MITSUBISHI ESTATE CO., LTD.

Otemachi Building, 6-1, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8133, Japan
http://www.mec.co.jp/index_e.html

MITSUBISHI ESTATE CO., LTD. Annual Report 2017

MITSUBISHI ESTATE

Annual Report 2017

In Motion for Tomorrow's Opportunities

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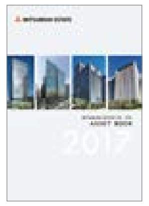
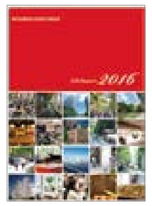
The mission of the Mitsubishi Estate Group is “to contribute to society through urban development.” In line with that mission, we are embracing innovation with an eye to the future from global and long-term perspectives. We are seeking to achieve sustainable value creation by sharpening our competitive edge and venturing wider and deeper with our management capital.



Asset Book

http://www.mec.co.jp/e/investor/irlibrary/annual/index.html



CSR Report

http://www.mec.co.jp/e/csr/csrreport/index.html

A Word about *Annual Report 2017*

In addition to discussions on management direction and the business environment, this annual report includes extensive non-financial information to explain the Mitsubishi Estate Group’s business and corporate activities. We hope this helps shareholders, investors, and all other stakeholders gain a good understanding of the position and direction of the Group as a whole.

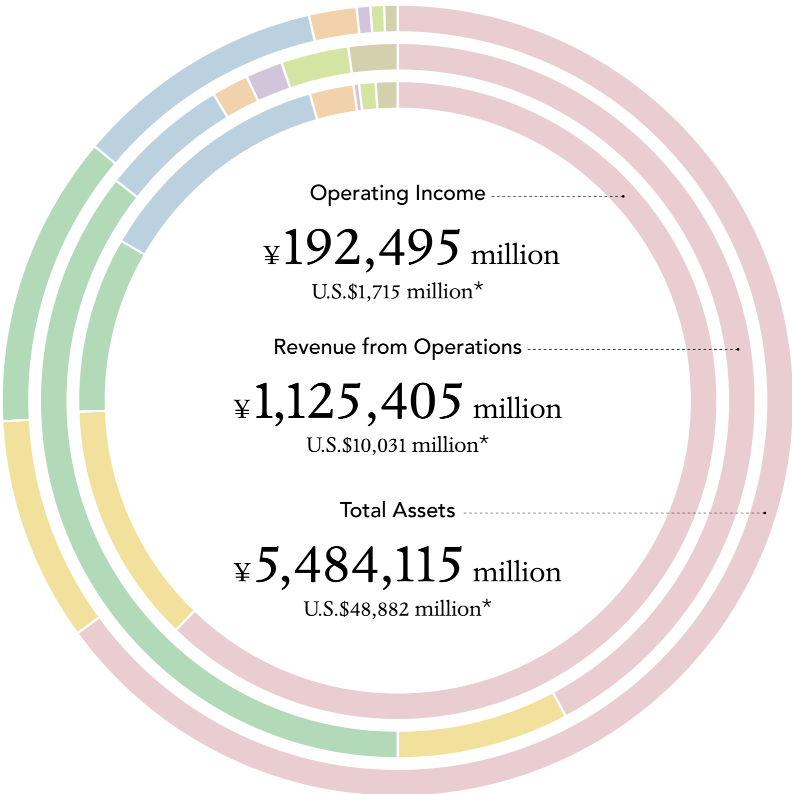
Definition of Term

“Fiscal 2017” refers to the Group’s fiscal year ended March 31, 2017, and other fiscal years are referred to in a corresponding manner.

Caution Concerning Forward-Looking Statements

This annual report contains forward-looking statements concerning Mitsubishi Estate Co., Ltd., and its future strategies and earnings outlook, including forecasts, planning, and decisions based on information available at the time of publication. As with any forecast, plan, or decision, forward-looking statements are inherently susceptible to potential risks, uncertainties, and assumptions. The Company’s actual results may vary materially from those expressed or implied in its forward-looking statements.

The Mitsubishi Estate Group is a leading creator of urban change through the development of real estate including office buildings, residential properties, and retail properties.
As part of our ongoing commitment to achieve sustainable growth, we strive to create new value in Japan and overseas under the brand slogan "A Love for People, a Love for the City."



* The above amounts were translated into U.S. dollars at ¥112.19 = U.S.$1.00, the approximate prevailing exchange rate on March 31, 2017.

Millions of yen

Fiscal year ended March 31, 2017 (consolidated)	Revenue from Operations	Operating Income	Total Assets
Office Building Business	484,238	133,570	3,445,008
Lifestyle Property Business	88,955	25,807	484,292
Residential Business	407,850	19,253	634,219
International Business	66,556	26,313	541,888
Investment Management Business	21,323	4,520	106,990
Architectural Design & Engineering Business	19,309	445	27,358
Hotel Business	33,512	1,932	28,842
Real Estate Services Business	24,243	2,157	25,702
Other	4,237	289	12,649
Eliminations or Corporate	(24,820)	(21,793)	177,163
Total	1,125,405	192,495	5,484,115

Office Building Business

This is Mitsubishi Estate's core business, which engages in the development, leasing, and property management of office buildings, mainly in Tokyo and other major Japanese cities. We promote urban development that contributes to increased appeal of cities while maintaining a balance between management property and property for sale in our asset portfolio.

Lifestyle Property Business

The Mitsubishi Estate Group operates the PREMIUM OUTLETS®, MARK IS, and other retail facilities using a comprehensive system where it remains continuously involved with the retail property from the planning stage to ongoing operations. Under the Logicross brand, Mitsubishi Estate is pursuing logistics facility business opportunities nationwide. The Company is also expanding the variety of its properties.

Residential Business

We offer services to meet a variety of needs for condominiums, custom-built housing, purchase and sales, leasing, brokerage areas, renovations, and management. As the circulation of existing homes expands and people's lifestyles grow increasingly diverse, we are strengthening our remodeling, construction, and renovation business to seize upon such changes.

International Business

The Mitsubishi Estate Group has pursued business overseas since the 1970s, undertaking real estate leasing and development businesses in the United States and the United Kingdom. In recent years, we have also been actively developing our office building, residential, commercial facility, and other real estate businesses in rapidly expanding Asian markets and advancing into continental Europe.

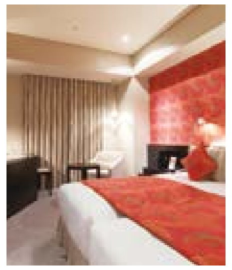
Investment Management Business

For investors seeking real estate asset management, we provide a wide range of services based on our specialized expertise, utilizing collaboration among our operating bases in Japan, the United States, Europe, and Asia ex-Japan. These services include real estate investment trusts (REITs) to meet management needs for long-term stability as well as private placement funds to meet the specific management needs of institutional investors.

Architectural Design & Engineering Business

Making use of the knowledge, ability, and cutting-edge technologies accumulated over the 120 years since our founding in the Meiji period, this full-service architectural design and engineering business meets societal needs through construction, civil engineering, and urban and regional development planning and consulting.

Hotel Business



This business maintains a network of eight hotels under the Royal Park Hotels brand in Sendai, Tokyo (Nihonbashi, Shiodome, and Haneda), Yokohama, Nagoya, Kyoto, and Fukuoka. We are promoting the expansion of business and improved brand value with a management foundation focused on customer satisfaction.

Real Estate Services Business

This business provides one-stop real estate problem-solving solutions for corporations and high net worth individuals to maximize the value of real estate and optimize its use. Its services include real estate brokerage, condominium and office building leasing management support, parking lot management support, and real estate appraisal.

Junichi Yoshida
President & Chief Executive Officer
Mitsubishi Estate Co., Ltd.

The mission of the Mitsubishi Estate Group is "to contribute to society through urban development." In line with that mission, we are embracing innovation with an eye to the future from global and long-term perspectives. We are seeking to achieve sustainable value creation by sharpening our competitive edge and venturing wider and deeper with our management capital.

The Future of the Mitsubishi Estate Group

As a company, we are looking to become a new breed of real estate developer—one offering added value well beyond just supplying physical spaces. To achieve this, we must draw out the power of our people, our most important management capital, in order to keep our finger on the pulse of the changing times and to pursue new value in the spaces in which people live and work.

I assumed the office of president & chief executive officer of Mitsubishi Estate Co., Ltd., on April 1, 2017. In my roles in human resource management over the past 15 years or so, I have thought constantly about how the Mitsubishi Estate Group can make best use of its most important management capital—its people. To begin, I would like to discuss just how important our people have become to our business today, in 2017, and then to explain why releasing their potential is so vital to attaining our vision of the Group in the future.

Saying that people are management capital may sound very much like stating the obvious—after all, it is something common to all companies. Some might well also raise eyebrows at the thought that for us, as a company involved in real estate development, human resources are a more important resource than land or capital. But today's real estate business is about more than providing just floor space when developing properties and selling and leasing them, whether it be with office buildings, housing, retail properties, or logistics facilities. What we are being asked to do now is to create maximum value with a given space, whatever its size. We see ourselves becoming a real estate developer that provides value beyond physical spaces. And human resources hold the key here.

Our real estate development business meets the needs of a multitude of clients. As we head into the latter half of the 2010s, customer needs are diversifying and becoming more sophisticated in tandem with technological progress and changing values in society as a whole. It is only we as individuals—all of us across the Group—who have the power to sense how customer needs are evolving and to envisage new needs before they reach the light. Land and buildings cannot do that for us.

We have been taking various initiatives with a view to future growth and I believe that we have come a long way in preparing the groundwork. But for us to realize further growth in an era of dramatic change, I feel we must ourselves embrace change in three vital areas. The first is to set out the path we need to take in fields where we have made considerable strides in recent years, such as corporate governance, corporate social responsibility, and global expansion. The second is to "dig deeper" in such established businesses as the Office Building Business and the Residential Business that we have built into key strengths; that means harnessing remarkable advances in technological and other areas. The third is to aim for real value by understanding what value means from the customer's point of view and having the imagination to see what will lead to such value in the future, even if related needs have yet to emerge.

It goes without saying that only people can envisage how the times may change and stay ahead of that change. But there is another reason why human resources are particularly important for real estate developers such as ourselves, which is that the offices, homes, shopping malls, and warehouses we provide are spaces where people live and work. Only human beings can comprehend what it means to pursue value in the spaces in which people live and work—to envisage what kind of spaces people find comfortable or stimulating—and put that insight to work in creating new value.

Achievements under the Previous Medium-Term Management Plan

Over the three years of the Medium-Term Management Plan covering fiscal 2015 to fiscal 2017, we achieved better-than-expected earnings in terms of quantitative targets and value creation. In qualitative terms, too, we made good progress in building solid foundations for future profit growth.

In May 2017, the Mitsubishi Estate Group announced its new Medium-Term Management Plan. Before discussing its contents, I would first like to review our attainments under the previous Medium-Term Management Plan.

Under the three years of the previous Medium-Term Management Plan, we achieved more than we had anticipated. We made better-than-expected headway in leasing new office buildings and in raising rents on existing properties. We also effectively tapped into a brisk real estate market to generate higher gains on property sales than we had envisaged.

The underlying theme of the previous plan was enhancing corporate value over its three-year period. To this end, we reinforced future cash flows by strengthening earnings foundations. We initially took a downbeat view on prospects for earnings over the plan's duration as we expected a limited contribution to profits from new office buildings owing to the period being a quiet one for development completions in the Marunouchi area. As it turned out, we did more than achieve the plan's targets. Most notably, we hit the goal for operating income of ¥165 billion or above one year ahead of schedule, with operating income in fiscal 2017—the last year of the plan—reaching ¥192.5 billion and exceeding that target by more than 16%. We also realized sustained growth in unrealized gain on rental properties supported by declines in the cap rate and the fruits of our own progress in redevelopments and improving cash flows. Over the three years, unrealized gain on rental properties increased about ¥867 billion.

In qualitative terms, we also made considerable headway in the three key areas of strengthening development expertise, enhancing Groupwide value chain platforms, and reorganizing the Company's structure. We look to build on those results to drive earnings higher in our Medium-Term Management Plan starting in fiscal 2018.

Regarding strengthening development expertise, we saw through multiple large-scale development projects centered in the Marunouchi area. We also further diversified the urban functions of the Marunouchi area from a multifaceted perspective with a view to creating a valuable area with a horizon stretching 100 years into the future. Specifically, we attracted venture companies to the area by providing office spaces geared toward start-ups and offering business support services for them and adding hospitality functions. We also continued to diversify development asset types beyond office buildings in such areas as logistics facilities, hotels, investment-purposed micro-unit condominiums, and residential developments in emerging markets.

As for enhancing Groupwide value chain platforms, we expanded our business portfolio in the U.S. through the acquisition of TA Realty LLC while in Asia we set the stage for future business expansion by such means as collaborating with local business partners. In Japan, too, we broadened our solutions menu with the addition of such services as building renovation.

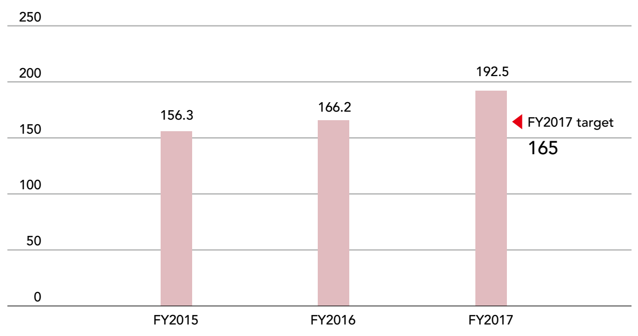
With regard to reorganizing the Company's structure, we enhanced governance effectiveness by shifting to a "Company with Nominating Committee, etc.," structure. This shift further strengthened the management supervisory function of the Board of Directors while clarifying authority and responsibilities pertaining to business execution. It also better structured the Board of Directors to channel discussion of management direction into paying closer attention to shareholder interests. In addition, we made various organizational changes with a view to optimizing the value in the intangible assets—the knowledge and experience—of our people. These included reinforcing the Business Development, Consulting & Solutions Group, making the Lifestyle Property Business into an independent segment, and launching the Business Creation Department.

Quantitative Target Achievements

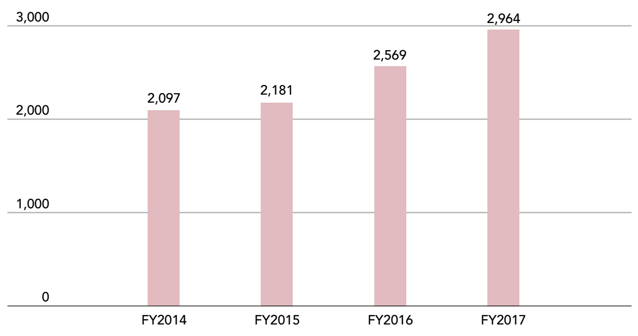
Original target was successfully achieved through increased rent revenue and timely disposition of assets by effectively tapping into brisk real estate market

		FY2017 Target	FY2017 Actual
Growth Potential	EBITDA	¥250 billion or above	**¥279.7 billion**
	Operating Income	¥165 billion or above	**¥192.5 billion**
Performance	EBITDA/Total Assets	5.0% or above	**5.2%**
Stability	Net Debt/EBITDA	Approx. 8.0–8.9 times	**7.7 times**

Operating Income Performance during Previous Medium-Term Management Plan Period



Unrealized Gain on Rental Properties



Market Changes and the Mitsubishi Estate Group's Competitive Leadership

Amid accelerating changes in the environment surrounding our business, it is clear that we cannot expect to achieve sustainable growth simply by staying with a business-as-usual approach to established operations. We must make every effort to create additional value by penetrating deeper and more broadly with our core strengths in terms of the experience we have accumulated across a vast range of real estate assets and our relationships with clients, partners, and communities.

With the Japanese economy already functioning within an aging society, we can expect no or slow growth over the long term if we take the "steady-as-she-goes" course. We cannot hope for sustainable growth by merely sticking to our established businesses. With society as a whole evolving amid rapid technological progress spurred by shifting values in what has come to be called a "Fourth Industrial Revolution," needs related to real estate and thinking about real estate have also been changing greatly. For instance, work style reforms are resulting in varying approaches to work and ways of communicating. Needs are also diversifying with respect to the places in which we live, as evidenced in the growth of the renovation market and the market for buying and selling existing homes. With competition with other major cities in Asian countries bound to intensify—bearing in mind that those economies look set fair for ongoing economic expansion—companies across various industries in Japan, ourselves included, must come together to raise the appeal of Tokyo as a global city. I believe that we as a Group have a huge role to play here as an expert in urban development.

We announced a new Medium-Term Management Plan in May 2017. In drafting the new plan, we were determined to venture wider and deeper with the management capital of the Group to ensure sustainable growth in corporate value. The core strengths of the Group—our credible and reputable brand, a wealth of information derived from providing a wide variety of services, and strong financial foundations—have been acquired through relationships with clients, partners, and other stakeholders in society and thanks to our experience across a vast spectrum of real estate assets. By making optimal use of these resources, we will create added value and share the benefits with customers, partners, shareholders, and other stakeholders. That, in turn, will win further trust, so setting up a virtuous cycle in which the Group's strengths propagate themselves on an ever-expanding scale.

In addition, faced with the accelerating changes noted previously, I believe that the Group must, if it is to demonstrate its competitive edge, acquire new capabilities by initiating new businesses and pursue innovation in existing business lines. As part of these efforts, we must look to build appropriate partnerships capable of maximizing mutual benefits, thereby expanding the reach of our strengths.

To promote these endeavors as an organization, we must make optimal use of the Group's management resources: its human capital, business and asset portfolio, and capital. We must also augment the effectiveness of governance and enhance the quality and speed of decision making by delegating authority as appropriate.

Our challenge now is to bolster the competitiveness of Group companies and to stay one step ahead of changes in the market.

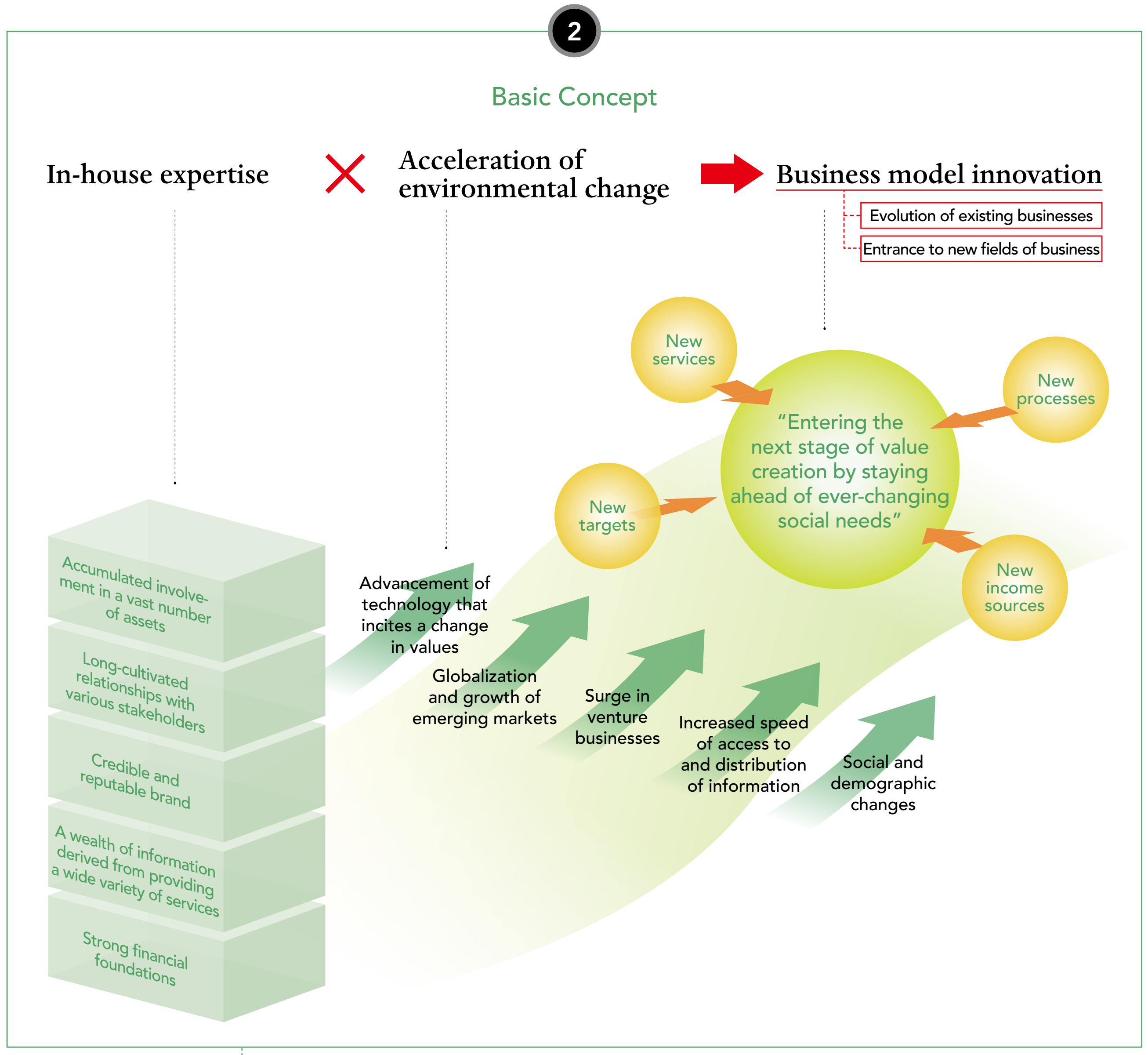
Our New Medium-Term Management Plan

We are promoting business model innovation to achieve further growth in the 2020s with a focus on capturing changes in the business environment in three key areas while realizing profits as the result of reinforced income streams during the previous Medium-Term Management Plan.

Business Model Innovation

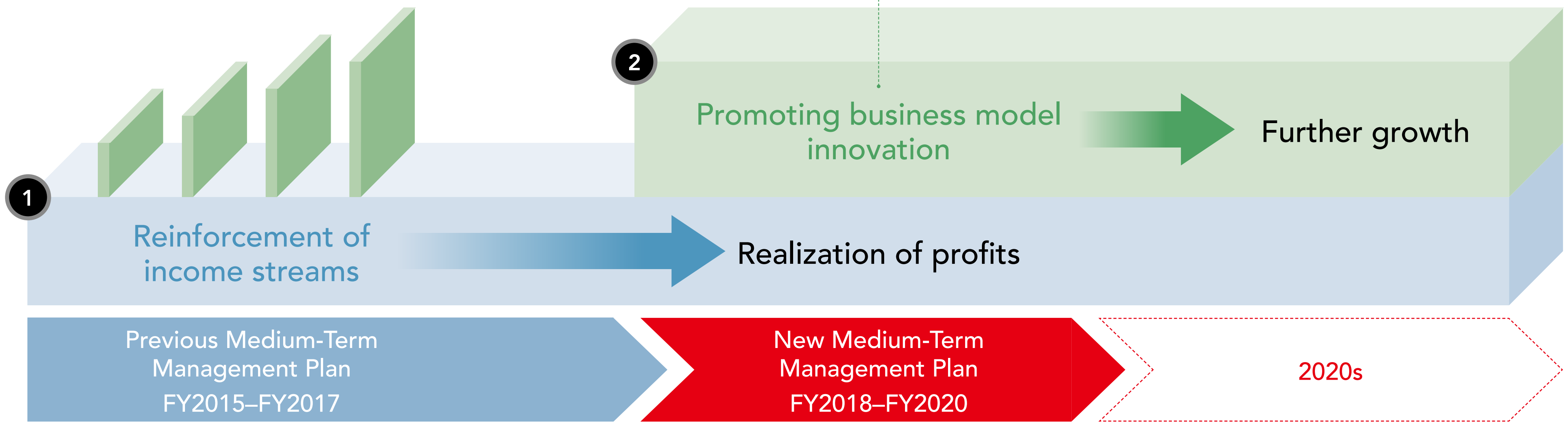
The key points of the new plan are, first, to realize profits deriving from measures to reinforce income streams during the previous plan and, second, to capture the momentum of business environment changes and promote business model innovation to seize new opportunities for further growth in the 2020s. Doing so will create new businesses that help add genuine value for society.

Our use of the term "business model innovation" is simply a declaration that we are going to tackle the challenges ahead vigorously, without being shackled by established norms. It does not mean that we are intending to change the way we do business from the ground up. The Mitsubishi Estate Group has set out its fundamental mission as "contributing to society through urban development" and urban development remains our core business. However, I firmly believe that we cannot expect to create sustainable value by taking a carry-on-as-usual approach to established businesses in the face of said changes in the environment in which we operate.



Two Major Points

1. Realization of profits deriving from reinforced income streams during previous Medium-Term Management Plan
2. Capturing the momentum of business environment changes and promoting business model innovation to seize new opportunities for further growth in the 2020s



The Direction of Business Model Innovation

How are we supposed to create value by grasping business opportunities created by change? In the course of discussions within the Group when we were preparing the new Medium-Term Management Plan, we settled on three vectors that define where we want to go: improving productivity in business activities, making effective use of existing social resources, and enriching the quality of life. In driving forward Groupwide business model innovation, it is important that we do not lose sight of these three vectors from a long-term perspective.

Improving productivity in business activities involves endeavoring to transform office space from its previous cost center guise for companies to a new role as a profit center. By offering environments that support efficient ways of working and stimulate open innovation, we aim to lend backing to our corporate clients who are looking to raise productivity.

Making effective use of existing housing stock and other social resources is a critical challenge in a Japan that has embarked on an era of population decline. In the country today, the total number of existing homes already exceeds the total number of households, and problems related to vacant homes have now spread from rural areas to city centers. In these circumstances, revitalizing urban landscapes by adding value to existing buildings and houses has become central to fulfilling our urban development mission.

The same is true when it comes to enriching the quality of life. We all vary greatly in where and how we live, eat, play, shop, and relax. Needs associated with all of the different aspects of what we do have also become more diversified and sophisticated in tandem with technological progress and changes in social environments and values. With homes, for example, which form the nucleus of our lives, there have been signs of a shift away from the traditional view that new construction and ownership are best. We must work to enhance the quality of life by responding to these evolving needs.

To position ourselves to create new value by stepping up the pace of business model innovation, we have set a budget of ¥100 billion over the three years of the plan for Groupwide business model innovation. That is on top of the budget allocations for each business line. Organizationally, meanwhile, we placed the Business Creation Department in April 2017 under the direct supervision of the president to speed up decision making concerning new business opportunities. The aim here is to spur accelerated business innovation across the entire Group. Along the same lines, we have created the Open Innovation Promotion Office within the Office Building Group to stimulate business creation centered on the Marunouchi area.

I believe that it is vital for all employees across the Group to make determined efforts to transform our business by taking full advantage of the opportunities afforded by these organizational measures and the appropriate delegation of authority. This will, I hope, unleash a unified effort that goes beyond the bounds of our Group structure thus far. And that will, I hope, take us beyond simply extending out from where we are and help us discover new avenues to explore together.

Quantitative Targets – To realize profits from strengthened earnings foundations

While setting out priorities for business model innovation to achieve further growth in the 2020s, we also aim over the next three years to steadily expand profits on the back of the reinforced earnings foundations built up during the previous plan. Within the Marunouchi area alone, we are set to reap full contributions to profits from the completion of the OTEMACHI FINANCIAL CITY GRAND CUBE, in April 2016, and the Otemachi Park Building, in January 2017. In addition, we aim to expand earnings in our International Business with support from a major renovation project at our flagship office building in Manhattan, 1271 Avenue of the Americas, as well as investments through our hybrid investment model*[1] and progress with a range of development projects. In development projects outside the Marunouchi area, we are looking to increase fee-based businesses through intensified efforts under our capital recycling model*[2] while also building out an effective value chain model for the logistics facility business. One option may be to establish a logistics REIT that aims to go public.

Premised on such initiatives, we have set a target for fiscal 2020 operating income of ¥220 billion. Regarding the outlook for the real estate market, we assume no major change over the period of the Medium-Term Management Plan, although we note that some have voiced concerns over the upcoming large supply of office buildings and the impact of rising home prices and construction costs. I expect maximizing to the full the advantages of the Marunouchi area and the Group's strengths and expertise across its different business lines to enable us to steadily expand profits.

*1 Hybrid investment model: Funds structured by Group companies that combine Mitsubishi Estate's and third-party equity. They support diversification and increased investment scale while concurrently earning management fees from investors for providing services to them.

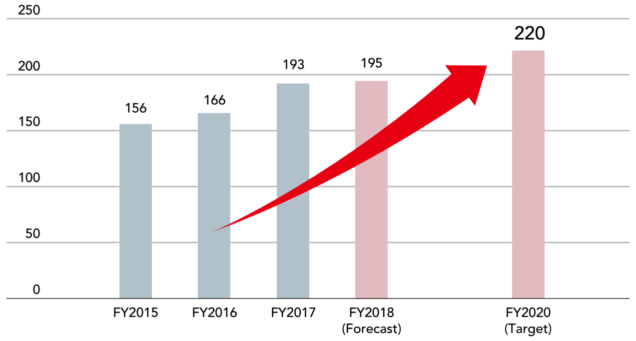
*2 Capital recycling model: Under this model, capital gains are attained through property sales and developed assets are assigned to funds managed by Group companies in order to earn asset management and property management fees from investors.

Quantitative Targets

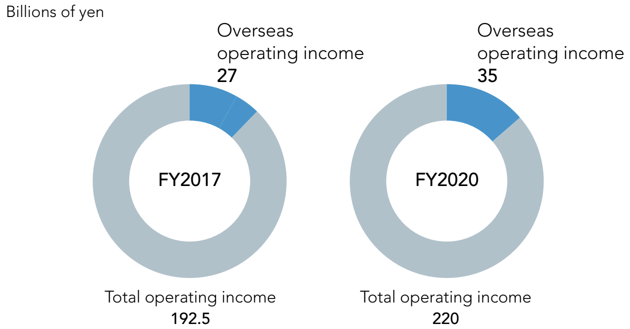
		FY2017 Actual	FY2020 Target
Growth Potential	Operating Income	¥192.5 billion	**¥220 billion**
	Overseas Operating Income	Approx. ¥27 billion	**Approx. ¥35 billion**
	Capital Gains	Approx. ¥42 billion	**Approx. ¥38 billion**
Performance	Operating Income/Total Assets (ROA)	3.6%	**Around 3.5%**
Stability	Net Debt/EBITDA (Hybrid finance reflected)	7.7 times (7.1 times)	**Around 8.5 times (around 8 times)**

From this Medium-Term Management Plan onward, we have also decided to provide figures for the overseas operating income and capital gains included within operating income. Overseas operating income is the total of operating income generated overseas, and is designed to give a clear picture of the scale of overseas income since segments besides the International Business segment now undertake business overseas. Capital gains are the sum of gains on the sale of assets other than residential condominiums and other non-recurring profit.

Operating Income



Overseas Operating Income



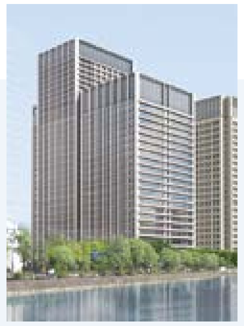
1 Completion of landmark projects (concentrated in the Marunouchi area) will contribute to operating cash flow.

Full utilization of brand and development/management capabilities to achieve financial performance targets

Office Building Business / Lifestyle Property Business / Residential Business

2016 / 2017 / 2018


OTEMACHI FINANCIAL CITY GRAND CUBE


Otemachi Park Building

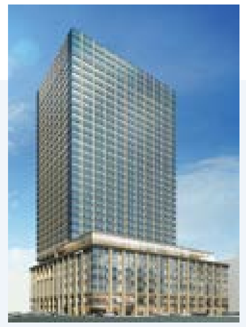

Tokyo Ryutsu Center Distribution B Building


The Parkhouse Nishi Shinjuku Tower 60


The Parkhouse Shirokane 2-chome Tower


msb Tamachi (Tamachi Station Tower S)


MARK IS Fukuoka Momochi


Marunouchi 3-2 Project

Capital Policy

Regarding our capital policy, we intend to continue to enhance corporate value from a longer-term perspective through growth-oriented investments to expand earnings by making the most of the Group's strengths.

Maintaining financial soundness is also an important management priority. We intend to make business investments for growth based on an optimal capital structure that is dependent on maintaining high credit ratings. Making the most of our high credit standing, we undertook an issue of super long-term corporate bonds maturing in 40 years in June 2016. Since the beginning of 2017, we have also issued a total of ¥20 billion corporate bonds, making the average interest rate of the corporate bonds issued to date just 0.95%. The ability to raise funds at low cost and over the very long term also contributes to raising corporate value and reduces downside risk if the financial environment were to deteriorate. At the same time, it offers us the flexibility to ensure we do not miss procurement opportunities in the market.

Regarding initiatives to enhance shareholder value, in addition to raising corporate value by promoting investments for growth, we have brought management into closer alignment with shareholder interests through such means as introducing a stock compensation plan and implementing governance reforms. We also intend to improve capital efficiency through the sale of shares held as crossholdings that we have carried out for the past few years and the appropriate restructuring of operating assets.

With respect to enhancing shareholder returns, we aim to maintain a stable 25–30% consolidated payout ratio for profits we intend to continuously expand. We also see the flexible execution of share buybacks as one option to be adopted when we judge appropriate taking into account such considerations as the prevailing economic conditions and the Company's share price level.

Drawing Out the Potential in Our Human Resources

My mission is to transform the Company by maximizing the value of our human capital, our most important asset. We are striving to create an environment in which employees feel inspired to take up the challenge of creating new value.

I see the cohesive power of our employees as one of the Group's great strengths. That cohesive power can be an immense force driving forward the Group's promotion of cross-divisional projects. By the same token, however, it can also be a recipe for collective thinking, or groupthink. That I was nominated president after spending many years helping mold Mitsubishi Estate's corporate culture through my involvement in human resources in such areas as recruitment and training was, I believe, a call for me to lead the Group's transformation by reappraising and maximizing the potential of our people, our prime asset.

To draw out the full potential of our employees, we must cut back the time spent on routine work and create an environment offering the time and mental latitude to consider essential things. Clearly, we cannot escape from routine work altogether. But it is important particularly for mid-level and younger employees to be given the time and opportunity to reflect and try to come up with new ideas that will lead to the creation of added value. To consider, for example, what services are truly valuable from the client's perspective and how we can best meet diverse customer needs, we have been working to provide such a thought-provoking environment through work style reforms and are in the process of relocating our headquarters.

Work Style Reforms and Headquarters Relocation

I hope our work style reforms and our planned headquarters relocation encourage our employees to enjoy a full and varied life, and to bring the discoveries and insights they have gained to bear on their work. I ask them to think thoroughly about their own work and where they see the future of the Company. With the relocation of our headquarters, we have also been putting our commitment to creating spaces to breed innovation to the test within the Company.

In April 2017, we established the "Work Style Reform Promotion Committee" under the direct supervision of the president. The term "work style reform" has become something of a buzzword in Japan, and some may well take it to mean reappraising long working hours in order to secure more time for activities other than work. I have no quarrel at all with the need to get rid of long working hours and to put time aside to lead more fulfilling lives. I am afraid, however, that it is too early to talk of being freed from work. To address the problem of long working hours, we should put the tasks we have been doing unquestioningly under the microscope and ask whether those tasks really need to be done and whether there are not more efficient ways to realize the same added value.

Moreover, as a manager, I hope that time freed up by making work more efficient and the bonds created through interchanges with various people can be looped back into value creation through new business ideas and collaboration with external parties. In a sense, that means placing even greater demands on employees.

Since becoming president, I have constantly encouraged our people to enjoy life. A rich life opens us up to a variety of perspectives. Some of those perspectives may grab our attention and change our sense of values. In Japan, the Mitsubishi Estate Group competes fiercely with its competitors. Even if at a superficial level you come up with a new idea, competitors can do likewise so it ceases to be a differentiating factor. What is needed in creating new models today is to come up with solutions based on thinking deeply and comprehensively about what customers genuinely desire and what people will look for in the cities of the future, while visualizing what developments may occur 100 years down the road. I hope people will come into contact with different modes of thinking from a young age and learn to build that experience into their visions of the future of our business.

We have taken the decision to relocate our head office to the Otemachi Park Building in fiscal 2018. This relocation will be something of an in-house experiment in providing an office system where employees are free to change desks and various shared spaces designed to promote exchanges between people both inside and outside the Company and create an environment to foster innovation. Mindful that the performance of employees requires nourishment for the body as well as the mind, we also plan to provide an attractive cafeteria. I very much look forward to seeing the benefits this environment brings for our productivity and creativity. I hope to see our work style approach become a showcase for the offices we can offer other companies.

Artistic Rendition of the new headquarters

Corporate Governance and Shared Value with Stakeholders

Helped by discussions with outside directors, we intend to meet the expectations of shareholders while ensuring prompt decision making, execution, and the timely monitoring of management policies. We aim to ensure long-term corporate value enhancement by taking environment, social, and governance (ESG) into consideration and working with stakeholders to establish shared value across a broad front.

Our new Medium-Term Management Plan also sets out our aim to achieve long-term corporate value enhancement and mutually profitable relationships with stakeholders by establishing a position as a front-running ESG-conscious corporation. With respect to corporate governance, I believe that, as the top executive under the supervisory spotlight, my task is to conduct management appropriately taking into account the opinions of outside directors representing the interests of shareholders. As a result of governance reforms carried out in fiscal 2017, the Company's Board of Directors now consists of eight internal directors, including Chairman of the Board Hirotaka Sugiyama, and seven independent outside directors. This arrangement has enabled outside directors to participate in discussions more actively and helped reflect their voices in management decisions.

At the same time as launching a Board of Directors with enhanced supervision capabilities, we have delegated considerable authority for business execution to corporate executive officers and introduced a Group executive officer system to clarify responsibilities. The aim is to speed up business execution. As president with ultimate responsibility for business execution, I am constantly looking to raise corporate value through quicker decision making, execution, and the timely monitoring of progress as we implement the management policies decided by the Board of Directors.

I also believe that the environment and society are vital considerations when companies chart their way. Real estate development, in particular, depends on using the social capital of land, and our mission to contribute to society through urban development feeds directly to social capital. For instance, the development of highly energy-efficient buildings and buildings with advanced disaster-management functions feeds into environmentally sensitive urban areas and urban development with strong disaster-management capabilities. The development of high-value-added properties also contributes to the improvement of urban functions throughout the city. In the case of Tokyo, that by extension means enhancing the international competitiveness of the city. In such ways, we are collaborating with a broad range of stakeholders as we aim for shared value.

The value-creation chain represented by urban development in the Marunouchi area is one of the prime reasons that stakeholders—especially business partners in Asian countries—hold Mitsubishi Estate in such high regard. Partnerships are built on the bedrock of appreciation of our track record in urban development. If we can expand opportunities to apply our expertise to urban development in emerging economies, that will in turn feed through to business growth.

Considering the processes involved in raising our corporate value, it is clear just how important open communication is to our corporate management. Communicating with clients such as our office building tenants and the residents of the houses we build gives us clues to new business opportunities, while sincerely sharing thoughts with partners on urban development into the future will bring global business opportunities.

In our pursuit of sustained improvement in corporate value, it is vital that we hold constructive dialogues and widely exchange ideas with shareholders on subjects ranging from investment strategies and returns right through to the role of real estate developers in society. I hope you share with me my high expectations of the future of the Company and I urge you to let us hear your frank opinions.

August 2017

President & Chief Executive Officer
Mitsubishi Estate Co., Ltd.

BUSINESS REVIEW

The Mitsubishi Estate Group is promoting its new Medium-Term Management Plan for the three years beginning fiscal 2018 with the overriding theme of "entering the next stage of value creation by staying ahead of ever-changing social needs." We aim to achieve sustainable growth through the 2020s onward by applying the Mitsubishi Estate Group's unique power to create value by using its strengths to seize opportunities in these changing times.

OFFICE BUILDING BUSINESS 1

Laying the Groundwork for the Concentration of Leading Companies to Open Doors for Innovation, with Innovation in Turn Creating Growth

Tetsuo Yuasa
Senior Executive Officer
Mitsubishi Estate Co., Ltd.

With long-term projects such as the Tokiwabashi District Redevelopment Project, versatility is vital. We need to incorporate into plans the leeway to respond to developments over several decades on from completion, accepting that there are many ways in which society's needs may evolve.

Otemachi Building

Leveraging the Marunouchi Area's Competitiveness to Overcome Upcoming Large-Scale Supply Problem

The growth strategy for the Office Building Business set out in the Medium-Term Management Plan focuses on three key measures: (1) increasing rental revenues as leases commence with project completions as the development pipeline constantly moves forward, (2) further strengthening the functions of the Marunouchi area through the "Open Innovation Field" initiative, and (3) expanding the long-range development pipeline outside the Marunouchi area.

Maximizing rental revenues from completed buildings lies at the heart of our business. The Mitsubishi Estate Group has been steadily accumulating expertise in this field over many years. With regard to rental revenues, let me say a few words about the problems associated with the increase in the supply of large office buildings coming onto the market between 2018 and 2020. We believe that there is little possibility of a sharp rise in vacancy rates in the Marunouchi area and a subsequent significant decline in rents. This is partly because, on average, there will not be a steep increase in floor area over the five years including the 2018–2020 period. But it is also because of the competitiveness of the Marunouchi area.

A distinguishing feature of this upcoming influx is that the new construction is concentrated in large, state-of-the-art office buildings. When it comes to competition between such buildings, differentiation on the basis of hardware specifications is difficult. Accordingly, winners are likely to be determined on the basis of location, of the appeal of the area. And we are absolutely confident of the competitive appeal of the Marunouchi area.

This area's competitiveness lies in the fact that it hosts a concentration of companies that is dense to an extent unseen in any other area of Tokyo, or in any other major world city for that matter. The area has about 4,300 offices, and among listed companies alone, it is home to the headquarters of 97. Considering companies' needs for convenient offices and the growing trend toward intercompany collaboration, we believe that the area's advantages as a corporate gathering point will become even more pronounced.

Exploring New Value and Opportunities from the Dense Concentration of Companies

The second key measure of the Medium-Term Management Plan—strengthening the functions of the Marunouchi area through the "Open Innovation Field" initiative—aims to bring this growth scenario to realization. With Open Innovation Field, we plan to offer abundant opportunities for interaction across diverse organizations and spanning diverse perspectives and areas of expertise as we seek to create an environment that welcomes new challenges unbound by established frameworks.

Technological and business model transformation is becoming a life-and-death matter for many companies, which are desperately seeking to nurture new growth by bringing together diverse people, information, technologies, and ideas. What is needed are opportunities for the intersection of people and people, technologies and ideas, and companies and companies. Clearly, the dense concentration of companies is a powerful incentive for encouraging such encounters and stimulating creativity and collaboration.

What is now required of us is to release the true power of the strategies we have being pursuing over the past decade. This hinges on attracting to the Marunouchi area venture companies that develop creative and innovative businesses by taking initiatives to reshape the nature of the aggregation of companies and highlighting the opportunities it provides.

The Mitsubishi Estate Group has steadily been expanding its services aimed at leading-edge Japanese venture companies while seeking to attract overseas growth companies to Japan. We began by launching EGG JAPAN in 2007, which offered small offices for start-ups, coinciding with the completion of the Shin-Marunouchi Building, which was followed by facilities such as The Premier Floor Marunouchi, the Global Business Hub Tokyo, and the FINOLAB, Japan's first base for financial technology (FinTech) companies.

OFFICE BUILDING BUSINESS 1

Creating a Positive Cycle of Business Concentration and Innovation

For Mitsubishi Estate, attracting a cluster of start-ups is significant not only for the opportunity to provide office spaces for growth companies in the Marunouchi area. Rather, we are focusing on the drawing power of start-ups with innovative ideas and technologies to attract other companies seeking opportunities to collaborate with them. The goal is to establish a positive cycle whereby the concentration of companies nurtures innovation, and that innovation in turn draws companies more densely together. Collaboration between large enterprises and start-ups is indeed moving forward in the office spaces provided by Mitsubishi Estate, and the interchanges and the co-creation that represent the true value of the concentration of businesses have been gathering momentum.

Many companies are starting to "invest" in office spaces as an essential aspect of promoting productivity improvements and innovation through work style reforms. Values have changed dramatically since providing an office environment was viewed simply as a cost. In our Medium-Term Management Plan, we aim to capture this change and create new value by leveraging the benefits resulting from the concentration of leading companies to realize growth in the Office Building Business.

Sustained Investment Looking 10 or 100 Years Ahead

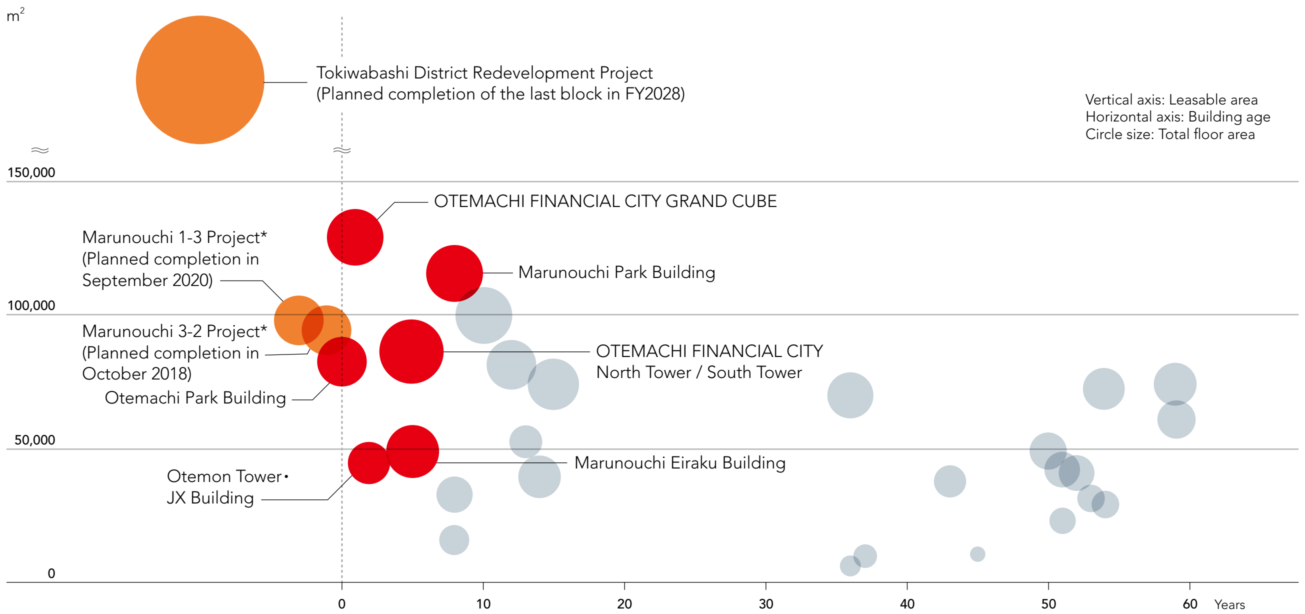
Regarding the third key measure for the Office Building Business in the Medium-Term Management Plan—expanding the long-range development pipeline outside the Marunouchi area—we are moving ahead with a variety of redevelopment projects that are due to come on stream through the 2020s. These projects are focused primarily on locations with convenient transportation access in downtown areas other than Marunouchi. We are expanding the development pipeline to offer a broader range of solutions to meet diverse customer needs with respect to location and building specifications.

The Tokiwabashi District Redevelopment Project is, I think, worth spotlighting in terms of long-term developments. This is town planning for the super long term, with the last block due to be completed in the fiscal 2028. It is also a flagship project from the perspective of the site area and the size of the buildings.

There is no denying that long-term projects entail considerable uncertainty, and the difficulty of seeing far into the future involves risks. By the same token, however, the flexibility and possibilities afforded only by long-term planning allow risks to be controlled.

We are using the time made available precisely because of the ultra-long-term nature of this project to hold extensive discussions with people within and outside the Company, with a view to maximizing the benefits from such tangible aspects as building structures and construction materials and from such intangible aspects as how buildings are used and managed. Through long-term development that makes use of our unique attributes, we are looking to maximize the value of the project and the area as a whole with a 100-year time horizon.

Mitsubishi Estate-Owned Buildings in the Marunouchi Area



* Leasable area calculated as total floor area multiplied by effective ratio

FINOLAB: A Hub for FinTech Interaction

FINOLAB opened in February 2016 as Japan's first base for financial technology (FinTech) companies in Tokyo's Otemachi area, which hosts the headquarters of Japan's leading banks and the offices of many other financial institutions. Mitsubishi Estate, Dentsu Inc, and Information Services International-Dentsu, Ltd., joined together to establish FINOLAB. The underlying concept is to build an ecosystem for world-leading financial innovation in Tokyo by bringing together FinTech start-ups and experts, leveraging the Otemachi area's dense concentration of companies and the support they can offer.


Entrance area

FINOLAB originally had about 900 m² of shared offices and event spaces that housed 35 start-ups, including overseas companies. It also gathered together a team of mentors to support FinTech development in Japan. Known as "Finovators," these mentors comprise experts in a range of fields, including entrepreneurship, management strategy, and law. Collaborations between large companies and start-ups have already sprung up, and FINOLAB has been officially recognized by the government as a networking hub.


Networking event

Tenant companies and supporters have given high marks to FINOLAB for its wide array of office functions and convenient transportation access as well as for its location at the heart of Japan's leading business and financial center. Responding to strong tenancy demand, in February 2017 FINOLAB relocated to the Otemachi Building, where it occupies 2,150 m² of space, about 2.4 times the size of its first premises.

Construction Begins on Shinjuku Station South Gate Project

To enhance its property pipeline, Mitsubishi Estate is working on large-scale multipurpose development projects with long-term time horizons in areas other than Marunouchi. The Shinjuku Station South Gate Project, of which construction began in June 2017, is one example.


Computer graphic rendition of completed building exterior

This project located near the new south gate of JR Shinjuku Station, which handles more passengers per day than any other train station in Japan, involves the construction of a 16-story multipurpose building. It will also extend the existing deck from the station and provide plazas and other open spaces in conjunction with adjoining areas as part of a planned vision of a town to be shared by the people and enterprises based in the area. The aim is to create a pleasant network of pedestrian pathways as well as bustling spaces where people can get together. The area around the south gate of the station has attracted growing numbers of visitors in recent years spurred by the opening of a bus terminal and a new building. Progress is also being made in developing infrastructure for the future.

We expect the continuous development of major business districts in Tokyo to attract new customers through properties outside the Marunouchi area. That, in turn, will bring expanding business opportunities for the Mitsubishi Estate Group. Through a combination of small-scale and medium-scale development projects with short time frames and major projects with longer time spans, such as the Shinjuku Station South Gate Project, we are aiming to establish a framework for sustainable earnings growth. By doing so, we intend to realize growth for the Office Building Business through urban development outside the Marunouchi area.

OTEMACHI PARK BUILDING

Blending a Unique Location and Creative Space to Promote Innovation

Otemachi Park Building

Yurie Yamamoto
Manager
Marunouchi Development Department
Mitsubishi Estate Co., Ltd.

The Otemachi Park Building was conceived around the theme of providing a pleasant working environment in harmony with the greenery of the Imperial Palace. Outside, we have provided a "community plaza" of approximately 3,000 m^2 where people can gather amid vibrant foliage. In the lobby on the ground floor, we have created a comfortable space that soothes and stimulates all five senses, from the natural, forest-scented aroma through to calming vertical gardens.

Exterior view of the Otemachi Park Building

Park Lounge

Providing a Space to Stimulate Intellectual Productivity

The Otemachi Park Building was completed in January 2017 as a multifunctional property designed to meet the needs of diverse work styles. As options for where and how people work have expanded, the nature of office buildings and the value they present have been changing. At Mitsubishi Estate, we are not just providing office floors but rather spaces that raise the intellectual productivity of the people who gather there and help them create new value.

The tenant support facility on the second floor gives an idea of what we are trying to do. The tenant-exclusive Park Lounge offers views of the greenery and waterscape of the Imperial Palace as well as facilities in which to work, exercise, relax, and even get a little sleep. The goal is to contribute to enhanced concentration and creativity by providing a range of choices for spending time at the office and allowing people to use the space freely according to the nature of their work and their mood. With this space supporting diverse work styles for tenant companies, we expect it to help raise the value of the building and the surrounding area. We at Mitsubishi Estate, too, are looking to find inspiration for fresh ways of working to raise intellectual productivity with the building as our own new headquarters.

The Premier Floor Otemachi on the seventh floor provides small offices with a package of services as part of our mission to provide a varied office lineup tailored to the needs of companies at various growth stages. The approximately 3,400 m^2 of floor space is divided into offices of 90 m^2 and over that come with a special service package including a shared reception and meeting rooms. The Premier Floor Otemachi offers a range of options to satisfy the needs of companies looking to expand out from their offices in our EGG JAPAN and Global Business Hub Tokyo business support facilities as well as of small domestic and overseas companies looking to move into the latest large state-of-the-art office buildings in the future.

Reinforcing Otemachi's Functions as a Global Business Hub

In another distinctive feature, and in response to growing demand for medium-term business stays, the Otemachi Park Building also houses the Ascott Marunouchi Tokyo serviced apartments, Otemachi's first residential space. We believe that serviced apartments combining hotel-like services with the at-home comfort and functionality of condominiums will enhance the value of Otemachi as a global business center over the medium-to-long term.

One of the core strengths of the Mitsubishi Estate Group is to be able to access the broad insights gained from its long-standing relationships with customers who value the Marunouchi area as one of the world's leading business districts. Based on an awareness of what is required of a building in terms of universal values, and of functions needed from a longer-term perspective, new needs, and the next key themes, we have been holding wide-ranging discussions with staff at Mitsubishi Estate and its Group companies across the whole spectrum of our sales, building operation and management, design, and other activities to lead the way in new building development. The Otemachi Park Building is one example of what we can achieve through cross-sectional discussions and by bringing together diverse views from people with deep knowledge in their fields. As the times change, so does the way we approach and present buildings. That remains one constant in our commitment to creating attractive urban environments.

We believe that the Marunouchi area is the leading business district in Japan, and it is up to us to ensure that people continue to want to work here. To that end, we need to strive to guarantee that the area becomes the greatest source of new value creation in the world. Innovation arises from bringing together and combining the knowledge and ideas of various people. We are pushing forward with such innovative approaches to office buildings and town planning to provide attractive spaces throughout the district.

LIFESTYLE PROPERTY BUSINESS

Seizing New Business Opportunities by Giving Full Play to Group Synergies

External pedestrians-only corridor

Distribution B Building

Hiroaki Yukawa

Manager
New Building Construction Office
Administration Dept.
Tokyo Ryutsu Center Inc.

Over the nearly 50 years since the Tokyo Ryutsu Center was established, we have always taken care when undertaking construction work to protect the cherry blossom trees that have become our symbol. We have planted new saplings to celebrate the completion of new buildings. When the old and young cherry blossom trees come into full bloom with the arrival of spring, I think they tell the story of our long history of achievements and our taking on new challenges.

The Lifestyle Property Business is looking to expand the retail property and logistics facility business as it develops all asset types, excluding domestic office and residential properties, in order to acquire new revenue sources.

The retail property portfolio spans integrated urban facilities in the Marunouchi area and elsewhere, independent shopping centers such as MARK IS, and PREMIUM OUTLETS®, a shopping mall chain with top drawing power in Japan. The hotel development business works with operators inside and outside the Group to provide optimal property options to meet rapidly expanding demand.

In our logistics facility business, we are continuing to develop cutting-edge facilities centering on the Logicross brand. We are working to accelerate business expansion by utilizing our accumulated know-how and synergies with Tokyo Ryutsu Center Inc. (TRC), a logistics facility management company, which we turned into a consolidated subsidiary in August 2016. While broadening business scale through logistics facility development, we are also supplying development projects to REITs as part of our efforts to maximize Group profits by generating development profits and REIT-related fees.

Expanding the GOTEMBA PREMIUM OUTLETS® Mall

Creating a Major Tourist Resort with a Mall as Its Hub

The fourth-stage expansion project is now under way at GOTEMBA PREMIUM OUTLETS®, the flagship PREMIUM OUTLETS® mall. The project, which is due for completion in 2020, will add about 16,000 m^2 and about 100 stores. When it opens, the mall will have a total area of about 60,000 m^2 and about 300 stores. Odakyu Electric Railway Co., Ltd., also plans in 2019 to open a hotel and a day-trip hot spring facility in the area, making full use of its location near Mount Fuji, a popular sightseeing destination. These are all part of efforts to develop the mall as a shopping resort that offers visitors a one-of-a-kind experience.

A shopping resort with a view of Mount Fuji

State-of-the-Art Functions in a Traditional Occupation

TRC has operated distribution facilities in Heiwajima, Ota-ku, Tokyo, since 1971. In June 2017, we opened Distribution B Building after two years of development work, making a fresh start with one of the two logistics facilities completed soon after TRC's establishment.

Heiwajima is located about 2.6 km as the crow flies from Haneda Airport, a vital doorway to the Tokyo metropolitan area only 10 km from the center of the city. That gives it outstanding competitiveness as a logistics base within the country.

While making full use of this geographic advantage, we have emphasized three features of multi-tenant logistics facilities that make Distribution Building B ideally suited to customer needs and set it apart from large suburban-type warehouses.

First, we have made the leasing space—among the largest in the Tokyo Bay area—highly adaptable. To respond flexibly to customers' needs for a wide range of scales, the standard size of the leasing space is about 1,400 m^2—unusually small for a distribution center—and even smaller spaces are provided. By contrast, the maximum size is 22,200 m^2, a size not often seen in city-center logistics facilities.

Second, we have ensured Distribution B Building offers the highest level of safety and efficiency. We expect around 2,000 workers will work in the building when it is fully occupied. In order to ensure safety of pedestrians and make logistics work as efficiently as possible, we have installed exterior corridors exclusively for pedestrians with a total length of 3 km and completely isolated warehouse access for people and vehicles.

Third, we have done our utmost to make processes within the leasing spaces as easy as possible. Ample electric power and the provision of balconies for outdoor air conditioning units give optimal flexibility for handling processes such as air conditioning, refrigeration and freezing, and operating material handling equipment.

Development Process Harnessing All-Around Strengths of the Mitsubishi Estate Group

The rebuilding of Distribution B Building was the first large redevelopment project TRC has undertaken in almost 20 years. From the outset, a central theme with the project was to draw fully on the development expertise of the Mitsubishi Estate Group.

That the project went so smoothly was the result of combining TRC's understanding of customer needs and facility management expertise, Mitsubishi Estate's development experience, as well as its relationships with construction companies, and Mitsubishi Jisho Sekkei Inc.'s specialist expertise with regard to planning, design, and construction cost management. Looking ahead, the Lifestyle Property Business as a whole aims to help identify business opportunities by sharing within the Group the latest information it is placed to access in its position in the front lines of the logistics industry.

I believe that through the development process, we have reaffirmed that the meaning of our existence as a company lies not just in the competitiveness of the site but also in creating new value. I think we have also motivated staff to make full use of the development know-how gained in the project. The completion of Distribution B Building marks an exciting new start to phase two of our business. I hope this gives us the momentum to support sustained growth.

RESIDENTIAL BUSINESS

Earning the Trust of Customers and Business Partners by Developing Homes with Real Value

Community space at The Parkhouse Nishi Shinjuku Tower 60

(Left) Investment-purposed micro-unit condominiums The ParkOne's Shinawawa Togoshi
(Right) RHYTHM Asoke II in Bangkok, Thailand

Renovated condominium building The ParkRemore Shirokanedai 3-chome

Shinji Karasawa
Executive Officer
General Manager,
Corporate Planning Department
Mitsubishi Jisho Residence Co., Ltd.

Enhancing services such as hosting events that encourage people to interact and holding disaster drills promotes communications among residents. It also presents outstanding opportunities for our staff to understand the value of their work and to recognize their own responsibility to society.

Diversifying Development Projects with an Eye on the Changing Composition of Households

Under the Medium-Term Management Plan, the company aims to reinforce its earnings base in the domestic condominium business while meeting diversifying needs in the home redevelopment and renovation field. It also envisages a scenario of overseas projects making a full-scale contribution to driving earnings growth.

The condominium business in Japan now operates in a market in which single-person households account for around 35% of all households and the number of family homes, which used to form the cornerstone of home purchases, is gradually declining. It may no longer be possible to adequately satisfy new needs with family homes alone—until now the mainstay of the Residential Business. In addition, with large, prime development sites in city centers becoming increasingly rare, securing sites while averting risks associated with accumulating inventories of land purchased at high prices is becoming a key issue.

We are seeking to meet the challenges and grasp the opportunities resulting from such changes on three fronts.

First, we are expanding our lineup of properties. In response to the evolving composition of households and diversifying lifestyles, we are strengthening and broadening our lineup of property types in such areas as investment-purposed micro-unit condominiums. We are also focusing on the renovation of aged buildings and pre-owned condominiums and their subsequent sale and rental.

Second, we are looking to contribute to society through new urban development. For instance, in districts in urban centers with dense concentrations of aged housing, we are considering projects on the basis of building consensus with local residents and the local authorities. In regional hub cities, one idea is to focus on development that reorganizes housing scattered over a wide area into compact centers with good main-line railway access.

Third, we are aiming to boost added value by enhancing our lineup of services, thereby further strengthening the trustworthy reputation of the Mitsubishi Estate Group. In recent years, we have been actively working to support the creation of real communities of residents. Experience shows that these efforts encourage people to place emphasis on product quality, safety, and reliability when it comes to choosing a home—areas that are among our key strengths. Such services also deepen customers' attachment to the community they choose to live in upon taking up residency.

Tapping into Dynamic Growth in Overseas Markets as a Vital Pillar of Earnings

We have made great strides in the international business over the past four or five years in securing excellent local companies as business partners in major Asian nations and expanding our property pipeline. Our Medium-Term Management Plan positions overseas operations as a sure driver of revenue and profit growth. With the Mitsubishi Jisho Residence Group, we are aiming to expand the contribution of overseas operations to operating income to more than 20% in fiscal 2021.

The Mitsubishi Estate Group's brand and knowledge base are also vital from the perspective of securing the business partners that hold the key to the success of our international business. Our residential developments and "Check Eyes," our quality management and performance indication system, have received high praise from existing and potential business partners. Such trust in our brand and in the scope and depth of our knowledge gives us a powerful competitive advantage in securing outstanding business partners and building our overseas business. It is also indispensable for establishing long-term relationships on the basis of shared values. I am confident that the continuing pursuit of the highest quality and new value in residential developments, whether in Japan or overseas, will strengthen the Mitsubishi Estate Group brand and lead to future growth.

INTERNATIONAL BUSINESS

Fresh Identity Going Forward Created through Extensive Renovation of Flagship Building

Computer graphic rendition of the renovated 1271 Avenue of the Americas

1271 Avenue of the Americas

Daniel Bower
Vice President
Rockefeller Group International, Inc.

Yoko Yamada
Manager
Rockefeller Group International, Inc.

Precise schedule management supported by quick and accurate decisions is crucial in terms of risk management. We are renovating 1271 Avenue of the Americas while it continues to function as an office building. As such, it is important to maintain communication and close coordination with tenants to minimize the degree to which they are impacted.

Plans for the International Business include acceleration of investments through the extensive renovation of a flagship building in the United States, the hybrid investment model utilizing the business' global investment platform, and development projects conducted together with local partners in emerging countries.

The hybrid investment model is a scheme for combining proprietary and third-party equity to expand our portfolio while conducting joint investments with outside investors. Using this scheme, we are pursuing effective dispersed investment and asset growth by utilizing the global investment management platform created through capital participation in Europa Capital LLP and TA Realty LLC and through the establishment of Pan Asia Realty Advisors (Singapore) Pte. Ltd. in 2017.

At the same time, we are advancing partnership development in Asian countries to apply our community development experience through local partners. We aim to realize innovative development projects that contribute to reduced environmental impact and harmony with local communities.

Office Building Development Project in Jakarta

In November 2016, the Mitsubishi Estate Group reached an agreement to participate in its first office building development project in Indonesia. Located in Jakarta, the Daswin Project will be a joint project by The Gesit Companies Ltd., head of a major Indonesian corporate group; Santini Group Ltd.; and the Group. This massive project will be 46 floors aboveground with a total floor space of 130,000 m^2 through an investment of more than ¥27.0 billion. In addition to Mitsubishi Estate, participation is also planned by Mitsubishi Jisho Sekkei which will draft basic designs, and Mitsubishi Jisho Property Management Co., Ltd., which will provide advisory services on property management.

Computer graphic rendition of completed building exterior

Enhancing Competitiveness through Extensive Renovation of Flagship Building

The Mitsubishi Estate Group's operations in the United States are advanced by Rockefeller Group International, Inc. (RGII). The robust track record of this company in the U.S. market gives us an advantage over Japanese companies looking to grow in this market. RGII is undertaking the extensive renovation of 1271 Avenue of the Americas, one of its flagship office buildings. This project represents one of our core overseas initiatives under the Medium-Term Management Plan.

Completed in 1959, 1271 Avenue of the Americas is located in Rockefeller Center in Midtown Manhattan, New York. This large-scale office building is an iconic fixture in this area, boasting 48 aboveground floors and three underground floors with approximately 195,000 m^2 of leasable area. In 2016, we commenced the extensive renovation project that will entail devoting approximately US$600 million (approximately ¥60 billion) to construction expenses and tenant-related costs as we overhaul the entire building. This project is currently underway with a scheduled completion date of 2019.

The renovation project will transform entrance spaces, the lobby, outdoor plazas, and other shared areas to create a more refined and modernized atmosphere. In addition, all of the building's 6,832 exterior curtain wall panels will be replaced and window areas will be increased by roughly 60% to make the office space feel substantially more open, while the exterior will receive a new, more modern design. The building's facilities, including air-conditioning equipment and elevators, will also be replaced to achieve even higher levels of desirebility and competitiveness.

Reinvented Identity Solicited to Innovative Companies

Through the renovation project, we will evolve 1271 Avenue of the Americas into a building that can be solicited to a wider range of tenant companies by making it more comfortable and endowing it with a fresh exterior design while respecting its existing history and identity.

The area surrounding 1271 Avenue of the Americas has traditionally housed the offices of numerous leading institutions. This identity is intact today as the area remains home to numerous financial institutions and law firms. However, we have witnessed a change in the types of tenants that have been taking an interest in 1271 Avenue of the Americas in light of the renovation project. One major tenant has already decided to lease a portion of the building after its renovation: Major League Baseball and MLB Advanced Media, L.P. This tenant develops an innovative business merging sports, IT, and media. The decision of the tenant to enter the building has recently sparked interest among other innovative companies, adding to existing interest from conventional tenant types, thereby helping substantiate the reinvented identity of the renovated building.

Going forward, we will move ahead with the recruitment of tenants in conjunction with the progress of renovations to ensure that this extensive project results in success.

INVESTMENT MANAGEMENT BUSINESS

Competitive Advantages

- Through the execution and implementation of both organic and inorganic growth strategies (M&As and joint ventures), we have established a strategic global investment management platform, enabling us to provide global asset management services to clients, leveraging the expertise and successful track records fostered in Japan, the United States, Europe, and Asia ex-Japan.
- In the domestic market, Mitsubishi Jisho Investment Advisors, Inc. provides asset management services across a wide range of investment products, including the country's largest private REIT, while Japan Real Estate Asset Management Co., Ltd. manages the first publicly listed and one of the nation's largest office REIT.
- Globally, we have combined assets under management of circa ¥3 trillion.*

* As of March 31, 2017 for Japan, December 31, 2016, for overseas

Business Strategy

- By utilizing our hybrid investment model strategy, through which we co-invest our principal investment capital alongside our clients in funds that our Group companies manage, we seek to provide and capture the steadily growing demand for cross-border property investments. Through this approach, we are simultaneously pursuing the expansion of our overseas portfolio, while benefiting from enhanced investment diversification, as well as expanding and strengthening our investment management businesses.
- We established Pan Asia Realty Advisors at the end of March 2017 as part of our efforts to extend our global investment management platform in Asia. The company will undertake asset management business in Asia and Oceania.

Topics

In fiscal 2017, we ramped up our investments in the U.S. market against a backdrop of low interest rates and steady economic expansion. Utilizing the hybrid investment model, we actively invested in prime real estate in major gateway cities including Boston, Dallas, Los Angeles, and Washington D.C. by leveraging the sourcing network and various asset management capabilities of TA Realty, a company acquired in 2015 through Rockefeller Group International (RGII). As a result, the portfolio grew and exceeded $1 billion as of October 2016. Meanwhile, in Europe, Europa Capital, acquired in 2010 via RGII, has provided its capabilities and cooperated with Mitsubishi Estate London in the acquisition of a German office building in June 2017. In Asia and Oceania, with the establishment of Pan Asia Realty Advisors, we seek to establish various networks with the region's institutional investors, and source investment opportunities in the region.

In Japan, an unlisted open-ended private REIT managed by Mitsubishi Jisho Investment Advisors continues to grow, and became the first private REIT in Japan to surpass ¥300 billion in assets. Meanwhile, assets under management at Japan Real Estate Investment Corporation, which is managed by Japan Real Estate Asset Management, had reached ¥944.7 billion at the end of fiscal 2017.


Office building in Boston


Office building in Munich

ARCHITECTURAL DESIGN & ENGINEERING BUSINESS

Competitive Advantages

- As a full-service architectural design and engineering firm, Mitsubishi Jisho Sekkei has extensive experience in urban planning covering such areas as the design and management of buildings for various applications, proposal-based consulting, large-scale complex developments in the Marunouchi area, and designing underground spaces that take into account traffic conditions.
- We are positioned to undertake design and management with an in-depth understanding of post-construction operation, maintenance, and management from the perspectives of the business operator and client based on experience cultivated as a developer's in-house design office.
- We have access to a wealth of information on China and Southeast Asian countries through a network centered on local subsidiaries established in Shanghai and Singapore.

Business Strategy

- In addition to handling design projects from within the Group, the company is working closely with the Business Development, Consulting & Solutions Group to win orders for architectural design and engineering work.
- Besides construction management (CM) work involving the comprehensive management of projects including construction schedule, budgets, and quality control, we are focusing on winning orders in renovation and other growth fields in order to expand our earnings base.
- We aim to expand overseas business by making full use of the Mitsubishi Estate Group's brand.
- We are seeking to raise the Group's corporate value by providing technological support to Group companies.

Topics

In the Japan business, we handled new construction design and supervision work for the relocation of Kumamoto Kenmin Television Corporation (KKT) to a new headquarters. Despite the area suffering from major earthquakes in April 2016, construction was completed in November 2016. Kumamoto City is one of the main cities of the Kyushu region and the new facility is installed with leading-edge equipment to ensure uninterrupted broadcasting as a base for disseminating information throughout the region.

In our efforts to expand overseas business since 2011, we have been building a solid track record in China and Taiwan led by a local subsidiary established in Shanghai. In June 2016, we completed our first major architectural design project in China, in Binjiang District in Hangzhou City, Zhejiang Province, part of which opened in September.

We established Mitsubishi Jisho Sekkei Asia Pte. Ltd. in April 2016 as a local subsidiary in Singapore with a view to exploring business opportunities in Southeast Asian markets where sustained population growth and economic development are expected.

Mitsubishi Jisho Sekkei is seizing the opportunity for Group synergy with Mitsubishi Jisho Residence's building renovation business, which renovates older small and medium-sized buildings and subleases them. As part of efforts to expand this business, we have established the Building Renovation Design Office to handle work related to renovation and seismic reinforcement design and supervision work.


Kumamoto Kenmin Television's new headquarters


External view of the Hangzhou Binjiang Project in China

HOTEL BUSINESS

Competitive Advantages

- For over 30 years, the Mitsubishi Estate Group's Hotel Business has been building a chain of hotels under the Royal Park Hotels brand based on its "Best for the Guest" guiding principle.
- We satisfy wide-ranging customer needs through our network of upscale, full-service hotels offering outstanding hospitality and a variety of luxurious facilities and of limited-service hotels that combine state-of-the-art facilities and convenient locations.

Business Strategy

- We are stepping up the pace of new hotel openings to expand the hotel network to tap into the strong demand for accommodation being fueled by growth in the number of inbound visitors to Japan, spurred by the Japanese government's tourism policies.
- We are looking to seize opportunities for growth by bringing together the Mitsubishi Estate Group's value chain and the hotel management expertise we have cultivated thus far.

Topics

In 2016, the number of overseas visitors to Japan increased 22% from the previous year, to more than 24 million, the largest number since records began in 1964. Although the supply of new hotel guest rooms in Japan has been rising, the supply-demand position remains tight in some cities. The Mitsubishi Estate Group is accelerating the pace of new hotel openings in its Hotel Business, which is overseen by Royal Park Hotels and Resorts Co., Ltd. (Royal Park Hotels).

In July 2016, we began construction of The Royal Park Hotel Kyoto Shijo, due to open in spring 2018. The hotel is close to the business center of Kyoto and within walking distance of the shopping and entertainment district. This project utilizes the value chain within the Mitsubishi Estate Group. Mitsubishi Estate is developing the property and Royal Park Hotels will manage the hotel on a leased basis. In December 2016, Royal Park Hotels reached an agreement with real estate developer Kenedix, Inc. for Royal Park Hotels to operate a hotel to be built at a site in Ginza and due to open in 2019. In February 2017, we took the decision to build a 352-room hotel in the Midosuji area of Osaka, the city's preeminent business district, which will be our flagship limited-service hotel in the Kansai area.

Computer graphic illustration of the completed The Royal Park Hotel Kyoto Shijo

Computer graphic illustration of the completed The Royal Park Canvas Tokyo Ginza

Computer graphic illustration of the completed The Royal Park Hotel Osaka Midosuji

REAL ESTATE SERVICES BUSINESS

Competitive Advantages

- The Real Estate Services Business provides one-stop real estate solutions by making full use of the Mitsubishi Estate Group's comprehensive strengths with a wide-ranging service menu spanning CRE* strategy support, including utilization of CRE information, real estate brokerage, leasing management, parking lot management, and real estate appraisal.
- Applying specialist expertise long nurtured as real estate service professionals, we provide solutions throughout Japan using our nationwide branch network.

* Corporate Real Estate (CRE): Real property held or used by a business enterprise or organization for its own operational purposes. In recent years, there has been growing interest in using CRE strategically to contribute to increased corporate value.

Business Strategy

- We are aiming to be the top company in CRE strategy support, real estate consulting, and recreational land and recreation facilities management, targeting enterprises and high net worth individuals as customers.
- We are establishing a value chain that combines the Business Development, Consulting & Solutions Group and the service menus of each of the Group's businesses while expanding the range of services we provide to existing customers.

Topics

Mitsubishi Real Estate Services Co., Ltd., offers CRE strategy planning and execution support through the CRE strategy support system to optimize the use and maximize the value of real estate owned by customers.

Amid accelerating changes in the environment in which companies operate, we need to put structures in place that allow us to offer more competitive services and so seize business opportunities born of diversifying real estate needs related to M&A deals and business reorganizations. With this in mind, in April 2016 we registered as an investment advisory and agency business, putting in place a structure that enables us to collect fee income even when the focus of transactions shifts from physical real estate transactions to M&A deals.

In addition, we have been striving to unearth new demand from existing customers while expanding our range of service offerings by combining service menus, such as proposing to customers both real estate brokerage services and subsequent management of leased properties.

We have been building the parking lot management business into a new earnings driver. Specifically, in addition to the management of outdoor parking lots, we have added as a new service the management of building parking lots. In the Marunouchi area, we have received contracts for the management of parking facilities in the Mitsubishi Building.

We will continue to further develop the Real Estate Services Business by identifying customer needs in collaboration with the Business Development, Consulting & Solutions Group.

Value Bridge
Solutions for Success

Mitsubishi Real Estate Services' brand logo

Parking facilities in the Mitsubishi Building

BUSINESS CREATION DEPARTMENT

Competitive Advantages

- Mitsubishi Estate has vast experience and second-to-none specialist expertise in real estate development and management deriving from a long history in urban development that spans the whole spectrum, from finding tenants and facility management to cooperating closely with such stakeholders as business operators in nearby areas.
- We are making all-out efforts to create sustainable innovation that goes beyond the bounds of established business fields.

Business Strategy

- In April 2017, we repositioned the New Business Creation Department, which was established in 2014 within the Corporate Group under the direct control of the president. While aiming to expedite decision making, we have also set a budget of ¥100 billion over the three years covering our new Medium-Term Management Plan with a view to building new revenue drivers for the 2020s.
- New asset development: One specific example is to participate in airport-related business in response to the Japanese government's promotion of private-sector management of airports. We also intend to actively engage in resort development, which has close affinities with the airport business.
- Business development through collaboration and business tie-ups: One concrete example is our investment in a fund set up by 500 Startups, a Silicon Valley-based early-stage venture fund and seed accelerator that has established a worldwide network and a solid track record. We aim to create new business through open innovation centering on collaboration with venture companies.

Topics

In the field of asset development, the Company in March 2017 entered into a basic agreement on the use of Shimojishima Airport with the local authorities in Okinawa Prefecture. In addition to developing the passenger terminals, we aim to attract scheduled international and domestic flights and private aircraft in cooperation with the local authorities and to stimulate economic activity in Miyakojima's resort areas.

In the business development field, we invested in and signed a comprehensive agreement with Chihou Sousei Network Co., Ltd. (CSN), in January 2017. CSN purchases fresh fish directly from fishermen throughout the country, processes, and sorts them at a special facility on the grounds of Tokyo's Haneda Airport's restricted area, and delivers the seafood the same day to restaurants and private homes. In cooperation with Mitsubishi Estate, CSN has begun a fresh fish delivery service to condominiums developed by the Mitsubishi Estate Group. The scope of the jointly operated services is being expanded to include wholesale sales to the Group's retail facilities and Royal Park Hotels.

To support innovation that goes beyond the bounds of established business domains, we have also begun full-fledged cooperation with venture businesses. One initiative here is our Corporate Accelerator Program. This aims to create new businesses together with venture businesses and began soliciting applications in June 2016.

Shimojishima, Miyakojima City, Okinawa Prefecture

Delivery of fresh fish

BUSINESS DEVELOPMENT, CONSULTING & SOLUTIONS GROUP

Value Drivers

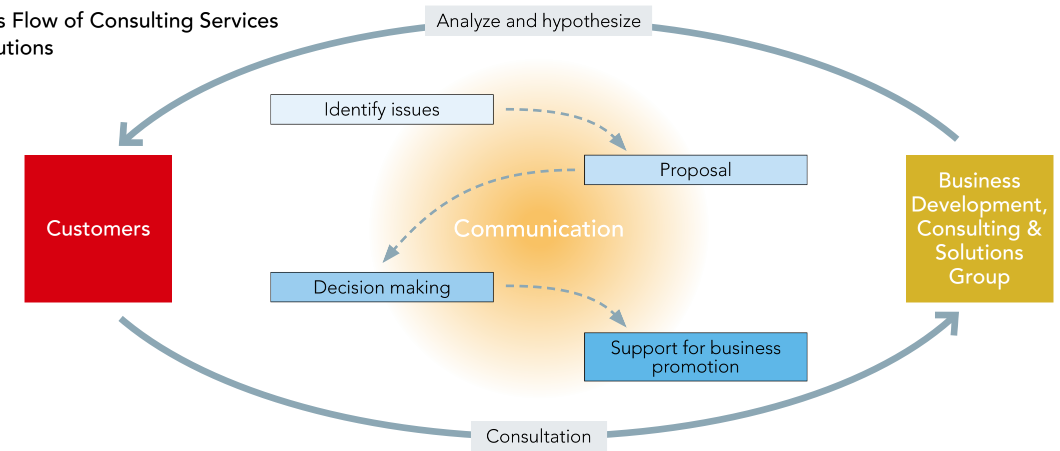
- Strategic sales organization comprising horizontally integrated segments
- Identify problems through consulting
- Robust solutions using Groupwide resources

Scope of Activities

The Business Development, Consulting & Solutions Group offers a wide range of services that make full use of the Mitsubishi Estate Group's abundant experience and comprehensive capabilities to resolve all types of challenges facing customers, acting as a business contact point for the entire Mitsubishi Estate Group.

Our main efforts involve making comprehensive assessments of real estate-related issues concerning customers, whether they are corporations or individuals, and proposing optimal approaches to their resolution that serve to raise corporate value by making use of wide-ranging businesses and resources. We are also actively undertaking development projects from a medium-to-long-term perspective and aiming to create new business opportunities that go beyond the bounds of the real estate field, thereby promoting joint business with customers while maximizing the use of our resources.

Business Flow of Consulting Services and Solutions



Real estate development
- Development method proposals
- Business plan support
- Project management
- Effective utilization / joint ventures (equivalent exchanges / term leasehold)
- Provisional use
- Reconstruction

Real estate investment
- Real estate investment strategy formulation support
- Market research and analysis
- Due diligence
- Acquisition support
- Asset management

Real estate liquidity
- Real estate-backed financial support
- Securitization
- Specified real estate joint ventures
- Sales and leaseback
- Real estate brokerage

Building operation and management
- Operation and management plan analysis and proposals
- Long-term maintenance plan consulting
- Commissioned operation and management of buildings, retail facilities, and hotels
- Subleasing
- Tenant marketing

Comprehensive building analysis and renovation
- Earthquake resistance analysis
- Facility management
- Energy saving and IT utilization in buildings and facilities
- Interior and exterior renovation
- Barrier-free facility construction
- Protective measures for buildings and facilities
- Conversion
- Building renovation business (renovation of existing buildings and subsequent leasing)

Design, supervision, and construction
- Environmental assessment and research
- Consulting for urban development and private finance initiatives (PFIs)
- Consulting, design, and supervision for environmental and civil-engineering solutions
- Construction management
- Design and supervision for buildings and structures
- Design and supervision for interiors and exteriors
- Single-unit homes and rental and corporate housing
- Residential and office renovation

CRE strategy support
- Organization of CRE information
- CRE valuation
- Support for strategy formulation and implementation

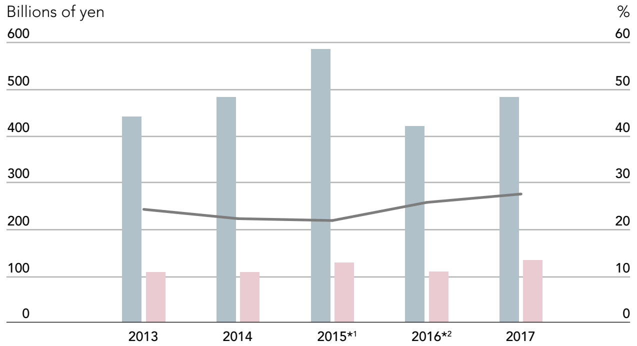
New business development
- Business partnership
- Investment / M&A

FINANCIAL HIGHLIGHTS BY SEGMENT

Years ended March 31

Revenue from Operations (left scale) | Operating Income (left scale) | Operating Income Ratio (right scale)

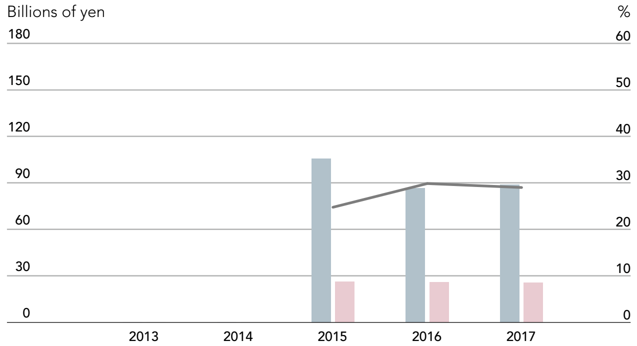
Office Building Business



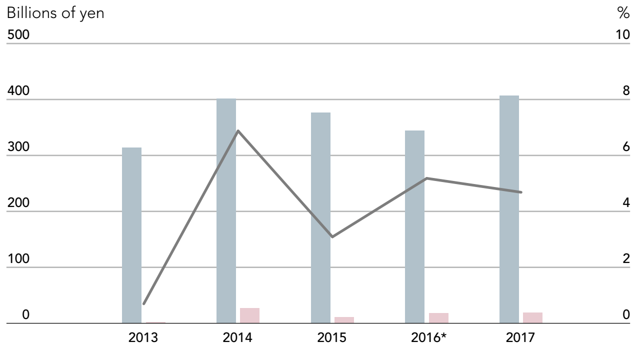
*1. As of April 2014, the Commercial Property Development & Investment Business has been integrated into the Office Building Business.

*2. As of April 2015, domestic retail & logistics property businesses (not including some multipurpose facilities), no longer in the Office Building Business, now featuring the Lifestyle Property Business.

Lifestyle Property Business

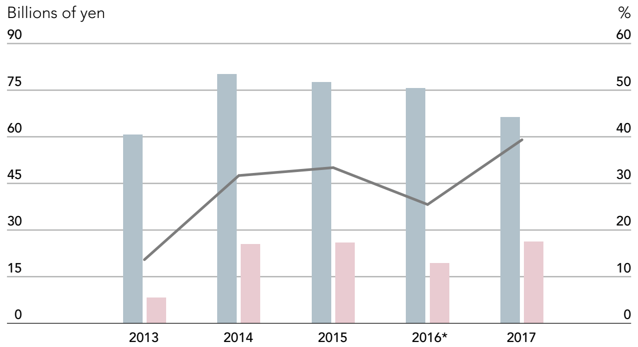


Residential Business



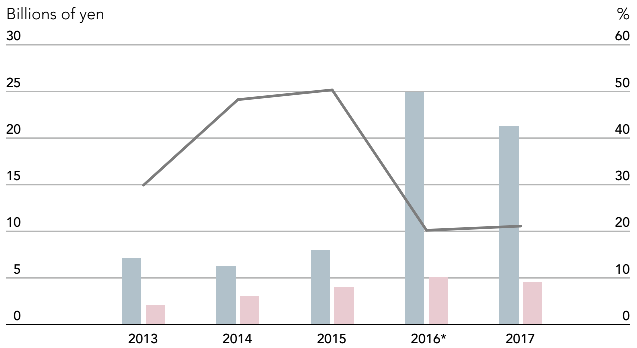
* As of July 2015, certain operations of Mitsubishi Jisho House Net Co., Ltd., have been moved from the Real Estate Services Business to the Residential Business.

International Business



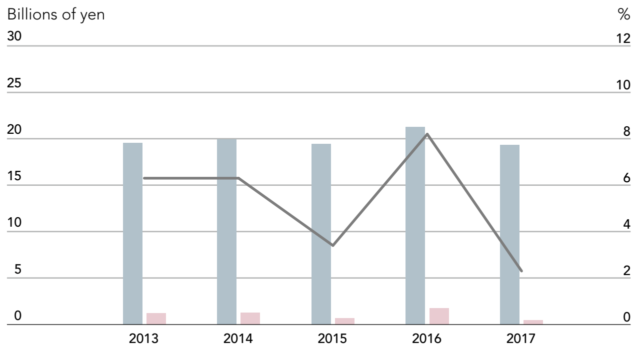
* As of April 2015, the Overseas Investment Management Business has been moved from the International Business to the Investment Management Business.

Investment Management Business

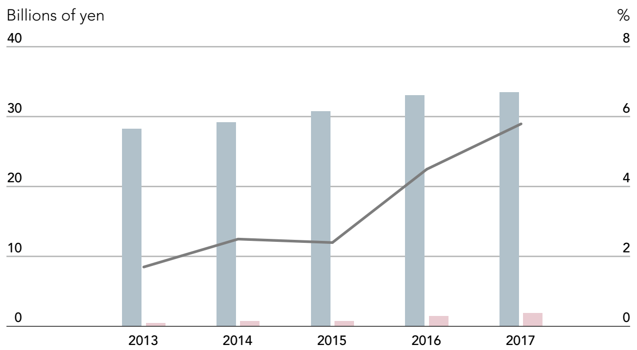


* As of April 2015, the Overseas Investment Management Business has been moved from the International Business to the Investment Management Business.

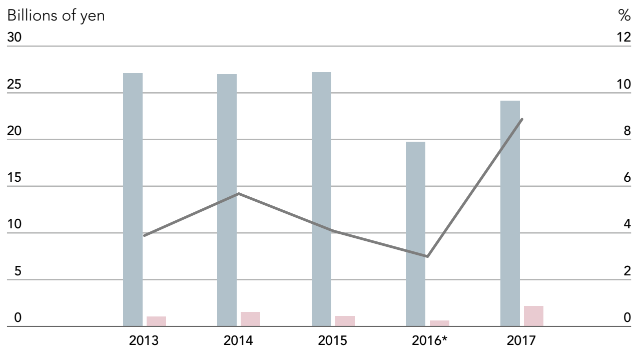
Architectural Design & Engineering Business



Hotel Business



Real Estate Services Business



* As of July 2015, certain operations of Mitsubishi Jisho House Net Co., Ltd., have been moved from the Real Estate Services Business to the Residential Business.

Marunouchi area as photographed from above the Imperial Palace

CORPORATE GOVERNANCE

The mission of the Mitsubishi Estate Group is "to contribute to society through urban development." In line with that mission, we aim to work with stakeholders to create shared value while reinforcing the corporate governance that forms the bedrock of our business.

Message from the Chairman of the Board

Let me begin by reporting a change in Mitsubishi Estate's management team. In April 2017, Junichi Yoshida took up the mantle of president and chief executive officer. Yoshida has proven himself highly capable of formulating management visions from a Groupwide perspective in his past positions as an corporate executive officer and a director. Moreover, he has demonstrated a high degree of proficiency in communicating with employees and officers, a skill cultivated over his long career in human resource management. The Board of Directors is united in its appraisal of Yoshida as a leader with the capacity to draw out the full potential of the Group's human resources and thereby drive the growth of the Group.

I too felt a renewed desire to facilitate ongoing improvements in Mitsubishi Estate's corporate value by ensuring effective governance when I took up a new role, the position of chairman of the Board in my case. I am committed to utilizing the insight into business execution I gained during my time as president, while remaining keenly aware of the separation of responsibilities between the management supervision and business execution functions, in order to contribute to more active and constructive discussions at meetings of the Board of Directors.

The Medium-Term Management Plan announced in May 2017 is the first plan established following the June 2016 transition to the "Company with Nominating Committee, etc.," structure described in the Companies Act of Japan. In formulating this plan, we examined possible measures for facilitating the Group's growth from the perspective of frontline operations. At the same time, the Board of Directors discussed the medium-term management tasks faced by the Group as well as our goals for the future. Accordingly, the plan is a marriage of on-site realism and abstract management vision. This plan was truly born out of brisk discussion. However, there may be a need to further improve how we conduct discussions at meetings of the Board of Directors, and the evaluations of the effectiveness of the Board of Directors that we began instituting in fiscal 2017 will be a powerful tool to this effect. Advancing the Medium-Term Management Plan is a top priority for management. As we move forward, the Board of Directors will continue to monitor the progress of the plan while fine-tuning it based on operating environment changes and engaging in deeper, more strategy-oriented discussions.

All directors feel the weight of their responsibilities as members of the Board of Directors of a company that must continue to create value through community development activities over the next century and beyond. We will not limit ourselves just to overseeing the implementation of the Medium-Term Management Plan. Rather, we will pursue higher corporate value by formulating management policies aimed at responding to a wide range of social needs, including engaging in sophisticated community development activities to achieve coexistence with the environment and bolstering the international competitiveness of Tokyo.

August 2017

Hirotaka Sugiyama

Chairman of the Board
Mitsubishi Estate Co., Ltd.

Overview of Corporate Governance System

Basic Policy

We aim to realize our basic mission of contributing to the creation of a truly meaningful society through attractive urban development that gives due consideration to both environmental concerns and the residential, work, and recreational needs of our time. With this in mind, we recognize the need for a harmonious balance between corporate growth and the interests of our various stakeholders.

Based on this mission, the Group endeavors to promote management that is focused on the interests of shareholders and to realize efficient and sound-minded Group management and is working to structure a management system that has more vitality and flexibility. We view corporate governance as one of our most important systems and, therefore, are constantly working toward the creation of structure best suited to the Group.

System Structure

As a "Company with Nominating Committee, etc.," Mitsubishi Estate has established the Nominating Committee, the Audit Committee, and the Remuneration Committee, which are positioned under the Board of Directors and are membered by a majority of outside directors. These committees help promote high standards and ensure transparency of the decision-making process.

Board of Directors

The Board of Directors decides the basic policy of the Company's management, and it also carries out supervision of the execution of duties by directors and corporate executive officers. As of June 29, 2017, the Board of Directors consists of 15 directors, of whom seven are outside directors. The role of chairman of the Board of Directors is held by the chairman of the Board of the Company, who does not concurrently serve as a corporate executive officer.

Composition of the Board of Directors

Nominating Committee, Audit Committee, and Remuneration Committee

The memberships of each committee are as follows.

Nominating Committee

Isao Matsuhashi (Committee chairman)	Outside Director
Hirotaka Sugiyama	
Noboru Nishigai	
Masaaki Shirakawa	Outside Director
Setsuko Egami	Outside Director

Audit Committee

Yutaka Yanagisawa (Committee chairman)	
Toru Okusa	
Shu Tomioka	Outside Director
Shin Nagase	Outside Director
Iwao Taka	Outside Director

Remuneration Committee

Shin Ebihara (Committee chairman)	Outside Director
Junichi Tanisawa	
Noboru Nishigai	
Masaaki Shirakawa	Outside Director
Setsuko Egami	Outside Director

Directors

As of June 29, 2017

(Back row, from left)
Yutaka Yanagisawa, Iwao Taka, Hiroshi Katayama, Shu Tomioka, Shin Ebihara, Junichi Tanisawa, Masaaki Shirakawa, Noboru Nishigai, Shin Nagase, Toru Okusa

(Front row, from left)
Jo Kato, Isao Matsuhashi, Junichi Yoshida, Hirotaka Sugiyama, Setsuko Egami

Name
Position

Appointment year
Number of shares held
(As reported in *Fiscal 2017 Financial Report*, available only in Japanese)

Hirotaka Sugiyama
Chairman of the Board

2007
48 thousand shares

Junichi Yoshida
Director

2016
32 thousand shares

Jo Kato
Director

2011
74 thousand shares

Junichi Tanisawa
Director

2014
24 thousand shares

Hiroshi Katayama
Director

2016
22 thousand shares

Noboru Nishigai
Director

2017
21 thousand shares

Yutaka Yanagisawa
Director

2016
22 thousand shares

Toru Okusa
Director

2013
31 thousand shares

Isao Matsuhashi
Outside Director

2007
–shares
Born on April 16, 1933

- Apr. 1956 Joined Japan Travel Bureau Foundation
- Jun. 1990 President and Representative Director, JTB Corp.
- Jun. 1996 Chairman and Representative Director, JTB Corp.
- Jun. 2002 Director and Adviser, JTB Corp.
- Apr. 2004 Chairman and Director, NARITA INTERNATIONAL AIRPORT CORPORATION
- Jun. 2004 Adviser, JTB Corp. (Current position)
- Jun. 2007 Retired from the position of Chairman and Director, NARITA INTERNATIONAL AIRPORT CORPORATION
- Jun. 2007 Director, Mitsubishi Estate Co., Ltd. (Current position)

Shin Ebihara
Outside Director

2015
–shares
Born on February 16, 1948

- Apr. 1971 Joined the Ministry of Foreign Affairs of Japan
- Jun. 2001 Director-General, Treaties Bureau, the Ministry of Foreign Affairs of Japan
- Sep. 2002 Director-General, North American Affairs Bureau, the Ministry of Foreign Affairs of Japan
- Jan. 2005 Assistant Chief Cabinet Secretary, the Cabinet Secretariat
- Mar. 2006 Ambassador Extraordinary and Plenipotentiary to the Republic of Indonesia
- Apr. 2008 Ambassador Extraordinary and Plenipotentiary to the United Kingdom
- Feb. 2011 Retired from the Ministry of Foreign Affairs of Japan
- Jun. 2015 Director, Mitsubishi Estate Co., Ltd. (Current position)

Shu Tomioka
Outside Director

2006
10 thousand shares
Born on April 15, 1948

- Nov. 1975 Joined Morgan Guaranty Trust Company of New York
- Feb. 1991 Branch Manager and Representative in Japan, J.P. Morgan Securities Asia Pte. Limited, Tokyo Branch
- Jul. 1998 Director and Vice Chairman, J.P. Morgan Securities Asia Pte. Limited
- Apr. 1999 Representative in Japan, J.P. Morgan Securities Asia Pte. Limited
- Mar. 2001 Vice Chairman, J.P. Morgan Securities Asia Pte. Limited
- Oct. 2002 Retired from J.P. Morgan Securities Asia Pte. Limited
- Jun. 2006 Director, Mitsubishi Estate Co., Ltd. (Current position)

Masaaki Shirakawa
Outside Director

2016
–shares
Born on September 27, 1949

- Apr. 1972 Joined Bank of Japan
- Jul. 2002 Director, Bank of Japan
- Jul. 2006 Professor, Kyoto University School of Government
- Mar. 2008 Vice President, Bank of Japan
- Apr. 2008 President, Bank of Japan
- Mar. 2013 Retired from Bank of Japan
- Jun. 2016 Director, Mitsubishi Estate Co., Ltd. (Current position)

Shin Nagase
Outside Director

2016
–shares
Born on March 13, 1950

- Apr. 1972 Joined ALL NIPPON AIRWAYS CO., LTD
- Apr. 2009 Representative Director and Deputy President, ALL NIPPON AIRWAYS CO., LTD.
- Apr. 2012 President, ANA Strategic Research Institute Co., Ltd.
- Apr. 2016 Full-Time Advisor, ANA HOLDINGS INC.
- Jun. 2016 Director, Mitsubishi Estate Co., Ltd. (Current position)
- Mar. 2017 Retired from the position of Full-Time Advisor, ANA HOLDINGS INC.

Setsuko Egami
Outside Director

2015
–shares
Born on July 16, 1950

- Apr. 1983 Editor-in-Chief of *Travaille* magazine, Japan Recruit Center
- Dec. 2001 Director, Frontier Service Development Laboratory, East Japan Railway Company
- Apr. 2009 Professor, Graduate School of Humanities, Musashi University (Current position) Professor, Faculty of Sociology, Musashi University (Current position)
- Apr. 2012 Dean, Faculty of Sociology, Musashi University
- Jun. 2015 Director, Mitsubishi Estate Co., Ltd. (Current position)

Iwao Taka
Outside Director

2016
–shares
Born on March 10, 1956

- Apr. 1994 Full-Time Lecturer, Faculty of International Economics, Reitaku University
- Apr. 2001 Professor, Faculty of International Economics (currently Faculty of Economics and Business Administration), Reitaku University (Current position)
- Apr. 2002 Professor, School of International Economics (currently School of Economics and Business Administration), Chikuro Hiroike School of Graduate Studies, Reitaku University (Current position)
- Apr. 2009 Dean, Faculty of Economics and Business Administration, Reitaku University
- Jun. 2015 Statutory Auditor, Mitsubishi Estate Co., Ltd.
- Jun. 2016 Director, Mitsubishi Estate Co., Ltd. (Current position)

Outside Directors

Reason for nomination

Isao Matsuhashi	The Company expects that he would carry out the supervision and check functions regarding the Company's management from an objective viewpoint independent from management executives in charge of business affairs by leveraging his management experience in a lifestyle-related service company.
Shin Ebihara	The Company expects that he would carry out the supervision and check functions regarding the Company's management from an objective viewpoint independent from management executives in charge of business affairs by leveraging his wealth of international experience and knowledge gained through his extensive years as a diplomat.
Shu Tomioka	The Company expects that he would carry out the supervision and check functions regarding the Company's management from an objective viewpoint independent from management executives in charge of business affairs by leveraging his management experience in a foreign-affiliated investment bank.
Masaaki Shirakawa	The Company expects that he would carry out the supervision and check functions regarding the Company's management from an objective viewpoint independent from management executives in charge of business affairs by leveraging his knowledge in finance and economics, among other fields gained through his experience working at a central bank.
Shin Nagase	The Company expects that he would carry out the supervision and check functions regarding the Company's management from an objective viewpoint independent from management executives in charge of business affairs by leveraging his management experience at an airline company.
Setsuko Egami	The Company expects that she would carry out the supervision and check functions regarding the Company's management from an objective viewpoint independent from management executives in charge of business affairs by leveraging her abundant knowledge of corporate strategy, marketing strategy, and human resource development.
Iwao Taka	The Company expects that he would carry out the supervision and check functions regarding the Company's management from an objective viewpoint independent from management executives in charge of business affairs by leveraging his extensive knowledge regarding business ethics and compliance, among other fields.

Independence Standards for Independent Outside Directors

The candidates for outside directors shall fulfill duty of care of a prudent manager toward the Company, understand the Group's basic mission of contributing to the creation of a truly meaningful society by building attractive, environmentally sound communities where people can live, work, and relax with contentment, apply their qualities and capabilities to contribute to enhancing medium-to-long-term sustainable corporate value, as well as their experience and knowledge in specialized fields such as global business, finance and risk management in view of its business characteristics such as supporting urban development in the Marunouchi area, and have personality and knowledge enabling objective and fair judgments, based on the perspective that they would contribute to the common interests of the shareholders without bias toward the interest of any particular party of interest. However, as a general principle, candidates are not elected if the Tokyo Stock Exchange's standards for independence and the following independence standards for outside directors apply to them.

(1) A shareholder or executive member of an entity holding voting rights exceeding 10% of total voting rights of the Company.
(2) A transaction party or executive member of an entity whose transactional amounts in the most recent fiscal year have exceeded 2% of consolidated revenue from operations of the Company.
(3) A representative employee, employee, or member of staff of the Company's accounting auditor.
(4) An attorney, certified public accountant, tax accountant, consultant, or other party who has received compensation from the Company exceeding ¥10 million in the most recent fiscal year.

Overview of Activities in Fiscal 2017

Attendance by Outside Directors at Meetings of the Board of Directors and Committees (Meetings Attended / Total Meetings)

Outside Directors	Board of Directors	Nominating Committee	Audit Committee	Remuneration Committee
Isao Matsuhashi	11/11	6/6	—	—
Shin Ebihara	11/11	—	—	5/5
Shu Tomioka	11/11	—	11/11	—
Masaaki Shirakawa	7/7*1	6/6	—	5/5
Shin Nagase	7/7*1	—	11/11	—
Setsuko Egami	11/11	6/6	—	5/5
Iwao Taka	11/11*2	—	11/11	—

*1. Outside directors Masaaki Shirakawa and Shin Nagase assumed their positions on June 29, 2016, which is the reason why the number for total meetings pertaining to these two differs from that of other outside directors.
*2. The number for attendance at meetings of the Board of Directors by Outside Director Iwao Taka in fiscal 2017 includes meetings that this individual attended as an outside statutory auditor.

Nominating Committee

Duties	Deciding the details of the proposals of the general meeting of shareholders related to the election and dismissal of directors
Major activities	The Nominating Committee established standards for nominating director candidates and then determined the details of the director nomination proposal put to the Ordinary General Meeting of Shareholders held in June 2017. In addition, reports and deliberations were conducted at meetings of the Nominating Committee with regard to the nomination of the president & chief executive officer and other corporate executive officers prior to the resolution by the Board of Directors.
Number of meetings	6

Audit Committee

Duties	Conducting audits on the execution of duties by directors and corporate executive officers, creating the audit reports related to this, and deciding on the details of proposals of the general meeting of shareholders related to the appointment, dismissal, or non-reappointment of the accounting auditor
Major activities	Full-time members of the Audit Committee conducted audits based on the audit standards, policies, and plans formulated by the committee while also meeting periodically with the accounting auditor and the Internal Audit Office to foster coordination. Information gained through these activities was reported to the Audit Committee. Opinions were exchanged and important matters were discussed after such information had been shared with all committee members. The committee itself also fostered coordination by receiving regular reports on audit plans, systems, and results from the accounting auditor and the Internal Audit Office. Based on policies regarding the dismissal or non-reelection of accounting auditors, the Audit Committee decided to re-elect the accounting auditor. The amount of remuneration of the accounting auditor was decided through a consensus reached after examining this matter as required.
Number of meetings	11

Remuneration Committee

Duties	Deciding the policy related to remuneration decisions for directors and corporate executive officers and on the remuneration amounts for each individual
Major activities	The Remuneration Committee determined the policy related to decisions on the remuneration of directors and corporate executive officers based on which it decided the amounts of monetary and stock compensation to be issued to each individual. Also, the Remuneration Committee passed a resolution to introduce a Restricted Stock Compensation System that will allot restricted shares, in place of the previously provided stock options, to the Company's corporate executive officers and executive officers as well as Group executive officers for the purpose of providing an incentive for the eligible officers to consistently increase the Company's corporate value and further promote shared value between the eligible officers and shareholders.
Number of meetings	5

Remuneration

Total Remuneration Paid to Directors, Corporate Executive Officers, and Statutory Auditors in Fiscal 2017

Category	Total remuneration (Millions of yen)	Monetary remuneration (Millions of yen)	Stock compensation (Millions of yen)	Recipients
Internal directors	352	297	54	10
Corporate executive officers	927	658	268	13
Internal statutory auditors	8	8	—	1
Outside directors and statutory auditors	104	104	—	9

Note: The above amounts include remuneration payments made to the four directors and four statutory auditors (three of whom are outside statutory auditors) who retired from their positions as of the end of the 117th Ordinary General Meeting of Shareholders held on June 29, 2016.

Board Policies and Procedures in Determining the Remuneration of Senior Management and Directors

(i) Procedures for Deciding Remuneration Paid to Officers

The policy concerning decisions on the details of remuneration paid to Directors and Corporate Executive Officers of the Company and the details of remuneration for each person shall be decided upon by a resolution at the Remuneration Committee, which is chaired by an outside director and membered by a majority of outside directors.

(ii) The Basic Policy for Deciding Remuneration for Officers

The basic policy for deciding remuneration for directors and corporate executive officers of the Company is as follows.

- The remuneration system shall be one that is linked with our medium-to-long-term performance targets, etc., aimed at in the management strategy and the Medium-Term Management Plan and realizes sustained corporate value improvement and sharing of value with our shareholders.
- The remuneration system shall be one that allows for giving incentives to management executives' who take up challenges and appropriate risk taking in line with the strategy targets and expectations of shareholders and other stakeholders.
- The remuneration system shall be one that makes it possible to fulfill the high accountability for the benefit of our shareholders and other stakeholders through objective deliberations and judgments by the Remuneration Committee.

(iii) Remuneration systems for Officers

The remuneration systems for directors and corporate executive officers shall be separately established in consideration of respective functions and roles to be fulfilled for the purpose of achieving the sustained corporate value improvement. In addition, directors who concurrently serve as corporate executive officers shall be paid remuneration as corporate executive officers.

- Directors (excluding directors who concurrently serve as corporate executive officers)
  In consideration of their function and role of supervising performance of duties by corporate executive officers and directors, they shall receive, in principle, only basic remuneration in the form of money, and the standards shall be decided upon individually taking into account factors such as position and responsibilities as directors and whether they are full-time or part-time.
- Corporate Executive Officers
  In consideration of their function and role of taking charge of business execution of the Company, their remuneration shall, in principle, comprise basic remuneration and variable remuneration. Variable remuneration comprises monetary compensation that is paid based on short-term performance and stock compensation that is paid based on evaluation on medium-to-long-term performance, etc. The standards and ratio of basic remuneration and variable remuneration, valuation indicators for variable remuneration, and other matters shall be decided upon taking into account medium-to-long-term performance targets, etc., aimed at in the management strategy and the Medium-Term Management Plan and factors such as position and responsibilities as corporate executive officers.

Evaluation of the Effectiveness of the Board of Directors

The Company regularly conducts self-evaluations of each director with regard to operation of the Board of Directors and the content of deliberation. The results of these evaluations shall be reported to the Board of Directors, and the Board of Directors analyzes and evaluates its effectiveness based on these self-evaluations and other information.

The process and results of evaluation of the effectiveness of the Board of Directors conducted in fiscal 2017 are as follows.

1. Process of Evaluation

(1) Method of Evaluation

All Directors provided self-evaluation in the form of a response to a questionnaire relating to the composition, operation, effectiveness, etc., of the Board of Directors and each of the Nominating, Audit, and Remuneration committees, and taking these results into consideration, they shared the issues with each other and examined proposed corrective measures at Board of Directors meetings.

(2) Items of Evaluation

Composition of the Board of Directors	Proportion of outside directors, size in numbers, diversity
Operation of the Board of Directors	Frequency, required time, selection of agenda, content of handout materials, information other than handouts provided, questions and answers, training, etc.
Effectiveness of the Board of Directors	Management plan, delegation of authority to corporate executive officers, risk management systems, dialogue with shareholders and investors, election and dismissal of key management personnel, successor training plan, remuneration paid to officers, etc.
Others	Composition, operation, cooperation of each of the Nominating, Audit, and Remuneration committees, method of the evaluation of the effectiveness of the Board of Directors, etc.

2. Results of Evaluation and Future Initiatives

As a result of examination and discussions at Board of Directors meetings, two points were identified concerning the main issues and future initiatives for further improvement of effectiveness.

- There is a need to review the agenda of the Board of Directors and secure the priority of discussion on issues with high importance in order to further increase opportunities and time for discussions on the formulation of management plans.
- There is a need to increase the opportunities for reporting at the Board of Directors and to enhance the content of such reports in order to further expand opportunities and time for discussing and sharing information to promote dialogue with shareholders and investors.

Corporate Executive Officers, Executive Officers, and Group Executive Officers

As of June 29, 2017


Junichi Yoshida
Representative Corporate Executive Officer
President & Chief Executive Officer


Jo Kato
Representative Corporate Executive Officer
Deputy President


Naoto Aiba
Representative Corporate Executive Officer
Executive Vice President


Kenichi Iwata
Executive Vice President


Atsuo Kyono
Representative Corporate Executive Officer
Executive Vice President


Tetsuji Arimori
Representative Corporate Executive Officer
Executive Vice President


Junichi Tanisawa
Representative Corporate Executive Officer
Executive Vice President


Tetsuo Yuasa
Senior Executive Officer


Hiroshi Katayama
Senior Executive Officer


Noboru Nishigai
Senior Executive Officer


Hisashi Komada
Senior Executive Officer


Kenji Hosokane
Senior Executive Officer


Soichiro Hayashi
Group Executive Officer


Hidemi Waki
Group Executive Officer


Yutaka Tajima
Group Executive Officer


Futoshi Chiba
Group Executive Officer

Executive Officers

- Keiji Takano
- Ikuo Ono
- Masaki Yamagishi
- Atsushi Nakajima
- Toru Kimura
- Yutaro Yotsuzuka

Group Executive Officers

- Soichiro Hayashi
- Hidemi Waki
- Yutaka Tajima
- Futoshi Chiba
- Akinori Nakajo
- Akihiko Watanabe
- Yuji Fujioka
- Bunroku Naganuma
- Masaharu Miyajima
- Tetsuya Okusa
- Nobuhiro Okumoto

RISK MANAGEMENT

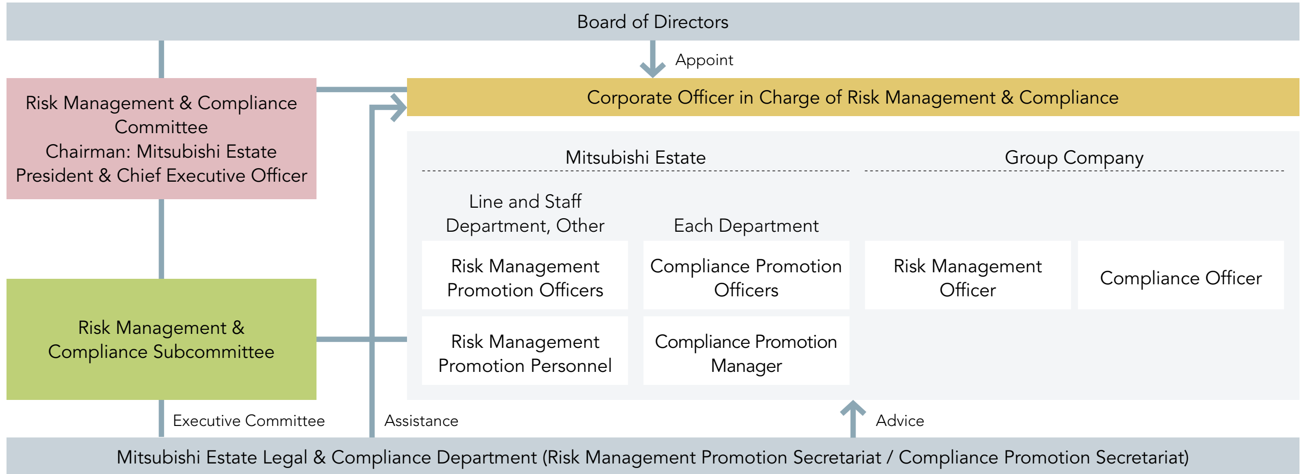
The Mitsubishi Estate Group has established the Mitsubishi Estate Group Risk Management rules and has set up a risk management system to manage risks in all its business activities. Mitsubishi Estate has established the Risk Management & Compliance Committee to oversee the Group's risk management and the Risk Management & Compliance Subcommittee as a working-level consulting body responsible for such matters as the collection of risk management-related information. The corporate officer in charge of risk management is appointed by resolution of the Board of Directors to take responsibility for overseeing risk management, and general managers of each business group and general managers in the Corporate Group departments have been designated as risk management officers. We promote risk management activities through the Mitsubishi Estate's Legal & Compliance Department, which serves as the secretariat.

Prior to the deliberation of important investment projects at the Management Committee, the Strategic Investment Committee deliberates and evaluates the nature of risks and related countermeasures and other matters.

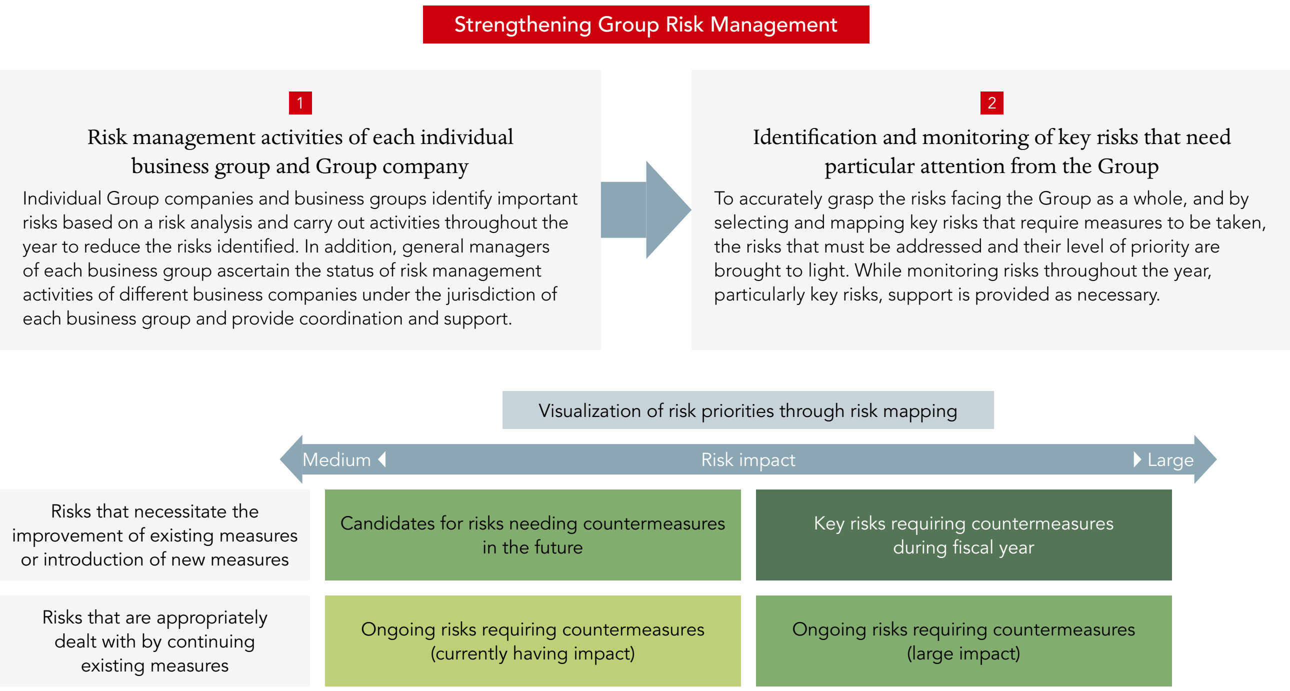
We have also established and implement action guidelines, contact and initial response systems, and business continuity planning systems for use in times of crisis.

Risk Management & Compliance System

As of August 2017



Risk Management Activities



Dealing with Major Risks

Below are some examples of risks that have come to light in the Group through risk management activities and various business activities and countermeasures that have been taken.

Risks of Information Security	In light of society's growing concerns over the protection of personal information and information management, the Mitsubishi Estate Group has established the Mitsubishi Estate Group's Basic Regulations on Information Management Compliance. We are aiming to further improve information management through continuous monitoring and supervision. In response to the enactment of the revised Act on the Protection of Personal Information, the Mitsubishi Estate Group has, in order to ensure the appropriate handling of personal information, revised relevant regulations such as the Mitsubishi Estate Group's Policy on Personal Information Protection and rules on the treatment of personal information.
Risks of International Business Expansion	With the expansion of our international business, preventing corruption has become an important theme. In 2013, the Group established a corruption prevention system, and in 2016 we instituted a system of assessing corruption by contract and requiring due diligence with respect to transaction counterparties where risk is assessed as high. In addition, we are seeking to gain a greater understanding of rules relating to the prevention of corruption among staff through training programs and are also constantly monitoring this position. Recognizing the risks staff posted overseas may face in terms of being caught up in incidents and accidents, we have prepared a manual outlining the specific actions they should take in an emergency.
Risks of Natural and Man-Made Disasters, etc.	The occurrence of such natural disasters as earthquakes, floods, or climate change, or man-made disasters including accidents or fires may impact the performance, financial position, or other aspect of the Group's business. The Group is redeveloping its properties to install advanced disaster-management functions and has established disaster-response measures through area management.
Risks of Fluctuations in Exchange Rates	In addition to those held in Japan, the Group is developing and holding assets in the United States, Europe, and Asia, for which the book values and income are accounted for in local currencies. Consequently, any fluctuation in exchange rates would affect the yen conversion rate used for foreign currency denominated assets and liabilities and business transactions. The Group minimizes these risks of fluctuations in interest rates using such methods as borrowing funds in local currencies when procuring assets overseas.
Risks of Fluctuations in the Real Estate Market	The real estate market is closely correlated with movement in the economy. Deterioration in the economy has a strong impact on declines in real estate prices and rental fees and the increase in vacancy rates. In view of this correlation, the basic policy of the Group is to conclude relatively long-term lease contracts with customers in its office building leasing business. The prospects of stable lease revenues mitigate to a certain degree the risk of sharp movements in the economy.
Risks of Increases in Interest Rates	The Group acquires funding for its operations by borrowing from financial institutions or issuing corporate bonds. The Bank of Japan (BOJ) has implemented a policy of quantitative and qualitative monetary easing in response to the credit crunch in financial markets and the slowdown in the global economy. Should interest rates rise, however, because of a change in the BOJ's policy or a deterioration in the demand-supply balance for Japanese government bonds (JGBs) caused by growth in the issuance of JGBs, it may negatively affect the performance, financial position, or other aspect of the Group's business. The Group hedges interest rate risk on a certain portion of its variable interest rate financing through interest rate swaps to convert its interest rate payments into fixed payments. In the future, the Group plans to manage its interest rate risk by procuring funds based on a consideration of its fixed and variable interest rate borrowings and its outstanding corporate bond balances.

To create truly valuable urban environments, nurturing the people responsible for such environments is indispensable. The Mitsubishi Estate Group is committed to providing the training and educational programs to develop human resources to create new value over the medium-to-long term and to arranging support for working approaches that offer environments that encourage the active participation of all staff while respecting individual lifestyle needs.

Staff Education and Training Ideology

The Mitsubishi Estate Group recognizes the vital importance of its people as the key management resource underpinning the entire organization.

What we seek in our employees are the following five attributes: vision, professionalism, integrity, team building, and challenge and innovation.

We implement job rotations taking into account career growth stages and we have established systematic training programs in the workplace, with training tailored to the needs of people in different positions and at varying career stages. In addition, we are making efforts to train staff throughout the organization by such means as holding human resource development training sessions as one of the most important issues for managers.

The Five Attributes We Seek in Our Employees

–Vision–
People with
ambition and desire

People with front-line effectiveness and
the power to see work through
—Professional—

People of
sincerity and fairness
—Integrity—

People who can fight as part
of a group
—Team building—

People who
lead change
—Challenge & innovation—

Wide-Ranging Staff Education and Training

We have established a wide range of training programs throughout the Group aimed at developing the capabilities of all staff and raising awareness of human rights as well as the need for strict adherence to the Group's compliance policies.

In addition to individual study and training programs offered by each Group company, we are providing a broad range of cross-Group training programs, including those on business skills and those for new employees and newly appointed managers, aiming to create a united sense of purpose throughout the Group.

Furthermore, in order to nurture human resources with the skills needed to perform in a global context, we are making efforts to enhance basic global skills. For example, to raise the linguistic skills of all employees, we are introducing short-term language training programs. We also encourage employees to take part in various programs held globally to deepen their understanding of the world and the communities within it. Aiming to strengthen global business skills, we have also introduced training systems involving practical experience at Group companies in the U.S. and the U.K. and have also been fostering human resources able to perform effectively on a global basis by sending employees to study abroad.

Building a Supportive and Stimulating Work Environment

A good work-life balance that respects individuality and different values is essential to establishing a working environment that encourages the active participation of all staff. We have been introducing various flexible working arrangements and childcare and nursing care leave systems to give staff multiple options in how they choose to work. With regard to childcare leave, since fiscal 2015, 100% of employees have returned to work after taking such leave, and the retention rate one year after the return to work has also been 100%.

As the number of women hired and their years of continuous employment increase, the number of female candidates for management positions has grown and the ratio of female managers has also risen. Mitsubishi Estate believes that creating an environment conducive to the performance of both male and female employees will feed through to a rising ratio of female managers. We are committed to continuing to promote diversity, including the active role of women, in the workplace.

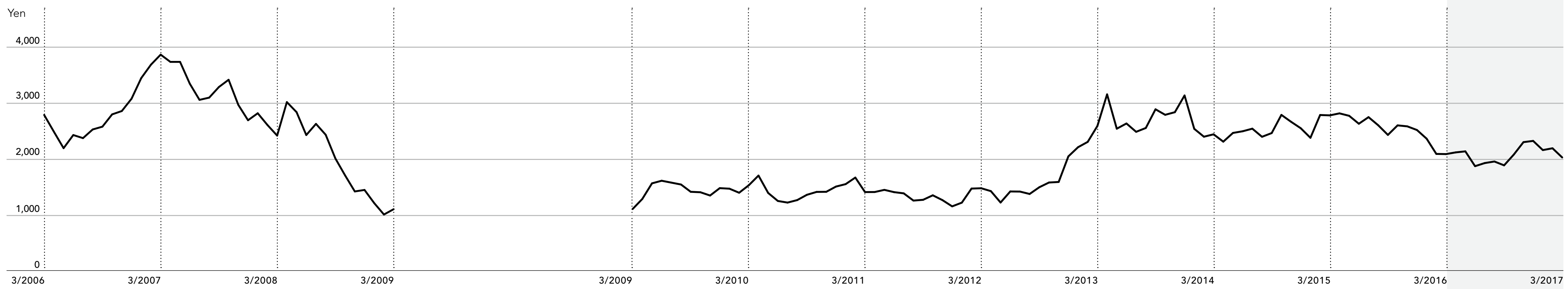
Exterior view of the Otemachi Building

FINANCIAL SECTION

Eleven-Year Summary of Selected Financial Data (Consolidated)

	3/2007	3/2008	3/2009	3/2010	3/2011	3/2012	3/2013	3/2014	3/2015	3/2016	3/2017
Financial Results (Millions of yen)											
Revenue from operations	¥ 947,641	¥ 787,652	¥ 942,626	¥1,013,415	¥ 988,447	¥1,013,069	¥ 927,157	¥1,075,285	¥1,110,259	¥1,009,408	¥1,125,405
Operating income	166,165	177,983	138,567	148,972	158,258	146,299	118,349	161,271	156,332	166,199	192,495
Ordinary income	151,674	162,061	108,624	117,381	130,830	120,665	92,381	139,638	133,113	144,851	169,851
Profit attributable to owners of parent	97,662	86,963	45,423	11,900	64,219	56,512	45,507	64,297	73,338	83,426	102,681
Financial Position (Millions of yen)											
Total assets	3,447,272	4,327,137	4,429,070	4,355,065	4,245,209	4,387,015	4,711,521	4,765,368	4,901,526	5,311,840	5,484,115
Total equity*[1]	1,225,644	1,238,889	1,148,494	1,183,156	1,202,270	1,256,791	1,239,547	1,329,057	1,495,838	1,509,680	1,592,777
Interest-bearing debt	1,012,588	1,645,407	1,834,195	1,762,111	1,639,050	1,716,890	2,085,417	1,973,042	1,929,355	2,291,038	2,396,994
Capital expenditures	138,169	270,798	201,088	114,085	76,332	282,171	208,135	159,677	177,331	275,316	275,372
Depreciation and amortization	54,257	56,867	60,364	73,926	70,628	67,465	73,364	74,805	72,696	74,245	75,974
Cash Flows (Millions of yen)											
Cash flows from operating activities	150,710	(16,248)	45,824	212,668	259,263	203,243	122,286	336,489	200,078	135,821	168,527
Cash flows from investing activities	(85,389)	(212,207)	(214,500)	(112,639)	(67,223)	(272,009)	(217,992)	(133,537)	(46,568)	(231,003)	(327,292)
Cash flows from financing activities	(34,093)	238,942	141,055	(106,852)	(140,269)	57,189	27,150	(177,514)	(189,109)	309,237	(4,921)
Cash and cash equivalents at end of year	206,089	219,712	184,552	177,825	229,062	215,771	191,837	224,739	198,489	412,392	243,341
Per Share Amounts (Yen)											
Earnings	¥70.95	¥62.99	¥32.90	¥ 8.58	¥46.27	¥40.72	¥32.79	¥46.34	¥52.85	¥60.13	¥74.00
Cash dividends	14.00	16.00	16.00	12.00	12.00	12.00	12.00	12.00	14.00	16.00	20.00
Principal Financial Indicators											
EBITDA (Millions of yen)*[2]	¥233,406	¥245,911	¥209,522	¥230,730	¥237,109	¥222,885	¥200,587	¥246,332	¥239,934	¥252,034	¥279,718
ROA*[3]	4.9%	4.6%	3.2%	3.4%	3.7%	3.4%	2.6%	3.4%	3.2%	3.3%	3.6%
Interest coverage ratio*[4] (Times)	9.5	8.5	4.7	5.2	6.6	6.5	5.0	7.5	7.7	8.5	8.7
ROE	8.3%	7.1%	3.8%	1.0%	5.4%	4.6%	3.6%	5.0%	5.2%	5.6%	6.6%
Payout ratio	19.7%	25.4%	48.6%	139.9%	25.9%	29.5%	36.6%	25.9%	26.5%	26.6%	27.0%
Stock Information											
Stock price (Yen)*[5]	¥3,870	¥2,420	¥1,102	¥1,530	¥1,407	¥1,476	¥2,596	¥2,446	¥2,787	¥2,090.5	¥2,030
Number of shares issued and outstanding (Thousands of shares)	1,382,518	1,382,518	1,382,518	1,390,397	1,390,397	1,390,397	1,390,397	1,390,397	1,390,397	1,390,397	1,390,685

Mitsubishi Estate's Stock Price Changes on the Tokyo Stock Exchange



Notes:
1. Total equity is calculated by deducting non-controlling interests and stock acquisition rights from total net assets.
2. EBITDA is calculated as the sum total of operating income, interest and dividend income, equity in earnings of unconsolidated subsidiaries and affiliates, depreciation and amortization, and goodwill.
3. ROA (Operating Income / Total assets) is calculated based on the average total assets from the beginning to the end of the period.
4. The interest coverage ratio (ICR) is calculated by dividing the sum total of operating income, interest and dividend income, and equity in earnings of unconsolidated subsidiaries and affiliates by the sum total of interest expenses and commercial paper interest.
5. As of March 31

Fiscal 2017 Business Environment

In Tokyo, office building development continued through fiscal 2017, underpinned by firm office demand against a backdrop of recovering corporate earnings. In 2016, several large-scale office buildings* were completed in Tokyo's 23 wards—concentrated in Chiyoda-ku and Minato-ku—resulting in the floor area of new supply expanding year on year for the third consecutive year, by 7.7%, to 646,281 m^2.

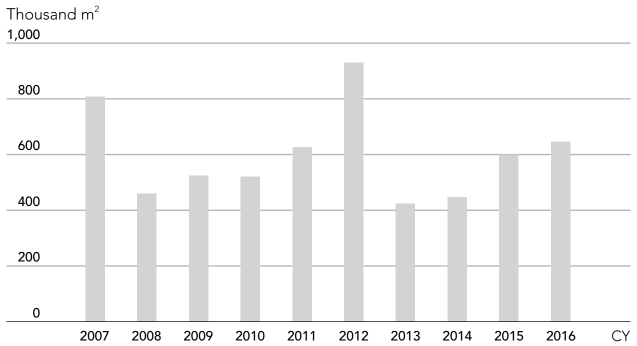
In the office market, ongoing strong demand for offices led to vacancy rates in the five central Tokyo metropolitan wards (Minato-ku, Chiyoda-ku, Chuo-ku, Shinjuku-ku, and Shibuya-ku) declining for the sixth consecutive year, to 3.6% as of March 2017. Average rents have also followed a steady upward trend, approaching levels before the economic crisis that followed the bankruptcy of the Lehman Brothers in 2008.

In the housing market, the average price of condominiums in the Tokyo metropolitan area edged down 0.5% year on year, to ¥54.90 million, but held at a high level. This reflected the fact that construction costs remained high as labor expenses in the construction industry continued to rise owing to labor force shortages. Against this backdrop, the supply of condominiums in the area declined year on year in a continuation of the trend seen since 2013, contracting 11.6% compared with 2016, to 35,772 units.

The Tokyo Stock Exchange REIT Index continued to rise and trading activity remained lively. The index is expected to stay on an uptrend supported by favorable real estate market conditions in Japan (underpinned by rising property prices particularly in downtown Tokyo and increasing office building rents). The index is also expected to benefit from the Bank of Japan's introduction of a policy of "quantitative and qualitative monetary easing with a negative interest rate" and its subsequent adoption, in September, of a policy of "quantitative and qualitative monetary easing with yield curve control."

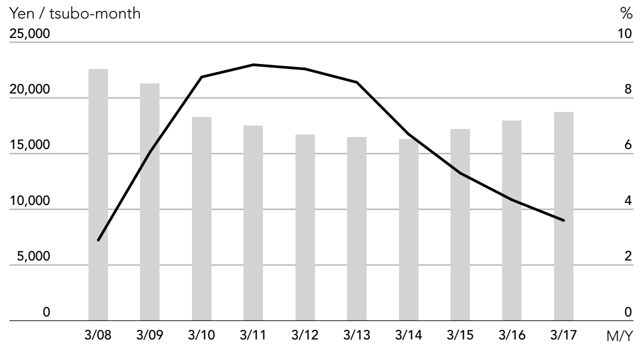
* Buildings with a standard floor area of 200 tsubo and above
1 m^2 = 0.3025 tsubo

Supply of New Large-Scale Office Buildings in the 23 Wards of Tokyo



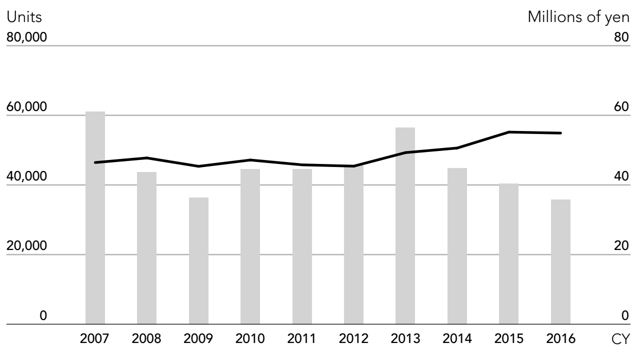
Notes: 1. Buildings with a standard floor area of 200 tsubo and above
2. 1 m^2 = 0.3025 tsubo
Source: Sanko Estate Co., Ltd.

Office Building Market (Average Rents / Vacancy Rates in Five Central Tokyo Metropolitan Wards)



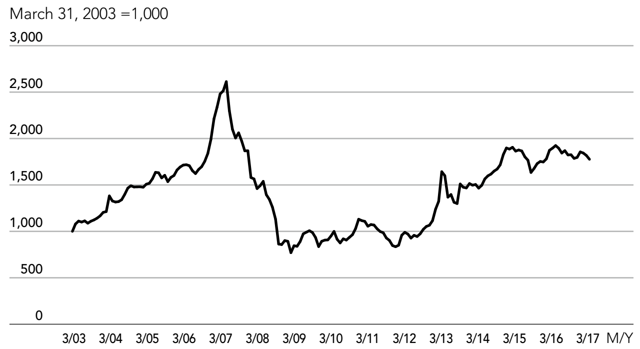
Average rent (left scale) Vacancy rate (right scale)
Source: Miki Shoji Co., Ltd.

Sales of New Condominiums in the Tokyo Area / Condominium Prices



Sales of new condominiums in the Tokyo area (left scale)
Condominium prices (right scale)
Source: Real Estate Economic Institute Co., Ltd.

Tokyo Stock Exchange REIT Index



Source: The Association for Real Estate Securitization

Financial Review

Revenue from Operations / Operating Income

In fiscal 2017, the fiscal year ended March 31, 2017, consolidated revenue from operations amounted to ¥1,125,405 million, an increase of ¥115,997 million, or 11.5%, year on year. Consolidated operating income increased ¥26,296 million, or 15.8%, from the previous fiscal year, to ¥192,495 million. Results for each business segment are as follows.

In the Office Building Business segment, revenue from operations and operating income both increased as a result of newly completed buildings and higher rental revenue and income from existing buildings and increased revenue from property sales, and despite a decline in rental revenue and income owing to the closure of buildings for redevelopment. As of March 31, 2017, the nationwide vacancy rate (all purposes) stood at 2.93%—above the 2.22% recorded at the end of the previous fiscal year but lower than our initial forecast of 3.5%—as, although tenant replacements went pretty much according to plan at the start of the fiscal year, progress with leasing was better than expected. Due to these developments, revenue from operations in the segment rose ¥61,888 million year on year, to ¥484,238 million. Operating income, meanwhile, increased ¥24,629 million, to ¥133,570 million.

In the Lifestyle Property Business segment, revenue from operations increased ¥2,386 million, to ¥88,955 million, owing to such factors as the consolidation of Tokyo Ryutsu Center Inc. However, operating income was essentially unchanged year on year, at ¥25,807 million, as property sales declined compared with the previous fiscal year.

In the Residential Business segment, revenue and income both rose, despite the number of condominium units sold being on a par with the previous fiscal year, supported by a year-on-year increases in the average price of units sold and the sale of rental condominiums. As a result, segment revenue from operations increased ¥62,624 million, to ¥407,850 million, and operating income increased ¥1,218 million, to ¥19,253 million.

In the International Business segment, revenue from operations declined owing to such factors as lower property sales and the impact of fluctuating foreign exchange rates. However, operating income rose on the back of higher income from property sales and increased non-recurring income. As a result, segment revenue from operations decreased ¥9,399 million year on year, to ¥66,556 million, but operating income increased ¥6,892 million, to ¥26,313 million.

In the Investment Management Business segment, revenue declined owing partly to the appreciation of the yen compared with the previous fiscal year. As a result, revenue from operations in this segment decreased ¥3,671 million year on year, to ¥21,323 million, while operating income declined ¥561 million, to ¥4,520 million.

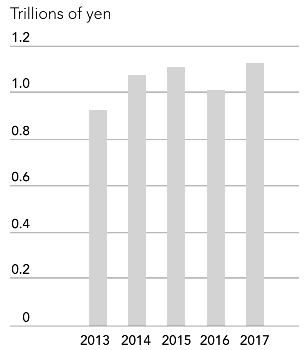
In the Architectural Design & Engineering Business segment, revenue from Mitsubishi Jisho Sekkei Inc.'s architectural design and engineering services was essentially unchanged from the previous fiscal year due to the booking of revenues for services related to the Otemachi Park Building (Chiyoda-ku, Tokyo). However, revenue from interior design and construction work declined as the average amount received per project fell. As a result, segment revenue from operations declined ¥1,970 million year on year, to ¥19,309 million, and operating income fell ¥1,309 million, to ¥445 million.

In the Hotel Business segment, we made progress in strengthening the management structure of each individual hotel under the Royal Park Hotels brand managed by Royal Park Hotels and Resorts which oversees business activities in the segment, and have been adding new hotels with a primary focus on accommodation. In fiscal 2017, segment revenue from operations increased ¥422 million year on year, to ¥33,512 million, while operating income rose ¥442 million, to ¥1,932 million.

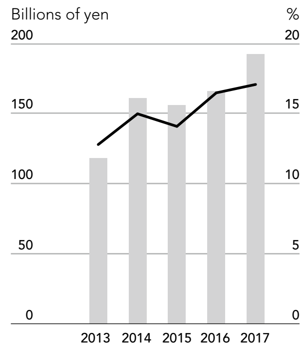
In the Real Estate Services Business segment, revenue from operations rose ¥4,427 million year on year, to ¥24,243 million, supported by growth in the number of brokerage transactions handled and higher average commissions per transaction as well as by some orders for large-scale properties. Operating income rose ¥1,554 million, to ¥2,157 million.

In the Other segment, revenue from operations increased ¥355 million year on year, to ¥4,237 million, while the segment reported income of ¥289 million at the operating level, a ¥326 million improvement compared with operating loss incurred in the previous fiscal year.

Revenue from Operations

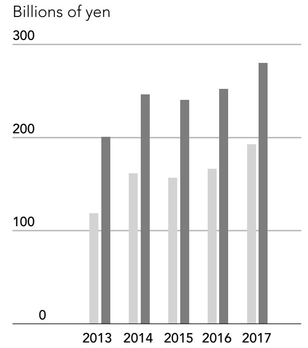


Operating Income / Operating Income Ratio



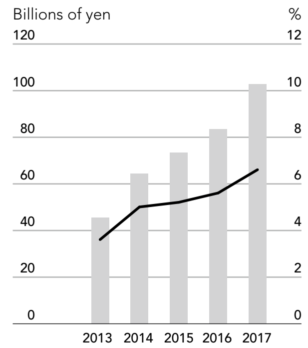
Operating income (left scale)
Operating income ratio (right scale)

Operating Income / EBITDA



Operating income
EBITDA

Profit Attributable to Owners of Parent / ROE



Profit attributable to owners of parent (left scale)
ROE (right scale)

Years ended March 31

Other Income (Expenses)

Non-operating revenue decreased ¥1,569 million year on year, to ¥9,380 million. Other expenses declined ¥272 million, to ¥32,024 million, as reduced loss on disposal of fixed assets offset an increase in interest expenses.

Total extraordinary income declined ¥2,937 million year on year, to ¥16,484 million, as a gain on negative goodwill of ¥13,505 million generated by the conversion of companies into consolidated subsidiaries was offset by lower gain on sales of investment securities.

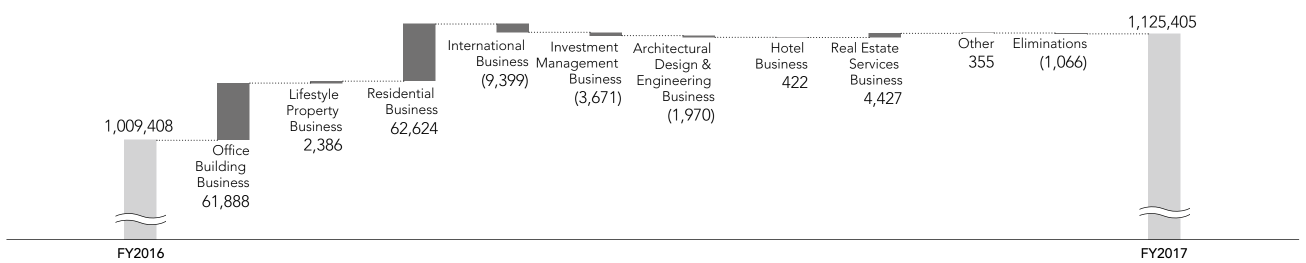
Extraordinary loss increased ¥1,031 million year on year, to ¥23,455 million, due to increased impairment loss on the revaluation of some fixed assets and a ¥6,431 million loss on step acquisitions generated by the conversion of companies into consolidated subsidiaries.

Millions of yen

	FY2017	FY2016	YOY Change
Revenue from Operations	1,125,405	1,009,408	115,997
Office Building Business	484,238	422,349	61,888
Lifestyle Property Business	88,955	86,569	2,386
Residential Business	407,850	345,226	62,624
International Business	66,556	75,956	(9,399)
Investment Management Business	21,323	24,994	(3,671)
Architectural Design & Engineering Business	19,309	21,279	(1,970)
Hotel Business	33,512	33,089	422
Real Estate Services Business	24,243	19,815	4,427
Other	4,237	3,882	355
Eliminations	(24,820)	(23,754)	(1,066)
Operating Income	192,495	166,199	26,296
Office Building Business	133,570	108,940	24,629
Lifestyle Property Business	25,807	25,842	(35)
Residential Business	19,253	18,035	1,218
International Business	26,313	19,421	6,892
Investment Management Business	4,520	5,082	(561)
Architectural Design & Engineering Business	445	1,754	(1,309)
Hotel Business	1,932	1,490	442
Real Estate Services Business	2,157	602	1,554
Other	289	(37)	326
Eliminations or Corporate	(21,793)	(14,933)	(6,859)

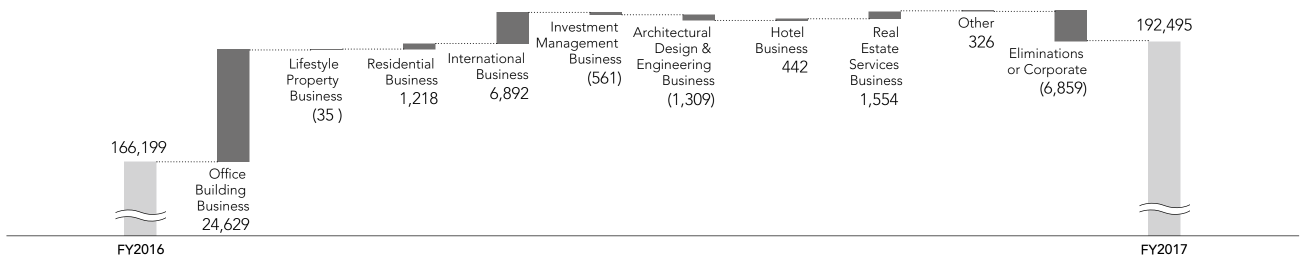
Comparison of Fiscal 2017 and Fiscal 2016 Revenue from Operations

Millions of yen



Comparison of Fiscal 2017 and Fiscal 2016 Operating Income

Millions of yen



Profit Attributable to Owners of Parent

Income before income taxes and minority interests increased ¥21,031 million year on year, to ¥162,881 million. Corporate tax, etc., increased ¥2,501 million, to ¥46,073 million. As a result, profit attributable to owners of parent increased ¥19,254 million, or 23.1%, year on year, to ¥102,681 million. Earnings per share amounted to ¥74.00.

Analysis of Financial Position

(1) Consolidated Cash Flows

On a consolidated basis, cash and cash equivalents at the end of the fiscal year amounted to ¥243,341 million, a decrease of ¥169,050 million compared with the previous fiscal year-end. That was the result of a decrease in income before income taxes and minority interests, a decrease in inventories, proceeds from long-term borrowings, purchases of property and equipment, and the repayment of long-term borrowings.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥168,527 million, up ¥32,706 million year on year. Income before income taxes and minority interests amounted to ¥162,881 million, while depreciation and amortization—a non-cash item—totaled ¥75,974 million. These and other cash inflows were adjusted to reflect the decline in inventories and increases in corporate tax payable, equity investments, and other items.

Cash flows from Investing Activities

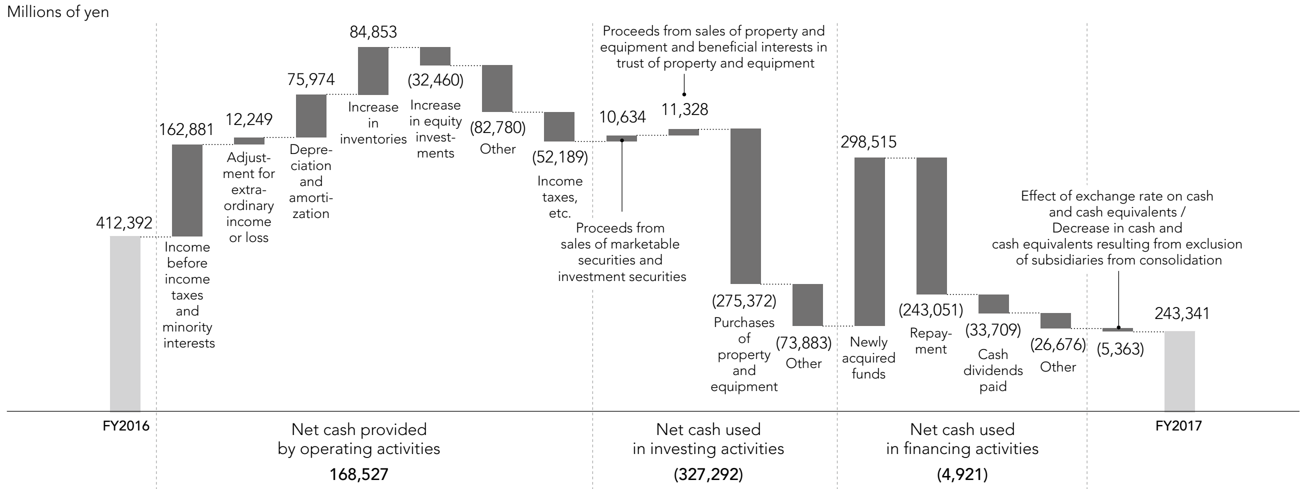
Net cash used in investing activities totaled ¥327,292 million, up ¥96,289 million from the previous year. The net cash was used primarily for purchases of property and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥4,921 million, compared with net cash provided by financing activities of ¥309,237 million in the previous fiscal year. This result can be attributed mainly to the repayment of long-term borrowings and to the redemption of corporate bonds.

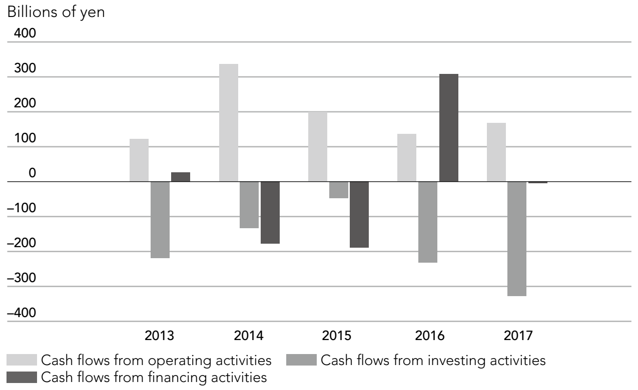
Comparison of Fiscal 2017 and Fiscal 2016 Consolidated Cash Flows

Millions of yen



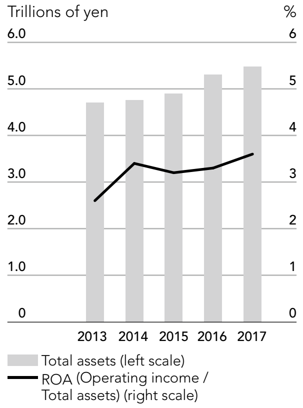
Cash Flows

Billions of yen



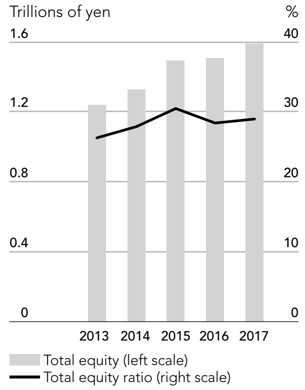
Total Assets / ROA (Operating Income/Total Assets)

Trillions of yen %



Total Equity / Total Equity Ratio

Trillions of yen %



Years ended March 31

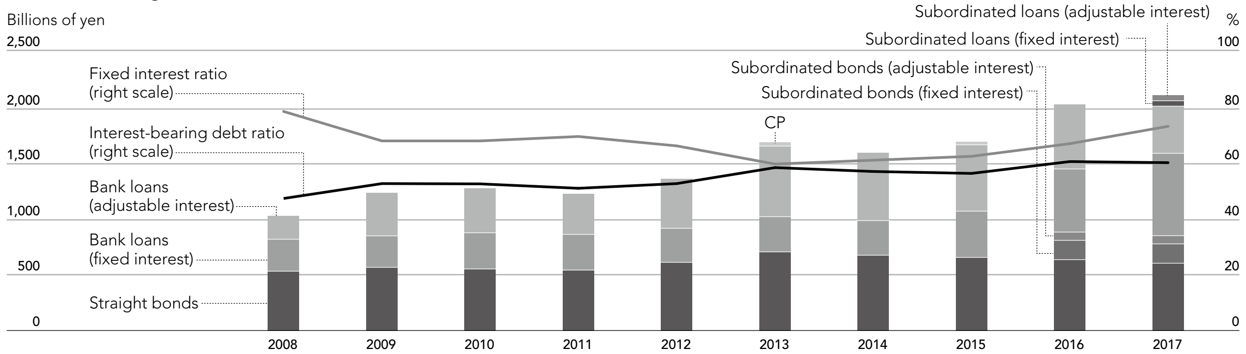
(2) Consolidated Balance Sheets

Total assets stood at ¥5,484,115 million on March 31, 2017, up ¥172,275 million from a year earlier, principally as a result of the operating, investing, and financing activities previously identified, and the related changes in assets and liabilities.

Total liabilities increased ¥63,994 million, to ¥3,716,654 million. The balance of interest-bearing debt as of March 31, 2017, stood at ¥2,396,994 million, an increase of ¥105,956 million compared with the year-end balance in fiscal 2016. Deducting cash and cash equivalents, the balance of net interest-bearing debt as of March 31, 2017, was ¥2,153,652 million, an increase of ¥275,007 million year on year.

Total net assets increased ¥108,280 million year on year, to ¥1,767,460 million. The growth in net assets can be attributed to increases in such items as retained earnings, unrealized holding gain on securities, and retirement benefits and liability adjustments.

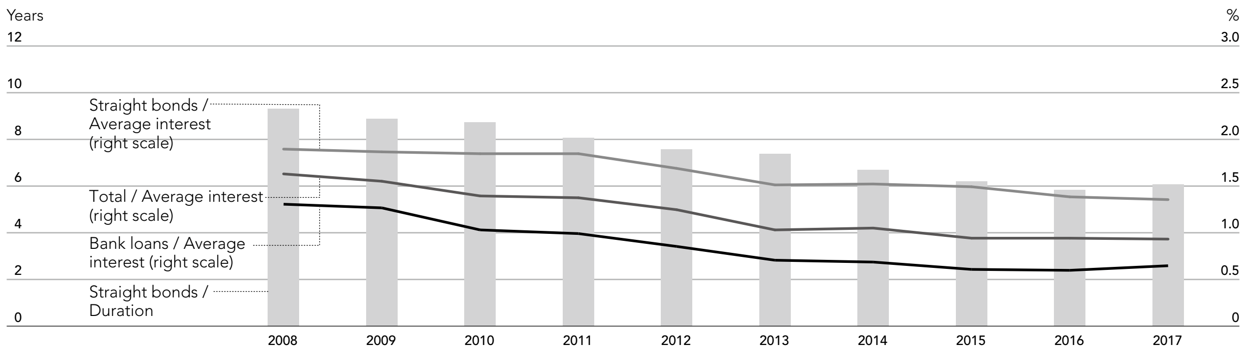
Interest-Bearing Debt (Mitsubishi Estate; Non-Consolidated)



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Straight bonds	540.0	575.0	560.0	550.0	620.0	715.0	685.0	665.0	645.0	612.7
Subordinated bonds (fixed interest)	—	—	—	—	—	—	—	—	175.0	175.0
Subordinated bonds (adjustable interest)	—	—	—	—	—	—	—	—	75.0	75.0
Subordinated loans (fixed interest)	—	—	—	—	—	—	—	—	—	50.0
Subordinated loans (adjustable interest)	—	—	—	—	—	—	—	—	—	50.0
Bank loans (fixed interest)	290.2	285.6	329.1	324.0	306.8	319.8	314.3	420.1	573.3	747.1
Bank loans (adjustable interest)	212.2	389.2	401.2	365.7	453.7	640.7	615.7	601.7	583.8	427.0
Commercial paper	—	—	—	—	—	350	—	280	—	—
Fixed interest ratio (right scale)	79.6	68.9	68.9	70.5	67.1	60.5	61.9	63.3	67.9	74.2
Interest-bearing debt ratio (right scale)	48.0	53.4	53.3	51.7	53.4	59.2	57.8	57.1	61.4	61.0

Years ended March 31

Interest and Residual Terms of Straight Bonds (Mitsubishi Estate; Non-Consolidated)



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Straight bonds / Duration	9.47	9.04	8.89	8.22	7.71	7.52	6.82	6.31	5.94	6.19
Straight bonds / Average interest (right scale)	1.93	1.90	1.88	1.88	1.72	1.54	1.55	1.52	1.41	1.38
Bank loans / Average interest (right scale)	1.33	1.29	1.05	1.01	0.87	0.72	0.70	0.62	0.61	0.66
Total / Average interest (right scale)	1.66	1.58	1.42	1.40	1.27	1.05	1.07	0.96	0.96	0.95

Years ended March 31

Matters Related to Rental Properties

Mitsubishi Estate and some of its consolidated subsidiaries own office buildings and retail facilities in Tokyo and other major cities in Japan as well as overseas, with the aim of obtaining rental revenue from these buildings and facilities. Because certain leased office buildings among these are used by the Company or some of its consolidated subsidiaries, the Company has classified such buildings as rental properties containing self-use space.

The following table shows the year-end amounts, changes in these amounts during the period under review, and the fair values of investment and rental properties and other real estate that includes portions used as investment and rental properties.

Millions of yen

	Fiscal Year Ended March 31, 2017 (April 1, 2016, to March 31, 2017)	Fiscal Year Ended March 31, 2016 (April 1, 2015, to March 31, 2016)
Rental Properties		
Amounts recorded on consolidated balance sheets		
Balance as of the beginning of the period	3,327,104	3,135,413
Increase during the period	317,832	191,691
Balance as of the end of the period	3,644,937	3,327,104
Market value as of the end of the period	6,517,887	5,792,464
Rental Properties Containing Self-Use Space		
Amounts recorded on consolidated balance sheets		
Balance as of the beginning of the period	182,876	182,779
Increase (decrease) during the period	647	96
Balance as of the end of the period	183,523	182,876
Market value as of the end of the period	274,081	286,600

Notes:
1. The amount included on the consolidated balance sheets presented in the table above is equal to the total acquisition price for applicable properties or real estate less the aggregate amounts of depreciation and impairment loss for these properties or real estate.
2. Fair values as of the end of each consolidated fiscal year are as follows:
   (1) The fair values of domestic properties and real estate have been calculated by Mitsubishi Estate, based mainly on the Japanese Real Estate Appraisal Standards.
   (2) The fair values of overseas properties and real estate have been calculated mostly by local appraisers.

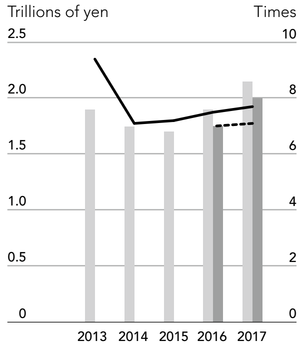
Also, the following table shows profit and loss related to real estate, including the rental properties containing self-use space for each fiscal year.

Millions of yen

	Fiscal Year Ended March 31, 2017 (April 1, 2016, to March 31, 2017)	Fiscal Year Ended March 31, 2016 (April 1, 2015, to March 31, 2016)
Rental Properties		
Rental revenue	436,705	413,622
Rental costs	280,387	280,688
Difference	156,318	132,934
Other income (loss)	(16,194)	(9,997)
Rental Properties Containing Self-Use Space		
Rental revenue	15,996	15,909
Rental costs	11,522	12,625
Difference	4,474	3,283
Other income (loss)	(580)	(340)

Note:
Real estate that includes portions used as investment and rental properties has portions that are used by Mitsubishi Estate and some of its consolidated subsidiaries for the purpose of providing related services and conducting operation management. Accordingly, rental revenue associated with these portions has been excluded. Costs associated with applicable properties and real estate, such as depreciation costs, building management costs, and taxes, have been included in rental costs.

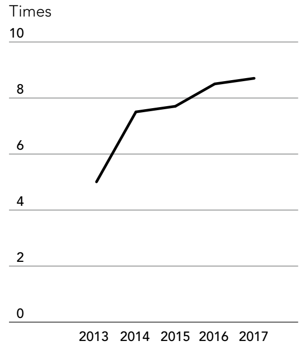
Balance of Interest-Bearing Debt



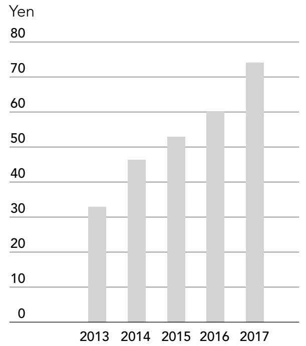
- Net interest-bearing debt (left scale)
- Net interest-bearing debt (after hybrid debt deductions)* (left scale)
- Net interest-bearing debt/EBITDA (right scale)
- Net interest-bearing debt/EBITDA (after hybrid debt deductions)* (right scale)

* The subordinated bond and subordinated loan subject to equity credit from a credit rating agency (50% equity treatment) are shown after deductions.

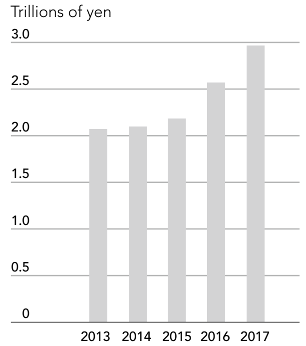
Interest Coverage Ratio



Earnings per Share



Unrealized Gain on Rental Properties



Years ended March 31

Consolidated Balance Sheets

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
March 31, 2017 and 2016

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 2) 2017
Assets			
Current assets:			
Cash on hand and in banks (Notes 13 and 15)	¥ 243,681	¥ 412,983	$ 2,172,039
Notes and accounts receivable–trade (Note 13)	43,823	35,261	390,618
Marketable securities (Notes 13 and 14)	13,515	14	120,465
Allowance for doubtful receivables	(270)	(528)	(2,411)
Inventories (Note 3)	408,294	439,044	3,639,315
Equity investments (Notes 13 and 14)	292,764	276,842	2,609,538
Deferred income taxes (Note 7)	10,730	14,552	95,645
Other current assets	69,152	55,764	616,384
Total current assets	1,081,690	1,233,935	9,641,596
Investments:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 13)	11,831	20,688	105,460
Investment securities (Notes 13 and 14)	233,689	196,296	2,082,983
Asset for retirement benefits (Note 6)	9,487	9,810	84,568
Other investments (Notes 4 and 13)	180,033	176,092	1,604,717
Total investments	435,042	402,888	3,877,730
Property and equipment (Note 5):			
Land	1,987,344	1,955,451	17,714,098
Land in trust	708,801	549,811	6,317,865
Buildings and structures	2,494,685	2,217,339	22,236,251
Machinery and equipment and other	133,132	137,754	1,186,669
Construction in progress	92,367	122,261	823,317
	5,416,331	4,982,617	48,278,201
Less accumulated depreciation	(1,559,574)	(1,431,555)	(13,901,187)
Property and equipment, net	3,856,757	3,551,062	34,377,014
Intangible and other assets	110,624	123,954	986,049
Total assets	¥ 5,484,115	¥ 5,311,840	$ 48,882,390

See accompanying notes to consolidated financial statements.

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 2) 2017
Liabilities and net assets			
Current liabilities:			
Short-term borrowings and current portion of long-term debt (Notes 5 and 13)	¥ 320,772	¥ 344,800	$ 2,859,186
Notes and accounts payable–trade (Note 13)	56,099	58,331	500,041
Accrued income taxes (Note 7)	16,471	22,903	146,819
Advances and deposits	116,562	152,660	1,038,978
Accrued expenses and other current liabilities	76,717	92,181	683,814
Total current liabilities	586,623	670,877	5,228,839
Long-term liabilities:			
Long-term debt (Notes 5 and 13)	2,070,567	1,939,426	18,455,898
Lease deposits received (Note 13)	398,014	393,309	3,547,679
Liability for retirement benefits (Note 6)	22,042	32,464	196,476
Deferred income taxes (Note 7)	481,226	446,117	4,289,386
Negative goodwill	90,535	83,827	806,983
Other non-current liabilities	67,645	86,636	602,951
Total long-term liabilities	3,130,031	2,981,782	27,899,376
Total liabilities	3,716,654	3,652,660	33,128,216
Net assets:			
Shareholders' equity (Note 8):			
Common stock, without par value:			
Authorized – 1,980,000,000 shares;			
Issued – 1,390,685,972 shares in 2017 and 1,390,397,097 shares in 2016	141,659	141,373	1,262,672
Capital surplus	161,477	161,188	1,439,319
Retained earnings	674,259	600,116	6,009,981
Less treasury stock, at cost	(5,489)	(5,385)	(48,929)
Total shareholders' equity	971,906	897,293	8,663,044
Accumulated other comprehensive income:			
Unrealized holding gain on securities	109,644	89,945	977,307
Deferred gain (loss) on hedging instruments	73	(30)	658
Land revaluation reserve	527,128	521,248	4,698,533
Foreign currency translation adjustments	(13,363)	13,900	(119,112)
Retirement benefits liability adjustments (Note 6)	(2,612)	(12,676)	(23,288)
Total accumulated other comprehensive income	620,870	612,387	5,534,098
Stock acquisition rights	529	529	4,716
Non-controlling interests	174,154	148,970	1,552,314
Contingent liabilities (Note 11)			
Total net assets	1,767,460	1,659,180	15,754,174
Total liabilities and net assets	¥5,484,115	¥5,311,840	$48,882,390

Consolidated Statements of Income

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Revenue from operations	¥1,125,405	¥1,009,408	$10,031,244
Cost of revenue from operations (Note 3)	(847,725)	(764,863)	(7,556,156)
Selling, general and administrative expenses	(85,184)	(78,345)	(759,286)
Operating income	192,495	166,199	1,715,800
Other income (expenses):			
Interest and dividend income	4,902	4,840	43,694
Interest expenses	(22,743)	(20,189)	(202,723)
Equity in earnings of unconsolidated subsidiaries and affiliates	872	605	7,778
Other, net (Note 12)	(12,645)	(9,605)	(112,716)
	(29,614)	(24,349)	(263,966)
Income before income taxes	162,881	141,850	1,451,834
Income taxes (Note 7):			
Current	(43,451)	(43,994)	(387,298)
Deferred	(2,622)	422	(23,371)
	(46,073)	(43,571)	(410,670)
Profit	116,808	98,278	1,041,163
Profit attributable to:			
Non-controlling interests	(14,126)	(14,851)	(125,916)
Shareholders of Mitsubishi Estate Co., Ltd.	¥ 102,681	¥ 83,426	$ 915,246

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Profit	¥116,808	¥ 98,278	$1,041,163
Other comprehensive income (Note 21):			
Unrealized holding gain (loss) on securities	19,703	(37,665)	175,625
Deferred gain (loss) on hedging instruments	159	4	1,419
Land revaluation reserve	3,363	15,320	29,978
Foreign currency translation adjustments	(26,882)	(5,810)	(239,615)
Retirement benefits liability adjustments	10,092	(17,907)	89,960
Share of other comprehensive income (loss) of companies accounted for by the equity method	(996)	(586)	(8,882)
Total other comprehensive income (loss)	5,439	(46,644)	48,487
Comprehensive income (Note 21)	¥122,247	¥ 51,633	$1,089,650
Total comprehensive income (loss) attributable to:			
Shareholders of Mitsubishi Estate Co., Ltd.	¥108,648	¥ 36,255	$ 968,432
Non-controlling interests	¥ 13,599	¥ 15,378	$ 121,217

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income	
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Deferred gain (loss) on hedging instruments
Balance at April 1, 2015	¥141,373	¥162,638	¥538,687	¥(5,259)	¥837,440	¥127,609	¥ (5)
Changes in the year:							
Issuance of new shares							
Cash dividends paid			(20,812)		(20,812)		
Profit attributable to owners of parent			83,426		83,426		
Purchase of treasury stock				(228)	(228)		
Disposal of treasury stock		(3)	(25)	102	73		
Land revaluation reserve (Note 1-h)			(1,160)		(1,160)		
Changes in the scope of consolidation							
Changes in equity related to transactions with non-controlling shareholders		(1,446)			(1,446)		
Net change in items other than those in shareholders' equity						(37,663)	(25)
Total of changes in the year	—	(1,449)	61,428	(126)	59,852	(37,663)	(25)
Balance at April 1, 2016	141,373	161,188	600,116	(5,385)	897,293	89,945	(30)
Changes in the year:							
Issuance of new shares	285	285			571		
Cash dividends paid			(24,976)		(24,976)		
Profit attributable to owners of parent			102,681		102,681		
Purchase of treasury stock				(104)	(104)		
Disposal of treasury stock		0			0		
Land revaluation reserve (Note 1-h)			(3,451)		(3,451)		
Changes in the scope of consolidation			(110)		(110)		
Changes in equity related to transactions with non-controlling shareholders		2			2		
Net change in items other than those in shareholders' equity						19,698	104
Total of changes in the year	285	288	74,143	(104)	74,613	19,698	104
Balance at March 31, 2017	¥141,659	¥161,477	¥674,259	¥(5,489)	¥971,906	¥109,644	¥ 73

Millions of yen

	Accumulated other comprehensive income						
	Land revaluation reserve	Foreign currency translation adjustments	Retirement benefits liability adjustments (Note 6)	Total accumulated other comprehensive income	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at April 1, 2015	¥504,756	¥ 20,798	¥ 5,238	¥658,398	¥500	¥143,825	¥1,640,163
Changes in the year:							
Issuance of new shares							—
Cash dividends paid							(20,812)
Profit attributable to owners of parent							83,426
Purchase of treasury stock							(228)
Disposal of treasury stock							73
Land revaluation reserve (Note 1-h)							(1,160)
Changes in the scope of consolidation							—
Changes in equity related to transactions with non-controlling shareholders							(1,446)
Net change in items other than those in shareholders' equity	16,492	(6,898)	(17,914)	(46,010)	29	5,145	(40,836)
Total of changes in the year	16,492	(6,898)	(17,914)	(46,010)	29	5,145	19,016
Balance at April 1, 2016	521,248	13,900	(12,676)	612,387	529	148,970	1,659,180
Changes in the year:							
Issuance of new shares							571
Cash dividends paid							(24,976)
Profit attributable to owners of parent							102,681
Purchase of treasury stock							(104)
Disposal of treasury stock							0
Land revaluation reserve (Note 1-h)							(3,451)
Changes in the scope of consolidation							(110)
Changes in equity related to transactions with non-controlling shareholders							2
Net change in items other than those in shareholders' equity	5,879	(27,263)	10,063	8,483		25,183	33,666
Total of changes in the year	5,879	(27,263)	10,063	8,483	—	25,183	108,280
Balance at March 31, 2017	¥527,128	¥(13,363)	¥ (2,612)	¥620,870	¥529	¥174,154	¥1,767,460

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets (continued)

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

Thousands of U.S.dollars (Note 2)

	Shareholders' equity					Accumulated other comprehensive income	
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Deferred gain (loss) on hedging instruments
Balance at April 1, 2015	$1,260,123	$1,449,667	$4,801,568	$(46,876)	$7,464,482	$1,137,437	$ (45)
Changes in the year:							
Issuance of new shares							
Cash dividends paid			(185,507)		(185,507)		
Profit attributable to owners of parent			743,620		743,620		
Purchase of treasury stock				(2,037)	(2,037)		
Disposal of treasury stock		(28)	(227)	911	656		
Land revaluation reserve (Note 1-h)			(10,343)		(10,343)		
Changes in the scope of consolidation							
Changes in equity related to transactions with non-controlling shareholders		(12,894)			(12,894)		
Net change in items other than those in shareholders' equity						(335,714)	(228)
Total of changes in the year	—	(12,923)	547,542	(1,125)	533,494	(335,714)	(228)
Balance at April 1, 2016	1,260,123	1,436,744	5,349,111	(48,001)	7,997,977	801,722	(273)
Changes in the year:							
Issuance of new shares	2,549	2,549			5,098		
Cash dividends paid			(222,625)		(222,625)		
Profit attributable to owners of parent			915,246		915,246		
Purchase of treasury stock				(927)	(927)		
Disposal of treasury stock		2			2		
Land revaluation reserve (Note 1-h)			(30,766)		(30,766)		
Changes in the scope of consolidation			(983)		(983)		
Changes in equity related to transactions with non-controlling shareholders		23			23		
Net change in items other than those in shareholders' equity						175,585	931
Total of changes in the year	2,549	2,575	660,870	(927)	665,067	175,585	931
Balance at March 31, 2017	$1,262,672	$1,439,319	$6,009,981	$(48,929)	$8,663,044	$ 977,307	$ 658

Thousands of U.S.dollars (Note 2)

	Land revaluation reserve	Accumulated other comprehensive income: Foreign currency translation adjustments	Retirement benefits liability adjustments (Note 6)	Total accumulated other comprehensive income	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at April 1, 2015	$4,499,124	$ 185,390	$ 46,693	$5,868,600	$4,458	$1,281,977	$14,619,518
Changes in the year:							
Issuance of new shares							—
Cash dividends paid							(185,507)
Profit attributable to owners of parent							743,620
Purchase of treasury stock							(2,037)
Disposal of treasury stock							656
Land revaluation reserve (Note 1-h)							(10,343)
Changes in the scope of consolidation							—
Changes in equity related to transactions with non-controlling shareholders							(12,894)
Net change in items other than those in shareholders' equity	147,001	(61,491)	(159,682)	(410,116)	258	45,864	(363,993)
Total of changes in the year	147,001	(61,491)	(159,682)	(410,116)	258	45,864	169,501
Balance at April 1, 2016	4,646,126	123,898	(112,989)	5,458,484	4,716	1,327,841	14,789,019
Changes in the year:							
Issuance of new shares							5,098
Cash dividends paid							(222,625)
Profit attributable to owners of parent							915,246
Purchase of treasury stock							(927)
Disposal of treasury stock							2
Land revaluation reserve (Note 1-h)							(30,766)
Changes in the scope of consolidation							(983)
Changes in equity related to transactions with non-controlling shareholders							23
Net change in items other than those in shareholders' equity	52,407	(243,010)	89,700	75,613		224,473	300,086
Total of changes in the year	52,407	(243,010)	89,700	75,613	—	224,473	965,154
Balance at March 31, 2017	$4,698,533	$ (119,112)	$ (23,288)	$5,534,098	$4,716	$1,552,314	$15,754,174

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 162,881	¥ 141,850	$ 1,451,834
Depreciation and amortization	75,974	74,245	677,194
(Gain) loss on sales or disposal of property and equipment	3,247	2,931	28,944
(Gain) loss on sales of securities	(1,013)	(11,350)	(9,030)
Valuation (gain) loss on equity investments	227	—	2,027
Gain on negative goodwill	(13,505)	—	(120,376)
Impairment loss	12,260	2,561	109,285
(Gain) loss on step acquisitions	6,431	—	57,330
Equity in net income of affiliates	(872)	(605)	(7,778)
Increase (decrease) in allowances	(989)	15,525	(8,816)
Increase (decrease) in liability for retirement benefits	4,330	(2,780)	38,597
Interest and dividend income	(4,902)	(4,840)	(43,694)
Interest expense	22,743	20,189	202,723
(Increase) decrease in notes and accounts receivable	(8,865)	(900)	(79,020)
(Increase) decrease in inventories	84,853	(33,202)	756,341
(Increase) decrease in equity investments	(32,460)	(32,487)	(289,336)
Increase (decrease) in notes and accounts payable	(5,837)	(41,614)	(52,028)
Increase (decrease) in lease deposits received	(4,896)	11,489	(43,640)
Other	(62,000)	32,289	(552,634)
Subtotal	237,609	173,301	2,117,921
Interest and dividends received	5,641	5,312	50,282
Interest paid	(22,532)	(19,210)	(200,845)
Income taxes paid	(52,189)	(23,582)	(465,192)
Net cash provided by (used in) operating activities	168,527	135,821	1,502,165
Cash flows from investing activities			
Proceeds from sales of marketable securities	9,100	10	81,112
Purchases of marketable securities	(10,615)	—	(94,621)
Proceeds from sales of property and equipment	11,223	21,840	100,037
Purchases of property and equipment	(274,686)	(273,365)	(2,448,405)
Proceeds from sales of investment securities	1,534	18,055	13,680
Purchases of investment securities	(7,749)	(1,548)	(69,074)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	—	10,978	—
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(2,776)	—	(24,748)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 15)	295	—	2,631
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 15)	(52,929)	(3,040)	(471,781)
Other	(688)	(3,932)	(6,140)
Net cash provide by (used in) investing activities	(327,292)	(231,003)	(2,917,309)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	(25,278)	26,262	(225,319)
Net increase (decrease) in commercial paper	—	(28,000)	—
Increase in long-term borrowings	263,710	247,372	2,350,566
Repayment of long-term borrowings	(166,494)	(115,717)	(1,484,044)
Proceeds from issuance of corporate bonds	34,805	255,781	310,240
Repayment of corporate bonds	(76,556)	(39,055)	(682,381)
Purchase of investments in subsidiaries that do not result in change in scope of consolidation	(107)	—	(960)
Cash dividends paid	(25,112)	(20,670)	(223,840)
Other	(9,886)	(16,735)	(88,124)
Net cash provided by (used in) financing activities	(4,921)	309,237	(43,864)
Effect of exchange rate changes on cash and cash equivalents	(5,144)	(153)	(45,855)
Net increase (decrease) in cash and cash equivalents	(168,830)	213,902	(1,504,863)
Cash and cash equivalents at beginning of year	412,392	198,489	3,675,838
Cash and cash equivalents of subsidiaries excluded from consolidation	(219)	—	(1,959)
Cash and cash equivalents at end of year (Note 15)	¥ 243,341	¥ 412,392	$ 2,169,015

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

1 SIGNIFICANT ACCOUNTING POLICIES

a. 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 Financial Instruments and Exchange Act of Japan.

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

As permitted by the Financial Instruments and Exchange Act of Japan, 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.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

b. Principles of consolidation
The accompanying consolidated financial statements include the accounts of the Company and its consolidated 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.

c. 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 consolidated financial statements and accompanying notes. The actual results could differ from those estimates.

d. 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.

e. Cash equivalents
The Company and its consolidated subsidiaries consider all highly liquid investments that are readily convertible into cash and have an original maturity of three months or less to be cash equivalents. The reconciliation between cash in the balance sheets and cash equivalents at March 31, 2017 and 2016 is presented in Note 15 "Supplemental Cash Flow Information."

f. 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 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.

g. Inventories
Inventories are mainly stated at cost, determined by the identified-cost method. Net book value of inventories in the consolidated balance sheets is written down when their net realizable values decline.

h. Property and equipment, depreciation and impairment
Property and equipment, except for land as discussed below, is stated at cost less accumulated depreciation. Depreciation of property, plant and equipment is calculated principally by the declining-balance method based on the estimated useful lives and the residual value determined by the Company, except for certain buildings of the Company and domestic consolidated subsidiaries acquired on or after April 1, 1998 and facilities attached to buildings and other non-building structures acquired on or after April 1, 2016, which are depreciated by the straight-line method. 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 and its consolidated subsidiaries have 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 related unrealized gain, net of applicable income taxes, has been recorded as "Land revaluation reserve" in net assets.

The Company and its consolidated subsidiaries review their 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. They perform cash flow analyses to determine if impairment exists. If impairment is determined to exist, any related loss on impairment is calculated based on the cash flow analyses.

The useful lives of property and equipment are summarized as follows:

Buildings and structures	2 to 75 years

i. 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. A loss is recognized if the fair value falls below the carrying amount. Land use rights are stated on a cost basis.

j. Retirement benefits
Accrued retirement benefits and prepaid pension costs for employees have been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date.

The retirement benefit obligation for employees is attributed to each period by the benefit-formula method.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods (mainly 1 year through 15 years), which are shorter than the average remaining years of service of employees.

Certain foreign consolidated subsidiaries have adopted the corridor approach for the amortization of actuarial gain and loss.

Prior service cost is being amortized as incurred by the straight-line method over periods (mainly 1 year through 10 years), which are shorter than the average remaining years of service of the employees.

k. 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 some portion or all of the deferred tax assets will not be realized.

l. 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 foreign exchange rates (currency swaps), 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.

m. 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 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 of construction contracts, of which the percentage of completion can be reliably estimated, is recognized by the percentage-of-completion method. The percentage-of-completion method is calculated at the cost incurred by the end of the consolidated fiscal year as a percentage of estimated total cost. The completed-contract method continues to be applied for other contracts for which the percentage of completion cannot be reliably estimated.
(e) Other operating revenue is recognized on an accrual basis.

n. Appropriation of retained earnings
Under the Companies Act of Japan, the appropriation of retained earnings with respect to a given financial year is made by a resolution of a general meeting of shareholders held subsequent to the close of such a financial year. The accounts for that year do not, therefore, reflect such appropriations. See Note 8 for more information.

o. Change in accounting policy
(Application of "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016")
Following revisions to the Corporation Tax Act of Japan, the Company and its domestic consolidated subsidiaries adopted "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 32 of June 17, 2016) from the beginning of the fiscal year ended March 31, 2017, and changed the depreciation method of facilities attached to the buildings and other non-building structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

As a result, operating income, ordinary income, and income before income taxes increased ¥1,974 million ($17,596 thousand) in the fiscal year ended March 31, 2017.

p. Additional information
The Company and its domestic consolidated subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the beginning of the fiscal year ended March 31, 2017.

2 U.S. DOLLAR AMOUNTS

The 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 ¥112.19 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2017. 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.

3 INVENTORIES

Inventories at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Real estate for sale	¥ 60,195	¥ 54,827	$ 536,551
Land and housing projects in progress	337,928	366,354	3,012,105
Land held for development	1,058	8,905	9,433
Other	9,112	8,956	81,225
Total	¥408,294	¥439,044	$3,639,315

Write-downs of inventories as a result of a decrease in profitability for the years ended March 31, 2017 and 2016 were ¥15,200 million ($135,485 thousand) and ¥1,728 million, respectively, and recognized in cost of revenue from operations.

4 OTHER INVESTMENTS

Other investments at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Lease deposits	¥106,149	¥115,382	$ 946,162
Long-term prepaid expenses and other	73,883	60,709	658,555
Total	¥180,033	¥176,092	$1,604,717

5 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At March 31, 2017 and 2016, short-term borrowings and the current portion of long-term debt were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Loans, principally from banks	¥ 86,415	¥103,125	$ 770,263
Current portion of long-term debt	234,356	241,675	2,088,923
Total	¥320,772	¥344,800	$2,859,186

The weighted-average interest rates per annum on short-term borrowings outstanding at March 31, 2017 and 2016 were 0.44% and 0.37%, respectively. Short-term borrowings are principally unsecured.

At March 31, 2017 and 2016, long-term debt was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
1.443% unsecured bonds due 2016	—	¥ 15,000	—
1.985% unsecured bonds due 2016	—	10,000	—
1.88% unsecured bonds due 2016	—	10,000	—
0.553% unsecured bonds due 2016	—	15,000	—
0.459% unsecured bonds due 2016	—	10,000	—
1.79% unsecured bonds due 2017	—	10,000	—
0.428% unsecured bonds due 2017	¥ 20,000	20,000	$ 178,269
2.045% unsecured bonds due 2017	10,000	10,000	89,134
1.825% unsecured bonds due 2017	10,000	10,000	89,134
3.125% unsecured bonds due 2017	10,000	10,000	89,134
1.77% unsecured bonds due 2017	20,000	20,000	178,269
0.187% unsecured bonds due 2018	15,000	15,000	133,701
1.65% unsecured bonds due 2018	10,000	10,000	89,134
2.005% unsecured bonds due 2018	10,000	10,000	89,134
0.811% unsecured bonds due 2018	10,000	10,000	89,134
3% unsecured bonds due 2018	10,000	10,000	89,134
1.84% unsecured bonds due 2018	15,000	15,000	133,701
1.72% unsecured bonds due 2018	10,000	10,000	89,134
0.631% unsecured bonds due 2019	10,000	10,000	89,134
1.87% unsecured bonds due 2019	15,000	15,000	133,701
1.62% unsecured bonds due 2019	10,000	10,000	89,134
0.571% unsecured bonds due 2019	10,000	10,000	89,134
1.53% unsecured bonds due 2019	10,000	10,000	89,134
1.975% unsecured bonds due 2019	10,000	10,000	89,134
1.805% unsecured bonds due 2019	10,000	10,000	89,134
2.5% unsecured bonds due 2020	10,000	10,000	89,134
1.165% unsecured bonds due 2020	10,000	10,000	89,134
0.577% unsecured bonds due 2020	¥ 15,000	¥ 15,000	$ 133,701
0.54% unsecured bonds due 2021	15,000	15,000	133,701
1.262% unsecured bonds due 2021	15,000	15,000	133,701
1.103% unsecured bonds due 2021	20,000	20,000	178,269
1.095% unsecured bonds due 2021	10,000	10,000	89,134
1.178% unsecured bonds due 2022	20,000	20,000	178,269
1.087% unsecured bonds due 2022	20,000	20,000	178,269
1.026% unsecured bonds due 2022	30,000	30,000	267,403
2.42% unsecured bonds due 2022	10,000	10,000	89,134
0.929% unsecured bonds due 2022	10,000	10,000	89,134
1.5% unsecured bonds due 2022	10,000	10,000	89,134
2.075% unsecured bonds due 2023	10,000	10,000	89,134
2.28% unsecured bonds due 2024	10,000	10,000	89,134
1.067% unsecured bonds due 2024	10,000	10,000	89,134
0.643% unsecured bonds due 2024	20,000	20,000	178,269
0.270% unsecured bonds due 2026	10,000	—	89,134
2.305% unsecured bonds due 2027	10,000	10,000	89,134
2.385% unsecured bonds due 2027	10,000	10,000	89,134
2.52% unsecured bonds due 2027	15,000	15,000	133,701
2.425% unsecured bonds due 2027	10,000	10,000	89,134
2.555% unsecured bonds due 2028	10,000	10,000	89,134
2.9% unsecured bonds due 2032	10,000	10,000	89,134
2.615% unsecured bonds due 2032	10,000	10,000	89,134
2.04% unsecured bonds due 2032	20,000	20,000	178,269
1.72% unsecured bonds due 2033	10,000	10,000	89,134
0.859% unsecured bonds due 2036	10,000	—	89,134
0.789% unsecured bonds due 2056	15,000	—	133,701
0.610% unsecured bonds inherited from DAINIPPON ENTERPRISE INC. due 2018	1,237	—	11,030
0.390% unsecured bonds inherited from DAINIPPON ENTERPRISE INC. due 2020	1,550	—	13,815
1.02% interest deferrable and early redeemable subordinated unsecured bonds due 2076	75,000	75,000	668,508
3ML+88bp interest deferrable and early redeemable subordinated unsecured bonds due 2076	75,000	75,000	668,508
1.33% interest deferrable and early redeemable subordinated unsecured bonds due 2076	70,000	70,000	623,941
1.48% interest deferrable and early redeemable subordinated unsecured bonds due 2076	30,000	30,000	267,403
Floating rate bonds due 2016 (payable in U.S. dollars)	—	8,023	—
Loans from banks and insurance companies: Secured	138,578	46,369	1,235,215
Unsecured	1,303,557	1,231,709	11,619,193
	2,304,923	2,181,102	20,544,822
Less current portion	(234,356)	(241,675)	(2,088,923)
	¥2,070,567	¥1,939,426	$18,455,898

The aggregate annual maturities of long-term debt subsequent to March 31, 2017 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 234,356	$ 2,088,923
2019	211,285	1,883,284
2020	308,323	2,748,226
2021	184,725	1,646,539
2022	172,816	1,540,389
2023 and thereafter	1,193,416	10,637,459
Total	¥2,304,923	$20,544,822

The assets pledged as collateral for short-term borrowings of ¥100 million ($891 thousand), long-term debt of ¥138,578 million ($1,235,215 thousand), and other current liabilities of ¥5,106 million ($45,519 thousand) at March 31, 2017 were as follows:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥153,780	$1,370,712
Machinery and equipment	1,374	12,247
Land	199,095	1,774,626
Land in trust	128,591	1,146,198
Construction in progress	6,438	57,390
Other property and equipment	1	10
Total	¥489,281	$4,361,185

The following borrowings were non-recourse loans at March 31, 2017 and 2016, which are secured by collaterals as the sole source of recovery.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current portion of long-term borrowings	¥ 6,829	—	$ 60,877
Long-term borrowings	10,681	—	95,205
Total	¥17,510	—	$156,082

The assets pledged as collateral for the above non-recourse loans at March 31, 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Buildings and structures	¥21,765	—	$194,008
Land	7,312	—	65,178
Construction in progress	6,118	—	54,534
Total	¥35,196	—	$313,721

6 RETIREMENT BENEFIT PLANS

The Company and most of its domestic consolidated subsidiaries have either funded or unfunded defined benefit plans, defined contribution plans, and lump-sum payment plans in the form of a defined benefit plan. The Company has adopted a retirement benefit trust for the lump-sum payment plan and defined benefit plan. Rockefeller Group, Inc., a foreign consolidated subsidiary of the Company, has adopted defined benefit plans.

The simplified method, which assumes the retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at the fiscal year-end, has been adopted in accounting for defined benefit plans for some consolidated subsidiaries and the Company's executive officers.

The changes in the retirement benefit obligation during the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligation at the beginning of the year	¥134,263	¥119,284	$1,196,752
Service cost	5,493	4,603	48,970
Interest cost	964	1,811	8,595
Actuarial gain and loss	1,803	13,966	16,079
Retirement benefits paid	(5,323)	(5,293)	(47,453)
Prior service cost	211	—	1,883
Translation adjustments	(625)	12	(5,572)
Other	700	(120)	6,247
Retirement benefit obligation at the end of the year	¥137,489	¥134,263	$1,225,504

The changes in plan assets during the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Plan assets at the beginning of the year	¥111,304	¥119,099	$ 992,108
Expected return on plan assets	2,841	3,089	25,331
Actuarial gain and loss	11,903	(11,207)	106,103
Contributions by the Company	2,608	4,168	23,250
Retirement benefits paid	(3,912)	(3,879)	(34,875)
Translation adjustments	(387)	9	(3,454)
Other	286	25	2,553
Plan assets at the end of the year	¥124,645	¥111,304	$1,111,017

The funded status of the plans and the amounts recognized on the consolidated balance sheet as of March 31, 2017 and 2016 for the Company's and the consolidated subsidiaries' defined benefit plans were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligation	¥ 120,031	¥ 118,193	$ 1,069,896
Plan assets at fair value	(124,645)	(111,304)	(1,111,025)
	(4,614)	6,888	(41,129)
Unfunded retirement benefit obligation	17,457	16,070	155,608
Net liability for retirement benefits on the balance sheet	12,843	22,959	114,478
Liability for retirement benefits	22,042	32,464	196,476
Asset for retirement benefits	(9,487)	(9,810)	(84,568)
Other current liabilities	288	305	2,571
Net liability for retirement benefits on the balance sheet	¥ 12,843	¥ 22,959	$ 114,478

Note: The accrued employees' retirement benefits recognized by Rockefeller Group, Inc., a consolidated subsidiary, were included in "Other current liabilities."

The components of retirement benefit expenses for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 5,493	¥ 4,603	$ 48,970
Interest cost	964	1,811	8,595
Expected return on plan assets	(2,841)	(3,089)	(25,331)
Amortization of actuarial loss	4,251	(690)	37,894
Amortization of prior service cost	183	(107)	1,634
Other	216	135	1,928
Retirement benefit expenses	¥ 8,267	¥ 2,663	$ 73,691

Note: Retirement benefit expenses for consolidated subsidiaries adopting the simplified method, which assumes the retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at the fiscal year-end, are included in "Service cost."

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Prior service cost	¥ (27)	¥ (107)	$ (248)
Actuarial gain and loss	14,351	(25,864)	127,917
Total	¥14,323	¥(25,972)	$127,668

The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized prior service cost	¥ 185	¥ 225	$ 1,650
Unrecognized actuarial gain and loss	(5,042)	(19,599)	(44,947)
Total	¥(4,857)	¥(19,373)	$(43,297)

The fair values of plan assets, by major category, as a percentage of total plan assets as of March 31, 2017 and 2016 were as follows:

	2017	2016
Bonds	7%	22%
Stocks	55%	54%
General accounts	11%	11%
Other	28%	13%
Total	100%	100%

Note: Approximately 45% and 40% of total plan assets were held in the retirement benefit trust as of March 31, 2017 and 2016, respectively.

The expected returns on plan assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans were as follows:

	2017	2016
Discount rates	0.0%–4.15%	0.0%–3.85%
Expected rates of return on plan assets	1.0%–6.75%	1.0%–6.75%
Rates of salary increase	0.4%–4.0%	0.4%–4.0%

The required contributions to defined contribution plans by consolidated subsidiaries for the years ended March 31, 2017 and 2016 were ¥213 million ($1,899 thousand) and ¥160 million, respectively.

7 INCOME TAXES

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2017 and 2016 differed from the statutory tax rate for the following reasons:

	2017	2016
Statutory tax rate	30.86%	33.06%
Increase (decrease) in income taxes resulting from:		
Different tax rates applied	0.01	1.04
Expenses not deductible for income tax purposes	0.25	0.27
Revenues deductible for income tax purposes	(0.14)	(5.54)
Change in valuation allowance	(1.03)	10.68
Undistributed earnings of affiliates	0.03	0.11
Equity income	(0.24)	(0.10)
Gain on negative goodwill	(2.56)	—
Loss on step acquisitions	1.22	—
Effect of enacted changes in tax laws and rates on Japanese tax	(0.05)	(4.76)
Other	(0.05)	(4.04)
Effective tax rate	28.29%	30.72%

The significant components of deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Net operating loss carry forwards	¥ 2,357	¥ 1,646	$ 21,012
Liability for retirement benefits	13,287	16,567	118,441
Valuation loss on inventories	8,265	12,969	73,675
Unrealized loss on property and equipment	89,528	88,898	798,007
Unrealized loss on property and equipment by consolidation	10,976	11,144	97,834
Loss on valuation of investment securities	2,525	6,250	22,511
Loss on valuation of equity investments	6,715	7,437	59,857
Land revaluation reserve	23,910	26,361	213,124
Accrued bonuses	2,921	2,681	26,039
Other	48,091	50,151	428,659
Total gross deferred tax assets	208,579	224,108	1,859,164
Valuation allowance	(80,765)	(93,370)	(719,896)
Total deferred tax assets	127,814	130,737	1,139,268
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	(62,992)	(62,271)	(561,484)
Land revaluation reserve	(265,912)	(265,912)	(2,370,194)
Unrealized gain on property and equipment by consolidation	(118,001)	(113,392)	(1,051,798)
Unrealized gain on property and equipment	(36,955)	(36,668)	(329,401)
Unrealized gain on securities	(45,962)	(36,496)	(409,685)
Other	(57,975)	(31,391)	(516,760)
Total deferred tax liabilities	(587,799)	(546,132)	(5,239,325)
Net deferred tax liabilities	¥(459,985)	¥(415,394)	$(4,100,056)

8 SHAREHOLDERS' EQUITY

The Companies Act of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. The capital reserve amounted to ¥161,477 million ($1,439,319 thousand), and the legal reserve amounted to ¥21,663 million ($193,099 thousand) at March 31, 2017. Such distributions can be made at any time by resolution of the general meeting of shareholders or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

9 AMOUNTS PER SHARE

Years ended March 31,	Yen 2017	Yen 2016	U.S. dollars 2017
Net income:			
Basic	¥74.00	¥60.13	$0.65
Diluted	73.98	60.12	0.65
Cash dividends applicable to the year	20.00	16.00	0.17

As of March 31,	Yen 2017	Yen 2016	U.S. dollars 2017
Net assets	¥1,147.80	¥1,088.11	$10.23

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 shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of warrants and stock subscription rights.

Amounts per share of net assets are computed based on net assets available for distribution to 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.

10 LEASES

Future minimum lease payments subsequent to March 31, 2017 on non-cancelable operating leases are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 5,458	$ 48,651
2019 and thereafter	117,837	1,050,340
Total	¥123,295	$1,098,991

The Company and its consolidated subsidiaries lease office buildings and retail properties and earn income on these leases. Future minimum lease income subsequent to March 31, 2017 from non-cancelable operating leases is summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 270,673	$ 2,412,636
2019 and thereafter	995,841	8,876,380
Total	¥1,266,514	$11,289,017

11 CONTINGENT LIABILITIES

At March 31, 2017, the Company and its consolidated subsidiaries had the following contingent liabilities:

(1) Guarantee of loans

	Millions of yen	Thousands of U.S. dollars
Guarantees of house purchasers' loans from banks	¥39,191	$349,328
Other	14	124
Total	¥39,205	$349,453

(2) Guarantee for business undertakings

	Millions of yen	Thousands of U.S. dollars
Business undertaking guarantees	¥10,885	$97,027

Rockefeller Group International Inc. provides business undertaking guarantees for property development projects in proportion to its share.

12 OTHER INCOME (EXPENSES)

The components of "Other, net" in "Other income (expenses)" for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Gain on sales of fixed assets	—	¥ 2,709	—
Gain on negative goodwill	¥ 13,505	—	$ 120,376
Gain on sales of investment securities	1,013	11,350	9,030
Reversal of accrued payment	—	4,098	—
Reversal of provision for loss on obligation of additional investments	—	1,262	—
Settlement received	1,966	—	17,530
Loss on disposal of fixed assets	(4,453)	(6,064)	(39,694)
Loss related to retirement of fixed assets	(4,762)	(4,223)	(42,451)
Impairment loss*	(12,260)	(2,561)	(109,285)
Provision for environmental measures	—	(5,068)	—
Provision for business transfer	—	(10,570)	—
Loss on step acquisitions	(6,431)	—	(57,330)
Other, net	(1,221)	(539)	(10,891)
	¥(12,645)	¥ (9,605)	$(112,716)

* Impairment loss

The Company recorded consolidated impairment losses on the following asset groups for the fiscal year ended March 31, 2017:

Major Application	Category	Location
Leased assets, etc. (total 12 groups)	Land, Buildings, etc.	New Jersey, U.S.A, etc.

Asset grouping for the Company and its consolidated subsidiaries (collectively, the "Group") was made based on a minimum unit that generates cash flows, which is substantially independent from cash flows of other assets or asset groups. Company condominiums are regarded as shared assets. As a result, for the fiscal year ended March 31, 2017, the book values of 12 asset groups, consisting of those for which the market prices fell considerably compared with the book values due to the decline of land prices and those for which profitability decreased considerably due to fallen rent levels or deteriorated market conditions, etc., were reduced to the respective collectible amounts and such reductions were recorded as impairment losses in the amount of ¥12,260 million ($109,285 thousand).

The breakdown of such impairment losses was ¥6,041 million ($53,853 thousand) in land and ¥6,218 million ($55,432 thousand) in buildings and structures.

The collectible amounts of asset groups are measured using 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 mainly discounted at a rate of 5% are used to compute the use value.

The Company recorded consolidated impairment losses on the following asset groups for the fiscal year ended March 31, 2016:

Major Application	Category	Location
Leased assets, etc. (total 5 groups)	Land, Buildings, etc.	Chiba, Chiba Prefecture, etc.

Asset grouping for the Company and its consolidated subsidiaries was made based on a minimum unit that generates cash flows, which is substantially independent from cash flows of other assets or asset groups. Company condominiums are regarded as shared assets. As a result, for the fiscal year ended March 31, 2016, the book values of 5 asset groups, consisting of those for which the market prices fell considerably compared with the book values due to the decline of land prices and those for which profitability decreased considerably due to fallen rent levels or deteriorated market conditions, etc., were reduced to the respective collectible amounts and such reductions were recorded as impairment losses in the amount of ¥2,561 million.

The breakdown of such impairment losses was ¥1,665 million in land and ¥895 million in buildings and structures.

The collectible amounts of asset groups are measured using 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 mainly discounted at a rate of 5% are used to compute the use value.

13 FINANCIAL INSTRUMENTS

Overview

(1) Policy for financial instruments

In consideration of plans for capital investments, the Group raises funds mainly through bank borrowings and bond issues. In terms of fund management, the Group makes every effort to avoid market risks by emphasizing liquidity and shortening the fund management period. The Group uses derivatives for the purpose of hedging exposure to interest rates, reducing interest expenses, and hedging the risk of fluctuations in foreign exchange rates and does not enter into derivatives for speculative purposes.

(2) Types of financial instruments and related risks

Trade receivables–notes and accounts receivable–are exposed to credit risk in relation to customers. Trade receivables denominated in foreign currencies, which arise from overseas operation, are exposed to foreign currency exchange risks.

Marketable securities and investment securities are exposed to market risks. Those securities are composed of mainly held-to-maturity debt securities and the shares of common stock of other companies with which the Group has business relationships.

Equity investments are composed of mainly preferred equity investments in special purpose companies under the Law concerning Liquidation of Assets, investments in real estate investment trusts, and investments in silent partnerships for special purpose companies. They are exposed to the credit risks of issuers and risks of fluctuations in interest rates and market prices, respectively.

Lease and guarantee deposits for leased assets are exposed to the credit risks of customers.

Substantially, all trade payables–accounts and notes payable–have payment due dates within one year. Some of those denominated in foreign currencies are exposed to foreign currency exchange risks.

Borrowings and bonds are taken out principally for the purpose of making capital investments and the repayment dates of the long-term debt extend up to 60 years from the balance sheet date. Certain long-term debt with variable interest rates is exposed to interest rate fluctuation risks. However, to reduce such risks for long-term debt bearing interest at variable rates, the Group utilizes derivative transactions (interest rate swaps) as hedging instruments.

Derivative transactions include interest rate swaps, currency swaps, and forward foreign exchange contracts. The Group also enters into interest rate swap transactions to fix interest expense for long-term debt bearing interest at variable rates and to reduce interest rate fluctuation risks. Some of the consolidated subsidiaries enter into interest swap and currency swap transactions in accordance with the same policies and purposes adopted by the Company.

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies for managing credit risk of the Group arising from receivables and lease and guarantee deposits, each related division in each business segment monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Group is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

(b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates, and others)

In order to mitigate the interest rate risks for loans payable and bonds bearing interest at variable rates, the Group may also enter into interest rate swap and currency swap transactions.

For marketable securities and investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers (business partners). In addition, the Group continuously evaluates whether securities other than those classified as held-to-maturity should be maintained taking into account their fair values and relationships with the issuers (business partners).

(c) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

Based on a report from each division, the Group prepares and updates its cash flow plans on a timely basis and stabilizes liquidity to manage liquidity risk.

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, the fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheet as of March 31, 2017 and unrealized gains (losses) were as follows. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.
(Please refer to Note B on page 74).

	Millions of yen			Thousands of U.S. dollars		
						2017
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
1) Cash on hand and in banks	¥ 243,681	¥ 243,681	—	$2,172,039	$2,172,039	—
2) Notes and accounts receivable–trade	43,823			390,618		
Allowance for doubtful receivables*	(270)			(2,411)		
	43,552	43,552	—	388,207	388,207	—
3) Securities and investment securities						
(i) Held-to-maturity debt securities	15,112	15,114	¥ 2	134,701	134,724	$22
(ii) Other securities	225,933	225,933	—	2,013,851	2,013,851	—
(iii) Investments in subsidiaries and affiliates	60	424	363	543	3,787	3,244
4) Equity investments	10,102	10,102	—	90,043	90,043	—
Total assets	¥ 538,443	¥ 538,809	¥ 366	$4,799,386	$4,802,654	$ 3,267
1) Notes and accounts payable–trade	¥ 56,099	¥ 56,099	—	$ 500,041	$ 500,041	—
2) Short-term borrowings	86,415	86,415	—	770,263	770,263	—
3) Current portion of long-term borrowings	149,281	149,281	—	1,330,611	1,330,611	—
4) Current portion of long-term bonds	85,075	85,075	—	758,311	758,311	—
5) Long-term bonds	777,712	814,378	¥36,665	6,932,101	7,258,921	$326,819
6) Long-term borrowings	1,292,854	1,310,801	17,946	11,523,797	11,683,764	159,967
Total liabilities	¥2,447,439	¥2,502,051	¥54,612	$21,815,127	$22,301,914	$486,787

	Millions of yen		
			2016
	Carrying value	Estimated fair value	Difference
1) Cash on hand and in banks	¥ 412,983	¥ 412,983	—
2) Notes and accounts receivable–trade	35,261		
Allowance for doubtful receivables*	(528)		
	34,733	34,733	—
3) Securities and investment securities			
(i) Held-to-maturity debt securities	405	425	¥ 19
(ii) Other securities	189,926	189,926	—
(iii) Investments in subsidiaries and affiliates	60	587	527
4) Equity investments	11,129	11,129	—
Total assets	¥ 649,239	¥ 649,786	¥ 546
1) Notes and accounts payable–trade	¥ 58,331	¥ 58,331	—
2) Short-term borrowings	103,125	103,125	—
3) Current portion of long-term borrowings	163,651	163,651	—
4) Current portion of long-term bonds	78,023	78,023	—
5) Long-term bonds	825,000	874,718	¥49,718
6) Long-term borrowings	1,114,426	1,146,046	31,619
Total liabilities	¥2,342,558	¥2,423,896	¥81,338

* The value of notes and account receivable–trade is shown at net value, after deducting allowance for doubtful accounts.

Note A: Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets

Cash on hand and in banks

Since these items are settled in a short period of time, their carrying value approximates fair value.

Notes and accounts receivable–trade

Since these items are settled in a short period of time, their carrying value approximates fair value.

Marketable securities and investment securities

The fair value of stocks is based on quoted market prices. The fair value of debt securities is mainly based on prices provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 14. "Marketable Securities and Investment Securities."

Equity investments

The fair value of equity investments is based on quoted market prices.

Liabilities

Notes and accounts payable–trade

Since these items are settled in a short period of time, their carrying value approximates fair value.

Short-term borrowings

Since these items are settled in a short period of time, their carrying value approximates fair value.

Current portion of long-term borrowings

Since these items are settled in a short period of time, their carrying value approximates fair value.

Current portion of bonds

Since these items are settled in a short period of time, their carrying value approximates fair value.

Bonds

The fair value of bonds is based on the quoted market price.

Long-term borrowings

Since variable interest rates of certain long-term borrowings are determined based on current interest rates in a short period of time, their carrying value approximates fair value. The fair value of long-term borrowings with fixed interest rates is based on the present value of the total of principal and interest discounted by the interest rates to be applied if similar new borrowings were entered into.

Derivatives transactions

Please refer to Note 16. "Derivatives and Hedging Activities."

Note B: Financial instruments for which it is extremely difficult to determine the fair value

	Millions of yen	Thousands of U.S. dollars
	2017	
(i) Unlisted stocks *1	¥ 17,278	$ 154,012
(ii) Equity investments *2	282,662	2,519,494
(iii) Lease and guarantee deposit receivables *3	106,149	946,162
(iv) Lease and guarantee deposit payables *4	398,014	3,547,679

	Millions of yen
	2016
(i) Unlisted stocks *1	¥ 25,954
(ii) Equity investments *2	265,712
(iii) Lease and guarantee deposit receivables *3	115,382
(iv) Lease and guarantee deposit payables *4	393,309

*1 Because no quoted market price is available and it is extremely difficult to determine the fair value, unlisted stocks are not included in the above table.

*2 Because it is extremely difficult to determine the fair value of equity investments that are not listed and have no quoted market price, they are not included in the above table.

*3 Because no quoted market price for lease and guarantee deposit receivables for rental properties is available and calculation of the actual period of duration from lease initiation to evacuation is difficult, it is extremely difficult to estimate a reasonable amount of cash flow and therefore they are not included in the above table.

*4 Because no quoted market price for lease and guarantee deposit payables for rental properties is available and calculation of the actual period of duration from lease initiation to evacuation is difficult, it is extremely difficult to estimate a reasonable amount of cash flow and therefore they are not included in the above table.

Note C: The redemption schedule for receivables and marketable securities with maturities

	Millions of yen				Thousands of U.S. dollars			
As of March 31, 2017	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in banks	¥243,681	—	—	—	$2,172,039	—	—	—
Notes and accounts receivable–trade	43,823	—	—	—	390,618	—	—	—
Marketable securities and investment securities:								
Held-to-maturity debt securities								
National and local government bonds	5	¥ 214	¥110	—	44	$ 1,907	$ 980	—
Corporate bonds	10,800	1,200	—	—	96,265	10,696	—	—
Other	2,420	—	—	—	21,571	—	—	—
Other marketable securities with maturities:								
Other	31	17	374	—	283	159	3,336	—
Total	¥300,761	¥1,431	¥484	—	$2,680,822	$12,762	$4,316	—

	Millions of yen			
As of March 31, 2016	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in banks	¥412,983	—	—	—
Notes and accounts receivable–trade	35,261	—	—	—
Marketable securities and investment securities:				
Held-to-maturity debt securities				
National and local government bonds	5	¥195	¥204	—
Corporate bonds	—	—	—	—
Other	—	—	—	—
Other marketable securities with maturities:				
Other	—	108	9	—
Total	¥448,249	¥303	¥213	—

Note D: The redemption schedule for bonds and long-term borrowings

	Millions of yen						Thousands of U.S. dollars					
As of March 31, 2017	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Corporate bonds	¥ 85,075	¥ 66,162	¥ 75,000	¥ 51,550	¥ 65,000	¥ 520,000	$ 758,311	$ 589,736	$668,508	$ 459,488	$ 579,374	$ 4,634,994
Long-term borrowings	149,281	145,123	233,323	133,175	107,816	673,416	1,330,611	1,293,548	2,079,717	1,187,050	961,015	6,002,465
Total	¥234,356	¥211,285	¥308,323	¥184,725	¥172,816	¥1,193,416	$2,088,923	$1,883,284	$2,748,226	$1,646,539	$1,540,389	$10,637,459

	Millions of yen					
As of March 31, 2016	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Corporate bonds	¥ 78,000	¥ 85,000	¥ 65,000	¥ 75,000	¥ 50,000	¥ 550,000
Long-term borrowings	163,651	142,678	141,166	157,002	115,642	557,936
Total	¥241,651	¥227,678	¥206,166	¥232,002	¥165,642	¥1,107,936

14 MARKETABLE SECURITIES AND INVESTMENT SECURITIES

Marketable securities and investment securities classified as other securities at March 31, 2017 and 2016 were as follows:

	Millions of yen			Thousands of U.S. dollars		
				2017		
	Cost	Fair value	Unrealized gain (loss)	Cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their cost:						
Equity securities	¥75,080	¥223,945	¥148,864	$669,228	$1,996,123	$1,326,895
Other	4,491	10,103	5,611	40,038	90,054	50,016
Subtotal	79,572	234,048	154,475	709,266	2,086,178	1,376,912
Securities whose cost exceeds their fair value:						
Equity securities	2,235	1,978	(257)	19,927	17,634	(2,293)
Corporate bonds	—	—	—	—	—	—
Other	142	9	(133)	1,272	82	(1,190)
Subtotal	2,378	1,987	(390)	21,200	17,716	(3,483)
Total	¥81,951	¥236,036	¥154,084	$730,466	$2,103,895	$1,373,428

	Millions of yen		
	2016		
	Cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their cost:			
Equity securities	¥71,594	¥188,127	¥116,532
Other	4,491	11,130	6,638
Subtotal	76,086	199,257	123,171
Securities whose cost exceeds their fair value:			
Equity securities	2,218	1,789	(429)
Corporate bonds	—	—	—
Other	142	9	(133)
Subtotal	2,361	1,798	(562)
Total	¥78,447	¥201,056	¥122,609

Proceeds from sales of securities classified as other securities totaled ¥1,417 million ($12,637 thousand) and ¥17,937 million for the years ended March 31, 2017 and 2016, respectively. Gross realized gains were ¥1,013 million ($9,030 thousand) and ¥11,350 million for the years ended March 31, 2017 and 2016, respectively. The gross realized loss was ¥16 million for the year ended March 31, 2016.

The Company and its consolidated subsidiaries recognized ¥227 million ($2,027 thousand) and ¥0 million of impairment loss on investment securities for the years ended March 31, 2017 and 2016, respectively.

Marketable debt securities classified as held-to-maturity securities at March 31, 2017 and 2016 were as follows:

	Millions of yen			Thousands of U.S. dollars		
				2017		
	Amortized cost	Fair value	Unrealized gain (loss)	Amortized cost	Fair value	Unrealized gain (loss)
Debt securities whose fair value exceeds their cost:						
Government bonds	¥ 400	¥ 414	¥ 13	$ 3,573	$ 3,693	$120
Corporate bonds	100	100	0	896	896	0
Subtotal	501	515	13	4,470	4,590	120
Debt securities whose cost exceeds their fair value:						
Government bonds	—	—	—	—	—	—
Corporate bonds	11,924	11,916	(8)	106,290	106,212	(77)
Other	2,685	2,683	(2)	23,940	23,920	(19)
Subtotal	14,610	14,599	(10)	130,231	130,133	(97)
Total	¥15,112	¥15,114	¥ 2	$134,701	$134,724	$ 23

	Millions of yen		
	2016		
	Amortized cost	Fair value	Unrealized gain (loss)
Debt securities whose fair value exceeds their cost:			
Government bonds	¥405	¥425	¥19
Corporate bonds	—	—	—
Subtotal	405	425	19
Debt securities whose cost exceeds their fair value:			
Government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	—	—	—
Total	¥405	¥425	¥19

15 SUPPLEMENTAL CASH FLOW INFORMATION

The reconciliation of cash and cash equivalents as of March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash on hand and in banks	¥243,681	¥412,983	$2,172,039
Time deposits with maturities of more than three months	(605)	(605)	(5,394)
Marketable securities with maturities of three months or less	265	14	2,369
Cash and cash equivalents	¥243,341	¥412,392	$2,169,015

The major components of assets acquired and liabilities assumed of a consolidated subsidiary, which was acquired through a stock purchase, as well as the reconciliation of the difference between the acquisition cost and the proceeds from the acquisition, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets	¥ 14,315	—	$ 127,602
Fixed assets	42,831	—	381,778
Current liabilities	(2,006)	—	(17,884)
Fixed liabilities	(17,734)	—	(158,072)
Non-controlling interests	(16,488)	—	(146,973)
Gain on negative goodwill	(12,702)	—	(113,223)
Acquisition cost	8,215	—	73,227
Acquisition cost before obtaining control	(12,190)	—	(108,656)
Loss on step acquisition	6,431	—	57,330
Cash and cash equivalents of subsidiary	(2,752)	—	(24,532)
Proceeds from acquisition	¥ (295)	—	$ (2,631)

The major components of assets acquired and liabilities assumed of a consolidated subsidiary, which was acquired through a stock purchase, as well as a reconciliation of the difference between the acquisition cost and the payment for the acquisition were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets	¥ 3,226	¥ 1,169	$ 28,758
Fixed assets	184,115	22,974	1,641,101
Goodwill	—	248	—
Current liabilities	(4,207)	(147)	(37,502)
Fixed liabilities	(126,331)	(19,398)	(1,126,051)
Gain on negative goodwill	(802)	—	(7,153)
Acquisition cost	56,000	4,846	499,153
Acquisition cost before obtaining control	—	(703)	—
Gain on step acquisition	—	(95)	—
Cash and cash equivalents of subsidiary	(3,070)	(1,006)	(27,371)
Payments for acquisition	¥ 52,929	¥ 3,040	$ 471,781

16 DERIVATIVES AND HEDGING ACTIVITIES

(1) Interest-related transactions

		Millions of yen			Thousands of U.S. dollars		
		2017					
Class of transactions	Subject to hedge accounting	Notional amount	Due after one year	Fair value	Notional amount	Due after one year	Fair value
Interest rate swap contracts Fixed rate payment and floating rate receipt	Long-term borrowings	¥ 29,588	¥ 29,588	¥122	$ 263,735	$ 263,735	$1,093
Interest rate swap contracts by short-cut method Fixed rate payment and floating rate receipt	Long-term borrowings	264,042	259,708	*	2,353,532	2,314,897	*
Total		¥293,631	¥289,296	¥122	$2,617,267	$2,578,632	$1,093

		Millions of yen		
		2016		
Class of transactions	Subject to hedge accounting	Notional amount	Due after one year	Fair value
Interest rate swap contracts Fixed rate payment and floating rate receipt	Long-term borrowings	¥ 30,634	¥ 30,634	¥(70)
Interest rate swap contracts by short-cut method Fixed rate payment and floating rate receipt	Long-term borrowings	193,903	189,757	*
Total		¥224,537	¥220,392	¥(70)

The calculation method of fair value is based on data obtained from financial institutions.

* The estimated fair value of interest rate swap contracts is included in the estimated fair value of long-term borrowings and corporate bonds since amounts in such derivative contracts accounted for by the short-cut method are handled together with long-term borrowings and corporate bonds that are subject to hedge accounting.

(2) Interest and currency-related transactions

		Millions of yen			Thousands of U.S. dollars		
		2017					
Class of transactions	Subject to hedge accounting	Notional amount	Due after one year	Fair value	Notional amount	Due after one year	Fair value
Interest rate and currency swap contracts Payment in JPY and receipt in USD Floating rate payment and fixed rate receipt	Long-term borrowings	¥57,412	¥57,412	¥(5,381)	$511,742	$511,742	$(47,971)
Total		¥57,412	¥57,412	¥(5,381)	$511,742	$511,742	$(47,971)

		Millions of yen		
		2016		
Class of transactions	Subject to hedge accounting	Notional amount	Due after one year	Fair value
Interest rate and currency swap contracts Payment in JPY and receipt in USD Floating rate payment and fixed rate receipt	Long-term borrowings	¥49,400	¥49,400	¥(6,796)
Interest rate and currency swap contracts Payment in GBP and receipt in JPY Floating rate payment and fixed rate receipt	Corporate bonds	8,000	—	(611)
Total		¥57,400	¥49,400	¥(7,408)

The calculation method of fair value is based on data obtained from financial institutions.

17 SEGMENT INFORMATION

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors and other committees to make decisions about resource allocation and to assess performance. Business performances are aggregated according to business areas that consist of multiple business groups and defined as organizational units having common business objectives and management responsibilities within the Group, and such aggregated business areas are disclosed as reportable segments.

The Company and its consolidated subsidiaries are primarily engaged in the real estate business. Their business segments are classified in terms of the nature of each operation or service and consist of following segments: (1) Office Building Business; (2) Lifestyle Property Business; (3) Residential Business; (4) International Business; (5) Investment Management Business; (6) Architectural Design and Engineering Business; (7) Hotel Business; (8) Real Estate Services Business; and (9) Other businesses.

The reportable segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2017 and 2016 was as follows:

Millions of yen

2017

	Reportable segments												
	Office Building Business	Lifestyle Property Business	Residential Business	International Business	Investment Management Business	Architectural Design and Engineering Business	Hotel Business	Real Estate Services Business	Subtotal	Other	Total	Eliminations or corporate	Consolidated
Revenue, operating income, and assets by reportable segment													
Revenue from:													
External customers	¥ 476,828	¥ 84,250	¥407,220	¥ 66,573	¥ 20,790	¥12,064	¥33,067	¥23,890	¥1,124,684	¥ 720	¥1,125,405	—	¥1,125,405
Intersegment or transfers	7,409	4,705	630	(16)	532	7,244	444	353	21,303	3,517	24,820	¥ (24,820)	—
Total revenue	484,238	88,955	407,850	66,556	21,323	19,309	33,512	24,243	1,145,988	4,237	1,150,226	(24,820)	1,125,405
Segment income (loss)	133,570	25,807	19,253	26,313	4,520	445	1,932	2,157	214,000	289	214,289	(21,793)	192,495
Segment assets	¥3,445,008	¥484,292	¥634,219	¥541,888	¥106,990	¥27,358	¥28,842	¥25,702	¥5,294,302	¥12,649	¥5,306,951	¥177,163	¥5,484,115
Other items													
Depreciation and amortization	47,755	12,704	3,144	5,913	4,216	113	1,478	343	75,669	64	75,734	240	75,974
Capital expenditures	¥ 162,651	¥ 59,054	¥ 27,267	¥ 39,724	¥ 201	¥ 182	¥ 734	¥ 568	¥ 290,386	¥ 274	¥ 290,661	¥ 3,055	¥ 293,716

Thousands of U.S. dollars

2017

	Reportable segments												
	Office Building Business	Lifestyle Property Business	Residential Business	International Business	Investment Management Business	Architectural Design and Engineering Business	Hotel Business	Real Estate Services Business	Subtotal	Other	Total	Eliminations or corporate	Consolidated
Revenue, operating income, and assets by reportable segment													
Revenue from:													
External customers	$ 4,250,183	$ 750,962	$3,629,738	$ 593,396	$185,316	$107,535	$294,745	$212,942	$10,024,821	$ 6,422	$10,031,244	—	$10,031,244
Intersegment or transfers	66,048	41,939	5,617	(149)	4,746	64,575	3,962	3,149	189,889	31,350	221,240	$ (221,240)	—
Total revenue	4,316,231	792,902	3,635,356	593,246	190,063	172,111	298,707	216,091	10,214,711	37,772	10,252,484	(221,240)	10,031,244
Segment income (loss)	1,190,570	230,029	171,614	234,548	40,295	3,971	17,224	19,227	1,907,482	2,577	1,910,059	(194,258)	1,715,800
Segment assets	$30,706,908	$4,316,714	$5,653,085	$4,830,095	$953,657	$243,855	$257,082	$229,102	$47,190,501	$112,747	$47,303,249	$1,579,140	$48,882,390
Other items													
Depreciation and amortization	425,664	113,239	28,024	52,709	37,585	1,010	13,177	3,064	674,476	577	675,054	2,140	677,194
Capital expenditures	$ 1,449,787	$ 526,382	$ 243,046	$ 354,084	$ 1,800	$ 1,630	$ 6,546	$ 5,070	$ 2,588,348	$ 2,447	$ 2,590,796	$ 27,231	$ 2,618,027

Millions of yen

2016

	Reportable segments												
	Office Building Business	Lifestyle Property Business	Residential Business	International Business	Investment Management Business	Architectural Design and Engineering Business	Hotel Business	Real Estate Services Business	Subtotal	Other	Total	Eliminations or corporate	Consolidated
Revenue, operating income, and assets by reportable segment													
Revenue from:													
External customers	¥ 415,050	¥ 84,130	¥344,064	¥ 75,578	¥ 24,851	¥13,020	¥32,681	¥19,354	¥1,008,732	¥ 675	¥1,009,408	—	¥1,009,408
Intersegment or transfers	7,298	2,438	1,161	377	143	8,259	407	461	20,547	3,206	23,754	¥(23,754)	—
Total revenue	422,349	86,569	345,226	75,956	24,994	21,279	33,089	19,815	1,029,280	3,882	1,033,162	(23,754)	1,009,408
Segment income (loss)	108,940	25,842	18,035	19,421	5,082	1,754	1,490	602	181,170	(37)	181,133	(14,933)	166,199
Segment assets	¥3,208,271	¥372,779	¥748,400	¥515,844	¥141,126	¥27,474	¥28,417	¥23,608	¥5,065,923	¥23,501	¥5,089,424	¥222,415	¥5,311,840
Other items													
Depreciation and amortization	43,752	12,288	3,085	7,033	5,413	126	1,527	284	73,512	90	73,602	642	74,245
Capital expenditures	¥ 175,904	¥ 40,272	¥ 29,144	¥ 35,472	¥ 378	¥ 116	¥ 1,295	¥ 433	¥ 283,017	¥ 29	¥ 283,046	¥ 369	¥ 283,416

Impairment losses of the Company and its consolidated subsidiaries on fixed assets by reportable segment for the years ended March 31, 2017 and 2016 were as follows:

Millions of yen

2017

	Reportable segments												
	Office Building Business	Lifestyle Property Business	Residential Business	International Business	Investment Management Business	Architectural Design and Engineering Business	Hotel Business	Real Estate Service Business	Subtotal	Other	Total	Eliminations or corporate	Consolidated
Impairment loss	¥236	—	¥2,718	¥8,110	¥1,174	—	¥21	—	¥12,260	—	¥12,260	—	¥12,260
													Thousands of U.S. dollars
Impairment loss	$2,106	—	$24,229	$72,295	$10,464	—	$188	—	$109,285	—	$109,285	—	$109,285

Millions of yen

2016

	Reportable segments												
	Office Building Business	Lifestyle Property Business	Residential Business	International Business	Investment Management Business	Architectural Design and Engineering Business	Hotel Business	Real Estate Services Business	Subtotal	Other	Total	Eliminations or corporate	Consolidated
Impairment loss	—	—	¥451	—	¥860	—	¥35	—	¥1,347	¥1,214	¥2,561	—	¥2,561

The following tables present the amortization and balance of goodwill as of and for the years ended March 31, 2017 and 2016 by reportable segment:

Millions of yen

2017

	Reportable segments												
	Office Building Business	Lifestyle Property Business	Residential Business	International Business	Investment Management Business	Architectural Design and Engineering Business	Hotel Business	Real Estate Services Business	Subtotal	Other	Total	Eliminations or corporate	Consolidated
Amortization of goodwill	¥ 409	¥ 69	¥3,030	—	¥ 1,963	—	—	—	¥ 5,473	¥ 0	¥ 5,473	—	¥ 5,473
Balance of goodwill	—	—	¥7,064	—	¥13,659	—	—	—	¥ 20,723	—	¥ 20,723	—	¥ 20,723
Amortization of negative goodwill	—	—	—	—	—	—	—	—	—	—	—	—	—
Balance of negative goodwill	¥98,647	¥12,611	—	—	—	—	—	—	¥111,259	—	¥111,259	—	¥111,259

Thousands of U.S. dollars

2017

	Reportable segments												
	Office Building Business	Lifestyle Property Business	Residential Business	International Business	Investment Management Business	Architectural Design and Engineering Business	Hotel Business	Real Estate Services Business	Subtotal	Other	Total	Eliminations or corporate	Consolidated
Amortization of goodwill	$ 3,649	$ 621	$27,008	—	$ 17,504	—	—	—	$ 48,784	$ 0	$ 48,784	—	$ 48,784
Balance of goodwill	—	—	$62,972	—	$121,749	—	—	—	$184,721	—	$184,721	—	$184,721
Amortization of negative goodwill	—	—	—	—	—	—	—	—	—	—	—	—	—
Balance of negative goodwill	$879,289	$112,415	—	—	—	—	—	—	$991,705	—	$991,705	—	$991,705

Millions of yen

2016

	Reportable segments												
	Office Building Business	Lifestyle Property Business	Residential Business	International Business	Investment Management Business	Architectural Design and Engineering Business	Hotel Business	Real Estate Services Business	Subtotal	Other	Total	Eliminations or corporate	Consolidated
Amortization of goodwill	¥ 409	¥ 318	¥ 3,030	—	¥ 2,386	—	—	—	¥ 6,144	—	¥ 6,144	—	¥ 6,144
Balance of goodwill	—	—	¥10,094	—	¥16,857	—	—	—	¥ 26,952	—	¥ 26,952	—	¥ 26,952
Amortization of negative goodwill	—	—	—	—	—	—	—	—	—	—	—	—	—
Balance of negative goodwill	¥98,238	¥12,542	—	—	—	—	—	—	¥110,780	—	¥110,780	—	¥110,780

Gain on negative goodwill

The Company recorded a gain on negative goodwill of ¥12,702 million ($113,223 thousand) in the Other businesses segment for the year ended March 31, 2017.

Products and service information

Refer to reportable segment information.

Geographic area information

Geographic area information has been omitted since revenue from external customers in Japan and property and equipment located in Japan accounted for more than 90% of revenue from operations in the consolidated income statement and property and equipment on the consolidated balance sheet, respectively.

Major customer information

The Company does not have any major customers whose share of revenue from operations accounted for more than 10% of revenue from operations shown in the consolidated income statement. Accordingly, major customer information has been omitted.

18 RENTAL PROPERTIES

The Company and some of its consolidated subsidiaries own office buildings for lease, retail facilities for lease, and others in Tokyo and other areas including overseas countries (the United States and the United Kingdom, etc.) for the purpose of obtaining revenue from leases.

Some office buildings for lease in Japan are regarded as real estate including space used as rental properties since they are used by the Company and some of its consolidated subsidiaries.

The carrying value on the consolidated balance sheet as of March 31, 2017 and the fair value of these rental properties and real estate including space used as rental properties were as follows:

	Millions of yen				Thousands of U.S. dollars			
					2017			
			Carrying value	Fair value			Carrying value	Fair value
	As of April 1, 2016	Net change	As of March 31, 2017	As of March 31, 2017	As of April 1, 2016	Net change	As of March 31, 2017	As of March 31, 2017
Rental properties	¥3,327,104	¥317,832	¥3,644,937	¥6,517,887	$29,655,981	$2,832,987	$32,488,968	$58,096,870
Real estate including space used as rental properties	182,876	647	183,523	274,081	1,630,056	5,771	1,635,828	2,443,007

1. The carrying value represents the acquisition cost less accumulated depreciation and accumulated impairment loss.
2. The fair value is based on the following:
   (1) The fair value of real estate in Japan is calculated by the Company based mainly on the Real Estate Appraisal Standards.
   (2) The fair value of real estate in overseas countries is appraised principally by local real estate appraisers.

The carrying value on the consolidated balance sheet as of March 31, 2016 and the fair value of these rental properties and real estate including space used as rental properties were as follows:

	Millions of yen			
	2016			
			Carrying value	Fair value
	As of April 1, 2015	Net change	As of March 31, 2016	As of March 31, 2016
Rental properties	¥3,135,413	¥191,691	¥3,327,104	¥5,792,464
Real estate including space used as rental properties	182,779	96	182,876	286,600

1 The carrying value represents the acquisition cost less accumulated depreciation and accumulated impairment loss.
2. The fair value is based on the following:
   (1) The fair value of real estate in Japan is calculated by the Company based mainly on the Real Estate Appraisal Standards.
   (2) The fair value of real estate in overseas countries is appraised principally by local real estate appraisers.

The income or loss from rental properties and real estate including space used as rental properties for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen								Thousands of U.S. dollars			
	2017				2016				2017			
	Lease income*	Lease cost	Lease income (loss), net	Other, net	Lease income*	Lease cost	Lease income (loss), net	Other, net	Lease income*	Lease cost	Lease income (loss), net	Other, net
Rental properties	¥436,705	¥280,387	¥156,318	¥(16,194)	¥413,622	¥280,688	¥132,934	¥(9,997)	$3,892,555	$2,499,219	$1,393,336	$(144,351)
Real estate including space used as rental properties	15,996	11,522	4,474	(580)	15,909	12,625	3,283	(340)	142,586	102,703	39,882	(5,174)

* Lease income excludes that from real estate including space used as rental properties that was used by the Company and some of its consolidated subsidiaries for leasing service and operating management.

19 ASSET RETIREMENT OBLIGATIONS

(1) Asset retirement obligations presented on the consolidated balance sheet

1. Outline of asset retirement obligations

Asset retirement obligations include obligations of restoration related to leasehold and rental contracts.

2. Calculation method for asset retirement obligations

Asset retirement obligations are calculated based on the remaining contract years as an expected use period with a discount rate between 0.0% and 2.3%.

3. Changes in asset retirement obligations during the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of the year	¥2,689	¥1,122	$23,975
Increase due to the acquisition of property and equipment	17	1,586	158
Adjustments due to the elapse of time	35	24	318
Decrease due to the fulfillment of asset retirement obligations	(7)	(43)	(69)
Other	200	—	1,790
Balance at the end of the year	¥2,936	¥2,689	$26,173

(2) Asset retirement obligations not recognized on the consolidated balance sheet

As stated below, certain obligations are excluded from recognition of asset retirement obligations.

1) Obligation to remove asbestos that is used for some properties and equipments in a particular way required by the Ordinance on Preventing Asbestos Hazards
For such properties, the Company has an obligation to remove asbestos at demolition of buildings. However, no demolition has taken place in the past other than those related to redevelopment or other projects involving many other business associates. It is therefore difficult to reasonably estimate the timing to fulfill such obligation based on the physical useful life of the assets caused by aging and it is impossible to estimate the timing without specific business plans. Although the Company has been voluntarily conducting asbestos removal work when that is feasible due to such as termination of tenancy, it is impractical to make a reasonable estimation of progress of such voluntary removal work based on the actual record of the tenancy termination and of the remaining amount of asbestos at demolition. Moreover, it is difficult to distinguish costs of asbestos removal from total costs of demolition. Although the Company made the best estimation taking into account all the evidence available as of March 31, 2017, these obligations are excluded from recognition of asset retirement obligations since the probability of obligations in terms of scope and amount was not reasonably estimated.

2) Obligation of restoration based on some real estate rental agreements
For some retail facilities, the Company has an obligation of restoration at the termination of leasehold rental agreements. However, the timing to fulfill the obligation is uncertain since it is practically possible to continue to use those facilities by re-signing contracts and some contracts set forth a special provision to reduce the possibility to fulfill the obligation. Furthermore, given its business strategies and the current business environment, the Company intends to continue its operation and not to fulfill the obligation. Although the Company made the best estimation taking into account all the evidence available as of March 31, 2017, these obligations are excluded from recognition of asset retirement obligations since the probability of the obligations in terms of scope and amount could not be reasonably estimated.

20 RELATED PARTY TRANSACTIONS

The Company has related party transactions with key management personnel of the Company and major individual shareholders.

The corresponding balances as of March 31, 2017 and 2016 and the amounts of these transactions for the years then ended were as follows:

						Millions of yen		Thousands of U.S. dollars	
								2017	
Type	Name	Occupation	Ownership ratio of voting shares	Relationship with the related party	Nature of transaction	Transaction amount	Balance outstanding at year-end	Transaction amount	Balance outstanding at year-end
Director	Naoto Aiba	Representative executive officer of the Company	0.00%	Contract for construction of housing and other	Construction of housing	¥17	—	$154	—

1. Transaction amounts do not include consumption tax.
2. Transaction amounts are determined in consideration with market prices, the same as general transactions.

						Millions of yen	
						2016	
Type	Name	Occupation	Ownership ratio of voting shares	Relationship with the related party	Nature of transaction	Transaction amount	Balance outstanding at year-end
Director	Hirotaka Sugiyama	Representative Director of the Company	0.00%	Contract for construction of housing and other	Construction of housing	¥17	—

1. Transaction amounts do not include consumption tax.
2. Transaction amounts are determined in consideration with market prices, the same as general transactions.
3. Under the amendments of the Articles of Incorporation, approved by the Ordinary General Meeting of Shareholders held on June 29, 2016, the Company adopted a "Company with Nomination Committee, etc.," structure on the same date, and the occupation was changed from "Representative director of the Company" to "Representative executive officer of the Company."

21 OTHER COMPREHENSIVE INCOME

The reclassification and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ 32,426	¥(46,472)	$ 289,028
Reclassification adjustments for gains and losses included in net income	(3,162)	(11,315)	(28,189)
Amount before tax effects	29,263	(57,788)	260,838
Tax effects	(9,560)	20,122	(85,212)
Unrealized holding gain (loss) on securities	19,703	(37,665)	175,625
Deferred gain (loss) on hedging instruments:			
Amount arising during the year	(80)	(416)	(714)
Reclassification adjustments for gains and losses included in net income	307	399	2,738
Amount before tax effects	227	(16)	2,023
Tax effects	(67)	21	(603)
Deferred gain (loss) on hedging instruments	159	4	1,419
Revaluation reserve for land:			
Tax effects	3,363	15,320	29,978
Foreign currency translation adjustments:			
Amount arising during the year	(27,340)	(5,904)	(243,698)
Amount before tax effects	(27,340)	(5,904)	(243,698)
Tax effects	458	94	4,083
Foreign currency translation adjustments	(26,882)	(5,810)	(239,615)
Retirement benefits liability adjustments:			
Amount arising during the year	9,888	(25,173)	88,139
Reclassification adjustments for gains and losses included in net income	4,434	(798)	39,529
Amount before tax effects	14,323	(25,972)	127,668
Tax effects	(4,230)	8,064	(37,708)
Retirement benefits liability adjustments	10,092	(17,907)	89,960
Share of other comprehensive income of companies accounted for by the equity method:			
Amount arising during the year	(996)	(586)	(8,882)
Total other comprehensive income	¥ 5,439	¥(46,644)	$ 48,487

22 BUSINESS COMBINATIONS

1. Acquisitions

Consolidation of DAINIPPON ENTERPRISE INC.

(1) Outline of business combination

i. Name and business of acquired entity
Name: DAINIPPON ENTERPRISE INC.
Business: Holding of real estate

ii. Objective of acquisition
To enhance the Company's portfolio value by purchasing the common stocks of the real estate firm

iii. Date of acquisition
July 5, 2016

iv. Legal form of acquisition
Purchase of common stocks

v. Name of acquired entity subsequent to acquisition
DAINIPPON ENTERPRISE INC.

vi. Ratio of voting rights acquired
100.0%

vii. Determination of acquirer
As a result of the purchase of the common stocks, the Company obtained substantial control of DAINIPPON ENTERPRISE INC.

(2) Period for which operating results of acquiree were included in the consolidated financial statements of the Company

From July 1, 2016 to March 31, 2017

(3) Consideration transferred for the acquisition

	Millions of yen	Thousands of U.S. dollars
Cash on hand and in banks	¥56,000	$499,153
Acquisition cost	¥56,000	$499,153

(4) Major acquisition-related cost

Omitted due to immateriality

(5) Amount of negative goodwill recorded and its cause

i. Amount: ¥802 million ($7,153 thousand)
ii. Cause: The consideration transferred was less than the fair value of the net assets acquired.

(6) Assets acquired and liabilities assumed at the acquisition date

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 3,226	$ 28,758
Fixed assets	184,115	1,641,101
Total assets	¥187,341	$1,669,860

	Millions of yen	Thousands of U.S. dollars
Current liabilities	¥ 4,207	$ 37,502
Fixed liabilities	126,331	1,126,051
Total liabilities	¥130,539	$1,163,554

(7) Pro forma impact in the consolidated statements of income assuming the business combination was completed at the beginning of the fiscal year

Omitted due to immateriality. The pro forma impact was not subject to audit certification.

Consolidation of Tokyo Ryutsu Center Inc.

(1) Outline of business combination

i. Name and business of acquired entity
Name: Tokyo Ryutsu Center Inc.
Business: Leasing, operation, and management of logistic facilities and offices

ii. Objective of acquisition
To pursue further growth of logistics facility business through strengthening collaboration by purchasing the common stocks of Tokyo Ryutsu Center Inc., which was an equity-method affiliate of the Company.

iii. Date of acquisition
August 15, 2016

iv. Legal form of acquisition
Purchase of common stocks

v. Name of acquired entity subsequent to acquisition
Tokyo Ryutsu Center Inc.

vi. Change in voting rights ratio
Before the acquisition: 39.20%
After the acquisition: 55.92%

vii. Determination of acquirer
As a result of the purchase of the common stocks, the Company obtained the substantial control of Tokyo Ryutsu Center Inc.

(2) Period for which operating results of acquiree were included in the consolidated financial statements of the Company

From July 1, 2016 to March 31, 2017

(3) Consideration transferred for the acquisition

	Millions of yen	Thousands of U.S. dollars
Fair value of common stocks already held before the acquisition date	¥5,758	$51,326
Cash on hand and in banks	2,457	21,901
Acquisition cost	¥8,215	$73,227

(4) Major acquisition-related cost

Omitted due to immateriality

(5) Loss on step acquisitions due to difference between acquisition cost and total amount of acquisition cost for each transaction during acquisition

¥6,431 million ($57,330 thousand)

(6) Amount of negative goodwill recorded and its cause

i. Amount: ¥12,702 million ($113,223 thousand)
ii. Cause: The consideration transferred was less than the fair value of the net assets acquired.

(7) Assets acquired and liabilities assumed at the acquisition date

	Millions of yen	Thousands of U.S. dollars
Current assets	¥14,315	$127,602
Fixed assets	42,831	381,778
Total assets	¥57,147	$509,380

	Millions of yen	Thousands of U.S. dollars
Current liabilities	¥ 2,006	$ 17,884
Fixed liabilities	17,734	158,072
Total liabilities	¥19,740	$175,956

(8) Pro forma impact in the consolidated statements of income assuming the business combination was completed at the beginning of the fiscal year

Omitted due to immateriality. The pro forma impact was not subject to audit certification.

2. Common control transaction

(1) Outline of the transaction

i. Targeted business
Co-ownership interest of Sanno Park Tower among other things owned by DAINIPPON ENTERPRISE INC.

ii. Date of transaction
November 25, 2016

iii. Legal form of transaction
Distributed the co-ownership interest of Sanno Park Tower among other things owned by DAINIPPON ENTERPRISE INC. to the Company as property dividend.

iv. Name of combined entity subsequent to transaction
Mitsubishi Estate Co., Ltd.

v. Other matters with regard to the transaction
To enhance the Company's portfolio value by distributing the co-ownership interest of Sanno Park Tower among other things owned by DAINIPPON ENTERPRISE INC.

(2) Outline of accounting treatment

The transaction was treated as a common control transaction in accordance with the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of September 13, 2013) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 of September 13, 2013).

3. Business divestiture

(1) Outline of business divestiture

i. Name of company divested
Nippon Themepark Development Co., Ltd.

ii. Divested business
Consolidated subsidiary: Towa Nasu Resort Co., Ltd.
Business: Management of amusement park and hotel, marketing, and operation of holiday villa area

iii. Objective of business divestiture
Mitsubishi Jisho Residence Co., Ltd., a subsidiary of the Company, is promoting "Clarifying and accelerating selection and concentration of business" and established a policy whereby it intends to withdraw from non-core businesses. The business owned by Towa Nasu Resort Co., Ltd., a former subsidiary of Mitsubishi Jisho Residence Co., Ltd., is considered to be a non-core business. As a result of negotiations with NIPPON PARKING DEVELOPMENT CO., LTD., the parent company of the purchaser, both parties agreed on the terms of the sale and purchase and subsequently Mitsubishi Jisho Residence Co., Ltd., transferred all of its shares of Towa Nasu Resort Co., Ltd.

iv. Date of business divestiture
May 31, 2016

v. Other matters with regard to the transaction including legal form
A cash consideration was received for transferred shares

(2) Outline of accounting treatment

i. Amount of loss on transfer recorded
Amount: ¥10,062 million ($89,684 thousand)

ii. Appropriate book value of assets and liabilities transferred

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 4,972	$44,326
Fixed assets	5,848	52,127
Total assets	¥10,821	$96,454

	Millions of yen	Thousands of U.S. dollars
Current liabilities	¥524	$4,676
Fixed liabilities	234	2,093
Total liabilities	¥759	$6,769

iii. Accounting treatment
The difference between shareholders' equity of Towa Nasu Resort Co., Ltd., on a consolidated basis and the fair value of proceeds received, less other associated expenses related to the transferred business, in the amount of ¥10,570 million was recorded as "Provision for business transfer" in "Other, net" in the fiscal year ended March 31, 2016.

(3) Reportable segment in which the divested business was included

Residential Business segment

(4) Estimated operating performance of divested business included in the consolidated statements of income for the fiscal year ended March 31, 2017

Revenue from operations: ¥983 million ($8,763 thousand)
Operating loss: ¥104 million ($935 thousand)

Independent Auditor's Report

EY
Building a better working world

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo 100-0011, Japan

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

Independent Auditor's Report

The Board of Directors
Mitsubishi Estate Co., Ltd.

We have audited the accompanying consolidated financial statements of Mitsubishi Estate Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Estate Co., Ltd. and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young Shinnihon LLC

June 29, 2017
Tokyo, Japan

A member firm of Ernst & Young Global Limited

Principal Mitsubishi Estate Group Companies

■Consolidated subsidiary □Affiliate accounted for by the equity method

OFFICE BUILDING BUSINESS

	Address	Phone	Business activities	Share of voting rights (%)
Building Management Business				
■ Mitsubishi Jisho Property Management Co., Ltd.	Marunouchi Nakadori Building, 2-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-0005	+81-3-3287-4111	Comprehensive building operation and management	100.0
■ Hokuryo City Service Co., Ltd.	Hokkaido Building, 4-1, Kita 2-jou Nishi, Chuo-ku, Sapporo, Hokkaido 060-0002	+81-11-242-7411	Management and operation of buildings, residences, and sporting facilities	100.0
■ Yuden Building Kanri Co., Ltd.	Yurakucho Denki Building, 7-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo 100-0006	+81-3-3211-7833	Operation and management of the Yurakucho Denki Building	62.5
Nan Shan Plaza Property Management Co., Ltd. (Outside the scope of consolidation)	130-3, Songren Road, Xinyi District, Taipei City, 11058 Taiwan	+886-2-2723-8009	Property management of Nan Shan Plaza	70.0
Building Leasing Business				
■ Sunshine City Corporation	World Import Mart Building, Sunshine City, 1-1, Higashi-Ikebukuro 3-chome, Toshima-ku, Tokyo 170-8630	+81-3-3989-3321	Management of Sunshine City and other buildings	63.2
■ Tokyo Kotsu Kaikan Co., Ltd.	Tokyo Kotsu Kaikan, 10-1, Yurakucho 2-chome, Chiyoda-ku, Tokyo 100-0006	+81-3-3212-2931	Management of Tokyo Kotsu Kaikan and other buildings	50.0
Parking Business				
■ Tokyo Garage Co., Ltd.	Sanno Grand Building, 14-2, Nagatacho 2-chome, Chiyoda-ku, Tokyo 100-0014	+81-3-3504-0610	Operation and management of building garages and sale of various gasoline products	54.9
District Heating and Cooling Business				
■ Marunouchi Heat Supply Co., Ltd.	Marunouchi Kitaguchi Building, 6-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005	+81-3-3287-2288	Cooling and heating supply business in the Marunouchi, Otemachi, Yurakucho, and other districts	64.2
■ Ikebukuro District Heating and Cooling Co., Ltd.	World Import Mart Building, Sunshine City, 1 Higashi-Ikebukuro 3-chome, Toshima-ku, Tokyo 170-8630	+81-3-3988-6771	Cooling and heating supply business in the Higashi-Ikebukuro district	68.0
□ O.A.P. D.H.C. Supply Co., Ltd.	OAP Tower, 8-30, Tenmabashi 1-chome, Kita-ku, Osaka, Osaka Prefecture 530-6004	+81-6-6881-5170	Cooling and heating supply business in the Osaka OAP district	35.0
□ Minato Mirai 21 D.H.C. Co., Ltd.	1-45, Sakuragicho 1-chome, Naka-ku, Yokohama, Kanagawa Prefecture 231-0062	+81-45-221-0321	Cooling and heating supply business in the Yokohama Minato Mirai district	29.6
Others				
■ Marunouchi Direct Access Limited	Shin Kokusai Building, 4-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo 100-0005	+81-3-3214-4881	Dark fiber leasing and data center housing businesses in the Marunouchi and Otemachi districts	51.0

LIFESTYLE PROPERTY BUSINESS

	Address	Phone	Business activities	Share of voting rights (%)
■ Mitsubishi Jisho Retail Management Co., Ltd.	7-1, Daiba 1-chome, Minato-ku, Tokyo 135-8707	+81-3-5579-6671	Operation and management of commercial facilities	100.0
■ Mitsubishi Estate·Simon Co., Ltd.	Otemachi Financial City South Tower, 9-7, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-0004	+81-3-3275-5252	Development, ownership, and operation of PREMIUM OUTLETS® malls	60.0
■ Yokohama Sky Building Co., Ltd.	19-12, Takashima 2-chome, Nishi-ku, Yokohama, Kanagawa Prefecture 220-0011	+81-45-441-1221	Leasing of the Sky Building and other properties	54.4
■ Tokyo Ryutsu Center Inc.	1-1, Heiwajima 6-chome, Ota-ku, Tokyo 143-0006	+81-3-3767-2111	Leasing and operating management of logistics and office buildings	56.2

RESIDENTIAL BUSINESS

	Address	Phone	Business activities	Share of voting rights (%)
Residential Development and Sales Business				
■ Mitsubishi Jisho Residence Co., Ltd.	Otemachi Building, 6-1, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8189	+81-3-3287-8800	Real estate development, sales, leasing, and management	100.0
Custom-Built Housing				
■ Mitsubishi Estate Home Co., Ltd.	Kokusai-Shin-Akasaka Building Higashi-kan, 14-27, Akasaka 2-chome, Minato-ku, Tokyo 107-0052	+81-3-6887-8200	Design and construction of single-unit homes and housing complexes, renovation of homes and retail shops	100.0
■ Mitsubishi Estate Housing Components Co., Ltd.	228-4, Shinminato, Mihama-ku, Chiba, Chiba Prefecture 261-0002	+81-43-242-9031	Manufacture, processing, and sale of construction materials	91.7
□ Prime Truss Co., Ltd.	15-12, Kiba 2-chome, Koto-ku, Tokyo 135-0042	+81-3-3643-3310	Manufacture and sale of housing construction materials	20.0
Residence Management Business				
■ Mitsubishi Jisho Community Holdings Co., Ltd.	6-1, Sanban-cho, Chiyoda-ku, Tokyo 102-0075	+81-3-3556-3888	Business management and operations related to the condominium management business	71.5
■ Mitsubishi Jisho Community Co., Ltd.	6-1, Sanban-cho, Chiyoda-ku, Tokyo 102-0075	+81-3-5213-6100	Overall condominium and building management, renovations, and related businesses	100.0
■ Izumi Park Town Service Co., Ltd.	7-2, Takamori, Izumi-ku, Sendai, Miyagi Prefecture 981-3203	+81-22-378-0022	Comprehensive management of Izumi Park Town	100.0
Recreational Facilities				
■ MEC Urban Resort Tohoku Co., Ltd.	1-1, Akedori 1-chome, Izumi-ku, Sendai, Miyagi Prefecture 981-3206	+81-22-377-3136	Operation and management of Izumi Park Town Golf Club and other properties	100.0
■ Higashinihon Kaihatsu Co., Ltd.	1442-23, Yosawa Oyamacho, Sunto-gun, Shizuoka Prefecture 410-1326	+81-550-78-3211	Management of the Higashi Fuji Country Club, Fuji International Golf Club, and other properties	100.0
□ Sakura Golf Development Co., Ltd.	670 Soshiyama, Uchida, Sakura, Chiba Prefecture 285-0077	+81-43-498-6630	Management of Asakura Golf Club	49.0

	Address	Phone	Business activities	Share of voting rights (%)
Others				
■ MEC Eco LIFE Co., Ltd.	5F Shinko Building, 6-8, Kanda-Ogawamachi 3-chome, Chiyoda-ku, Tokyo 101-0052	+81-3-3518-8461	Research and creation of environmental design proposals	100.0
■ Mitsubishi Jisho House Net Co., Ltd.	Shinjuku Front Tower, 21-1, Kita-Shinjuku 2-chome, Shinjuku-ku, Tokyo 169-0074	+81-3-6908-5560	Purchase, sales, and leasing brokerage of homes for individuals, leasing management	100.0
■ Ryoei Life Service Co., Ltd.	Royal Life Okusawa, 33-13, Okusawa 3-chome, Setagaya-ku, Tokyo 158-0083	+81-3-3748-2650	Management of commercial nursing homes	85.0
□ Tsunagu Network Communications, Inc.	Shin-Otemachi Building, 2-1, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-0004	+81-3-4477-2000	Internet connection services for housing complexes	20.0

INTERNATIONAL BUSINESS

	Address	Phone	Business activities	Share of voting rights (%)
■ Rockefeller Group Inc.	1221 Avenue of the Americas, New York, New York 10020-1095, U.S.A.	+1-212-282-2000	Real estate operations	100.0
■ Mitsubishi Estate New York Inc.	1221 Avenue of the Americas, New York, New York 10020-1095, U.S.A.	+1-212-698-2200	Real estate operations in the United States	100.0
■ Mitsubishi Estate London Limited	5 Golden Square, London, W1F 9HT, U.K.	+44-20-7292-3180	Real estate operations in Europe	100.0
■ Mitsubishi Estate Asia Pte. Ltd.	138 Market Street, #27-03 CapitaGreen, Singapore 048946	+65-6576-5790	Real estate operations in Asia	100.0
Mitsubishi Estate (Shanghai) Ltd. (Outside the scope of consolidation)	1805 Room Raffles City, 268 Xizang Middle Road, Shanghai 200001, P.R.C.	+86-21-6340-4000	Real estate business in China	100.0

INVESTMENT MANAGEMENT BUSINESS

	Address	Phone	Business activities	Share of voting rights (%)
■ Mitsubishi Jisho Investment Advisors, Inc.	Marunouchi 2-chome Building, 5-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-0005	+81-3-3218-0031	Specialist real estate investment management services (real estate investment advisory and other services)	100.0
■ Japan Real Estate Asset Management Co., Ltd.	Shin-Tokyo Building, 3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo 100-0005	+81-3-3211-7921	Investment corporation asset management	90.0
■ TA Realty LLC	28 State Street, Boston, MA 02109, U.S.A.	+1-617-476-2700	Investment management business in the United States	70.0
■ Europa Capital LLP	15 Sloane Square, London SW1W 8ER, U.K.	+44- 20-7881-6800	Investment management business in Europe	82.6
■ Pan Asia Realty Advisors (Singapore) Pte. Ltd.	80 Raffles Place, No. 18-01, UOB Plaza 1, Singapore 048624	+65-6416-7888	Investment management business in Asia and Oceania	77.8

ARCHITECTURAL DESIGN & ENGINEERING BUSINESS

	Address	Phone	Business activities	Share of voting rights (%)
■ Mitsubishi Jisho Sekkei Inc.	Marunouchi 2-chome Building, 5-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-0005	+81-3-3287-5555	Construction and civil engineering design administration	100.0
■ MEC Design International Corporation	Inui Building Kachidoki, 13-1, Kachidoki 1-chome, Chuo-ku, Tokyo 104-0054	+81-3-6704-0100	Interior design administration and construction, manufacture, and sale of furniture and household items	100.0

HOTEL BUSINESS

	Address	Phone	Business activities	Share of voting rights (%)
■ Royal Park Hotels and Resorts Co., Ltd.	Otemachi Building, 6-1, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-0004	+81-3-3211-6180	Comprehensive supervision and management of hotel business	100.0
■ Yokohama Royal Park Hotel Co., Ltd.	Yokohama Landmark Tower, 2-1-3, Minato Mirai 2-chome, Nishi-ku, Yokohama, Kanagawa Prefecture 220-8173	+81-45-221-1111	Operation of Yokohama Royal Park Hotel	100.0
■ Tohoku Royal Park Hotel Co., Ltd.	2-1, Teraoka 6-chome, Izumi-ku, Sendai, Miyagi Prefecture 981-3204	+81-22-377-1111	Operation of Sendai Royal Park Hotel	100.0
■ Royal Park Hotel Management Co., Ltd.	Otemachi Building, 6-1, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-0004	+81-3-5224-6200	Operation of limited-service hotels	100.0
■ Royal Park Hotel Co., Ltd.	1-1, Kakigaracho 2-chome, Nihonbashi, Chuo-ku, Tokyo 103-8520	+81-3-3667-1111	Management and Operation of Royal Park Hotel	55.7

REAL ESTATE SERVICES BUSINESS

	Address	Phone	Business activities	Share of voting rights (%)
■ Mitsubishi Real Estate Services Co., Ltd.	Shin-Otemachi Building, 2-1, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-8113	+81-3-3510-8011	Real estate brokerage, leasing management, parking management, and state appraisal	100.0

OTHERS

	Address	Phone	Business activities	Share of voting rights (%)
■ MEC Human Resources, Inc.	Otemachi Building, 6-1, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-0004	+81-3-3212-8674	Human resource-related services	100.0
■ MEC Information Development Co., Ltd.	Otemachi Building, 6-1, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-0004	+81-3-3214-9300	Development and management of information systems and software	100.0
■ Keiyo Tochi Kaihatsu Co., Ltd.	Shin-Tokyo Building, 3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo 100-0005	+81-3-3212-0555	Real estate leasing	66.7
□ Marunouchi Hotel Co., Ltd.	6-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005	+81-3-3217-1111	Management of the Marunouchi Hotel	31.4

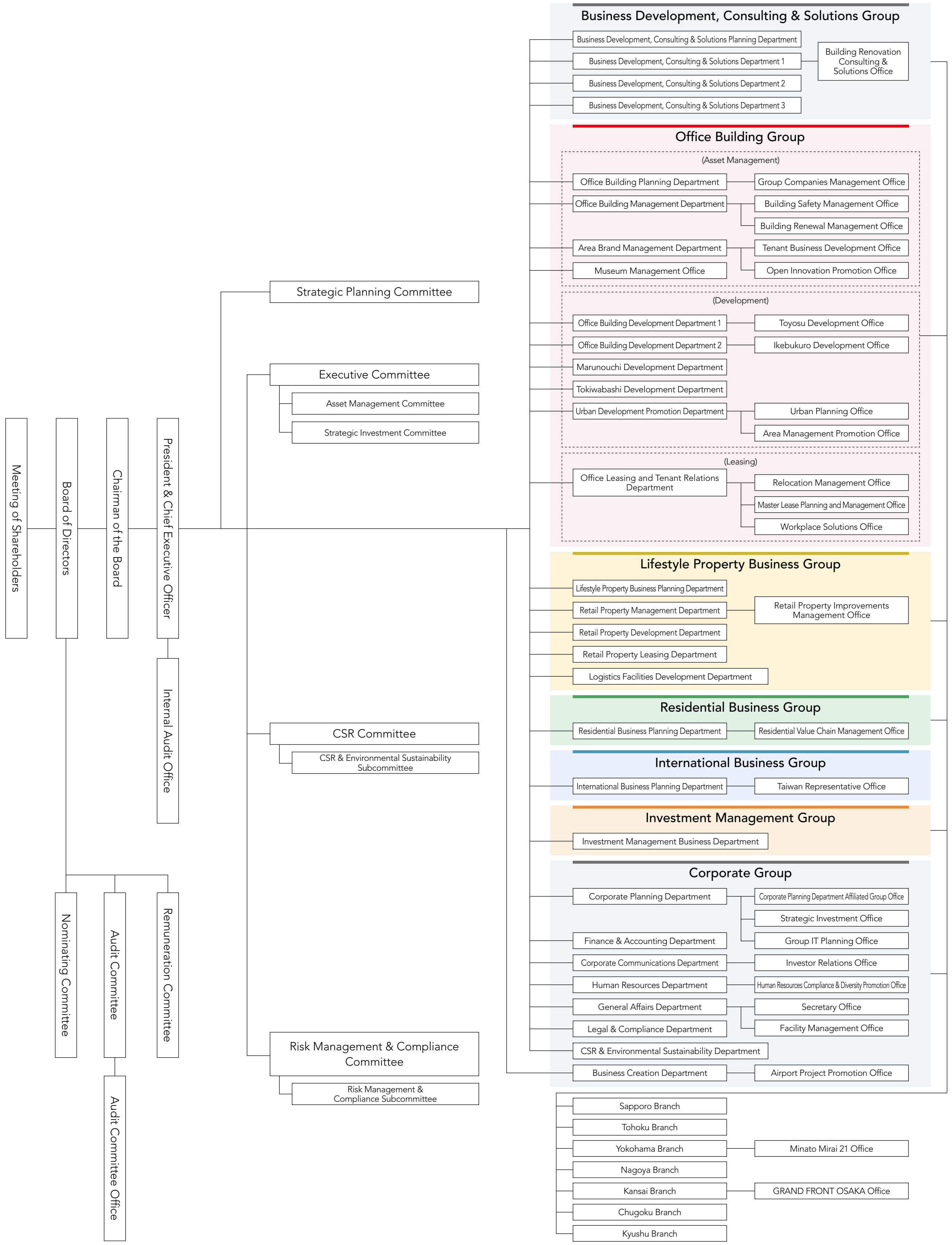
Note: Percentage of voting rights held is as of March 31, 2017.

Corporate History

History		Major properties
The Marunouchi site purchased by Mitsubishi Company from the Japanese government.	1890	
Mitsubishi Goshi Kaisha (limited partnership) established. Achieved further expansion of business.	1893	
	1894	Completed Mitsubishi Ichigokan, offering the first Western-style office architecture in Marunouchi.
	1923	Marunouchi Building completed in front of Tokyo Station.
Mitsubishi Estate Company, Limited, established with paid-in capital totaling ¥15 million, with the ownership of the Marunouchi Building and site, as well as business rights for buildings and land within the Marunouchi area, transferred from Mitsubishi Goshi Kaisha.	1937	
	1952	Shin-Marunouchi Building completed.
Mitsubishi Estate's shares listed on the Tokyo Stock Exchange and the Osaka Securities Exchange.	1953	
Marunouchi Remodeling Plan formulated. Met demand for offices in the years of high economic growth.	1959	
	1962	Hokkaido Building completed.
Akasaka Park House offered for sale in lots, marking the launch of the Condominium Business.	1969	
Mitsubishi Estate New York Inc. established. Began expansion of business overseas. Mitsubishi Real Estate Services Co., Ltd., established.	1972	The first phase of the Izumi Park Town Project launched.
Branches established in Sapporo, Sendai, Nagoya, and Osaka. Strengthened business in major Japanese cities.	1973	
Nagoya Dai-Ichi Hotel opened (Hotel Business launched).	1983	
Mitsubishi Estate Home Co., Ltd., established.	1984	
MEC UK Limited established. Yokohama Office established (reorganized as Yokohama Branch in April 2000).	1986	
Hiroshima Branch (renamed Chugoku Branch in April 2000) and Kyushu Branch established.	1989	Tenjin MM Building (IMS) opened in Fukuoka City. Royal Park Hotel in Hakozaki, Tokyo, opened. Hiroshima Park Building completed.
Participation in the City of London's Paternoster Square Project announced. Capital investment in Rockefeller Group, Inc., initiated.	1990	
	1993	Yokohama Landmark Tower completed. Yokohama Royal Park Hotel opened.
Reconstruction of Marunouchi Building announced.	1995	
	1996	Osaka Amenity Park (OAP) completed.
Began first stage of Marunouchi redevelopment.	1998	
	2000	GOTEMBA PREMIUM OUTLETS® opened.
Mitsubishi Jisho Investment Advisors, Inc., established.	2001	
Properties and equipment revaluated in accordance with the Law Concerning Revaluation of Land and other relevant laws and regulations.	2002	Marunouchi Building opened.
Head Office relocated to Otemachi Building.	2003	Mitsubishi Trust and Banking Building completed (renamed Mitsubishi UFJ Trust and Banking Building in October 2005). Paternoster Square completed in the City of London.
	2004	Marunouchi Oazo opened.
	2005	Tokyo Building opened.
	2007	Shin-Marunouchi Building opened. The Peninsula Tokyo opened.
Sunshine City Corporation became a Mitsubishi Estate consolidated subsidiary. Mitsubishi Estate Asia Pte. Ltd. commenced operations.	2008	
Chelsea Japan Co., Ltd., became a Mitsubishi Estate consolidated subsidiary (renamed Mitsubishi Estate-Simon Co., Ltd., in February 2013).	2009	Marunouchi Park Building and Mitsubishi Ichigokan completed.
	2010	Mitsubishi Ichigokan Museum opened.
Mitsubishi Jisho Residence Co., Ltd., established.	2011	
	2012	Marunouchi Eiraku Building completed. OTEMACHI FINANCIAL CITY (North Tower, South Tower) opened.
Mitsubishi Estate (Shanghai) Ltd. established.	2013	MARK IS shizuoka and MARK IS minatomirai opened. Grand Front Osaka opened.
Mitsubishi Estate Building Management and Mitsubishi Estate Property Management integrated.	2014	Singapore CapitaGreen completed.
TA Realty LLC acquired.	2015	Dai Nagoya Building completed. Otemon Tower • JX Building completed.
Transitioned to a "Company with Nominating Committee, etc." organizational structure. Tokyo Ryutsu Center Inc. became a Mitsubishi Estate consolidated subsidiary.	2016	OTEMACHI FINANCIAL CITY GRAND CUBE completed.
Hirotaka Sugiyama and Junichi Yoshida appointed chairman of the board and president & chief executive officer, respectively. Taiwan Representative Office established.	2017	Otemachi Park Building completed.

Organization

As of April 1, 2017



Corporate Information

As of March 31, 2017

Stock Information

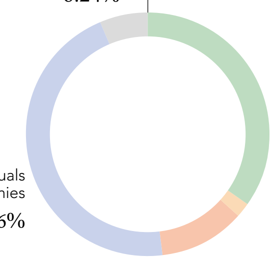
Stock Details

Number of authorized shares: 1,980,000,000 shares

Number of shares issued and outstanding: 1,390,685,972
(288,875 increase in number of shares from the previous fiscal year-end)

Number of shareholders: 56,055
(Decrease of 1,912 shareholders compared with the end of the previous fiscal year)

Shareholder Composition (Percentage of shares held)



Major Shareholders	Number of shares held (Thousands of shares)	Shareholding percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	88,231	6.34
Japan Trustee Services Bank, Ltd. (Trust account)	55,108	3.96
STATE STREET BANK AND TRUST COMPANY	54,408	3.91
Meiji Yasuda Life Insurance Company	46,882	3.37
CBNY-GOVERNMENT OF NORWAY	35,483	2.55
Japan Trustee Services Bank, Ltd. (Trust account 5)	26,973	1.93
THE BANK OF NEW YORK MELLON SA/NV 10	24,678	1.77
STATE STREET BANK - WEST PENSION FUND CLIENTS - EXEMPT 505233	23,039	1.65
Asahi Glass Co., Ltd.	22,714	1.63
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	22,267	1.6

Company Name

Mitsubishi Estate Co., Ltd.

Date of Establishment

May 7, 1937

Paid-in Capital

¥141,659 million

Business Activities

Development, leasing, and management of office buildings, retail, and other facilities

Development of real estate for investment purposes and asset management

Development and sale of land for housing, research, and other facility use

Management of leisure and other facilities

Sale and brokerage of real estate and related consulting services

Number of Employees (Excluding temporary staff)

Non-consolidated: 755
Consolidated: 8,642

URL

http://www.mec.co.jp/index_e.html

Head Office
Otemachi Building, 6-1, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8133
Phone: +81-3-3287-5100

Sapporo Branch
Hokkaido Building, 4-1, Kita 2-jou Nishi, Chuo-ku, Sapporo, Hokkaido 060-0002
Phone: +81-11-221-6101

Tohoku Branch
Sendai Park Building, 6-1, Kokubun-cho 3-chome, Aoba-ku, Sendai, Miyagi Prefecture 980-0803
Phone: +81-22-261-1361

Yokohama Branch
Yokohama Landmark Tower, 2-1, Minato Mirai 2-chome, Nishi-ku,
Yokohama, Kanagawa Prefecture 220-8115
Phone: +81-45-224-2211

Nagoya Branch
Nagoya Hirokoji Building, 3-1, Sakae 2-chome, Naka-ku, Nagoya, Aichi Prefecture 460-0008
Phone: +81-52-218-7755

Kansai Branch
OAP Tower, 8-30, Tenmabashi 1-chome, Kita-ku, Osaka, Osaka Prefecture 530-6033
Phone: +81-6-6881-5160

Chugoku Branch
Hiroshima Park Building, 7-5, Otemachi 3-chome, Naka-ku, Hiroshima, Hiroshima Prefecture 730-0051
Phone: +81-82-245-1241

Kyushu Branch
Tenjin Twin Building, 6-8, Tenjin 1-chome, Chuo-ku, Fukuoka, Fukuoka Prefecture 810-0001
Phone: +81-92-731-2211

The Spirit of Mitsubishi: Three Principles

"Shoki Hoko" 所期奉公	"Shoji Komei" 処事光明	"Ritsugyo Boeki" 立業貿易
Corporate Responsibility to Society	Integrity and Fairness	Global Understanding through Business
Strive to enrich society, both materially and spiritually, while contributing towards the preservation of the global environment.	Maintain principles of transparency and openness, conducting business with integrity and fairness.	Expand business, based on an all-encompassing global perspective.

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 the creation of a truly meaningful society.

The Mitsubishi Estate Group Code of Corporate 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 diversity of opinions of others and increase our creativity and professionalism, while displaying our collective strengths as a team.

For details on the Mitsubishi Estate Group Guidelines for Conduct:
http://www.mec.co.jp/e/company/charter/index.html

(Formulated December 1, 1997; revised on August 1, 2002, and January 1, 2006)

http://www.mec.co.jp/e/investor/index.html

In addition to financial information and quarterly earnings highlights, a range of investor relations (IR) materials are available for downloading on the Mitsubishi Estate Group's IR website.