Sumitomo Realty & Development Co., Ltd.

Achieving Steady, Sustained Progress

ANNUAL REPORT 2008

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.

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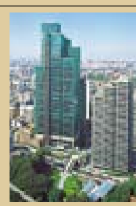


CONSOLIDATED FINANCIAL HIGHLIGHTS

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

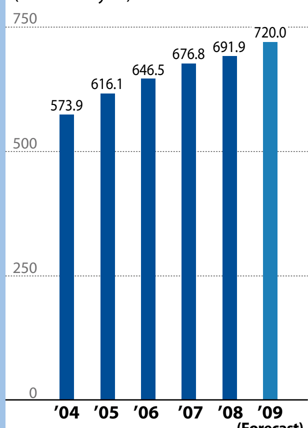
	Millions of yen			Thousands of U.S. dollars[1]
	2008	2007	2006	**2008**
For the Year				
Revenue from operations	**¥691,928**	¥676,834	¥646,525	**$6,906,158**
Operating income	**154,608**	137,176	112,023	**1,543,148**
Ordinary profit*	**125,176**	112,406	87,038	**1,249,386**
Net income	**63,133**	50,300	32,506	**630,133**
At Year-End				
Total assets	**¥2,894,004**	¥2,747,900	¥2,460,080	**$28,885,158**
Shareholders' equity[2]	**427,423**	409,197	375,656	**4,266,124**
Interest-bearing debt	**1,665,042**	1,473,644	1,267,032	**16,618,844**
Per Share Data (Yen and U.S. Dollars)				
Net income	**¥133.00**	¥105.92	¥ 68.33	**$1.33**
Shareholders' equity	**900.57**	861.93	790.74	**8.99**
Cash dividend applicable to the year	**18.00**	14.00	10.00	**0.18**

Notes: 1. U.S. dollar amounts in this report are translated, for convenience only, at the rate of ¥100.19=U.S. $1, the prevailing exchange rate at March 31, 2008.
2. Shareholders' equity = Net assets − Minority interests

REVENUE FROM OPERATIONS

+2.2%

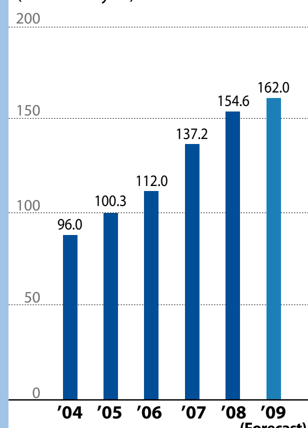
(Billions of yen)



OPERATING INCOME

+12.7%

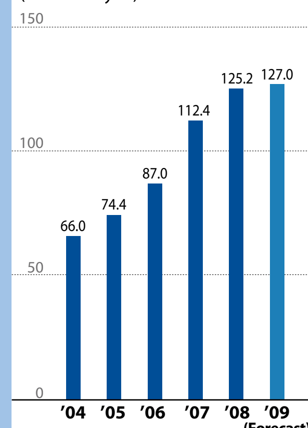
(Billions of yen)



ORDINARY PROFIT*

+11.4%

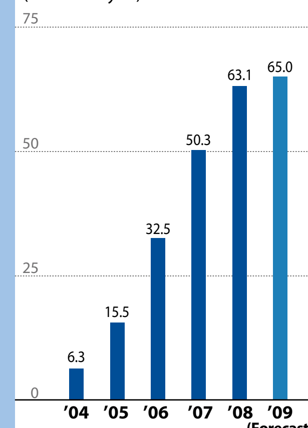
(Billions of yen)



NET INCOME

+25.5%

(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

The Company is targeting the achievement of the Third Growth Plan and subsequent sustained growth, and we will redouble our efforts to achieve those goals.

Junji Takashima
Chairman

Kenichi Onodera
President

SUSTAINED GROWTH BASED ON OUR MEDIUM-TERM MANAGEMENT PLAN, WHICH IS OUR TOP PRIORITY

Our top priority goal is to achieve the objectives in our current medium-term management plan. We have implemented and successfully completed three plans since 1997. We believe that our ability to achieve consistent growth is attributable to our policy of giving the highest priority to meeting our plan's objectives.

In April 2007, we started the Third Growth Plan. The basic objectives of this plan are to extend the record of growth in revenue and profit and to maintain the pace of growth achieved under previous plans. The plan's numerical targets include a higher rate of growth in ordinary profit than the growth that was achieved under the previous plan and an increase in operating income that is 50% higher than the increase that was achieved under the previous plan. In this way, we have set aggressive targets.

RESULTS IN THE MARCH 2008 FISCAL YEAR

In the March 2008 fiscal year, the first year of the plan, we recorded substantial gains in revenue and profit in the leasing segment due to higher rents on existing buildings and to the full-year contributions of buildings opened in the previous fiscal year. The sales segment recorded substantial gains in profit margins on condominiums, and in the housing construction segment, operating income surpassed ¥10.0 billion for the first time. As a result, we recorded a 2.2% increase in revenue from operations, to ¥691.9 billion, a 12.7% gain in operating income, to ¥154.6 billion, and an 11.4% rise in ordinary profit*, to ¥125.2 billion. Net income was up 25.5%, to ¥63.1 billion. We achieved the eleventh consecutive year of higher revenue from operations, operating income and ordinary profit, the eighth consecutive year of a new record high in ordinary profit and the third consecutive year of a new record high in net income. We exceeded the targets announced at the beginning of the year, and got off to an excellent start in the first year of our new medium-term management plan.

In consideration of our successfully surpassing planned levels for ordinary profit, dividends for the year under review were increased ¥4 per share, to ¥18 per share. Furthermore, we plan to increase dividends by ¥2 per share, to ¥20 per share, for the March 2009 fiscal year.

* Please refer to the note on page 1.

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 medium-term management plan that covers the three-year period ending March 2010.

THIRD THREE-YEAR GROWTH PLAN (APRIL 2007 TO MARCH 2010)

Basic objectives

- Continue to record growth in revenue and profit (achieved 11th consecutive year of higher revenue and profit in the March 2008 fiscal year)
- 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)

(Years ended March 31)	Reconstruction Plan 1999–2001	1st Growth Plan 2002–2004	2nd Growth Plan 2005–2007	3rd Growth Plan 2008–2010
Revenue from operations	1,270	1,606	1,939	2,400
Operating income	202	265	350	470
Ordinary profit	87	170	274	380

Notes: 1. Cumulative total 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.

FAVORABLE RESULTS, STEADY PROGRESS WITH MEDIUM-TERM MANAGEMENT PLAN

In the first year of the current plan, we achieved 29% of the plan's target for revenue from operations and 33% of the targets for operating income and ordinary profit.

As shown in the table below, over the next two years, if we maintain the level of performance that we recorded in the year under review, we expect to achieve our targets for operating income and ordinary profit.

In consideration of external factors with a high degree of uncertainty, such as trends in resource prices and the financial situation, our forecast for the March 2009 fiscal year is ordinary profit of ¥127.0 billion, which is one-half of the necessary target for the next two years under the plan. We will continue to strengthen our sales system and will do our utmost to achieve the plan's objectives.

Looking at the market environment by segment, in leasing we do not expect any breakdown of overall demand–supply conditions. Over the next few years, new supply should be low, and there is little chance of a substantial decline in demand. Moreover, demand from tenants seeking to move to newer buildings remains strong. Therefore, the demand–supply balance should remain strong. Due to the uncertainty about business conditions, the rate of growth in market rents has

MEDIUM-TERM MANAGEMENT PLAN PROGRESS (Billions of yen)

(Years ended March 31)	Numerical targets 2008–2010*	Results 2008	Achievement ratio	Remaining balance 2009–2010	Forecast 2009
Revenue from operations	2,400	692	29%	1,708	720
Operating income	470	155	33%	315	162
Ordinary profit	380	125	33%	255	127

* Cumulative three-year targets

reached a lull. However, there is still a gap between current rents and new contract rents, and existing tenants are accepting higher rents when they extend their leases.

On the other hand, due to worsening consumer sentiment, condominium purchase motivation remains weak. It is said that the cause of the worsening of market conditions is that consumers have not accepted condominium prices, which have risen for several years, and a recovery will require prices to decline to the level that was experienced before the price gains. However, looking at condominium prices in 1994, when the condominium boom began, and in 2007, the average price per square meter has declined about 10%, from ¥682 thousand to ¥614 thousand, even though the average price of a condominium in the Tokyo metropolitan area has increased about 5%, from ¥44 million to ¥46 million. And looking at housing loans, they are inexpensive now compared with 1994. That is to say, it is not more difficult to purchase now than it was in 1994; the major problem now is the worsening of consumer sentiment. On the other hand, the influx of population into urban centers continues, and there is steady demand for condominiums in convenient locations. Accordingly, we believe that if consumer sentiment recovers, market conditions will improve. We are acquiring carefully selected sites, working to create better products, and selling competitive condominiums. We will continue to bolster our sales capabilities and work to achieve our objectives.

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

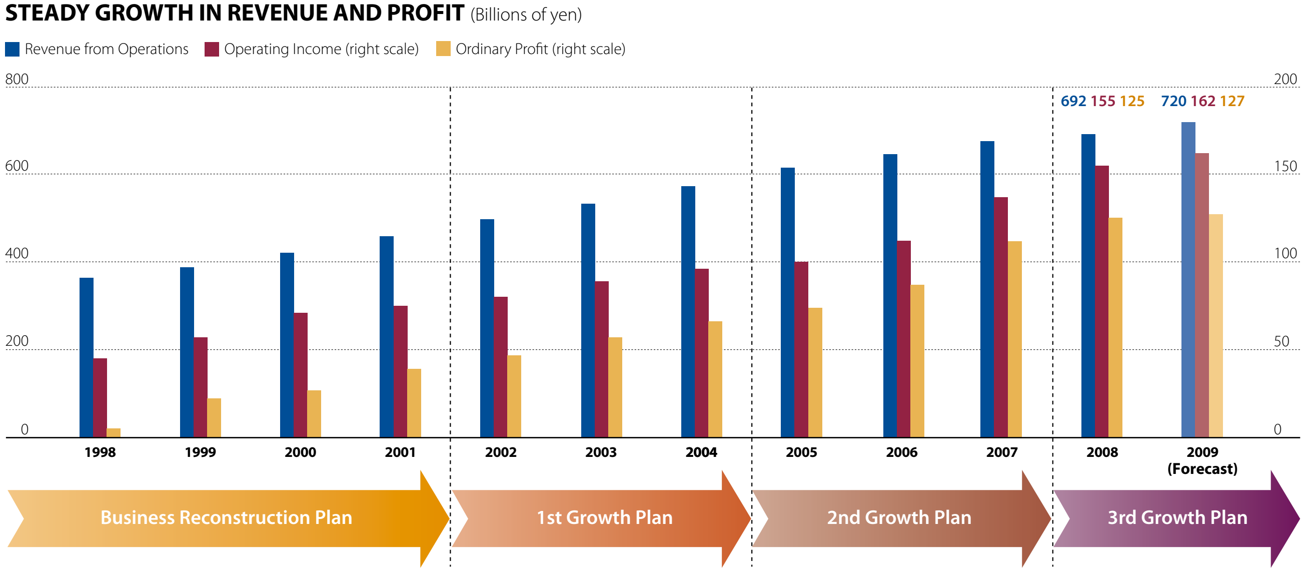
In the future, we will steadily implement a strategy that incorporates consideration for this environment, and will strive to achieve the objectives of our medium-term management plan.

REDEVELOPMENT OPERATIONS CENTERED ON FUTURE GROWTH

In addition to initiatives targeting the achievement of the medium-term management plan's objectives, another important management issue is the preparation needed to ensure that the next plan is also a "growth plan." The environment for development site acquisition is expected to remain difficult. Accordingly, in the future we will emphasize the advancement of redevelopment operations in urban areas, and add development sites with growth potential.

This is because large building sites are all put up for bid, and they can only be successfully acquired at high prices. Accordingly, to ensure returns, we need to work from the stage of assembling sites using redevelopment methods. Despite the fact that we entered the leasing business later than our major competitors, we are one of the few companies that expects to achieve

STEADY GROWTH IN REVENUE AND PROFIT (Billions of yen)



FINANCIAL CONDITION (Billions of yen, Times)

		Reconstruction Plan	1st Growth Plan	2nd Growth Plan	3rd Growth Plan	
(Years ended March 31)	1997	2001	2004	2007	2008	2008 (effective)
Net interest-bearing debt (ND)	1,592	1,184	916	1,344	1,549	1,459
Shareholders' equity (E)	250	193	304	409	427	517
Operating income (OP)	46	76	97	139	158	158
ND/E ratio	6.3	6.1	3.0	3.2	3.6	2.8
ND/OP ratio	34.7	15.4	9.4	9.6	9.7	9.2

*1. Effective figures for March 2008 are calculated based on the inclusion in equity of 75%, or ¥90.0 billion, of the perpetual subordinated loan.
*2. Operating income includes interest received and dividends.
*3. March 1997 net interest-bearing debt includes guarantees and commitments to provide guarantees.

operating income of more than ¥100.0 billion in leasing in the near future. This is the result of our following the path of using redevelopment methods and assembling sites. Following the bursting of Japan's economic bubble, it was possible to acquire land inexpensively. However, in consideration of the current conditions, we have decided to return to the fundamentals—using redevelopment methods and assembling sites.

A certain level of funds is required to advance redevelopment operations, so in February 2008 we raised ¥120.0 billion through a perpetual subordinated loan. This subordinated loan received a high level of equity credit—75%—from a ratings agency. The purpose of the loan was to increase effective shareholders' equity and bolster against future financial risk, such as those stemming from the sub-prime loan problem and rising resourse prices while avoiding equity dilution. As a result, our ND/E ratio, which was 3.6 times at the end of the year under review, is essentially 2.8 times. (see note 1 above.) For the Company, which is striving for further growth and continues to undertake development investment, this subordinated loan generated funds that will be important in further increasing our financial stability.

Under our current medium-term management plan, redevelopment will be conducted in the Nishi-Shinjuku 6-chome district, while under the next medium-term management plan, redevelopment operations are slated for the Koraku 2-Chome West District and the Nishi-Shinjuku 8-Chome District. In addition, there are many major redevelopment projects underway in the Tokyo central business district (CBD), and we plan to announce them gradually. In regard to redevelopment projects, please see page 6.

In these ways, the Company is targeting the achievement of the Third Growth Plan and subsequent sustained growth, and we will redouble our efforts to achieve those goals. We would like to ask our shareholders and investors for your continued support in the years ahead.

June 2008

J. Takashima

Junji Takashima, Chairman

K. Onodera

Kenichi Onodera, President

SPECIAL FEATURE—

Initiatives in Redevelopment, a Key Source of Future Growth

With the prices of large building sites increasing, Sumitomo Realty has shifted to a policy centered on redevelopment for future site acquisition in order to secure sound returns. In this section, we will outline our redevelopment activities, which will become a key source of growth for the Company in the years ahead.

PROCEEDING WITH SITE ACQUISITION THROUGH LEGAL REDEVELOPMENT

With the prices of large building sites increasing, the Company has shifted to a policy centered on redevelopment for future site acquisition in order to secure sound returns. This is because large building sites are all put up for bid, and they can only be successfully acquired at high prices. Accordingly, to ensure returns, we need to work from the stage of assembling sites using redevelopment methods. In particular, we have been aggressively participating in legal redevelopment projects. Legal redevelopment projects generate higher value added than purchase and rebuild projects.

The Company has implemented many legal redevelopment projects, which have been one of the factors contributing to the expansion of our leasing operations. In the future, we will use the experience that we have acquired while we steadily move forward with legal redevelopment projects, which enable us to provide even greater value added.

LEGAL REDEVELOPMENT: FRAMEWORK AND FEATURES

City redevelopment projects entail the integrated, comprehensive coordination of buildings, commercial facilities and other city facilities together with roads and open spaces. These projects have a range of objectives, such as improving city disaster prevention, renewing city functions, promoting advanced land usage and activating local economies.

In Japan, legal redevelopment projects are a specific type of city redevelopment project that is implemented in accordance with the City Redevelopment Law. Because they are implemented under the force of law, there are very strict conditions for the designation of a legal redevelopment district. For example, there is a requirement that the percentage of old wooden buildings with low fire-resistance exceeds a certain level. Moreover, these projects entail a range of procedures in accordance with the law, such as procedures for the formation of a redevelopment association, determination of city planning, and conversion of rights.

However, legal redevelopment projects also have special merits for developers. Because these projects have a high degree of public benefits, developers are allowed to substantially increase the floor-area ratio. Furthermore, in comparison with competitive bidding and discretionary contracts, in legal redevelopment projects, building expenses are paid upon completion, so developers can significantly reduce upfront costs. These projects also include preferential treatment under the tax system and assistance schemes.

Also, city redevelopment projects make substantial contributions to economic revival, and accordingly the economic plans of Japan's government have included measures to promote redevelopment projects. In 2001, following the collapse of Japan's economic bubble, the government established the Urban Renaissance Headquarters, led by the Prime Minister, in order to increase the international competitiveness of the nation's urban areas and to restore economic vitality. Through this organization, the national government encourages local government bodies to take steps to speed up the redevelopment process, such as reducing the time needed for developers to acquire permissions. As a result, the progress of many projects that had previously been stalled has been accelerated and the time required to complete the projects has been reduced.

Characteristics of Legal Redevelopment Projects

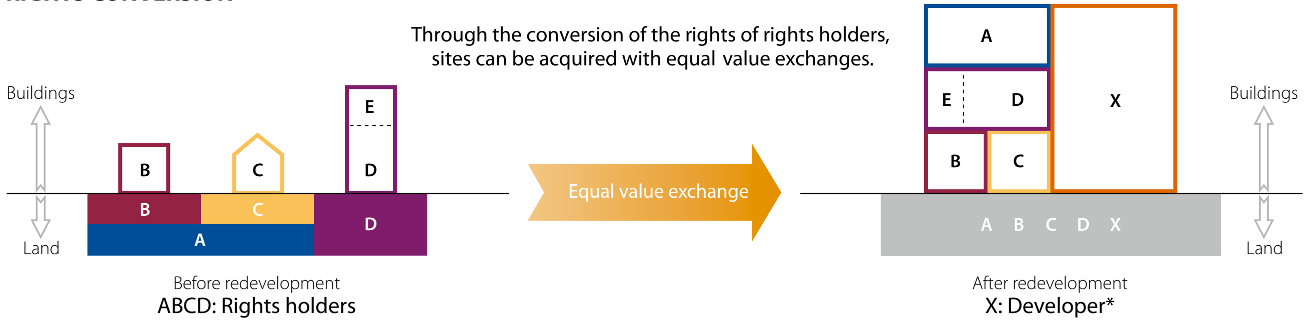
Merits: Substantial benefits in terms of investment return and profitability

- In comparison with methods where the land is first purchased, such as competitive bidding, projects are completed with small initial investments
- Substantial increase in floor-area ratio
- Subsidies are available

Demerits: Substantial behind-the-scenes work is required

- It is necessary to form a consensus among multiple property rights holders and there are also consultations with administrative bodies, resulting in longer development times.

RIGHTS CONVERSION



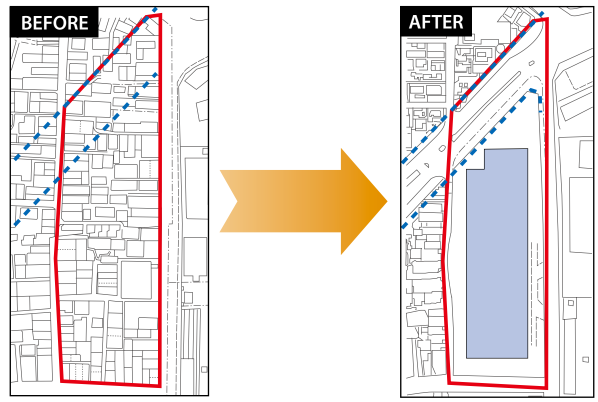
* Acquirer of property other than that received by rights holders in equal value exchange (Developer)

EXAMPLES OF SUCCESSFUL LEGAL REDEVELOPMENT PROJECTS

IIDABASHI FIRST BUILDING

Koraku 2-Chome East District, Tokyo, Bunkyo Ward, Completion: March 2000

Koraku included older areas, and land use had not progressed to a high level. The ground was very weak, and there was a concentration of old wooden buildings, so substantial damage was anticipated in the event of an earthquake or fire, and redevelopment was needed to protect against disaster damage. Against this background, the project began in 1978, and in 2000 the Koraku 2-Chome East District made a fresh start as the Sumitomo Fudosan Iidabashi First Building.



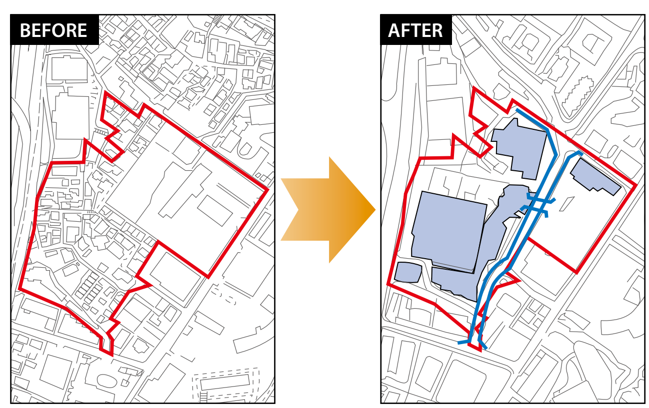
Ground area........2,700 tsubo*
Gross floor area........19,000 tsubo*
Principal uses........Offices, residences (76 units), stores
Floors........14 above ground, 2 below ground
Number of property rights holders before conversion........93

* 1 tsubo = 3.3m²

IZUMI GARDEN TOWER

Roppongi 1-Chome West District, Tokyo, Minato Ward, Completion: October 2002

Roppongi 1-Chome is the site of many embassies and has long maintained its ranking as prime real estate. It was composed of quiet streets, but the streets were small and at steep angles, and the district included many aged wooden buildings. There were problems from the perspective of disaster prevention and the living environment. Against this background, the project was started in 1988 with the objective of creating a town with convenience and liveliness while drawing on the special characteristics of the region. In 2002, it was reopened as the Izumi Garden Tower.



Ground area........7,300 tsubo*
Gross floor area........63,000 tsubo*
Principal uses........Offices, residences (260 units), stores, hotel, museum
Floors........43 above ground, 4 below ground
Number of property rights holders before conversion........98

* 1 tsubo = 3.3m²

LARGE REDEVELOPMENT PROJECTS CURRENTLY UNDER WAY

Targeting the achievement of the medium-term management plan and subsequent sustained growth, the Company is currently advancing redevelopment projects in Central Tokyo. In addition, we have 16 major urban redevelopment projects under way. These projects will be introduced in stages.

LARGE REDEVELOPMENT PROJECTS UNDER WAY

1 tsubo = 3.3m^2

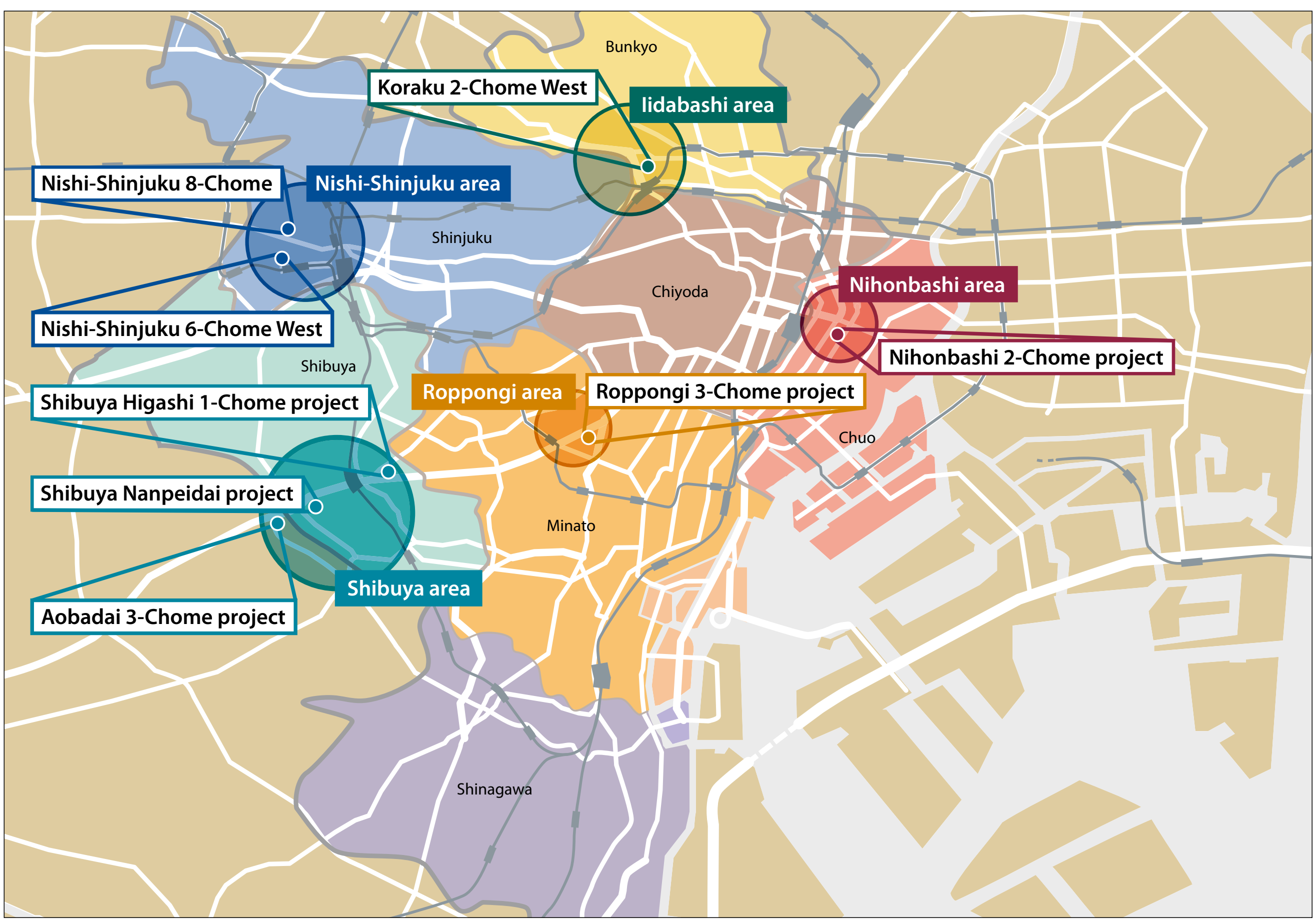
Projects	Area	Completion*1	Gross floor area (Tsubo)	Total investment amount (Billions of yen)
Aobadai 3-Chome Project	Shibuya	2010	17,300	32
Nishi-Shinjuku 6-Chome West Project*2	Nishi-Shinjuku	2010	46,300	50
Shibuya Uguisudani Project (Residential)	Shibuya	2011	15,000	43
Koraku 2-Chome West Project*2	Iidabashi	2011	23,500	25
Shibuya Higashi 1-Chome Project	Shibuya	2011	16,000	45
Shibuya Nanpeidai Project	Shibuya	2011	18,000	65
Nishi-Shinjuku 8-Chome Project*2	Nishi-Shinjuku	2012	54,000	120
Roppongi 3-Chome Project	Roppongi		46,000	150
Nihonbashi 2-Chome Project	Nihonbashi		28,000	130
Total			264,100	660

Third Growth Plan / Fourth Growth Plan / Fifth Growth Plan

*1. Fiscal year ending March 31

*2. Legal redevelopment project

POSITIONING OF REDEVELOPMENT PROJECTS (TOKYO CENTRAL BUSINESS DISTRICT)



KORAKU 2-CHOME WEST PROJECT

Gross floor area . . . .23,500 tsubo*
Floors . . . . .34 above ground, 3 below ground
Completion . . . . . June 2010 (plan)

AOBADAI 3-CHOME PROJECT

Gross floor area . . . .17,300 tsubo*
Floors . . . . .33 above ground, 3 below ground
Completion . . .August 2009 (plan)

NISHI-SHINJUKU 6-CHOME WEST PROJECT

Gross floor area . . . .46,300 tsubo*
Floors . . Residences: 44 above ground, 2 below ground
Offices: 17 above ground, 2 below ground
Completion . . . January 2010 (plan)

SHIBUYA NANPEIDAI PROJECT

Gross floor area . . . .18,000 tsubo*
Floors . . . . .20 above ground, 2 below ground
Completion . . . .March 2011 (plan)

NISHI-SHINJUKU 8-CHOME PROJECT

Gross floor area . . . .54,000 tsubo*
Floors . . Towers: 42 above ground, 4 below ground
Mid-rise: 11 above ground, 1 below ground
Completion . . . . . . July 2011 (plan)

SHIBUYA HIGASHI 1-CHOME PROJECT

Gross floor area . . . .16,000 tsubo*
Floors . . . . .27 above ground, 2 below ground
Completion . . .August 2010 (plan)

* 1 tsubo = 3.3m^2

AT A GLANCE

Balanced Portfolio

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

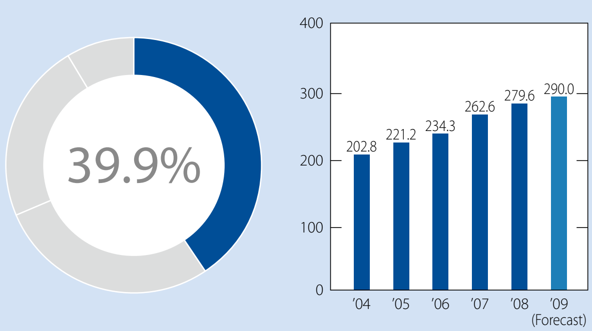
CHARACTERISTICS OF OUR FOUR OPERATIONAL FIELDS

Leasing and sales are our traditional main fields of business. These are capital-intensive fields; returns and risk are both high and substantial upfront investment is required, but the level of human resources is relatively low. In leasing, the period from the initial investment to the generation of revenue—the operational cycle—is long, but once a building is opened for occupancy it provides a stable, sustained source of revenue. The sales business, however, is characterized by a shorter operational cycle with volatile market conditions. Nonetheless, revenue and profit are both relatively high. Our housing construction operations and brokerage operations are order-based businesses with low capital requirements and no sales risk but substantial human resources requirements. These operations have been developed more recently. In housing construction, the operational cycle is short, about six months to a year, but product development capabilities are very important. Brokerage operations have the shortest operational cycle of our fields of business but require strong, highly competitve service networks.

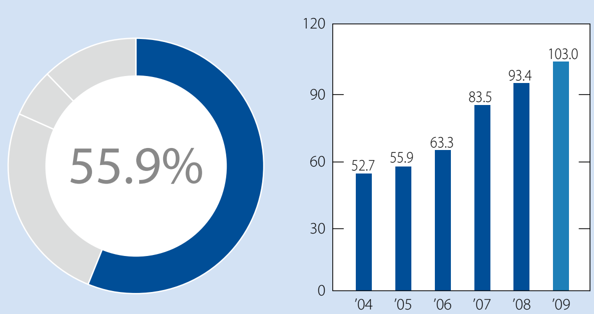
LEASING

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

REVENUE FROM OPERATIONS (Billions of yen)



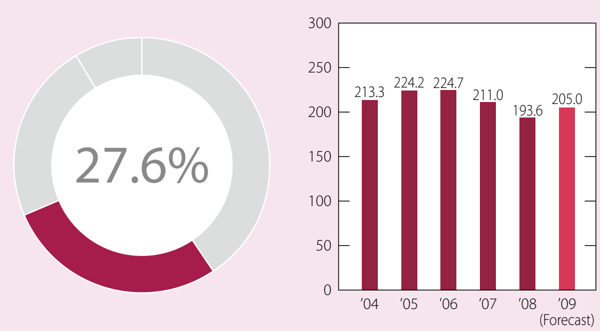
OPERATING INCOME (Billions of yen)



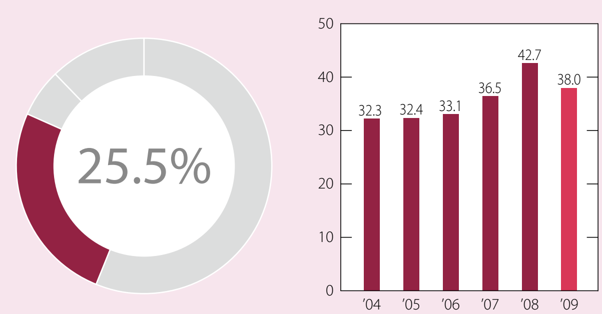
SALES

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

REVENUE FROM OPERATIONS (Billions of yen)



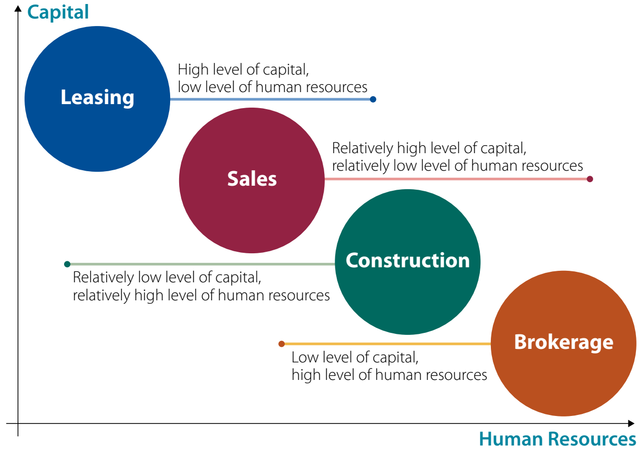
OPERATING INCOME (Billions of yen)



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 are currently searching for the field that would best complement our existing operations.

SUMITOMO REALTY'S BALANCED PORTFOLIO

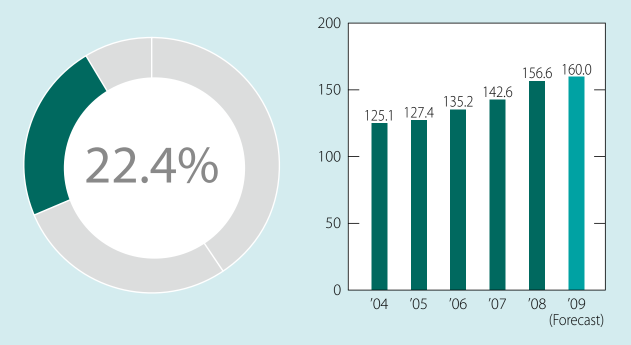


CONSTRUCTION

Custom home construction and remodeling and related activities

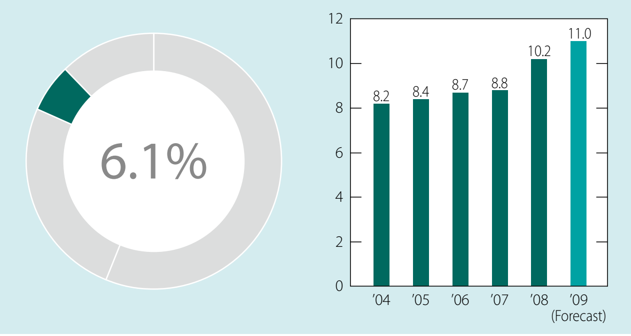
REVENUE FROM OPERATIONS

(Billions of yen)



OPERATING INCOME

(Billions of yen)

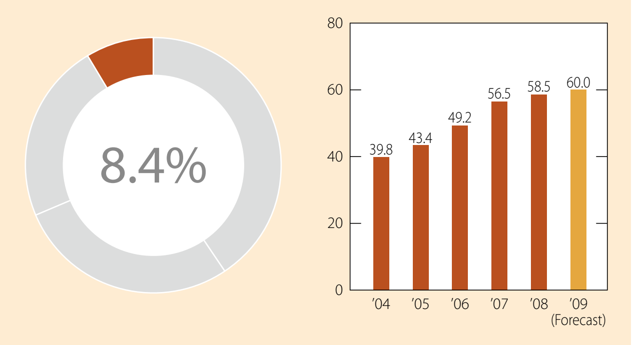


BROKERAGE

Brokerage and sales on consignment of real estate and related activities by Sumitomo Real Estate Sales Co., Ltd.

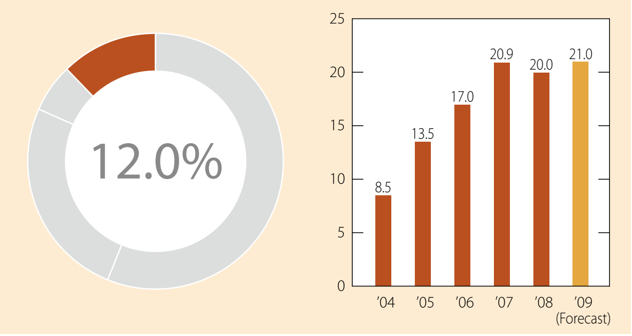
REVENUE FROM OPERATIONS

(Billions of yen)



OPERATING INCOME

(Billions of yen)



REVIEW OF OPERATIONS

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 Harajuku Building


Sumitomo Fudosan Mita Twin Building West


Sumitomo Fudosan Roppongi-dori Building

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 economic bubble, 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, there was strong relocation demand in the year under review as companies sought increased floor space to accommodate larger workforces and to enhance operational efficiency. The demand–supply balance remained tight, and market conditions were favorable. Vacancy rates were low, and new contract rents rose at a moderate pace. The trend toward higher rents for existing tenants when leases are renewed spread through the market, and the size of the rent increases expanded.

In this environment, the Company's vacancy rate for existing buildings improved from 4.8% at the end of the previous fiscal year to 3.8% at the end of the year under review, and favorable progress was made in raising rents for existing tenants when leases are renewed. Buildings opened for occupancy during the year, such as the Sumitomo Fudosan Harajuku Building and the Sumitomo Fudosan Yotsuya Building, were fully occupied, and properties such as the Sumitomo Fudosan Mita Twin Building (East and West), which were open for the full year, contributed to performance.

As a result, we were able to offset a reduction in dividends from a limited partnership ("*Tokumei Kumiai*") that was liquidated at the end of the previous fiscal year and to record substantial gains in revenue and profit. Revenue from operations increased 6.5%, to ¥279.6 billion, and operating income was up 11.9%, to ¥93.4 billion.

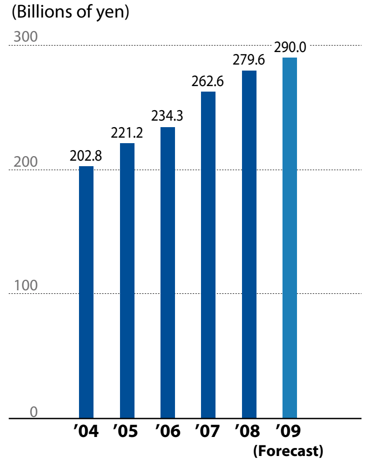
Sumitomo Fudosan Iidabashi Ekimae Building

OUTLOOK

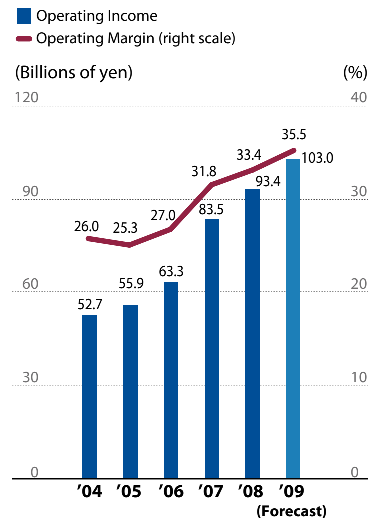
In the March 2009 fiscal year, we expect higher rents on existing buildings and the full-year contribution of such properties as the Sumitomo Fudosan Harajuku Building to drive continued performance growth. We also plan to open new buildings, such as the Sumitomo Fudosan Iidabashi Ekimae Building and the Sumitomo Fudosan Roppongi-dori Building.

As a result, we expect another year of higher revenue and profit, with revenue from operations increasing 3.7%, to ¥290.0 billion, and operating income surpassing ¥100.0 billion for the first time, rising 10.3%, to ¥103.0 billion.

REVENUE FROM OPERATIONS



OPERATING INCOME AND OPERATING MARGIN

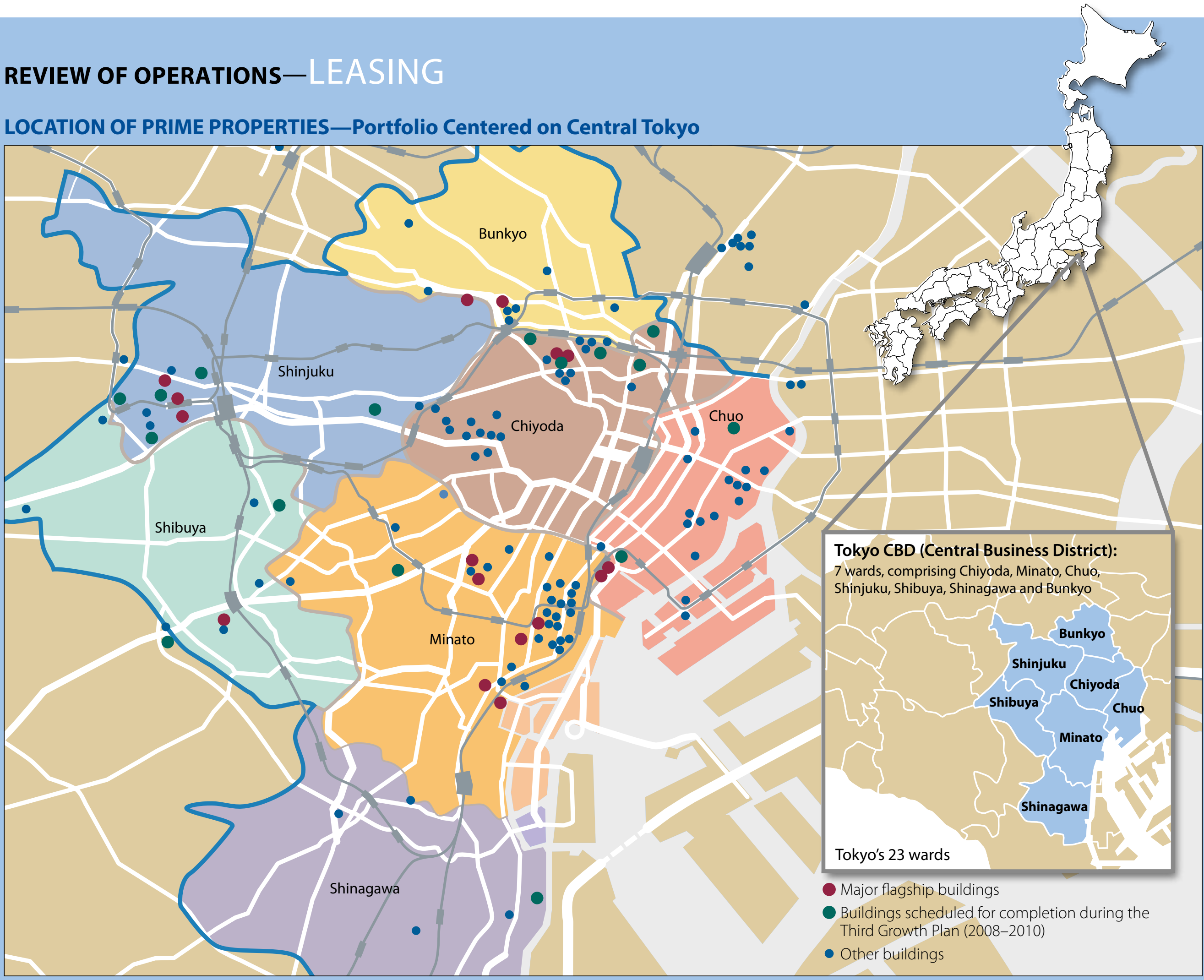


PRINCIPAL BUILDINGS

Name	No. of floors (aboveground / underground)	Completion	Location (Tokyo CBD)	Gross floor area (m²)
Izumi Garden Tower	43 / 4	Oct. 02	Minato Ward	205,503
Shinjuku Sumitomo Building	52 / 4	Mar. 74	Shinjuku Ward	177,467
Shinjuku Oak City	38 / 2	Jan. 03	Shinjuku Ward	117,446
Shiodome Sumitomo Building	25 / 3	July 04	Minato Ward	99,913
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	35,549
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.

LOCATION OF PRIME PROPERTIES—Portfolio Centered on Central Tokyo



OFFICE BUILDING FEATURES

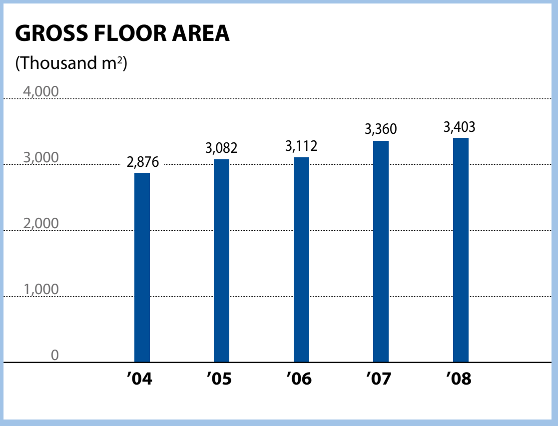
	Before 1981	1982–1996	1997 and after
Earthquake protection	Previous quake-resistant structure	New quake-resistant structure	Anti-sway structure
Ceiling height*	2.5 m	2.7 m	2.9–3.3 m
Floor load	300 kg/m^2	300–500 kg/m^2	500–1,000 kg/m^2
Air conditioning	Central air conditioning system	Climate control zones	Separate climate control systems
Power capacity	45 VA/m^2	60–70 VA/m^2	85 VA/m^2 and over

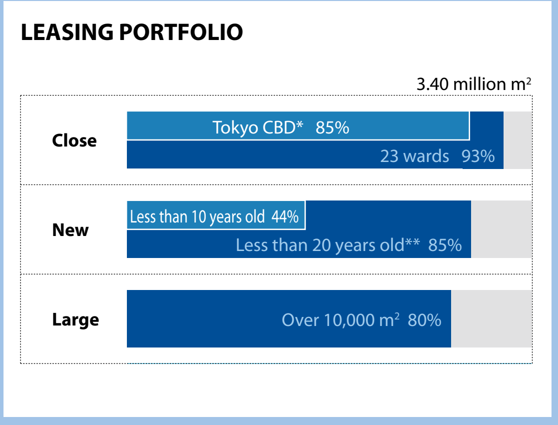
* Includes raised floors


Shibakoen First Building


Tokyo Shiodome Building


Izumi Garden Tower





* 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 REALTY'S PORTFOLIO

Our portfolio includes many competitive prime properties located in central Tokyo. As of the end of March 2008, our portfolio of office buildings had a gross floor area of 3.4 million square meters and an average age of 14 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 85% 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 46% 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 IN 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.

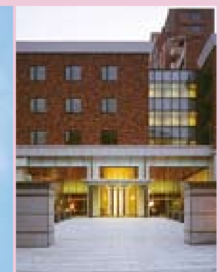
In the Tokyo central business district, where buildings that meet the three conditions for prime properties—close, new and large—are in strong demand, our competitive portfolio will provide a strong foundation for us to utilize our strengths—development of high-value-added office buildings, tenant leasing 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.

REVIEW OF OPERATIONS

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. The Company is building attractive condominiums in good locations and working to raise its brand value.

Grand Hills Sangenjaya



City Terrace Mejiro

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 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, which accounts for more than 90% of our sales in this segment, selling prices in the Tokyo metropolitan area increased. However, the second half of the year saw concern about overseas financial market problems and fears of a slowdown in the domestic economy, and consumer purchasing motivation declined rapidly. The percentage of units sold declined, and sales conditions were sluggish.

In this environment, the number of condominium units, detached houses and land lots delivered declined by 784 from the previous year, to 3,743. As a result, revenue from operations was down 8.3%, to ¥193.6 billion, due to the decline in the number of units delivered. Nonetheless, because we delivered a large number of highly profitable condominiums, our operating margin improved substantially, rising 4.8 percentage points, to 22.1%, and operating income was up 16.9%, to ¥42.7 billion.

Because we had sold sufficient units for the fiscal year, we limited the number of new units supplied to 3,187 units. As a result, the number of condominium units delivered declined by 1,323 units, to 2,631 units.

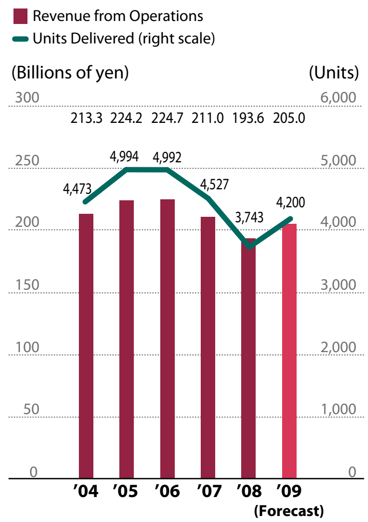
Park Square Sagamiono

OUTLOOK

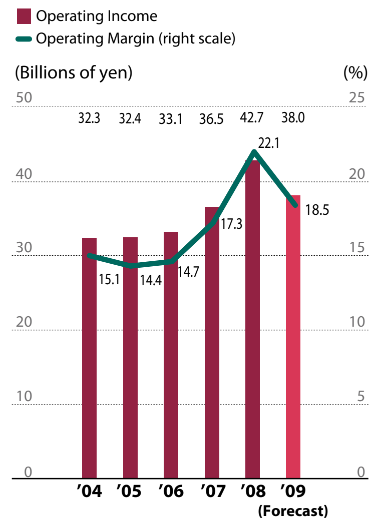
In the March 2009 fiscal year, conditions in the condominium sales market will remain uncertain. Our conservative forecast is for delivery of a total of 4,200 condominium units, detached houses, and land lots, an increase of 457 year on year. Of the number of condominiums and detached houses that we expect to deliver in the March 2009 fiscal year, about 30% had already been sold as of the end of March 2008 (48% in the previous year). Accordingly, we plan to continue working to bolster our sales system and to promote sales.

As a result, in the March 2009 fiscal year, we are forecasting revenue from operations of ¥205.0 billion, up 5.9%, and operating income of ¥38.0 billion, a decline of 11.1%.

REVENUE FROM OPERATIONS



OPERATING INCOME AND OPERATING MARGIN



PRINCIPAL CONDOMINIUM DEVELOPMENT PROJECTS (2008–2010)

Name	Location	No. of units	No. of floors	Scheduled delivery*1
Grand Hills Sangenjaya	Setagaya Ward, Tokyo	311	12	2008/ 2009
Park Square Saitama-Shintoshin	Saitama City, Saitama	498	15	2009
City Tower Shinagawa	Minato Ward, Tokyo	828*2	43	2009
City Terrace Mejiro	Toshima Ward, Tokyo	293	18	2009
Tokiwadai Garden Society	Itabashi Ward, Tokyo	419	18	2009
City Terrace Tachikawa	Tachikawa City, Tokyo	253	9	2009
Park Square Shonan-Chigasaki	Chigasaki City, Kanagawa	462	16	2009
City House Musashikosugi	Kawasaki City, Kanagawa	188	22	2009
Park Square Sagamiono	Sagamihara City, Kanagawa	718	32	2009
Park Square Kobe-Oishi	Kobe City, Hyogo	235	14	2009
Times Peace Square	Osaka City, Osaka	633*	19	2009
City Towers Toyosu The Twin	Koto Ward, Tokyo	1,063	48	2009/ 2010
Osaki West City Towers	Shinagawa Ward, Tokyo	1,084*	39	2010
City Tower Azabujuban	Minato Ward, Tokyo	500*	38	2010
City Tower Osaka-Fukushima	Osaka City, Osaka	349	37	2010
Toyosu Project II	Koto Ward, Tokyo	850	—	2010

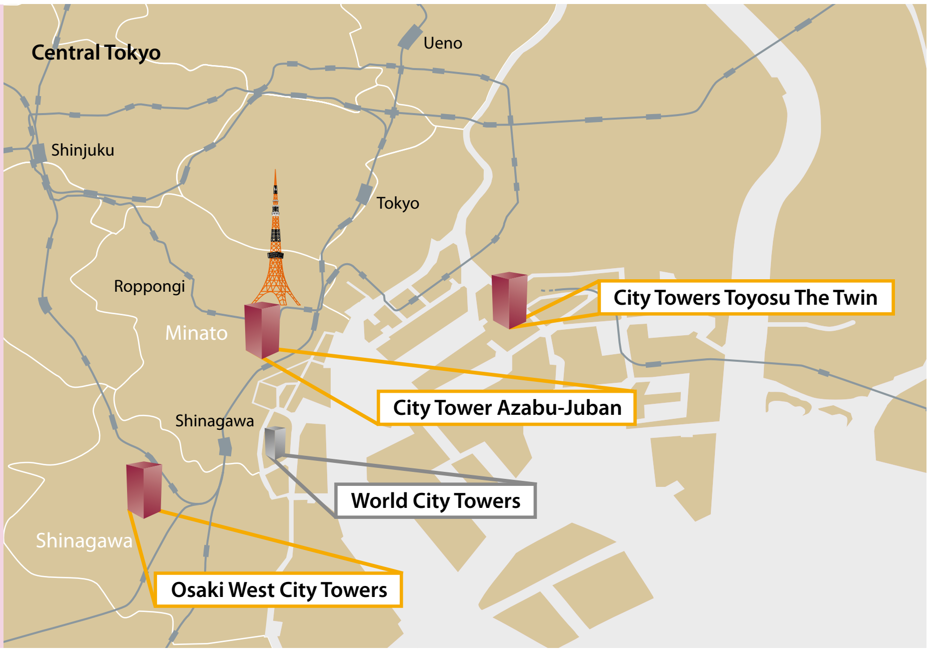
*1. Fiscal year ending March 31

*2. Number of units includes the units of business partners.

REVIEW OF OPERATIONS—SALES

Focusing on Urban Tower Condominiums in Central Tokyo

We are moving forward with large-scale condominium projects that will contribute to both our current and next medium-term management plans. Each of these tower condominiums is situated in central Tokyo and offers a rich living environment.

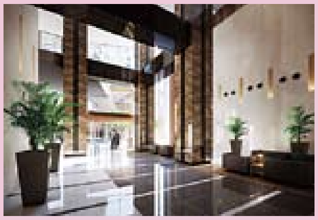


PROPERTIES TO BE COMPLETED IN THE MARCH 2009 FISCAL YEAR

In the heart of Tokyo, we will sell City Tower Azabu Juban in Minato Ward and Osaki West City Towers in Shinagawa Ward.

Both properties were developed as tower condominium buildings utilizing legal redevelopment methods (see page 6) and offer sweeping views of the city thorough Direct Sky View floor-to-ceiling windows, a distinctive feature of our tower condominiums. These buildings showcase the Company's product planning capabilities.

Osaki West City Towers



Floors .... 39 above ground, 2 below ground
Number of units .... 1,084 units
Completion .... September 2009 (plan)

City Tower Azabu Juban

Floors .... 38 above ground, 2 below ground
Number of units .... 500 units
Completion .... May 2009 (plan)

PROPERTIES TO BE COMPLETED IN THE MARCH 2010 FISCAL YEAR

Sumitomo Realty has distinctive strengths in making the most of development areas by creating tower condominiums with more than 1,000 units.

For example, the Company used its accumulated know-how in the field of tower condominium development to successfully complete World City Towers in March 2007. This tower condominium, which is located in Minato Ward, has 2,090 units.

We are on course toward similar success in the Toyosu area. In accordance with original "town building" guidelines, we are working through a private-sector/government alliance to develop a town that offers the opportunity to experience a warm, calm environment that is characterized by the development of many new residential and commercial facilities.

To that end, we are currently moving forward with City Towers Toyosu The Twin, which offers 1,063 units. With 48 floors above ground, it is the tallest twin tower condominium in the area. With the special features shown below, this condominium offers residents an entirely new living environment that is comfortable and warm.

We are also making progress with our second condomium in this area—Toyosu Project II. When this project is completed, we will have developed tower condominiums with nearly 2,000 units in the Toyosu area. These condominiums will contribute to our results during the current medium-term management plan and the next medium-term management plan.

Floors .... 48 above ground, 1 below ground
Number of units .... 1,063 units
Completion .... March 2009 (plan)

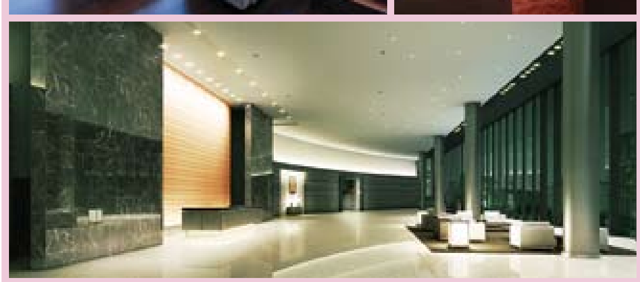
Features

- Site: Excellent traffic access, five minutes to Ginza and nine minutes to Tokyo Station
- Exterior: A glass curtain wall has been used on the exterior.
- View: Direct Sky View specifications enable the enjoyment of the urban view
- Surroundings: Located near major convenient lifestyle facilities, such as commercial facilities, medical institutions, and educational and research institutions.

World City Towers

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

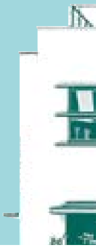
City Towers Toyosu The Twin



REVIEW OF OPERATIONS

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.



REMODELING (Shinchiku Sokkurisan)

CUSTOM HOMES

J-LADY

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 were the first major real estate company to offer this type of product, and Shinchiku Sokkurisan has been well received in the marketplace. Cumulative sales have surpassed 40,000 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.

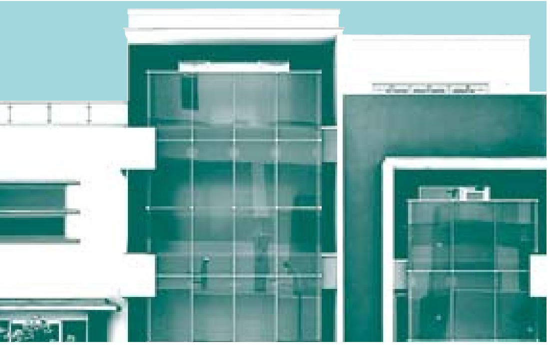
In April 2003, we launched the J-Urban home design, which combines the excellent

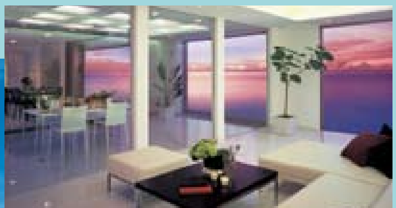
Shinchiku Sokkurisan

- 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.





Living room

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. In September 2007, we commenced sales of J-Lady which is the latest product in the J-Urban series and offers expanded storage and housekeeping space.

- Fixed price: We have an easily understood pricing system, and the use of original materials and large-volume procurement enables us to achieve price reductions.
- Complete after-sales support: Our homes are backed by a 20-year guarantee and our specialists conduct periodic inspections.

OVERVIEW OF THE FISCAL YEAR

In custom home operations, the number of owner-occupied housing starts declined, and market conditions remained challenging. In this setting, we maintained our operations at about the same level as in the previous year.

On the other hand, we continued working to aggressively expand our Shinchiku Sokkurisan remodeling operations by continuing to bolster our sales system through the expansion of our base network. As a result, Shinchiku Sokkurisan continued to record favorable growth.

For both custom homes and Shinchiku Sokkurisan, unit prices increased. Shinchiku Sokkurisan contributed ¥83.8 billion to revenue from operations and custom homes contributed ¥45.6 billion. Total sales in these two businesses rose 9.7%, to ¥129.4 billion.

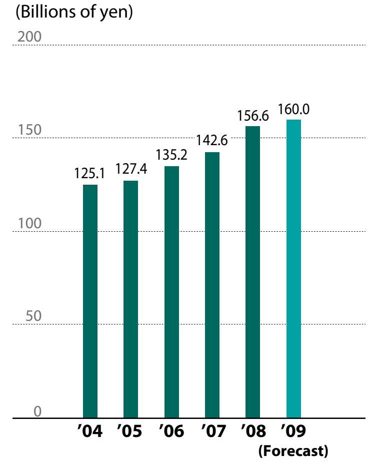
On a consolidated basis, including the results of such companies as Sumitomo Fudosan Syscon Co., Ltd., Sumitomo Fudosan Reform Co., Ltd. and Universal Home Inc., revenue from operations rose 9.8%, to ¥156.6 billion, and operating income was up 15.3%, to ¥10.2 billion. We recorded higher revenue and profit for the seventh consecutive year, and operating income surpassed ¥10.0 billion for the first time.

OUTLOOK

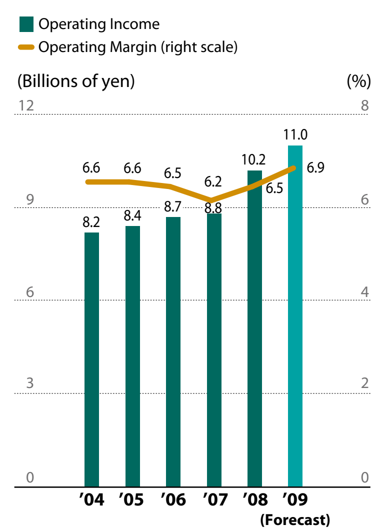
In the March 2009 fiscal year, in construction operations, we are targeting 9,500 orders, 7,800 for Shinchiku Sokkurisan remodeling and 1,700 for custom homes, and 9,150 deliveries, 7,500 for Shinchiku Sokkurisan and 1,650 for custom homes. We will continue working to achieve aggressive expansion, centered on Shinchiku Sokkurisan operations.

Consequently, we are targeting revenue from operations of ¥160.0 billion, up 2.2%, and operating income of ¥11.0 billion, up 8.3%.

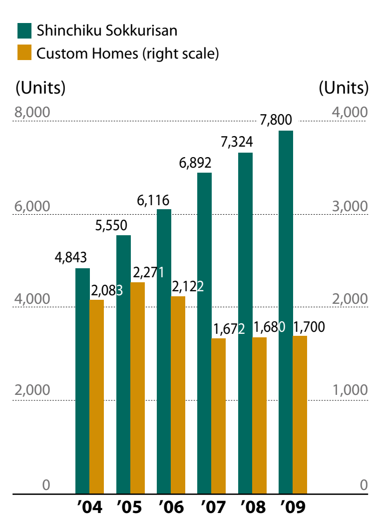
REVENUE FROM OPERATIONS



OPERATING INCOME AND OPERATING MARGIN



SHINCHIKU SOKKURISAN AND CUSTOM HOME UNITS CONTRACTED



REVIEW OF OPERATIONS

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 238 by the end of March 2008. 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

Rising land prices in the three major urban areas of Tokyo, Osaka and Nagoya were reflected in continued increases in average selling prices for existing homes. In the second half of the fiscal year, however, the number of transactions declined as uncertainty about the future course of business conditions increased.

In this market environment, in our mainstay brokerage operations, transaction prices continued to increase, and total transaction value rose 5.3%, to ¥1,107.9 billion. On the other hand, the number of brokerage transactions was sluggish in the second half of the year, and ended the year up 1.9%, at 29,753 units.

Consequently, revenue from operations was up 3.6%, to ¥58.5 billion, and operating income declined 4.5%, to ¥20.0 billion. This marked the first decline in five years.

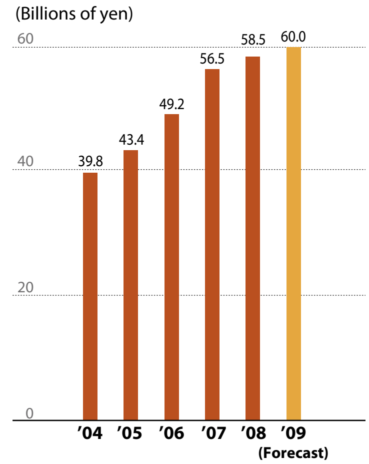
We opened six new directly managed brokerage offices in the Tokyo metropolitan area, in such locations as Hiroo and Yukigaya Otsuka, and one office in another area, for a total of seven offices opened during the year. At the end of the year under review, the nationwide total was 238 offices.

OUTLOOK

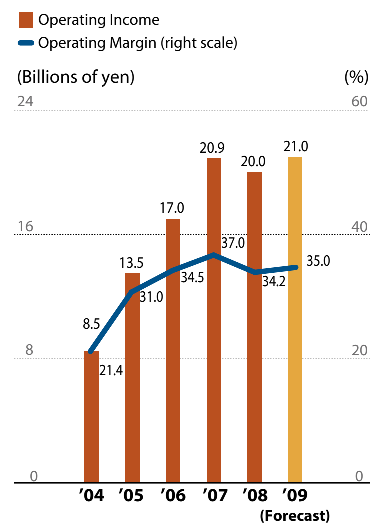
In the March 2009 fiscal year, we will strive to further increase our share by opening new offices, bolstering existing offices and increasing sales efficiency through a reinforced IT strategy. Moreover, we will aim for an increase in the number of brokerage transactions and a return to growth in profits.

As a result, in the March 2009 fiscal year, we are forecasting revenue from operations of ¥60.0 billion, up 2.5%, and operating income of ¥21.0 billion, an increase of 5.0%.

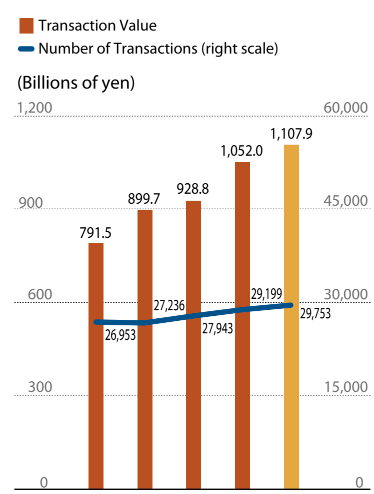
REVENUE FROM OPERATIONS



OPERATING INCOME AND OPERATING MARGIN



NUMBER OF TRANSACTIONS AND TRANSACTION VALUE



OUR HISTORY

DATE	TOPICS
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) series. • Implemented the Sumquest bond issue, which was the first public issue of real estate securities in Japan.
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.
2005	• Commenced sales of J-Urban III three-story, urban-style houses and J-Urban Court suburban-style houses.
2006	• Established Sumitomo Fudosan Reform Co., Ltd., a consolidated subsidiary.
2007	• Commenced Nishi-Shinjuku 6-Chome West No. 6 District redevelopment construction (Shinjuku Ward, Tokyo). • Cumulative total number of orders for Shinchiku Sokkurisan remodeling business surpassed 40,000. • Commenced Koraku 2-Chome West District redevelopment construction (Bunkyo Ward, Tokyo).

Shinjuku Sumitomo Building

Shinjuku NS Building

Izumi Garden Tower

World City Towers

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 Compliance Department, which has three 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 Compliance Department. Moreover, from the viewpoint of timely disclosure, we provide important information through our website and other means on a timely basis, and have increased management transparency for shareholders, other investors and suppliers.

Independent Auditors

In accordance with the Corporate Law and the Financial Instruments 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 Compliance 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 ¥1,011 million and compensation for statutory auditors was ¥63 million.

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.

SIX-YEAR FINANCIAL SUMMARY

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

	Millions of yen					
	2008	2007	2006	2005	2004	2003
For the Year						
Revenue from operations	**¥691,928**	¥676,834	¥646,525	¥616,115	¥573,862	¥533,915
Leasing	**279,568**	262,620	234,280	221,234	202,776	192,979
Sales	**193,575**	211,035	224,735	224,191	213,303	183,745
Construction	**156,606**	142,564	135,158	127,388	125,086	124,464
Brokerage	**58,542**	56,532	49,217	43,445	39,809	37,577
Cost of revenue from operations	**488,202**	490,491	487,805	470,636	435,078	403,777
SG&A expenses	**49,118**	49,167	46,697	45,188	42,807	41,626
% of revenue from operations	**7.1%**	7.3%	7.2%	7.3%	7.5%	7.8%
Operating income	**154,608**	137,176	112,023	100,291	95,977	88,512
% of revenue from operations	**22.3%**	20.3%	17.3%	16.3%	16.7%	16.6%
Depreciation and amortization	**17,150**	15,677	16,330	14,019	12,211	11,973
At Year-End						
Current assets	**¥ 784,195**	¥ 756,488	¥ 619,219	¥ 481,341	¥ 503,911	¥ 423,446
Sales inventory[1]	**550,863**	531,377	388,627	260,613	234,019	189,136
Total assets	**2,894,004**	2,747,900	2,460,080	2,136,329	2,090,970	2,015,667
Shareholders' equity[2]	**427,423**	409,197	375,656	320,098	303,875	211,821
Net interest-bearing debt	**1,548,509**	1,343,824	1,150,880	935,155	916,156	1,036,419
Per Share Amounts (Yen)						
Net income	**¥133.00**	¥105.92	¥ 68.33	¥ 32.64	¥ 15.34	¥ 12.22
Shareholders' equity	**900.57**	861.93	790.74	673.40	639.01	520.84
Cash dividend applicable to the year	**18.00**	14.00	10.00	9.00	9.00	6.00
Key Ratios						
Equity ratio (%)	**14.8**	14.9	15.3	15.0	14.5	10.5
ND/E ratio[3] (Times)	**3.6**	3.2	3.1	2.9	3.0	4.9

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

In the March 2008 fiscal year, the first year of the Third Three-Year Growth Plan, we achieved our eleventh consecutive year of gains in revenue, operating income and ordinary profit. Moreover, we achieved record highs for the eighth consecutive year in ordinary profit and for the third consecutive year in net income.

In April 2007, we launched the Third Three-Year Growth Plan. The basic objectives of the plan are to maintain the pace of growth achieved under the previous three plans. The forecast 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. In the plan's first year we recorded strong results that exceeded our initial targets. We achieved about one-third of the three-year cumulative objectives for both operating income and ordinary profit, and are confident about our chances of meeting the plan's objectives.

RESULTS OF OPERATIONS

Revenue from Operations and Operating Income

In the March 2008 fiscal year, we recorded substantial gains in revenue and profit in the leasing segment due to higher rents on existing buildings and to the full-year contributions of buildings opened in the previous fiscal year. Moreover, we achieved double-digit growth in operating income in the sales segment and operating income surpassed ¥10.0 billion for the first time in the construction segment. As a result, revenue from operations was up 2.2%, to ¥691.9 billion, and operating income rose 12.7%, to ¥154.6 billion.

For more information about each segment, please see the Review of Operations section on page 12.

Other Income and Expenses

Net other expenses improved to ¥40.6 billion, from ¥45.1 billion in the previous fiscal year. In the previous year, we recorded a gain on liquidation of limited partnership, which we did not record in the year under review. However, in the previous year, to improve investment efficiency on buildings for lease, we recorded a loss on devaluation of property and equipment, which we did not record in the year under review. On the other hand, due to an increase in interest-bearing debt, interest expense, net, increased ¥4.6 billion. In addition, loss on devaluation of investments in securities was ¥5.1 billion.

Net Income

Income before income taxes and minority interests totaled ¥114.0 billion, up 23.7% from a year earlier. Income taxes were up 23.6%, to ¥47.6 billion. Net income rose 25.5%, to ¥63.1 billion, and the net margin increased to 9.1%, from 7.4% in the previous year.

CASH FLOWS

Cash and cash equivalents at end of year totaled ¥116.5 billion, a decrease of ¥13.3 billion from the end of the previous year. Cash flows were as follows.

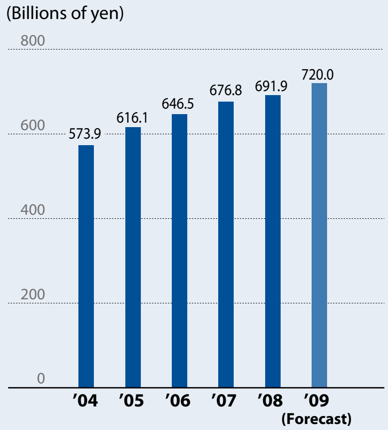
Cash Flows from Operating Activities

Net cash used in operating activities was ¥19.4 billion, due principally to accumulation of properties for sale. In comparison with the previous year, income before income taxes and minority interests increased and increase in investment in properties for sale (condominiums) declined. As a result, cash flow improved ¥29.4 billion.

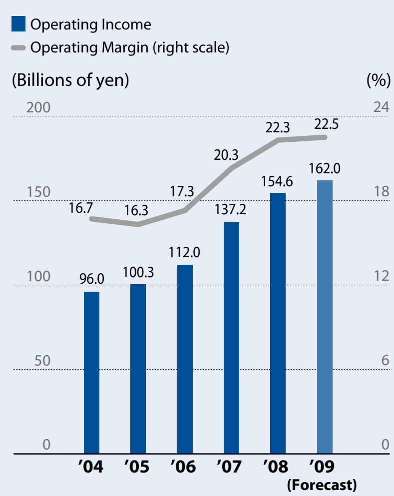
Cash Flows from Investing Activities

Net cash used in investing activities was ¥138.8 billion. As new development investment in the leasing segment, we made payments for purchases of property and equipment amounting to ¥144.0 billion. We also recorded an increase in lease deposits and recovered lease deposits paid to lessors.

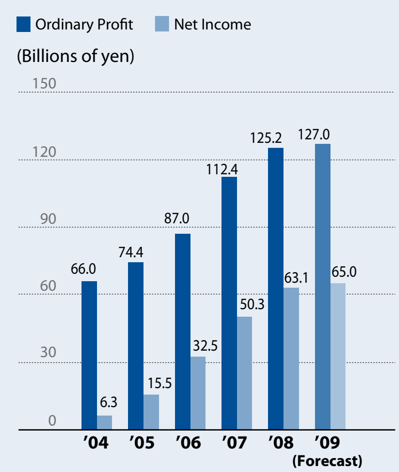
REVENUE FROM OPERATIONS



OPERATING INCOME AND OPERATING MARGIN



ORDINARY PROFIT AND NET INCOME



Cash Flows from Financing Activities

Net cash provided by financing activities was ¥144.7 billion. For accumulation of properties for sale and investment in leasing facilities, increase in long-term debt and issuance of bonds and notes totaled ¥369.0 billion, exceeding redemption of bonds and notes and repayment of long-term debt, which totaled ¥155.8 billion.

CAPITAL RESOURCES AND LIQUIDITY

Assets

At the end of the year under review, total assets were ¥2,894.0 billion, an increase of 5.3% from the previous fiscal year-end. This was due primarily to an increase in property and equipment stemming from the investment in leasing facilities. Total current assets rose 3.7%, to ¥784.2 billion, due primarily to a 4.7% increase in inventories, which reached ¥511.9 billion. This increase was due to the delivery of certain properties being rescheduled for the next fiscal year. Net property and equipment rose 11.6%, to ¥1,622.8 billion. This increase was principally attributable to an increase in fixed assets stemming from new investment related to site acquisition.

Liabilities

Total liabilities were up 5.4% from the previous fiscal year-end, to ¥2,446.7 billion. Total current liabilities declined 10.9%, to ¥775.7 billion. Long-term debt due within one year decreased 26.8%, to ¥115.0 billion, and commercial paper declined 18.1%, to ¥88.5 billion. Bonds scheduled for redemption within one year declined 77.5%, to ¥15.0 billion. Moreover, total long-term liabilities were up 15.2%, to ¥1,670.9 billion. This increase was principally attributable to an increase of 29.8% in bonds, to ¥370.0 billion, and an increase of 23.5% in loans principally from banks, to ¥895.9 billion.

As a result, at the end of the fiscal year, interest-bearing debt was up 13.0%, to ¥1,665.0 billion, an increase of ¥191.4 billion. Interest-bearing debt includes a perpetual subordinated loan of ¥120.0 billion that the Company took out on February 22, 2008. (For further information, please see pages 28 to 29.)

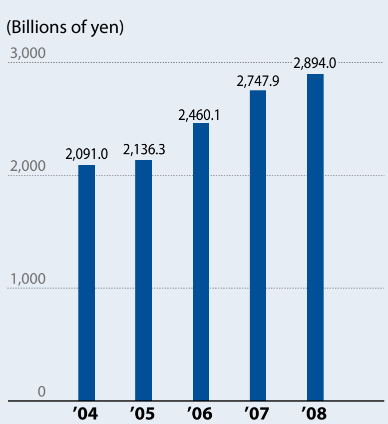
	Millions of yen			
	2008	2007	Amount change	% change
Short-term debt:				
Principally from banks	**¥195,670**	¥197,970	¥ −2,300	−1.2%
Commercial paper	**88,500**	108,000	−19,500	−18.1%
Subtotal	**284,170**	305,970	−21,800	−7.1%
Long-term debt:				
Bonds and notes	**385,000**	351,567	33,433	9.5%
Loans principally from banks	**875,872**	816,107	59,765	7.3%
Perpetual subordinated loan	**120,000**	—	120,000	—
Subtotal	**1,380,872**	1,167,674	213,198	18.3%
Long-term debt due within one year	**114,990**	157,044	−42,054	−26.8%
Long-term debt due after one year	**1,265,882**	1,010,630	255,252	25.3%
Interest-bearing debt	**1,665,042**	1,473,644	191,398	13.0%

Shareholders' Equity

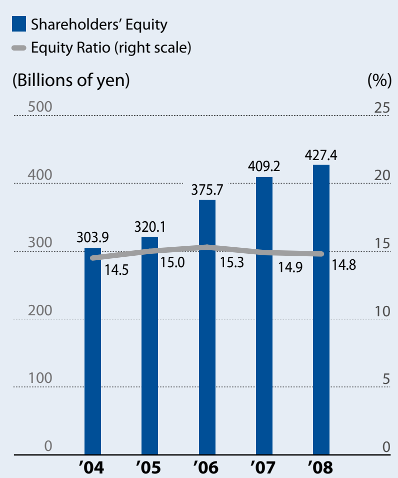
Shareholders' equity was up 4.5% from the end of the previous fiscal year, to ¥427.4 billion. This was due primarily to higher retained earnings stemming from the substantial increase in net income. As a result, the equity ratio was 14.8%, compared with 14.9% a year earlier.

ROE rose to 15.1%, from 12.8% a year earlier, and ROA was 5.6%, compared with 5.4% a year earlier.

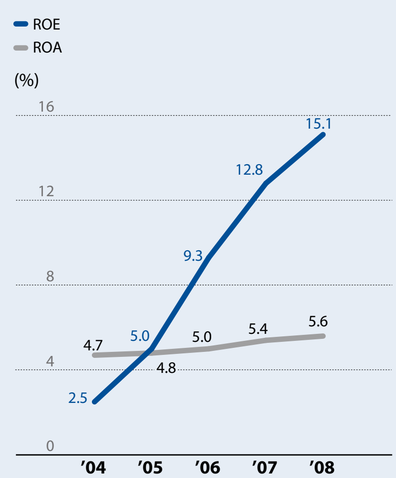
TOTAL ASSETS



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 previous mid-term management plans, 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 31, 2008, these balances were ¥39.0 billion and ¥69.8 billion, and the balance of the non-recourse loan and other off-balance-sheet debt was approximately ¥630 billion.

The balance of investment received in SURF investment partnerships was ¥139.1 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 previous plan, competition in site acquisition was expected to intensify, due to 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 current plan and have made steady progress in the acquisition of sites needed for the next plan.

Investment in Line with Changes in the Market Environment

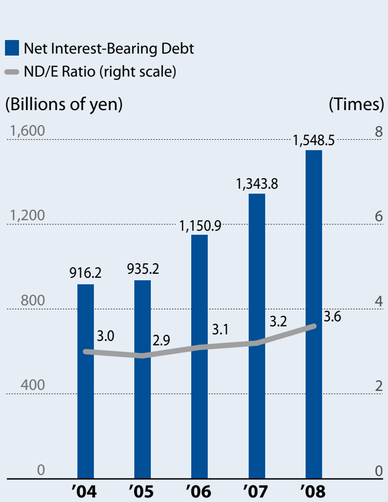
Acquiring the sites that will be needed for subsequent, ongoing growth is still one of the Company's top priorities. In the current environment, it is not easy to acquire large, prime sites. Accordingly, for the past few years Sumitomo Realty has implemented a policy centered on redevelopment for future site acquisition. 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. In the year under review, with ongoing financial unease stemming from the sub-prime loan problem, to maintain a stable financial position, we raised ¥120.0 billion through a perpetual subordinated loan. This subordinated loan, which received a high level of equity credit—75%—from a rating agency, was intended to increase effective shareholders' equity while avoiding equity dilution. Aiming for further growth, the Company will continue to invest in development. For the Company, this is a useful method of fund-raising from the viewpoint of increasing financial stability.

Bolstering Our Financial Position

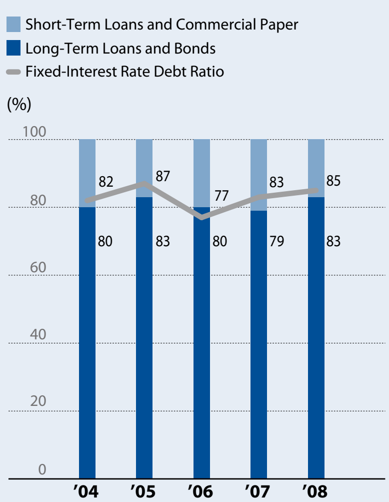
In addition, we are also working to raise funds at fixed, long-term rates as a precaution against future increases in interest rates. At the end of March 2008, long-term debt accounted for 83% of interest-bearing debt, compared with 79% a year earlier, and fixed-interest rate debt accounted for 85% of interest-bearing debt, up from 83% at the end of the previous fiscal year.

On the other hand, by the end of the previous plan we had completed the implementation of measures to deal with unrealized losses, and higher profits have been generating growth in equity from the current plan. We expect to steadily improve our financial position. Consequently, we will continue working to secure prime sites while making investments in line with growth in equity.

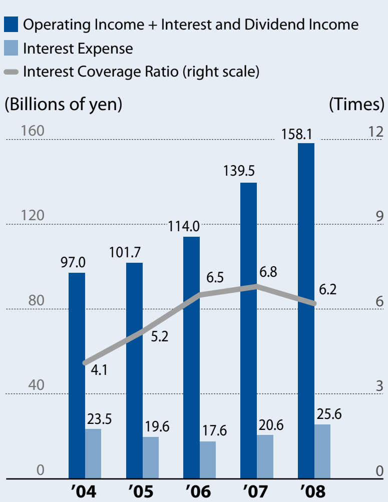
NET INTEREST-BEARING DEBT AND ND/E RATIO



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



INTEREST COVERAGE RATIO



In the past few years, multiple rating agencies have 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.

Overview of Perpetual Subordinated Loan and New Stock Subscription Rights

The perpetual subordinated loan entails the allotment of new stock subscription rights with the objective of the creditor to secure a method of recovering its investment. In regard to the new stock subscription rights, consideration has been given to limiting the possibility of dilution upon execution.

Overview of Perpetual Subordinated Loan

Amount:	¥120.0 bilion
Borrower:	Sumitomo Realty & Development Co., Ltd.
Lendor:	Sumitomo Mitsui Banking Corporation (Trust Account)
Effective date:	February 22, 2008
Maturity date:	No fixed date (*1)
Applicable interest rate (*2):	(1) From February 22, 2008 to February 21, 2013: 3 Month Yen TIBOR + 1.10% (2) From February 22, 2013: 3 Month Yen TIBOR + 2.10%

Overview of New Stock Subscription Rights

Allotted to:	Sumitomo Mitsui Banking Corporation (Trust Account)
Number of shares from subscription rights(*2):	49,180,327 shares
New share subscription right exercise period:	February 22, 2008, to February 22, 2058 (*3)
Exercise price:	95% of market price (average of the closing price over the previous 20 business days), minimum exercise price: ¥1,087

*1. However, voluntary repayment is possible in the event that five years have passed from the date of the loan (i.e., February 22, 2013 and thereafter), and certain other conditions are met.

*2. As of the effective date of the perpetual subordinated loan

*3. Prior to February 22, 2014, the rights cannot be exercised unless perpetual subordinated loan interest payments have been stopped. Voluntary repayment is possible on or after February 22, 2013. In the event of repayment, the new stock subscription rights will become unexerciseable, and the Company will acquire the new stock subscription rights at no cost.

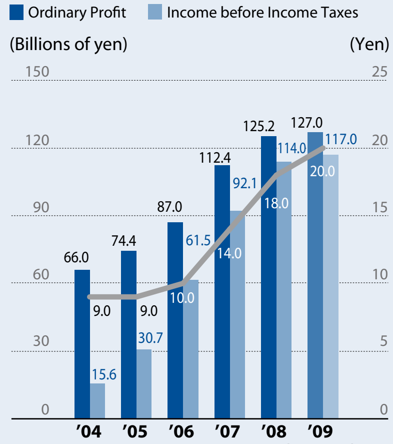
DIVIDEND POLICY

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 1st 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. At the conclusion of the 1st Growth Plan, we raised dividends to the bubble-period level: ¥9.00 per share. Under the 2nd Growth 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. For the March 2007 fiscal year, the final year of the 2nd Growth Plan, dividends were raised to ¥14.00 per share.

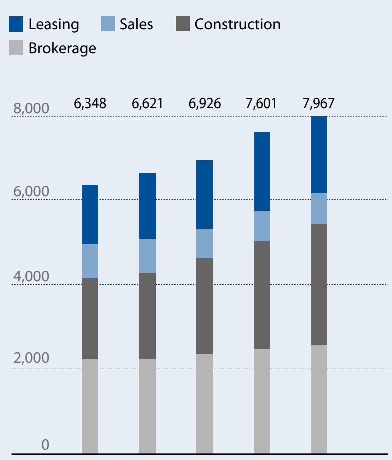
In the year under review, we exceeded the ordinary profit objective set out in the plan, and we increased annual per-share cash dividends by ¥18.00, including the ¥8.00 interim dividend, representing an increase of ¥4.00 per share from the previous fiscal year.

For the March 2009 fiscal year, we plan to increase dividends by ¥2.00 per share, to ¥20.00 for the year.

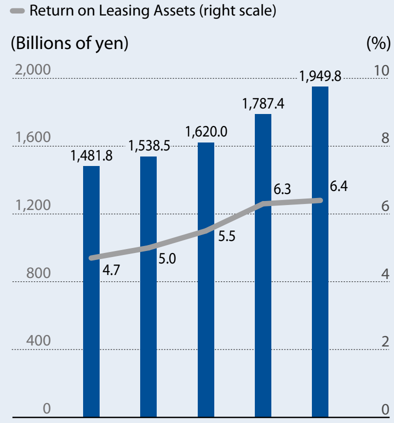
CASH DIVIDENDS PER SHARE, ORDINARY PROFIT AND INCOME BEFORE INCOME TAXES



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, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2008**	2007	**2008**
Current assets:			
Cash, time and notice deposits (Note 3)	**¥ 116,533**	¥ 129,820	**$ 1,163,120**
Marketable securities (Note 7)	**3**	1,203	**30**
Investments in SPCs holding properties for sale (Note 7)	**38,995**	42,284	**389,211**
Notes and accounts receivable–trade	**14,308**	21,642	**142,809**
Loans receivable	**43,018**	46,842	**429,364**
Allowance for doubtful accounts	**(425)**	(24,911)	**(4,242)**
Inventories (Note 4)	**511,868**	489,093	**5,108,973**
Deferred income taxes (Note 16)	**12,394**	17,929	**123,705**
Other current assets	**47,501**	32,586	**474,109**
Total current assets	**784,195**	756,488	**7,827,079**
Investments and advances:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 5)	**5,854**	6,125	**58,429**
Investments in securities and other (Note 7)	**255,403**	309,573	**2,549,186**
Allowance for doubtful accounts	**(16,428)**	(27,827)	**(163,968)**
Total investments and advances	**244,829**	287,871	**2,443,647**
Property and equipment (Notes 4 and 6)**:**			
Land	**1,261,992**	1,128,752	**12,595,987**
Buildings and structures	**460,983**	447,950	**4,601,088**
Machinery and equipment	**18,904**	18,827	**188,682**
Construction in progress	**53,665**	15,784	**535,632**
	1,795,544	1,611,313	**17,921,389**
Accumulated depreciation	**(172,706)**	(157,765)	**(1,723,785)**
Net property and equipment	**1,622,838**	1,453,548	**16,197,604**
Other assets:			
Guarantee and lease deposits paid to lessors	**180,031**	193,049	**1,796,896**
Leasehold rights and other intangible assets	**51,625**	49,905	**515,271**
Deferred income taxes (Note 16)	**6,113**	3,828	**61,014**
Other	**4,373**	3,211	**43,647**
Total other assets	**242,142**	249,993	**2,416,828**
Total assets	**¥2,894,004**	¥2,747,900	**$28,885,158**

See accompanying notes.

Liabilities and Net Assets	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Short-term debt (Notes 6 and 8)	**¥ 284,170**	¥ 305,970	**$ 2,836,311**
Long-term debt due within one year (Notes 6 and 8)	**114,990**	157,044	**1,147,719**
Notes and accounts payable–trade	**39,304**	57,399	**392,295**
Accrued income taxes (Note 16)	**24,358**	22,953	**243,118**
Accrued bonuses	**3,335**	3,337	**33,287**
Deposits received (Note 17)	**241,659**	247,494	**2,412,007**
Other current liabilities	**67,933**	76,619	**678,042**
Total current liabilities	**775,749**	870,816	**7,742,779**
Long-term liabilities:			
Long-term debt due after one year (Notes 6 and 8)	**1,265,882**	1,010,630	**12,634,814**
Guarantee and deposits received (Note 17)	**394,512**	406,133	**3,937,638**
Deferred income taxes (Note 16)	**—**	23,950	**—**
Allowance for employees' severance and retirement benefits (Note 9)	**4,639**	4,761	**46,302**
Other long-term liabilities	**5,887**	4,563	**58,758**
Total long-term liabilities	**1,670,920**	1,450,037	**16,677,512**
Contingent liabilities (Note 23)			
Net assets (Notes 2 (2) and 18)**:**			
Common stock:			
Authorized – 1,900,000 thousand shares			
Issued – 476,086 thousand shares	**122,805**	122,805	**1,225,721**
Capital surplus	**132,759**	132,754	**1,325,072**
Retained earnings	**176,229**	120,691	**1,758,949**
Treasury stock	**(2,747)**	(2,254)	**(27,418)**
	429,046	373,996	**4,282,324**
Net unrealized holding gains on securities	**2,870**	36,792	**28,646**
Net deferred losses on hedges	**(2,252)**	(73)	**(22,477)**
Foreign currency translation adjustments	**(2,241)**	(1,518)	**(22,368)**
	(1,623)	35,201	**(16,199)**
Minority interests	**19,912**	17,850	**198,742**
Total net assets	**447,335**	427,047	**4,464,867**
Total liabilities and net assets	**¥2,894,004**	¥2,747,900	**$28,885,158**

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Revenue from operations	**¥691,928**	¥676,834	¥646,525	**$6,906,158**
Costs and expenses:				
Cost of revenue from operations	**488,202**	490,491	487,805	**4,872,761**
Selling, general and administrative expenses	**49,118**	49,167	46,697	**490,249**
	537,320	539,658	534,502	**5,363,010**
Operating income	**154,608**	137,176	112,023	**1,543,148**
Other income (expenses):				
Interest expense, net	**(24,619)**	(20,049)	(17,085)	**(245,723)**
Dividend income	**2,494**	1,800	1,420	**24,893**
Gain on sale of property and equipment (Note 12)	**174**	65	15,238	**1,737**
Loss on sale of property and equipment	**(61)**	(13)	(25)	**(609)**
Loss on impairment of fixed assets (Note 10)	**(4,292)**	(793)	(25,244)	**(42,839)**
Loss on devaluation of property and equipment (Note 11)	**—**	(62,644)	(17,185)	**—**
Loss on disposal of property and equipment	**(482)**	(215)	(217)	**(4,811)**
Gain on sale of investments in securities	**3**	227	1,446	**30**
Loss on devaluation of investments in securities	**(5,111)**	(1,548)	(68)	**(51,013)**
Dividend to partnership investors	**(3,487)**	(3,916)	(4,702)	**(34,804)**
Gain on settlement of sub-lease lawsuits	**—**	—	1,700	**—**
Gain on adjustment of accrued rent payable (Note 15)	**2,385**	—	—	**23,805**
Gain on adjustment of sub-lease rent paid (Note 14)	**—**	1,440	—	**—**
Gain on liquidation of limited partnership (Note 13)	**—**	46,192	—	**—**
Loss on liquidation of limited partnership (Note 12)	**—**	—	(1,303)	**—**
Loss on cancellation of interest rate swap agreement	**—**	—	(2,508)	**—**
Loss on devaluation of inventories	**(2,098)**	—	—	**(20,940)**
Provision for allowance for doubtful accounts	**—**	(2,828)	—	**—**
Other, net	**(5,544)**	(2,787)	(1,948)	**(55,335)**
	(40,638)	(45,069)	(50,481)	**(405,609)**
Income before income taxes and minority interests	**113,970**	92,107	61,542	**1,137,539**
Income taxes (Note 16)**:**				
Current	**43,521**	39,591	34,115	**434,385**
Deferred	**4,094**	(1,055)	(7,785)	**40,862**
Total	**47,615**	38,536	26,330	**475,247**
Minority interests	**3,222**	3,271	2,706	**32,159**
Net income	**¥ 63,133**	¥ 50,300	¥ 32,506	**$ 630,133**

	Yen			U.S. dollars (Note 1)
	2008	2007	2006	2008
Amounts per share of common stock:				
Net income:				
– Basic	**¥133.00**	¥105.92	¥68.33	**$1.33**
– Diluted	**131.86**	—	—	**1.32**
Cash dividend applicable to the year	**18.00**	14.00	10.00	**0.18**

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, 2008, 2007 and 2006

	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, 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
Net income	—	—	—	**63,133**	—	**63,133**	—	—	—	—	—	**63,133**
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	**(723)**	**(723)**	—	**(723)**
Net unrealized holding losses on securities	—	—	—	—	—	—	**(33,922)**	—	—	**(33,922)**	—	**(33,922)**
Acquisition of treasury stock	—	—	—	—	**(502)**	**(502)**	—	—	—	—	—	**(502)**
Gains on sale of treasury stock	—	—	**5**	—	**9**	**14**	—	—	—	—	—	**14**
Cash dividends paid:												
Final for prior year (¥8 per share)	—	—	—	**(3,798)**	—	**(3,798)**	—	—	—	—	—	**(3,798)**
Interim for current year (¥8 per share)	—	—	—	**(3,797)**	—	**(3,797)**	—	—	—	—	—	**(3,797)**
Minority interests	—	—	—	—	—	—	—	—	—	—	**2,062**	**2,062**
Net deferred losses on hedges	—	—	—	—	—	—	—	**(2,179)**	—	**(2,179)**	—	**(2,179)**
Balance at March 31, 2008	**476,086**	**¥122,805**	**¥132,759**	**¥176,229**	**¥(2,747)**	**¥429,046**	**¥ 2,870**	**¥(2,252)**	**¥(2,241)**	**¥ (1,623)**	**¥19,912**	**¥447,335**

	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 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, 2007	$1,225,721	$1,325,022	$1,204,621	$(22,497)	$3,732,867	$ 367,222	$ (729)	$(15,151)	$ 351,342	$178,161	$4,262,370
Net income	—	—	**630,133**	—	**630,133**	—	—	—	—	—	**630,133**
Foreign currency translation adjustments	—	—	—	—	—	—	—	**(7,217)**	**(7,217)**	—	**(7,217)**
Net unrealized holding losses on securities	—	—	—	—	—	**(338,576)**	—	—	**(338,576)**	—	**(338,576)**
Acquisition of treasury stock	—	—	—	**(5,011)**	**(5,011)**	—	—	—	—	—	**(5,011)**
Gains on sale of treasury stock	—	**50**	—	**90**	**140**	—	—	—	—	—	**140**
Cash dividends paid:											
Final for prior year ($0.08 per share)	—	—	**(37,907)**	—	**(37,907)**	—	—	—	—	—	**(37,907)**
Interim for current year ($0.08 per share)	—	—	**(37,898)**	—	**(37,898)**	—	—	—	—	—	**(37,898)**
Minority interests	—	—	—	—	—	—	—	—	—	**20,581**	**20,581**
Net deferred losses on hedges	—	—	—	—	—	—	**(21,748)**	—	**(21,748)**	—	**(21,748)**
Balance at March 31, 2008	**$1,225,721**	**$1,325,072**	**$1,758,949**	**$(27,418)**	**$4,282,324**	**$ 28,646**	**$(22,477)**	**$(22,368)**	**$ (16,199)**	**$198,742**	**$4,464,867**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sumitomo Realty & Development Co., Ltd. and its consolidated subsidiaries
For the years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 113,970	¥ 92,107	¥ 61,542	$ 1,137,539
Depreciation and amortization	17,150	15,677	16,330	171,175
Loss on impairment of fixed assets (Note 10)	4,292	793	25,244	42,839
Provision for (Reversal of) allowance for doubtful accounts	(35,886)	6,265	1,663	(358,179)
Decrease in employees' severance and retirement benefits	(122)	(173)	(68)	(1,218)
Loss on devaluation of inventories	2,098	—	—	20,940
Gain on sale of property and equipment (Note 12)	(174)	(65)	(15,238)	(1,737)
Loss on sale of property and equipment	61	13	25	609
Loss on devaluation of property and equipment (Note 11)	—	62,644	17,185	—
Loss on disposal of property and equipment	482	215	217	4,811
Gain on sale of investments in securities	(3)	(227)	(1,446)	(30)
Loss on devaluation of investments in securities	5,111	1,548	68	51,013
Interest and dividend income	(3,484)	(2,307)	(1,977)	(34,774)
Interest expense	25,609	20,556	17,642	255,604
Increase in investments in SPCs holding properties for sale	(1,644)	(137)	(8,493)	(16,409)
Decrease in notes and accounts receivable–trade	7,325	4,600	5,238	73,111
Increase in inventories	(71,116)	(190,790)	(108,022)	(709,811)
Decrease (Increase) in loans receivable	16,564	2,298	(4,854)	165,326
Increase (Decrease) in notes and accounts payable–trade	(18,087)	2,094	10,281	(180,527)
Increase (Decrease) in advances received	(7,250)	1,383	12,033	(72,363)
Other, net	(10,731)	1,868	9,223	(107,107)
Total	44,165	18,362	36,593	440,812
Proceeds from interest and dividend income	3,485	2,305	1,974	34,784
Payments for interest	(25,181)	(20,364)	(17,545)	(251,332)
Payments for income tax and other taxes	(41,917)	(49,184)	(9,665)	(418,375)
Net cash provided by (used in) operating activities	(19,448)	(48,881)	11,357	(194,111)
Cash flows from investing activities:				
Payments for purchases of property and equipment	(144,016)	(152,601)	(237,024)	(1,437,429)
Proceeds from sale of property and equipment	926	529	91,055	9,242
Payments for purchases of investments in securities	(40,449)	(27,457)	(75,303)	(403,723)
Proceeds from sale of investments in securities	7,336	25,538	36,546	73,221
Payments for guarantee and lease deposits paid to lessors	(4,298)	(19,168)	(24,588)	(42,898)
Proceeds from guarantee and lease deposits paid to lessors	16,615	5,111	10,065	165,835
Payments for guarantee and lease deposits received	(21,260)	(16,283)	(37,572)	(212,197)
Proceeds from guarantee and lease deposits received	30,840	31,092	28,990	307,815
Receipts of deposits from partnership investors	110,874	79,520	65,508	1,106,637
Restitution of deposits from partnership investors	(95,902)	(94,517)	(75,559)	(957,201)
Other, net	559	(19,652)	8,223	5,580
Net cash used in investing activities	(138,775)	(187,888)	(209,659)	(1,385,118)
Cash flows from financing activities:				
Increase (Decrease) in short-term debt	(21,800)	56,700	76,025	(217,587)
Proceeds from issuance of bonds and notes	100,000	100,000	90,000	998,104
Redemption of bonds and notes	(66,567)	(80,874)	(92,667)	(664,408)
Increase in long-term debt	179,765	130,786	155,285	1,794,241
Increase (Decrease) in assignment of receivables	(34,715)	32,073	(40,310)	(346,492)
Cash dividends paid	(8,466)	(5,882)	(7,159)	(84,499)
Other, net	(3,487)	17,250	28,125	(34,804)
Net cash provided by financing activities	144,730	250,053	209,299	1,444,555
Effect of exchange rate changes on cash and cash equivalents	206	383	1,922	2,056
Net increase (decrease) in cash and cash equivalents	(13,287)	13,667	12,919	(132,618)
Cash and cash equivalents at beginning of year	129,823	116,156	103,237	1,295,768
Cash and cash equivalents at end of year (Note 3)	¥ 116,536	¥129,823	¥116,156	$ 1,163,150

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, 2008, 2007 and 2006

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 Financial Instruments 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 Financial Instruments 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, 2008, which was ¥100.19 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.

Effective from the year ended March 31, 2008, the Company and its consolidated subsidiaries adopted the new accounting standard, "Implementation Guidance on Disclosures about Certain Special Purpose Entities" (Accounting Standards Board of Japan Guidance No. 15, issued on March 29, 2007).

In accordance with the new accounting standard, the Company has provided an overview of Special Purpose Entities ("SPEs") funded by investments from the Company, including Special Purpose Companies ("SPCs"), *Tokutei Mokuteki Kaisha* ("TMKs") and limited partnerships ("*Tokumei Kumiai*"). The Company has also provided an overview of SPEs' transactions and amount of transactions, etc., with SPEs in Note 22 (Relationships with special purpose entities subject to disclosure).

(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 "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 sheets as of March 31, 2008 and 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections.

(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 "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 consolidated statements of changes in net assets for the years ended March 31, 2008 and 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for 2006 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 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 Financial Instruments 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

From the current period, the Company has changed the depreciation method of property and equipment due to the revision of Corporate Tax Law. Residual value is no longer used for the property and equipment acquired on or after April 1, 2007. Instead, the whole acquisition cost of such property and equipment will be depreciated at the end of the useful life with 1 yen remaining as a reminder. This accounting change had no material impact on the consolidated statements of income or segment information.

As for the property and equipment acquired before April 1, 2007, their residual values are depreciated over five years using the straight-line method after the year in which the depreciable limit is reached. This accounting change had no material impact on the consolidated statements of income or segment information.

(10) Impairment of fixed assets

Effective on 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, 2008, 2007 and 2006 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 2008 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, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Cash, time and notice deposits	**¥116,533**	¥129,820	**$1,163,120**
Marketable securities	**3**	3	**30**
Cash and cash equivalents	**¥116,536**	¥129,823	**$1,163,150**

4. INVENTORIES

Inventories at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Land and buildings for sale	**¥149,745**	¥173,101	**$1,494,610**
Land and building projects in progress	**303,481**	227,902	**3,029,055**
Land held for development	**51,509**	78,993	**514,113**
Other	**7,133**	9,097	**71,195**
Total	**¥511,868**	¥489,093	**$5,108,973**

The Company transferred amounts between inventories and property and equipment. Such transfers at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Inventories:			
Transfer to property and equipment	**¥(55,281)**	¥(33,005)	**$(551,762)**
Transferred from property and equipment	**16,370**	422	**163,390**
Net decrease	**¥(38,911)**	¥(32,583)	**$(388,372)**

5. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Investments in common stock, at cost	**¥5,853**	¥6,085	**$58,419**
Advances	**1**	40	**10**
Total	**¥5,854**	¥6,125	**$58,429**

6. PLEDGED ASSETS

Assets pledged as collateral at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Buildings and structures	**¥14,839**	¥15,575	**$148,109**
Land	**27,727**	27,727	**276,744**
Other	**180**	227	**1,796**
Total	**¥42,746**	¥43,529	**$426,649**

Secured liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Short-term debt	**¥ 1,750**	¥ 1,750	**$ 17,467**
Long-term debt	**31,500**	33,250	**314,402**
Total	**¥33,250**	¥35,000	**$331,869**

7. SECURITIES

For 2008

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, 2008:

(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	**¥ 785**	**¥ 789**	**¥ 4**	**$ 7,835**	**$ 7,875**	**$ 40**
Securities whose fair market value does not exceed book value:						
National and local government bonds	**459**	**458**	**(1)**	**4,581**	**4,571**	**(10)**
Total	**¥1,244**	**¥1,247**	**¥ 3**	**$12,416**	**$12,446**	**$ 30**

(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	**¥ 50,076**	**¥ 74,428**	**¥ 24,352**	**$ 499,810**	**$ 742,869**	**$ 243,059**
Others	**607**	**610**	**3**	**6,059**	**6,088**	**29**
Subtotal	**50,683**	**75,038**	**24,355**	**505,869**	**748,957**	**243,088**
Securities whose book value does not exceed acquisition cost:						
Equity securities	**90,260**	**70,751**	**(19,509)**	**900,888**	**706,168**	**(194,720)**
Others	**862**	**797**	**(65)**	**8,604**	**7,955**	**(649)**
Subtotal	**91,122**	**71,548**	**(19,574)**	**909,492**	**714,123**	**(195,369)**
Total	**¥141,805**	**¥146,586**	**¥ 4,781**	**$1,415,361**	**$1,463,080**	**$ 47,719**

B. The following table summarizes the book values of securities with no available fair market values as of March 31, 2008:

Available-for-sale securities:

	Book value	
	Millions of yen	Thousands of U.S. dollars
Unlisted equity securities	**¥ 5,904**	**$ 58,928**
Senior securities	**85,561**	**853,988**
Investment in partnerships similar to investment limited partnerships	**28,823**	**287,683**
Total	**¥120,288**	**$1,200,599**

Senior securities included investments in SPCs holding properties for sale amounting to ¥38,795 million ($387,214 thousand).

C. Available-for-sale securities with maturities and held-to-maturity securities at March 31, 2008 mature as follows:

	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	**¥307**	**¥937**	**¥ —**	**¥ —**
Other	**—**	**—**	**—**	**—**
Total	**¥307**	**¥937**	**¥ —**	**¥ —**

	Thousands of U.S. dollars			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	**$3,064**	**$9,352**	**$ —**	**$ —**
Other	**—**	**—**	**—**	**—**
Total	**$3,064**	**$9,352**	**$ —**	**$ —**

D. Total sales of available-for-sale securities sold in the year ended March 31, 2008 amounted to ¥6 million ($60 thousand) and the related gains and losses amounted to ¥3 million ($30 thousand) and ¥1 million ($10 thousand), respectively.

E. Investments in SPCs holding properties for sale are equity investments such as preferred subscription certificates and limited partnerships ("*Tokumei Kumiai*") investments in 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, 2008, 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 ¥123,495 million ($1,232,608 thousand) as of March 31, 2008.

G. The Company transferred investments in SPCs holding properties for sale amounting to ¥4,933 million ($49,236 thousand) to investments in securities and other in the year ended March 31,2008.

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		
	Book value	Fair market value	Difference
Securities whose fair market value exceeds book value:			
National and local government bonds	¥ 43	¥ 43	¥—
Securities whose fair market value does not exceed book value:			
National and local government bonds	1,206	1,199	(7)
Total	¥1,249	¥1,242	¥ (7)

(b) Available-for-sale securities:

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Equity securities	¥ 94,973	¥160,408	¥65,435
Others	450	457	7
Subtotal	95,423	160,865	65,442
Securities whose book value does not exceed acquisition cost:			
Equity securities	15,927	12,556	(3,371)
Others	504	501	(3)
Subtotal	16,431	13,057	(3,374)
Total	¥111,854	¥173,922	¥62,068

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
Unlisted equity securities	¥ 5,932
Senior securities	87,186
Investments in partnerships similar to investment limited partnerships	25,235
Total	¥118,353

Senior securities included investments in SPCs holding properties for sale amounting to ¥42,284 million.

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	¥ —	¥ —

D. Total sales of available-for-sale securities sold in the year ended March 31, 2007 amounted to ¥372 million and the related gains amounted to ¥227 million.

E. Investments in SPCs holding properties for sale are equity investments such as preferred subscription certificates and limited partnerships ("*Tokumei Kumiai*") investments in 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, 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 as of March 31, 2007.

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

8. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	2008	Average interest rate (%)	2007	Average interest rate (%)	**2008**
Loans, principally from banks	**¥195,670**	**1.21**	¥197,970	1.00	**$1,952,989**
Commercial paper	**88,500**	**0.81**	108,000	0.65	**883,322**
Total	**¥284,170**		¥305,970		**$2,836,311**

The interest rates represent weighted-average rates in effect at March 31, 2008 and 2007, regardless of borrowing currencies, though the range of the interest rate varies by borrowing currency.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Floating rate domestic straight bonds, due 2007	**¥ —**	¥ 7,510	**$ —**
2.0% domestic straight bonds, due 2007	**—**	9,057	**—**
1.5% domestic straight bonds, due 2007	**—**	10,000	**—**
1.5% domestic straight bonds, due 2007	**—**	10,000	**—**
1.4% domestic straight bonds, due 2007	**—**	20,000	**—**
1.4% domestic straight bonds, due 2007	**—**	10,000	**—**
1.68% domestic straight bonds, due 2008	**10,000**	10,000	**99,810**
1.92% domestic straight bonds, due 2008	**5,000**	5,000	**49,903**
1.31% domestic straight bonds, due 2009	**20,000**	20,000	**199,621**
1.52% domestic straight bonds, due 2010	**20,000**	20,000	**199,621**
1.30% domestic straight bonds, due 2009	**20,000**	20,000	**199,621**
1.29% domestic straight bonds, due 2012	**20,000**	20,000	**199,621**
1.28% domestic straight bonds, due 2012	**30,000**	30,000	**299,431**
0.75% domestic straight bonds, due 2010	**30,000**	30,000	**299,431**
1.18% domestic straight bonds, due 2010	**30,000**	30,000	**299,431**
1.85% domestic straight bonds, due 2011	**20,000**	20,000	**199,621**
1.86% domestic straight bonds, due 2011	**20,000**	20,000	**199,621**
1.84% domestic straight bonds, due 2011	**20,000**	20,000	**199,621**
1.87% domestic straight bonds, due 2012	**20,000**	20,000	**199,621**
1.58% domestic straight bonds, due 2011	**10,000**	10,000	**99,810**
1.89% domestic straight bonds, due 2013	**10,000**	10,000	**99,810**
1.70% domestic straight bonds, due 2013	**20,000**	—	**199,621**
1.80% domestic straight bonds, due 2012	**20,000**	—	**199,621**
1.76% domestic straight bonds, due 2012	**20,000**	—	**199,621**
1.68% domestic straight bonds, due 2013	**20,000**	—	**199,621**
1.63% domestic straight bonds, due 2013	**20,000**	—	**199,621**
Loans, principally from banks and insurance companies, interest principally at rates of 0.80% to 2.40% in 2008, and 0.74% to 2.99% in 2007:			
Secured	**33,250**	35,000	**331,869**
Unsecured*	**962,622**	781,107	**9,607,965**
Subtotal	**1,380,872**	1,167,674	**13,782,533**
Amount due within one year	**(114,990)**	(157,044)	**(1,147,719)**
Total	**¥1,265,882**	¥1,010,630	**$12,634,814**

* Unsecured long-term debt as of March 31, 2008 includes a perpetual subordinated loan of ¥120,000 million ($1,197,724 thousand).

The aggregate annual maturities of long-term debt at March 31, 2008 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 114,990	$ 1,147,719
2010	157,560	1,572,612
2011	257,969	2,574,798
2012	326,250	3,256,313
2013	240,979	2,405,220
2014 and thereafter	283,124	2,825,871
Total	¥1,380,872	$13,782,533

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, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Projected benefit obligation	**¥ 7,894**	¥ 7,927	**$ 78,790**
Fair value of plan assets	**(2,956)**	(3,199)	**(29,504)**
Unrecognized actuarial differences	**(299)**	29	**(2,984)**
Prepaid pension cost	**—**	4	**—**
Allowance for severance and retirement benefits	**¥ 4,639**	¥ 4,761	**$ 46,302**

Included in the consolidated statements of income for the years ended March 31, 2008 and 2007 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Service costs – benefits earned during the year	**¥533**	¥ 508	**$5,320**
Interest cost on projected benefit obligation	**137**	134	**1,367**
Expected return on plan assets	**(62)**	(58)	**(619)**
Amortization of actuarial differences	**(29)**	(224)	**(289)**
Severance and retirement benefit expenses	**¥579**	¥ 360	**$5,779**

The discount rate and the rate of expected return on plan assets for the years ended March 31, 2008 and 2007 used by the Company is 2.0% (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, 2008, 2007 and 2006, respectively.

Use	Location	Number of properties
For 2008		
Land for leased buildings	Taito-ku, Tokyo	1
Land, buildings and structures for leased condominiums	Minato-ku, Tokyo, etc.	5

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

Use	Location	Number of properties
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 ¥4,292 million ($42,839 thousand), ¥793 million and ¥25,244 million for the years ended March 31, 2008, 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
	2008	2007	2006	**2008**
Land	**¥3,990**	¥793	¥25,244	**$39,825**
Buildings and structures, etc.	**302**	—	—	**3,014**
Total	**¥4,292**	¥793	¥25,244	**$42,839**

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 DEVALUATION OF PROPERTY AND EQUIPMENT

The Company recognized loss on devaluation of property and equipment of ¥62,644 million and ¥17,185 million for the years ended March 31, 2007 and 2006, 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
	2008	2007	2006	**2008**
Land, etc.	**¥—**	¥62,644	¥16,385	**$—**
Buildings and structures, etc.	**—**	—	800	**—**
Total	**¥—**	¥62,644	¥17,185	**$—**

12. GAIN ON SALE OF PROPERTY AND EQUIPMENT AND LOSS ON LIQUIDATION OF LIMITED 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 limited 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 limited partnership of ¥1,303 million was incurred.

13. GAIN ON LIQUIDATION OF LIMITED PARTNERSHIP

Gain on liquidation of limited 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 limited partnership ("*Tokumei Kumiai*").

The *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 limited partnership of ¥46,192 million was incurred.

14. GAIN ON ADJUSTMENT OF SUB-LEASE RENT PAID

Gain on adjustment of sub-lease rent paid of ¥1,440 million 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.

15. GAIN ON ADJUSTMENT OF ACCRUED RENT PAYABLE

Gain on adjustment of accrued rent payable of ¥2,385 million ($23,805 thousand) for the year ended March 31, 2008 is comprised of two factors: (1) ¥397 million ($3,963 thousand) of gain on adjustment of accrued rent payable of leased land for the holding property of a consolidated subsidiary in the United States because the subsidiary purchased the land from the lessor, and as a result, rent payment became unnecessary for the subsidiary, and (2) ¥1,988 million ($19,842 thousand) of gain on adjustment of deducted contract rent for a building that the Company is renting due to agreement with the lessor.

16. 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, 2008 and 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 years ended March 31, 2008 and 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, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Net operating loss carryforwards	**¥ 8,948**	¥ 7,610	**$ 89,310**
Loss on impairment of fixed assets	**7,517**	9,759	**75,027**
Loss on devaluation of inventories	**2,394**	1,585	**23,895**
Accrued enterprise tax and business office tax	**2,172**	3,041	**21,679**
Allowance for employees' severance and retirement benefits	**1,882**	1,933	**18,784**
Net deferred losses on hedges	**1,649**	327	**16,459**
Accrued bonuses	**1,508**	1,512	**15,051**
Loss on devaluation of common stocks of subsidiaries and affiliates	**1,445**	1,792	**14,423**
Unrealized intercompany profits	**1,169**	1,465	**11,668**
Other	**8,145**	8,625	**81,296**
Subtotal of deferred tax assets	**36,829**	37,649	**367,592**
Valuation allowance	**(11,288)**	(9,687)	**(112,666)**
Total deferred tax assets	**25,541**	27,962	**254,926**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**(1,957)**	(25,196)	**(19,533)**
Retained earnings appropriated for tax allowable reserves	**(4,959)**	(4,959)	**(49,496)**
Net deferred gains on hedges	**(118)**	—	**(1,178)**
Total deferred tax liabilities	**(7,034)**	(30,155)	**(70,207)**
Net deferred tax assets (liabilities)	**¥ 18,507**	¥ (2,193)	**$ 184,719**

17. GUARANTEE AND OTHER DEPOSITS RECEIVED

Guarantee and other deposits received at March 31, 2008 and 2007 were as follows:

	Millions of yen				Thousands of U.S. dollars
	2008	Average interest rate (%)	2007	Average interest rate (%)	**2008**
Short-term deposits and long-term deposits due within one year:					
Non-interest-bearing	**¥203,659**	**—**	¥206,494	—	**$2,032,728**
Interest-bearing	**38,000**	**0.95**	41,000	0.89	**379,279**
	241,659		247,494		**2,412,007**
Guarantee and lease deposits from tenants:					
Non-interest-bearing	**172,077**	**—**	162,498	—	**1,717,507**
Interest-bearing	**—**	**—**	—	—	**—**
Long-term deposits:					
Non-interest-bearing	**156,435**	**—**	177,635	—	**1,561,384**
Interest-bearing	**66,000**	**1.08**	66,000	0.90	**658,747**
	394,512		406,133		**3,937,638**
Total	**¥636,171**		¥653,627		**$6,349,645**

The aggregate annual maturities of interest-bearing guarantee and other deposits received at March 31, 2008 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 38,000	$379,279
2010	—	—
2011	—	—
2012	66,000	658,749
2013	—	—
2014 and thereafter	—	—
Total	¥104,000	$1,038,028

18. 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 years ending after that date.

Under the Law and its regulations, 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 regulations.

19. 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, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Acquisition cost:			
Buildings and structures	**¥ 5,893**	¥ 5,202	**$ 58,818**
Other	**1,023**	1,167	**10,211**
Accumulated depreciation	**(4,128)**	(3,268)	**(41,202)**
Net book value	**¥ 2,788**	¥ 3,101	**$ 27,827**

Pro-forma depreciation equivalents of ¥1,226 million ($12,237 thousand) and ¥1,483 million for the years ended March 31, 2008 and 2007, 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, 2008 and 2007 amounted to ¥1,226 million ($12,237 thousand) and ¥1,483 million, respectively.

Future lease payments and receipts under such finance leases and non-cancelable operating leases at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Finance leases			
Future lease payments:			
Due within one year	¥ 1,107	¥ 1,086	$ 11,049
Due after one year	1,681	2,015	16,778
Total	¥ 2,788	¥ 3,101	$ 27,827
Future sub-lease payments:			
Due within one year	¥ 28	¥24	$ 279
Due after one year	57	62	569
Total	¥ 85	¥ 86	$ 848
Future sub-lease receipts:			
Due within one year	¥ 28	¥ 24	$ 279
Due after one year	57	62	569
Total	¥ 85	¥ 86	$ 848
Operating leases			
Future lease payments:			
Due within one year	¥13,093	¥13,090	$130,682
Due after one year	41,998	54,973	419,183
Total	¥55,091	¥68,063	$549,865
Future lease receipts:			
Due within one year	¥ 54	¥ 54	$ 539
Due after one year	172	213	1,717
Total	¥ 226	¥ 267	$ 2,256

20. 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, 2008 and 2007 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, 2008 and 2007 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, 2008 and 2007 were not disclosed because all derivative transactions were used as hedges and hedge accounting was applied.

21. 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, 2008, 2007 and 2006 is summarized as follows:

	Millions of yen							
For 2008	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	**¥ 277,530**	**¥193,575**	**¥154,996**	**¥57,806**	**¥ 8,021**	**¥ 691,928**	**¥ —**	**¥ 691,928**
Intersegment	**2,038**	**—**	**1,610**	**736**	**3,899**	**8,283**	**(8,283)**	**—**
Total	**279,568**	**193,575**	**156,606**	**58,542**	**11,920**	**700,211**	**(8,283)**	**691,928**
Costs and expenses	**186,154**	**150,848**	**146,446**	**38,539**	**10,991**	**532,978**	**4,342**	**537,320**
Operating income	**¥ 93,414**	**¥ 42,727**	**¥ 10,160**	**¥20,003**	**¥ 929**	**¥ 167,233**	**¥ (12,625)**	**¥ 154,608**
II Identifiable assets, depreciation expense, loss on impairment of fixed assets and capital expenditures:								
Identifiable assets	**¥1,949,817**	**¥568,668**	**¥ 18,787**	**¥14,944**	**¥50,810**	**¥2,603,026**	**¥290,978**	**¥2,894,004**
Depreciation expense	**15,861**	**110**	**171**	**269**	**96**	**16,507**	**643**	**17,150**
Loss on impairment of fixed assets	**4,292**	**—**	**—**	**—**	**—**	**4,292**	**—**	**4,292**
Capital expenditures	**144,244**	**199**	**307**	**327**	**160**	**145,237**	**260**	**145,497**

	Millions of yen							
For 2007	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

	Millions of yen							
For 2006	Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Elimination and/or corporate	Consolidated
I Net sales and operating income:								
Net sales								
Customers	¥ 232,248	¥224,735	¥133,609	¥48,939	¥ 6,994	¥ 646,525	¥ —	¥ 646,525
Intersegment	2,032	—	1,549	278	3,157	7,016	(7,016)	—
Total	234,280	224,735	135,158	49,217	10,151	653,541	(7,016)	646,525
Costs and expenses	170,980	191,618	126,412	32,249	9,668	530,927	3,575	534,502
Operating income	¥ 63,300	¥ 33,117	¥ 8,746	¥16,968	¥ 483	¥ 122,614	¥ (10,591)	¥ 112,023
II Identifiable assets, depreciation expense, loss on impairment of fixed assets and capital expenditures:								
Identifiable assets	¥1,619,960	¥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

	Thousands of U.S. dollars							
For 2008	Leasing business	Sales business	Construction business	Brokerage business	Other business	Total	Elimination and/or corporate	Consolidated
I Net sales and operating income:								
Net sales								
Customers	**$ 2,770,037**	**$1,932,079**	**$1,547,021**	**$576,964**	**$ 80,057**	**$ 6,906,158**	**$ —**	**$ 6,906,158**
Intersegment	**20,341**	**—**	**16,069**	**7,346**	**38,917**	**82,673**	**(82,673)**	**—**
Total	**2,790,378**	**1,932,079**	**1,563,090**	**584,310**	**118,974**	**6,988,831**	**(82,673)**	**6,906,158**
Costs and expenses	**1,858,010**	**1,505,619**	**1,461,683**	**384,659**	**109,701**	**5,319,672**	**43,338**	**5,363,010**
Operating income	**$ 932,368**	**$ 426,460**	**$ 101,407**	**$199,651**	**$ 9,273**	**$ 1,669,159**	**$ (126,011)**	**$ 1,543,148**
II Identifiable assets, depreciation expense, loss on impairment of fixed assets and capital expenditures:								
Identifiable assets	**$19,461,194**	**$5,675,896**	**$ 187,514**	**$149,157**	**$507,135**	**$25,980,896**	**$2,904,262**	**$28,885,158**
Depreciation expense	**158,309**	**1,098**	**1,707**	**2,685**	**958**	**164,757**	**6,418**	**171,175**
Loss on impairment of fixed assets	**42,839**	**—**	**—**	**—**	**—**	**42,839**	**—**	**42,839**
Capital expenditures	**1,439,705**	**1,986**	**3,064**	**3,264**	**1,597**	**1,449,616**	**2,595**	**1,452,211**

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, 2008, 2007 and 2006.

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

22. RELATIONSHIPS WITH SPECIAL PURPOSE ENTITIES SUBJECT TO DISCLOSURE

(1) Overview of Special Purpose Entities ("SPEs") subject to disclosure and overview of SPEs' transactions

As part of its real estate operations, the Company invests in SPEs (principally *Tokutei Mokuteki Kaisha* ("TMKs") under the Asset Securitization Law).

The SPEs, which conduct real estate development and leasing projects, are funded by investments from the Company and by borrowings from financial institutions (non-recourse loans and debentures). At the conclusion of these projects, the Company plans to appropriately recover its investments, and as of March 31, 2008 the Company judged that there is no risk of future losses. Moreover, in the event that losses do arise in the future, the Company's exposure will be limited to the amount of its investment.

The Company does not have any investments with voting rights in any of the SPEs, and the Company has not dispatched any directors or employees to any of the SPEs.

At March 31, 2008, the Company had outstanding investments in 39 SPEs. The assets, liabilities, and net assets (simple sum) at the most recent settlement date are shown below.

Assets	Millions of yen	Thousands of U.S. dollars
Real property	¥728,366	$7,269,847
Other	42,991	429,095
Total	¥771,357	$7,698,942

Liabilities and net assets	Millions of yen	Thousands of U.S. dollars
Borrowings *1	¥640,437	$6,392,225
Preferred capital, etc. *2	96,717	965,336
Other	34,203	341,381
Total	¥771,357	$7,698,942

*1 Includes specified debentures of TMKs invested by the Company.
*2 Consists of preferred capital in TMKs and equity in limited partnerships ("*Tokumei Kumiai*"), invested by the Company.

In regard to the balance at March 31, 2008, see *3.

(2) Transactions with the SPEs
For 2008

Amount of transactions or year-end balance	Millions of yen	Thousands of U.S. dollars	**Revenues and costs**	Millions of yen	Thousands of U.S. dollars
Investments in securities, etc. *3	¥113,786	$1,135,702	Operating revenues *4	¥11,761	$117,387
			Non-operating revenues *5	177	1,767
Real estate leasing *6	—	—	Cost of operating revenues	34,476	344,106
Management services *7	—	—	Operating revenues	297	2,964
Real estate transactions *8	65,653	655,285	—	—	—

*3 The balance of investments in securities at March 31, 2008 consisted of ¥74,991 million ($748,488 thousand) of investment securities and ¥38,795 million ($387,214 thousand) of equity investments in properties for sale, and includes investments in preferred stocks and specified debentures issued by TMKs and equity in *Tokumei Kumiai*, invested by the Company.
*4 Dividends on investments are recorded as operating revenues.
*5 Interest on specified debentures is recorded as non-operating revenues.
*6 The Company leases real estate from SPEs.
*7 The Company provides management services to SPEs.
*8 The Company has purchased real property (land, buildings, etc.) from SPEs.

23. CONTINGENT LIABILITIES

At March 31, 2008, the Company and its consolidated subsidiaries were contingently liable as guarantors of borrowings by customers and others in an amount aggregating ¥263 million ($2,625 thousand).

24. SUBSEQUENT EVENTS

On June 27, 2008, the shareholders of the Company approved payments of a year-end cash dividend of ¥10 ($0.10) per share or a total of ¥4,746 million ($47,370 thousand) to shareholders of record at March 31, 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Sumitomo Realty & Development Co., Ltd. and consolidated subsidiaries as of March 31, 2008 and 2007, 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, 2008, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, 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, 2008 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 27, 2008

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 June 27, 2008)

BOARD OF DIRECTORS AND AUDITORS

Chairman of the Board

Junji Takashima*

Vice Chairman

Tetsuro Tsuruta

President

Kenichi Onodera*

Directors

Tsutomu Oyama*
Yoshifumi Nakamura*
Hiroyuki Asano
Takashi Saito
Nobuaki Takemura
Masayoshi Ohashi

Statutory Auditors

Shinsaku Sanmoto
Naoto Enda

Standing Statutory Auditors

Ryoichi Nomura
Tadashi Kitamura
Kunio Kobayashi

* Representative Director

EXECUTIVE OFFICERS

Senior Managing Executive Officers

Kenichi Kameyama
Masaki Ogawa

Senior Managing Executive Officer (Engineer)

Takahiro Daisaka

Managing Executive Officers

Takao Shiojima
Masayuki Takahashi
Isamu Jobo
Yoshinobu Sakamoto
Satoru Ozawa
Toshikazu Tanaka
Masato Kobayashi
Kojun Nishima

CORPORATE DATA

(As of March 31, 2008)

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

8,738 (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, 2008)

Paid-in Capital

¥122,805 million

Number of Common Stock

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

Number of Shareholders

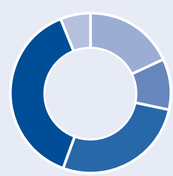
18,374

Stock Exchange Listings

Tokyo Stock Exchange
Osaka Securities Exchange

Breakdown of Shareholders

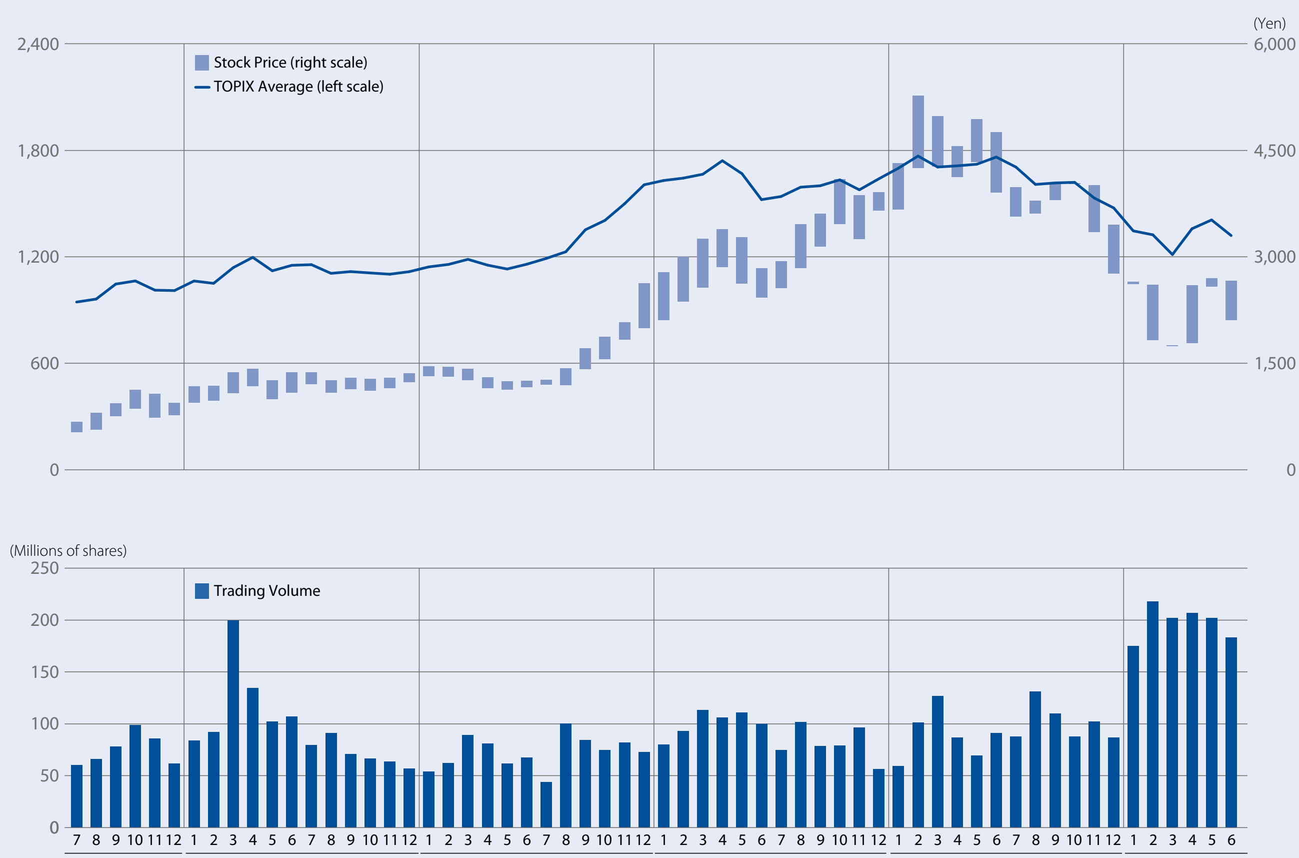
Trust Accounts	18.11%
Financial Institutions	10.37%
Other Companies	27.30%
Foreign Companies	38.35%
Individuals and Others	5.87%



Major Shareholders

	Number of shares held (Thousands)	Percentage of shares held
Japan Trustee Services Bank, Ltd. (Trust account)	18,968	3.98%
The Master Trust Bank of Japan, Ltd. (Trust account)	15,935	3.35%
Japan Trustee Services Bank, Ltd. (Trust account 4)	12,627	2.65%
Sumitomo Mitsui Banking Corporation	11,990	2.52%
State Street Bank and Trust Company 505103	9,033	1.90%
The Sumitomo Trust & Banking Co., Ltd.	8,136	1.71%
Kajima Corporation	7,912	1.66%
BNP Paribas Securities (Japan) Ltd.	7,650	1.61%
Shimizu Corporation	7,500	1.58%
State Street Bank and Trust Company	7,472	1.57%

Stock Price and Trading Volume on Tokyo Stock Exchange



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