1. Basis of Presentation of Financial Statements

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

2. Summary of Signficant Accounting Policies

(A) Consolidation

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

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

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

(B) Basis of Revenue Recognition

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

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

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

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

— Other operating revenues are recognized on an accrual basis.

(C) Inventories

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

(D) Marketable Securities and Investments in Other Securities

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

(E) Property and Equipment

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

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

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

(F) Income Taxes

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

(G) Employees' and Directors' Retirement Allowances

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

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

(H) Translation of Foreign Currency Accounts

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

(I) Net Income per Share

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

3. Fiscal Year

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

4. Basis of Translating Financial Statements

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

5. Special Profits and Losses

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

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

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

6. Allowance for Doubtful Accounts

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

7. Inventories

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

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

8. Marketable Securities and Investments in Other Securities

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

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

9. Other Investments

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

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

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

10. Bank Loans and Long-Term Debt

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

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

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

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

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

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

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

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

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

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

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

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

11. Guarantee Deposits and Lease Deposits

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

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

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

12. Income Taxes

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

13. Shareholders' Equity

(A) Common Stock and Capital Surplus

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

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

(B) Legal Reserve

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

14. Contingent Liabilities

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

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

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

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

15. Segment Information

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

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

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

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

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

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

16. Subsequent Events

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

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