Sumitomo Realty & Development Co., Ltd.

2004 Annual Report

Toward the Next Stage

PROFILE

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, 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

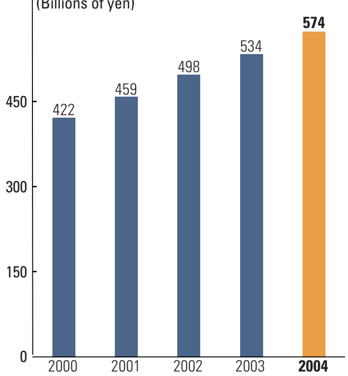
Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2004	2003	2002	2001	2000	**2004**
Consolidated:						
Revenue from operations	**¥ 573,862**	¥ 533,915	¥ 497,877	¥ 459,245	¥ 421,587	**$ 5,429,672**
Revenue from leasing business	**201,307**	191,215	176,244	163,047	151,268	**1,904,693**
Revenue from sales business	**213,285**	183,729	170,428	149,196	150,483	**2,018,025**
Revenue from construction business	**112,819**	114,206	108,336	104,549	80,064	**1,067,452**
Revenue from brokerage business	**39,529**	37,335	35,966	34,702	31,633	**374,009**
Revenue from other business	**6,922**	7,430	6,903	7,751	8,139	**65,493**
Operating income	**95,977**	88,512	80,370	75,218	70,548	**908,099**
Ordinary profit	**65,976**	56,760	47,142	38,509	27,069	**624,241**
Net income (loss)	**6,320**	4,974	22,996	(18,008)	14,737	**59,798**
Total assets	**2,090,970**	2,015,667	1,972,735	1,903,529	1,916,343	**19,783,991**
Total shareholders' equity	**303,875**	211,821	213,767	193,442	211,140	**2,875,154**

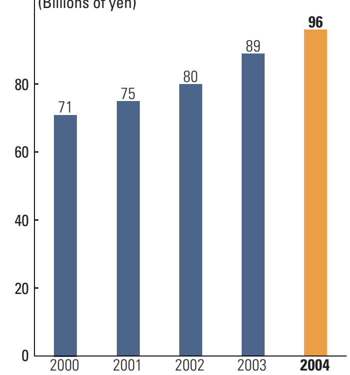
	Yen					U.S. dollars
Per share:						
Net income (loss)	**¥ 15.34**	¥ 12.22	¥ 56.50	¥ (44.27)	¥ 36.23	**$ 0.15**
Shareholders' equity	**639.10**	520.84	525.17	475.51	519.01	**6.05**
Dividend	**9.00**	6.00	6.00	6.00	6.00	**0.09**

Note: The 2004 yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥105.69=U.S.$1, the approximate exchange rate on March 31, 2004.

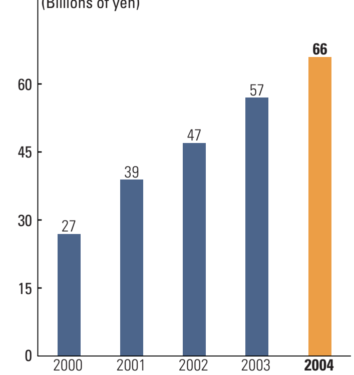
Revenue from Operations
(Billions of yen)



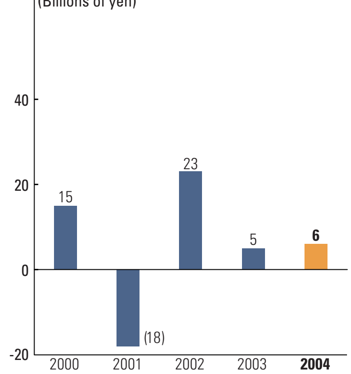
Operating Income
(Billions of yen)



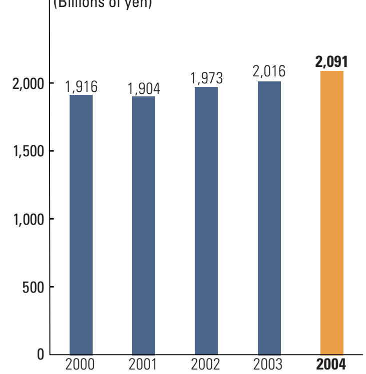
Ordinary Profit
(Billions of yen)



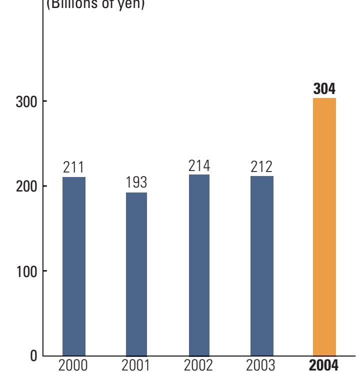
Net Income (Loss)
(Billions of yen)



Total Assets
(Billions of yen)



Total Shareholders' Equity
(Billions of yen)



Junji Takashima, President

Fiscal 2004 (ended March 31, 2004) was another memorable year for Sumitomo Realty. Revenue from operations, operating income and ordinary profit rose for the seventh consecutive year while ordinary profit was a record high for the fourth year in succession. Consolidated revenue from operations was ¥573.9 billion, operating income was ¥96.0 billion, and ordinary profit was ¥66.0 billion. The Company incurred an extraordinary loss of ¥50.4 billion, which included a loss on sale of fixed assets of ¥49.4 billion. This loss on sales was our advance response to the adoption of impairment accounting carried on from the previous fiscal year. As a result, net income for the fiscal year under review was ¥6.3 billion.

Looking to fiscal 2005, we anticipate this trend of increasing revenue and profit will continue. The Company forecasts consolidated revenue from operations of ¥630 billion, operating income of ¥99 billion, and ordinary profit of ¥71 billion. After accounting for an extraordinary loss of ¥15 billion, which includes a loss on sale of fixed assets, we expect to report net income of ¥31 billion.

MEDIUM-TERM MANAGEMENT PLAN AND PRESSING ISSUES

Overview of the New Three-Year Growth Plan

In the three-year period ended March 2004, Sumitomo Realty was guided by the New Three-Year Growth Plan (New Growth Plan). This plan succeeded the Five-Year Business Reconstruction Plan (Business Reconstruction Plan), which aimed at achieving historical high profits within five years, surpassing the previous record reported in 1991 and successfully achieved its goal a year ahead of schedule in fiscal 2001. The principal focus of the New Growth Plan was to consistently raise revenue from operations, operating income and ordinary profit to higher levels each year, and to markedly enhance earning capacity.

Although Japan's deflationary economy persisted longer than was assumed when the plan was formulated, Sumitomo Realty successfully achieved its goal of setting record high levels in revenue and profit in each of the three years of the plan. These excellent results are a measure of the Company's ability to adapt swiftly to changes in the business environment. More specifically, the Company expanded growth in each of its four business areas: **leasing**, principally office buildings heavily weighted in central Tokyo; **sales**, focusing on the development and sale of high-rise condominiums; **brokerage** of residential houses and income producing properties; and **construction**, which has recently developed into one of our major business areas, emphasizing custom house construction and house remodeling.

Adoption of Impairment Accounting

A key issue confronting Sumitomo Realty was the adoption of impairment accounting, which will become compulsory from fiscal 2006. Our response has been to take preemptive measures and to bring the Company's accounts in line before the standard takes effect. In specific terms, we have sold off land holdings without a specific plan for development and leased assets that do not generate an investment yield of at least 2.5% on a book value basis. The Company recorded an extraordinary loss of ¥48.7 billion in fiscal 2003 and ¥49.4 billion in fiscal 2004 for a two-year total of ¥98.1 billion. These measures have allowed Sumitomo Realty to mostly complete the early adoption of impairment accounting and to significantly enhance the quality of its assets.

Improving Our Financial Position

Building a more stable financial base was another important issue for

Sumitomo Realty. The Group's total interest-bearing liabilities (the total of loans, corporate bonds, notes and guarantee obligations) reached a peak of close to ¥1,700 billion as of March 31, 1998. In the period covering the Business Reconstruction Plan, we successfully reduced this figure by approximately ¥400 billion. During the implementation of the New Growth Plan, this figure was reduced by a further ¥240 billion bringing the balance of total interest-bearing liabilities to ¥1,048.9 billion as of March 31, 2004. Furthermore, in March 2004, we raised capital totaling ¥71.9 billion through an additional public offering taking steps to enhance our capital base.

Top Gear Growth Three-Year Plan

Since fiscal 1998, Sumitomo Realty has implemented a series of management plans with the aim of enhancing earning capacity. The Business Reconstruction Plan through fiscal 2001 was formulated to counter the business difficulties that arose as a result of the collapse of the bubble economy. The New Growth Plan, which ended in the fiscal year under review, was designed to raise revenue from operations, operating and ordinary profit to higher levels each year. Considering the speed at which we have experienced growth throughout this period, Sumitomo Realty launched the Top Gear Growth Three-Year Plan (Top Gear Growth Plan) in April 2004 to push forward from the foundation of profitability set in the last two plans and to sustain a more controlled pace in revenue and profit growth and to emphasize financial stability.

In formulating the new plan, Sumitomo Realty identified five key objectives: (1) to maintain growth, (2) to reduce net interest-bearing liabilities (the total of loans, corporate bonds, and notes less cash and deposits), (3) to increase shareholders' equity, (4) to increase the profit contribution from the construction and brokerage businesses as a percentage of the total, and (5) to cultivate new businesses. Numerical targets for each objective are as follows.

(1) Growth Targets

Billions of Yen

	Revenue from Operations		Operating Income		Ordinary Profit	
FY2007	700	+126*	115	+19*	85	+19*

* Increase in comparison with FY2004.

(2) Net Interest-Bearing Liabilities Reduction Target

To reduce the ratio of net interest-bearing liabilities to operating profit (ND/OP) to less than eight times.

Note: Net interest-bearing liabilities to operating profit ratio = Net interest-bearing liabilities ÷ (operating profit + interest & dividend income)

(3) Shareholders' Equity Target

To improve the ratio of net interest-bearing liabilities to shareholders' equity (ND/E) to less than three times.

Note: Net interest-bearing liabilities to shareholders' equity ratio = Net interest-bearing liabilities ÷ shareholders' equity

(4) Target for Profit Contribution from the Construction and Brokerage Businesses as a Percentage of the Total

Focusing on operations free of capital and inventory risks, we will strive to increase the share of ordinary profit from the construction and brokerage businesses to one third. The share for the fiscal year ended March 2004 was approximately one fourth of total ordinary profit.

Comparison of Management Indicators for Base Years of Previous Management Plans

	FY1997	FY2001	FY2004	FY2007
ND/OP ratio	29.6 times	15.5 times	9.4 times	under 8.0 times
ND/E ratio	5.4 times	6.1 times	3.0 times	under 3.0 times

EXTENSIVE MANAGEMENT SYSTEMS RENEWAL

In conjunction with the launch of the Top Gear Growth Plan, we have introduced initiatives such as an executive officer system in an effort to reinforce our management structure and adopted broad organizational reforms to reinvigorate business promotion.

Far-Reaching Reform of Our Management Structure

Executive Officer System

Sumitomo Realty introduced an executive officer system to bolster the Group's executive function. Executive officers have been appointed from among our most talented younger employees to spearhead front-line activities and to implement the initiatives of the Top Gear Growth Plan. In conjunction with the introduction of this system, the number of directors has been reduced from 23 to 9. In total, the Company has appointed 29 executive officers, 14 of whom are new to the role. Focusing on youth, 9 executive officers are aged in their forties with the youngest 43 years of age.

Performance-Based Compensation System

Our existing compensation system for directors is comprised of three components: a fixed monthly remuneration; an annual bonus determined at the end of each fiscal year; and a retirement allowance comprised of a fixed portion and a portion calculated based on performance. Sumitomo Realty has introduced a new performance-based compensation system based on an all-inclusive figure linked to the Company's performance, specifically 1% of annual consolidated ordinary profit.

Business Promotion Structural Reform

We undertook strategic organizational reforms to create a structure that is better placed to respond to the recent changes in the real estate market and the Company's ongoing evolution. Sumitomo Realty has restructured its business units into six head office divisions namely, urban property development, urban property management, housing business, affiliated companies, planning and financing, and general affairs, and the newly established new business planning section.

We changed our business promotion structure shifting from product-based office building and condominium to function-based development and management segmentation.

Urban Property Development Division

The Company's condominium operations are increasingly characterized by a shift toward urban central, high-rise and large-scale developments. Thus, location, development and design methods for high-rise condominiums have come to resemble that of office buildings. Accordingly, we have integrated the development operations of both businesses to a single division. In this manner, we hope to leverage the experience and expertise garnered through our office building development business in large-scale high-rise developments and the assemblage of land packages through our direct workforce to bolster our activities in the condominium market.

Urban Property Management Division

In its office building business, Sumitomo Realty currently manages a total exceeding 500,000 tsubo (approx.1,653,000m^2). On the other hand, the Company is developing approximately 50,000 tsubo (approx. 165,000m^2) per year. Accordingly, our office building business has been shifting heavily toward building management. This is the reason why the Company established the Urban Property Management Division, which includes a portfolio of approximately 200 office buildings. At the same time, we integrated the operations of the condominium management department. Our goal is to utilize the knowledge gained through our office building management activities and increase efficiency by integrating our network of urban large-scale office and condominium, and ultimately enhance our service quality.

Housing Business Division

Sumitomo Realty combined standardized custom housing operations, in the market for new detached houses, handled by Housing Business Division I and the Shinchiku Sokkurisan business, in the remodeling market, handled by Housing Business Division II, into a single housing division. Through this initiative, we will strive to eliminate duplication in sales offices nationwide between the two divisions, successfully introduce the Shinchiku Sokkurisan business model to our custom house construction business through the introduction of sales personnel with engineering qualifications and the use of exclusive sub-contractors, and establish a more efficient business promotion structure.

Affiliated Companies Division

Focusing on improving the consolidated performance of the Group, we established the Affiliated Companies Division. Through this newly established unit, we will actively participate in the management, strategic planning, and business development of each Group company, ensure the efficient allocation of management resources throughout the Group and maintain Group-wide management consistency.

New Business Planning Section

Sumitomo Realty has positioned the creation of new businesses as one of the major priorities in the Top Gear Growth Plan. Taking up the challenge, we established the New Business Planning Office to deliver innovative ideas in new businesses and to lay the foundation for our next leap forward.

We are devoting all of our efforts toward attaining the goals of the Top Gear Growth Plan, and ask our shareholders for their continued understanding and support in this endeavor.

J. Takashima

Junji Takashima
President
June 29, 2004

*Includes intersegment transactions

Note: In addition to the above four major business segments, Other Businesses commanded approximately 2% of total sales in the fiscal year ended March 31, 2004. Other Businesses include restaurant and fitness club operation and management, finance and other activities.

THE SUMITOMO REALTY & DEVELOPMENT GROUP

The Sumitomo Realty & Development Group is comprised of Sumitomo Realty & Development Co., Ltd., 27 consolidated subsidiaries and others. Major consolidated subsidiaries are Sumitomo Real Estate Sales Co., Ltd., Sumitomo Fudosan Syscon Co., Ltd., Sumitomo Fudosan Tatemono Service Co., Ltd., Sumitomo Fudosan Finance Co., Ltd., Universal Home Inc., and Shintoshin Real Estate Co., Ltd.

Of its major consolidated subsidiaries, Sumitomo Real Estate Sales Co., Ltd. and Universal Home Inc. are publicly listed companies on the First Section of the Tokyo Stock Exchange and the JASDAQ market, respectively.

Principal activities and major Group companies within each business seg-

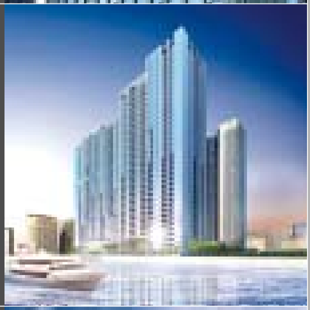
Profile

LEASING: OFFICE BUILDING, CONDOMINIUM AND OTHER PROPERTY LEASING AND MANAGEMENT AND RELATED ACTIVITIES

Within the leasing business, the Urban Property Management Division of Sumitomo Realty is responsible for leasing of office buildings and luxury condominiums and the Urban Property Development Division of Sumitomo Realty for the acquisition and development of land for the leasing business. In addition, Sumitomo Realty masterleases almost all of the property holdings owned by Group companies, such as those owned by Shintoshin Real Estate Co., Ltd., and operates a sub-lease business. Sumitomo Fudosan Tatemono Service Co., Ltd. is engaged in the property management of office buildings and luxury condominiums leased by Sumitomo Realty.

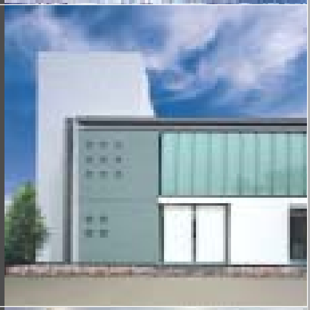
SALES: MID- AND HIGH-RISE CONDOMINIUMS, DETACHED HOUSES AND HOUSING LOT DEVELOPMENT AND SALES, AND RELATED ACTIVITIES

The Urban Property Development Division of Sumitomo Realty is responsible for the development and sale of condominiums, office buildings for sale, detached houses and housing lots, and related activities. It is also engaged in sales activities together with Sumitomo Real Estate Sales Co., Ltd., while management of condominiums after completion are the responsibility of the Urban Management Division of Sumitomo Realty and Sumitomo Fudosan Tatemono Service Co., Ltd.



CONSTRUCTION: DETACHED HOUSES, MID- AND HIGH-RISE CONDOMINIUMS AND OFFICE BUILDING CONSTRUCTION AND REMODELING AND RELATED ACTIVITIES

Sumitomo Realty's Housing Business Division works on the construction of new detached houses as well as house remodeling and the Company's full remodeling package Shinchiku Sokkurisan, advertised as an alternative to "scrap and build." Sumitomo Fudosan Syscon Co., Ltd., is engaged in house renovations. Sumitomo Fudosan Tatemono Service Co., Ltd. is in charge of condominium refurbishment. Universal Home Inc. is a franchiser specializing in standardized houses using conventional construction methods.



BROKERAGE: BROKERAGE AND SALES ON CONSIGNMENT OF REAL ESTATE AND RELATED ACTIVITIES

Sumitomo Real Estate Sales Co., Ltd. serves as an intermediary in the purchase and sale of real estate and is engaged in newly built residential property sales agency services.

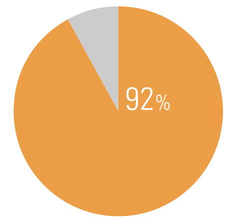
OUR HISTORY

1949	Izumi Real Estate Co., Ltd. established as the successor to the holding company of the Sumitomo zaibatsu following the breakup of the conglomerate.
1957	Izumi Real Estate Co., Ltd. changed its name to Sumitomo Realty & Development Co., Ltd.
1963	Mergered the holding company of the former Sumitomo zaibatsu during its liquidation.
1964	Entered the condominium sales business with the “Hama-Ashiya Mansion,” located in Kobe, Hyogo Prefecture.
1970	Listed stocks on the Tokyo and Osaka stock exchanges.
1973	Established Sumitomo Fudosan Tatemono Service Co., Ltd., a consolidated subsidiary.
1974	Completed construction of the 52-story “Shinjuku Sumitomo Building” in Shinjuku, Tokyo, and company headquarters moved there from the Tokyo Sumitomo Building in Marunouchi, Tokyo.
1975	Established Sumitomo Real Estate Sales Co., Ltd., a consolidated subsidiary.
1980	Established Sumitomo Fudosan Syscon Co., Ltd., a consolidated subsidiary.
1982	Completed construction of the 30-story “Shinjuku NS Building” in Shinjuku, Tokyo; company headquarters moved there from Shinjuku Sumitomo Building.
1995	Commenced “American Comfort” standardized housing construction business.
1996	Commenced “Shinchiku Sokkurisan” remodeling business.
1997	Entered the high-quality business hotel business. Opened “Villa Fontaine Nihonbashi,” and hotels at two other locations.
1998	Sumitomo Real Estate Sales Co., Ltd., a consolidated subsidiary listed stocks on the Tokyo Stock Exchange.
1999	Universal Home Inc., a consolidated subsidiary listed on JASDAQ (over the counter with the Japan Securities Dealers Association).
	Commenced real estate joint development trust fund. Launched sales of Sumitomo Realty & Development Fund (SURF) Kudanshita.
2000	Commenced luxury condominium leasing business. Completed construction of “La Tour Shibakoen.”
2001	The number of managed “STEP” brokerage offices exceeded 200.
2002	Completed construction of the “Izumi Garden” (Roppongi 1-Chome Redevelopment project).
	Commenced sales of the City Tower series, five high-rise condominiums in Tokyo and Osaka.
2003	Completed construction of “Shinjuku Oak City” (Nishi-Shinjuku 6-Chome Redevelopment project).
2004	Commenced sales of “World City Towers.”

OUTLINE

Sumitomo Realty made its full-scale entry into the leasing business in the latter half of the 1970s, later than its main competitors. For this reason, the Company has worked tirelessly to create new opportunities through innovative initiatives, in an effort to reach and surpass its rivals. Today, Sumitomo Realty is positioned as an industry leader in the supply of cutting-edge quality office buildings for lease.

Concentration in Tokyo



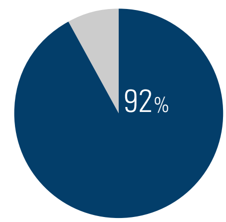
SUMITOMO REALTY'S STRENGTHS

1. An outstanding leasing portfolio, achieved through concentration in central Tokyo

Central 3 wards (Chiyoda, Minato, Chuo)	49%
Central 5 wards (central 3 wards plus Shinjuku and Shibuya)	72%
Central 7 wards (central 5 wards plus Shinagawa and Bunkyo)	82%
All 23 wards	92%

The concentration of commercial activity in central Tokyo continues to increase, particularly in the service sector. Sumitomo Realty's leasing portfolio, heavily weighted in central Tokyo, offers both stable revenues and the potential for future growth.

Young Portfolio



2. A portfolio comprised of many comparatively new, upscale buildings

Buildings less than 10 years old	46%
Buildings less than 20 years old*	92%

*Two of the Company's major properties, the Shinjuku Sumitomo Building and the Shinjuku NS Building, are included in this category because, although they are more than 20 years old, they are super high-rise buildings with high-performance facilities and offer earthquake resistance in excess of the standards of newer buildings.

As the IT revolution continues, the level of support facilities required by office building tenants grows day by day, and buildings that do not provide IT support or earthquake protection are quickly becoming less desirable. As many of Sumitomo Realty's buildings are of recent construction, they retain their competitive edge with tenants. All new buildings completed since 1997, not to mention buildings now under construction, offer quake-absorbent structures and separate climate control systems for each suite, as well as reinforced floors for heavy loads, high-capacity electricity systems, high ceilings and many other features to satisfy most tenants' requirements. In addition, as our buildings are newer, they require little investment in refurbishment, allowing more funds to be allotted to investment in new construction.

Shinjuku Oak City

3. Direct involvement in operations, with deep knowledge of building development and management

Sumitomo Realty gets directly involved in sorting out the complex tangles of land ownership and rights in assembling land packages for the development of office buildings. This has significantly reduced the cost of acquiring land for development, since the Company is able to buy smaller lots at lower prices, assembling them into a larger unit which then increases in value and adds to development profit. The practice has also helped the Company accumulate a wealth of in-house expertise in land acquisition and development.

The Company's highly capable sales personnel maintain constant contact with potential corporate clients, quickly identify needs for relocation or additional floor space and negotiate lease arrangements directly with the tenants. This allows pricing to be determined without interference from third-party real estate agents, and makes it possible to develop new office buildings that reflect future trends, offering the latest specifications and requirements.

Sumitomo Group personnel also directly manage the Company's office buildings. This allows the Company to accurately and promptly identify a tenant's need for relocation or larger space, and offer meticulous service to each of its clients.

PERFORMANCE

In fiscal 2004, the market for office space in Tokyo, an area in which over 90% of Sumitomo Realty's lease properties are located, was impacted by a slow economy and prolonged deflation. A peak supply of large-scale office buildings entering the market also meant that demand was not strong enough to absorb supply. As a result, the market experienced an increase in vacancy rates in the first half and continued downward pressure on rents. However these conditions presented opportunities for companies undergoing corporate office space reorganization and restructure. Accordingly, the amount of overall contracted floor space in the second half increased, approaching levels not seen since the bubble economy years, and vacancy rates looked to be bottoming out with the market entering an upward trend. Under these circumstances, rents for newly constructed buildings showed signs of a recovery and the decline in rents for existing large-scale competitive buildings appears to have halted.

Amid this business environment, although the leasing division experienced a drop in income from existing buildings during the period under review due to the rise in vacancy rates, a full year of operations from the Izumi Garden Tower and the Sumitomo Fudosan Shinjuku Oak Tower and new capacity realized from such sources as the Sumitomo Fudosan Hongo Building, resulted in rising income for the leasing division overall. Revenue from the leasing business increased ¥9,797 million from the previous fiscal year to ¥202,776 million, exceeding the ¥200,000 million mark for the first time. On the other hand, operating income declined slightly to ¥52,657 million, a fall of ¥604 million.

Izumi Garden Tower

OUTLOOK

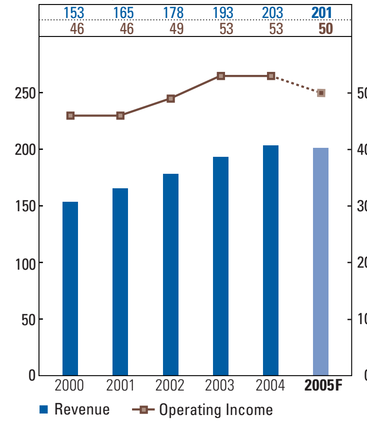
Buoyed by an improvement in overall corporate earnings, the economy appears on a recovery footing. Integration and consolidation needs are still very strong and there are signs of an increased demand for floor space in the Tokyo Metropolitan area. The temporary increase in the supply of large-scale buildings experienced during 2003 is expected to decline throughout 2004 and for the foreseeable future, and the market to enter a period of self-correction due to improved balance between supply and demand. Office buildings that offer better facilities will attract demand and older buildings will lose their competitive edge. Against this backdrop, Sumitomo Realty will continue to pursue development of state-of-the-art office buildings.

Examining the Company's leasing portfolio, efforts to attract tenants for newly completed buildings have concluded, and for projects in progress such as the Shiodome Sumitomo Building, we are well on track to meet our objectives.

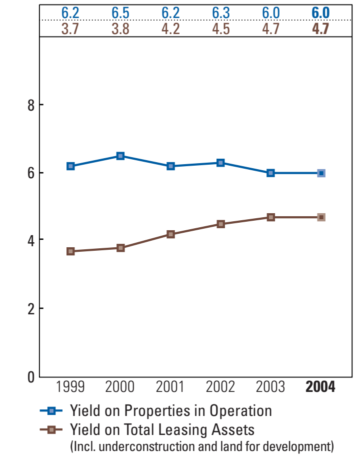
In the fiscal year ending March 31, 2005, Sumitomo Realty plans to establish a real estate investment trust (J-REIT) and sell off its operating portfolio for approximately ¥100 billion to the Company's newly incorporated real estate investment corporation. On this basis, Sumitomo Realty is forecasting revenue in fiscal 2005 of ¥201,000 million and operating income of ¥50,000 million.


Chiyoda First West Building

Leasing Business
Revenue & Operating Income
(Billions of yen)



Yield on Leasing Assets
(%)



TOPICS—SHIODOME SUMITOMO BUILDING

The Shiodome Sumitomo Building will be completed in August 2004. Ideally situated, access is unaffected by weather conditions, located above and one minute from Shiodome subway station and six minutes by underground walkway to Shinbashi railway station. The building offers the latest specifications and facilities, brief details as follows.

- **Astylar open floor plan, each floor 3,640m²**
- **Uninterruptible power supply system**
- **Individual climate control systems, each floor divided into 99 zones**
- **Mid-rise sections equipped with quake-absorbing protection, earthquake-proof construction to reduce the impact of earthquakes and typhoons by a maximum of 80%**
- **Standard ceiling height for each floor 2.8m: IT and dealing room specifications, floor 3.0m**
- **Standard raised floor construction for each floor 10cm: IT and dealing room specifications, floor 30cm**
- **Reinforced floors for heavy loads, 500kg/m² (1,000kg/m² in certain sections)**
- **State-of-the-art floor security, each rentable area entry equipped with non-contact IC card system**
- **24-hour/365 day building management support**


Shiodome Sumitomo Building

In addition, the 497-room Villa Fontaine Shiodome hotel is scheduled to open as part of the Shiodome Sumitomo Building complex in October 2004. Directly operated by the Sumitomo Realty Group, the Villa Fontaine chain is a network of high-quality business hotels servicing central business districts. Completion of Villa Fontaine Shiodome will bring the total number of hotels to 10 with an aggregate of 1,838 rooms.

City Tower Takanawa

OUTLINE

Comprising the core of Sumitomo Realty's sales business, development and sales of condominiums accounts for more than 95% of total sales in this segment. Sumitomo Realty commenced its condominium sales business earlier than almost all of its competitors, earning the distinction of being the pioneer in condominium development for sales in Japan. The Company's condominium operations are focused mainly in Japan's six largest urban areas: the Tokyo metropolitan area, Osaka/Kobe, Sapporo, Sendai, Nagoya, and Fukuoka.

Following on from 2002, Sumitomo Realty ranked second nationwide in 2003 in terms of the number of units provided. Looking ahead, the Company will carry out its operations with the aim of firmly maintaining a high ranking and continually expanding its business.

Sumitomo Realty's investment turnover ratio and high operating profit margin are at the top of the industry. Since market fluctuation risk can often determine the fate of the condominium business, it is the policy of the Company to level this market risk by offering stable supplies and pursuing brand enhancement strategies through the continued sale of high-quality units and products.

SUMITOMO REALTY'S STRENGTHS

1. Direct involvement in operations, prompt response to customer needs

As with its leasing business, Sumitomo Realty and the entire Sumitomo Realty Group engage directly in purchasing land for development, planning products, selling condominium units and managing properties after condominium sales. This approach enables the Company to provide high-quality products and well-focused service with feedback of customer needs. As a result of this direct involvement, Sumitomo Realty has been able to stay ahead of market needs and has actively promoted business development in tune with modern-day requirements, culminating in the City Tower series of five super high-rise condominium projects which began sales in Tokyo and Osaka in 2002.

2. Efforts on post-construction sales, returns that accurately reflect quality

With a primary focus on investment turnover, general practice in the condominium market is to secure sales prior to construction completion. Given these conditions, discounting is part and parcel of condominium sales, as developers work to eliminate risk and the need to carry post-construction inventory. Since condominiums are an expensive item for customers, selling off the plan is not a satisfactory sales procedure, because they cannot truly grasp the extent of the added value and the usability of common area facilities.

In an effort to cultivate high customer satisfaction and to avoid the impact brought about by discounting on profits, Sumitomo Realty adopts a new approach to the sale of condominium units. As a rule, the Company places equal effort on post-construction sales and works to achieve total sales six months after construction has completed, with no discounts. In adopting this philosophy, Sumitomo Realty is able to earn a profit that accurately reflects the quality of each project, and to secure an operating profit margin that leads the industry.

PERFORMANCE

Supply in the Greater Tokyo area has remained constant at more than 80,000, buoyed by favorable market conditions, such as a tax deduction allowance for housing loans and stable low interest rates. Downtown high-rise condominiums and large-scale properties near train stations drew the attention of consumers, and improvements in location and product offering led to continued support from a wide demographic encompassing both single persons and the elderly. As a result, sales prices for condominiums in Tokyo remain comparatively stable, while sales prices for ordinary properties in the suburbs continue to fall. In addition, in other major cities, the trend toward relocation to the city center has also been notable.

Under these circumstances, total sales of condominiums, houses and residential land amounted to 4,473 units, 26 less than in the previous fiscal year, underpinned by steady urban sales of large-scale condominium projects including the Tower series in Ikebukuro, Osaki, Yotsuya, Takanawa, and Osaka. Revenue from the sales business rose ¥29,558 million from the previous fiscal year to ¥213,303 million, and operating income increased ¥6,493 million to ¥32,280 million, a significant jump in income and profit.

OUTLOOK

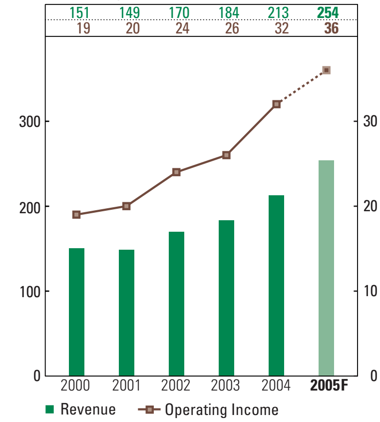
Although concerns over an increase in interest rates and possible moves to limit the tax deduction for housing loans have brought some uncertainty to the market, the current sales market is seen on a sound footing, evidenced by an increase in the number of visitors to sales showrooms in the second half of fiscal 2004 and the volume of contracts. Sumitomo Realty is scheduled to complete two high-rise projects, City Tower Shinjuku Shin-Toshin (due for completion in fiscal 2005) and World City Towers (due for completion during fiscal 2006 and 2007). The Company will utilize its strengths in developing such large-scale condominiums to step up marketing efforts.

In fiscal 2005, revenue from the sales business is expected to reach ¥254,000 million and operating income ¥36,500 million.

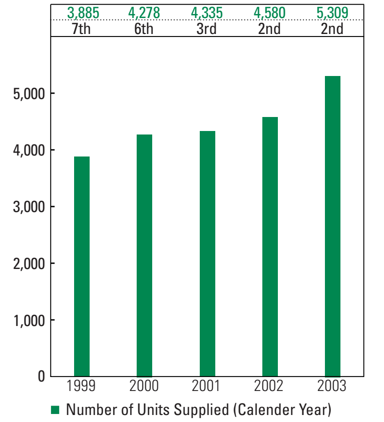
Although competition to acquire land for large-scale urban projects is growing increasingly fierce, and the price of land has risen noticeably, as a result of Sumitomo Realty's shift toward acquiring land in central urban locations where demand is high, we are well positioned and well under way in our procurement of sufficient land for future development through to 2007.

City Tower Osaka

Sales Business
Revenue & Operating Income
(Billions of yen)



Ranking among Condominium Suppliers
(Units)



TOPICS—WORLD CITY TOWERS

World City Towers, for which sales commenced in May 2004, is Japan's largest private-sector condominium project undertaken by a single developer. The project comprises three towers, the highest stretching to 42 stories, with a total of 2,082 units. A waterfront property, located in the prestigious and centrally located Minato ward, this project is being developed under an urban resort concept. Leveraging the benefits of a large-scale development, World City Towers also provides all living requirements within the complex. The projects principal facilities and specifications are summarized briefly as follows.

·The first Tokyo Bay condominium project to offer a pier for charter cruising
·Super Relaxation Center, including a swimming pool and gymnasium offering ocean views
·Spectacular views from the Sky Garden and Sky Dining, located 130m above ground level for use by all residents
·24-hour supermarket
·Accredited day-care center (planned)
·Financial institution
·General medical clinic
·24-hour manned building management and security system
·Exclusive shuttle bus service to Shinagawa station

World City Towers

In the construction business, Sumitomo Realty undertakes mainly custom house construction and house remodeling.

PRODUCT LINEUP

1. New Detached Houses

The Company has in the past contracted construction of detached houses from customers who bought subdivisions the company developed. In 1982, however, it split off this business and established Sumitomo Fudosan Home Co., Ltd. to develop the business for construction of detached houses. In the early years of this business, Sumitomo Fudosan Home adopted designs and construction methods used in and around Los Angeles by its sister company in California, Sumitomo Realty & Development, CA Inc. (then La Solana Corporation). Its mainstay products were custom-designed, midrange and upscale two-by-four constructed houses. Because competition from large builders of midrange and upscale houses was intense, however, Sumitomo Fudosan Home had to continually struggle without much growth, building just around 1,000 units per year.

The standardized housing business, however, taking a hint from the construction of emergency housing for victims of the Kobe earthquake, began operations in 1995 with the launch of the American Comfort line of high-quality, low-cost, Western-style standardized houses. Although this business has attracted a good deal of attention in the industry achieving an annual growth rate of over 30%, the number of competing products in this price range has increased, and growth has sagged over the past several years. In October 2002, Sumitomo Fudosan Home Co., Ltd.'s operations were merged with the parent company, which now has full control over these operations.

In 2002, the Company added a new Mediterranean style home, expanding its design portfolio to cover nine styles from seven countries, and changed the brand name for the line to "Series of World Home Designs." In April 2003, Sumitomo Realty launched the urban home design "J-Urban," with higher quality luxury condominium interiors.

2. The Shinchiku Sokkurisan Full Remodeling Package

In the remodeling market in Japan, an outdated construction system keeps prices high, and there is always a risk of cost overruns. It is widely believed that it is less expensive to simply rebuild. Sumitomo Realty overturned this common assumption in 1996 with the development of Shinchiku Sokkurisan, which provides the customer with a transparent fixed price per floor area, for which a house can be fully remodeled at half the cost of rebuilding, and in half the time. This pricing system was made possible due to our unique operations, with sales personnel having engineering qualifications and our network of exclusive sub-contractors. The marketing slogan "Sono tatekae matta!" (Hold off on your rebuilding!) has helped enhance the appeal of the product. It has become popular as an alternative to rebuilding, and is demonstrating impressive performance.

PERFORMANCE

In the market for new detached houses, the end of tax-reduction measures (subsequently extended) and fears of an increase in interest rates, prompted an increase in demand and housing starts, the first signs of a recovery.

In the fiscal year ended March 31, 2004, the number of new detached houses completed fell by 206, compared with the previous fiscal year, to 2,043 units, reflecting a drop in the number of orders received during the second half of fiscal

Shinchiku Sokkurisan

2003. Orders received were on par with the previous fiscal year for a total of 2,083 units. In the remodeling market, however, orders received increased by 722 year on year to 4,843 units fueled by an increase in the number of sales staff and efforts to reinforce the sales structure. The number of constructions completed climbed by 421 to 4,391 units and together with orders received, registered double-digit growth.

In total, revenue from the construction business, which includes Universal Home Inc., a franchiser specializing in standardized houses using the conventional construction methods, and Sumitomo Fudosan Syscon Co., Ltd., a company which engages in general refurbishments and interior and exterior work, increased ¥622 million to ¥125,086 million, while operating income rose markedly, climbing ¥1,219 million to ¥8,211 million.

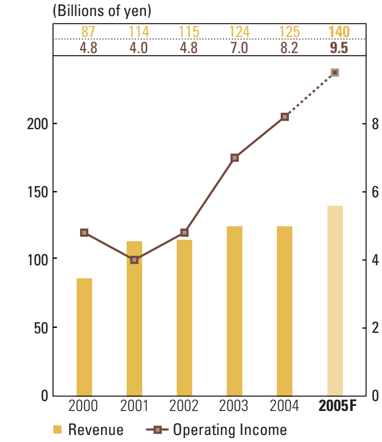
OUTLOOK

Sumitomo Realty will work Shinchiku Sokkurisan business systems in with new detached housing operations in line with integration. In addition, the Company will expand its sales network with "J-Urban" model homes, first launched in April 2003, and at the same time bolster its sales structure to capture the expected customers from these new models. The Company will continue to reinforce the Shinchiku Sokkurisan business through an increase in personnel, which will increase sales capacity and serve to broaden the appeal of the brand. Group company, Sumitomo Fudosan Syscon Co., Ltd. will carry on efforts to expand sales of Reform Choice, a fixed price, partial refurbishment product.

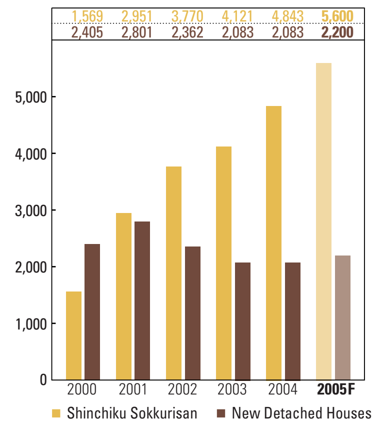
Through these measures, Sumitomo Realty anticipates revenue in this segment of ¥140,000 million and operating income of ¥9,500 million in fiscal 2005.

Cote d'Azur, World Home Designs

Construction Business
Revenue & Operating Income
(Billions of yen)



Housing Units Sold by
Product Type
(Units)



TOPICS—J-URBAN HOME

Residential neighborhoods in Japan are densely built-up, and most of the lots are small, creating problems for homeowners including limited access to sunlight and apprehensions about security. The J-Urban design eliminates these concerns, offering a comfortable living space ideally suited to the urban lifestyle.

MAIN FEATURES

Outer façade in harmony with the urban environment

Beginning with a modern exterior that emphasizes the simple beauty of straight lines, high-grade materials such as glass and stone are employed to create a façade to please any connoisseur of urban design.

New techniques and designs for better lighting and security

Sumitomo Realty has developed for J-Urban a structural wall known as Light Wall (patent pending). This innovative product incorporates numerous openings that provide light without sacrificing earthquake resistance, and allows for security-conscious planning of the building exterior.

Private internal patio

Instead of providing open space around the building, the design provides an open, private patio at the center of the structure, offering a space to enjoy the sun and fresh air without concern for the outside world.

Amenities on a par with an upscale condominium

Kitchen and bath facilities standard with J-Urban are the same as those used in luxury condominiums and better than the standards for detached houses, providing an air of opulence to the home.

Fixed price system

As long as the total architectural area remains the same, the final plan can be changed to accommodate the site conditions without changes in the price.

J-Urban

J-Urban Patio

OUTLINE

The Company's real estate brokerage business is conducted through Sumitomo Real Estate Sales Co., Ltd., which was established in 1975 to handle the sale of condominiums developed by Sumitomo Realty. It entered the real estate brokerage sector in 1979, where it has achieved significant success, and was subsequently listed on the Tokyo Stock Exchange in 1998.

Sumitomo Real Estate Sales operates a network of community focused branch offices under the "STEP" brand name. The number of offices reached 211 by the end of fiscal 2004, and this expanding and upgrading of the network of brokerage offices has helped to steadily grow the business. All brokerage offices are directly owned and operated and boast high profit margins. Sumitomo Real Estate Sales holds the No. 1 position in the industry in terms of brokerage revenues through direct operations.

The company plans to further expand its marketing base and steadily increase its market share.

PERFORMANCE

In the fiscal year under review, the number of property acquisitions, particularly by first-time buyers, and overall market transactions increased reflecting an improvement in economic conditions. The average contract price for existing condominiums in the Tokyo area continued to rise and the decline in the average contract price in the Osaka region narrowed.

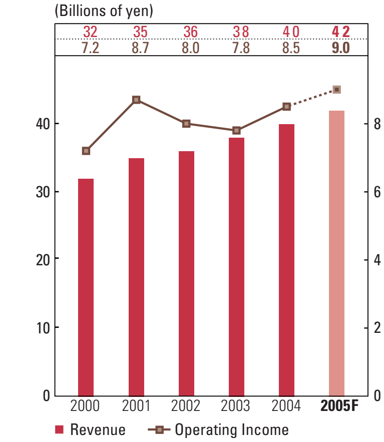
Amid this environment, the brokerage business opened five new brokerage offices in fiscal 2004, bringing the total network to 211, renovated several existing offices, and in July 2003, strengthened its IT strategy by introducing My Page, an online property information search system. As a result, the number of properties handled and the volume of transactions in fiscal 2004 were a record for the Company. Revenue from the brokerage business increased ¥2,232 million year on year to ¥39,809 million, while operating income rose ¥746 million to ¥8,538 million. With these results, we achieved growth in profits for the first time in three years.

OUTLOOK

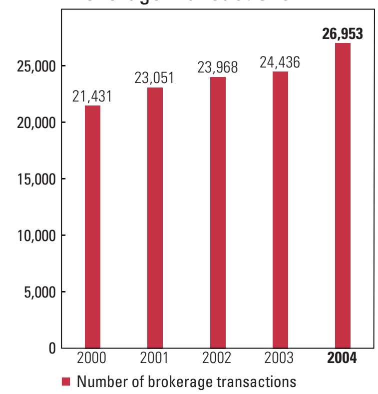
Operating conditions in fiscal 2005 are expected to remain favorable. Based on continued improvement in the general economy, the Company is anticipating an increase in the number of transactions handled and the year-on-year decline in the average contract price to narrow. Against this backdrop, Sumitomo Realty will work to increase revenue and profits and to further expand its market share. To this end, the Company will continue to open new branches, renovate existing offices, and upgrade the My Page information service to include an access page catering to potential property sellers. Sumitomo Realty will also look to expand its business activities catering to the corporate sector and high-income investor, two markets earmarked for significant growth.

The Company is projecting revenue of ¥42,000 million and operating income of ¥9,000 million in fiscal 2005 in the real estate brokerage business.

Brokerage Business Revenue & Operating Income
(Billions of yen)



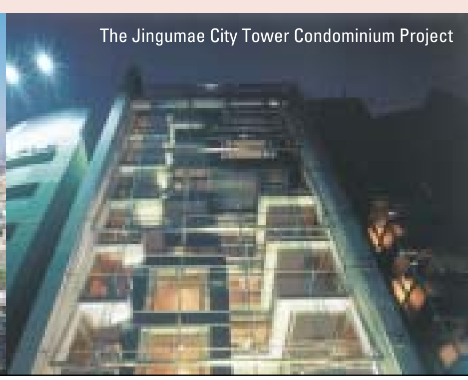
Brokerage Transactions

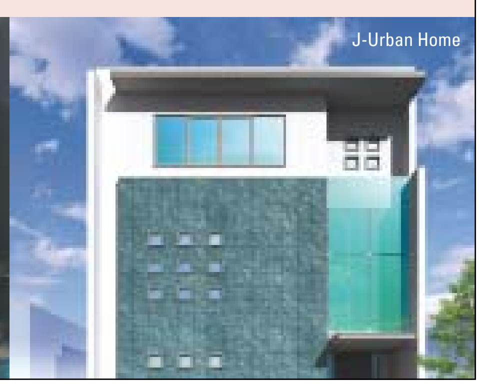


TOPICS—GOOD DESIGN AWARD (Architecture and Environment Design Category)

In 2003, Sumitomo Realty was awarded three separate Good Design Awards in the architecture and environmental design category, sponsored by the Japan Industrial Design Promotion Organization, for its work on an urban redevelopment office building project, condominiums, and new detached houses. Recognition in three separate fields is a reflection of the quality of our staff and the across-the-board expertise held by the Company.


Izumi Garden Urban Redevelopment Project


The Jingumae City Tower Condominium Project


J-Urban Home

FINANCIAL SECTION

1950 TO 1993 FISCAL YEARS
FOUNDING THROUGH THE COLLAPSE OF THE BUBBLE

Sumitomo Realty was formed from the dissolution of the Sumitomo zaibatsu, one of the four major family-dominated financial and industrial combines that had largely controlled the Japanese economy until the end of the Second World War. Inheriting the respected Sumitomo brand, each Sumitomo company became an independent entity, Sumitomo Realty was one such company, incorporated in 1949 within the Sumitomo Group to manage the residual real estate assets of the zaibatsu. The brand name, however, was one of the few assets the Company inherited. In comparison with Mitsubishi Estate, which became heir to the entire Marunouchi area, and Mitsui Fudosan, which took over the real estate business of the Mitsui zaibatsu, Sumitomo Realty was far behind these two giants in terms of assets at the time of its founding. Mitsui Fudosan and Mitsubishi Estate quickly established stable foundations in the leasing business, and were publicly listed in 1949 and 1953, respectively, twenty years ahead of Sumitomo's listing in October 1970.

At the time of its listing Sumitomo Realty was known as a pioneer in high-end condominium development, being one of the first companies in Japan to engage in that business. With housing developments constituting the major portion of the Company's business, the risks involved were great, since the Company did not have a stable base in the leasing business. The recession sparked by the oil shock that occurred soon after the public listing caused the Company to suffer four consecutive years of ordinary losses. To escape from this management crisis the Company sold off nearly all of the few assets it possessed, including the former headquarters building in Marunouchi. It also withdrew from the business of large-scale residential land developments, which at the time was considered to be the defining element of the real estate development business. It instead turned its attention to two areas from which high performance could be expected from limited capital: condominium developments, and the leasing of office buildings in Tokyo. This strategy was a success, lifting consolidated revenue, which only reached ¥43.2 billion in fiscal 1978 (ended March 31, 1978, the first year the Company prepared consolidated earnings statements), seven-fold to ¥300.6 billion in fiscal 1991. Consolidated operating profit during this period increased by a factor of 15, from ¥4.4 billion to ¥65.3 billion. The strength of Sumitomo Realty's current portfolio, which is heavily weighted with Tokyo properties and contains many comparatively new buildings, is a direct result of the success of these strategies adopted more than two decades ago.

The collapse of the bubble economy in the early 1990s, however, thrust the Company, which to this point had been pursuing a growth strategy, into dire straits. First to suffer was the Company's sales division, which was left with large quantities of leftover properties for sale when the retail price for condominiums, which had been rising rapidly, began to tumble. The brokerage division soon after saw its operating income fall to half its former level as the volume of land transactions dried up and prices collapsed. Next to be hurt was the financing business, which had grown rapidly by providing real estate loans using rising land prices as collateral, falling into the red as bad debts mounted. Finally, earnings in the leasing division began to fall as the vacancy rate skyrocketed due to the burgeoning supply of office buildings planned during the bubble, while rents spiraled downward. The cumulative effect of this situation was that the Company's actual earnings (ordinary profit excluding gains from sale of assets) slipped into the red.

These actual losses continued for four straight fiscal periods, from fiscal 1993 to 1996. The Company began referring to this period as its second management crisis (the first being the post-oil shock depression), and formulating measures to lift itself out of the predicament.

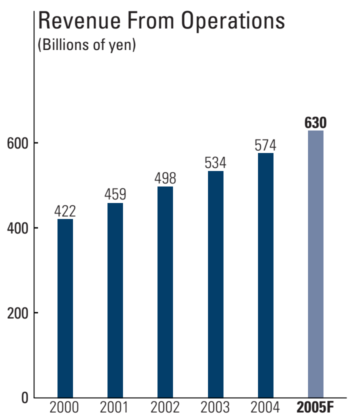
1994 TO 1997 FISCAL YEARS
THE STRUGGLE TO READJUST

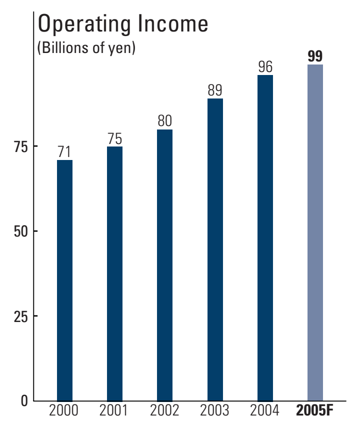
Sumitomo Realty adopted the following measures to reverse the actual losses and restore profitability:

> To reduce personnel expenses and maintain a sense of crisis, the organizational structure was simplified, including elimination of more than half the general manager positions (64 positions to 27), and salaries for both management and senior staff were reduced.

> New construction of office buildings was suspended, and all development personnel shifted to office leasing.

> To develop and expand businesses not involving acquisition of land (non-land businesses), a large number of employees were shifted to subsidiaries handling custom housing construction, house remodeling, and office building management.





> New non-land businesses were launched, including the American Comfort line of standardized housing in October 1995, and the Shinchiku Sokkurisan full remodeling package in April 1996.

Fiscal 1995 was the low point in terms of actual earnings, but, bolstered by a recovery in the office building market, the Company managed a return to profitability in fiscal 1997.

1998 TO 2001 FISCAL YEARS
THE FIVE-YEAR BUSINESS RECONSTRUCTION PLAN

Once the actual losses had been eliminated and profitability restored, Sumitomo Realty undertook a full-fledged recovery program to reform and restructure its balance sheets, setting the following four targets, which were accomplished a year ahead of plan:

> Restore business performance to fiscal 1991 levels (the peak of the bubble years)
> Eliminate excessive land inventory for development (begin construction on land acquired for the leasing business)
> Dispose of nonperforming assets (the financing business, overseas operations, etc.)
> Reduce interest-bearing liabilities (to fiscal 1991 level)

1. Restoring business performance

Sumitomo Realty seems to have been the first major developer to foresee a recovery in the market for office buildings in Tokyo. Construction was resumed in 1995, ahead of others in the industry. The Shibuya Infoss Tower was partially completed for early tenants to occupy in 1997, and, backed by a recovery in the market at large, the Company succeeded in acquiring contracts with many favorable tenants. Although a temporary setback was suffered with the failures of large-scale financial institutions in 1997, the twelve office buildings completed during the term of the five-year business reconstruction plan were all leased to full capacity at the time of their completion. Operating revenue from these new buildings helped the leasing business to raise its operating profit ¥13.4 billion, or 41% during this four-year period.

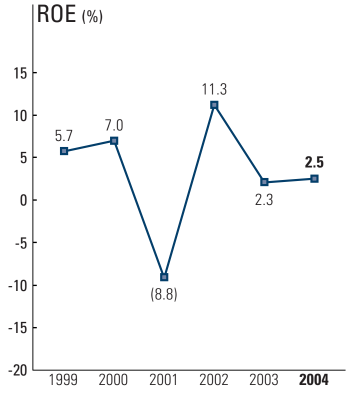
Through early resumption of office building construction, inventory of land for development decreased significantly to provide another factor for restoring performance. The book value of this land exceeded ¥500 billion in fiscal 1995, but through aggressive development had been reduced to ¥124.3 billion in fiscal 2001, representing 9% of the leasing business's assets. This significantly reduced excessive anticipatory investments, another of the plan's targets.

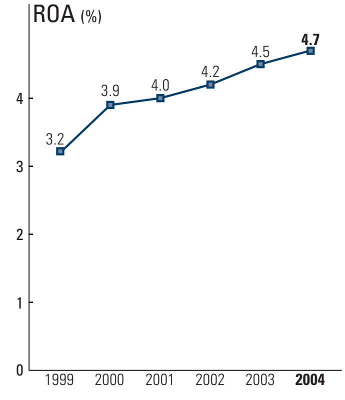
Sumitomo Realty relies very little on outside brokers for its office leasing, choosing instead to build an in-house professional leasing team, operated by the Company itself. The high degree of leasing ability of its in-house professional staff is well regarded, and the capacity to gather information realized from direct leasing is one of the key reasons the Company was able to predict the market recovery ahead of its competitors.

In the condominium market, demand recovered quickly from 1994, but because the Company was focusing on disposing of its leftover properties for sale, and had placed controls on new land acquisition, it was unable to fully capitalize on this change in the market situation. Total number of units supplied was approximately 2,500 per year, making the Company around tenth in the ranking of suppliers nationwide for a couple of years. The specific target adopted for the condominium development for sales business under the Business Reconstruction Plan was to expand the business to ensure a stable supply of more than 4,000 units annually, and increase the Company's share to make it one of the top five suppliers. In the year 2000 the Company supplied 4,278 units, making it the sixth-ranked supplier. Operating profit in the sales division increased 114%, or ¥10.5 billion over the four-year period.

During the first half of the plan the Company continued selling the condominiums with high book values for land purchased during the bubble period, but in fiscal 2000 recorded an across-the-board revaluation loss of ¥24.9 billion on properties for sale, a move that improved the operating margin ratio in this division by 7.5 percentage points. The high margins generated in this division are a defining feature of Sumitomo Realty.

Of Sumitomo Realty's four core businesses, the leasing and sales businesses can be defined as "speculative production" since they require huge capital investments, as they must acquire land, construct buildings and then lease or sell these to customers. The construction and brokerage businesses, by contrast, can be defined as "production by order" and do not require such a great investment of capital. Sumitomo Realty has carried out personnel buildups for both of these businesses in order to create a more sound business portfolio





Note: Operating income divided by total assets and improve the operational balance. As a result, operating profit during the four-year period for the two business types increased by 90%, or ¥6.0 billion.

2. Disposing of nonperforming assets

Sumitomo Realty decided to withdraw from the financing and overseas businesses because they required a large amount of invested capital and showed little promise of profitability. The financing business had recorded ¥146.0 billion in losses from the disposal of bad loans, reducing the total value of ordinary loans, which had reached ¥333.0 billion in fiscal 1991, to a mere ¥18.4 billion (net of allowance for bad debts). The overseas business began aggressively selling assets, recording ¥22.6 billion in losses on sales in fiscal 2000. This reduced the Company's shareholders' equity, which had reached ¥176 billion in fiscal 1992, to ¥13.6 billion.

Sumitomo Realty recorded approximately ¥210 billion in extraordinary losses during the reconstruction plan, including expenses incurred from the withdrawal from these businesses. These losses also included revaluation of properties for sale, additional reserves related to the adoption of current value accounting for retirement benefit liabilities and such financial assets as marketable securities, among other factors. With the exception of impairment accounting for fixed assets, almost all the unrealized capital losses on assets had been accounted.

3. Reducing interest-bearing liabilities

Sumitomo Realty began giving priority to the reduction of interest-bearing debt in fiscal 1999, once the performance recovery was well under way.
As a result of the growth in profits, the Company was able, without increasing debt, to make the substantial capital investments necessary for development of land for office buildings. Since the total of operating cash flow was devoted to capital investment, however, it became necessary to either recover invested capital or liquidate assets in order to reduce debt. Unfortunately, the large-scale failure of financial institutions in 1998 severely limited the total amount of risk capital available to the real estate market, and greater creativity was necessitated.

The principal measures undertaken were:

> Disposal of overseas assets and nonperforming loans

> Securitization of office buildings in Japan (ABS-type)

> Selling of interests in SURF (Sumitomo Realty & Development Fund), an investment scheme for office buildings in Japan similar to a U.S.-style limited partnership, where Sumitomo Realty acts as general partner

> Assignment of receivables related to condominium sales

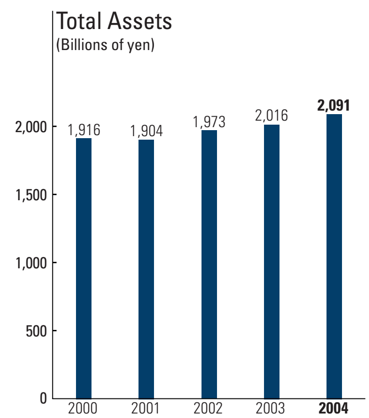
Sumitomo Realty chose to sell off certain assets in the overseas and nonperforming loan markets, which had ample supplies of risk capital, but would have been forced to sell at lower prices as for domestic investment real estate for which there was little risk capital available. The Company therefore injected capital into certain investment vehicles, easing the risk for investors and allowing capital to be recovered at a reasonable cost to the Company.
For institutional investors who required bankruptcy remote, the Company offered a securitization scheme employing a special purpose company (SPC), and for individual investors who valued the reliability of the Sumitomo brand, the Company offered investment in SURF.

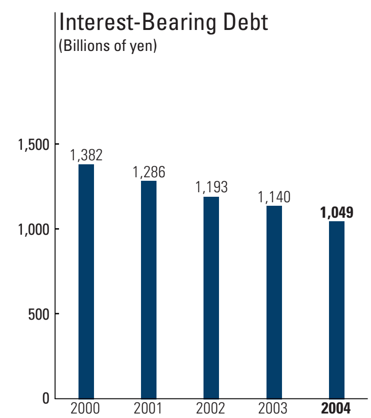
After 1999, private equity funds were created in succession, and the number and size of J-REITs grew, resulting in more risk capital flowing into the real estate market. The selling price of real estate for investment recovered as a result, validating the rectitude of the Company's strategy of refusing to sell its assets at reduced prices.

The SumQuest bond issue offered in June 1999 was the first public issue of real estate securities in Japan, becoming the model for the growing securitization of real estate. By the end of the 2004 fiscal year, the SURF investment had grown into a large-scale investment product with more than ¥160.0 billion in investments received.

When real estate properties were securitized, those made bankruptcy remote by selling off to a SPC were taken off the balance sheet. For SURF, however, in accordance with accounting standards for such associations, since the Company was the general partner the total of the asset liabilities were carried on its balance sheets, recorded under fixed liabilities as long-term deposits payable.

Total interest-bearing liabilities for the Group (the total of debt, bonds, notes and guarantees) had reached ¥1,686 billion by the end of fiscal 1998. This had been reduced to ¥1,286 billion by the end of fiscal 2001, a reduction of ¥400 billion during a three-year period. This was roughly the same level as





the Group's interest-bearing liabilities at the end of the 1991 fiscal year (¥1,242 billion), the height of the bubble period.

2002 TO 2004 FISCAL YEARS
THE NEW THREE-YEAR GROWTH PLAN

Sumitomo Realty achieved far-reaching success during the course of the Business Reconstruction Plan in restoring performance to its historical highs, reducing nonperforming assets, and making significant reductions in interest-bearing debt. To continue to build on this success and ensure continuing increases in income and earnings, the Company formulated the New Growth Plan with the aim of further improving its financial position.

1. Performance

Comparison of performance results for fiscal 2001 (the year prior to the launch of the New Growth Plan) with results for fiscal 2004

	Fiscal 2001	Fiscal 2004	Increase
Revenue from Operations	¥459.2 billion	¥573.9 billion	+25.0%
Operating Income	¥ 75.2 billion	¥ 96.0 billion	+27.7%
Ordinary Profit	¥ 38.5 billion	¥ 66.0 billion	+71.4%

The Company reported consecutive increases in revenue and profit for all four core businesses (Leasing, Sales, Construction and Brokerage) for each of the three fiscal periods of the New Growth Plan.

2. Anticipating the introduction of impairment accounting

Japan's Business Accounting Council resolved in August 2002 to require impairment accounting for fixed assets from the 2006 fiscal year. For the real estate industry, impairment accounting applies mainly to lease properties, and will be required when an asset's undiscounted future cash flow for a total of 20 years (including income from the sale of the asset 20 years hence) falls below its book value. A basic rule-of-thumb measure is that assets with a net operating income (NOI) less than 2.5% against book value will require impairment accounting. (So long as the NOI is at least 2.5%, the combined total of operating income over a 20-year period and the expected income from sale of the asset at a cap rate of 5% should equal the book value.)

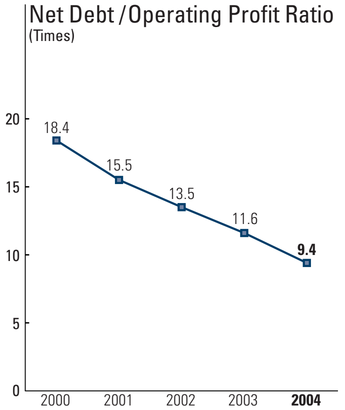
Given these conditions, Sumitomo Realty decided to sell off assets that were impacted by impairment accounting, and record a loss on the sale of such assets. Specifically, the Company reviewed the status of land and buildings in its portfolio, disposing of raw land, for which development schedules had not yet been determined and from which no cash flow was expected, as well as currently leased properties whose NOI was less than 2.5% against its book value. The total book value of assets identified under this standard was ¥143.5 billion. Almost all of these assets are sold off over two fiscal periods (2003 and 2004), with a loss on sale of approximately ¥98.1 billion. The Company believes that this action will severely limit the risks from valuation losses associated with impairment accounting.

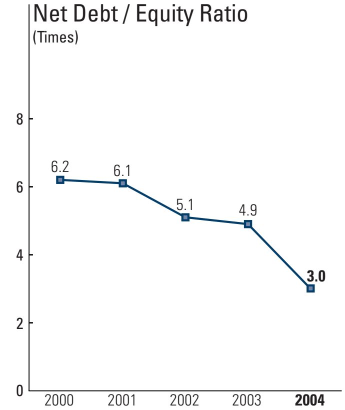
Nearly all large-scale, listed companies in the real estate industry, until fiscal 2002, made use of special measures in the Land Revaluation Law that allowed them to offset unrealized losses in land against unrealized gains. Certain companies have also taken a special depreciation for buildings with notably high book values. It is often remarked that these measures have alleviated their impairment accounting risks. Sumitomo Realty did not make use of these special measures, preferring instead to resolve the issue by recording losses on sales. The result of this difference in approach is that, while these measures impact corporate return on assets by increasing certain book values of assets, Sumitomo Realty's approach avoids this adverse effect.

3. Improving the financial position

Interest-bearing liabilities continued to reduce under the New Growth Plan. As of March 31, 2004, interest-bearing liabilities totaled ¥1,048.6 billion. This represented additional cuts of approximately ¥240 billion during the three-year period from the end of fiscal 2001. Accounting for cash, time and notice deposits of ¥132.5 billion, net interest-bearing liabilities amounted to ¥916.2 billion.

Shareholders' equity as of March 31, 2004 was ¥303.9 billion reflecting an additional public offering in March 2004. As a result, the net debt-to-equity ratio improved to three times.





CONSOLIDATED BALANCE SHEETS

As of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2004**	2003	**2004**
Current assets:			
Cash, time and notice deposits (Note 3)	**¥ 132,474**	¥ 101,700	**$ 1,253,420**
Marketable securities (Note 7)	**517**	18	**4,892**
Securitized properties for sale (Note 7)	**44,473**	27,980	**420,787**
Notes and accounts receivable—trade	**36,252**	24,902	**343,003**
Trading loans receivable	**83,782**	89,512	**792,715**
Allowance for doubtful accounts	**(36,537)**	(37,904)	**(345,700)**
Inventories (Note 4)	**189,547**	161,156	**1,793,424**
Deferred income taxes (Note 11)	**12,602**	14,361	**119,236**
Other current assets	**40,801**	41,721	**386,044**
Total current assets	**503,911**	423,446	**4,767,821**
Investments and advances:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 5)	**6,451**	8,149	**61,037**
Investments in securities and other (Note 7)	**143,180**	92,037	**1,354,717**
Allowance for doubtful accounts	**(25,582)**	(27,121)	**(242,048)**
Total investments and advances	**124,049**	73,065	**1,173,706**
Property and equipment (Note 6)**:**			
Land	**894,428**	940,289	**8,462,750**
Buildings and structures	**366,050**	359,606	**3,463,431**
Machinery and equipment	**17,588**	17,369	**166,411**
Construction in progress	**24,649**	13,884	**233,220**
	1,302,715	1,331,148	**12,325,812**
Accumulated depreciation	**(139,760)**	(130,219)	**(1,322,358)**
Net property and equipment	**1,162,955**	1,200,929	**11,003,454**
Other assets:			
Guarantee and lease deposits paid to lessors	**185,914**	185,626	**1,759,050**
Leasehold rights and other intangible assets (Note 6)	**55,171**	55,340	**522,008**
Deferred income taxes (Note 11)	**3,752**	15,078	**35,500**
Other	**55,218**	62,183	**522,452**
Total other assets	**300,055**	318,227	**2,839,010**
	¥ 2,090,970	¥ 2,015,667	**$ 19,783,991**

See accompanying notes.

Liabilities and Shareholders' Equity	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Current liabilities:			
Short-term debt (Note 8)	**¥ 205,423**	¥ 292,851	**$ 1,943,637**
Long-term debt due within one year (Note 8)	**198,242**	217,862	**1,875,693**
Notes and accounts payable—trade	**72,002**	54,793	**681,256**
Accrued income taxes (Note 11)	**762**	267	**7,210**
Accrued bonuses	**2,706**	2,732	**25,603**
Deferred income taxes (Note 11)	**—**	7	**—**
Deposits received (Notes 6, 12)	**181,457**	159,330	**1,716,880**
Other current liabilities	**59,639**	63,296	**564,282**
Total current liabilities	**720,231**	791,138	**6,814,561**
Long-term debt due after one year (Note 8)	**644,964**	627,405	**6,102,413**
Guarantee and deposits received (Note 12)	**397,460**	369,362	**3,760,621**
Deferred income taxes (Note 11)	**6,533**	—	**61,813**
Allowance for employees' severance and retirement benefits (Note 9)	**4,748**	4,310	**44,924**
Directors' and corporate auditors' retirement benefits	**313**	287	**2,961**
Other long-term liabilities	**936**	1,006	**8,856**
Minority interests	**11,910**	10,338	**112,688**
Contingent liabilities (Note 17)			
Shareholders' equity (Note 13):			
Common stock			
Authorized — 780,000 thousand shares			
Issued — 476,086 thousand shares (407,086 thousand shares in 2003)	**122,805**	86,787	**1,161,936**
Capital surplus	**132,744**	96,822	**1,255,975**
Retained earnings	**38,572**	34,693	**364,954**
	294,121	218,302	**2,782,865**
Net unrealized holding gains (losses) on securities	**14,420**	(4,886)	**136,437**
Foreign currency translation adjustments	**(4,262)**	(1,370)	**(40,325)**
Treasury stock	**(404)**	(225)	**(3,823)**
Total shareholders' equity	**303,875**	211,821	**2,875,154**
	¥ 2,090,970	¥ 2,015,667	**$ 19,783,991**

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Revenue from operations	**¥ 573,862**	¥ 533,915	¥ 497,877	**$ 5,429,672**
Costs and expenses:				
Cost of revenue from operations	**435,078**	403,777	377,199	**4,116,549**
Selling, general and administrative expenses	**42,807**	41,626	40,308	**405,024**
	477,885	445,403	417,507	**4,521,573**
Operating income	**95,977**	88,512	80,370	**908,099**
Other income (expenses):				
Interest expense, net	**(23,266)**	(25,660)	(28,200)	**(220,134)**
Dividend income	**705**	626	526	**6,670**
Loss on sale and devaluation of property and equipment (Note 10)	**(49,414)**	(48,666)	(202)	**(467,537)**
Loss on devaluation of investments in securities	**(144)**	(4,643)	(3,750)	**(1,363)**
Loss on sale of investments in securities	**(286)**	(500)	—	**(2,706)**
Foreign exchange gains	**142**	371	375	**1,344**
Loss on disposal of property and equipment	**(539)**	(598)	(478)	**(5,100)**
Dividend to partnership investors	**(3,889)**	(3,162)	(2,475)	**(36,796)**
Other, net	**(3,703)**	(4,248)	(3,832)	**(35,036)**
	(80,394)	(86,480)	(38,036)	**(760,658)**
Income before income taxes and minority interest	**15,583**	2,032	42,334	**147,441**
Income taxes (Note 11):				
Current	**1,036**	781	4,608	**9,802**
Deferred	**6,334**	(1,903)	13,109	**59,930**
Total	**7,370**	(1,122)	17,717	**69,732**
Minority interest	**1,893**	(1,820)	1,621	**17,911**
Net income	**¥ 6,320**	¥ 4,974	¥ 22,996	**$ 59,798**

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income	**¥ 15.34**	¥ 12.22	¥ 56.50	**$ 0.15**
Cash dividend applicable to the year	**9.00**	6.00	6.00	**0.09**

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended March 31, 2004, 2003 and 2002

	Thousands	Millions of yen					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2001	406,810	¥ 86,773	¥ 96,822	¥ 11,673	¥ 1,016	¥ (2,840)	¥ (2)
Decrease due to change in consolidated subsidiaries	—	—	—	(45)	—	—	—
Net income	—	—	—	22,996	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	3,022	—
Net unrealized holding losses on securities	—	—	—	—	(3,175)	—	—
Stock issued under exchange offerings	276	14	—	—	—	—	—
Treasury stock	—	—	—	—	—	—	(28)
Cash dividends paid (¥6 per share)	—	—	—	(2,441)	—	—	—
Bonus to directors	—	—	—	(18)	—	—	—
Balance at March 31, 2002	407,086	86,787	96,822	32,165	(2,159)	182	(30)
Net income	—	—	—	4,974	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	(1,552)	—
Net unrealized holding losses on securities	—	—	—	—	(2,727)	—	—
Treasury stock	—	—	—	—	—	—	(195)
Increase due to merger	—	—	—	10	—	—	—
Cash dividends paid (¥6 per share)	—	—	—	(2,442)	—	—	—
Bonus to directors	—	—	—	(14)	—	—	—
Balance at March 31, 2003	407,086	86,787	96,822	34,693	(4,886)	(1,370)	(225)
Net income	—	—	—	6,320	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	(2,892)	—
Net unrealized holding gains on securities	—	—	—	—	19,306	—	—
Issuance of common stock	69,000	36,018	35,921	—	—	—	—
Treasury stock	—	—	—	—	—	—	(179)
Gains on sale of treasury stock	—	—	1	—	—	—	—
Decrease due to merger of consolidated subsidiaries	—	—	—	(1)	—	—	—
Cash dividends paid (¥6 per share)	—	—	—	(2,440)	—	—	—
Balance at March 31, 2004	**476,086**	**¥122,805**	**¥132,744**	**¥38,572**	**¥14,420**	**¥(4,262)**	**¥(404)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2003	$ 821,147	$ 916,094	$ 328,252	$ (46,229)	$ (12,962)	$ (2,129)
Net income	—	—	59,798	—	—	—
Foreign currency translation adjustments	—	—	—	—	(27,363)	—
Net unrealized holding gains on securities	—	—	—	182,666	—	—
Issuance of common stock	340,789	339,871	—	—	—	—
Treasury stock	—	—	—	—	—	(1,694)
Gains on sale of treasury stock	—	10	—	—	—	—
Decrease due to merger of consolidated subsidiaries	—	—	(10)	—	—	—
Cash dividends paid ($0.06 per share)	—	—	(23,086)	—	—	—
Balance at March 31, 2004	**$1,161,936**	**$1,255,975**	**$364,954**	**$136,437**	**$(40,325)**	**$(3,823)**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Cash flows from operating activities:				
Income before income tax and minority interest	**¥ 15,583**	¥ 2,032	¥ 42,334	**$ 147,441**
Depreciation and amortization	**12,211**	11,973	10,731	**115,536**
Provision for (Reversal of) allowance for doubtful accounts	**(2,906)**	1,134	(11,292)	**(27,496)**
Increase in employees' severance and retirement benefits	**437**	567	355	**4,135**
Loss on sale and devaluation of property and equipment (Note 10)	**49,414**	48,666	202	**467,537**
Loss on disposal of property and equipment	**539**	598	478	**5,100**
Loss on sale of investments in securities	**286**	500	—	**2,706**
Loss on devaluation of investments in securities	**144**	4,643	3,750	**1,363**
Interest and dividend income	**(983)**	(956)	(1,026)	**(9,301)**
Interest expense	**23,544**	25,991	28,701	**222,765**
Increase in securitized properties for sale	**(16,492)**	(6,065)	(9,112)	**(156,041)**
Increase in notes and accounts receivable—trade	**(11,361)**	(4,512)	(859)	**(107,494)**
Increase in inventories	**(22,032)**	(6,627)	(7,363)	**(208,459)**
Decrease in trade loans receivable	**7,533**	2,031	12,565	**71,275**
Increase in notes and accounts payable—trade	**17,224**	16,984	7,588	**162,967**
Increase (Decrease) in advances received	**(2,337)**	(294)	2,823	**(22,112)**
Other, net	**(15,312)**	10,090	(1,738)	**(144,877)**
Total	**55,492**	106,755	78,137	**525,045**
Proceeds from interest and dividend income	**963**	1,326	858	**9,112**
Payments for interest	**(23,663)**	(26,216)	(29,894)	**(223,891)**
(Payments) Receipts for income tax and other taxes	**825**	(4,334)	(4,974)	**7,806**
Net cash provided by operating activities	**33,617**	77,531	44,127	**318,072**
Cash flows from investing activities:				
Payments for purchases of property and equipment	**(34,189)**	(55,616)	(56,241)	**(323,484)**
Proceeds from sale of property and equipment	**18,095**	14,369	4,264	**171,208**
Payments for purchases of investments in securities	**(21,966)**	(47,489)	(22,134)	**(207,834)**
Proceeds from sale of investments in securities	**768**	22,037	925	**7,267**
Payments for investments in SPC and partnership	**(10,325)**	(8,015)	(12,370)	**(97,691)**
Proceeds from sale of investments / reduce capital in SPC and partnership	**8,000**	—	24	**75,693**
Decrease (Increase) in guarantee and lease deposits paid to lessors	**(2,845)**	59	8,508	**(26,918)**
Decrease in guarantee and lease deposits received	**(10,210)**	(6,736)	(1,792)	**(96,603)**
Receipts of deposits from partnership investors	**112,943**	71,790	97,392	**1,068,625**
Restitution of deposits from partnership investors	**(76,248)**	(13,414)	(5,245)	**(721,431)**
Other, net	**3,469**	(10,634)	(1,123)	**32,822**
Net cash provided by (used in) investing activities	**(12,508)**	(33,649)	12,208	**(118,346)**
Cash flows from financing activities:				
Decrease in short-term debt	**(87,428)**	(18,606)	(6,288)	**(827,212)**
Proceeds from issuance of bonds and notes	**85,000**	126,700	61,258	**804,239**
Redemption of bonds and notes	**(114,209)**	(106,444)	(145,684)	**(1,080,604)**
Increase (Decrease) in long-term debt	**27,148**	(49,411)	853	**256,864**
Proceeds from issuance of common stock	**71,940**	—	—	**680,670**
Increase (Decrease) in assignment of receivables	**(6,432)**	11,701	15,938	**(60,857)**
Cash dividends paid	**(2,696)**	(2,671)	(2,678)	**(25,508)**
Other, net	**44,100**	2,977	14,059	**417,258**
Net cash provided by (used in) financing activities	**17,423**	(35,754)	(62,542)	**164,850**
Effect of exchange rate changes on cash and cash equivalents	**(1,763)**	8	1,395	**(16,681)**
Net increase (decrease) in cash and cash equivalents	**36,769**	8,136	(4,812)	**347,895**
Cash and cash equivalents at beginning of year	**95,703**	87,567	92,379	**905,506**
Change in cash and cash equivalents due to merger of consolidated subsidiaries	**4**	—	—	**38**
Cash and cash equivalents at end of year (Note 3)	**¥ 132,476**	¥ 95,703	¥ 87,567	**$ 1,253,439**

See accompanying notes.

1. Basis of financial statements

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

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 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

All companies are required to consolidate all significant investees which are controlled through substantial ownership of majority voting rights or existence of certain conditions.

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

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

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

(2) Foreign currency translation

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

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.

Differences arising from translation are presented as "Foreign currency translation adjustment" in shareholders' equity.

(3) Cash and cash equivalents

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

(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 lease-term.

(5) Inventories

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

With respect to the cost of consignment sales activities, the Company implements cost accounting for matching revenue from sales of consigned properties and costs associated to such properties.

(6) Securities

Held-to-maturity securities are stated at amortized cost. Investments in subsidiaries and affiliates which are not consolidated or accounted for using the equity method are 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.

Securitized properties for sale are stated at cost which is determined by the specific identification method and securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity securities, investments in subsidiaries and affiliates, available-for-sale securities, and securitized properties for sale 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 investments in 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.

(7) Property and equipment

The Company and domestic consolidated subsidiaries depreciate buildings using the straight-line method, and other property and equipment using the declining-balance method over estimated useful lives. 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) Impairment of fixed assets

On August 9, 2002, "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" was issued by the Business Accounting Deliberation Council and on October 31, 2003, the Financial Accounting Standard Implementation Guidance No.6 "Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets" was issued by the Accounting Standards Board of Japan. The adoption of this standard and guidance is mandatory effective at the beginning of the fiscal year beginning after April 1, 2005. Early application of this standard and guidance is permitted.

The Company has not adopted early this standard and guidance.

(9) Software cost

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

(10) Allowance for doubtful account

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

(11) 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.

(12) Income taxes

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

(13) Employees' severance and retirement benefits

The Company and some of its consolidated subsidiaries provide two types of post-employment benefit plans, lump-sum payment plans and approved retirement 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.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Companies provided allowance for employees' severance and retirement benefits at March 31, 2004, 2003 and 2002 based on the estimated amount of projected benefit obligation at those dates.

Actuarial gains and losses are recognized in expenses in the succeeding period.

(14) Derivative transaction and hedge accounting

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

If derivative financial instruments are used as hedges and meet certain hedging criteria, 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.

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

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

(a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and

(b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract

2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria (regarding interest rate swap contracts), 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.

(15) 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.

(16) Reclassifications

Certain prior years amounts have been reclassified to conform to the 2004 presentation.

These changes had no impact on previously reported results of operations.

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash, time and notice deposits	**¥132,474**	¥101,700	**$1,253,420**
Time deposits over three months	**—**	(6,000)	**—**
Marketable securities	**2**	3	**19**
Cash and cash equivalents	**¥132,476**	¥ 95,703	**$1,253,439**

4. Inventories

Inventories at March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Land and condominiums for sale	**¥ 81,658**	¥ 35,584	**$ 772,618**
Land and condominiums projects in progress	**77,214**	89,039	**730,570**
Land held for development	**26,207**	33,453	**247,961**
Other	**4,468**	3,080	**42,275**
	¥189,547	¥161,156	**$1,793,424**

5. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Investments in common stock, at cost	**¥5,948**	¥5,673	**$56,278**
Advances	**503**	2,476	**4,759**
	¥6,451	¥8,149	**$61,037**

6. Properties in trust

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

Such properties included in property and equipment in the consolidated balance sheets at March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Land	**¥17,655**	¥18,628	**$167,045**
Buildings and structures	**5,980**	6,941	**56,580**
Machinery and equipment	**62**	82	**587**
	¥23,697	¥25,651	**$224,212**

The Company sold off properties as the object of real estate trust contracts to S.F.Office Network, Ltd. (the "SPC"). However, certain risks and economic values concerning the properties remain in the Company, because the Company has invested to the SPC exceeding 5% of the transfer countervalue. Therefore, it's considered that the dealing is financial transaction in accordance with the "Practical Guidelines on Accounting of the Trasferor for the Derecognition of Real Estate Securitized by means of Special Purpose Companies". The properties are included in property and equipment or leasehold rights and other intangible assets, and ¥25,000 million ($236,541 thousand) received from the SPC is included in deposits received in the consolidated balance sheets.

Such properties at March 31, 2004, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2004	2004
Land	**¥29,636**	**$280,405**
Buildings and structures	**7,147**	**67,622**
Machinery and equipment	**114**	**1,079**
Leasehold rights and other intangible assets	**1,713**	**16,208**
	¥38,610	**$365,314**

In addition, the SPC has offered the properties as security of ¥25,000 million ($236,541 thousand) loans from banks.

7. Securities

For 2004

A. The following tables summarize acquisition costs, book values and fair market values of securities with available fair market values as of March 31, 2004:

(a) Held-to-maturity securities:

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair market value	Difference	Book value	Fair market value	Difference
Securities whose fair market value exceeds book value						
National and local government bonds, etc.	**¥ 811**	**¥ 814**	**¥ 3**	**$ 7,673**	**$ 7,702**	**$29**
Securities whose fair market value does not exceed book value						
National and local government bonds, etc.	**396**	**392**	**(4)**	**3,747**	**3,709**	**(38)**
Total	**¥1,207**	**¥1,206**	**¥(1)**	**$11,420**	**$11,411**	**$ (9)**

(b) Available-for-sale securities:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost						
Equity securities	**¥54,868**	**¥80,111**	**¥25,243**	**$519,141**	**$757,981**	**$238,840**
Others	**103**	**112**	**9**	**975**	**1,060**	**85**
Subtotal	**54,971**	**80,223**	**25,252**	**520,116**	**759,041**	**238,925**
Securities whose book value does not exceed acquisition cost						
Equity securities	**7,428**	**6,580**	**(848)**	**70,281**	**62,258**	**(8,023)**
Others	**754**	**681**	**(73)**	**7,134**	**6,443**	**(691)**
Subtotal	**8,182**	**7,261**	**(921)**	**77,415**	**68,701**	**(8,714)**
Total	**¥63,153**	**¥87,484**	**¥24,331**	**$597,531**	**$827,742**	**$230,211**

B. The following table summarizes book values of securities with no available fair market values as of March 31, 2004:

Available-for-sale securities:

	Book value	
	Millions of yen	Thousands of U.S. dollars
Non-listed equity securities	**¥ 3,478**	**$ 32,908**
Senior securities	**65,290**	**617,750**
Total	**¥68,768**	**$650,658**

Senior securities included securitized properties for sale amounted to ¥44,473 million ($420,787 thousand).

C. Available-for-sale securities with maturities and held-to-maturity securities at March 31, 2004, mature as follows:

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	**¥344**	**¥863**	**¥100**	**¥—**
Other	**500**	**—**	**—**	**—**
Total	**¥844**	**¥863**	**¥100**	**¥—**

	Thousands of U.S. dollars			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	**$3,255**	**$8,165**	**$946**	**$—**
Other	**4,731**	**—**	**—**	**—**
Total	**$7,986**	**$8,165**	**$946**	**$—**

D. Total sales of available-for-sale securities sold in the year ended March 31, 2004 amounted to ¥220 million ($2,082 thousand) and the related gains and losses amounted to ¥11 million ($104 thousand) and ¥237 million ($2,242 thousand), respectively.

E. The securitized properties for sale are the equity investments such as preferred subscription certificates and silent partnership ("Tokumei Kumiai") investments in Special Purpose Companies (SPC) and Tokumei Kumiai which own and develop real estate. The Company or its subsidiaries will sell real estate in SPC and Tokumei Kumiai after the completion of the construction. Tokumei Kumiai can be used as a vehicle for investment allowed under the Japanese Commercial Code.

As of March 31, 2004, securitized properties for sale consisted of the preferred subscription certificates issued by SPC.

For 2003

A. The following tables summarize acquisition costs, book values and fair market values of securities with available fair market values as of March 31, 2003:

(a) Held-to-maturity securities:

	Millions of yen		
	Book value	Fair market value	Difference
Securities whose fair market value exceeds book value			
National and local government bonds, etc.	¥1,095	¥1,103	¥8
Securities whose fair market value does not exceed book value			
National and local government bonds, etc.	117	117	—
Total	¥1,212	¥1,220	¥8

(b) Available-for-sale securities:

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost			
Equity securities	¥ 9,284	¥10,884	¥ 1,600
Others	1	1	—
Subtotal	9,285	10,885	1,600
Securities whose book value does not exceed acquisition cost			
Equity securities	39,447	29,954	(9,493)
Others	857	697	(160)
Subtotal	40,304	30,651	(9,653)
Total	¥49,589	¥41,536	¥(8,053)

Investments in securities were devaluated and the loss amounted to ¥4,196 million, consisted of equity securities included available-for-sale securities.

B. The following table summarizes book values of securities with no available fair market values as of March 31, 2003:

Available-for-sale securities:

	Book value Millions of yen
MMF	¥ 3
Non-listed equity securities	3,270
Senior securities	42,298
Total	¥45,571

Senior securities included securitized properties for sale amounted to ¥27,980.

C. Available-for-sale securities with maturities and held-to-maturity securities at March 31, 2003, mature as follows:

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	¥529	¥ 683	¥600	¥—
Other	—	600	—	—
Total	¥529	¥1,283	¥600	¥—

D. Total sales of available-for-sale securities sold in the year ended March 31, 2003 amounted to ¥644 million and the related losses amounted to ¥500 million.

E. The securitized properties for sale are the equity investments such as preferred subscription certificates and silent partnership ("Tokumei Kumiai") investments in Special Purpose Companies (SPC) and Tokumei Kumiai which own and develop real estate. The Company or its subsidiaries will sell real estate in SPC and Tokumei Kumiai after the completion of the construction. Tokumei Kumiai can be used as a vehicle for investment allowed under the Japanese Commercial Code.

As of March 31, 2003, securitized properties for sale consisted of the preferred subscription certificates issued by SPC.

8. Short-term debt and long-term debt

Short-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	2004	**Average interest rate (%)**	2003	Average interest rate (%)	**2004**
Loans, principally from banks	**¥171,423**	**0.90**	¥228,751	0.96	**$1,621,942**
Commercial paper	**34,000**	**0.16**	64,100	0.82	**321,695**
	¥205,423		¥292,851		**$1,943,637**

The interest rates represent weighted average rates in effect at March 31, 2004 and 2003, regardless of borrowing currencies, though the range of the interest rate varies by borrowing currency.

Long-term debt at March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
2.65% Euroyen notes(*), due 2004	**¥ —**	¥ 9,300	**$ —**
2.575% Euroyen notes, due 2004	**7,400**	7,400	**70,016**
2.5% domestic straight bonds, due 2003	**—**	13,000	**—**
2.6% Euroyen notes, due 2003	**—**	1,000	**—**
2.75% domestic straight bonds, due 2003	**—**	5,000	**—**
3.0% domestic straight bonds, due 2004	**3,200**	3,200	**30,277**
2.6% domestic straight bonds, due 2003	**—**	7,100	**—**
3.1% Euroyen notes, due 2005	**700**	700	**6,623**
3.0% domestic straight bonds, due 2003	**—**	9,400	**—**
3.0% domestic straight bonds, due 2003	**—**	33,481	**—**
2.65% domestic straight bonds, due 2003	**—**	9,669	**—**
2.95% domestic straight bonds, due 2004	**34,422**	34,441	**325,688**
2.35% domestic straight bonds, due 2003	**—**	9,497	**—**
2.45% domestic straight bonds, due 2004	**19,600**	19,600	**185,448**
2.45% domestic straight bonds, due 2004	**9,321**	9,321	**88,192**
2.62% domestic straight bonds, due 2005	**15,366**	15,566	**145,388**
2.3% domestic straight bonds, due 2004	**3,580**	3,580	**33,873**
2.85% domestic straight bonds, due 2006	**3,100**	3,300	**29,331**
Floating rate domestic straight bonds, due 2006	**7,390**	7,606	**69,922**
1.6% domestic straight bonds, due 2006	**9,500**	9,500	**89,886**
Floating rate domestic straight bonds, due 2006	**7,844**	7,844	**74,217**
Floating rate domestic straight bonds, due 2007	**7,510**	7,730	**71,057**
1.5% domestic straight bonds, due 2006	**7,360**	7,360	**69,638**
Floating rate domestic straight bonds, due 2006	**7,337**	7,592	**69,420**
1.75% domestic straight bonds, due 2005	**10,000**	10,000	**94,616**
1.85% domestic straight bonds, due 2006	**7,557**	7,808	**71,502**
1.85% domestic straight bonds, due 2006	**9,409**	9,685	**89,025**
1.85% domestic straight bonds, due 2006	**9,377**	9,407	**88,722**
2.0% domestic straight bonds, due 2007	**9,057**	9,406	**85,694**
1.5% domestic straight bonds, due 2005	**7,147**	7,147	**67,622**
1.5% domestic straight bonds, due 2005	**12,000**	12,000	**113,540**
1.5% domestic straight bonds, due 2005	**10,000**	10,000	**94,616**
1.45% domestic straight bonds, due 2005	**10,000**	10,000	**94,616**
1.45% domestic straight bonds, due 2005	**9,954**	10,000	**94,181**
1.45% domestic straight bonds, due 2005	**12,500**	12,500	**118,270**
0.8%—1.2% Euroyen notes, due 2005 (**)	**—**	5,000	**—**
1.35% domestic straight bonds, due 2006	**5,000**	5,000	**47,308**
1.5% domestic straight bonds, due 2007	**10,000**	—	**94,616**
1.5% domestic straight bonds, due 2007	**10,000**	—	**94,616**
1.39% domestic straight bonds, due 2006	**7,000**	—	**66,232**
1.4% domestic straight bonds, due 2007	**20,000**	—	**189,233**
1.4% domestic straight bonds, due 2007	**10,000**	—	**94,616**
1.68% domestic straight bonds, due 2008	**10,000**	—	**94,616**
1.49% domestic straight bonds, due 2006	**5,000**	—	**47,308**
1.92% domestic straight bonds, due 2008	**5,000**	—	**47,308**
0.75%—0.96% Euroyen notes, due 2004	**—**	1,700	**—**
Loans, principally from banks and insurance companies, interest principally at rates of 0.51% to 4.50% in 2004, and 0.82% to 4.35% in 2003:			
Unsecured	**510,575**	483,427	**4,830,873**
Subtotal	**843,206**	845,267	**7,978,106**
Amount due within one year	**(198,242)**	(217,862)	**(1,875,693)**
Total	**¥644,964**	¥627,405	**$6,102,413**

(*) Euroyen notes = yen denominated bonds issued in Euro market

(**) This bond was called by the Company before its maturity.

The aggregate annual maturities of long-term debt at March 31, 2004, are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥198,242	$1,875,693
2006	222,442	2,104,665
2007	193,264	1,828,593
2008	132,403	1,252,749
2009	76,644	725,177
2010 and thereafter	20,211	191,229
Total	¥843,206	$7,978,106

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 default and certain other specified events. The Company has never received such request.

9. Employees' severance and retirement benefits

As explained in Note 2(13), the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The allowance for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Projected benefit obligation	**¥ 7,286**	¥ 6,720	**$ 68,937**
Fair value of plan assets	**(2,422)**	(2,059)	**(22,916)**
Unrecognized actuarial differences	**(117)**	(351)	**(1,107)**
Prepaid pension cost	**1**	—	**10**
Allowance for severance and retirement benefits	**¥ 4,748**	¥ 4,310	**$ 44,924**

Included in the consolidated statements of operations for the years ended March 31, 2004 and 2003 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service costs — benefits earned during the year	**¥463**	¥450	**$4,381**
Interest cost on projected benefit obligation	**138**	141	**1,305**
Expected return on plan assets	**(50)**	(51)	**(473)**
Amortization of actuarial differences	**351**	431	**3,321**
Severance and retirement benefit expenses	**¥902**	¥971	**$8,534**

The discount rates and the rates of expected return on plan assets for years ended March 31, 2004 and 2003 used by the Company are 2.0% and 2.5%, respectively (the discount rates used by one consolidated subsidiary are 1.5%). 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 next year.

10. Loss on sale and devaluation of property and equipment

As explained in Note 2(8), the new accounting standard for impairment of fixed assets is required to be adopted in periods beginning on or after April 1, 2005. In order to prepare for the adoption of the standard, the Company and its subsidiaries sold and recognized losses on a part of fixed assets of ¥49,414 million ($467,537 thousand). Some of the fixed assets were sold to its consolidated subsidiaries and such losses incurred in these transactions were not eliminated in consolidation and were recorded as net loss on devaluation of land or buildings. Loss on sale and devaluation of property and equipment of ¥49,414 million ($467,537 thousand) consists of net loss on sale of land of ¥22,508 million ($212,963 thousand), loss on devaluation of land of ¥20,413 million ($193,140 thousand), net loss of sale of buildings of ¥6,339 million ($59,977 thousand) and loss on devaluation of buildings of ¥154 million ($1,457 thousand).

11. Income taxes

The normal effective statutory income tax rate in Japan arising out of aggregation of corporate, enterprise and inhabitants taxes was approximately 42.05% for the years ended March 31, 2004 and 2003.

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 years ended March 31, 2004 and 2003.

	2004	2003
Statutory tax rate	**42.05%**	42.05%
Net operating loss carryforwards of subsidiaries	**2.31**	(39.11)
Per capita inhabitant taxes	**1.50**	—
Entertainment expenses and others not deductible for tax purposes	**0.90**	—
Valuation allowance for deferred tax assets of certain subsidiaries	—	(58.42)
Effect of tax rate changes	—	19.54
Difference of tax rates of foreign subsidiaries	—	(7.53)
Effect of taxation on dividends	—	37.27
Tax benefits on losses of subsidiaries	—	(68.90)
Realized foreign currency translation adjustments due to liquidations of subsidiaries	—	(7.49)
Unrealized gains	—	29.44
Other	**0.54**	(2.05)
Effective tax rate	**47.30%**	(55.20)%

Details of deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Net operating loss carryforwards	**¥ 15,722**	¥ 23,133	**$148,756**
Loss from devaluation of inventories	**5,094**	5,758	**48,197**
Allowance for employees' severance and retirement benefits	**1,845**	—	**17,457**
Unrealized inter-company profits	**1,525**	1,564	**14,429**
Accrued bonuses	**1,219**	—	**11,534**
Net unrealized holding losses on securities	—	3,146	—
Other	**4,875**	7,866	**46,125**
Subtotal of deferred tax assets	**30,280**	41,467	**286,498**
Valuation allowance	**(10,497)**	(12,028)	**(99,318)**
Total deferred tax assets	**19,783**	29,439	**187,180**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**(9,962)**	(—)	**(94,257)**
Other	**(—)**	(7)	**(—)**
Total deferred tax liabilities	**(9,962)**	(7)	**(94,257)**
Net deferred tax assets	**¥ 9,821**	¥ 29,432	**$ 92,923**

The aggregate statutory income tax rate will be reduced for the years commencing on April 1, 2004 or later due to the revised local tax law. At March 31, 2004 and 2003, the Company and consolidated domestic subsidiaries applied the reduced aggregate statutory income tax rate of 40.69% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on April 1, 2004 or later.

12. Guarantee and deposits received

Guarantee and deposits received at March 31, 2004 and 2003, were as follows:

	Millions of yen				Thousands of U.S. dollars
	2004	**Average interest rate (%)**	2003	Average interest rate (%)	**2004**
Short-term deposits and long-term deposits due within one year					
Non-interest-bearing	**¥131,015**	**—**	¥153,166	—	**$1,239,616**
Interest-bearing	**50,442**	**0.25**	6,164	0.98	**477,264**
	181,457		159,330		**1,716,880**
Guarantee and lease deposits from tenants					
Non-interest-bearing	**¥145,857**	**—**	¥156,098	—	**$1,380,045**
Interest-bearing	**22,500**	**2.80**	22,500	2.80	**212,887**
Long-term deposits					
Non-interest-bearing	**203,103**	**—**	164,764	—	**1,921,687**
Interest-bearing	**26,000**	**0.79**	26,000	0.86	**246,002**
	397,460		369,362		**3,760,621**
Total	**¥578,917**		¥528,692		**$5,477,501**

As explained in Note 6, ¥25,000 million ($236,541 thousand) received from the SPC related to the sale of properties is included in deposits received.

The aggregate annual maturities of interest-bearing guarantee and deposits received at March 31, 2004, are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥72,942	$690,151
2006	—	—
2007	20,000	189,232
2008	6,000	56,770
2009	—	—
2010 and thereafter	—	—
	¥98,942	$936,153

13. Shareholders' equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Company has reached 25% of common stock, and therefore the Company is not required to provide legal earnings reserve any more. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

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

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves"). The effect on net income of the adoption of the new accounting standard was not material.

14. 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, 2004 and 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Acquisition cost:			
Buildings and structures	**¥15,300**	¥13,913	**$144,763**
Other	**1,871**	1,991	**17,703**
Accumulated depreciation	**(5,079)**	(3,338)	**(48,056)**
Net book value	**¥12,092**	¥12,566	**$114,410**

Depreciation equivalent of ¥2,477 million ($23,436 thousand) and ¥1,784 million for 2004 and 2003, respectively, are computed using the straight-line method over the lease terms assuming no residual value or residual indemnity.

Lease expenses under finance leases, inclusive of interest, for the years ended March 31, 2004 and 2003, amounted to ¥2,477 million ($23,436 thousand) and ¥1,784 million, respectively.

Future lease payments and receipts under such finance leases and non-cancelable operating leases at March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Finance leases			
Future lease payments:			
Due within one year	**¥ 2,268**	¥ 2,312	**$ 21,459**
Due after one year	**9,824**	10,254	**92,951**
Total	**¥12,092**	¥12,566	**$114,410**
Future sub-lease payments:			
Due within one year	**¥—**	¥1	**$—**
Due after one year	**—**	—	**—**
Total	**¥—**	¥1	**$—**
Future sub-lease receipts:			
Due within one year	**¥7**	¥18	**$66**
Due after one year	**—**	7	**—**
Total	**¥7**	¥25	**$66**
Operating leases			
Future lease payments:			
Due within one year	**¥ 14,447**	¥ 10,215	**$ 136,692**
Due after one year	**142,679**	116,388	**1,349,977**
Total	**¥157,126**	¥126,603	**$1,486,669**
Future lease receipts:			
Due within one year	**¥112**	¥ 82	**$1,060**
Due after one year	**576**	685	**5,450**
Total	**¥688**	¥767	**$6,510**

15. 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.

Foreign exchange forward contracts and cross currency swap contracts are subject to risks of foreign exchange rate changes. Interest rate swap contracts are subject to risks of interest rate changes. The derivative financial instruments are executed with creditworthy financial institutions, and the Company's management believes there is little risk of default by counterparties.

The derivative transactions are executed by the Company's Finance Department in accordance with the decisions in the conference whose chairman is the director of finance department. The Finance Department prepares reports on derivative transactions and informs them to the director of Finance Department periodically.

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

Hedging instruments:	Hedged items:
Foreign exchange forward contracts and cross currency swap contracts	Foreign currency monetary liabilities and foreign provisional transaction
Interest rate swap contracts	Bank loans, bonds and deposits

The Companies evaluate hedge effectiveness by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

Evaluating hedge effectiveness of interest rate swap at years ended March 31, 2004 and 2003 is omitted as special hedge accounting has been applied to derivative transactions of interest rate swap contracts. Also, evaluating hedge effectiveness of foreign exchange forward at years ended March 31, 2004 and 2003 is omitted because significant terms of hedging instruments and those of the hedged items are the same and the risk of changes in foreign exchange rates would be entirely eliminated.

The contract amounts and unrealized gains or losses of outstanding derivative transactions at March 31, 2004 and 2003 were not disclosed because all derivative transactions were used as hedges and hedge accounting was applied.

16. Segment information

The Company and its consolidated subsidiaries mainly operate their business in five segments: leasing of buildings and apartments, other properties; sale of condominiums; construction of housing and buildings; brokerage business; and other business.

Information by industry segment for the years ended March 31, 2004, 2003 and 2002 is summarized as follows:

	Millions of yen							
For 2004	Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Elimination and/or corporate	Consolidated
I Net sales and operating income								
Net sales								
Customers	**¥ 201,307**	**¥ 213,285**	**¥ 112,819**	**¥ 39,529**	**¥ 6,922**	**¥ 573,862**	**¥ —**	**¥ 573,862**
Intersegment	**1,469**	**18**	**12,267**	**280**	**4,006**	**18,040**	**(18,040)**	**—**
Total	**202,776**	**213,303**	**125,086**	**39,809**	**10,928**	**591,902**	**(18,040)**	**573,862**
Costs and expenses	**150,119**	**181,023**	**116,875**	**31,271**	**10,526**	**489,814**	**(11,929)**	**477,885**
Operating income	**¥ 52,657**	**¥ 32,280**	**¥ 8,211**	**¥ 8,538**	**¥ 402**	**¥ 102,088**	**¥ (6,111)**	**¥ 95,977**
II Identifiable assets, depreciation expense and capital expenditures								
Identifiable assets	**¥ 1,481,757**	**¥ 261,679**	**¥ 26,024**	**¥ 17,694**	**¥ 91,216**	**¥ 1,878,370**	**¥ 212,600**	**¥ 2,090,970**
Depreciation expense	**11,211**	**93**	**165**	**291**	**91**	**11,851**	**360**	**12,211**
Capital expenditures	**33,470**	**473**	**165**	**356**	**90**	**34,554**	**312**	**34,866**

	Millions of yen							
For 2003	Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Elimination and/or corporate	Consolidated
I Net sales and operating income								
Net sales								
Customers	¥ 191,215	¥ 183,729	¥ 114,206	¥ 37,335	¥ 7,430	¥ 533,915	¥ —	¥ 533,915
Intersegment	1,764	16	10,258	242	3,862	16,142	(16,142)	—
Total	192,979	183,745	124,464	37,577	11,292	550,057	(16,142)	533,915
Costs and expenses	139,718	157,958	117,472	29,785	10,621	455,554	(10,151)	445,403
Operating income	¥ 53,261	¥ 25,787	¥ 6,992	¥ 7,792	¥ 671	¥ 94,503	¥ (5,991)	¥ 88,512
II Identifiable assets, depreciation expense and capital expenditures								
Identifiable assets	¥ 1,517,653	¥ 211,066	¥ 21,436	¥ 34,452	¥ 106,621	¥ 1,891,228	¥ 124,439	¥ 2,015,667
Depreciation expense	11,114	94	158	248	80	11,694	279	11,973
Capital expenditures	47,596	359	451	259	174	48,839	805	49,644

	Millions of yen							
For 2002	Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Elimination and/or corporate	Consolidated
I Net sales and operating income								
Net sales								
Customers	¥ 176,244	¥ 170,428	¥ 108,336	¥ 35,966	¥ 6,903	¥ 497,877	¥ —	¥ 497,877
Intersegment	1,790	—	6,993	218	3,494	12,495	(12,495)	—
Total	178,034	170,428	115,329	36,184	10,397	510,372	(12,495)	497,877
Costs and expenses	128,809	146,040	110,557	28,231	10,384	424,021	(6,514)	417,507
Operating income	¥ 49,225	¥ 24,388	¥ 4,772	¥ 7,953	¥ 13	¥ 86,351	¥ (5,981)	¥ 80,370
II Identifiable assets, depreciation expense and capital expenditures								
Identifiable assets	¥ 1,506,120	¥ 193,374	¥ 20,299	¥ 21,044	¥ 110,412	¥ 1,851,249	¥ 121,486	¥ 1,972,735
Depreciation expense	9,942	99	176	212	71	10,500	231	10,731
Capital expenditures	63,839	414	211	274	71	64,809	654	65,463

	Thousands of U.S. dollars							
For 2004	Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Elimination and/or corporate	Consolidated
I Net sales and operating income								
Net sales								
Customers	**$ 1,904,693**	**$ 2,018,025**	**$ 1,067,452**	**$ 374,009**	**$ 65,493**	**$ 5,429,672**	**$ —**	**$ 5,429,672**
Intersegment	**13,899**	**170**	**116,066**	**2,649**	**37,903**	**170,687**	**(170,687)**	**—**
Total	**1,918,592**	**2,018,195**	**1,183,518**	**376,658**	**103,396**	**5,600,359**	**(170,687)**	**5,429,672**
Costs and expenses	**1,420,371**	**1,712,773**	**1,105,828**	**295,875**	**99,593**	**4,634,440**	**(112,867)**	**4,521,573**
Operating income	**$ 498,221**	**$ 305,422**	**$ 77,690**	**$ 80,783**	**$ 3,803**	**$ 965,919**	**$ (57,820)**	**$ 908,099**
II Identifiable assets, depreciation expense and capital expenditures								
Identifiable assets	**$ 14,019,841**	**$ 2,475,911**	**$ 246,230**	**$ 167,414**	**$ 863,052**	**$ 17,772,448**	**$ 2,011,543**	**$ 19,783,991**
Depreciation expense	**106,075**	**880**	**1,561**	**2,753**	**861**	**112,130**	**3,406**	**115,536**
Capital expenditures	**316,681**	**4,476**	**1,561**	**3,368**	**852**	**326,938**	**2,952**	**329,890**

Distribution from SPC and partnership which operate real estate leasing business is included in net sales of "Leasing business ".

17. Contingent liabilities

At March 31, 2004, the Company and its consolidated subsidiaries were contingently liable as guarantors of borrowings by customers and others amounted to ¥278 million ($2,630 thousand).

Also, at March 31, 2004, the Company and its consolidated subsidiaries had outstanding commitments to guarantee loans of customers and others amounted to ¥10 million ($95 thousand).

(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 judgments 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 judgments were contradictory to the previous legal interpretations.

In case B, the Tokyo Higher Court issued judgment for the Company in October of 1999. And the lessor appealed to the Supreme Court in November of 1999.

In case A, the Tokyo Higher Court issued judgment 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.

In October of 2003, the Supreme Court reversed the judgments and remanded both cases to the Tokyo Higher Court.

18. Subsequent events

The Company issued 1.31% ¥20,000 million ($189,233 thousand) domestic straight bonds due 2009 on April 30, 2004, 1.52% ¥20,000 million ($189,233 thousand) domestic straight bonds due 2010 on June 15, 2004.

On June 29, 2004, the shareholders of the Company approved payments of a year-end cash dividend of ¥9 ($0.09) per share or a total ¥4,280 million ($40,496 thousand) to shareholders of record at March 31, 2004.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Sumitomo Realty & Development Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Realty & Development Co., Ltd. and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2004

BOARD OF DIRECTORS AND AUDITORS
(As of June 29, 2004)

Chairman of the Board *
Shinichiro Takagi

President & Chief Executive Officer *
Junji Takashima

Director & Advisor *
Taro Ando

Directors & Senior Managing Executive Officers

Hisao Matsui *
Tetsuro Tsuruta *
Masayoshi Ohashi *
Kenichiro Sugimoto
Kazuo Masuoka
Kenichi Onodera

Senior Executive Officers
Sadao Ushimaru
Shozo Suzuki
Haruo Fukumuro
Kenichi Kameyama
Tsutomu Oyama
Hiroyuki Asano
Yoshifumi Nakamura

Executive Officers
Takahiro Daisaka
Satoru Miyashita
Akira Murakami
Yoshiteru Nishimoto
Naoyoshi Matsugami
Takashi Saito
Masayuki Takahashi
Masaki Ogawa
Yoshiya Unno
Yoshinobu Sakamoto
Nobuaki Takemura
Koji Ito
Toshikazu Tanaka
Masato Kobayashi
Kojun Nishima

Statutory Auditor
Shinsaku Sanmoto

Standing Statutory Auditors
Ryoichi Nomura
Chuji Kitamura
Kunio Kobayashi

(*) Representative Director

CORPORATE DATA
(As of March 31, 2004)

Sumitomo Realty & Development Co., Ltd.

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Facsimile: +81-3-3346-1652
http://www.sumitomo-rd.co.jp

Date of Establishment
December 1, 1949

Paid-in Capital
¥122,805 million

Common Stock Issued and Outstanding
476,085,978

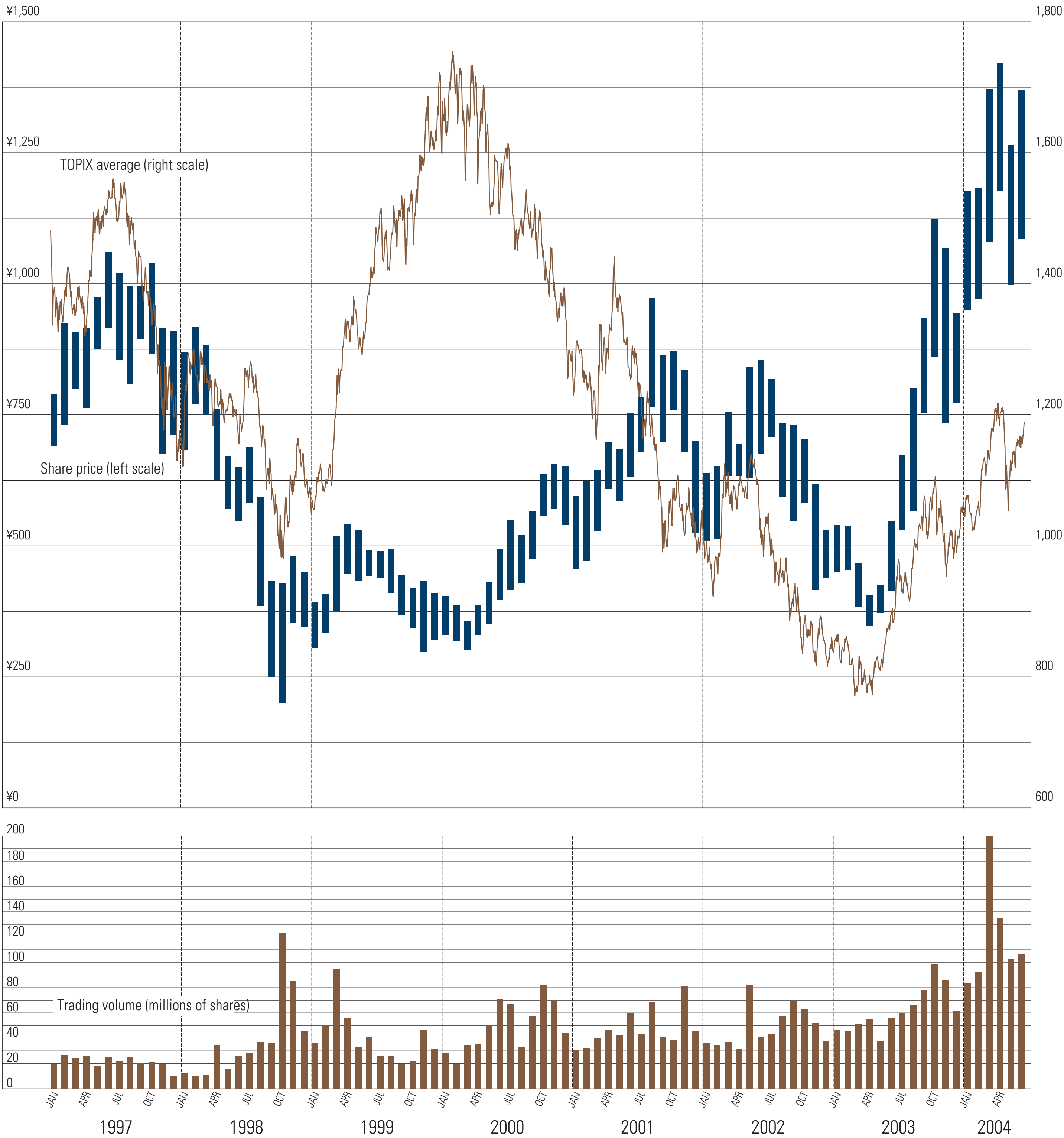
Number of Shareholders
30,948

Number of Employees
6,937

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

Stock Exchange Listings
Tokyo and Osaka

SHARE PRICE AND TRADING VOLUME ON TOKYO STOCK EXCHANGE



* Simple average of monthly highs and lows.

Sumitomo Realty & Development Co., Ltd.

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