A Winning Combination

Growth Potential & Balanced Portfolio

Annual Report 2005

Sumitomo Realty & Development Co., Ltd.

About the Company

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

With operations centered on four areas—leasing, sales, construction, and brokerage—the Company has achieved a combination of growth potential and balanced operations that will drive its success in the challenging markets of the 21st century. Sumitomo Realty remains committed to the creation of comfortable work and living environments that contribute to a higher quality of life.

Contents

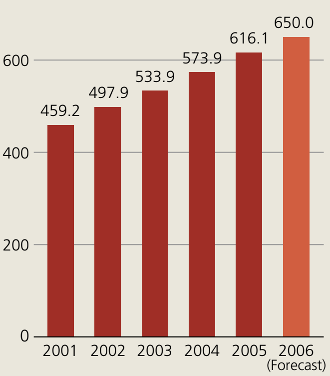
Consolidated Financial Highlights

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
Years ended March 31

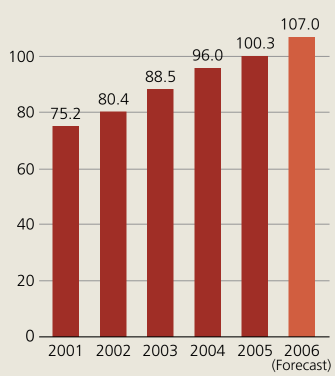
	Millions of yen			Thousands of U.S. dollars[1]
	2005	2004	2003	**2005**
For the Year				
Revenue from Operations	**¥616,115**	¥573,862	¥533,915	**$5,740,915**
Operating Income	**100,291**	95,977	88,512	**934,504**
Ordinary Profit	**74,393**	65,976	56,760	**693,189**
Net Income	**15,548**	6,320	4,974	**144,875**
At Year-End				
Total Assets	**¥2,136,329**	¥2,090,970	¥2,015,667	**$19,906,159**
Total Shareholders' Equity	**320,098**	303,875	211,821	**2,982,650**
Interest-Bearing Debt	**1,038,389**	1,048,629	1,138,119	**9,675,634**
Per Share Data (Yen and Dollars)				
Net Income	**¥ 32.64**	¥ 15.34	¥ 12.22	**$0.30**
Shareholders' Equity	**673.40**	639.01	520.84	**6.27**
Cash Dividend Applicable to the Year	**9.00**	9.00	6.00	**0.08**
Key Ratios (Times)				
ND/OP Ratio[2]	**9.2**	9.4	11.6	
ND/E Ratio[3]	**2.92**	3.01	4.89	

Notes: 1. U.S. dollar amounts in this report are translated, for convenience only, at the rate of ¥107.32 = US$1, the approximate exchange rate as of March 31, 2005.
2. ND/OP Ratio = Net interest-bearing debt (interest-bearing debt – cash, time and notice deposits) / (Operating income + Interest income and dividend income)
3. ND/E Ratio = Net interest-bearing debt (interest-bearing debt – cash, time and notice deposits) / Shareholders' equity

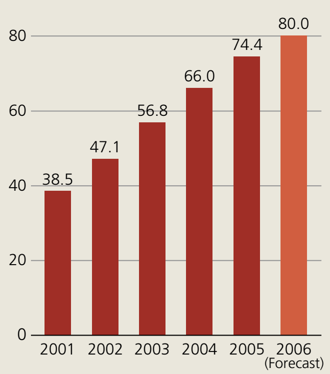
Revenue from Operations
(Billions of yen)



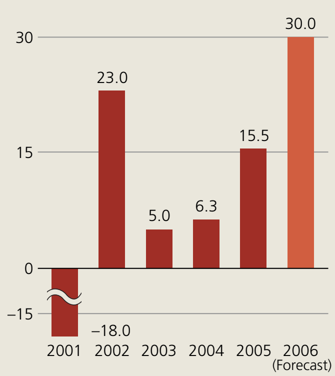
Operating Income
(Billions of yen)



Ordinary Profit
(Billions of yen)



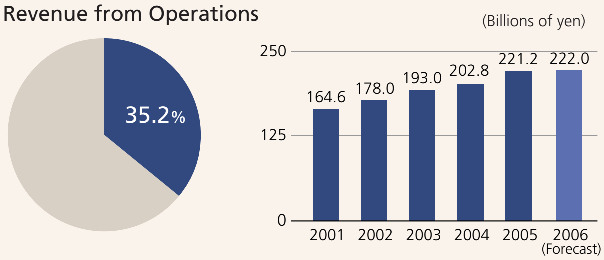
Net Income (Loss)
(Billions of yen)



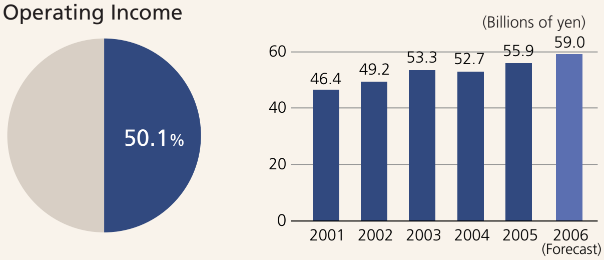
At a Glance

Leasing

Revenue from Operations



Operating Income

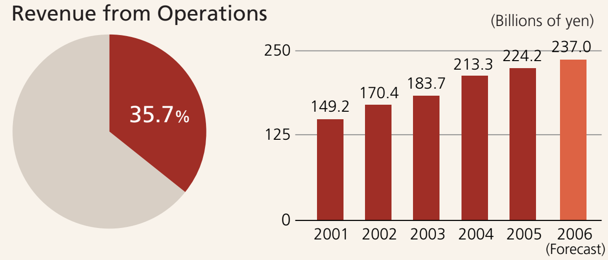


OFFICE BUILDING, CONDOMINIUM, AND OTHER PROPERTY LEASING AND MANAGEMENT AND RELATED ACTIVITIES

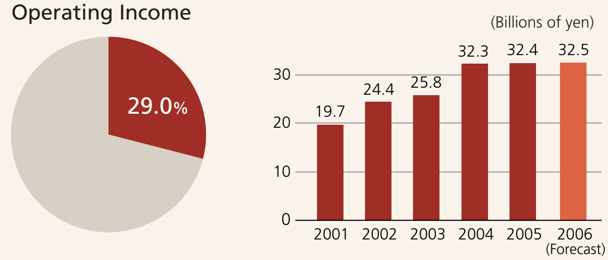
Within the leasing business, the Urban Property Management Division is responsible for the leasing of office buildings and luxury condominiums. Also, the division conducts leasing operations that utilize special purpose companies (SPCs). The Urban Property Development Division handles the acquisition and development of land for the leasing business. In addition, Sumitomo Realty masterleases almost all of the property holdings owned by SPCs and other Group companies and operates a sublease business. Sumitomo Fudosan Tatemono Service Co., Ltd., manages the office buildings and luxury condominiums leased by Sumitomo Realty.

Sales

Revenue from Operations



Operating Income

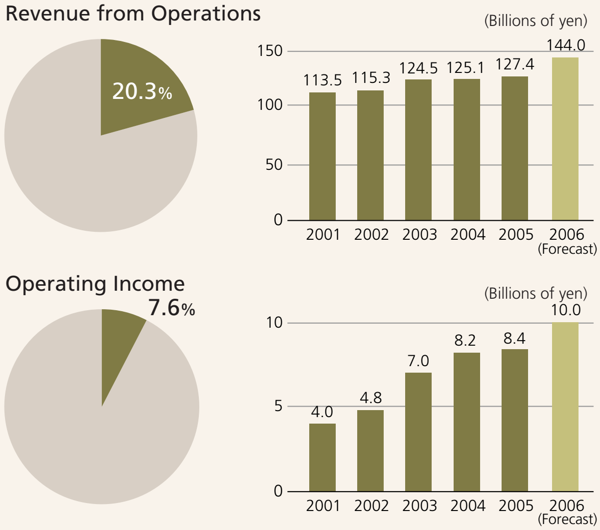


MID- AND HIGH-RISE CONDOMINIUM, DETACHED HOUSE, AND HOUSING LOT DEVELOPMENT AND SALES AND RELATED ACTIVITIES

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

Note: Figures in the graphs on pages 2 and 3 include intersegment transactions.

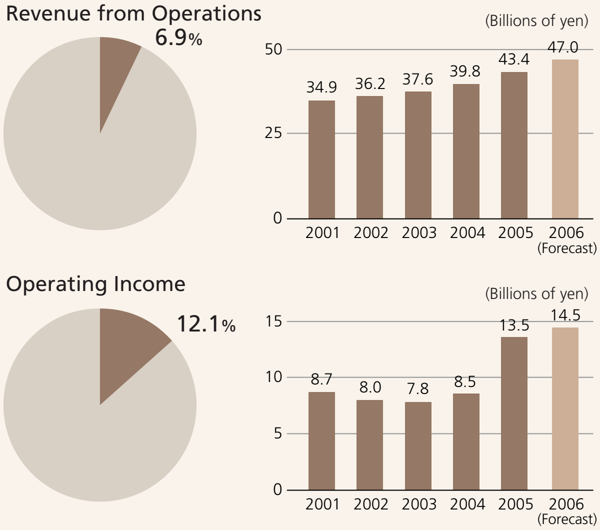
Construction



DETACHED HOUSE CONSTRUCTION AND REMODELING AND RELATED ACTIVITIES

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

Brokerage



BROKERAGE AND SALES ON CONSIGNMENT OF REAL ESTATE AND RELATED ACTIVITIES

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

A Message from

Achieving Sustained Growth

In fiscal 2005, ended March 31, 2005, Sumitomo Realty continued to make solid progress. We recorded a 7.4% increase in revenue from operations, to ¥616.1 billion, and a 4.5% gain in operating income, to ¥100.3 billion. Net income was up 146.0%, to ¥15.5 billion.

Growth Potential

Sumitomo Realty's greatest strength is the Company's growth potential. We recorded continued growth through the successful implementation of our previous two management plans—the Four-Year Business Reconstruction Plan, which started in April 1997, and the New Three-Year Growth Plan, which began in April 2001. To achieve further growth, we formulated the Top Gear Growth Three-Year Plan, which began in the year under review.

Under the Top Gear Growth Three-Year Plan, we will continue to follow an aggressive course of expansion. Specifically, for fiscal 2007, the final year of the plan, we are targeting revenue from operations of ¥700 billion, an increase of ¥126 billion from the year ended March 2004; operating income of ¥115 billion, up ¥19 billion; and ordinary profit of ¥85 billion, up ¥19 billion.

As shown in the following table, in fiscal 2005 we made a successful start in the plan's initial year, and we are on course to achieve the plan's final objectives.

Balanced Operations

Our achievement of sustained growth has been the result of our well-balanced operations. We have a balanced portfolio in four operational fields—leasing, sales, construction, and brokerage—that have different risk profiles and capital requirements. As the market environment has changed, the Company's growth has been led by the particular business field that best matches the operating conditions during each period.

Leasing and sales are our traditional main fields of business. These are capital-intensive fields where returns and risk are both high and where substantial upfront investment is required. In contrast, our construction and brokerage operations, which are order-based businesses with low capital requirements and no sales risk, have been developed more recently.

Under the Top Gear Growth Three-Year Plan, we will work to further improve the balance of our operational fields by increasing the share of profits from construction and brokerage. Specifically, we will increase the percentage of our ordinary profit contributed by these operations to one-third.

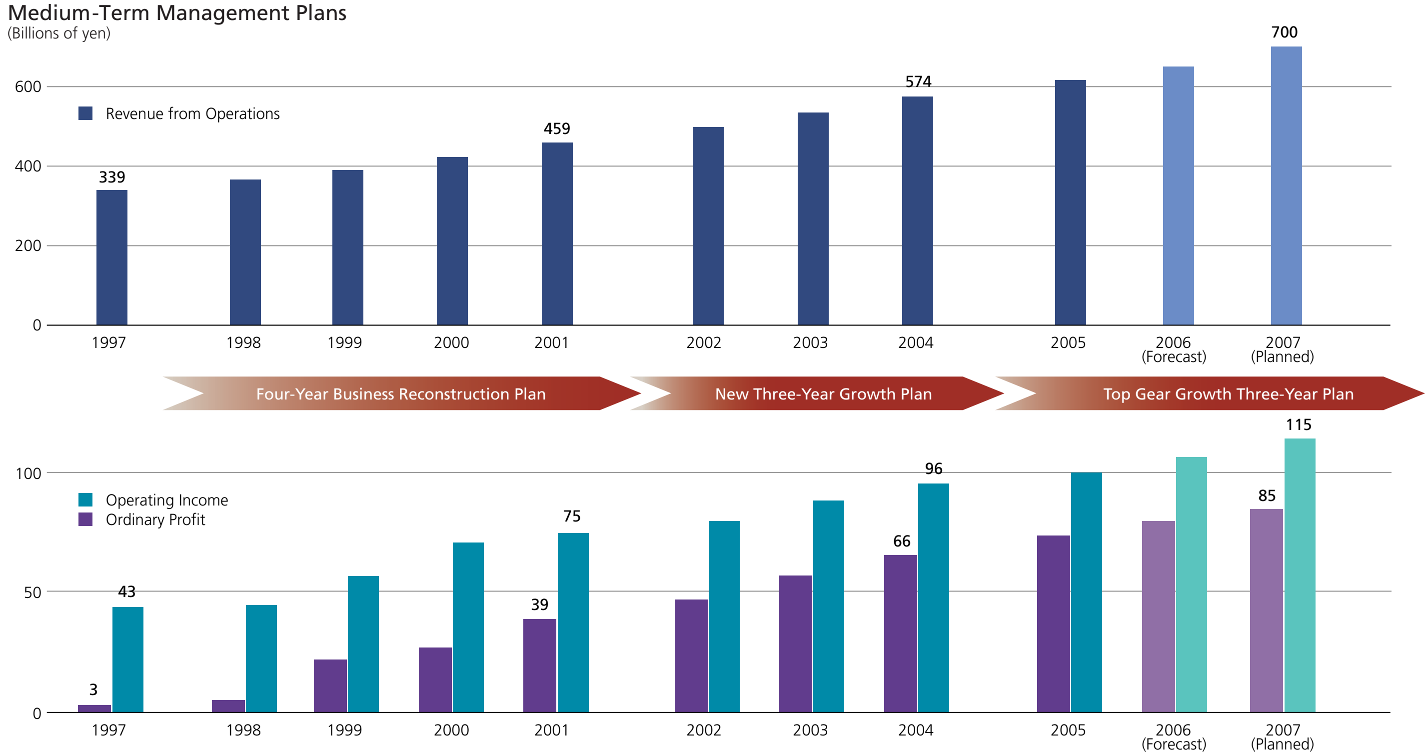
Enhancing Our Financial Position

Balanced finances will also play an important role in our ability to achieve sustained growth. Accordingly, one of the Top Gear Growth Three-Year Plan's key objectives is the strengthening of our financial position. Specifically, the plan calls for reducing the ratio of net interest-bearing debt, or the total of loans, corporate bonds, and notes less cash, time and notice deposits, to operating income to less than eight times and the ratio of net interest-bearing debt to shareholders' equity to less than three times. We will work within these fiscal constraints as we strive to achieve our growth targets.

(Millions of yen) Fiscal Year	2004 (Actual)	2005 (Actual)	2006 (Forecast)	2007 (Planned)
Revenue from Operations	¥573,862	¥616,115	¥650,000	¥700,000
Operating Income	95,977	100,291	107,000	115,000
Ordinary Profit	65,976	74,393	80,000	85,000

the President

Medium-Term Management Plans
(Billions of yen)



Preparing for Future Growth

In addition to implementing the plan, we must prepare for ongoing expansion after the plan is completed. Leasing and sales, which account for about 85% of our operating income, are capital-intensive businesses in which several years are required from the acquisition of land to the completion and opening of a building. In these operations, the acquisition of sites with strong potential is vitally important.

Recently, however, competition in site acquisition has intensified. In addition to developers such as Sumitomo Realty, there have been many new participants in REITs and real estate funds. In response, we are drawing on the site acquisition know-how that we have cultivated over many years to move forward steadily and take advantage of available business opportunities.

Continued Growth in Revenue and Profits

In the fiscal year ending March 2006, while strengthening our financial position, we will strive to extend our record of increased revenue and profits and will continue to prepare for future growth and to reinforce our efforts to enhance corporate value.

The following year, ending March 2007, will be the final year of the Top Gear Growth Three-Year Plan. We will endeavor to achieve our 10th consecutive year of meeting our planned objectives, our 10th consecutive year of increased revenue and profits, and our 7th consecutive year of record high ordinary profit. Over the 10-year period covered by the three plans, our revenue from operations is projected to double, operating income to increase about three times, ordinary profit to increase about 30 times, and interest-bearing debt to be reduced from ¥1.6 trillion to ¥1 trillion. Everyone at Sumitomo Realty will do their utmost to achieve these objectives and extend the Company's record of success.

We are ready to face the challenges that lie ahead, and I would like to ask for your continued support as we move forward to achieve sustained growth.

July 2005

Junji Takashima
President

Corporate Governance

Sumitomo Realty is committed to effective corporate governance and believes that sound management requires sharing information on a Companywide basis, ensuring that everyone is aware of problems, enhancing internal management supervision, and achieving highly transparent management through appropriate information disclosure. We have taken a number of steps to implement these practices efficiently.

In addition to meetings of the board of directors, the Senior Managing Executive Officers Committee meets on a periodic basis to discuss important issues and make decisions rapidly and appropriately. Regular meetings are also held by the Executive Officers Committee. In addition to management policies and issues, work site issues and improvement plans are also discussed at these meetings.

To enhance management supervision and external auditing, we established the Inspection Department, which audits the operational execution of all divisions in the Group as well as internal control. The department works to prevent misconduct and mistakes and to support the auditing of statutory auditors. We also receive advice from attorneys as needed. We have four statutory auditors, of whom two are outside auditors.

At the board of directors' meeting held on May 19, 2005, the Inspection Department and the Legal Documents Section of the General Affairs Department were integrated to create the Legal Affairs Department. This department will work to further enhance internal auditing, respond flexibly to changes in laws and regulations, and implement more-robust internal control.

To further enhance our compliance with laws and regulations and to ensure ethical business practices, we established the Compliance Promotion Committee, which is led by the president. In addition, the General Affairs Department distributes to all Group employees a compliance pamphlet that provides information on such matters as resolving work site legal issues and preventing compliance-related problems.

In accordance with the Commercial Code and the Securities Transaction Law, the Company has concluded an auditing contract with KPMG AZSA & Co. for the auditing of the Company's accounts. There are no conflicts of interest between Sumitomo Realty and the independent auditor.

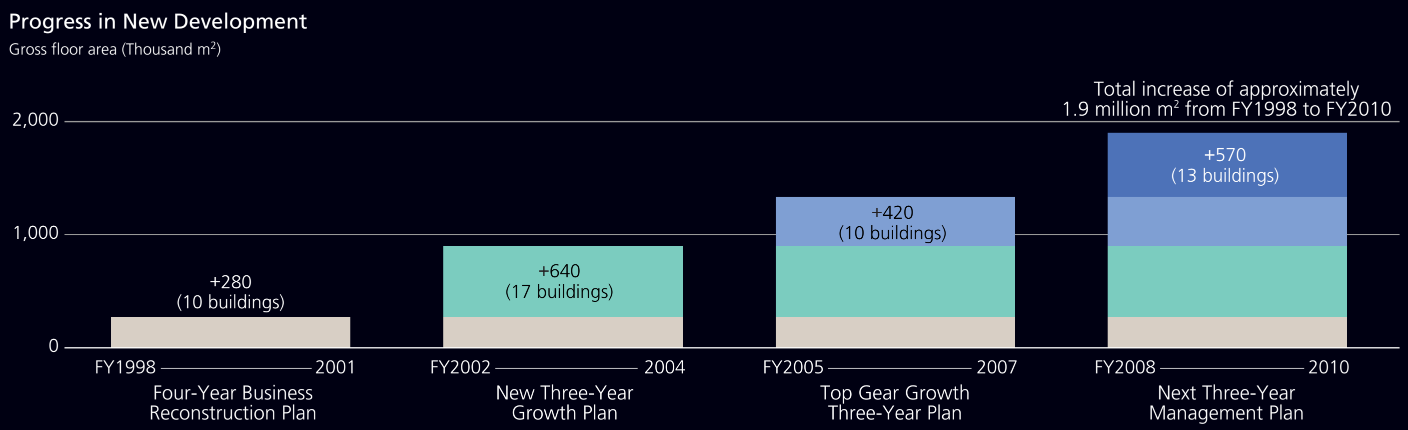
At the ordinary general meeting of shareholders held in June 2004, we introduced a new performance-based compensation system for directors. Under this system, the annual compensation for directors is based on the Company's performance, with total compensation set at 1% of consolidated ordinary profit. The new system combines the three elements that made up the previous system—monthly compensation, annual bonuses, and retirement allowances.

A Winning Combination

Growth Potential & Balanced Portfolio

A Winning Combination

Growth Potential



Sumitomo Realty's outstanding portfolio of office buildings is a key source of the Company's growth potential. The total floor area of the Company's portfolio is increasing, and the Company has a large number of projects under development. In addition, the portfolio includes many prime properties that are highly competitive.


Akasaka 4-chome Project


Kanda Project


Mita Project

Growing Demand for Prime Properties

In the central Tokyo office building market, there is strong demand for buildings that meet the criteria for prime properties. These buildings are close to stations, are new and feature modern amenities, and offer large areas on each floor. On the other hand, even if rents are reduced it is difficult to find tenants for buildings that are far from stations, old, or small. For example, as the revolution in information technology continues, office building tenants require more advanced support facilities. Accordingly, buildings without advanced IT support or earthquake protection are rapidly becoming less competitive. These trends are having a significant effect in the Tokyo office building market, where about 30% of the buildings in the city's 23 wards are more than 30 years old and therefore have limited earthquake resistance. These structural changes in demand are accelerating, and Sumitomo Realty is well positioned to meet emerging tenant needs.

Sumitomo Realty's Strong Portfolio

Our portfolio is heavily weighted in central Tokyo and has an average age of 13 years, the lowest among Japan's major real estate companies. Our gross floor area will increase to 3.3 million square meters by March 2007 and a further 17%, to 3.9 million square meters, by March 2010. Because our buildings are newer, they require less refurbishment, allowing us to invest more of our resources in new construction.

All of the Company's buildings completed since 1997 offer quake-resistant structures and separate climate control systems for each suite as well as reinforced floors for heavy loads, high-capacity electrical systems, high ceilings, and many other features sought by tenants. The many recently constructed buildings in our highly competitive portfolio are the foundation of our strong growth potential, and in the years ahead we will draw on that potential to record continued business expansion.

Ongoing Improvement Measures

To build a stronger management foundation, the Company is following a strategy of continually improving its portfolio, selling buildings while they still retain a certain degree of competitiveness and adding new, highly competitive buildings. The decision to dispose of a building is based on comprehensive consideration of such factors as location, scale, and returns. In this way, we will continue to enhance our portfolio with buildings that meet all of the criteria for prime properties.

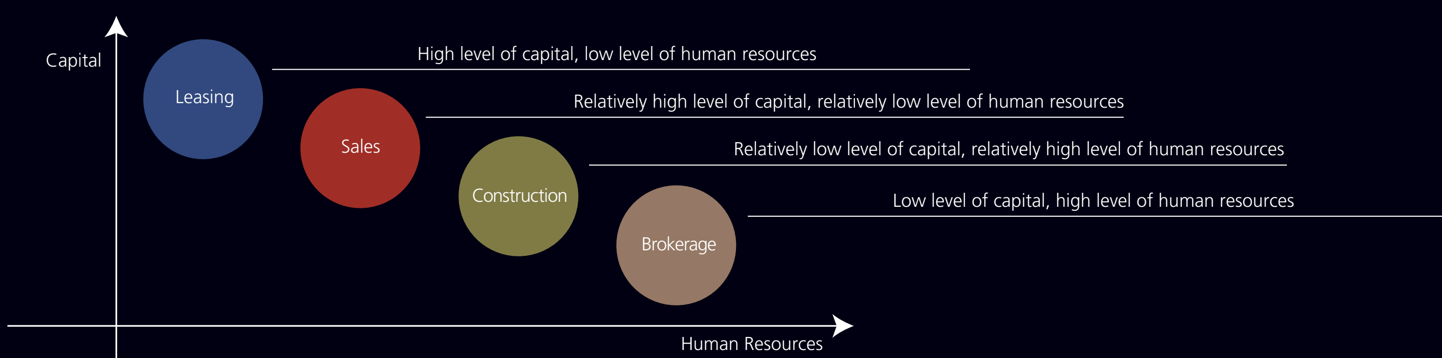
Major Development Projects (Fiscal Years 2006 and 2007)

Project	Location (Tokyo)	Gross Floor Area (m^2)	Expected Completion
Akasaka 4-chome Project (SPC)	Minato Ward	19,700	Sept. 05
Kojimachi 2-chome Project (SPC)	Chiyoda Ward	4,000	June 06
Kanda Project (SPC)	Chiyoda Ward	28,800	June 06
Kudanshita Project (SPC)	Chiyoda Ward	17,500	June 06
Shibuya 1-chome Project	Shibuya Ward	9,600	July 06
Shibaura Project (SPC)	Minato Ward	34,700	Aug. 06
Mita Project (SPC)	Minato Ward	99,200	Sept. 06

A Winning Combination

Balanced Portfolio

Sumitomo Realty's Balanced Portfolio



Sumitomo Realty's four core businesses have different risk profiles and capital requirements. As a result, the Company has established an exceptionally well-balanced business portfolio.

Leasing

In leasing, our operations require substantial capital investment but only a relatively low level of human resources. The period from the initial investment to the generation of revenue—the operational cycle—is long, but once a building is opened for occupancy it provides a stable, sustained source of revenue. While the level of revenue is small compared to the investment, the operating margins are high.

Sales

The sales business requires substantial advance investment, but in comparison with leasing the turnover of funds is rapid and a higher level of human resources is required. Sales entails a high degree of volatility; historically, Japan's condominium market has been characterized by pronounced boom and bust cycles. Nonetheless, sales and profits are both substantial. To minimize the influence of market fluctuations on its ability to achieve stable profitability, the Company emphasizes supply stability.

Construction

In construction, less capital is required, but the human resources requirements are substantial. The operational cycle is short, about six months to a year, but our construction operations require product development capabilities. The cost of sales ratio is high, and the operating margins are low. Competition in the market for detached housing is intense, and as a result products must have distinctive features. In contrast, we do not face competition from the other major companies in our remodeling operations, which are recording solid growth.

Brokerage

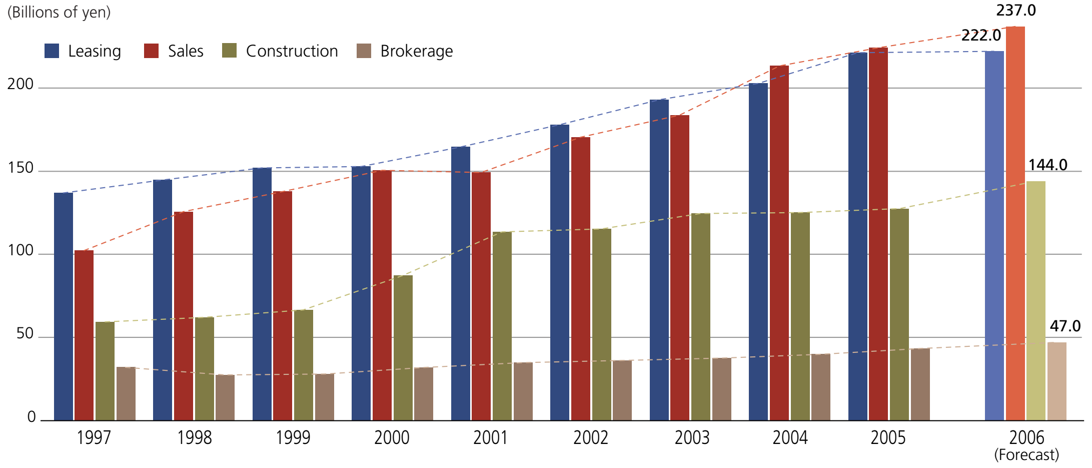
Brokerage does not require significant capital, only human resources, and the operational cycle is the shortest of our fields of business. While brokerage operations do not require product development capabilities, they do involve the effective use of service networks and human resources.

Taking Steps to Maintain Balance

Heretofore, due to the different characteristics of these four operational fields, the adverse effect of changing market conditions on one field was offset by favorable performances in others. Overall, we have continued to record increased revenue and profits. Looking ahead, our basic strategy is to continue to achieve well-balanced growth in these four fields. To further reinforce our growth prospects in the years ahead, we will strive to develop a fifth pillar of our operations, and we are currently searching for the operational field that would best complement our existing operations.

Revenue from Operations by Segment

(Billions of yen)



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	Merged with the holding company of the former Sumitomo *zaibatsu* during its liquidation.
1964	Entered condominium sales business with Hama-Ashiya Mansion in Kobe, Hyogo Prefecture.
1970	Listed on the Tokyo and Osaka stock exchanges.
1973	Established Sumitomo Fudosan Tatemono Service Co., Ltd., a consolidated subsidiary.
1974	Completed construction of 52-story Shinjuku Sumitomo Building in Shinjuku, Tokyo; moved Company headquarters there from 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 30-story Shinjuku NS Building in Shinjuku, Tokyo; moved Company headquarters there from Shinjuku Sumitomo Building.
1995	Commenced American Comfort standardized housing construction business.
1996	Commenced Shinchiku Sokkurisan remodeling business.
1997	Entered high-quality business hotel market. Opened Villa Fontaine Nihonbashi and hotels at two other locations.
1998	Sumitomo Real Estate Sales Co., Ltd., a consolidated subsidiary, listed on the Tokyo Stock Exchange.
1999	Universal Home Inc., a consolidated subsidiary, listed on JASDAQ (over the counter with the Japan Securities Dealers Association). Commenced real estate joint investment trust fund. Launched sales of Sumitomo Realty Fund (SURF) Kudanshita.
2000	Commenced luxury condominium leasing business. Completed construction of La Tour Shibakoen.
2001	The number of managed STEP brokerage offices exceeded 200.
2002	Completed construction of Izumi Garden Tower (Roppongi 1-chome Redevelopment Project). Commenced sales of City Tower series, five high-rise condominiums in Tokyo and Osaka.
2003	Completed construction of Shinjuku Oak City (Nishi-Shinjuku 6-chome Redevelopment Project).
2004	Commenced sales of World City Towers. Completed construction of Shiodome Sumitomo Building.
2005	Completed construction of Tokyo Shiodome Building.

Review of Operations
Leasing

In leasing, Sumitomo Realty has used innovative initiatives to create new opportunities. In this way, the Company has built a position of leadership in the leasing industry based on an outstanding portfolio that includes many new, upscale buildings in central Tokyo and on a direct involvement in operations.


Izumi Garden Tower


Chiyoda First Building West

Sumitomo Realty made its full-scale entry into the leasing business in the latter half of the 1970s. In 1995, following the collapse of Japan's bubble economy, we were the first company in the industry to restart construction work on office buildings. We paid special attention to large-scale projects in urban areas, especially those areas legally designated for redevelopment, and we currently have about 200 buildings for lease. Our gross floor area increased from 2.1 million square meters at the end of March 2000 to 3.1 million square meters at the end of March 2005, and it is expected to increase further, to 3.3 million square meters, by the end of March 2007. The average age of our portfolio is 13 years, the lowest among Japan's major real estate companies, and, because we strive to always provide buildings that accurately meet tenant needs, we are in the top three in the industry in leasing revenue. Based on the concept that buildings are important facilities that help tenants to improve their operational efficiency, we not only provide efficient, large-scale spaces but also work to anticipate the needs of the market in factors ranging from IT capabilities to earthquake resistance.

Our buildings offer the electrical capacity needed for individual climate control systems, and for buildings completed since 1997 power failures can be avoided for extended periods of time, even in emergencies.

These types of advanced interior features are complemented with distinctive exterior designs, including hotel-like entranceways and all-glass exteriors. Sumitomo Realty creates innovative buildings with strong market presences.

Our strengths in leasing include an outstanding portfolio that is heavily weighted in central Tokyo. The concentration of commercial activity in central Tokyo continues to increase, particularly in the service sector, and we are well positioned to benefit from that trend, with 83% of our buildings in Tokyo's central 7 wards and 93% in the central 23 wards. Another strength is the age of our portfolio, which is composed of many comparatively new, upscale buildings with modern earthquake-resistant features. Overall, 44% of our buildings are less than 10 years old and 92%[1] are less than 20 years old.

Our success in leasing is based on our direct involvement in sales, development, and building management. Sumitomo Realty's highly capable sales personnel maintain close contact with potential clients. We develop office buildings that offer the latest specifications and meet client requirements. We also directly manage our office buildings. As a result, we can offer meticulous service, promptly identify tenant needs, and negotiate arrangements directly with tenants.

With these strengths, our portfolio offers both stable revenue and significant potential for future growth.

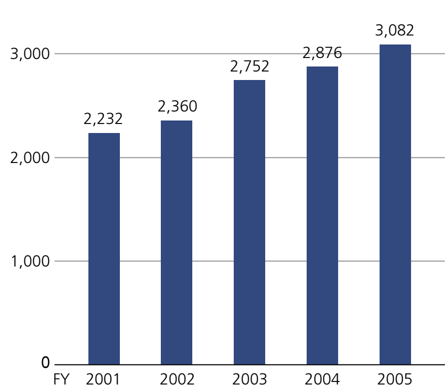
Note: 1. Two of the Company's major properties, the Shinjuku Sumitomo Building and the Shinjuku NS Building, are included in this category because, although they are more than 20 years old, they are super high-rise buildings with high-performance facilities and offer earthquake resistance in excess of the standards of newer buildings.

Shiodome Sumitomo Building

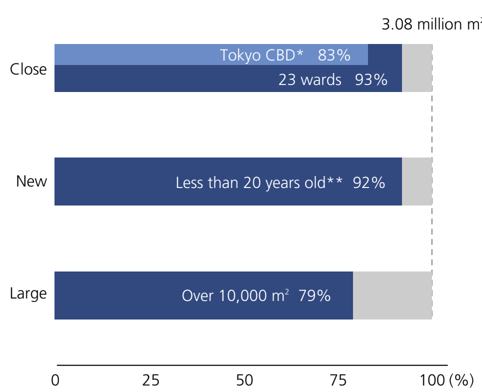
Tokyo Shiodome Building

Gross Floor Area

(Thousand m²)



Leasing Portfolio



* Tokyo CBD (Central Business District): 7 wards, comprising Chiyoda, Minato, Chuo, Shinjuku, Shibuya, Shinagawa, and Bunkyo

**See Note 1 above

Principal Buildings

Name	No. of Floors (aboveground / underground)	Completion	Location (Tokyo)	Gross Floor Area (m²)
Izumi Garden Tower	43 / 4	Oct. 02	Minato Ward	205,503
Shinjuku Sumitomo Building	52 / 4	Mar. 74	Shinjuku Ward	177,467
Shinjuku Oak City	38 / 2	Jan. 03	Shinjuku Ward	117,446
Shiodome Sumitomo Building	25 / 3	July 04	Minato Ward	99,913
Tokyo Shiodome Building	37 / 4	Jan. 05	Minato Ward	95,128
Shinjuku NS Building	30 / 3	Sept. 82	Shinjuku Ward	75,046
Shibakoen First Building	35 / 2	June 00	Minato Ward	63,822
Chiyoda First Building West	32 / 2	Jan. 04	Chiyoda Ward	61,501
Sumitomo Fudosan Iidabashi No. 3 Building	24 / 2	Oct. 02	Shinjuku Ward	53,047
Sumitomo Fudosan Iidabashi First Building	14 / 2	Mar. 00	Bunkyo Ward	52,855
Chiyoda First Building East	17 / 2	Oct. 98	Chiyoda Ward	37,473
Sumitomo Fudosan Shibakoen Tower	30 / 2	Oct. 01	Minato Ward	36,605
Shibuya Infoss Tower	21 / 4	Mar. 98	Shibuya Ward	34,183
Roppongi First Building	20 / 4	Oct. 93	Minato Ward	31,516
Sumitomo Fudosan Korakuen Building	20 / 2	Aug. 98	Bunkyo Ward	28,633
Sumitomo Fudosan Oimachi-ekimae Building	14 / 2	Sept. 02	Shinagawa Ward	28,152
Sumitomo Fudosan Takanawa Park Tower	20 / 2	Jan. 95	Shinagawa Ward	23,961
Sumitomo Fudosan Shiba Building	15 / 2	May 90	Minato Ward	23,764
Nihonbashi Hakozaki Building	17 / 2	Mar. 96	Chuo Ward	23,486
Hanzomon First Building	15 / 2	Jan. 04	Chiyoda Ward	23,138

Note: Figures for gross floor area indicate the area managed by Sumitomo Realty.


Shibakoen First Building


Sumitomo Fudosan Iidabashi First Building


Hanzomon First Building

Review of Operations
Sales

City Tower Shinjuku-Shintoshin

Sumitomo Realty pioneered the Japanese market in condominium development for sales, establishing its condominium sales business earlier than almost all of its competitors. Today, the development and sale of condominiums is the core of the Company's sales business, accounting for more than 95% of sales in this segment.

The Company's condominium operations are centered in Japan's six largest urban areas—the Tokyo metropolitan area, Osaka/Kobe, Sapporo, Sendai, Nagoya, and Fukuoka. In addition, in recent years we have also enhanced our presence in such other major cities as Niigata and Matsuyama. We develop and sell approximately 5,000 units a year.

For the past four years, we have been one of the top five companies nationwide in condominium units sold. This high ranking is the result of our central urban strategy, which we implemented ahead of competitors, and our aggressive approach to large-scale and high-rise condominiums. Our landmark exterior designs, the rich array of common facilities that is made possible by the large scale of the buildings, and elegant entrances make our condominiums sought after by a wide range of consumers with diverse lifestyles. As a result, our high operating profit margin is at the top of the industry.

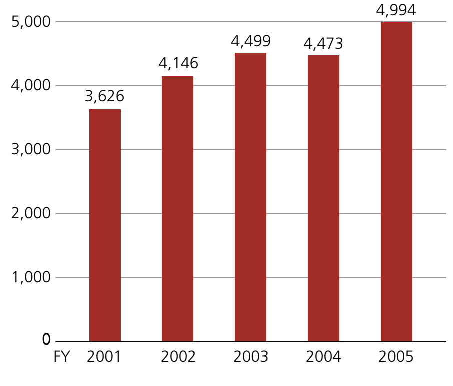
Market fluctuation risk is a critical factor in the condominium business. Accordingly, the Company's policy is to offer a stable supply of condominiums and to enhance Sumitomo Realty's brand through the ongoing sale of high-quality units. Looking ahead, the Company will continue striving to maintain its high ranking and further expand its business.

City Tower Shinjuku-Shintoshin

High-rise condominium building with 37 aboveground floors, providing panoramic views of Tokyo

Units Delivered

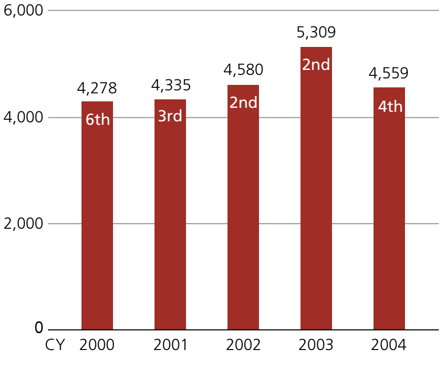
(Units)



Note: Total of condominiums, detached houses, and land lots

Units Supplied and Industry Ranking

(Units)



Overview of Major Condominium Development Projects Scheduled for Completion during Top Gear Growth Three-Year Plan

Project	Location	No. of Units	No. of Floors	Scheduled Delivery
Completed				
Tokyo Mega City	Kita Ward, Tokyo	863	20	FY 2005
Kugayama Garden Hills	Setagaya Ward, Tokyo	405	6	FY 2005
City Tower Shinjuku-Shintoshin	Shinjuku Ward, Tokyo	262	37	FY 2005
Planned				
Mejiro Garden Hills	Toshima Ward, Tokyo	396	11	FY 2006
Denen Station Terrace	Kawasaki	308*	6	FY 2006
World City Towers	Minato Ward, Tokyo	2,090	42	FY 2006 / 2007
Tokyo Terrace	Setagaya Ward, Tokyo	1,036*	14	FY 2006 / 2007
Le Cinq Osaki City Tower	Shinagawa Ward, Tokyo	254*	27	FY 2007
The Tower & Parks Denentoshi Mizonokuchi	Kawasaki	648*	32	FY 2007
City Tower Nishi-Umeda	Osaka	349*	50	FY 2007
City Tower Gran Tennouji	Osaka	246*	43	FY 2007
Fujigaoka Project	Nagoya	270	15	FY 2007

* No. of units includes the units of business partners


City Tower Nishi-Umeda


Tokyo Mega City

Large-scale condominium buildings with such distinctive features as a large garden of about 3,000 square meters and 16 types of spa facilities


World City Towers

Review of Operations
Construction

J-Urban Ⅲ

In the construction business, Sumitomo Realty's business comprises the construction of detached houses and house remodeling. Our construction operations are order based and do not require substantial amounts of capital.

J-Urban (Patio)

Detached Houses

Sumitomo Realty used the know-how that it acquired in building and selling homes constructed with the two-by-four method in California to launch the American Comfort line of high-quality, low-cost Western-style homes in Japan in 1995. Today, under the brand name Series of World Home Designs, we sell homes based on designs from countries around the world. In April 2003, we launched the J-Urban home design, which combines the excellent security features of condominiums with the superior ventilation and lighting of detached houses. J-Urban has been well received in the marketplace and has received awards for design excellence.

World Home Designs

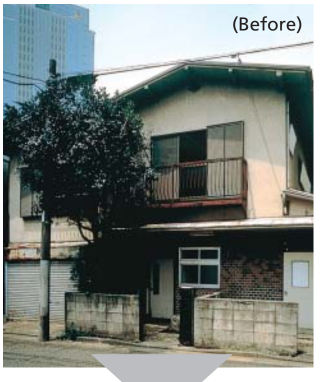
- Advanced performance: Our original Power Column Method makes these homes 1.3 times more earthquake resistant than conventional two-by-four homes.
- Fixed price: We have an easily understood pricing system, and the use of original materials and centralized purchasing enables us to achieve significant price reductions.
- Complete after-sales support: Our homes are backed by a 20-year guarantee and our specialists conduct periodic inspections.

Remodeling

In 1996, Sumitomo Realty launched the Shinchiku Sokkurisan Full Remodeling Package, which addressed the concern that remodeling could sometimes be more expensive than rebuilding in Japan due to the risk of cost overruns. With Shinchiku Sokkurisan, a house can be fully remodeled at half the cost and in half the time required to rebuild it. And because Shinchiku Sokkurisan uses less materials, it is also environmentally friendly. We are the only major real estate company offering this type of product, and Shinchiku Sokkurisan has been well received in the marketplace. Cumulative sales have surpassed 20,000 units, and Shinchiku Sokkurisan continues to record solid growth.

Shinchiku Sokkurisan

- Sales engineer system: Most of our sales personnel have engineering qualifications.
- Carpenters: We use a system of carpenters who work exclusively for Sumitomo Realty.
- Fixed price: We provide the customer with a fixed price per unit of floor area, so there are no concerns about additional construction charges.
- No need for temporary moves: Our ability to remodel a home while the customer continues to live there is a major advantage.
- Earthquake resistance: We incorporate earthquake-resistance strengthening measures based on a computerized analysis of the home as well as measures to prevent damage from insects and moisture.



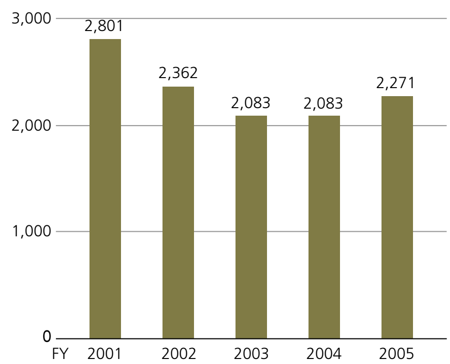
(Before)

(After)

Shinchiku Sokkurisan

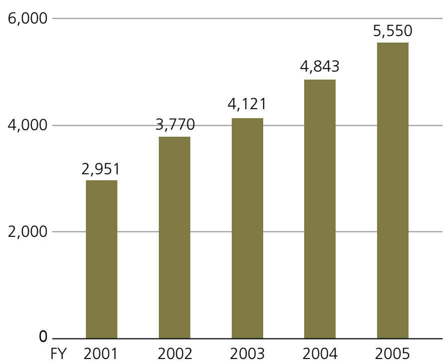
Custom Home Units Contracted

(Units)



Shinchiku Sokkurisan Units Contracted

(Units)



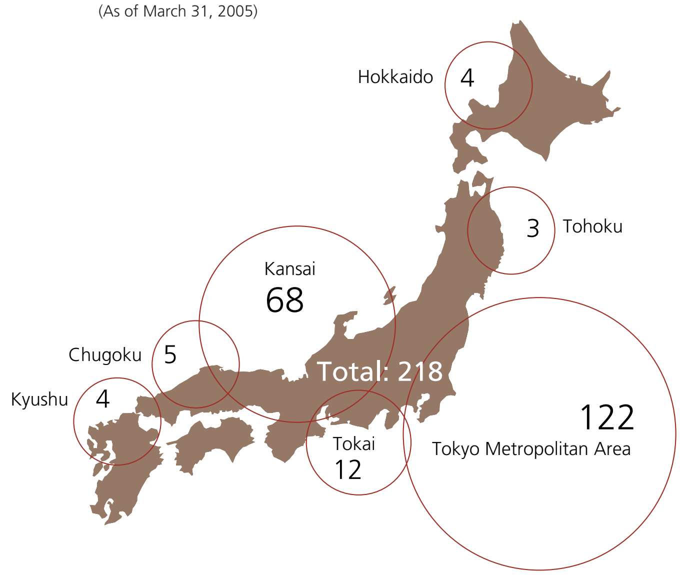
Brokerage

The Company's real estate brokerage business is handled by Sumitomo Real Estate Sales Co., Ltd., which was established in 1975 to conduct sales of condominiums developed by Sumitomo Realty. After entering the real estate brokerage sector in 1979, Sumitomo Real Estate Sales achieved significant success in that field, and it was listed on the first section of the Tokyo Stock Exchange in 1998.

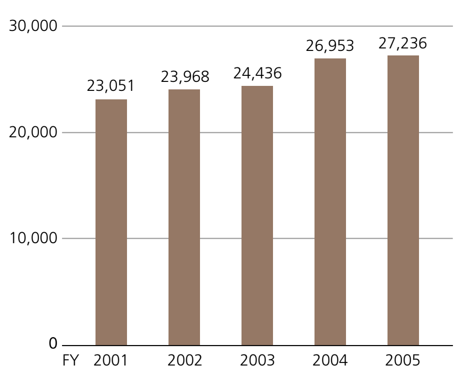
Under the STEP brand name, Sumitomo Real Estate Sales operates a network of brokerage offices with close ties to local communities. The network has been steadily expanded and upgraded, and the number of offices reached 218 by the end of March 2005. Because all of the brokerage offices are directly owned and operated, the network boasts high profit margins. Sumitomo Real Estate Sales holds the number one position in the industry in terms of brokerage revenue from direct operations and in terms of profitability. In the future, the company will continue working to expand its marketing base and increase its market share.

Directly Managed Brokerage Offices

(As of March 31, 2005)

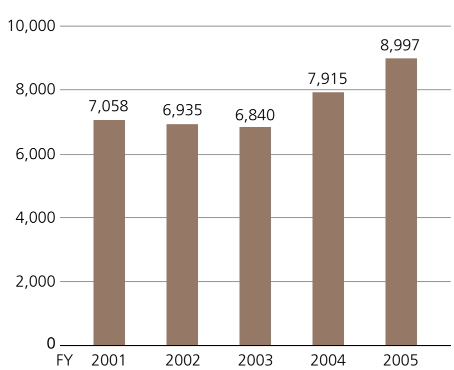


Number of Transactions



Transaction Value

(Millions of yen)



Financial Section

Six-Year Financial Summary

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries

Years ended March 31

	Millions of yen					
	2005	2004	2003	2002	2001	2000
For the Year						
Revenue from Operations	**¥616,115**	¥573,862	¥533,915	¥497,877	¥459,245	¥421,587
Leasing	**221,234**	202,776	192,979	178,034	164,575	152,803
Sales	**224,191**	213,303	183,745	170,428	149,196	150,486
Construction	**127,388**	125,086	124,464	115,329	113,549	87,166
Brokerage	**43,445**	39,809	37,577	36,184	34,881	31,923
Cost of Revenue from Operations	**470,636**	435,078	403,777	377,199	349,597	319,997
SG&A Expenses	**45,188**	42,807	41,626	40,308	34,430	31,042
% of Revenue from Operations	**7.3%**	7.5%	7.8%	8.1%	7.5%	7.4%
Operating Income	**100,291**	95,977	88,512	80,370	75,218	70,548
% of Revenue from Operations	**16.3%**	16.7%	16.6%	16.1%	16.4%	16.7%
Depreciation and Amortization	**14,019**	12,211	11,973	10,731	10,377	11,269
At Year End						
Current Assets	**¥ 481,341**	¥ 503,911	¥ 423,446	¥ 404,999	¥ 374,328	¥ 370,078
Sales Inventory*	**260,613**	234,019	189,136	178,450	149,215	128,310
Total Assets	**2,136,329**	2,090,970	2,015,667	1,972,735	1,903,529	1,916,343
Shareholders' Equity	**320,098**	303,875	211,821	213,767	193,442	211,140
Net Interest-Bearing Debt	**935,155**	916,156	1,036,419	1,098,407	1,183,674	1,331,269
Per Share Amounts (Yen and Dollars)						
Net Income (Loss)	**¥ 32.64**	¥ 15.34	¥ 12.22	¥ 56.50	¥ (44.27)	¥ 36.23
Shareholders' Equity	**673.40**	639.01	520.84	525.17	475.51	529.82
Cash Dividend Applicable to the Year	**9.00**	9.00	6.00	6.00	6.00	6.00
Key Ratios						
Equity Ratio (%)	**15.0**	14.5	10.5	10.8	10.2	11.0
Net Debt/Equity Ratio (Times)	**2.92**	3.01	4.89	5.14	6.12	6.31

* Sales Inventory = Inventories + Investments in SPCs holding properties for sale

Contents

Management's Discussion and Analysis

Overview

In fiscal 2005, ended March 31, 2005, we recorded our eighth consecutive year of increased revenue from operations, operating income, and ordinary profit. Operating income surpassed ¥100 billion for the first time, and ordinary profit set a record high level for the fifth consecutive year. We posted record high sales and profits in our four major business segments.

Segment Review

Leasing Business

In the Tokyo office building market, which accounts for more than 90% of our leasing assets, the supply of new office buildings leveled off in the year under review, while tenant demand increased accompanying Japan's economic recovery. The resulting improvement in the demand-supply balance spread throughout the market, and the vacancy rate declined markedly, especially in new buildings, while actual rents began to rise. There were signs of a shift in the composition of demand, from tenants seeking to reduce costs, improve operational efficiency, and consolidate work sites to tenants looking to increase floor space against a background of economic recovery.

The leasing segment recorded substantial increases in sales and profits. The vacancy rate improved from 7.9% at the end of the previous fiscal year to 6.9% at the end of the year under review, and renewal rents, which are set every two years when leases are renewed, stopped declining. As a result, the decline in revenue from existing buildings leveled out. In addition, full-year contributions were made by such properties as the Chiyoda First Building West and the Hanzomon First Building, and new buildings were opened, such as the Shiodome Sumitomo Building.

To make further progress in concentrating our portfolio on prime properties, we sold eight small buildings with a total gross floor area of 20,998 square meters. Each building was 10 to 20 years old, making it old for our portfolio.

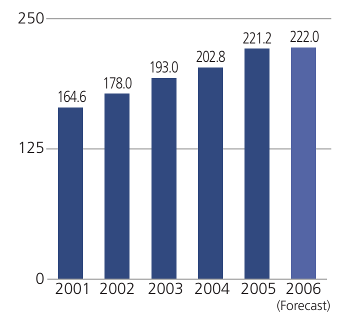
In the current fiscal year, ending March 2006, we expect the favorable market conditions to continue. We plan to open only one new building, but full-year contributions will be made by such properties as the Shiodome Sumitomo Building, which has a floor area of 99,913 square meters, and the Tokyo Shiodome Building, with a floor area of 190,257 square meters (half of which belongs to Sumitomo Realty). Moreover, an increase in revenue from existing buildings due to an improved vacancy rate will offset a decline in tenant improvement work. Accordingly, we anticipate higher sales and profits in the leasing segment.

Sales Business

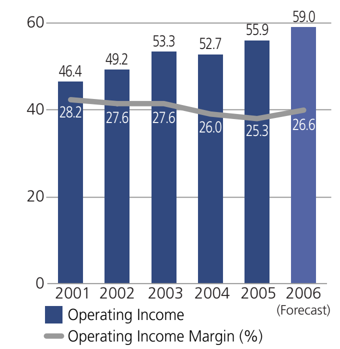
In the condominium market, which accounts for more than 95% of our business in this segment, supply remained at a high level in the year under review, with more than 80,000 units sold in the Tokyo metropolitan area for the sixth consecutive year. Demand came from a wide range of buyers, including middle-aged customers and senior citizens moving from the suburbs to downtown areas, double-income families, and first-time buyers, principally the children of baby boomers. Large buildings in urban settings enjoyed especially strong demand.

Note: Figures in the graphs on pages 21 and 22 include intersegment transactions.

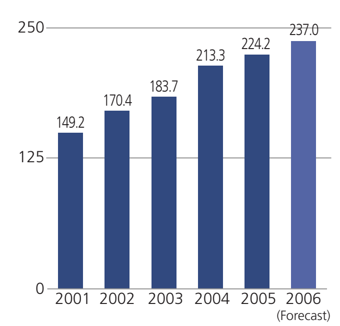
Revenue from Leasing Operations
(Billions of yen)



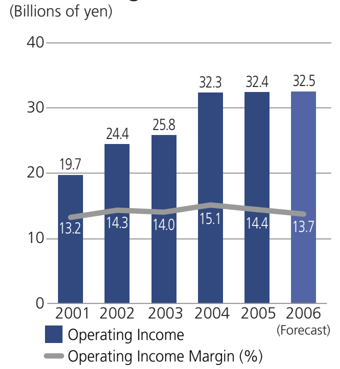
Operating Income and Operating Income Margin: Leasing
(Billions of yen)



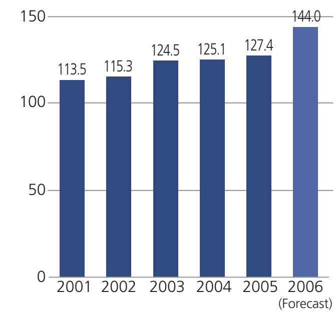
Revenue from Sales Operations
(Billions of yen)



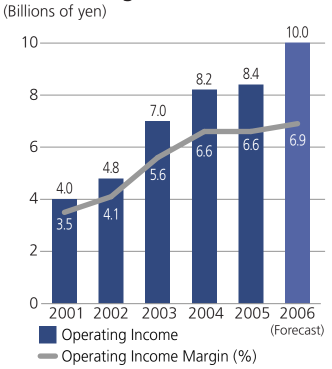
Operating Income and Operating Income Margin: Sales
(Billions of yen)



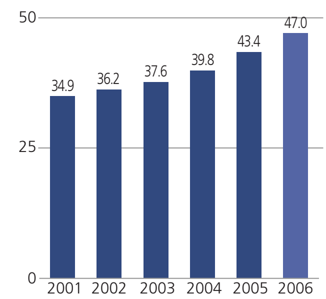
Revenue from Construction Operations
(Billions of yen)



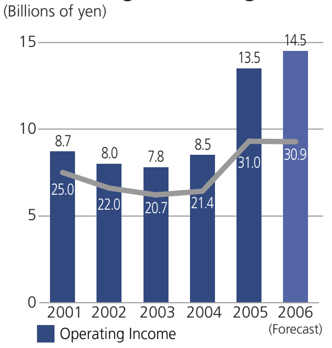
Operating Income and Operating Income Margin: Construction
(Billions of yen)



Revenue from Brokerage Operations
(Billions of yen)



Operating Income and Operating Income Margin: Brokerage
(Billions of yen)



The sales business segment recorded higher sales due to an increase in the number of units delivered, and operating income rose. Profitability decreased slightly, but this decline was attributable to the unusually high level of profitability in the previous fiscal year and does not indicate a significant issue. The number of condominium units sold reached 5,229, a substantial increase over the previous record of 4,358 units, which was set in the year ended March 2002. At the end of the year under review, the Company had 1,277 condominium units completed but not yet sold, compared with 860 at the end of the previous fiscal year.

In the current fiscal year, we anticipate firm demand and solid market conditions, and the number of condominium units in inventory at the end of March 2006 is forecast to decline from the end of March 2005. We expect to deliver 5,100 condominiums and detached houses in the current year, an increase of 173 from the year under review.

Construction Business

The construction business segment recorded higher sales and profits for the fourth consecutive year.

In new detached housing, market conditions were difficult, as the number of detached housing starts once again began to decline. Due to the success of J-Urban, which was launched in the previous fiscal year, the number of units contracted increased 9% year on year. Nonetheless, the number of units delivered declined because we worked to spread out construction, which had generally been concentrated in the year-end period, more evenly throughout the year in order to improve quality and to reduce labor and other costs.

In Shinchiku Sokkurisan home remodeling operations, business continued to expand favorably. The number of units contracted rose 14%, and the number of units delivered was up 17%.

In the current fiscal year, we will continue to strengthen our operations, launching J-Urban III and J-Urban Court in new detached housing operations and further improving our marketing system for Shinchiku Sokkurisan home remodeling operations. We anticipate growth in each of this segment's operational areas, continued expansion in sales and profits, and operating income of ¥10.0 billion.

Brokerage Business

In the market for existing homes, the number of transactions declined year on year. However, due to increases in the number of transactions involving comparatively new buildings and properties for investment, prices rose in the Tokyo metropolitan area and stopped declining in the Kansai area.

In the brokerage business segment, we took steps to enhance our ability to attract customers. We added 7 directly managed brokerage offices, for a total of 218 at year-end, and we relocated and renovated several existing offices. We also worked to sell properties for investment to real estate funds, which are recording rapid growth. As a result, the number of transactions grew only 1%, but transaction value rose substantially, up 13%.

In the current fiscal year, we will continue striving to increase our market share. Specifically, we will open new offices and enhance existing offices and will work to raise operational efficiency through a bolstered IT strategy. To further expand profits, we will take steps to improve our customer base in wholesale brokerage.

Other Business

In the other business segment, which includes fitness clubs, restaurants, and finance companies, revenue from operations was ¥11.6 billion, an increase of ¥0.7 billion, and operating income was ¥1.4 billion, up ¥1.0 billion.

Financial Review

Results of Operations

In fiscal 2005, revenue from operations was up 7.4%, to ¥616.1 billion. Cost of revenue from operations rose 8.2%, to ¥470.6 billion, and selling, general and administrative (SG&A) expenses were up 5.6%, to ¥45.2 billion. As a result, operating income increased 4.5%, to ¥100.3 billion.

Net other expenses were ¥69.6 billion, compared with ¥80.4 billion in the previous fiscal year. Interest expense, net, was ¥19.2 billion. Loss on sale and devaluation of property and equipment associated with steps taken in preparation for the implementation of impairment accounting from the fiscal year ending March 2006 was ¥15.7 billion, and loss on sale and devaluation of property and equipment resulting from scrap and build initiatives totaled ¥20.6 billion.

Income before income taxes and minority interests totaled ¥30.7 billion, up from ¥15.6 billion a year earlier. Total income taxes were ¥13.0 billion. Net income grew 146.0%, to ¥15.5 billion.

Capital Resources and Financial Position

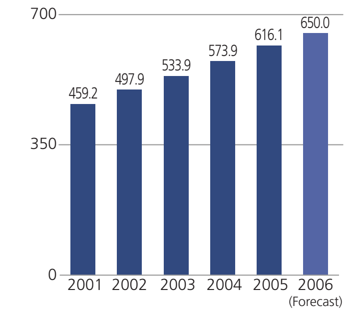
In the year under review, to enhance our ability to compete in the capital-intensive areas of leasing and sales, we raised ¥71.9 billion in new capital through a public offering. Our credit rating was raised, enabling us to utilize long-term debt and issue bonds under more favorable terms. At the end of the year under review, 85% of our interest-bearing debt was long term, compared with 80% at the end of the previous fiscal year, and 87% was at fixed interest rates, compared with 82% a year earlier.

In addition to growth in shareholders' equity, operating income continues to increase. We continue to record improvement in the ratios of net interest-bearing debt to operating income and net interest-bearing debt to shareholders' equity, which are key financial indicators in the Top Gear Growth Three-Year Plan. At the end of the year under review, consolidated interest-bearing debt was ¥1,038.4 billion, down ¥10.2 billion from a year earlier.

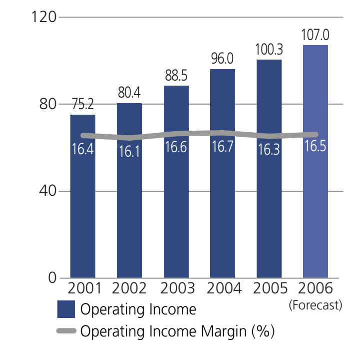
In our core leasing and sales segments, significant advance investment is required. To improve our financial position and grow our operations, we are aggressively using methods of raising funds that do not rely on interest-bearing debt, such as non-recourse financing utilizing SPCs and investment partnerships.

Investments in SPCs include properties for sale and those to be held for leasing. The former are recorded in the current assets section of the balance sheet as investments in SPCs holding properties for sale, while the latter are recorded in the investments and advances section of the balance sheet as investments in securities and other. When properties for sale are sold, the proceeds are recorded as revenue in the sales business segment. As of March 31, 2005, investments in SPCs holding properties for sale totaled ¥49.4 billion, an increase of 11.2% from the previous year-end, and the balance of properties held for leasing was ¥59.2 billion.

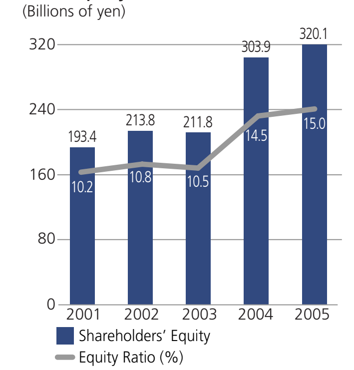
Revenue from Operations
(Billions of yen)



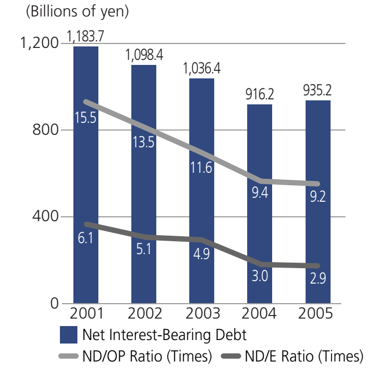
Operating Income and Operating Income Margin
(Billions of yen)



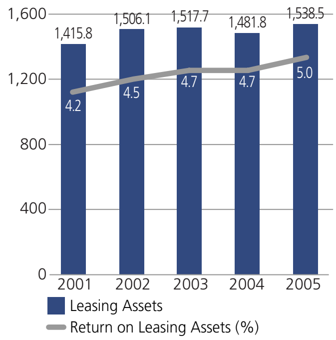
Shareholders' Equity and Equity Ratio
(Billions of yen)



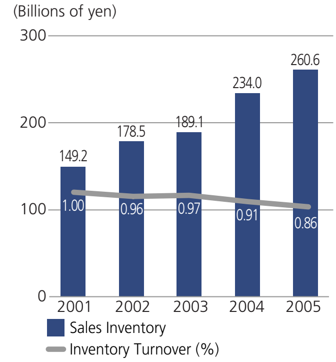
Net Interest-Bearing Debt, ND/OP Ratio, and ND/E Ratio
(Billions of yen)



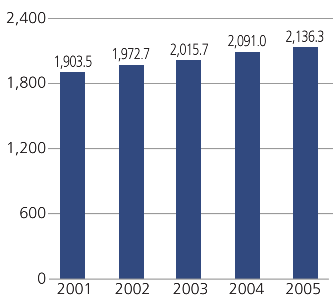
Leasing Assets and Return on Leasing Assets
(Billions of yen)



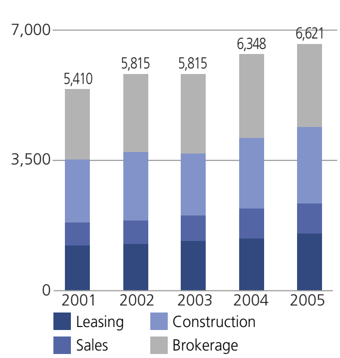
Sales Inventory and Inventory Turnover
(Billions of yen)



Total Assets
(Billions of yen)



Number of Employees in Core Segments



The SPC leasing property revenue structure comprises four stages. The Company leases buildings and then subleases to tenants, and as a result rent payments from tenants are recorded as leasing revenue by Sumitomo Realty. The Company masterleases the tenants from the SPC and then makes payment to the SPC, recording the payment as cost of leasing. The SPC records the payment from Sumitomo Realty as rent received; deducts expenses, such as fixed asset taxes, insurance premiums, depreciation and amortization, and interest on non-recourse loans; and pays the remainder to Sumitomo Realty as dividends. Sumitomo Realty records the dividend payments as leasing sales.

In investment partnerships, for SURF (Sumitomo Realty Fund), an investment scheme for office buildings in Japan that is similar to a U.S.-style limited partnership, Sumitomo Realty acts as general partner. In accordance with Japanese accounting standards for such associations, all revenue and expenses are recorded on the Company's income statements. Dividends to partnership investors are recorded as other expenses. On the balance sheets, the properties are recorded under fixed assets, and payments from investors are recorded under fixed liabilities as long-term deposits. By the end of March 2005, the SURF investment had grown into a large-scale investment product, with ¥191.0 billion in investment received.

Cash Flow

Net cash provided by operating activities was ¥48.0 billion, an increase of ¥14.4 billion from the previous fiscal year. Income before income tax and minority interests increased to ¥30.7 billion, decrease in notes and accounts payable–trade was ¥27.0 billion, and increase in advances received was ¥6.7 billion.

Net cash used in investing activities totaled ¥60.8 billion. Payments for purchases of property and equipment amounted to ¥106.8 billion, and proceeds from sale of property and equipment was ¥21.9 billion.

Net cash used in financing activities was ¥16.3 billion. Decrease in short-term debt was ¥32.2 billion, and redemption of bonds and notes was ¥77.5 billion. Proceeds from issuance of bonds and notes was ¥80.0 billion. Interest-bearing debt was reduced by ¥10.2 billion. In preparation for J-REIT participation, we sold eight office buildings to an SPC in September 2003, and in the year under review we repurchased those buildings at the selling price due to a postponement of the REIT participation.

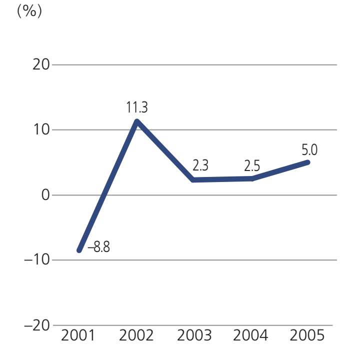
Cash and cash equivalents at the end of the year totaled ¥103.2 billion, down from ¥132.5 billion at the end of the previous year.

Background

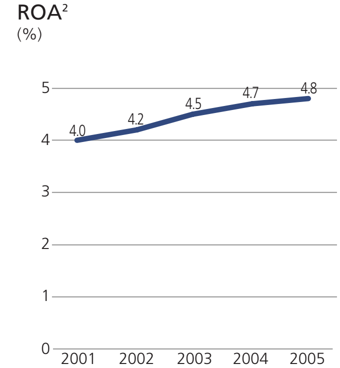
Sumitomo Realty was formed from the dissolution of the Sumitomo *zaibatsu,* one of the four major family-dominated financial and industrial combines that had largely controlled the Japanese economy until the end of World War II. Inheriting the respected Sumitomo brand, each Sumitomo company became an independent entity. Sumitomo Realty was incorporated in 1949 within the Sumitomo Group to manage the residual real estate assets of the *zaibatsu*. The brand name, however, was one of the few assets the Company inherited. At the time of its founding, in terms of assets, Sumitomo

Realty was far behind the two giants in the domestic real estate industry—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, which recorded growth as a condominium developer, did not have stable sources of revenue, such as those from leasing. As a result, the oil shock of the 1970s resulted in a management crisis for the Company, which subsequently began to expand its leasing operations. However, the bursting of Japan's economic bubble in the early 1990s led to a second crisis for Sumitomo Realty. As a result of these crises, the Company was unable to accumulate capital, and, in comparison with its major competitors, its financial position was significantly weaker. However, Sumitomo Realty's growth strategy requires capital for leasing and sales, which are capital intensive, and accordingly the Company has taken steps to enhance its capital structure.

ROE[1]



ROA[2]



Operating Risks

Sumitomo Realty's operations are subject to the following risks that might influence the judgment of investors.

Changes in the Operating Environment

Leasing, sales, construction, and brokerage operations are affected by such factors as economic trends, corporate performances, personal incomes, land price trends, interest rates and other financial matters, and housing taxes, and these factors could influence the Group's results of operations and financial position.

Increase in Supply

An increase in new buildings, an increase in new condominium units, an increase in competitors, or other factors resulting in an increase in overall supply and intensified competition could affect the Group's results of operations and financial position.

Legal Regulations

The operations conducted by the Group are covered by a range of legal regulations, and revision could affect the Group's results of operations and financial position. The principal laws affecting the Group are the Building Lots and Building Transactions Business Law, the Construction Law, the Leased Land and House Lease Law, the Building Standards Law, the Urban Planning Law, the Urban Redevelopment Law, the Law for Compartmented-Ownership, etc., of Buildings, and the National Land Use Planning Law.

Natural or Man-Made Disasters

In the event of an earthquake, wind and flood damage, accidents, fires, or man-made disasters, such as terrorist incidents, etc., the Group's results of operations and financial position could be affected.

Major Lawsuits

In regard to the rent on office buildings leased by the Company, two requests for rent reductions in accordance with the Leased Land and House Lease Law are currently in litigation. Both have been sent back from the Japanese Supreme Court to the Tokyo Higher Court. In the event of an unfavorable ruling, the Group's results of operations and financial position could be affected.

Notes: 1. ROE = Net income / Simple average of shareholders' equity
2. ROA = (Operating income + Interest income and dividend income) / Simple average of total assets

Consolidated Balance Sheets

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries

As of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2005**	2004	**2005**
Current assets:			
Cash, time and notice deposits (Note 3)	¥ 103,235	¥ 132,474	$ 961,936
Marketable securities (Note 7)	1,203	517	11,209
Investments in SPCs holding properties for sale (Note 7)	49,434	44,473	460,622
Notes and accounts receivable–trade	31,462	36,252	293,161
Loans receivable	56,844	83,782	529,668
Allowance for doubtful accounts	(23,591)	(36,537)	(219,819)
Inventories (Note 4)	211,180	189,547	1,967,760
Deferred income taxes (Note 12)	6,410	12,602	59,728
Other current assets	45,164	40,801	420,836
Total current assets	481,341	503,911	4,485,101
Investments and advances:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 5)	5,901	6,451	54,985
Investments in securities and other (Note 7)	196,741	143,180	1,833,218
Allowance for doubtful accounts	(21,206)	(25,582)	(197,596)
Total investments and advances	181,436	124,049	1,690,607
Property and equipment (Note 6):			
Land	936,003	894,428	8,721,608
Buildings and structures	403,732	366,050	3,761,946
Machinery and equipment	17,294	17,588	161,144
Construction in progress	2,840	24,649	26,463
	1,359,869	1,302,715	12,671,161
Accumulated depreciation	(134,275)	(139,760)	(1,251,165)
Net property and equipment	1,225,594	1,162,955	11,419,996
Other assets:			
Guarantee and lease deposits paid to lessors	182,354	185,914	1,699,161
Leasehold rights and other intangible assets (Note 6)	55,770	55,171	519,661
Deferred income taxes (Note 12)	2,958	3,752	27,562
Other	6,876	55,218	64,071
Total other assets	247,958	300,055	2,310,455
	¥2,136,329	¥2,090,970	$19,906,159

See accompanying notes.

Liabilities and Shareholders' Equity	Millions of yen 2005	2004	Thousands of U.S. dollars (Note 1) 2005
Current liabilities:			
Short-term debt (Note 8)	¥ 173,245	¥ 205,423	$ 1,614,284
Long-term debt due within one year (Note 8)	225,182	198,242	2,098,230
Notes and accounts payable–trade	45,005	72,002	419,353
Accrued income taxes (Note 12)	7,799	762	72,671
Accrued bonuses	2,941	2,706	27,404
Deposits received (Notes 6, 13)	193,872	181,457	1,806,485
Other current liabilities	71,204	59,639	663,474
Total current liabilities	719,248	720,231	6,701,901
Long-term liabilities:			
Long-term debt due after one year (Note 8)	639,962	644,964	5,963,120
Guarantee and deposits received (Note 13)	427,818	397,460	3,986,377
Deferred income taxes (Note 12)	8,249	6,533	76,864
Allowance for employees' severance and retirement benefits (Note 9)	5,002	4,748	46,608
Other long-term liabilities (Note 11)	3,487	1,249	32,491
Total long-term liabilities	1,084,518	1,054,954	10,105,460
Minority interests	12,465	11,910	116,148
Contingent liabilities (Note 18)			
Shareholders' equity (Note 14):			
Common stock:			
Authorized – 780,000 thousand shares			
Issued – 476,086 thousand shares	122,805	122,805	1,144,288
Capital surplus	132,748	132,744	1,236,936
Retained earnings	49,829	38,572	464,303
	305,382	294,121	2,845,527
Net unrealized holding gains on securities	18,964	14,420	176,705
Foreign currency translation adjustments	(3,583)	(4,262)	(33,386)
Treasury stock	(665)	(404)	(6,196)
Total shareholders' equity	320,098	303,875	2,982,650
	¥2,136,329	¥2,090,970	$19,906,159

Consolidated Statements of Income

For the years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Revenue from operations	¥616,115	¥573,862	¥533,915	$5,740,915
Costs and expenses:				
Cost of revenue from operations	470,636	435,078	403,777	4,385,352
Selling, general and administrative expenses	45,188	42,807	41,626	421,059
	515,824	477,885	445,403	4,806,411
Operating income	100,291	95,977	88,512	934,504
Other income (expenses):				
Interest expense, net	(19,219)	(23,266)	(25,660)	(179,081)
Dividend income	965	705	626	8,992
Loss on sale and devaluation of property and equipment (Note 10)	(15,672)	(49,414)	(48,666)	(146,031)
Loss on devaluation of investments in securities	(715)	(144)	(4,643)	(6,662)
Gain (Loss) on sale of investments in securities	121	(286)	(500)	1,127
Loss on disposal of property and equipment	(711)	(539)	(598)	(6,625)
Dividend to partnership investors	(4,667)	(3,889)	(3,162)	(43,487)
Loss on sale of property and equipment	(8,726)	—	—	(81,308)
Loss on devaluation of property and equipment	(11,886)	—	—	(110,753)
Loss on sale of loans receivable	(3,481)	—	—	(32,436)
Directors' retirement benefits (Note 11)	(2,270)	—	—	(21,152)
Other, net	(3,339)	(3,561)	(3,877)	(31,112)
	(69,600)	(80,394)	(86,480)	(648,528)
Income before income taxes and minority interests	30,691	15,583	2,032	285,976
Income taxes (Note 12):				
Current	7,414	1,036	781	69,083
Deferred	5,592	6,334	(1,903)	52,106
Total	13,006	7,370	(1,122)	121,189
Minority interests	2,137	1,893	(1,820)	19,912
Net income	¥ 15,548	¥ 6,320	¥ 4,974	$ 144,875

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income:				
– Basic	¥32.64	¥15.34	¥12.22	$0.30
– Diluted	32.64	—	—	0.30
Cash dividend applicable to the year	9.00	9.00	6.00	0.08

See accompanying notes.

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2005, 2004 and 2003

	Thousands	Millions of yen					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 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)	—	—	—
Bonuses to directors	—	—	—	(14)	—	—	—
Balance at March 31, 2003	407,086	86,787	96,822	34,693	(4,886)	(1,370)	(225)
Net income	—	—	—	6,320	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	(2,892)	—
Net unrealized holding gains on securities	—	—	—	—	19,306	—	—
Issuance of common stock	69,000	36,018	35,921	—	—	—	—
Treasury stock	—	—	—	—	—	—	(179)
Gains on sale of treasury stock	—	—	1	—	—	—	—
Decrease due to merger of consolidated subsidiaries	—	—	—	(1)	—	—	—
Cash dividends paid (¥6 per share)	—	—	—	(2,440)	—	—	—
Balance at March 31, 2004	476,086	122,805	132,744	38,572	14,420	(4,262)	(404)
Net income	—	—	—	**15,548**	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	**679**	—
Net unrealized holding gains on securities	—	—	—	—	**4,544**	—	—
Treasury stock	—	—	—	—	—	—	**(261)**
Gains on sale of treasury stock	—	—	**4**	—	—	—	—
Increase due to merger of consolidated subsidiaries	—	—	—	**13**	—	—	—
Cash dividends paid (¥9 per share)	—	—	—	**(4,280)**	—	—	—
Bonuses to directors	—	—	—	**(24)**	—	—	—
Balance at March 31, 2005	**476,086**	**¥122,805**	**¥132,748**	**¥49,829**	**¥18,964**	**¥(3,583)**	**¥(665)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	$1,144,288	$1,236,899	$359,411	$134,365	$(39,713)	$(3,764)
Net income	—	—	**144,875**	—	—	—
Foreign currency translation adjustments	—	—	—	—	**6,327**	—
Net unrealized holding gains on securities	—	—	—	**42,340**	—	—
Treasury stock	—	—	—	—	—	**(2,432)**
Gains on sale of treasury stock	—	**37**	—	—	—	—
Increase due to merger of consolidated subsidiaries	—	—	**121**	—	—	—
Cash dividends paid ($0.08 per share)	—	—	**(39,881)**	—	—	—
Bonuses to directors	—	—	**(223)**	—	—	—
Balance at March 31, 2005	**$1,144,288**	**$1,236,936**	**$464,303**	**$176,705**	**$(33,386)**	**$(6,196)**

See accompanying notes.

Consolidated Statements of Cash Flows

For the years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 30,691	¥ 15,583	¥ 2,032	$ 285,976
Depreciation and amortization	14,019	12,211	11,973	130,628
Provision for (Reversal of) allowance for doubtful accounts	(17,321)	(2,906)	1,134	(161,396)
Increase in employees' severance and retirement benefits	254	437	567	2,367
Loss on sale and devaluation of property and equipment (Note 10)	15,672	49,414	48,666	146,031
Loss on sale of property and equipment	8,726	—	—	81,308
Loss on devaluation of property and equipment	11,886	—	—	110,753
Loss on disposal of property and equipment	711	539	598	6,625
Loss (Gain) on sale of investments in securities	(121)	286	500	(1,127)
Loss on devaluation of investments in securities	715	144	4,643	6,662
Interest and dividend income	(1,390)	(983)	(956)	(12,952)
Interest expense	19,644	23,544	25,991	183,041
Increase in investments in SPCs holding properties for sale	(4,961)	(16,492)	(6,065)	(46,226)
Increase (Decrease) in notes and accounts receivable–trade	4,787	(11,361)	(4,512)	44,605
Increase in inventories	(20,004)	(22,032)	(6,627)	(186,396)
Decrease in loans receivable	29,192	7,533	2,031	272,009
Increase (Decrease) in notes and accounts payable–trade	(26,994)	17,224	16,984	(251,528)
Increase (Decrease) in advances received	6,688	(2,337)	(294)	62,318
Other, net	(4,563)	(15,312)	10,090	(42,517)
Total	67,631	55,492	106,755	630,181
Proceeds from interest and dividend income	1,489	963	1,326	13,874
Payments for interest	(19,870)	(23,663)	(26,216)	(185,147)
Receipts (Payments) for income tax and other taxes	(1,219)	825	(4,334)	(11,359)
Net cash provided by operating activities	48,031	33,617	77,531	447,549
Cash flows from investing activities:				
Payments for purchases of property and equipment	(106,784)	(34,189)	(55,616)	(995,006)
Proceeds from sale of property and equipment	21,902	18,095	14,369	204,081
Payments for purchases of investments in securities	(9,315)	(21,966)	(47,489)	(86,796)
Proceeds from sale of investments in securities	1,561	768	22,037	14,545
Payments for investments in SPC and partnership	(7)	(10,325)	(8,015)	(65)
Proceeds from sale of investments / reduce capital in SPC and partnership	—	8,000	—	—
Decrease in guarantee and lease deposits paid to lessors	(5,341)	(8,334)	(4,025)	(49,767)
Increase in guarantee and lease deposits paid to lessors	7,052	5,489	4,084	65,710
Increase in guarantee and lease deposits received	(46,598)	(36,062)	(29,486)	(434,196)
Decrease in guarantee and lease deposits received	34,761	25,852	22,750	323,900
Receipts of deposits from partnership investors	111,474	112,943	71,790	1,038,707
Restitution of deposits from partnership investors	(67,590)	(76,248)	(13,414)	(629,799)
Other, net	(1,935)	3,469	(10,634)	(18,030)
Net cash used in investing activities	(60,820)	(12,508)	(33,649)	(566,716)
Cash flows from financing activities:				
Decrease in short-term debt	(32,178)	(87,428)	(18,606)	(299,832)
Proceeds from issuance of bonds and notes	80,000	85,000	126,700	745,434
Redemption of bonds and notes	(77,523)	(114,209)	(106,444)	(722,354)
Increase (Decrease) in long-term debt	19,461	27,148	(49,411)	181,336
Proceeds from issuance of common stock	—	71,940	—	—
Increase (Decrease) in assignment of receivables	15,219	(6,432)	11,701	141,810
Cash dividends paid	(4,581)	(2,696)	(2,671)	(42,685)
Other, net	(16,658)	44,100	2,977	(155,218)
Net cash provided by (used in) financing activities	(16,260)	17,423	(35,754)	(151,509)
Effect of exchange rate changes on cash and cash equivalents	(160)	(1,763)	8	(1,491)
Net increase (decrease) in cash and cash equivalents	(29,209)	36,769	8,136	(272,167)
Cash and cash equivalents at beginning of year	132,476	95,703	87,567	1,234,402
Cash and cash equivalents of subsidiaries excluded from consolidation	(31)	—	—	(289)
Change in cash and cash equivalents due to merger of consolidated subsidiaries	1	4	—	9
Cash and cash equivalents at end of year (Note 3)	¥103,237	¥132,476	¥ 95,703	$ 961,955

See accompanying notes.

Notes to Consolidated Financial Statements

As of and for the years ended March 31, 2005, 2004 and 2003

1. Basis of financial statements

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

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was ¥107.32 to U.S.$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Accounting policies

(1) Principles of consolidation

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

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

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

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

(2) Foreign currency translation

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

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

Differences arising from translation are presented as "Foreign currency translation adjustments" 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 maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(4) Recognition of revenue

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

(5) Inventories

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

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

(6) Securities

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

Investments in SPCs holding properties for sale and senior securities are stated at cost determined by the specific identification method and securities with no available fair market value are stated at moving-average cost.

Investments in partnerships similar to investment limited partnerships, which are regarded as securities under the Securities and Exchange Law, are accounted for in a manner similar to the equity method based on recent financial statements.

If the market value of held-to-maturity securities, investments in subsidiaries and affiliates, available-for-sale securities and investments in SPCs holding 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 a loss in the period of the decline. If the fair market value of investments in unconsolidated subsidiaries and affiliated companies not accounted for using 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.

In connection with enforcement of "Revision of Securities and Exchange Law ("the Securities and Exchange Law")" (Legislation No. 97, June 9, 2004) on December 1, 2004 and amendment of "Practical Guidelines Concerning Accounting for Financial Instruments" on February 15, 2005, the Company and its consolidated subsidiaries changed their balance sheet presentation of investments in partnerships similar to investment limited partnerships, which are regarded as securities under the Securities and Exchange Law, commencing March 31, 2005. As a result of the change, these investments are presented as "Investments in securities and other".

The investments in such partnerships included in "Investments in securities and other" as of March 31, 2005 aggregated ¥40,203 million ($374,609 thousand), whereas the contribution to similar partnerships included in "Other assets" as of March 31, 2004 aggregated ¥45,091 million.

(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 their estimated useful lives. Overseas consolidated subsidiaries depreciate property and equipment using primarily the straight-line method in accordance with the accounting principles in the respective countries.

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

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

(8) Impairment of fixed assets

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

The Company has not adopted this standard and guidance early.

(9) Software costs

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

(10) Allowance for doubtful accounts

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 periods with respect to remaining receivables.

(11) Finance leases

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

(12) Income taxes

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

(13) Employees' severance and retirement benefits

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

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

The Companies provided an allowance for employees' severance and retirement benefits at March 31, 2005, 2004 and 2003 based on the estimated projected benefit obligation at those dates.

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

(14) Derivative transaction and hedge accounting

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

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

(15) Amounts per share of common stock

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

Diluted net income per share is computed based on the amount of net income available to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options.

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

(16) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2005 presentation.

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

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Cash, time and notice deposits	**¥103,235**	¥132,474	**$961,936**
Marketable securities	**2**	2	**19**
Cash and cash equivalents	**¥103,237**	¥132,476	**$961,955**

4. Inventories

Inventories at March 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Land and buildings for sale	**¥106,190**	¥ 81,658	**$ 989,471**
Land and building projects in progress	**63,651**	77,214	**593,095**
Land held for development	**36,396**	26,207	**339,135**
Other	**4,943**	4,468	**46,059**
	¥211,180	¥189,547	**$1,967,760**

5. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Investments in common stock, at cost	**¥5,412**	¥5,948	**$50,429**
Advances	**489**	503	**4,556**
	¥5,901	¥6,451	**$54,985**

6. Properties in trust

The Company has properties which are held under real estate trust contracts.

Such properties included in property and equipment in the consolidated balance sheets at March 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Land	**¥1,236**	¥17,655	**$11,517**
Buildings and structures	**1,031**	5,980	**9,607**
Machinery and equipment	**1**	62	**9**
	¥2,268	¥23,697	**$21,133**

For the year ended March 31, 2004, the Company sold off properties held under real estate trust contracts to S.F. Office Network, Ltd. (the "SPC"). However, the Company retained certain investment risk in the properties, because the Company invested in the SPC in an amount exceeding 5% of the transfer countervalue. Therefore, it was considered that the arrangement was a financing transaction in accordance with the "Practical Guidelines on Accounting of the Transferor for the Derecognition of Real Estate Securitized by means of Special Purpose Companies". The properties were included in property and equipment or leasehold rights and other intangible assets, and ¥25,000 million received from the SPC was included in deposits received in the consolidated balance sheets.

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

	Millions of yen
	2004
Land	¥29,636
Buildings and structures	7,147
Machinery and equipment	114
Leasehold rights and other intangible assets	1,713
	¥38,610

In addition, the SPC offered the properties as security on ¥25,000 million in loans from banks.

Such properties held under real estate trust contracts were bought back by the Company in the year ended March 31, 2005. The SPC repaid the loans from banks with the proceeds from the sale.

7. Securities

For 2005

A. The following tables summarize the acquisition costs, book values and fair market values of securities with available fair market values as of March 31, 2005:

(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	¥ 938	¥ 942	¥ 4	$ 8,740	$ 8,777	$37
Securities whose fair market value does not exceed book value						
National and local government bonds	305	304	(1)	2,842	2,833	(9)
Total	¥1,243	¥1,246	¥ 3	$11,582	$11,610	$28

(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	¥58,395	¥90,946	¥32,551	$544,120	$847,428	$303,308
Others	103	104	1	960	969	9
Subtotal	58,498	91,050	32,552	545,080	848,397	303,317
Securities whose book value does not exceed acquisition cost:						
Equity securities	4,974	4,397	(577)	46,347	40,971	(5,376)
Others	521	481	(40)	4,855	4,482	(373)
Subtotal	5,495	4,878	(617)	51,202	45,453	(5,749)
Total	¥63,993	¥95,928	¥31,935	$596,282	$893,850	$297,568

B. The following table summarizes book values of securities with no available fair market values as of March 31, 2005:
Available-for-sale securities:

	Book value	
	Millions of yen	Thousands of U.S. dollars
Unlisted equity securities	¥ 7,260	$ 67,648
Senior securities	72,622	676,687
Investment in partnerships similar to investment limited partnerships	40,204	374,618
Total	¥120,086	$1,118,953

Senior securities included investments in SPCs holding properties for sale amounting to ¥49,434 million ($460,622 thousand).

C. Available-for-sale securities with maturities and held-to-maturity securities at March 31, 2005, mature as follows:

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	¥411	¥833	¥100	¥ —
Other	—	—	—	—
Total	¥411	¥833	¥100	¥ —

	Thousands of U.S. dollars			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	$3,830	$7,762	$932	$ —
Other	—	—	—	—
Total	$3,830	$7,762	$932	$ —

D. Total sales of available-for-sale securities sold in the year ended March 31, 2005 amounted to ¥731 million ($6,811 thousand) and the related gains amounted to ¥116 million ($1,081 thousand).

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

As of March 31, 2005, investments in SPCs holding properties for sale consisted of preferred subscription certificates issued by SPCs.

F. The following summarizes the Company's investments in Seibu Railway Co., Ltd. at March 31, 2005.

	Millions of yen	Thousands of U.S. dollars
Shares	2,692 thousand	
Acquisition cost	¥4,019	$37,449
Book value	4,019	37,449

The Tokyo Stock Exchange delisted the shares of Seibu Railway Co., Ltd. on December 17, 2004. The Company stated these shares at acquisition cost, because it is difficult for the Company to assess the fair value of these shares. The Company is negotiating with the Seibu Railway Co., Ltd. group to withdraw the full amount of acquisition cost.

G. The Company lent the securities temporarily to a financial institute under a securities lending agreement. Lent securities, included in investment securities, were ¥77,119 million ($718,589 thousand) as of March 31, 2005.

For 2004

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

(a) Held-to-maturity securities:

	Millions of yen		
	Book value	Fair market value	Difference
Securities whose fair market value exceeds book value			
National and local government bonds	¥ 811	¥ 814	¥ 3
Securities whose fair market value does not exceed book value			
National and local government bonds	396	392	(4)
Total	¥1,207	¥1,206	¥(1)

(b) Available-for-sale securities:

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Equity securities	¥54,868	¥80,111	¥25,243
Others	103	112	9
Subtotal	54,971	80,223	25,252
Securities whose book value does not exceed acquisition cost:			
Equity securities	7,428	6,580	(848)
Others	754	681	(73)
Subtotal	8,182	7,261	(921)
Total	¥63,153	¥87,484	¥24,331

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

Available-for-sale securities:

	Book value
	Millions of yen
Unlisted equity securities	¥ 3,478
Senior securities	65,290
Total	¥68,768

Senior securities included investments in SPCs holding properties for sale amounting to ¥44,473 million.

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

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

D. Total sales of available-for-sale securities sold in the year ended March 31, 2004 amounted to ¥220 million and the related gains and losses amounted to ¥11 million and ¥237 million, respectively.

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

As of March 31, 2004, investments in SPCs holding properties for sale consisted of preferred subscription certificates issued by SPCs.

8. Short-term debt and long-term debt

Short-term debt at March 31, 2005 and 2004, consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	2005	Average interest rate (%)	2004	Average interest rate (%)	2005
Loans, principally from banks	**¥132,745**	**0.66**	¥171,423	0.90	**$1,236,908**
Commercial paper	**40,500**	**0.10**	34,000	0.16	**377,376**
	¥173,245		¥205,423		**$1,614,284**

The interest rates represent weighted average rates in effect at March 31, 2005 and 2004, regardless of borrowing currencies, though the range of the interest rate varies by borrowing currency.

Long-term debt at March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
2.575% Euroyen notes (*), due 2004	**¥ —**	¥ 7,400	**$ —**
3.0% domestic straight bonds, due 2004	**—**	3,200	**—**
3.1% Euroyen notes, due 2005	**700**	700	**6,523**
2.95% domestic straight bonds, due 2004	**—**	34,422	**—**
2.45% domestic straight bonds, due 2004	**—**	19,600	**—**
2.45% domestic straight bonds, due 2004	**—**	9,321	**—**
2.62% domestic straight bonds, due 2005	**15,366**	15,366	**143,179**
2.3% domestic straight bonds, due 2004	**—**	3,580	**—**
2.85% domestic straight bonds, due 2006	**3,100**	3,100	**28,886**
Floating rate domestic straight bonds, due 2006	**7,390**	7,390	**68,859**
1.6% domestic straight bonds, due 2006	**9,500**	9,500	**88,520**
Floating rate domestic straight bonds, due 2006	**7,844**	7,844	**73,090**
Floating rate domestic straight bonds, due 2007	**7,510**	7,510	**69,978**
1.5% domestic straight bonds, due 2006	**7,360**	7,360	**68,580**
Floating rate domestic straight bonds, due 2006	**7,337**	7,337	**68,366**
1.75% domestic straight bonds, due 2005	**10,000**	10,000	**93,179**
1.85% domestic straight bonds, due 2006	**7,557**	7,557	**70,416**
1.85% domestic straight bonds, due 2006	**9,409**	9,409	**87,672**
1.85% domestic straight bonds, due 2006	**9,377**	9,377	**87,374**
2.0% domestic straight bonds, due 2007	**9,057**	9,057	**84,392**
1.5% domestic straight bonds, due 2005	**7,147**	7,147	**66,595**
1.5% domestic straight bonds, due 2005	**12,000**	12,000	**111,815**
1.5% domestic straight bonds, due 2005	**10,000**	10,000	**93,179**
1.45% domestic straight bonds, due 2005	**10,000**	10,000	**93,179**
1.45% domestic straight bonds, due 2005	**9,954**	9,954	**92,751**
1.45% domestic straight bonds, due 2005	**12,500**	12,500	**116,474**
1.35% domestic straight bonds, due 2006	**5,000**	5,000	**46,590**
1.5% domestic straight bonds, due 2007	**10,000**	10,000	**93,179**
1.5% domestic straight bonds, due 2007	**10,000**	10,000	**93,179**
1.39% domestic straight bonds, due 2006	**7,000**	7,000	**65,225**
1.4% domestic straight bonds, due 2007	**20,000**	20,000	**186,359**
1.4% domestic straight bonds, due 2007	**10,000**	10,000	**93,179**
1.68% domestic straight bonds, due 2008	**10,000**	10,000	**93,179**
1.49% domestic straight bonds, due 2006	**5,000**	5,000	**46,590**
1.92% domestic straight bonds, due 2008	**5,000**	5,000	**46,590**
1.31% domestic straight bonds, due 2009	**20,000**	—	**186,359**
1.52% domestic straight bonds, due 2010	**20,000**	—	**186,359**
1.30% domestic straight bonds, due 2009	**20,000**	—	**186,359**
1.29% domestic straight bonds, due 2012	**20,000**	—	**186,359**
Loans, principally from banks and insurance companies, interest principally at rates of 0.45% to 3.20% in 2005, and 0.51% to 4.50% in 2004:			
Unsecured	**530,036**	510,575	**4,938,837**
Subtotal	**865,144**	843,206	**8,061,350**
Amount due within one year	**(225,182)**	(198,242)	**(2,098,230)**
Total	**¥ 639,962**	¥ 644,964	**$ 5,963,120**

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

The aggregate annual maturities of long-term debt at March 31, 2005, are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥225,182	$2,098,230
2007	200,888	1,871,860
2008	154,837	1,442,760
2009	103,358	963,082
2010	87,114	811,722
2011 and thereafter	93,765	873,696
Total	¥865,144	$8,061,350

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 the case of default and certain other specified events. The Company has never received such a request.

9. Employees' severance and retirement benefits

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

The allowance for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Projected benefit obligation	**¥ 7,436**	¥ 7,286	**$ 69,288**
Fair value of plan assets	**(2,542)**	(2,422)	**(23,686)**
Unrecognized actuarial differences	**105**	(117)	**978**
Prepaid pension cost	**3**	1	**28**
Allowance for severance and retirement benefits	**¥ 5,002**	¥ 4,748	**$ 46,608**

Included in the consolidated statements of income for the years ended March 31, 2005 and 2004, are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Service costs – benefits earned during the year	**¥488**	¥463	**$4,547**
Interest cost on projected benefit obligation	**128**	138	**1,193**
Expected return on plan assets	**(47)**	(50)	**(438)**
Amortization of actuarial differences	**117**	351	**1,090**
Severance and retirement benefit expenses	**¥686**	¥902	**$6,392**

The discount rates and the rates of expected return on plan assets for the years ended March 31, 2005 and 2004, used by the Company are 2.0%, respectively (the discount rate used by one consolidated subsidiary is 1.5%). The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in the income statement in the next year.

10. Loss on sale and devaluation of property and equipment

As explained in Note 2(8), the new accounting standard for impairment of fixed assets is required to be adopted in periods beginning on or after April 1, 2005. In order to prepare for the adoption of the standard, the Company and its subsidiaries sold and recognized losses on certain fixed assets of ¥15,672 million ($146,031 thousand) for the year ended March 31, 2005. Some of the fixed assets were sold to its consolidated subsidiaries and such losses incurred in these transactions were not eliminated in consolidation but were recorded as net loss on devaluation of land or buildings. Loss on sale and devaluation of property and equipment of ¥15,672 million ($146,031 thousand) consists of net loss on sale of land of ¥11,400 million ($106,224 thousand), loss on devaluation of land of ¥1,672 million ($15,580 thousand) and net loss on sale of buildings of ¥2,600 million ($24,227 thousand).

11. Directors' retirement benefits

A performance-based executive remuneration policy was adopted by a resolution at the 71st shareholders' meeting, and the Company settled the retirement benefits owed directors under the prior arrangement for directors' retirement benefits. The retirement benefits will be paid when the directors retire as both director and executive officer. The Company recognized ¥2,015 million ($18,776 thousand) in retirement obligations at March 31, 2005 in other long-term liabilities, exclusive of the amount provided for the directors who retired as at the 71st shareholders' meeting.

12. Income taxes

The normal effective statutory income tax rate in Japan arising out of aggregation of corporate, enterprise and inhabitant taxes was approximately 40.69% for the year ended March 31, 2005 and approximately 42.05% for the year ended March 31, 2004.

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, 2004.

The differences between the statutory tax rate and the Company's effective tax rate for the year ended March 31, 2005 were insignificant and are not presented.

	2004
Statutory tax rate	42.05%
Net operating loss carryforwards of subsidiaries	2.31
Per capita inhabitant taxes	1.50
Entertainment expenses and others not deductible for tax purposes	0.90
Other	0.54
Effective tax rate	47.30%

Details of deferred tax assets and liabilities at March 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets:			
Net operating loss carryforwards	**¥ 8,050**	¥ 15,722	**$ 75,009**
Loss from devaluation of inventories	**1,939**	5,094	**18,067**
Allowance for employees' severance and retirement benefits	**1,985**	1,845	**18,496**
Unrealized inter-company profits	**1,545**	1,525	**14,396**
Accrued bonuses	**1,332**	1,219	**12,411**
Accrued enterprise tax and business office tax	**833**	—	**7,762**
Accrued directors' retirement benefits	**820**	—	**7,641**
Allowance for doubtful accounts	**600**	—	**5,591**
Other	**5,625**	4,875	**52,413**
Subtotal of deferred tax assets	**22,729**	30,280	**211,786**
Valuation allowance	**(8,531)**	(10,497)	**(79,491)**
Total deferred tax assets	**14,198**	19,783	**132,295**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**(13,079)**	(9,962)	**(121,869)**
Net deferred tax assets	**¥ 1,119**	¥ 9,821	**$ 10,426**

The aggregate statutory income tax rate was reduced for the years commencing on April 1, 2004 or later due to the revised local tax law. At March 31, 2004, 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 were expected to be recovered or settled after March 31, 2005.

13. Guarantee and other deposits received

Guarantee and other deposits received at March 31, 2005 and 2004, were as follows:

	Millions of yen				Thousands of U.S. dollars
	2005	Average interest rate (%)	2004	Average interest rate (%)	2005
Short-term deposits and long-term deposits due within one year:					
Non-interest-bearing	**¥159,830**	—	¥131,015	—	**$1,489,284**
Interest-bearing	**34,042**	**0.18**	50,442	0.25	**317,201**
	193,872		181,457		**1,806,485**
Guarantee and lease deposits from tenants:					
Non-interest-bearing	**160,273**	—	145,857	—	**1,493,412**
Interest-bearing	—	—	22,500	2.80	—
Long-term deposits:					
Non-interest-bearing	**241,545**	—	203,103	—	**2,250,699**
Interest-bearing	**26,000**	**0.80**	26,000	0.79	**242,266**
	427,818		397,460		**3,986,377**
Total	**¥621,690**		¥578,917		**$5,792,862**

As explained in Note 6, ¥25,000 million received from the SPC related to the sale of properties was included in deposits received on March 31, 2004.

The aggregate annual maturities of interest-bearing guarantee and other deposits received at March 31, 2005, are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥34,042	$317,201
2007	20,000	186,358
2008	6,000	55,908
2009	—	—
2010	—	—
2011 and thereafter	—	—
	¥60,042	$559,467

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.

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 the legal earnings reserve and additional paid-in capital equals 25% of common stock. The total amount of the legal earnings reserve and additional paid-in capital of the Company has reached 25% of common stock, and therefore the Company is not required to provide additional legal earnings reserve. 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 the legal earnings reserve and additional paid-in capital remains equal to or exceeding 25% of common stock, they are available for distribution by the resolution of the shareholders' meeting. The 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 that do not transfer ownership to lessees are not capitalized and accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases is as follows.

As Lessee

A summary of the pro-forma amounts (inclusive of interest) of acquisition cost, accumulated depreciation and net book value at March 31, 2005 and 2004, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Acquisition cost:			
Buildings and structures	**¥15,177**	¥15,300	**$141,418**
Other	**2,463**	1,871	**22,950**
Accumulated depreciation	**(6,541)**	(5,079)	**(60,948)**
Net book value	**¥11,099**	¥12,092	**$103,420**

Pro-forma depreciation equivalents of ¥2,444 million ($22,773 thousand) and ¥2,477 million for the years ended March 31, 2005 and 2004, respectively, were 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, 2005 and 2004 amounted to ¥2,444 million ($22,773 thousand) and ¥2,477 million, respectively.

Future lease payments and receipts under such finance leases and non-cancelable operating leases at March 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Finance leases			
Future lease payments:			
Due within one year	**¥ 2,279**	¥ 2,268	**$ 21,236**
Due after one year	**8,820**	9,824	**82,184**
Total	**¥ 11,099**	¥ 12,092	**$ 103,420**
Future sub-lease payments:			
Due within one year	**¥ 4**	¥ —	**$ 37**
Due after one year	**14**	—	**131**
Total	**¥ 18**	¥ —	**$ 168**
Future sub-lease receipts:			
Due within one year	**¥ 4**	¥ 7	**$ 37**
Due after one year	**14**	—	**131**
Total	**¥ 18**	¥ 7	**$ 168**
Operating leases			
Future lease payments:			
Due within one year	**¥ 15,740**	¥ 14,447	**$ 146,664**
Due after one year	**107,028**	142,679	**997,279**
Total	**¥122,768**	¥157,126	**$1,143,943**
Future lease receipts:			
Due within one year	**¥ 103**	¥ 112	**$ 960**
Due after one year	**498**	576	**4,640**
Total	**¥ 601**	¥ 688	**$ 5,600**

16. Derivative transactions

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

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

The derivative transactions are executed by the Company's Finance Department in accordance with the decisions of a committee whose chairman is the director of the Finance Department. The Finance Department prepares reports on derivative transactions that are provided to the director of the Finance Department periodically.

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

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

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

The evaluation of hedge effectiveness of interest rate swap contracts for the years ended March 31, 2005 and 2004 was not required as special hedge accounting has been applied to derivative transactions of interest rate swap contracts. Also, the evaluation of hedge effectiveness of foreign exchange forward contracts for the years ended March 31, 2005 and 2004 was not required because the significant terms of the hedging instruments and those of the hedged items were the same, and the risk of changes in foreign exchange rates were effectively hedged.

The contract amounts and unrealized gains or losses of outstanding derivative transactions at March 31, 2005 and 2004 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, apartments, and 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, 2005, 2004 and 2003 is summarized as follows:

	Millions of yen							
For 2005	Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Elimination and/or corporate	Consolidated
I Net sales and operating income:								
Net sales								
Customers	¥ 219,386	¥224,191	¥122,297	¥42,953	¥ 7,288	¥ 616,115	¥ —	¥ 616,115
Intersegment	1,848	—	5,091	492	4,296	11,727	(11,727)	—
Total	221,234	224,191	127,388	43,445	11,584	627,842	(11,727)	616,115
Costs and expenses	165,366	191,836	118,958	29,956	10,141	516,257	(433)	515,824
Operating income	¥ 55,868	¥ 32,355	¥ 8,430	¥13,489	¥ 1,443	¥ 111,585	¥(11,294)	¥ 100,291
II Identifiable assets, depreciation expense and capital expenditures:								
Identifiable assets	¥1,538,469	¥293,260	¥ 17,755	¥ 7,935	¥48,473	¥1,905,892	¥230,437	¥2,136,329
Depreciation expense	13,058	111	120	275	81	13,645	374	14,019
Capital expenditures	111,577	262	296	329	111	112,575	898	113,473

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

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

For 2005	Thousands of U.S. dollars Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Elimination and/or corporate	Consolidated
I Net sales and operating income:								
Net sales								
Customers	$ 2,044,223	$2,088,996	$1,139,554	$400,233	$ 67,909	$ 5,740,915	$ —	$ 5,740,915
Intersegment	17,219	—	47,438	4,584	40,030	109,271	(109,271)	—
Total	2,061,442	2,088,996	1,186,992	404,817	107,939	5,850,186	(109,271)	5,740,915
Costs and expenses	1,540,868	1,787,514	1,108,442	279,128	94,493	4,810,445	(4,034)	4,806,411
Operating income	$ 520,574	$ 301,482	$ 78,550	$125,689	$ 13,446	$ 1,039,741	$ (105,237)	$ 934,504
II Identifiable assets, depreciation expense and capital expenditures:								
Identifiable assets	$14,335,343	$2,732,575	$ 165,440	$ 73,938	$451,668	$17,758,964	$2,147,195	$19,906,159
Depreciation expense	121,674	1,034	1,118	2,562	755	127,143	3,485	130,628
Capital expenditures	1,039,667	2,441	2,758	3,066	1,034	1,048,966	8,367	1,057,333

Distributions from SPCs and partnerships that operate real estate leasing business are included in net sales of the "Leasing business".

The Company classified expenses and assets of the general administrative division in certain consolidated subsidiaries to unallocatable operating expenses and corporate assets in the segment information for the year ended March 31, 2005.

Under a new management policy, the Company compares the contribution levels of the business operations between each segment more promptly, clearly, and easily.

As a result, for the year ended March 31, 2004, unallocated expenses increased by ¥2,487 million, corporate assets increased by ¥10,818 million, depreciation expense increased by ¥22 million and corporate capital expenditures increased by ¥55 million for the "Elimination and/or Corporate" section compared with what would have been recorded under the classification policy at March 31, 2005.

18. Contingent liabilities

At March 31, 2005, the Company and its consolidated subsidiaries were contingently liable as guarantors of borrowings by customers and others in an amount aggregating to ¥937 million ($8,731 thousand).

Also, at March 31, 2005, the Company and its consolidated subsidiaries had outstanding commitments to guarantee loans of customers and others amounting to ¥9 million ($84 thousand).

(Lawsuits)

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

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 the 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 previous legal interpretations.

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

In Case A, the Tokyo Higher Court issued a judgment against the Company in January of 2000 that the Company believed was contradictory to previous legal interpretations. The Company appealed to the Supreme Court in January of 2000.

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

19. Subsequent events

The Company issued ¥30,000 million ($279,538 thousand) in 1.28% domestic straight bonds due 2012 on April 25, 2005.

On June 29, 2005, the shareholders of the Company approved payments of a year-end cash dividend of ¥9 ($0.08) per share or a total of ¥4,278 million ($39,860 thousand) to shareholders of record at March 31, 2005.

At June 17, 2005, the Board of Directors resolved the sale of 60% ownership of the Shinjuku Sumitomo Building (the "Building"). The summary of the sale is as follows.

(1) The reason of the sale:

In March 2000, the Company placed the Building in trust to Sumitomo Trust & Banking Co., Ltd. and sold the primary beneficiary right that had a priority to receive earnings to Prime Quest Co., Ltd. ("PQ1"). The Company retained the secondary beneficiary right to receive the remainder after distributions to the first beneficiary.

After reacquiring the first beneficiary right, the Company will dispose of the Building because the corporate bond that PQ1 issued with the first beneficiary right as an underlying security asset will reach its maturity date.

After selling the Building, the Company will continue the lease business under a master lease agreement.

(2) The property for sale:

Name of property: Shinjuku Sumitomo Building (60% ownership)
Sales price: ¥90 billion ($839 million)
Cost of sales: ¥74.8 billion ($697 million)

(3) Party of sale:

Corporate name: Prime Quest Three Co., Ltd.
Address of head office: Chiyoda-ku, Tokyo, Japan

(4) Schedule of sale:

Date of contract: June 17, 2005
Delivery date: June 30, 2005

(5) Effect on income:

The Company expects to recognize a gain on sale of fixed assets of approximately ¥15 billion ($140 million) in the next fiscal year.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Sumitomo Realty & Development Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2005, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Realty & Development Co., Ltd. and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
(1) As discussed in Note 17 to the consolidated financial statements, effective April 1, 2004, Sumitomo Realty & Development Co., Ltd. changed the allocation method of common corporate expenses and corporate assets.
(2) As discussed in Note 19 to the consolidated financial statements, Sumitomo Realty & Development Co., Ltd. resolved the sale of the Shinjuku Sumitomo Building in the Board of Directors meeting on June 17, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 30, 2005

KPMG AZSA & Co., an audit corporation incorporated
under the Japanese Certified Public Accountants Law,
is the Japan member firm of KPMG International,
a Swiss cooperative.

Board of Directors and Auditors

(As of June 29, 2005)

Chairman of the Board
Shinichiro Takagi*

President & Chief Executive Officer
Junji Takashima*

Director & Advisor
Taro Ando*

Directors & Senior Managing Executive Officers
Tetsuro Tsuruta*
Masayoshi Ohashi*
Kenichi Onodera*
Kenichiro Sugimoto
Kazuo Masuoka

Senior Managing Executive Officer
Yoshifumi Nakamura

Senior Executive Officers
Shozo Suzuki
Haruo Fukumuro
Kenichi Kameyama
Tsutomu Oyama
Hiroyuki Asano

Executive Officers
Takahiro Daisaka
Akira Murakami
Yoshiteru Nishimoto
Naoyoshi Matsugami
Takashi Saito
Masayuki Takahashi
Masaki Ogawa
Yoshiya Unno
Yoshinobu Sakamoto
Nobuaki Takemura
Koji Ito
Toshikazu Tanaka
Masato Kobayashi
Kojun Nishima
Yoshiyuki Odai
Hisatoshi Katayama
Masumi Aoki

Statutory Auditor
Shinsaku Sanmoto

Standing Statutory Auditors
Ryoichi Nomura
Chuji Kitamura
Kunio Kobayashi

* Representative Director

Corporate Data

(As of March 31, 2005)

Head Office
Shinjuku NS Building
4-1, Nishi-Shinjuku 2-chome
Shinjuku-ku, Tokyo 163-0820, Japan
Phone: +81-3-3346-2342
Facsimile: +81-3-3346-1652

Corporate Website
http://www.sumitomo-rd.co.jp/

Date of Establishment
December 1, 1949

Number of Employees
7,246 (Consolidated)

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.
Universal Home Inc.

Investor Information

(As of March 31, 2005)

Paid-in Capital
¥122,805 million

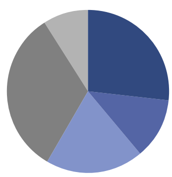
Number of Common Stock
Authorized: 780,000,000
Issued: 476,085,978

Number of Shareholders
24,584

Stock Exchange Listings
Tokyo Stock Exchange
Osaka Securities Exchange

Breakdown of Shareholders

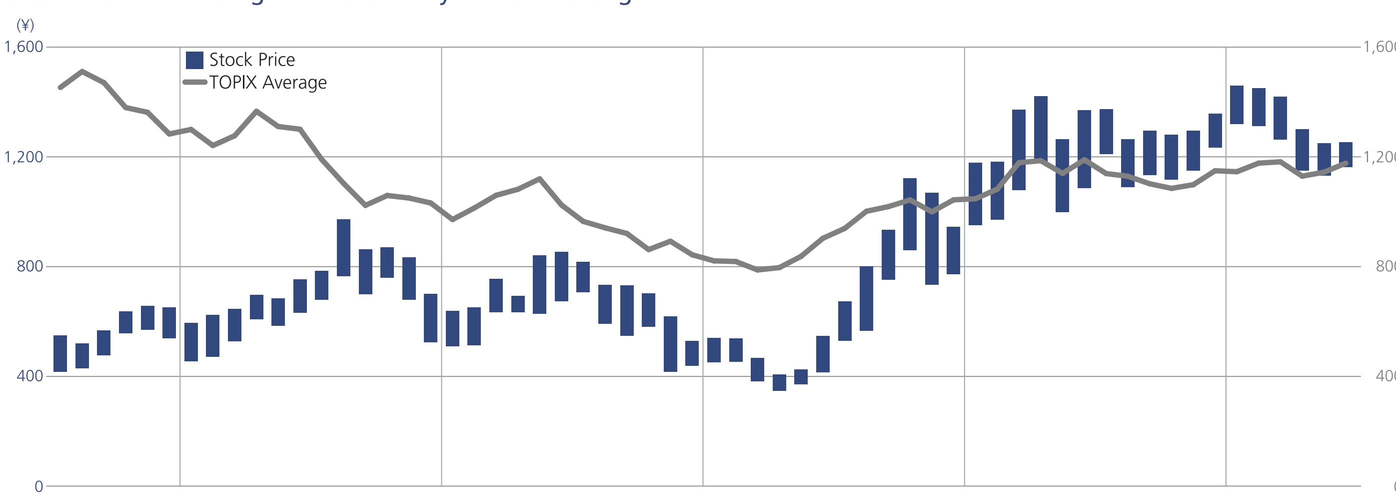
Trust Accounts	26.78%
Financial Institutions	12.10%
Other Companies	19.50%
Foreign Companies	32.60%
Individuals and Others	9.02%

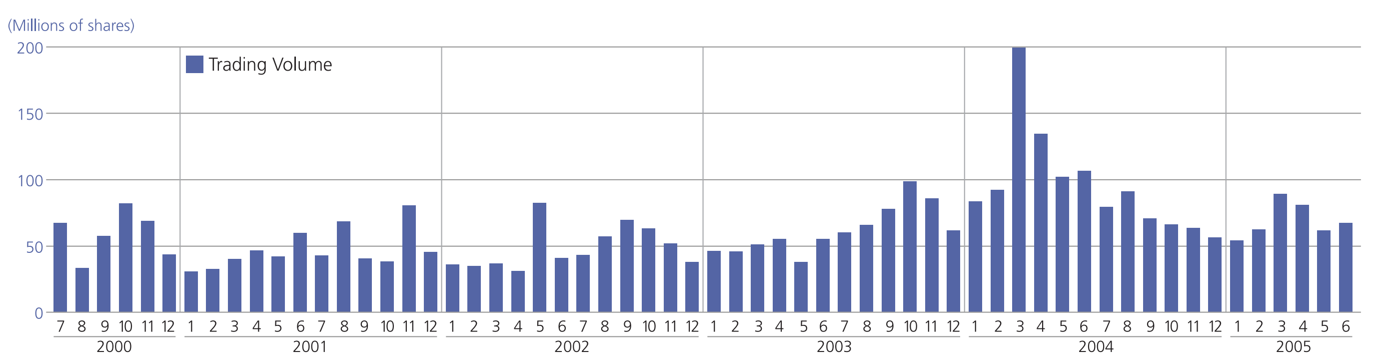


Major Shareholders

	Number of shares held (Thousands)	Percentage of shares held
Japan Trustee Services Bank, Ltd. (Trust account)	43,499	9.14%
The Master Trust Bank of Japan, Ltd. (Trust account)	35,368	7.43
Sumitomo Mitsui Banking Corporation	11,990	2.52
Aozora Bank, Ltd.	9,662	2.03
Kajima Corporation	7,912	1.66
The Sumitomo Trust & Banking Co., Ltd. (Trust account B)	7,860	1.65
State Street Bank and Trust Company	6,924	1.45
Mitsui Sumitomo Insurance Co., Ltd.	6,740	1.42
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account	6,364	1.34
Trust & Custody Services Bank, Ltd. (Trust account B)	6,339	1.33

Stock Price and Trading Volume on Tokyo Stock Exchange





Sumitomo Realty & Development Co., Ltd.

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