NEW STAGE OF GROWTH

Annual Report 2000

SUMITOMO REALTY & DEVELOPMENT CO., LTD.

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, home remodeling and building management services. While continuing to create comfortable working and living environments that contribute to a higher quality of life, the Company is poised to begin a new phase of growth in the 21st century.

CONTENTS

CAUTIONARY STATEMENTS WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

FIVE-YEAR FINANCIAL HIGHLIGHTS

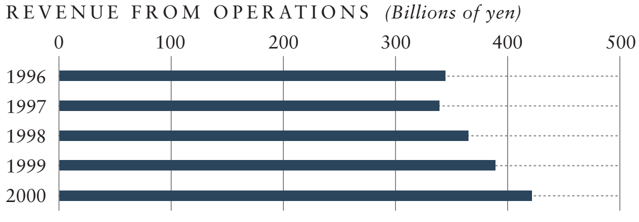
Sumitomo Realty & Development Co., Ltd.

	Millions of yen					Thousands of U.S. dollars
	2000	1999	1998	1997	1996	2000
Consolidated:						
Revenue from operations	**¥ 421,587**	¥ 389,136	¥ 364,858	¥ 338,980	¥ 344,404	**$ 3,971,616**
Revenue from leasing business	**151,268**	150,976	143,676	135,814	129,839	**1,425,040**
Revenue from sales business	**150,483**	137,735	125,327	102,128	130,809	**1,417,645**
Revenue from construction business	**80,064**	61,191	56,339	55,104	40,517	**754,254**
Revenue from brokerage business	**31,633**	27,829	27,421	31,741	26,701	**298,003**
Revenue from other business	**8,139**	11,405	12,095	14,193	16,538	**76,674**
Operating profit	**70,548**	56,516	45,412	44,143	51,322	**664,607**
Ordinary profit	**27,069**	21,688	4,484	2,755	14,489	**255,008**
Net income (loss)	**14,737**	10,983	(66,048)	(1,745)	1,707	**138,832**
Total assets	**1,920,737**	1,835,825	1,854,800	1,853,657	1,869,165	**18,094,555**
Total shareholders' equity	**215,534**	207,177	179,375	249,791	252,954	**2,030,466**

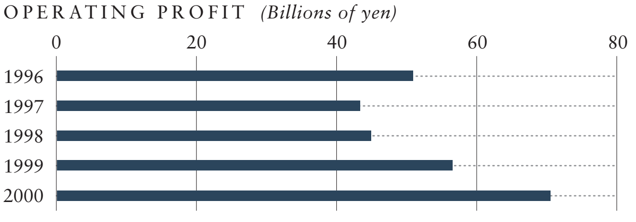
	Yen					U.S. dollars
Per share:						
Net income (loss)	**¥ 36.23**	¥ 27.00	¥ (162.36)	¥ (4.29)	¥ 4.20	**$ 0.34**
Shareholders' equity	**529.82**	509.28	440.93	614.03	621.81	**4.99**
Dividend	**6.00**	6.00	6.00	6.00	6.00	**0.06**

Note: The 2000 yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥106.15 = U.S.$1, the approximate exchange rate on March 31, 2000.

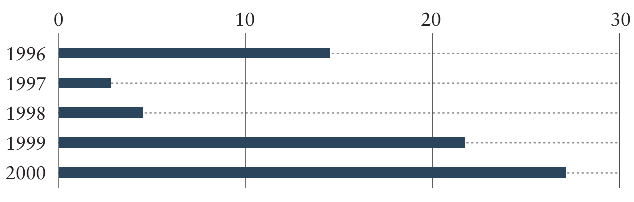
REVENUE FROM OPERATIONS *(Billions of yen)*



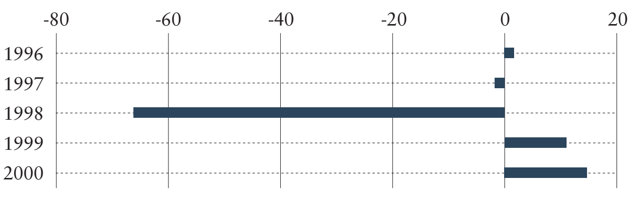
OPERATING PROFIT *(Billions of yen)*



ORDINARY PROFIT *(Billions of yen)*



NET INCOME (LOSS) *(Billions of yen)*

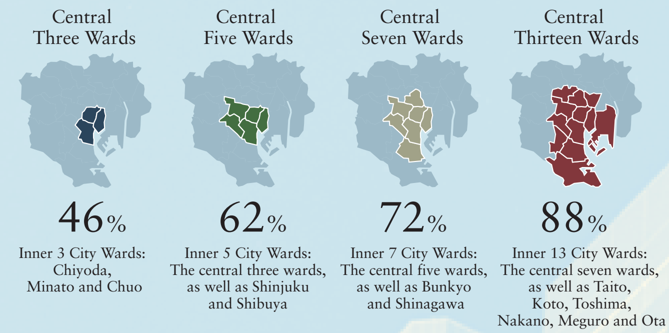


1949	We were established following the breakup of the old Sumitomo *zaibatsu* conglomerate, as the successor to the holding company.
1964	The Company started the condominium business with Hama-Ashiya Mansion (Kobe, Hyogo Prefecture), and established a position as "Condominium Pioneer."
1970	Shares of Sumitomo Realty were listed on the Tokyo Stock Exchange.
1974	The Company completed construction of its first skyscraper building, the Shinjuku Sumitomo Building (Shinjuku, Tokyo).
1975 | 1978	**FIRST MANAGEMENT CRISIS** The Company posted net losses for four straight fiscal years during the large-scale recession that followed the oil shock. The majority of the Company's office building portfolio was sold, including the Marunouchi Head Office Building. The Company withdrew from the residential land development business because of its lower financial efficiency and began to achieve high growth by concentrating management resources on the development and leasing of office buildings in central Tokyo and development of urban condominium projects.
1990	The Company posted record-high business performance.
1992 | 1995	**SECOND MANAGEMENT CRISIS** The real estate market entered a serious recession following the collapse of the bubble economy in Japan; The Company's operation was practically unprofitable for four consecutive years, once excluding the profit from asset sales. *American Comfort* was launched.
1996	*Shinchiku Sokkurisan* ("As Good as New") new full remodeling package for detached houses was launched.
1997 | 2001	The Five-Year Business Reconstruction Plan began. The Company aims to repeat record-high business performance of 1990, stressing the four objectives of (1) promoting *tochi-less business* (business without land investment), (2) converting idle real estate inventories into working assets, (3) writing off non-performing loans and (4) reducing interest-bearing debt.

Leasing Business

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

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



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

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

Buildings less than 10 years old 59%
Buildings less than 20 years old 87%

We are seeing an ever-advancing tenants' requisite level for the function of office building facilities due to the spread of the IT revolution. Buildings that cannot provide adequate function for IT or ensure adequate safety during earthquakes are quickly losing their competitive position. Because they were constructed recently, Sumitomo Realty's high-grade office buildings satisfy requisite levels of these kinds of tenants, which makes them extremely competitive and dominant in attracting and retaining tenants. In addition, investments in renewals are minimal, which means more funds can be allocated toward investments in new building construction.

(3) We utilize our in-house source for key business operations.

We strategically utilize our in-house source for three key areas of operation.

The first is when we carry out redevelopment plans for office building construction. Usually, office building development companies buy land only after assemblage or coordination of landowners in redevelopment plans are completed by a third party. However, Sumitomo Realty carries out this complex and detailed land assemblage and redevelopment coordination on its own. This method has resulted in substantial reductions in the cost of obtaining new land for office buildings.

The second is when we attract corporate tenants. Usually, leasing companies will search for tenants through a brokerage company. However, Sumitomo Realty has a strong internal marketing force and negotiates the lease contracts directly with the tenant. This system has allowed us to gather information on tenants' plans for relocation, their needs for expanded office space and their economic environment in general. This enables us to be the price leader and to secure high leasing fees, and lets us consistently design office buildings with specifications that match the latest in tenant requirements.

The third is in office building maintenance. Sumitomo Realty office buildings are all managed and maintained directly by employees of the Sumitomo Realty Group. As a result, we are able to quickly and accurately grasp customer needs for new offices or larger office space and to provide detailed services to our tenants. Each of our in-house staff are trained as professionals in all three areas, so we can shift our force to meet the company's and the fickle market's demand from time to time in the most efficient way.

Sales Business

The core of the sales business is condominium operations. Sumitomo Realty entered the condominium business at an earlier stage than most of its competitors and established a position as the "Condominium Pioneer." Since then, we have worked to provide customers nationwide with high-quality living spaces. The Company's condominium operation now covers each of the major urban areas of Japan (the Tokyo metropolitan area, Osaka/Kobe, Sapporo, Sendai, Nagoya and Fukuoka) and ranked seventh in number of units provided in calendar 1999.

We manage market risk through stable supply and pursue a brand strategy through careful and consistent merchandizing of high-quality housing with the primary goal of increasing investment turnover and raising the operating profit margin.

Posting of losses from mark-to-market devaluation of inventories was completed in the fiscal year ended March 31, 2000.

Construction Business

The Company's *tochi-less business* (business without land investment) is currently the focus of attention at Sumitomo Realty. Products are divided into four categories and organized as follows:

(1) *American Comfort*, the two-by-four standardized houses

We began marketing the *American Comfort* line, which introduced a high-quality, low-cost two-by-four construction method in 1995. From its earliest stages of marketing, Sumitomo Realty has expanded this business nationwide and in only five years has succeeded in surpassing the 1,000-completions mark with an average annualized growth rate of approximately 30%. We sell *American Comfort* at 28 marketing bases located nationwide (as of fiscal year-end).

(2) *Shinchiku Sokkurisan*, new full remodeling package for detached houses

We began selling *Shinchiku Sokkurisan* ("As Good as New") new full remodeling package for detached houses in 1996. The innovative strength of this product is its ability to raise older homes to a level of quality equal to new houses—but for half the price and time it takes to reconstruct a new house. In addition, we employ total cost control to ensure that our customers get a fixed price per floor area, which includes a standard specification in the package to reinforce basic performance of the house, such as earthquake resistance as well as termite and humidity control. And, because the remodeling can proceed while the customer lives in the house, there is no need to move or relocate temporarily. The Company sells this product at 22 marketing bases nationwide (as of fiscal year-end) and has achieved annualized growth rates of more than 100%.

(3) Sumitomo Fudosan Home medium- to high-end two-by-four custom houses

Sumitomo Fudosan Home Co., Ltd. began operations as a maker of medium- to high-end two-by-four custom houses in 1982, when it was spun off from the Housing Division of Sumitomo Realty. This company provides houses under a free-design plan that allows them to follow increasingly diverse customer requirements and taste. Operations are carried out at 11 marketing bases nationwide (as of fiscal year-end).

(4) Universal Home standardized houses via conventional post and beam construction method

Established in 1995, Universal Home Inc. makes standardized houses through the conventional post and beam construction method and carries out business through a nationwide network of franchised operators. This company entered the Sumitomo Realty Group in 1996 and listed its shares on the over-the-counter market in 1999. Universal Home's franchise members are total 228 (as of fiscal year-end).

Brokerage Business

Sumitomo Real Estate Sales Co., Ltd. was established in 1975 to handle the marketing of Sumitomo Realty's housing development business, and entered the real estate brokerage business in 1979. The company now carries out operations through directly managed brokerage offices known with its captioned store signs "*STEP*." As of March 31, 2000, Sumitomo Real Estate Sales' nationwide network included 185 brokerage offices. On a nonconsolidated basis, the company now enjoys the position in the real estate industry as the most profitable company.

Progress in Addressing Key Management Issues

The fiscal year ended March 31, 2000, marked the midway point in our Five-Year Business Reconstruction Plan to overcome the deterioration in operating conditions following the collapse of Japan's bubble economy. Started on April 1, 1997, the plan was built on the following four objectives: (1) restoring profitability; (2) converting idle real estate inventories, which are the raw material of our development business, into working assets; (3) writing off non-performing loans held by Sumitomo Fudosan Finance Co., Ltd.; and (4) reducing interest-bearing debt. We focused our business plans on the first three objectives to reshape operations without increasing further debt, while interest rates were at a historically low level.

As a result of these efforts, consolidated ordinary profit exceeded ¥20 billion for the first time in the past nine periods with an increase of 25% from the previous term, as the Company achieved its targets for restoring profitability faster than projected by the Five-Year Plan.

Since we decided to resume construction of office buildings in 1996, eight buildings have been completed with a combined gross floor area exceeding 221 thousand square meters, all of which were fully occupied upon completion. There are currently six buildings under construction, totaling nearly 525 thousand square meters, including such large-scale projects as the Redevelopment of Roppongi 1-chome and Nishi-Shinjuku 6-chome. Further, we expect to start construction of another four buildings during the current fiscal year, with total floor space of more than 85 thousand square meters. With real estate for development nearing the commercialization stage, we can now count on additional contributions to future earnings.

With regard to non-performing loans, after posting a substantial bad debt allowance at Sumitomo Fudosan Finance Co., Ltd. in the fiscal year ended March 31, 1998, we have been making large-scale progress in restructuring our loan portfolio.

During the fiscal year under review, both sales and profits improved sharply for the second consecutive period. Revenue from operations increased 8.3% to ¥421,587 million, with operating profit up 24.8% to ¥70,548 million. Net income climbed 34.2% to ¥14,737 million. By the fiscal year ending March 31, 2002, our Five-Year Plan targets revenue from operations of ¥500,000 million, operating profit of ¥80,000 million and ordinary profit of ¥40,000 million, all of which exceed historical highs. Results for the fiscal year in review represent 84%, 88% and 68% of the final five-year targets, respectively.

The Final Stage of Rebuilding

The fiscal year under review represented a key turning point in the recovery in the strength of our business operations. With significant progress toward reaching objectives (1) through (3) of the management plan discussed above, we began to make serious efforts toward objective (4), reducing interest-bearing debt. We sold shares of our limited

Junji Takashima, *President*

partnership, named Sumitomo Realty & Development Fund (*SURF*), as a general partner operating and managing the Company's office buildings, and sold interests of such office buildings as the Shinjuku Sumitomo Building through securitization. We also sold the 666 Fifth Avenue Building in New York. As a result, Group-wide interest-bearing debt, including loan guarantees, declined ¥235.7 billion from ¥1.618 trillion at the end of the previous fiscal year to ¥1.382 trillion as of March 31, 2000. At the same time, to prepare for rising interest rates in the future, management also increased the proportion of long-term debt from 58% to 74% and fixed-rate debt from 59% to 75% by issuing ¥130.0 billion of straight bonds and obtaining more than ¥145.3 billion of long-term loans.

We also took several steps to strengthen our financial constitution. In addition to recording more than ¥62.8 billion in extraordinary profits, including ¥62.4 billion in gains on sale of fixed assets resulting from securitization activities, we recorded extraordinary losses totaling ¥67.7 billion. These losses included a loss on devaluation of land for sale, a loss on restructuring overseas operations, which reflects a significant downsizing of our international business, and a loss on the revaluation of our sublease operations based on a court judgement regarding our masterleases with property owners. Through these steps, we have almost completely accomplished our financial restructuring of real estate for sale, overseas operations and sublease operations.

Raising Our Sights

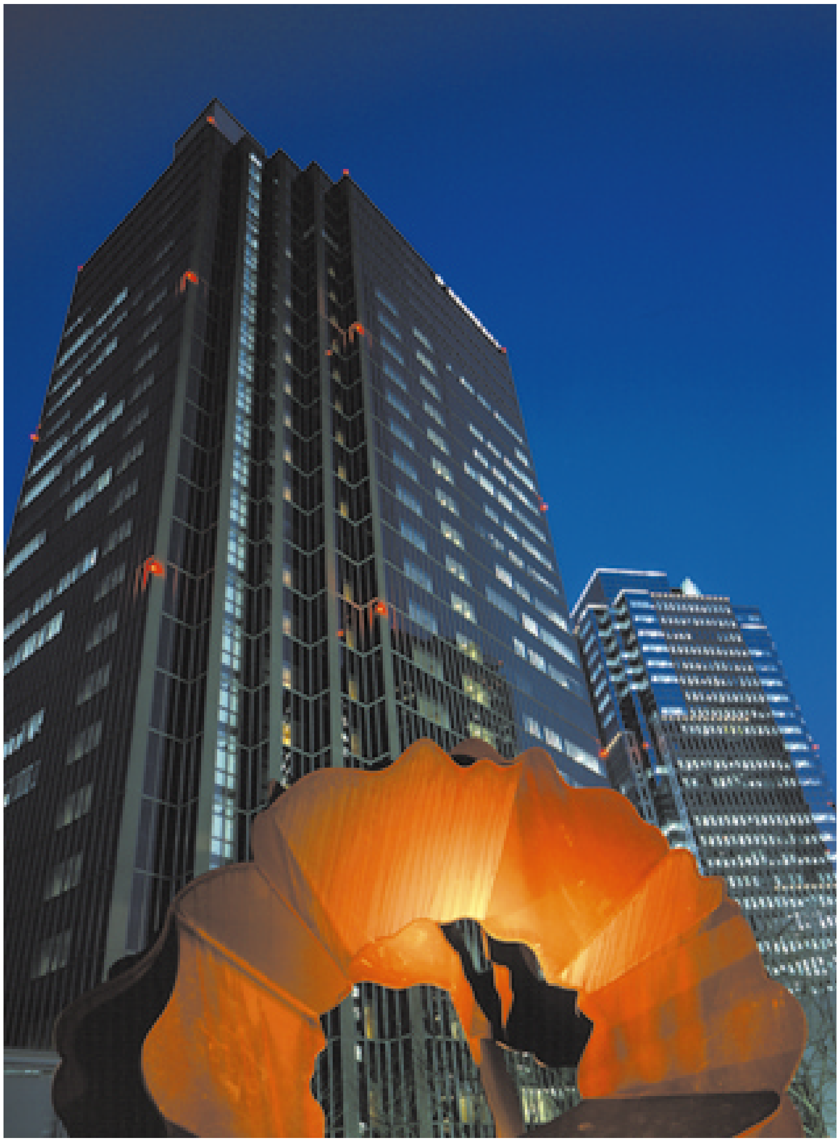
For the fiscal year ended March 31, 2001, management is targeting revenue from operations of ¥450,000 million, operating profit of ¥71,000 million, and ordinary profit of ¥32,000 million for continued sales and earnings growth. To achieve these targets, we are strengthening continuing efforts aimed at completing office building developments and increasing our ratio of working assets, improving the turnover of land for sale and reinforcing our marketing base for *tochi-less businesses* (business without land investment), areas that have been growing rapidly in recent terms. By pursuing further asset financing methods, we will also continue to reduce interest-bearing debt, improve asset efficiency and reinforce our financial position.

With the pace of sales and earnings growth exceeding our plans and our debt reduction program firmly in place, we are on course for realizing the challenging objectives established by our Five-Year Plan. We have substantially overcome the negative effects of the bubble economy and we intend to begin a New Three-Year Plan starting on April 1, 2002, targeting further growth and profitability. I would like to thank our shareholders for their continued support.

J. Takashima

Junji Takashima, President
August 2000

LEASING BUSINESS



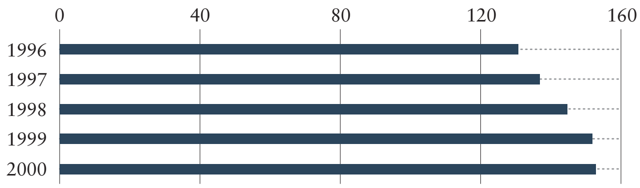
The Sumitomo Nakano-Sakaue Building (completed April 1999)

More than 90% of the Company's assets for leasing are concentrated in the Tokyo office building market, where conditions have been lackluster since the financial instability and economic downturn that began in 1997. Vacancy rates rose in the previous fiscal year as tenants cancelled portions of their leases in an attempt to reduce office lease expenses. However, this trend began to level off in the fiscal year under review, and the same tenants started to expand space again amid signs of a gradual recovery in the economy. These factors strengthened our belief that the market as a whole has started to rebound.

With public perception increasingly attuned to the importance of the IT revolution, and aggressive IT investment in the corporate sector, we saw especially robust demand from tenants for offices in high-quality *Kin-Shin-Dai* properties. Centrally located (*Kin*), ultramodern (*Shin*) and large-scale (*Dai*), these buildings are ideal environments for supporting IT investment. We also saw rent increases in comparatively new office building zones south and west of central Tokyo, particularly in the area around Shibuya (a shopping and business hub), which is being called "Bit Valley" due to its popularity as an office location among Tokyo's nascent venture start-ups.

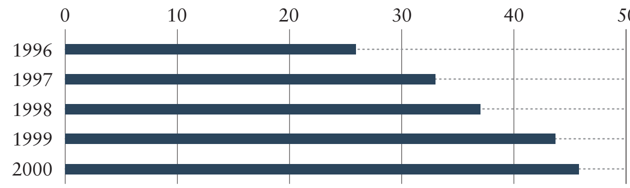
Amid this operating environment, the leasing business was able to offset poor market conditions and declining revenue from existing buildings with a full year of revenues from the Chiyoda First Building and three other buildings completed in the previous year, and also with revenue from completion of the new Sumitomo Nakano-Sakaue Building in the fiscal year under review. As a result, consolidated revenue from the leasing business rose ¥914 million to ¥152,803 million, and operating profit increased ¥2,041 million to ¥45,753 million.

LEASING BUSINESS REVENUE *(Billions of yen)*



Note: Including inter-segment sales

OPERATING PROFIT *(Billions of yen)*



Roppongi 1-Chome Redevelopment Project: Supporting Next-Generation Urban Development Complexes

Sumitomo Realty began construction of a redevelopment project in the central Tokyo section of Roppongi 1-chome (Minato Ward, Tokyo), an area that includes the U.S. embassy, Hotel Okura and other well-known city landmarks. The complex will cover 24,000 square meters of land and will feature an office building, condominiums and a museum displaying art and artifacts from the Sumitomo family collection. A new subway station, Roppongi 1-Chome Station on the Tokyo metropolitan subway's Namboku Line, is scheduled to open beneath the office building in fall 2000, which will give this large-scale complex direct transportation access upon completion.

The office building at the core of this project will be the tallest in Tokyo's Minato Ward, rising 43 stories above ground and 4 floors below. Featuring 157,000 square meters of total floor space, a generous 26,000 square meters of rental space on each story and cutting-edge IT compatible capabilities, the new building is expected to be extremely competitive in attracting tenants.

The Roppongi 1-Chome Redevelopment Project is widely known as one of Sumitomo Realty's next-generation urban development projects and as a way of creating new urban centers where people from every age group can work, live and relax.

Above: Artist's conception of the Roppongi 1-Chome Redevelopment Project, which is attracting attention as a major next-generation urban redevelopment project

Left: The Iidabashi First Building (completed March 2000)

SALES BUSINESS

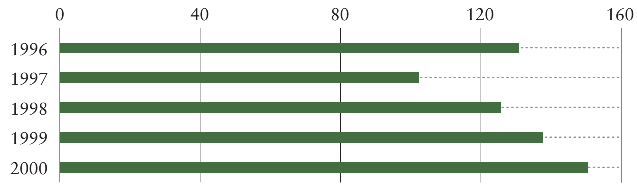
Park Square Musashino (completed March 2000)

In the real estate sales business, sales recovered rapidly in late 1998, thanks to such demand-boosting policies by the Japanese government as an enhanced housing loan tax credit program, mortgage rate cuts by the Government Housing Loan Corporation, and consumers' fear of a coming interest rate increase. As a result, market conditions remained extremely vigorous in the fiscal year under review.

Amid this environment, the sales business achieved record high sales, as the number of condominium units sold increased by 577 to 3,730. The gross

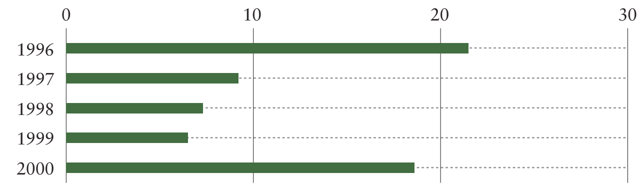
Park Square Kichijoji Honcho (completed March 2000)

SALES BUSINESS REVENUE *(Billions of yen)*



Note: Including inter-segment sales

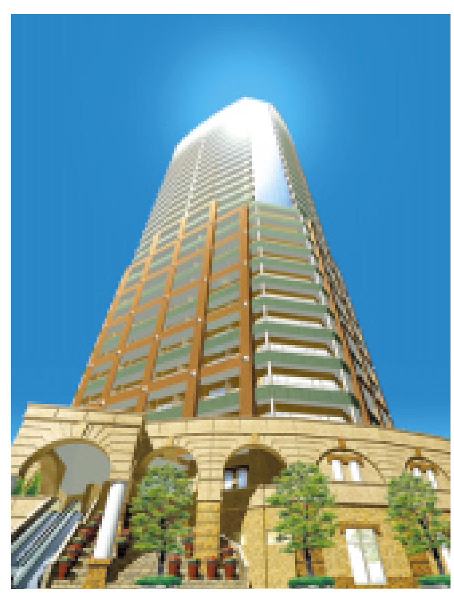
OPERATING PROFIT *(Billions of yen)*



profit margin improved substantially reflecting this robust sales activity and reduced advertising expenses. On a non-consolidated basis, we delivered 3,610 units, which represents an increase of 250 units from the previous fiscal year. As a result, we achieved remarkable growth in sales and earnings, as consolidated revenue from the sales business rose ¥12,741 million to ¥150,486 million, and operating profit increased ¥12,030 million to ¥18,574 million.

The Company carried out a strict write-down of land and housing for sale, targeting assets with estimated market value less than 50% of book value, regardless of the possibility of a future recovery in price. As a result, the Company recorded an extraordinary loss of ¥24,864 million from devaluation of inventories. In addition, assets included in inventories, yet currently leased to a third party and held for the purpose of leasing, were restated as property and equipment (with book value of approximately ¥59,600 million) to more properly reflect their actual state. Through these actions, we have completed the revaluation of our inventories to better reflect our asset status.

Interior view of Central Residence Shinjuku City Tower. This is a fresh concept for high-rise condominiums, featuring panoramic views of Tokyo combined with working, living and entertainment functions.

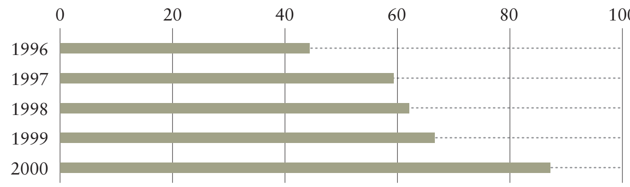


Above: The Formal Garden of the Central Residence Shinjuku City Tower offers a panoramic view of an attractive water terrace.

Right: Exterior view of Central Residence Shinjuku City Tower. Ranking in height with the skyscrapers of adjacent Nishi-Shinjuku, the Tower is a premier high-rise condominium in the area.

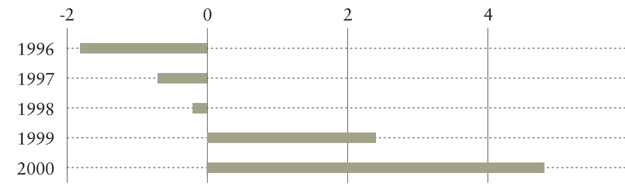
CONSTRUCTION BUSINESS

CONSTRUCTION BUSINESS REVENUE *(Billions of yen)*



Note: Including inter-segment sales

OPERATING PROFIT *(Billions of yen)*



American Comfort (Global Comfort) *two-by-four standardized houses form the core of Sumitomo Realty's Housing Business Division.*

The construction business handles mainly detached housing construction and home remodeling services, and is being positioned as an especially strategic area for the Group. Unlike the market for condominiums, the overall home building market did not show improvement, and general conditions remained sluggish in the fiscal year in review. However, our construction business set another record for growth in sales and earnings.

By product area, Sumitomo Fudosan Home Co., Ltd., the maker of medium- to high-end two-by-four custom houses, completed construction of 1,016 units, an increase of 204 units. This result represents a reversal from a downtrend that hit bottom in the previous fiscal year, as the company established profitable fundamentals after several years of downsizing.

The Company also completed construction of 1,167 units of *American Comfort*, the two-by-four standardized houses that form the core of Sumitomo Realty's Housing Business Division. This represents an increase of 337 units from the previous term and the first time in its five-year history that this product has crossed the one-thousand-unit mark.

Universal Home Inc. franchises local home builders with standardized houses via the conventional post and beam construction method. Housing starts by its branches totaled 3,449 units, an increase of 443 units from the previous fiscal year.

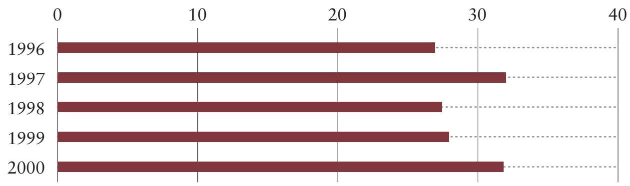
In additional activity, the Company's *Shinchiku Sokkurisan* ("As Good as New") new full remodeling package expanded its marketing base beyond the Tokyo metropolitan area and, for the first time in its four years of operations, began full-scale nationwide business activities. Full remodeling package continued to achieve strong growth in completions, which expanded 443 units to 1,020 units. We posted especially strong results in new orders, which surged 125%, or an increase of 874 units, to 1,569 units, as our products continued to gain strong acceptance from consumers nationwide.

Including general remodeling services and construction of interior remodelings, consolidated revenue from the construction business increased ¥20,542 million to ¥87,166 million, and operating profit expanded ¥2,371 million to ¥4,754 million. The operating profit margin exceeded 5%.

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

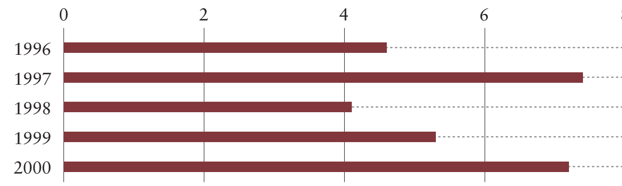
BROKERAGE BUSINESS

BROKERAGE BUSINESS REVENUE *(Billions of yen)*



Note: Including inter-segment sales

OPERATING PROFIT *(Billions of yen)*



Reflecting similar conditions in the market for condominium sales business, the real estate brokerage market experienced an increase in trading of existing condominiums and housing units, as consumers reacted favorably to reasonable prices. Trading of land showed strong growth especially.

Sumitomo Real Estate Sales Co., Ltd., the main business unit of the brokerage business, worked to increase its share of the brokerage market by opening 8 new brokerage offices. By aggressively expanding its offices, the company continued to bolster its network of directly managed offices and raise productivity. As a result, its network of directly managed offices stood at 185 as of fiscal year-end, including 100 in the Tokyo metropolitan area, 59 in Kansai and 26 in other areas of Japan. In addition, to complement its traditional brokerage office strategy, the real estate brokerage arm made efforts to cultivate new customers through establishment of the Information Technology Department, which will start marketing activity over the Internet. The Corporate Brokerage Division, established in February 1999, went into full-scale operations and has already contributed to revenues.

As a result of these efforts, the brokerage business recorded revenues of ¥31,923 million, or an increase of ¥3,956 million, and operating profit of ¥7,225 million, or an increase of ¥1,939 million.

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

OTHER BUSINESS

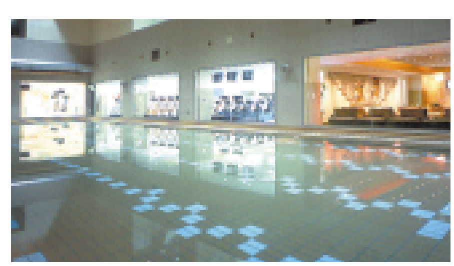
Other business includes mainly restaurant and fitness club management operations that support the Company's amenities business.

Restaurant management operations are carried out by Izumi Restaurant Co., Ltd., which operates more than 20 restaurants and grocery shops in central Tokyo. Izumi Restaurant provides a variety of dining styles, including Japanese food (*Donto*), general restaurants (*Le Parc*), *shabu-shabu* and sukiyaki specialty eateries (*Shabu-sen*), and authentic French cuisine (*La Fountaine*). Izumi Restaurant also operates an event coordination and catering business to support receptions and special events. This business has received excellent reviews for its total service capabilities, which range from event planning to party promotion. Izumi Restaurant is working toward creating a new culinary culture for the 21st century.

Management of fitness clubs is handled by Sumitomo Fudosan Fitness Co., Ltd., which operates 7 fitness clubs in central Tokyo under the name *Nautilus Club*. The company has worked to create a new style of club, transcending the boundaries of traditional fitness clubs, and has met the increasingly diverse needs of its members through a variety of activities. These include hosting a number of events to promote exchange among members, establishing the *Bel Esprit* forum for beauty care seminars and expanding its facilities through a series of nationwide tie-ups.

In addition, the other business segment includes a computer graphics business and outsourcing services of staff and operations. The Company is also involved in resort hotel management, as part of its aim for comprehensive business development.

La Fountaine *is an authentic French restaurant in the Tokyo Sumitomo Twin Building.*



Nautilus Club *fitness club in Shibuya Infoss Tower*

TOPIC 1

LUXURY LEASING CONDOMINIUM COMPLEX *LA TOUR SHIBAKOEN*

The Company's new *La Tour Shibakoen* condominium opened in June 2000. Located in central Tokyo's Minato Ward and two minutes on foot from Shiba Park, this luxury condominium is convenient for business, rich in greenery and boasts spectacular views from as high as 100 meters off the ground. *La Tour Shibakoen* occupies floors 23 to 35 in the newly built Shibakoen First Building and features 130 units with floor space ranging from 63–168 square meters. With Sumitomo Realty's proprietary advanced security system, *La Tour Shibakoen* also provides residents with safety and reassurance and furnishes them with a comfortable, elegant living space.

The 100-meter high La Tour Shibakoen *condominium offering secure and luxurious residences.*

TOPIC 2

NEW HOME SECURITY SYSTEM

The Company began marketing a new home security system in April 2000 developed by affiliate KS Techno Co., Ltd. The new system uses this company's proprietary high-sensitivity sensors that are installed on fences, hedges and other exterior features, and buried around the property, to sense intruders and their movements before they enter the house, and effectively eliminate danger.

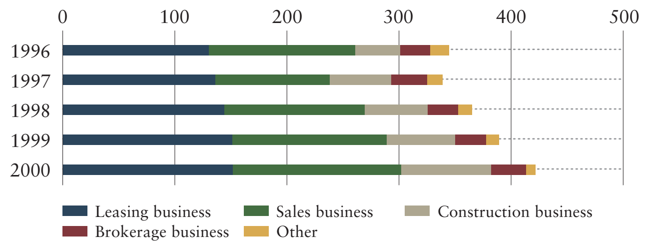
Sensing intruders before they enter the house is part of the new system's primary emphasis on protecting the lives of the occupants. When unauthorized entry is attempted, the system automatically triggers an alarm, produces a strong beam of light, and lets the occupant check the action on an internal monitor.

Complete safety is the most important requirement for a security system in today's world of increasing violent crime. Sumitomo Realty has created a new home security system that repels intruders before they reach the house in ways impossible through existing systems.

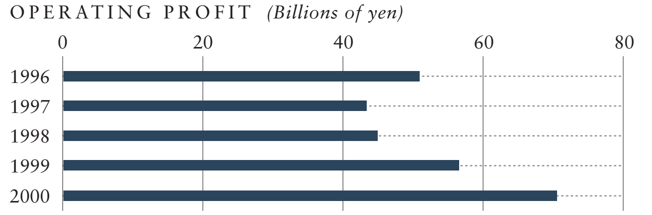
This advanced security system enables homeowners to track the location of trespassers on the zone display of the control unit's LCD on a real-time basis, or switch to an exterior video image.

FINANCIAL SECTION

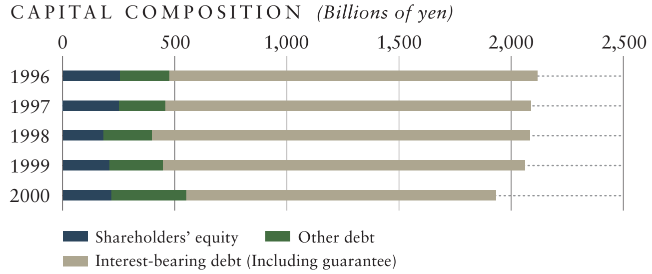
REVENUE FROM OPERATIONS BY SEGMENT *(Billions of yen)*



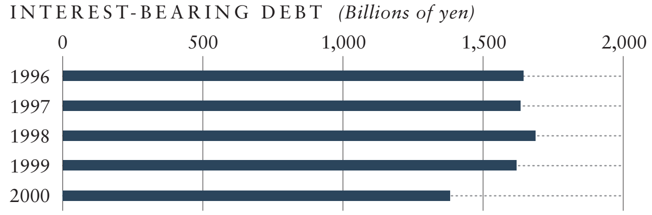
OPERATING PROFIT *(Billions of yen)*



CAPITAL COMPOSITION *(Billions of yen)*



INTEREST-BEARING DEBT *(Billions of yen)*



Note: Including guarantee

Analysis of Operating Revenue

The Company recorded revenue increases in each of its four main businesses in the fiscal year ended March 31, 2000, which represented the midway point of its Five-Year Business Reconstruction Plan. Consolidated revenue from operations achieved another year of substantial growth, rising ¥32.5 billion, or 8.3%, to ¥421.6 billion.

Revenue from the leasing business edged up ¥900 million, or 0.6%, to ¥152.8 billion, owing to increasing revenue from the operation of new buildings, which offset a decline in revenues from existing buildings. Revenue from the sales business experienced substantial growth, increasing ¥12.7 billion, or 9.2%, to ¥150.5 billion. This growth was the result of especially robust conditions in the residential market throughout the fiscal year, as the Company established a new record for sales of condominiums. Revenue from the construction business increased ¥20.5 billion, or 30.8%, to ¥87.2 billion. This exceptional result was primarily due to favorable growth in each of our *tochi-less businesses*, such as operations of Sumitomo Fudosan Home Co., Ltd., which makes medium- to high-end two-by-four custom houses; *American Comfort* two-by-four standardized houses that form the core of Sumitomo Realty's Housing Business Division; Universal Home Inc., which makes standardized houses through the conventional post and beam construction method and carries out business nationwide through a network of franchised operators; and *Shinchiku Sokkurisan* ("As Good as New") new full remodeling package for detached houses. The brokerage business showed strong growth in revenue, which rose ¥4.0 billion, or 14.1%, to ¥31.9 billion, as we continued with efforts to raise productivity and bolster our direct marketing network through store expansion. Revenue in other business increased ¥1.8 billion, or 16%, to ¥13.2 billion.

Analysis of Operating Profit

Operating profit in the leasing business rose ¥2.0 billion, or 4.7%, to ¥45.8 billion, as a decline in revenue from existing buildings was offset by the start of operations at new buildings, and revenue from newly consolidated subsidiaries. Operating profit in the sales business climbed substantially, increasing ¥12.0 billion, or 183.8%, to ¥18.6 billion. This growth was the result of substantially improved operating profit margins reflecting robust sales activities and a reduction in advertising expenses. The construction business recorded a ¥2.4 billion, or 99.5%, increase in operating profit to ¥4.8 billion, in line with favorable growth in each of its operations. Operating profit in the brokerage business also experienced substantial growth, rising ¥1.9 billion, or 36.7%, to ¥7.2 billion.

Statements of Assets, Liabilities and Shareholders' Equity

Total assets as of March 31, 2000, were ¥1,920.7 billion, or an increase of ¥84.9 billion from March 31, 1999. Total current assets decreased ¥330.6 billion to ¥370.1 billion. Major factors behind this decrease include the elimination of trade loans receivable made to newly consolidated subsidiaries and the transfer of a portion of inventories previously stated as land and homes for sale but actually were leased to customers. To reflect their actual state, these assets were restated as property and equipment.

Net property and equipment increased ¥406.5 billion to ¥1,150.2 billion. The main factor in this increase was the addition of ¥354.0 billion from newly consolidated subsidiaries.

Total liabilities rose ¥74.5 billion to ¥1,696.0 billion. Total shareholders' equity increased ¥8.4 billion to ¥215.5 billion.

Reduction of Interest-Bearing Debt

During the fiscal year under review, which marked the midpoint of its Five-Year Business Reconstruction Plan, the Company made full-scale efforts to reduce interest-bearing debt as part of the plan's fourth objective. Through these efforts, total interest-bearing debt, including loan guarantees decreased ¥235.7 billion from last fiscal year. The main sources of funds for retiring this debt included ¥29.7 billion from sales of shares of a limited partnership named Sumitomo Realty & Development Fund *(SURF)*, ¥107.5 billion from the securitization of real estate assets, mainly nine office buildings in Japan, and ¥56.5 billion from sales of three office buildings in the United States. The Company plans to continue strengthening its financial base by liquidating assets and reducing interest-bearing debt.

SECURITIZATION OF THE SHINJUKU SUMITOMO BUILDING

As part of its efforts to reduce interest-bearing debt, the Company sold its stake (60% ownership) in the Shinjuku Sumitomo Building (Shinjuku Ward, Tokyo) through an issue of trust beneficiary interests. Approximately 71% interests of this trust was sold to a Japanese special-purpose company (SPC) named PrimeQuest Co., Ltd. for a total of approximately ¥72.5 billion, which made PrimeQuest Co., Ltd. the trust's majority shareholder. Bonds issued (private) by that company obtained credit ratings from Moody's Investors Service and Japan Credit Rating Agency, Ltd. This transaction was the first example of securitization of common ownership building in Japan and resulted in an epoch-making financial product for Japan.

Sumitomo Realty is the second-largest shareholder in the trust with approximately 29% ownership. In anticipation of further deregulation, an increase in market liquidity and other upgrades to the market infrastructure, the Company has structured this trust and securitization so that its trust interest can be put into investment vehicles, such as conduit corporations or investment trusts, in which its shares can be listed as marketable securities, and which are on schedule for deregulation.

Although an ultra high-rise office tower with exceptional resistance to damage from earthquakes, the Shinjuku Sumitomo Building is the third-oldest building in the Company's lineup of office buildings. We are currently building a new large-scale office building as part of a redevelopment project in Nishi-Shinjuku 6-chome. We believe our activities with these buildings represent a trading of old for new assets.

Analysis of Cash Flows

Net cash flow provided by operating activities in the fiscal year under review totaled ¥38.4 billion, and net cash provided by investing activities came to ¥132.4 billion. This gave the Company a total of ¥170.9 billion in free cash flow. Mostly to retire debt, net cash used in financing activities totaled ¥210.0 billion. As a result, cash at end of the year decreased ¥39.4 billion from the previous fiscal year-end.

The main source of cash from investing activities was ¥167.2 billion in proceeds from sale of property and equipment. This amount included ¥107.5 billion from securitization of the Shinjuku Sumitomo Building and eight other office buildings in Japan, and ¥56.5 billion from the sale of the 666 Fifth Avenue Building in New York and two other office buildings in the United States. In addition, ¥29.8 billion was provided by sales of shares of a limited partnership named Sumitomo Realty & Development Fund *(SURF)*, which included the Kudanshita Building and ten other office buildings. These sources of cash greatly offset cash used in purchases of property and equipment.

Although we recorded negative cash flow, interest-bearing debt (including borrowings, bonds, commercial paper and loan guarantees) was reduced ¥235.7 billion from ¥1,618.0 billion at previous fiscal year-end, to ¥1,382.3 billion as of March 31, 2000. To prepare for rising interest rates in the future, management also increased the proportion of long-term debt from 58% to 74% and fixed-rate debt from 59% to 75% by issuing ¥130.0 billion of straight bonds and getting more than ¥145.3 billion of long-term loans.

Consolidated Balance Sheets
March 31, 2000 and 1999

Assets	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars (Note 1) 2000
Current assets:			
Cash, mainly time and notice deposits (Note 4)	¥ **39,728**	¥ 79,428	$ **374,263**
Marketable securities (Note 8)	**9,668**	9,426	**91,079**
Notes and accounts receivable—trade	**16,033**	23,296	**151,041**
Trade loans receivable	**157,354**	363,933	**1,482,374**
Allowance for doubtful accounts	**(33,586)**	(43,253)	**(316,401)**
Inventories (Note 5)	**128,310**	206,714	**1,208,761**
Deferred income taxes (Note 10)	**14,184**	5,406	**133,622**
Securities loaned (Note 8)	**15,727**	19,674	**148,158**
Other current assets	**22,660**	36,069	**213,471**
Total current assets	**370,078**	700,693	**3,486,368**
Investments and advances:			
Investments in and advances to unconsolidated subsidiaries and affiliated companies (Note 6)	**7,591**	13,184	**71,512**
Investments in securities and other	**111,017**	108,787	**1,045,850**
Allowance for doubtful accounts	**(78,514)**	(79,503)	**(739,651)**
Total investments and advances	**40,094**	42,468	**377,711**
Property and equipment (Notes 7 and 9):			
Land	**896,061**	512,418	**8,441,460**
Buildings and structures	**317,846**	313,598	**2,994,310**
Machinery and equipment	**16,322**	14,999	**153,764**
Construction in progress	**40,018**	33,173	**376,995**
	1,270,247	874,188	**11,966,529**
Accumulated depreciation	**(120,003)**	(130,461)	**(1,130,504)**
Net property and equipment	**1,150,244**	743,727	**10,836,025**
Other assets:			
Guarantee and lease deposits paid to lessors	**214,394**	243,763	**2,019,727**
Leasehold rights and other intangible assets	**123,128**	77,583	**1,159,943**
Deferred income taxes (Note 10)	**4,954**	15,374	**46,670**
Miscellaneous	**13,450**	3,538	**126,707**
Foreign statements translation adjustments	**4,395**	8,679	**41,404**
Total other assets	**360,321**	348,937	**3,394,451**
	¥1,920,737	¥1,835,825	**$18,094,555**

See accompanying notes.

Liabilities and Shareholders' Equity	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars (Note 1) 2000
Current liabilities:			
Short-term bank loans (Note 9)	**¥ 354,267**	¥ 582,349	**$ 3,337,419**
Long-term debt due within one year (Note 9)	**253,084**	118,498	**2,384,211**
Notes and accounts payable—trade	**42,539**	33,940	**400,744**
Accrued income taxes (Note 10)	**3,418**	1,554	**32,200**
Accrued bonuses	**2,218**	2,169	**20,895**
Deferred income taxes (Note 10)	**214**	617	**2,016**
Other current liabilities	**77,187**	63,256	**727,150**
Total current liabilities	**732,927**	802,383	**6,904,635**
Long-term debt due after one year (Note 9)	**765,716**	692,028	**7,213,528**
Guarantee and lease deposits received (Note 11)	**194,803**	126,170	**1,835,167**
Deferred income taxes (Note 10)	**—**	53	**—**
Employees' retirement benefits	**1,568**	575	**14,772**
Directors' and statutory auditors' retirement benefits	**243**	199	**2,289**
Other long-term liabilities	**701**	0	**6,604**
Minority interests	**9,245**	7,240	**87,094**
Contingent liabilities (Note 14)			
Shareholder's equity (Note 12)**:**			
Common stock, par value ¥50 per share			
Authorized — 780,000 thousand shares			
Issued — 406,810 thousand shares	**86,773**	86,773	**817,456**
Additional paid-in capital	**96,822**	96,822	**912,124**
Retained earnings (deficit)	**31,942**	23,584	**300,914**
	215,537	207,179	**2,030,494**
Treasury stock, at cost	**(3)**	(2)	**(28)**
Total shareholders' equity	**215,534**	207,177	**2,030,466**
	¥1,920,737	¥1,835,825	**$18,094,555**

Consolidated Statements of Operations
Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	2000
Revenue from operations	**¥421,587**	¥389,136	¥364,858	**$3,971,616**
Costs and expenses:				
Cost of revenue from operations	**319,997**	303,256	289,330	**3,014,574**
Selling, general and administrative expenses (Note 3)	**31,042**	29,364	30,116	**292,435**
	351,039	332,620	319,446	**3,307,009**
Operating profit	**70,548**	56,516	45,412	**664,607**
Other income (expenses):				
Interest expense—net (Note 4)	**(39,547)**	(34,948)	(34,240)	**(372,558)**
Dividend income	**241**	374	815	**2,270**
Gain on sale of property and equipment	**62,477**	270	—	**588,573**
Gain (Loss) on sale of marketable securities	**130**	(774)	—	**1,225**
Gain on sale of investments in subsidiary	**419**	2,563	—	**3,947**
Loss on sale of investments in securities	**—**	(3,358)	—	**—**
Write offs of bad debt	**(4,272)**	(53)	(4,987)	**(40,245)**
Loss on devaluation of marketable securities	**(2,897)**	(1,262)	(6,740)	**(27,292)**
Provision for allowance for doubtful accounts of a consolidated subsidiary	**—**	—	(62,499)	**—**
Foreign exchange gains (losses)	**(17)**	256	126	**(160)**
Loss from write-down of property and equipment	**(486)**	—	—	**(4,578)**
Loss from devaluation of inventories	**(24,864)**	—	—	**(234,235)**
Loss from restructuring of overseas business	**(22,641)**	—	—	**(213,293)**
Loss on adjustment of prior year's rent	**(14,168)**	—	—	**(133,471)**
Other—net	**(2,740)**	(758)	(908)	**(25,812)**
	(48,365)	(37,690)	(108,433)	**(455,629)**
Income (Loss) before income taxes and minority interest (Note 3)	**22,183**	18,826	(63,021)	**208,978**
Income taxes (Note 10):				
Current	**4,740**	2,738	3,355	**44,654**
Deferred	**1,091**	3,800	(706)	**10,278**
Total	**5,831**	6,538	2,649	**54,932**
Minority interest	**1,615**	1,305	378	**15,214**
Net income (loss)	**¥ 14,737**	¥ 10,983	¥ (66,048)	**$ 138,832**

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income (loss)	**¥ 36.23**	¥ 27.00	¥ (162.36)	**$ 0.34**
Cash dividend applicable to the year	**6.00**	6.00	6.00	**0.06**

See accompanying notes.

Consolidated Statements of Shareholders' Equity
Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	2000
Common stock:				
Balance at beginning of the year	**¥86,773**	¥86,773	¥86,773	**$817,456**
Balance at end of year	**¥86,773**	¥86,773	¥86,773	**$817,456**
Additional paid-in capital:				
Balance at beginning of the year	**¥96,822**	¥96,822	¥96,822	**$912,124**
Balance at end of year	**¥96,822**	¥96,822	¥96,822	**$912,124**
Retained earnings (Deficit):				
Balance at beginning of the year	**¥23,584**	¥ (4,218)	¥66,198	**$222,176**
Cumulative effect of adopting deferred tax accounting	**—**	19,299	—	**—**
Decrease due to change in consolidated subsidiaries	**(3,925)**	(37)	(1,261)	**(36,976)**
Decrease due to application of SFAS 115 to the consolidated subsidiaries in the U.S.	**—**	—	(664)	**—**
Net income (loss)	**14,737**	10,983	(66,048)	**138,832**
Cash dividends paid	**(2,440)**	(2,440)	(2,440)	**(22,986)**
Bonuses to directors	**(14)**	(3)	(3)	**(132)**
Balance at end of the year	**¥31,942**	¥23,584	¥ (4,218)	**$300,914**

	Thousands		
	2000	1999	1998
Number of shares of common stock:			
Balance at beginning of the year	**406,810**	406,810	406,810
Balance at end of the year	**406,810**	406,810	406,810

See accompanying notes.

Consolidated Statements of Cash Flows

Year ended March 31, 2000

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2000	2000
Cash flows from operating activities:		
Income before income taxes and minority interest	¥ 22,183	$ 208,978
Depreciation and amortization	11,249	105,973
Provision for allowance for doubtful accounts—net	(9,306)	(87,668)
Loss on devaluation of marketable securities	2,897	27,291
Gain on sale of investments in subsidiary	(419)	(3,947)
Increase in employees' severance and retirement benefits	994	9,364
Interest and dividend income	(1,784)	(16,806)
Interest expense	41,090	387,094
Gain on sale of marketable securities	(130)	(1,225)
Gain on sale of property and equipment	(62,477)	(588,573)
Loss from restructuring of overseas business	22,641	213,292
Decrease in notes and accounts receivable—trade	8,476	79,849
Decrease in trade loans receivable	15,740	148,281
Decrease in inventories	9,899	93,255
Increase in advances	3,861	36,373
Increase in notes and accounts payable—trade	7,251	68,309
Other—net	7,162	67,471
Total	79,327	747,310
Proceeds from interest and dividend income	1,942	18,295
Payments for interest	(39,963)	(376,476)
Payments for income tax and other taxes	(2,867)	(27,009)
Net cash provided by operating activities	38,439	362,120
Cash flows from investing activities:		
Proceeds from sale of property and equipment	167,238	1,575,488
Payments for purchases of property and equipment	(97,965)	(922,892)
Increase in marketable securities	(7,063)	(66,538)
Increase in short-term loans	1,886	17,767
Decrease in guarantee and lease deposits paid to lessors	44,582	419,991
Proceeds from sale of securities	8,719	82,138
Increase in guarantee and lease deposits received	2,187	20,603
Capital expenditure	(7,198)	(67,810)
Receipts of deposits to partnerships	29,768	280,433
Other—net	(9,709)	(91,465)
Net cash provided by investing activities	132,445	1,247,715
Cash flows from financing activities:		
Decrease in short-term bank loans	(349,006)	(3,287,857)
Proceeds from issuance of bonds and notes	130,000	1,224,682
Repayments of bonds and notes	(90,000)	(847,857)
Increase in long-term debt	102,788	968,328
Proceeds from issuance of common stock to minorities	987	9,298
Other—net	(2,246)	(21,159)
Cash dividends paid	(2,569)	(24,201)
Net cash used in financing activities	(210,046)	(1,978,766)
Effect of exchange rate changes on cash and cash equivalents	(261)	(2,459)
Net decrease in cash and cash equivalents	(39,423)	(371,390)
Cash and cash equivalents at beginning of year	79,614	750,014
Increase in cash and cash equivalents resulting from changes in the number of consolidated subsidiaries	45	424
Cash and cash equivalents at end of year	¥ 40,236	$ 379,048

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 1999 and 1998

	Millions of yen	
	1999	1998
Cash flows from operating activities:		
Net income (loss)	¥ 10,983	¥ (66,408)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	10,340	13,615
Provision for allowance for doubtful accounts—net	2,606	66,995
Deferred income taxes	3,800	(635)
Gain on sale of property and equipment	(270)	—
Other	3,141	2,459
Changes in assets and liabilities:		
Decrease (Increase) in notes and accounts receivable—trade	(4,255)	2,408
Decrease (Increase) in trade loans receivable	(11,737)	42,046
Decrease (Increase) in inventories	33,372	(24,759)
Decrease (Increase) in prepaid expenses and other current assets	1,200	(35,369)
Increase in notes and accounts payable—trade	11,011	3,477
Increase in accrued income taxes and other current liabilities	441	4,179
Net cash provided by operating activities	60,632	8,368
Cash flows from investing activities:		
Purchases of property and equipment	(41,275)	(31,349)
Proceeds from sale of property and equipment	25,447	122
Decrease in marketable securities	2,662	11,407
Decrease in investments and advances	2,543	2,578
Increase in guarantee and lease deposits paid to lessors	(3,449)	(13,160)
Decrease (Increase) in leasehold rights and other intangible assets	4,301	(11,301)
Other	(2,191)	7,497
Net cash used in investing activities	(11,962)	(34,206)
Cash flows from financing activities:		
Increase (Decrease) in short-term bank loans	(32,490)	28,624
Proceeds from issuance of bonds and notes	33,700	96,000
Repayments of bonds and notes	(120,000)	(110,000)
Increase in long-term debt	60,142	45,336
Increase (Decrease) in guarantee and lease deposits received	(776)	1,035
Proceeds from issuance of common stock	3,933	—
Other	14,546	450
Cash dividends paid	(2,440)	(2,440)
Net cash provided by (used in) financing activities	(43,385)	59,005
Net increase in cash	5,285	33,167
Cash at beginning of the year	74,143	40,976
Cash at end of the year	¥ 79,428	¥ 74,143

See accompanying notes.

1. Basis of financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan. The audited financial statements of the Company and its consolidated subsidiaries were filed with the Minister of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for 1999 and 1998 have been prepared, although such statements were not customarily prepared in Japan and not required to be filed with MOF prior to 2000.

The financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2000, which was ¥106.15 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

The Company prepared the consolidated financial statements for the year ended March 31, 2000 in accordance with the revised Accounting Principles for Consolidated Financial Statements (the "Revised Accounting Principles") effective from the year ended March 31, 2000.

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

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded using 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.

The effect of applying the Revised Accounting Principles was immaterial.

(2) Foreign currency translation

Foreign currency transactions:

Current assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the balance sheet date (current rate) and non-current assets and liabilities denominated in foreign currencies are translated at the historical exchange rates.

Resulting exchange gains or losses are included in net income.

Foreign currency liabilities hedged by forward exchange contracts are translated at the contracted forward rates.

Foreign currency financial statements:

Foreign currency financial statements are translated at the current rate, except for common stock, additional paid-in capital and beginning retained earnings, which are translated at the historical rates. Translation difference is reflected on the balance sheet.

(3) Statement of cash flow

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

The Company prepared the 2000 consolidated cash flow statement as required by and in accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc." effective from the year ended March 31, 2000. The 1999 and 1998 consolidated cash flows statements, which were voluntarily prepared for the purpose of inclusion in the consolidated financial statements in a form familiar to readers outside Japan, have not been restated. Significant differences in the consolidated cash flow statements for 2000, 1999 and 1998 include the use of pretax income in 2000 instead of net income in 1999 and 1998, additional disclosure in cash flows from operating activities in 2000 of interest expense, income tax expense, interest and dividend income, interest and dividend received.

(4) Recognition of revenue

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

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

Some consolidated subsidiaries maintain a policy of capitalizing interest costs on certain types of development projects in progress.

(6) Marketable securities and investments in securities
Securities quoted on stock exchanges are primarily stated at the lower of cost or market, cost being determined by the moving-average method. Non-quoted securities, including investments in unconsolidated subsidiaries and affiliated companies, are stated at moving-average cost or less, reflecting write-downs based on management's opinion of significant and not recoverable impairment of the underlying value. Securities of certain consolidated subsidiaries are stated at cost, determined by the moving-average method.

Commencing with the year ended March 31, 1999, the Company records recoveries of write-downs of securities in accordance with a revision in the Japanese tax law. There was no effect on net income resulting from adopting this accounting policy.

(7) Property and equipment
The Company and domestic consolidated subsidiaries depreciate property and equipment using the declining-balance method at rates determined based on the useful lives prescribed in the Japanese tax regulations except that the Company and two domestic subsidiaries depreciate buildings using the straight-line method in 1999 and 2000 and certain other domestic subsidiaries depreciate buildings, excluding building fixtures, acquired after March 31, 1998 using the straight-line method in 1999 and 2000. 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 ....7 to 50 years
Machinery and equipment ....3 to 15 years

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

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

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

(11) Income taxes
The Company provided income taxes at the amounts currently payable for the year ended March 31, 1998 and deferred tax accounting was applied only to the income taxes paid on inter-company profit eliminated on consolidation. Effective April 1, 1998, the Company adopted the new accounting standard, which recognizes tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Under the new accounting standard, the provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1998 is reflected as an adjustment of ¥19,299 million to the retained earnings brought forward from the previous year. Prior years' financial statements have not been restated.

The effect for the year ended March 31, 1999 was to increase net income by ¥4,607 million.

(12) Employees' retirement benefits
Upon retirement or termination of employment for reasons other than dismissal, for cause, employees of the Company and its consolidated subsidiaries are entitled to lump-sum payments based on their current rate of pay, length of service, and the conditions under which the termination occurs.

The Company has a noncontributory funded pension plan, which provides for a lump-sum or ten-year period of pension payments, at the election of the employee, to an employee, who is at least 45 years old and has 20 years or more of employment. Lump-sum payments are made to the other employees. The provision is determined actuarially and funded currently through an outside trustee. Prior service costs of the plan are being funded over a period of 15 years.

Annual contributions, which consist of normal costs and amortization of prior service costs, are charged to income when paid.

Most of the Company's domestic consolidated subsidiaries have unfunded plans. Provisions are made in the accompanying consolidated financial statements for approximately 40% of the estimated liability for the retirement benefits that would be required had all employees voluntarily retired at the balance sheet date.

(13) 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 diluted effect, such as bonds with warrants and convertible bonds.

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

(14) Reclassifications
Certain prior year amounts have been reclassified to conform to the 2000 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

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

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

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

The effect of this change was to increase income before income taxes for the year ended March 31, 2000 by ¥50 million ($471 thousand) compared with the previous method.

The effect on segment information of these changes is explained in Note 17.

(3) Effective April 1, 1999, one consolidated subsidiary changed its method of accounting for employees' retirement benefits. Previously they provided for such benefits at 40% of the amount which would be required if all eligible employees voluntarily retired or terminated their employment at the balance sheet date. Effective from the year ended March 31, 2000, the subsidiary adopted the Net-Present-Value method, which is based on estimated payments to employees when they retire in the future.

The effect of this change was to increase income before income taxes for the year ended March 31, 2000 by ¥925 million ($8,714 thousand) compared with the previous method.

The effect on segment information of these changes is explained in Note 17.

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

	Millions of yen	Thousands of U.S. dollars
Cash, mainly time and notice deposits	¥39,728	$374,263
Time deposits over three months	(3)	(28)
Marketable securities	511	4,813
Cash and cash equivalents	¥40,236	$379,048

5. Inventories
Inventories at March 31, 2000 and 1999, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Land and housing for sale	**¥ 11,233**	¥ 86,124	**$ 105,822**
Land and housing projects in progress	**61,964**	57,283	**583,740**
Land held for development	**49,540**	61,083	**466,698**
Other	**5,573**	2,224	**52,501**
Total	**¥128,310**	¥206,714	**$1,208,761**

The Company transfers inventories to property and equipment, and transfers property and equipment and other assets to inventories. Such transfer at March 31, 2000 is as follows:

	Millions of yen	Thousands of U.S. dollars
Inventories:		
Transfer to property and equipment	¥(62,146)	$(585,454)
Transferred from property and equipment	1,600	15,073
Transferred from other assets	861	8,111
Net decrease	(59,685)	562,270
Property and equipment:		
Transferred from inventories	¥ 62,146	$ 585,454
Transfer to inventories	(1,600)	(15,703)
Net increase	60,546	570,381
Other assets:		
Transfer to inventories	¥ (861)	$ 8,111

6. Investments in and advances to unconsolidated subsidiaries and affiliated companies

Investments in and advances to unconsolidated subsidiaries and affiliated companies at March 31, 2000 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Investments in common stock, at cost	**¥5,679**	¥11,572	**$53,500**
Advances	**1,912**	1,612	**18,012**
Total	**¥7,591**	¥13,184	**$71,512**

7. Trust assets

Trust assets which the Company owned as a result of asset securitization at March 31, 2000 are as follows:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥ 7,982	$ 75,195
Land	18,628	175,488
Machinery and equipment	134	1,262
Total	¥26,744	$251,945

8. Market value information for securities of the Company

At March 31, 2000 and 1999, book value, market value and net unrealized gain of marketable securities and investments in securities were as follows:

Japanese accounting standards changed in 2000. Prior to 2000, the Company prepared only Parent Company's market value information of securities in accordance with prior Japanese accounting standards, and in 2000 the Company prepared the Company's market value information of securities on a consolidated basis in accordance with new accounting standards. Thus, the value in 1999 shown below is that of parent company only, and the value in 2000 shown below is that of consolidated companies.

	Millions of yen						Thousands of U.S. dollars		
	2000			1999			2000		
	Book value	Market value	Unrealized gain	Book value	Market value	Unrealized gain	Book value	Market value	Unrealized gain
Current	**¥23,095**	**¥30,027**	**¥6,932**	¥22,460	¥24,598	¥ 2,138	**$217,569**	**$282,873**	**$65,304**
Non-current	**1,145**	**1,189**	**44**	1,889	39,969	38,080	**10,787**	**11,201**	**414**
Total	**¥24,240**	**¥31,216**	**¥6,976**	¥24,349	¥64,567	¥40,218	**$228,356**	**$294,074**	**$65,718**

9. Short-term bank loans and long-term debt

Short-term bank loans are represented by notes maturing generally in three months. The annual interest rates on short-term bank loans outstanding at March 31, 2000 and 1999 were principally ranging from 0.60% to 7.60% and 0.69% to 7.31%, respectively.

Long-term debt at March 31, 2000 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
6.2% Euroyen notes, due 2000	¥ 20,000	¥ 20,000	$ 188,413
6.15% Euroyen notes, due 1999	—	30,000	—
4.8% Euroyen notes, due 2000	20,000	20,000	188,413
3.9% Euroyen notes, due 2000	—	20,000	—
3.55% Euroyen notes, due 1999	—	30,000	—
3.8% Euroyen notes, due 2000	30,000	30,000	282,619
3.0% Euroyen notes, due 2000	30,000	30,000	282,619
2.6% Euroyen notes, due 1999	—	10,000	—
2.55% Euroyen notes, due 2000	10,000	10,000	94,206
2.9% Euroyen notes, due 2001	20,000	20,000	188,413
3.15% Euroyen notes, due 2002	10,000	10,000	94,206
2.95% Euroyen notes, due 2001	10,000	10,000	94,206
3.0% Euroyen notes, due 2001	20,000	20,000	188,413
2.5% Euroyen notes, due 2001	20,000	20,000	188,413
2.1% Euroyen notes, due 2001	10,000	10,000	94,206
2.35% Euroyen notes, due 2002	10,000	10,000	94,206
2.65% Euroyen notes, due 2004	10,000	10,000	94,206
2.4% Euroyen notes, due 2003	10,000	10,000	94,206
2.575% Euroyen notes, due 2004	10,000	10,000	94,206
1.9% domestic straight bonds, due 2001	15,000	15,000	141,309
2.5% domestic straight bonds, due 2003	20,000	20,000	188,413
2.025% domestic straight bonds, due 2002	20,000	20,000	188,413
2.025% domestic straight bonds, due 2001	7,000	7,000	65,944
2.5% domestic straight bonds, due 2001	7,000	7,000	65,944
2.6% domestic straight bonds, due 2002	7,000	7,000	65,944
2.5% domestic straight bonds, due 2002	8,000	8,000	75,365
Floating rate Euroyen notes, due 2002	1,000	1,000	9,421
2.6% Euroyen notes, due 2003	1,000	1,000	9,421
2.75% domestic straight bonds, due 2003	7,000	7,000	65,944
3.0% domestic straight bonds, due 2004	5,000	5,000	47,104
2.6% domestic straight bonds, due 2003	10,000	10,000	94,206
2.6% Euroyen notes, due 2001	1,000	1,000	9,421
3.1% Euroyen notes, due 2005	700	700	6,594
2.7% domestic straight bonds, due 2001	5,000	5,000	47,104
2.97% Euroyen notes, due 2002	5,000	5,000	47,104
2.35% domestic straight bonds, due 2002	30,000	—	282,619
3.0% domestic straight bonds, due 2003	15,000	—	141,309
3.0% domestic straight bonds, due 2003	35,000	—	329,722
2.65% domestic straight bonds, due 2003	10,000	—	94,206
2.95% domestic straight bonds, due 2004	40,000	—	376,825
Loans, principally from banks and insurance companies, interest principally at rates of 0.66% to 4.50% in 2000, and 0.96% to 7.66% in 1999			
Secured	49,120	2,286	462,741
Unsecured	479,980	358,540	4,521,715
	1,018,800	810,526	9,597,739
Amount due within one year	(253,084)	(118,498)	(2,384,211)
	¥ 765,716	¥ 692,028	$ 7,213,528

The aggregate annual maturity of long-term debt at March 31, 2000, are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2001	¥253,084	$2,384,211
2002	244,086	2,299,444
2003	229,036	2,157,664
2004	173,027	1,630,024
2005	101,855	959,538
2006 and thereafter	17,712	166,858

The following assets were pledged as security for short-term bank loans and long-term debt at March 31, 2000.

	Millions of yen	Thousands of U.S. dollars
Net book value of property and equipment (mainly land and buildings)	¥82	$772

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

10. Income taxes

The Company is subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 42.05% for the year ended March 31, 2000 and approximately 47.68% and 51% for the years ended March 31, 1999 and 1998, respectively.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the year ended March 31, 2000 and 1999:

	2000	1999
Statutory tax rate	**42.05%**	47.68%
Foreign subsidiaries' temporary differences for which no tax effects were recognized	**(26.74)**	—
Permanently nondeductible expenses of foreign subsidiaries	**6.36**	—
Effect of operating loss carryforwards of subsidiaries	**4.97**	(9.69)
Per capita inhabitant tax	**0.87**	—
Decrease in tax rate	**—**	(3.54)
Other	**(1.22)**	0.28
Effective tax rate	**26.29%**	34.73%

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2000 and 1999 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Deferred tax assets:			
Net operating loss carryforwards	¥12,349	¥27,038	$ 116,335
Excess loss from devaluation of inventories	9,531	—	89,788
Unrealized inter-company profits	3,894	3,914	36,684
Other	6,252	7,587	58,898
Total deferred tax assets	32,026	38,539	301,705
Valuation allowance	(10,864)	(15,800)	(102,346)
Net deferred tax assets	21,162	22,739	199,359
Deferred tax liabilities:			
Deferred gain on sale of fixed assets	(1,959)	(1,959)	(18,455)
Other	(279)	(670)	(2,628)
Total deferred tax liabilities	(2,238)	(2,629)	(21,083)
Net deferred tax assets	¥18,924	¥20,110	$(178,276)

11. Guarantee and lease deposits received

Guarantee and lease deposits received at March 31, 2000 and 1999, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Guarantee and lease deposits from tenants	¥163,412	¥125,101	$1,539,444
Lease deposits from others	31,391	1,069	295,723
	¥194,803	¥126,170	$1,835,167

12. Shareholders' equity

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, legal reserve is included in retained earnings for 1999 and 2000. Previously it was presented as a separate component of the shareholders' equity. The accompanying consolidated financial statements for the year ended March 31, 1998 have been reclassified to conform to the revised presentation.

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

13. 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 was as follows:

As lessee

A summary of assumed amounts (inclusive of interest) of acquisition cost, accumulated depreciation and net book value at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Acqusition cost:			
Buildings and structures	¥ 1,440	¥ 1,320	$ 13,565
Other	1,317	1,139	12,407
Accumulated depreciation	(1,591)	(1,409)	(14,988)
Net book value	¥ 1,166	¥ 1,050	$ 10,984

As lessor
A summary of stated amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Acqusition cost:			
Other	¥1,010	¥1,010	$ 9,515
Accumulated depreciation	(960)	(960)	(9,044)
Net book value	¥ 50	¥ 50	$ 471

Lease expenses and lease incomes under finance leases, inclusive of interest, for the year ended March 31, 2000, amounted to ¥606 million ($5,709 thousand) and ¥93 million ($876 thousand), respectively.

Future lease payments and receipts under such finance leases and non-cancelable operating leases at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Finance leases			
Future lease payments:			
Due within one year	¥ 522	¥ 478	$ 4,917
Due after one year	644	572	6,067
Total	¥1,166	¥ 1,050	$10,984
Future lease receipts:			
Due within one year	¥ 78	¥ 94	$ 735
Due after one year	—	78	—
Total	¥ 78	¥ 172	$ 735
Operating leases			
Future lease payments:			
Due within one year	¥ 40	¥ 30	$ 377
Due after one year	252	319	2,374
Total	¥ 292	¥ 349	$ 2,751
Future lease receipts:			
Due within one year	¥ 489	¥ 6,401	$ 4,607
Due after one year	2,424	50,112	22,835
Total	¥2,913	¥56,513	$27,442
Future sub-lease payments:			
Due within one year	¥ 20	¥ —	$ 188
Due after one year	20	—	188
Total	¥ 40	¥ —	$ 376
Future sub-lease receipts:			
Due within one year	¥ 51	¥ —	$ 480
Due after one year	136	—	1,282
Total	¥ 187	¥ —	$ 1,762

14. Contingent liabilities

(Contingent liabilities for guarantee of loans)

At March 31, 2000 and 1999, the Company and its consolidated subsidiaries were contingently liable as guarantors of borrowings by affiliates and others as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Affiliates	**¥3,019**	¥3,355	**$28,441**
Others	**4,948**	5,235	**46,613**
Total	**¥7,967**	¥8,590	**$75,054**

Also, at March 31, 2000 and 1999, the Company and its consolidated subsidiaries had outstanding commitments to guarantee loans of certain affiliated companies and unrelated companies. Certain information of them was as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Affiliates	**¥2,316**	¥217,629	**$21,819**
Others	**1,021**	1,036	**9,618**
Total	**¥3,337**	¥218,665	**$31,437**

(Lawsuits)

The Company was 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.

One lawsuit was brought to reconciliation by the advice of the Tokyo District Court, and other two lawsuits are pending in court.

In May 1993, a lawsuit was brought in the Tokyo District Court against the Company by the lessor owning three office buildings, and the Company and the lessor were reconciled by the Tokyo District Court. The summary of the reconciliation is as follows.

- The lessor canceled the agreement which had an automatic rent-escalation clause.
- The lessor reduced prior rent by ¥5,001 million, and the Company paid the difference, ¥7,168 million.
- Effective August of 1999, the lessor reduced the rent by ¥1,544 million per annum (about 35% of the rent per annum).

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 the claims to recover the difference between the rental payments based on the lease agreements and the amounts the Company paid taking a position under Leased Land and House Lease Law. While the District Court issued judgements against the Company in August and October of 1998, the Company appealed to the Tokyo Higher Court in September and November of 1998 as the Company believed that the judgements were contradictory to the previous legal interpretations.

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

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

15. Fair values of derivative financial instruments

The Company and its consolidated subsidiaries enter into yen currency forward exchange contracts and interest rate swap agreements in order to manage exposures resulting from fluctuations in foreign currency exchange rates and interest rates.

The forward exchange contracts and currency swap agreements are used to hedge the risk of changes in foreign currency exchange rates associated with assets, liabilities and commitments on future transactions denominated in foreign currencies.

The interest rate swap agreements are used to hedge the risk of changes in interest rates associated with assets and liabilities.

The counterparties of the derivative transactions are creditworthy financial institutions, and the Company's management believes there is little default risk of counterparties.

The derivative transactions are executed by the Company's accounting department based on the decision of the meeting chaired by the Company's director responsible for the finance.

The Company's off-balance-sheet forward exchange contracts, and interest swap agreements at March 31, 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	Contract amount	Estimated fair value	Contract amount	Estimated fair value
Forward exchange contracts:				
To sell yen currencies	¥ 7,376	¥ 7,503	$ 69,487	$70,683
To buy yen currencies	4,086	4,194	38,493	39,510
Interest rate swap agreements	266,850	(2,482)	2,513,895	(23,382)
Total	¥278,312	¥ 9,215	$2,621,875	$86,811

16. Subsequent events

The Company issued the 2.35% ¥10,000 million ($94.2 million) domestic straight bonds due 2003 on April 28, 2000, the 2.45% ¥20,000 million ($188.4 million) domestic straight bonds due 2004 on May 19, 2000, the 2.45% ¥10,000 million ($94.2 million) domestic straight bonds due 2004 on May 19, 2000, the 2.62% ¥20,000 million ($188.4 million) domestic straight bonds due 2005 on June 16, 2000, the 2.3% ¥5,000 million ($47.1 million) domestic straight bonds due 2004 on June 26, 2000, and the 2.85% ¥5,000 million ($47.1 million) domestic straight bonds due 2006 on June 26, 2000.

17. Segment information

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

Information by industry segments for the years ended March 31, 2000, 1999 and 1998 is summarized as follows:

	Millions of yen								
For 2000	Leasing business	Sales business	Construction business	Brokerage business	Loans business	Other business	Total	Elimination and/or corporate	Consolidated
Net sales									
Customers	**¥ 151,268**	**¥150,483**	**¥80,064**	**¥31,633**	**¥ 2,192**	**¥5,947**	**¥ 421,587**	**¥ —**	**¥ 421,587**
Intersegment	**1,535**	**3**	**7,102**	**290**	**4,089**	**965**	**13,984**	**(13,984)**	**—**
Total	**152,803**	**150,486**	**87,166**	**31,923**	**6,281**	**6,912**	**435,571**	**(13,984)**	**421,587**
Costs and expenses	**107,050**	**131,912**	**82,412**	**24,698**	**4,069**	**6,382**	**356,523**	**(5,484)**	**351,039**
Operating profit	**¥ 45,753**	**¥ 18,574**	**¥ 4,754**	**¥ 7,225**	**¥ 2,212**	**¥ 530**	**¥ 79,048**	**¥ (8,500)**	**¥ 70,548**
Identifiable assets	**¥1,492,129**	**¥128,572**	**¥22,664**	**¥21,124**	**¥372,083**	**¥7,835**	**¥2,044,407**	**¥(123,670)**	**¥1,920,737**
Depreciation and amortization	**10,649**	**28**	**209**	**163**	**3**	**82**	**11,134**	**135**	**11,269**
Capital expenditures	**104,567**	**464**	**129**	**121**	**—**	**25**	**105,306**	**443**	**105,749**

	Millions of yen								
For 1999	Leasing business	Sales business	Construction business	Brokerage business	Loans business	Other business	Total	Elimination and/or corporate	Consolidated
Net sales									
Customers	¥ 150,976	¥137,735	¥61,191	¥27,829	¥ 7,947	¥ 3,458	¥ 389,136	¥ —	¥ 389,136
Intersegment	913	10	5,433	138	3	7	6,504	(6,504)	—
Total	151,889	137,745	66,624	27,967	7,950	3,465	395,640	(6,504)	389,136
Costs and expenses	108,177	131,201	64,241	22,681	5,300	3,221	334,821	(2,201)	332,620
Operating profit	¥ 43,712	¥ 6,544	¥ 2,383	¥ 5,286	¥ 2,650	¥ 244	¥ 60,819	¥ (4,303)	¥ 56,516
Identifiable assets	¥1,066,259	¥219,772	¥16,892	¥22,967	¥353,441	¥24,787	¥1,704,118	¥131,707	¥1,835,825
Depreciation and amortization	9,702	22	201	150	4	132	10,211	129	10,340
Capital expenditures	30,905	30	436	48	3	58	31,480	170	31,650

For 1998	Millions of yen Leasing business	Sales business	Construction business	Brokerage business	Loans business	Other business	Total	Elimination and/or corporate	Consolidated
Net sales									
Customers	¥ 143,676	¥125,327	¥56,339	¥27,421	¥ 8,367	¥3,728	¥ 364,858	¥ —	¥ 364,858
Intersegment	1,025	281	5,780	76	—	11	7,173	(7,173)	—
Total	144,701	125,608	62,119	27,497	8,367	3,739	372,031	(7,173)	364,858
Costs and expenses	107,691	118,349	62,195	22,833	7,634	3,477	322,179	(2,733)	319,446
Operating profit	¥ 37,010	¥ 7,259	¥ (76)	¥ 4,664	¥ 733	¥ 262	¥ 49,852	¥ (4,440)	¥ 45,412
Identifiable assets	¥1,064,475	¥285,256	¥15,770	¥26,998	¥360,870	¥5,631	¥1,759,000	¥95,800	¥1,854,800
Depreciation and amortization	13,058	42	172	140	4	20	13,436	179	13,615
Capital expenditures	52,495	309	1,232	178	10	3	54,227	165	54,392

For 2000	Thousands of U.S. dollars Leasing business	Sales business	Construction business	Brokerage business	Loans business	Other business	Total	Elimination and/or corporate	Consolidated
Net sales									
Customers	$ 1,425,040	$1,417,645	$754,254	$298,003	$ 20,650	$56,024	$ 3,971,616	$ —	$ 3,971,616
Intersegment	14,461	28	66,905	2,732	38,521	9,091	131,738	(131,738)	—
Total	1,439,501	1,417,673	821,159	300,735	59,171	65,115	4,103,354	(131,738)	3,971,616
Costs and expenses	1,008,479	1,242,694	776,373	232,671	38,333	60,122	3,358,672	(51,663)	3,307,009
Operating profit	$ 431,022	$ 174,979	$ 44,786	$ 68,064	$ 20,838	$ 4,993	$ 744,682	$ (80,075)	$ 664,607
Identifiable assets	$14,056,797	$1,211,229	$213,509	$199,001	$3,505,757	$73,811	$19,259,604	$(1,165,049)	$18,094,555
Depreciation and amortization	100,320	264	1,969	1,536	28	772	104,889	1,272	106,161
Capital expenditures	985,087	4,371	1,215	1,140	—	236	992,049	4,173	996,222

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

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

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

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

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

	Millions of yen	Thousands of U.S. dollars
Sales business	¥ (7)	$ (66)
Brokerage business	(64)	(603)
Loans business	(1)	(9)
Elimination and/or corporate	50	471

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Sumitomo Realty & Development Co., Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2000, expressed in Japanese yen.

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

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Sumitomo Realty & Development Co., Ltd. and subsidiaries as of March 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2000 in conformity with accounting principles generally accepted in Japan consistently applied during the periods, except as noted in the following paragraph.

As explained in Notes 1, 2(1) and (3), in the year ended March 31, 2000, Sumitomo Realty & Development Co., Ltd. and subsidiaries adopted new Japanese accounting standards for consolidation and equity method accounting, and research and development costs. Also, as explained in Note 3, Sumitomo Realty & Development Co., Ltd. and subsidiaries changed the method of depreciation in 1999, and changed the method of providing allowance for doubtful accounts and employees' retirement benefits in 2000, with which we concur.

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

Asahi & Co.

Tokyo, Japan
June 29, 2000

Statement on Accounting Principles and Auditing Standards

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

BOARD OF DIRECTORS AND AUDITORS
(As of June 29, 2000)

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PRESIDENT
Junji Takashima

DIRECTOR AND ADVISOR
Taro Ando

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Shozo Suzuki
Yasushi Kinoshita

STATUTORY AUDITORS
Yoshihiro Tokushige
Hisayoshi Horikiri*
Takato Aramaki*
Akira Sato*
Kunio Kobayashi*

*Standing Statutory Auditors

CORPORATE DATA
(As of March 31, 2000)

Sumitomo Realty & Development Co., Ltd.

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Shinjuku-ku, Tokyo 163-0820, Japan
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Facsimile: 03-3346-1652
http://www.sumitomo-rd.com

DATE OF ESTABLISHMENT
December 1, 1949

PAID-IN CAPITAL
¥86,773 million

COMMON STOCK ISSUED AND OUTSTANDING
406,810,631

NUMBER OF SHAREHOLDERS
51,004

NUMBER OF EMPLOYEES
1,367

MAJOR CONSOLIDATED SUBSIDIARIES
Sumitomo Real Estate Sales Co., Ltd.
Sumitomo Fudosan Home Co., Ltd.
Sumitomo Fudosan Syscon Co., Ltd.
Sumitomo Fudosan Tatemono Service Co., Ltd.
Sumitomo Fudosan Fitness Co., Ltd.
Izumi Restaurant Co., Ltd.
Sumitomo Fudosan Finance Co., Ltd.
Shintoshin Real Estate Co., Ltd.
Universal Home Inc.

STOCK EXCHANGE LISTINGS
Tokyo and Osaka

Sumitomo Realty & Development Co., Ltd.

LEASING BUSINESS

Building Development Division
Building Management Division
Shintoshin Real Estate Co., Ltd.
Sumitomo Fudosan Tatemono Service Co., Ltd.
Shinjuku Sumitomo Building Management Co., Ltd.

OTHER BUSINESS

Sumitomo Fudosan Finance Co., Ltd.
Sumitomo Fudosan Fitness Co., Ltd.
Izumi Restaurant Co., Ltd.
KS Techno Co., Ltd.

SALES BUSINESS

Condominium Development Division

BROKERAGE BUSINESS

Sumitomo Real Estate Sales Co., Ltd.

CONSTRUCTION BUSINESS

Housing Business Division
American Comfort
Shinchiku Sokkurisan
Sumitomo Fudosan Home Co., Ltd.
Sumitomo Fudosan Syscon Co., Ltd.
Universal Home Inc.

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