Sumitomo Realty & Development Co., Ltd.

# 2003 ANNUAL REPORT

# 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.

L

**Leasing:** Commercial Buildings development and leasing.

S

**Sales:** Condominium development and sales.

C

**Construction:** Custom Home construction and home remodeling.

B

**Brokerage:** Brokerage of residential homes and income producing properties.

## 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

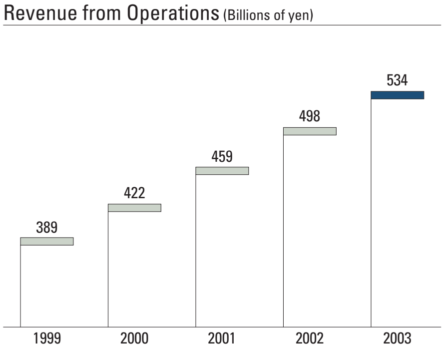
Years ended March 31

| | Millions of yen | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | **2003** | 2002 | 2001 | 2000 | 1999 | **2003** |
| **Consolidated:** | | | | | | |
| Revenue from operations | **¥ 533,915** | ¥ 497,877 | ¥ 459,245 | ¥ 421,587 | ¥ 389,136 | **$ 4,441,889** |
| Revenue from leasing business | **191,215** | 176,244 | 163,047 | 151,268 | 150,976 | **1,590,807** |
| Revenue from sales business | **183,729** | 170,428 | 149,196 | 150,483 | 137,735 | **1,528,528** |
| Revenue from construction business | **114,206** | 108,336 | 104,549 | 80,064 | 61,191 | **950,133** |
| Revenue from brokerage business | **37,335** | 35,966 | 34,702 | 31,633 | 27,829 | **310,607** |
| Revenue from other business | **7,430** | 6,903 | 7,751 | 8,139 | 11,405 | **61,814** |
| Operating profit | **88,512** | 80,370 | 75,218 | 70,548 | 56,516 | **736,373** |
| Ordinary profit | **56,760** | 47,142 | 38,509 | 27,069 | 21,688 | **472,134** |
| Net income (loss) | **4,974** | 22,996 | (18,008) | 14,737 | 10,983 | **41,381** |
| Total assets | **2,015,667** | 1,972,735 | 1,903,529 | 1,916,343 | 1,827,146 | **16,769,276** |
| Total shareholders' equity | **211,821** | 213,767 | 193,442 | 211,140 | 198,498 | **1,762,237** |

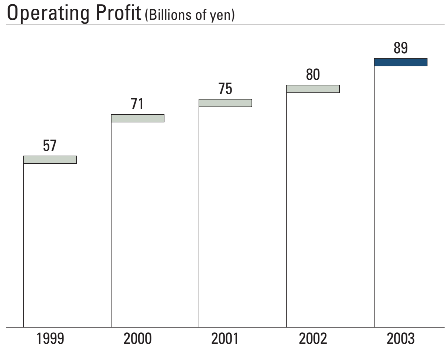
| | Yen | | | | | U.S. dollars |
|---|---|---|---|---|---|---|
| **Per share:** | | | | | | |
| Net income (loss) | **¥ 12.22** | ¥ 56.50 | ¥ (44.27) | ¥ 36.23 | ¥ 27.00 | **$ 0.10** |
| Shareholders' equity | **520.84** | 525.17 | 475.51 | 519.01 | 487.94 | **4.33** |
| Dividend | **6.00** | 6.00 | 6.00 | 6.00 | 6.00 | **0.05** |

Note: The 2003 yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥120.20 = U.S.$1, the approximate exchange rate on March 31, 2003.

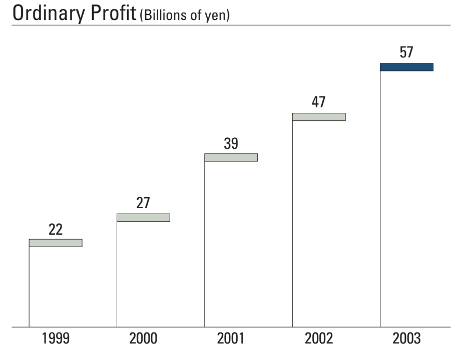
Revenue from Operations (Billions of yen)



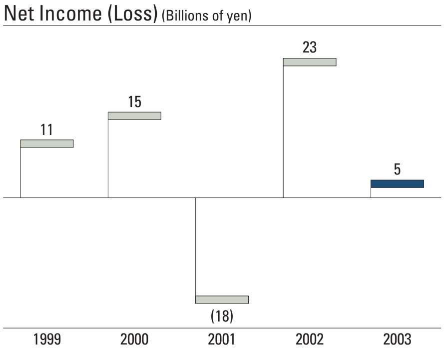

Operating Profit (Billions of yen)



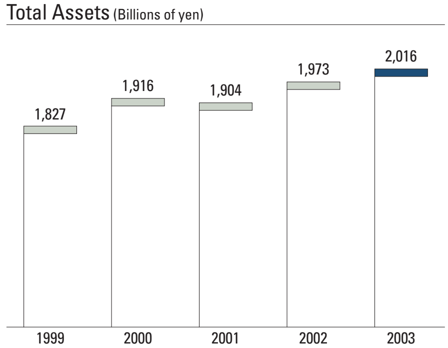

Ordinary Profit (Billions of yen)



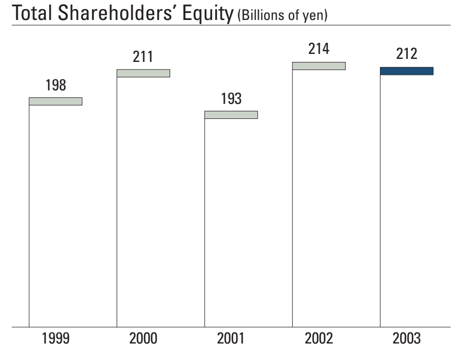

Net Income (Loss) (Billions of yen)




Total Assets (Billions of yen)




Total Shareholders' Equity (Billions of yen)



# To Our Shareholders

Junji Takashima, President

Fiscal 2003 (ended March 31, 2003) was another year of solid growth for Sumitomo Realty. Building on our previous successes, we continued to push revenues and earnings to new heights, while at the same time pressing ahead with realistic and aggressive measures necessary to improve our financial position and ensure future growth.

The strategic framework for this action is outlined in the New Three-Year Plan, which will end in fiscal 2004. This plan is the successor to the Five-Year Business Reconstruction Plan, begun in fiscal 1998, which was formulated to counter the business difficulties that arose as a result of the collapse of the bubble economy. The goals of this plan were achieved a year ahead of schedule, following record ordinary profit in fiscal 2001 that exceeded the historical highs of 1991. The aim of the New Three-Year Plan is to build on that achievement further.

The principal focus of the New Three-Year Plan is to consistently raise revenue from operations, operating and ordinary profit to higher levels each year, achieving landmark increases and markedly enhancing earning capacity. To achieve these goals while continuing to respond to changes in the business environment, we are concentrating on developing our four business areas, each of which have different profit structures and incur different operating risks, and creating a favorable balance among them. These four core businesses are Leasing, Sales, Brokerage and the newest addition Construction, which has grown to become one of the key components of the Company.

## Another Year of Record Earnings

During fiscal 2003, the second year of our New Three-Year Plan, all four of our core businesses achieved growth in revenues. Consolidated revenue from operations was ¥534 billion, operating profit was ¥89 billion, and ordinary profit was ¥57 billion. All of these totals set new records. Due to our accelerated response to the adoption of impairment accounting, however, net income was ¥5 billion.

As we enter the final year of the New Three-Year Plan, although Japan's deflationary economy has persisted longer than was assumed when the plan was formulated, the fundamentals of each of our core businesses have been steadily strengthened, and earnings and income have risen for each of the six fiscal years from fiscal 1998 through the year under review. We expect a repeat of this performance in fiscal 2004.

### Comparison of fiscal 1997 results (the period prior to the launch of the Five-Year Business Reconstruction Plan) with forecasts for fiscal 2004

| | Fiscal 1997 | Fiscal 2004 (forecast) | 7years Increase |
|---|---|---|---|
| Revenue from Operations | ¥339 billion | ¥580 billion | +71% |
| Operating Profit | ¥43 billion | ¥95 billion | +121% |
| Ordinary Profit | ¥3 billion | ¥65 billion | +2,067% |

### Revenue from Operations by segment

| | Fiscal 1997 | Fiscal 2004 (forecast) | 7years Increase |
|---|---|---|---|
| Leasing | ¥137 billion | ¥200 billion | +46% |
| Sales | ¥102 billion | ¥218 billion | +113% |
| Construction | ¥59 billion | ¥128 billion | +116% |
| Brokerage | ¥32 billion | ¥39 billion | +21% |

## Adoption of Impairment Accounting

Under the Five-Year Business Reconstruction Plan, the Company focused on addressing the numerous discrepancies in its balance sheets. Construction was started on land scheduled for commercial development with book value of more than ¥500 billion, lowering land holdings on which construction had not begun to a reasonable level of approximately ¥100 billion. By writing off debt and renewing collection efforts, outstanding balances at our finance subsidiary, which previously had a lending balance of ¥330 billion, and overseas operations, which had an investment balance of more than ¥170 billion, were each reduced to slightly over ¥10 billion. Measures were also implemented to deal with losses incurred as a result of the excesses of the bubble years, such as the recording of lump sum loss cuts on land for condominium development, as well as on adjustment of prior years' rent in the subleasing business. In total, the Company recorded extraordinary losses of more than ¥200 billion.

The Company has also adopted control as its standard for consolidation, and has made a succession of changes to its accounting standards, such as fair market value accounting for financial instruments and actuarial methods of measuring retirement benefit obligations.

The next issue we face is the adoption of impairment accounting for leasing properties and other fixed assets, which will become compulsory from fiscal 2006. Our intention is to begin taking steps to bring our accounts in line with this standard before it becomes compulsory, as we have done with other accounting changes. Accordingly, losses for assets deemed to be applicable to impairment accounting are being recorded over a two-year period, during fiscal 2003 and 2004.

Although final decisions on the specific methods of impairment accounting have not been announced, it has been decided that impairment is necessary when an asset's undiscounted future cash flow for a total of twenty years falls below its book value. The Company will therefore sell off assets that conflict with this standard, i.e. land holdings without a specific plan for development, and leased assets that do not generate an investment yield of at least 2.5% on a book value basis.

Assets affected under this standard amount to a book value of a little more than ¥140 billion, representing 7% of total consolidated assets. We estimate the loss on sale to be approximately ¥100 billion. An extraordinary loss of nearly ¥50 billion was recorded in fiscal 2003, and we intend to take another extraordinary loss of approximately ¥50 billion in fiscal 2004. These measures will allow us to mostly complete the early adoption of impairment accounting within the time frame of the New Three-Year Plan.

## Improving Our Financial Position

Building a stable financial base is an important issue for Sumitomo Realty. The Group's total interest-bearing liabilities (the total of loans, corporate bonds, notes and guarantee obligations) reached a peak of nearly ¥1,690 billion in fiscal 1998. Within five years this has been reduced by a little less than ¥550 billion, to a total of ¥1,140 billion at the end of the fiscal year under review. We aim to further reduce this by nearly ¥100 billion, to ¥1,050 billion, by the end of fiscal 2004, the final year of the New Three-Year Plan. One of the more influential measures we are considering to reduce liabilities and improve capital efficiency in the coming fiscal year and into the future is to become an originator, setting up a J-REIT (Japanese real estate investment trust) for the Sumitomo Realty Group to manage.

The measures to deal with losses implemented during the Five-Year Business Reconstruction Plan had a temporary negative effect on shareholders' equity, but the adoption of impairment accounting is being managed in a way that will prevent a recurrence of this situation. We will continue with our recovery improvement efforts in an aim to improve our debt rating.

Fixed-rate liabilities already account for 70% of the Company's interest-bearing liabilities, and we intend to maintain this throughout the New Three-Year Plan.

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

J. Takashima

Junji Takashima, President
August 2003

# Our History

| | |
|---|---|
| 1949 | Izumi Real Estate Co., Ltd. established as the successor to the holding company of the Sumitomo zaibatsu following the breakup of the conglomerate. |
| 1957 | Izumi Real Estate Co., Ltd. changed its name to Sumitomo Realty & Development Co., Ltd. |
| 1963 | Mergered the holding company of the former Sumitomo zaibatsu during its liquidation. |
| 1964 | Entered the condominium sales business with the Hama-Ashiya Mansion, located in Kobe, Hyogo Prefecture. |
| 1970 | Listed stocks on the Tokyo and Osaka stock exchange. |
| 1973 | Established Sumitomo Fudosan Tatemono Service Co., Ltd., a consolidated subsidiary. |
| 1974 | Completed construction of the 52-story Shinjuku Sumitomo Building in Shinjuku, Tokyo, and company headquarters moved there from the Tokyo Sumitomo Building in Marunouchi,Tokyo. |
| 1975 | Established Sumitomo Real Estate Sales Co., Ltd., a consolidated subsidiary. |
| 1980 | Established Sumitomo Fudosan Syscon Co., Ltd., a consolidated subsidiary. |
| 1982 | Completed construction of the 30-story Shinjuku NS Building in Shinjuku, Tokyo; company headquarters moved there from Shinjuku Sumitomo Building. |
| 1995 | Commenced "American Comfort" standardized housing construction business. |
| 1996 | Commenced "Shinchiku Sokkurisan" remodeling business. |
| 1998 | Sumitomo Real Estate Sales Co., Ltd., a consolidated subsidiary listed stocks on the Tokyo Stock Exchange. |
| 1999 | Universal Home Inc., a consolidated subsidiary listed on JASDAQ (over the counter with the Japan Securities Dealers Association). |
| 2002 | Completed construction of the Izumi Garden City (Roppongi 1-Chome Redevelopment project). |

# Sumitomo Realty & Development Group

### LEASING BUSINESS

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

### SALES BUSINESS

- Condominium Development Division

### CONSTRUCTION BUSINESS

- Housing Business Division Number I
- Housing Business Division Number II
- Sumitomo Fudosan Syscon Co., Ltd.
- Universal Home Inc.

### BROKERAGE BUSINESS

- Sumitomo Real Estate Sales Co., Ltd.

### OTHER BUSINESS

- Sumitomo Fudosan Esforta Co., Ltd.
- Izumi Restaurant Co., Ltd.
- Sumitomo Fudosan Finance Co., Ltd.

# Outline of Operations

## LEASING

### Outline

Sumitomo Realty made its full-scale entry into the leasing business in the latter half of the 1970s, later than its main competitors. For this reason, the leasing business has the following characteristics.

The Shibakoen First Building [Completed July 2000]

### Sumitomo Realty's Strengths

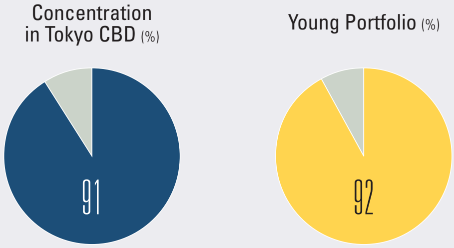
#### 1. An outstanding leasing portfolio, concentrated in central Tokyo

Central 3 wards (Chiyoda, Minato, Chuo) ........................................46%

Central 5 wards (plus Shinjuku and Shibuya)...................................70%

Central 7 wards (plus Shinagawa and Bunkyo)................................80%

All 23 wards......................................................................................91%




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

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

Buildings less than 10 years old........................................................49%

Buildings less than 20 years old*......................................................92%

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

*Two of the Company's major properties, the Shinjuku Sumitomo Building and the Shinjuku NS Building, are included in this category because, although they are more than 20 years old, they are high-rise buildings built under more stringent earthquake codes.

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

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

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

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

## Performance

In the market for office space in Tokyo, because the supply of large-scale buildings temporarily increased during 2003 (the so-called 2003 problem), the average vacancy rate at the end of the fiscal year, as reported by several research companies, rose to between 6% and 8%. The slow economy and prolonged deflation has fuelled the desire among tenants to reduce their office costs, and significantly reduced rents are being offered for even competitive properties in order to quickly fill vacancies, pushing rents down. In contrast with the regional cities, however, where the exodus of companies continues and vacancy rates are more than 10% across the board, more companies are viewing the increase in supply in Tokyo as an opportunity to secure office space for integration and consolidation. Therefore, in the market overall the amount of contracted floor space remains at a high level.

Amid this business environment, although the leasing division experienced a slight falloff in income from existing buildings during the period under review due to the rise in the vacancy rates, a full year of operation from projects finished during the previous fiscal year, such as the Sumitomo Fudosan Shibakoen Tower, and new capacity realized from such sources as Izumi Garden (Roppongi 1-Chome Redevelopment Project), resulted in rising income and profit for the leasing division overall. Revenue from the leasing business rose ¥14,945 million from the previous fiscal year to ¥192,979 million, while operating profit increased ¥4,036 million to ¥53,261 million.

## Outlook

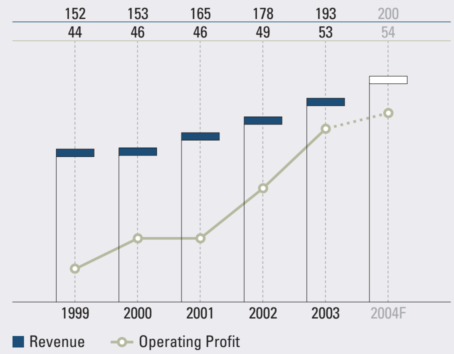
The continuing anxiety over corporate performance and business confidence in general does not allow much room for optimism. Though tenants have pressing needs for integration and consolidation, expectations of reducing office costs have not subsided, reflecting deflationary pressures, and the slow demand for expansion is expected to continue for some time yet. In Tokyo, however, the competition between new large-scale buildings, which was a direct cause of worsening attitudes toward the market, continues to subside, and because it is clear that new supply will decrease after 2004, the market for new, large-scale buildings is expected to gradually settle and return to normal. Although competition among existing buildings from which tenants have left will intensify, if the shifting of tenants continues, office buildings that offer better facilities will attract demand, and those that have lost their competitive edge will have to be renovated or rebuilt. Once these stock adjustments occur and progress, the balance of supply and demand will begin to improve, and the 2003 problem will gradually fade and disappear.

Sumitomo Realty has secured tenants for nearly all of its newly completed medium-sized buildings, including those that will be completed in fiscal 2005. Two of our newly built large-scale buildings, however, such as the Izumi Garden Tower and Sumitomo Fudosan Shinjuku Oak Tower (Nishi-Shinjuku 6-Chome Redevelopment Project), were completed with less than full occupancy. The Company has sought to hold the line against lower prices, and adopted a policy to take the time necessary to acquire tenants under lease conditions corresponding to the competitiveness of the property. The Company will continue to focus on securing favorable tenants.

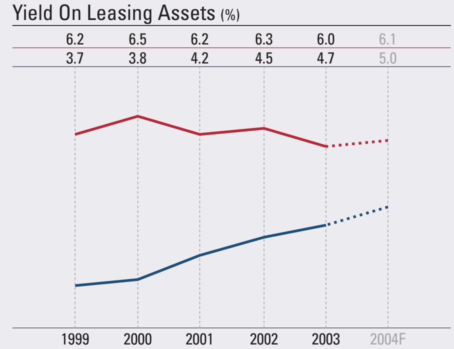
The Izumi Garden Tower (Roppongi 1-Chome Redevelopment Project) [Completed Oct. 2002]

The Sumitomo Fudosan Shinjuku Oak Tower (Nishi-Shinjuku 6-Chome Redevelopment Project) [Completed Jan. 2003]

LEASING BUSINESS
Revenue & Operating Profit (Billions of yen)




Yield On Leasing Assets (%)




## VILLA FONTAINE HOTELS

Sumitomo Realty operates nine high-quality business hotels in central business districts, providing a total of 1,341 rooms. By doing away with excessive personal services, and instead focusing on spacious rooms with good quality beds and baths, these hotels offer the ideal space and services for the harried business traveler.

This hotel concept has proven to be extremely popular, returning an average occupancy rate of 89% during fiscal 2003. The Villa Fontaine Roppongi, opened in September 2002 and offering 189 rooms, reached an occupancy rate of 85% within its first six months. The Villa Fontaine Shiodome (497 rooms) is scheduled to open as part of the Shiodome Sumitomo Building complex in October 2004.

| Location | Rooms |
|---|---|
| Roppongi | 189 |
| Hamamatsucho | 119 |
| Otemachi | 143 |
| Jimbocho | 72 |
| Kayabacho | 294 |
| Hakozaki | 163 |
| Nihonbashi | 85 |
| Ueno | 186 |
| Shinsaibashi | 90 |
| Shiodome* | 497 |

*Scheduled to open in Oct. 2004

Villa Fontaine Roppongi (Superior Room)


Villa Fontaine Roppongi (Entrance)

# SALES

## Development of the Real Estate Sales Business

Comprising the core of Sumitomo Realty's sales business, development and sales of condominiums accounts for 96% of total sales in this segment. Sumitomo Realty commenced its condominium sales business earlier than almost all its competitors, earning the distinction of being the pioneer in condominium sales in Japan.

The Company's condominium operations are focused mainly on Japan's six largest urban areas: the Tokyo metropolitan area, Osaka/Kobe, Sapporo, Sendai, Nagoya, and Fukuoka. Sumitomo Realty significantly increased its market share for five consecutive years, ranking second nationwide in terms of number of units provided in 2002. Looking ahead, the Company will carry out its operations with the aim of firmly maintaining its ranking within the top five condominium providers, and continually expanding its business.

As with its leasing business, Sumitomo Realty and the entire Sumitomo Realty Group engage directly in purchasing land for development, planning products, selling condominium units and managing properties after condominium sales. This approach enables the Company to provide high-quality products and well-focused service with feedback of customer needs.

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

The City Tower Takanawa [Scheduled for completion in Mar. 2004]

## Performance

In the condominium market, despite the continued favorable market conditions, such as a tax deduction allowance for housing loans and stable low interest rates, the number of visitors to sales showrooms declined, giving the feeling of a slowdown from the previous fiscal year. In the Tokyo area, downtown high-rise condominiums and large-scale properties near train stations drew the attention of consumers, and improvements in location and product offering led to continued support from a wide demographic encompassing both single persons and the elderly. As a result, although condominiums in the downtown area attracted many customers, and there is now a wider range of areas in which sales prices are rising, sales prices for ordinary properties in the suburbs continue to fall. In the regional cities as well, the trend toward relocation to the city center has been notable.

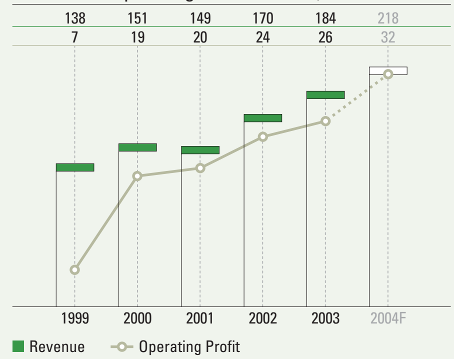
Amid this business environment, total sales of condominiums, houses and residential land amounted to 4,499 units, 353 more than in the previous year. Revenue from the sales business rose ¥13,317 million from the previous year to ¥183,745, and operating profit increased ¥1,399 million to ¥25,787 million. The number of condominium sales contracts concluded, as a result of the smaller number of visitors to showrooms, fell by 331 units to 4,027 units.

The sales division's revenue from operations during the fiscal year under review included ¥1,302 million in income from the sales of buildings by the Company's subsidiary, Sumitomo Investment Co., (H.K.) Ltd. The sale of this building concluded the Hong Kong business, and the subsidiary was dissolved.

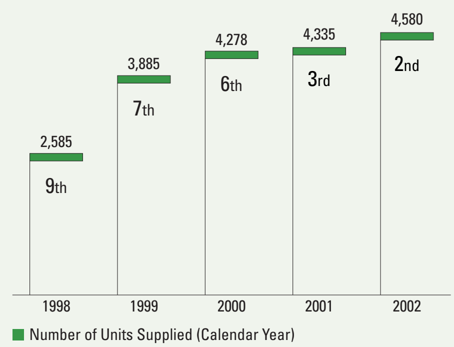
Sky Jacuzzi (The City Tower Yotsuya) [Scheduled for completion in Mar. 2004]


The Yokohama City Tower Bashamichi [Completed Mar. 2003]

SALES BUSINESS
Revenue & Operating Profit (Billions of yen)




Ranking of Condominium Suppliers




## Outlook

The slowdown in the economy, and the end of tax-reduction measures in December 2003 clouds the future of the sales environment. Sumitomo Realty will complete five high-rise condominium projects in downtown areas during the fiscal 2004: City Tower Ikebukuro, City Tower Osaki, City Tower Yotsuya, City Tower Takanawa and City Tower Osaka. This will significantly add to our product offerings, and will allow us to overcome the increasingly harsh market conditions. Of the 4,500 condominium and housing units the Company expects to sell during the fiscal 2004 (2% more than the previous year), approximately 50% of the contracts had been concluded as of March 31, 2003. The Company will redouble its sales efforts in order to meet its target.

Although competition to acquire land for large-scale urban projects is growing increasingly fierce, and the price of land has risen noticeably, as a result of Sumitomo Realty's preemptive securing of urban locations ahead of its competition, most of the land for projects during fiscal 2005 has already been acquired, and healthy performance is expected in the following two fiscal years.


The Park Square Neos Yokohama (Entrance Lobby) [Completed July 2002]

# CONSTRUCTION

## Performance

The market for new detached houses remained sluggish nationwide, and the market for remodeling, which had continued to grow, began to show signs of stagnation due to the effects of the slowdown in consumption.

In response to the prolonged slowdown in the market for new detached houses, the Company decided to merge the standardized houses and custom-built homes businesses, which it had previously kept separate to focus on their respective strengths. The merger of the custom-built home business of Sumitomo Fudosan Home Co., Ltd., and Sumitomo Realty's Housing Business Division I, which handled standardized houses, became effective October 1, 2002. In addition to immediate efficiencies realized from reductions in indirect costs, the Company believes that by strategically restructuring the personnel and skills of both divisions, it will improve sales and product development capacities, construction ability and material purchasing power.

In total, revenue from the construction business, which includes general refurbishments and interior and exterior work, increased ¥9,135 million during the fiscal year under review to ¥124,464 million. Due to greater efficiencies realized by lowering indirect costs through the merger with the new detached house business, operating profit rose markedly, increasing ¥2,220 million for a total of ¥6,992 million.

### Sales Performance for Fiscal 2003

| | Orders Received | YoY Change | Units Completed | YoY Change |
|---|---|---|---|---|
| Shinchiku Sokkurisan | 4,121 | +351 | 3,970 | +423 |
| New Detached House | 2,083 | -279 | 2,249 | -298 |
| Universal Homes* | 3,032 | -862 | 2,258 | -725 |

Note: Universal Home, Inc. is a franchiser specializing in standardized houses using conventional construction methods.

## Outlook

Because orders for new detached houses are expected to remain slow during fiscal 2004, the Company will press ahead with cost reductions aimed at further realizing efficiencies from business integration, such as consolidation of sales offices. It will also seek to revitalize its product capacity with the launch of new three-story houses. The Shinchiku Sokkurisan business will be relaunched with an increase in personnel, mainly in urban areas, which will increase sales capacity and serve to broaden the appeal of the brand. The Company will also focus on greater sales of Reform Choice, a fixed price, partial refurbishment product developed by Sumitomo Fudosan Syscon Co., Ltd.

## Product Lineup

### New Detached Houses

The Company has in the past contracted out construction of detached houses in the subdivisions it has developed, but in 1982 split off this business and established Sumitomo Fudosan Home Co., Ltd to develop the business itself. In the early years of this business, Sumitomo Fudosan Home adopted designs and construction methods used in and around Los Angeles by its sister company in California, Sumitomo Realty & Development, CA Inc. (then La Solana Corporation). Its mainstay products were custom-designed, midrange and upscale wood-frame houses. Because competition from large builders of midrange and upscale homes was intense, however, Sumitomo Fudosan Home had to continually struggle against the prolonged downturn, building just around 1,000 units per year.

The standardized housing business, however, taking a hint from the construction of emergency housing for victims of the Kobe earthquake, began operations in 1995 with the launch of the American Comfort line of high-quality, low-cost, Western-style standardized houses. Although this business has attracted a good deal of attention in the industry by achieving an annual growth rate of over 30%, the number of competing products in this price range has increased, and growth has sagged over the past several years. In 2002 the Company added a new Mediterranean style home, expanding its design portfolio to cover nine styles from seven countries, and changed the brand name for the line to "Series of World Home Designs."

"Series of World Home Designs"

The integration of the detached and standardized housing businesses in October 2002 enhanced the Company's product development ability. One of the first results of this combined operation was the introduction in April 2003 of two new three-story, urban home designs (J-Urban and Tyrol), both of which have proved popular.

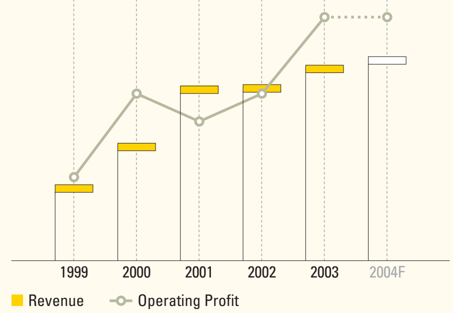
## The Shinchiku Sokkurisan Full Remodeling Package

In the renovation market in Japan, an outdated construction system keeps prices high, and there is a risk of cost overruns. It is widely believed that it is less expensive to simply rebuild. Sumitomo Realty overturned this common assumption in 1996 with the development of Shinchiku Sokkurisan, which provides the customer with a transparent fixed price, for which a house can be fully remodeled at half the cost of rebuilding, and in half the time. The marketing slogan *"Sono tatekae matta!"* (Hold off on that rebuilding!) has helped enhance the appeal of the product. It has become popular as an alternative to rebuilding, and is demonstrating impressive performance.

"Shinchiku Sokkurisan"

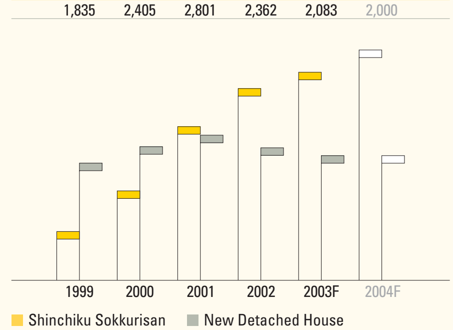
HOUSING BUSINESS
Revenue & Operating Profit (Billions of yen)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004F |
|---|---|---|---|---|---|---|
| Revenue | 67 | 87 | 114 | 115 | 124 | 128 |
| Operating Profit | 2.4 | 4.8 | 4.0 | 4.8 | 7.0 | 7.0 |




Housing Units Sold By Key Commodities (Units)

| | 1999 | 2000 | 2001 | 2002 | 2003F | 2004F |
|---|---|---|---|---|---|---|
| Shinchiku Sokkurisan | 695 | 1,569 | 2,951 | 3,770 | 4,121 | 4,600 |
| New Detached House | 1,835 | 2,405 | 2,801 | 2,362 | 2,083 | 2,000 |




## J-Urban Home

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

*Main Features*

### Outer facade in harmony with the urban environment

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

### New techniques and designs for better lighting

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

### Private internal patio

At the center of the structure is an open, private patio, offering a space to enjoy the sun and fresh air without concern for the outside world.

### Amenities on a par with an upscale condominium

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

### Fixed price system

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

Reference: Construction on an architectural area of 100m² is approximately ¥15 million, not including outer facilities and exterior construction.


J-Urban Home

# BROKERAGE

## Outline

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

Sumitomo Real Estate Sales operates a network of community focused branch offices under the Sumitomo Real Estate Sales STEP brand name. The number of offices reached 206 by the end of fiscal 2003, and this expanding and upgrading of the network of brokerage offices has helped to steadily grow the business. All brokerage offices are directly owned and operated and boast high profit margins. Sumitomo Real Estate Sales holds the No. 1 position in the industry in terms of brokerage revenues on a nonconsolidated basis. The Company plans to further expand its marketing base and steadily increase its market share.

## Performance

In the market for existing housing, although activity among people seeking to change their current residence remained slow, there was an upsurge in service needs among older couples wishing to return to the city center and first-time property buyers, leading to a rise in the number of units handled in the market overall. Although the average contracted rate for pre-owned condominiums in the Tokyo area saw its first year-on-year rise since the collapse of the bubble economy, in Osaka and other regions prices continued to fall.

Amid this environment, the brokerage business during the fiscal year under review opened five new brokerage offices, renovated several existing offices, and strengthened its IT strategy by launching Motomu Net, an online service to help identify people seeking to sell property. As a result, the Company was able to increase the number of properties it handled during the fiscal year, and increase its market share. Also, due to the increase in condominium sales brokered by the Company, revenue from the brokerage business increased ¥1,393 million from the previous fiscal year to ¥37,577 million, while operating profit slipped slightly, down ¥161 million to ¥7,792 million.

BROKERAGE BUSINESS
Revenue & Operating Profit (Billions of yen)

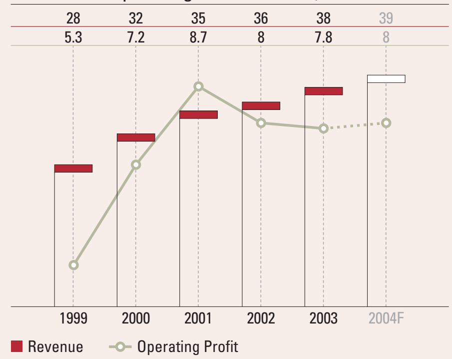
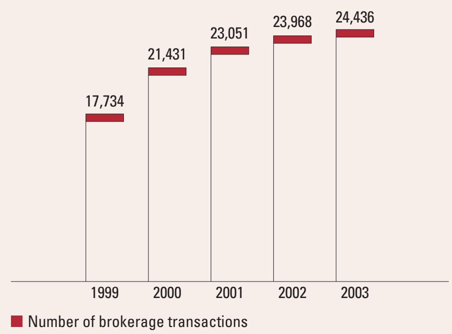



Chart of Brokerage Business





The Head Sales Office of Sumitomo Real Estate Sales Co.,Ltd. at The Shinjuku NS building

## Outlook

With the notable exception of Tokyo, the market for existing housing is unlikely to revitalize during fiscal 2004, and the fall in prices is expected to continue. While continuing to open new offices and renovate existing ones, therefore, the Company will seek to increase its market share and raise earnings and revenues by making greater use of the customer relationship management (CRM) system, as well as more deeply utilizing customer information received through the Internet.

The Company also intends to focus on such growth areas as corporations and wealthy individual investors, and adopt other measures to counter the difficult operating environment while working to grow the business.

# Financial Section

# Corporate Development and Financial Background

## 1950 to 1993 Fiscal Years / Founding through the Collapse of the Bubble

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

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

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

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

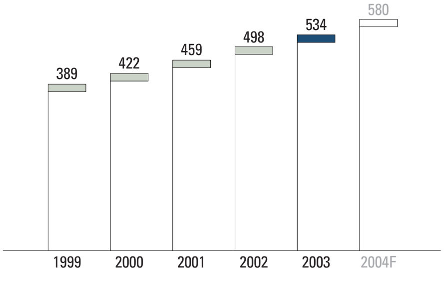
## 1994 to 1997 Fiscal Years / The Struggle to Readjust

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

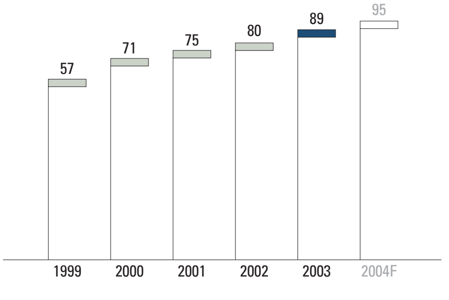
- *To reduce personnel expenses and maintain a sense of crisis, the organizational structure was simplified, including elimination of more than half the general manager positions (64 positions to 27), and salaries for both management and senior staff were reduced.*
- *New construction of office buildings was suspended, and all development personnel shifted to tenant sales.*
- *To develop and expand businesses not involving acquisition of land (non-land businesses), a large number of employees were shifted to subsidiaries handling custom-built homes, remodeling and refurbishment, and building management.*
- *New non-land businesses were launched, including the American Comfort line of standardized housing in October 1995, and the Shinchiku Sokkurisan full remodeling package in April 1996.*

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

Revenue From Operations (Billions of yen)




Operating Profit (Billions of yen)



## 1998 to 2001 Fiscal Years / The Five-Year Business Reconstruction Plan

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

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

Each of these targets was achieved a full year before the end of the five-year plan.

### 1. Restoring business performance

Sumitomo Realty was one of the first companies to foresee a recovery in the market for office buildings in Tokyo. Construction was resumed in 1995, ahead of others in the industry. The Shibuya Infoss Tower was completed in 1997, and, backed by a recovery in the market at large, the Company succeeded in acquiring contracts with many favorable tenants. Although a temporary setback was suffered with the failures of large-scale financial institutions in 1998, the twelve office buildings completed during the term of the five-year business reconstruction plan were all leased to full capacity at the time of their completion. Operating revenue from these new buildings helped the leasing business to raise its operating profit ¥13.4 billion, or 41% during this four-year period.

Another important factor in restoring performance was resolving the issue of land for building lease properties on which construction had not begun. The book value of this land exceeded ¥500 billion in fiscal 1995, but through aggressive development had been reduced to ¥124.3 billion in fiscal 2001, representing 9% of the leasing business's assets. This significantly reduced excessive anticipatory investments, another of the plan's targets.

Sumitomo Realty contracts with few outside brokers for its tenant sales, choosing instead to use a direct sales structure operated by the Company's own sales professionals. The high degree of sales ability the Company is able to utilize is well regarded, and the capacity to gather information realized from direct sales is one of the key reasons the Company was able to predict the market recovery ahead of its competitors.

In the condominium market, demand recovered quickly from 1994, but because the Company was focusing on disposing of its leftover properties for sale, and had placed controls on new land acquisition, it was unable to fully capitalize on this change in the market situation. Total number of units supplied during 1997 was 2,272, making the Company tenth in the ranking of suppliers nationwide for that year. The specific target adopted for the condominium business under the reconstruction plan was to expand the business to ensure a stable supply of more than 4,000 units annually, and increase the Company's share to make it one of the top five suppliers. In the year 2000 the Company supplied 4,278 units, making it the sixth-ranked supplier. Operating profit in the sales division increased 114%, or ¥10.5 billion over the four-year period.

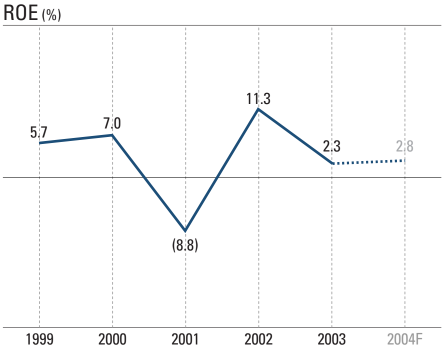
During the first half of the plan the Company continued selling the condominiums with high book values for land purchased during the bubble period, but in fiscal 2000 recorded an across-the-board revaluation loss of ¥24.9 billion on properties for sale, a move that improved the operating margin ratio in this division by 7.5 percentage points. The high margins generated in this division (over 13%) positioned Sumitomo Realty among the top class of companies in the industry.

Of Sumitomo Realty's four core businesses, the leasing and sales businesses require huge capital investments, as they must acquire land, construct buildings and then lease or sell these to customers. The construction and brokerage businesses, by contrast, do not require such a great investment of capital. Sumitomo Realty has carried out personnel buildups for both of these businesses in order to create a healthy business portfolio and improve the operational balance. As a result, operating profit during the four-year period for the two business types increased by 90%, or ¥6.0 billion.

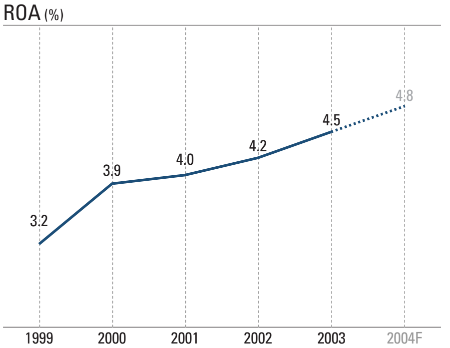
### 2. Disposing of nonperforming assets

Sumitomo Realty decided to withdraw from the financing and overseas businesses because they required a large amount of invested capital and showed little promise of profitability. The financing business had recorded ¥146.0 billion in losses from the disposal of bad loans, reducing the total value

ROE (%)




ROA (%)




Note: Operating Profit divided by total assets of ordinary loans, which had reached ¥333.5 billion in fiscal 1991, to a mere ¥18.4 billion (after allowance for bad debts). The overseas business began aggressively selling assets, recording ¥22.6 billion in losses on sales in fiscal 2000. This reduced the Company's stake, which had reached ¥175.9 billion in fiscal 1991, to ¥13.6 billion.

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

## 3. Reducing interest-bearing liabilities

Sumitomo Realty began giving priority to the reduction of interest-bearing debt in fiscal 1999, once the performance recovery was well under way.

As a result of the growth in profits, the Company was able, without increasing debt, to make the substantial capital investments necessary for development of land for the leasing business. Since the total of operating cash flow was devoted to capital investment, however, it became necessary to either recover invested capital or liquidate assets in order to reduce debt. Unfortunately, the large-scale failure of financial institutions in 1998 severely limited the total amount of risk capital available to the real estate market, and greater creativity was necessitated.

The principal measures undertaken were:

> *Disposal of overseas assets and nonperforming loans*
> *Securitization of office buildings in Japan (ABS-type)*
> *Selling of interests in SURF (Sumitomo Real Estate Fund), an investment scheme for office buildings in Japan similar to a U.S.-style limited partnership, where Sumitomo Realty acts as general partner*
> *Assignment of receivables related to condominium sales*

Sumitomo Realty chose to sell off certain assets in the overseas and nonperforming loan markets, which had ample supplies of risk capital, but would have been forced to sell at lower prices domestic investment real estate for which there was little risk capital available. The Company therefore injected capital into certain investment vehicles, easing the risk for investors and allowing capital to be recovered at a reasonable cost to the Company.

For institutional investors who required bankruptcy remote, the Company offered a securitization scheme employing a special purpose company (SPC), and for individual investors who valued the reliability of the Sumitomo brand, the Company offered investment in SURF.

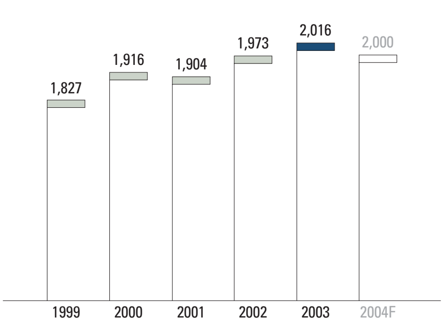
After 1999, private equity funds were created in succession, and the number and size of J-REITs grew, resulting in more risk capital flowing into the real estate market. The selling price of real estate for investment recovered as a result, validating the rectitude of the Company’s strategy of refusing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

The Sumquest bond issue offered in June 1999 was the first public issue of real estate securities in Japan, becoming the model for the growing securitization of real estate. The SURF investment had attracted a total of 12,000 individual investors by the end of the 2003 fiscal year, growing into a large-scale investment product with more than ¥120.0 billion in investments received.

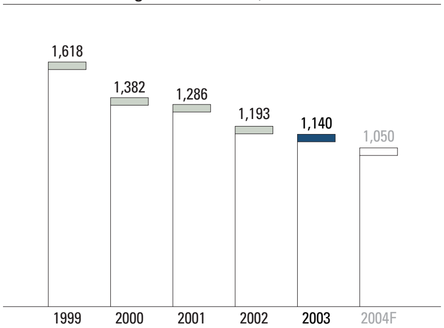
When real estate properties were securitized, those made bankruptcy remote by selling off to a SPC were taken off the balance sheet. For SURF, however, in accordance with accounting standards for such associations, since the Company was the general partner the total of the asset liabilities were carried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

Total interest-bearing liabilities for the Group (the total of debt, bonds, notes and guarantees) had reached ¥1,686 billion by the end of fiscal 1998. This had been reduced to ¥1,286 billion by the end of fiscal 2001, a reduction of ¥400 billion during a three-year period. This was roughly the same level as Group’s interest-bearing liabilities at the end of the 1991 fiscal year (¥1,242 billion), the height of the bubble period.

Total Assets (Billions of yen)




Interest-Bearing Debt (Billions of yen)



## 2002 to 2004 Fiscal Years / The New Three-Year Plan

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

### 1. Performance

#### Comparison of performance results for fiscal 2001 (the year prior to the launch of the New Three-Year Plan) with performance forecasts for fiscal 2004

| | Fiscal 2001 | Fiscal 2004 (forecast) | Increase |
|---|---|---|---|
| Revenue from Operations | ¥459.2 billion | ¥580.0 billion | +26.3% |
| Operating Profit | ¥75.2 billion | ¥95.0 billion | +26.3% |
| Ordinary Profit | ¥38.5 billion | ¥65.0 billion | +68.8% |

Increases in revenue are expected for all four core businesses (Leasing, Sales, Construction and Brokerage) for each fiscal period of the current plan.

### 2. Anticipating the introduction of impairment accounting

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

Sumitomo Realty made public in November 2002 its decision to pursue a policy of selling off during the period of the current three-year plan assets that will require impairment accounting, and recording a loss on the sale of such assets. Specifically, the Company reviewed the status of land and buildings in its portfolio, disposing of raw land not scheduled for development and from which no cash flow is expected, as well as currently leased properties whose NOI is less than 2.5% against its book value. The total book value of assets identified under this standard was ¥143.5 billion. The assets are being sold off over two fiscal periods (2003 and 2004), with a loss on sale of approximately ¥50 billion recorded in each. The Company believes that this action will severely limit the risks from valuation losses associated with impairment accounting.

Nearly all large-scale, listed companies in the real estate industry, until fiscal 2002, made use of special measures in the Land Revaluation Law that allowed them to offset unrealized losses in land against unrealized gains. Certain companies have also taken a special depreciation for buildings with notably high book values. It is often remarked that these measures have alleviated their impairment accounting risks. Sumitomo Realty did not make use of these special measures, preferring instead to resolve the issue by recording losses on sales. This is because the Company has held comparatively fewer assets since its founding, and was a latecomer to the leasing business.

The result of this difference in approach is that, while assets of other companies swell and their profit ratio on those assets falls markedly, Sumitomo Realty expects continued improvement in its asset margin ratio.

### 3. Improving the financial position

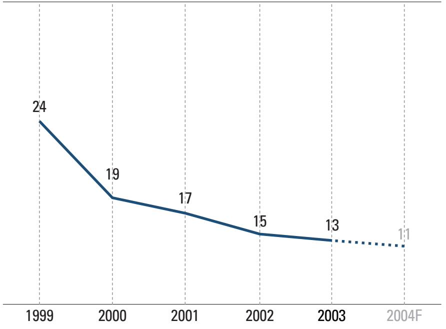
Interest-bearing liabilities are continuing to be reduced under the New Three-Year Plan. The target for interest-bearing liabilities at the end of fiscal 2004 is ¥1,050 billion, representing additional cuts of ¥236 billion during the three-year period from the end of fiscal 2001, the period proceeding the start of the plan.

Since measures for the adoption of impairment accounting have taken priority, however, recovery for the capital base has been delayed. The Company expects that the debt/equity ratio will be 4.9 at the close of the current plan.

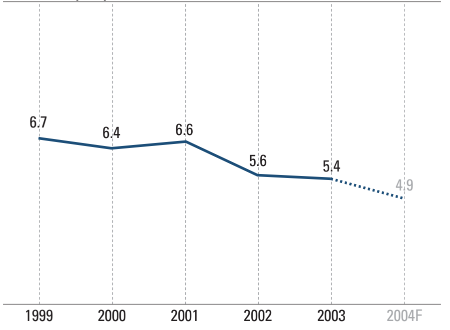
### 4. Toward establishment of a J-REIT

Sumitomo Realty plans to establish and directly operate a J-REIT (Japan real estate investment trust) in order to reduce its interest-bearing liabilities and promote smooth reshuffling of its asset holdings.

Interest-Bearing Debt / Operating Profit Ratio (Times)




Debt / Equity Ratio (Times)



# Consolidated Balance Sheets

March 31, 2003 and 2002

| Assets | Millions of yen 2003 | Millions of yen 2002 | Thousands of U.S. dollars (Note 1) 2003 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash, time and notice deposits (Note 4) | **¥ 101,700** | ¥ 87,472 | **$ 846,090** |
| Marketable securities (Note 8) | **18** | 129 | **150** |
| Securitized properties for sale (Note 8) | **27,980** | 21,915 | **232,779** |
| Notes and accounts receivable—trade | **24,902** | 20,347 | **207,171** |
| Trading loans receivable | **89,512** | 106,696 | **744,692** |
| Allowance for doubtful accounts | **(37,904)** | (37,738) | **(315,341)** |
| Inventories (Note 5) | **161,156** | 156,535 | **1,340,732** |
| Deferred income taxes (Note 12) | **14,361** | 20,619 | **119,476** |
| Other current assets | **41,721** | 29,024 | **347,096** |
| Total current assets | **423,446** | 404,999 | **3,522,845** |
| **Investments and advances:** | | | |
| Investments in and advances to unconsolidated subsidiaries and affiliates (Note 6) | **8,149** | 9,874 | **67,795** |
| Investments in securities and other (Note 8) | **92,037** | 71,937 | **765,699** |
| Allowance for doubtful accounts | **(27,121)** | (26,154) | **(225,632)** |
| Total investments and advances | **73,065** | 55,657 | **607,862** |
| **Property and equipment** (Note 7)**:** | | | |
| Land | **940,289** | 925,283 | **7,822,704** |
| Buildings and structures | **359,606** | 334,601 | **2,991,730** |
| Machinery and equipment | **17,369** | 16,636 | **144,502** |
| Construction in progress | **13,884** | 47,371 | **115,507** |
| | **1,331,148** | 1,323,891 | **11,074,443** |
| Accumulated depreciation | **(130,219)** | (123,839) | **(1,083,353)** |
| Net property and equipment | **1,200,929** | 1,200,052 | **9,991,090** |
| **Other assets:** | | | |
| Guarantee and lease deposits paid to lessors | **185,626** | 187,653 | **1,544,309** |
| Leasehold rights and other intangible assets | **55,340** | 68,986 | **460,399** |
| Deferred income taxes (Note 12) | **15,078** | 5,187 | **125,441** |
| Other | **62,183** | 50,201 | **517,330** |
| Total other assets | **318,227** | 312,027 | **2,647,479** |
| | **¥ 2,015,667** | ¥ 1,972,735 | **$ 16,769,276** |

*See accompanying notes.*

| Liabilities and Shareholders' Equity | Millions of yen 2003 | 2002 | Thousands of U.S. dollars (Note 1) 2003 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term debt (Note 9) | **¥ 292,851** | ¥ 311,457 | **$ 2,436,364** |
| Long-term debt due within one year (Note 9) | **217,862** | 272,599 | **1,812,496** |
| Notes and accounts payable—trade | **54,793** | 37,823 | **455,849** |
| Accrued income taxes (Note 12) | **267** | 2,453 | **2,221** |
| Accrued bonuses | **2,732** | 2,408 | **22,729** |
| Deferred income taxes (Note 12) | **7** | 19 | **58** |
| Other current liabilities (Note 13) | **222,626** | 138,647 | **1,852,130** |
| Total current liabilities | **791,138** | 765,406 | **6,581,847** |
| Long-term debt due after one year (Note 9) | **627,405** | 603,804 | **5,219,676** |
| Guarantee and deposits received (Note 13) | **369,362** | 372,251 | **3,072,895** |
| Deferred income taxes (Note 12) | **—** | 47 | **—** |
| Allowance for employees' severance and retirement benefits (Notes 10) | **4,310** | 3,743 | **35,857** |
| Directors' and corporate auditors' retirement benefits | **287** | 282 | **2,388** |
| Other long-term liabilities | **1,006** | 1,045 | **8,369** |
| **Minority interests** | **10,338** | 12,390 | **86,007** |
| Contingent liabilities (Note 18) | | | |
| **Shareholders' equity** (Note 14): | | | |
| Common stock | | | |
| Authorized — 780,000 thousand shares | | | |
| Issued — 407,086 thousand shares | **86,787** | 86,787 | **722,022** |
| Capital surplus | **96,822** | 96,822 | **805,507** |
| Retained earnings | **34,693** | 32,165 | **288,627** |
| | **218,302** | 215,774 | **1,816,156** |
| Net unrealized holding losses on securities | **(4,886)** | (2,159) | **(40,649)** |
| Foreign currency translation adjustments | **(1,370)** | 182 | **(11,398)** |
| Treasury stock | **(225)** | (30) | **(1,872)** |
| Total shareholders' equity | **211,821** | 213,767 | **1,762,237** |
| | **¥ 2,015,667** | ¥ 1,972,735 | **$ 16,769,276** |

# Consolidated Statements of Operations

Years ended March 31, 2003, 2002 and 2001

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | **2003** | 2002 | 2001 | **2003** |
| **Revenue from operations** (Note 3) | **¥ 533,915** | ¥ 497,877 | ¥ 459,245 | **$ 4,441,889** |
| **Costs and expenses:** | | | | |
| Cost of revenue from operations (Note 3) | **403,777** | 377,199 | 349,597 | **3,359,210** |
| Selling, general and administrative expenses (Note 3) | **41,626** | 40,308 | 34,430 | **346,306** |
| | **445,403** | 417,507 | 384,027 | **3,705,516** |
| **Operating income** | **88,512** | 80,370 | 75,218 | **736,373** |
| **Other income (expenses):** | | | | |
| Interest expense, net | **(25,660)** | (28,200) | (34,491) | **(213,478)** |
| Dividend income | **626** | 526 | 283 | **5,208** |
| Loss on sale of property and equipment | **—** | (202) | (375) | **—** |
| Loss on sale and devaluation of property and equipment (Note 11) | **(48,666)** | — | — | **(404,875)** |
| Loss on devaluation of investments in securities | **(4,643)** | (3,750) | — | **(38,627)** |
| Loss on sale of investments in securities | **(500)** | — | — | **(4,160)** |
| Provision for allowance for doubtful accounts | **—** | — | (14,828) | **—** |
| Foreign exchange gains | **371** | 375 | 14 | **3,087** |
| Loss from write-down of property and equipment | **(598)** | (478) | (501) | **(4,975)** |
| Loss from sale and write-off of loans receivable | **—** | — | (50,111) | **—** |
| Net transition obligation | **—** | — | (1,681) | **—** |
| Other, net (Note 3) | **(7,410)** | (6,307) | (2,613) | **(61,648)** |
| | **(86,480)** | (38,036) | (104,303) | **(719,468)** |
| **Income (Loss) before income taxes and minority interest** (Note 3): | **2,032** | 42,334 | (29,085) | **16,905** |
| Income taxes (Note 12): | | | | |
| Current | **781** | 4,608 | 5,097 | **6,498** |
| Deferred | **(1,903)** | 13,109 | (18,221) | **(15,832)** |
| Total | **(1,122)** | 17,717 | (13,124) | **(9,334)** |
| Minority interest | **(1,820)** | 1,621 | 2,047 | **(15,142)** |
| **Net income (loss)** | **¥ 4,974** | ¥ 22,996 | ¥ (18,008) | **$ 41,381** |

| | Yen | | | U.S. dollars (Note 1) |
|---|---|---|---|---|
| **Amounts per share of common stock:** | | | | |
| Net income (loss) | **¥ 12.22** | ¥ 56.50 | ¥ (44.27) | **$ 0.10** |
| Cash dividend applicable to the year | **6.00** | 6.00 | 6.00 | **0.05** |

*See accompanying notes.*

# Consolidated Statements of Shareholders' Equity

Years ended March 31, 2003, 2002 and 2001

| | Thousands | Millions of yen | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of shares of common stock | Common stock | Additional paid-in capital | Retained earnings | Net unrealized holding gains (losses) on securities | Foreign currency translation adjustments | Treasury stock |
| **Balance at March 31, 2000** | 406,810 | ¥86,773 | ¥96,822 | ¥31,942 | ¥ — | ¥ (4,395) | ¥ (2) |
| Increase due to change in consolidated subsidiaries | | | | 195 | | | |
| Net loss | | | | (18,008) | | | |
| Foreign currency translation adjustments | — | — | — | — | — | 1,555 | — |
| Adoption of new accounting standard for financial instruments | — | — | — | — | 1,016 | — | — |
| Cash dividends paid (¥6 per share) | — | — | — | (2,441) | — | — | — |
| Bonus to directors | — | — | — | (15) | — | — | — |
| **Balance at March 31, 2001** | 406,810 | 86,773 | 96,822 | 11,673 | 1,016 | (2,840) | (2) |
| Decrease due to change in consolidated subsidiaries | — | — | — | (45) | — | — | — |
| Net income | — | — | — | 22,996 | — | — | — |
| Foreign currency translation adjustments | — | — | — | — | — | 3,022 | — |
| Net unrealized holding losses on securities | — | — | — | — | (3,175) | — | — |
| Stock issued under exchange offerings | 276 | 14 | — | — | — | — | — |
| Treasury stock | — | — | — | — | — | — | (28) |
| Cash dividends paid (¥6 per share) | — | — | — | (2,441) | — | — | — |
| Bonus to directors | — | — | — | (18) | — | — | — |
| **Balance at March 31, 2002** | 407,086 | 86,787 | 96,822 | 32,165 | (2,159) | 182 | (30) |
| Net income | — | — | — | 4,974 | — | — | — |
| Foreign currency translation adjustments | — | — | — | — | — | (1,552) | — |
| Net unrealized holding losses on securities | — | — | — | — | (2,727) | — | — |
| Treasury stock | — | — | — | — | — | — | (195) |
| Increase due to merger | — | — | — | 10 | — | — | — |
| Cash dividends paid (¥6 per share) | — | — | — | (2,442) | — | — | — |
| Bonus to directors | — | — | — | (14) | — | — | — |
| **Balance at March 31, 2003** | **407,086** | **¥86,787** | **¥96,822** | **¥34,693** | **¥ (4,886)** | **¥ (1,370)** | **¥ (225)** |

| | Thousands of U.S. dollars (Note 1) | | | | | |
|---|---|---|---|---|---|---|
| | Common stock | Additional paid-in capital | Retained earnings | Net unrealized holding gains (losses) on securities | Foreign currency translation adjustments | Treasury stock |
| **Balance at March 31, 2002** | $722,022 | $805,507 | $267,596 | $ (17,962) | $ 1,514 | $ (250) |
| Net income | — | — | 41,381 | — | — | — |
| Foreign currency translation adjustments | — | — | — | — | (12,912) | — |
| Net unrealized holding losses on securities | — | — | — | (22,687) | — | — |
| Treasury stock | — | — | — | — | — | (1,622) |
| Increase due to merger | — | — | 83 | — | — | — |
| Cash dividends paid ($0.05 per share) | — | — | (20,316) | — | — | — |
| Bonus to directors | — | — | (117) | — | — | — |
| **Balance at March 31, 2003** | **$722,022** | **$805,507** | **$288,627** | **$ (40,649)** | **$ (11,398)** | **$ (1,872)** |

*See accompanying notes.*

# Consolidated Statements of Cash Flows

Years ended March 31, 2003, 2002 and 2001

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | **2003** | 2002 | 2001 | **2003** |
| **Cash flows from operating activities:** | | | | |
| Income (Loss) before income tax and minority interest | **¥ 2,032** | ¥ 42,334 | ¥ (29,085) | **$ 16,905** |
| Depreciation and amortization | **11,973** | 10,731 | 10,377 | **99,609** |
| Provision for (reversal of) allowance for doubtful accounts | **1,134** | (11,292) | (36,259) | **9,434** |
| Loss on devaluation of investments in securities | **4,643** | 3,750 | — | **38,627** |
| Loss on sale of investments in securities | **500** | — | — | **4,160** |
| Increase in employees' severance and retirement benefits | **567** | 355 | 1,818 | **4,717** |
| Interest and dividend income | **(956)** | (1,026) | (1,187) | **(7,953)** |
| Interest expense | **25,991** | 28,701 | 35,395 | **216,231** |
| Loss on sale of property and equipment, net | **—** | 202 | 375 | **—** |
| Loss on sale and devaluation of property and equipment (Note 11) | **48,666** | — | — | **404,875** |
| Loss from write-down of property and equipment | **598** | 478 | — | **4,975** |
| Increase in securitized properties for sale | **(6,065)** | (9,112) | — | **(50,458)** |
| Decrease (Increase) in notes and accounts receivable-trade | **(4,512)** | (859) | 272 | **(37,537)** |
| Decrease in trade loans receivable | **2,031** | 12,565 | 96,302 | **16,897** |
| Increase in inventories | **(6,627)** | (7,363) | (21,195) | **(55,133)** |
| Increase (Decrease) in advances received | **(294)** | 2,823 | 7,384 | **(2,446)** |
| Increase (Decrease) in notes and accounts payable-trade | **16,984** | 7,588 | (12,340) | **141,298** |
| Other, net | **10,090** | (1,738) | (7,041) | **83,944** |
| Total | **106,755** | 78,137 | 44,816 | **888,145** |
| Proceeds from interest and dividend income | **1,326** | 858 | 1,328 | **11,032** |
| Payments for interest | **(26,216)** | (29,894) | (37,202) | **(218,103)** |
| Payments for income tax and other taxes | **(4,334)** | (4,974) | (5,686) | **(36,057)** |
| Net cash provided by operating activities | **77,531** | 44,127 | 3,256 | **645,017** |
| **Cash flows from investing activities:** | | | | |
| Proceeds from sale of property and equipment | **14,369** | 4,264 | 79,582 | **119,542** |
| Payments for purchases of property and equipment | **(55,616)** | (56,241) | (55,015) | **(462,696)** |
| Payments for purchases investments in securities | **(47,489)** | (22,134) | (18,429) | **(395,083)** |
| Proceeds from sale of investments in securities | **22,037** | 925 | 2,659 | **183,336** |
| Increase in short-term loans | **—** | — | 178 | **—** |
| Decrease in guarantee and lease deposits paid to lessors | **59** | 8,508 | 50,897 | **491** |
| Increase (Decrease) in guarantee and lease deposits received | **(6,736)** | (1,792) | 8,392 | **(56,040)** |
| Payments for Tokumei Kumiai (partnership) investments | **(8,015)** | (12,346) | (12,271) | **(66,681)** |
| Receipts of deposits to partnerships | **71,790** | 97,392 | 55,397 | **597,255** |
| Restitution of deposits to partnerships | **(13,414)** | (5,245) | — | **(111,597)** |
| Other, net | **(10,634)** | (1,123) | 201 | **(88,469)** |
| Net cash provided by (used in) investing activities | **(33,649)** | 12,208 | 111,591 | **(279,942)** |
| **Cash flows from financing activities:** | | | | |
| Decrease in short-term debt | **(18,606)** | (6,288) | (33,096) | **(154,792)** |
| Proceeds from issuance of bonds and notes | **126,700** | 61,258 | 70,000 | **1,054,077** |
| Repayments of bonds and notes | **(106,444)** | (145,684) | (133,690) | **(885,557)** |
| Increase (Decrease) in long-term debt | **(49,411)** | 853 | 4,877 | **(411,073)** |
| Proceeds from assignment of advances received | **11,701** | 15,938 | 29,149 | **97,346** |
| Cash dividends paid | **(2,671)** | (2,678) | (2,643) | **(22,221)** |
| Other, net | **2,977** | 14,059 | 2,550 | **24,766** |
| Net cash used in financing activities | **(35,754)** | (62,542) | (62,853) | **(297,454)** |
| Effect of exchange rate changes on cash and cash equivalents | **8** | 1,395 | 151 | **66** |
| **Net increase (decrease) in cash and cash equivalents** | **8,136** | (4,812) | 52,145 | **67,687** |
| **Cash and cash equivalents at beginning of year** | **87,567** | 92,379 | 40,236 | **728,511** |
| **Increase (Decrease) in cash and cash equivalents resulting from changes in the number of consolidated subsidiaries** | **—** | — | (2) | **—** |
| **Cash and cash equivalents at end of year** (Note 4) | **¥ 95,703** | ¥ 87,567 | ¥ 92,379 | **$ 796,198** |

*See accompanying notes.*

# Notes to Consolidated Financial Statements

Years ended March 31, 2003, 2002 and 2001

## 1. Basis of financial statements

Sumitomo Realty & Development Co., Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen, and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2003, which was ¥120.20 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. Accounting policies

### *(1) Principles of consolidation*

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

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

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

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

### *(2) Foreign currency translation*

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

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate, except that shareholders' equity accounts are translated at historical rates and income statement items resulting from transactions with the Company at the rates used by the Company.

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

### *(3) Cash and cash equivalents*

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

### *(4) Recognition of revenue*

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

Effective April 1, 2001, as explained in Note 3, the Company changed the method of recognition of revenue and expense from the real estate business which used Special Purpose Companies ("SPC") to record in revenue from operations.

### *(5) Inventories*

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

Prior to April 1, 2000, the costs of consignment sales were recognized as expense in the period they were incurred. In the year ended March 31, 2001, a consolidated subsidiary of the Company introduced cost accounting system with the intent to better manage consignment sales activities, by matching revenue from sales of consigned properties and costs associated to such properties, this resulted in recording the costs of non-delivered estate amounting to ¥966 million as inventories at that date.

### *(6) Securities*

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

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

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

### *(7) Property and equipment*

The Company and domestic consolidated subsidiaries depreciate buildings using the straight-line method, and other property and equipment using the declining-balance method over estimated useful lives. Overseas consolidated subsidiaries depreciate property and equipment using primarily the straight-line method in accordance with the accounting principles in the respective countries.

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

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

***(8) Software Cost***

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

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

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

***(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***

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

***(12) Employees' severance and retirement benefits***

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

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

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

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

The Companies provided allowance for employees' severance and retirement benefits at March 31, 2003, 2002 and 2001 based on the estimated amount of projected benefit obligation at those dates.

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

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥1,721 million, operating income decreased by ¥41 million and loss before income taxes increased by ¥1,721 million compared with what would have been recorded under the previous accounting standard.

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

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

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

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

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

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

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

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

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

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

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

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

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

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share") .

Earnings per share for the year ended March 31, 2002 would have been reported as follows, if this new accounting standard were applied retroactively.

| | For the year ended March 31, 2002 |
|---|---|
| Net income per share | ¥56.46 |

***(15) Reclassifications***

Certain prior years amounts have been reclassified to conform to the 2003 presentation.

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

### 3. Changes in accounting policies

Effective April 1, 2001, the Company changed the method of recognition of revenue and expense from the real estate business which used SPC. The old method recorded in either Other operating income account or Other operating expense account. The new method recorded in the Revenue from operations account.

The reason for the change is that the Company altered the Articles of Incorporation at the general meeting of shareholders on June 28, 2001. The Company has included investment, purchase, sales, brokerage and management of SPC related business and J-REIT business as the Company's core businesses. Therefore, the Company has decided to incorporate revenues from the above-mentioned new businesses in the Revenue from operations account.

As for the year ended March 31, 2002, the effect of the change increased the Revenue from operations and Operating income by ¥3,426 million and to decrease Other income by the same amount, therefore there was no effect on net income.

### 4. Cash and cash equivalents

Cash and cash equivalents at March 31, 2003 and 2002 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Cash, time and notice deposits | **¥101,700** | ¥ 87,472 | **$ 846,090** |
| Time deposits over three months | **(6,000)** | (9) | **(49,917)** |
| Marketable securities | **3** | 104 | **25** |
| Cash and cash equivalents | **¥ 95,703** | ¥ 87,567 | **$ 796,198** |

### 5. Inventories

Inventories at March 31, 2003 and 2002, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Land and condominiums for sale | **¥ 35,584** | ¥ 23,905 | **$ 296,040** |
| Land and condominiums projects in progress | **89,039** | 74,760 | **740,757** |
| Land held for development | **33,453** | 53,121 | **278,311** |
| Other | **3,080** | 4,749 | **25,624** |
| Total | **¥161,156** | ¥156,535 | **$1,340,732** |

### 6. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2003 and 2002, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Investments in common stock, at cost | **¥ 5,673** | ¥ 5,806 | **$ 47,196** |
| Advances | **2,476** | 4,068 | **20,599** |
| Total | **¥ 8,149** | ¥ 9,874 | **$ 67,795** |

### 7. Properties in trust

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

Such properties included in property and equipment in the consolidated balance sheets at March 31, 2003 and 2002, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Buildings and structures | **¥ 6,941** | ¥ 7,261 | **$ 57,746** |
| Land | **18,628** | 18,628 | **154,975** |
| Machinery and equipment | **82** | 97 | **682** |
| Total | **¥ 25,651** | ¥ 25,986 | **$ 213,403** |

## 8. Securities

For 2003

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

(a) Held-to-maturity securities:

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Book value | Fair market value | Difference | Book value | Fair market value | Difference |
| Securities whose fair market value exceeds book value | | | | | | |
| National and local government bonds, etc. | ¥ 1,095 | ¥ 1,103 | ¥ 8 | $ 9,110 | $ 9,177 | $ 67 |
| Securities whose fair market value does not exceed book value | | | | | | |
| National and local government bonds, etc. | 117 | 117 | — | 973 | 973 | — |
| Total | ¥ 1,212 | ¥ 1,220 | ¥ 8 | $ 10,083 | $ 10,150 | $ 67 |

(b) Available-for-sale securities:

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| Securities whose book value exceeds acquisition cost | | | | | | |
| Equity securities | ¥ 9,284 | ¥10,884 | ¥ 1,600 | $ 77,238 | $ 90,549 | $ 13,311 |
| Others | 1 | 1 | — | 8 | 8 | — |
| Subtotal | ¥ 9,285 | ¥10,885 | ¥ 1,600 | $ 77,246 | $ 90,557 | $ 13,311 |
| Securities whose book value does not exceed acquisition cost | | | | | | |
| Equity securities | 39,447 | 29,954 | (9,493) | 328,178 | 249,201 | (78,977) |
| Others | 857 | 697 | (160) | 7,130 | 5,799 | (1,331) |
| Subtotal | 40,304 | 30,651 | (9,653) | 335,308 | 255,000 | (80,308) |
| Total | ¥49,589 | ¥41,536 | ¥ (8,053) | $412,554 | $345,557 | $ (66,997) |

Investments in securities were devaluated and the loss amounted to ¥4,196 million ($34,908 thousand) , consisted of equity securities included Available-for-sale securities.

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

Available-for-sale securities:

| | Book value | |
|---|---|---|
| | Millions of yen | Thousands of U.S. dollars |
| MMF | ¥ 3 | $ 25 |
| Non-listed equity securities | 3,270 | 27,204 |
| Senior securities | 42,298 | 351,897 |
| Total | ¥45,571 | $379,126 |

Senior securities included securitized properties for sale amounted to ¥27,980 million ($232,779 thousand).

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

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

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 1 year or less | 1 to 5 years | 5 to 10 years | Over 10 year |
| Bonds | $4,401 | $ 5,682 | $4,992 | $— |
| Other | — | 4,992 | — | — |
| Total | $4,401 | $10,674 | $4,992 | $— |

D. Total sales of Available-for-sale securities sold in the year ended March 31, 2003 amounted to ¥644 million ($5,358 thousand) and the related losses amounted to ¥500 million ($4,160 thousand) , respectively.

E. The Securitized properties for sale are the equity investments such as Preferred Subscription Certificates and Tokumei Kumiai (Partnership) Investments in Special Purpose Companies (SPC) and Tokumei Kumiai which own and develop real estates. The Company or its subsidiaries will sell those real estates in SPC and Tokumei Kumiai after the completion of the construction. Tokumei Kumiai can be used as a vehicle for investment allowed under the Japanese Commercial Code.
Securitized properties for sale consisted of the Preferred Subscription Certificates issued by SPC as of March 31, 2003.

For 2002

A. The following tables summarize acquisition costs, book values and fair market values of securities with available fair market values as of March 31, 2002:

(a) Held-to-maturity securities:

| | Millions of yen | | |
|---|---|---|---|
| | Book value | Fair market value | Difference |
| Securities whose fair market value exceeds book value | | | |
| National and local government bonds, etc. | ¥1,169 | ¥1,188 | ¥19 |
| Securities whose fair market value does not exceed book value | | | |
| National and local government bonds, etc. | 10 | 10 | — |
| Total | ¥1,179 | ¥1,198 | ¥19 |

(b) Available-for-sale securities:

| | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Securities whose book value exceeds acquisition cost | | | |
| Equity securities | ¥11,287 | ¥14,256 | ¥ 2,969 |
| Others | 1 | 1 | — |
| Subtotal | ¥11,288 | ¥14,257 | ¥ 2,969 |
| Securities whose book value does not exceed acquisition cost | | | |
| Equity securities | 31,895 | 25,659 | (6,236) |
| Others | 1,328 | 1,247 | (81) |
| Subtotal | 33,223 | 26,906 | (6,317) |
| Total | ¥44,511 | ¥41,163 | ¥ (3,348) |

Investments in securities were devaluated and the loss amounted to ¥3,724 million, consisted of equity securities included Available-for-sale securities amounted to ¥3,559 million and others amounted to ¥165 million.

B. The following table summarizes book values of securities with no available fair market values as of March 31, 2002:

Available-for-sale securities:

| | Book value |
|---|---|
| | Millions of yen |
| MMF | ¥ 104 |
| Non-listed equity securities | 968 |
| Senior securities | 23,033 |
| Total | ¥24,105 |

Senior securities included securitized properties for sale amounted to ¥21,915 million.

C. Available-for-sale securities with maturities and held-to-maturity securities at March 31,2002, mature as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 1 year or less | 1 to 5 years | 5 to 10 years | Over 10 year |
| Bonds | ¥203 | ¥ 976 | ¥600 | ¥— |
| Other | — | 737 | — | — |
| Total | ¥203 | ¥1,713 | ¥600 | ¥— |

D. Total sales of Available-for-sale securities sold in the year ended March 31, 2002 amounted to ¥596 million and the related gains and losses amounted to ¥241 million and ¥172 million, respectively.

E. The Securitized properties for sale are the equity investments such as Preferred Subscription Certificates and Tokumei Kumiai (Partnership) Investments in Special Purpose Companies (SPC) and Tokumei Kumiai which own and develop real estates. The Company or its subsidiaries will sell those real estates in SPC and Tokumei Kumiai after the completion of the construction. Tokumei Kumiai can be used as a vehicle for investment allowed under the Japanese Commercial Code.
In the year ended March 31, 2002, the Company reclassified the preferred subscription certificates of ¥12, 803 million from Investment in securities account to Securitized properties for sale account.

## 9. Short-term debt and long-term debt

Short-term debt at March 31, 2003 and 2002 consisted of the following :

| | Millions of yen | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|
| | **2003** | **Average interest rate (%)** | 2002 | Average interest rate (%) | **2003** |
| Loans, principally from banks | **¥228,751** | **0.96** | ¥247,557 | 1.00 | **$1,903,086** |
| Commercial paper | **64,100** | **0.82** | 63,900 | 1.14 | **533,278** |
| | **¥292,851** | | ¥311,457 | | **$2,436,364** |

The interest rates represent weighted-average rates in effect at March 31, 2003 and 2002, regardless of borrowing currencies, though the range of the interest rate varies by borrowing currency.

Long-term debt at March 31, 2003 and 2002, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| 3.15% Euroyen notes (*) , due 2002 | **¥ —** | ¥ 9,400 | **$ —** |
| 2.35% Euroyen notes, due 2002 | **—** | 10,000 | **—** |
| 2.65% Euroyen notes, due 2004 | **9,300** | 9,300 | **77,371** |
| 2.4% Euroyen notes, due 2003 | **—** | 9,400 | **—** |
| 2.575% Euroyen notes, due 2004 | **7,400** | 7,500 | **61,564** |
| 2.5% domestic straight bonds, due 2003 | **13,000** | 13,700 | **108,153** |
| 2.025% domestic straight bonds, due 2002 | **—** | 19,000 | **—** |
| Floating rate Euruoyen notes, due 2002 | **—** | 1,000 | **—** |
| 2.6% Euroyen notes, due 2003 | **1,000** | 1,000 | **8,319** |
| 2.75% domestic straight bonds, due 2003 | **5,000** | 5,200 | **41,597** |
| 3.0% domestic straight bonds, due 2004 | **3,200** | 3,900 | **26,622** |
| 2.6% domestic straight bonds, due 2003 | **7,100** | 8,700 | **59,068** |
| 3.1% Euroyen notes, due 2005 | **700** | 700 | **5,824** |
| 3.0% domestic straight bonds, due 2003 | **9,400** | 10,000 | **78,203** |
| 3.0% domestic straight bonds, due 2003 | **33,481** | 33,902 | **278,544** |
| 2.35% domestic straight bonds, due 2002 | **—** | 30,000 | **—** |
| 2.65% domestic straight bonds, due 2003 | **9,669** | 9,820 | **80,441** |
| 2.95% domestic straight bonds, due 2004 | **34,441** | 37,100 | **286,531** |
| 2.35% domestic straight bonds, due 2003 | **9,497** | 9,510 | **79,010** |
| 2.45% domestic straight bonds, due 2004 | **19,600** | 20,000 | **163,062** |
| 2.45% domestic straight bonds, due 2004 | **9,321** | 9,770 | **77,546** |
| 2.62% domestic straight bonds, due 2005 | **15,566** | 17,024 | **129,501** |
| 2.3% domestic straight bonds, due 2004 | **3,580** | 4,400 | **29,784** |
| 2.85% domestic straight bonds, due 2006 | **3,300** | 4,200 | **27,454** |
| Floating rate domestic straight bonds, due 2006 | **7,606** | 9,698 | **63,278** |
| 1.6% domestic straight bonds, due 2006 | **9,500** | 10,000 | **79,035** |
| Floating rate domestic straight bonds, due 2006 | **7,844** | 10,000 | **65,258** |
| Floating rate domestic straight bonds, due 2007 | **7,730** | 10,000 | **64,310** |
| 1.5% domestic straight bonds, due 2006 | **7,360** | 7,360 | **61,231** |
| Floating rate domestic straight bonds, due 2006 | **7,592** | 10,000 | **63,161** |
| 1.75% domestic straight bonds, due 2005 | **10,000** | — | **83,195** |
| 1.85% domestic straight bonds, due 2006 | **7,808** | — | **64,958** |
| 1.85% domestic straight bonds, due 2006 | **9,685** | — | **80,574** |
| 1.85% domestic straight bonds, due 2006 | **9,407** | — | **78,261** |
| 2.0% domestic straight bonds, due 2007 | **9,406** | — | **78,253** |
| 1.5% domestic straight bonds, due 2005 | **7,147** | — | **59,459** |
| 1.5% domestic straight bonds, due 2005 | **12,000** | — | **99,834** |
| 1.5% domestic straight bonds, due 2005 | **10,000** | — | **83,195** |
| 1.45% domestic straight bonds, due 2005 | **10,000** | — | **83,195** |
| 1.45% domestic straight bonds, due 2005 | **10,000** | — | **83,195** |
| 1.45% domestic straight bonds, due 2005 | **12,500** | — | **103,993** |
| 1.35% domestic straight bonds, due 2006 | **5,000** | — | **41,597** |
| 0.75%—0.80% Euroyen notes, due 2003 | **1,700** | — | **14,143** |
| 0.8%—1.2% Euroyen notes, due 2005 | **5,000** | — | **41,597** |
| Loans, principally from banks and insurance companies, interest principally at rates of 0.82% to 4.35% in 2003, and 0.82% to 4.66% in 2002: | | | |
| Secured | **—** | 1,981 | **—** |
| Unsecured | **483,427** | 532,838 | **4,021,856** |
| Subtotal | **845,267** | 876,403 | **7,032,172** |
| Amount due within one year | **(217,862)** | (272,599) | **(1,812,496)** |
| Total | **¥627,405** | ¥603,804 | **$5,219,676** |

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

The aggregate annual maturities of long-term debt at March 31, 2003, are as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2004 | ¥217,862 | $1,812,496 |
| 2005 | 186,318 | 1,550,067 |
| 2006 | 194,738 | 1,620,117 |
| 2007 | 151,894 | 1,263,677 |
| 2008 | 66,304 | 551,614 |
| 2009 and thereafter | 28,151 | 234,201 |
| Total | ¥845,267 | $7,032,172 |

As is customary in Japan, security must be given if requested by lending banks under certain circumstances, and generally banks have the right to offset cash deposited with them against any debt or obligations payable to the bank that becomes due in case default and certain other specified events. The Company has never received such request.

## 10. Employees' severance and retirement benefits

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

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2003 and 2002 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Projected benefit obligation | **¥6,720** | ¥6,276 | **$55,907** |
| Unrecognized actuarial differences | **(351)** | (431) | **(2,920)** |
| Fair value of plan assets | **(2,059)** | (2,102) | **(17,130)** |
| Liability for severance and retirement benefits | **¥4,310** | ¥3,743 | **$35,857** |

Included in the consolidated statements of operations for the years ended March 31, 2003 and 2002 are severance and retirement benefit expenses comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Service costs — benefits earned during the year | **¥450** | ¥444 | **$3,744** |
| Interest cost on projected benefit obligation | **141** | 154 | **1,173** |
| Expected return on plan assets | **(51)** | (61) | **(424)** |
| Amortization of actuarial differences | **431** | 145 | **3,585** |
| Severance and retirement benefit expenses | **¥971** | ¥682 | **$8,078** |

The discount rate and the rate of expected return on plan assets for both years ended March 31, 2003 and 2002 used by the Company are 2.5% (the discount rates used by one consolidated subsidiary is 1.5% and 2.0%, respectively) . The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in income statement in the next year.

## 11. Loss on sale and devaluation of property and equipment

In order to prepare for the introduction of the new accounting standard, "Impairment of long-lived assets" to be applicable in FY2006, the Company and its subsidiaries sold and recognized losses on a part of long-lived assets of ¥48,666 million ($404,875 thousand) to be subject to the new accounting standard. Some of the long-lived assets were sold to its consolidated subsidiaries and such losses incurred in these transactions were not eliminated in consolidation and were recorded as net loss on devaluation of land or buildings. Loss on sale and devaluation of property and equipment of ¥48,666 million ($404,875 thousand) consists of net loss on sale of land of ¥15,266 million ($127,004 thousand) , loss on devaluation of land of ¥25,167 million ($209,376 thousand) , net loss of sale of buildings of ¥8,125 million ($67,596 thousand) and loss on devaluation of buildings of ¥108 million ($899 thousand).

## 12. Income taxes

The normal effective statutory income tax rate in Japan arising out of aggregation of corporate, enterprise and inhabitants taxes was approximately 42.05 % for the years ended March 31, 2003 and 2002.

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, 2003.

| | |
|---|---|
| Statutory tax rate | 42.05% |
| Net operating loss carryforwards of subsidiaries | (39.11) |
| Operating losses of certain subsidiaries | (58.42) |
| Effect of tax rate changes | 19.54 |
| Difference of tax rates of foreign subsidiaries | (7.53) |
| Effect of taxation on dividends | 37.27 |
| Tax benefits on losses of subsidiaries | (68.90) |
| Realized foreign currency translation adjustments due to liquidations of subsidiaries | (7.49) |
| Unrealized gains | 29.44 |
| Other | (2.05) |
| Effective tax rate | (55.20)% |

The difference between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the year ended March 31, 2002 was not significant. Therefore the breakdown of the differences of such tax rates is not disclosed.

Details of deferred tax assets and liabilities at March 31, 2003 and 2002 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Deferred tax assets: | | | |
| Net operating loss carryforwards | **¥23,133** | ¥24,398 | **$192,454** |
| Loss from devaluation of inventories | **5,758** | 6,612 | **47,903** |
| Unrealized inter-company profits | **1,564** | 3,937 | **13,012** |
| Net realized holding losses on securities | **3,146** | 1,515 | **26,173** |
| Other | **7,866** | 4,927 | **65,441** |
| Subtotal of deferred tax assets | **41,467** | 41,389 | **344,983** |
| Valuation allowance | **(12,028)** | (15,583) | **(100,066)** |
| Total deferred tax assets | **29,439** | 25,806 | **244,917** |
| Deferred tax liabilities: | | | |
| Net unrealized holding gains on securities | **(—)** | (47) | **(—)** |
| Other | **(7)** | (19) | **(58)** |
| Total deferred tax liabilities | **(7)** | (66) | **(58)** |
| Net deferred tax assets | **¥29,432** | ¥25,740 | **$244,859** |

The aggregate statutory income tax rate will be reduced for the years commencing on April 1, 2004 or later due to the revised local tax law. At March 31, 2003, the Company and consolidated domestic subsidiaries applied the reduced aggregate statutory income tax rate of 40.69 % for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on April 1, 2004 or later. As a result, deferred taxes assets decreased by ¥ 502 million ($ 4,176 thousand) and provision for deferred income taxes increased by ¥ 397 million ($ 3,303 thousand) and net unrealized holding losses on securities decreased by ¥ 105 million ($ 873 thousand) compared with what would be reported using the currently applicable tax rate of 42.05 %.

## 13. Guarantee and deposits received

Guarantee and deposits received at March 31, 2003 and 2002, were as follows:

| | Millions of yen | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|
| | **2003** | **Average interest rate (%)** | 2002 | Average interest rate (%) | **2003** |
| Long-term deposits due within one year | | | | | |
| Interest-bearing | **¥ 6,164** | **0.98** | ¥ 19,991 | 1.87 | **$ 51,281** |
| Guarantee and lease deposits from tenants | | | | | |
| Non-interest-bearing | **¥156,098** | **—** | ¥163,178 | — | **$1,298,652** |
| Interest-bearing | **22,500** | **2.80** | 22,500 | 2.80 | **187,188** |
| Long-term deposits | | | | | |
| Non-interest-bearing | **164,764** | **—** | 166,573 | — | **1,370,749** |
| Interest-bearing | **26,000** | **0.86** | 20,000 | 0.91 | **216,306** |
| Total | **¥369,362** | | ¥372,251 | | **$3,072,895** |

The aggregate annual maturities of interest-bearing guarantee and deposits received at March 31, 2003, are as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2004 | ¥ 6,164 | $ 51,281 |
| 2005 | — | — |
| 2006 | 22,500 | 187,188 |
| 2007 | 20,000 | 166,389 |
| 2008 | 6,000 | 49,917 |
| | ¥54,664 | $454,775 |

## 14. Shareholders' equity

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

Effective October 1, 2001, the Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Company has been reached to 25% of common stock, and therefore the Company is not required to provide legal earnings reserve any more. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

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

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

## 15. Information for certain lease transactions

Finance leases which do not transfer ownership to lessees are not capitalized and accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases 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, 2003 and 2002 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Acquisition cost: | | | |
| Buildings and structures | **¥13,913** | ¥9,865 | **$115,748** |
| Other | **1,991** | 1,441 | **16,564** |
| Accumulated depreciation | **(3,338)** | (2,020) | **(27,770)** |
| Net book value | **¥12,566** | ¥9,286 | **$104,542** |

Depreciation equivalent of ¥1,784 million ($14,842 thousand) and ¥1,012 million for 2003 and 2002, respectively, are computed using the straight-line method over the lease terms assuming no residual value or residual indemnity.

Lease expenses under finance leases, inclusive of interest, for the years ended March 31, 2003 and 2002, amounted to ¥1,784 million ($14,842 thousand) and ¥1,012 million, respectively.

Future lease payments and receipts under such finance leases and non-cancelable operating leases at March 31, 2003 and 2002, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Finance leases | | | |
| *Future lease payments:* | | | |
| Due within one year | **¥ 2,312** | ¥ 1,698 | **$ 19,234** |
| Due after one year | **10,254** | 7,588 | **85,308** |
| Total | **¥ 12,566** | ¥ 9,286 | **$ 104,542** |
| *Future sub-lease payments:* | | | |
| Due within one year | **¥ 1** | ¥ 7 | **$ 8** |
| Due after one year | **—** | 1 | **—** |
| Total | **¥ 1** | ¥ 8 | **$ 8** |
| *Future sub-lease receipts:* | | | |
| Due within one year | **¥ 18** | ¥ 49 | **$ 150** |
| Due after one year | **7** | 42 | **58** |
| Total | **¥ 25** | ¥ 91 | **$ 208** |
| Operating leases | | | |
| *Future lease payments:* | | | |
| Due within one year | **¥ 10,215** | ¥ 4,910 | **$ 84,984** |
| Due after one year | **116,388** | 54,964 | **968,286** |
| Total | **¥126,603** | ¥59,874 | **$1,053,270** |
| *Future lease receipts:* | | | |
| Due within one year | **¥ 82** | ¥ 89 | **$ 682** |
| Due after one year | **685** | 922 | **5,699** |
| Total | **¥ 767** | ¥ 1,011 | **$ 6,381** |

## 16. Derivative transactions

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

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

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

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

| Hedging instruments: | Hedged items: |
|---|---|
| Foreign exchange contracts | Foreign currency monetary liabilities and foreign provisional transaction |
| Interest rate swap contracts | Bank loan, bonds and deposits |

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

Evaluating hedge effectiveness of interest rate swap at years ended March 31, 2003 and 2002 is omitted as special hedge accounting has been applied to derivative transactions of interest rate swap contracts. Also, evaluating hedge effectiveness of foreign exchange at years ended March 31, 2003 and 2002 is omitted because significant terms of hedging instruments and those of the items hedged are the same and the risk of changes in foreign exchange rates would be entirely eliminated.

The contract amounts and unrealized gain or loss of outstanding derivative transactions at March 31, 2003 and 2002 were not disclosed because all derivative transactions were used as hedges and hedge accounting was applied.

## 17. Segment information

The Company and its consolidated subsidiaries mainly operate their business in five segments: leasing of buildings and apartments, other properties; sale of condominiums; construction of housing and buildings; brokerage business; and other business.
Information by industry segments for the years ended March 31, 2003, 2002 and 2001 is summarized as follows:

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

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

| For 2001 | Leasing business | Sales business | Construction business | Brokerage business | Other business | Total | Elimination and/or corporate | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | | | | | | | |
| I Net sales and operating income | | | | | | | | |
| Net sales | | | | | | | | |
| Customers | ¥ 163,047 | ¥ 149,196 | ¥ 104,549 | ¥ 34,702 | ¥ 7,751 | ¥ 459,245 | ¥ — | ¥ 459,245 |
| Intersegment | 1,528 | — | 9,000 | 179 | 6,461 | 17,168 | (17,168) | — |
| Total | 164,575 | 149,196 | 113,549 | 34,881 | 14,212 | 476,413 | (17,168) | 459,245 |
| Costs and expenses | 118,137 | 129,502 | 109,533 | 26,160 | 8,865 | 392,197 | (8,170) | 384,027 |
| Operating income | ¥ 46,438 | ¥ 19,694 | ¥ 4,016 | ¥ 8,721 | ¥ 5,347 | ¥ 84,216 | ¥ (8,998) | ¥ 75,218 |
| II Identifiable assets, depreciation expense and capital expenditures | | | | | | | | |
| Identifiable assets | ¥ 1,415,770 | ¥ 152,264 | ¥ 25,266 | ¥ 27,200 | ¥ 115,332 | ¥ 1,735,832 | ¥ 167,697 | ¥ 1,903,529 |
| Depreciation expense | 9,707 | 51 | 187 | 178 | 85 | 10,208 | 169 | 10,377 |
| Capital expenditures | 45,721 | 515 | 334 | 732 | 125 | 47,427 | 454 | 47,881 |

| For 2003 | Leasing business | Sales business | Construction business | Brokerage business | Other business | Total | Elimination and/or corporate | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | Thousands of U.S. dollars | | | | | | | |
| I Net sales and operating income | | | | | | | | |
| Net sales | | | | | | | | |
| Customers | $ 1,590,807 | $ 1,528,528 | $ 950,133 | $ 310,607 | $ 61,814 | $ 4,441,889 | $ — | $ 4,441,889 |
| Intersegment | 14,676 | 133 | 85,341 | 2,013 | 32,130 | 134,293 | (134,293) | — |
| Total | 1,605,483 | 1,528,661 | 1,035,474 | 312,620 | 93,944 | 4,576,182 | (134,293) | 4,441,889 |
| Costs and expenses | 1,162,380 | 1,314,127 | 977,304 | 247,795 | 88,361 | 3,789,967 | (84,451) | 3,705,516 |
| Operating income | $ 443,103 | $ 214,534 | $ 58,170 | $ 64,825 | $ 5,583 | $ 786,215 | $ (49,842) | $ 736,373 |
| II Identifiable assets, depreciation expense and capital expenditures | | | | | | | | |
| Identifiable assets | $ 12,626,065 | $ 1,755,957 | $ 178,336 | $ 286,622 | $ 887,030 | $ 15,734,010 | $ 1,035,266 | $ 16,769,276 |
| Depreciation expense | 92,463 | 782 | 1,314 | 2,063 | 666 | 97,288 | 2,321 | 99,609 |
| Capital expenditures | 395,973 | 2,987 | 3,752 | 2,155 | 1,448 | 406,315 | 6,697 | 413,012 |

In the year ended March 31, 2002, the Company changed the method of recognition of revenue and expense from the real estate business which used SPC as stated in Note 3, "Changes in accounting policies ". Also, as described in Note 8, the Company transferred certain investment in securities to securitized properties for sale on April 1, 2001.

The effects of these changes on operating income and identifiable assets at and for the year ended March 31, 2002, were as follows:

| | Millions of yen | |
|---|---|---|
| | Operating income | Identifiable assets |
| Leasing business | ¥3,426 | ¥44,221 |
| Sales business | — | 22,102 |
| Elimination and/or corporate | — | (66,323) |

In the year ended March 31, 2001, several changes were made affecting segment disclosures as follows :

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

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

| | Millions of yen |
|---|---|
| | Loans business |
| I Net sales | |
| Customers | ¥1,784 |
| Intersegment | 5,009 |
| Total | 6,793 |
| Costs and expenses | 1,750 |
| Operating income | ¥5,043 |
| II Identifiable assets | ¥112,193 |
| Depreciation expense | 7 |
| Capital expenditures | 27 |

B. As described in Note 2 (5) to the Consolidated Financial Statements, from the year ended March 31, 2001, one domestic consolidated subsidiary introduced cost accounting system.

The effect of this adoption on operating income for the year ended March 31, 2001, was as follows:

| | Millions of yen |
|---|---|
| Sales business | ¥624 |
| Brokerage business | 341 |

C. As described in Note 2 (12) to the Consolidated Financial Statements, from the year ended March 31, 2001, the Company and its consolidated subsidiaries adopted the new accounting standard for severance and retirement benefits.

The effect of this adoption on operating income for the year ended March 31, 2001, was as follows:

| | Millions of yen |
|---|---|
| Leasing business | ¥(15) |
| Construction business | (18) |
| Other business | (3) |
| Elimination and/or corporate | 3 |

### 18. Contingent liabilities

At March 31, 2003, 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 |
|---|---|---|
| Affiliates | ¥1,532 | $12,745 |
| Other | 206 | 1,714 |
| Total | ¥1,738 | $14,459 |

Also, at March 31, 2003, the Company and its consolidated subsidiaries had outstanding commitments to guarantee loans of certain affiliates and others. Certain information of them was as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Affiliates | ¥ — | $ — |
| Other | 10 | 83 |
| Total | ¥ 10 | $ 83 |

(Lawsuits)

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

Two lawsuits are pending in court.

A lawsuit was brought in the Tokyo District Court against the Company in 1994 (Case A) and another one in 1995 (Case B) , relating to claims to recover the difference between the rental payments based on the lease agreements and the amounts the Company paid taking a position under Leased Land and House Lease Law. While the District Court issued judgments against the Company in August and October of 1998, the Company appealed to the Tokyo Higher Court in September and November of 1998 as the Company believed that the judgments were contradictory to the previous legal interpretations.

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

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

### 19. Subsequent events

The Company issued 1.5 % ¥10,000 million ($83,195 million) domestic straight bonds due 2007 on April 16, 2003, 1.5% ¥10,000 million ($83,195 million) domestic straight bonds due 2007 on April 25, 2003, 1.39% ¥7,000 million ($58,236 million) domestic straight bonds due 2006 on May 21, 2003, 1.4% ¥20,000 million ($166,389 million) domestic straight bonds due 2007 on June 26, 2003, and 1.4% ¥10,000 million ($83,195 million) domestic straight bonds due 2007 on June 26, 2003.

On June 27, 2003, the shareholders of the Company approved payments of a year-end cash dividend of ¥6 ($0.05) per share or a total ¥2,440 million ($20,300 thousand) to shareholders of record at March 31, 2003.

# Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Sumitomo Realty & Development Co., Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Realty & Development Co., Ltd. and subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to the following. As explained in Note 2, Sumitomo Realty & Development Co., Ltd. and subsidiaries adopted, on a prospective basis in all cases, new Japanese accounting standards for financial instruments, employees' severance and retirement benefits and foreign currency translation effective April 1, 2000. Also, as explained in Note 3, Sumitomo Realty & Development Co., Ltd. changed the method of recognition of revenue and expense from the real estate business which used SPC, effective April 1, 2001.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Asahi & Co.

Tokyo, Japan
June 27, 2003

# Board of Directors and Auditors
(As of June 27, 2003)

**Chairman of the Board**
Shinichiro Takagi

**President**
Junji Takashima

**Director and Advisor**
Taro Ando

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

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

**Directors**
Kenichiro Sugimoto
Akira Kanda
Haruo Fukumuro
Kenichi Kameyama
Yozo Akiyama
Yasushi Kinoshita
Satoru Miyashita
Tsutomu Oyama
Hiroyuki Asano
Yoshifumi Nakamura

**Statutory Auditors**
Shinsaku Sanmoto
Ryoichi Nomura
Tadashi Kitamura
Kunio Kobayashi

# Corporate Data
(As of March 31, 2003)

**Sumitomo Realty & Development Co., Ltd.**

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

**Date of Establishment**
December 1, 1949

**Paid-in Capital**
¥86,787 million

**Common Stock Issued and Outstanding**
407,085,978

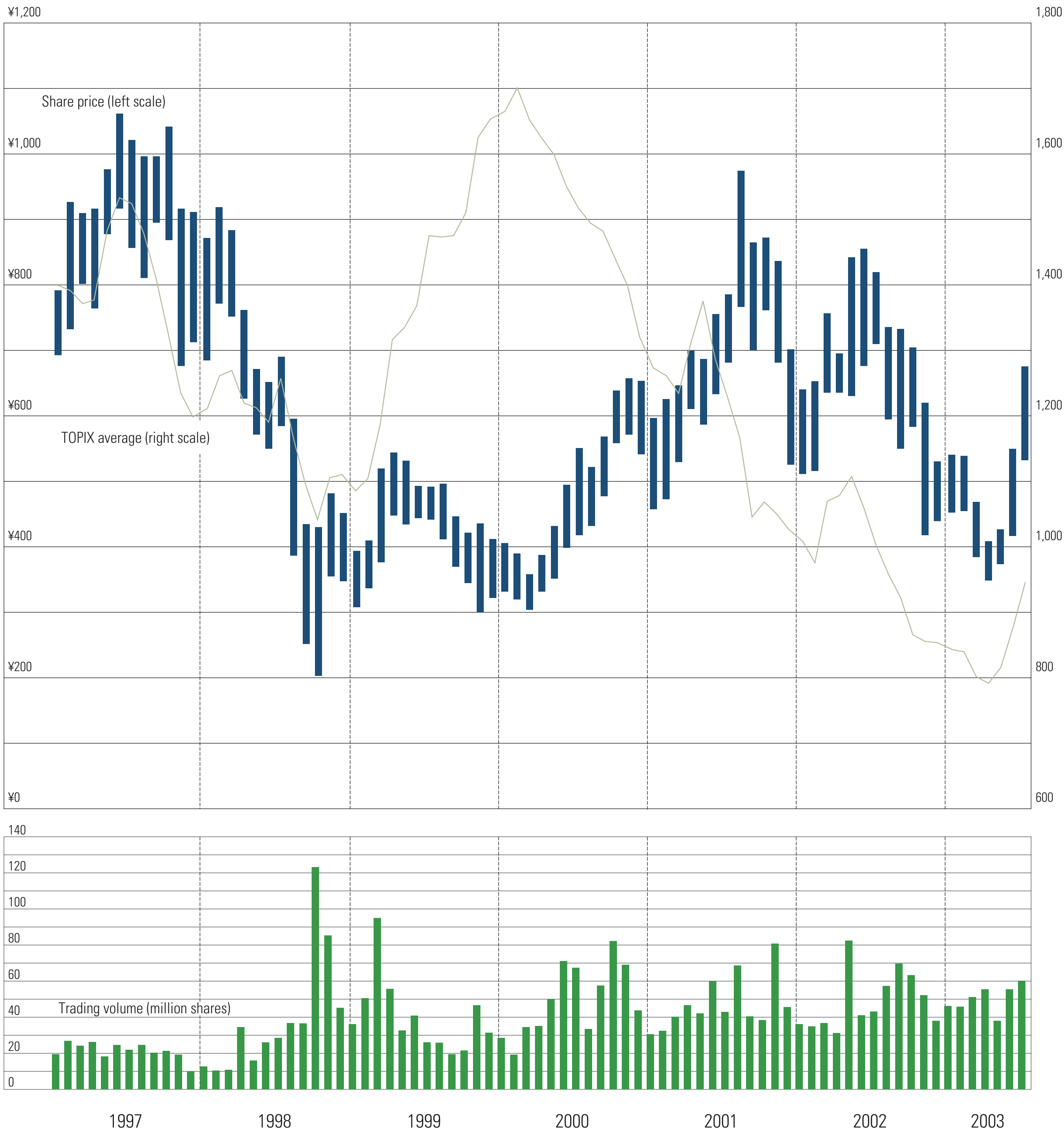
**Number of Shareholders**
32,147

**Number of Employees**
6,404

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

**Stock Exchange Listings**
Tokyo and Osaka

# Share Price and Trading Volume on Tokyo Stock Exchange
(As of July 31, 2003)



Sumitomo Realty & Development Co., Ltd.

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