During the fiscal year ended March 31, 1999, Mitsubishi Estate recorded revenue from operations of ¥565,259 million (US$4,689.0 million), an increase of 3.0%. Revenue in the Building Leasing Division rose 6.2% to ¥296,480 million (US$2,459.4 million), spurred by growth in overseas leasing operations and an increase in the number of consolidated subsidiaries. In the Development and Sales Division, revenue increased 2.7% to ¥155,408 million (US$1,289.2 million), supported by a recovery in domestic sales of condominiums and increased sales by overseas subsidiaries. Architectural Division revenue edged up 2.0% to ¥11,822 million (US$98.1 million). In the Construction Division, revenue fell 28.5% to ¥47,467 million (US$393.8 million), primarily due to the absence of a large-scale project completed and recorded as revenue in the previous term. Other Business revenue climbed 34.1% to ¥54,082 (US$448.6 million) as a result of an increased number of consolidated subsidiaries.

Cost of revenue from operations declined 1.4% to ¥438,171 million (US$3,634.8 million), with the gross profit margin improving 3.5 percentage points to 22.5%. Selling, general and administrative (SG&A) expenses rose 26.3% to ¥58,260 million (US$483.3 million) as a result of the increase in consolidated subsidiaries. SG&A expenses as a percentage of revenue from operations increased 1.9 percentage points to 10.3%.

Operating income climbed 18.2% to ¥68,828 million (US$570.9 million), mainly owing to substantially improved performance in the Building Leasing and Development and Sales Divisions. The operating income margin improved 1.6 percentage points to 12.2%.

Other income decreased 24.7% to ¥13,112 million (US$108.8 million), while other expenses declined 10.3% to ¥50,124 million (US$415.8 million). Interest expenses edged down 1.8% to ¥44,349 million (US$367.9 million), reflecting historically low interest rates in Japan, and the interest coverage ratio improved 0.23 to 1.66. Overall, other expenses, net of other income, declined ¥1,460 million to ¥37,012 (US$307.0 million).

Income before taxes and special items climbed 60.8% to ¥31,816 million (US$263.9 million). However, owing to the absence of special profit, net, recorded during the previous fiscal year, net income declined 29.9% to ¥22,327 million (US$185.2 million). Net income per share was ¥17.19 (US$0.143), and management maintained cash dividends per share at ¥8.00 (US$0.066).

Net cash provided by operating activities rose 15.9% to ¥91,065 million (US$755.4 million). Net cash used in investing activities increased 52.1% to ¥135,448 million.
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(US$1,123.6 million), owing mainly to a decline in proceeds from property and equipment. Purchases of property and equipment were essentially unchanged at US$1,230.4 million. Net cash provided by financing activities increased 4.2% to US$258.7 million. Cash at end of year decreased 8.8% to US$585.0 million. Consolidated interest-bearing debt increased 9.5% to US$10,583.1 million, primarily due to bond issues to finance real estate investment, including the acquisition of 50% ownership of two buildings and accompanying land from the Bank of Tokyo-Mitsubishi, Ltd. Total assets increased 8.6% to US$18,944.6 million, reflecting strategic investments in Japan and overseas, and an increased number of consolidated subsidiaries, while total shareholders’ equity edged up 1.2% to US$3,812.3 million. The shareholders’ equity ratio decreased 1.5 percentage points to 20.1%.

Management Initiatives

Mitsubishi Estate’s core business, office building leasing operations, is characterized by substantial capital commitments for each project and long investment horizons. Consequently, controlling interest-bearing debt is a key management issue. As raising asset efficiency and managing risk are primary management concerns, we have introduced the use of return on assets (ROA) and the interest coverage ratio (ICR) as Company-wide management benchmarks.

Management aims to reduce interest-bearing debt to under US$1 trillion yen on a non-consolidated basis by the fiscal year ending March 31, 2003, through liquidating assets and other measures. During the fiscal year ending March 31, 1999, the Company established a committed credit line with financial institutions to ensure available sources of short-term funding. Steps are being taken in each operating division to improve performance and asset utilization through a focus on free cash flow generation. In the Building Leasing Division, the Marunouchi Redevelopment Plan calls for capital investment of approximately US$500 billion over a 10-year period. As annual depreciation of the Division’s assets is in the range of US$50 billion, we expect to meet these funding requirements through internal cash flow. Redevelopment may be further accelerated through joint projects with other companies, securitization and other financing schemes. In the Development and Sales Division, land acquisition and construction costs will be held within the division’s cash flow to reduce interest-bearing debt. Further, asset efficiency is being increased through a streamlining of the entire development process, securitization and other methods.

The reduction of overhead is one of the high priorities over the next three fiscal years. Measures will include shifting staff from administrative to operational divisions, especially areas related to the Marunouchi Redevelopment Plan.