



# REACHING FOR NEW HEIGHTS

Annual Report 2001



Sumitomo Realty & Development Co., Ltd., a core member of the Sumitomo Group, is one of Japan’s premier real estate companies. The Company is well established as a comprehensive developer and supplier of high-quality office buildings and condominiums in urban areas.

The Company is also engaged in a broad array of businesses, including real estate brokerage, housing construction, home remodeling and building management services. While continuing to create comfortable working and living environments that contribute to a higher quality of life, the Company is poised to begin a new phase of growth in the 21st century.

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

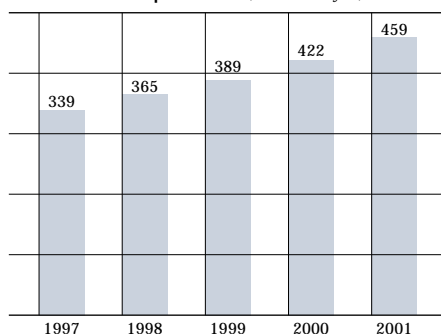
# Five-Year Financial Highlights

Sumitomo Realty & Development Co., Ltd.

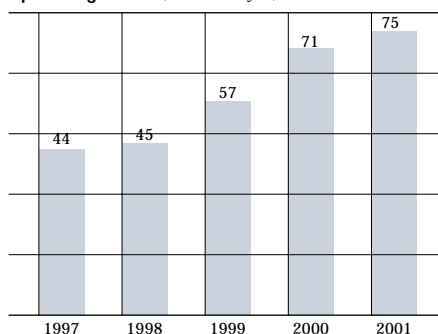
	Millions of yen					Thousands of U.S. dollars
	2001	2000	1999	1998	1997	2001
<b>Consolidated:</b>						
Revenue from operations	¥ 459,245	¥ 421,587	¥ 389,136	¥ 364,858	¥ 338,980	\$ 3,706,578
Revenue from leasing business	163,047	151,268	150,976	143,676	135,814	1,315,956
Revenue from sales business	149,196	150,483	137,735	125,327	102,128	1,204,164
Revenue from construction business	104,549	80,064	61,191	56,339	55,104	843,818
Revenue from brokerage business	34,702	31,633	27,829	27,421	31,741	280,081
Revenue from other business	7,751	8,139	11,405	12,095	14,193	62,559
Operating profit	75,218	70,548	56,516	45,412	44,143	607,086
Ordinary profit	38,509	27,069	21,688	4,985	3,582	310,807
Net income (loss)	(18,008)	14,737	10,983	(66,048)	(1,745)	(145,343)
Total assets	1,903,529	1,916,343	1,827,146	1,849,953	1,845,848	15,363,430
Total shareholders' equity	193,442	211,140	198,498	174,528	241,982	1,561,275
<b>Per share:</b>						
	Yen					U.S. dollars
Net income (loss)	¥ (44.27)	¥ 36.23	¥ 27.00	¥ (162.36)	¥ (4.29)	\$ (0.36)
Shareholders' equity	475.51	519.01	487.94	429.02	594.83	3.84
Dividend	6.00	6.00	6.00	6.00	6.00	0.05

Note: The 2001 yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥123.90 = U.S.\$1, the approximate exchange rate on March 31, 2001.

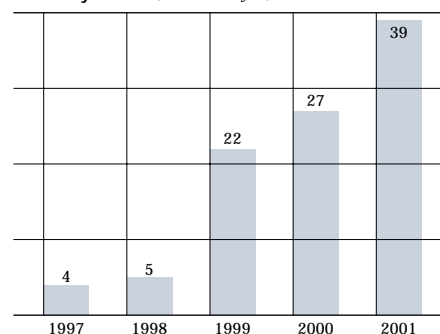
Revenue from Operations (Billions of yen)



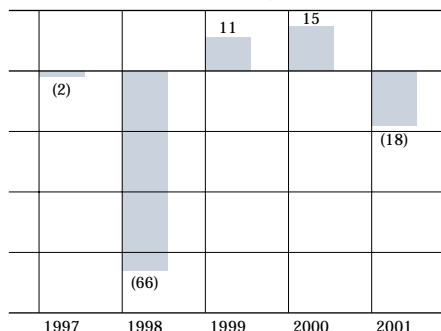
Operating Profit (Billions of yen)



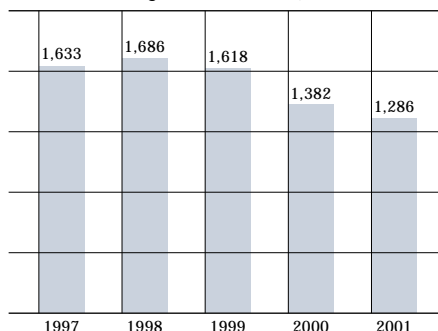
Ordinary Profit (Billions of yen)



Net Income (Loss) (Billions of yen)

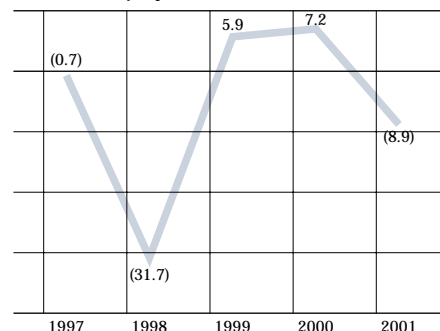


Interest-Bearing Debt (Billions of yen)



Note: Including guarantee

Return on Equity (%)



### Successful Completion of Our Five-Year Business Reconstruction Plan One Year Ahead of Schedule

**T**he Five-Year Business Reconstruction Plan was launched in the fiscal year ended March 31, 1998, to achieve record-breaking performance and reconstruct the balance sheet. After four years, we have achieved our objectives and therefore ended the plan one year ahead of schedule.

Sumitomo Realty achieved consolidated operating revenue from operations of ¥459.2 billion and ordinary profit of ¥38.5 billion, both of which are all-time highs for the Company. We were able to defeat worsening business conditions following the collapse of the bubble economy, achieving a rebound in performance amid prolonged asset deflation.

Furthermore, we have remarkably improved our asset portfolio.

When performance was at its lowest in the fiscal year ended March 31, 1995, the book value of undeveloped land for leasing totaled approximately ¥500 billion as considerable time is necessary to assemble a single property large enough for development in Tokyo where ownership is highly fragmented. In addition, the Company was engaged in numerous development activities to improve performance. To overcome the excessive amount of upfront investment in undeveloped land, we restarted office construction on a series of projects in 1995, the year when a recovery in the leasing market began to appear, and we continued our concentration of limited capital in office development investment. As a result, the book value of unused land decreased to approximately ¥124 billion in the fiscal year under review, of which only approximately ¥30 billion in inventories of unfinished development plans was included.

We have almost completed our withdrawal from overseas operations and the real estate mortgage financing business. Both of these businesses generated sizable revenues during the bubble economy, and the Company had invested capital of approximately ¥500 billion by the fiscal year ended March 31, 1991. However, these operations recorded substantial restructuring losses over several years despite efforts to sell property to recover the capital

investment. Capital invested in these operations has been reduced to roughly ¥30 billion in the fiscal year under review.

In addition, the Company recorded extraordinary losses through the write-down of assets in real estate for sale and retirement benefit liabilities, completing the disposal of losses including those other than for property and equipment assets for leasing.

In addition to the recovery in performance and improvement in our asset portfolio, our efforts to reduce debt also showed substantial results.

In overcoming the aftereffects of the collapse of the bubble economy in Japan, we prioritized the improvement of performance over the reduction of debt as a top management issue. As a result, total interest-bearing debt for the Group (bank loans, debentures, commercial papers, pledges and guaranteed debt) amounted to almost ¥1,700 billion, or roughly 37 times operating profit, in the fiscal year ended March 31, 1998.

Seeing a recovery in performance, we began full-scale efforts in the fiscal year ended March 31, 1999, to reduce interest-bearing debt by selling overseas assets and trading receivables, and securitizing domestic income-producing properties. As a result, we reduced total interest-bearing debt for the Group by approximately ¥400 billion during the past three years to ¥1,286 billion as of March 31, 2001, or about 17 times operating profit.

### New Three-Year Plan

**W**ith record-breaking growth in performance and the successful handling of management issues detailed in the Five-Year Plan, we have nearly overcome the negative impact of the collapse of the bubble economy. Sumitomo Realty is entering a new stage of growth with the recognition that it is no longer operating under “post-war conditions.” Thus, we have begun the New Three-Year Plan in the fiscal year ending March 31, 2002.

#### *Performance Objectives*

The new management plan’s performance objectives for March 31, 2004, are as follows.



Junji Takashima, President

1. Increase consolidated revenue from operations to ¥600 billion (approximately 30% increase compared with the fiscal year under review)
2. Increase consolidated operating profit to ¥105 billion (approximately 40% increase compared with the fiscal year under review)
3. Increase consolidated ordinary profit to ¥70 billion (approximately 80% increase compared with the fiscal year under review)

During the Five-Year Plan, three main forces were behind the recovery in performance: our leasing business focused in Tokyo's central business districts (CBDs), our sales business with a focus on condominiums and our brokerage business that focused on brokerage of homes for sale. In our New Three-Year Plan, we will not only further enhance these three mainstay operations, but also foster the construction business into our fourth mainstay operation.

In the leasing business, we aim to complete 18 office buildings (720,000 m<sup>2</sup>, including subleases) and raise sales to more than ¥200 billion by the fiscal year ending March 31, 2004. This will firmly establish Sumitomo Realty as one of the top three companies in leasing revenues in Japan.

In the sales business, we are creating a system able to consistently supply over 4,000 condominium units per year as we aim to increase our industry share to the top five.

Our fourth mainstay business, the construction business, provides two-by-four custom homes through Sumitomo Fudosan Home Co., Ltd., standardized houses through our American Comfort brand, and a new full remodeling package called Shinchiku Sokkurisan ("As Good as New"). The Company aims to expand the total number of units constructed along these three lines to 10,000 units annually.

Sumitomo Real Estate Sales Co., Ltd., the top performer in the industry, manages Sumitomo Realty's brokerage business, and is working to expand its marketing base and steadily increase market share.

By strengthening our four mainstay businesses of leasing, sales, construction and brokerage services, we were

able to work free of a deflationary economic cycle and achieve four consecutive years of growth in revenues and profits since the fiscal year ended March 31, 1998, and will continue our efforts to post record revenues and profits.

Performance Targets by Business (Yen in billions)

Years ended March 31	Results for 2001	Targets for 2004	% Change
Leasing	¥163.0	¥200.0	+22.7%
Sales	149.2	160.0	+7.2%
Construction	104.5	170.0	+62.7%
Brokerage	34.7	40.0	+15.3%

Financial Objectives

A major issue facing the Company is the construction of a stable financial base. Under the New Three-Year Plan, we aim to create a solid financial structure able to remain profitable should interest rates temporarily rise, at the worst to 10%, by curbing total interest-bearing debt for the Group to 10 times operating profit by the fiscal year ending March 31, 2004.

We have prepared a system by which the development of new buildings does not increase interest-bearing debt, as we are able to cover land acquisition and construction funds for projects underway with cash flows in each fiscal year. In the future, we will make efforts to further reduce interest-bearing debt by obtaining new land for development through schemes to conserve capital, such as utilizing special purpose companies (SPCs) to acquire land, and by timing the sales of our existing buildings replaced by new development projects to upgrade our real estate portfolio.

The percentage of interest-bearing debt with fixed interest rates exceeds 70%, and we will maintain this percentage during the planning period.

We are in position to make concerted efforts to achieve the objectives of the New Three-Year Plan. I would like to thank our shareholders for their continued support.

Junji Takashima, President  
August 2001

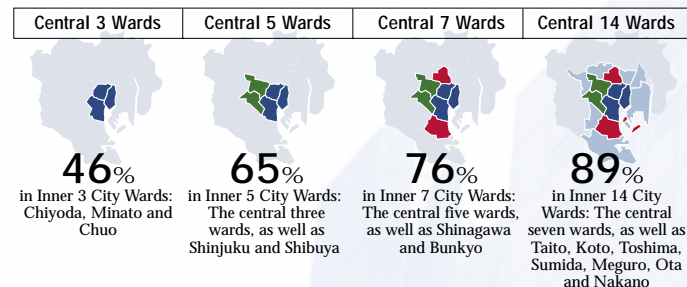
## Our History & Business Expansion

1949	We were established following the breakup of the old Sumitomo <i>zaibatsu</i> conglomerate, as the successor to the holding company.
1964	The Company started the condominium business with Hama-Ashiya Mansion (Kobe, Hyogo Prefecture), and established a position as “Condominium Pioneer.”
1970	Shares of Sumitomo Realty were listed on the Tokyo Stock Exchange.
1974	The Company completed construction of its first skyscraper building, the Shinjuku Sumitomo Building (Shinjuku, Tokyo).
1975   1978	<p><b>First Management Crisis</b> The Company posted net losses for four straight fiscal years during the large-scale recession that followed the oil shock.</p> <p>The majority of the Company’s office building portfolio was sold, including the Marunouchi Head Office Building.</p> <p>The Company withdrew from the residential land development business because of its lower financial efficiency and began to achieve high growth by concentrating management resources on the development and leasing of office buildings in central Tokyo and development of urban condominium projects.</p>
1990	The Company posted record-high business performance during the bubble economy.
1992   1995	<p><b>Second Management Crisis</b> The real estate market entered a serious recession following the collapse of the bubble economy in Japan; the Company’s operation was practically unprofitable for four consecutive years, once excluding the profit from asset sales.</p>
1997   2000	<p><b>Management Objectives for the Five-Year Business Reconstruction Plan:</b></p> <ol style="list-style-type: none"> <li>(1) Exceed record-high performance of 1990</li> <li>(2) Eliminate excessive upfront investment by converting undeveloped land into working assets</li> <li>(3) Withdraw from commercial mortgage loan business and overseas operations, and dispose of non-performing assets</li> <li>(4) Reduce interest-bearing debt</li> </ol> <p>We succeeded in accomplishing all management objectives one year ahead of schedule.</p>
2001   2003	<p><b>Management Objectives for the New Three-Year Plan:</b></p> <ol style="list-style-type: none"> <li>(1) Continue to increase revenues and double profits</li> <li>(2) Improve financial structure by reducing interest-bearing debt and restoring shareholder’s equity</li> <li>(3) Make new investments to achieve sustainable growth</li> </ol>

### Leasing Business

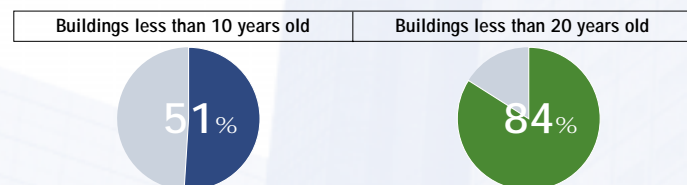
The Company entered the leasing business after its first management crisis in the late 1970s, far behind other companies in the industry. Late entry, however, has provided Sumitomo Realty’s leasing business with the following three strengths:

(1) To make our investments more efficient, we concentrated within central Tokyo. As a result, we have a dominant portfolio of favorably located office buildings.



A considerable amount of Japan’s economic activity is concentrated in Tokyo. As our portfolio is heavily weighted in central Tokyo, we hold a superior position in both stability of revenues and possibilities for future growth.

(2) The majority of our buildings are high-grade, comparatively new structures.



Tenants are demanding ever-increasing standards for office building facilities due to the spread of the IT revolution. Buildings that cannot adequately provide IT capabilities or ensure earthquake resistance are quickly losing their competitive position. Because they were constructed recently, Sumitomo Realty’s high-grade office buildings satisfy tenant needs, which make them extremely competitive and dominant in attracting and retaining tenants. In addition, investments for renovation are minimal, which means more funds can be allocated toward investments in new building construction.

(3) We utilize in-house accumulated expertise for key operations.

In our leasing business, we derive the following three significant benefits from strengthening direct management.

The first aforementioned benefit occurs when land is obtained for office building construction plans. In general, office building development companies buy land after issues

of land rights are settled through a third party. However, Sumitomo Realty carries out this complex and detailed land acquisition and redevelopment process on its own. This method has resulted in substantial reductions in the cost of obtaining new land for office buildings.

The second benefit is derived from the way we attract corporate tenants. Usually, leasing companies will search for tenants through a brokerage company. However, Sumitomo Realty has a strong internal marketing force, which has frequent contact with corporations and negotiates lease contracts directly with the tenants. This system has allowed us to gather information on companies' needs for relocation and expanded office space, and grasp an understanding of their operating environment in general. This enables us to consistently design office buildings with specifications that meet cutting-edge tenant requirements.

The third benefit is in office building maintenance. Sumitomo Realty's office buildings are all managed and maintained directly by employees of the Sumitomo Realty Group. As a result, we are able to quickly and accurately grasp customer needs for new offices or larger office space and any other detailed services our tenants feel necessary.

### Sales Business

As the core of Sumitomo Realty's sales business, development and sale of condominiums accounts for 92% of total sales in the segment. Sumitomo Realty entered the condominium business at an earlier stage than most of its competitors and established a position as the "Condominium Pioneer."

The Company's condominium operations now cover each of the major urban areas of Japan (the Tokyo metropolitan area, Osaka/Kobe, Sapporo, Sendai, Nagoya and Fukuoka) and ranked sixth in number of units provided in calendar 2000. As with the leasing business, the Company and the Group as a whole engage directly in the purchase of land for development, product planning, customer sales and after-sales management. Thus, we are able to provide high-quality products that anticipate customer needs with detailed after-sales property maintenance.

Our investment turnover and high operating profit margin rank at the top of the industry due to our policies of managing market risk through stable supply and pursuing brand-elevating strategies through careful and consistent merchandizing of high-quality housing.

### Construction Business

Unlike our leasing and sales businesses, which require upfront investment, our construction business produces only upon receiving orders. We have been focusing on the construction business as a new strategic area for rebuilding the Group.

This segment comprises the following mainstay products:

- (1) Sumitomo Fudosan Home Co., Ltd.: Medium- to high-end two-by-four custom houses
- (2) American Comfort: Two-by-four standardized houses
- (3) Shinchiku Sokkurisan: New full remodeling package for houses
- (4) Universal Home Inc.: Standardized conventional post and beam construction houses

In 1982, we began custom-built housing operations with the establishment of Sumitomo Fudosan Home. Making full use of our accumulated expertise, we have developed such products as American Comfort, which was launched in 1995, and Shinchiku Sokkurisan, which began operations in 1996. Universal Home is the only Group company expanding its operations through a network of franchised operators. This company entered the Sumitomo Realty Group in 1996 and listed its shares on the over-the-counter (OTC) market in 1999.

While continuing growth in our three established mainstay businesses of leasing, sales and brokerage, we are making every effort to foster the construction business into a fourth mainstay operation of the Group.

### Brokerage Business

Sumitomo Real Estate Sales Co., Ltd., which was established in 1975 to handle the sale of condominiums developed by Sumitomo Realty, is responsible for the Company's real estate brokerage services. This company entered the real estate brokerage business in 1979, and with great success in this business listed its shares on the Tokyo Stock Exchange in 1998.

Sumitomo Real Estate Sales has been increasing its number of offices to build closer ties with local communities under the trusted STEP brand. As of March 31, 2001, Sumitomo Real Estate Sales' nationwide network included 193 brokerage offices. Accordingly, the company is steadily improving its performance every year.

With a high profit margin owing to the direct management of all brokerage offices, Sumitomo Real Estate Sales is the most profitable in the industry. We aim to further increase our market share by reinforcing our marketing base.

### Other Business

In addition to our four mainstay operations, the Company also engages in businesses in such areas as finance, fitness centers, restaurants, hotel management and temporary staffing.

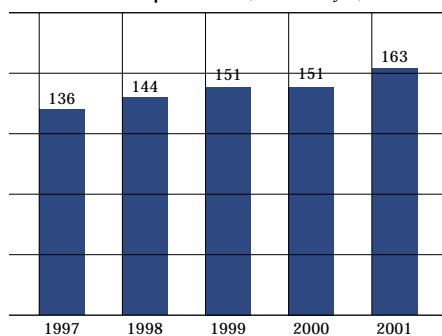
## Review of Operations



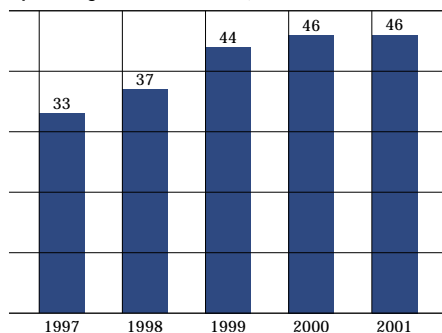
### Results of 2001

**R**oughly 90% of the Company's assets for leasing are concentrated in the Tokyo office building market. With strong demand from IT-related and foreign-owned companies, business was robust with approximately 4,700,000 m<sup>2</sup> of office space absorption in Tokyo, which is comparable to the peak within this 10-year period. Available office space remained at low levels from the previous year and demand outpaced supply, resulting in a quick fall in vacancy rates and a clear upward trend in rental rates. Signs of recovery that began in the Shinjuku and Shibuya areas of Tokyo can now be seen throughout the city's CBDs.

Revenue from Operations (Billions of yen)



Operating Profit (Billions of yen)



The Shibakoen First Building (Completed July 2000)

Although future prospects are uncertain as the economy has weakened since the end of the fiscal year, the current conditions of demand outpacing supply for office space are expected to continue.

In the leasing business, the Iidabashi First Building and the Shibakoen First Building began operations upon completion in the previous fiscal year and in the fiscal year under review, respectively. Combined with a fall in vacancy rates of existing office

buildings, these factors compensated for a decrease in revenue and profits from debt-cutting measures implemented in the previous fiscal year, such as the sale of the Tischman Building in the United States and the securitization of nine leased office buildings, including the Shinjuku Sumitomo Building. As a result, revenue from the leasing business rose ¥11.8 billion to ¥163 billion, and operating profit increased ¥0.7 billion to ¥46.4 billion.



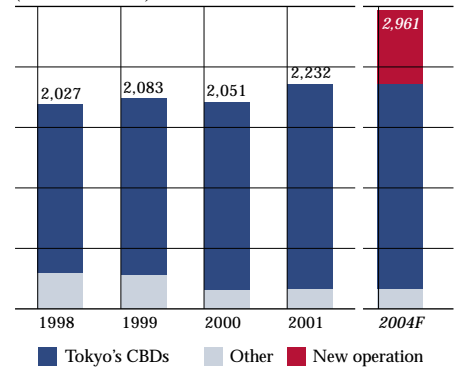


while IT equipped offices in Tokyo are significantly strong.

With the supply of new large-scale office buildings expected to peak in 2003, companies that are now forced to scatter their office space due to tight market conditions will have a chance to concentrate operations in a central location. As new office buildings absorb this demand, the commercial viability of old buildings unable to withstand earthquakes and adapt to new IT standards will rapidly decline.

In anticipation of these market conditions, Sumitomo Realty is continuing to concentrate investment in the Tokyo market to provide office buildings with the most advanced facilities. In addition to six office buildings scheduled for completion in the fiscal year ending March 31, 2002, including the Sumitomo Fudosan Shibakoen Tower, we have begun construction of the Roppongi 1-Chome Redevelopment Project and the

Total of Gross Floor Area for Leasing  
(Thousands of m<sup>2</sup>)



Nishi-Shinjuku 6-Chome Redevelopment Project, both of which represent the next generation in office building standards with cutting-edge IT facilities, making them extremely competitive in attracting tenants. By the fiscal year ending March 31, 2004, we aim to have a total of 18 new office buildings with 720,000 m<sup>2</sup> of floor space in operation. From operation of these 18 new buildings, we expect an average return of over 7% with revenue from rent of approximately ¥45 billion and net cash flow of roughly ¥27 billion.

### Market Outlook and Strategies

**E**ven stronger demand is expected for office buildings in Tokyo, especially those with advanced IT capabilities, due to the movement of the headquarters of many companies from regional urban areas to Tokyo, and a trend toward concentrating management and staff resources there as well. This trend is making it difficult for regional urban office markets to escape recession,



The Sumitomo Fudosan Shibakoen Tower



The Roppongi 1-Chome Redevelopment Project

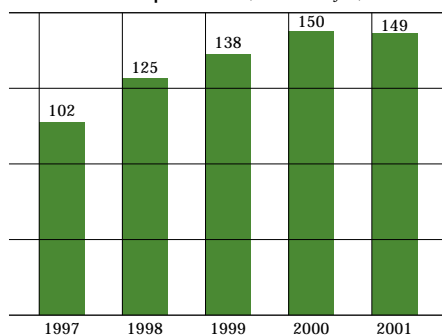
## Review of Operations



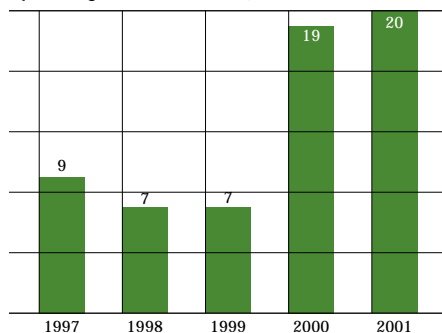
### Results of 2001

**D**espite the continued large supply of condominiums for sale from the previous fiscal year, the market for condominium sales, the mainstay of the sales business, was brisk in the fiscal year under review due to an extension on the housing loan tax credit program until December 2003 and continued low housing loan interest rates. To increase asset efficiency, many companies sold company housing, factories, idle land and other large properties. As a result, developers were able to supply large-scale well-amenitized condominium projects in such favorable locations as central Tokyo with greater flexibility in pricing, which attracted not only first-time buyers but

Revenue from Operations (Billions of yen)



Operating Profit (Billions of yen)



Exterior view of the Central Residence Bancho City Tower

also such new sources of demand as senior citizens living in suburban detached homes and residents of company housing.

The sales business recorded sales of condominiums, detached homes and residential land for a total of 3,626 units, down 18 units year-on-year, in the fiscal year under review. Although revenue in the sales business slipped ¥1.3 billion to ¥149.2 billion, we achieved record-high performance, exceeding even the landmark increases in profit in the previous fiscal year, with operating profit rising ¥1.1 billion to ¥19.7 billion. In addition, condominium sales contracts totaled 4,215 units, up 419 units from the previous fiscal year, resulting in the third consecutive year of record-breaking growth.

Exterior and interior view of the Park Square Neos Yokohama



Exterior view of the Park Square Yokohama



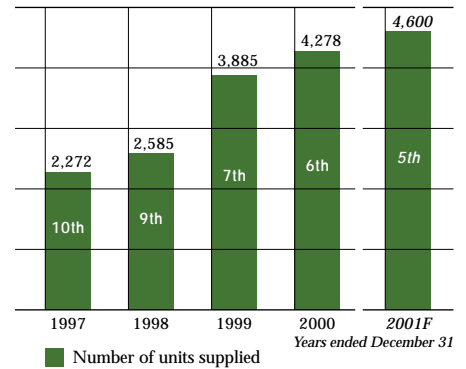
### Market Outlook and Strategies

**W**e believe that such macroeconomic issues as the tax system, interest rates, and price stability support current robust demand. As significant changes to these factors are unlikely, we expect favorable conditions to continue despite fluctuations in the short term due to unstable

consumer sentiment. On the other hand, we are concerned that supply could decrease following a rise in land prices from a slower pace of corporate land sales and predictions that construction expenses will increase.

Sumitomo Realty's basic policy is to pursue high performance in the asset turnover ratio and operating profit margins by leveling market fluctuation risk through stable supply and

Ranking of Condominium Suppliers



by further enhancing brand image through the sale of high-quality housing. The Company aims to provide more than 4,000 units yearly and become one of the top five condominium suppliers. To achieve these objectives, the Company is already securing sizeable properties for highly popular large-scale condominiums.

Due to the length of time required for development, these properties entail an increase in inventories and lower asset turnover ratio. To manage these issues, we will increase financial efficiency through off-balance asset financing utilizing SPCs.

### The Industry's First Totally Customizable Condominiums

**S**umitomo Realty has succeeded in developing the industry's first totally customizable condominiums, giving the buyer total freedom in designing the layout. The buyer can even decide the placement of the kitchen, bathroom and restroom, now. In addition, the buyer has the option to upgrade home appliances and interior furnishings. We are steadily introducing this new system in our small and medium-size upscale properties, starting with the Jingumae City Tower located at Jingumae 2-Chome, Shibuya, and the Mejiro Otomeyama City Tower located at Shimo-Ochiai 4-Chome, Shinjuku.

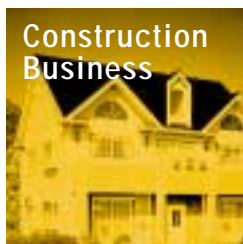


Exterior view of the Jingumae City Tower

We are also making quantum leaps in improving the durability of our buildings by using advanced structural design, cutting-edge technology and concrete made to last 100 years. We

aim to provide "universal condominiums for the new century"—homes attuned to the lifestyle of families and intended to be passed down to the grandchildren of the original owner.

## Review of Operations



### Results of 2001

Sumitomo Realty has positioned the construction business as a new strategic area and is rapidly expanding its operational scale every year.

In the fiscal year under review, major housing manufacturers' orders fell throughout the industry on the back of a shift in demand toward condominiums. Despite the unfavorable operating environment,

Shinchiku Sokkurisan ("As Good as New") operations made significant gains in addition to brisk performance in other new housing operations. A breakdown of orders and units completed is shown below.

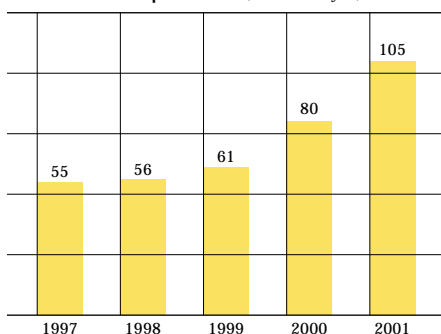
As a result, revenue for the construction business increased ¥24.5 billion to ¥104.5 billion. Although this is the first year revenues exceeded ¥100 billion, operating profit fell ¥0.7 billion to ¥4.0 billion due to a

(Units)	Number of Orders Received	Year-on-Year Increase	Number of Units Completed	Year-on-Year Increase
Sumitomo Fudosan Home	1,303	155	1,299	283
American Comfort	1,498	241	1,304	137
Shinchiku Sokkurisan	2,951	1,382	2,664	1,644



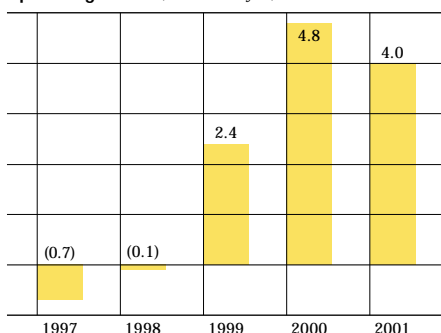
American Comfort Series, Dream Comfort

Revenue from Operations (Billions of yen)



substantial increase in sales staff necessary to support high levels of growth in the future, and a drop in the gross profit margin for new detached housing construction owing to fierce competition for orders.

Operating Profit (Billions of yen)



### Sumitomo Fudosan Home Co., Ltd. Medium- to High-End Two-by-Four Custom Houses

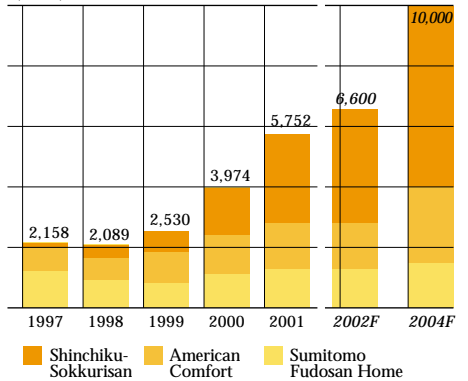
Sumitomo Fudosan Home was established in a spin-off of the Housing Division of Sumitomo Realty in 1982. The company markets two-by-four medium- to high-end custom housing that incorporates designs and building methods used in Los Angeles suburbs by Sumitomo Realty & Development, CA Inc., which was known as La Solana Corporation at the time. We aim to secure stable profit by emphasizing cost reduction as large growth is difficult in this market due to severe competition among major housing manufacturers.



### Shinchiku Sokkurisan New Full Remodeling Package

In the home renovation market in Japan, rebuilding a home was often said to be cheaper than remodeling owing to high costs and the risk of running over budget due to remodeling industry's conventional system. In 1996, the Company launched Shinchiku Sokkurisan, a construction system that upended conventional thinking by remodeling homes for a fixed price to a state as good as new for half the cost and time it takes to reconstruct a new house. With the phrase "Rethink before rebuilding" becoming increasingly common, Shinchiku Sokkurisan has gained popularity as an alternative to rebuilding. With Shinchiku Sokkurisan's track record of persistent rapid growth

Housing Units Sold by Key Commodities (Units)



of 100% year-on-year, we aim to double the size of this business in three years.

### Management Objectives

The New Three-Year Plan aims to foster the construction business as a fourth mainstay business alongside the leasing, sales and brokerage businesses. Through aggressive hiring, we aim to create a system able to handle a total of 10,000 orders per year for Sumitomo Fudosan Home, American Comfort and Shinchiku Sokkurisan.

### The American Comfort Series, Two-by-Four Imported Standardized Housing

After the Kobe Earthquake, demand for emergency low-priced housing increased, and in response, we launched American Comfort in 1995. This breakthrough concept in supplying high-quality affordable Western-style housing—for which the Company won an award from the *Nihon Keizai Shimbun* in 1996—has continued an average increase in sales of 20% annually. As product competition in this price range is intensifying, we are preparing various measures to maintain growth. We aim to increase sales by 60% in the next three years.



Our Shinchiku Sokkurisan ("As Good As New") is a new full remodeling package.



## Review of Operations

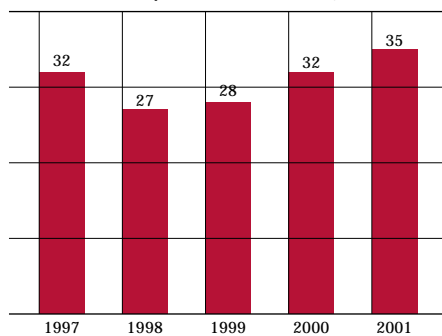


### Results of 2001

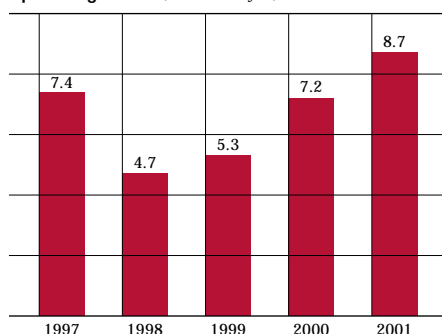
**A**mid increased buying power among young people due to declines in existing housing prices, tax reductions and low interest rates, the real estate brokerage market has shown considerable growth in numbers of transactions.

Sumitomo Real Estate Sales Co., Ltd., which is listed on the First Section of the Tokyo Stock Exchange, is responsible for the Company's brokerage business with 193 directly managed brokerage offices as of fiscal year-end. The company has performed well under its management policies, which emphasize increasing the number of transactions through the opening of new brokerage offices (eight in the fiscal year under review) and the enhancement of its Internet brokerage

Revenue from Operations (Billions of yen)



Operating Profit (Billions of yen)



services with the launch of MAMBO (business model patent pending), a service offering direct negotiation with real estate agents for the purchase of property via the Internet. The increase in the number of transactions absorbed a decrease in average transaction fees, resulting in operating revenue increasing ¥3.0 billion to ¥34.7 billion and operating profit rising ¥1.5 billion to ¥8.7 billion, marking the third consecutive year of growth in revenue and profits since the consumption tax hike in the fiscal year ended March 31, 1998, after which demand dropped sharply.

### Market Outlook and Strategies

**W**hile expanding our network of directly managed brokerage offices yearly, we are improving the time it takes to match buyers and sellers with the introduction of an in-house information sharing system. In addition, we are focusing efforts in such new growth areas as Internet brokerage services, corporate brokerage services for commercial real estate and consulting services for asset securitization.

We will pursue steady growth through the expansion of market share and strengthen our position as the industry's top brokerage firm.



The directly-managed brokerage office of Sumitomo Real Estate Sales Co., Ltd.

### Real Estate Investment Trust Operations

**T**he Japanese real estate investment trust (J-REIT) market is about to open with the long-awaited listing of J-REITs on the Tokyo Stock Exchange. Although companies are preparing real estate portfolios for listing on the J-REIT market, good revenue-generating properties seem to be difficult to find.

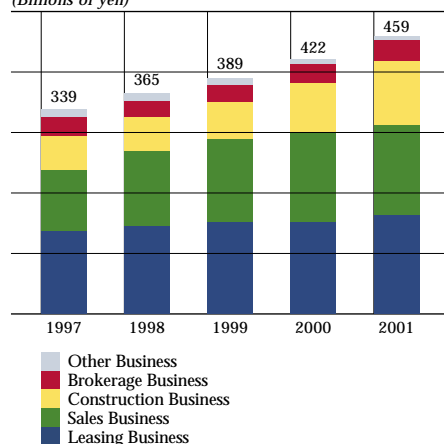
On entering the J-REIT market, the

Company will use properties it developed as core assets. We believe that developing our leasing assets for the fund is a faster and more efficient way to expand J-REIT funds than waiting for opportunities to buy existing revenue-generating properties of quality. Using this strategy, we will be able to reap development profits by selling newly completed office buildings on the J-REIT market, or sell our existing leased buildings in turn and improve investment efficiency by aggressively replacing our lease portfolio components. The J-REIT market will provide us with another alternative in our strategy to enforce our competence in the development business.

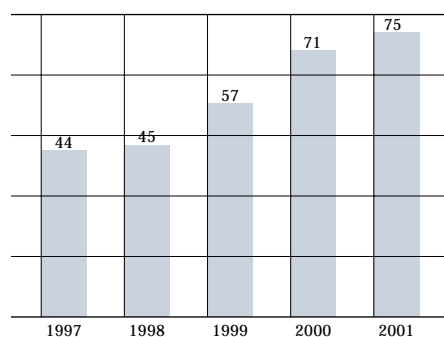
## Financial Section

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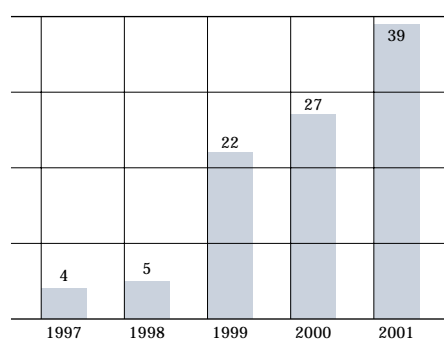
Revenue from Operations by Segment  
(Billions of yen)



Operating Profit (Billions of yen)



Ordinary Profit (Billions of yen)



## Summary

Sumitomo Realty achieved record-breaking consolidated revenue from operations of ¥459.2 billion for the fiscal year ended March 31, 2001, the fourth consecutive year of revenue growth. Our four mainstay businesses of leasing, sales, construction and brokerage achieved remarkable growth, and total revenue increased at an annual average rate of 8% under the Five-Year Business Reconstruction Plan, which was completed in four years.

Operating profit totaled ¥75.2 billion, marking the fourth consecutive year of profit growth and an increase of ¥31.1 billion from the fiscal year ended March 31, 1997, an average increase of 15% per year. During this period, the Company sold overseas leasing assets and securitized domestic leasing assets to reduce interest-bearing debt, recovering a total of approximately ¥250 billion in capital over these four years. Although the sale and securitization of these assets resulted in a roughly ¥7 billion decrease in operating profit, the Company as a whole recorded substantial operating profit growth—a remarkable accomplishment.

We recorded an all-time high ordinary profit of ¥38.5 billion, an increase of ¥35.8 billion compared with the fiscal year ended March 31, 1997. In the previous fiscal year, we adopted the principle of actual control in determining the scope of consolidation, increasing the number of consolidated subsidiaries, including Shintoshin Real Estate Co., Ltd., which resulted in a ¥5 billion increase in net interest expenses. However, this was offset by reductions in interest-bearing debt and a decrease of loss on devaluation of marketable securities helped us further. In addition, Shintoshin Real Estate is steadily implementing the development of its commercial land holdings and plans to become profitable by the fiscal year ending March 31, 2002.

Although we showed remarkable improvement in our earnings power, the fiscal year under review ended in a net loss. The Company recorded an extraordinary loss of approximately ¥65 billion for the write-off of bad debt of Sumitomo Fudosan Finance Co., Ltd. and posted an extraordinary loss of ¥1.7 billion for the “net transition obligation” for retirement benefits.

## Analysis of Assets

The bad debt of Sumitomo Fudosan Finance was the primary reason for the net loss in the term under review, and has weighed heavily on performance with a total of approximately ¥200 billion in extraordinary losses since the fiscal year ended March 31, 1994. Net bad debt (bad debt less approximately ¥73 billion in allowance for doubtful accounts) was reduced to nearly ¥18 million, relieving management of this pressing issue.

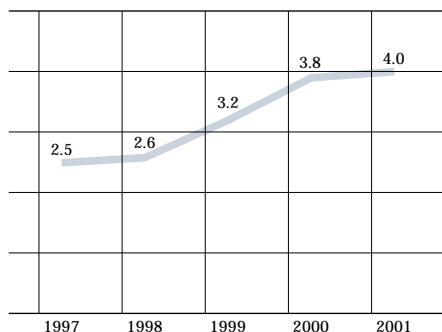
In real estate for sale, the Company posted a one-time charge of approximately ¥25 billion for devaluation losses in the fiscal year ended March 31, 2000, and properties under market value were almost entirely written down.

In previous years, Sumitomo Realty used the lower-of-cost or market method for listed securities. Due to changes in accounting standards for financial instruments in the fiscal year under review, the Company transferred all long-held listed marketable securities to investment securities at fair market value in the balance sheets, and after-tax net unrealized gains were reflected in shareholders' equity.

The Company states all buildings and property used for leasing as property and equipment at cost. The average yield of existing leased properties (approximately ¥860 billion) is 6.2%, and we expect an average yield of more than 7% for office buildings currently under construction (approximately ¥180 billion) when they become operational. Comparing commercial real estate transactions, Tokyo CBD Class-A office buildings, which make up most of the Company's

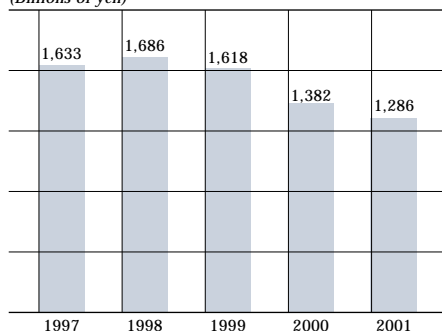


#### Return on Assets (%)



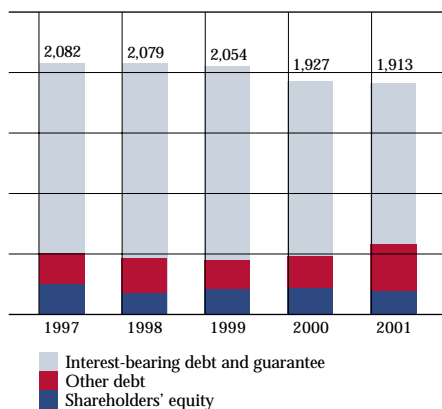
Note: Return on assets = (operating income + interest income + dividend income) / average assets

#### Total Interest-Bearing Debt for the Group (Billions of yen)



Note: Including guarantee

#### Capital Composition (Billions of yen)



commercial portfolio, are sold at a high 4% to low 5% yield. Consequently, it is our view that the Company's commercial portfolio, in total, easily exceeds market value.

Of approximately ¥136 billion in commercial land that has been left undeveloped, including roughly ¥12 billion newly acquired in the fiscal year under review, approximately ¥106 billion comprises projects with construction plans in progress. The remaining ¥30 billion is awaiting further planning.

We continue to sell overseas assets, with only approximately ¥13 billion invested in five properties, including the Park Hyatt Los Angeles at Century City in California, remaining.

#### Liabilities and Shareholders' Equity

Interest-bearing debt (the total of bank loans, debentures and commercial papers outstanding) of ¥1,275.7 billion was recorded at fiscal year-end, a decrease of ¥95.4 billion from a year earlier. This marks the first time in 10 years that interest-bearing debt has fallen below ¥1,300 billion, representing a ¥400 billion reduction in total interest-bearing debt for the Group since it peaked in the fiscal year ended March 31, 1998 (in the calculation of total interest-bearing debt for the Group, we included liabilities on guarantee to prevent the impact of newly consolidated subsidiaries under the new accounting standards). We are rapidly advancing improvement in the financial structure.

However, the debt to equity ratio was still as high as 6.6 times as the net worth ratio decreased to 10.2% due to the net loss recorded. As stated before, with completion of the Five-Year Business Reconstruction Plan one year ahead of schedule and the substantial disposal of extraordinary losses, the Company aims to further reduce interest-bearing debt and recover shareholders' equity through yearly profits.

Under the New Three-Year Plan, which will be completed in the fiscal year ending March 31, 2004, we are targeting the reduction of interest-bearing debt to approximately 10 times operating profit. Assuming an operating profit target of ¥105 billion, it is necessary to reduce interest-bearing debt by approximately ¥200 billion during the next three years. The Company will generate sufficient annual operating cash flow to cover additional investment in commercial development currently underway and reduce interest-bearing debt by improving capital efficiency and selling assets.

#### Analysis of Cash Flows

Net cash provided by operating activities in the fiscal year under review totaled ¥3.3 billion, and net cash provided by investing activities amounted to ¥111.6 billion. After advancing the reduction of interest-bearing debt, net increase in cash and cash equivalents was ¥52.1 billion.

Cash flows from operating activities declined mainly due to increases in inventories for sales, such as the acquisition of land for large-scale condominium developments, and a decrease in accrued construction expenses. To compensate for the reduction in cash flows from operating activities, we formed limited partnerships in condominium development projects and sold rights to receive payments upon delivery under condominium sales contracts. These proceeds were stated in cash flows from investing and financing activities, respectively.

Due to aggressive efforts in the securitization of leased office buildings and the sales of claims for security deposits, net cash provided by investing activities continued to exceed ¥100 billion.

# Consolidated Balance Sheets

March 31, 2001 and 2000

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
<b>Current assets:</b>			
Cash, mainly time and notice deposits (Note 5)	¥ 91,986	¥ 39,728	\$ 742,421
Marketable securities (Note 9)	401	9,668	3,236
Notes and accounts receivable—trade (Note 4)	19,436	16,033	156,868
Trade loans receivable	107,394	157,354	866,780
Allowance for doubtful accounts	(37,067)	(33,586)	(299,169)
Inventories (Note 6)	149,215	128,310	1,204,318
Deferred income taxes (Note 12)	16,369	14,184	132,115
Securities loaned	—	15,727	—
Other current assets	26,594	22,660	214,641
Total current assets	374,328	370,078	3,021,210
<b>Investments and advances:</b>			
Investments in and advances to unconsolidated subsidiaries and affiliated companies (Note 7)	7,712	7,591	62,244
Investments in securities and other (Note 9)	85,183	111,017	687,514
Allowance for doubtful accounts	(38,116)	(78,514)	(307,635)
Total investments and advances	54,779	40,094	442,123
<b>Property and equipment (Notes 8 and 10):</b>			
Land	916,447	896,061	7,396,667
Buildings and structures	298,381	317,846	2,408,240
Machinery and equipment	14,369	16,322	115,973
Construction in progress	24,274	40,018	195,916
	1,253,471	1,270,247	10,116,796
Accumulated depreciation	(106,470)	(120,003)	(859,322)
Net property and equipment	1,147,001	1,150,244	9,257,474
<b>Other assets:</b>			
Guarantee and lease deposits paid to lessors	196,242	214,394	1,583,874
Leasehold rights and other intangible assets	72,534	123,128	585,424
Deferred income taxes (Note 12)	20,153	4,954	162,655
Miscellaneous	38,492	13,451	310,670
Total other assets	327,421	355,927	2,642,623
	¥1,903,529	¥1,916,343	\$15,363,430

See accompanying notes.

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
<b>Current liabilities:</b>			
Short-term bank loans (Note 10)	¥ 317,745	¥ 354,267	\$ 2,564,528
Long-term debt due within one year (Note 10)	243,800	253,084	1,967,716
Notes and accounts payable—trade (Note 4)	30,207	42,539	243,801
Accrued income taxes (Note 12)	2,827	3,418	22,817
Accrued bonuses	2,487	2,218	20,073
Deferred income taxes (Note 12)	31	214	250
Other current liabilities	112,363	77,187	906,884
<b>Total current liabilities</b>	<b>709,460</b>	<b>732,927</b>	<b>5,726,069</b>
Long-term debt due after one year (Note 10)	716,141	765,716	5,779,992
Guarantee and lease deposits received (Note 13)	268,841	194,803	2,169,822
Deferred income taxes (Note 12)	82	—	662
Allowance for employees' severance and retirement benefits (Note 11)	3,387	1,568	27,336
Directors' and corporate auditors' retirement benefits	256	243	2,066
Other long-term liabilities	860	701	6,942
Minority interests	11,060	9,245	89,266
Contingent liabilities (Note 17)			
<b>Shareholders' equity (Note 14):</b>			
Common stock, par value ¥50 per share			
Authorized — 780,000 thousand shares			
Issued — 406,810 thousand shares	86,773	86,773	700,347
Additional paid-in capital	96,822	96,822	781,453
Retained earnings	11,673	31,942	94,213
	195,268	215,537	1,576,013
Net unrealized holding gains on securities	1,016	—	8,200
Foreign currency translation adjustments	(2,840)	(4,395)	(22,922)
Treasury stock	(2)	(2)	(16)
<b>Total shareholders' equity</b>	<b>193,442</b>	<b>211,140</b>	<b>1,561,275</b>
	<b>¥1,903,529</b>	<b>¥1,916,343</b>	<b>\$15,363,430</b>

# Consolidated Statements of Operations

Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	2001
Revenue from operations	<b>¥459,245</b>	¥421,587	¥389,136	<b>\$3,706,578</b>
Costs and expenses:				
Cost of revenue from operations	<b>349,597</b>	319,997	303,256	<b>2,821,606</b>
Selling, general and administrative expenses (Note 3)	<b>34,430</b>	31,042	29,364	<b>277,886</b>
	<b>384,027</b>	351,039	332,620	<b>3,099,492</b>
Operating profit	<b>75,218</b>	70,548	56,516	<b>607,086</b>
Other income (expenses):				
Interest expense—net (Note 5)	<b>(34,491)</b>	(39,547)	(34,948)	<b>(278,378)</b>
Dividend income	<b>283</b>	241	374	<b>2,284</b>
Gain (Loss) on sale of property and equipment	<b>(375)</b>	62,477	270	<b>(3,027)</b>
Gain (Loss) on sale of marketable securities	—	130	(774)	—
Gain on sale of investments in subsidiary	—	419	2,563	—
Loss on sale of investments in securities	—	—	(3,358)	—
Write-offs of bad debt	—	(4,272)	(53)	—
Loss on devaluation of marketable securities	—	(2,897)	(1,262)	—
Provision for allowance for doubtful accounts	<b>(14,828)</b>	—	—	<b>(119,677)</b>
Foreign exchange gains (losses)	<b>14</b>	(17)	256	<b>113</b>
Loss from write-down of property and equipment	<b>(501)</b>	(486)	—	<b>(4,044)</b>
Loss from devaluation of inventories	—	(24,864)	—	—
Loss from restructuring of overseas business	—	(22,641)	—	—
Loss on adjustment of prior year's rent	—	(14,168)	—	—
Loss from sale and write-off of loans receivable	<b>(50,111)</b>	—	—	<b>(404,447)</b>
Net transition obligation	<b>(1,681)</b>	—	—	<b>(13,567)</b>
Other—net	<b>(2,613)</b>	(2,740)	(758)	<b>(21,089)</b>
	<b>(104,303)</b>	(48,365)	(37,690)	<b>(841,832)</b>
Income (Loss) before income taxes and minority interest (Note 3):	<b>(29,085)</b>	22,183	18,826	<b>(234,746)</b>
Income taxes (Note 12):				
Current	<b>5,097</b>	4,740	2,738	<b>41,138</b>
Deferred	<b>(18,221)</b>	1,091	3,800	<b>(147,062)</b>
Total	<b>(13,124)</b>	5,831	6,538	<b>(105,924)</b>
Minority interest	<b>2,047</b>	1,615	1,305	<b>16,521</b>
Net income (loss)	<b>¥ (18,008)</b>	¥ 14,737	¥ 10,983	<b>\$ (145,343)</b>
		Yen		U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income (loss)	<b>¥ (44.27)</b>	¥ 36.23	¥ 27.00	<b>\$ (0.36)</b>
Cash dividend applicable to the year	<b>6.00</b>	6.00	6.00	<b>0.05</b>

See accompanying notes.

# Consolidated Statements of Shareholders' Equity

Years ended March 31, 2001, 2000 and 1999

	Thousands	Millions of yen					
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 1998	406,810	¥86,773	¥96,822	¥(4,218)	¥ —	¥(4,847)	¥(2)
Cumulative effect of adopting deferred income tax accounting	—	—	—	19,299	—	—	—
Decrease due to change in consolidated subsidiaries	—	—	—	(37)	—	—	—
Net income	—	—	—	10,983	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(3,832)	—
Treasury stock	—	—	—	—	—	—	0
Cash dividends paid (¥6 per share)	—	—	—	(2,440)	—	—	—
Bonus to directors	—	—	—	(3)	—	—	—
Balance at March 31, 1999	406,810	86,773	96,822	23,584	—	(8,679)	(2)
Decrease due to change in consolidated subsidiaries	—	—	—	(3,925)	—	—	—
Net income	—	—	—	14,737	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(4,284)	—
Treasury stock	—	—	—	—	—	—	0
Cash dividends paid (¥6 per share)	—	—	—	(2,440)	—	—	—
Bonus to directors	—	—	—	(14)	—	—	—
Balance at March 31, 2000	406,810	86,773	96,822	31,942	—	(4,395)	(2)
Increase due to change in consolidated subsidiaries	—	—	—	195	—	—	—
Net loss	—	—	—	(18,008)	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	1,555	—
Adoption of new accounting standard for financial instruments	—	—	—	—	1,016	—	—
Treasury stock	—	—	—	—	—	—	0
Cash dividends paid (¥6 per share)	—	—	—	(2,441)	—	—	—
Bonus to directors	—	—	—	(15)	—	—	—
Balance at March 31, 2001	406,810	¥86,773	¥96,822	¥11,673	¥1,016	¥(2,840)	¥(2)

	Thousands of U.S. dollars (Note 1)						
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock	
Balance at March 31, 2000	\$700,347	\$781,453	\$ 257,805	\$ —	\$(35,472)	\$(16)	
Increase due to change in consolidated subsidiaries	—	—	1,573	—	—	—	
Net income	—	—	(145,343)	—	—	—	
Adjustments from translation of foreign currency financial statements	—	—	—	—	12,550	—	
Adoption of new accounting standard for financial instruments	—	—	—	8,200	—	—	
Treasury stock	—	—	—	—	—	0	
Cash dividends paid (\$0.05 per share)	—	—	(19,701)	—	—	—	
Bonus to directors	—	—	(121)	—	—	—	
Balance at March 31, 2001	\$700,347	\$781,453	\$ 94,213	\$8,200	\$(22,922)	\$(16)	

See accompanying notes.

# Consolidated Statements of Cash Flows

Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
<b>Cash flows from operating activities:</b>			
Income (Loss) before income tax and minority interest	¥ (29,085)	¥ 22,183	\$ (234,746)
Depreciation and amortization	10,367	11,249	83,672
Provision for allowance for doubtful accounts—net	(36,259)	(9,306)	(292,647)
Loss on devaluation of marketable securities	—	2,897	—
Gain on sale of investments in subsidiaries	—	(419)	—
Increase in employees' severance and retirement benefits	1,818	994	14,673
Interest and dividend income	(1,187)	(1,784)	(9,580)
Interest expense	35,395	41,090	285,674
Gain on sale of marketable securities	—	(130)	—
Loss (Gain) on sale of property and equipment	375	(62,477)	3,027
Loss from reduction of overseas business	—	22,641	—
Decrease in notes and accounts receivable—trade	272	8,476	2,195
Decrease in trade loans receivable	96,302	15,740	777,256
Decrease (Increase) in inventories	(21,195)	9,899	(171,065)
Increase in advances received	7,384	3,861	59,596
Increase (Decrease) in notes and accounts payable—trade	(12,340)	7,251	(99,596)
Other—net	(7,031)	7,162	(56,747)
<b>Total</b>	<b>44,816</b>	<b>79,327</b>	<b>361,712</b>
Proceeds from interest and dividend income	1,328	1,942	10,718
Payments for interest	(37,202)	(39,963)	(300,258)
Payments for income tax and other taxes	(5,686)	(2,867)	(45,892)
<b>Net cash provided by operating activities</b>	<b>3,256</b>	<b>38,439</b>	<b>26,280</b>
<b>Cash flows from investing activities:</b>			
Proceeds from sale of property and equipment	79,582	167,238	642,308
Payments for purchases of property and equipment	(55,015)	(97,965)	(444,027)
Increase in marketable securities	—	(7,063)	—
Proceeds from sale of securities	—	8,719	—
Increase in investments in securities	(18,429)	—	(148,741)
Proceeds from sale of investments in securities	2,659	—	21,461
Increase in short-term loans	178	1,886	1,437
Decrease in guarantee and lease deposits paid to lessors	50,897	44,582	410,791
Increase in guarantee and lease deposits received	8,392	2,187	67,732
Capital expenditure	(12,271)	(7,198)	(99,040)
Receipts of deposits to partnerships	55,397	29,768	447,111
Other—net	201	(9,709)	1,622
<b>Net cash provided by investing activities</b>	<b>111,591</b>	<b>132,445</b>	<b>900,654</b>
<b>Cash flows from financing activities:</b>			
Decrease in short-term bank loans	(33,096)	(349,006)	(267,119)
Proceeds from issuance of bonds and notes	70,000	130,000	564,972
Repayments of bonds and notes	(133,690)	(90,000)	(1,079,015)
Increase in long-term debt	4,877	102,788	39,362
Proceeds from issuance of common stock to minority shareholders	—	987	—
Proceeds from assignment of advances received	29,149	—	235,262
Other—net	2,550	(2,246)	20,581
Cash dividends paid	(2,643)	(2,569)	(21,332)
<b>Net cash used in financing activities</b>	<b>(62,853)</b>	<b>(210,046)</b>	<b>(507,289)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>151</b>	<b>(261)</b>	<b>1,219</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>52,145</b>	<b>(39,423)</b>	<b>420,864</b>
Cash and cash equivalents at beginning of year	40,236	79,614	324,745
Increase (Decrease) in cash and cash equivalents resulting from changes in the number of consolidated subsidiaries	(2)	45	(16)
<b>Cash and cash equivalents at end of year (Note 5)</b>	<b>¥ 92,379</b>	<b>¥ 40,236</b>	<b>\$ 745,593</b>

See accompanying notes.

# Consolidated Statement of Cash Flows

Year ended March 31, 1999

	Millions of yen
	1999
<b>Cash flows from operating activities:</b>	
Net income	¥ 10,983
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	10,340
Provision for allowance for doubtful accounts—net	2,606
Deferred income taxes	3,800
Gain on sale of property and equipment	(270)
Other	3,141
Changes in assets and liabilities:	
Increase in notes and accounts receivable—trade	(4,255)
Increase in trade loans receivable	(11,737)
Decrease in inventories	33,372
Decrease in prepaid expenses and other current assets	1,200
Increase in notes and accounts payable—trade	11,011
Increase in accrued income taxes and other current liabilities	441
Net cash provided by operating activities	60,632
<b>Cash flows from investing activities:</b>	
Purchases of property and equipment	(41,275)
Proceeds from sale of property and equipment	25,447
Decrease in marketable securities	2,662
Decrease in investments and advances	2,543
Increase in guarantee and lease deposits paid to lessors	(3,449)
Decrease in leasehold rights and other intangible assets	4,301
Other	(2,191)
Net cash used in investing activities	(11,962)
<b>Cash flows from financing activities:</b>	
Decrease in short-term bank loans	(32,490)
Proceeds from issuance of bonds and notes	33,700
Repayments of bonds and notes	(120,000)
Increase in long-term debt	60,142
Decrease in guarantee and lease deposits received	(776)
Proceeds from issuance of common stock	3,933
Other	14,546
Cash dividends paid	(2,440)
Net cash used in financing activities	(43,385)
Net increase in cash	5,285
Cash at beginning of the year	74,143
Cash at end of the year	¥ 79,428

See accompanying notes.

# Notes to Consolidated Financial Statements

Years ended March 31, 2001, 2000 and 1999

## 1. Basis of financial statements

Sumitomo Realty & Development Co., Ltd. (the "Company"), and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective country of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for 1999 and shareholders' equity for 2001, 2000 and 1999 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purpose and were not filed with regulatory authorities.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2001, which was ¥123.90 to U.S.\$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. Accounting policies

### (1) Principles of consolidation

Effective from the year ended March 31, 2000, all companies are required to consolidate all significant investees which are controlled through substantial ownership of majority voting rights or existence of certain conditions. As a result, three additional subsidiaries have been included in the consolidation. However, the effect of the change is immaterial and, accordingly, the prior year's consolidated financial statements have not been restated.

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

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries. All significant intercompany balances, transactions and profits have been eliminated in consolidation.

### (2) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, long-term receivables and payable denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation," issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate.

The effect on the consolidated statement of operations of adopting the Revised Accounting Standard was immaterial. Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate, except that shareholders' equity accounts are translated at historical rates and income statement items resulting from transactions with the Company at the rates used by the Company.

Due to the adoption of the Revised Accounting Standard, the Company and its domestic subsidiaries report foreign currency translation adjustments in the shareholders' equity. The prior years' amounts, which were included in assets, have been reclassified to conform to the 2001 presentation.

### (3) Statement of cash flow

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

The Company prepared the 2001 and 2000 consolidated cash flow statement as required by and in accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc." effective from the year ended March 31, 2000. The 1999 consolidated cash flows statements, which were voluntarily prepared for the purpose of inclusion in the consolidated financial statements in a form familiar to readers outside Japan, have not been restated. Significant differences in the consolidated cash flow statements for 2001 and 2000 and for 1999 include the use of pretax income in 2001 and 2000 instead of net income in 1999, additional disclosure in cash flows from operating activities in 2001 and 2000 of interest expense, income tax expense, interest and dividend income, interest paid, income taxes paid and interest and dividend received.

### (4) Recognition of revenue

Revenues from sales of land and residential houses are recognized when units are delivered and accepted by customers. Revenues from leasing of office space, shops and apartments are recognized as rent accrues over the life of the lease.

### (5) Inventories

Inventories are stated at cost which is determined by the specific identification cost method.

In the prior years, the costs of consignment sales were recognized as expense in the period they were incurred. In the year ended March 31, 2001, the Company introduced cost accounting system with the intent to better manage consignment sales activities, by matching revenue from sales of consigned properties and costs associated to such properties, this resulted in recording the costs of non-delivered estate amounting to ¥966 million (\$7,797 thousand) as inventories at that date.

Consequently this change resulted an increase of ¥966 million (\$7,797 thousand) in operating profit and net loss before income taxes compared with what would have been reported under the prior method.

The effect on segment information is explained in Note 19.

### (6) Securities

Prior to April 1 2000, securities quoted on stock exchanges are



primarily stated at the lower of market or cost, determined by the moving-average method. Other securities were stated at cost, determined by the moving-average method.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities")

Held-to-maturity debt securities are stated at amortized cost. Equity security issued by affiliated company which is not consolidated or accounted for using the equity method is stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Securities with no available fair market value are stated at moving-average cost.

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

As a result of adopting the new accounting standard for financial instruments, loss before income taxes decreased by ¥1,548 million (\$12,494 thousand). Also, based on the examination of the intent of holding each security upon application of the new accounting standard on April 1, 2000, held-to-maturity debt securities and available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and other assets. As a result, at April 1, 2000, securities in current assets decreased by ¥9,156 million (\$73,898 thousand), securities loaned in current assets decreased by ¥15,727 million (\$126,933 thousand) and investment securities increased by ¥24,883 million (\$200,831 thousand) compared with what would have been reported under the previous accounting policy.

#### *(7) Property and equipment*

The Company and domestic consolidated subsidiaries depreciate property and equipment using the declining-balance method at rates determined based on the useful lives prescribed in the Japanese tax regulations except that the Company and two domestic subsidiaries depreciate buildings using the straight-line method and certain other domestic subsidiaries depreciate buildings, excluding building fixtures, acquired after March 31, 1998 using the straight-line method. Overseas consolidated subsidiaries depreciate property and equipment using primarily the straight-line method in accordance with the accounting principles in the respective countries.

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

Buildings and structures .....6 to 60 years  
Machinery and equipment .....2 to 20 years

#### *(8) Software cost*

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

In accordance with the provisional rule of the JICPA's Accounting Committee Report No. 12 "Practical Guidance for Accounting for Research and Development Costs, etc." (the "Report"), the Company accounts for software which was included in leasehold rights and other intangible assets in the same manner in 2000 as in 1999. Pursuant to the Report, however, the Company included software in other assets in 2000 and depreciated it using the straight-line method over the estimated useful lives (five years).

#### *(9) Allowance for doubtful account*

Allowance for doubtful accounts is provided in amounts sufficient to cover probable losses on collection. It consists of the estimated amount considered to be uncollectible based on the evaluation of certain identified trade notes, accounts and loans receivable, and an amount calculated by applying the percentage of collection losses experienced in certain period in the past to the remaining receivables in 2000, when the Company changed the accounting policy as explained in Note 3.

#### *(10) Finance leases*

Finance leases except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

#### *(11) Income taxes*

Effective April 1, 1998, the Company adopted the new accounting standard, which recognizes tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities. Under the new accounting standard, the provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1998 is reflected as an adjustment of ¥19,299 million to the retained earnings brought forward from the previous year.

#### *(12) Employees' retirement benefits*

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

Prior to April 1, 2000, consolidated subsidiaries accrued liabilities for lump-sum severance and retirement payments equal to 40% of the amount required had all eligible employees voluntarily terminated their employment at the balance sheet date, except that, at March 31, 2000, one consolidated subsidiary provided liabilities for severance and retirement benefits based on the Net-Present-Value method as discussed in Note 3. The Companies recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Companies adopted the new accounting standard ("Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council on June 16, 1998).

Under the new accounting standard, liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2001 based on the estimated amount of projected benefit obligation at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥1,681 million. All of this was recognized in expenses in the year ended March 31, 2001. Actuarial gains and losses are recognized in expenses in the succeeding period.

As a result of the adoption of the New Accounting Standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥1,721 million (\$13,890 thousand), operating income decreased by ¥41 million (\$331 thousand) and loss before income taxes increased by ¥1,721 million (\$13,890 thousand) compared with what would have been recorded under the previous accounting standard.

#### (13) Derivative transaction and hedge accounting

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

### 3. Change in accounting policy

(1) Effective April 1, 1998, the Company and two consolidated subsidiaries changed the method of depreciating buildings from the declining-balance method to the straight-line method to match revenue and the related expenses more appropriately.

The effect of this change was to decrease depreciation expense and to increase income before income taxes for the year ended March 31, 1999 by ¥2,344 million compared with previous method.

The effect on segment information of these changes is explained in Note 19.

(2) Allowance for doubtful accounts is provided in amounts sufficient to cover probable losses on collection. It consists of the estimated amount considered to be uncollectible based on the evaluation of certain identified trade notes, accounts and loans receivables, and an amount calculated by applying the percentage of collection losses experienced in certain period in the past to the remaining receivables in 2001 and 2000. Prior to 2000, allowance for doubtful accounts was provided at an estimated amount of probable bad debts plus the maximum amount allowed under the

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries (the "Companies") defer recognition of 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.

Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

#### (14) Amounts per share of common stock

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

Diluted net income per share is not presented, since the Company has never issued any securities with dilutive effect, such as bonds with warrants and convertible bonds.

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

#### (15) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2001 presentation. These changes had no impact on previously reported results of operations.

Japanese tax regulations.

The effect of this change was to increase income before income taxes for the year ended March 31, 2000 by ¥50 million compared with what would have been reported under the previous method.

The effect on segment information of these changes is explained in Note 19.

(3) Effective April 1, 1999, one consolidated subsidiary changed its method of accounting for employees' retirement benefits. Previously the subsidiary provided for such benefits at 40% of the amount which would be required if all eligible employees had voluntarily retired or terminated their employment at the balance sheet date. Effective from the year ended March 31, 2000, the subsidiary adopted the Net-Present-Value method, under which amounts based on the present value of estimated payments of severance and retirement benefits upon termination or retirement are used in the computation of the liabilities and expenses for such benefits.

The effect on segment information of these changes is explained in Note 19.

### 4. Effect of bank holiday on March 31, 2001

As financial institutions in Japan were closed on March 31, 2001, ¥129 million (\$1,041 thousand) of notes receivable—trade and ¥101 million (\$815 thousand) of notes payable—trade maturing on

March 31, 2001 were settled on the following business day, April 2, 2001 and accounted for accordingly.

### 5. Cash and cash equivalents

Cash and cash equivalents at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Cash, mainly time and notice deposits	¥91,986	¥39,728	\$742,421
Time deposits over three months	(8)	(3)	(64)
Marketable securities	401	511	3,236
Cash and cash equivalents	¥92,379	¥40,236	\$745,593

## 6. Inventories

Inventories at March 31, 2001 and 2000, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Land and housing for sale	¥ 20,593	¥ 11,233	\$ 166,207
Land and housing projects in progress	61,211	61,964	494,035
Land held for development	61,701	49,540	497,990
Other	5,710	5,573	46,086
Total	¥149,215	¥128,310	\$1,204,318

The Company transferred certain inventories to property and equipment, and transferred certain property and equipment and other assets to inventories. Such transfers in the year ended at March 31, 2000 were as follows:

	Millions of yen
	2000
Inventories:	
Transfer to property and equipment	¥(62,146)
Transferred from property and equipment	1,600
Transferred from other assets	861
Net decrease	(59,685)
Property and equipment:	
Transferred from inventories	¥ 62,146
Transfer to inventories	(1,600)
Net increase	60,546
Other assets:	
Transfer to inventories	¥ (861)

There were no such transfers in the year ended March 31, 2001.

## 7. Investments in and advances to unconsolidated subsidiaries and affiliated companies

Investments in and advances to unconsolidated subsidiaries and affiliated companies at March 31, 2001 and 2000, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Investments in common stock, at cost	¥5,800	¥5,679	\$46,812
Advances	1,912	1,912	15,432
Total	¥7,712	¥7,591	\$62,244

## 8. Properties in trust

The Company has properties which are the object of real estate trust contract.

Such properties included in property and equipment in the consolidated balance sheets at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Buildings and structures	¥ 7,606	¥ 7,982	\$ 61,388
Land	18,628	18,628	150,347
Machinery and equipment	113	134	912
Total	¥26,347	¥26,744	\$212,647

## 9. Securities

A. The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of March 31, 2001:

(a) Held-to-maturity debt securities:

Securities with available fair values exceeding book values

	Millions of yen	Thousands of U.S. dollars
Book value	¥1,232	\$ 9,943
Fair value	1,261	10,177
Difference	¥ 29	\$ 234

## (b) Available-for-sale securities:

Securities with book values exceeding acquisition costs

Type	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥11,310	¥16,188	¥4,878

Type	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities	\$91,283	\$130,653	\$39,370

Other securities

Type	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥14,620	¥12,035	¥(2,585)
Others	1,719	1,314	(405)
Total	¥16,339	¥13,349	¥(2,990)

Type	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities	\$117,998	\$97,135	\$(20,863)
Others	13,874	10,605	(3,269)
Total	\$131,872	\$107,740	\$(24,132)

## B. The following tables summarize book values of securities with no available fair values as of March 31, 2001:

## (a) Available-for-sale securities:

Type	Book value	
	Millions of yen	Thousands of U.S. dollars
Money management funds	¥ 401	\$ 3,236
Non-listed equity securities	1,404	11,332
Senior securities	12,903	104,140
Total	¥14,708	\$118,708

## (b) Subsidiaries and affiliated companies

Type	Book value	
	Millions of yen	Thousands of U.S. dollars
Subsidiaries	¥1,107	\$ 8,935
Affiliated companies	4,692	37,869
Total	¥5,799	\$46,804

## C. Available-for-sale securities with maturities and held-to-maturity debt securities are as follows:

Type	Millions of yen				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities	¥ —	¥1,068	¥10	¥ —	¥1,078
Held-to-maturity debt securities:					
Government bonds	169	1,063	—	—	1,232
Total	¥169	¥2,131	¥10	¥ —	¥2,310

Type	Thousands of U.S. dollars				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities	\$ —	\$ 8,620	\$81	\$ —	\$ 8,701
Held-to-maturity debt securities:					
Government bonds	1,364	8,579	—	—	9,943
Total	\$1,364	\$17,199	\$81	\$ —	\$18,644

At March 31, 2000, book value, market value and net unrealized gain of marketable securities and investments in securities was as follows:

	Millions of yen		
	2000		
	Book value	Market value	Unrealized gain
Current	¥23,095	¥30,027	¥6,932
Non-current	1,145	1,189	44
Total	¥24,240	¥31,216	¥6,976

## 10. Short-term bank loans and long-term debt

Short-term bank loans are represented by notes maturing generally in three months. The annual interest rates on short-term bank loans outstanding at March 31, 2001 and 2000 were principally ranging from 0.25% to 6.00% and 0.60% to 7.60%, respectively.

Long-term debt at March 31, 2001 and 2000, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
6.2% Euroyen notes, due 2000	¥ —	¥ 20,000	\$ —
4.8% Euroyen notes, due 2000	—	20,000	—
3.8% Euroyen notes, due 2000	—	30,000	—
3.0% Euroyen notes, due 2000	—	30,000	—
2.55% Euroyen notes, due 2000	—	10,000	—
2.9% Euroyen notes, due 2001	20,000	20,000	161,421
3.15% Euroyen notes, due 2002	9,400	10,000	75,868
2.95% Euroyen notes, due 2001	—	10,000	—
3.0% Euroyen notes, due 2001	20,000	20,000	161,421
2.5% Euroyen notes, due 2001	19,890	20,000	160,533
2.1% Euroyen notes, due 2001	9,800	10,000	79,096
2.35% Euroyen notes, due 2002	10,000	10,000	80,710
2.65% Euroyen notes, due 2004	9,800	10,000	79,096
2.4% Euroyen notes, due 2003	10,000	10,000	80,710
2.575% Euroyen notes, due 2004	8,500	10,000	68,604
1.9% domestic straight bonds, due 2001	15,000	15,000	121,065
2.5% domestic straight bonds, due 2003	17,600	20,000	142,050
2.025% domestic straight bonds, due 2002	20,000	20,000	161,421
2.025% domestic straight bonds, due 2001	7,000	7,000	56,497
2.5% domestic straight bonds, due 2001	—	7,000	—
2.6% domestic straight bonds, due 2002	7,000	7,000	56,497
2.5% domestic straight bonds, due 2002	8,000	8,000	64,568
Floating rate Euroyen notes, due 2002	1,000	1,000	8,071
2.6% Euroyen notes, due 2003	1,000	1,000	8,071
2.75% domestic straight bonds, due 2003	7,000	7,000	56,497
3.0% domestic straight bonds, due 2004	4,000	5,000	32,284
2.6% domestic straight bonds, due 2003	10,000	10,000	80,710
2.6% Euroyen notes, due 2001	1,000	1,000	8,071
3.1% Euroyen notes, due 2005	700	700	5,650
2.7% domestic straight bonds, due 2001	5,000	5,000	40,355
2.97% Euroyen notes, due 2002	5,000	5,000	40,355
3.0% domestic straight bonds, due 2003	15,000	15,000	121,065
3.0% domestic straight bonds, due 2003	35,000	35,000	282,486
2.35% domestic straight bonds, due 2002	30,000	30,000	242,131
2.65% domestic straight bonds, due 2003	10,000	10,000	80,710
2.95% domestic straight bonds, due 2004	40,000	40,000	322,841
2.35% domestic straight bonds, due 2003	9,710	—	78,370
2.45% domestic straight bonds, due 2004	20,000	—	161,421
2.45% domestic straight bonds, due 2004	10,000	—	80,710
2.62% domestic straight bonds, due 2005	19,910	—	160,694
2.3% domestic straight bonds, due 2004	4,700	—	37,934
2.85% domestic straight bonds, due 2006	5,000	—	40,355
Loans, principally from banks and insurance companies, interest principally at rates of 0.80% to 4.58% in 2001, and 0.66% to 4.5% in 2000.			
Secured	—	76	—
Unsecured	533,931	529,024	4,309,370
	959,941	1,018,800	7,747,708
Amount due within one year	(243,800)	(253,084)	(1,967,716)
	¥ 716,141	¥ 765,716	\$ 5,779,992

The aggregate annual maturities of long-term debt at March 31, 2001, are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥243,800	\$1,967,716
2003	260,778	2,104,746
2004	199,225	1,607,950
2005	171,944	1,387,764
2006	52,551	424,140
2007 and thereafter	31,643	255,392

The following assets were pledged as security for short-term bank loans and long-term debt at March 31, 2001:

	Millions of yen	Thousands of U.S. dollars
Net book value of property and equipment (mainly land and buildings)	¥1,468	\$11,848

As is customary in Japan, security must be given if requested by lending banks under certain circumstances, and generally banks have the right to offset cash deposited with them against any debt or obligations payable to the bank that becomes due in case of default and certain other specified events. The Company has never received any such request nor does it expect that any such request will be made.

#### 11. Employees' severance and retirement benefits

As explained in Note 2.(12), effective April 1, 2000, the Companies adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consists of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥5,624	\$45,391
Unrecognized actuarial differences	(145)	(1,170)
Less fair value of pension assets	(2,092)	(16,885)
<b>Liability for severance and retirement benefits</b>	<b>¥3,387</b>	<b>\$27,336</b>

Included in the consolidated statement of income for the year ended March 31, 2001 are severance and retirement benefit expenses comprised of the following:

	Millions of yen	Thousands of U.S. dollars
Service costs—benefits earned during the year	¥ 398	\$ 3,212
Interest cost on projected benefit obligation	146	1,179
Expected return on plan assets	(56)	(452)
Amortization of net transition obligation	1,681	13,567
<b>Severance and retirement benefit expenses</b>	<b>¥2,169</b>	<b>\$17,506</b>

The discount rate and the rate of expected return on plan assets used by the Company are 3% (the discount rate used by one consolidated subsidiary is 2.5%). The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in income statement in the succeeding year.

#### 12. Income taxes

The Company is subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 42.05% for the years ended March 31, 2001 and 2000, and approximately 47.68% for the year ended March 31, 1999.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the year ended March 31, 2000.

The information for 2001 is not disclosed as net loss was incurred in 2001.

	2000
Statutory tax rate	42.05%
Foreign subsidiaries' temporary difference for which no tax effects were recognized	(26.74)
Permanently nondeductible expenses of foreign subsidiaries	6.36
Effect of operating loss carryforwards of subsidiaries	4.97
Per capita inhabitant tax	0.87
Other	(1.22)
<b>Effective tax rate</b>	<b>26.29%</b>

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Net operating loss carryforwards	¥34,157	¥12,349	\$275,682
Loss from devaluation of inventories	7,562	9,531	61,033
Unrealized inter-company profits	3,919	3,894	31,631
Allowance for employees' severance and retirement benefits	1,085	—	8,757
Other	2,608	6,252	21,049
<b>Total deferred tax assets</b>	<b>49,331</b>	<b>32,026</b>	<b>398,152</b>
Valuation allowance	(11,372)	(10,864)	(91,784)
<b>Net deferred tax assets</b>	<b>37,959</b>	<b>21,162</b>	<b>306,368</b>
Deferred tax liabilities:			
Net unrealized holding gains on securities	(793)	—	(6,400)
Deferred gain on sale of fixed assets	—	(1,959)	—
Other	(757)	(279)	(6,110)
<b>Total deferred tax liabilities</b>	<b>(1,550)</b>	<b>(2,238)</b>	<b>(12,510)</b>
<b>Net deferred tax assets</b>	<b>¥36,409</b>	<b>¥18,924</b>	<b>\$293,858</b>

### 13. Guarantee and lease deposits received

Guarantee and lease deposits received at March 31, 2001 and 2000, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Guarantee and lease deposits from tenants	<b>¥187,464</b>	¥163,412	<b>\$1,513,026</b>
Lease deposits from others	<b>81,377</b>	31,391	<b>656,796</b>
Total	<b>¥268,841</b>	¥194,803	<b>\$2,169,822</b>

### 14. Shareholders' equity

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

Under the Code, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal reserve until the reserve equals to 25% of common stock. The reserve is not available for dividends but may be used to reduce a deficit by resolution of the stockholders or may be capitalized by resolution of the Board of Directors. The legal reserve is included in the retained earnings.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company and in accordance with the Commercial Code of Japan.

### 15. Information for certain lease transactions

Finance leases which do not transfer ownership to lessees are not capitalized and accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases is as follows:

#### As lessee

A summary of assumed amounts (inclusive of interest) of acquisition cost, accumulated depreciation and net book value at March 31, 2001 and 2000 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Acquisition cost:			
Buildings and structures	<b>¥3,377</b>	¥1,440	<b>\$27,256</b>
Other	<b>1,065</b>	1,317	<b>8,596</b>
Accumulated depreciation	<b>(1,460)</b>	(1,591)	<b>(11,784)</b>
Net book value	<b>¥2,982</b>	¥1,166	<b>\$24,068</b>

#### As lessor

A summary of stated amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2000 is as follows:

	Millions of yen
	2000
Acquisition cost:	
Other	¥1,010
Accumulated depreciation	(960)
Net book value	¥ 50

Lease expenses under finance leases, inclusive of interest, for the year ended March 31, 2001, amounted to ¥825 million (\$6,659 thousand). Future lease payments and receipts under such finance leases and non-cancelable operating leases at March 31, 2001, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Finance leases			
<i>Future lease payments:</i>			
Due within one year	<b>¥ 708</b>	¥ 522	<b>\$ 5,714</b>
Due after one year	<b>2,274</b>	644	<b>18,354</b>
Total	<b>¥2,982</b>	¥1,166	<b>\$24,068</b>
<i>Future lease receipts:</i>			
Due within one year	¥ —	¥ 78	\$ —
Due after one year	—	—	—
Total	¥ —	¥ 78	\$ —
<i>Future sub-lease payments:</i>			
Due within one year	¥ 12	¥ 20	\$ 97
Due after one year	<b>8</b>	20	<b>64</b>
Total	<b>¥ 20</b>	¥ 40	<b>\$ 161</b>
<i>Future sub-lease receipts:</i>			
Due within one year	¥ 51	¥ 51	\$ 412
Due after one year	<b>91</b>	136	<b>734</b>
Total	<b>¥ 142</b>	¥ 187	<b>\$ 1,146</b>

Operating leases			
<i>Future lease payments:</i>			
Due within one year	¥ 4,901	¥ 40	\$ 39,556
Due after one year	59,821	252	482,817
Total	¥64,722	¥ 292	\$522,373
<i>Future lease receipts:</i>			
Due within one year	¥ 97	¥ 489	\$ 783
Due after one year	1,020	2,424	8,232
Total	¥ 1,117	¥2,913	\$ 9,015

## 16. Derivative transactions

The Company and its subsidiaries utilize financial derivative transactions only for the purpose of hedging the currency risk associated with foreign currency denominated transactions or hedging the interest rate risk associated with the Company's loans payable.

Forward foreign currency and interest rate swap contracts are subject to risks of foreign exchange rate changes and interest rate changes, respectively.

The derivative transactions are executed and managed by the Company's Finance Department in accordance with the established policies. The Finance Department prepares reports on derivative transactions and forwards them to the respective department concerned on a monthly basis.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:	Hedged items:
Foreign exchange contracts	Foreign provisional transaction
Interest rate swap contracts	Bank loan and bonds

Evaluating hedge effectiveness of year ended March 31, 2001 is omitted as hedge accounting has been applied to derivative transactions.

The contract amounts and unrealized gain or loss of outstanding derivative transactions at March 31, 2001 and 2000 were as follows:

	Millions of yen	
	Contract amount	Estimated fair value
	2000	
Forward exchange contracts:		
To sell yen currencies	¥ 7,376	¥ 7,503
To buy yen currencies	4,086	4,194
Interest rate swap agreements	266,850	(2,482)
Total	¥278,312	¥ 9,215

The amounts for 2001 were not disclosed because all derivative transactions were used as hedges and hedge accounting was applied.

## 17. Contingent liabilities (Contingent liabilities for guarantee of loans)

At March 31, 2001 and 2000, the Company and its consolidated subsidiaries were contingently liable as guarantors of borrowings by affiliates and others as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Affiliates	¥2,650	¥3,019	\$21,388
Others	5,646	4,948	45,569
Total	¥8,296	¥7,967	\$66,957

Also, at March 31, 2001, the Company and its consolidated subsidiaries had outstanding commitments to guarantee loans of certain affiliated companies and unrelated companies. Certain information of them was as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Affiliates	¥1,750	¥2,316	\$14,124
Others	30	1,021	242
Total	¥1,780	¥3,337	\$14,366

### (Lawsuits)

The Company was a defendant in the following lawsuits, in which, based on the Leased Land and House Lease Law, the Company claimed the reduction of the rental payments.

Two lawsuits are pending in court.

A lawsuit was brought in the Tokyo District Court against the Company in 1994 (Case A) and another one in 1995 (Case B), relating to claims to recover the difference between the rental payments based on the lease agreements and the amounts the Company paid taking a position under Leased Land and House Lease Law. While the District Court issued judgements against the Company in August and October of



1998, the Company appealed to the Tokyo Higher Court in September and November of 1998 as the Company believed that the judgements were contradictory to the previous legal interpretations.

In Case A, the Tokyo Higher Court issued judgement for the Company in October of 1999. And the lessor appealed to the Supreme Court in November of 1999.

In Case B, the Tokyo Higher Court issued judgement against the Company in January of 2000 that, the Company believed, was contradictory to the previous legal interpretations. So the Company appealed to the Supreme Court in January of 2000.

## 18. Subsequent events

The Company issued 1.3125% ¥10,000 million (\$80,710 million) domestic straight bonds due 2006 on May 16, 2001, 1.60% ¥10,000 million (\$80,710 million) domestic straight bonds due 2006 on June 20, 2001, 1.30% ¥10,000 million (\$80,710 million) domestic straight bonds due 2006 on June 20, 2001, and 1.30% ¥10,000 million (\$80,710 million) domestic straight bonds due 2007 on June 20, 2001.

## 19. Segment information

The Company and its consolidated subsidiaries mainly operate their business in six segments: leasing of buildings and shopping centers, etc.; sale of detached homes; construction of housing and buildings; brokerage business; providing housing loans; and other business.

Information by industry segments for the years ended March 31, 2001, 2000 and 1999 is summarized as follows:

Millions of yen									
For 2001	Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Elimination and/or corporate	Consolidated	
I Net sales									
Customers	¥ 163,047	¥149,196	¥104,549	¥34,702	¥ 7,751	¥ 459,245	¥ —	¥ 459,245	
Intersegment	1,528	0	9,000	179	6,461	17,168	(17,168)	—	
Total	164,575	149,196	113,549	34,881	14,212	476,413	(17,168)	459,245	
Costs and expenses	118,137	129,502	109,533	26,160	8,865	392,197	(8,170)	384,027	
Operating profit	¥ 46,438	¥ 19,694	¥ 4,016	¥ 8,721	¥ 5,347	¥ 84,216	¥ (8,998)	¥ 75,218	

II Identifiable assets	¥1,396,537	¥171,497	¥ 25,266	¥27,200	¥115,332	¥1,735,832	¥167,697	¥1,903,529	
Depreciation and amortization	9,707	51	187	178	85	10,208	169	10,377	
Capital expenditures	45,721	515	334	732	125	47,427	454	47,881	

Millions of yen									
For 2000	Leasing business	Sales business	Construction business	Brokerage business	Loans business	Other business	Total	Elimination and/or corporate	Consolidated
I Net sales									
Customers	¥ 151,268	¥150,483	¥ 80,064	¥31,633	¥ 2,192	¥ 5,947	¥ 421,587	¥ —	¥ 421,587
Intersegment	1,535	3	7,102	290	4,089	965	13,984	(13,984)	—
Total	152,803	150,486	87,166	31,923	6,281	6,912	435,571	(13,984)	421,587
Costs and expenses	107,050	131,912	82,412	24,698	4,069	6,382	356,523	(5,484)	351,039
Operating profit	¥ 45,753	¥ 18,574	¥ 4,754	¥ 7,225	¥ 2,212	¥ 530	¥ 79,048	¥ (8,500)	¥ 70,548

II Identifiable assets	¥1,492,129	¥128,572	¥ 22,664	¥21,124	¥372,083	¥ 7,835	¥2,044,407	¥(128,064)	¥1,916,343
Depreciation and amortization	10,649	28	209	163	3	82	11,134	135	11,269
Capital expenditures	104,567	464	129	121	—	25	105,306	443	105,749

Millions of yen									
For 1999	Leasing business	Sales business	Construction business	Brokerage business	Loans business	Other business	Total	Elimination and/or corporate	Consolidated
I Net sales									
Customers	¥ 150,976	¥137,735	¥ 61,191	¥27,829	¥ 7,947	¥ 3,458	¥ 389,136	¥ —	¥ 389,136
Intersegment	913	10	5,433	138	3	7	6,504	(6,504)	—
Total	151,889	137,745	66,624	27,967	7,950	3,465	395,640	(6,504)	389,136
Costs and expenses	108,177	131,201	64,241	22,681	5,300	3,221	334,821	(2,201)	332,620
Operating profit	¥ 43,712	¥ 6,544	¥ 2,383	¥ 5,286	¥ 2,650	¥ 244	¥ 60,819	¥ (4,303)	¥ 56,516

II Identifiable assets	¥1,066,259	¥219,772	¥ 16,892	¥22,967	¥353,441	¥ 24,787	¥1,704,118	¥ 123,028	¥1,827,146
Depreciation and amortization	9,702	22	201	150	4	132	10,211	129	10,340
Capital expenditures	30,905	30	436	48	3	58	31,480	170	31,650

Thousands of U.S. dollars

	Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Elimination and/or corporate	Consolidated
<b>For 2001</b>								
I Net sales								
Customers	\$ 1,315,956	\$ 1,204,164	\$ 843,818	\$ 280,081	\$ 62,559	\$ 3,706,578	\$ —	\$ 3,706,578
Intersegment	12,333	0	72,639	1,444	52,147	138,563	(138,563)	—
Total	1,328,289	1,204,164	916,457	281,525	114,706	3,845,141	(138,563)	3,706,578
Costs and expenses	953,487	1,045,213	884,044	211,138	71,550	3,165,432	(65,940)	3,099,492
Operating profit	\$ 374,802	\$ 158,951	\$ 32,413	\$ 70,387	\$ 43,156	\$ 679,709	\$ (72,623)	\$ 607,086
II Identifiable assets	\$11,271,485	\$1,384,157	\$203,923	\$219,532	\$930,847	\$14,009,944	\$1,353,486	\$15,363,430
Depreciation and amortization	78,345	412	1,509	1,437	686	82,389	1,364	83,753
Capital expenditures	369,015	4,157	2,696	5,908	1,009	382,785	3,664	386,449

From the year ended March 31, 2001, Loans business segment is included in Other business segment as the segment accounted for less than 10% of all segments in net sales, operating income and identifiable assets in 2001.

Information for Loans business segment for the year ended March 31, 2001 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
<b>For 2001</b>		
I Net sales		
Customers	¥ 1,784	\$ 14,399
Intersegment	5,009	40,427
Total	6,793	54,826
Costs and expenses	1,750	14,124
Operating profit	¥ 5,043	\$ 40,702
II Identifiable assets	¥112,193	\$905,513
Depreciation and amortization	7	56
Capital expenditures	27	218

As described in Notes 2(7) and 3(1) to the Consolidated Financial Statements, effective April 1, 1998, depreciation of buildings, excluding building fixtures, is provided using the straight-line method, and the Company and its consolidated subsidiaries shortened the estimated useful lives of buildings, excluding building fixtures.

The effects of the changes on operating income, depreciation expense and identifiable assets were as follows:

	Increase (Decrease) (Millions of yen)		
	Operating profit	Depreciation	Identifiable assets
Leasing business	¥1,830	¥(1,830)	¥1,830
Sales business	13	(13)	13
Brokerage business	5	(5)	5

As described in Notes 2(12) and 3(3) to the Consolidated Financial Statements, from last fiscal year, employees' retirement benefits are provided the Net-Present-Value method, and allowance for doubtful accounts is provided using the average percentage of actual bad debts in the past.

The effects of the changes on operating income were as follows:

	Millions of yen
Sales business	¥ (7)
Brokerage business	(64)
Loans business	(1)
Elimination and/or corporate	50

As described in Note 2(5) to the Consolidated Financial Statements, from this fiscal year, one domestic consolidated subsidiary introduced cost accounting system.

The effects of this adoption on operating income were as follows:

	Millions of yen	Thousands of U.S. dollars
Sales business	¥624	\$5,036
Brokerage business	341	2,752

As described in Note 2(12) to the Consolidated Financial Statements, from this fiscal year, the Company and its consolidated subsidiaries adopted the new accounting standard for severance and retirement benefits.

The effects of this adoption on operating income were as follows:

	Millions of yen	Thousands of U.S. dollars
Leasing business	¥(15)	\$(121)
Construction business	(18)	(145)
Other business	(3)	(24)
Elimination and/or corporate	3	24

As described in Notes 2(6) and 2(13) to the Consolidated Financial Statements, from this fiscal year, the Company and its consolidated subsidiaries adopted the new accounting standard for financial instruments.

The effects of these adoptions on operating income were as follows:

	Millions of yen	Thousands of U.S. dollars
Leasing business	¥4	\$32

## Report of Independent Public Accountants

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

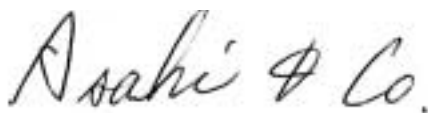
We have audited the accompanying consolidated balance sheets of Sumitomo Realty & Development Co., Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2001, expressed in Japanese yen.

Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Sumitomo Realty & Development Co., Ltd. and subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in Japan consistently applied during the periods, except as noted in the following paragraph.

As explained in Note 2, Sumitomo Realty & Development Co., Ltd. and subsidiaries adopted, on a prospective basis in all cases, new Japanese accounting standards for financial instruments, employees' severance and retirement benefits and foreign currency translation effective April 1, 2000, and for consolidation and equity method accounting and research and development costs effective April 1, 1999. Also, as explained in Note 3, Sumitomo Realty & Development Co., Ltd. and domestic subsidiaries changed the method of depreciation in 1999, and changed the method of providing allowance for doubtful accounts and employees' retirement benefits in 2000, with which we concur.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.



Tokyo, Japan  
June 28, 2001

### Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

## Board of Directors and Auditors

(As of June 28, 2001)

**Chairman of the Board**  
Shinichiro Takagi

**President**  
Junji Takashima

**Director and Advisor**  
Taro Ando

**Senior Managing Directors**  
Hirohisa Ichikawa  
Yoichi Nakamura  
Tetsuro Tsuruta  
Hisao Matsui  
Masayoshi Ohashi

**Managing Directors**  
Mitsuru Mori  
Sadao Ushimaru  
Kazuo Masuoka  
Kenichi Onodera

**Directors**  
Shigeto Iwai  
Arata Miyazawa  
Kenichiro Sugimoto  
Akira Kanda  
Haruo Fukumuro  
Kenichi Kameyama  
Yozo Akiyama  
Shozo Suzuki  
Yasushi Kinoshita  
Satoru Miyashita  
Tsutomu Oyama

**Statutory Auditors**  
Yoshihiro Tokushige  
Hisayoshi Horikiri  
Takato Aramaki  
Akira Sato  
Kunio Kobayashi

## Corporate Data

(As of March 31, 2001)

*Sumitomo Realty & Development Co., Ltd.*

**Head Office**  
Shinjuku NS Building  
4-1, Nishi-Shinjuku 2-chome  
Shinjuku-ku, Tokyo 163-0820, Japan  
Phone: 03-3346-2342  
Facsimile: 03-3346-1652  
<http://www.sumitomo-rd.com>

**Date of Establishment**  
December 1, 1949

**Paid-in Capital**  
¥86,773 million

**Common Stock Issued and Outstanding**  
406,810,631

**Number of Shareholders**  
36,111

**Number of Employees**  
1,693

**Major Consolidated Subsidiaries**  
Sumitomo Real Estate Sales Co., Ltd.  
Sumitomo Fudosan Home Co., Ltd.  
Sumitomo Fudosan Syscon Co., Ltd.  
Sumitomo Fudosan Tatemono Service Co., Ltd.  
Sumitomo Fudosan Fitness Co., Ltd.  
Izumi Restaurant Co., Ltd.  
Sumitomo Fudosan Finance Co., Ltd.  
Shintoshin Real Estate Co., Ltd.  
Universal Home Inc.

**Stock Exchange Listings**  
Tokyo and Osaka

