

Independent Auditors' Report

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

We have audited the consolidated balance sheets of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 2003, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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. As more fully described in Notes 2 and 16 to the consolidated financial statements, effective in the year ended March 31, 2002, the Company has changed its method of accounting for revenue recognition policy concerning certain long-term projects from the completion method to the percentage of completion method. Furthermore, as more fully described in Note 16 to the consolidated financial statements, effective in the year ended March 31, 2002, the Company has changed its classification of certain personnel expenses in the segment information.

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, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2003 in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the changes, with which we concur, as described in the preceding paragraphs.

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, 2003 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.
Tokyo, Japan
June 27, 2003

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 Statements of Operations

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2003	2002	2001	2003
Revenue from operations	¥681,726	¥ 631,564	¥630,990	\$5,671,597
Cost of revenue from operations	538,105	510,378	507,447	4,476,747
Selling, general and administrative expenses	47,598	44,265	42,904	395,990
Operating income	96,023	76,921	80,639	798,860
Other income (expenses):				
Interest and dividend income	2,619	2,622	3,777	21,789
Interest expense	(29,649)	(32,639)	(36,436)	(246,664)
Loss on impairment of property and equipment	—	(156,365)	—	—
Other, net (Note 13)	871	(17,387)	(14,840)	7,246
	(26,159)	(203,769)	(47,499)	(217,629)
Income (loss) before income taxes and minority interests	69,864	(126,848)	33,140	581,231
Income taxes (Notes 1 and 9):				
Current	11,925	7,018	8,383	99,210
Deferred (credit)	18,786	(61,191)	2,839	156,289
	30,711	(54,173)	11,222	255,499
Minority interests (credit)	3,114	(1,617)	2,086	25,907
Net income (loss)	¥ 36,039	¥ (71,058)	¥ 19,832	\$ 299,825
			Yen	U.S. dollars (Note 3)
Net income (loss) per share:				
Basic	¥27.61	¥(54.70)	¥15.26	\$0.23
Diluted	25.87	—	14.84	0.22
Cash dividends per share	8.00	8.00	8.00	0.07

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
March 31, 2003 and 2002

		Millions of yen	Thousands of U.S. dollars (Note 3)
Assets	2003	2002	2003
Current assets:			
Cash (Note 14)	¥ 143,553	¥ 131,738	\$ 1,194,285
Marketable securities (Note 4)	14,489	28,862	120,541
Notes and accounts receivable—trade	55,473	49,793	461,506
Allowance for doubtful receivables	(5,226)	(5,008)	(43,478)
Inventories (Note 5)	240,253	242,405	1,998,777
Deferred income taxes (Note 9)	35,018	50,440	291,331
Other current assets	28,938	32,147	240,748
Total current assets	512,498	530,377	4,263,710
Investments:			
Investments in and advances to unconsolidated subsidiaries and affiliates	25,725	23,206	214,018
Investment securities (Note 4)	124,107	164,458	1,032,504
Other investments (Notes 6 and 7)	148,044	161,633	1,231,648
Total investments	297,876	349,297	2,478,170
Property and equipment (Note 7):			
Land	1,355,160	1,341,163	11,274,210
Buildings and structures	1,515,249	1,443,094	12,606,065
Machinery and equipment	94,450	94,000	785,774
Construction in progress	61,438	57,601	511,131
	3,026,297	2,935,858	25,177,180
Less accumulated depreciation	(886,965)	(858,384)	(7,379,077)
Property and equipment, net	2,139,332	2,077,474	17,798,103
Intangible and other assets (Note 9)	58,221	78,647	484,368
Total assets	¥3,007,927	¥3,035,795	\$25,024,351

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
Liabilities, minority interests and shareholders' equity	2003	2002	2003
Current liabilities:			
Short-term borrowings and current portion of long-term debt (Note 7)	¥ 262,241	¥ 300,432	\$ 2,181,705
Notes and accounts payable—trade	68,969	52,401	573,785
Accrued income taxes (Note 9)	6,730	4,679	55,990
Advances and deposits	61,517	57,034	511,789
Accrued expenses and other current liabilities (Note 9)	48,881	43,798	406,664
Total current liabilities	448,338	458,344	3,729,933
Long-term debt (Note 7)	965,283	959,753	8,030,641
Lease deposits	320,199	323,869	2,663,885
Employees' retirement allowances (Note 8)	9,560	10,731	79,534
Deferred income taxes (Note 9)	331,084	349,977	2,754,443
Other noncurrent liabilities	49,539	57,612	412,138
Total liabilities	2,124,003	2,160,286	17,670,574
Minority interests	43,971	43,012	365,815
Shareholders' equity (Note 10):			
Common stock, without par value:			
Authorized—1,980,000,000 shares;			
Issued and outstanding—1,299,185,054 shares	86,534	86,534	719,917
Capital surplus	115,216	115,216	958,536
Land revaluation reserve	410,606	399,769	3,416,023
Retained earnings	206,813	182,529	1,720,574
Unrealized gain on securities	28,359	48,709	235,932
Foreign currency translation adjustments	(6,456)	(144)	(53,711)
	841,072	832,613	6,997,271
Less treasury stock—1,229,510 shares in 2003; 113,913 shares in 2002	(1,119)	(116)	(9,309)
Total shareholders' equity	839,953	832,497	6,987,962
Contingent liabilities (Note 12)			
Total liabilities, minority interests and shareholders' equity	¥3,007,927	¥3,035,795	\$25,024,351

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, 2003, 2002 and 2001

Millions of yen

	Common stock	Capital surplus	Land revaluation reserve	Retained earnings	Unrealized gain on securities	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
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 securities (Note 1)	—	—	—	—	63,156	—	—	63,156
Changes in consolidated subsidiaries and companies accounted for by the equity method	—	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
Net loss	—	—	—	(71,058)	—	—	—	(71,058)
Foreign currency translation adjustments	—	—	—	—	—	10,080	—	10,080
Net decrease in unrealized gain on securities	—	—	—	—	(14,447)	—	—	(14,447)
Land revaluation reserve (Note 1)	—	—	399,769	—	—	—	—	399,769
Changes in consolidated subsidiaries and companies accounted for by the equity method	—	—	—	72	—	—	—	72
Cash dividends paid	—	—	—	(10,393)	—	—	—	(10,393)
Directors' and statutory auditors' bonuses	—	—	—	(183)	—	—	—	(183)
Treasury stock	—	—	—	—	—	—	(109)	(109)
Balance at March 31, 2002	86,534	115,216	399,769	182,529	48,709	(144)	(116)	832,497
Net income	—	—	—	36,039	—	—	—	36,039
Foreign currency translation adjustments	—	—	—	—	—	(6,312)	—	(6,312)
Net decrease in unrealized gain on securities	—	—	—	—	(20,350)	—	—	(20,350)
Land revaluation reserve (Note 1)	—	—	10,837	(1,421)	—	—	—	9,416
Changes in consolidated subsidiaries and companies accounted for by the equity method	—	—	—	61	—	—	—	61
Cash dividends paid	—	—	—	(10,392)	—	—	—	(10,392)
Directors' and statutory auditors' bonuses	—	—	—	(3)	—	—	—	(3)
Treasury stock	—	—	—	—	—	—	(1,003)	(1,003)
Balance at March 31, 2003	¥86,534	¥115,216	¥410,606	¥206,813	¥28,359	¥(6,456)	¥(1,119)	¥839,953

Thousands of U.S. dollars (Note 3)

Balance at March 31, 2002	\$719,917	\$958,536	\$3,325,865	\$1,518,544	\$ 405,233	\$ (1,198)	\$ (965)	\$6,925,932
Net income	—	—	—	299,825	—	—	—	299,825
Foreign currency translation adjustments	—	—	—	—	—	(52,513)	—	(52,513)
Net decrease in unrealized gain on securities	—	—	—	—	(169,301)	—	—	(169,301)
Land revaluation reserve (Note 1)	—	—	90,158	(11,822)	—	—	—	78,336
Changes in consolidated subsidiaries and companies accounted for by the equity method	—	—	—	508	—	—	—	508
Cash dividends paid	—	—	—	(86,456)	—	—	—	(86,456)
Directors' and statutory auditors' bonuses	—	—	—	(25)	—	—	—	(25)
Treasury stock	—	—	—	—	—	—	(8,344)	(8,344)
Balance at March 31, 2003	\$719,917	\$958,536	\$3,416,023	\$1,720,574	\$ 235,932	\$ (53,711)	\$ (9,309)	\$6,987,962

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2003	2002	2001	2003
Operating activities				
Income (loss) before income taxes and minority interests	¥ 69,864	¥(126,848)	¥ 33,140	\$ 581,231
Depreciation and amortization	56,739	63,638	65,728	472,038
Net realized (gain) loss on sales of property and equipment	(10,508)	7,575	(43,440)	(87,421)
Net realized gain on sales of securities	(1,887)	(616)	(21,497)	(15,699)
Unrealized loss on securities	3,957	4,048	1,664	32,920
Valuation loss on inventories	5,915	9,680	94,239	49,210
Loss on impairment of property and equipment	—	156,365	—	—
Equity in net income of affiliates	(1,811)	(1,667)	(1,507)	(15,067)
Gain on contribution of securities to employees' retirement benefit trust	—	—	(23,280)	—
Net changes in allowances	(225)	(1,234)	10,899	(1,872)
Interest and dividend income	(2,619)	(2,622)	(3,777)	(21,789)
Interest expense	29,649	32,639	36,436	246,664
(Increase) decrease in notes and accounts receivable	(7,342)	10,390	(4,514)	(61,082)
Decrease (increase) in inventories	12,917	10,856	(6,106)	107,463
Increase (decrease) in notes and accounts payable	17,518	(3,749)	(1,129)	145,740
(Decrease) increase in lease deposits	(2,907)	(796)	22,003	(24,185)
Other	1,816	(15,673)	(10,023)	15,110
Subtotal	171,076	141,986	148,836	1,423,261
Interest and dividends received	3,010	3,091	3,962	25,041
Interest paid	(29,854)	(34,229)	(37,400)	(248,369)
Income taxes paid	(9,626)	(6,742)	(7,755)	(80,083)
Net cash provided by operating activities	134,606	104,106	107,643	1,119,850
Investing activities				
Proceeds from sales of marketable securities	41,946	15,873	2,417	348,968
Purchases of marketable securities	(20,093)	(18,257)	(13,593)	(167,163)
Proceeds from sales of property and equipment	29,325	19,895	56,749	243,968
Purchases of property and equipment	(128,807)	(115,618)	(105,644)	(1,071,606)
Proceeds from sales of investment securities	6,689	4,472	35,250	55,649
Purchases of investment securities	(4,609)	(22,561)	(20,160)	(38,344)
Purchases of land use rights	—	(8,825)	(4,235)	—
Other	3,238	4,489	47	26,939
Net cash used in investing activities	(72,311)	(120,532)	(49,169)	(601,589)
Financing activities				
Net (decrease) increase in short-term borrowings	(5,566)	16,951	2,311	(46,306)
Net decrease in commercial paper	(1,877)	—	—	(15,616)
Increase in long-term borrowings	61,972	82,270	12,961	515,574
Repayment of long-term borrowings	(42,760)	(89,013)	(32,207)	(355,740)
Proceeds from issuance of corporate bonds	132,538	43,431	141,391	1,102,646
Repayment of corporate bonds	(171,723)	(77,960)	(81,440)	(1,428,644)
Cash dividends paid	(10,391)	(10,393)	(10,393)	(86,448)
Other	(1,094)	(436)	83	(9,102)
Net cash (used in) provided by financing activities	(38,901)	(35,150)	32,706	(323,636)
Effect of exchange rate changes on cash and cash equivalents	(2,431)	2,771	1,150	(20,224)
Net increase (decrease) in cash and cash equivalents	20,963	(48,805)	92,330	174,401
Cash and cash equivalents at beginning of year	131,374	178,922	86,457	1,092,962
Increase in cash and cash equivalents arising from mergers and acquisitions	113	1,257	135	940
Cash and cash equivalents at end of year (Note 14)	¥ 152,450	¥ 131,374	¥ 178,922	\$ 1,268,303

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
March 31, 2003 and 2002

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

The accompanying consolidated financial statements include the accounts of the Company and the subsidiaries which it controls directly or indirectly. 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.

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 that all receivables and payables denominated in foreign currencies be translated into Japanese yen at the exchange rates prevailing at the balance sheet date, with the resulting gain or loss included in earnings. 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. Adjustments resulting from this translation process have been accumulated and are presented as foreign currency translation adjustments in shareholders' equity.

Cash equivalents

The Company considers all highly liquid investments which are readily convertible into cash and have an original maturity of three months or less to be cash equivalents. A reconciliation between cash in the balance sheet and cash equivalents at March 31, 2003, 2002 and 2001 is presented in Note 14.

Marketable securities and investment securities

Prior to the year ended March 31, 2001, marketable securities in the 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 any 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 the related income taxes, included directly 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 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, depreciation and impairment

Property and equipment, except for land as discussed below, is stated at cost less accumulated depreciation. Depreciation 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.

As of March 31, 2002, the Company revalued its land at fair value, pursuant to Article 2 of the "Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land" and its amendments (the "Law"). The related unrealized gain, net of applicable income taxes, has been recorded as "Land revaluation reserve" in shareholders'

equity.

The difference between the book value after revaluation and the fair value as of March 31, 2003 was ¥10,298 million (\$85,674 thousand).

The Company reviews its property and equipment (including land) for impairment whenever events or changes in its business circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company performs cash flow analyses to determine if an impairment exists. If an impairment is determined to exist, any related loss on impairment is calculated based on the cash flow analyses.

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, except for any goodwill and any indefinite lived intangible assets of subsidiaries in the United States acquired in a business combination completed after June 30, 2001, which have not been amortized. A loss is recognized if the fair value falls below the carrying amount. Land use rights are stated on a cost basis.

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 obligations 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 costs. The Company and its domestic consolidated subsidiaries expensed the net retirement benefit obligation at transition of ¥4,714 million in the year ended March 31, 2001. The net retirement benefit obligation of the foreign consolidated subsidiaries, however, is amortized by the straight-line method over 20 years in accordance with generally accepted accounting principles in the country. 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 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 to the employees' retirement benefit trust during the year ended March 31, 2001. The difference between the book value of ¥5,720 million and the market value at the time of the contribution of ¥29,000 million has been, was 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

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 the some portion 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 consolidated subsidiaries adopted a new accounting standard for financial instruments including derivatives. The new accounting standard requires the Company and its consolidated subsidiaries to recognize all derivatives in 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 qualifies as a hedge, changes in the fair value of the derivative 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 for the year ended March 31, 2001.

Revenue recognition

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

- Revenue from the leasing of office space is recognized as rent accrued over the leasing period.
- Revenue from sales of condominiums, residential houses and land is recognized when the units are delivered and accepted by the customers.
- Revenue from real estate brokerage is recognized when an underlying lease agreement goes into force or the underlying units are delivered.
- Revenue from architectural design and supervision is recognized at the date of completion of each relevant project, except that certain long-term projects over ¥500 million in total revenue are recognized by the percentage of completion method.
- Revenue from construction contracts is recognized at the date of completion of each relevant project, except that certain long-term projects over ¥5,000 million in total revenue are recognized by the percentage of completion method.
- Other operating revenue is recognized on an accrual basis.

Treasury stock and reduction of legal reserves

Effective April 1, 2002, the Company and consolidated subsidiaries adopted a new accounting standard for treasury stock and reduction of legal reserves. The adoption of this new standard had no effect on profit and loss.

Net income (loss) per share

Until the year ended March 31, 2002, in computing net income (loss) 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, had been used. Net income (loss) per share assuming full dilution had 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.

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year assuming full conversion of convertible bonds.

2. ACCOUNTING CHANGE

Effective April 1, 2001, the Company changed its revenue recognition policy for certain long-term projects over ¥500 million in revenue for architectural design and supervision and ¥5,000 million in revenue for construction contracts, from the completion method to the percentage of completion method. This change was made in order to achieve a

Appropriation of retained earnings

Under the Commercial Code of Japan (the "Code"), 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 2002 and 2001 financial statements in order to conform them to the 2003 presentation.

more accurate presentation of the operating results of the Company. The effect of this change was to increase revenue from operations by ¥5,453 million and income before income taxes by ¥1,691 million, respectively, for the year ended March 31, 2002.

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 ¥120.20 = U.S.\$1.00, the approximate rate of exchange prevailing on

March 31, 2003. 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

Marketable and investment securities classified as other securities at March 31, 2003 and 2002 are summarized as follows:

	2003			2003		
	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	¥44,272	¥ 99,261	¥54,988	\$368,319	\$825,799	\$457,471
Debt securities:						
Corporate bonds	1,347	1,347	—	11,206	11,206	—
Subtotal	45,619	100,608	54,988	379,525	837,005	457,471
Securities whose cost exceeds their fair value:						
Equity securities	4,054	3,224	(829)	33,728	26,822	(6,897)
Subtotal	4,054	3,224	(829)	33,728	26,822	(6,897)
Total	¥49,673	¥103,832	¥54,159	\$413,253	\$863,827	\$450,574

	2002		
	Millions of yen		
	Cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their cost:			
Equity securities	¥52,140	¥137,633	¥85,493
Debt securities:			
Corporate bonds	946	946	—
Subtotal	53,086	138,579	85,493
Securities whose cost exceeds their fair value:			
Equity securities	6,921	5,929	(992)
Subtotal	6,921	5,929	(992)
Total	¥60,007	¥144,508	¥84,501

Proceeds from sales of securities classified as other securities totaled ¥2,191 million (\$18,228 thousand) in 2003 and ¥26,871 million in 2002. Gross realized gain and gross realized loss were ¥1,872 million (\$15,574 thousand) and ¥59 million (\$491 thousand) in 2003 and ¥861 million and ¥360 million in 2002, respectively.

Marketable debt securities classified as held-to-maturity securities at March 31, 2003 and 2002 are summarized as follows:

	2003					
	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	¥ 222	¥ 224	¥ 2	\$ 1,847	\$ 1,864	\$ 16
Subtotal	222	224	2	1,847	1,864	16
Debt securities whose cost exceeds their fair value:						
Other	1,899	1,898	(1)	15,799	15,790	(8)
Subtotal	1,899	1,898	(1)	15,799	15,790	(8)
Total	¥2,121	¥2,122	¥ 1	\$17,646	\$17,654	\$ 8

	2002		
	Millions of yen		
	Amortized cost	Fair value	Unrealized gain (loss)
Debt securities whose fair value exceeds their cost:			
Government bonds	¥ 227	¥ 231	¥ 4
Subtotal	227	231	4
Debt securities whose cost exceeds their fair value:			
Corporate bonds	13,219	13,159	(60)
Other	12,729	12,723	(6)
Subtotal	25,948	25,882	(66)
Total	¥26,175	¥26,113	¥(62)

Marketable and investment securities recorded at cost at March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Other securities:			
Nonmarketable equity securities [other than equity securities listed on the over-the-counter market]	¥20,387	¥19,372	\$169,609
Mutual funds	1,674	2,173	13,927
Commercial paper	1,486	—	12,363
MMF	8,945	—	74,418
Other	148	93	1,231
Held-to-maturity securities:			
Commercial paper	—	999	—
Total	¥32,640	¥22,637	\$271,548

The redemption schedule for securities classified as other securities at March 31, 2003 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	¥ 30	¥ 173	¥20	\$ 250	\$1,439	\$166
Corporate bonds	479	839	—	3,985	6,980	—
Commercial paper	1,900	—	—	15,807	—	—
Total	¥2,409	¥1,012	¥20	\$20,042	\$8,419	\$166

The Company recognized losses on other securities considered other-than-temporary amounting to ¥3,956 million (\$32,912 thousand) and ¥3,594 million for the years ended March 31, 2003 and 2002, respectively.

5. INVENTORIES

Inventories at March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Real estate for sale	¥130,369	¥167,555	\$1,084,601
Land and housing projects in progress	80,634	40,519	670,832
Land held for development	18,750	24,161	155,990
Other	10,500	10,170	87,354
Total	¥240,253	¥242,405	\$1,998,777

6. OTHER INVESTMENTS

Other investments at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Lease deposits	¥ 84,250	¥ 90,580	\$ 700,915
Long-term prepaid expenses and other	63,794	71,053	530,732
Total	¥148,044	¥161,633	\$1,231,647

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At March 31, 2003 and 2002, short-term borrowings and the current portion of long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Loans, principally from banks	¥ 87,181	¥ 89,919	\$ 725,300
Commercial paper	—	1,979	—
Current portion of long-term debt	175,060	208,534	1,456,405
Total	¥262,241	¥300,432	\$2,181,705

The weighted-average interest rates per annum on short-term borrowings outstanding at March 31, 2003 and 2002 were 0.48% and 0.59%, respectively. Short-term borrowings are principally unsecured.

At March 31, 2003 and 2002, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
1.5% convertible bonds due 2003	¥ —	¥ 90,886	\$ —
Zero coupon convertible bonds due 2006	100,000	100,000	831,947
5.6% mortgage bonds due 2004	50,000	50,000	415,973
5.275% mortgage bonds due 2005	50,000	50,000	415,973
4.8% mortgage bonds due 2005	50,000	50,000	415,973
2.95% mortgage bonds due 2002	—	10,000	—
4% mortgage bonds due 2002	—	20,000	—
2.125% unsecured bonds due 2002	—	10,000	—
1.5% unsecured bonds due 2002	—	10,000	—
2.05% unsecured bonds due 2003	—	20,000	—
1.775% unsecured bonds due 2003	10,000	10,000	83,195
2.35% unsecured bonds due 2003	20,000	20,000	166,389
3.05% unsecured bonds due 2003	15,000	15,000	124,792
1.7% unsecured bonds due 2003	10,000	10,000	83,195
3.1% unsecured bonds due 2003	10,000	10,000	83,195
2.55% unsecured bonds due 2003	10,000	10,000	83,195
1.7% unsecured bonds due 2004	10,000	10,000	83,195
0.9% unsecured bonds due 2004	10,000	10,000	83,195
2.55% unsecured bonds due 2004	10,000	10,000	83,195
2.125% unsecured bonds due 2005	10,000	10,000	83,195
2.21% unsecured bonds due 2006	10,000	10,000	83,195
1.325% unsecured bonds due 2006	10,000	10,000	83,195
3.4% unsecured bonds due 2006	10,000	10,000	83,195
3% unsecured bonds due 2006	10,000	10,000	83,195
2.975% unsecured bonds due 2007	30,000	30,000	249,574
2.575% unsecured bonds due 2008	10,000	10,000	83,195
0.37% unsecured bonds due 2008	10,000	—	83,195
2.525% unsecured bonds due 2008	10,000	10,000	83,195
3.1% unsecured bonds due 2008	10,000	10,000	83,195
1.82% unsecured bonds due 2009	10,000	10,000	83,195
3.075% unsecured bonds due 2009	10,000	10,000	83,195
2% unsecured bonds due 2009	10,000	10,000	83,195
1.985% unsecured bonds due 2009	10,000	10,000	83,195
0.72% unsecured bonds due 2009	10,000	—	83,195
1.9% unsecured bonds due 2010	10,000	10,000	83,195
1.55% unsecured bonds due 2011	10,000	10,000	83,195
1.44% unsecured bonds due 2011	10,000	10,000	83,195
1.16% unsecured bonds due 2011	10,000	—	83,195
3.275% unsecured bonds due 2012	10,000	10,000	83,195
1.47% unsecured bonds due 2012	10,000	10,000	83,195
1.58% unsecured bonds due 2012	20,000	—	166,389
1.2% unsecured bonds due 2012	10,000	—	83,195
1% unsecured bonds due 2013	10,000	—	83,195
1.65% unsecured bonds due 2014	10,000	—	83,195
1.655% unsecured bonds due 2014	10,000	—	83,195
3.125% unsecured bonds due 2017	10,000	10,000	83,195
3% unsecured bonds due 2018	10,000	10,000	83,195
2.5% unsecured bonds due 2020	10,000	10,000	83,195
2.42% unsecured bonds due 2022	10,000	—	83,195
2.9% unsecured bonds due 2032	10,000	—	83,195
2.615% unsecured bonds due 2032	10,000	—	83,195
7.37% unsecured bonds due 2008 (payable in U.S. dollars)	5,139	6,598	42,754
Floating rate bonds due 2002 (payable in U.S. dollars)	—	9,452	—
Floating rate bonds due 2003 (payable in U.S. dollars)	21,813	11,953	181,473
Floating rate bonds due 2004 (payable in U.S. dollars)	7,758	7,266	64,542
Floating rate bonds due 2005 (payable in U.S. dollars)	2,602	2,863	21,647
Loans from banks and insurance companies:			
Secured	98,314	110,740	817,920
Unsecured	299,717	273,529	2,493,486
	1,140,343	1,168,287	9,487,047
Less current portion	(175,060)	(208,534)	(1,456,406)
	¥ 965,283	¥ 959,753	\$ 8,030,641

Certain bonds have call options that may be exercised at the respective expiry dates.

The agreements under which the zero coupon convertible bonds were issued provide for conversion of the bonds into shares of common stock at the current conversion prices per share of ¥1,200 (\$10) subject to adjustment in certain cases, for example, the Company issues stock at a price which is lower than market value.

The aggregate annual maturities of long-term debt subsequent to March 31, 2003 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2004	¥ 175,060	\$1,456,406
2005	256,483	2,133,802
2006	127,027	1,056,797
2007	173,025	1,439,476
2008 and thereafter	408,748	3,400,566
Total	¥1,140,343	\$9,487,047

The assets pledged as collateral for short-term borrowings of ¥1,710 million (\$14,226 thousand), other current liabilities of ¥387 million (\$3,220 thousand), long-term debt of ¥98,313 million (\$817,912 thousand) and other noncurrent liabilities of ¥5,423 million (\$45,116 thousand) at March 31, 2003 were as follows:

	Millions of yen	Thousands of U.S. dollars
Other investments	¥ 2,634	\$ 21,914
Land	23,851	198,428
Buildings and structures	133,802	1,113,161
Machinery and equipment	4,107	34,168
Total	¥164,394	\$1,367,671

Additionally, all assets of the Company are subject to the terms of an enterprise mortgage for mortgage bonds, which amounted to ¥150,000 million (\$1,247,920 thousand) at March 31, 2003.

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 sheets at March 31, 2003 and 2002 for the Company's and its consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Retirement benefit obligation	¥(72,019)	¥(68,576)	\$ (599,160)
Plan assets at fair value	39,271	47,561	326,714
Unfunded retirement benefit obligation	(32,748)	(21,015)	(272,446)
Unrecognized net benefit obligation at transition	563	682	4,684
Unrecognized actuarial (gain) loss	25,490	11,537	212,063
Unrecognized prior service cost	99	120	824
Net amounts recognized in the consolidated balance sheet	(6,596)	(8,676)	(54,875)
Prepaid pension expenses	2,964	2,055	24,659
Employees' retirement allowances	¥ (9,560)	¥(10,731)	\$ (79,534)

The components of expenses related to the pension and severance plans for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥2,950	¥2,814	\$24,542
Interest cost	2,185	2,274	18,178
Expected return on plan assets	(1,221)	(1,223)	(10,158)
Amortization of net retirement benefit obligation at transition	58	56	483
Other	2,266	856	18,852
Total	¥6,238	¥4,777	\$51,897

The assumptions used in accounting for the pension and severance plans for the years ended March 31, 2003 and 2002 were as follows:

	2003	2002
Discount rate	2.50–6.75%	2.50–7.50%
Expected rate of return on plan assets	2.25–7.50%	2.25–7.50%
Amortization period of prior service cost	6 or 10 years	6 or 10 years
Amortization period of actuarial loss	5–17 years	5–17 years

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%. 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, 2002 differs from the statutory tax rate of 42.05% primarily because of the effect of permanently nondeductible expenses.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2003 and 2001 differ from the statutory tax rate for the following reasons:

	2003	2002	2001
Statutory tax rate	42.05%	*1	42.05%
Increase (decrease) in income taxes resulting from:			
Change in valuation allowance	(7.62)		(5.88)
Different tax rates applied	1.07		1.70
Revenues deductible for income tax purposes	(0.10)		(2.37)
Expenses not deductible for income tax purposes	0.65		1.13
Undistributed earnings of affiliates	2.69		—
Adjustment of deferred tax assets to reflect change in effective tax rate	1.41		—
Other	3.81		(2.77)
Effective tax rates	43.96%		33.86%

*1 The differences between the statutory tax rate and the effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2002 was less than 5% and, therefore, no reconciliation has been disclosed.

The significant components of deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Net operating loss carryforwards	¥ 28,490	¥ 46,307	\$ 237,022
Accrued retirement allowances and pension costs	12,021	12,013	100,008
Valuation loss on inventories	29,827	36,822	248,145
Unrealized loss on property and equipment	67,570	78,755	562,146
Land revaluation reserve	108,566	114,615	903,211
Other	17,540	14,170	145,924
	264,014	302,682	2,196,456
Valuation allowance	(18,252)	(34,549)	(151,847)
Total deferred tax assets	245,762	268,133	2,044,609
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	(68,680)	(64,981)	(571,381)
Land revaluation reserve	(390,265)	(404,698)	(3,246,797)
Unrealized gain on property and equipment	(40,104)	(41,506)	(333,644)
Unrealized gain on securities	(21,173)	(36,183)	(176,148)
Other	(20,108)	(19,087)	(167,288)
Total deferred tax liabilities	(540,330)	(566,455)	(4,495,258)
Net deferred tax liabilities	¥(294,568)	¥(298,322)	\$(2,450,649)

New legislation was enacted in March 2003 which will change the aggregate statutory tax rate from 42.05% to 40.69% effective the fiscal year beginning after March 31, 2004. The effect of this tax rate change was to decrease deferred tax liabilities related to land revaluation and unrealized gain on securities by ¥9,415 million (\$78,328 thousand) and ¥613 million (\$5,100 thousand), respectively and was to increase land revaluation reserve and unrealized gain on securities in Shareholders' equity by the same amount at March 31, 2003. The effect of this change was also to decrease deferred tax assets by ¥986 million (\$8,203 thousand) at March 31, 2003 and to increase income taxes-deferred by the same amount for the year ended March 31, 2003.

10. LEGAL RESERVE

On October 1, 2001, an amendment (the "Amendment") to the Code became effective. The Amendment eliminates the stated par value of the Company's outstanding shares which results in all outstanding shares having no par value as of October 1, 2001. The Amendment also provides that all share issuances after September 30, 2001 will be of shares with no par value. Before the date on which Amendment became effective, the Company's shares had a par value of ¥50 per share.

The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the total legal reserve and the capital surplus account equals 25% of the common stock account. The Code also provides that, to the extent that the sum of capital surplus and the legal reserve exceeds 25% of the common stock account, the amount of the excess (if any) is available for dividend by resolution of the shareholders.

Retained earnings in the accompanying consolidated balance sheets included a legal reserve of ¥21,658 million (\$180,183 thousand) as of March 31, 2003 and 2002.

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, 2003 and 2002, 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, 2003						
Buildings and structures	¥ 2,666	¥ 596	¥2,070	\$22,180	\$ 4,958	\$17,221
Machinery and equipment	8,114	3,618	4,496	67,504	30,100	37,405
Total	<u>¥10,780</u>	<u>¥4,214</u>	<u>¥6,566</u>	<u>\$89,684</u>	<u>\$35,058</u>	<u>\$54,626</u>
March 31, 2002						
Buildings and structures	¥1,322	¥ 602	¥ 720			
Machinery and equipment	8,085	4,763	3,322			
Total	<u>¥9,407</u>	<u>¥5,365</u>	<u>¥4,042</u>			

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥1,864 million (\$15,507 thousand), ¥1,798 million and ¥1,877 million for the years ended March 31, 2003, 2002 and 2001, respectively.

Future minimum lease payments subsequent to March 31, 2003 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:				
2004	¥1,872	¥ 4,264	\$15,574	\$ 35,474
2005 and thereafter	4,694	26,386	39,052	219,518
	<u>¥6,566</u>	<u>¥30,650</u>	<u>\$54,626</u>	<u>\$254,992</u>

The Company and its consolidated subsidiaries lease office buildings and commercial properties and earn income on these leases. Future minimum lease income subsequent to March 31, 2003 from noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2004	¥ 54,210	\$ 450,998
2005 and thereafter	435,008	3,619,035
	<u>¥489,218</u>	<u>\$4,070,033</u>

12. CONTINGENT LIABILITIES

At March 31, 2003, 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	¥1,223	\$10,175
Guarantees of employees' housing loans from banks and others	784	6,522
Other	163	1,356
Total	<u>¥2,170</u>	<u>\$18,053</u>

13. OTHER INCOME (EXPENSES)

The components of "Other, net" in "Other income (expenses)" for each of the years ended March 31, 2003, 2002 and 2001 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Equity in net income of affiliates	¥ 1,811	¥ 1,667	¥ 1,507	\$ 15,067
Net realized gain (loss) on sales of property and equipment	10,508	(7,575)	43,440	87,421
Valuation loss on inventories	(5,915)	(9,680)	(94,239)	(49,210)
Net realized gain on sales of securities	1,887	616	21,497	15,699
Unrealized loss on securities	(3,957)	(4,048)	(1,664)	(32,920)
Gain on investments in affiliates	—	—	1,793	—
Amortization of net retirement benefit obligation at transition	—	—	(4,714)	—
Gain on contribution of securities to employees' retirement benefit trust	—	—	23,280	—
Other	(3,463)	1,633	(5,740)	(28,811)
	¥ 871	¥(17,387)	¥(14,840)	\$ 7,246

14. SUPPLEMENTAL CASH FLOW INFORMATION

The following table represents a reconciliation of cash and cash equivalents as of March 31, 2003, 2002 and 2001.

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Cash	¥143,553	¥131,738	¥171,805	\$1,194,285
Time deposits with maturities of more than three months	(1,925)	(2,055)	(2,319)	(16,015)
Marketable securities with maturities of three months or less	10,822	1,691	9,436	90,033
Cash and cash equivalents	¥152,450	¥131,374	¥178,922	\$1,268,303

15. DERIVATIVES

The Company and certain of its consolidated subsidiaries utilize derivative financial instruments for the purpose of hedging their 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 related risk exposure.

Summarized below are the notional amounts and the estimated fair value of the interest-related derivative positions outstanding at March 31, 2003 and 2002:

	Millions of yen			Thousands of U.S. dollars		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
March 31, 2003						
Interest rate swaps:						
Receive/floating and pay/fixed	¥ 5,000	¥(137)	¥(137)	\$41,597	\$(1,140)	\$(1,140)
Receive/fixed and pay/floating	5,000	214	214	41,597	1,781	1,781
Total	¥10,000	¥ 77	¥ 77	\$83,194	\$ 641	\$ 641
March 31, 2002						
Interest rate swaps:						
Receive/floating and pay/fixed	¥ 5,000	¥(137)	¥(137)			
Receive/fixed and pay/floating	5,000	240	240			
Total	¥ 10,000	¥ 103	¥ 103			

The notional amounts and estimated fair value of the derivatives to which hedge accounting has been applied have been excluded from the presentation in the above table.

16. SEGMENT INFORMATION

Business segments

The Company and its consolidated subsidiaries are primarily engaged in the real estate business. Their business segments are classified in terms of the nature of each operation or service and consist of seven segments: (1) buildings; (2) residential development; (3) architectural & engineering; (4) real estate brokerage; (5) custom-built housing; (6) hotels; and (7) other businesses.

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2003, 2002 and 2001 are summarized as follows:

Millions of yen										
2003										
	Buildings	Residential development	Architectural & engineering	Real estate brokerage	Custom-built housing	Hotels	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income										
Revenue from:										
External customers	¥ 347,661	¥158,168	¥11,596	¥81,108	¥32,623	¥29,131	¥ 21,439	¥ 681,726	¥ —	¥ 681,726
Intersegment or transfers	5,916	348	6,892	183	1,472	177	2,160	17,148	(17,148)	—
Total revenue	353,577	158,516	18,488	81,291	34,095	29,308	23,599	698,874	(17,148)	681,726
Operating expense	254,951	146,006	18,246	79,037	34,970	28,785	25,484	587,479	(1,776)	585,703
Operating income (loss)	¥ 98,626	¥ 12,510	¥ 242	¥ 2,254	¥ (875)	¥ 523	¥ (1,885)	¥ 111,395	¥ (15,372)	¥ 96,023
Total assets, depreciation, and capital expenditures										
Assets	¥2,277,103	¥276,459	¥17,287	¥70,299	¥16,209	¥31,197	¥100,647	¥2,789,201	¥218,726	¥3,007,927
Depreciation	48,261	674	94	3,168	171	1,155	1,913	55,436	686	56,122
Capital expenditures	133,269	915	365	2,352	113	786	3,425	141,225	1,550	142,775

Thousands of U.S. dollars										
2003										
	Buildings	Residential development	Architectural & engineering	Real estate brokerage	Custom-built housing	Hotels	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income										
Revenue from:										
External customers	\$ 2,892,354	\$1,315,874	\$ 96,472	\$674,776	\$271,406	\$242,354	\$178,361	\$ 5,671,597	\$ —	\$ 5,671,597
Intersegment or transfers	49,218	2,895	57,338	1,522	12,246	1,473	17,970	142,662	(142,662)	—
Total revenue	2,941,572	1,318,769	153,810	676,298	283,652	243,827	196,331	5,814,259	(142,662)	5,671,597
Operating expense	2,121,056	1,214,692	151,797	657,546	290,932	239,476	212,014	4,887,513	(14,776)	4,872,737
Operating income (loss)	\$ 820,516	\$ 104,077	\$ 2,013	\$ 18,752	\$ (7,280)	\$ 4,351	\$ (15,683)	\$ 926,746	\$ (127,886)	\$ 798,860
Total assets, depreciation, and capital expenditures										
Assets	\$18,944,285	\$2,299,992	\$143,819	\$584,850	\$134,850	\$259,542	\$837,329	\$23,204,667	\$1,819,684	\$25,024,351
Depreciation	401,506	5,607	782	26,356	1,423	9,609	15,915	461,198	5,707	466,905
Capital expenditures	1,108,727	7,612	3,037	19,567	940	6,539	28,495	1,174,917	12,895	1,187,812

Millions of yen										
2002										
	Buildings	Residential development	Architectural & engineering	Real estate brokerage	Custom-built housing	Hotels	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income										
Revenue from:										
External customers	¥ 321,916	¥136,604	¥12,783	¥79,357	¥29,943	¥30,370	¥20,591	¥ 631,564	¥ —	¥ 631,564
Intersegment or transfers	5,506	746	3,575	334	955	80	1,596	12,792	(12,792)	—
Total revenue	327,422	137,350	16,358	79,691	30,898	30,450	22,187	644,356	(12,792)	631,564
Operating expense	242,379	128,932	17,066	80,854	32,063	30,046	24,471	555,811	(1,168)	554,643
Operating income (loss)	¥ 85,043	¥ 8,418	¥ (708)	¥ (1,163)	¥ (1,165)	¥ 404	¥ (2,284)	¥ 88,545	¥ (11,624)	¥ 76,921
Total assets, depreciation, and capital expenditures										
Assets	¥2,216,571	¥262,492	¥15,869	¥80,391	¥13,983	¥32,325	¥97,603	¥2,719,234	¥316,561	¥3,035,795
Depreciation	56,683	881	179	2,761	181	1,940	1,912	64,537	545	65,082
Capital expenditures	124,179	329	328	3,512	95	894	2,317	131,654	(39)	131,615

Millions of yen

2001

	Buildings	Residential development	Architectural & engineering	Real estate brokerage	Custom-built housing	Hotels	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

Revenue recognition

As described in Note 2, "Accounting Change," the architectural engineering segment has changed its revenue recognition policy for architectural design and supervision services contracts with revenue of over ¥500 million and for construction contracts with revenue of over ¥5,000 million from the completion method to the percentage of completion method. The effect of this change for the year ended March 31, 2002 was to increase or decrease the revenue from operation and operating income in each of the respective segments as follows:

	Millions of yen	
	Revenue from operations	Operating income (loss)
Architectural & engineering	¥6,580	¥2,086
Eliminations or corporate	(1,127)	(395)
	¥5,453	¥1,691

Allocation of expenses

The Company changed its classification of certain personnel expenses relating to employees who are seconded from the Company to its subsidiaries. Such expenses were included in "Eliminations or corporate" in prior years but have been allocated to each relevant segment in 2002. The effect of this change for the year ended March 31, 2002 was to increase operating expenses in each of the respective segments as follows:

Segments	Millions of yen
Buildings	¥1,393
Residential development	327
Architectural & engineering	1,765
Custom-built housing	454
Hotels	329
Other	191
	¥4,459

Land revaluation

As described in Note 1, the Company revalued certain land as of March 31, 2002. Due to this land revaluation, the total assets of each segment as of March 31, 2002 increased or decreased as follows:

Segments	Increase (decrease) of assets Millions of yen
Buildings	¥707,482
Residential development	(4,848)
Custom-built housing	(755)
Hotels	1,573
Other	(32,172)
Eliminations or corporate	18,572
	¥689,852

Loss on impairment

As a result of the impairment analysis, the Company recognized impairment losses on its property and equipment for the year ended March 31, 2002. The impairment losses recognized by each segment were as follows:

Segments	Decrease of assets Millions of yen
Buildings	¥140,776
Residential development	5,106
Hotels	9,409
Other	1,074
	¥156,365

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, 2003, 2002 and 2001 is summarized as follows:

						Millions of yen
						2003
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income (loss)						
Revenue from:						
External customers	¥ 531,044	¥126,666	¥24,016	¥ 681,726	¥ —	¥ 681,726
Intersegment or transfers	943	85	202	1,230	(1,230)	—
Total revenue	531,987	126,751	24,218	682,956	(1,230)	681,726
Operating expenses	439,555	110,047	22,711	572,313	13,390	585,703
Operating income (loss)	¥ 92,432	¥ 16,704	¥ 1,507	¥ 110,643	¥ (14,620)	¥ 96,023
Total assets	¥2,445,190	¥316,421	¥19,786	¥2,781,397	¥226,530	¥3,007,927

						Thousands of U.S. dollars
						2003
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income (loss)						
Revenue from:						
External customers	\$ 4,418,004	\$1,053,794	\$199,799	\$ 5,671,597	\$ —	\$ 5,671,597
Intersegment or transfers	7,845	707	1,682	10,234	(10,234)	—
Total revenue	4,425,849	1,054,501	201,481	5,681,831	(10,234)	5,671,597
Operating expenses	3,656,864	915,533	188,943	4,761,340	111,397	4,872,737
Operating income (loss)	\$ 768,985	\$ 138,968	\$ 12,538	\$ 920,491	\$ (121,631)	\$ 798,860
Total assets	\$20,342,679	\$2,632,454	\$164,609	\$23,139,742	\$1,884,609	\$25,024,351

						Millions of yen
						2002
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
Revenue from:						
External customers	¥ 510,017	¥101,320	¥20,227	¥ 631,564	¥ —	¥ 631,564
Intersegment or transfers	786	340	192	1,318	(1,318)	—
Total revenue	510,803	101,660	20,419	632,882	(1,318)	631,564
Operating expenses	432,021	92,019	20,803	544,843	9,800	554,643
Operating income	¥ 78,782	¥ 9,641	¥ (384)	¥ 88,039	¥ (11,118)	¥ 76,921
Total assets	¥2,376,728	¥313,664	¥19,164	¥2,709,556	¥326,239	¥3,035,795

						Millions of yen
						2001
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
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

Unallocatable operating expenses

Unallocatable operating expenses included under "Eliminations or corporate" for the years ended March 31, 2003, 2002 and 2001 amounted to ¥14,806 million (\$123,178 thousand), ¥12,689 million and ¥15,630 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, 2003, 2002 and 2001 amounted to ¥248,536 million (\$2,067,687 thousand), ¥332,193 million and ¥392,135 million, respectively, and consisted principally of cash, marketable securities, investments in other securities, deferred tax assets and other assets allocated to the Administration Department of the Company.

Revenue recognition

As described in Note 2, "Accounting Change," the architectural engineering segment has changed its revenue recognition policy for architectural design and supervision services contracts with revenue of over ¥500 million and for construction contracts with revenue of over ¥5,000 million from the completion method to the percentage of completion method. The effect of this change was to increase revenue from operations in the Japan segment by ¥5,453 million and operating income by ¥1,691 million, respectively, for the year ended March 31, 2002.

Allocation of expenses

The Company changed its classification of certain personnel expenses relating to employees who are seconded from the Company to its subsidiaries. Such expenses were included in "Eliminations or corporate" in prior years but have been allocated to each individual segment since 2002. The effect of this change was to increase operating expenses in each of the respective segments as follows:

Segments	Millions of yen
Japan	¥4,459
U.S.A.	156
Other	109
	<u>¥4,724</u>

Land revaluation

As described in Note 1, the Company revalued certain land as of March 31, 2002. Due to this land revaluation, the total assets as of March 31, 2002 increased by ¥671,278 million and ¥18,574 million in the Japan segment and in "Eliminations and corporate," respectively.

Loss on impairment

As a result of the impairment analysis, the Japan segment recognized an impairment loss on its property and equipment of ¥156,365 million for the year ended March 31, 2002.

Overseas revenue

The following table represents overseas revenue earned by the Company's consolidated subsidiaries in foreign countries during the years ended March 31, 2003, 2002 and 2001.

	Millions of yen		
	United States	Other areas	Total
Overseas revenue			2003
Overseas revenue	¥104,178	¥24,029	¥128,207
Consolidated revenue			¥681,726
% of overseas revenue to consolidated revenue	15.3%	3.5%	18.8%

	Thousands of U.S. dollars		
	Overseas revenue		
Overseas revenue	\$866,706	\$199,908	\$1,066,614
Consolidated revenue			\$5,671,597

	Millions of yen		
	United States	Other areas	Total
Overseas revenue			2002
Overseas revenue	¥101,335	¥20,238	¥121,573
Consolidated revenue			¥631,564
% of overseas revenue to consolidated revenue	16.0%	3.2%	19.2%

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

Non-Consolidated Statements of Operations

Mitsubishi Estate Co., Ltd.
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Revenue from operations	¥397,102	¥ 381,145	¥389,995	\$3,303,677
Cost of revenue from operations	304,537	299,790	315,002	2,533,586
Selling, general and administrative expenses	25,759	24,557	21,893	214,301
Operating income	66,806	56,798	53,100	555,790
Other income (expenses):				
Interest and dividend income	2,381	2,002	2,627	19,809
Interest expense	(24,601)	(25,982)	(29,499)	(204,667)
Loss on impairment of property and equipment	—	(143,915)	—	—
Other, net	3	(23,202)	(16,191)	25
	(22,217)	(191,097)	(43,063)	(184,833)
Income (loss) before income taxes and minority interests	44,589	(134,299)	10,037	370,957
Income taxes:				
Current	16	16	19	133
Deferred	19,983	(56,860)	3,615	166,248
	19,999	(56,844)	3,634	166,381
Net income (loss)	¥ 24,590	¥ (77,455)	¥ 6,403	\$ 204,576

Non-Consolidated Balance Sheets

Mitsubishi Estate Co., Ltd.
March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Assets			
Current assets:			
Cash	¥ 62,793	¥ 62,795	\$ 522,404
Marketable securities	1,899	25,563	15,799
Notes and accounts receivable—trade	41,763	22,799	347,446
Allowance for doubtful receivables	(1,269)	(892)	(10,557)
Inventories	230,594	232,364	1,918,419
Deferred income taxes	33,710	48,923	280,449
Other current assets	15,306	18,208	127,338
Total current assets	384,796	409,760	3,201,298
Investments:			
Investments in and advances to unconsolidated subsidiaries and affiliates	191,519	188,532	1,593,336
Investment securities	115,482	154,592	960,749
Lease deposits	74,933	78,512	623,403
Other investments	22,483	22,231	187,046
Allowance for doubtful accounts	(1,438)	(1,640)	(11,964)
	402,979	442,227	3,352,570
Property and equipment:			
Land	1,268,182	1,246,362	10,550,599
Buildings and structures	1,254,794	1,167,676	10,439,218
Machinery and equipment	20,497	20,514	170,524
Construction in progress	11,462	49,474	95,358
	2,554,935	2,484,026	21,255,699
Less accumulated depreciation	(751,627)	(726,259)	(6,253,136)
Property and equipment, net	1,803,308	1,757,767	15,002,563
Intangible and other assets	13,084	10,838	108,852
Total assets	¥2,604,167	¥2,620,592	\$21,665,283

	Millions of yen		Thousands of U.S. dollars
Liabilities, minority interests and shareholders' equity	2003	2002	2003
Current liabilities:			
Short-term borrowings and current portion of long-term debt	¥ 219,683	¥ 269,912	\$ 1,827,645
Accounts payable—trade	39,772	17,371	330,882
Advances and deposits	43,059	37,308	358,228
Accrued expenses and other current liabilities	21,865	14,977	181,905
Total current liabilities	324,379	339,568	2,698,660
Long-term debt	840,132	822,915	6,989,451
Lease deposits	274,321	273,897	2,282,205
Deferred income taxes	292,552	312,241	2,433,877
Other noncurrent liabilities	26,517	29,012	220,607
Total liabilities	1,757,901	1,777,633	14,624,800
Shareholders' equity:			
Common stock, without par value:			
Authorized—1,980,000,000 shares;			
Issued and outstanding—1,299,185,054 shares	86,534	86,534	719,917
Capital surplus	115,216	115,216	958,536
Land revaluation reserve	410,607	399,769	3,416,032
Legal reserve	21,658	21,658	180,183
Retained earnings	187,143	174,367	1,556,930
Unrealized gain on securities	26,226	45,531	218,186
	847,384	843,075	7,049,784
Less treasury stock—1,229,510 shares in 2003; 113,913 shares in 2002	(1,118)	(116)	(9,301)
Total shareholders' equity	846,266	842,959	7,040,483
Total liabilities, minority interests and shareholders' equity	¥2,604,167	¥2,620,592	\$21,665,283