ANNUAL REPORT 2007

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

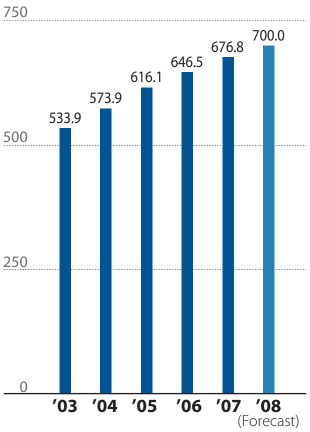
Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
Years ended March 31

	Millions of yen			Thousands of U.S. dollars[1]
	2007	2006	2005	**2007**
For the Year				
Revenue from Operations	**¥676,834**	¥646,525	¥616,115	**$5,731,510**
Operating Income	**137,176**	112,023	100,291	**1,161,622**
Ordinary Profit*	**112,406**	87,038	74,393	**951,867**
Net Income	**50,300**	32,506	15,548	**425,946**
At Year-End				
Total Assets	**¥2,747,900**	¥2,460,080	¥2,136,329	**$23,269,540**
Shareholders' Equity[2]	**409,197**	375,656	320,098	**3,465,128**
Interest-Bearing Debt	**1,473,644**	1,267,032	1,038,389	**12,478,991**
Per Share Data (Yen and Dollars)				
Net Income	**¥105.92**	¥ 68.33	¥ 32.64	**$0.90**
Shareholders' Equity	**861.93**	790.74	673.40	**7.30**
Cash Dividend Applicable to the Year	**14.00**	10.00	9.00	**0.12**

Notes: 1. U.S. dollar amounts in this report are translated, for convenience only, at the rate of ¥118.09=US$1, the approximate exchange rate as of March 31, 2007.
2. Shareholders' Equity = Net assets – Minority interests

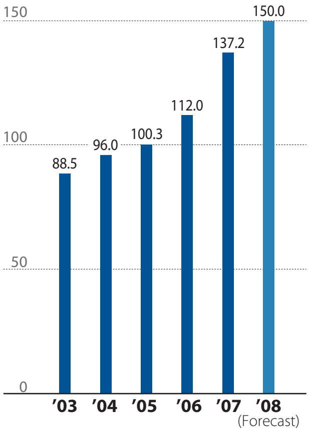
REVENUE FROM OPERATIONS

(Billions of yen)



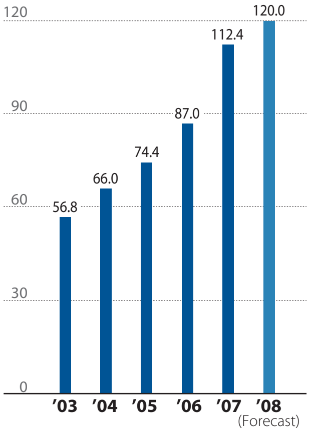
OPERATING INCOME

(Billions of yen)



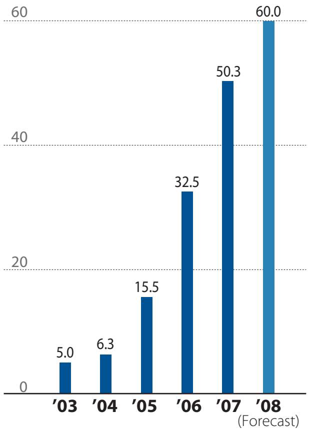
ORDINARY PROFIT*

(Billions of yen)



NET INCOME

(Billions of yen)



* 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.

A MESSAGE FROM THE MANAGEMENT

Junji Takashima
Chairman

Kenichi Onodera
President

TOWARD A NEW STAGE OF GROWTH

At the meeting of the board of directors following the 74th ordinary general meeting of shareholders on June 28, 2007, President & Representative Director Junji Takashima assumed the office of Chairman & Representative Director and Director & Senior Managing Executive Officer Kenichi Onodera assumed the office of President & Representative Director.

Under the Four-Year Business Reconstruction Plan (April 1997 to March 2001), Sumitomo Realty successfully dealt with the effects of the bursting of Japan's economic bubble. Subsequently, we implemented two full-scale growth plans. Under the New Three-Year Growth Plan (April 2001 to March 2004), we made steady progress, and under the Top Gear Growth Three-Year Plan (April 2004 to March 2007), which was concluded in the year under review, we exceeded the plan's original targets for operating income and ordinary profit, which were announced in November 2003. To extend this success, in April 2007 we took the first step toward a new stage of growth with the launch of a new medium-term management plan, the Third Three-Year Growth Plan (April 2007 to March 2010)*1.

Under the new plan, the basic objectives are to extend the record of 10 consecutive years of growth in revenue and profit and to maintain the pace of growth achieved under the previous three management plans. The Third Three-Year Growth Plan sets out aggressive growth targets. The targets for cumulative results over the three years covered by the new plan are revenue from operations of ¥2.4 trillion, operating income of ¥470 billion, and ordinary profit*2 of ¥380 billion. This represents an increase in profit that exceeds the increases under the previous two management plans.

*1 For further information about the Third Three-Year Growth Plan, please see page 4.

RESULTS IN FISCAL 2007

In fiscal 2007, Sumitomo Realty registered substantial gains in revenue and profit in the leasing segment and double-digit growth in operating income in the sales and brokerage segments. As a result, we recorded a 4.7% increase in revenue from operations, to ¥676.8 billion; a 22.5% gain in operating income, to ¥137.2 billion; and a 29.1% rise in ordinary profit*2, to ¥112.4 billion. We achieved our 10th consecutive year of higher revenue from operations, operating income, and ordinary profit and our 7th consecutive year of a new record high in ordinary profit. Net income rose 54.7%, to ¥50.3 billion, the second record-setting performance in a row.

In consideration of this performance, we raised the annual per-share cash dividends for fiscal 2007 to ¥14.00, an increase of ¥4.00 per share and a record high for the Company.

(Millions of yen) Fiscal Year	2005 (Actual)	2006 (Actual)	2007 (Actual)	2008 (Forecast)
Revenue from operations	616,115	646,525	676,834	700,000
Operating income	100,291	112,023	137,176	150,000
Ordinary profit*2	74,393	87,038	112,406	120,000

STRIVING TO ACHIEVE THE OBJECTIVES OF THE NEW MEDIUM-TERM MANAGEMENT PLAN

During the course of the new medium-term management plan, we expect the demand-supply balance in the office building market to remain favorable. Replacement demand should increase as older buildings lose competitiveness and companies seek larger offices. In the condominium market, the broad-based demand for first-time purchases will remain strong, centered on the children of baby boomers, but the effect of higher prices stemming from rising land prices and construction costs will need to be watched carefully. In the detached housing market, our original Shinchiku Sokkurisan remodeling business is expected to continue to benefit from replacement demand stemming from the aging of large numbers of houses that were built in the 1970s during 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.

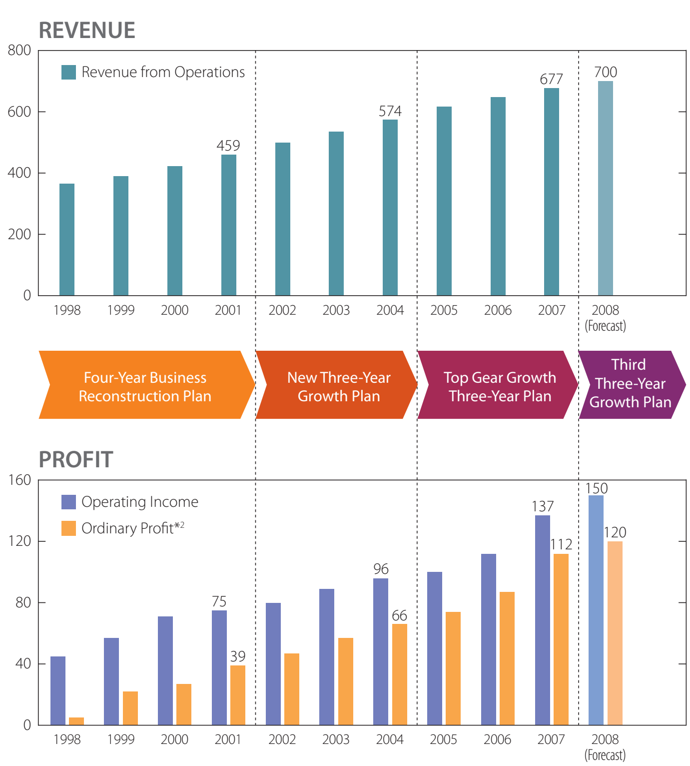
Based on this outlook, our performance forecasts for the fiscal year ending March 2008, the first year of the new medium-term management plan, are shown in the accompanying table. We expect to achieve our 11th consecutive year of higher revenue, operating income, and ordinary profit. The growth in profit, at 32%, is about one-third of the rate of profit growth called for in our three-year cumulative objectives. This is an indication of our confidence that the plan will get off to an exceptionally smooth start.

Although we have already acquired all of the sites that will be needed to achieve the objectives of our new management plan, one of our top priorities will be acquiring the sites that will be needed for subsequent ongoing growth. In the midst of intensified competition in site acquisition stemming from improved business conditions and rising land prices, we will work to ensure continued growth after the conclusion of the new plan by acquiring additional sites.

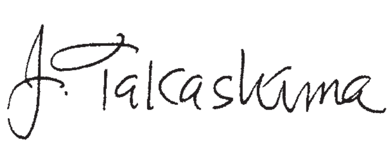
Furthermore, we have taken steps to ensure fresh approaches and innovative thinking among our executive officers. Of 33 executive officers, including the president, who is 60 years old, 24 executive officers, or more than 70%, are in their 40s. With this new, active execution system in place, all directors and employees will work together and redouble their efforts to achieve the objectives of the new medium-term management plan and subsequent ongoing growth.

We would like to ask for your continued support in the years ahead.

Steady Growth in Revenue and Profit (Billions of yen)



June 2007



Junji Takashima, Chairman

Kenichi Onodera, President

*2 Please refer to the note on page 1.

NEW MEDIUM-TERM MANAGEMENT PLAN

Sustainable Growth in Revenue and Profit

To build on the successful completion of its previous management plans, Sumitomo Realty has formulated a new management plan that covers the three-year period ending March 2010.

Third Three-Year Growth Plan (April 2007 to March 2010)

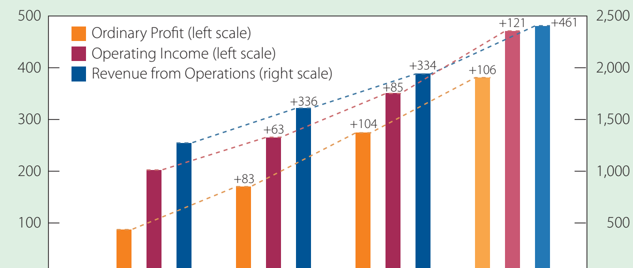
Basic objectives

- Extend the record of 10 consecutive years of growth in revenue and profit
- Maintain the pace of growth

Target cumulative results over the three years covered by the new plan

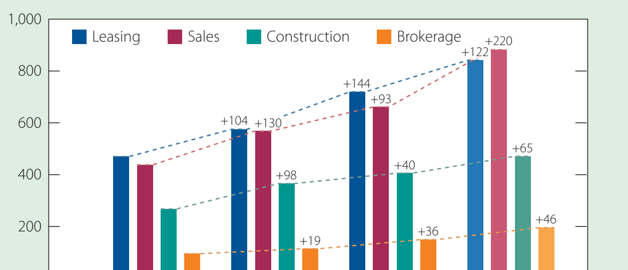
- Revenue from operations ¥2.4 trillion
- Operating income ¥470 billion
- Ordinary profit ¥380 billion

Growth under Medium-Term Management Plans (Billions of yen)



	Reconstruction Plan '99 – '01	1st Growth Plan '02 – '04	2nd Growth Plan '05 – '07	3rd Growth Plan '08 – '10
Revenue from Operations	1,270	1,606	1,939	2,400
Operating Income	202	265	350	470
Ordinary Profit	87	170	274	380

Revenue from Operations by Segment (Billions of yen)



	Reconstruction Plan '99 – '01	1st Growth Plan '02 – '04	2nd Growth Plan '05 – '07	3rd Growth Plan '08 – '10
Leasing	469	574	718	840
Sales	437	567	660	880
Construction	267	365	405	470
Brokerage	95	114	149	195

Notes: 1. Cumulative totals for the period covered by each plan.
2. The figures shown for the Reconstruction Plan are the cumulative totals for the final three years of the plan.

Sumitomo Realty Targets Sustainable Growth with a New Management Plan

Under the Reconstruction Plan (April 1997 to March 2001), Sumitomo Realty achieved a new record high level of profit, exceeding the previous record that was set during Japan's economic bubble. The Company subsequently implemented two full-scale growth plans. As a result, the new plan is the Company's third growth plan. The basic objectives of the new plan are to extend the record of 10 consecutive years of growth in revenue and profit and to maintain the pace of growth.

Succeeding in the real estate business, especially in office building and condominium development, requires a medium to long term perspective in the evaluation of both plans and results. Accordingly, in the new medium-term management plan, our objectives are calculated on the basis of three-year

Office Building Development by Plan

	Reconstruction Plan '99 – '01	1st Growth Plan '02 – '04	2nd Growth Plan '05 – '07	3rd Growth Plan '08 – '10
Gross Floor Area (Thousand m^2)	310	860	430	745
Number of Buildings	14	30	14	27

Condominium Development by Plan

	Reconstruction Plan '99 – '01	1st Growth Plan '02 – '04	2nd Growth Plan '05 – '07	3rd Growth Plan '08 – '10
Number of Condominiums (Thousand units)	11	13	15	19
Total Sales Price (Billions of yen)	437	567	660	880

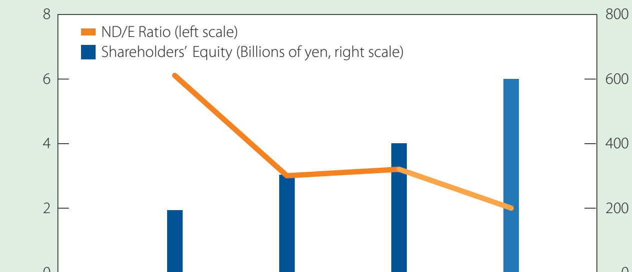
cumulative totals. That perspective is necessary because the most important factor in operational growth is the acquisition of sites under favorable terms. Also, the supply of prime sites, which are the raw materials for our products, is not always stable. Consequently, to protect against a shortage of prime sites on the market and price increases, Sumitomo Realty has already acquired all of the sites that will be needed to achieve the goals of its new management plan. The graphs on the previous page compare the levels of growth that we have achieved under our various management plans.

Stronger Financial Position through Increased Retained Earnings

Under the new plan, in addition to maintaining its course of growth, Sumitomo Realty will continue working to strengthen its financial position. Accordingly, we will strive to build retained earnings and achieve a ratio of net interest-bearing debt to shareholders' equity of about 2 times.

In recent years, as well as reinforcing our revenue base, we have taken aggressive steps to respond to changes in accounting standards and to reduce unrealized losses. As a result, we have already dealt appropriately with impairment losses and unrealized losses.

ND/E Ratio and Shareholders' Equity by Plan (Times)



	March 2001	March 2004	March 2007	March 2010
ND/E Ratio	6.1	3.0	3.2	2.0 (Forecast)

ND/E Ratio = Net interest-bearing debt (interest-bearing debt – cash, time and notice deposits) / Shareholders' equity

Balanced Portfolio

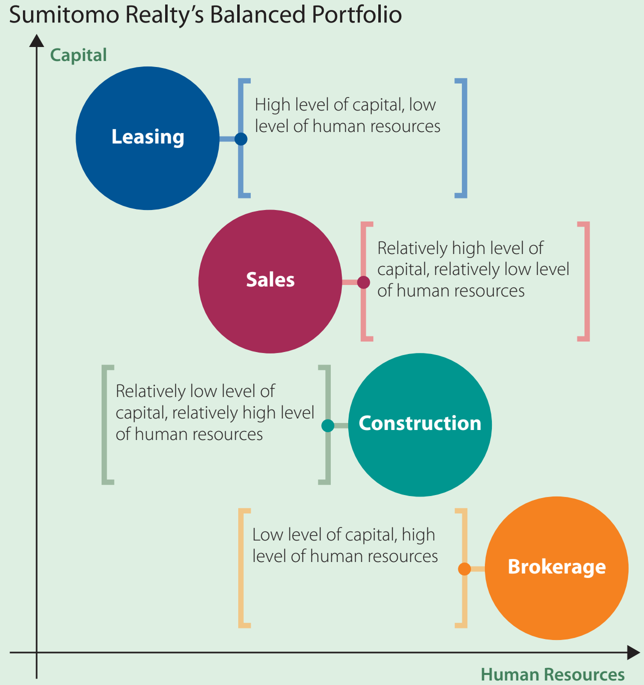
Our achievement of sustained growth has been the result of our well-balanced operations. We have a balanced portfolio in four operational fields—leasing, sales, construction, and brokerage—that have different risk profiles and capital requirements.

Taking Steps to Maintain Well-Balanced Operations

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.

* For further information about the Company's balanced portfolio, please see page 7 of *Annual Report 2006*, which is available on our website at http://www.sumitomo-rd.co.jp/ir/zaimu_annual.html.

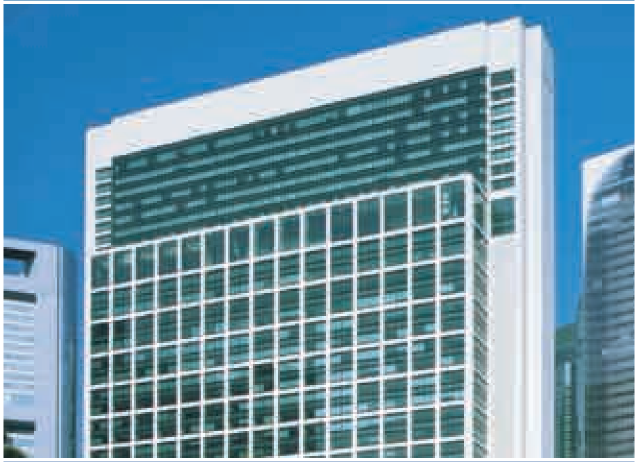
Sumitomo Realty's Balanced Portfolio



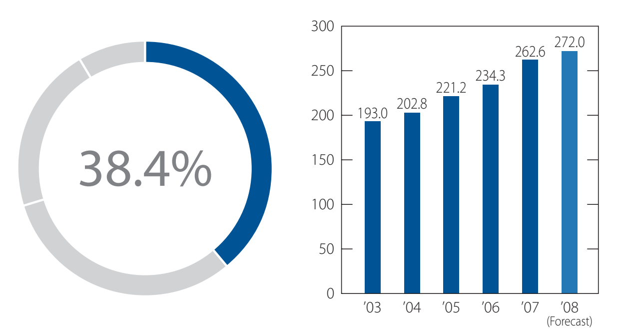
AT A GLANCE

Leasing

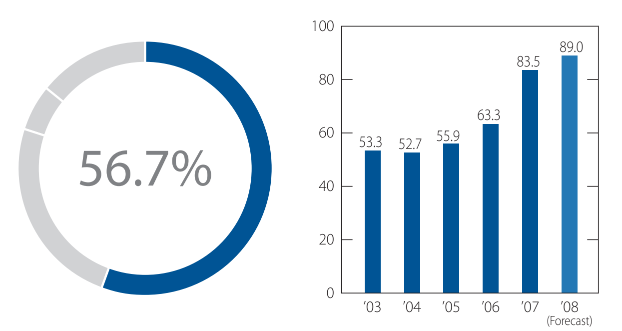
Office building, condominium, and other property leasing and management and related activities



Revenue from Operations (Billions of yen)



Operating Income (Billions of yen)

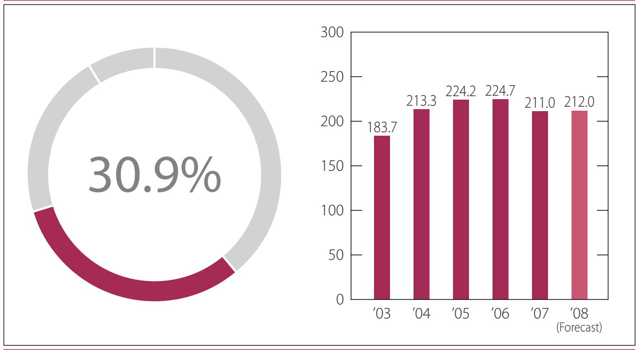


Within the leasing business, the Urban Property Management Division is responsible for the leasing of office buildings and luxury condominiums. The Urban Property Development Division handles the acquisition and development of land for the leasing business. In addition, Sumitomo Realty masterleases almost 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.

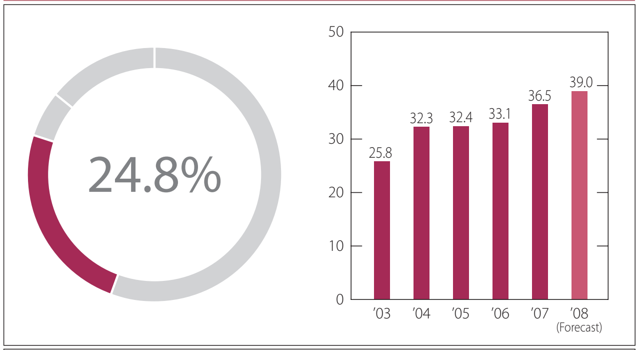
Sales

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)

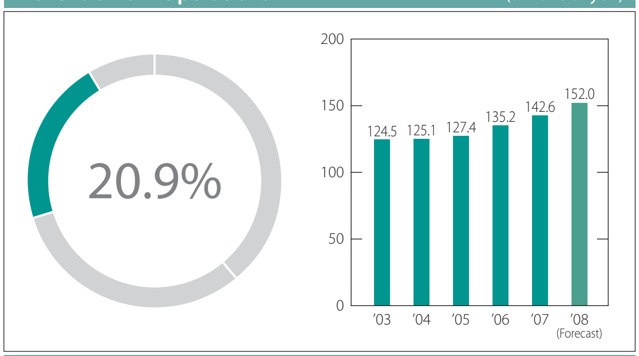


The Urban Property Development Division is responsible for the development and sale of condominiums, office buildings for sale, detached houses, and housing lots and related activities. It is also engaged in sales activities with Sumitomo Real Estate Sales Co., Ltd., while the management of condominiums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

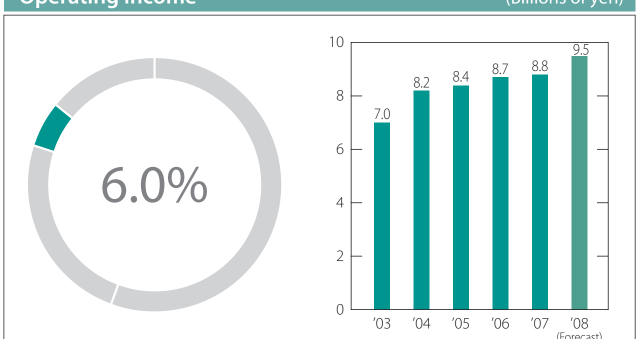
Construction

Detached house construction and remodeling and related activities

Revenue from Operations (Billions of yen)



Operating Income (Billions of yen)

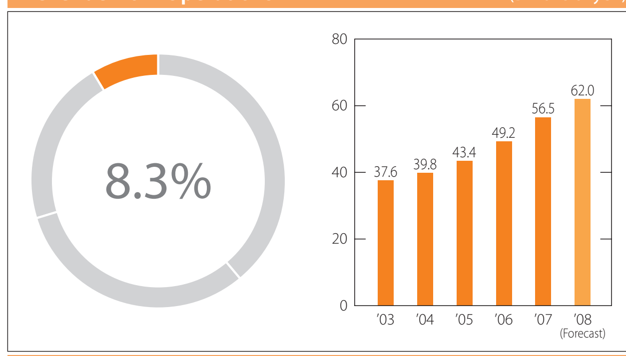


Sumitomo Realty's Housing Business Division works on the Company's full remodeling package Shinchiku Sokkurisan and the construction of new detached houses using two-by-four construction methods. Sumitomo Fudosan Syscon Co., Ltd., and Sumitomo Fudosan Reform Co., Ltd., are engaged in house renovations.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

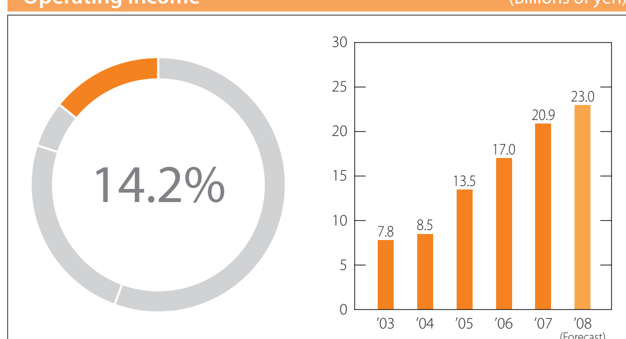
Brokerage

Brokerage and sales on consignment of real estate and related activities

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.

LEASING

In leasing operations, Sumitomo Realty has worked to create new opportunities by implementing innovative initiatives. In this way, the Company has established a position of leadership in the leasing industry. Our leasing business is characterized by an outstanding portfolio that includes many new, upscale buildings in central Tokyo and by a direct involvement in operations.

Sumitomo Fudosan Mita Twin Building West

Sumitomo Fudosan Mita Twin Building West

Sumitomo Fudosan Mita Twin Building East

SUMITOMO REALTY'S STRENGTHS

The Company 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 particular attention to large-scale projects in urban areas, especially those areas legally designated for redevelopment.

We currently have about 200 buildings for lease. 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, which accounts for more than 90% of our portfolio, the supply of new buildings is declining, while there is strong relocation demand as companies seek increased floor space to accommodate larger workforces as well as enhanced operational efficiency and improved work environments. As a result, the demand-supply balance remains tight. Vacancy rates are exceptionally low, and new contract rents are increasing. The trend toward higher rents for existing tenants when leases are renewed is spreading through the market.

In this environment, the leasing business recorded higher revenue due to improvement in the vacancy rate for existing buildings, which declined from 5.7% at the end of the previous fiscal year to 4.8% at the end of the year under review, as well as to higher new contract rents and to increased rents for existing tenants when leases are renewed. Moreover, the Sumitomo Fudosan Shin-Akasaka Building was open for the entire year, and seven new buildings were opened for occupancy during the year, including the Sumitomo Fudosan Kanda Building, Sumitomo Fudosan Mita Twin Building East, and Sumitomo Fudosan Mita Twin Building West. We recorded substantial gains in revenue and profit, with revenue from operations up 12.1%, to ¥262.6 billion, and operating income up 31.9%, to ¥83.5 billion.

OUTLOOK

In the fiscal year ending March 2008, we expect the demand-supply balance for office buildings to remain favorable.

The reduction in dividends from a silent partnership ("Tokumei Kumiai") that was liquidated at the end of the previous fiscal year will have an adverse influence on profit. Nonetheless, we are forecasting increased revenue and profit due to higher rents for existing buildings and to full-year contributions from such buildings as the Sumitomo Fudosan Mita Twin Building East and the Sumitomo Fudosan Mita Twin Building West. Also, we plan to open new buildings for occupancy, such as the Sumitomo Fudosan Harajuku Building and the Sumitomo Fudosan Yotsuya Building.

As a result, in the fiscal year ending March 2008, we anticipate revenue from operations of ¥272.0 billion, an increase of 3.6%, and operating income of ¥89.0 billion, a gain of 6.6%.

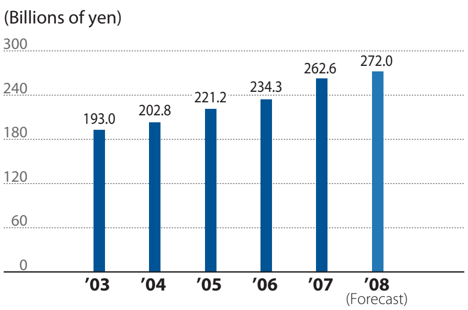
Sumitomo Fudosan Kanda Building

Sumitomo Fudosan Kudan Building

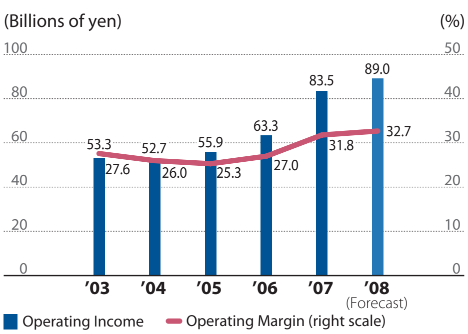
Shibakoen First Building

Izumi Garden Tower

REVENUE FROM OPERATIONS



OPERATING INCOME AND OPERATING MARGIN



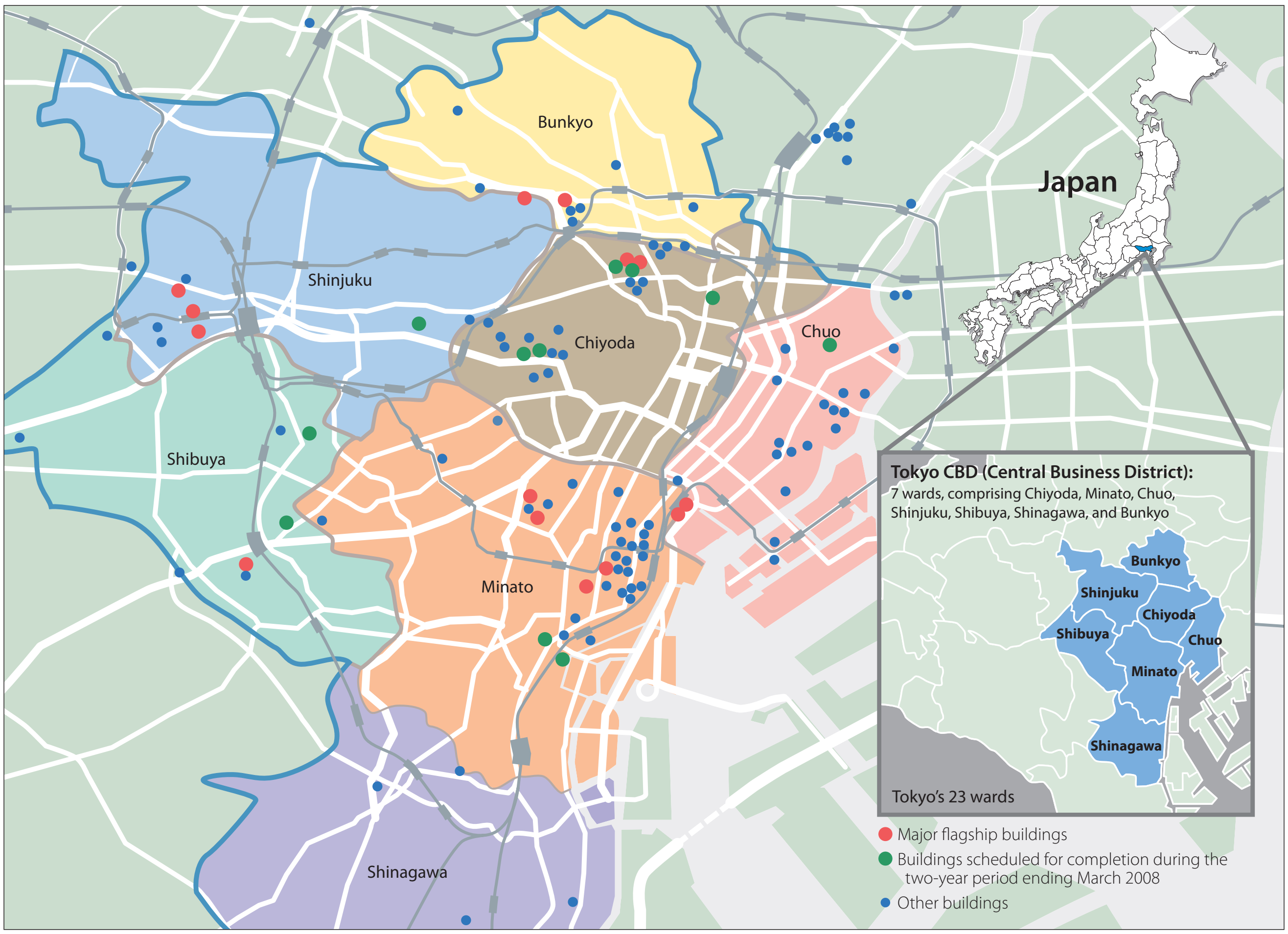
PRINCIPAL BUILDINGS

Name	No. of Floors (aboveground / underground)	Completion	Location (Tokyo CBD)	Gross Floor Area (m^2)
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
Sumitomo Fudosan Mita Twin Building West	43 / 2	Sept. 06	Minato Ward	98,338
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	June 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	52,747
Chiyoda First Building East	17 / 2	Oct. 98	Chiyoda Ward	37,473
Sumitomo Fudosan Shibakoen Tower	30 / 2	Oct. 01	Minato Ward	36,605
Sumitomo Fudosan Mita Twin Building East	17 / 1	Aug. 06	Minato Ward	35,047
Shibuya Infoss Tower	21 / 4	Mar. 98	Shibuya Ward	34,460
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.

LEASING

LOCATION OF PRIME PROPERTIES



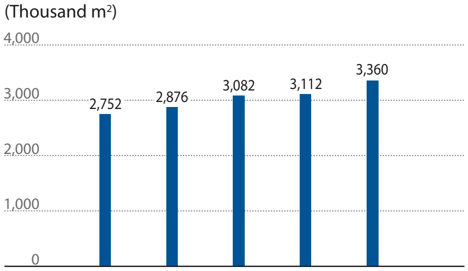
OFFICE BUILDING FEATURES

	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/m^2	300–500 kg/m^2	500–1,000 kg/m^2
Air conditioning	Central air conditioning system	Climate control zones	Separate climate control systems
Power capacity	45 VA/m^2	60–70 VA/m^2	85 VA/m^2 and over

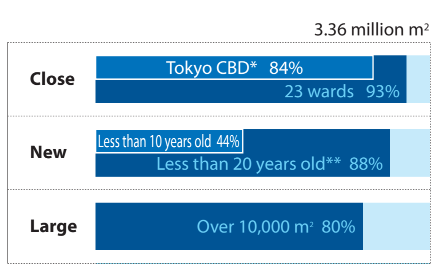
* Includes raised floors

GROSS FLOOR AREA

(Thousand m^2)



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 these categories 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.

Sumitomo Fudosan Harajuku Building

Chiyoda First Building South

SUMITOMO REALTY'S PORTFOLIO

Our portfolio includes many competitive prime properties located in urban areas. As of the end of March 2007, our portfolio of office buildings had a gross floor area of 3.4 million square meters and an average age of 13 years, the lowest among Japan's major real estate companies. About 44% of the buildings in our portfolio were completed in the past 10 years. Also, 93% of the buildings in our portfolio were located in the 23 wards of Tokyo, with 84% in Tokyo's central business district. Furthermore, 80% of the portfolio was made up of large-scale buildings of more than 10,000 square meters of gross floor area. 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 45% 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

Including the buildings that we expect to open during the Third Three-Year Growth Plan, prime properties will account for an even higher percentage of our portfolio. To respond to the change in market demand toward prime properties and away from buildings that are older, smaller, or in less attractive locations, we have been investing aggressively in new building construction, thereby further increasing the concentration of prime properties in our portfolio.

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.

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
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

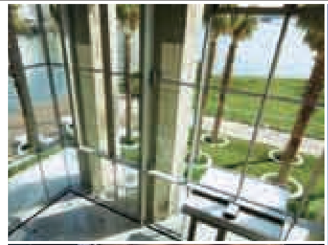
Buildings that can accommodate multiple units on a single floor enable tenant companies to increase the efficiency of their operations, and in recent years there has been a trend for companies to consolidate their offices. As a result, demand for large-scale buildings continues to increase.

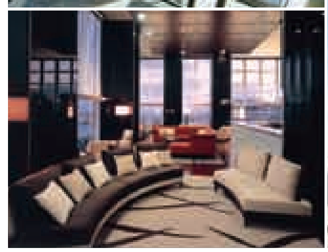
In the Tokyo central business district, where buildings that meet the three conditions for prime properties—close, new, and large—are in strong demand, our competitive portfolio will provide a strong foundation for us to utilize our strengths—development of high-value-added office buildings, tenant leasing,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

SALES

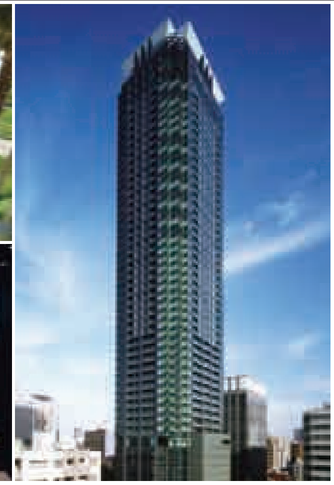
Sumitomo Realty is a pioneer in the Japanese market in condominium development for sales. The Company established its condominium sales business earlier than almost all of its competitors. Today, the development and sale of condominiums is the core of the Company's sales business and accounts for more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

World City Towers, which has 2,090 condominium units in Tokyo's Minato Ward, was completed in March 2007.





World City Towers



City Tower Nishi-Umeda

SUMITOMO REALTY'S STRENGTHS

Sumitomo Realty's condominium operations are centered in Japan's six largest urban areas—the Tokyo metropolitan area, Osaka/Kobe, Sapporo, Sendai, Nagoya, and Fukuoka. Moreover, in recent years we have enhanced our presence in other major cities, such as Niigata and Hiroshima. The Company develops and sells about 5,000 units a year.

Over the past decade, we have been one of the leading suppliers of condominium units nationwide. This strong position 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 scale of the buildings, and the 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.

The risk of market fluctuations is a critical factor in the condominium business. Consequently, the Company's policy is to offer a stable supply of condominiums and to enhance the Sumitomo Realty brand through the ongoing sale of high-quality units. In the years ahead, the Company will continue striving to maintain its strong position and further expand its business.

OVERVIEW OF THE FISCAL YEAR

In the condominium market, sales of new units were delayed in the year under review in anticipation of rising sales prices. In the Tokyo metropolitan area, the number of units supplied decreased 12%, declining below 80,000 for the first time in eight years. Nonetheless, the sales environment remained favorable overall, with support from a broad base of customer groups, including first-time buyers, principally the children of baby boomers, as well as middle-aged customers and single buyers. Moreover, the selling prices of superior properties in popular locations, such as central Tokyo, recorded notable gains.

In this environment, a portion of deliveries in our sales business were delayed to the fiscal year ending March 2008. As a result, the number of condominium units, detached houses, and land lots delivered in the year under review declined by 465 from the previous year, to 4,527.

Revenue from operations decreased 6.1%, to ¥211.0 billion. However, operating income rose 10.3%, to ¥36.5 billion, and the operating margin increased 2.6 percentage points, to 17.3%.

Because we gave higher priority to sales of condominium units unsold, the number of condominiums supplied declined by 959 units, to 3,548 units. The number of condominium units sold was down by 906, to 3,954 units.

OUTLOOK

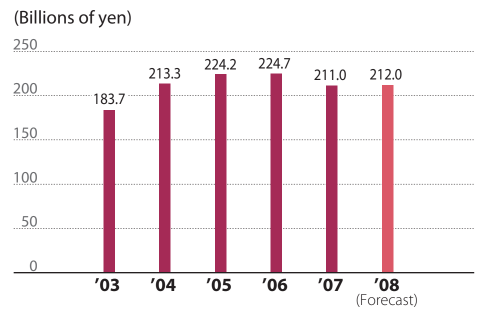
In the fiscal year ending March 2008, there is some uncertainty about the extent to which consumers will accept higher selling prices resulting from increased land prices. Nonetheless, we expect demand to be firm and conditions in the condominium market to be generally favorable.

We are forecasting the sale of a total of 4,500 condominium units, detached houses, and land lots, about the same as in the previous year. Of the 4,400 condominium units and detached houses that we anticipate delivering in the year ending March 2008, contracts had already been signed for 48% at the beginning of the fiscal year, compared with a contracted rate of 47% at the beginning of the previous fiscal year.

We are forecasting revenue from operations of ¥212.0 billion, an increase of 0.5%, and operating income of ¥39.0 billion, up 6.7%.

Grand Hills Sangenjaya

REVENUE FROM OPERATIONS

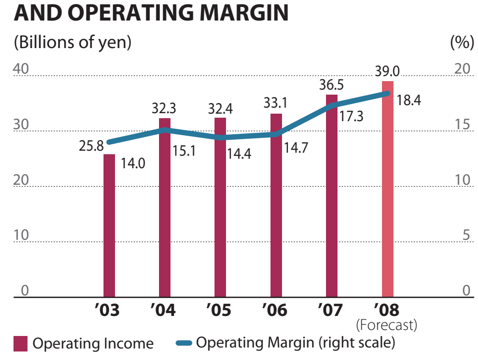


PRINCIPAL CONDOMINIUM DEVELOPMENT PROJECTS (FY2008–FY2010)

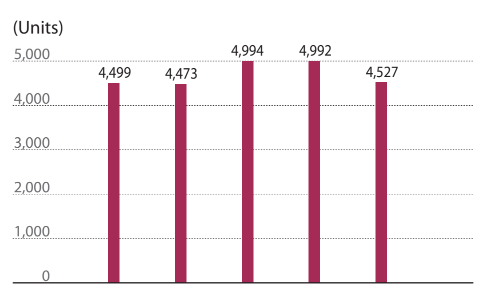
Name	Location	No. of Units	No. of Floors	Scheduled Delivery
Grand Hills Sangenjaya	Setagaya Ward, Tokyo	311	12	FY2008
Park Square Minamishinagawa	Shinagawa Ward, Tokyo	192	16	FY2008
City Tower Sapporo-Odori	Sapporo	182	41	FY2008
Park Square Saitama-Shintoshin	Saitama	498	15	FY2008 / FY2009
Times Peace Square	Osaka	633*	19	FY2008 / FY2009
Konan 4-chome Project	Minato Ward, Tokyo	829*	43	FY2009
City Terrace Mejiro	Toshima Ward, Tokyo	293	18	FY2009
City Terrace Saitama-Shintoshin	Saitama	396	19	FY2009
Park Square Shonan-Chigasaki	Chigasaki	462	16	FY2009
Park Square Kobe-Oishi	Kobe	235	14	FY2009
City Tower Sendai-Itsutsubashi	Sendai	184	28	FY2009
Kyoto-Matsuiyamate Project	Kyoto	630*	15	FY2009 / FY2010
Toyosu Project	Koto Ward, Tokyo	1,063	48	FY2010
Park Square Sagamiono	Sagamihara	718	32	FY2010
City Tower Osaka-Fukushima	Osaka	350	37	FY2010
Osaki Station Project	Shinagawa Ward, Tokyo	1,100*	—	FY2010
Toyosu Project II	Koto Ward, Tokyo	850	—	FY2010
Mita-Koyamacho Project	Minato Ward, Tokyo	500*	—	FY2010

* Number of units includes the units of business partners.

OPERATING INCOME AND OPERATING MARGIN



UNITS DELIVERED



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

CONSTRUCTION

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

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

AFTER REMODELING

SUMITOMO REALTY'S STRENGTHS

REMODELING

In 1996, Sumitomo Realty launched the Shinchiku Sokkurisan Full Remodeling Package. This product addresses the concern that remodeling can sometimes be more expensive than rebuilding in Japan due to the risk of cost overruns. With Shinchiku Sokkurisan, a house can be fully remodeled at half the cost and in half the time required to rebuild it. And because Shinchiku Sokkurisan uses less materials, it is also environmentally friendly. We are the only major real estate company offering this type of product, and Shinchiku Sokkurisan has been well received in the marketplace. Cumulative sales have surpassed 30,000 units, and Shinchiku Sokkurisan continues to record solid growth.

CUSTOM HOMES

In 1995, Sumitomo Realty launched the American Comfort line of high-quality, low-cost Western-style homes in Japan using the know-how that the Company acquired in building and selling homes constructed with the two-by-four method in California. Today, under the brand name Series of World Home Designs, we sell homes based on designs from countries around the world. In April 2003, we launched the J-Urban home design, which combines the excellent security features of condominiums with the superior ventilation and lighting of detached houses. J-Urban has been highly evaluated in the marketplace and has received a Good Design Award from the Japan Industrial Design Promotion Organization.

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.

CUSTOM HOMES

- 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.

J-Urban III Ichikawa Model House (opened April 2006)

OVERVIEW OF THE FISCAL YEAR

In custom home operations, we gave priority to restructuring our operations to further improve quality and strengthen our inspection system, and we temporarily limited the acceptance of orders. As a result, the number of orders and the number of completed units both declined in the year under review.

On the other hand, in our Shinchiku Sokkurisan remodeling operations, we continued to achieve favorable expansion, with both orders and sales recording double-digit growth. The number of orders increased 12.7%, to 6,892 units; the number of units delivered was up 13.2%, to 6,508; and sales rose 19.1%.

As a result, in the construction segment, we recorded overall year-on-year gains in orders, completed units, and sales. On a consolidated basis, including the results of such companies as Sumitomo Fudosan Syscon Co., Ltd., Sumitomo Fudosan Reform Co., Ltd., and Universal Home Inc., revenue from operations rose 5.5%, to ¥142.6 billion, and operating income increased 0.8%, to ¥8.8 billion, for the sixth consecutive year of higher sales and profit.

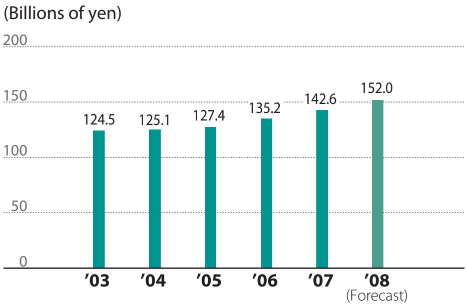
Shinchiku Sokkurisan contributed ¥75.2 billion to revenue from operations, custom homes ¥42.8 billion, and other business ¥24.6 billion.

OUTLOOK

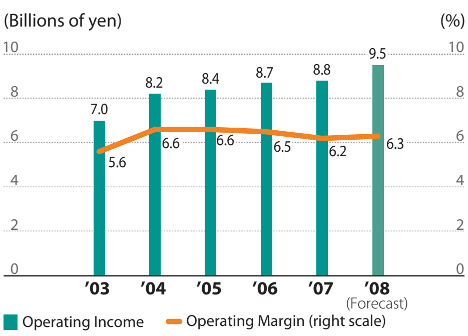
In the fiscal year ending March 2008, in custom home operations, we will work to reinforce our reorganization measures and to bolster our sales system. In Shinchiku Sokkurisan operations, we will continue to strengthen our sales system by expanding our network of operational bases and to aggressively expand our operations.

As a result, we are targeting revenue from operations of ¥152.0 billion, up 6.6%, and operating income of ¥9.5 billion, up 7.8%.

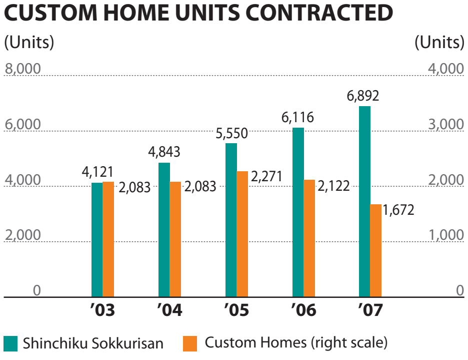
REVENUE FROM OPERATIONS



OPERATING INCOME AND OPERATING MARGIN



SHINCHIKU SOKKURISAN AND CUSTOM HOME UNITS CONTRACTED



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 231 by the end of March 2007. 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 the market for existing homes, improved economic conditions are supporting continued growth in the number of transactions. At the same time, in the three major urban areas of Tokyo, Osaka, and Nagoya, land prices are rising and the number of transactions in investment properties is increasing. As a result, average transaction prices continue to move upward.

In this setting, we recorded a strong performance in our mainstay brokerage operations, with the average transaction price rising 8.4% and the number of transactions increasing 4.5%, to 29,199, a record high for the Company. Moreover, total transaction value passed ¥1 trillion for the first time, reaching ¥1.1 trillion for the year, an increase of 13.3%. As a result, we recorded major gains in revenue and profit, with revenue from operations up 14.9%, to ¥56.5 billion, and operating income up 23.4%, to ¥20.9 billion.

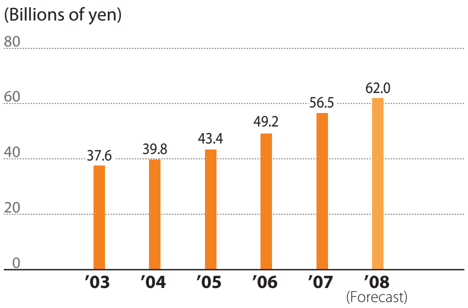
We opened five new directly managed brokerage offices in the Tokyo metropolitan area, in such locations as Kojimachi and Ginza, and two in other areas, for a total of seven offices opened during the year. At the end of the year under review, the nationwide total was 231.

OUTLOOK

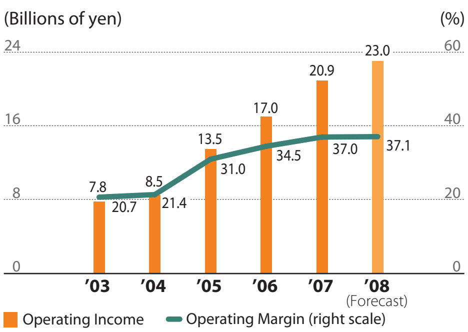
In the fiscal year ending March 2008, we expect the market to continue to expand, with continued growth in the number of transactions and transaction prices. We will continue to add new offices and enhance existing offices and will bolster our IT strategy. In this way, we will work to raise sales efficiency and boost our market share. Meanwhile, in the wholesale brokerage business, where we focus on brokerage services for investment properties and on office leasing activities, we will take steps to further increase our earnings by expanding our customer base to include public institutions as well as real estate funds and companies.

We will strive to achieve revenue from operations of ¥62.0 billion, an increase of 9.7%, and operating income of ¥23.0 billion, up 9.8%.

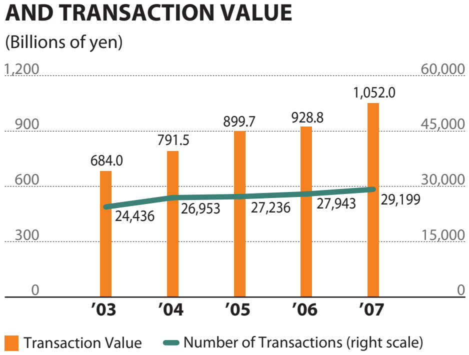
REVENUE FROM OPERATIONS



OPERATING INCOME AND OPERATING MARGIN



NUMBER OF TRANSACTIONS AND TRANSACTION VALUE



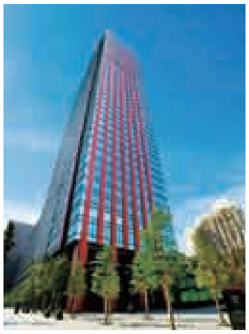
OUR HISTORY

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 custom home 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 in Minato Ward, Tokyo. • Completed construction of Shiodome Sumitomo Building in Minato Ward, Tokyo.
2005	• Completed construction of Tokyo Shiodome Building in Minato Ward, Tokyo. • Commenced sales of J-Urban III three-story, urban-style houses and J-Urban Court suburban-style houses.
2006	• Cumulative total number of orders for Shinchiku Sokkurisan remodeling business surpassed 30,000. • Established Sumitomo Fudosan Reform Co., Ltd., a consolidated subsidiary. • Completed Sumitomo Fudosan Mita Twin Building (East and West) in Minato Ward, Tokyo.

Shinjuku Sumitomo Building

Shinjuku NS Building

Izumi Garden Tower



Sumitomo Fudosan
Mita Twin Building West

CORPORATE GOVERNANCE

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 implemented a number of corporate governance initiatives to realize these practices efficiently.

CORPORATE GOVERNANCE BODIES

In addition to the board of directors, the Company has established the Executive Officers Committee, which is led by the Chairman of the Board. These corporate governance bodies discuss important issues and make decisions rapidly and appropriately. 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.

In April 2004, we instituted an executive officer system with the objectives of selecting capable young employees and substantially bolstering our administrative systems.

The board of statutory auditors has five members, including three outside statutory auditors. To strengthen management oversight, we continue working to enhance outside auditing. The statutory auditors attend meetings of the board of directors and the Executive Officers Committee, track internal issues that are important for robust auditing, and provide opinions as needed.

The Inspection Department, which has four staff members, monitors the operational execution of divisions throughout the Group and the operation of internal control systems. The department also works to prevent misconduct and mistakes. Moreover, the department reports the results of its audits to the statutory auditors and exchanges opinions with the statutory auditors in an appropriate manner. In these ways, we are working to strengthen and increase the efficiency of both the board of statutory auditors and the Inspection Department. Moreover, 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.

INDEPENDENT AUDITORS

In accordance with the Corporate Law and the Japanese Securities and Exchange 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.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

To efficiently institute sound management practices, the Company has established a range of internal control systems and is working to enhance those systems.

To further enhance our compliance with laws and regulations and to ensure ethical business practices, we established the Compliance Promotion Committee. In addition, through the Inspection Department, we have established internal auditing and internal reporting systems. In these ways, we are working to prevent inappropriate and illegal actions. In regard to information management, to ensure proper storage and control of documents, we have established internal standards for document control. Furthermore, in terms of risk management systems, each department tracks and manages the risks associated with its operations on a daily basis, while important issues are discussed and decided upon by the board of directors and the Executive Officers Committee. In the future, we will consider further enhancement of regulations and systems as needed.

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.

In the year under review, compensation for directors was ¥838 million and compensation for statutory auditors was ¥60 million.

SIX-YEAR FINANCIAL SUMMARY

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

	Millions of yen					
	2007	2006	2005	2004	2003	2002
For the Year						
Revenue from Operations	**¥676,834**	¥646,525	¥616,115	¥573,862	¥533,915	¥497,877
Leasing	**262,620**	234,280	221,234	202,776	192,979	178,034
Sales	**211,035**	224,735	224,191	213,303	183,745	170,428
Construction	**142,564**	135,158	127,388	125,086	124,464	115,329
Brokerage	**56,532**	49,217	43,445	39,809	37,577	36,184
Cost of Revenue from Operations	**490,491**	487,805	470,636	435,078	403,777	377,199
SG&A Expenses	**49,167**	46,697	45,188	42,807	41,626	40,308
% of Revenue from Operations	**7.3%**	7.2%	7.3%	7.5%	7.8%	8.1%
Operating Income	**137,176**	112,023	100,291	95,977	88,512	80,370
% of Revenue from Operations	**20.3%**	17.3%	16.3%	16.7%	16.6%	16.1%
Depreciation and Amortization	**15,677**	16,330	14,019	12,211	11,973	10,731
At Year-End						
Current Assets	**¥ 756,488**	¥ 619,219	¥ 481,341	¥ 503,911	¥ 423,446	¥ 404,999
Sales Inventory[1]	**531,377**	388,627	260,613	234,019	189,136	178,450
Total Assets	**2,747,900**	2,460,080	2,136,329	2,090,970	2,015,667	1,972,735
Shareholders' Equity[2]	**409,197**	375,656	320,098	303,875	211,821	213,767
Net Interest-Bearing Debt	**1,343,824**	1,150,880	935,155	916,156	1,036,419	1,098,407
Per Share Amounts (Yen)						
Net Income	**¥105.92**	¥ 68.33	¥ 32.64	¥ 15.34	¥ 12.22	¥ 56.50
Shareholders' Equity	**861.93**	790.74	673.40	639.01	520.84	525.17
Cash Dividend Applicable to the Year	**14.00**	10.00	9.00	9.00	6.00	6.00
Key Ratios						
Equity Ratio (%)	**14.9**	15.3	15.0	14.5	10.5	10.8
ND/E Ratio[3] (Times)	**3.2**	3.1	2.9	3.0	4.9	5.1

Notes: 1. Sales Inventory = Inventories + Investments in SPCs holding properties for sale
2. Shareholders' Equity = Net assets – Minority interests
3. ND/E Ratio = Net interest-bearing debt (interest-bearing debt – cash, time and notice deposits) / Shareholders' equity

CONTENTS

OVERVIEW

In the fiscal year ended March 2007, the final year of the Top Gear Growth Three-Year Plan, Sumitomo Realty recorded substantial gains in revenue from operations and profit in the leasing segment and double-digit growth in operating income in the sales and brokerage segments. As a result, we achieved our 10th consecutive year of gains in revenue from operations and operating income. Moreover, we posted record-high ordinary profit and net income.

The Top Gear Growth Three-Year Plan, which we commenced in April 2004, was successfully completed in the year under review. In April 2007, we launched a new medium-term management plan, the Third Three-Year Growth Plan*[1]. Following the Four-Year Business Reconstruction Plan, under which we shook off the effects of the collapse of Japan's bubble economy, and the two subsequent full-scale growth plans, the new plan is our third growth plan. The basic objectives of the plan are to extend the record of 10 consecutive years of growth in revenue and profit and to maintain the pace of growth achieved under the previous three plans. The targets for cumulative results over the three years covered by the new plan are revenue from operations of ¥2.4 trillion, operating income of ¥470 billion, and ordinary profit of ¥380 billion. These figures represent an increase in profit that exceeds the increases under the previous two management plans.

*1 For further information about the Third Three-Year Growth Plan, please see page 4.

RESULTS OF OPERATIONS

Revenue from Operations and Operating Income

In the fiscal year under review, revenue from operations rose 4.7%, to ¥676.8 billion, and operating income was up 22.5%, to ¥137.2 billion. This performance resulted from substantially higher revenue and profit in the leasing segment and double-digit growth in operating income in the sales and brokerage segments.

For more information about each segment, please see the Review of Operations section on pages 8 to 16.

Other Income and Expenses

Net other expenses improved to ¥45.1 billion, from ¥50.5 billion in the previous fiscal year. In the previous year, we recorded loss on cancellation of interest rate swap agreement of ¥2.5 billion, while in the year under review we did not record that loss. Also, in the year under review, we recorded gain on liquidation of silent partnership of ¥46.2 billion*[2] and gain on adjustment of sub-lease rent paid of ¥1.4 billion. On the other hand, due to the increase in interest-bearing debt, interest expense, net, increased ¥3.0 billion. In addition, loss on devaluation of property and equipment, which was intended to improve our investment efficiency on buildings for lease, was ¥62.6 billion, and loss on devaluation of investments in securities was ¥1.5 billion.

*2 For further information, please see note 14 on page 37.

Net Income

Income before income taxes and minority interests totaled ¥92.1 billion, up 49.7% from a year earlier. Income taxes were up 46.4%, to ¥38.5 billion. Net income rose 54.7%, to ¥50.3 billion, and the net margin increased to 7.4%, from 5.0% in the previous year.

CASH FLOWS

Cash and cash equivalents at the end of the year totaled ¥129.8 billion, an increase of ¥13.7 billion from the end of the previous year.

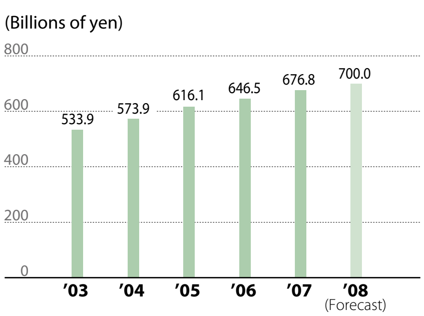
Cash Flows from Operating Activities

Net cash used in operating activities was ¥48.9 billion, due principally to increasing inventories. In comparison with the previous year, increases were recorded in income before income taxes and minority interests, investment in properties for sale (condominiums), and payments for income taxes and other taxes, while increase in advances received was lower than in the previous year.

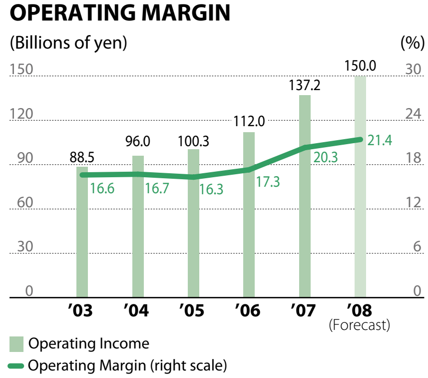
Cash Flows from Investing Activities

Net cash used in investing activities was ¥187.9 billion. As new development investment in the leasing segment, payments for purchases of property and equipment amounted to ¥152.6 billion. We also

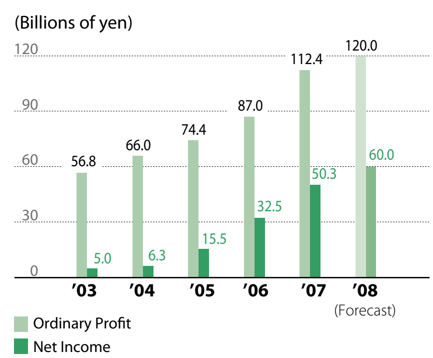
REVENUE FROM OPERATIONS



OPERATING INCOME AND OPERATING MARGIN



ORDINARY PROFIT AND NET INCOME



recorded a refund of about ¥15.0 billion in deposits from partnership investors, such as SURF investment partnerships, for leased buildings managed by the Company.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥250.1 billion. Redemption of bonds and notes was ¥80.9 billion, and repayment of long-term debt was ¥130.2 billion. On the other hand, proceeds from issuance of bonds and notes were ¥100.0 billion, and proceeds from long-term debt totaled ¥261.0 billion.

CAPITAL RESOURCES AND LIQUIDITY

Assets

At the end of the year under review, total assets were ¥2,747.9 billion, an increase of 11.7% from the previous fiscal year-end. The principal reasons for this rise were increases in investment in properties for sale (condominiums) and in property and equipment due to investment in leasing facilities. Total current assets rose 22.2%, to ¥756.5 billion, due primarily to increases in cash, time and notice deposits and inventories. Inventories were up 47.9%, to ¥489.1 billion at the end of the year under review. This increase was due to the delivery of certain properties being rescheduled for the next fiscal year and to the accumulation of sites for new buildings. Net property and equipment rose 8.7%, to ¥1,453.5 billion.

Liabilities

Total liabilities were up 12.2% from the previous fiscal year-end, to ¥2,320.9 billion. Current liabilities rose 4.6%, to ¥870.8 billion. Short-term debt was up 22.7%, to ¥306.0 billion, primarily as a result of an increase of 109.7% in commercial paper, which rose to ¥108.0 billion. Long-term debt due within one year decreased 22.9%, to ¥157.0 billion. Moreover, long-term liabilities were up 17.2%, to ¥1,450.0 billion, principally due to an increase of 13.3% in bonds, to ¥285.0 billion, and a gain of 29.0% in long-term debt, to ¥725.6 billion.

As a result, at the end of the fiscal year, interest-bearing debt was up 16.3%, to ¥1,473.6 billion, an increase of ¥206.6 billion. In the midst of intensified competition in site acquisition stemming from improved business conditions and rising land prices, 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 prepared for growth in profit over the medium to long term.

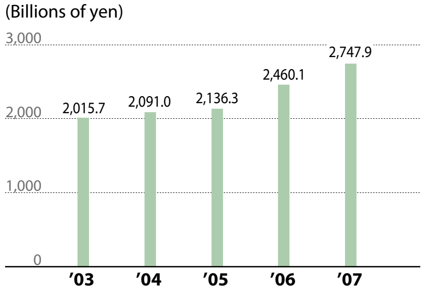
	Millions of yen			
	2007	2006	Amount change	% change
Short-term debt:				
Principally from banks	¥ **197,970**	¥ 197,770	¥ 200	0.1
Commercial paper	**108,000**	51,500	56,500	109.7
Subtotal	**305,970**	249,270	56,700	22.7
Long-term debt:				
Bonds and notes	**351,567**	332,441	19,126	5.8
Loans principally from banks	**816,107**	685,321	130,786	19.1
Subtotal	**1,167,674**	1,017,762	149,912	14.7
Long-term debt due within one year	**157,044**	203,688	−46,644	−22.9
Long-term debt due after one year	**1,010,630**	814,074	196,556	24.1
Interest-bearing debt	**1,473,644**	1,267,032	206,612	16.3

Shareholders' Equity

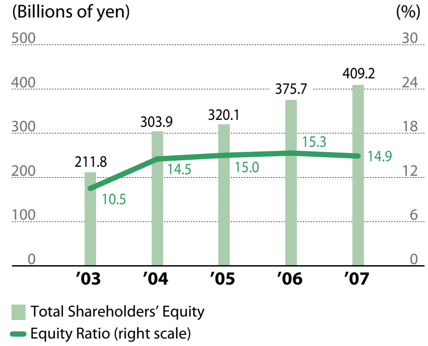
Shareholders' equity was up 8.9% from the end of the previous fiscal year, to ¥409.2 billion, due primarily to higher retained earnings stemming from the substantial increase in net income. The shareholders' equity ratio was 14.9%, compared with 15.3% a year earlier.

ROE rose to 12.8%, from 9.3% a year earlier, and ROA was 5.4%, compared with 5.0% a year earlier.

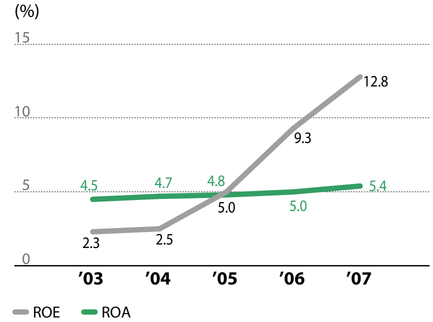
TOTAL ASSETS



SHAREHOLDERS' EQUITY AND EQUITY RATIO



ROE AND ROA



FINANCIAL STRATEGY

Characteristics of Operations and Diversification of Fund-Raising

In leasing and sales, which are our mainstay business segments, several years are required from the acquisition of a site to the completion of a building and the generation of revenues. In addition, significant advance investment is required. In consideration of these factors, under the two growth plans that followed the Four-Year Business Reconstruction Plan, to reinforce our financial position and achieve operational growth, we worked to diversify our fund-raising methods so as to control interest-bearing debt while making investments needed for growth.

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.

Using SPCs where off-balance-sheet funds are raised through non-recourse loans, we worked to conduct development on a large-scale with a small amount of money without placing a burden on our balance sheet. SPCs include those with properties that are in development and those with properties for leasing that are in operation. 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. At the end of March 2007, these balances were ¥42.3 billion and ¥59.9 billion.

The balance of investment received in SURF investment partnerships was ¥155.2 billion.

By actively utilizing these types of fund-raising methods that do not rely on interest-bearing debt, we have raised large amounts of funds without having to sell assets at low prices, and we have aggressively acquired sites.

Aggressive Site Acquisition

Under the Top Gear Growth Three-Year Plan, which was concluded in the year under review, competition in site acquisition was expected to intensify, due to the recovery in business conditions and higher land prices. We decided that we should focus several years into the future and focus on responding flexibly to changes in the operating environment and being more aggressive in site acquisition. As a result, we have already acquired all of the sites that will be needed to achieve the goals of the Third Three-Year Growth Plan.

Investment in Line with Changes in the Market Environment

Acquiring the sites that will be needed for subsequent, ongoing growth is still one of the Company's top priorities. Nonetheless, competition in site acquisition is intensifying further, and in the current environment sites cannot be acquired easily. As a result, we need to use other methods to acquire sites, such as redevelopment and site consolidation. In these cases, it is difficult to raise funds through SPCs that utilize non-recourse methods, which means that we need to use on-balance-sheet fund-raising methods.

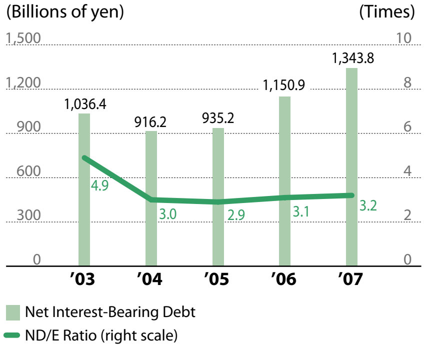
On the other hand, we have completed the implementation of measures to deal with unrealized losses, and higher profits are generating growth in equity. As a result, in the fiscal year ending March 2010, the final year of the Third Three-Year Growth Plan, we expect to improve the ND/E ratio to about 2 times. Consequently, we will continue working to secure prime sites while making investments in line with growth in equity.

Bolstering Our Financial Position

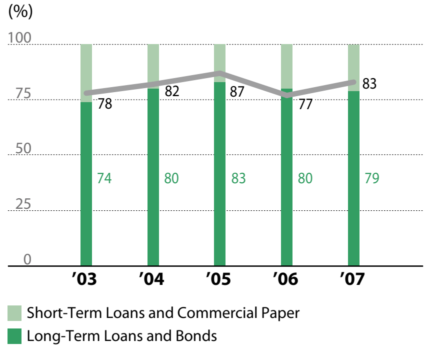
At the same time, we are also working to raise funds at fixed, long-term rates as a precaution against future increases in interest rates. As a result, at the end of the year under review, long-term debt accounted for 79% of interest-bearing debt, compared with 80% a year earlier, and fixed-interest rate debt accounted for 83% of interest-bearing debt, up from 77% at the end of the previous fiscal year.

In the previous three years, multiple rating agencies increased the ratings on our bonds, and the terms under which we can borrow long-term funds or issue bonds are steadily improving. We will strive to establish a financial position that will enable us to raise funds on more attractive terms in the years ahead.

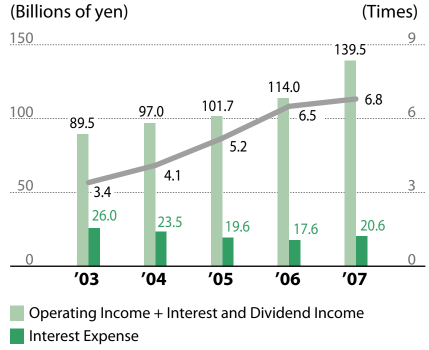
NET INTEREST-BEARING DEBT AND ND/E RATIO



LONG-TERM DEBT RATIO AND FIXED-INTEREST RATE DEBT RATIO



INTEREST COVERAGE RATIO



DIVIDEND POLICY

Our fundamental policy for the distribution of profit is to maintain a stable base level of dividends and, while retaining a sufficient level of earnings for stable, long-term operational growth, to increase dividends in line with growth in profit. We steadily strengthened our profit foundation under two management plans—the Four-Year Business Reconstruction Plan, which dealt with the effects of the collapse of Japan's bubble economy, and the New Three-Year Growth Plan. In addition, we 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. Under the Top Gear Growth Three-Year Plan, which began in April 2004, we completed the implementation of measures to deal with unrealized losses, and we were able to lay the foundation for full-scale growth in EPS. However, we still need to increase our equity further, and for the time being our policy is to pay dividends in line with growth in ordinary profit.

In the year under review, we exceeded the profit objective set out the Top Gear Growth Three-Year Plan, and ordinary profit rose 29.1%. As a result, we raised annual per-share cash dividends to ¥14.00, including the ¥6.00 interim dividend, representing an increase of ¥4.00 per share from the previous fiscal year.

In the fiscal year ending March 2008, we are forecasting an increase in ordinary profit, and accordingly we plan to raise dividends by ¥2.00 per share, to ¥16.00 for the year.

CHANGE IN THE ARTICLES OF INCORPORATION

In accordance with a resolution approved at the ordinary general meeting of shareholders held on June 28, 2007, a change was made to the Company's articles of incorporation regarding the method of acquiring treasury stock. As a result of this change, to diversify the means of providing a return of profits to shareholders in the future, acquisitions of treasury stock can be made in accordance with a resolution of the board of directors.

INTRODUCTION OF TAKEOVER DEFENSE MEASURES

The Company introduced a policy for responding to large-scale purchases of its shares, and at the ordinary general meeting of shareholders held on June 28, 2007, the policy was approved by more than 70% of shareholders, which is the level of support required for the approval of special resolutions.

Overview of Takeover Defense Measures

Large-scale purchases that are subject to the policy are those purchases of shares of the Company where a specific shareholder group intends to hold a ratio of voting rights of 20% or more or where a specific shareholder group will, as a result, hold a ratio of voting rights of 20% or more.

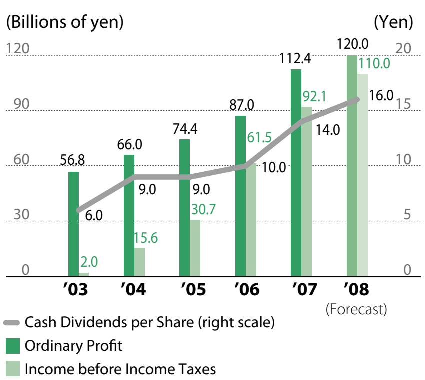
The large-scale purchase rules stipulate that the large-scale purchase shall begin after necessary and sufficient information is provided to the board of directors by the large-scale purchaser and a certain period for evaluation by the board of directors has elapsed.

To ensure the objectivity, fairness, and rationality of decisions of the board of directors, a special committee will be established that consists of members selected from among external academic experts, lawyers, certified public accountants, etc.

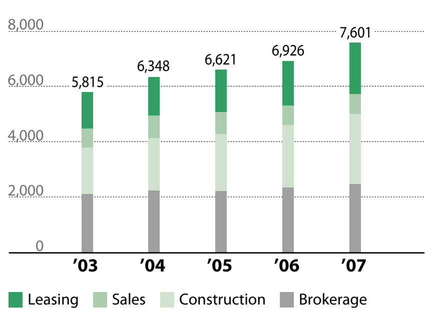
If the large-scale purchase will significantly damage the corporate value and common interests of shareholders, after considering the opinions of external experts, including lawyers and financial advisors, and taking into the fullest account the recommendations of the special committee, the board of directors may take countermeasures to deter the purchase, such as the issuance of stock options.

The effective period of the takeover defense policy is matched with the period of the Third Three-Year Growth Plan, which was commenced in April 2007. The effective period will expire at the close of the 77th ordinary general meeting of shareholders held by the end of June 2010.

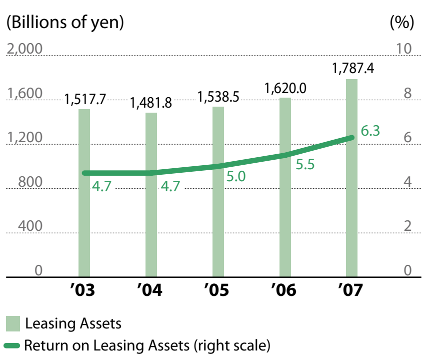
CASH DIVIDENDS PER SHARE, ORDINARY PROFIT, AND INCOME BEFORE INCOME TAXES



NUMBER OF EMPLOYEES IN MAJOR SEGMENTS



LEASING ASSETS AND RETURN ON LEASING ASSETS



CONSOLIDATED BALANCE SHEETS

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
As of March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2007**	2006	**2007**
Current assets:			
Cash, time and notice deposits (Note 3)	**¥ 129,820**	¥ 116,153	**$ 1,099,331**
Marketable securities (Note 7)	**1,203**	703	**10,187**
Investments in SPCs holding properties for sale (Note 7)	**42,284**	57,927	**358,066**
Notes and accounts receivable–trade	**21,642**	26,240	**183,267**
Loans receivable	**46,842**	61,994	**396,664**
Allowance for doubtful accounts	**(24,911)**	(25,064)	**(210,949)**
Inventories (Note 4)	**489,093**	330,700	**4,141,697**
Deferred income taxes (Note 17)	**17,929**	18,380	**151,825**
Other current assets	**32,586**	32,186	**275,941**
Total current assets	**756,488**	619,219	**6,406,029**
Investments and advances:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 5)	**6,125**	6,110	**51,867**
Investments in securities and other (Note 7)	**309,573**	272,005	**2,621,500**
Allowance for doubtful accounts	**(27,827)**	(21,409)	**(235,642)**
Total investments and advances	**287,871**	256,706	**2,437,725**
Property and equipment (Notes 4 and 6)**:**			
Land	**1,128,752**	1,013,232	**9,558,405**
Buildings and structures	**447,950**	417,503	**3,793,293**
Machinery and equipment	**18,827**	18,076	**159,429**
Construction in progress	**15,784**	30,642	**133,661**
	1,611,313	1,479,453	**13,644,788**
Accumulated depreciation	**(157,765)**	(142,761)	**(1,335,973)**
Net property and equipment	**1,453,548**	1,336,692	**12,308,815**
Other assets:			
Guarantee and lease deposits paid to lessors	**193,049**	192,008	**1,634,762**
Leasehold rights and other intangible assets	**49,905**	49,709	**422,601**
Deferred income taxes (Note 17)	**3,828**	2,909	**32,416**
Other	**3,211**	2,837	**27,192**
Total other assets	**249,993**	247,463	**2,116,971**
	¥2,747,900	¥2,460,080	**$23,269,540**

See accompanying notes.

Liabilities and Net Assets	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:			
Short-term debt (Notes 6 and 8)	**¥ 305,970**	¥ 249,270	**$ 2,590,990**
Long-term debt due within one year (Notes 6 and 8)	**157,044**	203,688	**1,329,867**
Notes and accounts payable–trade	**57,399**	55,304	**486,061**
Accrued income taxes (Note 17)	**22,953**	32,556	**194,369**
Accrued bonuses	**3,337**	2,916	**28,258**
Deposits received (Note 18)	**247,494**	210,645	**2,095,808**
Other current liabilities	**76,619**	78,080	**648,819**
Total current liabilities	**870,816**	832,459	**7,374,172**
Long-term liabilities:			
Long-term debt due after one year (Notes 6 and 8)	**1,010,630**	814,074	**8,558,134**
Guarantee and deposits received (Note 18)	**406,133**	382,512	**3,439,182**
Deferred income taxes (Note 17)	**23,950**	31,419	**202,811**
Allowance for employees' severance and retirement benefits (Note 9)	**4,761**	4,934	**40,317**
Other long-term liabilities (Note 16)	**4,563**	3,793	**38,640**
Total long-term liabilities	**1,450,037**	1,236,732	**12,279,084**
Contingent liabilities (Note 23)			
Net assets (Notes 2 (2) and 19)**:**			
Common stock:			
Authorized – 1,900,000 thousand shares			
Issued – 476,086 thousand shares	**122,805**	122,805	**1,039,927**
Capital surplus	**132,754**	132,748	**1,124,176**
Retained earnings	**120,691**	75,652	**1,022,026**
Treasury stock	**(2,254)**	(1,235)	**(19,087)**
	373,996	329,970	**3,167,042**
Net unrealized holding gains on securities	**36,792**	46,900	**311,559**
Net deferred losses on hedges	**(73)**	—	**(618)**
Foreign currency translation adjustments	**(1,518)**	(1,214)	**(12,855)**
	35,201	45,686	**298,086**
Minority interests	**17,850**	15,233	**151,156**
Total net assets	**427,047**	390,889	**3,616,284**
	¥2,747,900	¥2,460,080	**$23,269,540**

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Revenue from operations	¥676,834	¥646,525	¥616,115	$5,731,510
Costs and expenses:				
Cost of revenue from operations	490,491	487,805	470,636	4,153,536
Selling, general and administrative expenses	49,167	46,697	45,188	416,352
	539,658	534,502	515,824	4,569,888
Operating income	137,176	112,023	100,291	1,161,622
Other income (expenses):				
Interest expense, net	(20,049)	(17,085)	(19,219)	(169,777)
Dividend income	1,800	1,420	965	15,243
Gain on sale of property and equipment (Note 13)	65	15,238	—	550
Loss on sale of property and equipment	(13)	(25)	(8,726)	(110)
Loss on impairment of fixed assets (Note 10)	(793)	(25,244)	—	(6,715)
Loss on devaluation of property and equipment (Note 12)	(62,644)	(17,185)	(11,886)	(530,477)
Loss on sale and devaluation of property and equipment (Note 11)	—	—	(15,672)	—
Loss on disposal of property and equipment	(215)	(217)	(711)	(1,821)
Gain on sale of investments in securities	227	1,446	121	1,922
Loss on devaluation of investments in securities	(1,548)	(68)	(715)	(13,109)
Dividend to partnership investors	(3,916)	(4,702)	(4,667)	(33,161)
Gain on settlement of sub-lease lawsuits	—	1,700	—	—
Gain on adjustment of sub-lease rent paid (Note 15)	1,440	—	—	12,194
Gain on liquidation of silent partnership (Note 14)	46,192	—	—	391,159
Loss on liquidation of silent partnership (Note 13)	—	(1,303)	—	—
Loss on cancellation of interest rate swap agreement	—	(2,508)	—	—
Loss on sale of loans receivable	—	—	(3,481)	—
Provision for allowance for doubtful accounts	(2,828)	—	—	(23,948)
Directors' retirement benefits (Note 16)	—	—	(2,270)	—
Other, net	(2,787)	(1,948)	(3,339)	(23,599)
	(45,069)	(50,481)	(69,600)	(381,649)
Income before income taxes and minority interests	92,107	61,542	30,691	779,973
Income taxes (Note 17)**:**				
Current	39,591	34,115	7,414	335,261
Deferred	(1,055)	(7,785)	5,592	(8,933)
Total	38,536	26,330	13,006	326,328
Minority interests	3,271	2,706	2,137	27,699
Net income	¥ 50,300	¥ 32,506	¥ 15,548	$ 425,946

	Yen			U.S. dollars (Note 1)
	2007	2006	2005	2007
Amounts per share of common stock:				
Net income:				
– Basic	¥105.92	¥68.33	¥32.64	$0.90
– Diluted	—	—	32.64	—
Cash dividend applicable to the year	14.00	10.00	9.00	0.12

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2007, 2006 and 2005

	Thousands	Millions of yen										
		Shareholders' equity					Valuation and transaction adjustments					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains (losses) on securities	Net deferred losses on hedges	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2004	476,086	¥122,805	¥132,744	¥ 38,572	¥ (404)	¥293,717	¥ 14,420	¥ —	¥(4,262)	¥10,158	¥11,910	¥ 315,785
Net income	—	—	—	15,548	—	15,548	—	—	—	—	—	15,548
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	679	679	—	679
Net unrealized holding gains on securities	—	—	—	—	—	—	4,544	—	—	4,544	—	4,544
Acquisition of treasury stock	—	—	—	—	(266)	(266)	—	—	—	—	—	(266)
Gains on sale of treasury stock	—	—	4	—	5	9	—	—	—	—	—	9
Increase due to merger of consolidated subsidiaries	—	—	—	13	—	13	—	—	—	—	—	13
Cash dividends paid:												
Final for prior year (¥9 per share)	—	—	—	(4,280)	—	(4,280)	—	—	—	—	—	(4,280)
Bonuses to directors	—	—	—	(24)	—	(24)	—	—	—	—	—	(24)
Minority interests	—	—	—	—	—	—	—	—	—	—	555	555
Balance at March 31, 2005	476,086	122,805	132,748	49,829	(665)	304,717	18,964	—	(3,583)	15,381	12,465	332,563
Net income	—	—	—	32,506	—	32,506	—	—	—	—	—	32,506
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	2,369	2,369	—	2,369
Net unrealized holding gains on securities	—	—	—	—	—	—	27,936	—	—	27,936	—	27,936
Acquisition of treasury stock	—	—	—	—	(570)	(570)	—	—	—	—	—	(570)
Cash dividends paid:												
Final for prior year (¥9 per share)	—	—	—	(4,278)	—	(4,278)	—	—	—	—	—	(4,278)
Interim for current year (¥5 per share)	—	—	—	(2,376)	—	(2,376)	—	—	—	—	—	(2,376)
Bonuses to directors	—	—	—	(29)	—	(29)	—	—	—	—	—	(29)
Minority interests	—	—	—	—	—	—	—	—	—	—	2,768	2,768
Balance at March 31, 2006	476,086	122,805	132,748	75,652	(1,235)	329,970	46,900	—	(1,214)	45,686	15,233	390,889
Net income	—	—	—	**50,300**	—	**50,300**	—	—	—	—	—	**50,300**
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	**(304)**	**(304)**	—	**(304)**
Net unrealized holding losses on securities	—	—	—	—	—	—	**(10,108)**	—	—	**(10,108)**	—	**(10,108)**
Acquisition of treasury stock	—	—	—	—	**(1,022)**	**(1,022)**	—	—	—	—	—	**(1,022)**
Gains on sale of treasury stock	—	—	**6**	—	**3**	**9**	—	—	—	—	—	**9**
Cash dividends paid:												
Final for prior year (¥5 per share)	—	—	—	**(2,375)**	—	**(2,375)**	—	—	—	—	—	**(2,375)**
Interim for current year (¥6 per share)	—	—	—	**(2,849)**	—	**(2,849)**	—	—	—	—	—	**(2,849)**
Bonuses to directors	—	—	—	**(37)**	—	**(37)**	—	—	—	—	—	**(37)**
Minority interests	—	—	—	—	—	—	—	—	—	—	**2,617**	**2,617**
Net deferred losses on hedges	—	—	—	—	—	—	—	**(73)**	—	**(73)**	—	**(73)**
Balance at March 31, 2007	**476,086**	**¥122,805**	**¥132,754**	**¥120,691**	**¥(2,254)**	**¥373,996**	**¥36,792**	**¥(73)**	**¥(1,518)**	**¥35,201**	**¥17,850**	**¥427,047**

	Thousands of U.S. dollars (Note 1)										
	Shareholders' equity					Valuation and transaction adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding losses on securities	Net deferred losses on hedges	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	$1,039,927	$1,124,125	$ 640,631	$(10,458)	$2,794,225	$397,155	$ —	$(10,281)	$386,874	$128,995	$3,310,094
Net income	—	—	**425,946**	—	**425,946**	—	—	—	—	—	**425,946**
Foreign currency translation adjustments	—	—	—	—	—	—	—	**(2,574)**	**(2,574)**	—	**(2,574)**
Net unrealized holding losses on securities	—	—	—	—	—	**(85,596)**	—	—	**(85,596)**	—	**(85,596)**
Acquisition of treasury stock	—	—	—	**(8,654)**	**(8,654)**	—	—	—	—	—	**(8,654)**
Gains on sale of treasury stock	—	**51**	—	**25**	**76**	—	—	—	—	—	**76**
Cash dividends paid:											
Final for prior year ($0.04 per share)	—	—	**(20,112)**	—	**(20,112)**	—	—	—	—	—	**(20,112)**
Interim for current year ($0.05 per share)	—	—	**(24,126)**	—	**(24,126)**	—	—	—	—	—	**(24,126)**
Bonuses to directors	—	—	**(313)**	—	**(313)**	—	—	—	—	—	**(313)**
Minority interests	—	—	—	—	—	—	—	—	—	**22,161**	**22,161**
Net deferred losses on hedges	—	—	—	—	—	—	**(618)**	—	**(618)**	—	**(618)**
Balance at March 31, 2007	**$1,039,927**	**$1,124,176**	**$1,022,026**	**$(19,087)**	**$3,167,042**	**$311,559**	**$(618)**	**$(12,855)**	**$298,086**	**$151,156**	**$3,616,284**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 92,107**	¥ 61,542	¥ 30,691	**$ 779,973**
Depreciation and amortization	**15,677**	16,330	14,019	**132,755**
Loss on impairment of fixed assets (Note 10)	**793**	25,244	—	**6,715**
Provision for (Reversal of) allowance for doubtful accounts	**6,265**	1,663	(17,321)	**53,053**
Increase (Decrease) in employees' severance and retirement benefits	**(173)**	(68)	254	**(1,465)**
Loss on sale and devaluation of property and equipment (Note 11)	**—**	—	15,672	**—**
Gain on sale of property and equipment (Note 13)	**(65)**	(15,238)	—	**(550)**
Loss on sale of property and equipment	**13**	25	8,726	**110**
Loss on devaluation of property and equipment (Note 12)	**62,644**	17,185	11,886	**530,477**
Loss on disposal of property and equipment	**215**	217	711	**1,821**
Gain on sale of investments in securities	**(227)**	(1,446)	(121)	**(1,922)**
Loss on devaluation of investments in securities	**1,548**	68	715	**13,109**
Interest and dividend income	**(2,307)**	(1,977)	(1,390)	**(19,536)**
Interest expense	**20,556**	17,642	19,644	**174,071**
Increase in investments in SPCs holding properties for sale	**(137)**	(8,493)	(4,961)	**(1,160)**
Decrease in notes and accounts receivable–trade	**4,600**	5,238	4,787	**38,953**
Increase in inventories	**(190,790)**	(108,022)	(20,004)	**(1,615,632)**
Decrease (Increase) in loans receivable	**2,298**	(4,854)	29,192	**19,460**
Increase (Decrease) in notes and accounts payable–trade	**2,094**	10,281	(26,994)	**17,732**
Increase in advances received	**1,383**	12,033	6,688	**11,711**
Other, net	**1,868**	9,223	(4,563)	**15,817**
Total	**18,362**	36,593	67,631	**155,492**
Proceeds from interest and dividend income	**2,305**	1,974	1,489	**19,519**
Payments for interest	**(20,364)**	(17,545)	(19,870)	**(172,445)**
Payments for income tax and other taxes	**(49,184)**	(9,665)	(1,219)	**(416,496)**
Net cash provided by (used in) operating activities	**(48,881)**	11,357	48,031	**(413,930)**
Cash flows from investing activities:				
Payments for purchases of property and equipment	**(152,601)**	(237,024)	(106,784)	**(1,292,243)**
Proceeds from sale of property and equipment	**529**	91,055	21,902	**4,480**
Payments for purchases of investments in securities	**(27,457)**	(75,303)	(9,315)	**(232,509)**
Proceeds from sale of investments in securities	**25,538**	36,546	1,561	**216,259**
Payments for investments in SPC and partnership	**—**	—	(7)	**—**
Payments for guarantee and lease deposits paid to lessors	**(19,168)**	(24,588)	(5,341)	**(162,317)**
Proceeds from guarantee and lease deposits paid to lessors	**5,111**	10,065	7,052	**43,281**
Payments for guarantee and lease deposits received	**(16,283)**	(37,572)	(46,598)	**(137,886)**
Proceeds from guarantee and lease deposits received	**31,092**	28,990	34,761	**263,291**
Receipts of deposits from partnership investors	**79,520**	65,508	111,474	**673,385**
Restitution of deposits from partnership investors	**(94,517)**	(75,559)	(67,590)	**(800,381)**
Other, net	**(19,652)**	8,223	(1,935)	**(166,418)**
Net cash used in investing activities	**(187,888)**	(209,659)	(60,820)	**(1,591,058)**
Cash flows from financing activities:				
Increase (Decrease) in short-term debt	**56,700**	76,025	(32,178)	**480,142**
Proceeds from issuance of bonds and notes	**100,000**	90,000	80,000	**846,812**
Redemption of bonds and notes	**(80,874)**	(92,667)	(77,523)	**(684,851)**
Increase in long-term debt	**130,786**	155,285	19,461	**1,107,511**
Increase (Decrease) in assignment of receivables	**32,073**	(40,310)	15,219	**271,598**
Cash dividends paid	**(5,882)**	(7,159)	(4,581)	**(49,809)**
Other, net	**17,250**	28,125	(16,658)	**146,075**
Net cash provided by (used in) financing activities	**250,053**	209,299	(16,260)	**2,117,478**
Effect of exchange rate changes on cash and cash equivalents	**383**	1,922	(160)	**3,243**
Net increase (decrease) in cash and cash equivalents	**13,667**	12,919	(29,209)	**115,733**
Cash and cash equivalents at beginning of year	**116,156**	103,237	132,476	**983,623**
Cash and cash equivalents of subsidiaries excluded from consolidation	**—**	—	(31)	**—**
Change in cash and cash equivalents due to merger of consolidated subsidiaries	**—**	—	1	**—**
Cash and cash equivalents at end of year (Note 3)	**¥129,823**	¥116,156	¥103,237	**$ 1,099,356**

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, 2007, 2006 and 2005

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Sumitomo Realty & Development Co., Ltd. ("the Company") and its consolidated subsidiaries 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 from International Financial Reporting Standards.

The accounts of the Company's 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 certain expanded disclosure) 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. Certain 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, 2007, which was ¥118.09 to U.S.$1. The convenience translation should not be construed as representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. ACCOUNTING POLICIES

(1) Principles of consolidation

The 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) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections.

The consolidated balance sheet as of March 31, 2006 has been restated to conform to the 2007 presentation.

The adoption of the New Accounting Standards had no impact on the consolidated statements of income for the years ended March 31, 2007 and 2006. Also, if the New Accounting Standards had not been adopted at March 31, 2007 and 2006, shareholders' equity amounting to ¥409,270 million ($3,465,746 thousand) and ¥375,656 million would have been presented, respectively.

(3) Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

Accordingly, the Company prepared the statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statements of changes in net assets for 2006 and 2005 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

(4) 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 net assets.

(5) 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.

(6) 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.

(7) 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.

(8) 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 net assets. Realized gains and losses on the 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.

(9) 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

(10) Impairment of fixed assets

Effective April 1, 2005, the Company and its consolidated domestic subsidiaries applied "Accounting Standard 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 and minority interests for the year ended March 31, 2006 decreased by ¥25,244 million.

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

(11) Software costs

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

(12) Allowance for doubtful accounts

The Company provides 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.

(13) 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.

(14) 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.

(15) 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, 2007, 2006 and 2005 based on the estimated projected benefit obligation at those dates.

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

(16) 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.

(17) 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.

(18) Reclassifications and restatement

Certain prior year amounts have been reclassified to conform to the 2007 presentation.

These reclassifications had no impact on previously reported results of operations or retained earnings.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash, time and notice deposits	¥129,820	¥116,153	$1,099,331
Marketable securities	3	3	25
Cash and cash equivalents	¥129,823	¥116,156	$1,099,356

4. INVENTORIES

Inventories at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Land and buildings for sale	¥173,101	¥127,585	$1,465,840
Land and building projects in progress	227,902	89,669	1,929,901
Land held for development	78,993	107,614	668,922
Other	9,097	5,832	77,034
	¥489,093	¥330,700	$4,141,697

The Company transferred property and equipment to inventories. Such transfers at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Inventories:			
Transfer to property and equipment	¥(33,005)	¥ —	$(279,490)
Transferred from property and equipment	422	15,594	3,574
Net increase (decrease)	¥(32,583)	¥ 15,594	$(275,916)

5. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Investments in common stock, at cost	¥6,085	¥5,991	$51,528
Advances	40	119	339
	¥6,125	¥6,110	$51,867

6. PLEDGED ASSETS

Assets pledged as collateral at March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Buildings and structures	¥15,575	$131,891
Land	27,727	234,795
Other	227	1,923
Total	¥43,529	$368,609

Secured liabilities at March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Short-term debt	¥ 1,750	$ 14,819
Long-term debt	33,250	281,565
Total	¥35,000	$296,384

7. SECURITIES

For 2007

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, 2007:

(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	¥ 43	¥ 43	¥ 0	$ 364	$ 364	$ 0
Securities whose fair market value does not exceed book value:						
National and local government bonds	1,206	1,199	(7)	10,213	10,153	(60)
Total	¥1,249	¥1,242	¥(7)	$10,577	$10,517	$(60)

(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	¥ 94,973	¥160,408	¥65,435	$804,243	$1,358,354	$554,111
Others	450	457	7	3,810	3,870	60
Subtotal	95,423	160,865	65,442	808,053	1,362,224	554,171
Securities whose book value does not exceed acquisition cost:						
Equity securities	15,927	12,556	(3,371)	134,872	106,326	(28,546)
Others	504	501	(3)	4,268	4,242	(26)
Subtotal	16,431	13,057	(3,374)	139,140	110,568	(28,572)
Total	¥111,854	¥173,922	¥62,068	$947,193	$1,472,792	$525,599

B. The following table summarizes the book values of securities with no available fair market values as of March 31, 2007:

Available-for-sale securities:

	Book value	
	Millions of yen	Thousands of U.S. dollars
Unlisted equity securities	¥ 5,932	$ 50,233
Senior securities	87,186	738,301
Investment in partnerships similar to investment limited partnerships	25,235	213,693
Total	¥118,353	$1,002,227

Senior securities included investments in SPCs holding properties for sale amounting to ¥42,284 million ($358,066 thousand).

C. Available-for-sale securities with maturities and held-to-maturity securities at March 31, 2007 mature as follows:

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	¥539	¥710	¥—	¥—
Other	—	—	—	—
Total	¥539	¥710	¥—	¥—

	Thousands of U.S. dollars			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	$4,564	$6,012	$—	$—
Other	—	—	—	—
Total	$4,564	$6,012	$—	$—

D. Total sales of available-for-sale securities sold in the year ended March 31, 2007 amounted to ¥372 million ($3,150 thousand) and the related gains amounted to ¥227 million ($1,922 thousand).

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

As of March 31, 2007, 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 investments in securities and other, were ¥135,306 million ($1,145,787 thousand) as of March 31, 2007.

G. The Company transferred investments in SPCs holding properties for sale amounting to ¥15,780 million ($133,627 thousand) to investments in securities and other in the year ended March 31, 2007.

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		
	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)
Total	¥1,206	¥1,190	¥(16)

(b) Available-for-sale securities:

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Equity securities	¥77,848	¥156,937	¥79,089
Others	582	608	26
Subtotal	78,430	157,545	79,115
Securities whose book value does not exceed acquisition cost:			
Equity securities	9,989	9,442	(547)
Others	—	—	—
Subtotal	9,989	9,442	(547)
Total	¥88,419	¥166,987	¥78,568

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
Unlisted equity securities	¥ 7,108
Senior securities	86,165
Investment in partnerships similar to investment limited partnerships	42,072
Total	¥135,345

Senior securities included investments in SPCs holding properties for sale amounting to ¥57,927 million.

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	¥—	¥ —

D. Total sales of available-for-sale securities sold in the year ended March 31, 2006 amounted to ¥8,380 million and the related gains and losses amounted to ¥1,499 million and ¥12 million, respectively.

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

As of March 31, 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 investments in securities and other, were ¥124,824 million as of March 31, 2006.

8. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	2007	Average interest rate (%)	2006	Average interest rate (%)	**2007**
Loans, principally from banks	**¥197,970**	**1.00**	¥197,770	0.55	**$1,676,433**
Commercial paper	**108,000**	**0.65**	51,500	0.26	**914,557**
	¥305,970		¥249,270		**$2,590,990**

The interest rates represent weighted average rates in effect at March 31, 2007 and 2006, regardless of borrowing currencies, though the range of the interest rate varies by borrowing currency.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
2.85% domestic straight bonds, due 2006	**¥ —**	¥ 3,100	**$ —**
Floating rate domestic straight bonds, due 2006	**—**	7,390	**—**
1.6% domestic straight bonds, due 2006	**—**	9,500	**—**
Floating rate domestic straight bonds, due 2006	**—**	7,844	**—**
Floating rate domestic straight bonds, due 2007	**7,510**	7,510	**63,597**
1.5% domestic straight bonds, due 2006	**—**	7,360	**—**
Floating rate domestic straight bonds, due 2006	**—**	7,337	**—**
1.85% domestic straight bonds, due 2006	**—**	7,557	**—**
1.85% domestic straight bonds, due 2006	**—**	9,409	**—**
1.85% domestic straight bonds, due 2006	**—**	9,377	**—**
2.0% domestic straight bonds, due 2007	**9,057**	9,057	**76,697**
1.5% domestic straight bonds, due 2007	**10,000**	10,000	**84,681**
1.5% domestic straight bonds, due 2007	**10,000**	10,000	**84,681**
1.39% domestic straight bonds, due 2006	**—**	7,000	**—**
1.4% domestic straight bonds, due 2007	**20,000**	20,000	**169,362**
1.4% domestic straight bonds, due 2007	**10,000**	10,000	**84,681**
1.68% domestic straight bonds, due 2008	**10,000**	10,000	**84,681**
1.49% domestic straight bonds, due 2006	**—**	5,000	**—**
1.92% domestic straight bonds, due 2008	**5,000**	5,000	**42,341**
1.31% domestic straight bonds, due 2009	**20,000**	20,000	**169,362**
1.52% domestic straight bonds, due 2010	**20,000**	20,000	**169,362**
1.30% domestic straight bonds, due 2009	**20,000**	20,000	**169,362**
1.29% domestic straight bonds, due 2012	**20,000**	20,000	**169,362**
1.28% domestic straight bonds, due 2012	**30,000**	30,000	**254,044**
0.75% domestic straight bonds, due 2010	**30,000**	30,000	**254,044**
1.18% domestic straight bonds, due 2010	**30,000**	30,000	**254,044**
1.85% domestic straight bonds, due 2011	**20,000**	—	**169,362**
1.86% domestic straight bonds, due 2011	**20,000**	—	**169,362**
1.84% domestic straight bonds, due 2011	**20,000**	—	**169,362**
1.87% domestic straight bonds, due 2012	**20,000**	—	**169,362**
1.58% domestic straight bonds, due 2011	**10,000**	—	**84,681**
1.89% domestic straight bonds, due 2013	**10,000**	—	**84,681**
Loans, principally from banks and insurance companies, interest principally at rates of 0.74% to 2.99% in 2007, and 0.30% to 3.20% in 2006:			
Unsecured	**816,107**	685,321	**6,910,890**
Subtotal	**1,167,674**	1,017,762	**9,888,001**
Amount due within one year	**(157,044)**	(203,688)	**(1,329,867)**
Total	**¥1,010,630**	¥ 814,074	**$ 8,558,134**

The aggregate annual maturities of long-term debt at March 31, 2007 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 157,044	$1,329,867
2009	114,246	967,449
2010	136,816	1,158,574
2011	246,975	2,091,413
2012	314,706	2,664,967
2013 and thereafter	197,887	1,675,731
Total	¥1,167,674	$9,888,001

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 (15), 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 liabilities section of the consolidated balance sheets as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligation	**¥ 7,927**	¥ 7,684	**$ 67,127**
Fair value of plan assets	**(3,199)**	(2,978)	**(27,090)**
Unrecognized actuarial differences	**29**	224	**246**
Prepaid pension cost	**4**	4	**34**
Allowance for severance and retirement benefits	**¥ 4,761**	¥ 4,934	**$ 40,317**

Included in the consolidated statements of income for the years ended March 31, 2007 and 2006 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Service costs – benefits earned during the year	**¥ 508**	¥ 487	**$ 4,302**
Interest cost on projected benefit obligation	**134**	130	**1,135**
Expected return on plan assets	**(58)**	(49)	**(491)**
Amortization of actuarial differences	**(224)**	(105)	**(1,897)**
Severance and retirement benefit expenses	**¥ 360**	¥ 463	**$ 3,049**

The discount rates and the rates of expected return on plan assets for the years ended March 31, 2007 and 2006 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 years ended March 31, 2007 and 2006, respectively.

Use	Location	Number of properties
For 2007		
Land for development	Yokohama-shi, Kanagawa	1
For 2006		
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

The Company and its consolidated domestic subsidiaries recognized losses on the impairment of certain properties, 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 ¥793 million ($6,715 thousand) and ¥25,244 million for the years ended March 31, 2007 and 2006, respectively, to their recoverable amounts. These write-downs were recognized as impairment losses in other expenses.

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Land	**¥793**	¥25,244	**$6,715**

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 the capitalization value, and that for the others is based mainly on the assessment value for property tax purposes.

11. LOSS ON SALE AND DEVALUATION OF PROPERTY AND EQUIPMENT

As explained in Note 2 (10), 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 for the year ended March 31, 2005. 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.

12. LOSS ON DEVALUATION OF PROPERTY AND EQUIPMENT

The Company recognized loss on devaluation of property and equipment of ¥62,644 million ($530,477 thousand), ¥17,185 million and ¥11,886 million for the years ended March 31, 2007, 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
	2007	2006	2005	**2007**
Land, etc.	**¥62,644**	¥16,385	¥11,886	**$530,477**
Buildings and structures, etc.	**—**	800	—	**—**

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
Cost of sales: ¥74,768 million

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

The silent partnership ("Tokumei Kumiai") 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 was incurred.

14. GAIN ON LIQUIDATION OF SILENT PARTNERSHIP

Gain on liquidation of silent partnership for the year ended March 31, 2007 is from the sale of the ownership as a beneficiary right in the Sumitomo Mitsui Banking Corporation Otemachi Headquarters Building in December 2006 along with the liquidation of the silent partnership ("Tokumei Kumiai").

Tokumei Kumiai that had been involved in the ownership of this property was liquidated as a result of the sale, and gain on liquidation of silent partnership of ¥46,192 million ($391,159 thousand) was incurred.

15. GAIN ON ADJUSTMENT OF SUB-LEASE RENT PAID

Gain on adjustment of sub-lease rent paid of ¥1,440 million ($12,194 thousand) for the year ended March 31, 2007 is from the reversal of the difference between the Company's accrued amount payable and the amount of payment as a result of the settlement of a lawsuit against the lessor of an office building that the Company is renting in a lump.

16. 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.

17. INCOME TAXES

The normal effective statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitant taxes was approximately 40.69% for the years ended March 31, 2007 and 2006.

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, 2007 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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Loss on impairment of fixed assets	**¥ 9,759**	¥ 10,273	**$ 82,640**
Net operating loss carryforwards	**7,610**	7,724	**64,442**
Accrued enterprise tax and business office tax	**3,041**	2,891	**25,752**
Allowance for employees' severance and retirement benefits	**1,933**	1,996	**16,369**
Loss on devaluation of inventories	**1,585**	1,627	**13,422**
Unrealized inter-company profits	**1,465**	1,480	**12,406**
Accrued bonuses	**1,512**	1,319	**12,804**
Allowance for doubtful accounts	**1,127**	1,050	**9,544**
Accrued directors' retirement benefits	**785**	785	**6,647**
Other	**8,832**	7,481	**74,790**
Subtotal of deferred tax assets	**37,649**	36,626	**318,816**
Valuation allowance	**(9,687)**	(9,727)	**(82,030)**
Total deferred tax assets	**27,962**	26,899	**236,786**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**(25,196)**	(32,070)	**(213,363)**
Retained earnings appropriated for tax allowable reserves	**(4,959)**	(4,959)	**(41,993)**
Total deferred tax liabilities	**(30,155)**	(37,029)	**(255,356)**
Net deferred tax liabilities	**¥ (2,193)**	¥(10,130)	**$ (18,570)**

18. GUARANTEE AND OTHER DEPOSITS RECEIVED

Guarantee and other deposits received at March 31, 2007 and 2006 were as follows:

	Millions of yen				Thousands of U.S. dollars
	2007	Average interest rate (%)	2006	Average interest rate (%)	**2007**
Short-term deposits and long-term deposits due within one year:					
Non-interest-bearing	**¥206,494**	**—**	¥127,908	—	**$1,748,615**
Interest-bearing	**41,000**	**0.89**	82,737	0.34	**347,193**
	247,494		210,645		**2,095,808**
Guarantee and lease deposits from tenants:					
Non-interest-bearing	**162,498**	**—**	151,691	—	**1,376,052**
Interest-bearing	**—**	**—**	—	—	**—**
Long-term deposits:					
Non-interest-bearing	**177,635**	**—**	224,821	—	**1,504,234**
Interest-bearing	**66,000**	**0.90**	6,000	0.81	**558,896**
	406,133		382,512		**3,439,182**
Total	**¥653,627**		¥593,157		**$5,534,990**

The aggregate annual maturities of interest-bearing guarantee and other deposits received at March 31, 2007 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 41,000	$347,193
2009	—	—
2010	—	—
2011	—	—
2012	66,000	558,896
2013 and thereafter	—	—
	¥107,000	$906,089

19. NET ASSETS

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under the Law and its regulation, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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 Law and its regulation.

20. 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, 2007 and 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Acquisition cost:			
Buildings and structures	**¥ 5,202**	¥ 9,079	**$ 44,051**
Other	**1,167**	2,218	**9,883**
Accumulated depreciation	**(3,268)**	(5,130)	**(27,674)**
Net book value	**¥ 3,101**	¥ 6,167	**$ 26,260**

Pro-forma depreciation equivalents of ¥1,483 million ($12,558 thousand) and ¥1,565 million for the years ended March 31, 2007 and 2006, 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, 2007 and 2006 amounted to ¥1,483 million ($12,558 thousand) and ¥1,565 million, respectively.

Future lease payments and receipts under such finance leases and non-cancelable operating leases at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Finance leases			
Future lease payments:			
Due within one year	**¥ 1,086**	¥ 1,398	**$ 9,196**
Due after one year	**2,015**	4,769	**17,064**
Total	**¥ 3,101**	¥ 6,167	**$ 26,260**
Future sub-lease payments:			
Due within one year	**¥ 24**	¥ 15	**$ 203**
Due after one year	**62**	40	**525**
Total	**¥ 86**	¥ 55	**$ 728**
Future sub-lease receipts:			
Due within one year	**¥ 24**	¥ 15	**$ 203**
Due after one year	**62**	40	**525**
Total	**¥ 86**	¥ 55	**$ 728**
Operating leases			
Future lease payments:			
Due within one year	**¥13,090**	¥12,675	**$110,848**
Due after one year	**54,973**	66,343	**465,517**
Total	**¥68,063**	¥79,018	**$576,365**
Future lease receipts:			
Due within one year	**¥ 54**	¥ 23	**$ 457**
Due after one year	**213**	5	**1,804**
Total	**¥ 267**	¥ 28	**$ 2,261**

21. 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, 2007 and 2006 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, 2007 and 2006 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, 2007 and 2006 were not disclosed because all derivative transactions were used as hedges and hedge accounting was applied.

22. 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, 2007, 2006 and 2005 is summarized as follows:

For 2007 (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	¥ 260,727	¥211,035	¥141,244	¥56,119	¥ 7,709	¥ 676,834	¥ —	¥ 676,834
Intersegment	1,893	—	1,320	413	2,662	6,288	(6,288)	—
Total	262,620	211,035	142,564	56,532	10,371	683,122	(6,288)	676,834
Costs and expenses	179,125	174,499	133,748	35,594	12,855	535,821	3,837	539,658
Operating income	¥ 83,495	¥ 36,536	¥ 8,816	¥20,938	¥ (2,484)	¥ 147,301	¥ (10,125)	¥ 137,176
II Identifiable assets, depreciation expense, loss on impairment of fixed assets and capital expenditures:								
Identifiable assets	¥1,787,363	¥554,520	¥ 19,939	¥17,825	¥47,397	¥2,427,044	¥320,856	¥2,747,900
Depreciation expense	14,570	103	143	305	64	15,185	492	15,677
Loss on impairment of fixed assets	793	—	—	—	—	793	—	793
Capital expenditures	151,557	129	254	347	275	152,562	244	152,806

For 2006 (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	¥ 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 2007	Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Elimination and/or corporate	Consolidated
	Thousands of U.S. dollars							
I Net sales and operating income:								
Net sales								
Customers	$ 2,207,867	$1,787,069	$1,196,071	$475,222	$ 65,281	$ 5,731,510	$ —	$ 5,731,510
Intersegment	16,030	—	11,178	3,498	22,542	53,248	(53,248)	—
Total	2,223,897	1,787,069	1,207,249	478,720	87,823	5,784,758	(53,248)	5,731,510
Costs and expenses	1,516,852	1,477,678	1,132,594	301,414	108,858	4,537,396	32,492	4,569,888
Operating income	$ 707,045	$ 309,391	$ 74,655	$177,306	$ (21,035)	$ 1,247,362	$ (85,740)	$ 1,161,622
II Identifiable assets, depreciation expense, loss on impairment of fixed assets and capital expenditures:								
Identifiable assets	$15,135,600	$4,695,741	$ 168,846	$150,944	$401,363	$20,552,494	$2,717,046	$23,269,540
Depreciation expense	123,380	872	1,211	2,583	542	128,588	4,167	132,755
Loss on impairment of fixed assets	6,715	—	—	—	—	6,715	—	6,715
Capital expenditures	1,283,402	1,092	2,151	2,938	2,330	1,291,913	2,066	1,293,979

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, 2007, 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.

23. CONTINGENT LIABILITIES

At March 31, 2007, the Company and its consolidated subsidiaries were contingently liable as guarantors of borrowings by customers and others in an amount aggregating to ¥392 million ($3,320 thousand).

24. SUBSEQUENT EVENTS

The Company issued ¥20,000 million ($169,362 thousand) in 1.70% domestic straight bonds due 2013 on May 8, 2007.

The Company issued ¥20,000 million ($169,362 thousand) in 1.80% domestic straight bonds due 2012 on June 27, 2007.

On June 28, 2007, the shareholders of the Company approved payments of a year-end cash dividend of ¥8 ($0.07) per share or a total of ¥3,798 million ($32,162 thousand) to shareholders of record at March 31, 2007. Such appropriations are recognized in the period in which they are approved by the shareholders.

INDEPENDENT AUDITORS' REPORT

KPMG

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, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2007, 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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, 2007

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.

SENIOR MANAGEMENT

(As of August 1, 2007)

BOARD OF DIRECTORS AND AUDITORS

Chairman of the Board
Junji Takashima*1

Vice Chairman
Tetsuro Tsuruta

President
Kenichi Onodera*1

Director & Advisor
Taro Ando

Directors
Tsutomu Oyama*1
Yoshifumi Nakamura*1
Hiroyuki Asano
Yoshiteru Nishimoto
Takashi Saito
Masayoshi Ohashi

Statutory Auditors
Shinsaku Sanmoto
Naoto Enda

Standing Statutory Auditors
Ryoichi Nomura
Tadashi Kitamura
Kunio Kobayashi

EXECUTIVE OFFICERS

President
Kenichi Onodera*2

Senior Managing Executive Officers
Tsutomu Oyama*2
Yoshifumi Nakamura*2
Hiroyuki Asano*2
Yoshiteru Nishimoto*2
Takashi Saito*2
Kenichi Kameyama

Managing Executive Officers
Masaki Ogawa
Takao Shiojima
Masayuki Takahashi
Nobuaki Takemura
Satoru Ozawa
Kojun Nishima
Masato Kobayashi
Toshikazu Tanaka
Yoshinobu Sakamoto
Yoshiya Unno
Isamu Jobo

Executive Officers
Koji Ito
Yoshiyuki Odai
Masumi Aoki
Hisatoshi Katayama
Kazuo Yoda
Fumiyoshi Endo
Yasuo Taku
Masayuki Iwamoto
Hiroshi Kato
Hiroyuki Hashizume
Naoki Ogawa
Tomohiro Kawamura
Shinichi Soejima
Makoto Nakano
Kenichi Kawai
Tomonaga Nagai

*1 Representative Director
*2 Serves as both a director and an executive officer

CORPORATE DATA

(As of March 31, 2007)

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
8,280 (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.
Universal Home Inc.
Sumitomo Fudosan Reform Co., Ltd.

INVESTOR INFORMATION

(As of March 31, 2007)

Paid-in Capital

¥122,805 million

Number of Common Stock

Authorized: 1,900,000,000 shares
Issued: 476,085,978 shares

Number of Shareholders

17,690

Stock Exchange Listings

Tokyo Stock Exchange
Osaka Securities Exchange

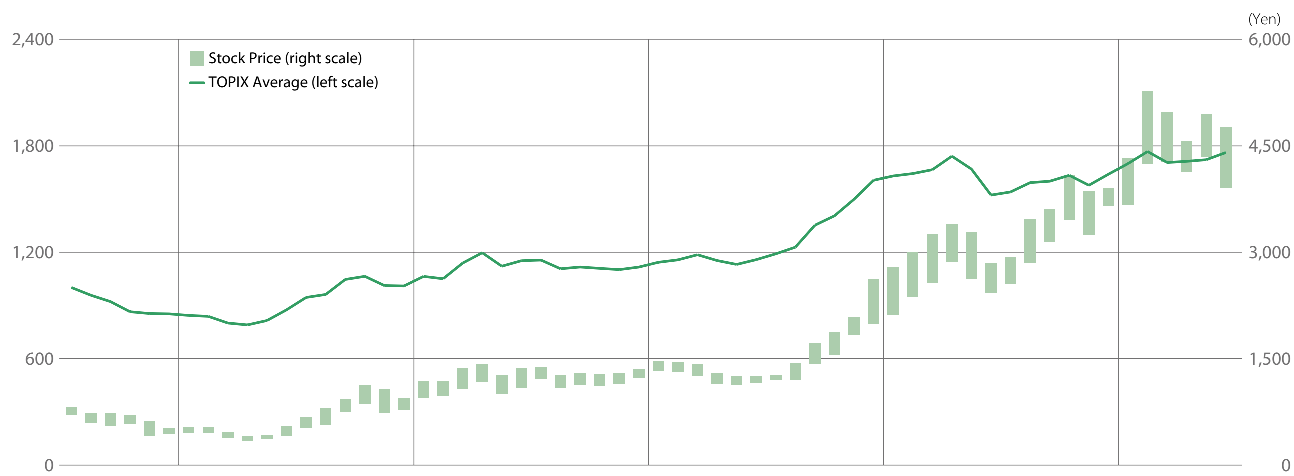
Breakdown of Shareholders

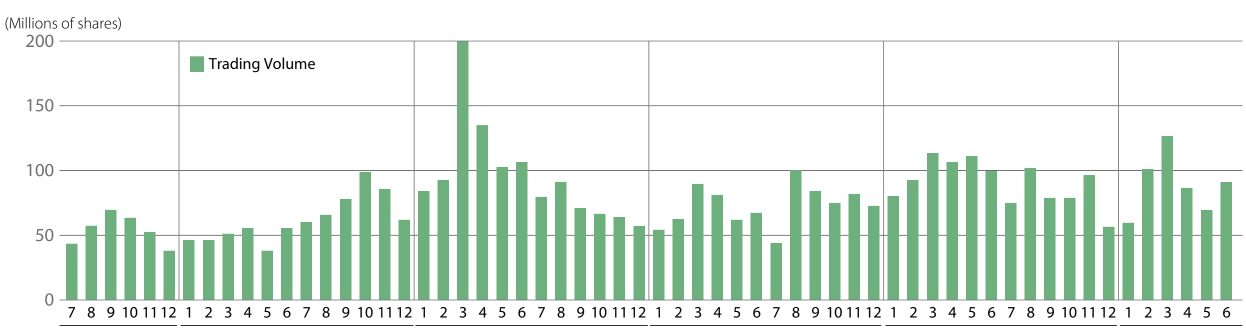
Trust Accounts	19.94%
Financial Institutions	10.31%
Other Companies	24.41%
Foreign Companies	39.87%
Individuals and Others	5.47%

Major Shareholders

	Number of shares held (Thousands)	Percentage of shares held
The Master Trust Bank of Japan, Ltd. (Trust account)	21,867	4.59%
Japan Trustee Services Bank, Ltd. (Trust account 4)	16,091	3.38
Japan Trustee Services Bank, Ltd. (Trust account)	15,806	3.32
Sumitomo Mitsui Banking Corporation	11,990	2.52
State Street Bank and Trust Company 505103	11,251	2.36
The Sumitomo Trust & Banking Co., Ltd.	8,136	1.71
State Street Bank and Trust Company	8,043	1.69
Kajima Corporation	7,912	1.66
Mitsui Sumitomo Insurance Co., Ltd.	6,740	1.42
Shimizu Corporation	6,500	1.37

Stock Price and Trading Volume on Tokyo Stock Exchange





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