at various facilities we operated. Moreover, we plan to implement workstyle reforms to boost productivity and expand the roles of women in our group. We will also actively undertake new actions to address rapid changes in society and the economy, problem-solving for urban and environmental issues, and open innovations to create new products and services using ICT.

The Tokyo Tatemono Group continues to aim to fulfill its corporate social responsibilities (CSR) while growing into a corporate group that continues to be the leading choice through an improved relationship of trust with diverse stakeholders. Through this and other measures, we aim to continually enhance our corporate value over the long term.

FINANCIAL REVIEW

Revenue and Income

Commercial Properties

In the Commercial Properties business, “Hareza Ikebukuro” (the Toshima project involving utilization of former government office land) (Toshima-ku, Tokyo) slated for completion in 2020, “The urban redevelopment project at Yaesu 1-chome east area in front of Tokyo Station” (Chuo-ku, Tokyo) and other redevelopment projects were steadily underway. Moreover, logistics facility development was newly launched in addition to urban commercial facilities and hotels to enrich the lineup of properties for sale to investors. In addition, a startup support facility “xBridge-Tokyo” was opened to enhance the value of the area centering on Yaesu. Provision of “safety, security and comfort” to customers and other service enhancement were among other initiatives taken.

In the fiscal year under review, revenue increased, due in part to full-year operation of “Empire Building” (Chuo-ku, Tokyo) and “Candeo Hotels Tokyo Roppongi” (Minato-ku, Tokyo) and upward rent revisions.

Consequently, revenue from operations was ¥108,620 million (US$978,561 thousand), a growth of 5.0% from ¥103,462 million for the previous fiscal year, and operating income was ¥33,390 million (US$300,813 thousand), a growth of 4.3% from ¥31,999 million for the previous fiscal year.

Residences

In the Residences business, aiming to enhance the value of the “Brillia” brand of condominiums for sale and to become No. 1 in customer evaluation, initiatives are underway for enhancement of products and services by integrating “development,” “sales” and “management.” In addition, boosting the efficiency of the management services structure through reorganization of management companies was among other initiatives taken.

In the fiscal year under review, housing sales were posted, including sales of “Brillia Towers Meguro” (Shinagawa-ku, Tokyo), “Brillia Oyama Park Front” (Itabashi-ku, Tokyo), “Brillia Shinagawa Togoshi Parks” (Shinagawa-ku, Tokyo), “Brillia Mukogaoka-Yuen” (Tama-ku, Kawasaki) and “Brillia Shinagawa Canal Side” (Shinagawa-ku, Tokyo).

Consequently, revenue from operations was ¥97,703 million (US$880,215 thousand), a decrease of 3.4% from ¥101,140 million for the previous fiscal year, and operating income was ¥14,146 million (US$127,442 thousand), a decrease of 15.5% from ¥16,739 million for the previous fiscal year.

Real Estate Solution Services

In the real estate solution services business, efforts were made to further strengthen earnings power by taking such measures as strengthening the brokerage business through strengthening of relationships with corporate customers, placing focus on the real estate purchase & resale business (enhancement of value and then resale of existing income-producing real estate) and winning orders for new large properties in the parking lots business.

In the fiscal year under review, property sales expanded in the real estate purchase & resale business and momentum was strong in the parking lots business. Consequently, revenue from operations was ¥42,885 million (US$386,359 thousand), a growth of 6.6% from ¥40,229 million for the previous fiscal year, and operating income was ¥6,366 million (US$57,353 thousand), a growth of 67.2% from ¥3,807 million for the previous fiscal year.

Other segment

In the leisure business, three pet-friendly hotels, including “Regina Resort Biwako Nagahama” (Nagahama-shi, Shiga), were newly opened. In the senior business, initiatives included enhancing occupancy rates of residences for elderly people with service, etc. and merging operating companies to boost the efficiency of the operation services structure. In addition, in the overseas business, new participation was made in for-sale condominium development projects in Thailand (Bangkok).

In the fiscal year under review, increase in operating revenue in the leisure business and higher occupancy rates of senior-related facilities were among factors contributing to revenue. Consequently, revenue from operations was ¥24,092 million (US$217,051 thousand), a growth of 8.8% from ¥22,150 million for the previous fiscal year, and operating income was ¥180 million (US$1,627 thousand), operating loss of ¥580 million for the previous fiscal year.

Analysis of Profitability

In the fiscal year under review, revenue and profit rose year-on-year primarily reflecting a growth of rent revenue in the commercial properties business and an improvement in financial balance. Reflecting this performance, consolidated revenue from operations was ¥273,302 million (US$2,462,188 thousand), an increase of ¥6,319 million year-on-year, operating income was ¥46,765 million (US$421,310 thousand), a growth of ¥2,007 million, recurring income was ¥42,036 million (US$378,709 thousand), a rise of ¥2,620 million, and profit attributable to owners of parent totaled ¥27,277 million (US$245,740 thousand), an increase of ¥4,678 million.

Financial Position

Assets

Total assets at the end of the fiscal year under review were ¥1,451,584 million (US$13,077,340 thousand), an increase of ¥10,534 million from the end of the previous fiscal year. This was primarily attributable to increase in real estate for sale and real estate for sale in progress.

Liabilities

Total liabilities at the end of the fiscal year under review were ¥1,095,005 million (US$9,864,918 thousand), an increase of ¥7,375 million from the end of the previous fiscal year. This was primarily attributable to increase in interest-bearing debt and decrease in deposits received under Real Estate Specified Joint Enterprise Law. The balance of interest-bearing debt (excluding lease obligations) was ¥857,117 million (US$7,721,775 thousand), an increase of ¥43,085 million from the end of the previous fiscal year.

Net assets

Net assets at the end of the fiscal year under review were ¥356,578 million (US$3,212,421 thousand), an increase of ¥3,158 million from the end of the previous fiscal year. This was primarily attributable to increase in retained earnings and decrease in valuation difference on available-for-sale securities.

Cash Flow

Consolidated cash and cash equivalents (hereinafter “cash”) at the end of the fiscal year under review stood at ¥31,702 million (US$285,612 thousand), a decrease of ¥9,524 million from the end of the previous fiscal year. This was primarily attributable to ¥19,748 million (US$177,910 thousand) provided by operating activities, ¥63,577 million (US$572,766 thousand) used in investing activities and ¥34,438 million (US$310,254 thousand) provided by financing activities.

Cash flows for each category are as follows.

Cash flow from operating activities

Cash provided by operating activities at the end of the fiscal year under review stood at ¥19,748 million (US$177,910 thousand), inflow of ¥33,944 million from the previous fiscal year. This was primarily attributable to cash outflows due to increase in inventories on the one hand, and cash inflows due to profit before income taxes and depreciation on the other hand.

Cash flow from investing activities

Cash used in investing activities at the end of the fiscal year under review stood at ¥63,577 million (US$572,766 thousand), inflow of ¥931 million from the previous fiscal year. This was primarily attributable to cash outflows due to purchase of non-current assets and decrease in deposits received under Real Estate Specified Joint Enterprise Law.

Cash from financing activities

Cash provided by financing activities at the end of the fiscal year under review stood at ¥34,438 million (US$310,254 thousand), outflow of ¥43,560 million from the previous fiscal year. This was primarily attributable to cash inflows due to decrease in interest-bearing debt.

Tokyo Tatemono Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet

	December 31,		
	2018	**2017**	**2018**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Assets			
Current assets:			
Cash and deposits *(Notes 6, 16 and 18)*	¥ 31,716	¥ 45,149	$ 285,735
Notes and accounts receivable, trade	11,876	10,779	106,998
Inventories *(Notes 3, 6 and 7)*	283,438	221,942	2,553,498
Deferred tax assets *(Note 22)*	2,095	2,014	18,882
Other current assets *(Notes 8,18 and 19)*	26,369	28,750	237,566
Allowance for doubtful accounts	(43)	(35)	(389)
Total current assets	355,454	308,600	3,202,291
Property and equipment, at cost:			
Land *(Notes 6, 7, 12 and 13)*	527,272	531,906	4,750,202
Buildings *(Notes 6, 7, 12 and 13)*	362,482	370,725	3,265,605
Construction in progress	8,479	6,526	76,394
Other property and equipment *(Notes 6, 7, 12 and 13)*	28,284	25,880	254,816
Total property and equipment	926,519	935,038	8,347,020
Less accumulated depreciation	(153,718)	(145,495)	(1,384,850)
Net property and equipment *(Note 3)*	772,800	789,543	6,962,169
Intangible and other assets *(Notes 3, 4, 6, 7 and 13)*	110,416	112,212	994,743
Investments:			
Investment securities *(Notes 6, 8, 18 and 19)*	107,501	125,920	968,485
Investments in unconsolidated subsidiaries and affiliates *(Notes 8, 18 and 19)*	52,400	45,640	472,080
Investments in silent partnerships *(Notes 8, 18 and 19)*	4,904	4,686	44,183
Long-term loans	7	21	64
Deferred tax assets *(Note 22)*	1,252	1,249	11,285
Guarantee deposits paid *(Notes 6 and 7)*	21,232	21,365	191,287
Net defined benefit asset *(Note 21)*	858	1,711	7,738
Other investments *(Notes 7)*	24,852	30,192	223,897
Allowance for doubtful accounts	(98)	(93)	(887)
Total investments	212,912	230,694	1,918,134
Total assets	¥1,451,584	¥1,441,050	$13,077,340

See accompanying notes to the consolidated financial statements.

Tokyo Tatemono Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet (continued)

	December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Liabilities and net assets			
Current liabilities:			
Short-term borrowings *(Notes 5, 6 and 18)*	¥ 65,925	¥ 51,743	$ 593,921
Commercial papers *(Notes 18)*	33,000	15,000	297,297
Current portion of bonds payable *(Notes 5 and 18)*	15,000	20,000	135,135
Accounts payable, trade *(Note 6)*	11,193	11,132	100,841
Accrued income taxes	5,835	7,999	52,572
Provision for warranties for completed construction	10	15	97
Provision for bonuses	929	778	8,375
Provision for directors' bonuses	43	44	389
Provision for environmental measures	–	210	–
Deposits received under Real Estate Specified Joint Enterprise Law *(Note 7)*	8,042	26,552	72,450
Other current liabilities *(Note 6)*	45,944	54,096	413,910
Total current liabilities	185,924	187,571	1,674,991
Long-term liabilities:			
Bonds payable *(Notes 5 and 18)*	145,000	125,000	1,306,306
Long-term debt *(Notes 5, 6 and 18)*	594,449	597,642	5,355,396
Deferred tax liabilities *(Note 22)*	21,793	28,682	196,336
Deferred tax liabilities for land revaluation *(Note 22)*	27,277	27,277	245,745
Provision for directors' incentive plan trust	53	–	481
Provision for directors' retirement benefits	169	224	1,530
Provision for environmental measures	30	53	273
Guarantee deposits received *(Notes 6 and 18)*	75,245	74,187	677,883
Net defined benefit liability *(Note 21)*	11,477	11,156	103,399
Deposits received under Real Estate Specified Joint Enterprise Law *(Note 7)*	18,600	22,161	167,567
Other long-term liabilities *(Note 6)*	14,985	13,673	135,005
Total long-term liabilities	909,081	900,059	8,189,926
Total liabilities	1,095,005	1,087,630	9,864,918
Commitments and contingent liabilities *(Note 9)*			
Net assets:			
Shareholders' equity *(Note 15)*:			
Common stock, without par value:			
Authorized: 400,000,000 shares in 2018 and 2017			
Issued: 216,963,374 shares in 2018 and 2017	92,451	92,451	832,895
Additional paid-in capital	66,722	66,722	601,104
Retained earnings	107,468	87,153	968,187
Less: Treasury stock, at cost	(237)	(32)	(2,143)
Total shareholders' equity	266,404	246,295	2,400,044
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	49,859	62,508	449,184
Revaluation reserve for land	30,932	30,932	278,673
Foreign currency translation adjustments	872	4,530	7,860
Remeasurements of defined benefit plans	61	664	554
Total accumulated other comprehensive income	81,726	98,636	736,272
Non-controlling interests	8,447	8,487	76,104
Total net assets	356,578	353,419	3,212,421
Total liabilities and net assets	¥1,451,584	¥1,441,050	$13,077,340

See accompanying notes to the consolidated financial statements.

Tokyo Tatemono Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income

	Year ended December 31,		
	2018	**2017**	**2018**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Revenue from operations	¥ 273,302	¥ 266,983	$2,462,188
Cost of revenue from operations *(Note 10)*	192,134	189,095	1,730,942
Gross profit	81,168	77,887	731,245
Selling, general and administrative expenses *(Note 11)*	34,402	33,130	309,935
Operating income	46,765	44,757	421,310
Other income (expenses):			
Interest income	8	40	81
Dividends income	2,411	1,961	21,723
Equity in earnings of affiliated companies	408	1,682	3,683
Subsidy income	430	71	3,877
Interest expenses	(6,020)	(6,103)	(54,243)
Borrowing cost	(1,156)	(1,757)	(10,423)
Bond issuance cost	(206)	(184)	(1,862)
Dividends paid on Real Estate Specified Joint Enterprise Law	(351)	(640)	(3,163)
Gain on sales of non-current assets *(Note 12)*	54	266	494
Gain on sales of investment securities	28	–	253
Gain on sales of investments in unconsolidated subsidiaries and affiliates	637	–	5,739
Gain on bargain purchase	–	135	–
Loss on sales of non-current assets *(Note 12)*	(0)	(9)	(3)
Loss on disposal of non-current assets *(Note 12)*	(159)	(130)	(1,441)
Impairment loss *(Note 13)*	(2,495)	(3,808)	(22,481)
Loss on step acquisitions	–	(22)	–
Loss on exchange from business combination	–	(27)	–
Other, net	(252)	(411)	(2,273)
	(6,664)	(8,939)	(60,039)
Profit before income taxes	40,101	35,818	361,271
Income taxes *(Note 22)*:			
Current	13,266	12,115	119,517
Deferred	(1,321)	133	(11,903)
	11,945	12,249	107,614
Profit	28,155	23,569	253,656
Profit attributable to non-controlling interests	878	970	7,916
Profit attributable to owners of parent	¥ 27,277	¥ 22,599	$ 245,740

See accompanying notes to the consolidated financial statements.

Tokyo Tatemono Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

	Year ended December 31,		
	2018	**2017**	**2018**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Profit	¥ 28,155	¥ 23,569	$ 253,656
Other comprehensive income *(Note 14)*:			
Valuation difference on available-for-sale securities	(12,987)	9,827	(117,005)
Deferred gains or losses on hedges	–	152	–
Foreign currency translation adjustments	(256)	305	(2,312)
Remeasurements of defined benefit plans	(602)	(100)	(5,429)
Share of other comprehensive income of entities accounted for using the equity method	(3,401)	591	(30,642)
Total other comprehensive income	(17,248)	10,776	(155,389)
Comprehensive income	¥ 10,907	¥ 34,346	$ 98,266
Comprehensive income attributable to:			
Owners of parent	¥ 10,366	¥ 33,123	$ 93,395
Non-controlling interests	540	1,222	4,870

See accompanying notes to the consolidated financial statements.

Tokyo Tatemono Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

	Shareholders' equity					Accumulated other comprehensive income							
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
						(Millions of yen)							
Balance at January 1, 2017	¥ 92,451	¥ 66,722	¥ 70,629	¥ (27)	¥ 229,775	¥ 52,934	¥ (152)	¥ 30,932	¥ 3,633	¥ 764	¥ 88,112	¥ 7,705	¥ 325,593
Changes of items during period													
Cash dividends paid	–	–	(6,074)	–	(6,074)	–	–	–	–	–	–	–	(6,074)
Profit attributable to owners of parent	–	–	22,599	–	22,599	–	–	–	–	–	–	–	22,599
Purchases of treasury stock	–	–	–	(5)	(5)	–	–	–	–	–	–	–	(5)
Disposal of treasury stock	–	(0)	–	0	0	–	–	–	–	–	–	–	0
Net change in items other than shareholders' equity	–	–	–	–	–	9,574	152	–	897	(100)	10,524	782	11,306
Total changes in items during the period	–	(0)	16,524	(4)	16,520	9,574	152	–	897	(100)	10,524	782	27,826
Balance at December 31, 2017	¥ 92,451	¥ 66,722	¥ 87,153	¥ (32)	¥ 246,295	¥ 62,508	–	¥ 30,932	¥ 4,530	¥ 664	¥ 98,636	¥ 8,487	¥ 353,419
Balance at January 1, 2018	92,451	66,722	87,153	(32)	246,295	62,508	–	30,932	4,530	664	98,636	8,487	353,419
Changes of items during period													
Cash dividends paid	–	–	(6,942)	–	(6,942)	–	–	–	–	–	–	–	(6,942)
Profit attributable to owners of parent	–	–	27,277	–	27,277	–	–	–	–	–	–	–	27,277
Purchases of treasury stock	–	–	–	(205)	(205)	–	–	–	–	–	–	–	(205)
Disposal of treasury stock	–	(0)	–	0	0	–	–	–	–	–	–	–	0
Change in scope of consolidation	–	–	(20)	–	(20)	–	–	–	–	–	–	–	(20)
Net change in items other than shareholders' equity	–	–	–	–	–	(12,649)	–	–	(3,658)	(602)	(16,910)	(40)	(16,950)
Total changes in items during the period	–	(0)	20,314	(205)	20,109	(12,649)	–	–	(3,658)	(602)	(16,910)	(40)	3,158
Balance at December 31, 2018	¥ 92,451	¥ 66,722	¥ 107,468	¥ (237)	¥ 266,404	¥ 49,859	–	¥ 30,932	¥872	¥ 61	¥ 81,726	¥ 8,447	¥ 356,578
						(Thousands of U.S. dollars)							
Balance at January 1, 2018	$ 832,895	$ 601,105	$ 785,170	$ (293)	$ 2,218,879	$ 563,143	–	$ 278,673	$ 40,815	$ 5,983	$ 888,616	$ 76,467	$3,183,963
Changes of items during period													
Cash dividends paid	–	–	(62,541)	–	(62,541)	–	–	–	–	–	–	–	(62,541)
Profit attributable to owners of parent	–	–	245,740	–	245,740	–	–	–	–	–	–	–	245,740
Purchases of treasury stock	–	–	–	(1,853)	(1,853)	–	–	–	–	–	–	–	(1,853)
Disposal of treasury stock	–	(0)	–	3	2	–	–	–	–	–	–	–	2
Change in scope of consolidation	–	–	(182)	–	(182)	–	–	–	–	–	–	–	(182)
Net change in items other than shareholders' equity	–	–	–	–	–	(113,959)	–	–	(32,955)	(5,429)	(152,344)	(362)	(152,707)
Total changes in items during the period	–	(0)	183,016	(1,850)	181,165	(113,959)	–	–	(32,955)	(5,429)	(152,344)	(362)	28,458
Balance at December 31, 2018	$ 832,895	$ 601,104	$ 968,187	$ (2,143)	$2,400,044	$ 449,184	–	$ 278,673	$ 7,860	$ 554	$ 736,272	$ 76,104	$3,212,421

See accompanying notes to the consolidated financial statements.

Tokyo Tatemono Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

	Year ended December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Operating activities			
Profit before income taxes	¥ 40,101	¥ 35,818	$ 361,271
Adjustments to reconcile profit before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization	16,448	15,039	148,184
Impairment loss	2,495	3,808	22,481
Amortization of goodwill	1,709	1,637	15,403
Gain on bargain purchase	–	(135)	–
Loss (gain) on step acquisitions	–	22	–
Loss (gain) on exchange from business combination	–	27	–
Equity in earnings of affiliated companies	(408)	(1,682)	(3,683)
Increase (decrease) in allowance for doubtful accounts	13	(204)	120
Increase (decrease) in provision for bonuses	151	(13)	1,360
Increase (decrease) in provision for directors' bonuses	(1)	(10)	(9)
Increase (decrease) in net defined benefit liability	305	60	2,749
Increase (decrease) in provision for directors' retirement benefits	(54)	(48)	(494)
Increase (decrease) in provision for environmental measures	(233)	209	(2,107)
Increase (decrease) in provision for directors' incentive plan trust	53	–	481
Interest and dividend income	(2,420)	(2,002)	(21,804)
Interest expenses	6,020	6,103	54,243
Loss (gain) on sales of investment securities	(28)	–	(253)
Loss (gain) on sales of investments in unconsolidated subsidiaries and affiliates	(637)	–	(5,739)
Loss (gain) on sales and disposal of non-current assets	105	(126)	950
Decrease (increase) in notes and accounts receivable-trade	(1,104)	(926)	(9,954)
Decrease (increase) in inventories *(Note 16)*	(23,273)	(67,501)	(209,669)
Increase (decrease) in lease and guarantee deposits received	1,155	2,277	10,412
Increase (decrease) in notes and accounts payable - trade	1,381	(200)	12,442
Decrease (increase) in lease and guarantee deposits	132	(159)	1,194
Increase (decrease) in deposits received	(5,936)	5,892	(53,478)
Other, net	819	(5,502)	7,384
Subtotal	36,794	(7,615)	331,485
Interest and dividends income received	4,004	4,408	36,078
Interest expenses paid	(6,013)	(6,542)	(54,175)
Income taxes paid	(15,038)	(4,447)	(135,478)
Net cash (used in) provided by operating activities	19,748	(14,196)	177,910

See accompanying notes to the consolidated financial statements.

Tokyo Tatemono Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

	Year ended December 31, 2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Investing activities			
Proceeds from sales and redemption of investment securities	8,186	2,180	73,752
Purchase of investment securities	(11,625)	(3,229)	(104,735)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(532)	–
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	–	64	–
Payments for investments in capital of subsidiaries and associates	(6,235)	(10,858)	(56,179)
Proceeds from sales of investments in unconsolidated subsidiaries and affiliates	3,079	–	27,745
Payments for investments in silent partnerships	(767)	(828)	(6,911)
Proceeds from withdrawal of investments in silent partnerships	2,112	2,469	19,035
Proceeds from sales of non-current assets	1,350	956	12,164
Purchase of non-current assets	(40,798)	(42,692)	(367,553)
Payments of loans receivable	–	(69)	–
Collection of loans receivable	5	15	46
Increase (decrease) in deposits received under Real Estate Specified Joint Enterprise Law	(22,071)	(10,647)	(198,837)
Other, net	3,186	(1,337)	28,707
Net cash (used in) provided by investing activities	(63,577)	(64,508)	(572,766)
Financing activities			
Net increase (decrease) in short-term loans payable	¥ (76)	¥ (1,280)	$ (689)
Increase (decrease) in commercial papers	18,000	15,000	162,162
Proceeds from long-term loans payable	62,750	159,000	565,315
Repayment of long-term loans payable	(51,868)	(94,449)	(467,287)
Payments for long-term accounts payable - other	(903)	(907)	(8,143)
Proceeds from issuance of bonds	35,000	30,000	315,315
Redemption of bonds	(20,000)	(20,761)	(180,180)
Proceeds from sales of treasury stock	0	0	2
Purchase of treasury stock	(205)	(5)	(1,853)
Cash dividends paid	(6,935)	(6,068)	(62,480)
Dividends paid to non-controlling interests	(577)	(554)	(5,203)
Other, net	(744)	(1,974)	(6,703)
Net cash (used in) provided by financing activities	34,438	77,998	310,254
Effect of exchange rate change on cash and cash equivalents	(122)	(119)	(1,107)
Net increase (decrease) in cash and cash equivalents	(9,513)	(825)	(85,709)
Cash and cash equivalents at beginning of period	41,227	42,053	371,418
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(10)	–	(95)
Cash and cash equivalents at end of period *(Note 16)*	¥ 31,702	¥ 41,227	$ 285,612

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Basis of Preparation

The accompanying consolidated financial statements of Tokyo Tatemono Co., Ltd. (“the Company”) and consolidated subsidiaries (collectively “the Group”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

In addition, the notes to the accompanying consolidated financial statements include financial information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

As permitted by the Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals in yen in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

The U.S. dollar amounts presented in the accompanying consolidated financial statements are included solely for the convenience of readers outside Japan. The exchange rate of ¥111.00 to U.S.$1.00 prevailing on December 31, 2018 has been used in the translation of yen amounts into U.S. dollar amounts in the accompanying consolidated financial statements. It should not be construed that yen amounts have been or could in the future be converted into U.S. dollar amounts at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly or indirectly by the Company. Investments in companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. The Company applies the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 18) and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (PITF No. 24). In accordance with these PITFs, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries and affiliates prepared in accordance with IFRS as adjusted for certain items including amortization of goodwill, actuarial differences and capitalized development costs.

2. Significant Accounting Policies (continued)

(a) Basis of consolidation (continued)

As of December 31, 2018, the numbers of consolidated subsidiaries and subsidiaries and affiliates accounted for by the equity method were 27 and 19 (35 and 13 in 2017), respectively. During the year ended December 31, 2018, E-State Lab Co., Ltd. was established and newly included in the scope of consolidation. SEIAIEN Co., Ltd. and 4 other companies were merged with other consolidated subsidiaries. Tokyo Tatemono Finance Co., Ltd. decreased in significance. Shibuya Project TMK and 2 other companies were liquidated. Therefore, these 9 companies were excluded from the scope of consolidation. The financial statements of Tokyo Tatemono Real Estate Sales Co., Ltd., and 23 other subsidiaries are consolidated by using their financial statements as of the parent's fiscal year end, which are prepared solely for consolidation purposes. One silent partnership's fiscal year end is on October 29, the financial statement is consolidated by provisional settlement of accounts complying with regular settlement as of the consolidated fiscal year end. Two special purpose companies are consolidated using their financial statements as of their respective fiscal year ends, which fall on November 30; and necessary adjustments are made to their financial statements to reflect any significant transactions from their respective fiscal year ends to December 31. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the investments have been written down to fair value.

Goodwill represents the difference between the cost and the underlying net equity at fair value of investments in consolidated subsidiaries and in companies which are accounted for by the equity method have been amortized by the straight-line method over a period of 5 years. However, immaterial amounts of goodwill and negative goodwill are charged or credited to profit in the year of acquisition.

(b) Cash and cash equivalents

The Company and its consolidated subsidiaries substantially consider all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Reconciliations between cash reflected in the accompanying consolidated balance sheet and cash and cash equivalents reflected in the accompanying consolidated statement of cash flows at December 31, 2018 and 2017 are presented in Note 16.

(c) Allowance for doubtful accounts

The allowance for doubtful accounts, including a specific allowance, is provided at the amount considered sufficient to cover possible losses on collection.

Long-term loans at December 31, 2018 and 2017 were offset against doubtful debts of ¥2,698 million ($24,309 thousand) and ¥2,698 million, respectively. These debts consisted of certain loans and the related interest.

2. Significant Accounting Policies (continued)

(d) Provision for warranties for completed construction

Some consolidated subsidiaries recognize expected warranty obligations based on actual results in past fiscal years to provide for repair expenses related to completed construction work.

(e) Provision for bonuses

The Company and its consolidated subsidiaries recognize the portion of its expected bonus obligations for the current fiscal year to allocate provisions for employee bonuses.

(f) Provision for directors' bonuses

Some consolidated subsidiaries record amounts based on expected bonus obligations to allocate provisions for directors' bonuses.

(g) Provision for directors' incentive plan trust

To prepare for the delivery of shares to directors, the Company recognizes an amount based on the expected board benefit obligations at the end of the current fiscal year in accordance with the "Rules on Provision of Shares to Officers."

(h) Provision for directors' retirement benefits

Some consolidated subsidiaries post an amount for required payment at the end of the current fiscal year in accordance with internal regulations to prepare for the payment of director severance and retirement benefits.

(i) Provision for environmental measures

The Company records a reasonably estimated amount to cover expenses for disposing of waste, including polychlorinated biphenyls (PCBs).

(j) Marketable and investment securities

Securities are classified and accounted for, depending on management's intentions, as follows: i) held-to-maturity debt securities, which are expected to be held to maturity, are reported at amortized cost, ii) available-for-sale securities, for which market quotations are determinable, are reported at their respective fair value with unrealized gain or loss, net of the applicable taxes, reported as a separate component of net assets, and iii) available-for-sale securities, for which market quotations are undeterminable, are mainly stated at cost, determined by the moving-average method. Unrealized gain is not available for distribution in the form of cash dividends.

(k) Inventories

Inventories are mainly stated at cost, determined by the identified cost method. Net book value of inventories in the consolidated balance sheet is written down when their net realizable values decline.

2. Significant Accounting Policies (continued)

(l) Property and equipment, and depreciation

Property and equipment are carried at cost, less accumulated depreciation.

Depreciation of property and equipment is calculated by the straight-line method, except in the case of furniture and fixtures on which the declining-balance method at rates determined based on the estimated useful lives of the respective assets is applied. However, depreciation of property and equipment held by the overseas consolidated subsidiaries is determined by the straight-line method over the estimated useful lives of the respective assets.

However, some domestic consolidated subsidiaries employ the declining balance method for structures and facilities attached to a building, which were acquired prior to March 31, 2016. Note that the calculation method for useful life and residual value is primarily based on standards equivalent to methods stipulated in provisions set forth in the Corporation Tax Act.

Under the Land Revaluation Law promulgated and revised on March 31, 1998 and 1999, respectively, the Company elected for a one-time revaluation of land held for its own use to a value based on real estate appraisals at December 31, 2000. The resulting revaluation reserve for land represents an unrealized appreciation in the value of this land and is stated, net of income taxes, as a separate component of net assets. Revaluation reserve for land is not available for distribution in the form of dividends. There was no related effect on the accompanying consolidated statement of income.

(m) Intangible assets

Intangible assets are amortized by the straight-line method over their respective estimated useful lives. Expenditure relating to computer software developed for internal use is charged to profit as incurred, except in cases where it contributes to the generation of income or future cost savings. In these cases, it is capitalized and amortized using the straight-line method over its estimated useful life, which is no longer than 5 years.

(n) Leases

Noncancelable lease transactions that transfer substantially all risks and rewards associated with the ownership of assets are accounted for as finance leases. In addition, those finance lease transactions that do not transfer ownership and commenced on or before December 31, 2008, are accounted for based on standards for ordinary rental transactions. Leased property is depreciated over the lease term by the straight-line method with no residual value. All other lease transactions are accounted for as operating leases and related payments are charged to profit as incurred.

(o) Bond issuance costs

Costs relating to the issuance of bonds are charged to profit as incurred.

2. Significant Accounting Policies (continued)

(p) Derivatives and hedging activities

The Company defers unrealized gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized, if derivative financial instruments meet certain criteria for hedges.

Interest-rate swaps which meet specific matching criteria and qualify for hedge accounting treatment are not remeasured at market value; however, the differentials paid or received under the respective swap agreements are recognized and included as interest expense or income.

The Company enters into interest-rate swap contracts to manage its exposure to interest-rate fluctuation with respect to certain of its liabilities. It is the Company's policy to utilize derivatives only for the purpose of reducing market risk.

(q) Accrued severance indemnities

(i) Attribution method of the estimated amount of retirement benefits

The benefit formula method for attributing the estimated amount of retirement benefits to periods has been applied up to the end of the fiscal year ended December 31, 2018 to calculate the retirement benefit obligation.

(ii) Accounting method for actuarial gain or loss and prior service costs

Prior service costs are amortized as incurred by the straight-line method over a certain period (10 years) within the eligible employees' average remaining period of service.

Actuarial gain or loss are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a certain period (10 years) within the eligible employees' average remaining period of service.

(iii) Adoption of a simplified method for small businesses

Certain consolidated subsidiaries calculate the net defined benefit liability and retirement benefit costs using a simplified method, which assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at the fiscal year end.

(r) Income taxes

Deferred income taxes are determined based on the differences between the amounts determined for financial reporting purposes and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(s) Accounting treatment for consumption taxes

Consumption taxes are accounted for by the tax exclusion method.

2. Significant Accounting Policies (continued)

(t) Accounting standards issued but not yet adopted

Implementation Guidance on Tax Effect Accounting (Accounting Standards Board of Japan ("ASBJ") Implementation Guidance No. 28, revised on February 16, 2018)
Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Implementation Guidance No. 26, revised on February 16, 2018)

(1) Summary

The Implementation Guidance on Tax Effect Accounting basically reflects the content of the practical guidelines on tax effect accounting, which were transferred from the Japanese Institute of Certified Public Accountants to the ASBJ, and following a review, necessary revisions were made.

(Main revised treatments following a review of accounting practices)

- Accounting treatment for future taxable temporary differences related to shares, etc., of subsidiaries in separate financial statements
- Accounting treatment related to the recoverability deferred tax assets applicable to entities classified as (Category 1)

(2) Planned adoption date

The implementation guidance will be applied from the beginning of the fiscal year ending December 31, 2019.

(3) Impact of adoption

The financial impact on the consolidated financial statements due to the application of the implementation guidance is currently being evaluated.

2. Significant Accounting Policies (continued)

(t) Accounting standards issued but not yet adopted (continued)

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

(1) Summary

The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) jointly developed comprehensive accounting standards related to revenue recognition. In May 2014, IFRS 15 Revenue from Contracts with Customers was announced (IASB: IFRS 15, FASB: Topic 606). The application of IFRS 15 was effective from fiscal years beginning or after January 1, 2018. Topic 606 was effective for fiscal years beginning after December 15, 2017. In light of this, the ABSJ developed comprehensive accounting standards for revenue recognition and announcement them in conjunction with the implementation guidance.
From the perspective of financial statement comparability, which is one of the benefits of consistency with IFRS 15, the basic policy for the development of accounting standards related to revenue recognition by the ABSJ employs as its starting point the incorporation of the basic principles of IFRS 15 for the accounting standards. In addition, in cases where consideration should be given to practices and other items common in Japan, alternative treatments that do not impair comparability shall be added.

(2) Planned adoption date

The date of application of Accounting Standard for Revenue Recognition is currently being determined.

(3) Impact of adoption

The financial impact on the consolidated financial statements due to the application of Accounting Standard for Revenue Recognition and Implementation Guidance on Accounting Standard for Revenue Recognition is currently being evaluated.

2. Significant Accounting Policies (continued)

(u) Change in presentation methods

In the previous fiscal year, "Subsidy income" was included in "Other, net" under "Other income." However, given the increase in financial materiality of "Subsidy income," from the fiscal year ended December 31, 2018, it is presented separately. The consolidated financial statements for the previous fiscal year have been reclassified to reflect this change in presentation method.
Consequently, in the consolidated statement of income for the previous fiscal year, "Other, net" in the amount of ¥693 million under "Other income" was reclassified as "Subsidy income" of ¥71 million and "Other, net" of ¥622 million.

(v) Introduction of Board Benefit Trust (BBT)

In the fiscal year ended December 31, 2018, the Company introduced a stock compensation plan, "Board Benefit Trust (BBT)," (the "Plan") for directors, etc. by the resolution of the 200th Ordinary General Meeting of Shareholders held on March 28, 2018. The aim of the Plan is to motivate directors, etc. to contribute to enhancing corporate value in the medium to long term.
In accounting for the Plan, the gross method has been applied in accordance with the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (PITF No. 30 issued on March 26, 2015).

(1) Overview of acquisition

The Plan is a stock compensation plan under which shares of the Company will be acquired through a trust (the "Trust" refers to a trust established based on the Plan) using funds contributed by the Company. The shares of the Company and cash equivalent to the value of the Company's shares converted at market value (the "Company's Shares, etc.") will be provided to directors, etc. through the Trust, pursuant to the "Rules on Provision of Shares to Officers" set forth by the Company. The provision of the Company's Shares, etc. to the directors, etc. will be made at the time of retirement of the directors, etc., in principle.

(2) Residual own shares held by the Trust

The Company posts residual shares of the Company in the Trust as treasury stock under net assets at the book value in the Trust (excluding incidental expenses). As of December 31, 2018, the corresponding book value of such treasury stock was ¥199 million ($1,797 thousand) and number of shares was 127,000 shares.

3. Inventories

Inventories as of December 31, 2018 and 2017 consisted of the following:

	December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Real estate for sale	¥ 104,221	¥ 77,636	$ 938,930
Real estate for sale in progress	101,059	67,678	910,447
Real estate for development	78,157	76,626	704,121
	¥ 283,438	¥ 221,942	$ 2,553,498

In the year ended December 31, 2018, property and equipment in the amount of ¥35,271 million ($317,758 thousand) and intangible assets in the amount of ¥277 million ($2,502 thousand) were transferred to real estate for sale in the amount of ¥26,440 million ($238,202 thousand), real estate for sale in progress in the amount of ¥7,042 million ($63,443 thousand) and real estate for development in the amount of ¥2,066 million ($18,616 thousand), due to a change in holding purpose.

In the year ended December 31, 2017, property and equipment in the amount of ¥3,730 million was transferred to real estate for sale due to a change in holding purpose.

4. Intangible and Other Assets

Intangible and other assets as of December 31, 2018 and 2017 consisted of the following:

	December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Leasehold right	¥ 106,083	¥ 106,410	$ 955,708
Goodwill	3,136	4,845	28,253
Other	1,196	955	10,781
	¥ 110,416	¥ 112,212	$ 994,743

5. Short-term Borrowings and Long-term Debt

Short-term borrowings as of December 31, 2018 and 2017 consisted of the following:

	December 31, 2018	December 31, 2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Loans, principally from banks	¥ 107	¥ –	$ 971
Current portion of bonds payable	15,000	20,000	135,135
Current portion of long-term debt	62,267	48,192	560,967
Current portion of long-term loans payable (non-recourse loans)	3,550	3,550	31,982
Total	¥ 80,925	¥ 71,743	$ 729,056

Long-term debt as of December 31, 2018 and 2017 consisted of the following:

	December 31, 2018	December 31, 2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
1.73% unsecured straight bonds, due 2018	¥ –	¥ 10,000	$ –
0.83% unsecured straight bonds, due 2018	–	10,000	–
1.30% unsecured straight bonds, due 2020	15,000	15,000	135,135
1.54% unsecured straight bonds, due 2023	15,000	15,000	135,135
0.49% unsecured straight bonds, due 2019	15,000	15,000	135,135
0.658% unsecured straight bonds, due 2022	10,000	10,000	90,090
0.59% unsecured straight bonds, due 2021	10,000	10,000	90,090
0.26% unsecured straight bonds, due 2021	10,000	10,000	90,090
0.63% unsecured straight bonds, due 2026	10,000	10,000	90,090
0.82% unsecured straight bonds, due 2031	10,000	10,000	90,090
0.52% unsecured straight bonds, due 2027	10,000	10,000	90,090
0.40% unsecured straight bonds, due 2024	10,000	10,000	90,090
0.80% unsecured straight bonds, due 2032	10,000	10,000	90,090
0.20% unsecured straight bonds, due 2023	10,000	–	90,090
0.48% unsecured straight bonds, due 2028	10,000	–	90,090
1.08% unsecured straight bonds, due 2038	15,000	–	135,135
Loans, principally from banks and insurance companies	660,266	649,385	5,948,345
	820,266	794,385	7,389,787
Less: Current portion of long-term debt	(80,817)	(71,743)	(728,084)
	¥ 739,449	¥ 722,642	$ 6,661,703

5. Short-term Borrowings and Long-term Debt (continued)

The aggregate annual maturities of long-term debt subsequent to December 31, 2018 are summarized as follows:

Year ended December 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2020	¥ 240,827	$ 2,169,618
2021	83,921	756,050
2022	88,399	796,389
2023	66,677	600,697
2024 and thereafter	259,623	2,338,947
Total	¥ 739,449	$ 6,661,703

6. Pledged Assets

Assets pledged as collateral at December 31, 2018 and 2017 consisted of the following:

	December 31,					
	2018		2017		2018	
	(Millions of yen)				*(Thousands of U.S. dollars)*	
Inventories	¥ 56	¥ (–)	¥ –	¥ –	$ 509	$ (–)
Buildings	74,879	(63,225)	78,066	(65,841)	674,592	(569,596)
Land	34,516	(–)	34,672	(–)	310,961	(–)
Other property and equipment	426	(426)	464	(464)	3,846	(3,846)
Leasehold right	90,653	(90,653)	90,673	(90,673)	816,700	(816,700)
Guarantee deposits paid	4,398	(4,398)	4,337	(4,327)	39,627	(39,627)
Total	¥204,932	¥(158,704)	¥208,216	¥(161,308)	$1,846,236	$(1,429,770)

Of the figures above, those in parentheses indicate pledged assets corresponding to non-recourse debt.

6. Pledged Assets (continued)

Secured debt as of December 31, 2018 and 2017 consisted of the following:

	December 31,					
	2018		2017		2018	
	(Millions of yen)				*(Thousands of U.S. dollars)*	
Short-term borrowings	¥ 3,662	¥ (3,550)	¥ 3,665	¥ (3,550)	$ 32,996	$ (31,982)
Accounts payable, trade	902	(–)	902	(–)	8,133	(–)
Other current liabilities	106	(–)	16	(–)	959	(–)
Long-term debt	183,506	(182,949)	186,942	(186,499)	1,653,215	(1,648,197)
Guarantee deposits received	192	(–)	208	(–)	1,731	(–)
Other long-term liabilities	2,839	(–)	3,742	(–)	25,585	(–)
Total	¥191,211	¥(186,499)	¥195,479	¥(190,049)	$1,722,622	$(1,680,179)

Of the figures above, those in parentheses indicate non-recourse debt.

Other than the above, the Company pledged ¥1 million ($13 thousand) of cash and deposits (time deposits) and ¥162 million ($1,463 thousand) of investment securities as a security, etc. for debt guarantees of borrowings of affiliates as of December 31, 2018.
Other than the above, the Company pledged ¥1 million of cash and deposits (time deposits) and ¥162 million of investment securities as a security, etc. for debt guarantees of borrowings of affiliates as of December 31, 2017.

7. Real Estate Held for Specific Partnership Project (under a Silent Partnership Agreement)

Real estate held for a specific partnership project (under a silent partnership agreement) as of December 31, 2018 and 2017 consisted of the following:

	December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Real estate for sale	¥ 97	¥ 18,399	$ 875
Real estate for sale in progress	2,080	–	18,743
Buildings and others	4,350	11,091	39,192
Land	22,817	72,262	205,562
Other intangible assets	0	3	3
Guarantee deposits paid	76	76	687
Other investments	17	24	159
	¥ 29,439	¥ 101,857	$ 265,224

At December 31, 2018, the portion of current liabilities and long-term liabilities corresponding to the above project were recorded as “Deposits received under Real Estate Specified Joint Enterprise Law.”

8. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates as of December 31, 2018 and 2017 consisted of the following:

	December 31,		
	2018	**2017**	**2018**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Current other investments	¥ –	¥ 88	$ –
Current investments in silent partnerships	–	1,500	–
Investment securities (Stock)	18,265	3,581	164,552
Investment securities (Preferred securities)	53	8,116	483
Investment securities (Other)	1,968	2,017	17,730
Investments in silent partnerships	3,095	2,451	27,888
Other investments	32,113	31,925	289,313

9. Commitments and Contingent Liabilities

At December 31, 2018, the Company was contingently liable for guarantees on loans to its customers and employees in the amount of ¥13,312 million ($119,930 thousand). This guarantee was pledged to safeguard loans from financial institutions. In addition, the Company is a guarantor for bridging loans for customers up to the completion of registration for establishing mortgages.
In addition to the above, regarding loans at project companies in the overseas business in which Tokyo Tatemono has invested, the Company entered into a guarantee agreement with a financial institution to pledge to maintain the debt ratio at a manageable level.

10. Write-downs of Inventories

Write-downs of inventories held for ordinary sale whose book value was in excess of net realizable value recognized in cost of revenue from operations for the years ended December 31, 2018 and 2017 are as follows:

	Year ended December 31,		
	2018	**2017**	**2018**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cost of revenue from operations	¥ 54	¥ 293	$ 494

11. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the years ended December 31, 2018 and 2017 are summarized as follows:

	Year ended December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Advertising expenses	¥ 3,375	¥ 3,510	$ 30,413
Salaries	10,123	9,246	91,198
Provision for bonuses	333	282	3,007
Provision for directors' bonuses	37	44	335
Retirement benefit expenses	751	559	6,770
Provision for directors' retirement benefits	43	45	387
Provision for directors' incentive plan trust	55	–	501

12. Gain and Loss on Sales of Non-Current Assets

(Gain on sales of non-current assets)
Gain on sales of non-current assets for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Land	¥ 122	¥ 6	$ 1,001
Buildings and others	(67)	260	(607)
	¥ 54	¥ 266	$ 494

(Loss on sales of non-current assets)
Loss on sales of non-current assets for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Land	¥ –	¥ 8	$ –
Buildings and others	0	1	3
	¥ 0	¥ 9	$ 3

(Loss on disposal of property and equipment)
Loss on disposal of property and equipment is primarily attributable to the replacement of existing building facilities.

13. Impairment Loss

The Company and certain consolidated subsidiaries have recognized impairment losses for the following groups of assets for the year ended December 31, 2018:

Major use	Asset category	Location	*(Millions of yen)*	*(Thousands of U.S. dollars)*
Resort facility and other	Land, buildings and structures and others	Minamitsuru-gun, Yamanashi and other	¥ 1,857	$ 16,737
Buildings for rent	Land and Buildings	Chuo-ku, Tokyo	¥ 637	$ 5,744
			¥ 2,495	$ 22,481

For asset groups that continued to post losses due to operating activities were revised downward to the recoverable value and the impairment loss was posted as an extraordinary loss.

The aggregate impairment loss of ¥2,495 million ($22,481 thousand) consists of ¥963 million ($8,675 thousand) on land, ¥1,462 million ($13,172 thousand) on buildings and structures and ¥70 million ($632 thousand) on intangible assets.

The recoverable amounts of the asset groups were measured at the net selling value. The net selling value is mainly measured based on valuations by real estate appraisers.

The Company and certain consolidated subsidiaries have recognized impairment losses for the following groups of assets for the year ended December 31, 2017:

Major use	Asset category	Location	*(Millions of yen)*
Facilities of golf courses, other	Land, buildings and structures and others	Fuji-shi, Shizuoka and other	¥ 2,663
Buildings for rent	Land	Kita-ku, Osaka and others	¥ 1,144
			¥ 3,808

For asset groups which are scheduled to be sold in the fiscal year ended December 31, 2017 and for which market prices have declined remarkably, the book value was reduced to the recoverable value, and the reduction is recorded in extraordinary losses as an impairment loss.

The aggregate impairment loss of ¥3,808 million consists of ¥3,352 million on land, ¥449 million on buildings and ¥6 million on intangible assets.

The recoverable amounts of the asset groups were measured at the net selling value. The net selling value is mainly measured based on valuations by real estate appraisers.

14. Other Comprehensive Income

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended December 31, 2018 and 2017 are summarized as follows:

	Year ended December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ (18,586)	¥ 14,313	$ (167,447)
Reclassification adjustments for gains and losses included in profit or loss	(0)	(0)	(0)
Amount before tax effects	(18,586)	14,313	(167,447)
Tax effects	5,599	(4,485)	50,442
Valuation difference on available-for-sale securities	(12,987)	9,827	(117,005)
Deferred gains or losses on hedges:			
Amount arising during the year	–	221	–
Reclassification adjustments for gains and losses included in profit or loss	–	–	–
Amount before tax effects	–	221	–
Tax effects	–	(68)	–
Deferred gains or losses on hedges	–	152	–
Foreign currency translation adjustments:			
Amount arising during the year	(256)	305	(2,312)
Reclassification adjustments for gains and losses included in profit or loss	–	–	–
Amount before tax effects	(256)	305	(2,312)
Tax effects	–	–	–
Foreign currency translation adjustments	(256)	305	(2,312)
Remeasurements of defined benefit plans, net of tax:			
Amount arising during the year	(852)	(163)	(7,676)
Reclassification adjustments for gains and losses included in profit or loss	(16)	18	(147)
Amount before tax effects	(868)	(145)	(7,823)
Tax effects	265	44	2,393
Remeasurements of defined benefit plans, net of tax	(602)	(100)	(5,429)
Share of other comprehensive income of entities accounted for using equity method:			
Amount arising during the year	(2,360)	591	(21,266)
Reclassification adjustments for gains and losses included in profit or loss	(827)	–	(7,451)
Amount before tax effects	(3,187)	591	(28,717)
Tax effects	(213)	–	(1,924)
Share of other comprehensive income of entities accounted for using equity method	(3,401)	591	(30,642)
Total other comprehensive income	¥ (17,248)	¥ 10,776	$ (155,389)

15. Shareholders' Equity

Information regarding changes in shareholders' equity for the year ended December 31, 2018 is as follows:

1. Matters concerning outstanding stock

Type of shares	Number of shares at beginning of fiscal year	Increase	Decrease	Number of shares at end of fiscal year
Common stock	216,963,374	—	—	216,963,374

2. Matters concerning treasury stock

Type of shares	Number of shares at beginning of fiscal year	Increase	Decrease	Number of shares at end of fiscal year
Common stock	22,744	131,208	239	153,713

Of the figure above, common stock includes 127,000 shares held by Board Benefit Trust (BBT).

(Summary of factors that triggered changes)
A breakdown of the increase in shares is as follows:

Increase owing to acquisition of small lots	4,208 shares
Increase owing to acquisition by Board Benefit Trust (BBT)	127,000 shares

A breakdown of the decrease in shares is as follows:

Decrease due to additional purchase request for small lots	239 shares

Information regarding changes in shareholders' equity for the year ended December 31, 2017 is as follows:

1. Matters concerning outstanding stock

Type of shares	Number of shares at beginning of fiscal year	Increase	Decrease	Number of shares at end of fiscal year
Common stock	216,963,374	—	—	216,963,374

15. Shareholders' Equity (continued)

2. Matters concerning treasury stock

Type of shares	Number of shares at beginning of fiscal year	Increase	Decrease	Number of shares at end of fiscal year
Common stock	19,656	3,404	316	22,744

(Summary of factors that triggered changes)
A breakdown of the increase in shares is as follows:

Increase owing to acquisition of small lots	3,404 shares

A breakdown of the decrease in shares is as follows:

Decrease due to additional purchase request for small lots	316 shares

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The following distribution of retained earnings applicable to the year ended December 31, 2018 was duly approved at the annual general meeting of the shareholders held on March 27, 2019:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends of ¥19 ($0.171) per share	¥ 4,121	$ 37,133

Of the figure above, ¥2 million ($22 thousand) corresponding to shares held by Board Benefit Trust (BBT) was included in cash dividends.

The following distribution of retained earnings applicable to the first half of the year ended December 31, 2018 was approved by the Board of Directors on August 2, 2018:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends of ¥16 ($0.144) per share	¥ 3,471	$ 31,270

Of the figure above, ¥2 million ($18 thousand) corresponding to shares held by Board Benefit Trust (BBT) was included in cash dividends.

The following distribution of retained earnings applicable to the year ended December 31, 2017 was duly approved at the annual general meeting of the shareholders held on March 28, 2018:

	(Millions of yen)
Cash dividends of ¥16 per share	¥ 3,471

16. Supplemental Cash Flow Information

1. The following table represents reconciliations of cash and deposits reflected in the accompanying consolidated balance sheet and cash and cash equivalents reflected in the accompanying consolidated statement of cash flows at December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017	December 31, 2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	¥ 31,716	¥ 45,149	$ 285,735
Escrow account (transfer to account with deposit and withdrawal restrictions)	–	(3,886)	–
Time deposits with a maturity of more than three months	(13)	(35)	(122)
Cash and cash equivalents	¥ 31,702	¥ 41,227	$ 285,612

2. The decrease (increase) in inventories includes increases and decreases in accounts payable, trade and advances pertaining to inventories.

17. Lease Transactions

(1) Finance leases *(Lessee)*

Finance lease transactions where the lessor's ownership is not transferred

(a) Details of lease assets

- Property and equipment: Mainly buildings for the leisure business
- Intangible assets: Software

(b) Depreciation method for lease assets

Significant items that are the basis for the preparation of the consolidated financial statements are described in "2. Significant Accounting Policies (n) Leases"

Note that of the finance lease transactions where the lessor's ownership is not transferred, those lease transactions that started prior to December 31, 2008 are accounted for using accounting practices that are in accordance the method applied to ordinary operating lease transactions.

17. Lease Transactions (continued)

(2) Operating leases *(Lessee)*

	December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Future minimum lease payments:			
Within one year	¥ 5,515	¥ 6,149	$ 49,688
Over one year	85,257	80,712	768,082
	¥ 90,772	¥ 86,862	$ 817,770

(3) Operating leases *(Lessor)*

	December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Future minimum lease revenue:			
Within one year	¥ 18,792	¥ 15,572	$ 169,303
Over one year	73,537	42,909	662,498
	¥ 92,329	¥ 58,481	$ 831,801

18. Financial Instruments

Financial instruments at December 31, 2018 are summarized as follows:

Overview

(1) Policy for financial instruments

The Company and its consolidated subsidiaries have the policy to limit fund management to short-term deposits and raise funds mainly through loans from banks and the issuance of corporate bonds. Derivative instruments are used to mitigate risks referred to below, and the Company and its consolidated subsidiaries do not enter into derivative transactions for speculation.

18. Financial Instruments (continued)

Overview (continued)

(2) Types of financial instruments and related risk

Primary marketable securities and investment securities are preferred capital contribution certificates of special purpose companies under the Asset Liquidation Act and shares in companies with which the Group has business relationships. The Group is exposed to credit risks of issuers, interest rate risks, and market price fluctuation risks.

Investments in silent partnership are investments in special purpose companies and are exposed to the credit risks of issuers and interest rate risks.

Short-term borrowings and commercial papers are mainly used for funding working capital. Long-term debt and bonds payable are mainly used for capital expenditures. Debts with floating interest rates are subject to interest-rate risk, however, the Company and its consolidated subsidiaries utilize derivatives (interest rate swaps) as hedging instruments for some long-term debt with floating interest rates to fix the cash flows of interest payments.

(3) Risk management for financial instruments

(a) Monitoring of credit risk

(the risk that customers or counterparties may default)

Each operating department monitors the status of major counterparties and manages the due dates and balances of receivables. The Group seeks to identify, at an early stage, any collectability issues due to the worsening financial conditions of counterparties to mitigate credit risk.

(b) Monitoring of market risks

(the risks arising from fluctuations in foreign exchange rates, interest rates and others)

To minimize the risks arising from fluctuations in interest rates on loans payable, the Group uses interest rate swaps. In relation to marketable securities and investment securities, the Group regularly monitors the fair values and financial situation of the issuers (counterparties). The Group reviews the status of its holdings of financial instruments considering market trends and relationships with counterparties.

(c) Monitoring of liquidity risk

(the risk that the Group may not be able to meet its obligations on scheduled due dates)

Based on the report from each division, the Group prepares and updates its cash flow plans on a timely basis and keeps liquidity on hand to manage liquidity risk.

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are used in estimating the fair value, different assumptions and factors could result in different fair value.

18. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments

The carrying value of financial instruments in the consolidated balance sheet, their fair value, and the differences between them as of December 31, 2018 are as follows. (Financial instruments whose fair value is extremely difficult to estimate are not included; please see Note 2 below.)

	Carrying value	Estimated fair value	Difference
		(Millions of yen)	
Assets			
(1) Cash and deposits	¥ 31,716	¥ 31,716	¥ –
(2) Marketable securities and investment securities			
Other securities	101,213	101,213	–
Total assets	¥ 132,930	¥ 132,930	¥ –
Liabilities			
(1) Short-term borrowings	¥ 107	¥ 107	¥ –
(2) Commercial paper	33,000	33,000	–
(3) Long-term debt (including due within one year)	660,266	665,794	5,527
(4) Bonds payable (including due within one year)	160,000	162,577	2,577
Total liabilities	¥ 853,374	¥ 861,479	¥ 8,104
Derivatives	–	–	–

	Carrying value	Estimated fair value	Difference
		(Thousands of U.S. dollars)	
Assets			
(1) Cash and deposits	$ 285,735	$ 285,735	$ –
(2) Marketable securities and investment securities			
Other securities	911,836	911,836	–
Total assets	$ 1,197,572	$ 1,197,572	$ –
Liabilities			
(1) Short-term borrowings	$ 971	$ 971	$ –
(2) Commercial paper	297,297	297,297	–
(3) Long-term debt (including due within one year)	5,948,345	5,998,144	49,798
(4) Bonds payable (including due within one year)	1,441,441	1,464,658	23,217
Total liabilities	$ 7,688,056	$ 7,761,072	$ 73,015
Derivatives	–	–	–

18. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

Notes:

1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

   Assets

   Cash and deposits

   Since these items are settled in a short period of time, their carrying value approximates fair value.

   Marketable securities and investment securities

   The fair value of stocks is based on quoted market prices. The fair value of debt securities is mainly based on prices provided by the financial institutions making markets in these securities.

   Liabilities

   Short-term borrowings and Commercial paper

   Since these items are settled in a short period of time, their carrying value approximates fair value.

   Long-term debt (including due within one year)

   Since variable interest rates of certain long-term debt are determined based on current interest rates in a short period of time, their carrying value approximates fair value. The fair value of long-term debt with fixed interest rates is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new debt were entered into.

   Bonds payable (including due within one year)

   The fair value of bonds payable is based on the quoted market price.

   Derivatives

   The estimated fair value of interest rate swap contracts is included in the estimated fair value of long-term debt since amounts in such derivative contracts accounted for by the short-cut method are handled together with long-term debt as hedged items.

18. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

2. Financial instruments for which it is extremely difficult to determine the fair value

	(Millions of yen)	*(Thousands of U.S. dollars)*
(1) Unlisted stocks (*1)	¥ 26,256	$ 236,544
(2) Preferred securities (*1)	376	3,391
(3) Investments in silent partnerships (*2)	4,904	44,183
(4) Guarantee deposits received (*3)	75,245	677,883

(*1) These items are not included in "Assets, *Marketable securities and investment securities*" since their market price is unavailable and the assessment of their fair value is deemed extremely difficult.

(*2) The fair value of investments in silent partnerships is not disclosed since their market price is unavailable and the assessment of their fair value is deemed extremely difficult.

(*3) Since market price for lease and guarantee deposit payables is unavailable and calculation of the actual period of duration from lease initiation to termination is difficult, it is extremely difficult to estimate fair value reasonably and therefore the fair value of lease and guarantee deposit payables is not disclosed.

3. Redemption schedule for receivables and marketable securities with maturities at December 31, 2018

	Due in one year or less	**Due after one year through five years**	**Due after five years through ten years**	**Due after ten years**
	(Millions of yen)			
Cash and deposits	¥ 31,005	¥ –	¥ –	¥ –
Total	¥ 31,005	¥ –	¥ –	¥ –

	Due in one year or less	**Due after one year through five years**	**Due after five years through ten years**	**Due after ten years**
	(Thousands of U.S. dollars)			
Cash and deposits	$ 279,332	$ –	$ –	$ –
Total	$ 279,332	$ –	$ –	$ –

18. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

4. Redemption schedule for commercial paper, bonds and long-term debt at December 31, 2018

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
			(Millions of yen)			
Short-term borrowings	¥ 107	¥ –	¥ –	¥ –	¥ –	¥ –
Commercial paper	33,000	–	–	–	–	–
Bonds payable	15,000	15,000	20,000	10,000	25,000	75,000
Long-term debt	65,817	225,827	63,921	78,399	41,677	184,623
Total	¥ 113,925	¥ 240,827	¥ 83,921	¥ 88,399	¥ 66,677	¥ 259,623

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
			(Thousands of U.S. dollars)			
Short-term borrowings	$ 971	$ –	$ –	$ –	$ –	$ –
Commercial paper	297,297	–	–	–	–	–
Bonds payable	135,135	135,135	180,180	90,090	225,225	675,675
Long-term debt	592,949	2,034,483	575,869	706,299	375,472	1,663,271
Total	$ 1,026,353	$ 2,169,618	$ 756,050	$ 796,389	$ 600,697	$ 2,338,947

18. Financial Instruments (continued)

Financial instruments at December 31, 2017 are summarized as follows:

The carrying value of financial instruments in the consolidated balance sheet, their fair value, and the differences between them as of December 31, 2017 are as follows. (Financial instruments whose fair value is extremely difficult to estimate are not included; please see Note 2 below.)

	Carrying value	**Estimated fair value**	**Difference**
		(Millions of yen)	
Assets			
(1) Cash and deposits	¥ 45,149	¥ 45,149	¥ –
(2) Marketable securities and investment securities			
Other securities	119,785	119,785	–
Total assets	¥ 164,934	¥ 164,934	¥ –
Liabilities			
(1) Commercial paper	¥ 15,000	¥ 15,000	¥ –
(2) Long-term debt (including due within one year)	649,385	654,815	5,430
(3) Bonds payable (including due within one year)	145,000	147,638	2,638
Total liabilities	¥ 809,385	¥ 817,453	¥ 8,068
Derivatives (*)	–	–	–

(*) The value of assets and liabilities arising from derivative transactions is shown at net value, and with the amount in parenthesis representing net liability position.

Notes:

1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

   <u>Assets</u>

   Cash and deposits

   Since these items are settled in a short period of time, their carrying value approximates fair value.

   Marketable securities and investment securities

   The fair value of stocks is based on quoted market prices. The fair value of debt securities is mainly based on prices provided by the financial institutions making markets in these securities.

18. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

Liabilities

Commercial paper

Since these items are settled in a short period of time, their carrying value approximates fair value.

Long-term debt (including due within one year)

Since variable interest rates of certain long-term debt are determined based on current interest rates in a short period of time, their carrying value approximates fair value. The fair value of long-term debt with fixed interest rates is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new debt were entered into.

Bonds payable (including due within one year)

The fair value of bonds payable is based on the quoted market price.

Derivatives

The estimated fair value of interest rate swap contracts is included in the estimated fair value of long-term debt since amounts in such derivative contracts accounted for by the short-cut method are handled together with long-term debt as hedged items.

2. Financial instruments for which it is extremely difficult to determine the fair value

		(Millions of yen)
(1)	Unlisted stocks (*1)	¥ 11,556
(2)	Preferred securities (*1)	8,439
(3)	Investments in silent partnerships (*2)	6,186
(4)	Guarantee deposits received (*3)	74,187

(*1) These items are not included in "Assets, *Marketable securities and investment securities*" since their market price is unavailable and the assessment of their fair value is deemed extremely difficult.

(*2) The fair value of investments in silent partnerships is not disclosed since their market price is unavailable and the assessment of their fair value is deemed extremely difficult.

(*3) Since market price for lease and guarantee deposit payables is unavailable and calculation of the actual period of duration from lease initiation to termination is difficult, it is extremely difficult to estimate fair value reasonably and therefore the fair value of lease and guarantee deposit payables is not disclosed.

18. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

3. Redemption schedule for receivables and marketable securities with maturities at December 31, 2017

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	(Millions of yen)			
Cash and deposits	¥ 44,390	¥ –	¥ –	¥ –
Total	¥ 44,390	¥ –	¥ –	¥ –

4. Redemption schedule for commercial paper, bonds and long-term debt at December 31, 2017

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
	(Millions of yen)					
Commercial paper	¥ 15,000	¥ –	¥ –	¥ –	¥ –	¥ –
Bonds payable	20,000	15,000	15,000	20,000	10,000	65,000
Long-term debt	51,743	64,918	223,581	59,565	60,405	189,170
Total	¥ 86,743	¥ 79,918	¥ 238,581	¥ 79,565	¥ 70,405	¥ 254,170

19. Marketable Securities and Investment Securities

Information regarding marketable securities classified as other securities as of December 31, 2018 and 2017 is summarized as follows:

(1) Marketable other securities

	December 31, 2018					
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥ 83,021	¥ 16,945	¥ 66,075	$ 747,939	$ 152,664	$ 595,274
Government bonds	–	–	–	–	–	–
Other bonds	–	–	–	–	–	–
Other	14,735	7,461	7,274	132,752	67,217	65,534
	97,756	24,406	73,349	880,692	219,882	660,809
Securities whose carrying value does not exceed their acquisition cost:						
Stock	3,414	4,751	(1,337)	30,760	42,807	(12,046)
Other	42	46	(4)	384	420	(36)
	3,457	4,798	(1,341)	31,144	43,228	(12,083)
Total	¥ 101,213	¥ 29,205	¥ 72,008	$ 911,836	$ 263,110	$ 648,726

	December 31, 2017		
	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 104,854	¥ 18,584	¥ 86,270
Government bonds	–	–	–
Other bonds	–	–	–
Other	12,341	7,096	5,244
	117,195	25,680	91,515
Securities whose carrying value does not exceed their acquisition cost:			
Stock	2,214	3,102	(888)
Other	374	410	(35)
	2,589	3,513	(923)
Total	¥ 119,785	¥ 29,193	¥ 90,591

19. Marketable Securities and Investment Securities (continued)

(2) Sales of securities classified as other securities and the related aggregate gains and losses for the years ended December 31, 2018 and 2017 are summarized as follows:

	December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Sales proceeds	¥ 28	¥ –	$ 254
Aggregate gains	28	–	253

(3) Investments in special purpose companies (SPCs) as of December 31, 2018 and 2017 are summarized as follows:

	December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Other current assets	¥ 57	¥ 1,646	$ 520
Investment securities	930	8,382	8,383
Investments in silent partnerships (included in investments)	4,904	4,686	44,183
Other investments	0	0	7
Total	¥ 5,893	¥ 14,715	$ 53,096

20. Derivatives and Hedging Activities

Hedge accounting was applied to all derivative transactions as of December 31, 2018.
The summary of these transactions is as follows:

Interest-related transactions

Class of transactions	Hedged items	Notional amount	Due after one year	Fair value
			(Millions of yen)	
Interest rate swap contracts accounted for by the short-cut method: Pay/fixed and receive/floating	Debt and bonds payable	¥ 86,110	¥ 78,500	(*)
Total		¥ 86,110	¥ 78,500	¥ –

Class of transactions	Hedged items	Notional amount	Due after one year	Fair value
			(Thousands of U.S. dollars)	
Interest rate swap contracts accounted for by the short-cut method: Pay/fixed and receive/floating	Debt and bonds payable	$ 775,765	$ 707,208	(*)
Total		$ 775,765	$ 707,208	$ –

20. Derivatives and Hedging Activities (continued)

(*) The estimated fair value of interest rate swap contracts is included in the estimated fair value of the debt and bonds payable since amounts of such derivative contracts accounted for by the short-cut method are handled together with debt and bonds payable as hedged items.

Hedge accounting was applied to all derivative transactions as of December 31, 2017.

The summary of these transactions is as follows:

Interest-related transactions

Class of transactions	Hedged items	Notional amount	Due after one year	Fair value
			(Millions of yen)	
Interest rate swap contracts accounted for by the short-cut method: Pay/fixed and receive/floating	Debt and bonds payable	¥ 95,604	¥ 86,110	(*)
Total		¥ 95,604	¥ 86,110	¥ –

(*) The estimated fair value of interest rate swap contracts is included in the estimated fair value of the debt and bonds payable since amounts of such derivative contracts accounted for by the short-cut method are handled together with debt and bonds payable as hedged items.

21. Retirement Benefit Plans

1. Overview of retirement benefit plans

The Company has certain defined benefit plans, which consist of a defined benefit corporate pension plan and a lump-sum severance payment plan, and since April 2018, has a defined contribution plan. Certain consolidated subsidiaries have a defined contribution plan and other consolidated subsidiaries have the defined contribution pension plans and other plans.

The certain part of the Company and certain consolidated subsidiaries calculate the net defined benefit liability and retirement benefit costs using a simplified method.

2. Defined benefit plans

(1) Reconciliation of the beginning balance and the ending balance of retirement benefit obligation (excluding plans to which a simplified method is applied)

	December 31,		
	2018	**2017**	**2018**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Beginning balance of retirement benefit obligation	¥ 19,298	¥ 19,137	$ 173,861
Service costs	1,151	1,156	10,370
Interest costs	112	109	1,012
Actuarial gain or loss	594	108	5,353
Retirement benefits paid	(842)	(801)	(7,593)
Decrease due to employee transfer	(67)	(412)	(604)
Ending balance of retirement benefit obligation	¥ 20,246	¥ 19,298	$ 182,399

21. Retirement Benefit Plans (continued)

(2) Reconciliation of the beginning balance and the ending balance of plan assets (excluding plans to which a simplified method is applied)

	December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Beginning balance of plan assets	¥ 10,750	¥ 10,406	$ 96,854
Expected rate of return on plan assets	161	156	1,452
Actuarial gain or loss	(312)	(30)	(2,819)
Contributions from the employer	289	451	2,611
Retirement benefits paid	(238)	(232)	(2,152)
Ending balance of plan assets	¥ 10,650	¥ 10,750	$ 95,947

(3) Reconciliation of the beginning balance and the ending balance of the net defined benefit liability to which a simplified method is applied

	December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Beginning balance of net defined benefit liability	¥ 897	¥ 508	$ 8,081
Retirement benefit costs	139	137	1,261
Retirement benefits paid	(58)	(39)	(524)
Increase due to employee transfer	43	290	391
Ending balance of net defined benefit liability	¥ 1,022	¥ 897	$ 9,209

21. Retirement Benefit Plans (continued)

(4) Reconciliation of the ending balance of the retirement benefit obligation and plan assets and net amount of liabilities and assets presented on the consolidated balance sheet

	December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation of funded plans	¥ 9,791	¥ 9,039	$ 88,208
Plan assets	(10,650)	(10,750)	(95,947)
	(858)	(1,711)	(7,739)
Retirement benefit obligation of unfunded plans	11,477	11,156	103,399
Net amount of liabilities and assets presented on the consolidated balance sheet	10,618	9,444	95,661
Net defined benefit liability	11,477	11,156	103,399
Net defined benefit asset	(858)	(1,711)	(7,738)
Net amount of liabilities and assets presented on the consolidated balance sheet	¥ 10,618	¥ 9,444	$ 95,661

(5) Retirement benefit costs

	December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service costs	¥ 1,151	¥ 1,156	$ 10,370
Interest costs	112	109	1,012
Expected return on plan assets	(161)	(156)	(1,452)
Amortization of actuarial gain or loss	49	1	446
Amortization of prior service costs	(10)	(7)	(98)
Retirement benefit costs calculated by a simplified method	139	137	1,261
Other	(23)	(119)	(212)
Retirement benefit costs for defined benefit plans	¥ 1,257	¥ 1,122	$ 11,327

21. Retirement Benefit Plans (continued)

(6) Remeasurements of defined benefit plans

The breakdown of remeasurements of defined benefit plans before tax effects in other comprehensive income for the years ended December 31, 2018 and 2017 is as follows.

	Year ended December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Prior service costs	¥ 10	¥ 7	$ 98
Actuarial gain or loss	857	137	7,725
Total	¥ 868	¥ 145	$ 7,823

(7) Remeasurements of defined benefit plans

The breakdown of remeasurements of defined benefit plans before tax effects in accumulated other comprehensive income as of December 31, 2018 and 2017 is as follows.

	December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized prior service costs	¥ (21)	¥ (32)	$ (196)
Unrecognized actuarial gain or loss	(66)	(923)	(597)
Total	¥ (88)	¥ (956)	$ (793)

(8) Matters relating to plan assets

(i) Major components of pension assets

The ratio of major components to total plan assets is as follows.

	December 31,	
	2018	2017
Bonds	38.4 %	40.2 %
Stocks	19.6	22.0
General accounts	11.8	11.6
Investment trusts	25.9	23.1
Others	4.3	3.1
Total	100.0	100.0

(ii) Method for determining the expected long-term rate of return on plan assets

The expected long-term rate of return on pension plan assets has been determined taking into consideration historical investment experience and the expected rate of return in the future for each asset constituting pension plan assets.

21. Retirement Benefit Plans (continued)

(9) Matters relating to actuarial calculation assumptions

Major actuarial assumptions at the end of the fiscal year

	December 31,	
	2018	2017
Discount rate	0.4 – 0.6%	0.4 – 0.6%
Expected long-term rate of return on plan assets	1.5%	1.5%
Expected rate of salary increase	0.0 – 7.6%	0.0 – 7.6%

3. Defined contribution plans

The amount of required contributions to the defined contribution plans of consolidated subsidiaries is ¥251 million ($2,265 thousand) and ¥45 million for the years ended December 31, 2018 and 2017, respectively.

22. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory tax rates of approximately 30.9% for the years ended December 31, 2018 and 2017, respectively. Income taxes of the overseas consolidated subsidiaries are based generally on the tax rates applicable in their respective countries of incorporation.

Reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended December 31, 2018 is not disclosed because the difference was less than 5% of the statutory tax rate.

The effective tax rate reflected in the accompanying consolidated statement of income for the year ended December 31, 2017 differed from the statutory tax rate for the following reasons:

	Year ended December 31,
	2017
Statutory tax rate	30.9%
Increase (decrease) in income taxes resulting from:	
Reversal of valuation allowance for deferred tax assets	0.1
Non-deductible expenses	0.9
Non-taxable income	(0.5)
Inhabitants' per capita taxes	0.2
Dividends paid deducted as expenses	(0.4)
Retained earnings of foreign subsidiaries	1.0
Other	2.0
Effective tax rate	34.2%

22. Income Taxes (continued)

The significant components of deferred tax assets and liabilities as of December 31, 2018 and 2017 are as follows:

	December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Write-downs of investment securities	¥ 559	¥ 611	$ 5,036
Loss on impairment of non-current assets	10,857	10,611	97,819
Net operating loss carry forwards	1,183	800	10,666
Accrued severance indemnities in excess of tax-deductible portion	3,450	3,323	31,087
Loss on appraisal of real estate held for sale	1,118	1,145	10,076
Write-downs of stocks of subsidiaries and affiliated companies	1,113	1,309	10,033
Unrealized dividends on investments in silent partnerships	1,868	1,918	16,832
Loss on investments	175	142	1,579
Adjustment due to standardization of accounting policies between the parent company and its subsidiaries, etc.	8,542	8,940	76,961
Other	4,801	4,881	43,260
Gross deferred tax assets	33,672	33,686	303,352
Valuation allowance	(21,033)	(22,191)	(189,490)
Total deferred tax assets	12,638	11,495	113,862
Deferred tax liabilities:			
Reversal of deferred tax liabilities based on revaluation of assets of subsidiaries	(2,783)	(2,793)	(25,078)
Net unrealized gains or losses on available-for-sale securities	(23,700)	(29,299)	(213,513)
Reversal of reserve for deferred capital gain on land	(2,355)	(2,356)	(21,219)
Retained earnings of foreign subsidiaries	(481)	(529)	(4,338)
Other	(1,762)	(1,935)	(15,880)
Total deferred tax liabilities	(31,083)	(36,913)	(280,031)
Net deferred tax liabilities	¥ (18,444)	¥ (25,418)	$ (166,169)

23. Investment and Rental Properties

The Company and some of its subsidiaries own office buildings for lease, apartment houses for lease, commercial facilities for lease and other properties in Tokyo and other areas. Some office buildings for lease are regarded as real estate including space used as rental properties since they are used by the Company and some of its consolidated subsidiaries.

The carrying values of these properties in the consolidated balance sheet, their changes during the year ended December 31, 2018 and their fair value at December 31, 2018 are as follows:

	Carrying value			**Fair value**
	December 31, 2017	**Changes**	**December 31, 2018**	**December 31, 2018**
		(Millions of yen)		
Rental properties	¥ 717,976	¥ (18,278)	¥ 699,697	¥ 1,100,464
Real estate including space used as rental properties	150,666	(95)	150,571	171,968

	Carrying value			**Fair value**
	December 31, 2017	**Changes**	**December 31, 2018**	**December 31, 2018**
		(Thousands of U.S. dollars)		
Rental properties	$ 6,468,258	$ (164,673)	$ 6,303,585	$ 9,914,093
Real estate including space used as rental properties	1,357,353	(856)	1,356,496	1,549,261

Notes:

* The carrying values in the consolidated balance sheet are the amounts determined by deducting accumulated depreciation from the acquisition costs.

* The changes for the fiscal year ended December 31, 2018 mainly consist of increases due to the acquisition of real estate of ¥34,760 million ($313,159 thousand), decreases due to depreciation of ¥13,516 million ($121,770 thousand), the reclassification to real estate for sale of ¥35,549 million ($320,261 thousand), and the impairment loss of ¥1,265 million ($11,399 thousand).

* The fair value is appraised principally by real estate appraisers, and the fair value of other is estimated in accordance with appraisal standards for valuing real estate.

23. Investment and Rental Properties (continued)

The income from rental properties and real estate including space used as rental properties for the year ended December 31, 2018 is as follows:

	December 31, 2018			
	Rental income	Rental cost	Rental income, net	Other, net
	(Millions of yen)			
Rental properties	¥ 82,867	¥ 50,295	¥ 32,572	¥ (1,200)
Real estate including space used as rental properties	7,596	3,936	3,659	(36)

	December 31, 2018			
	Rental income	Rental cost	Rental income, net	Other, net
	(Thousands of U.S. dollars)			
Rental properties	$ 746,555	$ 453,109	$ 293,446	$ (10,818)
Real estate including space used as rental properties	68,438	35,468	32,970	(327)

Notes:

* Rental income excludes the one from real estate including space used as rental properties that was used by the Company and some of its consolidated subsidiaries for providing leasing services and operations management.

* Gain or loss on sales of property and equipment, loss on disposal of non-current assets and equipment and impairment loss are major components of “Other, net.”

The carrying values of these properties in the consolidated balance sheet, their changes during the year ended December 31, 2017 and their fair value at December 31, 2017 are as follows:

	Carrying value			Fair value
	December 31, 2016	Changes	December 31, 2017	December 31, 2017
	(Millions of yen)			
Rental properties	¥ 709,348	¥ 8,628	¥ 717,976	¥ 1,071,146
Real estate including space used as rental properties	140,571	10,094	150,666	169,790

Notes:

* The carrying values in the consolidated balance sheet are the amounts determined by deducting accumulated depreciation from the acquisition costs.

* The changes for the fiscal year ended December 31, 2017 mainly consist of increases due to the acquisition of real estate of ¥38,529 million, decreases due to depreciation of ¥13,295 million, the reclassification to real estate for sale of ¥3,727 million, and the impairment loss of ¥1,256 million.

* The fair value is appraised principally by real estate appraisers, and the fair value of other is estimated in accordance with appraisal standards for valuing real estate.

23. Investment and Rental Properties (continued)

The income from rental properties and real estate including space used as rental properties for the year ended December 31, 2017 is as follows:

	December 31, 2017			
	Rental income	Rental cost	Rental income, net	Other, net
	(Millions of yen)			
Rental properties	¥ 78,689	¥ 49,214	¥ 29,475	¥ (1,086)
Real estate including space used as rental properties	7,352	4,047	3,305	(22)

Notes:

* Rental income excludes the one from real estate including space used as rental properties that was used by the Company and some of its consolidated subsidiaries for providing leasing services and operations management.

* Gain or loss on sales of property and equipment, loss on disposal of non-current asset and equipment and impairment loss are major components of "Other, net."

24. Segment Information

1. Overview of Reportable Segments

The reportable segments of the Company are the constituent units of the Company for which separate financial information is available and for which the Board of Directors conducts a regular review to determine the allocation of management resources and assess the business performance.

The Company operates business activities by establishing divisions corresponding to their line of business, with the divisions formulating comprehensive strategies for the businesses that they operate.

Therefore, the Company comprises business segments with the divisions as the basis and conducts the three businesses of Commercial Properties, Residence, and Real Estate Solution Services as its reportable segments.

In the Commercial Properties business, the Company leases out and manages office buildings and commercial facilities. In the Residential business, the Company sells condominiums and detached houses and leases out and manages condominiums. The Real Estate Solution Services business conducts real estate sales, brokerage, consulting and parking lot operations.

24. Segment Information (continued)

2. Calculation methods for revenue from operations, operating income/loss, assets, and other items for reportable segments

   The method for accounting procedures for reportable segments is the same as the method stated under "Significant Items Regarding Preparation of Consolidated Financial Statements." The profit for reportable segments is on an operating income basis. Inter-segment revenue from operations and transfers are calculated based on prevailing market prices.

3. Information on Revenue from Operations, Profit and Loss, Assets, and Other Items by Reportable Segments

	Year ended December 31, 2018,							
	Reportable segments							
	Commercial properties	Residence	Real estate solution services	Subtotal	*1 Other	Total	*2 Adjustment	*3 Consolidated
	(Millions of yen)							
Revenue from operations:								
Customers	¥ 108,620	¥ 97,703	¥ 42,885	¥ 249,210	¥ 24,092	¥ 273,302	¥ –	¥ 273,302
Intersegment	966	997	361	2,325	204	2,529	(2,529)	–
Total	109,587	98,701	43,246	251,535	24,296	275,832	(2,529)	273,302
Costs and operating expenses	76,196	84,555	36,880	197,632	24,116	221,748	4,788	226,537
Segment income	¥ 33,390	¥ 14,146	¥ 6,366	¥ 53,902	¥ 180	¥ 54,083	¥ (7,317)	¥ 46,765
Assets	¥ 976,874	¥ 201,620	¥ 74,774	¥ 1,253,269	¥ 120,336	¥ 1,373,606	¥ 77,978	¥ 1,451,584
Other items:								
Depreciation	¥ 12,010	¥ 991	¥ 1,746	¥ 14,748	¥ 1,651	¥ 16,399	¥ 48	¥ 16,448
Impairment losses on fixed assets	637	172	455	1,265	1,229	2,495	–	2,495
Investment in equity method affiliates	53	–	–	53	47,040	47,094	–	47,094
Increase in property and equipment and intangible assets	29,008	5,491	2,102	36,603	3,338	39,941	53	39,995
Amortization of goodwill	–	51	1,527	1,578	131	1,709	–	1,709
Balance of goodwill	–	410	2,302	2,712	423	3,136	–	3,136

24. Segment Information (continued)

	Year ended December 31, 2018,							
	Reportable segments							
	Commercial properties	Residence	Real estate solution services	Subtotal	*1 Other	Total	*2 Adjustment	*3 Consolidated
				(Thousands of U.S. dollars)				
Revenue from operations:								
Customers	$ 978,561	$ 880,215	$ 386,359	$ 2,245,137	$ 217,051	$ 2,462,188	$ –	$ 2,462,188
Intersegment	8,708	8,986	3,252	20,947	1,838	22,785	(22,785)	–
Total	987,270	889,201	389,612	2,266,084	218,889	2,484,974	(22,785)	2,462,188
Costs and operating expenses	686,456	761,759	332,258	1,780,475	217,262	1,997,738	43,139	2,040,877
Segment income	$ 300,813	$ 127,442	$ 57,353	$ 485,608	$ 1,627	$ 487,236	$ (65,925)	$ 421,310
Assets	$ 8,800,668	$ 1,816,405	$ 673,646	$ 11,290,719	$ 1,084,110	$12,374,829	$ 702,510	$ 13,077,340
Other items:								
Depreciation	$ 108,205	$ 8,929	$ 15,730	$ 132,865	$ 14,878	$ 147,743	$ 440	$ 148,184
Impairment losses on fixed assets	5,744	1,550	4,107	11,401	11,079	22,481	–	22,481
Investment in equity method affiliates	483	–	–	483	423,787	424,271	–	424,271
Increase in property and equipment and intangible assets	261,341	49,473	18,942	329,757	30,078	359,836	486	360,322
Amortization of goodwill	–	462	13,759	14,222	1,181	15,403	–	15,403
Balance of goodwill	–	3,698	20,740	24,438	3,814	28,253	–	28,253

*1: The "Other" business segment is not included in reportable segments. Other includes businesses such as Leisure, Senior and Asset management.

*2: (1) Adjustments to segment operating income of ¥(7,317) million ($(65,295) thousand) consists of ¥7 million ($69 thousand) of inter-segment eliminations and ¥(7,325) million ($(65,995) thousand) of corporate expenses for the year ended December 31, 2018, which mainly represent the Company's general and administrative expenses that are not allocable to any of the reportable segments.

(2) Adjustments to segment assets of ¥77,978 million ($702,510 thousand) consists of ¥(55,922) million ($(503,808) thousand) of inter-segment eliminations, ¥133,901 million ($1,206,318 thousand) of corporate assets for the year ended December 31, 2018.

*3: Segment income is adjusted with operating income in the consolidated financial statements.

24. Segment Information (continued)

	Year ended December 31, 2017,							
	Reportable segments							
	Commercial properties	Residence	Real estate solution services	Subtotal	*1 Other	Total	*2 Adjustment	*3 Consolidated
					(Millions of yen)			
Revenue from operations:								
Customers	¥ 103,462	¥ 101,140	¥ 40,229	¥ 244,833	¥ 22,150	¥ 266,983	¥ –	¥ 266,983
Intersegment	1,117	590	247	1,955	346	2,302	(2,302)	–
Total	104,580	101,731	40,477	246,789	22,497	269,286	(2,302)	266,983
Costs and operating expenses	72,580	84,992	36,670	194,242	23,077	217,320	4,905	222,225
Segment income	¥ 31,999	¥ 16,739	¥ 3,807	¥ 52,546	¥ (580)	¥ 51,966	¥ (7,208)	¥ 44,757
Assets	¥ 954,072	¥ 186,963	¥ 79,973	¥ 1,221,008	¥ 120,259	¥ 1,341,268	¥ 99,782	¥ 1,441,050
Other items:								
Depreciation	¥ 11,428	¥ 925	¥ 1,172	¥ 13,526	¥ 1,467	¥ 14,993	¥ 46	¥ 15,039
Impairment losses on fixed assets	1,144	0	112	1,257	2,551	3,808	–	3,808
Investment in equity method affiliates	39	–	–	39	32,869	32,909	–	32,909
Increase in property and equipment and intangible assets *4	26,651	6,913	2,174	35,738	10,684	46,423	81	46,504
Amortization of goodwill	–	41	1,494	1,536	101	1,637	–	1,637
Balance of goodwill	–	461	3,829	4,291	554	4,845	–	4,845

*1: The “Other” business segment is not included in reportable segments. Other includes businesses such as Leisure, Senior and Asset management.

*2: (1) Adjustments to segment operating income of ¥(7,208) million consists of ¥(255) million of inter-segment eliminations and ¥(6,953) million of corporate expenses for the year ended December 31, 2017, which mainly represent the Company’s general and administrative expenses that are not allocable to any of the reportable segments.

(2) Adjustments to segment assets of ¥99,782 million consists of ¥(61,594) million of inter-segment eliminations, ¥161,377 million of corporate assets for the year ended December 31, 2017.

*3: Segment income (loss) is adjusted with operating income in the consolidated financial statements.

*4: Increase in property and equipment and intangible assets includes goodwill posted.

24. Segment Information (continued)

4. Related information

Related information regarding segment information for the years ended December 31, 2018 and 2017 are as follows:

(1) Information by Product and Service

Information by product and service is omitted, as similar information is stated in "3. Information on Revenue from Operations, Profit and Loss, Assets, and Other Items by Reportable Segment" in "Segment Information."

(2) Information by Region

(a) Revenue from operations

Revenue from operations is omitted because the amount of revenue from operations to external customers in Japan exceeded 90% of the revenue from operations, which is stated in the consolidated statement of income.

(b) Property and equipment

Property and equipment is omitted because the amount of property and equipment located in Japan exceeded 90% of the amount of property and equipment stated on the consolidated balance sheet.

(3) Information by Major Customer

Information by major customer is omitted because the amount of revenue from operations to specified customers, which is included in revenue from operations to external customers, is less than 10% of the revenue from operations stated in the consolidated statement of income.

25. Amounts Per Share

	Year ended December 31,		
	2018	2017	2018
	(Yen)		*(U.S. dollars)*
Earnings per share			
Basic	¥ 125.79	¥ 104.17	$ 1.133
Diluted	–	–	–

	December 31,		
	2018	2017	2018
	(Yen)		*(U.S. dollars)*
Net assets per share	¥ 1,605.70	¥ 1,589.98	$ 14.465

In calculating net assets per share and basic earnings per share, the Company's shares held by the Board Benefit Trust are included treasury stock, which is excluded from the total number of outstanding shares at the end of the fiscal year and the average number of shares during the fiscal year used in the calculation. Note that the number of such outstanding shares held by the trust at December 31, 2018 was 127 thousand shares, included in the aforementioned treasury stock excluded from the calculation. When calculating the average number of shares during the fiscal year, the average number of such treasury stock during the fiscal year was 84 thousand shares.

Basic earnings per share was computed based on the profit available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year.

Diluted earnings per share for the years ended December 31, 2018 and 2017 is not presented as there are no dilutive potential shares.

Net assets per share are computed based on the net assets excluding non-controlling interests and the number of shares of common stock outstanding at the year end.

The bases for calculation are as follows:

1. Basic earnings per share

	Year ended December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Profit attributable to owners of parent	¥ 27,277	¥ 22,599	$ 245,740
Profit attributable to common shareholders of parent	¥ 27,277	¥ 22,599	$ 245,740
Weighted average number of shares of common stock (thousands)	216,853	216,941	

25. Amounts Per Share (continued)

2. Net assets per share

	December 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Total net assets	¥ 356,578	¥ 353,419	$ 3,212,422
Amount deducted from total net assets:	8,447	8,487	76,105
Non-controlling interests	8,447	8,487	76,105
Net assets attributable to common shareholders of parent	¥ 348,131	¥ 344,931	$ 3,136,317
Number of shares of common stock used for the calculation of net assets per share (thousands)	216,809	216,940	

26. Subsequent Events

1. Acquisition of Own Shares

The Company passed a resolution on matters relating to acquisition of own shares pursuant to the provisions of Article 156 of the Companies Act, as applied mutatis mutandis pursuant to the provisions of Article 165, Paragraph 3 of the same act, at the meeting of its Board of Directors held on January 18, 2019.

(1) Reason for acquiring own shares

For improvement in capital efficiency and expansion of shareholder returns

(2) Details of matters relating to acquisition

1) Type of shares to be acquired

Common shares

2) Total number of shares for acquisition

10,000,000 shares (upper limit) (percentage of total number of shares outstanding (excluding treasury stock): 4.61%)

3) Total acquisition price of shares

¥10,000 million ($90,090 thousand) (upper limit)

4) Acquisition period

From February 6, 2019 to December 31, 2019

5) Acquisition method

Market purchase on the Tokyo Stock Exchange

(3) Status of acquisition until February 28, 2019 (trade basis)

1) Type of shares acquired

Common shares

2) Total number of shares acquired

3,491,500 shares

3) Total acquisition price of shares

¥4,550 million ($40,995 thousand)

4) Acquisition method

Market purchase on the Tokyo Stock Exchange

26. Subsequent Events (continued)

2. Corporate bond issuance

In accordance with the comprehensive resolution on Issuance Conditions for the Publicly-Offered Hybrid Bonds (Publicly-Offered Subordinated Bonds), which was approved at the Board of Directors at a meeting held on February 5, 2019, the Company finalized the terms of issuance on March 8, 2019, and subsequently issued hybrid bonds on March 15, 2019. The details of the bond issuance are as follows:

The 1st series unsecured subordinated bonds with the optional interest payment deferral and optional early redemption provisions

1. Total issuance: ¥30,000 million ($270,270 thousand)
2. Issue price: ¥100 ($0.900)
3. Annual yield: 1.66% *(Note 1)*
4. Redemption date: March 15, 2056 (Lump-sum redemption upon maturity)
   The Company may redeem the bonds early at its own discretion on any interest payment date on or after March 15, 2026.
5. Payment date and issuance date: March 15, 2019
6. Use of funds: Scheduled to be used to redeem bonds and commercial paper

The 2nd series unsecured subordinated bonds with the optional interest payment deferral and optional early redemption provisions (Green Bonds)

1. Total issuance: ¥50,000 million ($450,450 thousand)
2. Issue price: ¥100 ($0.900)
3. Annual yield: 2.15% *(Note 2)*
4. Redemption date: March 15, 2059 (Lump-sum redemption upon maturity)
   The Company may redeem the bonds early at its own discretion on any interest payment date on or after March 15, 2029.
5. Payment date and issuance date: March 15, 2019
6. Use of funds: Scheduled to be used to allocate the planned capital expenditures and the repayment of debt.

(Note 1) A fixed interest rate will be applied during the period from March 16, 2019 through March 15, 2026 and a floating interest rate will be applied on or after March 16, 2026 (The coupon rate will step up on March 16, 2026).

(Note 2) A fixed interest rate will be applied during the period from March 16, 2019 through March 15, 2029 and a floating interest rate will be applied on or after March 16, 2029 (The coupon rate will step up on March 16, 2029).

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Tokyo Tatemono Co., Ltd.

We have audited the accompanying consolidated financial statements of Tokyo Tatemono Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tokyo Tatemono Co., Ltd. and its consolidated subsidiaries as at December 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young Shinnihon LLC

March 27, 2019
Tokyo, Japan

Directors and Audit and Supervisory Board Members

Representative Director
Chairman of the Board
Makio Tanehashi

Representative Director
President & Chief Executive Officer
Hitoshi Nomura

Director
Senior Executive Managing Officer
Masami Kamo
Kengo Fukui

Director
Executive Managing Officer
Katsuhito Ozawa
Akira Izumi
Hisatoshi Kato
Hideshi Akita

External Director
Yoshiyuki Imai
Yoshimitsu Onji
Shuichi Hattori
Mitsuhiro Nagahama

Audit & Supervisory Board Member
Kouji Kawakubo
Takashi Yoshino

Audit & Supervisory Board Member (Independent)
Takao Yamaguchi
Sayaka Hieda

Managing Officers

President & Chief Executive Officer
Hitoshi Nomura

Senior Executive Managing Officer
Masami Kamo
Kengo Fukui

Executive Managing Officer
Katsuhito Ozawa
Akira Izumi
Hisatoshi Kato
Hideshi Akita

Managing Officer
Yasushi Suzuki
Yoshihiro Jozaki
Masami Tashiro
Satoshi Eida
Takeshi Jinbo
Shinjiro Kobayashi
Nobuyoshi Takahashi
Masayuki Okubo
Kazuki Sugise

(as at March 27, 2019)

CORPORATE DATA

Tokyo Tatemono Co., Ltd.

Date of Establishment
October 1, 1896

Capital
¥92,451 million

Number of Employees
616

Number of Shareholders
15,599
(as at December 31, 2018)

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Branches

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Principal Subsidiaries

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Tokyo Fudosan Kanri Co., Ltd.
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Tokyo Tatemono Amenity Support Co., Ltd.
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Fax. +81-3-6777-6770

Tokyo Tatemono Resort Co., Ltd.
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Nihon Parking Corporation
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https://www.tatemono.com

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