Sumitomo Realty & Development Co., Ltd.

ANNUAL REPORT 2006

Positioned for Sustainable Growth

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

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

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]
	2006	2005	2004	**2006**
For the Year				
Revenue from Operations	**¥646,525**	¥616,115	¥573,862	**$5,503,277**
Operating Income	**112,023**	100,291	95,977	**953,549**
Ordinary Profit*	**87,038**	74,393	65,976	**740,875**
Net Income	**32,506**	15,548	6,320	**276,694**
At Year-End				
Total Assets	**¥2,460,080**	¥2,136,329	¥2,090,970	**$20,940,415**
Shareholders' Equity	**375,656**	320,098	303,875	**3,197,616**
Interest-Bearing Debt	**1,267,032**	1,038,389	1,048,629	**10,785,087**
Per Share Data (Yen and Dollars)				
Net Income	**¥ 68.33**	¥ 32.64	¥ 15.34	**$0.58**
Shareholders' Equity	**790.74**	673.40	639.01	**6.73**
Cash Dividend Applicable to the Year	**10.00**	9.00	9.00	**0.09**
Key Ratios (Times)				
ND/OP Ratio[2]	**10.1**	9.2	9.4	
ND/E Ratio[3]	**3.1**	2.9	3.0	

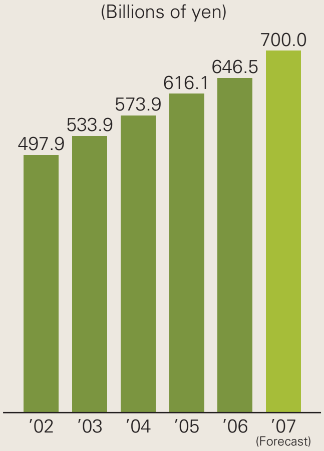
Notes: 1. U.S. dollar amounts in this report are translated, for convenience only, at the rate of ¥117.48=US$1, the approximate exchange rate as of March 31, 2006.

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

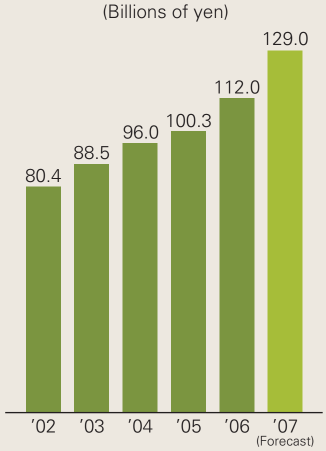
Revenue from Operations

(Billions of yen)



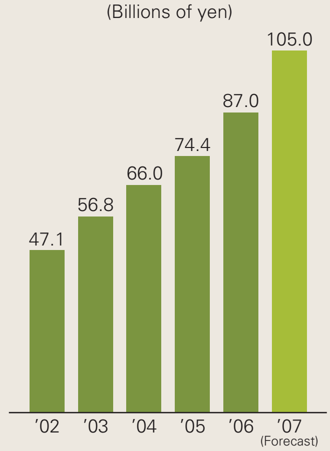
Operating Income

(Billions of yen)



Ordinary Profit*

(Billions of yen)



Net Income

(Billions of yen)

* Please refer to the note on page 5.

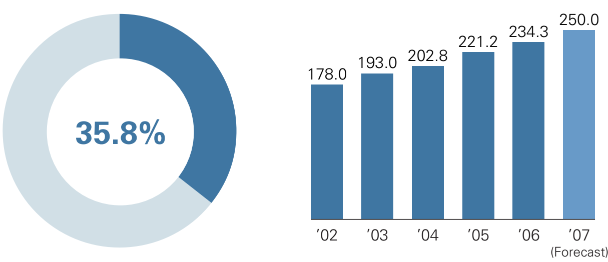
AT A GLANCE

Leasing

Office building, condominium, and other property leasing and management and related activities

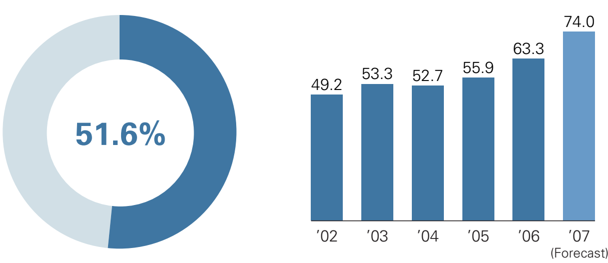
REVENUE FROM OPERATIONS

(Billions of yen)



OPERATING INCOME

(Billions of yen)



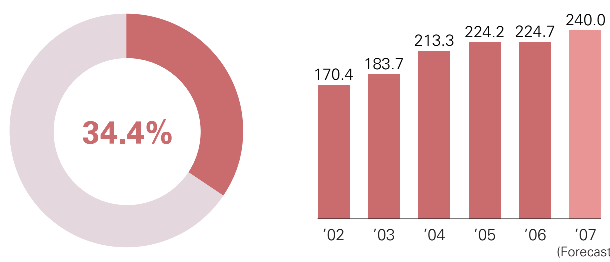
Within the leasing business, the Urban Property Management Division is responsible for the leasing of office buildings and luxury condominiums. Also, the division conducts leasing operations that utilize special purpose companies (SPCs). The Urban Property Development Division handles the acquisition 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

Mid- and high-rise condominium, detached house, and housing lot development and sales and related activities

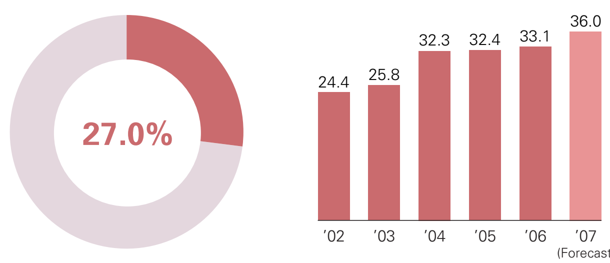
REVENUE FROM OPERATIONS

(Billions of yen)



OPERATING INCOME

(Billions of yen)

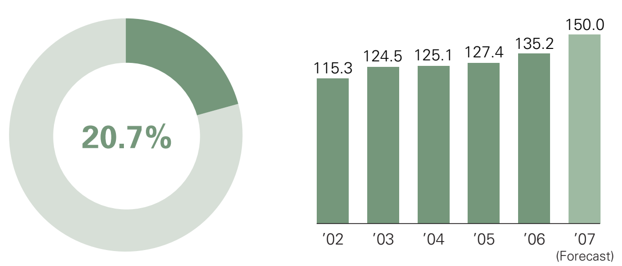


The Urban Property Development Division is responsible for the development and sale of condominiums, office buildings for sale, detached houses, and housing lots and related activities. It is also engaged in sales activities with Sumitomo Real Estate Sales Co., Ltd., while the management of condominiums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

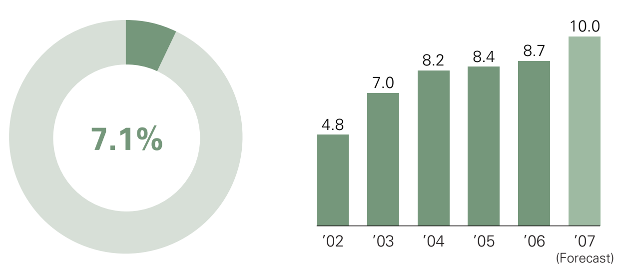
Construction

Detached house construction and remodeling and related activities

REVENUE FROM OPERATIONS (Billions of yen)



OPERATING INCOME (Billions of yen)

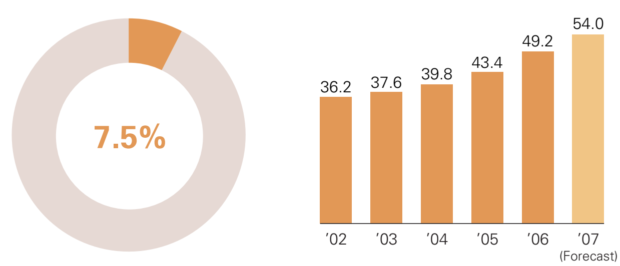


Sumitomo Realty's Housing Business Division works on the Company's full remodeling package Shinchiku Sokkurisan and the construction of new detached houses using two-by-four construction methods. Sumitomo Fudosan Syscon Co., Ltd., is engaged in house renovations. Sumitomo Fudosan Tatemono Service Co.,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

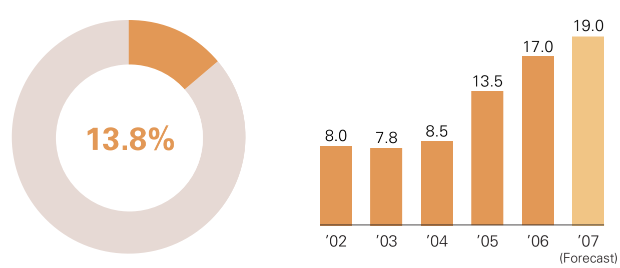
Brokerage

Brokerage and sales on consignment of real estate and related activities

REVENUE FROM OPERATIONS (Billions of yen)



OPERATING INCOME (Billions of yen)



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 THE PRESIDENT

Junji Takashima
President

TARGETING SUSTAINABLE GROWTH

Under the Four-Year Business Reconstruction Plan, which started in April 1997, Sumitomo Realty successfully dealt with the effects of the bursting of Japan's economic bubble. Under the two successive plans, the New Three-Year Growth Plan and the Top Gear Growth Three-Year Plan, we have made steady progress and have continued to record a high rate of growth. We are currently implementing the Top Gear Growth Three-Year Plan, which covers the period from April 2004 to March 2007. We surpassed the original target for ordinary profit* of ¥85.0 billion in the year under review, one year ahead of schedule, and as a result we raised the target for ordinary profit in the final year of the plan, ending March 2007, to ¥105.0 billion. Accordingly, in fiscal 2007, our major challenges are exceeding our goals by substantial margins and formulating the next three-year management plan, under which we will strive to further strengthen our foundation for sustainable growth to make it less susceptible to fluctuations in the operating environment.

RESULTS IN FISCAL 2006 AND FORECASTS FOR THE FUTURE

In fiscal 2006, the second year of the Top Gear Growth Three-Year Plan, Sumitomo Realty recorded a 4.9% increase in revenue from operations, to ¥646.5 billion, an 11.7% gain in operating income, to ¥112.0 billion, and a 17.0% rise in ordinary profit*, to ¥87.0 billion. Net income rose 109.1%, to ¥32.5 billion, the first new record high in four years. In consideration of this performance, we raised the annual per-share cash dividends 11.1%, to ¥10.00, an increase of ¥1.00.

As shown in the following table, in fiscal 2007, the final year of the plan, we expect to surpass all of the initial objectives set when the plan was formulated in November 2003. By successfully following up the previous two plans with the Top Gear Growth Three-Year Plan, we will achieve 10 consecutive years of higher revenue, operating income, and ordinary profit and 7 consecutive years of record-high ordinary profit.

(Millions of yen) Fiscal Year	2004 (Actual)	2005 (Actual)	2006 (Actual)	2007 (Forecast)	2007 (Planned)
Revenue from operations	573,862	616,115	646,525	700,000	700,000
Operating income	95,977	100,291	112,023	129,000	115,000
Ordinary profit*	65,976	74,393	87,038	105,000	85,000

OUR NEXT THREE-YEAR PLAN

Even as we are in the process of successfully completing the Top Gear Growth Three-Year Plan, we are working to formulate our next three-year management plan. In leasing and sales, which are capital-intensive businesses that account for about 70% of our revenue, several years are required from the point when a site is acquired until the building is completed and begins to generate revenue. Our ability to record sustainable growth under the next three-year management plan will depend upon our acquisition of prime sites, and we have already acquired nearly all of the sites that will be needed for our implementation of the plan. Due to the economic recovery and rising land prices, competition in site acquisition is intensifying, but we will work to achieve growth under the next plan by focusing the Group's comprehensive strengths on securing additional prime sites.

OUTLOOK FOR OUR OPERATING ENVIRONMENT

In the period covered by the next three-year management plan, a number of factors will support improvement in the office building market. As older buildings lose commercial attractiveness, replacement demand will increase, and, as the economic recovery continues, companies will need additional office space. In addition, the real estate industry was slow to predict the market recovery, and as a result the supply of new buildings will be short for some time.

In the condominium market, prices will have to be adjusted to reflect higher land prices and construction costs. We anticipate continued strong demand from first-time buyers, centered on the children of the baby boom generation, and from second-time buyers, centered on senior citizens living in detached houses. However, if higher prices adversely affect sales, it is possible that the current condominium boom, which is said to be the longest in domestic history, will cool off. The management of this situation will require careful attention.

In the detached house market, construction might be weak due to a decline in first-time buyers accompanying the boom in condominium sales. On the other hand, our Shinchiku Sokkurisan remodeling business is expected to continue to benefit from favorable demand stemming from the aging of large numbers of houses that were built in the 1970s, a period of active detached house construction.

In brokerage, the rise in prices of new condominiums has led to an increase in the number of transactions in existing units, and we expect prices to continue to increase. As a result, higher profits are expected due to growth in commissions per transaction.

On the other hand, in financial markets, there is growing concern that long-term interest rates, currently at record low levels, might turn upward. In response, the Company is taking advantage of the improved credit rating that it received as a result of its improved performance and financial position. That improved rating has mitigated our fund-raising costs, and we will continue aggressively working to minimize the effect of future interest rate rises by implementing an ongoing shift toward long-term, fixed-rate interest-bearing debt.

There are risks, such as trends in the condominium market and in interest rates, but our operating environment is favorable overall. In the coming months, we will carefully and comprehensively evaluate market trends and formulate our next three-year management plan to help us realize sustainable growth.

We are eager to face the challenges that lie ahead, and we would like to ask for your continued support as we continue working to achieve sustainable growth.

June 2006

J. Takashima

Junji Takashima President

* Ordinary profit, which equals operating income after adjustment for non-operating gains/losses, is a management index that is widely used in Japan. Due to differences in accounting standards, ordinary profit is not broken out in the Company's English-language financial statements, but it is included here because it plays an important role in the calculation of incentive payments for directors.

Medium-Term **Management Plans**

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, and we are further enhancing that growth potential with our current plan.

STEADY RESULTS WITH PREVIOUS PLANS

Under the Four-Year Business Reconstruction Plan, which started in April 1997, we regained profitability with a record-setting performance, reduced interest-bearing debt, and disposed of non-performing assets. Revenue from operations reached ¥459.2 billion.

The New Three-Year Growth Plan began in April 2001. Under this plan, we registered seven consecutive years of higher revenue and profit, commenced new real estate investment, and achieved rapid growth in our condominium sales business. Substantial contributions to improving our financial position were made by continued reductions in interest-bearing debt, advance measures in preparation for the introduction of impairment accounting, and an increase in capital through a public offering. Revenue from operations reached ¥573.9 billion.

ON COURSE WITH THE TOP GEAR GROWTH THREE-YEAR PLAN

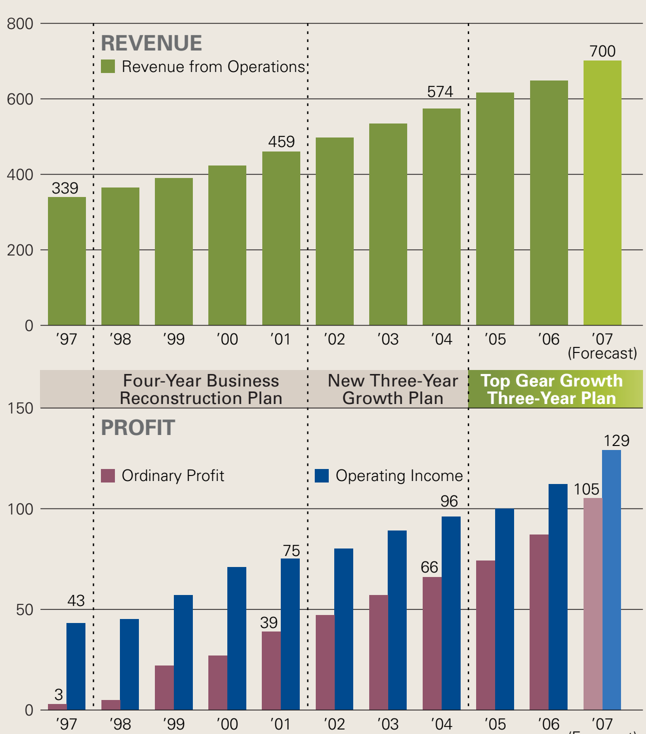
To achieve further growth, we formulated the Top Gear Growth Three-Year Plan in November 2003 and began to implement it in April 2004. Under this plan, we are continuing to follow an aggressive course of expansion.

With market interest rates stable at a generally low level, and a rapid recovery in conditions in the office building market, we expect to exceed the initial objectives of the current management plan.

Under this plan, we adopted mandatory impairment accounting and completed the handling of non-performing assets and unrecognized losses. Now, we have reached the stage of EPS growth. Furthermore, as a result of the capital increase implemented under the previous plan, we have been better able to conduct upfront investment in the acquisition of sites for condominiums and office buildings, key resources for our future growth. Accordingly, under the current plan, we are reinforcing our development pipeline. In the future, by further increasing the percentage of prime properties in our office building portfolio, we will advance our "build-and-scrap" strategy and foster continued growth under the next management plan.

For fiscal 2007, the final year of the current plan, we expect to surpass the plan's goals for revenue from operations, operating income, and ordinary profit, achieving our 10th consecutive year of higher revenue and profit and our 7th consecutive year of record-high ordinary profit.

Medium-Term Management Plans (Billions of yen)



Successful Implementation of Medium-Term Management Plans

Four-Year Business Reconstruction Plan
(April 1997 to March 2001)

- Recovered profitability with record-setting performance
- Developed idle properties into cash-generating properties
- Reduced interest-bearing debt through securitization, SURF, etc.
- Disposed of non-performing assets

New Three-Year Growth Plan
(April 2001 to March 2004)

- Recorded 7 consecutive years of higher revenue and profit—Planned to double profits
- Commenced new real estate investment using SPCs
- Prepared for introduction of impairment accounting
- Continued to reduce interest-bearing debt and implemented capital increase

Top Gear Growth Three-Year Plan
(April 2004 to March 2007)

- Achieved sustained growth—10 consecutive years of higher revenue and profit
- On course to surpass the plan's objectives

Balanced **Portfolio**

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.

CHARACTERISTICS OF OUR FOUR OPERATIONAL FIELDS

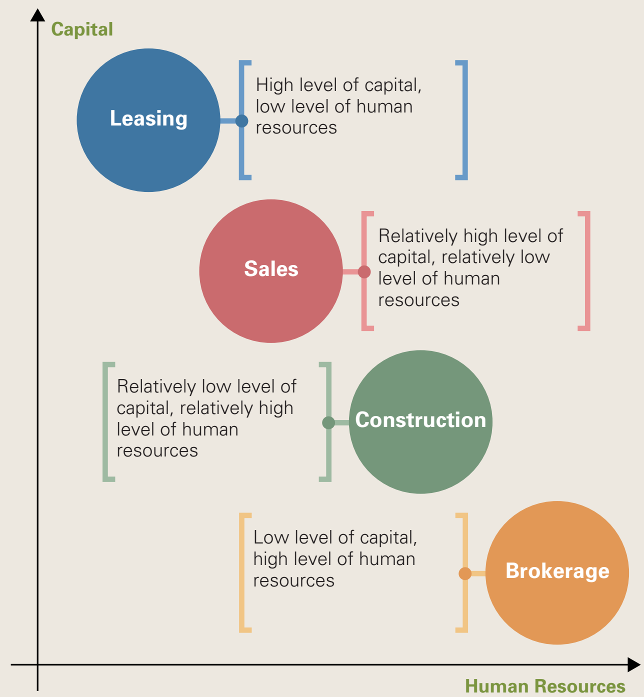
Leasing and sales are our traditional main fields of business. These are capital-intensive fields; returns and risk are both high and substantial upfront investment is required, but the level of human resources is relatively low. In leasing, the period from the initial investment to the generation of revenue—the operational cycle—is long, but once a building is opened for occupancy it provides a stable, sustained source of revenue. The sales business, however, is characterized by a shorter operational cycle with volatile market conditions. Nonetheless, revenue and profit are both relatively high.

Our house construction operations and brokerage operations are order-based businesses with low capital requirements and no sales risk but substantial human resources requirements. These operations have been developed more recently. In house construction, the operational cycle is short, about six months to a year, but product development capabilities are very important. Brokerage operations have the shortest operational cycle of our fields of business but require strong, highly competitve service networks.

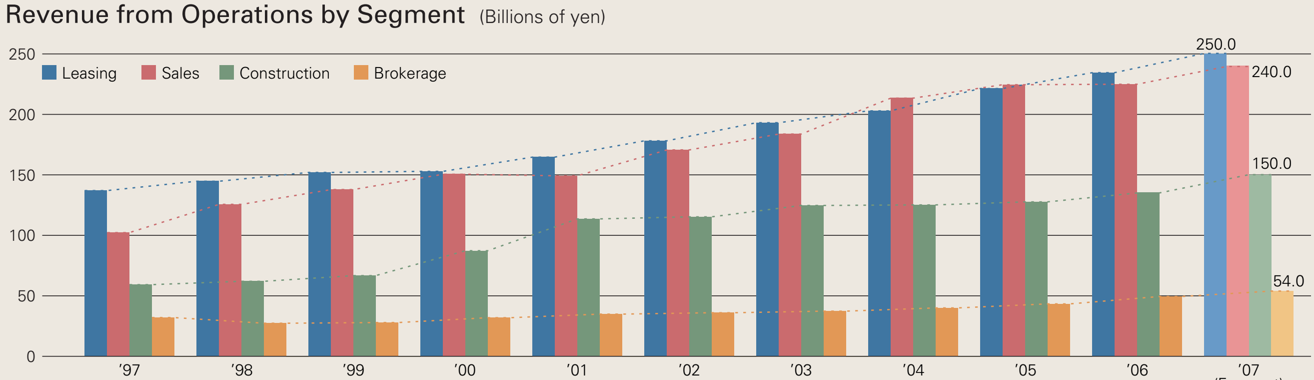
TAKING STEPS TO MAINTAIN WELL-BALANCED OPERATIONS

As described above, Sumitomo Realty's four operational fields have complementary operational cycles and market characteristics, and in the past the adverse effects of changing market conditions on a particular field have generally been offset by favorable performances in others. As a result, the Company has been able to continue to record increases in revenue and profit. In the future, our basic strategy will entail taking steps to maintain well-balanced growth in our operational portfolio. Moreover, to further reinforce our growth prospects, we will endeavor to develop a strong market presence in a fifth core field of operations, and we are currently searching for the field that would best complement our existing operations.

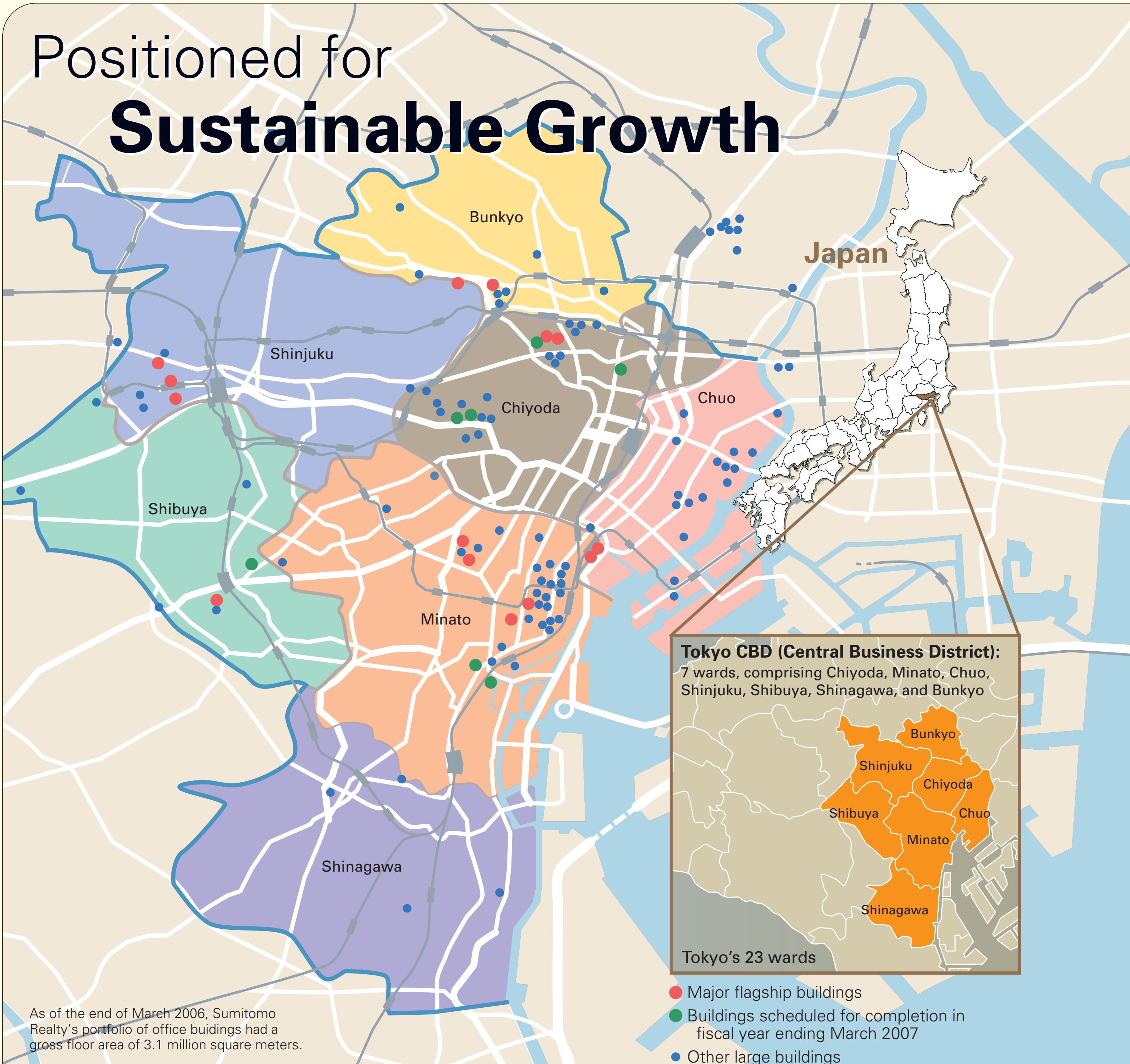
Sumitomo Realty's Balanced Portfolio



Revenue from Operations by Segment (Billions of yen)



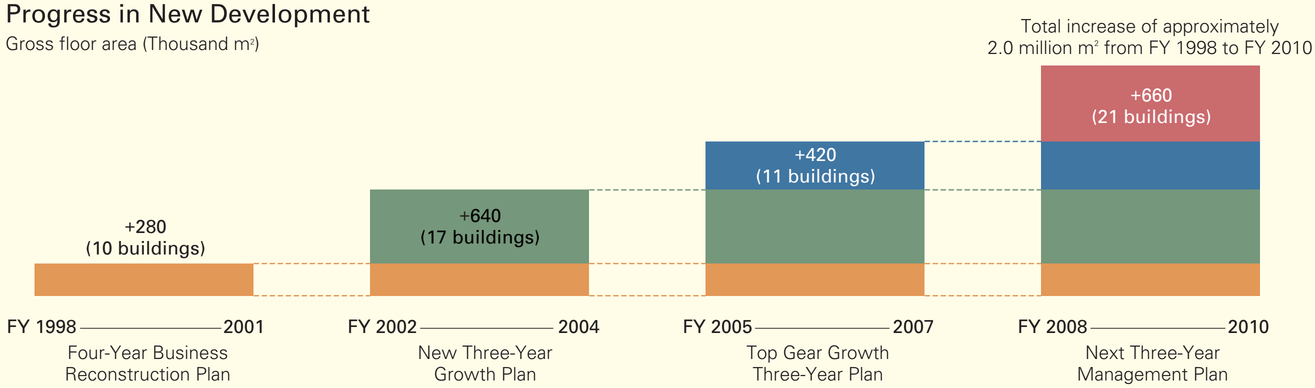
Positioned for **Sustainable Growth**



As of the end of March 2006, Sumitomo Realty's portfolio of office buidings had a gross floor area of 3.1 million square meters.

Progress in New Development

Gross floor area (Thousand m²)



GROWTH DRIVERS

Since 1997, Sumitomo Realty has recorded a high rate of growth as it worked to implement three successive medium-term management plans. While centered on leasing and sales, our growth is well balanced and extends to all of our fields of business. Looking ahead, office leasing, which features high demand and stable revenues, will drive our future growth.

DEVELOPMENT PIPELINE

In leasing operations, several years are required to move from the acquisition of a site to the completion of a building. In implementing the current medium-term management plan, we have concentrated on aggressive site acquisition in prime sections of central Tokyo, where competition for site acquisition is intensifying. As a result, over the next several years our portfolio of office buildings will be further enhanced as a number of new prime properties are opened for occupancy.

In the fiscal year ending March 2007, we will complete seven office buildings with a gross floor area of about 200,000 square meters. Each of these buildings is located on a prime site in Tokyo's central business district, where demand for office buildings is high. In a reflection of positive market trends, we are making rapid progress in securing tenants under terms that are more favorable than we initially planned.

For future years, we have already made firm plans to build and open new office buildings in Tokyo's central business district with gross floor area of about 1 million square meters, which is about 30% of the gross floor area of our current portfolio. (Please see accompanying table.)

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; they are close to stations and business areas, are new and feature modern amenities, and offer large areas on each floor. These prime properties generate high levels of revenues, while it remains difficult to find tenants for buildings that are far from stations, old, or small.

CLOSE—LOCATIONS NEAR THE CENTRAL BUSINESS DISTRICT

To be a prime property, a building must be in the central business district and near a major station. In the Tokyo central business district, where many of Japan's leading companies have their offices, this is an even more important factor. Large, recently constructed buildings in good locations are in short supply, which has been a key element in our land acquisition efforts.

Sumitomo Fudosan Kanda Building

NEW—BRAND-NEW AND RECENTLY CONSTRUCTED BUILDINGS

The strong demand for recently constructed buildings is a result of tenant needs for the following features:

1. Reinforced floors, high-capacity electrical systems, and uninterruptible power supplies to accommodate large computer servers

OFFICE BUILDING DEVELOPMENT PROJECTS* (Fiscal Years 2007 to 2009)

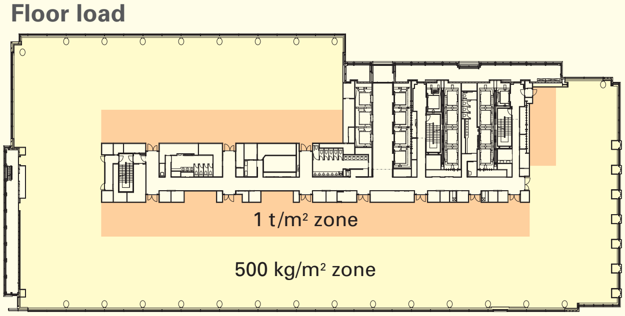
Project	Location (Tokyo)	Gross Floor Area (m^2)	Expected Completion
Kojimachi Building No. 4 (SPC)	Chiyoda Ward	4,000	Apr. 06
Kanda Building (SPC)	Chiyoda Ward	29,000	June 06
Kudan Building (SPC)	Chiyoda Ward	18,000	June 06
Kojimachi Building No. 3	Chiyoda Ward	4,000	June 06
Aoyama-Street Building	Shibuya Ward	9,600	July 06
Mita Twin Building East (SPC)	Minato Ward	34,700	Aug. 06
Mita Twin Building West (SPC)	Minato Ward	99,200	Sept. 06
Total (FY 2007)	**7 Buildings**	**198,500**	
Jingumae Project (SPC)	Shibuya Ward	18,900	June 07
Nihonbashi-Horidomecho Project	Chuo Ward	5,100	July 07
Yotsuya-Arakicho Project (SPC)	Shinjuku Ward	14,500	Oct. 07
Nishi-Kanda 3-chome South Project (SPC)	Chiyoda Ward	13,200	Oct. 07
Total (FY 2008)	**4 Buildings**	**51,700**	
Roppongi 7-chome Project (SPC)	Minato Ward	13,000	Apr. 08
Nishi-Shinjuku 4-chome Project (SPC)	Shinjuku Ward	21,200	May 08
Iidabashi 3-chome Project (SPC)	Chiyoda Ward	15,200	May 08
Kanda-Surugadai Project	Chiyoda Ward	14,500	Aug. 08
Akihabara Project (SPC)	Chiyoda Ward	29,200	Feb. 09
Ginza 8-chome Project (SPC)	Chuo Ward	47,000	Mar. 09
Nishi-Shinjuku 7-chome Project	Shinjuku Ward	41,200	Mar. 09
Total (FY 2009)	**7 Buildings**	**181,300**	

* Table includes only certain projects.

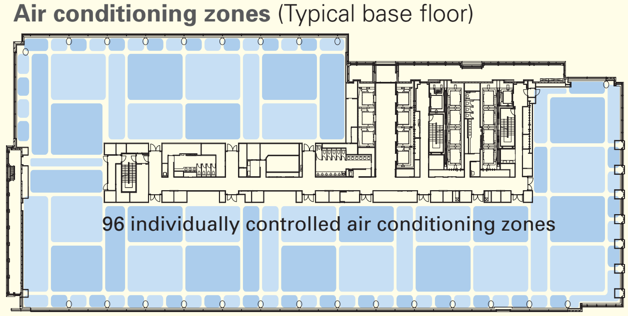
Positioned for **Sustainable Growth**

The Mita Twin Building West, which is scheduled for completion in September 2006, will have a base floor of 3,238 square meters.

Floor load



Air conditioning zones (Typical base floor)



The Mita Twin Building West will have a floor load of 500 kg/m² (1 ton/m² in the heavy duty zone) (left). It will also offer completely separated climate control zones, with 96 separate zones in which temperature can be individually controlled (right). As shown in the table on page 11, these features are found in buildings completed in 1997 and thereafter.

2. Separate climate control systems for each suite and high ceilings
3. Advanced earthquake countermeasures, such as vibration damping and earthquake-resistant construction
4. Advanced security systems

LARGE—LARGE-SCALE BUILDINGS

Buildings that can accommodate multiple units on a single floor enable tenant companies to increase the efficiency of their operations, and in recent years there has been a trend for companies to consolidate their offices. As a result, demand for large-scale buildings continues to increase.

SUMITOMO REALTY'S PORTFOLIO

As of the end of March 2006, our portfolio of office buildings had a gross floor area of 3.1 million square meters and an average age of 13 years, the lowest among Japan's major real estate companies. Of these buildings, 92% were located in the 23 wards of Tokyo, with 83% in Tokyo's central business district. Furthermore, 80% of the portfolio is made up of large-scale buildings of more than 10,000 square meters of gross floor area, and more than 90% of the buildings meet or exceed earthquake-resistance standards that took effect in 1981 and are a key yardstick for earthquake safety.

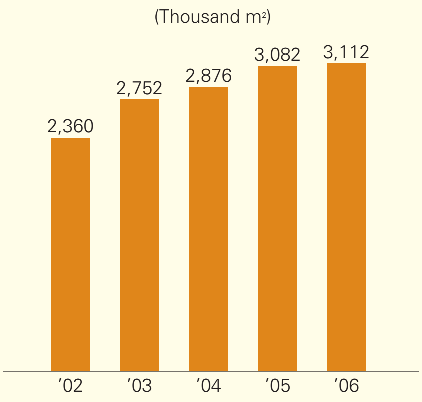
Moreover, more than 40% of our buildings have been completed since 1997, when we took the lead in the application of new building design concepts. These high-quality buildings offer leading-edge earthquake-resistant structures, separate climate control systems for each suite, reinforced floors for heavy loads, high-capacity electrical systems, high ceilings, and other attractive features, and they are the focus of strong demand from many tenants.

COMPETITIVE GROWTH FOUNDATION

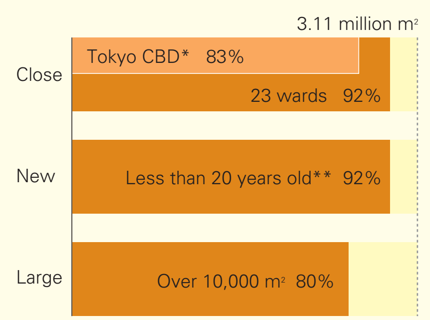
As we open new buildings over the next several years, prime properties will account for an even higher percentage of our portfolio. To respond to the structural change in market demand toward prime properties and away from buildings that are older, smaller, or in less attractive locations, we invested aggressively in new building construction. Our policy is to follow a "build-and-scrap" strategy—under which we build new buildings and then sell buildings that are relatively less competitive—thereby further increasing the concentration of prime properties in our portfolio.

In the Tokyo central business district, where buildings that meet the three conditions for prime properties—close, new, and large—are in strong demand, our competitive portfolio will provide a strong foundation for us to utilize our strengths—development of high-value-added office buildings, tenant leasing, and property management. We will utilize that foundation to maximize the earnings potential of our office building operations and achieve sustainable growth in the years ahead.

Gross Floor Area



Leasing Portfolio



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

** 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.

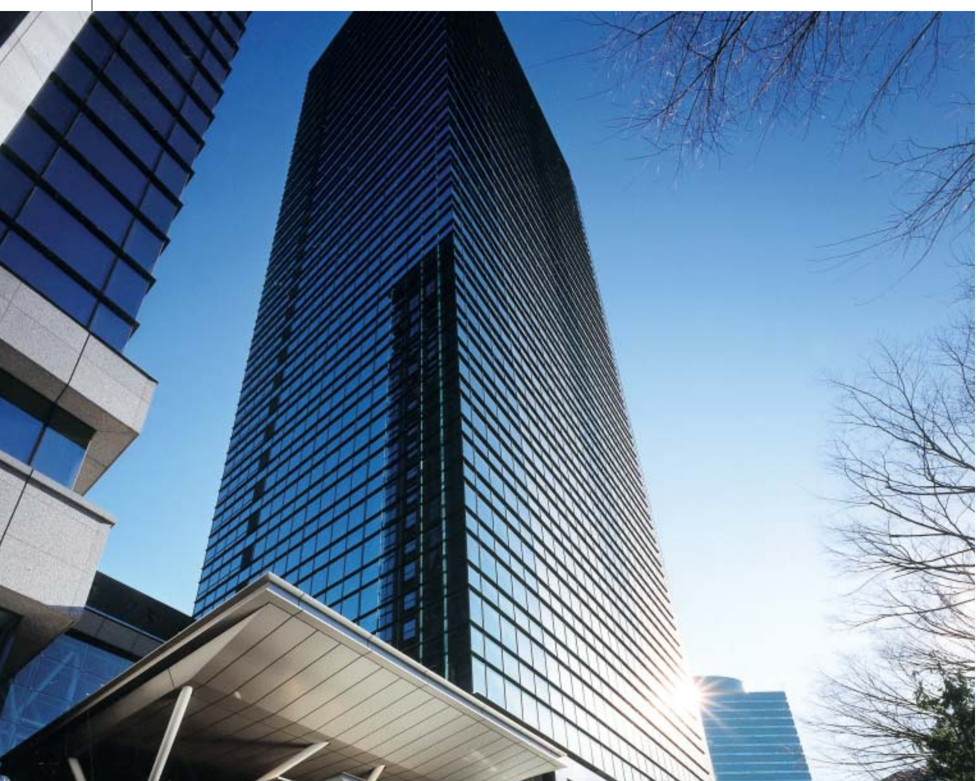
OFFICE BUILDING FEATURES

	Before 1981	1982–1996	1997 and after
Earthquake protection	Previous quake-resistant structure	New quake-resistant structure	Anti-sway structure
Ceiling height*	2.5 m	2.7 m	2.9–3.3 m
Floor load	300 kg/m²	300–500 kg/m²	500–1,000 kg/m²
Air conditioning	Central air conditioning system	Climate control zones	Separate climate control systems
Power capacity	45 VA/m²	60–70 VA/m²	85 VA/m² and over

* Includes raised floors

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.



Shinjuku Oak City

Izumi Garden Tower

Sumitomo Realty's Strengths

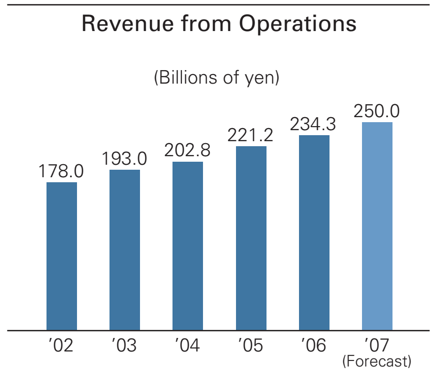
Sumitomo Realty made its full-scale entry into the leasing business in the latter half of the 1970s. In 1995, following the collapse of Japan's bubble economy, we were the first company in the industry to restart construction work on office buildings. We paid special attention to large-scale projects in urban areas, especially those areas legally designated for redevelopment, and we currently have about 200 buildings for lease. At the end of March 2006, the gross floor area of our portfolio was 3.1 million square meters. Buildings in the 23 wards of Tokyo accounted for 92.4% of the portfolio's gross floor area, or 2.9 million square meters. The advanced interior features of our buildings are complemented with distinctive exterior designs, including hotel-like entranceways and all-glass exteriors. Sumitomo Realty creates innovative buildings with strong market presences.

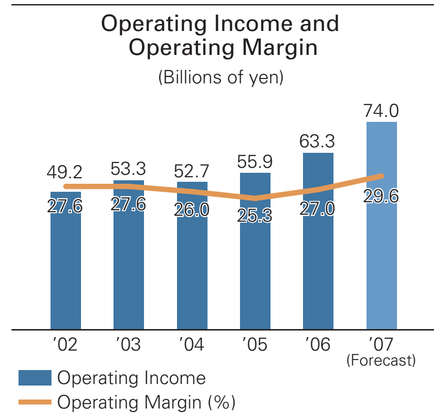
Overview of the Fiscal Year

In the Tokyo office building market, strong demand from tenants accompanying improved corporate performances has led to a tightening of the demand-supply balance for new buildings and a marked increase in rents. The vacancy rate for existing buildings continues to decline due to strong demand from companies seeking additional floor space, and actual rents have begun to increase. As a result of higher market rents, tenants are accepting increased rents when extending leases for prime buildings, and that trend has begun to spread to ordinary buildings as well.

In this setting, we recorded another year of substantial growth in revenue and profit in the leasing business. The vacancy rate in existing buildings

Sumitomo Fudosan Shin-Akasaka Building





improved, from 6.9% at the end of the previous fiscal year to 5.7% at the end of the year under review. In addition, certain buildings, such as the Shiodome Sumitomo Building and the Tokyo Shiodome Building, were open for the entire year under review, and the Sumitomo Fudosan Shin-Akasaka Building was opened for occupancy during the year. Revenue from operations rose 5.9%, to ¥234.3 billion. Operating income was up 13.3%, to ¥63.3 billion.

Outlook

In the fiscal year ending March 2007, in a reflection of strong corporate results, demand for office buildings is expected to remain firm and the market environment to remain on a favorable course. Moreover, in addition to improved vacancy rates and higher rents for our existing buildings, we plan to open seven new buildings during the year. As a result, we forecast continued growth in revenue and profit, with revenue from operations of ¥250.0 billion, an increase of 6.7%, and operating income of ¥74.0 billion, up 16.9%.

PRINCIPAL BUILDINGS

Name	No. of Floors (aboveground / underground)	Completion	Location (Tokyo CBD)	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 Building No. 3	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.

Tokyo Shiodome Building

Shibakoen First Building

Sales

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 Tower & Parks Denentoshi Mizonokuchi

World City Towers

City Tower Nishi-Umeda

Sumitomo Realty's Strengths

The Company's condominium operations are centered in the Tokyo metropolitan area and Japan's five other major urban areas—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 Fukushima. We develop and sell approximately 5,000 units a year.

For the past five 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 margin is at the top of the industry.

Market fluctuation risk is a critical factor in the condominium sales business. 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.

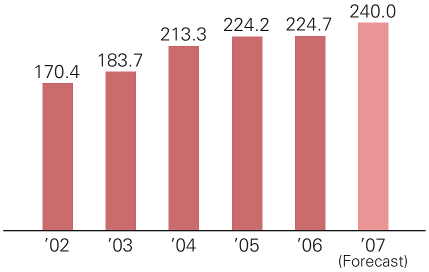
Overview of the Fiscal Year

In the condominium market, the supply in the Tokyo metropolitan area remained at a high level in the year under review, with more than 80,000 units sold for the seventh consecutive year. The sales environment remained favorable; demand was broad-based, including not only first-time buyers, principally the children of baby boomers, but also middle-aged customers, senior citizens, and double-income families.

We gave priority to smooth delivery for a large-scale condominium building opened in March 2006. Sales of some

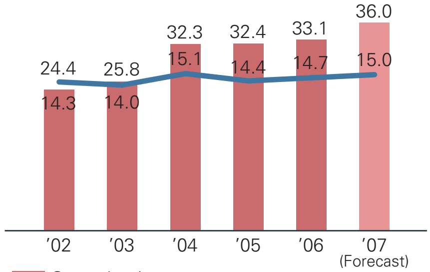
Revenue from Operations

(Billions of yen)



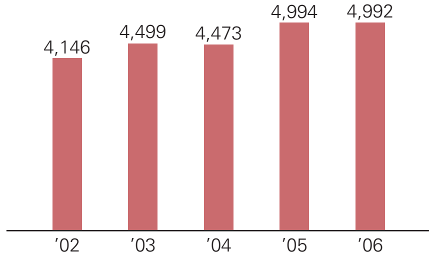
Operating Income and Operating Margin

(Billions of yen)



Units Delivered

(Units)



Note: Total of condominium units, detached houses, and land lots

units in this building will be recorded in the fiscal year ending March 2007. As a result, the total number of condominium units, detached houses, and land lots delivered in the year under review declined by 2 from the previous fiscal year, to 4,992. However, the operating margin improved from 14.4% in the previous year to 14.7% in the year under review, and we recorded the fifth consecutive year of higher revenue and profit. Revenue from operations rose 0.2%, to ¥224.7 billion, and operating income was up 2.4%, to ¥33.1 billion.

Although the number of condominium units sold declined by 369, to 4,860, the number of condominium units completed but not yet sold declined from 1,277 to 794 at the end of the fiscal year.

Outlook

In the fiscal year ending March 2007, we expect conditions in the condominium market to remain strong, with support from solid condominium purchase demand. We are forecasting the sale of a total of 5,300 condominium units, detached houses, and land lots, an increase of 308. Our objectives are revenue from operations of ¥240.0 billion, up 6.8%, and operating income of ¥36.0 billion, an increase of 8.7%, for the sixth consecutive year of higher revenue and profit. At the beginning of the fiscal year, we had already concluded sales contracts for 47% of the 5,200 condominium units and detached houses that we plan to sell in the fiscal year ending March 2007, compared with 48% a year earlier. We are working to achieve our objectives as rapidly as possible through further sales promotion initiatives.

Park Square Saitama-Shintoshin

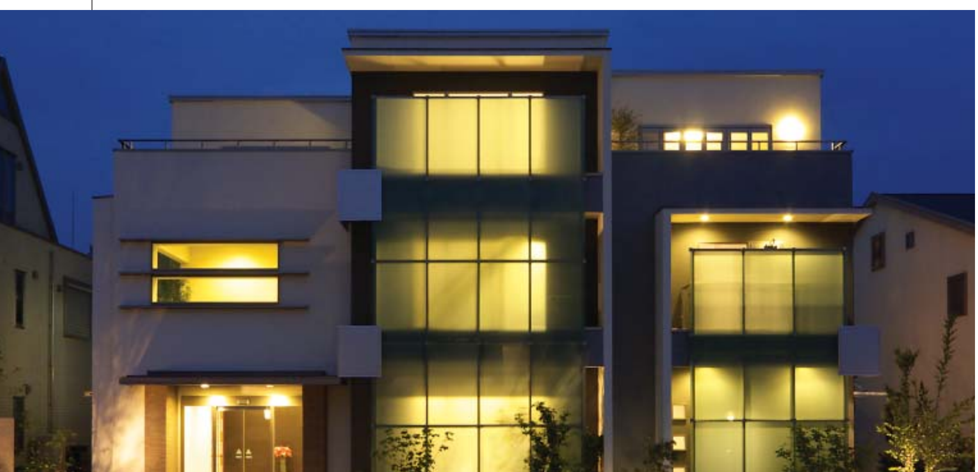
CONDOMINIUM DEVELOPMENT PROJECTS

Project	Location	No. of Units	No. of Floors	Scheduled Delivery
World City Towers (B, C)	Minato Ward, Tokyo	1,052	42	FY 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
Park Square Fujigaoka	Nagoya	270	15	FY 2007
Park Square Saitama-Shintoshin	Saitama	498	15	FY 2007 / 2008
City Tower Sendai-Tsutsujigaoka Twin Towers	Sendai	184	19	FY 2007 / 2008
City Tower Sapporo-Odori	Sapporo	182	41	FY 2008
Mejiro-Takada Project	Toshima Ward, Tokyo	About 300	–	FY 2008
Sangenjaya Project	Setagaya Ward, Tokyo	About 300	–	FY 2008
Mita-Koyamacho Project	Minato Ward, Tokyo	About 500*	–	FY 2009
Toyosu Project	Koto Ward, Tokyo	About 1,000	–	FY 2009
Osaka-Sagisu Project	Osaka	About 300	–	FY 2009
Osaki Station Project	Shinagawa Ward, Tokyo	About 1,100*	–	FY 2010
Toyosu Project II	Koto Ward, Tokyo	About 800	–	FY 2010

* Number of units includes the units of business partners.

Construction

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 III

With the use of craftsman boasting highly refined skills, our Shinchiku Sokkurisan remodeling services can even be used with traditional Japanese houses that are more than 100 years old.

Sumitomo Realty's Strengths

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. The cumulative total number of orders has surpassed 30,000 units, and Shinchiku Sokkurisan continues to record solid growth.

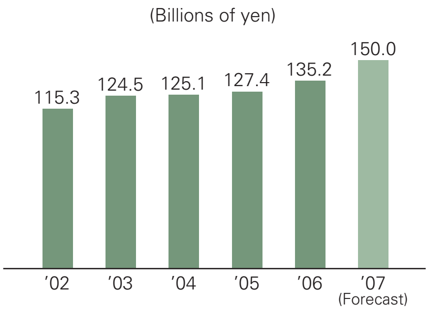
[Shinchiku Sokkurisan]

- Sales engineer system:
  Most of our sales personnel have engineering qualifications.
- Carpenters:
  We use 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:
  We remodel homes while the customers continue to live in them, which 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 termites and moisture.

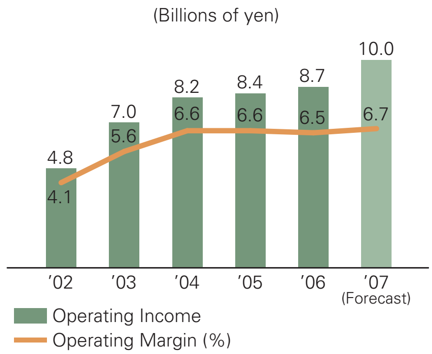
DETACHED HOUSES

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

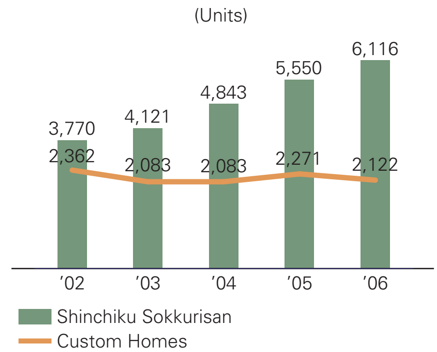
Revenue from Operations



Operating Income and Operating Margin



Shinchiku Sokkurisan and Custom Home Units Contracted



name Series of World Home Designs, we sell homes based on designs from several countries. 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 a Good Design Award from the Japan Industrial Design Promotion Organization.

[Detached Houses]

- 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 large-volume procurement enables us to achieve price reductions.
- Complete after-sales support:
  Our homes are backed by a 20-year guarantee and our specialists conduct periodic inspections.

Overview of the Fiscal Year

Conditions in the market for detached housing remained difficult due to a declining trend in detached housing starts. However, our Shinchiku Sokkurisan remodeling operations recorded a strong performance. Revenue from operations rose 6.1%, to ¥135.2 billion, and operating income was up 3.7%, to ¥8.7 billion, for the fifth consecutive year of higher revenue and profit. Shinchiku Sokkurisan contributed ¥63.1 billion to revenue from operations, detached housing ¥47.3 billion, and other business ¥24.7 billion.

Shinchiku Sokkurisan continued to post strong, double-digit growth, with orders rising 10.2% in the year under review, to 6,116, and completed units up 11.5%, to 5,748. As a result, in the year under review, the cumulative total number of Shinchiku Sokkurisan orders that we have received since we launched this business in 1996 surpassed 30,000. In detached housing, although our mainstay J-Urban series of urban-style homes maintained strong popularity, overall orders were down 6.6%, to 2,122 units, and completions were up 1.0%, to 1,939 units.

Outlook

In Shinchiku Sokkurisan operations, we anticipate continued replacement demand associated with large numbers of houses built during previous periods of active construction. In the fiscal year ending March 2007, we will continue to expand our operations by further enhancing our network of operational bases and bolstering our sales system.

In detached housing, in the fiscal year ending March 2007, we will strive to further increase orders for J-Urban series homes, improve sales efficiency by closing unprofitable branches, and raise quality by bolstering our construction system. In these ways, we will endeavor to strengthen our operational foundation. In house construction operations, our objectives are 8,900 orders, 6,700 for Shinchiku Sokkurisan remodeling and 2,200 for detached housing, and 8,500 deliveries, 6,500 for Shinchiku Sokkurisan and 2,000 for detached housing. In addition, we are targeting revenue from operations of ¥150.0 billion, up 11.0%, and operating income of ¥10.0 billion, up 14.4%, for our sixth consecutive year of higher revenue and profit.

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.

Sumitomo Realty's Strengths

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 224 by the end of March 2006. Because all of the brokerage offices are directly 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.

Overview of the Fiscal Year

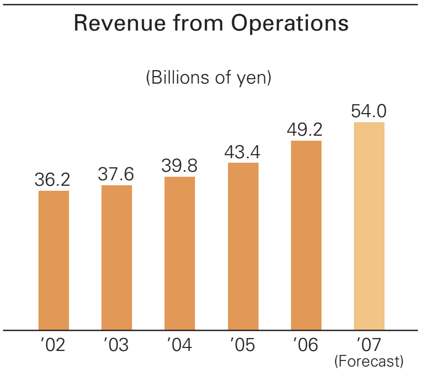
In a reflection of better labor market conditions and income levels stemming from the improvement in business conditions, the number of transactions in existing homes is increasing. In addition, the number of transactions in properties for investment and in high-priced residences increased in the year under review, and average actual prices rose in both the Tokyo and Osaka areas in the year under review.

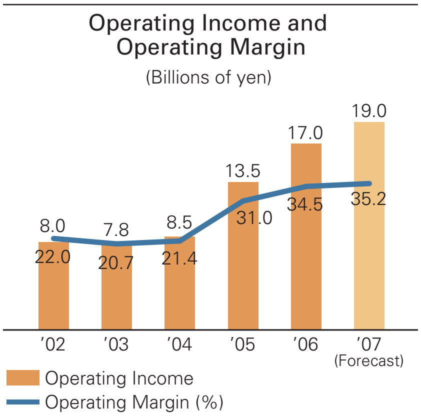
In this setting, in our mainstay retail brokerage business, we worked to increase our name recognition and customer-drawing ability by continuing to increase the number of directly managed brokerage offices, which rose to 224 offices at the end of March 2006, an increase of 6 from a year earlier. We also renovated existing offices. In addition, we worked to improve sales efficiency by expanding Internet-based transactions. In wholesale brokerage business, we focused on brokerage services for properties for investment and on office leasing activities, and we recorded higher revenue and profit.

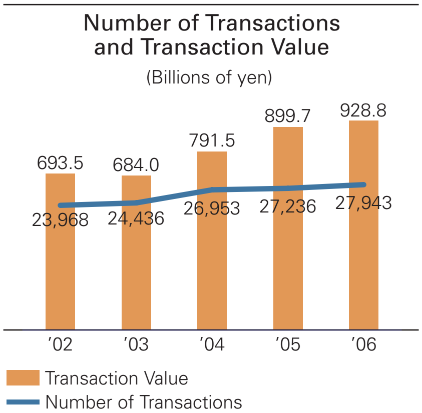
As a result, revenue from operations was up 13.3%, to ¥49.2 billion, and operating income rose 25.8%, to ¥17.0 billion. The operating margin improved to 34.5%, from 31.0% in the previous fiscal year.

Outlook

We anticipate continued growth in unit transaction prices in the existing housing brokerage market. Accordingly, in the fiscal year ending March 2007, we will continue working to boost our market share by opening new offices, enhancing existing offices, and increasing marketing efficiency with a bolstered IT strategy. In addition, in corporate brokerage services, we will continue working to expand our customer base, targeting real estate funds, companies, and financial institutions, thereby further increasing our revenues. In this way, we will strive to achieve revenue from operations of ¥54.0 billion, an increase of 9.7%, and operating income of ¥19.0 billion, up 12.0%.







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 detached 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 & Development Fund (SURF) Kudanshita.
2000	● Commenced luxury condominium leasing business. Completed construction of La Tour Shibakoen.
2001	● The number of managed STEP brokerage offices exceeded 200.
2002	● Completed construction of 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. ● Commenced sales of J-Urban III three-story, urban-style houses and J-Urban Court suburban-style houses. ● Completed construction of Sumitomo Fudosan Shin-Akasaka Building in Minato Ward, Tokyo.
2006	● Cumulative total number of orders for Shinchiku Sokkurisan remodeling business surpassed 30,000. ● Completed WORLD CITY TOWERS Aqua Tower in Minato Ward, Tokyo.


Shinjuku Sumitomo Building


Shinjuku NS Building


Izumi Garden Tower


World City Towers

Fundamental Approach to Corporate Governance

To achieve sound management, Sumitomo Realty believes that it is important to share information on a Companywide basis, ensure that everyone is aware of problems, enhance internal management supervision, and achieve highly transparent management through appropriate information disclosure. We have taken a number of steps to implement these practices efficiently.

Information Sharing and Problem Awareness

We instituted an executive officer system in April 2004, with the objectives of selecting capable young employees and substantially bolstering our administrative systems. Currently, in addition to meetings of the board of directors, the Executive Officers Committee meets on a monthly basis to discuss important issues and make decisions rapidly and appropriately.

In addition, the board of directors, the Executive Officers Committee, and other committees use a variety of means to ensure that information is shared throughout the Company and that everyone is aware of problems.

Auditing and Internal Control

To strengthen management oversight, we are working to enhance our auditing system. We have four statutory auditors, of whom two are outside statutory auditors, and to further strengthen our auditing system, at the ordinary general meeting of shareholders held on June 29, 2006, the number of outside statutory auditors was increased by one, creating a system of five statutory auditors, including three outside statutory auditors. The statutory auditors attend meetings of the board of directors and the Executive Officers Committee, and they track internal issues that are important for robust auditing.

The Inspection Department was established to monitor the operational execution of divisions throughout the Group and the operation of internal control systems. The department works to prevent misconduct and mistakes and to support the auditing of the statutory auditors. We have concluded consultation contracts with multiple attorneys in each field, from whom we receive advice as needed.

From the viewpoint of timely disclosure, we provide important information through our website and other means on a timely basis, and we have increased management transparency for shareholders, other investors, and suppliers.

Compliance

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 Legal Department distributes to all Group employees a compliance FAQ booklet that provides information on such matters as applying corresponding laws on work site issues and preventing compliance-related problems. We also implement periodic compliance training sessions for employees, of which 13 were held in the year under review.

Independent Auditors

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 auditing company or its employees.

Compensation of Directors and Statutory Auditors

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. The new system combines the three elements that made up the previous system—monthly compensation, annual bonuses, and retirement allowances.

Under the new system, total annual (July to June) compensation for directors is set at 1% of consolidated ordinary profit. (Please refer to the note on page 5.)

In the year under review, compensation for directors was ¥681 million and compensation for statutory auditors was ¥51 million.

Financial Section

SIX-YEAR FINANCIAL SUMMARY

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

	Millions of yen					
	2006	2005	2004	2003	2002	2001
For the Year						
Revenue from Operations	**¥646,525**	¥616,115	¥573,862	¥533,915	¥497,877	¥459,245
Leasing	**234,280**	221,234	202,776	192,979	178,034	164,575
Sales	**224,735**	224,191	213,303	183,745	170,428	149,196
Construction	**135,158**	127,388	125,086	124,464	115,329	113,549
Brokerage	**49,217**	43,445	39,809	37,577	36,184	34,881
Cost of Revenue from Operations	**487,805**	470,636	435,078	403,777	377,199	349,597
SG&A Expenses	**46,697**	45,188	42,807	41,626	40,308	34,430
% of Revenue from Operations	**7.2%**	7.3%	7.5%	7.8%	8.1%	7.5%
Operating Income	**112,023**	100,291	95,977	88,512	80,370	75,218
% of Revenue from Operations	**17.3%**	16.3%	16.7%	16.6%	16.1%	16.4%
Depreciation and Amortization	**16,330**	14,019	12,211	11,973	10,731	10,377
At Year-End						
Current Assets	**¥ 619,219**	¥ 481,341	¥ 503,911	¥ 423,446	¥ 404,999	¥ 374,328
Sales Inventory*	**388,627**	260,613	234,019	189,136	178,450	149,215
Total Assets	**2,460,080**	2,136,329	2,090,970	2,015,667	1,972,735	1,903,529
Shareholders' Equity	**375,656**	320,098	303,875	211,821	213,767	193,442
Net Interest-Bearing Debt	**1,150,880**	935,155	916,156	1,036,419	1,098,407	1,183,674
Per Share Amounts (Yen)						
Net Income (Loss)	**¥ 68.33**	¥ 32.64	¥ 15.34	¥ 12.22	¥ 56.50	¥ (44.27)
Shareholders' Equity	**790.74**	673.40	639.01	520.84	525.17	475.51
Cash Dividend Applicable to the Year	**10.00**	9.00	9.00	6.00	6.00	6.00
Key Ratios						
Equity Ratio (%)	**15.3**	15.0	14.5	10.5	10.8	10.2
ND/E Ratio (Times)	**3.1**	2.9	3.0	4.9	5.1	6.1

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

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OVERVIEW

Sumitomo Realty is currently implementing the Top Gear Growth Three-Year Plan*[1], which covers the period through the current fiscal year, ending March 31, 2007. Following the Four-Year Business Reconstruction Plan, under which we shook off the effects of the collapse of Japan's economic bubble and the New Three-Year Growth Plan, under which we emphasized higher revenue and profit in a phase of new operational growth, the current plan marks the second stage of operational growth for the Company. Our basic strategy is to reinforce the course of growth that we achieved under the Four-Year Business Reconstruction Plan and the New Three-Year Growth Plan and to bolster our financial position.

In the fiscal year ended March 31, 2006, the second year of our current plan, we continued to achieve higher revenue and profit in all four principal business segments, recording our ninth consecutive year of gains in revenue and operating income. Net income increased for the third consecutive year and set a new record high. In addition, we achieved our ordinary profit target for the final year of the current plan—¥85.0 billion—a year ahead of schedule, and as a result we raised the plan's final ordinary profit target to ¥105.0 billion.

In preparation for the institution of mandatory accounting for impairment losses, four years ago we began to dispose of the assets that we anticipated would be affected by impairment accounting. In the year under review, we completed the recognition of impairment losses required under the new accounting standards. Moreover, we will continue to follow a "build-and-scrap" strategy*[2] to increase the percentage of prime properties in our portfolio of buildings for leasing.

*[1] Please refer to page 6.
*[2] Please refer to page 11.

FINANCIAL STRATEGY

In our core leasing and sales business segments, significant advance investment is required. To continue investing in operational growth while controlling interest-bearing debt, we have worked to diversify our fund-raising methods. Specifically, we have aggressively introduced development securitization methods using SPCs. In addition, we have formed SURF (Sumitomo Realty & Development Fund) investment partnerships backed by leased buildings, making effective use of our assets in our fund-raising activities. As a result, for the year under review, our ratio of net interest-bearing debt to operating income was 10.1 times and our ratio of net interest-bearing debt to equity was 3.1 times, about one-third and one-half of the respective levels of these ratios when we began the Four-Year Business Reconstruction Plan.

In strengthening our financial position, our objectives for the fiscal year ending March 2007, the final year of the current plan, are to reduce the ratio of net interest-bearing debt to operating income to less than 8 times and the ratio of net interest-bearing debt to shareholders' equity to less than 3 times.

However, accompanying changes in the economic situation since we formulated the Top Gear Growth Three-Year Plan, we have increased corporate bonds and borrowings and aggressively acquired sites, and as a result we have decided to scale back our emphasis on achieving the objectives for these ratios. We decided that, rather than simply achieving short-term numerical objectives, we should focus several years into the future and emphasize responding flexibly to changes in the operating environment.

Following the increase in capital that we implemented at the end of March 2004 and our strong performance in recent years, the rating on our long-term bonds was raised to A– by Japan Credit Rating Agency (JCR) and BBB by Rating and Investment Information, Inc. (R&I). As a result, we will be able to raise funds under more favorable terms. Currently, to protect against future increases in interest rates, we are implementing a shift to longer-term, fixed-rate interest-bearing debt. Our objective is to further strengthen our financial position, improve our credit rating, and establish a system that will enable us to raise funds under more favorable terms.

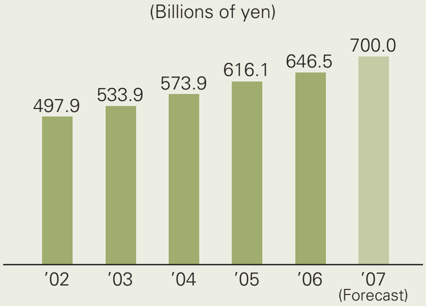
RESULTS OF OPERATIONS

Revenue from Operations and Operating Income

In the fiscal year under review, revenue from operations was up 4.9%, to ¥646.5 billion. Cost of revenue from operations rose 3.6%, to ¥487.8 billion, and gross profit increased 9.1%, to ¥158.7 billion. The gross margin improved 0.9 percentage points, to 24.5%. Selling, general and administrative (SG&A) expenses increased 3.3%, to ¥46.7 billion. As a result, operating income

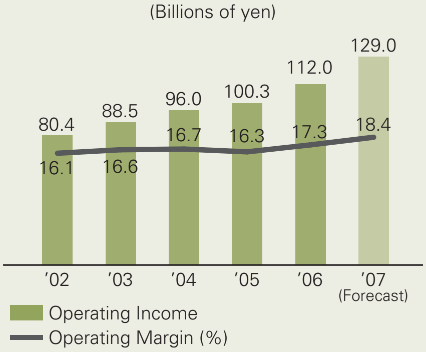
Revenue from Operations

(Billions of yen)



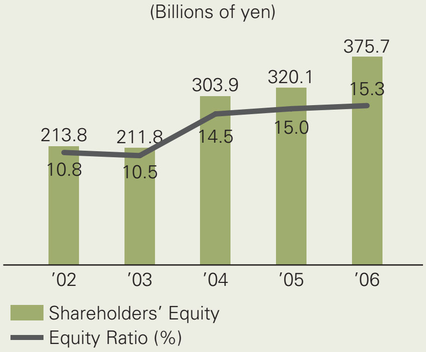
Operating Income and Operating Margin

(Billions of yen)



Shareholders' Equity and Equity Ratio

(Billions of yen)



was up 11.7%, to ¥112.0 billion. This performance was supported by the leasing segment, which benefited from improved vacancy rates in existing buildings and full-year contributions from buildings opened in the previous fiscal year, and by the brokerage segment, which recorded a strong performance in existing residences. In addition, the Company made effective efforts to restrain costs accompanying the gain in revenue from operations.

Other Income and Expenses

Net other expenses improved to ¥50.5 billion, from ¥69.6 billion in the previous fiscal year.

Interest expense, net, which declined substantially due to stable interest rate trends at generally low levels, was down 11.1%, to ¥17.1 billion. As a result of the securitization of 60% of the Shinjuku Sumitomo Building, gain on sale of property and equipment was ¥15.2 billion.

Loss on impairment of fixed assets was ¥25.2 billion, and loss on devaluation of property and equipment was ¥17.2 billion, compared with ¥11.9 billion in the previous fiscal year. Loss on impairment of fixed assets comprises impairment loss accompanying the application of impairment accounting of ¥5.3 billion and impairment loss of ¥19.9 billion accompanying the reclassification of buildings for lease as buildings for sale. Valuation loss on fixed assets and impairment loss accompanying the reclassification of buildings represent one facet of our "build-and-scrap" strategy.

Net Income

Income before income taxes and minority interests totaled ¥61.5 billion, up 100.5% from a year earlier. Income taxes were up 102.4%, to ¥26.3 billion. The effective tax rate was up 0.4 percentage points, to 42.8%. Net income more than doubled, rising 109.1%, to ¥32.5 billion, and the net margin increased to 5.0%, from 2.5% in the previous year.

CASH FLOW

Cash and cash equivalents at the end of the year totaled ¥116.2 billion, an increase of ¥12.9 billion from the end of the previous year.

Net cash provided by operating activities was limited to ¥11.4 billion, which was principally attributable to increase in inventories and decrease in notes and accounts receivable–trade. In comparison with the previous year, income before income taxes and minority interests increased and advances received rose, but investment in properties for sale (condominiums) increased. As a result, net cash provided by operating activities declined ¥36.7 billion from the previous year.

Net cash used in investing activities totaled ¥209.7 billion. Payments for purchases of property and equipment amounted to ¥237.0 billion, including about ¥112.0 billion for new development investment and about ¥72.5 billion for the buyback of 60% ownership as a beneficiary right in the Shinjuku Sumitomo Building. We re-securitized the Shinjuku Sumitomo Building, generating ¥74.3 billion. After the refund of about ¥10.0 billion in deposits from partnership investors, such as SURF investment partnerships for leased buildings managed by the Company, net cash used in investing activities increased by ¥148.8 billion from the previous year.

Net cash provided by financing activities was ¥209.3 billion. Redemption of bonds and notes was ¥92.7 billion, and repayment of long-term debt was ¥134.9 billion. Proceeds from issuance of bonds and notes were ¥90.0 billion, and increase in long-term debt totaled ¥290.2 billion. Short-term debt rose by ¥76.0 billion.

CAPITAL RESOURCES AND FINANCIAL POSITION

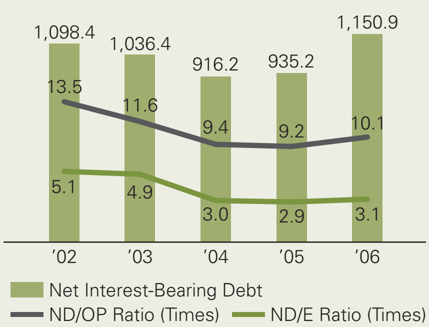
Assets

At the end of the year under review, total assets were ¥2,460.1 billion, an increase of 15.2% from the previous fiscal year-end. The principal reasons for this increase were higher investment in properties for sale (condominiums) and increased property and equipment due to investment in leasing facilities. Total current assets rose 28.6%, to ¥619.2 billion, due primarily to increases in cash, time and notice deposits; inventories; and deferred income taxes. Inventories increased 56.6%, to ¥330.7 billion at the end of the year under review, due in part to a ¥15.6 billion transfer from tangible fixed assets to inventories. Net property and equipment rose 9.1%, to ¥1,336.7 billion.

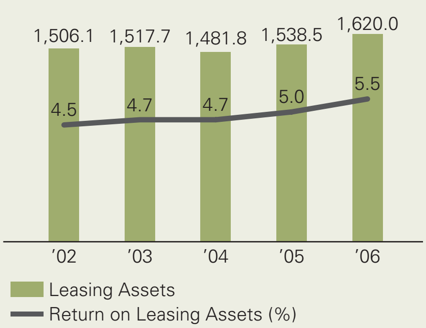
Liabilities

Total liabilities were up 14.7%, to ¥2,069.2 billion. Current liabilities rose 15.7%, to ¥832.5 billion. Long-term debt due within one year declined 9.5%, to ¥203.7 billion, but short-term borrowing rose 49.0%, to ¥197.8 billion, and commercial paper increased 27.2%, to ¥51.5 billion. Moreover, long-term liabilities

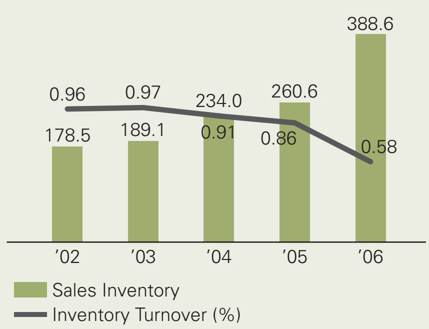
Net Interest-Bearing Debt,
ND/OP Ratio, and ND/E Ratio
(Billions of yen)



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



Sales Inventory and
Inventory Turnover
(Billions of yen)



were up 14.0%, to ¥1,236.7 billion. This increase was principally attributable to an increase of 3.8% in bonds, to ¥251.6 billion, and a gain of 41.5% in long-term debt, to ¥562.5 billion.

As a result, at the end of the fiscal year, interest-bearing debt was up 22.0%, to ¥1,267.0 billion, an increase of ¥228.6 billion. In addition to upward pressure on land prices stemming from improved business conditions, we faced heightened concern about increases in long-term interest rates, which have been at historically low levels. In consideration of those factors, we undertook aggressive advance investment in building sites, which are key resources for the Company's future growth, leading to the increase in debt. In this way, we enhanced shareholders' equity for the medium to long term.

Specifically, in line with the increase in real estate for sale, the Company increased short-term debt by ¥76.0 billion, and, in preparation for future increases in interest rates, the Company advanced long-term, fixed-rate fund-raising. Proceeds from issuance of bonds and notes were ¥90.0 billion and long-term debt totaled ¥290.2 billion, for a total of ¥380.2 billion, which exceeded the ¥227.6 billion total of redemption of bonds and notes of ¥92.7 billion and repayment of long-term debt of ¥134.9 billion.

Consolidated interest-bearing debt at the end of the year under review was 80% long-term, compared with 83% at the end of the previous fiscal year, and 77% fixed-rate, compared with 87% at the end of the previous fiscal year. The cancellation of fixed-rate interest rate swap agreements, which had been leading to relatively high interest costs, was undertaken to reduce future interest expenses and to increase the percentage of long-term debt.

	Millions of yen			
	2006	2005	Amount change	% change
Short-term debt:				
Principally from banks	**¥ 197,770**	¥ 132,745	¥ 65,025	49.0
Commercial paper	**51,500**	40,500	11,000	27.2
Subtotal	**249,270**	173,245	76,025	43.9
Long-term debt:				
Bonds and notes	**332,441**	335,108	–2,667	–0.8
Loans principally from banks	**685,321**	530,036	155,285	29.3
Subtotal	**1,017,762**	865,144	152,618	17.6
Long-term debt due within one year	**203,688**	225,182	–21,494	–9.5
Long-term debt due after one year	**814,074**	639,962	174,112	27.2
Interest-bearing debt	**1,267,032**	1,038,389	228,643	22.0

Shareholders' Equity

Shareholders' equity was up 17.4% from the end of the previous fiscal year, to ¥375.7 billion, due primarily to higher retained earnings stemming from the increase in net income and to an increase in net unrealized holding gains on securities. As a result, the shareholders' equity ratio increased to 15.3%, from 15.0%.

ROE rose to 9.3%, from 5.0% a year earlier, and ROA was up from 4.8% to 5.0%.

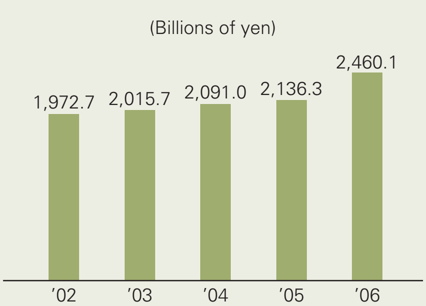
DIVIDEND POLICY

Our fundamental policy for the distribution of profits is to maintain a stable base level of dividends, without regard to revenue, and, while retaining a sufficient level of earnings for operational growth, to increase dividends in line with growth in profits. Under the two previous management plans—the Four-Year Business Reconstruction Plan, under which we dealt with the effects of the collapse of Japan's economic bubble, and the New Three-Year Growth Plan, under which we steadily strengthened our profit foundation—we also worked to respond to various changes in accounting standards and to reduce unrealized losses. Over this period, due to comparatively large special losses, net income fluctuated, but we maintained annual dividends at ¥6.00 per share. As a result, we completed the implementation of measures to deal with unrealized losses, and, under the current Top Gear Growth Three-Year Plan, we have been able to lay the foundation for full-scale growth in EPS. Accordingly, we have started to increase dividends.

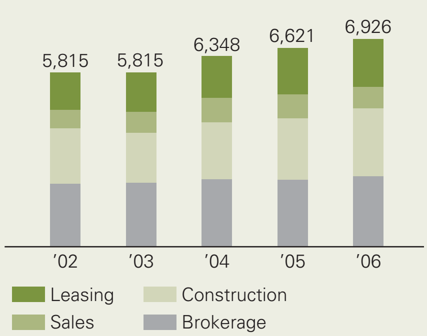
In the year under review, in a reflection of these initiatives, net income per share rose to ¥68.33, from ¥32.64 in the previous fiscal year, and shareholders' equity per share rose to ¥790.74, from ¥673.40 per share in the previous fiscal year. In addition, in consideration of the favorable progress in the implementation of the current management plan, we increased annual per-share cash dividends to ¥10.00, including the ¥5.00 interim dividend, representing an increase of ¥1.00 per share from the previous fiscal year.

In the fiscal year ending March 2007, we are forecasting an increase of 20% in ordinary profit, and accordingly we plan to increase dividends by ¥2.00 per share, to ¥12.00 for the year.

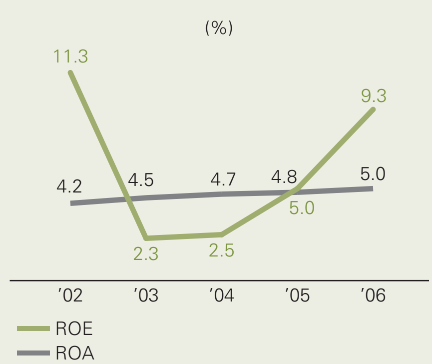
Total Assets



Number of Employees in Major Segments



ROE and ROA



SPCS

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, 2006, investments in SPCs holding properties for sale totaled ¥57.9 billion and the balance of properties held for leasing was ¥61.1 billion.

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.

SURF

In investment partnerships, for SURF, 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 2006, the SURF investment had grown into a large-scale investment product, with ¥184.8 billion in investment received.

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.

OPERATING RISKS

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

1. 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.

2. 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 leasing, sales, construction, and brokerage operations and the Group's results of operations and financial position.

3. 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.

4. Natural or man-made disasters

In the event of earthquakes, damage from natural disasters, such as wind or 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.

5. Major lawsuits

In regard to the rent on office buildings leased by the Company, one request for rent reductions in accordance with the Leased Land and House Lease Law is currently in litigation.

CONSOLIDATED BALANCE SHEETS

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2006**	2005	**2006**
Current assets:			
Cash, time and notice deposits (Note 3)	¥ 116,153	¥ 103,235	$ 988,704
Marketable securities (Note 7)	703	1,203	5,984
Investments in SPCs holding properties for sale (Note 7)	57,927	49,434	493,080
Notes and accounts receivable–trade	26,240	31,462	223,357
Loans receivable	61,994	56,844	527,698
Allowance for doubtful accounts	(25,064)	(23,591)	(213,347)
Inventories (Note 4)	330,700	211,180	2,814,947
Deferred income taxes (Note 15)	18,380	6,410	156,452
Other current assets	32,186	45,164	273,971
Total current assets	619,219	481,341	5,270,846
Investments and advances:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 5)	6,110	5,901	52,009
Investments in securities and other (Note 7)	272,005	196,741	2,315,330
Allowance for doubtful accounts	(21,409)	(21,206)	(182,235)
Total investments and advances	256,706	181,436	2,185,104
Property and equipment (Note 6):			
Land	1,013,232	936,003	8,624,719
Buildings and structures	417,503	403,732	3,553,822
Machinery and equipment	18,076	17,294	153,865
Construction in progress	30,642	2,840	260,827
	1,479,453	1,359,869	12,593,233
Accumulated depreciation	(142,761)	(134,275)	(1,215,194)
Net property and equipment	1,336,692	1,225,594	11,378,039
Other assets:			
Guarantee and lease deposits paid to lessors	192,008	182,354	1,634,389
Leasehold rights and other intangible assets	49,709	55,770	423,127
Deferred income taxes (Note 15)	2,909	2,958	24,762
Other	2,837	6,876	24,148
Total other assets	247,463	247,958	2,106,426
	¥2,460,080	¥2,136,329	$20,940,415

See accompanying notes.

Liabilities and Shareholders' Equity	Millions of yen 2006	2005	Thousands of U.S. dollars (Note 1) 2006
Current liabilities:			
Short-term debt (Note 8)	¥ 249,270	¥ 173,245	$ 2,121,808
Long-term debt due within one year (Note 8)	203,688	225,182	1,733,810
Notes and accounts payable–trade	55,304	45,005	470,752
Accrued income taxes (Note 15)	32,556	7,799	277,120
Accrued bonuses	2,916	2,941	24,821
Deposits received (Note 16)	210,645	193,872	1,793,029
Other current liabilities	78,080	71,204	664,624
Total current liabilities	832,459	719,248	7,085,964
Long-term liabilities:			
Long-term debt due after one year (Note 8)	814,074	639,962	6,929,469
Guarantee and deposits received (Note 16)	382,512	427,818	3,255,975
Deferred income taxes (Note 15)	31,419	8,249	267,441
Allowance for employees' severance and retirement benefits (Note 9)	4,934	5,002	41,999
Other long-term liabilities (Note 14)	3,793	3,487	32,286
Total long-term liabilities	1,236,732	1,084,518	10,527,170
Minority interests	15,233	12,465	129,665
Contingent liabilities (Note 21)			
Shareholders' equity (Note 17):			
Common stock:			
Authorized – 1,900,000 thousand shares (780,000 thousand shares in 2005)			
Issued – 476,086 thousand shares	122,805	122,805	1,045,327
Capital surplus	132,748	132,748	1,129,963
Retained earnings	75,652	49,829	643,956
	331,205	305,382	2,819,246
Net unrealized holding gains on securities	46,900	18,964	399,217
Foreign currency translation adjustments	(1,214)	(3,583)	(10,334)
Treasury stock	(1,235)	(665)	(10,513)
Total shareholders' equity	375,656	320,098	3,197,616
	¥2,460,080	¥2,136,329	$20,940,415

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
Revenue from operations	**¥646,525**	¥616,115	¥573,862	**$5,503,277**
Costs and expenses:				
Cost of revenue from operations	**487,805**	470,636	435,078	**4,152,239**
Selling, general and administrative expenses	**46,697**	45,188	42,807	**397,489**
	534,502	515,824	477,885	**4,549,728**
Operating income	**112,023**	100,291	95,977	**953,549**
Other income (expenses):				
Interest expense, net	**(17,085)**	(19,219)	(23,266)	**(145,429)**
Dividend income	**1,420**	965	705	**12,087**
Gain on sale of property and equipment (Note 13)	**15,238**	—	—	**129,707**
Loss on sale of property and equipment	**(25)**	(8,726)	—	**(213)**
Loss on impairment of fixed assets (Note 10)	**(25,244)**	—	—	**(214,879)**
Loss on devaluation of property and equipment (Note 12)	**(17,185)**	(11,886)	—	**(146,280)**
Loss on sale and devaluation of property and equipment (Note 11)	**—**	(15,672)	(49,414)	**—**
Loss on disposal of property and equipment	**(217)**	(711)	(539)	**(1,847)**
Gain (Loss) on sale of investments in securities	**1,446**	121	(286)	**12,308**
Loss on devaluation of investments in securities	**(68)**	(715)	(144)	**(579)**
Dividend to partnership investors	**(4,702)**	(4,667)	(3,889)	**(40,024)**
Gain on settlement of sub-lease lawsuits	**1,700**	—	—	**14,471**
Loss on liquidation of silent partnership (Note 13)	**(1,303)**	—	—	**(11,091)**
Loss on cancellation of interest rate swap agreement	**(2,508)**	—	—	**(21,348)**
Loss on sale of loans receivable	**—**	(3,481)	—	**—**
Directors' retirement benefits (Note 14)	**—**	(2,270)	—	**—**
Other, net	**(1,948)**	(3,339)	(3,561)	**(16,581)**
	(50,481)	(69,600)	(80,394)	**(429,698)**
Income before income taxes and minority interests	**61,542**	30,691	15,583	**523,851**
Income taxes (Note 15):				
Current	**34,115**	7,414	1,036	**290,390**
Deferred	**(7,785)**	5,592	6,334	**(66,267)**
Total	**26,330**	13,006	7,370	**224,123**
Minority interests	**2,706**	2,137	1,893	**23,034**
Net income	**¥ 32,506**	¥ 15,548	¥ 6,320	**$ 276,694**

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income:				
– Basic	**¥68.33**	¥32.64	¥15.34	**$0.58**
– Diluted	**—**	32.64	—	**—**
Cash dividend applicable to the year	**10.00**	9.00	9.00	**0.09**

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2006, 2005 and 2004

	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, 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:							
Final for prior year (¥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:							
Final for prior year (¥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)
Net income	**—**	**—**	**—**	**32,506**	**—**	**—**	**—**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**2,369**	**—**
Net unrealized holding gains on securities	**—**	**—**	**—**	**—**	**27,936**	**—**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(570)**
Cash dividends paid:							
Final for prior year (¥9 per share)	**—**	**—**	**—**	**(4,278)**	**—**	**—**	**—**
Interim for current year (¥5 per share)	**—**	**—**	**—**	**(2,376)**	**—**	**—**	**—**
Bonuses to directors	**—**	**—**	**—**	**(29)**	**—**	**—**	**—**
Balance at March 31, 2006	**476,086**	**¥122,805**	**¥132,748**	**¥75,652**	**¥46,900**	**¥(1,214)**	**¥(1,235)**

	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, 2005	$1,045,327	$1,129,963	$424,149	$161,423	$(30,499)	$ (5,661)
Net income	**—**	**—**	**276,694**	**—**	**—**	**—**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**20,165**	**—**
Net unrealized holding gains on securities	**—**	**—**	**—**	**237,794**	**—**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**(4,852)**
Cash dividends paid:						
Final for prior year ($0.08 per share)	**—**	**—**	**(36,415)**	**—**	**—**	**—**
Interim for current year ($0.04 per share)	**—**	**—**	**(20,225)**	**—**	**—**	**—**
Bonuses to directors	**—**	**—**	**(247)**	**—**	**—**	**—**
Balance at March 31, 2006	**$1,045,327**	**$1,129,963**	**$643,956**	**$399,217**	**$(10,334)**	**$(10,513)**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 61,542	¥ 30,691	¥ 15,583	$ 523,851
Depreciation and amortization	16,330	14,019	12,211	139,002
Loss on impairment of fixed assets (Note 10)	25,244	—	—	214,879
Provision for (Reversal of) allowance for doubtful accounts	1,663	(17,321)	(2,906)	14,156
Increase (Decrease) in employees' severance and retirement benefits	(68)	254	437	(579)
Loss on sale and devaluation of property and equipment (Note 11)	—	15,672	49,414	—
Gain on sale of property and equipment (Note 13)	(15,238)	—	—	(129,707)
Loss on sale of property and equipment	25	8,726	—	213
Loss on devaluation of property and equipment (Note 12)	17,185	11,886	—	146,280
Loss on disposal of property and equipment	217	711	539	1,847
Loss (Gain) on sale of investments in securities	(1,446)	(121)	286	(12,308)
Loss on devaluation of investments in securities	68	715	144	579
Interest and dividend income	(1,977)	(1,390)	(983)	(16,828)
Interest expense	17,642	19,644	23,544	150,170
Increase in investments in SPCs holding properties for sale	(8,493)	(4,961)	(16,492)	(72,293)
Decrease (Increase) in notes and accounts receivable–trade	5,238	4,787	(11,361)	44,586
Increase in inventories	(108,022)	(20,004)	(22,032)	(919,493)
Decrease (Increase) in loans receivable	(4,854)	29,192	7,533	(41,318)
Increase (Decrease) in notes and accounts payable–trade	10,281	(26,994)	17,224	87,513
Increase (Decrease) in advances received	12,033	6,688	(2,337)	102,426
Other, net	9,223	(4,563)	(15,312)	78,507
Total	36,593	67,631	55,492	311,483
Proceeds from interest and dividend income	1,974	1,489	963	16,803
Payments for interest	(17,545)	(19,870)	(23,663)	(149,345)
Receipts (Payments) for income tax and other taxes	(9,665)	(1,219)	825	(82,269)
Net cash provided by operating activities	11,357	48,031	33,617	96,672
Cash flows from investing activities:				
Payments for purchases of property and equipment	(237,024)	(106,784)	(34,189)	(2,017,569)
Proceeds from sale of property and equipment	91,055	21,902	18,095	775,068
Payments for purchases of investments in securities	(75,303)	(9,315)	(21,966)	(640,986)
Proceeds from sale of investments in securities	36,546	1,561	768	311,083
Payments for investments in SPC and partnership	—	(7)	(10,325)	—
Reduce capital in SPC and partnership	—	—	8,000	—
Payments for guarantee and lease deposits paid to lessors	(24,588)	(5,341)	(8,334)	(209,295)
Proceeds from guarantee and lease deposits paid to lessors	10,065	7,052	5,489	85,674
Payments for guarantee and lease deposits received	(37,572)	(46,598)	(36,062)	(319,816)
Proceeds from guarantee and lease deposits received	28,990	34,761	25,852	246,765
Receipts of deposits from partnership investors	65,508	111,474	112,943	557,610
Restitution of deposits from partnership investors	(75,559)	(67,590)	(76,248)	(643,165)
Other, net	8,223	(1,935)	3,469	69,995
Net cash used in investing activities	(209,659)	(60,820)	(12,508)	(1,784,636)
Cash flows from financing activities:				
Increase (Decrease) in short-term debt	76,025	(32,178)	(87,428)	647,131
Proceeds from issuance of bonds and notes	90,000	80,000	85,000	766,088
Redemption of bonds and notes	(92,667)	(77,523)	(114,209)	(788,790)
Increase in long-term debt	155,285	19,461	27,148	1,321,799
Proceeds from issuance of common stock	—	—	71,940	—
Increase (Decrease) in assignment of receivables	(40,310)	15,219	(6,432)	(343,122)
Cash dividends paid	(7,159)	(4,581)	(2,696)	(60,938)
Other, net	28,125	(16,658)	44,100	239,403
Net cash provided by (used in) financing activities	209,299	(16,260)	17,423	1,781,571
Effect of exchange rate changes on cash and cash equivalents	1,922	(160)	(1,763)	16,361
Net increase (decrease) in cash and cash equivalents	12,919	(29,209)	36,769	109,968
Cash and cash equivalents at beginning of year	103,237	132,476	95,703	878,762
Cash and cash equivalents of subsidiaries excluded from consolidation	—	(31)	—	—
Change in cash and cash equivalents due to merger of consolidated subsidiaries	—	1	4	—
Cash and cash equivalents at end of year (Note 3)	¥116,156	¥103,237	¥132,476	$ 988,730

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
As of and for the years ended March 31, 2006, 2005 and 2004

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, 2006, which was ¥117.48 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.

(7) Property and equipment

The Company and consolidated domestic subsidiaries depreciate buildings using the straight-line method, and other property and equipment using the declining-balance method over their estimated useful lives. Consolidated overseas 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

Effective April 1, 2005, the Company and its consolidated domestic subsidiaries applied "Accounting Standards for Impairment of Fixed Assets" ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets", issued by the Business Accounting Deliberation Council on August 9, 2002) and "Guidelines on Implementation of Accounting Standard for Impairment of Fixed Assets" (Guidelines on Implementation of Business Accounting Standard No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). As a result of adopting the new accounting standards for impairment of fixed assets, income before income taxes for the year ended March 31, 2006 decreased by ¥25,244 million ($214,879 thousand).

Accumulated impairment losses are recognized as direct write-downs of the related fixed assets.

(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 Company and certain of its consolidated subsidiaries provided an allowance for employees' severance and retirement benefits at March 31, 2006, 2005 and 2004 based on the estimated projected benefit obligation at those dates.

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

(14) Derivative transactions 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 Company and its consolidated subsidiaries 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 2006 presentation.

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Cash, time and notice deposits	**¥116,153**	¥103,235	**$988,704**
Marketable securities	**3**	2	**26**
Cash and cash equivalents	**¥116,156**	¥103,237	**$988,730**

4. INVENTORIES

Inventories at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Land and buildings for sale	**¥127,585**	¥106,190	**$1,086,015**
Land and building projects in progress	**89,669**	63,651	**763,270**
Land held for development	**107,614**	36,396	**916,020**
Other	**5,832**	4,943	**49,642**
	¥330,700	¥211,180	**$2,814,947**

The Company transferred property and equipment to inventories. Such transfer at March 31, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	**2006**
Inventories:		
Transferred from property and equipment	**¥ 15,594**	**$ 132,737**
Property and equipment:		
Transferred to inventories	**¥(15,594)**	**$(132,737)**

5. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Investments in common stock, at cost	**¥5,991**	¥5,412	**$50,996**
Advances	**119**	489	**1,013**
	¥6,110	¥5,901	**$52,009**

6. PROPERTIES IN TRUST

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

Such properties included in property and equipment in the consolidated balance sheets at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Land	¥ —	¥1,236	$ —
Buildings and structures	—	1,031	—
Machinery and equipment	—	1	—
	¥ —	¥2,268	$—

7. SECURITIES

For 2006

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, 2006:

(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	¥ —	¥ —	¥ —	$ —	$ —	$ —
Securities whose fair market value does not exceed book value:						
National and local government bonds	1,206	1,190	(16)	10,265	10,129	(136)
Total	¥1,206	¥1,190	¥(16)	$10,265	$10,129	$(136)

(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	¥77,848	¥156,937	¥79,089	$662,649	$1,335,861	$673,212
Others	582	608	26	4,954	5,176	222
Subtotal	78,430	157,545	79,115	667,603	1,341,037	673,434
Securities whose book value does not exceed acquisition cost:						
Equity securities	9,989	9,442	(547)	85,027	80,371	(4,656)
Others	—	—	—	—	—	—
Subtotal	9,989	9,442	(547)	85,027	80,371	(4,656)
Total	¥88,419	¥166,987	¥78,568	$752,630	$1,421,408	$668,778

B. The following table summarizes the book values of securities with no available fair market values as of March 31, 2006:

Available-for-sale securities:

	Book value	
	Millions of yen	Thousands of U.S. dollars
Unlisted equity securities	¥ 7,108	$ 60,504
Senior securities	86,165	733,444
Investment in partnerships similar to investment limited partnerships	42,072	358,121
Total	¥135,345	$1,152,069

Senior securities included investments in SPCs holding properties for sale amounting to ¥57,927 million ($493,080 thousand).

C. Available-for-sale securities with maturities and held-to-maturity securities at March 31, 2006 mature as follows:

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	¥36	¥1,171	¥ —	¥ —
Other	—	4	—	—
Total	¥36	¥1,175	¥ —	¥ —

	Thousands of U.S. dollars			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	$306	$ 9,968	$ —	$ —
Other	—	34	—	—
Total	$306	$10,002	$ —	$ —

D. Total sales of available-for-sale securities sold in the year ended March 31, 2006 amounted to ¥8,380 million ($71,331 thousand) and the related gains and losses amounted to ¥1,499 million ($12,760 thousand) and ¥12 million ($102 thousand), 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, 2006, investments in SPCs holding properties for sale consisted of preferred subscription certificates issued by SPCs.

F. The Company lent the equity securities temporarily to a financial institute under a securities lending agreement. Lent securities, included in investment securities, were ¥124,824 million ($1,062,513 thousand) as of March 31, 2006.

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		
	Book value	Fair market value	Difference
Securities whose fair market value exceeds book value:			
National and local government bonds	¥ 938	¥ 942	¥ 4
Securities whose fair market value does not exceed book value:			
National and local government bonds	305	304	(1)
Total	¥1,243	¥1,246	¥ 3

(b) Available-for-sale securities:

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Equity securities	¥58,395	¥90,946	¥32,551
Others	103	104	1
Subtotal	58,498	91,050	32,552
Securities whose book value does not exceed acquisition cost:			
Equity securities	4,974	4,397	(577)
Others	521	481	(40)
Subtotal	5,495	4,878	(617)
Total	¥63,993	¥95,928	¥31,935

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

Available-for-sale securities:

	Book value
	Millions of yen
Unlisted equity securities	¥ 7,260
Senior securities	72,622
Investment in partnerships similar to investment limited partnerships	40,204
Total	¥120,086

Senior securities included investments in SPCs holding properties for sale amounting to ¥49,434 million.

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	¥ —

D. Total sales of available-for-sale securities sold in the year ended March 31, 2005 amounted to ¥731 million and the related gains amounted to ¥116 million.

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 Company lent the equity securities temporarily to a financial institute under a securities lending agreement. Lent securities, included in investment securities, were ¥77,119 million as of March 31, 2005.

8. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	2006	Average interest rate (%)	2005	Average interest rate (%)	**2006**
Loans, principally from banks	**¥197,770**	**0.55**	¥132,745	0.66	**$1,683,435**
Commercial paper	**51,500**	**0.26**	40,500	0.10	**438,373**
	¥249,270		¥173,245		**$2,121,808**

The interest rates represent weighted average rates in effect at March 31, 2006 and 2005, regardless of borrowing currencies, though the range of the interest rate varies by borrowing currency.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
3.1% Euroyen notes, due 2005	**¥ —**	¥ 700	**$ —**
2.62% domestic straight bonds, due 2005	**—**	15,366	**—**
2.85% domestic straight bonds, due 2006	**3,100**	3,100	**26,387**
Floating rate domestic straight bonds, due 2006	**7,390**	7,390	**62,904**
1.6% domestic straight bonds, due 2006	**9,500**	9,500	**80,864**
Floating rate domestic straight bonds, due 2006	**7,844**	7,844	**66,769**
Floating rate domestic straight bonds, due 2007	**7,510**	7,510	**63,926**
1.5% domestic straight bonds, due 2006	**7,360**	7,360	**62,649**
Floating rate domestic straight bonds, due 2006	**7,337**	7,337	**62,453**
1.75% domestic straight bonds, due 2005	**—**	10,000	**—**
1.85% domestic straight bonds, due 2006	**7,557**	7,557	**64,325**
1.85% domestic straight bonds, due 2006	**9,409**	9,409	**80,090**
1.85% domestic straight bonds, due 2006	**9,377**	9,377	**79,818**
2.0% domestic straight bonds, due 2007	**9,057**	9,057	**77,094**
1.5% domestic straight bonds, due 2005	**—**	7,147	**—**
1.5% domestic straight bonds, due 2005	**—**	12,000	**—**
1.5% domestic straight bonds, due 2005	**—**	10,000	**—**
1.45% domestic straight bonds, due 2005	**—**	10,000	**—**
1.45% domestic straight bonds, due 2005	**—**	9,954	**—**
1.45% domestic straight bonds, due 2005	**—**	12,500	**—**
1.35% domestic straight bonds, due 2006	**—**	5,000	**—**
1.5% domestic straight bonds, due 2007	**10,000**	10,000	**85,121**
1.5% domestic straight bonds, due 2007	**10,000**	10,000	**85,121**
1.39% domestic straight bonds, due 2006	**7,000**	7,000	**59,585**
1.4% domestic straight bonds, due 2007	**20,000**	20,000	**170,242**
1.4% domestic straight bonds, due 2007	**10,000**	10,000	**85,121**
1.68% domestic straight bonds, due 2008	**10,000**	10,000	**85,121**
1.49% domestic straight bonds, due 2006	**5,000**	5,000	**42,560**
1.92% domestic straight bonds, due 2008	**5,000**	5,000	**42,560**
1.31% domestic straight bonds, due 2009	**20,000**	20,000	**170,242**
1.52% domestic straight bonds, due 2010	**20,000**	20,000	**170,242**
1.30% domestic straight bonds, due 2009	**20,000**	20,000	**170,242**
1.29% domestic straight bonds, due 2012	**20,000**	20,000	**170,242**
1.28% domestic straight bonds, due 2012	**30,000**	—	**255,363**
0.75% domestic straight bonds, due 2010	**30,000**	—	**255,363**
1.18% domestic straight bonds, due 2010	**30,000**	—	**255,363**
Loans, principally from banks and insurance companies, interest principally at rates of 0.30% to 3.20% in 2006, and 0.45% to 3.20% in 2005:			
Unsecured	**685,321**	530,036	**5,833,512**
Subtotal	**1,017,762**	865,144	**8,663,279**
Amount due within one year	**(203,688)**	(225,182)	**(1,733,810)**
Total	**¥ 814,074**	¥ 639,962	**$ 6,929,469**

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

The aggregate annual maturities of long-term debt at March 31, 2006 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 203,688	$1,733,810
2008	163,844	1,394,654
2009	111,896	952,469
2010	97,836	832,789
2011	234,036	1,992,135
2012 and thereafter	206,463	1,757,422
Total	¥1,017,762	$8,663,279

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, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Projected benefit obligation	**¥ 7,684**	¥ 7,436	**$ 65,407**
Fair value of plan assets	**(2,978)**	(2,542)	**(25,349)**
Unrecognized actuarial differences	**224**	105	**1,907**
Prepaid pension cost	**4**	3	**34**
Allowance for severance and retirement benefits	**¥ 4,934**	¥ 5,002	**$ 41,999**

Included in the consolidated statements of income for the years ended March 31, 2006 and 2005 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Service costs – benefits earned during the year	**¥ 487**	¥488	**$4,145**
Interest cost on projected benefit obligation	**130**	128	**1,107**
Expected return on plan assets	**(49)**	(47)	**(417)**
Amortization of actuarial differences	**(105)**	117	**(894)**
Severance and retirement benefit expenses	**¥ 463**	¥686	**$3,941**

The discount rates and the rates of expected return on plan assets for the years ended March 31, 2006 and 2005 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 IMPAIRMENT OF FIXED ASSETS

The Company and its consolidated domestic subsidiaries recognized impairment losses on the following assets for the year ended March 31, 2006.

Use	Location	Number of properties
Land for leased buildings	Chuo-ku, Tokyo, etc.	4
Leased land	Inba-gun, Chiba	1
Land for development	Izumisano-shi, Osaka, etc.	5
Idle assets	Susono-shi, Shizuoka, etc.	2

Details of loss on impairment of fixed assets were as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	**2006**
Land	**¥25,244**	**$214,879**

The recoverable values of these assets were calculated using the net disposal value method. The net disposal value method for land for leased buildings is based on capitalization value, and that for the others is based mainly on the assessment value for property tax purposes.

The Company and its consolidated domestic subsidiaries recognized losses on the impairment of certain property, which are generally assessed individually for impairment. Company houses are treated as common assets.

As a result of declines in property values and flagging rental rates, the carrying values of the land holdings summarized above have been reduced by ¥25,244 million ($214,879 thousand) to their recoverable amounts. These write-downs were recognized as impairment losses in other expenses.

11. LOSS ON SALE AND DEVALUATION OF PROPERTY AND EQUIPMENT

As explained in Note 2 (8), effective April 1, 2005, the Company and its subsidiaries applied the new accounting standard for impairment of fixed assets. In order to prepare for the application of the standard, the Company and its subsidiaries sold and recognized losses on certain fixed assets of ¥15,672 million and ¥49,414 million for the years ended March 31, 2005 and 2004, respectively. Some of the fixed assets were sold to the Company's 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 for the year ended March 31, 2005 consists of net loss on sale of land of ¥11,400 million, loss on devaluation of land of ¥1,672 million and net loss on sale of buildings of ¥2,600 million, and that of ¥49,414 million for the year ended March 31, 2004 consists of net loss on sale of land of ¥22,508 million, loss on devaluation of land of ¥20,413 million, net loss of sale of buildings of ¥6,339 million and loss on devaluation of buildings of ¥154 million.

12. LOSS ON DEVALUATION OF PROPERTY AND EQUIPMENT

The Company recognized loss on devaluation of property and equipment of ¥17,185 million ($146,280 thousand) and ¥11,886 million for the years ended March 31, 2006 and 2005, respectively. The property and equipment were sold to its consolidated subsidiaries, and such losses incurred in these transactions were not eliminated in consolidation but were recorded as loss on devaluation of property and equipment.

Details of property and equipment were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Land, etc.	**¥16,385**	¥11,886	**$139,470**
Buildings and structures, etc.	**800**	—	**6,810**

13. GAIN ON SALE OF PROPERTY AND EQUIPMENT AND LOSS ON LIQUIDATION OF SILENT PARTNERSHIP

Gain on sale of property and equipment for the year ended March 31, 2006 is mainly from the sale of a 60% ownership as a beneficiary right in the Shinjuku Sumitomo Building at June 30, 2005. Certain information as to the sale is as follows.

(1) Property sold:
Name of property: Shinjuku Sumitomo Building (60% ownership)
Sales price: ¥90,000 million ($766,088 thousand)
Cost of sales: ¥74,768 million ($636,432 thousand)

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

The silent partnership that had been involved in the ownership of this property was liquidated as a result of the sale, and loss on liquidation of silent partnership of ¥1,303 million ($11,091 thousand) was incurred.

14. 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 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.

15. 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 years ended March 31, 2006 and 2005.

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, 2006.

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.

	2006
Statutory tax rate	40.69%
Valuation allowance for deferred tax assets	1.94
Per capita inhabitant taxes	0.42
Entertainment expenses and others not deductible for tax purposes	(0.13)
Other	(0.14)
Effective tax rate	42.78%

Details of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred tax assets:			
Loss on impairment of fixed assets	**¥ 10,273**	¥ —	**$ 87,445**
Net operating loss carryforwards	**7,724**	8,050	**65,747**
Accrued enterprise tax and business office tax	**2,891**	833	**24,608**
Allowance for employees' severance and retirement benefits	**1,996**	1,985	**16,990**
Loss on devaluation of inventories	**1,627**	1,939	**13,849**
Unrealized inter-company profits	**1,480**	1,545	**12,598**
Accrued bonuses	**1,319**	1,332	**11,227**
Allowance for doubtful accounts	**1,050**	600	**8,938**
Accrued directors' retirement benefits	**785**	820	**6,682**
Other	**7,481**	5,625	**63,680**
Subtotal of deferred tax assets	**36,626**	22,729	**311,764**
Valuation allowance	**(9,727)**	(8,531)	**(82,797)**
Total deferred tax assets	**26,899**	14,198	**228,967**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**(32,070)**	(13,079)	**(272,983)**
Retained earnings appropriated for tax allowable reserves	**(4,959)**	—	**(42,211)**
Total deferred tax liabilities	**(37,029)**	(13,079)	**(315,194)**
Net deferred tax assets (liabilities)	**¥(10,130)**	¥ 1,119	**$ (86,227)**

16. GUARANTEE AND OTHER DEPOSITS RECEIVED

Guarantee and other deposits received at March 31, 2006 and 2005 were as follows:

	Millions of yen				Thousands of U.S. dollars
	2006	Average interest rate (%)	2005	Average interest rate (%)	**2006**
Short-term deposits and long-term deposits due within one year:					
Non-interest-bearing	**¥127,908**	**—**	¥159,830	—	**$1,088,764**
Interest-bearing	**82,737**	**0.34**	34,042	0.18	**704,265**
	210,645		193,872		**1,793,029**
Guarantee and lease deposits from tenants:					
Non-interest-bearing	**151,691**	**—**	160,273	—	**1,291,207**
Interest-bearing	**—**	**—**	—	—	**—**
Long-term deposits:					
Non-interest-bearing	**224,821**	**—**	241,545	—	**1,913,695**
Interest-bearing	**6,000**	**0.81**	26,000	0.80	**51,073**
	382,512		427,818		**3,255,975**
Total	**¥593,157**		¥621,690		**$5,049,004**

The aggregate annual maturities of interest-bearing guarantee and other deposits received at March 31, 2006 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥82,737	$704,265
2008	6,000	51,073
2009	—	—
2010	—	—
2011	—	—
2012 and thereafter	—	—
	¥88,737	$755,338

17. 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.

18. 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, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Acquisition cost:			
Buildings and structures	**¥ 9,079**	¥15,177	**$ 77,281**
Other	**2,218**	2,463	**18,880**
Accumulated depreciation	**(5,130)**	(6,541)	**(43,667)**
Net book value	**¥ 6,167**	¥11,099	**$ 52,494**

Pro-forma depreciation equivalents of ¥1,565 million ($13,321 thousand) and ¥2,444 million for the years ended March 31, 2006 and 2005, 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, 2006 and 2005 amounted to ¥1,565 million ($13,321 thousand) and ¥2,444 million, respectively.

Future lease payments and receipts under such finance leases and non-cancelable operating leases at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Finance leases			
Future lease payments:			
Due within one year	**¥ 1,398**	¥ 2,279	**$ 11,900**
Due after one year	**4,769**	8,820	**40,594**
Total	**¥ 6,167**	¥ 11,099	**$ 52,494**
Future sub-lease payments:			
Due within one year	**¥ 15**	¥ 4	**$ 128**
Due after one year	**40**	14	**340**
Total	**¥ 55**	¥ 18	**$ 468**
Future sub-lease receipts:			
Due within one year	**¥ 15**	¥ 4	**$ 128**
Due after one year	**40**	14	**340**
Total	**¥ 55**	¥ 18	**$ 468**
Operating leases			
Future lease payments:			
Due within one year	**¥12,675**	¥ 15,740	**$107,891**
Due after one year	**66,343**	107,028	**564,717**
Total	**¥79,018**	¥122,768	**$672,608**
Future lease receipts:			
Due within one year	**¥ 23**	¥ 103	**$ 196**
Due after one year	**5**	498	**42**
Total	**¥ 28**	¥ 601	**$ 238**

19. DERIVATIVE TRANSACTIONS

The Company and its subsidiaries utilize derivative financial 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, 2006 and 2005 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, 2006 and 2005 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 was effectively hedged.

The contract amounts and unrealized gains or losses of outstanding derivative transactions at March 31, 2006 and 2005 were not disclosed because all derivative transactions were used as hedges and hedge accounting was applied.

20. 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 segment for the years ended March 31, 2006, 2005 and 2004 is summarized as follows:

	Millions of yen							
For 2006	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	¥ 232,248	¥224,735	¥133,609	¥48,939	¥ 6,994	¥ 646,525	¥ —	¥ 646,525
Intersegment	2,032	—	1,549	278	3,157	7,016	(7,016)	—
Total	234,280	224,735	135,158	49,217	10,151	653,541	(7,016)	646,525
Costs and expenses	170,980	191,618	126,412	32,249	9,668	530,927	3,575	534,502
Operating income	¥ 63,300	¥ 33,117	¥ 8,746	¥16,968	¥ 483	¥ 122,614	¥ (10,591)	¥ 112,023
II Identifiable assets, depreciation expense, loss on impairment of fixed assets and capital expenditures:								
Identifiable assets	¥1,619,959	¥415,441	¥ 19,617	¥ 8,457	¥51,464	¥2,114,939	¥345,141	¥2,460,080
Depreciation expense	15,209	100	127	309	77	15,822	508	16,330
Loss on impairment of fixed assets	24,335	888	21	—	—	25,244	—	25,244
Capital expenditures	237,078	2,529	300	317	30	240,254	260	240,514

For 2005	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	¥ 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 2006	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	**$ 1,976,915**	**$1,912,964**	**$1,137,291**	**$416,573**	**$ 59,534**	**$ 5,503,277**	**$ —**	**$ 5,503,277**
Intersegment	**17,297**	**—**	**13,186**	**2,366**	**26,872**	**59,721**	**(59,721)**	**—**
Total	**1,994,212**	**1,912,964**	**1,150,477**	**418,939**	**86,406**	**5,562,998**	**(59,721)**	**5,503,277**
Costs and expenses	**1,455,397**	**1,631,069**	**1,076,030**	**274,506**	**82,295**	**4,519,297**	**30,431**	**4,549,728**
Operating income	**$ 538,815**	**$ 281,895**	**$ 74,447**	**$144,433**	**$ 4,111**	**$ 1,043,701**	**$ (90,152)**	**$ 953,549**
II Identifiable assets, depreciation expense, loss on impairment of fixed assets and capital expenditures:								
Identifiable assets	**$13,789,232**	**$3,532,278**	**$ 166,982**	**$ 71,987**	**$438,066**	**$18,002,545**	**$2,937,870**	**$20,940,415**
Depreciation expense	**129,461**	**851**	**1,081**	**2,630**	**655**	**134,678**	**4,324**	**139,002**
Loss on impairment of fixed assets	**207,141**	**7,559**	**179**	**—**	**—**	**214,879**	**—**	**214,879**
Capital expenditures	**2,018,029**	**21,527**	**2,554**	**2,698**	**255**	**2,045,063**	**2,213**	**2,047,276**

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 years ended March 31, 2006 and 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, 2006 and 2005.

21. CONTINGENT LIABILITIES

At March 31, 2006, the Company and its consolidated subsidiaries were contingently liable as guarantors of borrowings by customers and others in an amount aggregating to ¥1,145 million ($9,746 thousand).

Also, at March 31, 2006, the Company and its consolidated subsidiaries had outstanding commitments to guarantee loans of customers and others amounting to ¥9 million ($77 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.

One lawsuit is pending in court.

A lawsuit was brought in the Tokyo District Court against the Company in 1995, 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 Tokyo District Court issued judgments against the Company in October 1998, the Company appealed to the Tokyo Higher Court in November 1998 as the Company believed that the judgments were contradictory to previous legal interpretations.

The Tokyo Higher Court issued a judgment for the Company in October 1999. The lessor appealed to the Supreme Court in November 1999.

In October 2003, the Supreme Court reversed the judgments and remanded its case to the Tokyo Higher Court.

22. SUBSEQUENT EVENTS

The Company issued ¥20,000 million ($170,242 thousand) in 1.85% domestic straight bonds due 2011 on April 28, 2006.

The Company issued ¥20,000 million ($170,242 thousand) in 1.86% domestic straight bonds due 2011 on June 8, 2006.

On June 29, 2006, the shareholders of the Company approved payments of a year-end cash dividend of ¥5 ($0.04) per share or a total of ¥2,375 million ($20,216 thousand) to shareholders of record at March 31, 2006.

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, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2006, 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As discussed in Note 2. (8) to the consolidated financial statements, effective April 1, 2005, Sumitomo Realty & Development Co., Ltd. and consolidated domestic subsidiaries adopted the new accounting standards for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2006

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, 2006)

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
Takahiro Daisaka
Kenichi Kameyama
Tsutomu Oyama
Hiroyuki Asano
Yoshiteru Nishimoto
Naoyoshi Matsugami
Takashi Saito
Masayuki Takahashi

* Representative Director

Executive Officers
Akira Murakami
Masaki Ogawa
Yoshinobu Sakamoto
Nobuaki Takemura
Koji Ito
Satoru Ozawa
Toshikazu Tanaka
Masato Kobayashi
Kojun Nishima
Yoshiyuki Odai
Hisatoshi Katayama
Masumi Aoki

Statutory Auditors
Shinsaku Sanmoto
Naoto Enda

Standing Statutory Auditors
Ryoichi Nomura
Chuji Kitamura
Kunio Kobayashi

CORPORATE DATA

(As of March 31, 2006)

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
7,607 (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, 2006)

Paid-in Capital
¥122,805 million

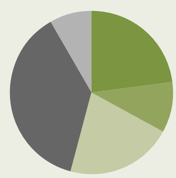
Number of Common Stock
Authorized: 1,900,000,000 shares
Issued: 476,085,978 shares

Number of Shareholders
20,292

Stock Exchange Listings
Tokyo Stock Exchange
Osaka Securities Exchange

Breakdown of Shareholders

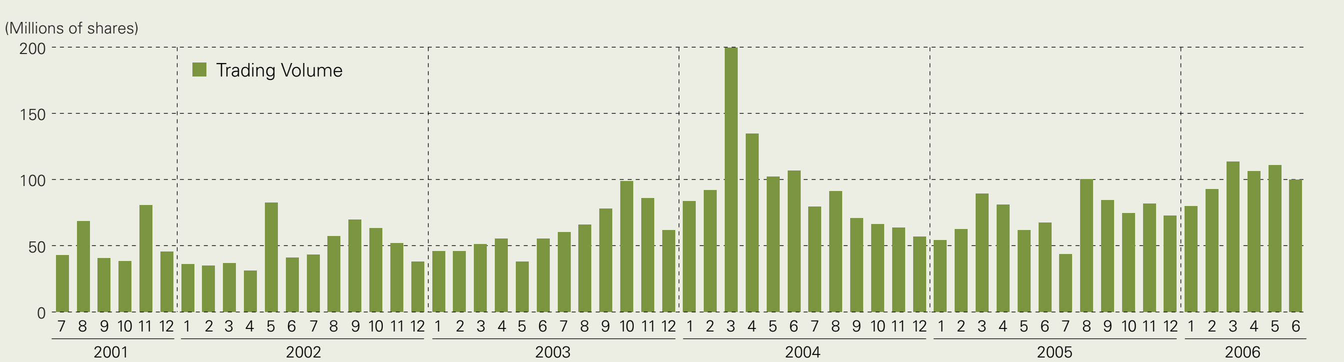
Trust Accounts	22.92%
Financial Institutions	10.04%
Other Companies	21.17%
Foreign Companies	37.53%
Individuals and Others	8.34%



Major Shareholders

	Number of shares held (Thousands)	Percentage of shares held
Japan Trustee Services Bank, Ltd. (Trust account)	30,724	6.45%
The Master Trust Bank of Japan, Ltd. (Trust account)	22,796	4.79
Japan Trustee Services Bank, Ltd. (Trust account 4)	13,748	2.89
Sumitomo Mitsui Banking Corporation	11,990	2.52
The Sumitomo Trust & Banking Co., Ltd.	8,136	1.71
Kajima Corporation	7,912	1.66
State Street Bank and Trust Company	6,831	1.43
Mitsui Sumitomo Insurance Co., Ltd.	6,740	1.42
Shimizu Corporation	6,500	1.37
State Street Bank and Trust Company 505103	6,439	1.35

Stock Price and Trading Volume on Tokyo Stock Exchange



Sumitomo Realty & Development Co., Ltd.

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