Financial Review (Consolidated)

During the fiscal year ended March 31, 1998, Mitsubishi Estate recorded revenue from operations of ¥548,731 million (US$4,153.9 million), a decrease of 1.9%. Revenue in the Building Leasing Division edged up 1.7% to ¥279,161 million (US$2,113.3 million), supported by contributions from new office buildings in Japan, strong results overseas and growth in revenue from district heating and cooling operations. In the Development and Sales Division, revenue fell 9.2% to ¥151,255 million (US$1,145.0 million), as weak demand for domestic properties offset favorable results overseas. Architectural Division revenue fell 36.7% to ¥11,593 million (US$87.8 million), as performance was negatively affected by adverse conditions in Japan's real estate industry. In the Construction Division, revenue rebounded from a decrease in the previous term, surging 32.1% to ¥66,404 million (US$502.7 million) on the back of completion of the Sendai Shirayuri Gakuen Project during the term. Other Business revenue declined 18.7% to ¥40,318 million (US$305.2 million).

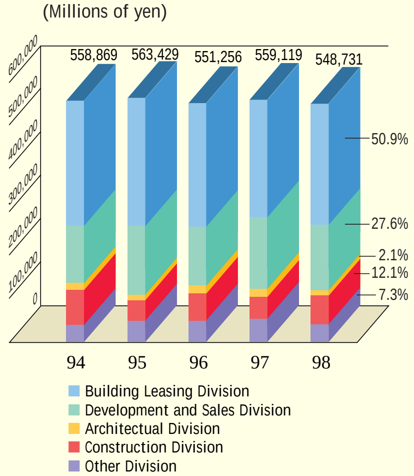
Operating Income

Lower revenue and worsened profitability led to a 6.6% decline in operating income to ¥58,252 million (US$441.0 million). The operating income margin was 10.6%, or 0.6 percentage point below the previous term. These results reflect operating losses in the Development and Sales Division, resulting from the aggressive disposal of non-performing assets, and in Other Business, owing to adverse operating conditions during the term. Management largely completed the disposal of non-performing assets during the term.

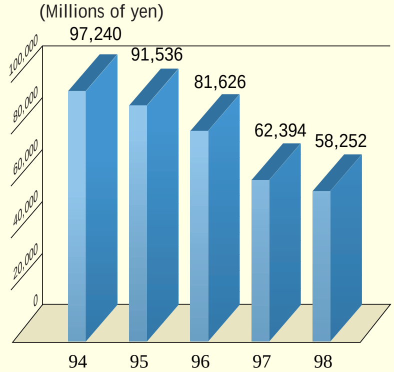
Other Income and Expenses

Interest expenses decreased 12.9% to ¥45,179 million (US$342.0 million), reflecting historically low interest rates in Japan. Consequently, other expenses, net of other income, declined ¥3,519 million to ¥38,472 million (US$291.2 million).

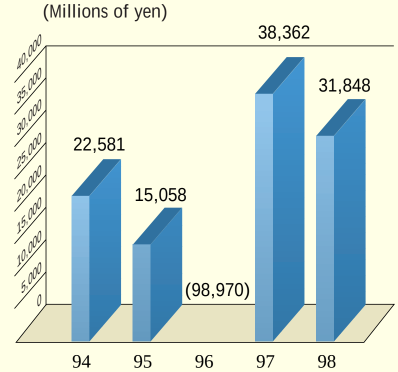
Revenue from Operations
(Millions of yen)



Operating Income
(Millions of yen)



Net Income
(Millions of yen)



Special Profits and Losses

The Company recorded a net special profit of ¥23,086 million (US$174.8 million). A gain from the sale of the Mitsubishi Shoji Building Annex to Mitsubishi Corporation amounted to ¥49,159 million (US$372.1 million), and a gain from sale of stock in Radio City Productions Inc., an affiliated company, came to ¥7,715 million (US$58.4 million). These gains were partially offset by a loss of ¥33,789 million (US$255.8 million) from the write-down of overseas fixed assets.

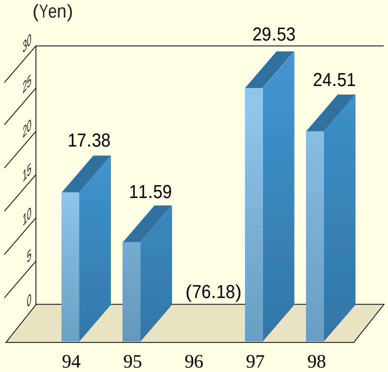
Net Income

As a result of the above factors, net income amounted to ¥31,848 million (US$241.1 million), a 17% decrease from the previous term. Net income per share was ¥24.51 (US$0.186), and management maintained cash dividends per share at ¥8.00 (US$0.061).

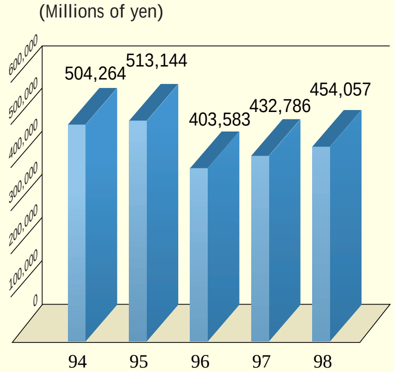
Financial Position

The Company is committed to reducing interest-bearing debt to strengthen its financial position and to prepare for strategic investments in the future. During the fiscal year under review, however, consolidated interest-bearing debt increased 3.6% to ¥1,164,932 million (US$8,818.6 million) as a result of funding requirements to purchase the former JNR headquarters site, a key property in the Company's plan to redevelop the Marunouchi district. However, management intends to resume debt-reduction measures during the current fiscal year, and expects to reduce non-consolidated interest-bearing debt to below the ¥1.0 trillion level by fiscal year-end. Consolidated cash rose 33.7% to ¥77,297 million (US$585.1 million). Total assets increased 1.8% to ¥2,103,258 million (US$15,921.7 million), reflecting the purchase of the former JNR headquarters site. The shareholders' equity ratio increased 0.7 percentage point to 21.6%.

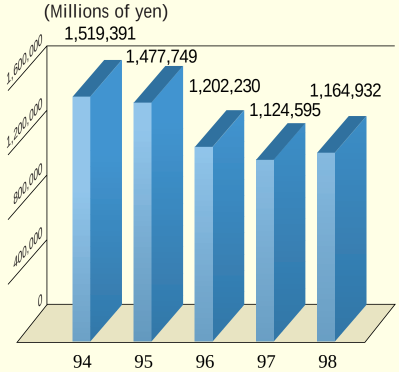
Net Income per Share
(Yen)



Shareholders' Equity
(Millions of yen)



Interest-Bearing Debt
(Millions of yen)



Consolidated Balance Sheets

MITSUBISHI ESTATE CO., LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 1997 and 1998

	Millions of yen		Thousands of U.S. dollars
ASSETS	1997	1998	1998
Current assets:			
Cash	¥ 57,830	¥ 77,297	$ 585,140
Marketable securities (Notes 2 (D) and 8)	101,542	105,927	801,870
Accounts receivable—trade	30,732	32,124	243,179
Inventories (Notes 2 (C) and 7)	301,562	264,885	2,005,185
Advances on purchases	1,976	5,191	39,296
Other current assets	24,596	24,795	187,699
Less allowance for doubtful accounts (Note 6)	(6,810)	(6,423)	(48,622)
Total current assets	511,428	503,796	3,813,747
Investments:			
Investments in unconsolidated subsidiaries and affiliates (Note 2 (A))	28,359	28,399	214,981
Investments in other securities (Notes 2 (D) and 8)	17,440	17,478	132,309
Other investments (Note 9)	140,457	134,494	1,018,122
Less allowance for doubtful accounts (Note 6)	(102)	(34)	(257)
Total investments	186,154	180,337	1,365,155
Property and equipment at cost (Notes 2 (E) and 10):			
Land	537,208	601,483	4,553,240
Buildings	1,143,951	1,190,080	9,008,933
Machinery and equipment	62,197	65,214	493,671
Others	10,625	13,040	98,713
Construction in progress	32,927	20,483	155,057
Total property and equipment at cost	1,786,908	1,890,300	14,309,614
Less accumulated depreciation	(454,624)	(501,307)	(3,794,905)
Net property and equipment at cost	1,332,284	1,388,993	10,514,709
Other assets	30,784	29,770	225,360
Translation adjustments	5,661	362	2,740
Total assets	¥2,066,311	¥2,103,258	$15,921,711

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 1997	Millions of yen 1998	Thousands of U.S. dollars 1998
Current liabilities:			
Short-term bank loans (Note 10)	¥ 41,516	¥ 62,690	$ 474,565
Commercial paper	55,797	34,437	260,689
Current portion of long-term debt (Note 10)	150,828	179,738	1,360,621
Accountspayable—trade	43,332	46,755	353,936
Accrued expenses	19,177	19,619	148,516
Accrued income taxes	2,277	5,668	42,907
Advances and deposits	68,154	48,658	368,342
Other current liabilities	24,812	13,949	105,594
Total current liabilities	405,893	411,514	3,115,170
Long-term debt (Note 10)	876,454	888,067	6,722,687
Guarantee deposits and lease deposits (Note 11)	276,522	266,813	2,019,780
Employees' retirement allowances (Note 2 (G))	29,627	30,019	227,245
Other long-term liabilities (Note 2 (G))	29,699	35,272	267,010
Minority interests	15,330	17,516	132,597
Shareholders' equity (Note 13):			
Common stock, par value ¥50 per share			
Authorized—1,980,000,000shares			
Issued and outstanding—			
1,299,185,054 shares in 1997 and 1998	86,534	86,534	655,064
Capitalsurplus	115,195	115,195	872,029
Legal reserve	21,634	21,634	163,770
Retained earnings	209,435	230,703	1,746,427
Treasury stock	(12)	(9)	(68)
Total shareholders' equity	432,786	454,057	3,437,222
Contingent liabilities (Note 14)			
Total liabilities and shareholders' equity	¥2,066,311	¥2,103,258	$15,921,711

Consolidated Statements of Income

MITSUBISHI ESTATE CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years Ended March 31, 1996, 1997 and 1998

	Millions of yen			Thousands of U.S. dollars
	1996	1997	1998	1998
Revenue from operations	¥551,256	¥559,119	¥548,731	$4,153,906
Cost of revenue from operations	422,080	447,360	444,359	3,363,808
Selling, general and administrative expenses	47,550	49,365	46,120	349,129
Operating income	81,626	62,394	58,252	440,969
Other income:				
Interest	4,933	5,417	2,834	21,453
Dividends	3,246	3,680	3,421	25,897
Other	14,980	10,352	11,153	84,429
Total	23,159	19,449	17,408	131,779
Other expenses:				
Interest	60,148	51,893	45,179	342,006
Other	21,636	9,547	10,701	81,007
Total	81,784	61,440	55,880	423,013
Income before taxes and special items	23,001	20,403	19,780	149,735
Special profit (loss), net	(102,645)	20,950	23,086	174,762
Net income (loss) before taxes and others	(79,644)	41,353	42,866	324,497
Income taxes (Notes 2 (F) and 12)	13,108	(490)	8,264	62,559
Amortization of goodwill	2,133	1,361	1,321	10,000
Minority interests	4,085	2,120	1,433	10,848
Net income (loss)	¥ (98,970)	¥ 38,362	¥ 31,848	$ 241,090

	Yen			U.S. dollars
Net income (loss) and dividends per share (Note 2 (I)):				
Net income (loss) per share	¥(76.18)	¥29.53	¥24.51	$0.186
Net income (loss) per share assuming full dilution	—	—	—	—
Cash dividends per share applicable to the year	8.00	8.00	8.00	0.061
Interest coverage ratio*	1.49	1.38	1.43	

*Interest coverage ratio is calculated by dividing the sum of operating income, interest income and dividends by interest expense.
See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

MITSUBISHI ESTATE CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years Ended March 31, 1996, 1997 and 1998

	Millions of yen			Thousands of U.S. dollars
	1996	1997	1998	1998
Common stock:				
Balance at beginning of the period	¥ 86,534	¥ 86,534	¥ 86,534	$ 655,064
Conversion of convertible bonds:				
During fiscal 1996: 0 shares	0	—	—	—
During fiscal 1997: 0 shares	—	0	—	—
During fiscal 1998: 0 shares	—	—	0	0
Balance at end of the period	¥ 86,534	¥ 86,534	¥ 86,534	$ 655,064
Capital surplus:				
Balance at beginning of the period	¥115,195	¥115,195	¥115,195	$ 872,029
Conversion of convertible bonds	0	0	0	0
Balance at end of the period	¥115,195	¥115,195	¥115,195	$ 872,029
Legal reserve:				
Balance at beginning of the period	¥ 20,576	¥ 21,634	¥ 21,634	$ 163,770
Transfer from unappropriated retained earnings	1,058	—	—	—
Balance at end of the period	¥ 21,634	¥ 21,634	¥ 21,634	$ 163,770
Retained earnings:				
Balance at beginning of the period	¥290,843	¥180,238	¥209,435	$1,585,428
Add—Net income	(98,970)	38,362	31,848	241,090
—Change of subsidiaries to be consolidated	—	1,234	—	—
Deduct—Cash dividends	(10,393)	(10,393)	(10,393)	(78,675)
—Transfer to legal reserve	(1,058)	—	—	—
—Directors' and statutory auditors' bonuses	(184)	(6)	(187)	(1,416)
Balance at end of the period	¥180,238	¥209,435	¥230,703	$1,746,427

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

MITSUBISHI ESTATE CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years Ended March 31, 1996, 1997 and 1998

	Millions of yen			Thousands of U.S. dollars
	1996	1997	1998	1998
Cash flows from operating activities:				
Net income (loss)	¥ (98,970)	¥ 38,362	¥ 31,848	$ 241,090
Adjustment to reconcile net income to net cash provided by operating activities:				
Loss relating to transfer of ownership for Rockefeller Center	78,034	—	—	—
Loss relating to a write-down of the intangible asset (leasehold)	24,612	—	—	—
Gain from sales of fixed asset	—	(65,937)	(49,159)	(372,135)
Gain from sales of affiliated companies' stock	—	—	(7,715)	(58,403)
Loss from sales of fixed assets	—	10,856	—	—
Loss from write-down on fixed asset	—	6,292	33,789	255,784
Loss related to the reconstruction of Marunouchi Building	—	9,017	—	—
Loss from provision for bad debt	—	4,494	—	—
Loss from prepayment of bonds under debt assumption agreements	—	14,327	—	—
Depreciation and amortization	49,519	53,117	53,932	408,267
Provision for reserve for retirement benefits	950	3,150	646	4,890
Others	4,448	430	(4,783)	(36,207)
Changes in assets and liabilities:				
Increase/decrease in accounts receivables	(5,306)	14,291	(1,392)	(10,537)
Increase/decrease in inventories	16,094	11,965	33,462	253,308
Increase/decrease in other current assets	(2,006)	3,798	(198)	(1,499)
Increase/decrease in accounts payable	11,399	(2,155)	3,423	25,912
Increase/decrease in accrued income taxes	9,007	(8,172)	3,391	25,670
Others	(6,151)	3,055	(18,476)	(139,864)
Payment of directors' bonuses	(184)	(6)	(187)	(1,416)
Net cash provided by operating activities	¥ 81,446	¥ 96,884	¥ 78,581	$ 594,860
Cash flows from investing activities:				
Purchases of property and equipment	¥ (53,648)	¥ (78,569)	¥(148,023)	$(1,120,537)
Proceeds from property and equipment	—	77,401	51,360	388,796
Aquisition of minority interest in consolidated subsidiaries	—	(18,522)	—	—
Proceeds from sales of affiliated companies' stock	—	—	8,477	64,171
Increase/decrease in marketable securities	45,970	2,617	(1,253)	(9,485)
Increase in guarantee deposits and lease deposits	368	(4,152)	(7,209)	(54,572)
Increase/decrease in loans to unconsolidated subsidiaries and affiliates	80	(711)	10,851	82,142
Others	(13,616)	(10,491)	(3,261)	(24,686)
Net cash used in investing activities	¥ (20,846)	¥ (32,427)	¥ (89,058)	$ (674,171)
Cash flows from financing activities:				
Increase/decrease in bonds and notes	¥ (31,200)	¥ (68,913)	¥ 75,072	$ 568,297
Loss from prepayment of bonds under debt assumption agreements	—	(14,327)	—	—
Increase/decrease in long-term borrowings	(42,453)	(40,331)	(34,549)	(261,537)
Increase/decrease in commercial paper	(390)	48,282	(21,360)	(161,696)
Increase/decrease in short-term borrowings	(37,214)	(16,673)	21,174	160,288
Cash dividends paid	(10,393)	(10,393)	(10,393)	(78,675)
Net cash provided by (used in) financing activities	¥(121,650)	¥(102,355)	¥ 29,944	$ 226,677
Changes in cash	¥ (61,050)	¥ (37,898)	¥ 19,467	$ 147,366
Cash at beginning of the year	156,778	95,728	57,830	437,774
Cash at end of the year	¥ 95,728	¥ 57,830	¥ 77,297	$ 585,140

See notes to consolidated financial statements.

1. Basis of Presentation of Financial Statements

The accompanying consolidated financial statements have been prepared from books of account maintained by Mitsubishi Estate Company, Limited ("the Company") and its consolidated subsidiaries in accordance with accounting principles generally accepted in Japan. Solely for the convenience of readers outside Japan, certain items presented in the original financial statements have been reclassified in their presentation.

2. Summary of Signficant Accounting Policies

(A) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (together, "the Companies").

There were 127 consolidated subsidiaries in fiscal 1997 and 128 consolidated subsidiaries in fiscal 1998. All significant intercompany accounts and transactions have been eliminated.

Investments in non-consolidated subsidiaries and affiliates (20–50% owned companies) are stated at cost. The ordinance of the Ministry of Finance of Japan, which regulates consolidated financial statements, requires companies to account for investments in non-consolidated subsidiaries and affiliates by the equity method, but such investments are stated at cost as they are not significant in terms of net income. There were 48 such non-consolidated subsidiaries and affiliates in fiscal 1997 and 49 in fiscal 1998.

(B) Basis of Revenue Recognition

The statements of income reflect revenue from operations in the following manner:

— Revenue from leasing of office space is recognized as rents accrued in the leasing period.

— Revenue from sales of condominiums, residential houses and land is recognized when units are delivered and accepted by the customers.

— Revenue from design and supervision is recognized at the date of completion of the relevant project.

— Other operating revenues are recognized on an accrual basis.

(C) Inventories

Inventories are mainly stated at cost, determined by the identified cost method.

(D) Marketable Securities and Investments in Other Securities

Securities quoted on stock exchanges are mainly stated at the lower of cost or market, cost being determined by the moving average method. Non-quoted securities are mainly stated at cost, also determined by the moving average method.

(E) Property and Equipment

Domestic property and equipment are stated at cost. Fixed assets of overseas consolidated subsidiaries that have dropped substantially in value and are considered to have no prospects for recovery are stated at market value.

For the Company and its domestic subsidiaries, depreciation of property and equipment is mainly computed on the declining balance method, while overseas consolidated subsidiaries mainly use the straight line method.

Repairs and maintenance which do not improve or extend the life of the respective assets are expensed currently.

(F) Income Taxes

Income taxes currently payable by the Companies are based on the determination of taxable income, which may be different from the income shown in the financial statements. The differences arise from taking up certain items for taxation purposes in periods different from those for financial statement purposes. In accordance with accounting principles generally accepted in Japan, the Companies do not reflect the tax effect resulting from temporary differences.

(G) Employees' and Directors' Retirement Allowances

The Companies have employee retirement plans, and an allowance based on length of service and current basic salary is paid to employees on retirement. The amounts paid in the case of voluntary retirement will be less than the amounts paid in the case of involuntary retirement. Japanese tax law permits the deduction of only 40% of the estimated accrued liability for retirement allowances on a voluntary retirement basis. However, the Companies mainly provide for 100% of the liability. The Companies provide for retirement benefits for directors and statutory auditors based on the Companies' internal regulations reflecting their positions and length of service.

The directors' retirement allowances are included in other long-term liabilities.

(H) Translation of Foreign Currency Accounts

The translation of foreign currency financial statements of overseas consolidated subsidiaries into yen has been made for consolidation purposes in accordance with the translation method prescribed in the statement revised in May 1995 issued by the Business Accounting Deliberation Council of Japan. Differences arising from translation are presented as "Translation adjustments" in the accompanying consolidated financial statements.

(I) Net Income per Share

In computing net income per share assuming no dilution, the average number of shares outstanding during each year, adjusted to give retroactive effect to the free distribution of shares, has been used. Net income per share assuming full dilution has been computed on the assumption that all convertible bonds were converted into common stock at the beginning of the year or at the time of issue in the case of newly issued bonds, with appropriate adjustments of the related interest expense, net of taxes, for such convertible bonds. Net income per share, assuming full dilution for the years ended March 31, 1996, 1997 and 1998, is not presented since the outstanding convertible bonds had no dilutive effect.

3. Fiscal Year

As the fiscal year of Rockefeller Group, Inc., MEC USA, Inc. and their subsidiaries ends on December 31 each year, accounts for the years ended at December 31, 1996 and 1997 were consolidated in the Company's consolidated financial statements for the years ended March 31, 1997 and 1998, respectively.

4. Basis of Translating Financial Statements

Yen amounts shown in the financial statements are translated into U.S. dollars, solely for convenience, at the prevailing exchange rate of ¥132.10 to U.S.$1.00 on March 31, 1998. These translations should not be construed as a representation that Japanese yen amounts have been, could have been, can be or could in the future be converted into U.S. dollars at that rate.

5. Special Profits and Losses

The Companies recorded special profits and losses in fiscal 1997 and 1998 consisting of the following:

Years ended March 31, 1998	Millions of yen	Thousands of U.S. dollars
Gain from sales of fixed assets	¥ 49,159	$ 372,135
Gain from sales of affiliated company's stock	7,715	58,403
Loss from write-down on fixed assets	(33,789)	(255,783)

Years ended March 31, 1997	Millions of yen	Thousands of U.S. dollars
Gain from sales of fixed assets	¥ 65,937	$ 499,145
Loss from sales of fixed assets	(10,856)	(82,180)
Loss from write-down on fixed asset	(6,292)	(47,631)
Loss related to the reconstruction of Marunouchi Building	(9,017)	(68,259)
Loss from provision for bad debt	(4,494)	(34,020)
Loss from prepayment of bonds under debt assumption agreements	(14,327)	(108,456)

6. Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided at the maximum amount permitted by Japanese tax law plus the excess, if any, of an estimated amount of probable bad debts above that maximum amount.

7. Inventories

Inventories at March 31, 1997 and 1998 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Real estate for sale	¥181,587	¥168,906	$1,278,622
Land and housing projects in progress	64,692	43,929	332,544
Land held for development	37,865	36,208	274,095
Other	17,418	15,842	119,924
Total	¥301,562	¥264,885	$2,005,185

8. Marketable Securities and Investments in Other Securities

Marketable securities and investments in other securities at March 31, 1997 and 1998 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Marketable securities:			
Listed equity securities	¥ 79,362	¥ 74,360	$562,907
Public bonds and corporate debentures	22,180	31,567	238,963
Total	¥101,542	¥105,927	$801,870
Investments in other securities:			
Non-listed equity securities	¥ 16,334	¥ 45,310	$342,998
Public bonds, corporate debentures and other	1,106	567	4,292
Total	¥ 17,440	¥ 45,877	$347,290

9. Other Investments

Other investments at March 31, 1997 and 1998 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Long-term loans to non-consolidated subsidiaries and affiliates	¥ 826	¥ 906	$ 6,858
Deposits and guarantee money paid	76,001	73,501	556,404
Other	63,630	60,087	454,860
Total	¥140,457	¥134,494	$1,018,122

Short-term loans to non-consolidated subsidiaries and affiliates are included in other current assets and amounted to ¥1,657 million ($12.5 million) at March 31, 1997 and ¥1,915 million ($14.5 million) at March 31, 1998.

10. Bank Loans and Long-Term Debt

Short-term bank loans are mainly represented by overdrafts that will generally mature in 12 months. The annual interest rates applicable to the short-term loans outstanding at March 31, 1997 and 1998 were 0.675%–5.9375% and 0.804%–6.94%, respectively.

Long-term debt at March 31, 1997 and 1998 was as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
5.5% mortgage bonds due 1998	¥ 10,200	¥ 9,000	$ 68,130
5.1% mortgage bonds due 1998	40,000	40,000	302,801
5.6% mortgage bonds due 1999	3,000	3,000	22,710
4.9% mortgage bonds due 2000	35,000	35,000	264,951
5.6% mortgage bonds due 2004	50,000	50,000	378,501
5.275% mortgage bonds due 2005	50,000	50,000	378,501
4.8% mortgage bonds due 2005	50,000	50,000	378,501
9-1/4% unsecured bonds due 1997 (payable in U.S. dollars)	30,528	—	—
10-1/4% unsecured bonds due 1997 (payable in ECU)	10,000	—	—
4.45% unsecured bonds due 1997	4,943	—	—
3.43% unsecured bonds due 1997	4,447	—	—
6-1/5% unsecured bonds due 1997 (payable in U.S. dollars)	3,251	—	—
2.55% unsecured bonds due 1998	10,000	—	—
3.95% unsecured bonds due 1999	10,000	10,000	75,700
6% unsecured bonds due 1999	30,000	30,000	227,101
3.85% unsecured bonds due 2000	35,000	35,000	264,951
1.2% unsecured bonds due 2000	—	3,380	25,590
2.7% unsecured bonds due 2001	5,000	5,000	37,850
4.4% unsecured bonds due 2001	10,000	10,000	75,700
8-5/8% unsecured bonds due 2001 (payable in U.S. dollars)	28,000	28,000	211,961
Floating rate unsecured bonds due 2001	7,551	8,462	64,058
2.95% unsecured bonds due 2002	10,000	10,000	75,700
4% unsecured bonds due 2002	20,000	20,000	151,400
2.125% unsecured bonds due 2002	—	10,000	75,700
1.675% unsecured bonds due 2002	—	10,000	75,700
3.1% unsecured bonds due 2003	10,000	10,000	75,700
3.05% unsecured bonds due 2003	15,000	15,000	113,550
2.55% unsecured bonds due 2003	10,000	10,000	75,700
2.35% unsecured bonds due 2003	—	20,000	151,400
2.05% unsecured bonds due 2003	—	20,000	151,400
2.55% unsecured bonds due 2004	—	10,000	75,700
3.4% unsecured bonds due 2006	10,000	10,000	75,700
3% unsecured bonds due 2006	10,000	10,000	75,700
3.1% unsecured bonds due 2008	10,000	10,000	75,700
2.575% unsecured bonds due 2008	—	10,000	75,700
3.075% unsecured bonds due 2009	—	10,000	75,700
2.975% unsecured bonds due 2007	—	30,000	227,101
3.275% unsecured bonds due 2012	—	10,000	75,700
3.125% unsecured bonds due 2017	—	10,000	75,700
1.5% convertible bonds due 2003	99,035	94,185	712,983
Loans from banks and insurance companies:			
Secured	47,579	50,146	379,606
Unsecured	358,633	321,524	2,433,944
Loans from tenants	115	108	818
Total	1,027,282	1,067,805	8,083,308
Less current portion	(150,828)	(179,738)	(1,360,621)
Total long-term debt	¥ 876,454	¥ 888,067	$ 6,722,687

The agreement under which the 1.5% convertible bonds were issued provides for the conversion thereof into shares of common stock at the current conversion price per share of ¥2,600 ($19.68), subject to adjustments in certain events, including free distributions of shares and stock dividends by way of stock splits.

The current portion of long-term debt at March 31, 1998 was as follows:

	Millions of yen	Thousands of U.S. dollars
Mortgage bonds	¥ 49,000	$ 370,931
Long-term bank loans	130,730	989,629
Loans from others	8	61
Total	¥179,738	$1,360,621

The aggregate annual maturities of long-term debt are as follows:

Years Ending March 31,	Millions of yen	Thousands of U.S. dollars
1999	¥ 179,738	$1,360,621
2000	119,082	901,453
2001	95,880	725,814
2002	86,692	656,260
2003 and thereafter	586,413	4,439,160
Total	¥1,067,805	$8,083,308

The following assets were pledged as collateral for long-term loans from banks at March 31, 1997 and 1998:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Land	¥19,120	¥ 22,670	$171,613
Buildings and construction in progress	79,814	92,009	696,510
Marketablesecurities	617	525	3,974
Total	¥99,551	¥115,204	$872,097

Additionally, all assets of the Company are subject to an enterprise mortgage for mortgage bonds which amounted to ¥243,000 million ($1,839.5 million) at March 31, 1997 and ¥237,000 million ($1,794.1 million) at March 31, 1998.

As is customary in Japan, collateral must be given if requested by lending institutions 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 become due in case of default and certain other specified events. The Companies have never received any such requests nor do they expect that any such requests will be made.

11. Guarantee Deposits and Lease Deposits

The Companies made lease agreements for office space with tenants under which the Companies receive from tenants non-interest-bearing lease deposits or guarantee deposits.

Guarantee deposits and lease deposits at March 31, 1997 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Guarantee deposits and lease deposits from tenants	¥266,495	¥239,639	$1,814,073
Guarantee deposits from others	10,027	27,174	205,707
Total	¥276,522	¥266,813	$2,019,780

12. Income Taxes

Income taxes applicable to the Companies comprise a corporation tax, inhabitant taxes and an enterprise tax. In the statements of income, the enterprise tax of ¥464 million in 1997 and ¥406 million ($3.1 million) in 1998 were included under "Selling, general and administrative expenses." The effective tax rates on the statements of income differ from the normal tax rates primarily because of the effect of permanent non-deductible expenses and the lower tax rate applied to the portion of income distributed as dividends.

13. Shareholders' Equity

(A) Common Stock and Capital Surplus

Under the Japanese Commercial Code, at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be credited to the common stock account. The portion which is to be credited to the common stock account is determined by resolution of the Board of Directors. Proceeds in excess of the amounts credited to common stock have been credited to the capital surplusaccount.

Japanese companies, upon approval by the Board of Directors, may make a free distribution of shares by way of stock split to shareholders. The Japanese Commercial Code permits the Board of Directors to distribute by way of stock split (1) an amount of capital surplus or legal reserve transferred to common stock and (2) the portion of the issue price of new shares which is in excess of the par value of such new shares accounted for as common stock in the form of free shares to shareholders. Accordingly, when the Company makes a free distribution of shares from common stock as in case (2) above, no accounting entry would be required.

(B) Legal Reserve

Under the Japanese Commercial Code, each domestic company is required to appropriate as legal reserve an amount equal to at least 10% of cash dividends and other payments made as disposition of profit until the reserve equals 25% of common stock account. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

14. Contingent Liabilities

At March 31, 1997 and 1998, the Companies were contingently liable as guarantors of non-consolidated subsidiaries, affiliates and individual customers as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Subsidiaries and affiliates	¥3,615	¥3,920	$29,674
Individual customers for housing loans	1,185	730	5,526
Other	349	0	0
Total	¥5,149	¥4,650	$35,200

Additionally, at March 31, 1998, the Company was contingently liable for the payment with respect to the following bonds which were transferred to banks under debt assumption agreements.

	Millions of yen	Thousands of U.S. dollars	Date of agreement
7.05% unsecured bonds due 2001	¥30,000	$227,111	Sept. 20, 1994
5.9% unsecured bonds due 1999	50,000	378,501	Mar. 22, 1996
6.0% unsecured bonds due 2001	20,000	151,400	Feb. 28, 1997
6.0% unsecured bonds due 2002	50,000	378,501	Feb. 28, 1997

15. Segment Information

The Company and its consolidated subsidiaries are engaged in five major segments: (1) leasing and management of office buildings and commercial properties; (2) sales of housing, land and office buildings; (3) architectural design and supervision; (4) construction; and (5) otherbusiness.

Information by industry segment for the years ended March 31, 1997 and 1998 is summarized as follows:

	(Millions of yen)							
	1998							
	Leasing	Sales	Architectural	Construction	Other	Total	Elimination	Consolidated
Revenue from operations								
Outsidecustomers	¥ 279,161	¥151,255	¥11,593	¥66,404	¥40,318	¥ 548,731	¥ —	¥ 548,731
Inter-segment	5,843	12	1,037	3,013	3,019	12,924	(12,924)	—
Total	285,004	151,267	12,630	69,417	43,337	561,655	(12,924)	548,731
Costs and expenses	203,712	152,403	12,052	67,710	48,251	484,128	6,351	490,479
Operating income	81,292	(1,136)	578	1,707	(4,914)	77,527	(19,275)	58,252
Assets	1,428,782	288,482	11,777	20,648	69,718	1,819,407	283,851	2,103,258
Depreciation	48,439	1,433	14	129	2,982	52,997	935	53,932
Capitalexpenditures	128,568	1,436	4	2,052	1,125	133,185	5,933	139,118

	(Millions of yen)							
	1997							
	Leasing	Sales	Architectural	Construction	Other	Total	Elimination	Consolidated
Revenue from operations								
Outside customers	¥ 274,480	¥166,504	¥18,302	¥50,254	¥49,579	¥ 559,119	¥ —	¥ 559,119
Inter-segment	8,388	—	1,296	2,690	3,830	16,204	(16,204)	—
Total	282,868	166,504	19,598	52,944	53,409	575,323	(16,204)	559,119
Costs and expenses	204,235	162,090	17,963	51,419	57,317	493,024	3,701	496,725
Operating income	78,633	4,414	1,635	1,525	(3,908)	82,299	(19,905)	62,394
Assets	1,373,255	311,935	13,180	21,104	72,277	1,791,751	274,560	2,066,311
Depreciation	47,707	934	14	72	3,529	52,256	861	53,117
Capitalexpenditures	48,851	1,676	7	2,499	1,155	54,188	4,311	58,499

	Leasing	Sales	Architectural	Construction	Other	Total	Elimination	Consolidated
	(Thousands of U.S. dollars)							
	1998							
Revenue from operations								
Outside customers	$ 2,113,255	$1,145,004	$87,759	$502,680	$305,208	$ 4,153,906	$ —	$ 4,153,906
Inter-segment	44,232	91	7,850	22,808	22,854	97,835	(97,835)	—
Total	2,157,487	1,145,095	95,609	525,488	328,062	4,251,741	(97,835)	4,153,906
Costs and expenses	1,542,105	1,153,695	91,234	512,566	365,261	3,664,861	48,076	3,712,937
Operating income	615,382	(8,600)	4,375	12,922	(37,199)	586,880	(145,911)	440,969
Assets	10,815,912	2,183,815	89,152	156,306	527,767	13,772,952	2,148,759	15,921,711
Depreciation	366,684	10,848	106	977	22,573	401,188	7,078	408,266
Capital expenditures	973,263	10,871	30	15,534	8,515	1,008,213	44,913	1,053,126

	Leasing	Sales	Architectural	Construction	Other	Total	Elimination	Consolidated
	(Thousands of U.S. dollars)							
	1997							
Revenue from operations								
Outside customers	$ 2,077,820	$1,260,439	$138,547	$380,424	$375,314	$ 4,232,544	$ —	$ 4,232,544
Inter-segment	63,497	—	9,811	20,363	28,993	122,664	(122,664)	—
Total	2,141,317	1,260,439	148,358	400,787	404,307	4,355,208	(122,664)	4,232,544
Costs and expenses	1,546,063	1,227,025	135,981	389,243	433,891	3,732,203	28,017	3,760,220
Operating income	595,254	33,414	12,377	11,544	(29,584)	623,005	(150,681)	472,324
Assets	10,395,572	2,361,355	99,773	159,758	547,138	13,563,596	2,078,425	15,642,021
Depreciation	361,143	7,070	106	545	26,715	395,579	6,518	402,097
Capital expenditures	369,803	12,687	53	18,917	8,744	410,204	32,635	442,839

16. Subsequent Events

On April 28, 1998, the Company issued ¥10,000 million ($75.7 million) 1.775% unsecured bonds due 2003, ¥10,000 million ($75.7 million) 2.125% unsecured bonds due 2005 and ¥10,000 million ($75.7 million) 2.525% unsecured bonds due 2008.

On June 26, 1998, the Company's shareholders authorized payment of a cash dividend to shareholders of record on March 31, 1998 of ¥4.00 ($0.03) per share, or a total of ¥5,197 million ($39.3 million).

Report of Independent Public Accountants

ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors
Mitsubishi Estate Company, Limited

We have audited the accompanying consolidated balance sheets of Mitsubishi Estate Company, Limited and its consolidated subsidiaries as of March 31, 1997 and 1998, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1998, all expressed in Japanese yen.

Our audit was made in accordance with generally accepted auditing standards in Japan and all relevant auditing procedures as are normally required were carried out.

Based on our audit, it is our opinion that the above-mentioned financial statements present fairly the financial position of Mitsubishi Estate Company, Limited and its consolidated subsidiaries as of March 31, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1998, in conformity with generally accepted accounting principles in Japan applied on a consistent basis.

The accompanying financial statements expressed in United States dollars have been translated into dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into dollars on the basis described in Note 4 of the Notes to Consolidated Financial Statements.

Tokyo,Japan
June 26, 1998

Century Audit Corporation

CENTURY AUDIT CORPORATION
Certified Public Accountants