MITSUBISHI ESTATE CO., LTD.

ANNUAL REPORT 2006

OUR MISSION

We contribute to society through urban development.

By building attractive, environmentally sound communities where people can live, work and relax with contentment, we contribute to creating a truly meaningful society.

CONTENTS

As the general economy continues on a recovery path, the real estate market is experiencing steady growth. Having posted record results in the fiscal year under review, the Mitsubishi Estate Group has made an excellent start under its new Medium-Term Management Plan, Foundation for the Future (FF) 2007. Going forward, the Mitsubishi Estate Group will endeavor to contribute to the creation of a truly meaningful society through urban development based on close communication with all stakeholders.

FINANCIAL RESULTS

A Year of Record Results — An Excellent Start under the New Medium-Term Management Plan

During the fiscal year ended March 31, 2006, Mitsubishi Estate Co., Ltd. ("Mitsubishi Estate" or the "Company") and its consolidated subsidiaries (collectively, the "Mitsubishi Estate Group" or the "Group") recorded revenue from operations of ¥844,217 million, an increase of 8.9% from the previous fiscal year. Operating income also climbed 16.4% year on year to ¥137,614 million. In Building Business operations, results were supported by a full period's contribution from new buildings. Condominium sales were strong in Residential Business operations, while the sale of development properties fueled Urban Development & Investment Management operations. Collectively, these factors were the principal cause for the increase in revenues and earnings. In the fiscal year under review, the Group recorded a gain on sales of fixed assets, which exceeded impairment loss and loss on valuation of inventories. As a result, net income for the period under review surged 54.0% to ¥55,825 million.

OPERATING ENVIRONMENT

Continued Recovery in the General Economy — An Overall Firm Real Estate Market

In the office building market, conditions continued to improve from the second half of the previous fiscal year, bolstered by strong demand particularly for large-scale, high-specification buildings located in prime locations. This was attributed to the recovery in the overall economy and strong corporate earnings. In the Tokyo Metropolitan area, occupancy rates continued to improve. This in turn contributed to an upswing in the rates offered to tenants.

Despite concerns surrounding falsified structural calculation statements relating to earthquake resistance and the potential for an increase in interest rates, demand in the residential market remained firm, buoyed by improvements in employment conditions and the resultant boost in disposable incomes. Competition remains keen in certain areas as consumers become increasingly selective. Nevertheless, signs continue to emerge of an upswing in sales prices for properties that offer excellent location and product planning.

In the real estate investment market, conditions continued to be bolstered by an easing of quantitative monetary government policy and the subsequent inflow of investment funds. With continuous strong demand for property acquisition from domestic and overseas private funds and real estate investment trusts (REITs) along with a surge in the volume of transactions, property prices in Japan's three major metropolitan areas rose for the first time in 15 years. Accordingly, prices for prime properties are forecast to improve over the foreseeable future, despite concerns of increasing interest rates.

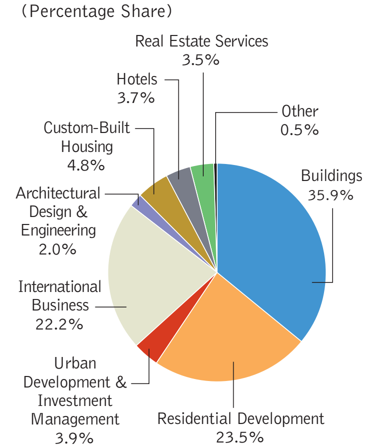
Under these circumstances, the Mitsubishi

						Millions of yen	Thousands of U.S. dollars
Years ended March 31	2001	2002	2003	2004	2005	2006	2006
Revenue from operations	¥ 630,990	¥ 631,564	¥ 681,726	¥ 679,918	¥ 775,381	¥ 844,217	$ 7,186,660
Net income (loss)	19,832	(71,058)	36,039	34,989	36,245	55,825	475,227
As a percentage of revenue from operations	3.1%	(11.3)%	5.3%	5.1%	4.7%	6.6%	—
As a percentage of shareholders' equity	4.1%	(10.5)%	4.3%	4.0%	4.0%	5.4%	—
Total assets	2,535,263	3,035,795	3,007,927	3,068,842	3,124,514	3,280,209	27,923,801
Total shareholders' equity	518,766	832,497	839,953	897,499	920,930	1,133,623	9,650,319
Common stock	86,534	86,534	86,534	86,534	86,534	129,736	1,104,418
						Yen	U.S. dollars
Per share amounts:							
Net income (loss)	¥15.26	¥(54.70)	¥27.61	¥26.96	¥27.93	¥42.60	$0.36
Cash dividends applicable to the year	8.00	8.00	8.00	8.00	8.00	10.00	0.08

Note: Yen amounts shown are translated into U.S. dollars, solely for convenience, at the prevailing exchange rate on March 31, 2006, of ¥117.47 to US$1.00.

Revenue by Segment

(Percentage Share)



Estate Group will endeavor to foresee changes in its business environment, while enhancing management efficiency and earnings power.

MEDIUM-TERM MANAGEMENT PLAN "FF 2007"

Steady Progress — EBITDA Target of ¥200.0 Billion Achieved in the First Year of the Plan

In July 2005, the Mitsubishi Estate Group announced its new three-year Medium-Term Management Plan, Foundation for the Future (FF) 2007, commencing April 1, 2005 through March 31, 2008. As a real estate company for the new era with "development function" at the heart of its operations, Mitsubishi Estate is leveraging its value creation capabilities to achieve a leading position in the industry. As a part of the Plan, we identified an EBITDA target of ¥200.0 billion for the fiscal year ending March 31, 2008, and established strategies for infrastructure, management and core growth policies.

Basic Objective

～ Foundation for the Future 2007 ～

To cultivate capabilities for real estate value creation with "development" at the heart of business operations, and secure a leading position in the industry as a real estate company for the new era

Strategic Policies

- **Infrastructure Strategy**
  Rebuild a dynamic and flexible management platform and system
- **Management Strategy**
  Optimize business portfolio and improve asset portfolio
- **Core Growth Strategy**
  Strategically reinforce capabilities for development-based real estate solutions
  (Development, real estate services, and Group-wide proposal-oriented marketing capabilities)

In the fiscal year ended March 31, 2006, Mitsubishi Estate took significant strides in implementing its strategies. EBITDA for the fiscal year under review totaled ¥200.9 billion, surpassing the established target two years in advance. We also made substantial progress in reorganizing assets, which contributed to enhancing our business portfolio. Looking ahead, Mitsubishi Estate will continue to implement its strategies and work toward further increasing EBITDA.

BUSINESS STRATEGIES

Maintaining Balance between Businesses that Effectively Utilize Asset Holdings such as the Marunouchi Redevelopment Project with Asset Development Businesses that Incorporate Exit Strategies

In Building Business operations, Mitsubishi Estate will forge ahead with its Marunouchi Redevelopment Project in an effort to energize the key Marunouchi area and further distinguish it from all other areas. At the same time, we will attract high-quality tenants by strengthening the leasing function, raise the level of property management to improve the profitability of property holdings and enhance asset portfolio quality. Going forward, we will also reinforce shopping center business functions as a growth field of the future and expand our business platform in areas outside Marunouchi.

In Residential Business operations, Mitsubishi Estate will continue its focus on the Tokyo Metropolitan area and supply an estimated 3,500 condominiums each year. Guided by this area-based strategy and an emphasis on product planning, we will leverage our competitive advantage through the ongoing supply of high-quality and reliable properties. In connection with our equity participation in TOWA REAL ESTATE DEVELOPMENT CO., LTD., concluded in March 2005, we integrated a housing management subsidiary in April 2006 and intend to pursue joint businesses that optimize the strengths of both companies.

In Urban Development & Investment Management operations, we will continue to expand development of income-generating real estate projects beyond exit strategies and actively promote fee-based asset management and other businesses. In addition, Mitsubishi Estate is committed to diversifying its investment area, property types and investment methods to ensure an agile and flexible approach to shifts in market trends.

By providing a significant risk hedge and working to build a global real estate service network, Mitsubishi Estate continues to develop International Business operations as a strategic activity based on considerations of risks and return.

Furthermore, in the development of each of the aforementioned operations, we will boost collaboration among business operations and Group companies in an effort to maximize our collective strengths. Leveraging the accumulated know-how of the Marunouchi Redevelopment Project, we will expand into other areas and business domains. Conversely, we will utilize the experience and expertise gained outside Marunouchi to further enhance the quality of the Marunouchi Redevelopment Project.

Working to expand proposal-oriented marketing opportunities, Mitsubishi Estate will reinforce its Real Estate Consulting & Solution Department, a strategic marketing structure within the Group. While delivering high-quality proposals to the widest possible audience, Mitsubishi Estate will strive to ensure best-fit solutions that accurately match customer needs with the Company's business operations and endeavor to enhance its corporate brokerage and advisory services functions.

CORPORATE GOVERNANCE

Three New External Directors Appointed — Pursuing Corporate Governance with a Focus on Shareholder Value

With a focus on shareholder value, the Mitsubishi Estate Group strives to rebuild a dynamic and flexible management system with the aim of displaying increasingly efficient and sound management throughout the Group. To this end, we position corporate governance as a top priority and are working tirelessly to establish an optimal Group governance structure.

In April 2003, Mitsubishi Estate introduced an executive officer system. The objectives of this system are to reinforce the management, oversight and executive functions, to increase management efficiency and to accelerate the decision-making process. At the same time, we established the Strategic Planning Committee to encourage Group-wide discussion of management strategies, and the Executive Committee, at which important decisions are made concerning the executive function. Serving as a support organization for the Group's Executive Committee, the Strategic Investment Committee was established to assess and consider major investment proposals. Furthermore, with the aim of further enhancing the corporate governance function, we established the CSR Committee to deliberate on relevant CSR matters and created the Advisory Board comprised of externally appointed leading professionals. Working to enhance transparency and bolster the management oversight function, Mitsubishi Estate appointed three external directors to its Board in June 2006. Going forward, we will place increased emphasis on shareholder value as we work diligently to realize an optimal corporate governance structure.

COMPLIANCE

Further Strengthening the Compliance Structure

In July 2005, Mitsubishi Estate established the Compliance Committee, comprised of leading external professionals, as an advisory board reporting directly to the president. On the advice of this Committee, we completed a review of certain sections of our Group Code of Conduct in January 2006, and are currently implementing reforms consistent with recommendations outlined in the Committee's report. As corporate social responsibility continues to attract increasing interest, the Mitsubishi Estate Group is committed to proactively fulfilling its responsibilities and to restoring credibility within the market.

IN SUMMARY

Our Fundamental Mission — Contributing to Society through Urban Development

The Mitsubishi Estate Group has positioned "Integrity," "Open Communication" and "Teamwork" at the heart of its business activities. In close communication with all stakeholders and with a sense of honesty, humility and magnanimity, we will endeavor to address the needs of customers through mutual collaboration as we meet the demands of each era.

July 2006

Keiji Kimura
President

SPECIAL FEATURE

MARUNOUCHI

The Mitsubishi Estate Group is undertaking the Marunouchi Redevelopment Project with the theme of "Creating an attractive and vibrant city center, recognized worldwide as the leading hub of dynamic interaction." The Project is transforming Marunouchi, a district that has established its global presence over the past century, from a dedicated business district into an open, energetic area with diversified potential.

A view of the Marunouchi district in 1993

In 1890, Mitsubishi Company received a request from the Meiji Government to purchase the Marunouchi site, which had been used exclusively as a residential area for feudal lords during the Edo Period. At the time of the purchase, the site was actually an overgrown field called *Mitsubishi-ga-hara*, literally meaning "the Mitsubishi flatland." It was in 1894 when the Mitsubishi No. 1 Building was completed as Japan's first modern office building. Mitsubishi Estate has since engaged in leading-edge urban development over the past century as a forerunner in the industry. The transformation of the Marunouchi district into one of the world's leading business centers coincided with Japan's economic growth and culmination as an economic powerhouse. The Marunouchi district's evolution can be seen as a continuing series of redevelopment projects, from remodeling plans implemented on the back of high economic growth during the Showa Period to the current Marunouchi Redevelopment Project. Forever on the move, Marunouchi will always maintain its dynamic and energetic presence, reflecting our changing times.

Mitsubishi-ga-hara around 1899, as painted by Fukuhide Gunji

A 1927 view of Tokyo Station and immediate surroundings

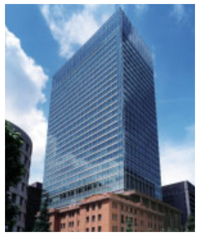
Babasaki Dori and the area known as "Little London" circa 1907

Marunouchi's Naka Dori after completion of remodeling in 1967

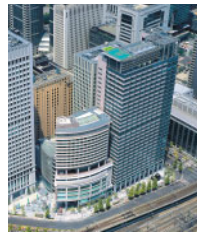
INTERACTION

The Marunouchi Redevelopment Project embraces the theme of "Creating an attractive and vibrant city center, recognized worldwide as the leading hub of dynamic interaction." The Project aims for the enhancement of the area's status as a premier business center through office building specification renewals and infrastructure upgrades, while reinforcing services of the Group's intangible operations that entice commercial and retail stores and promote cooperation among businesses and academic institutions. In order to achieve the ultimate goal of cultivating the Marunouchi district into one complete community, the Mitsubishi Estate Group is committed to raising its area management capability into a class of its own.

1 Marunouchi Building
Opened in September 2002

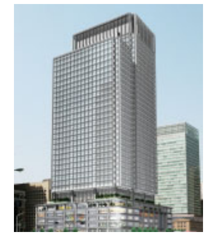


2 The Industry Club of Japan and Mitsubishi UFJ Trust and Banking Building
Completed in February 2003



3 Marunouchi OAZO
Opened in September 2004

4 Tokyo Building
Completed in October 2005



5 Shin-Marunouchi Building
Scheduled for completion in April 2007

Marunouchi

To the north and south of the area that connects Tokyo Station and the Imperial Palace lie the Otemachi, Marunouchi, and Yurakucho districts. Representing Japan's principal business district, these districts collectively offer unparalleled access and transportation infrastructure. The area is serviced by eight rail and seven subway lines, and each office building is within a three to five minute walking distance from rail transport. Boasting more than 4,000 offices employing over 200,000 workers, commuter traffic is estimated to be more than 900,000 daily. Of approximately 100 office buildings in the area, Mitsubishi Estate owns and manages 31 buildings.

6 The Peninsula Tokyo (tentative name)
Planned for completion in the fiscal year ending March 31, 2008

Mitsubishi Estate identified the 10-year period beginning in 1998 as the first stage of the Marunouchi Redevelopment Project, and has since continued efforts to create a new cityscape primarily in the areas in front of Tokyo Station. Investment for reconstruction of six major buildings along with the renovation of other existing buildings during this 10-year period will total ¥500 billion. Among the six major buildings, the Marunouchi Building, the Industry Club of Japan and Mitsubishi UFJ Trust and Banking Building, Marunouchi OAZO and the Tokyo Building were completed in 2002, 2003, 2004 and 2005, respectively. The first stage of the Project will come to a close with the completion of the Shin-Marunouchi Building and the Peninsula Tokyo (tentative name), both of which are planned for completion in the fiscal year ending March 31, 2008.

As the first stage of the Project nears a successful close, positive signs are being seen throughout the Marunouchi area, with the facilitation of more lively exchanges of information and growing numbers of people visiting for after-hour and weekend activities. In addition, over the course of the Project's advancement, the Mitsubishi Estate Group has brought to fruition material results from its environmental activities, satisfying concerns such as energy and resource conservation and calls for a green environment. New Marunouchi, primarily serving as a premier business center, is being transformed into an attractive and vibrant space—both day and night throughout the year.

LEASING BUILDINGS

1. Hibiya Kokusai Building
2. Yurakucho Denki Building
3. Yurakucho Building
4. Shin-Yurakucho Building
5. Kokusai Building
6. Shin-Kokusai Building
7. Shin-Nisseki Building
8. Fuji Building
9. Shin-Tokyo Building
10. Kishimoto Building
11. Marunouchi Naka Dori Building
12. Ministry of Education, Culture, Sports, Science and Technology Building
13. Mitsubishi Building
14. Tokyo Ginko Kyokai Building
15. Otemachi Building
16. Shin-Otemachi Building
17. Nippon Building
18. Nippon Steel Building
19. JFE Shoji Building
20. Mizuho Corporate Bank Ltd. Head Office Building
21. The Bank of Tokyo-Mitsubishi UFJ Otemachi Building

RECONSTRUCTION PROJECTS	COMPLETION
First Stage (1998–2007)	
1. Marunouchi Building	August 2002
2. The Industry Club of Japan and Mitsubishi UFJ Trust and Banking Building	February 2003
3. Marunouchi OAZO	September 2004
4. Tokyo Building	October 2005
5. Shin-Marunouchi Building	April 2007 (Planned)
6. The Peninsula Tokyo (tentative name)	2008*
Second Stage (2008–2017)	
1. Furukawa Building/ Mitsubishi Shoji Building/ Marunouchi Yaesu Building	2010*
2. Togin Building	2011*

*Years indicate fiscal years ending March 31.

INNOVATION

An image of the Marunouchi Building and the Shin-Marunouchi Building after completion of the Marunouchi Redevelopment Project's first stage.

The second stage of the Marunouchi Redevelopment Project will begin in 2008. The basic theme of the second stage is to accelerate the broadening and deepening of the Marunouchi Redevelopment Project. During the 10-year period of the second stage, Mitsubishi Estate plans to invest an additional ¥450 billion to rebuild seven or eight buildings and step up improvements to downtown facilities by remodeling existing buildings. Moving from the development focus in the first stage of heightening the vitality of areas around Tokyo Station to the Otemachi, Marunouchi and Yurakucho districts, Mitsubishi Estate plans to comprehensively redevelop the entire area in the second stage, thereby enhancing the business environment. Furthermore, Mitsubishi Estate aims to enrich the versatility of the area, focusing on the improvement of the cultural and residential environment.

The first phase of the second stage entails rebuilding and construction work on the site where the Mitsubishi Shoji Building, the Furukawa Building and the Marunouchi Yaesu Building are currently located (scheduled for completion in late spring 2009), which includes rebuilding the historical Mitsubishi No. 1 Building on its original 1894 site. After reconstruction, the new Mitsubishi No. 1 Building will be used as a museum. Along with these redevelopment projects, Mitsubishi Estate announced in April 2006 a plan to redevelop the Togin Building, aiming for completion in the fiscal year ending March 31, 2011. The Mitsubishi Estate Group will undertake the improvement of the Marunouchi district's urban functions as a global business center and promote harmony between urban development and the environment, bolstering the district's welcoming atmosphere. These efforts will lead to the creation of new attractions based on the area's history, arts and other cultural assets. Leveraging each one of these qualities, the Group aims to create value that is only available in Marunouchi, by providing a rich and fulfilling urban lifestyle through the establishment of an area management structure and network that integrates public and private services.

An open courtyard (left) and exterior view (right) following reconstruction of the Mitsubishi Shoji Building, the Furukawa Building and the Marunouchi Yaesu Building

REAL ESTATE CONSULTING & SOLUTION DEPARTMENT

Strengthening Proposal-Based Marketing and Cultivating New Business Opportunities for the Entire Mitsubishi Estate Group

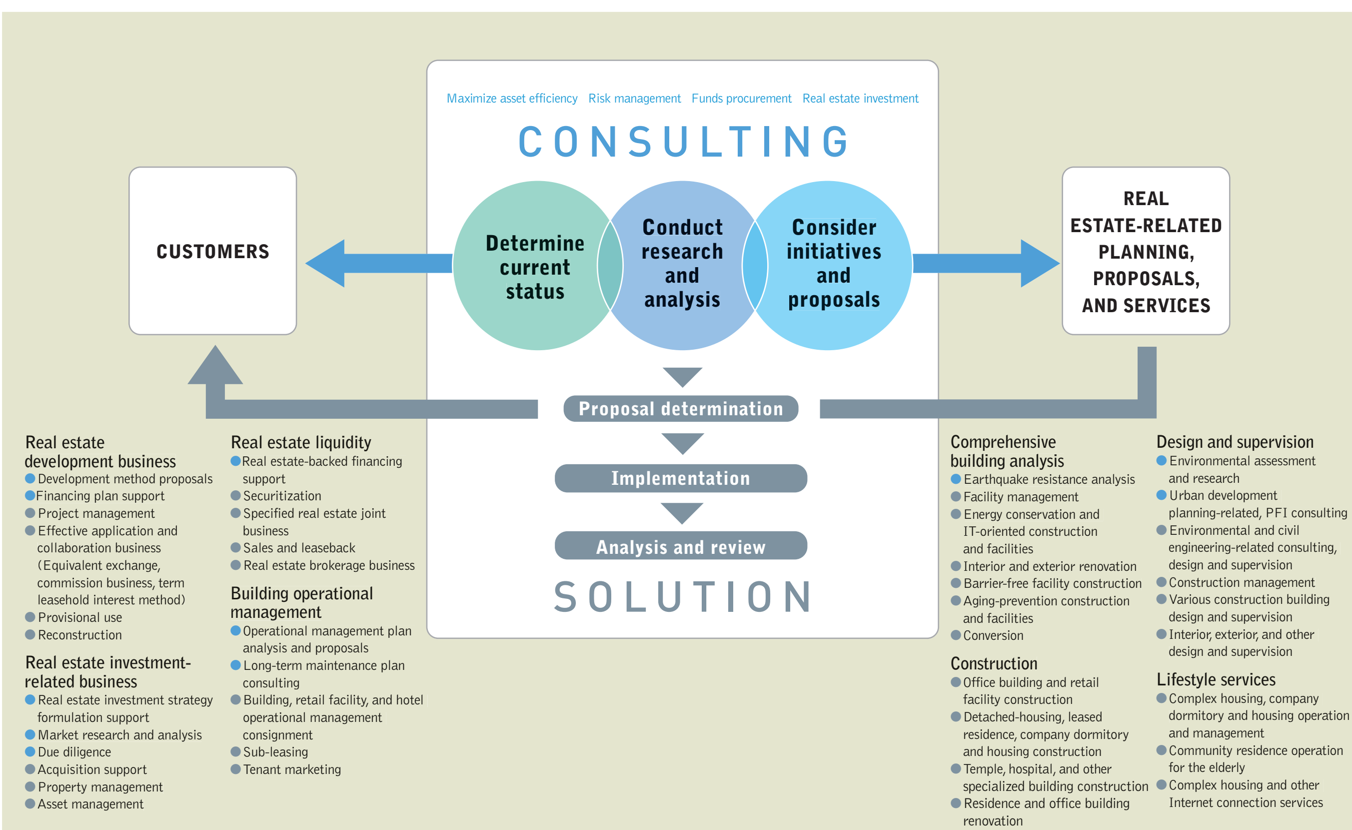
Standing at the heart of Mitsubishi Estate's strategic marketing structure, the Real Estate Consulting & Solution Department works to foster deeper ties with corporate clients through proposal-based marketing, which is conducted across the Group as a whole. Making full use of its accumulated real estate development, planning and management know-how, the Real Estate Consulting & Solution Department is active in efforts to realize maximum value for its corporate clients.

The Mitsubishi Estate Group's Marketing Structure

The Mitsubishi Estate Group is engaged in comprehensive real estate development activities across eight business operations comprising Building Business, Residential Business, Urban Development & Investment Management, International Business, Architectural Design & Engineering, Custom-Built Housing, Hotel Business, and Real Estate Service operations. Independent of these business units, the Real Estate Consulting & Solution Department promotes proposal-based marketing on a cross-sectional basis across the entire Group. Leveraging the collective strengths of the Group, through close collaboration that extends across all operations, the Department provides a full range of best-fit, customer-oriented consulting services and solutions including effective real estate acquisition and usage. As well as servicing existing customers, the Department is active in cultivating new business opportunities.

Large-Scale Development and Private Finance Initiative Businesses

The Real Estate Consulting & Solution Department is pursuing initiatives in response to large-scale complex developments and the increase in recent years of public-sector real estate needs as a means to create new business opportunities. Against this background, and supported by its know-how and expertise accumulated over many years, the Department actively pursues the securitization of real estate in the development phase and other new business methods.



BUILDING BUSINESS OPERATIONS

Enhancing Urban Functions from the Perspective of Area Management

Building Business operations primarily undertake the development, leasing and property management of office buildings in Japan's major cities while also handling management of large-scale shopping centers, operation of parking lots and district operation of heating and cooling services throughout Japan, enhancing urban functions from the perspective of area management.

Promoting Increased Interaction in the Marunouchi District

The Marunouchi district is the home base in Japan for many of the world's leading companies. With its overwhelming infrastructure and corporate scale the district offers a variety of business opportunities. Aiming to transform Marunouchi into a world-class center of dynamic interaction, Mitsubishi Estate promotes the upspring of various exchanges through supporting venture businesses and concentrating academic centers in the district, thereby expanding the circles of diverse exchanges that extend beyond the business world.

The Second Stage of the Marunouchi Redevelopment

In an effort to raise awareness of Tokyo as an international center among business people all over the world, to maximize its full potential, and to deliver new functions that meet today's and tomorrow's business needs, Mitsubishi Estate is acting beyond the role of developer to that of a producer. In 1998, we commenced the first stage of the Marunouchi Redevelopment, a 10-year program encompassing the upgrade, reconstruction and renovation of much of the Marunouchi district. Beginning with the Marunouchi Building, Mitsubishi Estate has made steady progress in the ensuing period. In February 2003, the Industry Club of Japan and Mitsubishi UFJ Trust and Banking Building was completed, followed in September 2004 by Marunouchi OAZO,

The Tokyo Building
The Tokyo Building opened in November 2005. Taking advantage of new deregulations, floor space was increased by transferring air rights from the Tokyo Station building.

which faces Tokyo Station on the former site of Japan National Railways Headquarters. Completed as planned in October 2005, the Tokyo Building is the first development in Japan to take advantage of deregulations that allow for the transfer of unused air rights to increase floor space, in this case from the Tokyo Station building to other areas throughout Marunouchi and certain adjoining locations. The Shin-Marunouchi Building and the Peninsula Tokyo (tentative name) are scheduled for completion by the fiscal year ending March 31, 2008, which will conclude the first stage of the Marunouchi Redevelopment.

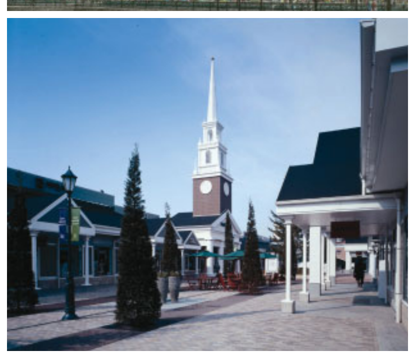
Over the next 10 years, we will push ahead with the second stage of the Redevelopment. As the first project of the second stage, we will simultaneously redevelop the Mitsubishi Shoji Building, the Furukawa Building and the Marunouchi Yaesu Building in order to reorganize the area as one comprehensive city block. The area will function as the hub adjoining the Marunouchi and Yurakucho districts. Adding to the aforementioned initiatives, Mitsubishi Estate announced in April 2006 a plan to redevelop the Togin Building as the second project of the second stage.

Based on the achievements of the Marunouchi Redevelopment Project to date, the second stage will encompass broader and more comprehensive plans to rejuvenate the Otemachi, Marunouchi and Yurakucho districts, an area of approximately 111 hectares.

Expanding the Shopping Center Business Throughout Japan

Building Business operations include shopping centers in Tokyo (in Odaiba), Yokohama, Hakata and other locations, and work is also proceeding to ensure a greater retail presence on Marunouchi Naka Dori, as part of its redevelopment. In addition, Mitsubishi Estate engages in outlet mall operations through Chelsea Japan Co., Ltd., a partnership vehicle capitalized by Mitsubishi Estate, U.S.-based Chelsea Property Group, Inc. and Sojitz Corporation. Chelsea Japan operates outlet malls in Gotemba (Shizuoka Prefecture), Izumisano (Osaka Prefecture), Sano (Tochigi Prefecture), Tosu (Saga Prefecture) and Toki (Gifu Prefecture). Chelsea Japan also plans to open Kobe-Sanda Premium Outlets (tentative name) in Kobe (Hyogo Prefecture).

Marunouchi OAZO
A multi-function development comprising office buildings, retail facilities and a hotel, Marunouchi OAZO opened in September 2004.



The Peninsula Tokyo (tentative name) (above)
Constructed by Mitsubishi Estate, the Peninsula Tokyo will be leased and operated by The Hongkong and Shanghai Hotels, Limited. Scheduled to open in the fiscal year ending March 31, 2008, this world-class luxury hotel is attracting considerable expectation and interest.

Sano Premium Outlet (below)
Modeled on an image of city life on the east coast of the United States, the Sano Premium Outlet boasts approximately 150 of the world's leading brand stores. Opened in March 2003, the outlet underwent a third-stage expansion in March 2006.

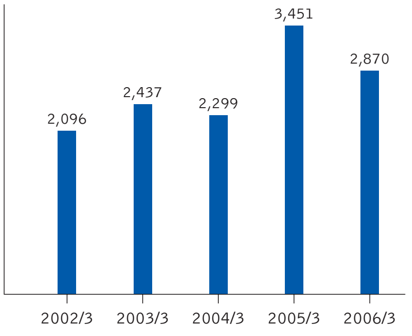
The Shin-Marunouchi Building
Rebuilding plans are proceeding on schedule for the completion of the Shin-Marunouchi Building by the fiscal year ending March 31, 2008. Completion of construction will coincide with the close of the first stage of the Marunouchi Redevelopment.

RESIDENTIAL BUSINESS OPERATIONS

With Highly Competitive Product Planning for Properties in Popular Urban Areas that Offer Superior and Convenient Location, Sales of Condominiums Continue on the Path of Steady Growth

Residential Business operations aim to provide ideal living environments in concert with a healthy and fulfilling lifestyle, by developing and marketing condominiums, single-unit homes and residential land, as well as engaging in businesses such as condominium management and consulting services for the optimal use of real estate. At the same time, Mitsubishi Estate manages fitness clubs.

Condominium Sales



Growth in the Condominium Business Spurred by Market-Oriented Products and Services

Sales of condominiums particularly in the Tokyo Metropolitan area continued to increase. This growth is attributable to Mitsubishi Estate's ability to supply market-oriented properties that fulfill the diverse needs of customers. Boasting excellent product planning capabilities, Mitsubishi Estate strives for competitive advantage by focusing on properties in popular urban areas that offer superior and convenient location, large-scale properties with comprehensive communal facilities built with the environment in mind, high-rise condominiums that provide spectacular views, and collaboration with leading designers and firms from a variety of industries.

To better address the growing variety in customer demand, we developed and are marketing full order-made condominiums under the STYLE HOUSE brand. In addition, Mitsubishi Estate is reinforcing its focus on quality assurance. Utilizing its proprietary disclosure system, we provide an easy-to-understand written record of property features, facilities and quality, at each stage of design, construction and completion. This information is supplemented by a maintenance report after individual property owners take occupation.

PARK HOUSE SANBANCHO
Park House Sanbancho is a 67-condominium joint development project between Mitsubishi Estate and NTT Urban Development Co. Located in the Bancho area of Chiyoda Ward, which is known for its scarcity of residential properties, this complex is the first among the PARK HOUSE series in the Bancho area to have adopted seismic isolation.

In the single-unit home business, Mitsubishi Estate has created a new brand called "dreams design," with an underlying theme of "living spaces that reflect individuality and offer daily comfort." Through the provision of detached houses under this brand, Mitsubishi Estate is promoting residential developments based on a more distinctive customer-oriented concept.

Merger of Condominium Management Group Subsidiaries

As of April 1, 2006, the Group's condominium management subsidiaries, Mitsubishi Jisho Community Service Co., Ltd. and Towa Community Service Co., Ltd., merged to form Mitsubishi Jisho Towa Community Co., Ltd. Boasting a business scale of approximately 140,000 condominiums under its management, Mitsubishi Jisho Towa Community is advancing the streamlining and rationalization of its operations while endeavoring to integrate and enhance the comprehensive know-how nurtured over the years by both former companies in the fields of condominium management and maintenance. Through these efforts and by providing management services that guarantee customer satisfaction, Mitsubishi Jisho Towa Community aims to further bolster its market competitiveness.

Contributing to a Healthy Lifestyle through the Fitness Business

Mitsubishi Estate is also engaged in a number of leisure services such as the management of golf courses, sporting facilities and businesses associated with increased leisure time and the promotion of good health. Against the background of a rapidly aging society, Liv Sports Co., Ltd. in particular is actively expanding activities in the fitness business. With the opening of Fitness Club Liv Kitatoda in July 2006, Liv Sports has expanded its network to include 10 branches of its fitness clubs. In addition, Liv Sports operates futsal clubs and massage facilities, as well as other fitness clubs in the Tokyo Metropolitan area. Looking toward the future, Liv Sports will actively pursue expansion with family-oriented branches in suburban areas around Tokyo.

M.M. TOWERS FORESIS
In collaboration with leading companies including Tokyu Corporation, Mitsubishi Estate is currently constructing this twin-tower, 1,206-condominium complex located in the Yokohama Minato Mirai district. Taking into consideration its location, the environment, safety and comfort, this development offers expansive green space, energy-conservation facilities, seismic isolation and the latest in security facilities.

"dreams design" OYUMINO-MINAMI SINGLE-UNIT HOMES
As the first project under its new detached housing brand "dreams design," which was created with a more distinct customer-oriented concept in mind, Mitsubishi Estate developed Oyumino-minami with the aim of offering "living spaces that reflect individuality and offer daily comfort." Each detached house has a site area of over $200m^2$. Through the provision of plans including a distinctive outer appearance design, open interior space realized by open-air design and a patio that harmonizes with the living room, Oyumino-minami offers new lifestyles.

URBAN DEVELOPMENT & INVESTMENT MANAGEMENT OPERATIONS

Prioritizing Development and Management in Business Opportunity Expansion

In the real estate investment market, demand is increasing for income-generating real estate. Taking this into consideration, Urban Development & Investment Management operations have positioned the development and management of quality real estate at the heart of business activities. Going forward, we are pursuing a two-tiered business model, promoting development functions in concert with management functions.

Actively Promoting the Development Business by Strengthening Asset Solutions Capabilities

In the context of the development function, we are fostering the development business of income-generating real estate by optimizing the timing of sales of prime investment products soon after construction completion and the commencement of operations.

At the end of January 2006, construction of Kitanomaru Square in Kudan-Kita, Chiyoda Ward was completed, followed in April by the Nagoya Nishiki Front Tower in Naka Ward, Nagoya. Mitsubishi Estate is also active in a number of development projects including the Shiodome Stage I-2 Area Project (tentative name), which forms part of the large-scale Shiodome Shiosite redevelopment project, and the Akihabara No. 8 Area Redevelopment Project (tentative name) currently proceeding in the area around Akihabara Station, globally known as "Electric Town," which has been designated as a redevelopment district.

Mitsubishi Estate does not limit its activities solely to office buildings; it also engages in the development of a broad range of real estate, including retail facilities, residential properties and serviced apartments, in an effort to address the diverse needs of the investment market.

AKIHABARA NO. 8 AREA REDEVELOPMENT PROJECT (tentative name)
The service commencement of the Tsukuba Express train has vitalized the Akihabara district. Aiming to redevelop the prime location of the area surrounding Akihabara Station, this project uses development-based securitization methods to procure development funds through non-recourse loans and equity financing from Mitsubishi Estate. The plan includes the construction of a complex of offices and retail facilities.

Especially in residential property development, Mitsubishi Estate is pushing forward with the development of the PARK HABIO brand of condominium complexes for leasing purposes by leveraging its performance and know-how accumulated in the development of the Park House brand condominiums for sale. After construction completion of PARK HABIO KYOBASHI in September 2004, the first building of the series, Mitsubishi Estate has already supplied five PARK HABIO buildings including PARK HABIO AKASAKA-HIKAWACHO, completed in March 2006, and construction of three other buildings is also underway primarily in Minato Ward. Mitsubishi Estate plans to continue supplying high-quality condominiums in central city locations that meet various needs.

In its development projects, Mitsubishi Estate is utilizing special-purpose companies and other vehicles to limit business investment risk, although direct investment may be utilized depending on the scale of development. Through a thorough decision-making process, Mitsubishi Estate endeavors to choose an optimal investment method for each development project.

Looking forward, Mitsubishi Estate is making every effort to secure more business opportunities by strengthening asset solutions capabilities to maximize asset value for real estate customers.

Providing a Broad Range of Specialized Services for Real Estate Investment

Mitsubishi Estate is developing a fee-based business through Mitsubishi Jisho Investment Advisors, Inc., which provides comprehensive services related to real estate investment, and Japan Real Estate Asset Management Co., Ltd., which engages in asset management for Japan Real Estate Investment Corporation, a real estate investment trust in Japan (J-REIT).

Earnings from fund management activities are steadily growing at Mitsubishi Jisho Investment Advisors, which is building a real estate private equity fund comprising commercial facilities, and also a rental-housing fund. Continuing to secure management opportunities, Mitsubishi Jisho Investment Advisors aims to acquire new projects, increase the number of funds it manages and expand the balance of assets under management.

Focusing on both development and management, Mitsubishi Estate strives to expand business opportunities through growth in the real estate investment market and by responding to socioeconomic needs for urban redevelopment.

NAGOYA NISHIKI FRONT TOWER
Completed in April 2006, the Nagoya Nishiki Front Tower is located in a prime area fronting Sakura Dori, the city's main thoroughfare. Approximately one-minute walk to Marunouchi Subway Station, the property also offers convenient access. This office building boasts a cutting-edge design and utilizes a glass curtain wall on its north side.

Shiodome Stage I-2 Area Project (tentative name)
This project uses development-based securitization methods to procure development funds through non-recourse loans and equity financing from joint-venture partners. This development will be the last large-scale project within the 31-hectare mixed commercial zone of the Shiodome Shiosite.

PARK HABIO AKASAKA-HIKAWACHO
Completed in March 2006 and located in Akasaka in the central part of Tokyo, this leasing condominium offers a superior view of the city.

INTERNATIONAL BUSINESS OPERATIONS

Comprehensive, Worldwide Real Estate Services

In International Business operations, Mitsubishi Estate operates mainly through Rockefeller Group, Inc. (RGI), which owns, leases and manages office buildings in such locations as New York (the Time-Life and McGraw-Hill buildings) and London (Paternoster Square), and is active in real estate development across the United States and in London and Shanghai. In addition, Cushman & Wakefield, Inc., an RGI subsidiary, offers global comprehensive real estate services, centered mainly on real estate brokerage.

Advancing the Real Estate Development Business across the United States, London and Shanghai

Operating throughout the United States in areas such as New Jersey, RGI is active in the real estate development business across the United States. In 2005, RGI commenced the development of a complex that primarily houses condominiums and retail facilities in the Flushing area of Queens Borough in New York City.

Following in the footsteps of the Paternoster Square Redevelopment Project, completed in 2003, Mitsubishi Estate has initiated the Bow Bells House Redevelopment Project jointly with Mitsubishi Corporation as its second redevelopment project in the city of London. Located in an area conducive to office and retail use, and adjacent to the historic St. Mary-Le-Bow Church, the project is drawing significant attention. With the demolition of an existing building at the site already completed, the plan calls for construction to commence in the summer of 2006 and completion in 2007.

On the China front, Mitsubishi Estate has commenced a development project in the Waitanyuan area of Shanghai in cooperation with the Shanghai New Huangpu Group and Sinolink International Trading Co., Ltd. This project is scheduled for completion in 2009.

The McGraw-Hill Building
With 51 floors above ground and five floors below ground, the McGraw-Hill Building boasts total floor space of 237,000m². Located in Manhattan, New York, this office building was completed in March 1972. Mitsubishi Estate acquired an interest in the building in April 1990.

Bow Bells House Redevelopment Project
Located in the heart of London's financial district, the Bow Bells House Redevelopment Project calls for the construction of an office building with a total 20,000m² in office space. The project is scheduled for completion in 2007.

Paternoster Square Redevelopment Project (above)
The Paternoster Square Redevelopment Project in the center of London's financial district was completed in May 2003, with a ground-floor area of approximately 15,000m² and total floor space of approximately 88,000m² across four complexes.

Shanghai Bund de Rockefeller Project (below)
A large-scale development located in the Waitanyuan area of Shanghai, China. This project is a mixed-use development of 94,000m² comprising residential housing, retail shops, a boutique hotel and other facilities. Completion is scheduled for 2009.

ARCHITECTURAL DESIGN & ENGINEERING OPERATIONS

Business Expansion in Growth Fields Including China

At the core of Mitsubishi Estate's Architectural Design & Engineering operations is Mitsubishi Jisho Sekkei Inc., a business engaged in the design and administration of construction and civil engineering projects, building renovation work, projects related to urban and regional development, as well as comprehensive consulting.

Robust Architectural Design & Engineering as well as Peripheral Business Operations Coupled with Business Expansion in China

Major projects completed during the fiscal year ended March 31, 2006 included the Tokyo Building, the new Mitsubishi Shoji Building, Kitanomaru Square and TAKANAWA The RESIDENCE condominium complex. The Yomiuri Hokkaido Building, the Seikei University Information Library and the Park House the Garden are planned for completion in the fiscal year ending March 31, 2007. Looking toward the future, Mitsubishi Estate will continue efforts to secure orders in architectural design and engineering while actively sharpening its competitive edge in the business domains of structural reinforcement and refurbishment, construction management, private financing initiative (PFI) projects and district heating and cooling services, all of which are primed for market expansion.

In November 2005, Mitsubishi Estate succeeded in winning the bid for the master plan concerning the development of the new Pudong district in Shanghai. As part of the development of a new urban center in this rapidly growing metropolis, the plan calls for massive landscape design and the construction of a political and cultural center in an area bordering a cosmopolitan residential district and centered between central Shanghai and the Shanghai Pudong International Airport. Leveraging the momentum of this development, Mitsubishi Estate will maintain efforts to expand its business operations in the ever-growing market of China.

Continuous Customer Satisfaction Improvement and Innovation in Operational Processes

Mitsubishi Jisho Sekkei is continuously working to improve customer satisfaction and bring innovation to its operational processes in order to swiftly and accurately address the diversified and increasingly sophisticated needs of its clients. As part of these endeavors, Mitsubishi Jisho Sekkei conducts periodic customer satisfaction surveys, using the results in-house while promoting business information sharing through its intra-company database system. The cost breakdown of projects and operating efficiency of buildings from an architectural design and engineering perspective are also analyzed and reflected in employee performance evaluations.

Mitsubishi Jisho Sekkei, together with MEC Design International Corporation, a company that provides interior design services, fully utilize the technological strengths that support the entire Mitsubishi Estate Group to raise the quality and value of products and services.

Mitsubishi Shoji Building
Located in the Marunouchi district of Chiyoda Ward, Tokyo, the Mitsubishi Shoji Building was completed in March 2006. Three floors are below ground and 21 floors above ground.

The Development Plan for the New Pudong District, Shanghai
Mitsubishi Jisho Sekkei was successful in its bid for the master plan for the new Pudong district in Shanghai. This plan involves the development of an 18.17km^2 area.

CUSTOM-BUILT HOUSING OPERATIONS

Innovative Housing Proposals Built on New Ideas

Custom-Built Housing operations seek to supply the kind of quality housing that is the foundation of a rewarding life. Through Mitsubishi Estate Home Co., Ltd., our principal vehicle in these activities, Mitsubishi Estate undertakes construction contracts for custom-built housing for individuals as well as housing development companies.

三菱ホーム

"Aerotech," an Innovative Open-Design Housing Concept

Focusing on the two-by-four construction method, the principal method for single-unit custom-built housing, Mitsubishi Estate Home strives to deliver living safety and comfort. Leveraging its accumulated technical know-how and expertise, the company boasts stringent quality standards, offering maximum protection from earthquakes, durability and energy efficiency. The company is also renowned for its "Aerotech" mainstay brand. As well as providing a 24-hour central heating, cooling and ventilation system, Aerotech offers functionality that realizes comfortable living and creates an open and spacious feeling, reflecting flexible design planning that fully satisfies the diverse needs in family lives. Respecting each customer's lifestyle, desires and preferences for their daily lives, and taking advantage of its technological prowess and added value, Mitsubishi Estate Home closely collaborates with customers to contribute to realizing their dreams.

In April 2006, Mitsubishi Estate Home commenced the sale of Ecofeel Me, a new line of single-unit custom-built housing products that have been developed through the fusion of Aerotech and all-electric home. Through the provision of Ecofeel Me, the company proposes more secure, comfortable and environmentally friendly lifestyles complete with reduced utility costs.

Mitsubishi Estate Home is also active in fostering business opportunities with companies engaged in built-for-sale housing and house renovations. Based on its residential design know-how accumulated over a number of years, the company endeavors to create comfortable living environments on an individual and neighborhood-wide basis.

Ecofeel Me, developed through the fusion of Aerotech and all-electric home.

Housing products that fuse Aerotech with all-electric features include IH cooking heaters and EcoCute, a hot water supply system that uses a CO_2 refrigerant heat pump to effectively incorporate heat from the air and use it as energy to heat water. These features deliver elegant, reliable and comfortable lifestyle alternatives that are kind to the environment and reduce utility costs.

HOTEL BUSINESS OPERATIONS

Enhancing Brand Power and Management Efficiency

In Hotel Business operations, Royal Park Hotels and Resorts Co., Ltd. integrates the administration and management of each hotel to ensure consistency throughout the hotel chain, to enhance management efficiency and to improve the level of management. With hotels in Tokyo, Yokohama, Sendai and other locations, the Royal Park hotel chain comprises a network of seven hotels offering 2,212 guestrooms.

ROYAL PARK HOTELS

A New Style of Hotel that Supports Business

Opened in July 2003 in Shiodome, Tokyo, the Royal Park Shiodome Tower offers a new paradigm in hotel services, including Japan's first Mandara Spa for relaxation, and the use of a timesharing service where members are able to use guestrooms on an hourly basis. These unique services have sustained a high rate of occupancy. Mitsubishi Estate plans to use the development and management know-how gained from the Royal Park Shiodome Tower to create new business opportunities.

Increasing the Brand Value of Royal Park Hotels through Management Focused on Customer Delight

Based on the "Best for the Guest" philosophy of the Royal Park Hotels, we take one step beyond customer satisfaction by aiming to delight our guests.

As part of an initiative to enhance the hotel chain, in July 2004 we launched a central reservation office, a first for a locally owned hotel chain in Japan. Using this system, it is possible to directly make reservations on a Web site for rooms at hotels in Japan and around the world.

Furthermore, in April 2006, Royal Park Hotels and Resorts commenced business collaboration with THE OKAMI, an organization of 25 Japanese-style *ryokan* hotels that are members of various hotel associations covering the Izu area. Through this collaboration, Royal Park Hotels and Resorts provides reservation correspondence services via the Internet, thereby bolstering its customer-oriented business base.

Royal Park Shiodome Tower
Located in Shiodome Media City, Tokyo, this new style of hotel was created around the concepts of stylish space, a convenient environment and flexible service.

Sendai Royal Park Hotel (above)
The Sendai Royal Park Hotel is located in the outer suburbs of Sendai City and is distinguished by its elegant external façade. Boasting expansive grounds that accentuate the beauty of each season, the hotel also offers garden wedding facilities as well as extensive services including an esthetic salon operated directly by the hotel.

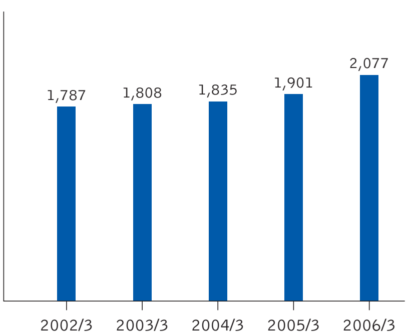
Yokohama Royal Park Hotel (below)
At the Yokohama Royal Park Hotel, refurbishment of all guestrooms commenced from the fiscal year ending March 31, 2007. The photo is of a superior twin room located on the Urban Spa floor (67th floor).

REAL ESTATE SERVICE OPERATIONS

Placing Further Strategic Focus on Real Estate Brokerage Operations

Real Estate Service operations, which provide real estate brokerage, condominium sales agency, and office and residential property leasing services are primarily handled by Mitsubishi Real Estate Services Co., Ltd. Real Estate Service operations is committed to delivering customer-oriented services that meet every conceivable requirement and need.

Real Estate Brokerage Transactions



Real Estate Brokerage Services

Mitsubishi Real Estate Services engages in a wide variety of real estate brokerage businesses, ranging from the purchase, sale and leasing of commercial properties such as buildings and factory sites, and individual properties such as condominiums, single unit homes and residential land, to consulting services that facilitate the optimal application of customers' real estate. Mitsubishi Real Estate Services also boasts a nationwide network of branches and sales offices that are connected online. Through these means, Mitsubishi Real Estate Services is consistently able to provide the most up-to-date real estate information.

Sales Agency Services for Properties such as Condominiums

Qualified staff, who are well versed in the unique features and characteristics of individual properties, as well as real estate finance, law, taxation and related matters, are on hand to assist customers in the sale of properties such as condominiums. Mitsubishi Real Estate Services also offers specialist staff to assist customers in peripheral procedures such as property registration and other administrative matters, as well as condominium buyers in application procedures for mortgage loans. Through a comprehensive range of services, Mitsubishi Real Estate Services provides reliable support to customers in their selling activities. In the area of residential development and sales, the company is on hand to provide total support to developers. We offer a full range of services including site information for potential condominium development, inspections and appraisal, market research, product planning, and advertising and promotional planning.

Office and Residential Leasing Services

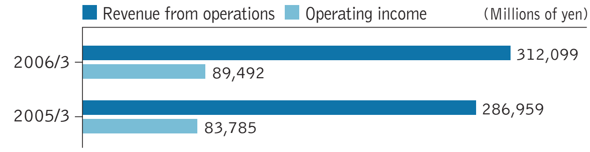
Mitsubishi Real Estate Services is engaged in a full range of office and residential property leasing services. Mitsubishi Real Estate Services offers a sublease system, under which it leases an entire property from the owner and sublets to tenants under a master-lease agreement. It also provides a property management system that includes a comprehensive range of leasing services.

Garden Arena Shinyurigaoka
Mitsubishi Estate, Mitsui Fudosan Co., Ltd., Odakyu Real Estate Co., Ltd. and Odakyu Electric Railway Co., Ltd. are jointly constructing the Garden Arena Shinyurigaoka, a large-scale 697-condominium complex located in the newly developed urban area of Shinyuriyamate. Mitsubishi Real Estate Services Co., Ltd. has been appointed to handle condominium sales.

FINANCIAL REVIEW

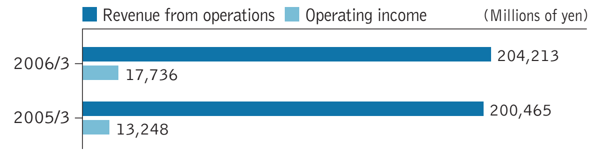
BUILDINGS SEGMENT

Buildings segment revenues are derived mainly from building development and leasing in Japan. This segment is also engaged in building management, parking facilities, district heating and cooling, and other operations



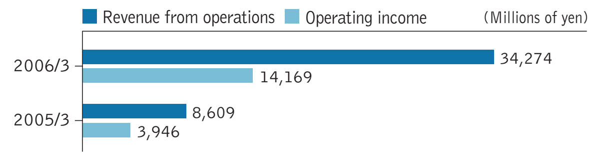
RESIDENTIAL DEVELOPMENT SEGMENT

Residential Development segment revenues are derived from the construction and sale of condominiums, single-unit homes, and residential, commercial and other lots. This segment is also engaged in the management of condominiums and homes, and related activities.



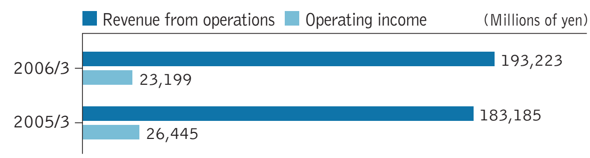
URBAN DEVELOPMENT & INVESTMENT MANAGEMENT SEGMENT

Urban Development & Investment Management segment revenues are derived from the development of income-generating real estate for investment purposes, asset management, and related activities.

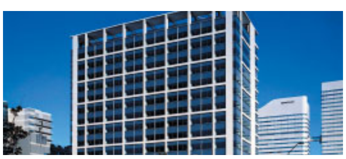


INTERNATIONAL BUSINESS SEGMENT

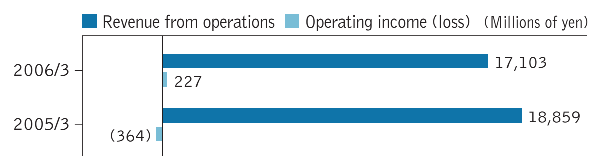
International Business segment revenues are derived from the development and leasing of buildings conducted through U.S.-based Rockefeller Group, Inc. The segment is also engaged in real estate brokerage and related activities.



ARCHITECTURAL DESIGN & ENGINEERING SEGMENT

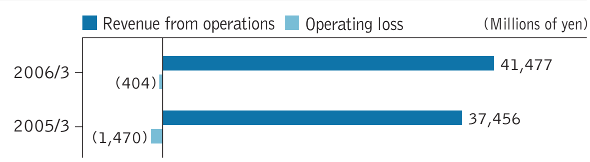


Architectural Design & Engineering segment revenues are derived from the design and project supervision of construction and civil engineering projects and related activities mainly through Mitsubishi Jisho Sekkei Inc.

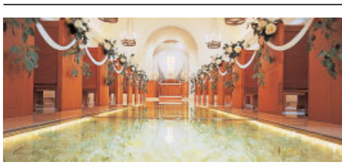


CUSTOM-BUILT HOUSING SEGMENT

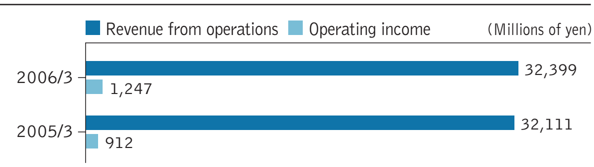
Custom-Built Housing segment revenues are derived from contract construction of custom-built housing and related activities through Mitsubishi Estate Home Co., Ltd.



HOTELS SEGMENT

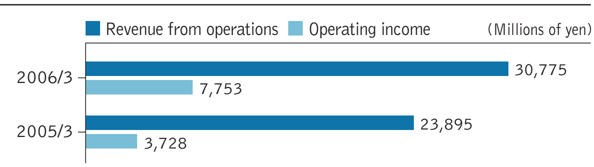


Hotels segment revenues are derived from the operation of Royal Park Hotels.



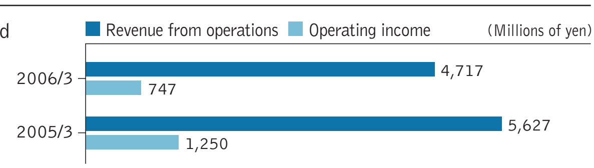
REAL ESTATE SERVICES SEGMENT

Real Estate Services segment revenues are derived from real estate brokerage and related services through Mitsubishi Real Estate Services Co., Ltd.

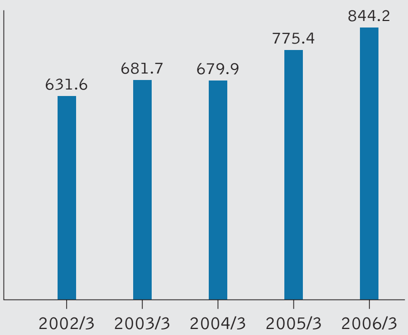


OTHER SEGMENT

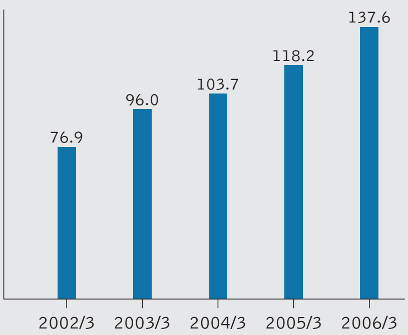
Other segment revenues are derived from related operations other than the aforementioned.



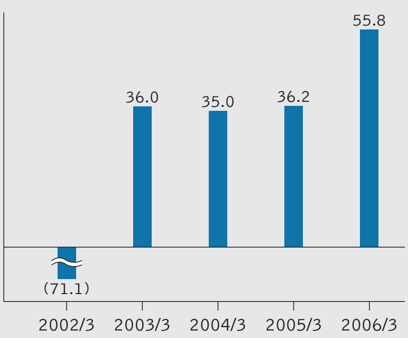
Revenue from Operations (Billions of yen)



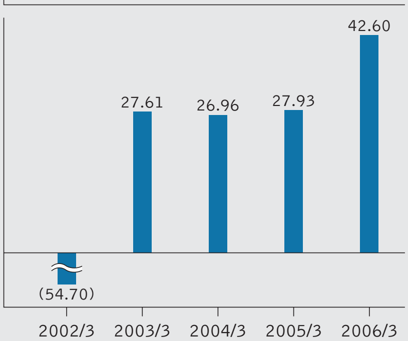
Operating Income (Billions of yen)



Net Income (Loss) (Billions of yen)



Net Income (Loss) Per Share (Basic) (Yen)



SUMMARY

In the fiscal year ended March 31, 2006, Mitsubishi Estate reported historic highs in each of its major revenue and earnings categories. Revenue from operations increased 8.9% compared with the previous fiscal year. On the earnings front, operating income climbed 16.4%, while net income surged 54.0% year on year.

In the Buildings segment, strong results were fueled by contributions for the full fiscal year mainly from new buildings in connection with the Marunouchi Redevelopment Project. Conditions were also positive in the Residential Development segment, which benefited from an improvement in condominium gross profit margins and the inclusion of Towa Community Service Co., Ltd. in the Company's scope of consolidation, and in the Urban Development & Investment Management segment, which benefited from gains on sales of development properties. Buoyed by positive results, revenue from operations increased for the second year in succession. Operating income climbed for the fourth consecutive year, while net income rose for the second year in a row.

ANALYSIS OF REVENUE

Revenue from operations for the fiscal year ended March 31, 2006 was ¥844,217 million, an increase of ¥68,836 million, or 8.9%, compared with the previous fiscal year. Details of results and operating conditions for each business segment are provided as follows.

In the Buildings segment, despite the impact of a decline in revenue from the closure of existing buildings for reconstruction as part of the Marunouchi Redevelopment Project, results benefited from a drop in vacancy rates and contributions for the full fiscal year from the Marunouchi Kitaguchi Building, which forms a part of Marunouchi OAZO and was completed in September 2004, and the Bank of Tokyo-Mitsubishi UFJ Otemachi Building, which was acquired through a special-purpose company in March 2005. As a result, revenue from segment operations increased ¥25,139 million, or 8.8%, to ¥312,099 million.

On a year-on-year basis, the number of condominiums sold in the Residential Development segment declined by 581 to 2,870. Revenue from segment operations, however, edged up ¥3,747 million, or 1.9%, to ¥204,213 million, due to the inclusion of Towa Community Service Co., Ltd. in the Company's scope of consolidation as a subsidiary company in March 2005, following Mitsubishi Estate's equity participation in TOWA REAL ESTATE DEVELOPMENT CO., LTD.

Results in the Urban Development & Investment Management segment were particularly strong. During the fiscal year under review, Mitsubishi Estate sold Nibancho Garden, a building completed in April 2004, to an investor. Construction of the OSAKI FRONT TOWER was completed in June 2005, with construction revenues recorded accordingly. As a result, revenue from operations jumped substantially, rising ¥25,665 million, or 298.1%, to ¥34,274 million.

Focusing mainly on the robust real estate markets in Europe and the United States, revenue from Mitsubishi Estate's International Business segment rose ¥10,038 million, or 5.5%, to ¥193,223 million. This was primarily attributed to the increase in real estate brokerage fees at Cushman & Wakefield, Inc., and fee income growth at real estate investment advisory company CommonWealth Partners, LLC.

In the Architectural Design & Engineering segment, the increase in the number of completed projects was more than offset by the contraction in project scale. As a result, revenue from operations declined ¥1,756 million, or 9.3%, to ¥17,103 million.

Despite a year-on-year drop in the number of orders reflecting the rationalization of sales offices, revenue from operations in the Custom-Built Housing segment increased ¥4,020 million, or 10.7%, to ¥41,477 million, buoyed by efforts to promote product differentiation through enhanced features such as Aerotech, a 24-hour central heating, cooling and ventilation system.

In the Hotels segment, accommodation results were strong across the board. The segment received robust contributions from the Royal Park Inn Nagoya, reflecting significant demand during the 2005 World Exposition held in Aichi, and the Royal Park Shiodome Tower, which is in its third year of operation. Accounting for these factors, revenue from operations edged up ¥288 million, or 0.9%, to ¥32,399 million.

Conditions surrounding the Real Estate Services segment were bullish, driven by vigorous demand from domestic and overseas funds as well as real estate investment trusts. In addition to an upswing in real estate brokerage fees, sales agency revenue and earnings grew significantly due to the increase in properties sold and changes to accounting policies. As a result, revenue from operations rose ¥6,880 million, or 28.8%, to ¥30,775 million.

Revenue from the Other segment declined ¥909 million, or 16.2%, to ¥4,717 million.

ANALYSIS OF INCOME

Compared with the previous fiscal year, operating income increased ¥19,380 million, or 16.4%, to ¥137,614 million.

Operating income in the Buildings segment climbed 6.8% due to a drop in vacancy rates and the full fiscal year contributions from buildings completed during the fiscal year ended March 31, 2005. In addition, operating income in the Residential Development segment surged 33.9%, resulting from the improvement in gross profit margins, and jumped 259.1% in the Urban Development & Investment Management segment, owing to the sale of development properties. On a year-on-year basis, operating income in the International Business segment fell 12.3%, reflecting the absence of gains on sales of buildings reported in the previous fiscal year. Operating income in each of the Architectural Design & Engineering, Custom-Built Housing, Hotels and Real Estate Services segments also improved.

OTHER INCOME (EXPENSES)

In the fiscal year under review, other income (expenses) amounted to net other expenses of ¥29,701 million, an improvement of ¥12,599 million compared to the previous fiscal year. This was mainly due to increases in interest and dividend income as well as equity in earnings of unconsolidated subsidiaries and affiliates. Other, net expenses slightly declined by ¥1,743 million to ¥19,169 million.

Mitsubishi Estate recorded a gain on sales of fixed assets totaling ¥57,823 million. This was more than offset by impairment loss of ¥35,321 million, loss on valuation of inventories totaling ¥27,639 million, loss on soil solution related countermeasures of ¥4,859 million and loss on sales of beneficial interest in trust of fixed assets of ¥3,327 million.

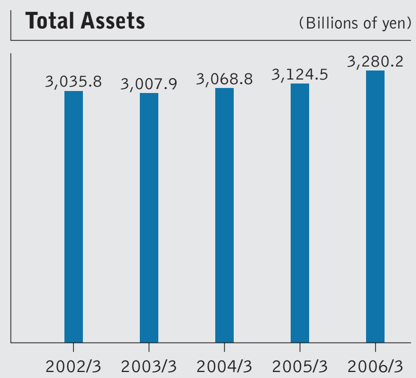
NET INCOME

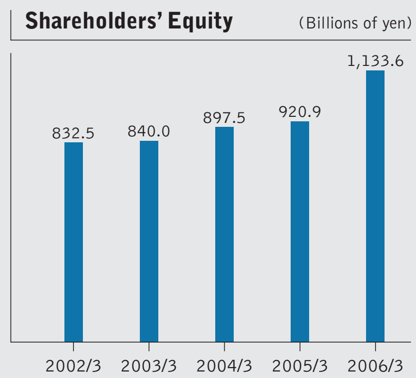
Compared with the previous fiscal term, income before income taxes and minority interests increased ¥31,979 million, or 42.1%, to ¥107,913 million. Net income in the fiscal year under review rose ¥19,579 million, or 54.0%, to ¥55,825 million, and net income per share was ¥42.60.

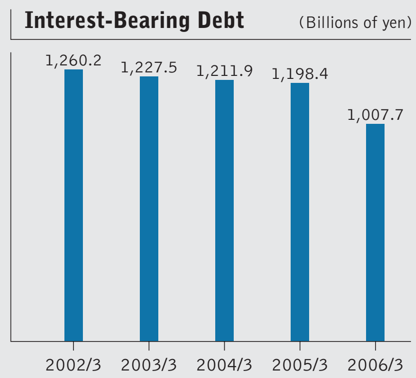
ANALYSIS OF FINANCIAL POSITION

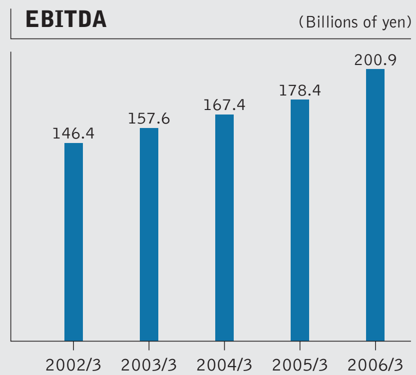
(1) Consolidated Cash Flows

On a consolidated basis, cash and cash equivalents (hereafter "cash") at the end of the fiscal year under review rose ¥69,766 million to ¥167,090 million. The main sources of cash were income before income taxes and minority interests, depreciation and amortization, proceeds from sales of property and equipment, proceeds from issuance of corporate bonds and increase in long-term borrowings. The main uses of cash were purchases of property and equipment, repayment of corporate bonds and repayment of long-term borrowings.









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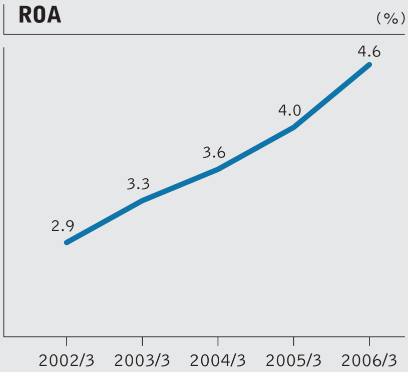

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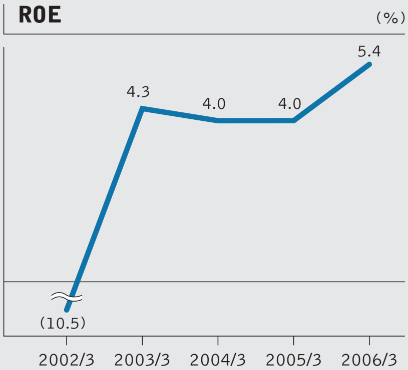
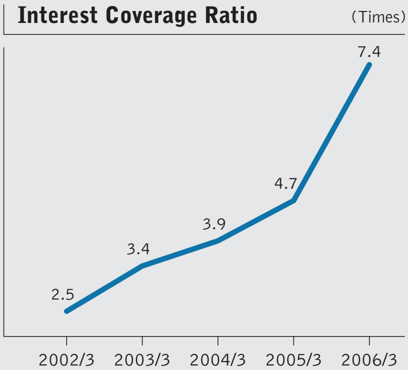


Interest Coverage Ratio



Cash Flows from Operating Activities

Net cash provided by operating activities was ¥169,744 million, up ¥80,844 million compared with the previous fiscal year. In the period under review, income before income taxes and minority interests of ¥107,913 million and non-cash items such as depreciation and amortization of ¥53,655 million were recorded. In addition, Mitsubishi Estate reported increases in inventories and notes and accounts payable and a decrease in notes and accounts receivable.

Cash Flows from Investing Activities

In the fiscal year under review, net cash provided by investing activities was ¥29,883 million, a turnaround of ¥122,292 million. This is mainly attributed to proceeds from sales of property and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥132,463 million, an increase of ¥98,978 million. While Mitsubishi Estate received cash from the increase in long-term borrowings and the issuance of corporate bonds, this was more than offset by outflows attributed to the repayment of both long-term borrowings and corporate bonds.

(2) Consolidated Balance Sheets

Compared with the previous fiscal year-end, total assets increased ¥155,695 million to ¥3,280,209 million as a result of the operating, investing and financing activities previously mentioned.

Total liabilities, when compared with the previous fiscal year-end, declined ¥54,412 million to ¥2,113,868 million. Minority interests decreased ¥2,585 million to ¥32,717 million. Total shareholders' equity increased ¥212,693 million to ¥1,133,623 million, mainly attributable to increases in the land revaluation reserve and unrealized holding gain on securities.

Management Initiatives and Financial Strategies

In its new three-year Medium-Term Management Plan (April 1, 2005 through March 31, 2008), the Company set a goal for earnings before interest, taxes, depreciation and amortization (EBITDA) of ¥200 billion, to be achieved by the final fiscal year of the Plan, the fiscal year ending March 31, 2008. Against this target, EBITDA for the fiscal year under review was ¥200.9 billion. Accordingly, Mitsubishi Estate achieved its goal two years in advance. Looking to the future, Mitsubishi Estate will continue to position EBITDA as a core component of its management policies. To this end, the Company has formulated the fundamental strategies of rebuilding a dynamic and flexible management structure, securing an optimal business portfolio, improving its asset portfolio, and strengthening its development-based real estate solutions capabilities.

Recognizing the long-term nature of cash flows in its mainstay Building Business operations, Mitsubishi Estate has adopted a financial strategy based on stable interest rate long-term funds procurement. At the present time, Mitsubishi Estate is taking advantage of favorably low interest rates through the issue of long-term corporate bonds with maturity dates of more than 10 years. Under its Medium-Term Management Plan, Mitsubishi Estate has identified the goal to maintain the net balance of interest-bearing debt as of March 31, 2008 to within five times of EBITDA. As a result of the repayment of liabilities and the conversion of convertible bonds to common stock, the balance of interest-bearing debt as of March 31, 2006 stood at ¥1,007.7 billion. Deducting cash on hand and marketable securities, the net balance of interest-bearing debt as of the fiscal year-end was ¥840.6 billion, clearing the aforementioned target ratio to EBITDA.

CONSOLIDATED STATEMENTS OF INCOME

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2006	2005	**2006**
Revenue from operations (Note 2)	**¥ 844,217**	¥775,381	**$ 7,186,660**
Cost of revenue from operations	**(650,389)**	606,957	**(5,536,639)**
Selling, general and administrative expenses	**(56,213)**	50,190	**(478,530)**
Operating income	**137,614**	118,233	**1,171,482**
Other income (expenses):			
Interest and dividend income	**2,788**	2,046	**23,733**
Interest expenses	**(19,876)**	(26,102)	**(169,200)**
Equity in earnings of unconsolidated subsidiaries and affiliates	**6,556**	2,670	**55,809**
Other, net (Note 14)	**(19,169)**	(20,912)	**(163,182)**
	(29,701)	(42,300)	**(252,839)**
Income before income taxes and minority interests	**107,913**	75,933	**918,643**
Income taxes (Notes 1 and 9):			
Current	**(28,509)**	11,525	**(242,691)**
Deferred	**(17,217)**	20,956	**(146,565)**
	(45,726)	32,482	**(389,256)**
Minority interests	**(6,360)**	7,205	**(54,141)**
Net income	**¥ 55,825**	¥ 36,245	**$ 475,227**

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2006	2005	**2006**
Assets			
Current assets:			
Cash (Note 15)	**¥ 139,605**	¥ 83,226	**$ 1,188,431**
Notes and accounts receivable—trade	**63,763**	75,063	**542,802**
Marketable securities (Note 4)	**27,289**	12,547	**232,306**
Allowance for doubtful receivables	**(3,303)**	(3,127)	**(28,117)**
Inventories (Note 5)	**305,800**	263,566	**2,603,217**
Equity investments (Note 4)	**108,978**	103,761	**927,709**
Deferred income taxes (Note 9)	**38,786**	36,545	**330,177**
Other current assets	**47,758**	34,006	**406,554**
Total current assets	**728,679**	605,590	**6,203,107**
Investments:			
Investments in and advances to unconsolidated subsidiaries and affiliates	**51,558**	50,520	**438,903**
Investment securities (Note 4)	**311,519**	176,068	**2,651,902**
Other investments (Notes 6 and 7)	**132,584**	128,641	**1,128,662**
Total investments	**495,662**	355,231	**4,219,477**
Property and equipment (Note 7):			
Land	**1,293,186**	1,365,534	**11,008,649**
Buildings and structures	**1,503,768**	1,509,040	**12,801,293**
Machinery and equipment and other	**102,634**	94,369	**873,703**
Construction in progress	**28,353**	22,778	**241,363**
	2,927,942	2,991,723	**24,925,019**
Less accumulated depreciation	**(931,570)**	(890,762)	**(7,930,280)**
Property and equipment, net	**1,996,372**	2,100,961	**16,994,739**
Intangible and other assets	**59,495**	62,731	**506,469**
Total assets	**¥3,280,209**	¥3,124,514	**$27,923,801**

See accompanying notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2006	2005	**2006**
Liabilities and shareholders' equity			
Current liabilities:			
Short-term borrowings and current portion of long-term debt (Note 7)	**¥ 166,746**	¥ 218,603	**$ 1,419,477**
Notes and accounts payable—trade	**85,502**	82,192	**727,862**
Accrued income taxes (Note 9)	**20,889**	7,291	**177,824**
Advances and deposits	**95,823**	80,477	**815,723**
Accrued expenses and other current liabilities (Note 9)	**76,706**	60,075	**652,983**
Total current liabilities	**445,668**	448,639	**3,793,887**
Long-term debt (Note 7)	**841,015**	979,768	**7,159,402**
Lease deposits received	**304,189**	298,388	**2,589,503**
Accrued employees' retirement benefits (Note 8)	**11,787**	10,590	**100,340**
Deferred income taxes (Note 9)	**459,752**	388,516	**3,913,782**
Other non-current liabilities	**51,456**	42,375	**438,035**
Total liabilities	**2,113,868**	2,168,280	**17,994,960**
Minority interests	**32,717**	35,303	**278,513**
Shareholders' equity (Note 10):			
Common stock, without par value:			
Authorized—1,980,000,000 shares;			
Issued—1,371,189,197 shares in 2006 and			
1,299,185,054 shares in 2005	**129,736**	86,534	**1,104,418**
Capital surplus	**158,421**	115,236	**1,348,608**
Land revaluation reserve	**466,259**	424,785	**3,969,175**
Retained earnings	**246,246**	243,577	**2,096,245**
Unrealized holding gain on securities	**142,040**	68,865	**1,209,159**
Foreign currency translation adjustments	**(7,057)**	(16,268)	**(60,074)**
	1,135,647	922,730	**9,667,549**
Less treasury stock, at cost;			
1,801,675 shares in 2006 and 1,865,364 shares in 2005	**(2,024)**	(1,800)	**(17,229)**
Total shareholders' equity	**1,133,623**	920,930	**9,650,319**
Contingent liabilities (Note 13)			
Total liabilities and shareholders' equity	**¥3,280,209**	¥3,124,514	**$27,923,801**

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

Millions of Yen

	Common stock	Capital surplus	Land revaluation reserve	Retained earnings	Unrealized gain on securities	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
Balance at March 31, 2004	¥ 86,534	¥115,216	¥421,663	¥220,178	¥ 70,296	¥(15,016)	¥(1,373)	¥ 897,499
Net income	—	—	—	36,245	—	—	—	36,245
Foreign currency translation adjustments	—	—	—	—	—	(1,252)	—	(1,252)
Net decrease in unrealized gain on securities	—	—	—	—	(1,430)	—	—	(1,430)
Gain on sales of treasury stock	—	20	—	—	—	—	—	20
Land revaluation reserve (Note 1)	—	—	3,121	(2,739)	—	—	—	382
Changes in consolidated subsidiaries and companies accounted for by the equity method	—	—	—	278	—	—	—	278
Cash dividends paid	—	—	—	(10,381)	—	—	—	(10,381)
Directors' and statutory auditors' bonuses	—	—	—	(5)	—	—	—	(5)
Treasury stock	—	—	—	—	—	—	(427)	(427)
Balance at March 31, 2005	86,534	115,236	424,785	243,577	68,865	(16,268)	(1,800)	920,930
Net income	—	—	—	**55,825**	—	—	—	**55,825**
Foreign currency translation adjustments	—	—	—	—	—	**9,210**	—	**9,210**
Net increase in unrealized holding gain on securities	—	—	—	—	**73,175**	—	—	**73,175**
Gain on sales of treasury stock	—	—	—	—	—	—	—	—
Increase arising from conversion of convertible bonds	**43,202**	**43,202**	—	—	—	—	—	**86,404**
Land revaluation reserve (Note 1)	—	—	**41,474**	**(41,474)**	—	—	—	**0**
Changes in consolidated subsidiaries and companies accounted for by the equity method	—	—	—	—	—	—	—	—
Cash dividends paid	—	—	—	**(11,676)**		—	—	**(11,676)**
Directors' and statutory auditors' bonuses	—	—	—	**(5)**	—	—	—	**(5)**
Treasury stock	—	**(17)**	—	—	—	—	**(223)**	**(240)**
Balance at March 31, 2006	**¥129,736**	**¥158,421**	**¥466,259**	**¥246,246**	**¥142,040**	**¥ (7,057)**	**¥(2,024)**	**¥1,133,623**

Thousands of U.S. Dollars (Note 3)

	Common stock	Capital surplus	Land revaluation reserve	Retained earnings	Unrealized gain on securities	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
Balance at March 31, 2005	$ 736,647	$ 980,982	$3,616,114	$2,073,525	$ 586,234	$(138,486)	$(15,323)	$7,839,703
Net income	—	—	—	**475,227**	—	—	—	**475,227**
Foreign currency translation adjustments	—	—	—	—	—	**78,402**	—	**78,402**
Net increase in unrealized holding gain on securities	—	—	—	—	**622,925**	—	—	**622,925**
Gain on sales of treasury stock	—	—	—	—	—	—	—	—
Increase arising from conversion of convertible bonds	**367,770**	**367,770**	—	—	—	—	—	**735,540**
Land revaluation reserve (Note 1)	—	—	**353,060**	**(353,060)**	—	—	—	**0**
Changes in consolidated subsidiaries and companies accounted for by the equity method	—	—	—	—	—	—	—	—
Cash dividends paid	—	—	—	**(99,395)**		—	—	**(99,395)**
Directors' and statutory auditors' bonuses	—	—	—	**(42)**	—	—	—	**(42)**
Treasury stock	—	**(144)**	—	—	—	—	**(1,898)**	**(2,043)**
Balance at March 31, 2006	**$1,104,418**	**$1,348,608**	**$3,969,175**	**$2,096,245**	**$1,209,159**	**$ (60,074)**	**$(17,229)**	**$9,650,319**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2006	2005	2006
Operating activities			
Income before income taxes and minority interests	¥ 107,913	¥ 75,933	$ 918,643
Depreciation and amortization	53,655	55,545	456,754
(Gain) loss on sales or disposal of property and equipment	(55,530)	11,434	(472,716)
Loss on sales of beneficial interests in trust of property and equipment	3,327	(0)	28,322
Gain on sales of securities	(1,031)	(2,644)	(8,776)
Valuation loss on securities	336	346	2,860
Valuation loss on inventories	27,639	5,102	235,285
Impairment loss	35,321	—	300,681
Equity in net income of affiliates	(6,556)	(2,670)	(55,809)
Increase in allowances	624	958	5,311
Interest and dividend income	(2,788)	(2,047)	(23,733)
Interest expense	19,876	26,105	169,200
Decrease (increase) in notes and accounts receivable	16,147	(15,237)	137,456
Decrease (increase) in inventories	(18,425)	17,005	(156,848)
Increase in equity investments	(514)	(70,960)	(4,375)
Increase in notes and accounts payable	1,104	29,462	9,398
Decrease in lease deposits received	5,800	(10,818)	49,374
Other	11,860	4,603	100,961
Subtotal	198,763	122,111	1,692,032
Interest and dividends received	5,396	2,814	45,935
Interest paid	(19,293)	(25,195)	(164,237)
Income taxes paid	(15,121)	(10,830)	(128,722)
Net cash provided by operating activities	169,744	88,900	1,444,998
Investing activities			
Proceeds from sales of marketable securities	2,029	2,025	17,272
Purchases of marketable securities	(3,898)	(1,899)	(33,182)
Proceeds from sales of property and equipment	113,006	7,304	961,998
Purchases of property and equipment	(60,491)	(79,793)	(514,948)
Proceeds from sales of investment securities	1,812	5,498	15,425
Purchases of investment securities	(26,792)	(25,705)	(228,075)
Proceeds from sales of beneficial interests in trust of property and equipment	9,277	58	78,973
Other	(5,059)	101	(43,066)
Net cash provided by (used in) investing activities	29,883	(92,409)	254,388
Financing activities			
Net increase (decrease) in short-term borrowings	1,544	(1,487)	13,143
Net increase (decrease) in commercial paper	(58,000)	58,000	(493,743)
Increase in long-term borrowings	52,347	152,513	445,620
Repayment of long-term borrowings	(68,305)	(133,234)	(581,467)
Proceeds from issuance of corporate bonds	40,196	51,489	342,180
Repayment of corporate bonds	(77,361)	(146,618)	(658,559)
Payments of capital reduction to minority shareholders	(4,939)	—	(42,044)
Cash dividends paid to minority shareholders	(11,676)	(10,381)	(99,395)
Other	(6,269)	(3,764)	(53,366)
Net cash used in financing activities	(132,463)	(33,485)	(1,127,632)
Effect of exchange rate changes on cash and cash equivalents	2,602	(1,977)	22,150
Net (decrease) increase in cash and cash equivalents	69,766	(38,971)	593,904
Cash and cash equivalents at beginning of year	97,324	136,063	828,500
Increase in cash and cash equivalents arising from mergers and acquisitions	—	233	—
Cash and cash equivalents at end of year (Note 15)	¥ 167,090	¥ 97,324	$ 1,422,405

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
March 31, 2006 and 2005

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The accompanying consolidated financial statements of Mitsubishi Estate Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

In addition, the notes to the consolidated financial statements include information which may not be required under accounting principles generally accepted in Japan but is presented herein as additional information.

As permitted by the Securities and Exchange Law, amounts of less than one million yen have been rounded off. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and the subsidiaries that it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis.

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

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The actual results could differ from those estimates.

FOREIGN CURRENCY TRANSLATION

Current and non-current monetary accounts denominated in foreign currencies are translated into yen at the current rates.

The revenue and expense accounts of the foreign consolidated subsidiaries are translated using the average rate during the year. Except for shareholders' equity, the balance sheet accounts are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates.

CASH EQUIVALENTS

The Company considers all highly liquid investments that are readily convertible into cash and have an original maturity of three months or less to be cash equivalents. Reconciliation between cash in the balance sheet and cash equivalents at March 31, 2006 and 2005 is presented in Note 15.

MARKETABLE SECURITIES AND INVESTMENT SECURITIES

Securities other than those of subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders(equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

INVENTORIES

Inventories are mainly stated at cost, determined by the identified cost method; however, when the fair value is substantially less than cost and the decline in fair value is considered to be permanent, inventories are revalued at fair value.

PROPERTY AND EQUIPMENT, DEPRECIATION AND IMPAIRMENT

Property and equipment, except for land as discussed below, is stated at cost less accumulated depreciation. Depreciation is calculated principally by the declining-balance method, except for buildings acquired in Japan subsequent to March 31, 1998 and property and equipment of foreign subsidiaries on which depreciation is calculated by the straight-line method at rates determined based on the estimated useful lives of the respective assets. The Company has capitalized the costs incurred for significant renewals and additions; however, costs for maintenance and repairs are charged to income.

As of March 31, 2002, the Company revalued its land at fair value, pursuant to Article 2 of the "Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land" and its amendments (the "Law"). The related unrealized gain, net of applicable income taxes, has been recorded as "Land revaluation reserve" in shareholders' equity.

The Company reviews its property and equipment (including land) for impairment whenever events or changes in its business circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company performs cash flow analyses to determine if an impairment exits. If impairment is determined to exist, any related loss on impairment is calculated based on the cash flow analyses.

LEASES

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that leases that stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

INTANGIBLE AND OTHER ASSETS

Intangible and other assets primarily consist of goodwill and land use rights. Goodwill is stated on the basis of cost and is being amortized over a period of 5 years or an estimated economical period on a straight-line basis, except for any goodwill and any indefinite lived intangible assets of subsidiaries in the United States acquired in a business combination completed after June 30, 2001, which have not been amortized. A loss is recognized if the fair value falls below the carrying amount. Land use rights are stated on a cost basis.

RETIREMENT BENEFITS

The Company and most consolidated subsidiaries have noncontributory funded and unfunded defined benefit plans covering most of their employees. Employees of the Company and its consolidated subsidiaries are entitled under most employment termination circumstances to annuity payments or lump-sum payments, the amounts of which are determined principally by reference to their basic rates of pay, length of service, and the conditions under which the termination occurs.

Accrued employees' retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the employees.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over the period of the range from 5 years to 15 years which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over the period of 6 years or 10 years which are shorter than the average remaining years of service of the employees.

In addition, directors and statutory auditors are customarily entitled to lump-sum payments under the Company's internal regulations. Accrued severance benefits for these officers of the Company have been provided at estimated amounts and are included in other non-current liabilities.

INCOME TAXES

Deferred tax assets and liabilities are determined based on the financial statements and the tax bases of assets and liabilities, using the enacted tax rates in effect for the year in which the temporary differences are expected to reverse. Deferred tax assets are also recognized for the estimated future tax effects attributable to operating loss carry forwards. Valuation allowances are established to reduce deferred tax assets if it is more likely than not that the some portion or all of the deferred tax assets will not be realized.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company and certain of its consolidated subsidiaries utilize derivative financial instruments for the purpose of hedging their exposure to adverse fluctuations and changes in interest rates (interest rate swaps) and weather (weather derivatives), but do not enter into such transactions for speculative or trading purposes.

Derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or liability.

REVENUE RECOGNITION

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

(a) Revenue from the leasing of office space is recognized as rent accrued over the leasing period.

(b) Revenue from sales of condominiums, residential houses and land is recognized when the units are delivered and accepted by the customers. Revenue from consignment commissions for residential sales earned by the real estate service business segment is recognized at the time of contract conclusion for services provided up to the conclusion and at the time of ownership transfer for services provided up to the transfer.

(c) Revenue from real estate brokerage is recognized when an underlying lease agreement goes into force or the underlying units are delivered.

(d) Revenue from architectural design and engineering business is recognized at the date of completion of each relevant project, except that certain long-term (over one year) projects over ¥500 million in total revenue are recognized by the percentage of completion method.

(e) Revenue from construction contracts is recognized at the date of completion of each relevant project, except that certain long-term (over one year) projects over ¥5,000 million in total revenue are recognized by the percentage of completion method.

(f) Other operating revenue is recognized on an accrual basis.

APPROPRIATION OF RETAINED EARNINGS

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial year is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial year. The accounts for that year do not, therefore, reflect such appropriations. See Note 10.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2005 financial statements in order to conform them to the 2006 presentation.

2. ACCOUNTING CHANGE

The Company recognized revenue from consignment-in commissions earned by the real estate services business segment when the ownership was transferred from the seller to the buyer. However, effective from the fiscal year ended March 31, 2006, the Company changed this accounting method for revenue recognition to recognize commissions for services provided up to the conclusion of contracts when the contract is concluded and those for services supplied after the contract conclusion and up to the transfer of ownership when the ownership is transferred.

This new revenue recognition method was adopted to present profit and loss more properly by seeking more reasonable match of expense and revenue in response to the business trend, given that consignment sales for long-term and large-sized projects have been increasing.

As a result of this change, income before income taxes and minority interests increased by ¥1,521 million, compared with the amounts that would have been recorded under the previous accounting method.

As the Accounting Standard for Impairment of Fixed Assets ("Opinion Concerning Establishment of the Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council (BADC) on August 9, 2002) and the Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets ("Financial Accounting Standards Implementation Guidance No. 6" issued on October 31, 2003) became applicable to consolidated financial documents relating to the business years that would start on and after April 1, 2005, the Company has applied the above Accounting Standard and Implementation Guidance for the fiscal year ended March 31, 2006.

As a result, income before income taxes and minority interests decreased by ¥35,321 million compared with the previous accounting method.

The accumulated impairment loss is included in the accumulated depreciation in accordance with the revised Consolidated Financial Statements Regulations.

3. U.S. DOLLAR AMOUNTS

Translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥117.47 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2006. The inclusion of such amounts is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at the above or any other rate.

4. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

Marketable and investment securities classified as other securities at March 31, 2006 and 2005 are summarized as follows:

			2006			
			Millions of yen			Thousands of U.S. dollars
	Cost	Fair value	Unrealized gain (loss)	Cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their cost:						
Equity securities	**¥68,320**	**¥302,986**	**¥234,665**	**$581,595**	**$2,579,262**	**$1,997,658**
Other	**5,330**	**10,364**	**5,033**	**45,373**	**88,226**	**42,844**
Subtotal	**73,651**	**313,350**	**239,699**	**626,977**	**2,667,489**	**2,040,512**
Securities whose cost exceeds their fair value:						
Equity securities	**—**	**—**	**—**	**—**	**—**	**—**
Corporate bonds	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥73,651**	**¥313,350**	**¥239,699**	**$626,977**	**$2,667,489**	**$2,040,512**

			2005
			Millions of yen
	Cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their cost:			
Equity securities	¥60,139	¥176,341	¥116,202
Subtotal	60,139	176,341	116,202
Securities whose cost exceeds their fair value:			
Equity securities	66	49	(17)
Corporate bonds	108	108	—
Subtotal	175	157	(17)
Total	¥60,314	¥176,498	¥116,184

Proceeds from sales of securities classified as other securities totaled ¥166 million ($1,413 thousand) in 2006 and ¥3,752 million in 2005. Gross realized gain was ¥160 million ($1,362 thousand) in 2006 and ¥2,644 million in 2005, respectively.

Marketable debt securities classified as held-to-maturity securities at March 31, 2006 and 2005 are summarized as follows:

			2006			
			Millions of yen			Thousands of U.S. dollars
	Amortized cost	Fair value	Unrealized gain (loss)	Amortized cost	Fair value	Unrealized gain (loss)
Debt securities whose fair value exceeds their cost:						
Government bonds	**¥ 94**	**¥ 95**	**¥ 0**	**$ 800**	**$ 808**	**$ 0**
Subtotal	**94**	**95**	**0**	**800**	**808**	**0**
Debt securities whose cost exceeds their fair value:						
Government bonds	**143**	**140**	**(2)**	**1,217**	**1,191**	**(17)**
Corporate bonds	**1,999**	**1,999**	**(0)**	**17,017**	**17,017**	**(0)**
Other	**1,899**	**1,896**	**(3)**	**16,165**	**16,140**	**(25)**
Subtotal	**4,041**	**4,036**	**(5)**	**34,400**	**34,357**	**(42)**
Total	**¥4,136**	**¥4,131**	**¥(5)**	**$35,208**	**$35,166**	**$(42)**

			2005
			Millions of yen
	Amortized cost	Fair value	Unrealized gain (loss)
Debt securities whose fair value exceeds their cost:			
Government bonds	¥ 197	¥ 199	¥ 1
Subtotal	197	199	1
Debt securities whose cost exceeds their fair value:			
Government bonds	9	9	(0)
Other	1,899	1,898	(0)
Subtotal	1,909	1,908	(0)
Total	¥2,106	¥2,107	¥ 0

Marketable and investment securities recorded at cost at March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Other securities:			
Nonmarketable equity securities			
(other than equity securities listed on the over-the-counter market)	**¥ 18,727**	¥ 18,948	**$ 159,419**
Mutual funds	**351**	343	**2,988**
Commercial papers	**21,671**	10,181	**184,481**
MMF	**1,337**	—	**11,382**
Investments in silent partnerships	**78,849**	84,299	**671,227**
Other	**468**	—	**3,984**
Total	**¥121,403**	¥113,771	**$1,033,481**

The redemption schedule for securities classified as other securities at March 31, 2006 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Due within one year or less	Due after one year through five years	Due after five years or more	Due within one year or less	Due after one year through five years	Due after five years or more
Bonds:						
Government bonds	¥ 30	¥185	¥25	$ 255	$1,574	$212
Corporate bonds	2,060	—	—	17,536	—	—
Other bonds	1,900	—	—	16,174	—	—
Total	¥3,990	¥185	¥25	$33,966	$1,574	$212

The Company recognized losses on other securities considered other-than-temporary amounting to ¥336 million ($2,860 thousand) and ¥346 million for the years ended March 31, 2006 and 2005, respectively.

5. INVENTORIES

Inventories at March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Real estate for sale	**¥136,926**	¥128,853	**$1,165,625**
Land and housing projects in progress	**147,709**	109,600	**1,257,418**
Land held for development	**8,886**	13,616	**75,644**
Other	**12,277**	11,495	**104,511**
Total	**¥305,800**	¥263,566	**$2,603,217**

6. OTHER INVESTMENTS

Other investments at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Lease deposits	**¥ 71,949**	¥ 72,625	**$ 612,488**
Long-term prepaid expenses and other	**60,634**	56,016	**516,165**
Total	**¥132,584**	¥128,641	**$1,128,662**

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At March 31, 2006 and 2005, short-term borrowings and the current portion of long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Loans, principally from banks	**¥ 49,118**	¥ 45,971	**$ 418,132**
Commercial paper	**—**	58,000	**—**
Current portion of long-term debt	**117,627**	114,631	**1,001,336**
Total	**¥166,746**	¥218,603	**$1,419,477**

The weighted-average interest rates per annum on short-term borrowings outstanding at March 31, 2006 and 2005 were 0.72% and 0.68%, respectively. Short-term borrowings are principally unsecured.

At March 31, 2006 and 2005, long-term debt consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Zero coupon convertible bonds due 2006	**¥ 13,595**	¥ 100,000	**$ 115,731**
4.8% mortgage bonds due 2005	**—**	50,000	**—**
2.125% unsecured bonds due 2005	**—**	10,000	**—**
2.21% unsecured bonds due 2006	**—**	10,000	**—**
1.325% unsecured bonds due 2006	**10,000**	10,000	**85,128**
3.4% unsecured bonds due 2006	**10,000**	10,000	**85,128**
3% unsecured bonds due 2006	**10,000**	10,000	**85,128**
2.975% unsecured bonds due 2007	**30,000**	30,000	**255,384**
2.575% unsecured bonds due 2008	**10,000**	10,000	**85,128**
0.37% unsecured bonds due 2008	**10,000**	10,000	**85,128**
2.525% unsecured bonds due 2008	**10,000**	10,000	**85,128**
3.1% unsecured bonds due 2008	**10,000**	10,000	**85,128**
1.82% unsecured bonds due 2009	**10,000**	10,000	**85,128**
3.075% unsecured bonds due 2009	**10,000**	10,000	**85,128**
2% unsecured bonds due 2009	**10,000**	10,000	**85,128**
1.985% unsecured bonds due 2009	**10,000**	10,000	**85,128**
0.72% unsecured bonds due 2009	**10,000**	10,000	**85,128**
1.9% unsecured bonds due 2010	**10,000**	10,000	**85,128**
1.55% unsecured bonds due 2011	**10,000**	10,000	**85,128**
1.44% unsecured bonds due 2011	**10,000**	10,000	**85,128**
1.16% unsecured bonds due 2011	**10,000**	10,000	**85,128**
3.275% unsecured bonds due 2012	**10,000**	10,000	**85,128**
1.47% unsecured bonds due 2012	**10,000**	10,000	**85,128**
1.58% unsecured bonds due 2012	**20,000**	20,000	**170,256**
1.395% unsecured bonds due 2012	**10,000**	10,000	**85,128**
1.2% unsecured bonds due 2012	**10,000**	10,000	**85,128**
1% unsecured bonds due 2013	**10,000**	10,000	**85,128**
0.785% unsecured bonds due 2013	**10,000**	10,000	**85,128**
1.675% unsecured bonds due 2014	**10,000**	10,000	**85,128**
1.349% unsecured bonds due 2014	**10,000**	10,000	**85,128**
1.65% unsecured bonds due 2014	**10,000**	10,000	**85,128**
1.75% unsecured bonds due 2014	**10,000**	10,000	**85,128**
1.655% unsecured bonds due 2014	**10,000**	10,000	**85,128**
1.409% unsecured bonds due 2015	**10,000**	10,000	**85,128**
1.295% unsecured bounds due 2015	**10,000**	—	**85,128**
1.572% unsecured bounds due 2015	**10,000**	—	**85,128**
1.443% unsecured bounds due 2016	**15,000**	—	**127,692**
3.125% unsecured bonds due 2017	**10,000**	10,000	**85,128**
3% unsecured bonds due 2018	**10,000**	10,000	**85,128**
2.5% unsecured bonds due 2020	**10,000**	10,000	**85,128**
2.42% unsecured bonds due 2022	**10,000**	10,000	**85,128**
1.50% unsecured bonds due 2022	**10,000**	10,000	**85,128**
2.28% unsecured bonds due 2024	**10,000**	10,000	**85,128**
2.9% unsecured bonds due 2032	**10,000**	10,000	**85,128**
2.615% unsecured bonds due 2032	**10,000**	10,000	**85,128**
2.04% unsecured bonds due 2032	**20,000**	20,000	**170,256**
1.72% unsecured bonds due 2033	**10,000**	10,000	**85,128**
7.37% unsecured bonds due 2008 (payable in U.S. dollars)	**2,530**	2,977	**21,537**
Floating rate bonds due 2005 (payable in U.S. dollars)	**—**	2,261	**—**
Floating rate bonds due 2006 (payable in U.S. dollars)	**1,207**	—	**10,274**
Loans from banks and insurance companies:			
Secured	**75,314**	78,821	**641,133**
Unsecured	**390,995**	400,340	**3,328,466**
	958,642	1,094,399	**8,160,738**
Less current portion	**(117,627)**	(114,631)	**(1,001,336)**
Total	**¥ 841,015**	¥ 979,768	**$ 7,159,402**

Certain bonds have call options that may be exercised at the respective expiry dates.

The agreements under which the zero coupon convertible bonds were issued provide for conversion of the bonds into shares of common stock at the current conversion prices per share of ¥1,200 ($11) subject to adjustment in certain cases, for example, the Company issues stock at a price which is lower than market value.

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

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2007	¥117,626	$1,001,327
2008	94,602	805,329
2009	92,967	791,410
2010	146,972	1,251,144
2011 and thereafter	506,473	4,311,509
Total	¥958,642	$8,160,738

The assets pledged as collateral for short-term borrowings of ¥5,167 million ($43,985 thousand) and long-term debt of ¥75,314 million ($641,133 thousand) at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Inventories	¥ 25,920	$ 220,652
Land	11,574	98,527
Buildings and structures	72,465	616,880
Machinery and equipment	12,420	105,729
Investment securities	0	0
Other investments	1,064	9,057
Total	¥123,445	$1,050,864

As is customary in Japan, collateral must be given if requested by lending institutions under certain circumstances, and banks, in general, have the right to offset cash deposited with them against any debt or obligations payable to a bank which become due in cases of default or certain other specified events. The Company has never received any such requests nor does it expect that any such requests will be made.

8. PENSION AND SEVERANCE PLANS

The following table sets forth the funded status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2006 and 2005 for the Company's and its consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Retirement benefit obligation	**¥(84,455)**	¥(80,222)	**$(718,949)**
Plan assets at fair value	**89,914**	62,062	**765,420**
Unfunded retirement benefit obligation	**5,458**	(18,159)	**46,462**
Unrecognized net benefit obligation at transition	**388**	391	**3,302**
Unrecognized actuarial loss	**(13,242)**	10,869	**(112,726)**
Unrecognized prior service cost	**494**	922	**4,205**
Net amounts recognized in the consolidated balance sheet	**(6,900)**	(5,976)	**(58,738)**
Prepaid pension expenses	**4,886**	4,614	**41,593**
Accrued employees' retirement benefits	**¥(11,787)**	¥(10,590)	**$(100,340)**

The components of expenses related to the pension and severance plans for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Service cost	**¥ 3,660**	¥ 3,740	**$ 31,156**
Interest cost	**2,043**	1,982	**17,391**
Expected return on plan assets	**(1,267)**	(1,194)	**(10,785)**
Amortization of net retirement benefit obligation at transition	**51**	48	**434**
Other	**2,669**	1,700	**22,720**
Total	**¥ 7,158**	¥ 6,277	**$ 60,934**

The assumptions used in accounting for the pension and severance plans for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Discount rate	**2.0 – 5.7%**	2.0 – 6.0%
Expected rate of return on plan assets	**1.0 – 7.5%**	1.0 – 7.5%

9. INCOME TAXES

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in statutory tax rates of 40.69% for the years ended March 31, 2006 and 2005. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of income for the three years ended March 31, 2006 differ from the statutory tax rate for the following reasons:

	2006	2005
Statutory tax rate	**40.69%**	40.69%
Increase (decrease) in income taxes resulting from:		
Change in valuation allowance	**(0.19)**	(2.26)
Different tax rates applied	**1.22**	1.88
Revenues deductible for income tax purposes	**(0.32)**	(0.26)
Expenses not deductible for income tax purposes	**0.34**	0.48
Undistributed earnings of affiliates	**5.15**	2.53
Equity income	**(2.22)**	—
Other	**(2.30)**	(0.27)
Effective tax rates	**42.37%**	42.79%

The significant components of deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred tax assets:			
Net operating loss carry forwards	**¥ 14,719**	¥ 22,362	**$ 125,300**
Accrued retirement allowances and pension costs	**17,029**	14,813	**144,964**
Valuation loss on inventories	**32,615**	23,192	**277,645**
Unrealized loss on property and equipment	**57,761**	46,505	**491,708**
Land revaluation reserve	**63,727**	98,555	**542,495**
Other	**20,606**	17,419	**175,414**
	206,460	222,850	**1,757,555**
Valuation allowance	**(16,212)**	(14,366)	**(138,009)**
Total deferred tax assets	**190,248**	208,483	**1,619,545**
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	**(58,197)**	(63,127)	**(495,420)**
Land revaluation reserve	**(383,346)**	(389,720)	**(3,263,352)**
Unrealized gain on property and equipment	**(31,966)**	(33,062)	**(272,120)**
Unrealized gain on securities	**(97,533)**	(47,282)	**(830,280)**
Other	**(35,646)**	(24,498)	**(303,447)**
Total deferred tax liabilities	**(606,689)**	(557,690)	**(5,164,629)**
Net deferred tax liabilities	**¥(416,441)**	¥(349,207)	**$(3,545,083)**

10. SHAREHOLDERS' EQUITY

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the common stock account. The legal reserve amounted to ¥21,663 million ($184,413 thousand) and ¥21,663 million as of March 31, 2006 and 2005, respectively.

The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code also provides that if the total amount of additional paid-in capital and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders. The Company's shares of common stock have no par value in accordance with the Code.

11. AMOUNTS PER SHARE

Inventories at March 31, 2006 and 2005 are summarized as follows:

	Yen		U.S. dollars
Year ended March 31,	**2006**	2005	**2006**
Net income:			
Basic	**¥42.60**	¥27.93	**$0.36**
Diluted	**40.42**	26.24	**0.34**
Cash dividends applicable to the year	**10.00**	8.00	**0.08**

	Yen		U.S. dollars
March 31,	**2006**	2005	**2006**
Net assets	**¥827.79**	¥709.83	**$7.04**

Basic net income per share was computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and diluted net income per share was computed based on the net income available for distribution to the share-holders 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 warrants and stock subscription rights.

Amounts per share of net assets are computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

12. LEASES

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2006 and 2005, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

								2006
				Millions of yen				Thousands of U.S. dollars
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings and structures	**¥12,102**	**¥2,811**	**¥422**	**¥ 8,868**	**$103,022**	**$23,929**	**$3,592**	**$ 75,491**
Others	**8,580**	**4,661**	**165**	**3,754**	**73,039**	**39,678**	**1,404**	**31,957**
Total	**¥20,683**	**¥7,472**	**¥587**	**¥12,623**	**$176,070**	**$63,607**	**$4,997**	**$107,457**

				2005
				Millions of yen
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings and structures	¥ 7,881	¥1,646	—	¥ 6,234
Others	8,746	4,378	—	4,366
Total	¥16,629	¥6,026	—	¥10,602

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥2,959 million ($25,189 thousand) and ¥2,683 million for the years ended March 31, 2006 and 2005, respectively.

Future minimum lease payments subsequent to March 31, 2006 on noncancelable operating leases and finance leases accounted for as operating leases are summarized as follows:

		Millions of yen		Thousands of U.S. dollars
	Finance leases	Operating leases	Finance leases	Operating leases
Year ending March 31,				
2007	¥ 3,225	¥ 7,044	$ 27,453	$ 59,964
2008 and thereafter	9,985	45,643	85,000	388,550
	¥13,210	¥52,687	$112,454	$448,514

The Company and its consolidated subsidiaries lease office buildings and commercial properties and earn income on these leases. Future minimum lease income subsequent to March 31, 2006 from noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2007	¥105,826	$ 900,876
2008 and thereafter	592,712	5,045,645
Total	¥698,539	$5,946,531

13. CONTINGENT LIABILITIES

At March 31, 2006, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees of affiliates' loans from banks	¥ 904	$ 7,695
Guarantees of order made house purchasers' loans from banks and others	361	3,073
Guarantees of employees' housing loans from banks and others	359	3,056
Other	29	246
Total	¥1,654	$14,080

14. OTHER INCOME (EXPENSES)

The components of "Other, net" in "Other income (expenses)" for each of the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Loss on disposal of fixed assets	**¥ (5,054)**	¥ (6,733)	**$ (43,023)**
Loss on sales of fixed assets	**0**	(4,730)	**0**
Gain on sales of fixed assets	**57,823**	1,196	**492,236**
Gain on sales of investment securities	**—**	2,644	**—**
Loss on valuation of investment securities	**—**	—	**—**
Loss on cancellation of sublease contracts	**—**	—	**—**
Loss on valuation of inventories	**(27,639)**	(5,102)	**(235,285)**
Loss on disposal of resort and golf businesses	**—**	(6,390)	**—**
Impairment loss (*1)	**(35,321)**	—	**(300,681)**
Loss on sales of beneficial interest in trust of fixed assets	**(3,327)**	—	**(28,322)**
Loss on soil solution related countermeasures (*2)	**(4,859)**	—	**(41,363)**
Other, net	**(790)**	(1,799)	**(6,725)**
	¥(19,169)	¥(20,912)	**$(163,182)**

(*1) Impairment loss

The Company recorded consolidated impairment losses for the following asset groups for the year under review.

Major application	Category	Location
Golf courses (total 3 groups)	Buildings, land, leasehold, etc.	Sendai, Miyagi Prefecture and other locations
Hotels (total 2 groups)	Buildings, land, structures, etc.	Sendai, Miyagi Prefecture and other locations
Leased assets, etc. (total 41 groups)	Buildings, land, leasehold, etc.	Hiroshima, Hiroshima Prefecture and other locations
Overseas businesses (total 2 groups)	Intangible assets	California, USA and other locations

The asset grouping is made based on minimum unit that generates cash flows, which is substantially independent from cash flows of other assets or asset groups. Company houses are deemed and categorized as shared assets.

As a result, for the year ended March 31, 2006, the book value of a total of 48 asset groups above was reduced to the respective collectible amounts and the reductions were recorded as an impairment loss (¥35,321 million), because the market price fell considerably compared with the book values due to the decline in land price, or profitability considerably decreased due to fallen rent levels or deteriorated market conditions.

The breakdown of such impairment loss was ¥24,618 million in land and leasehold, ¥5,374 million in buildings and structures and ¥5,329 million in other.

The collectible amounts of asset groups are measured with net sale value or use value, and the net sale value is principally expressed as an appraised value by a real estate appraiser. Future cash flows discounted at a rate of 5% are used to compute the use value.

As for the impairment loss on fixed assets in the overseas business, the impairment loss is calculated in accordance with accounting principle generally accepted in the United States.

(*2) Loss on soil solution related countermeasures

This loss represented the loss related to the contaminated soil and groundwater of the OAP Residence Tower in Osaka.

15. SUPPLEMENTAL CASH FLOW INFORMATION

The following table represents a reconciliation of cash and cash equivalents as of March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Cash	**¥139,605**	¥83,226	**$1,188,431**
Time deposits with maturities of more than three months	**(815)**	(1,375)	**(6,937)**
Marketable securities with maturities of three months or less	**23,300**	10,472	**198,348**
Resell agreements with maturities of three months or less	**5,000**	5,000	**42,564**
Cash and cash equivalents	**¥167,090**	¥97,324	**$1,422,405**

16. DERIVATIVES

The Company and certain of its consolidated subsidiaries utilize derivative financial instruments for the purpose of hedging their exposure to adverse fluctuations and changes in interest rates (interest rate swaps) and weather (weather derivatives), but do not enter into such transactions for speculative or trading purposes.

The Company is exposed to credit loss in the event of nonperformance by the counterparties to the derivatives, but any loss would not be material because the Company enters into such transactions only with financial institutions with high credit ratings. The notional amounts of the derivatives do not necessarily represent the amounts exchanged by the parties and, therefore, are not a direct measure of the Company's related risk exposure.

Summarized below are the notional amounts and the estimated fair value of the interest-related derivative positions outstanding at March 31, 2006 and 2005:

						2006
	Millions of yen			Thousands of U.S. dollars		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Interest rate swaps:						
Receive/floating and pay/fixed	**¥ —**	**¥ —**	**¥ —**	**$ —**	**$ —**	**$ —**
Receive/fixed and pay/floating	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥ —**	**¥ —**	**¥ —**	**$ —**	**$ —**	**$ —**

			2005
	Millions of yen		
	Notional amount	Fair value	Unrealized gain (loss)
Interest rate swaps:			
Receive/floating and pay/fixed	¥ 5,000	¥(49)	¥(49)
Receive/fixed and pay/floating	5,000	75	75
Total	¥10,000	¥ 25	¥ 25

The notional amounts and estimated fair value of the derivatives to which hedge accounting has been applied have been excluded from the presentation in the above table.

17. SEGMENT INFORMATION

Business segments

The Company and its consolidated subsidiaries are primarily engaged in the real estate business. Effective the year ended March 31, 2006, the Company reorganized its corporate structure and changed its business segmentation from eight segments to newly established nine segments in order to present and disclose the Group businesses more appropriately. The business segments are newly reclassified in terms of the nature of each operation or service and consist of nine segments: (1) buildings; (2) residential development; (3) urban development & investment management; (4) international business; (5) architectural design & engineering; (6) custom-built housing; (7) hotels; (8) real estate services; and (9) other businesses.

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 are summarized as follows:

Millions of Yen

2006

	Buildings	Residential development	Urban development & investment management	International business	Architectural design & engineering	Custom-built housing	Hotels	Real estate services	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income												
Revenue from:												
External customers	**¥ 306,290**	**¥203,286**	**¥ 34,252**	**¥193,223**	**¥10,488**	**¥37,534**	**¥32,143**	**¥24,210**	**¥ 2,787**	**¥ 844,217**	**¥ —**	**¥ 844,217**
Intersegment or transfers	**5,808**	**927**	**21**	**—**	**6,614**	**3,942**	**256**	**6,564**	**1,930**	**26,065**	**(26,065)**	**—**
Total revenue	**312,099**	**204,213**	**34,274**	**193,223**	**17,103**	**41,477**	**32,399**	**30,775**	**4,717**	**870,283**	**(26,065)**	**844,217**
Operating expense	**222,606**	**186,476**	**20,105**	**170,024**	**16,875**	**41,881**	**31,151**	**23,022**	**3,969**	**716,114**	**(9,511)**	**706,603**
Operating income (loss)	**¥ 89,492**	**¥ 17,736**	**¥ 14,169**	**¥ 23,199**	**¥ 227**	**¥ (404)**	**¥ 1,247**	**¥ 7,753**	**¥ 747**	**¥ 154,169**	**¥(16,554)**	**¥ 137,614**
Total assets, depreciation, and capital expenditures												
Assets	**¥1,987,595**	**¥338,026**	**¥103,796**	**¥345,483**	**¥18,732**	**¥16,531**	**¥30,986**	**¥70,845**	**¥37,555**	**¥2,949,553**	**¥330,656**	**¥3,280,209**
Depreciation	**41,766**	**833**	**249**	**8,578**	**103**	**157**	**1,366**	**217**	**167**	**53,440**	**214**	**53,655**
Impairment loss	**4,048**	**24,606**	**—**	**2,064**	**—**	**1,162**	**2,337**	**—**	**1,100**	**35,321**	**—**	**35,321**
Capital expenditures	**43,432**	**977**	**12,924**	**7,345**	**12**	**243**	**1,358**	**320**	**168**	**66,783**	**(2,030)**	**64,753**

Thousands of U.S. dollars

2006

	Buildings	Residential development	Urban development & investment management	International business	Architectural design & engineering	Custom-built housing	Hotels	Real estate services	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income												
Revenue from:												
External customers	**$ 2,607,389**	**$1,730,535**	**$291,580**	**$1,644,871**	**$ 89,282**	**$319,519**	**$273,627**	**$206,095**	**$ 23,725**	**$ 7,186,660**	**$ —**	**$ 7,186,660**
Intersegment or transfers	**49,442**	**7,891**	**178**	**—**	**56,303**	**33,557**	**2,179**	**55,878**	**16,429**	**221,886**	**(221,886)**	**—**
Total revenue	**2,656,840**	**1,738,426**	**291,768**	**1,644,871**	**145,594**	**353,085**	**275,806**	**261,981**	**40,154**	**7,408,555**	**(221,886)**	**7,186,660**
Operating expense	**1,895,002**	**1,587,435**	**171,150**	**1,447,382**	**143,653**	**356,525**	**265,182**	**195,981**	**33,787**	**6,096,143**	**(80,965)**	**6,015,178**
Operating income (loss)	**$ 761,828**	**$ 150,983**	**$120,618**	**$ 197,488**	**$ 1,932**	**$ (3,439)**	**$ 10,615**	**$ 65,999**	**$ 6,359**	**$ 1,312,411**	**$ (140,921)**	**$ 1,171,482**
Total assets, depreciation, and capital expenditures												
Assets	**$16,920,022**	**$2,877,551**	**$883,595**	**$2,941,031**	**$159,461**	**$140,725**	**$263,777**	**$603,090**	**$319,698**	**$25,108,989**	**$2,814,812**	**$27,923,801**
Depreciation	**355,546**	**7,091**	**2,119**	**73,022**	**876**	**1,336**	**11,628**	**1,847**	**1,421**	**454,924**	**1,821**	**456,754**
Impairment loss	**34,459**	**209,466**	**—**	**17,570**	**—**	**9,891**	**19,894**	**—**	**9,364**	**300,681**	**—**	**300,681**
Capital expenditures	**369,728**	**8,317**	**110,019**	**62,526**	**102**	**2,068**	**11,560**	**2,724**	**1,430**	**568,511**	**(17,281)**	**551,230**

To conform to the segmentation used in the year ended March 31, 2006, the segment information for the year ended March 31, 2005 has been restated in accordance with the new segments.

Millions of Yen

2005

	Buildings	Residential development	Urban development & investment management	International business	Architectural design & engineering	Custom-built housing	Hotels	Real estate services	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income												
Revenue from:												
External customers	¥ 281,454	¥199,528	¥ 8,501	¥183,185	¥12,435	¥35,723	¥31,974	¥18,963	¥ 3,614	¥ 775,381	¥ —	¥ 775,381
Intersegment or transfers	5,504	937	108	—	6,423	1,733	136	4,931	2,012	21,788	(21,788)	—
Total revenue	286,959	200,465	8,609	183,185	18,859	37,456	32,111	23,895	5,627	797,170	(21,788)	775,381
Operating expense	203,173	187,217	4,662	156,740	19,224	38,926	31,199	20,166	4,377	665,688	(8,541)	657,147
Operating income (loss)	¥ 83,785	¥ 13,248	¥ 3,946	¥ 26,445	¥ (364)	¥(1,470)	¥ 912	¥ 3,728	¥ 1,250	¥ 131,481	¥(13,247)	¥ 118,233
Total assets, depreciation, and capital expenditures												
Assets	¥2,063,603	¥365,607	¥88,268	¥302,049	¥16,415	¥14,812	¥33,069	¥83,690	¥41,852	¥3,009,370	¥115,144	¥3,124,514
Depreciation	43,702	997	539	7,793	113	161	1,312	157	264	55,042	502	55,545
Capital expenditures	67,398	924	5,374	9,121	22	333	1,634	440	492	85,742	(954)	84,787

Geographical segments

The Company and its consolidated subsidiaries operate primarily in Japan, the United States and certain other areas. The geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 is summarized as follows:

						2006
						Millions of yen
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
Revenue from:						
External customers	**¥ 651,716**	**¥144,434**	**¥ 48,066**	**¥ 844,217**	**¥ —**	**¥ 844,217**
Intersegment or transfers	**668**	**—**	**—**	**668**	**(668)**	**—**
Total revenue	**652,385**	**144,434**	**48,066**	**844,886**	**(668)**	**844,217**
Operating expenses	**524,314**	**129,330**	**40,141**	**693,786**	**12,816**	**706,603**
Operating income	**¥ 128,071**	**¥ 15,103**	**¥ 7,925**	**¥ 151,100**	**¥ (13,485)**	**¥ 137,614**
Total assets	**¥2,561,007**	**¥231,963**	**¥113,291**	**¥2,906,261**	**¥373,947**	**¥3,280,209**

						2006
						Thousands of U.S. dollars
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
Revenue from:						
External customers	**$ 5,547,935**	**$1,229,539**	**$409,176**	**$ 7,186,660**	**$ —**	**$ 7,186,660**
Intersegment or transfers	**5,686**	**—**	**—**	**5,686**	**(5,686)**	**—**
Total revenue	**5,553,630**	**1,229,539**	**409,176**	**7,192,355**	**(5,686)**	**7,186,660**
Operating expenses	**4,463,386**	**1,100,961**	**341,712**	**5,906,069**	**109,100**	**6,015,178**
Operating income	**$ 1,090,244**	**$ 128,568**	**$ 67,464**	**$ 1,286,285**	**$ (114,795)**	**$ 1,171,482**
Total assets	**$21,801,370**	**$1,974,657**	**$964,424**	**$24,740,452**	**$3,183,340**	**$27,923,801**

						2005
						Millions of yen
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
Revenue from:						
External customers	¥ 592,791	¥148,420	¥34,169	¥ 775,381	¥ —	¥ 775,381
Intersegment or transfers	590	—	—	590	(590)	—
Total revenue	593,381	148,420	34,169	775,972	(590)	775,381
Operating expenses	489,133	126,799	29,453	645,386	11,761	657,147
Operating income	¥ 104,247	¥ 21,621	¥ 4,715	¥ 130,585	¥ (12,351)	¥ 118,233
Total assets	¥2,652,657	¥207,870	¥93,811	¥2,954,338	¥170,175	¥3,124,514

Unallocatable operating expenses

Unallocatable operating expenses included under "Eliminations or corporate" for the years ended March 31, 2006 and 2005 amounted to ¥13,673 million ($116,395 thousand) and ¥12,778 million, respectively, and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Eliminations or corporate" for the years ended March 31, 2006 and 2005 amounted to ¥496,471 million ($4,226,364 thousand) and ¥303,660 million, respectively, and consisted principally of cash, marketable securities, investments in other securities, deferred tax assets and other assets allocated to the Administration Department of the Company.

Overseas revenue

The following table represents overseas revenue earned by the Company's consolidated subsidiaries in foreign countries during the years ended March 31, 2006 and 2005:

			Millions of yen
			2006
	United States	Other areas	Total
Overseas revenue			
Overseas revenue	**¥144,441**	**¥48,109**	**¥192,550**
Consolidated revenue			**844,217**
% of overseas revenue to consolidated revenue	**17.1%**	**5.7%**	**22.8%**

			Thousands of U.S. dollars
			2006
	United States	Other areas	Total
Overseas revenue			
Overseas revenue	**$1,229,599**	**$409,542**	**$1,639,141**
Consolidated revenue			**$7,186,660**

			Millions of yen
			2005
	United States	Other areas	Total
Overseas revenue			
Overseas revenue	¥148,428	¥34,170	¥182,598
Consolidated revenue			775,381
% of overseas revenue to consolidated revenue	19.1%	4.4%	23.5%

ERNST & YOUNG SHINNIHON

■ Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel : 03 3503 1100
Fax : 03 3503 1197

Report of Independent Auditors

The Board of Directors
Mitsubishi Estate Co., Ltd.

We have audited the accompanying consolidated balance sheets of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

1. As described in Note 2, effective April 1, 2005, the Company has changed its accounting method for revenue recognition concerning consignment commissions for residential sales earned by the real estate services business segment.

2. As described in Note 2, effective April 1, 2005, the Company has adopted a new accounting standard for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

Tokyo, Japan
June 29, 2006

MITSUBISHI ESTATE CORPORATE DATA

DIRECTORS AND STATUTORY AUDITORS

Chairman of the Board
Takeshi Fukuzawa

President & Representative Director
Keiji Kimura

Representative Directors
Nobuyuki Iizuka
Satoshi Oyama
Toshio Nagashima
Hiroshi Danno

Director & Executive Counsel
Shigeru Takagi

Directors
Seiichiro Suzuki
Fumikatsu Tokiwa
Kazuya Okamoto
Shu Tomioka

Standing Statutory Auditors
Eiji Tan
Kunihiro Inoue

Statutory Auditors
Kenjiro Hata
Toyoshi Nakano

EXECUTIVE OFFICERS

Chief Executive Officer
Keiji Kimura

Deputy President
Nobuyuki Iizuka

Executive Vice Presidents
Takayuki Hara
Terutake Miyamoto
Kazuo Odagawa
Hiroharu Koinuma
Satoshi Oyama
Toshio Nagashima
Hiroshi Danno

Senior Executive Officers
Takaya Endo
Seiichiro Suzuki
Mitsuo Iwai
Toyohisa Miyauchi
Masaaki Kono
Takao Yagihashi
Hiroyoshi Ito
Yutaka Yanagisawa
Yuzuru Shibagaki

Executive Officers
Toshihide Yoshimura
Kazuo Takahashi
Hiroshi Nakajima
Masao Ouchi
Hirotaka Sugiyama
Yasuo Fujiwara
Ichiro Watarai
Megumu Ono
Toshihiko Kazama
Yoshikazu Fukasawa

(As of June 29, 2006)

CORPORATE INFORMATION

Head Office:
Otemachi Building, 6-1, Otemachi 1-chome, Chiyoda-ku,
Tokyo 100-8133, Japan
Web site: http://www.mec.co.jp
Phone: (03) 3287-5100

Date of Establishment:
May 7, 1937

Paid-in Capital:
¥129,736 million

Number of Shares of Common Stock Issued:
1,371,189,197 shares

Number of Shareholders:
78,169 (excluding shareholders with less than 1,000 shares)

Major Shareholders:	% of total
The Master Trust Bank of Japan, Ltd. (Trust Account)	4.96
State Street Bank and Trust Company	4.59
Meiji Yasuda Life Insurance Company	4.19
Japan Trustee Services Bank, Ltd. (Trust Account)	3.56
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3.16
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2.96
State Street Bank and Trust Company 505103	2.59
Taisei Corporation	2.13
Takenaka Corporation	2.05
Asahi Glass Co., Ltd.	1.66

Major Consolidated Subsidiaries:
Mitsubishi Real Estate Services Co., Ltd.
Mitsubishi Estate Home Co., Ltd.
Mitsubishi Jisho Sekkei Inc.
Yokohama Royal Park Hotel Co., Ltd.
Mitsubishi Estate Building Management Co., Ltd.
Marunouchi Heat Supply Co., Ltd.
Yokohama Sky Building Co., Ltd.
Royal Park Hotel Co., Ltd.
Mitsubishi Jisho Towa Community Co., Ltd.
Rockefeller Group, Inc.

Stock Exchange Listings:
Tokyo Stock Exchange and other major Japanese stock exchanges

Transfer Agent and Registrar:
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Auditor:
Ernst & Young ShinNihon

(Data as of March 31, 2006, excluding Mitsubishi Jisho Towa Community Co., Ltd., which is current as of April 1, 2006)

ORGANIZATION

- Meeting of Shareholders
  - Board of Directors
    - Chairman of the Board
      - President
        - Internal Audit Office
        - Strategic Planning Committee
        - CSR Committee
          - Compliance Subcommittee
          - Environmental Subcommittee
        - Executive Committee
        - Strategic Investment Committee
        - Advisory Board*
  - Board of Statutory Auditors
  - Statutory Auditor
    - Office of Statutory Auditors

- Real Estate Consulting & Solution Department
- Commercial Real Estate Division
  - Business Planning Department
    - Group Companies Management Office
  - Leasing Department
    - Agency Leasing Office
    - Relocation Management Office
  - Property Management Department
    - Building Management Advisory Office
    - Building Safety Management Office
  - Marunouchi-Otemachi Area Building Management Department
  - Yurakucho Area Building Management Department
  - Tokyo Metropolitan Area Building Management Department
  - Area Brand Management Department
    - Area Brand Promotion Office
  - Shopping Center Planning Department
  - Retail Leasing Department
  - Development Department
  - Area Planning Office
- Residential Business Division
  - Residential Development Promotion Department
  - Condominium Development Department
  - Master-Planned Development Department
    - Detached Housing Office
  - PARTNER System Department
  - Residential Planning & Marketing Department
    - Customer Service Office
  - Recreational Facility Office
- Urban Development & Investment Management Division
  - Planning & Promotion Department
  - Development & Investment Department
- International Business Division
  - International Business Department
- Corporate Planning Department
- Personnel Planning Department
- Finance & Accounting Department
- Corporate Communications Department
  - Investor Relations Office
- General Affairs Department
  - Secretary Office
  - Legal Office
- CSR Department
- Sapporo Branch
- Tohoku Branch
- Yokohama Branch
- Nagoya Branch
- Osaka Branch
- Chugoku Branch
- Kyushu Branch

* Advisory body comprising external members who are influential professionals.

(As of April 1, 2006)

MITSUBISHI ESTATE GROUP

Building Business

Building Leasing Business
- ● IMS Co., Ltd.
- ● Yokohama Sky Building Co., Ltd.
- ■ Tokyo Kotsu Kaikan Co., Ltd.
- ■ Chelsea Japan Co., Ltd.

- ● Marunouchi Direct Access Limited
- ■ Marunouchi Hotel Co., Ltd.

Building Management Business
- ● Mitsubishi Estate Building Management Co., Ltd.
- ● MEC Building Facilities Co., Ltd.
- ● Mitsubishi Jisho Property Management Co., Ltd.
- ● Hokuriku City Management Co., Ltd.
- ● Hokuryo City Service Co., Ltd.
- ● Hibiya City Co., Ltd.
- ● MJ Building Service Co., Ltd.
- ● Aqua City Co., Ltd.
- ● Yuden Building Kanri Co., Ltd.
- ■ O.A.P. Management Co., Ltd.

Parking Business
- ● Marunouchi Parking Co., Ltd.
- ● Grand Parking Center Co., Ltd.
- ● Hibiya City Parking Co., Ltd.
- ● Tokyo Garage Co., Ltd.

District Heating and Cooling Business
- ● Marunouchi Heat Supply Co., Ltd.
- ■ O.A.P. D.H.C. Supply Co., Ltd.
- ■ Minato Mirai 21 D.H.C Co., Ltd.

Mitsubishi Estate Co., Ltd.

Urban Development & Investment Management
- ● Mitsubishi Jisho Investment Advisors, Inc.
- ■ Ascott International Management Japan Co., Ltd.
- ■ Japan Real Estate Asset Management Co., Ltd.

Architectural Design & Engineering
- ● Mitsubishi Jisho Sekkei Inc.
- ● MEC Design International Corporation

Hotel Business
- ● Royal Park Hotels and Resorts Co., Ltd.
- ● Ryoei Kanko Development Co., Ltd.
- ● Royal Park Inn Nagoya Co., Ltd.
- ● Tohoku Royal Park Hotel Co., Ltd.
- ● Royal Park Shiodome Tower Co., Ltd.
- ● Yokohama Royal Park Hotel Co., Ltd.
- ● Royal Park Hotel Co., Ltd.

International Business
- ● Rockefeller Group, Inc. (RGI)
- (● 229 other companies
- ■ 27 other companies)

Custom-Built Housing
- ● Mitsubishi Estate Home Co., Ltd.
- ● Mitsubishi Estate Housing Components Co., Ltd.
- ■ Prime Truss Co., Ltd.

Real Estate Services
- ● Mitsubishi Real Estate Services Co., Ltd.

Others
- ● Shiki Resorts Co., Ltd.
- ● Shiki Club Links Co., Ltd.
- ● MEC Information Development Co., Ltd.
- ● MEC Human Resources, Inc.
- ● Keiyo Tochi Kaihatsu Co., Ltd.
- ■ (4 other companies)

Residential Business

Real Estate Sales
- ■ TOWA REAL ESTATE DEVELOPMENT CO., LTD.

Residence Management Business
- ● Izumi Park Town Service Co., Ltd.
- ● Mitsubishi Jisho Towa Community Co., Ltd.
- ● MT Community Staff Co., Ltd.

Recreational Facility
- ● Higashinihon Kaihatsu Co., Ltd.
- ● MEC Urban Resort Tohoku Co., Ltd.
- ● Liv Sports Co., Ltd.

- ● Ryoei Life Service Co., Ltd.
- ■ Tsunagu Network Communications, Inc.

● Consolidated Subsidiaries
■ Equity-Method Affiliates

(As of April 1, 2006)

In the recent past, Corporate Social Responsibility (CSR) has continued to attract increased interest in Japan. With the growing trend toward a global economy, companies have redoubled efforts to review and upgrade existing internal control systems, to incorporate international standards in their CSR activities and to fulfill certain domestic accounting disclosure requirements. Under these circumstances, the Mitsubishi Estate Group has adopted as its fundamental mission the goal to create a truly meaningful society through the development of an environmentally friendly and appealing urban environment that fully satisfies the people who live, work and seek leisure there. As a good corporate citizen, we will continue to foster the unwavering trust of society and to implement CSR initiatives.

The Mission of the Mitsubishi Estate Group

We contribute to society through urban development

By building attractive, environmentally sound communities where people can live, work and relax with contentment, we contribute to creating a truly meaningful society.

The Mitsubishi Estate Group Code of Conduct

In order to carry out the Group Mission, we pledge to observe the following Code of Conduct:

1. We will act with integrity

We will base our conduct on laws and ethics, and always reflect with humility upon our behavior, valuing our communication with society and placing priority in our corporate activities on earning trust through fairness and transparency.

2. We will strive to earn the trust of our clients

We will approach all objectives from our clients' point of view, providing safe and reliable products and services, and make information available as appropriate.

3. We will strive to create a vibrant workplace

While aiming at personal growth, we will respect the human rights and the diversity of opinions of others, and increase our creativity and professionalism while displaying our collective strengths as a team.

COMPLIANCE MEASURES

The Mitsubishi Estate Group has formulated its Group Code of Conduct, a set of guidelines common throughout the Group, as a part of its efforts to fulfill the Group's CSR and to earn the trust of a broad spectrum of stakeholders. At the same time, Mitsubishi Estate endeavors to enhance its compliance systems and structure to ensure strict adherence to legal requirements, internal rules and generally accepted ethical corporate behavior.

SOCIAL CONTRIBUTIONS AND ENVIRONMENTAL EFFORTS

Mitsubishi Estate established the Corporate Philanthropy & Environmental Affairs Promotion Department (the predecessor to the current CSR Department) in 1994 and has continued to reinforce its in-house promotion systems and pursue educational activities. Guided by its fundamental corporate mission, Mitsubishi Estate continues to leverage the collective strengths of the Group in an effort to realize a sustainable society.

As a good corporate citizen, Mitsubishi Estate strives to maintain a harmonious relationship with local communities and undertakes a variety of social contribution activities.

The Nature Info Plaza is one example of our environmentally conscious activities. Established in cooperation with the Wild Bird Society of Japan, the Plaza represents an oasis in the heart of Tokyo's commercial business district. Along with wild fowl, the Plaza provides a place where workers and visitors can experience the wonders of nature in a relaxed and comfortable atmosphere. As a valuable education resource, the facility also serves to increase environmental awareness within the general community.

In support of cultural activities and the arts, Mitsubishi Estate is a co-sponsor of the NHK Symphony Orchestra, and also supports street galleries that exhibit sculpture in locations such as Marunouchi's Naka Dori. In an effort to support the entire community, we produce a nature cassette tape for the visually impaired and organize young musicians to visit and perform at schools for the handicapped located in central Tokyo. Mitsubishi Estate is also proud to sponsor an art contest for physically disabled children, publishing all exhibits on a Web site. Furthermore, the Company's employees participate in a variety of volunteer activities.

Based on the principle of its fundamental mission statement, the Mitsubishi Estate Group formulated its basic environmental protection policy and is active in efforts to reduce environmental impact. Mitsubishi Estate was the first in its industry to begin publishing an Environmental Report in 2000, which was followed by the Company's CSR Report from the fiscal year ended March 31, 2005. We have also actively introduced Environmental Management Systems (EMS) across the Group. Of its various activities, Mitsubishi Estate's Buildings Business operations have the largest impact on the environment. Standing at the forefront of its industry, in 1999, the Building Business Division was one of the first to acquire ISO 14001 certification. In quick succession, Mitsubishi Estate has acquired accreditation in its Residential Business, Architectural Design & Engineering, Custom-Built Housing and Hotel Business operations. While having relatively little impact on the environment, Mitsubishi Estate's administrative offices have introduced EMS and continue to promote preservation activities. Mitsubishi Estate recognizes environmental preservation measures to be a key CSR issue and will continue efforts to enhance activities through the Group's urban redevelopment programs. The Group is committed to further educating all employees on the importance of environmental preservation and heightening awareness through information disclosure.

Otemachi Cafe (First floor, Otemachi Building) — A hub connecting people, city life and the environment.

The Nature Info Plaza (First floor, Shin-Yurakucho Building)

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