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6. Special Feature
Marunouchi—Japan’s leading business and commercial district. In this section, we detail progress to date and outline plans for future redevelopment. Leveraging the vast know-how accumulated through this project, we describe our activities in areas outside Marunouchi.

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Mitsubishi Estate promotes management activities that focus on shareholder value. We are working toward achieving an earnings before interest, taxes, depreciation and amortization (EBITDA) goal of ¥170 billion by the fiscal year ending March 31, 2005, the final year of our medium-term management plan.

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55. Social Contributions and Environmental Efforts
Through the redevelopment of the Marunouchi district, Mitsubishi Estate implements a number of initiatives directed toward protecting the local environment. As a corporate citizen, the Company also supports the handicapped and elderly while working to promote a variety of cultural events.

56. Compliance
Guided by its fundamental mission of “Creating a Truly Meaningful Society Through Urban Development,” Mitsubishi Estate formulated its “Code of Corporate Conduct,” and continues to share this with the entire Group.

Caution regarding forward-looking statements
Statements made in this annual report with respect to the Mitsubishi Estate Group’s current plans, estimates and strategies are forward-looking statements about the future performance of the Mitsubishi Estate Group. These statements are based on management’s assumptions, which are founded on currently available information and therefore should not be unduly relied upon. The Mitsubishi Estate Group cautions that a number of significant factors could cause future results to differ from forecasts in the forward-looking statements.
We will strive to create a truly meaningful society through the development of a secure, safe, comfortable and appealing urban environment in each of our locations, acting as representatives of the people who live, work, and seek leisure there.

The Mitsubishi Estate Group's fundamental mission is to create a truly meaningful society through urban development. With a core in development in its Building Business operations, Residential Development operations, Architectural Design & Engineering operations, and Urban Development and Investment Management operations, the Mitsubishi Estate Group aims to increase corporate value by wielding the synergistic effects of its value chain of businesses related to real estate.

We have positioned compliance and consideration of the global environment as cornerstones of all our businesses. By constantly strengthening our foundations, we aim to continue onward as a good corporate citizen accepted by society.
Financial Results
During the fiscal year ended March 31, 2004, Mitsubishi Estate Co., Ltd. and its consolidated subsidiaries recorded revenue from operations of ¥679,918 million, a slight decrease of 0.3% from the previous fiscal year. In Building Business operations, revenue were negatively impacted by the Company’s decision to halt leasing activity for properties in connection with the Marunouchi Redevelopment Project and tenant movements in existing buildings. Results in Residential Development operations also declined owing to a drop in the number of condominiums sold during the fiscal year under review. Despite a decline in revenue, however, both Building Business and Residential Development operations reported increases in earnings. Building Business operations benefited from efforts to reduce building management costs, while improvements in the gross margin and decreases in marketing expenses impacted favorably on Residential Development operations. As a result, operating income grew 8.0% to ¥103,749 million.

Mitsubishi Estate incurred a loss on disposal of fixed assets related to the Hibiya Park Building and other rebuilding activities. Accordingly, net income for the fiscal year was ¥34,989 million.

Operating Environment
In the office building market, the impact of the so-called 2003 problem, a substantial supply of office space attributed to the completion of several large-scale office buildings in Tokyo, has increased vacancy rates and there has been a continuing downward trend in rent levels. Vacancy rates have improved since then, as new buildings have secured tenants and the supply of new buildings has dropped off. However, market leasing rates continue to lag behind improvements in vacancy rates, but this lag should lessen.

In the residential market, the supply levels of condominiums in the Tokyo Metropolitan area continued to be high. Stable low interest rates and a tax deduction allowance have supported the market, and consumers have become increasingly selective, casting a keen eye over the location, planning and merits of each development.

Against this background, the Mitsubishi Estate Group will work swiftly to recognize changes in its operating environment. Based on the concept of speed and flexibility, we will endeavor to increase management efficiency and enhance earnings power.

Medium-Term Management Plan
Faced with the collapse of the myth relating to ever-higher land prices and the emergence of the Japanese Real Estate Investment Trust (J-REIT) market, pressures were brought to bear for real estate companies to change their business models. In March 2002, the Mitsubishi Estate Group announced its medium-term management plan, which positioned “development” at the heart of future business expansion. At the same time, we identified three fundamental directives—increase corporate value based on cash flow; instill the principle of “customer first” to survive in a competitive market; and pursue collaborative management to realize higher added value.

In the fiscal year ended March 31, 2004, Mitsubishi Estate took significant strides toward sustained profitability and growth. Entering the final year of the plan, we are well placed to achieve its objectives.

Business Conditions
The goals of the Mitsubishi Estate Group are to effectively combine the merits of a stable cash flow-based asset business with those of a non-asset business that emphasizes capital
efficiency and external funds, and to expand operations by cultivating new opportunities. Our asset business primarily consists of activities in Marunouchi. In other areas, we will strive to expand our real estate development business without committing to excessive funding and to increase activities in the non-asset business, including fee-based businesses.

In Building Business operations, the Marunouchi Building represented the primary focus of the first stage of the Marunouchi Redevelopment Project. The period from 2008 through 2017 has been designated as the second stage during which we will broaden and deepen the effect of the redevelopment and further distinguish Marunouchi from all other areas. In our existing buildings, we aim to improve profitability. We will conduct strategic marketing activities that highlight the distinguishing features of each building, implement property upgrade and renewal in an effort to maintain competitive advantage, and reduce costs.

In Residential Development operations, we will continue our focus on the Tokyo Metropolitan area, which is expected to experience ongoing population growth. In addition to this area-based strategy, we will enhance product planning to better address the needs of demanding consumers and focus on highly competitive products in an effort to eliminate sales risk.

In Urban Development and Investment Management operations, we will strengthen our asset solutions business by providing optimal solutions for the real estate portfolios held by our customers and other parties, and best-fit proposals for effective real estate usage, disposal and management. In order to increase non-asset business profits, we will also develop income-generating real estate projects based on exit strategies and actively expand our fee-based business.

Providing a significant risk hedge and as a source of valuable and broad-based information, International Business operations are positioned as a strategic business for the Group. We will continue to pursue business overseas giving due consideration to the risk and return.

In the context of the Group’s business portfolio, Mitsubishi Estate will reinforce its development and related businesses. At the same time, we will improve optimization of our asset portfolio through a comprehensive review of underperforming assets. We continued to reorganize our asset portfolio by selling the Hamamatsu ACT Tower during the fiscal year under review.

Regarding funds procurement, the Company issues relatively long-term corporate bonds and raises funds through other alternatives against the backdrop of a low interest rate environment. We will target future maturity profiles and work to procure low-cost, long-term, fixed-rate funds.

Corporate Governance

With a focus on raising shareholder value, Mitsubishi Estate works diligently to enhance its systems with the aim of displaying increasingly efficient and sound management throughout the Group. To this end, we position corporate governance as a top priority and will strive to achieve the highest standards in governance.

In April 2003, Mitsubishi Estate introduced an executive officer system. The objectives of the new system are to reinforce the management, oversight and executive functions, to increase management efficiency, and to accelerate the decision-making process. At the same time, we implemented a number of initiatives with a view to raising the quality of decisions made by management. To encourage Group-wide discussion of management strategies, we established a Strategic Planning Committee. We also launched a Strategic Investment Committee, to assess and consider major investment proposals, as a support organization for the Group’s Executive Committee. This provides the basis for the decision-making process so essential to the executive function. In an effort to enhance management transparency and secure greater objectivity in management decision-making, of our five statutory auditors, four have been appointed from outside the Group. We established the Internal Audit Office, to bolster the internal auditing function and created an Advisory Board, comprised of externally appointed leading professionals.

In order to maximize corporate value, we introduced a compensation system for directors and executive officers linked to the Group’s consolidated performance. In this manner, we have focused the interests of shareholders and officers to a common goal, greatly enhancing incentives and motivation.

July 2004
Shigeru Takagi
President