Financial Statements

Independent Auditors' Report

To the Shareholders and Board of Directors of
Mitsubishi Estate Co., Ltd.:

We have audited the consolidated balance sheet of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries as of March 31, 2001 and the related consolidated statements of income, shareholders' equity and cash flows for the year ended March 31, 2001, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries as of March 31, 2001, and the results of their operations and their cash flows for the year ended March 31, 2001 in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the change, with which we concur, in the grouping of business segments reclassified in terms of the nature of each operation and service as described in Note 16 to the consolidated financial statements.

As described in Note 1 to the consolidated financial statements, Mitsubishi Estate Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for financial instruments including derivatives and retirement benefits in the preparation of their consolidated financial statements for the year ended March 31, 2001.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 are presented solely for convenience. Our audits also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Toyo & Co.

Toyo & Co.

Tokyo, Japan
June 28, 2001

See Note1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

Report of Independent Public Accountants
on the Consolidated Financial Statements

To The Board of Directors and Shareholders of
Mitsubishi Estate Co., Ltd.

We have audited the consolidated balance sheets of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2000, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries at March 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the changes, with which we concur, in the method of accounting for prior service cost of the pension plan and in the classification of certain expenses related to the hotel business in the statement of income as described in Note 2 to the consolidated financial statements, and in the grouping of business segments separately presenting brokerage segment from sales segment as described in Notes to segment information in Note 16 to the consolidated financial statements.

As described in Note 1 to the consolidated financial statements, Mitsubishi Estate Co., Ltd. adopted new accounting standards for tax-effect accounting in the preparation of its consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2000, are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Century Ota Showa & Co.

Century Ota Showa & Co.

Tokyo, Japan
June 29, 2000

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

Consolidated Balance Sheets

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
March 31, 2001 and 2000

Assets	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 3) 2001
Current assets:			
Cash *(Note 14)*	**¥ 171,805**	¥ 74,582	**$ 1,386,642**
Marketable securities *(Note 4)*	**17,294**	87,585	**139,580**
Notes and accounts receivable – trade	**56,088**	49,274	**452,688**
Allowance for doubtful receivables	**(5,248)**	(4,744)	**(42,357)**
Inventories *(Note 5)*	**251,113**	235,297	**2,026,739**
Deferred income taxes *(Note 9)*	**64,008**	35,299	**516,610**
Other current assets	**23,636**	25,142	**190,767**
Total current assets	**578,696**	502,435	**4,670,669**
Investments:			
Investments in and advances to unconsolidated subsidiaries and affiliates	**21,011**	24,248	**169,580**
Investment securities *(Note 4)*	**193,117**	9,615	**1,558,652**
Other investments *(Notes 6 and 7)*	**148,781**	125,320	**1,200,816**
Total investments	**362,909**	159,183	**2,929,048**
Property and equipment *(Note 7)*:			
Land	**660,136**	693,207	**5,327,974**
Buildings and structures	**1,403,110**	1,368,962	**11,324,536**
Machinery and equipment	**88,290**	82,979	**712,591**
Construction in progress	**39,413**	31,460	**318,103**
Total property and equipment	**2,190,949**	2,176,608	**17,683,204**
Less accumulated depreciation	**(655,617)**	(607,305)	**(5,291,501)**
Property and equipment, net	**1,535,332**	1,569,303	**12,391,703**
Intangible and other assets *(Note 9)*	**58,326**	54,850	**470,751**
Total assets	**¥2,535,263**	¥2,285,771	**$20,462,171**

See accompanying notes to consolidated financial statements.

Liabilities, minority interests and shareholders' equity	Millions of yen 2001	2000	Thousands of U.S. dollars (Note 3) 2001
Current liabilities:			
Short-term borrowings and current portion of long-term debt *(Note 7)*	**¥ 234,360**	¥ 183,626	**$ 1,891,525**
Notes and accounts payable – trade	**59,865**	57,286	**483,172**
Accrued income taxes *(Note 9)*	**4,092**	3,172	**33,027**
Advances and deposits	**56,844**	51,796	**458,789**
Accrued expenses and other current liabilities *(Note 9)*	**61,178**	49,537	**493,769**
Total current liabilities	**416,339**	345,417	**3,360,282**
Long-term debt *(Note 7)*	**1,037,144**	1,036,197	**8,370,815**
Lease deposits	**319,464**	296,934	**2,578,402**
Employees' retirement allowances *(Note 8)*	**10,198**	29,356	**82,308**
Deferred income taxes *(Note 9)*	**146,736**	61,699	**1,184,310**
Other noncurrent liabilities	**45,993**	45,598	**371,211**
Total liabilities	**1,975,874**	1,815,201	**15,947,328**
Minority interests	**40,623**	29,839	**327,869**
Shareholders' equity *(Note 10)*:			
Common stock, par value ¥50:			
Authorized – 1,980,000,000 shares;			
Issued and outstanding – 1,299,185,054 shares	**86,534**	86,534	**698,418**
Capital surplus	**115,216**	115,195	**929,911**
Retained earnings	**264,091**	254,871	**2,131,485**
Unrealized gain on securities	**63,156**	—	**509,734**
Foreign currency translation adjustments	**(10,224)**	(15,860)	**(82,518)**
	518,773	440,740	**4,187,030**
Less treasury stock – 6,533 shares in 2001; 9,395 shares in 2000	**(7)**	(9)	**(56)**
Total shareholders' equity	**518,766**	440,731	**4,186,974**
Contingent liabilities *(Note 12)*			
Total liabilities, minority interests and shareholders' equity	**¥2,535,263**	¥2,285,771	**$20,462,171**

Consolidated Statements of Income

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2001	2000	1999	**2001**
Revenue from operations	**¥630,990**	¥574,396	¥565,259	**$5,092,736**
Cost of revenue from operations	**507,447**	463,708	438,171	**4,095,617**
Selling, general and administrative expenses	**42,904**	42,487	58,260	**346,279**
Operating income	**80,639**	68,201	68,828	**650,840**
Other income (expenses):				
Interest and dividend income	**3,777**	4,310	4,713	**30,484**
Interest expense	**(36,436)**	(40,318)	(44,349)	**(294,076)**
Other, net *(Note 13)*	**(14,840)**	4,355	2,624	**(119,774)**
Total	**(47,499)**	(31,653)	(37,012)	**(383,366)**
Income before income taxes and minority interests	**33,140**	36,548	31,816	**267,474**
Income taxes *(Notes 1 and 9)*:				
Current	**8,383**	8,887	7,944	**67,659**
Deferred	**2,839**	7,531	—	**22,914**
Total	**11,222**	16,418	7,944	**90,573**
Minority interests	**2,086**	1,709	1,545	**16,836**
Net income	**¥ 19,832**	¥ 18,421	¥ 22,327	**$ 160,065**

	Yen			U.S. dollars (Note 3)
Net income per share:				
Basic	**¥15.26**	¥14.18	¥17.19	**$0.123**
Diluted	**14.84**	—	—	**0.120**
Cash dividends per share	**8.00**	8.00	8.00	**0.065**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2001, 2000 and 1999

Millions of yen

	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total Shareholders' Equity
Balance at March 31, 1998	¥86,534	¥115,195	¥252,337	¥ —	¥(362)	¥(9)	¥453,695
Net income	—	—	22,327	—	—	—	22,327
Foreign currency translation adjustments	—	—	—	—	(7,509)	—	(7,509)
Change in consolidated subsidiaries and companies accounted for by the equity method (Note 1)	—	—	(6,236)	—	—	—	(6,236)
Cash dividends paid	—	—	(10,393)	—	—	—	(10,393)
Directors' and statutory auditors' bonuses	—	—	(181)	—	—	—	(181)
Balance at March 31, 1999	86,534	115,195	257,854	—	(7,871)	(9)	451,703
Net income	—	—	18,421	—	—	—	18,421
Foreign currency translation adjustments	—	—	—	—	(7,989)	—	(7,989)
Change in consolidated subsidiaries and companies accounted for by the equity method (Note 1)	—	—	2	—	—	—	2
Cash dividends paid	—	—	(10,393)	—	—	—	(10,393)
Directors' and statutory auditors' bonuses	—	—	(183)	—	—	—	(183)
Cumulative effect of adopting tax-effect accounting (Note 1)	—	—	(10,830)	—	—	—	(10,830)
Balance at March 31, 2000	**86,534**	**115,195**	**254,871**	**—**	**(15,860)**	**(9)**	**440,731**
Net income	**—**	**—**	**19,832**	**—**	**—**	**—**	**19,832**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**5,636**	**—**	**5,636**
Cumulative effect of adopting fair value accounting for other securities	**—**	**—**	**—**	**63,156**	**—**	**—**	**63,156**
Change in consolidated subsidiaries and companies accounted for by the equity method (Note 1)	**—**	**21**	**(36)**	**—**	**—**	**—**	**(15)**
Cash dividends paid	**—**	**—**	**(10,393)**	**—**	**—**	**—**	**(10,393)**
Directors' and statutory auditors' bonuses	**—**	**—**	**(183)**	**—**	**—**	**—**	**(183)**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**2**	**2**
Balance at March 31, 2001	**¥86,534**	**¥115,216**	**¥264,091**	**¥63,156**	**¥(10,224)**	**¥(7)**	**¥518,766**

Thousands of U.S. dollars (Note 3)

	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total Shareholders' Equity
Balance at March 31, 2000	**$698,418**	**$929,742**	**$2,057,070**	**$ —**	**$(128,006)**	**$(73)**	**$3,557,151**
Net income	**—**	**—**	**160,065**	**—**	**—**	**—**	**160,065**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**45,488**	**—**	**45,488**
Cumulative effect of adopting fair value accounting for other securities	**—**	**—**	**—**	**509,734**	**—**	**—**	**509,734**
Change in consolidated subsidiaries and companies accounted for by the equity method (Note 1)	**—**	**169**	**(291)**	**—**	**—**	**—**	**(122)**
Cash dividends paid	**—**	**—**	**(83,882)**	**—**	**—**	**—**	**(83,882)**
Directors' and statutory auditors' bonuses	**—**	**—**	**(1,477)**	**—**	**—**	**—**	**(1,477)**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**17**	**17**
Balance at March 31, 2001	**$698,418**	**$929,911**	**$2,131,485**	**$509,734**	**$(82,518)**	**$(56)**	**$4,186,974**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2001, and 2000

	Millions of yen		Thousand of U.S. dollars (Note 3)
	2001	2000	**2001**
Operating activities			
Income before income taxes and minority interests	**¥ 33,140**	¥36,548	**$ 267,474**
Depreciation and amortization	**65,728**	64,167	**530,492**
Net gain on sales of property and equipment	**(43,440)**	(37,407)	**(350,605)**
Net gain on sales of securities	**(21,497)**	(18,012)	**(173,503)**
Unrealized loss on securities	**1,664**	2,166	**13,430**
Valuation loss on inventories	**94,239**	32,614	**760,605**
Equity in net income of affiliates	**(1,507)**	(1,689)	**(12,163)**
Gain on contribution of securities to employees retirement benefit trust	**(23,280)**	—	**(187,893)**
Net change in allowances	**10,899**	(2,431)	**87,966**
Interest and dividend income	**(3,777)**	(4,310)	**(30,484)**
Interest expense	**36,436**	40,318	**294,076**
Increase in notes and accounts receivable	**(4,514)**	(8,267)	**(36,433)**
(Increase) decrease in inventories	**(6,106)**	399	**(49,282)**
(Decrease) increase in notes and accounts payable	**(1,129)**	12,000	**(9,112)**
Increase (decrease) in lease deposits	**22,003**	(893)	**177,587**
Other	**(10,023)**	2,685	**(80,896)**
Subtotal	**148,836**	117,888	**1,201,259**
Interest and dividends received	**3,962**	3,948	**31,977**
Interest paid	**(37,400)**	(40,706)	**(301,856)**
Income taxes paid	**(7,755)**	(8,729)	**(62,591)**
Net cash provided by operating activities	**107,643**	72,401	**868,789**
Investing activities			
Proceeds from sales of marketable securities	**2,417**	24,183	**19,508**
Purchases of marketable securities	**(13,593)**	(2,938)	**(109,709)**
Proceeds from sales of property and equipment	**56,749**	68,866	**458,022**
Purchases of property and equipment	**(105,644)**	(102,160)	**(852,655)**
Proceeds from sales of investment securities	**35,250**	1,950	**284,504**
Purchases of investment securities	**(20,160)**	(1,529)	**(162,712)**
Purchases of land use rights	**(4,235)**	(2,581)	**(34,181)**
Other	**47**	2,598	**379**
Net cash used in investing activities	**(49,169)**	(11,611)	**(396,844)**
Financing activities			
Net increase in short-term borrowings	**2,311**	5,290	**18,652**
Net decrease in commercial paper	**—**	(17,000)	**—**
Increase in long-term borrowings	**12,961**	77,508	**104,609**
Repayment of long-term borrowings	**(32,207)**	(120,770)	**(259,944)**
Proceeds from issuance of corporate bonds	**141,391**	62,929	**1,141,170**
Repayment of corporate bonds	**(81,440)**	(55,619)	**(657,304)**
Cash dividends paid	**(10,393)**	(10,393)	**(83,882)**
Other	**83**	724	**670**
Net cash provided by (used in) financing activities	**32,706**	(57,331)	**263,971**
Effect of exchange rate changes on cash and cash equivalents	**1,150**	(3,744)	**9,282**
Net increase (decrease) in cash and cash equivalents	**92,330**	(285)	**745,198**
Cash and cash equivalents at beginning of year	**86,457**	86,695	**697,796**
Increase in cash and cash equivalents due to mergers and acquisitions	**135**	47	**1,090**
Cash and cash equivalents at end of year (Note 14)	**¥178,922**	¥86,457	**$1,444,084**

See accompanying notes to consolidated financial statements.

Year ended March 31, 1999	Millions of yen
	1999
Operating activities	
Net income	¥22,327
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	63,050
Provision for reserve for retirement benefits	(627)
Other	8,364
Changes in assets and liabilities:	
Increase in notes and accounts receivable	(11,505)
Decrease in inventories	4,163
Increase in other current assets	(233)
Increase in notes and accounts payable	5,509
Decrease in accrued income taxes	(2,683)
Other	2,881
Payment of directors' bonuses	(181)
Net cash provided by operating activities	91,065
Investing activities	
Purchases of property and equipment	(148,324)
Proceeds from sales of property and equipment	629
Decrease in marketable securities	4,642
Increase in lease deposits	4,811
Decrease in loans to unconsolidated subsidiaries and affiliates	1,448
Other	1,346
Net cash used in investing activities	(135,448)
Financing activities	
Increase in bonds and notes	41,669
Increase in long-term borrowings	19,153
Decrease in commercial paper	(15,701)
Decrease in short-term borrowings	(3,539)
Cash dividends paid	(10,393)
Net cash provided by financing activities	31,189
Net decrease in cash	(13,194)
Increase in cash due to change in scope of consolidation	6,422
Cash at beginning of year	77,297
Cash at end of year	¥70,525

Notes to Consolidated Financial Statements

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
March 31, 2001

1. Significant Accounting Policies

Basis of preparation

Mitsubishi Estate Co., Ltd. (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan, while its foreign subsidiaries do so in accordance with those of their countries of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan and have been prepared in accordance with accounting principles and practices generally accepted in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

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

Principles of consolidation

Until the year ended March 31, 1998, the consolidated financial statements included the accounts of the Company and its significant subsidiaries (owned more than 50%), and investments in certain unconsolidated subsidiaries and significant affiliates (owned 20% to 50%) were accounted for by the equity method.

Effective April 1, 1998, the Company initially adopted a new accounting standard for consolidation in Japan, under which consolidated financial statements include the accounts of the Company and significant companies controlled directly or indirectly by the Company. 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. As a result, retained earnings as of April 1, 1998 decreased by ¥6,236 million. The prior years' financial statements have not been restated.

All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions which affect the amounts reported in the financial statements and accompanying notes. The actual results could differ from those estimates.

Foreign currency transactions and translation

(Foreign currency transactions)

Until the year ended March 31, 2000, short-term receivables and payables denominated in foreign currencies had been translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Long-term receivables and payables denominated in foreign currencies had been translated at their historical exchange rates, except that long-term debt hedged by forward foreign exchange contracts was translated at the respective contracted forward rate.

Effective April 1, 2000, the Company adopted a new accounting standard for foreign currency translation, which requires all receivables and payables denominated in foreign currencies to be translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The adoption of this new accounting standard had no effect on the consolidated financial position or results of operations.

(Translation of foreign currency financial statements)

The assets and liabilities of the foreign consolidated subsidiaries and affiliates are translated into Japanese yen at the rates of exchange prevailing at the balance sheet date, except for the components of shareholders' equity which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average exchange rate for the year. In accordance with the new accounting standard for foreign currency translation which was adopted early by the Company during the year ended March 31, 2000, the Company has included foreign currency translation adjustments in stockholders' equity.

Cash flow statements and cash equivalents

The Company prepared consolidated statements of cash flows for the years ended March 31, 2001 and 2000 as required by and in accordance with the "Accounting Standards for Consolidated Statements of Cash Flows" which became effective the year ended March 31, 2000. The consolidated statement of cash flows for the year ended March 31, 1999, which was not customarily prepared in Japan and was not required to be filed with Ministry of Finance prior to the year ended March 31, 2000, was prepared for the purpose of inclusion in the consolidated financial statements in a form familiar to readers outside Japan. Significant differences between the consolidated statements of cash flows for the years ended March 31, 2001 and 2000 and that for the year ended March 31, 1999 include the following: the use of cash and cash equivalents and income (loss) before income taxes in 2001 and 2000 instead of cash and time deposits and net income in 1999, and the disclosure in cash flows from operating activities of interest expense, interest and dividend income and proceeds from interest and dividend income in 2001 and 2000. A reconciliation between cash in the balance sheets and cash equivalents at March 31, 2001 and 2000 is presented in Note 14. The consolidated statement of cash flows for the year ended March 31, 1999 has not been restated.

Marketable securities and investment securities

Prior to the year ended March 31, 2001, marketable securities in current and noncurrent portfolios had been valued principally at the lower of cost or market, cost being determined mainly by the moving average method, and other securities had been stated at cost determined by the moving average method.

In January 1999, the Business Accounting Deliberation Council of Japan issued a new accounting standard for financial instruments, which requires the Company to classify its investments in debt and equity securities into three categories: trading securities, held-to-maturity securities, or other securities. Under the new standard, trading securities are carried at fair value, with unrecognized gains and losses included in earnings, and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with unrealized holding gains and losses, net of income taxes, directly included in stockholders' equity. Non-marketable securities classified as other securities are carried at cost.

In applying the new accounting standard for financial instruments as of April 1, 2000, the Company and its consolidated subsidiaries assessed the appropriate classification of their investments in securities and made certain reclassifications.

Cost of securities sold is determined by the moving average method.

The adoption of a new accounting standard for financial instruments related to securities decreased income before income taxes by ¥329 million ($2,655 thousand) for the year ended March 31, 2001.

Inventories

Inventories are mainly stated at cost, determined by the identified cost method; however, when the fair value is substantially less than cost and the decline in fair value is considered to be permanent, inventories are revalued at fair value.

Property and equipment and depreciation

Domestic property and equipment is stated at cost, less accumulated depreciation. Foreign subsidiaries primarily in the United States have adopted Financial Accounting Standards Board Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," which requires impaired losses to be recorded as long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying value.

Depreciation of property and equipment is calculated principally by the declining-balance method, except for buildings acquired in Japan subsequent to March 31, 1998 and 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 has capitalized the costs incurred for significant renewals and additions; however, costs for maintenance and repairs are charged to income.

Leases

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

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 periods ranging from 5 to 25 years on a straight-line basis. Land use rights are stated on the basis of cost.

Pension and severance plans

The Company and most consolidated subsidiaries have noncontributory funded and unfunded defined benefit plans covering most of their employees. Employees of the Company and its consolidated subsidiaries are entitled under most employment termination circumstances to annuity payments or lump-sum payments, the amounts of which are determined principally by reference to their basic rates of pay, length of service, and the conditions under which the termination occurs.

Prior to the year ended March 31, 2001, employees' retirement allowances were stated at the amount which would be required to be paid if all eligible employees covered by the unfunded benefit plan voluntarily terminated their employment as of the balance sheet date. Costs with respect to the funded pension plans were determined actuarially and charged to income when paid.

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for retirement benefits, which requires the Company and its domestic consolidated subsidiaries to accrue employees' severance and retirement benefits for the amount calculated based on the actuarially determined retirement benefit obligation and the fair value of the plan assets as adjusted for the unrecognized net retirement benefit obligation at transition, unrecognized net actuarial gain or loss and unrecognized prior service cost. The Company expensed the net retirement benefit obligation at transition of ¥4,714 million ($38,047 thousand) in the year ended March 31, 2001. Actuarial gain or loss is amortized by the straight-line method over a period which is less than the average remaining years of service of the employees. The adoption of this new standard for retirement benefits decreased income before income taxes by ¥4,587 million ($37,022 thousand) for the year ended March 31, 2001.

In order to improve the funded status of the pension plan, the Company contributed marketable securities in the amount of ¥29,000 million ($234,060 thousand) to the employees' retirement benefit trust during the year ended March 31, 2001. The difference between the book value of ¥5,720 million ($46,166 thousand) and the market value at the time of the contribution of ¥29,000 million ($234,060 thousand) has been recorded as a gain in the consolidated statement of income for the year ended March 31, 2001.

In addition, directors and statutory auditors are customarily entitled to lump-sum payments under the Company's internal regulations. Accrued severance benefits for these officers of the Company have been provided at estimated amounts and are included in other noncurrent liabilities.

Income taxes

Effective April 1, 1999, the Company and its domestic subsidiaries adopted a new accounting standard for deferred income taxes. Under this standard, 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 carryforwards. Valuation allowances are established to reduce deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized.

Derivative financial instruments

The Company utilizes derivative financial instruments for the purpose of hedging its exposure to adverse fluctuations in foreign currency exchange rates and interest rates, but does not enter into such transactions for speculative or trading purposes.

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for financial instruments including derivatives. The new accounting standard requires the Company and its domestic consolidated subsidiaries to recognize all derivatives on the balance sheet at fair value with certain exceptions. Derivatives which are not hedges must be adjusted to fair value through income. If the derivative is a hedge, changes in the fair value of derivatives are deferred until the underlying hedged item is recognized in earnings. The adoption of this new accounting standard decreased income before income taxes by ¥24 million ($194 thousand) for the year ended March 31, 2001.

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 the customers.
(c) Revenue from real estate brokerage is recognized when an underlying lease agreement goes into force or the underlying units are delivered.
(d) Revenue from architectural design and supervision is recognized at the date of completion of each relevant project.
(e) Revenue from construction contracts is recognized at the date of completion of each contract.
(f) Other operating revenue is recognized on an accrual basis.

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 any 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 issuance in the case of newly issued bonds, with an appropriate adjustment of the related interest expense, net of income taxes, for such convertible bonds.

Diluted net income per share for the years ended March 31, 2000 and 1999 has not been presented since conversion of the outstanding convertible bonds would have had no dilutive effect.

Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial year is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial year. The accounts for that year do not, therefore, reflect such appropriations.

Reclassifications

Certain reclassifications have been made to the 2000 and 1999 financial statements in order to conform them to the 2001 presentation.

2. Accounting Changes

(1) Effective April 1, 1999, the Company changed its method of accounting for prior service cost with respect to its funded pension plans from expensing these upon payment, to recognizing such costs as expense when actuarially determined. This change was made in order to establish a solid financial position for the Company, considering the amount of the unfunded prior service cost of the pension plan. The cumulative effect of this change in method of accounting amounted to ¥8,664 million at April 1, 1999 and was charged to income for the year ended March 31, 2000, resulting in an increase in operating income of ¥1,765 million and a decrease in income before income taxes of ¥6,899 million.

(2) Effective April 1, 1999, the Company changed its classification of certain expenses related to its hotel business in the statement of income and began including these expenses in cost of revenue from operations instead of in selling, general and administrative expenses. This change was made to achieve a more accurate presentation of the operating results of the Company and its consolidated subsidiaries as these expenses are directly related to the revenue from the hotel business operations. The effect of this change was to increase cost of revenue from operations and to decrease selling, general and administrative expenses by ¥13,503 million. This change, however, had no effect on income before income taxes for the year ended March 31, 2000. The prior years' statements of income have not been restated.

3. U.S. Dollar Amounts

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 ¥123.90 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2001. 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.

4. Marketable Securities and Investment Securities

Information regarding marketable securities classified as other securities at March 31, 2001 was as follows:

	Millions of yen			Thousands of U.S. dollars		
	Cost	Fair value	Unrealized gain (loss)	Cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their cost:						
Equity securities	¥51,177	¥161,707	¥110,530	$413,051	$1,305,141	$892,090
Debt securities:						
Government bonds	—	—	—	—	—	—
Corporate bonds	455	455	0	3,672	3,672	0
Other	—	—	—	—	—	—
Subtotal	51,632	162,162	110,530	416,723	1,308,813	892,090
Securities whose cost exceeds their fair value:						
Equity securities	¥7,136	¥6,303	¥(833)	$57,595	$50,872	$(6,723)
Debt securities:						
Government bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	7,136	6,303	(833)	57,595	50,872	(6,723)
Total	¥58,768	¥168,465	¥109,697	$474,318	$1,359,685	$885,367

Proceeds from sales of securities classified as other securities totaled ¥34,274 million ($276,626 thousand), with gross realized gain of ¥20,392 million ($164,584 thousand) and gross realized loss of ¥385 million ($3,107 thousand) for the year ended March 31, 2001.

Information regarding marketable debt securities classified as held-to-maturity securities at March 31, 2001 was as follows:

	Millions of yen			Thousands of U.S. dollars		
	Amortized cost	Fair value	Unrealized gain (loss)	Amortized cost	Fair value	Unrealized gain (loss)
Debt securities whose fair value exceeds their cost:						
Government bonds	¥ 315	¥ 321	¥ 6	$ 2,542	$ 2,591	$ 49
Corporate bonds	18	20	2	145	161	16
Other	99	99	0	800	800	0
Subtotal	432	440	8	3,487	3,552	65
Debt securities whose cost exceeds their fair value:						
Government bonds	—	—	—	—	—	—
Corporate bonds	11,000	10,949	(51)	88,781	88,369	(412)
Other	1,916	1,912	(4)	15,464	15,432	(32)
Subtotal	12,916	12,861	(55)	104,245	103,801	(444)
Total	¥13,348	¥13,301	¥(47)	$107,732	$107,353	$(379)

Information regarding securities recorded at cost at March 31, 2001 was as follows:

	Millions of yen	Thousands of U.S. dollars
Other securities:		
Nonmarketable equity securities (other than equity securities listed on the over-the-counter market)	¥18,543	$149,661
Mutual funds	6,209	50,113
Commercial paper	2,018	16,287
MMF	1,209	9,758
Other	119	961
Held-to-maturity securities:		
Bonds	500	4,035
Total	¥28,598	$230,815

The redemption schedule for securities classified as other securities at March 31, 2001 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Due within one year or less	Due after one year through five years	Due after five years or more	Due within one year or less	Due after one year through five years	Due after five years or more
Government bonds	¥ 100	¥ 196	¥19	$ 807	$ 1,582	$153
Corporate bonds	5,729	6,249	—	46,239	50,436	—
Commercial paper	2,018	—	—	16,287	—	—
Other debt securities	2,028	—	—	16,368	—	—
Total	¥9,875	¥6,445	¥19	$79,701	$52,018	$153

The cost and related fair value of current and noncurrent marketable securities at March 31, 2000 were as follows:

	Millions of yen		
	Cost	Fair value	Unrealized gain (loss)
Current:			
Equity securities	¥69,694	¥255,277	¥185,583
Debt securities	3,200	3,292	92
Subtotal	72,894	258,569	185,675
Noncurrent:			
Debt securities	67	70	3
Total	¥72,961	¥258,639	¥185,678

5. Inventories

Inventories at March 31, 2001 and 2000 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Real estate for sale	**¥172,649**	¥152,741	**$1,393,454**
Land and housing projects in progress	**42,309**	38,274	**341,477**
Land held for development	**23,999**	31,638	**193,697**
Other	**12,156**	12,644	**98,111**
Total	**¥251,113**	¥235,297	**$2,026,739**

6. Other Investments

Other investments at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Lease deposits	**¥ 86,054**	¥ 75,382	**$ 694,544**
Long-term prepaid expenses and other	**62,727**	49,938	**506,272**
Total	**¥148,781**	¥125,320	**$1,200,816**

7. Short-Term Borrowings and Long-Term Debt

At March 31, 2001 and 2000, short-term borrowings and the current portion of long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Loans, principally from banks	**¥ 72,031**	¥ 68,151	**$ 581,364**
Commercial paper	**1,721**	1,536	**13,890**
Current portion of long-term debt	**160,608**	113,939	**1,296,271**
Total	**¥234,360**	¥183,626	**$1,891,525**

The annual interest rates applicable to short-term borrowings outstanding at March 31, 2001 and 2000 ranged principally from 0.183% to 7.900% and from 0.382% to 6.675%, respectively.

At March 31, 2001 and 2000, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
1.5% convertible bonds due 2003	**¥ 92,682**	¥ 92,682	**$ 748,039**
Zero coupon convertible bonds due 2006	**100,000**	—	**807,103**
4.9% mortgage bonds due 2000	**—**	35,000	**—**
3.85% mortgage bonds due 2000	**—**	35,000	**—**
5.6% mortgage bonds due 2004	**50,000**	50,000	**403,551**
8.625% mortgage bonds due 2001	**28,000**	28,000	**225,989**
4.4% mortgage bonds due 2001	**10,000**	10,000	**80,710**
2.7% mortgage bonds due 2001	**5,000**	5,000	**40,355**
2.95% mortgage bonds due 2002	**10,000**	10,000	**80,710**
4% mortgage bonds due 2002	**20,000**	20,000	**161,421**
5.275% mortgage bonds due 2005	**50,000**	50,000	**403,551**
4.8% mortgage bonds due 2005	**50,000**	50,000	**403,551**
2.125% unsecured bonds due 2002	**10,000**	10,000	**80,710**
1.5% unsecured bonds due 2002	**10,000**	10,000	**80,710**
1.675% unsecured bonds due 2002	**10,000**	10,000	**80,710**
2.55% unsecured bonds due 2003	**10,000**	10,000	**80,710**
2.35% unsecured bonds due 2003	**20,000**	20,000	**161,421**
2.05% unsecured bonds due 2003	**20,000**	20,000	**161,421**
1.775% unsecured bonds due 2003	**10,000**	10,000	**80,710**
1.7% unsecured bonds due 2003	**10,000**	10,000	**80,710**
3.1% unsecured bonds due 2003	**10,000**	10,000	**80,710**
3.05% unsecured bonds due 2003	**15,000**	15,000	**121,065**

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
2.55% unsecured bonds due 2004	**¥ 10,000**	¥ 10,000	**$ 80,710**
1.7% unsecured bonds due 2004	**10,000**	10,000	**80,710**
0.9% unsecured bonds due 2004	**10,000**	10,000	**80,710**
2.125% unsecured bonds due 2005	**10,000**	10,000	**80,710**
3.4% unsecured bonds due 2006	**10,000**	10,000	**80,710**
3% unsecured bonds due 2006	**10,000**	10,000	**80,710**
2.21% unsecured bonds due 2006	**10,000**	10,000	**80,710**
1.325% unsecured bonds due 2006	**10,000**	10,000	**80,710**
2.975% unsecured bonds due 2007	**30,000**	30,000	**242,131**
3.1% unsecured bonds due 2008	**10,000**	10,000	**80,710**
2.575% unsecured bonds due 2008	**10,000**	10,000	**80,710**
2.525% unsecured bonds due 2008	**10,000**	10,000	**80,710**
3.075% unsecured bonds due 2009	**10,000**	10,000	**80,710**
1.82% unsecured bonds due 2009	**10,000**	10,000	**80,710**
2% unsecured bonds due 2009	**10,000**	10,000	**80,710**
1.985% unsecured bonds due 2009	**10,000**	10,000	**80,710**
1.9% unsecured bonds due 2010	**10,000**	—	**80,710**
1.55% unsecured bonds due 2011	**10,000**	—	**80,710**
3.275% unsecured bonds due 2012	**10,000**	10,000	**80,710**
3.125% unsecured bonds due 2017	**10,000**	10,000	**80,710**
3% unsecured bonds due 2018	**10,000**	10,000	**80,710**
2.5% unsecured bonds due 2020	**10,000**	—	**80,710**
0.86% unsecured bonds due 2000 (payable in US dollars)	**—**	882	**—**
0.4% unsecured bonds due 2000 (payable in US dollars)	**—**	2,590	**—**
0.3% unsecured bonds due 2000 (payable in US dollars)	**—**	1,718	**—**
0.2% unsecured bonds due 2000 (payable in US dollars)	**—**	1,751	**—**
0.2% unsecured bonds due 2001 (payable in US dollars)	**—**	3,922	**—**
7.37% unsecured bonds due 2008 (payable in US dollars)	**5,148**	4,970	**41,550**
Floating rate bonds due 2001 (payable in US dollars)	**7,463**	6,660	**60,234**
Floating rate bonds due 2003 (payable in US dollars)	**1,147**	1,024	**9,258**
Floating rate bonds due 2001 (payable in US dollars)	**2,502**	2,232	**20,194**
Floating rate bonds due 2001 (payable in US dollars)	**1,724**	—	**13,915**
Floating rate bonds due 2001 (payable in US dollars)	**2,869**	—	**23,156**
Floating rate bonds due 2001 (payable in US dollars)	**1,783**	—	**14,391**
Floating rate bonds due 2001 (payable in US dollars)	**3,270**	—	**26,393**
Floating rate bonds due 2002 (payable in US dollars)	**2,488**	—	**20,081**
Floating rate bonds due 2004 (payable in US dollars)	**1,721**	—	**13,891**
Floating rate bonds due 2005 (payable in US dollars)	**1,090**	—	**8,798**
Floating rate bonds due 2009 (payable in US dollars)	**1,087**	970	**8,774**
Loans from banks and insurance companies:			
Secured	**105,160**	98,504	**848,749**
Unsecured	**279,557**	304,164	**2,256,312**
Loans from tenants	**61**	67	**492**
Total	**1,197,752**	1,150,136	**9,667,086**
Less current portion	**(160,608)**	(113,939)	**(1,296,271)**
Total long-term debt	**¥1,037,144**	¥1,036,197	**$8,370,815**

The agreements under which the 1.5% convertible bonds and zero coupon convertible bonds were issued provide for conversion into shares of common stock at current conversion prices per share of ¥2,600 ($21) and ¥1,200 ($10), respectively, subject to adjustment for certain events including free distributions of shares and stock dividends declared as a result of stock splits.

The aggregate annual maturities of long-term debt subsequent to March 31, 2001 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2002	¥ 160,608	$1,296,271
2003	202,652	1,635,609
2004	154,410	1,246,247
2005	179,944	1,452,333
2006 and thereafter	500,138	4,036,626
Total	¥1,197,752	$9,667,086

The assets pledged as collateral for short-term borrowings of ¥1,500 million ($12,107 thousand), long-term debt of ¥105,160 million ($848,749 thousand) and other noncurrent liabilities of ¥6,000 million ($48,426 thousand) at March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Other investments	¥ 422	$ 3,406
Land	24,085	194,391
Buildings	146,816	1,184,955
Machinery and equipment	5,716	46,134
Total	¥177,039	$1,428,886

Additionally, all assets of the Company are subject to the terms of an enterprise mortgage for mortgage bonds which amounted to ¥150,000 million ($1,210,654 thousand) at March 31, 2001.

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

8. Pension and Severance Plans

The following table sets forth the funded status of the plans, and the amounts recognized in the consolidated balance sheet at March 31, 2001 for the Company's and its consolidated subsidiaries' defined benefit pension plans:

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation	¥(63,467)	$(512,244)
Plan assets at fair value	52,700	425,343
Unfunded retirement benefit obligation	(10,767)	(86,901)
Unrealized net benefit obligation at transition	646	5,214
Unrecognized actuarial loss	(148)	(1,194)
Unrecognized prior service cost	71	573
Amounts recognized in the consolidated balance sheet	¥(10,198)	$ (82,308)

The components of expenses related to the pension and severance plans for the year ended March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 2,762	$22,292
Interest cost	2,148	17,337
Expected return on plan assets	(1,019)	(8,224)
Amortization of net retirement benefit obligation at transition	4,750	38,337
Other	706	5,698
Total	¥ 9,347	$75,440

The assumptions used in accounting for the pension and severance plans for the year ended March 31, 2001 were as follows:

Discount rate	3.00 ~ 7.50%
Expected return on plan assets	2.25 ~ 7.50%

9. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which in the aggregate, resulted in statutory tax rates of approximately 42% for 2001 and 2000, and 48% for 1999. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation. The effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 1999 differs from the statutory tax rate primarily because of the effect of temporary differences in the recognition of certain income and expenses for tax and financial reporting purposes and the effects of permanently nondeductible expenses.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2001 and 2000 differ from the statutory tax rate for the following reasons:

	2001	2000
Statutory tax rate	**42.05%**	42.05%
Increase (decrease) in income taxes resulting from:		
Change in valuation allowance	**(5.88)**	1.32
Different tax rates applied	**1.70**	1.78
Revenues deductible for income tax purposes	**(2.37)**	(1.65)
Expenses not deductible for income tax purposes	**1.13**	1.18
Other	**(2.77)**	0.24
Effective tax rates	**33.86%**	44.92%

The significant components of deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Deferred tax assets:			
Net operating loss carryforwards	**¥ 32,108**	¥ 50,975	**$ 259,145**
Accrued retirement allowances and pension costs	**13,099**	11,605	**105,722**
Valuation loss on inventories	**52,856**	13,714	**426,602**
Unrealized loss on property and equipment	**10,869**	9,823	**87,724**
Other	**10,644**	8,213	**85,908**
Subtotal	**119,576**	94,330	**965,101**
Valuation allowance	**(29,019)**	(28,293)	**(234,213)**
Total deferred tax assets	**90,557**	66,037	**730,888**
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	**(65,858)**	(51,419)	**(531,542)**
Unrealized gain on property and equipment	**(41,030)**	(35,249)	**(331,154)**
Unrealized gain on securities	**(46,940)**	—	**(378,854)**
Other	**(17,924)**	(5,487)	**(144,665)**
Total deferred tax liabilities	**(171,752)**	(92,155)	**(1,386,215)**
Net deferred tax liabilities	**¥(81,195)**	¥(26,118)	**$ (655,327)**

10. Legal Reserve and Capital Surplus

In accordance with the Commercial Code of Japan, the Company has provided a legal reserve as an appropriation of retained earnings. The Code provides that neither capital surplus nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. Retained earnings in the accompanying consolidated financial statements include the legal reserve of ¥21,658 million ($174,802 thousand) and ¥21,633 million as of March 31, 2001 and 2000, respectively.

11. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2001 and 2000, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
March 31, 2001						
Buildings and structures	**¥1,159**	**¥800**	**¥359**	**$9,354**	**$6,457**	**$2,897**
Machinery and equipment	**8,232**	**4,570**	**3,662**	**66,441**	**36,884**	**29,557**
Total	**¥9,391**	**¥5,370**	**¥4,021**	**$75,795**	**$43,341**	**$32,454**
March 31, 2000						
Buildings and structures	¥1,360	¥887	¥473			
Machinery and equipment	7,504	4,211	3,293			
Total	¥8,864	¥5,098	¥3,766			

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥1,877 million ($15,149 thousand), ¥1,750 million and ¥1,786 million for the years ended March 31, 2001, 2000 and 1999, respectively. If finance lease accounting had been adopted, depreciation of the leased assets over the respective lease terms would have amounted to ¥1,877 million ($15,149 thousand), ¥1,750 million and ¥1,786 million for the years ended March 31, 2001, 2000 and 1999, respectively.

Future minimum lease payments subsequent to March 31, 2001 on noncancelable operating leases and finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	Finance leases	Operating leases	Finance leases	Operating leases
Year ending March 31:				
2002	¥1,608	¥ 3,884	$12,978	$ 31,348
2003 and thereafter	2,413	31,965	19,476	257,990
Total	¥4,021	¥35,849	$32,454	$289,338

The Company and its consolidated subsidiaries lease office buildings and commercial properties and earn lease income. Future minimum lease income subsequent to March 31, 2001 for noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2002	¥ 30,559	$ 246,642
2003 and thereafter	340,420	2,747,539
Total	¥370,979	$2,994,181

12. Contingent Liabilities

At March 31, 2001, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees of affiliates' loans from banks	¥1,140	$ 9,201
Guarantees of employees' housing loans from banks and others	1,344	10,847
Other	546	4,407
Total	¥3,030	$24,455

In addition to the above, at March 31, 2001, the Company was committed to provide guarantees for 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	$242,131	Sept. 20, 1994
6.0% unsecured bonds due 2002	50,000	403,551	Feb. 28, 1997

13. Other Income (Expenses)

The components of "Other, net" in "Other income (expenses)" for each of the three years in the period ended March 31, 2001 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Equity in net income of unconsolidated subsidiaries and affiliates	**¥ 1,507**	¥ 1,689	¥ 512	**$ 12,163**
Net realized gain on sales of property and equipment	**43,440**	37,407	—	**350,605**
Valuation loss on inventories	**(94,239)**	(32,614)	—	**(760,605)**
Net realized gain on sales of securities	**21,497**	18,012	2,870	**173,503**
Unrealized loss on securities	**(1,664)**	(2,166)	—	**(13,430)**
Gain (loss) on investments in affiliates	**1,793**	(7,015)	—	**14,471**
Amortization of prior service cost of pension plan	**—**	(8,664)	—	**—**
Amortization of net retirement benefit obligation at transition	**(4,714)**	—	—	**(38,047)**
Gain on contribution of securities to employees' retirement benefit trust	**23,280**	—	—	**187,893**
Other	**(5,740)**	(2,294)	(758)	**(46,327)**
Total	**¥(14,840)**	¥ 4,355	¥2,624	**$(119,774)**

14. Supplemental Cash Flow Information

The following table represents a reconciliation of cash and cash equivalents as of March 31, 2001 and 2000:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Cash	**¥171,805**	¥74,582	**$1,386,642**
Time deposits with maturities of more than three months	**(2,319)**	(887)	**(18,716)**
Marketable securities with maturities of three months or less	**9,436**	12,762	**76,158**
Cash and cash equivalents	**¥178,922**	¥86,457	**$1,444,084**

15. Derivative Financial Instruments

The Company and certain of its consolidated subsidiaries utilize derivative financial instruments for the purpose of hedging its exposure to adverse fluctuations in foreign currency exchange rates and interest rates, but do not enter into such transactions for speculative or trading purposes.

The Company is exposed to credit loss in the event of nonperformance by the counterparties to the derivatives, but any loss would not be material because the Company enters into such transactions only with financial institutions with high credit ratings. The notional amounts of the derivatives do not necessarily represent the amounts exchanged by the parties and, therefore, are not a direct measure of the Company's risk exposure in connection with derivatives.

Summarized below are the notional amounts and the estimated fair value of the interest-related derivative positions outstanding at March 31, 2001 and 2000:

	Millions of yen			Thousands of U.S. dollars		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
March 31, 2001						
Interest rate swaps:						
Receive/floating and pay/fixed	**¥ 5,000**	**¥(108)**	**¥(108)**	**$ 40,355**	**$ (872)**	**$ (872)**
Receive/fixed and pay/floating	**5,000**	**236**	**236**	**40,355**	**1,905**	**1,905**
Receive/floating and pay/floating	**5,000**	**(12)**	**(12)**	**40,355**	**(97)**	**(97)**
Total	**¥15,000**	**¥ 116**	**¥ 116**	**$121,065**	**$ 936**	**$ 936**

	Millions of yen		
March 31, 2000			
Interest rate swaps:			
Receive/floating and pay/fixed	¥11,101	¥ 73	¥ 73
Receive/fixed and pay/floating	11,024	(41)	(41)
Receive/floating and pay/floating	5,000	(31)	(31)
Total	¥27,125	¥ 1	¥ 1

Due to the adoption of this new accounting standard, the notional amounts and estimated fair value of the interest rate swaps to which hedge accounting has been applied have been excluded from the in 2001 presentation in the above table.

16. Segment Information

Business segment

The Company and its consolidated subsidiaries are primarily engaged in the real estate business. The Company changed its business segments in the year ended March 31, 2001 and these are now classified in terms of the nature of each operation and service and consist of seven segments: (1) building; (2) residential development; (3) architectural and engineering; (4) real estate brokerage; (5) custom-built housing; (6) hotel; and (7) other business. The 2000 segment information has been restated to conform to the 2001.

The revised business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2001 and 2000 are summarized as follows:

Millions of yen 2001	Building	Residential development	Architectural & engineering	Real estate brokerage	Custom-built housing	Hotel	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income										
Revenue from:										
External customers	¥ 313,227	¥132,216	¥14,296	¥87,003	¥34,886	¥32,524	¥ 16,838	¥ 630,990	¥ —	¥ 630,990
Intersegment or transfers	4,679	700	1,320	361	2,262	80	1,557	10,959	(10,959)	—
Total revenue	317,906	132,916	15,616	87,364	37,148	32,604	18,395	641,949	(10,959)	630,990
Operating expense	237,967	122,945	15,648	81,089	36,562	31,905	19,968	546,084	4,267	550,351
Operating income (loss)	¥ 79,939	¥ 9,971	¥ (32)	¥ 6,275	¥ 586	¥ 699	¥ (1,573)	¥ 95,865	¥ (15,226)	¥ 80,639
Total assets, depreciation, and capital expenditures										
Assets	¥1,611,727	¥279,633	¥19,549	¥70,874	¥13,870	¥42,527	¥119,809	¥2,157,989	¥377,274	¥2,535,263
Depreciation	56,650	887	44	2,368	154	2,035	1,960	64,098	615	64,713
Capital expenditures	105,072	2,854	146	2,755	343	856	4,256	116,282	1,432	117,714

	Building	Residential development	Architectural & engineering	Real estate brokerage	Custom-built housing	Hotel	Other	Total	Eliminations or corporate	Consolidated
										Thousands of U.S. dollars
										2001
Revenue and operating income										
Revenue from:										
External customers	**$2,528,063**	**$1,067,118**	**$115,383**	**$702,203**	**$281,566**	**$262,502**	**$135,901**	**$ 5,092,736**	**$ —**	**$ 5,092,736**
Intersegment or transfers	**37,764**	**5,650**	**10,654**	**2,914**	**18,256**	**646**	**12,566**	**88,450**	**(88,450)**	**—**
Total revenue	**2,565,827**	**1,072,768**	**126,037**	**705,117**	**299,822**	**263,148**	**148,467**	**5,181,186**	**(88,450)**	**5,092,736**
Operating expense	**1,920,638**	**992,292**	**126,295**	**654,471**	**295,093**	**257,506**	**161,162**	**4,407,457**	**34,439**	**4,441,896**
Operating income (loss)	**$ 645,189**	**$ 80,476**	**$ (258)**	**$ 50,646**	**$ 4,729**	**$ 5,642**	**$ (12,695)**	**$ 773,729**	**$ (122,889)**	**$ 650,840**
Total assets, depreciation, and capital expenditures										
Assets	**$13,008,289**	**$2,256,925**	**$157,780**	**$572,026**	**$111,945**	**$343,236**	**$966,982**	**$17,417,183**	**$3,044,988**	**$20,462,171**
Depreciation	**457,224**	**7,159**	**355**	**19,112**	**1,243**	**16,425**	**15,819**	**517,337**	**4,963**	**522,300**
Capital expenditures	**848,039**	**23,035**	**1,178**	**22,236**	**2,768**	**6,909**	**34,350**	**938,515**	**11,558**	**950,073**

	Building	Residential development	Architectural & engineering	Real estate brokerage	Custom-built housing	Hotel	Other	Total	Eliminations or corporate	Consolidated
										Millions of yen
										2000
Revenue and operating income										
Revenue from:										
External customers	¥ 294,217	¥101,974	¥22,914	¥73,029	¥32,681	¥32,894	¥ 16,687	¥ 574,396	¥ —	¥ 574,396
Intersegment or transfers	6,495	871	2,710	257	2,987	58	1,420	14,798	(14,798)	—
Total revenue	300,712	102,845	25,624	73,286	35,668	32,952	18,107	589,194	(14,798)	574,396
Operating expense	217,012	104,275	23,461	68,701	35,677	33,553	20,554	503,233	2,962	506,195
Operating income (loss)	¥ 83,700	¥ (1,430)	¥ 2,163	¥ 4,585	¥ (9)	¥ (601)	¥ (2,447)	¥ 85,961	¥ (17,760)	¥ 68,201
Total assets, depreciation, and capital expenditures										
Assets	¥1,539,678	¥316,282	¥19,794	¥53,169	¥14,074	¥42,304	¥140,840	¥2,126,141	¥159,630	¥2,285,771
Depreciation	55,695	886	27	1,123	134	2,146	2,296	62,307	396	62,703
Capital expenditures	103,932	1,332	76	2,250	274	627	2,239	110,730	682	111,412

Geographical segments

The Company and its consolidated subsidiaries operate primarily in Japan, the United States and certain other areas. The geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2001 and 2000 is summarized as follows:

	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
						Millions of yen
						2001
Revenue and operating income						
Revenue from:						
External customers	**¥ 510,990**	**¥102,036**	**¥17,964**	**¥ 630,990**	**¥ —**	**¥ 630,990**
Intersegment or transfers	**686**	**161**	**298**	**1,145**	**(1,145)**	**—**
Total revenue	**511,676**	**102,197**	**18,262**	**632,135**	**(1,145)**	**630,990**
Operating expenses	**431,737**	**86,650**	**17,695**	**536,082**	**14,269**	**550,351**
Operating income	**¥ 79,939**	**¥ 15,547**	**¥ 567**	**¥ 96,053**	**¥ (15,414)**	**¥ 80,639**
Total assets	**¥1,861,545**	**¥260,368**	**¥21,287**	**¥2,143,200**	**¥392,063**	**¥2,535,263**

					Thousands of U.S. dollars	
						2001
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
Revenue from:						
External customers	**$ 4,124,213**	**$ 823,535**	**$144,988**	**$ 5,092,736**	**$ —**	**$ 5,092,736**
Intersegment or transfers	**5,537**	**1,300**	**2,405**	**9,241**	**(9,241)**	**—**
Total revenue	**4,129,750**	**824,835**	**147,393**	**5,101,977**	**(9,241)**	**5,092,736**
Operating expenses	**3,484,560**	**699,355**	**142,817**	**4,326,731**	**115,165**	**4,441,896**
Operating income	**$ 645,190**	**$ 125,480**	**$ 4,576**	**$ 775,246**	**$ (124,406)**	**$ 650,840**
Total assets	**$15,024,576**	**$2,101,437**	**$171,808**	**$17,297,821**	**$3,164,350**	**$20,462,171**

					Millions of yen	
						2000
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
Revenue from:						
External customers	¥ 466,192	¥ 92,889	¥15,314	¥ 574,396	¥ —	¥ 574,396
Intersegment or transfers	961	260	210	1,430	(1,430)	—
Total revenue	467,153	93,149	15,524	575,826	(1,430)	574,396
Operating expenses	395,023	79,846	14,225	489,093	17,102	506,195
Operating income	¥ 72,130	¥ 13,303	¥ 1,299	¥ 86,733	¥ (18,532)	¥ 68,201
Total assets	¥1,870,283	¥218,721	¥17,957	¥2,106,962	¥178,809	¥2,285,771

Unallocatable operating expenses included under "Eliminations or corporate" for the years ended March 31, 2001 and 2000 amounted to ¥15,630 million ($126,150 thousand) and ¥17,078 million, respectively, and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Eliminations or corporate" for the years ended March 31, 2001 and 2000 amounted to ¥392,135 million ($3,164,931 thousand) and ¥193,728 million, respectively, and consisted principally of cash, marketable securities, investments in other securities and deferred income taxes of the Company.

Overseas revenue

The following table represents overseas revenue earned by the Company's consolidated subsidiaries in foreign countries during the years ended March 31, 2001 and 2000.

			Millions of yen
			2001
	United States	Other areas	Total
Overseas revenue			
Overseas revenue	**¥102,186**	**¥17,820**	**¥120,006**
Consolidated revenue			**¥630,990**
% of overseas revenue to consolidated revenue	**16.2%**	**2.8%**	**19.0%**

			Thousands of U.S. dollars
Overseas revenue			
Overseas revenue	**$824,746**	**$143,825**	**$ 968,571**
Consolidated revenue			**$5,092,736**

			Millions of yen
			2000
	United States	Other areas	Total
Overseas revenue			
Overseas revenue	¥98,963	¥15,343	¥114,306
Consolidated revenue			¥574,396
% of overseas revenue to consolidated revenue	17.2%	2.7%	19.9%

17. Subsequent Event

On June 21, 2001, the Company issued a ¥10,000 million ($80,710 thousand) 1.44% unsecured corporate bond which is due in 2011. The Company intends to use the proceeds from the issuance of the corporate bond for the repayment of borrowings and the redemption of other corporate bonds which fall due in the year ending March 31, 2002.

Non-Consolidated Balance Sheets

Mitsubishi Estate Co., Ltd.
March 31, 2001 and 2000

Assets	Millions of yen 2001	2000	Thousands of U.S. dollars 2001
Current assets:			
Cash	**¥ 117,968**	¥ 37,182	**$ 952,123**
Marketable securities	**6,916**	69,665	**55,819**
Notes and accounts receivable – trade	**22,011**	25,469	**177,651**
Allowance for doubtful receivables	**(957)**	(958)	**(7,724)**
Inventories	**247,319**	228,242	**1,996,118**
Deferred income taxes	**62,947**	34,795	**508,047**
Other current assets	**9,838**	12,244	**79,403**
Total current assets	**466,042**	406,639	**3,761,437**
Investments:			
Investments in and advances to subsidiaries and affiliates	**179,653**	180,277	**1,449,984**
Investment securities	**180,033**	8,916	**1,453,051**
Lease deposits	**75,497**	65,414	**609,338**
Other investments	**21,252**	19,246	**171,525**
Allowance for doubtful accounts	**(1,627)**	(6)	**(13,131)**
Total investments	**454,808**	273,847	**3,670,767**
Property and equipment:			
Land	**568,200**	616,037	**4,585,956**
Buildings and structures	**1,144,296**	1,113,689	**9,235,642**
Machinery and equipment	**21,284**	21,309	**171,784**
Construction in progress	**31,918**	28,992	**257,611**
Total property and equipment	**1,765,698**	1,780,027	**14,250,993**
Less accumulated depreciation	**(540,267)**	(501,380)	**(4,360,509)**
Property and equipment, net	**1,225,431**	1,278,647	**9,890,484**
Intangible and other assets	**10,411**	10,375	**84,027**
Total assets	**¥2,156,692**	¥1,969,508	**$17,406,715**

Liabilities and shareholders' equity	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars 2001
Current liabilities:			
Short-term borrowings and current portion of long-term debt	**¥ 190,682**	¥ 147,596	**$ 1,538,999**
Accounts payable – trade	**28,610**	32,876	**230,912**
Advance and deposits	**36,645**	35,729	**295,763**
Accrued expenses and other current liabilities	**35,716**	28,592	**288,265**
Total current liabilities	**291,653**	244,793	**2,353,939**
Long-term debt	**925,700**	911,764	**7,471,348**
Lease deposits	**268,828**	249,527	**2,169,717**
Employees' retirement allowances	**399**	22,464	**3,220**
Deferred income taxes	**101,866**	28,133	**822,163**
Other noncurrent liabilities	**24,621**	26,397	**198,717**
Total liabilities	**1,613,067**	1,483,078	**13,019,104**
Shareholders' equity:			
Common stock, par value ¥50:			
Authorized – 1,980,000,000 shares;			
Issued and outstanding – 1,299,185,054 shares	**86,534**	86,534	**698,418**
Capital surplus	**115,216**	115,194	**929,911**
Legal Reserve	**21,658**	21,633	**174,802**
Retained earnings	**262,395**	263,078	**2,117,797**
Unrealized gain on securities	**57,829**	—	**466,739**
	543,632	486,439	**4,387,667**
Less treasury stock – 6,533 shares in 2001; 9,395 shares in 2000	**(7)**	(9)	**(56)**
Total shareholders' equity	**543,625**	486,430	**4,387,611**
Contingent liabilities			
Total liabilities and shareholders' equity	**¥2,156,692**	¥1,969,508	**$17,406,715**

Non-Consolidated Statements of Income

Mitsubishi Estate Co., Ltd.
Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Revenue from operations	**¥ 389,995**	¥ 359,078	¥ 363,732	**$ 3,147,659**
Cost of revenue from operations	**(315,002)**	(289,060)	(288,974)	**(2,542,389)**
Selling, general and administrative expenses	**(21,893)**	(22,518)	(23,273)	**(176,699)**
Operating income	**53,100**	47,500	51,485	**428,571**
Other income (expenses):				
Interest and dividend income	**2,627**	2,522	2,866	**21,203**
Interest expense	**(29,499)**	(32,404)	(34,823)	**(238,087)**
Other, net	**(16,191)**	1,967	2,245	**(130,678)**
	(43,063)	(27,915)	(29,712)	**(347,562)**
Income before income taxes	**10,037**	19,585	21,773	**81,009**
Income taxes:				
Current	**(19)**	(26)	(28)	**(153)**
Deferred	**(3,615)**	(7,778)	—	**(29,177)**
	(3,634)	(7,804)	(28)	**(29,330)**
Net income	**¥ 6,403**	¥ 11,781	¥ 21,745	**$ 51,679**