# Financial Review

## Analysis of Revenue

For the fiscal year under review, revenue from operations increased 1.6% to ¥574,396 million (US$5,411.2 million). Results and conditions by segment are discussed below.

Leasing and management comprises 50.1% of revenues. Revenue from this segment declined 3.0% to ¥287,520 million (US$2,708.6 million) as a result of a sluggish rental market.

The Sales segment comprises 15.7% of revenues. Despite favorable sales of condominiums, this segment recorded revenue of ¥90,314 million (US$850.8 million) due to the absence of large-scale commercial-property sales recorded in the previous fiscal year.

Brokerage comprises 13.1% of revenues. Revenue from this segment was ¥75,067 million (US$707.2 million) owing to higher revenue at Cushman & Wakefield and strong domestic performance at Mitsubishi Real Estate Services.

Architectural comprises 2.7% of revenues. For this segment, revenue rose 32.2% to ¥15,632 million (US$147.3 million), resulting from the large scale of architectural design work for such construction projects as Sanno Park Tower.

Construction comprises 9.1% of revenues. Revenue in this segment rose 10.6% to ¥52,498 million (US$494.6 million) on the back of increased orders for custom-built housing at Mitsubishi Estate Home.

The Other segment comprises 9.3% of revenues. This segment recorded a 1.3% decline in revenue to ¥53,364 million (US$502.7 million).

## Analysis of Income

For the fiscal year under review, cost of revenue from operations rose 5.8% to ¥463,708 million (US$4,368.4 million), whereas selling, general and administrative (SG&A) expenses declined 27.1% to ¥42,487 million (US$400.3 million). The main reason for the decline of SG&A expenses was the reclassification of direct costs of hotel management companies—including personnel, outsourcing, water, heat and electricity expenses—from SG&A to cost of revenue from operations.

Operating income edged down 0.9% to ¥68,201 million (US$642.5 million), as lower operating income at the parent company due to weak performance in the leasing and management segment was offset by continued favorable growth at RGI in the United States and improved performance of Mitsubishi Real Estate Services and Mitsubishi Estate Home.

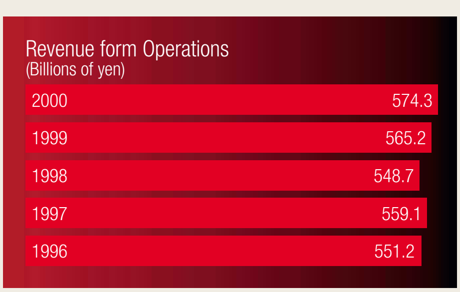
## Other Income and Expenses

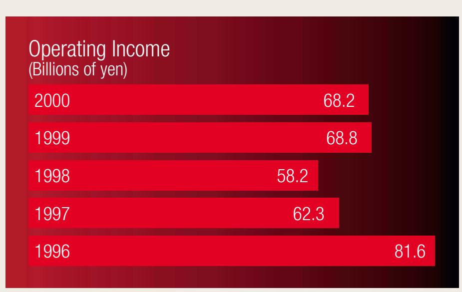
Interest and dividend income decreased 8.6% to ¥4,310 million (US$40.6 million), and interest expense declined 9.0% to ¥40,318 million (US$379.8 million), reflecting unprecedented low interest rates and lower levels of interest-bearing debt.

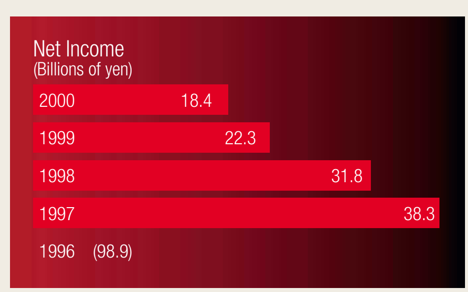
In other expenses, the Company recorded a valuation loss on inventories of ¥32,614 million (US$307.2 million), a loss on investment in affiliates of ¥7,015 million (US$66.0 million) and an amortization of prior service cost of pension plan of ¥8,664 million (US$81.6 million). Other income included a net realized gain on sales of property and equipment of ¥37,407 million (US$352.4 million) and net realized gain on sales of marketable securities of ¥18,012 million (US$169.7 million).

## Net Income

In the fiscal year under review, the Company adopted tax-effect accounting and recorded deferred income taxes of ¥7,531 million (US$70.9 million). Net income was ¥18,421 million (US$173.5 million), down 17.5% from the previous fiscal year, and net income per share was ¥14.18 (US$0.13).



## Analysis of Financial Position

Net cash provided by operating activities was ¥72,401 million (US$682.1 million). Net cash used in investing activities totaled ¥11,611 million (US$109.4 million), as the sale of the Chiyoda Building partly offset capital investment for the continued redevelopment of the Marunouchi district and renovation of existing buildings. Net cash used in financing activities was ¥57,331 million (US$540.1 million). Including the effect of exchange rate changes on cash and cash equivalents of ¥3,744 million (US$35.3 million), there was a net decrease in cash and cash equivalents of ¥285 million (US$2.7 million). With the addition of increase in cash and cash equivalents due to merger and acquisition of ¥47 million (US$0.4 million), cash and cash equivalents at end of year were ¥86,457 million (US$814.5 million), a decline of ¥238 million compared with cash and cash equivalents at beginning of year of ¥86,695 million (US$816.7 million).

Consolidated interest-bearing debt at fiscal year-end decreased 4.3% to ¥1,219,823 million (US$11,491.5 million), as management used cash flows from operating activities at Mitsubishi Estate, proceeds from the sale of the Chiyoda Building and sale of securities to reduce debt. Reduction of interest-bearing debt at the consolidated subsidiary RGI also contributed to the decline.

Total assets at year-end increased ¥9,869 million to ¥2,285,771 million (US$21,533.4 million). Total shareholders' equity fell 2.4%, or ¥10,972 million, to ¥440,731 million (US$4,152.0 million). The major factor for this decrease was the transfer of translation adjustments from assets to shareholders' equity.

Accordingly, the shareholders' equity ratio edged down 0.5 percentage point to 19.3%.

## Management Initiatives

The Mitsubishi Estate Group announced its medium-term management plan on June 6, 2000. The Group's core business of real estate leasing requires substantial capital investment over a long period of time. Owing to the need to continuously evaluate and improve asset efficiency, we have adopted return on assets (ROA) and interest coverage ratio (ICR) as management indicators to improve asset efficiency and evaluate risk management.

Compared with ROA of 3.2% and ICR of 1.8 times during the fiscal year under review, the plan targets ROA of 3.9% and an ICR of 2.5 times by the fiscal year ending March 31, 2003.

To achieve this objective, Mitsubishi Estate will accelerate the redevelopment of the Marunouchi district to contribute to future revenue and operating income for the Leasing and Management segment, while marketing both highly profitable condominiums with rapid turnover and high-rise condominium developments in the Sales segment.

Mitsubishi Estate is committed to increasing fee-based businesses, including asset management for real estate investment trusts and orders for property management services.

Furthermore, to raise ROA through higher asset efficiency, we are shifting some assets off the balance sheet through such measures as securitization and sale to real estate investment trusts, while acquiring new assets for the redevelopment of the Marunouchi district. Through this policy, management aims to improve its operating ratios and financial position.

While using cash flows from sales of assets and higher profitability on operations to reduce interest-bearing debt, Mitsubishi Estate aims to improve its financial structure and raise its ICR by reducing interest rates from a medium-term perspective through flexible financing activities.