

To Our Shareholders

During the fiscal year ended March 31, 2000, Mitsubishi Estate Co., Ltd. and its consolidated subsidiaries recorded revenue from operations of ¥574,396 million (US\$5,411.2 million), up 1.6% from the previous fiscal year. However, operating income declined 0.9%, or ¥627 million (US\$5.9 million), to ¥68,201 million (US\$642.5 million). Net income fell 17.5%, or ¥3,906 million (US\$36.8 million), to ¥18,421 million (US\$173.5 million) owing to the adoption of tax-effect accounting.

In mid 1999, the Japanese economy emerged from a prolonged recession, supported by government economic stimulus measures and efforts made in the corporate sector. Although indications of a self-sustained recovery appeared at the beginning of 2000, a full-scale recovery is expected to be slow in coming.

Conditions are gradually improving in the office building market following the upturn in economic conditions. Vacancy rates improved, with nearly full occupancy for newly constructed buildings in central Tokyo. However, competition among properties as well as among districts has intensified, and the trend toward a two-tiered market is expected to continue in the future.

In the residential market, condominium sales are recording solid

growth amid decreased residential taxes and low interest rates, but future trends are unpredictable due to uncertainties concerning the tax system and interest rates.

Creating a Competitive Corporate Group Through Structural Reform

Amid a challenging operating environment in the real estate industry and the advance of globalization, Mitsubishi Estate is implementing structural reform to prepare for further expansion in the 21st century. In April 2000, we converted all Group operations to a divisional structure. Accordingly, the Group will be separated along strategic lines, with a clear system for delegating authority and responsibility. We expect the new structure to support improved asset efficiency in each division.

Business areas comprise the three major divisions of Building Business, Residential Development and Architectural Design & Engineering, plus the five divisions of Urban Development and Investment Management, International Business, Custom-Built Housing, Hotel Business and Recreational Facility. Strategic development, including development of affiliated companies, will be accelerated by transferring authority to head officers at each divi-



Through the integrated efforts of Group companies, we aim to be a competitive corporate Group that maximizes corporate value by fulfilling our mission of creating value for society as a comprehensive developer.



sion, and by defining the responsibilities within each business field.

Further, we are concentrating resources into core business fields through critical reassessment of unprofitable businesses. In December 1999, these steps led to the liquidation of the Group company, *Onikobe Kogen Kaihatsu*, which managed a ski resort in Miyagi Prefecture.

To further extend the divisional structure, we will transfer the Hotel Business Division operations to a subsidiary to be established in the current fiscal year. We aim to also transfer

operations of the Architectural Design & Engineering Division to a subsidiary in April 2001.

While reviewing our business areas, we are enhancing management effectiveness. In April 2000, our previous executive board was replaced by an executive committee to establish Groupwide management goals and plans, as well as accelerate decision making. We are also expanding outsourcing of service jobs in the administrative division, and reducing expenses through increased efficiency.

The mission of the Mitsubishi Estate Group is to “Create a Truly Meaningful Society through Urban Development.” We aim to be a competitive Group that maximizes corporate value. In the current fiscal year, the Mitsubishi Estate Group announced its mid-term Group management plan. By March 31, 2003, we aim to achieve an ROA of 3.9% and an interest coverage ratio (ICR) of 2.5 times.

Marunouchi Redevelopment for Inter-District Competition

The key to improving profitability of our mainstay business of office building leasing lies in the redevelopment of the Marunouchi district, which is the base of operations for the Mitsubishi Estate Group. Currently, we are redeveloping Marunouchi into a highly profitable business district. Our strategy for redeveloping the district into a competitive commercial area that can prevail over inter-district competition is founded on the following four strategies: 1) accelerate redevelopment; 2) upgrade building functions through renovation; 3) strengthen the infrastructure to take advantage of the integration of our buildings; and 4) implement an integrated marketing program.

Although the supply of large-scale office buildings will begin to

increase in the central Tokyo area, Marunouchi is well positioned with a superb corporate infrastructure and unparalleled advantages of having over 4,100 companies concentrated in the area. In the increasingly crucial area of IT, the Marunouchi district is served by the communications networks of a variety of carriers, making it the area with the most established information infrastructure in Japan. From the spring of 2001, the Mitsubishi Estate Group will install its own extensive fiber-optic network, further raising the superiority of the Marunouchi information infrastructure. By utilizing these advantages, we intend to redevelop the district into Japan’s premier commercial district.

Full-Scale Introduction of J-REIT Business

In Japan, high growth is expected for markets that link real estate with financial markets. The Mitsubishi Estate Group is pursuing the potential of various fee-based businesses. Accordingly, Mitsubishi Estate established the Urban Development and Investment Management Division as one of the strategic divisions within the structural reform of April 2000, and we will make a full-scale entry into the Real Estate Investment Trust (REIT) business. As the



Nakadori Avenue, Marunouchi business district in Tokyo

first stage, Mitsubishi Estate will partner with other companies to establish a REIT. Through Groupwide efforts, we aim to develop this fund into Japan's representative REIT, and to stay one step ahead of current trends and seize critical business opportunities.

As a comprehensive developer, the Mitsubishi Estate Group is committed to promoting consolidated management, increasing Group profitability and contributing to the creation of a truly meaningful society. Making use of the expertise we have accumulated thus far in the urban development business, our vast storehouse

of knowledge in building management and our business development capabilities, which are in high demand today, we plan to build businesses to become a Company that produces added value in the new century. We look forward to the support and cooperation of our shareholders.

Takeshi Fukuzawa
President

July 2000