Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003 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, 2004, 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 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, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2004 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 paragraph.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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 29, 2004

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, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2004
Revenue from operations	¥679,918	¥681,726	¥ 631,564	$6,433,134
Cost of revenue from operations	530,729	538,105	510,378	5,021,563
Selling, general and administrative expenses	45,438	47,598	44,265	429,917
Operating income	103,749	96,023	76,921	981,634
Other income (expenses):				
Interest and dividend income	2,240	2,618	2,621	21,194
Interest expense	(27,482)	(29,647)	(32,552)	(260,024)
Equity in earnings of unconsolidated subsidiaries and affiliates	2,164	1,811	1,667	20,474
Other, net (Note 13)	(23,729)	(942)	(175,506)	(224,515)
	(46,806)	(26,159)	(203,769)	(442,861)
Income (loss) before income taxes and minority interests	56,943	69,864	(126,848)	538,773
Income taxes (Notes 1 and 9):				
Current	10,970	11,925	7,018	103,794
Deferred (credit)	7,872	18,786	(61,191)	74,481
	18,842	30,711	(54,173)	178,276
Minority interests (credit)	3,111	3,114	(1,617)	29,435
Net income (loss)	¥ 34,989	¥ 36,039	¥ (71,058)	$ 331,053

	Yen			U.S. dollars (Note 3)
Net income (loss) per share:				
Basic	¥26.96	¥27.61	¥(54.70)	$0.25
Diluted	25.33	25.87	—	0.23
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, 2004 and 2003

Assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Current assets:			
Cash (Note 14)	¥ 127,185	¥ 143,553	$ 1,203,377
Notes and accounts receivable—trade	60,497	55,473	572,400
Marketable securities (Note 4)	7,612	14,489	72,021
Allowance for doubtful receivables	(3,041)	(5,226)	(28,772)
Inventories (Note 5)	276,445	240,253	2,615,621
Deferred income taxes (Note 9)	50,073	35,018	473,772
Other current assets	37,027	28,938	350,335
Total current assets	555,799	512,498	5,258,766
Investments:			
Investments in and advances to unconsolidated subsidiaries and affiliates	26,526	25,725	250,979
Investment securities (Note 4)	190,040	124,107	1,798,088
Other investments (Notes 6 and 7)	151,230	148,044	1,430,882
Total investments	367,798	297,876	3,479,969
Property and equipment (Note 7):			
Land	1,341,932	1,355,160	12,696,868
Buildings and structures	1,492,552	1,515,249	14,121,979
Machinery and equipment	89,995	94,450	851,499
Construction in progress	30,119	61,438	284,974
	2,954,600	3,026,297	27,955,341
Less accumulated depreciation	(867,778)	(886,965)	(8,210,597)
Property and equipment, net	2,086,821	2,139,332	19,744,734
Intangible and other assets (Note 9)	58,422	58,221	552,767
Total assets	¥3,068,842	¥3,007,927	$29,036,256

See accompanying notes to consolidated financial statements.

Liabilities and shareholders' equity	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 3) 2004
Current liabilities:			
Short-term borrowings and current portion of long-term debt (Note 7)	¥ 300,328	¥ 262,241	$ 2,841,593
Notes and accounts payable—trade	59,270	68,969	560,790
Accrued income taxes (Note 9)	5,913	6,730	55,946
Advances and deposits	72,208	61,517	683,205
Accrued expenses and other current liabilities (Note 9)	42,920	48,881	406,093
Total current liabilities	480,641	448,338	4,547,648
Long-term debt (Note 7)	911,559	965,283	8,624,836
Lease deposits received	309,209	320,199	2,925,622
Accrued employees' retirement benefits (Note 8)	9,644	9,560	91,247
Deferred income taxes (Note 9)	383,484	331,084	3,628,384
Other noncurrent liabilities	44,700	49,539	422,934
Total liabilities	2,139,240	2,124,003	20,240,703
Minority interests	32,102	43,971	303,737
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	818,752
Capital surplus	115,216	115,216	1,090,131
Land revaluation reserve	421,663	410,606	3,989,620
Retained earnings	220,178	206,813	2,083,243
Unrealized gain on securities	70,296	28,359	665,114
Foreign currency translation adjustments	(15,016)	(6,456)	(142,075)
	898,872	841,072	8,504,797
Less treasury stock—1,471,130 shares in 2004; 1,229,510 shares in 2003	(1,373)	(1,119)	(12,990)
Total shareholders' equity	897,499	839,953	8,491,806
Contingent liabilities (Note 12)			
Total liabilities and shareholders' equity	¥3,068,842	¥3,007,927	$29,036,256

Consolidated Statements of Changes in Shareholders' Equity

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	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, 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
Net income	—	—	—	34,989	—	—	—	34,989
Foreign currency translation adjustments	—	—	—	—	—	(8,560)	—	(8,560)
Net increase in unrealized gain on securities	—	—	—	—	41,937	—	—	41,937
Land revaluation reserve (Note 1)	—	—	11,056	(11,056)	—	—	—	—
Changes in consolidated subsidiaries and companies accounted for by the equity method	—	—	—	1	—	—	—	1
Cash dividends paid	—	—	—	(10,383)	—	—	—	(10,383)
Directors' and statutory auditors' bonuses	—	—	—	(184)	—	—	—	(184)
Treasury stock	—	—	—	—	—	—	(254)	(254)
Balance at March 31, 2004	¥86,534	¥115,216	¥421,663	¥220,178	¥70,296	¥(15,016)	¥(1,373)	¥897,499

	Thousands of U.S. dollars (Note 3)							
Balance at March 31, 2003	$818,752	$1,090,131	$3,885,003	$1,956,788	$268,322	$ (61,084)	$(10,587)	$7,947,327
Net income	—	—	—	331,053	—	—	—	331,053
Foreign currency translation adjustments	—	—	—	—	—	(80,991)	—	(80,991)
Net increase in unrealized gain on securities	—	—	—	—	396,792	—	—	396,792
Land revaluation reserve (Note 1)	—	—	104,607	(104,607)	—	—	—	—
Changes in consolidated subsidiaries and companies accounted for by the equity method	—	—	—	9	—	—	—	9
Cash dividends paid	—	—	—	(98,240)	—	—	—	(98,240)
Directors' and statutory auditors' bonuses	—	—	—	(1,740)	—	—	—	(1,740)
Treasury stock	—	—	—	—	—	—	(2,403)	(2,403)
Balance at March 31, 2004	$818,752	$1,090,131	$3,989,620	$2,083,243	$665,114	$(142,075)	$(12,990)	$8,491,806

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2004
Operating activities				
Income (loss) before income taxes and minority interests	¥ 56,943	¥ 69,864	¥(126,848)	$ 538,773
Depreciation and amortization	56,982	56,739	63,638	539,142
Loss (gain) on sales or disposal of property and equipment	12,809	(10,508)	7,575	121,194
Loss (gain) on sales of beneficial interests in trust of property and equipment	174	—	—	1,646
Gain on sales of securities	(7,074)	(1,887)	(616)	(66,931)
Valuation loss on securities	1,059	3,957	4,048	10,019
Valuation loss on inventories	4,008	5,915	9,680	37,922
Loss on impairment of property and equipment	—	—	156,365	—
Equity in net income of affiliates	(2,164)	(1,811)	(1,667)	(20,474)
Decrease in allowances	(3,324)	(225)	(1,234)	(31,450)
Interest and dividend income	(2,240)	(2,619)	(2,622)	(21,194)
Interest expense	27,482	29,649	32,639	260,024
(Increase) decrease in notes and accounts receivable	(8,126)	(7,342)	10,390	(76,885)
(Increase) decrease in inventories	(614)	12,917	10,856	(5,809)
(Decrease) increase in notes and accounts payable	(7,529)	17,518	(3,749)	(71,236)
(Decrease) in lease deposits received	(10,989)	(2,907)	(796)	(103,973)
Other	(4,705)	1,816	(15,673)	(44,516)
Subtotal	112,692	171,076	141,986	1,066,250
Interest and dividends received	3,457	3,010	3,091	32,708
Interest paid	(26,991)	(29,854)	(34,229)	(255,378)
Income taxes paid	(11,449)	(9,626)	(6,742)	(108,326)
Net cash provided by operating activities	77,708	134,606	104,106	735,244
Investing activities				
Proceeds from sales of marketable securities	10,028	41,946	15,873	94,881
Purchases of marketable securities	(8,200)	(20,093)	(18,257)	(77,585)
Proceeds from sales of property and equipment	3,459	29,325	19,895	32,727
Purchases of property and equipment	(70,205)	(128,807)	(115,618)	(664,253)
Proceeds from sales of investment securities	9,292	6,689	4,472	87,917
Purchases of investment securities	(7,149)	(4,609)	(22,561)	(67,641)
Proceeds from sales of beneficial interests in trust of property and equipment	954	—	(8,825)	9,026
Other	1,175	3,238	4,489	11,117
Net cash used in investing activities	(60,645)	(72,311)	(120,532)	(573,800)
Financing activities				
Net (decrease) increase in short-term borrowings	(39,609)	(5,566)	16,951	(374,765)
Net decrease in commercial paper	—	(1,877)	—	—
Increase in long-term borrowings	139,960	61,972	82,270	1,324,250
Repayment of long-term borrowings	(78,737)	(42,760)	(89,013)	(744,980)
Proceeds from issuance of corporate bonds	85,190	132,538	43,431	806,036
Repayment of corporate bonds	(115,406)	(171,723)	(77,960)	(1,091,929)
Cash dividends paid	(10,383)	(10,391)	(10,393)	(98,240)
Other	(12,672)	(1,094)	(436)	(119,897)
Net cash (used in) provided by financing activities	(31,658)	(38,901)	(35,150)	(299,536)
Effect of exchange rate changes on cash and cash equivalents	(1,801)	(2,431)	2,771	(17,040)
Net increase (decrease) in cash and cash equivalents	(16,397)	20,963	(48,805)	(155,142)
Cash and cash equivalents at beginning of year	152,450	131,374	178,922	1,442,425
Increase in cash and cash equivalents arising from mergers and acquisitions	9	113	1,257	85
Cash and cash equivalents at end of year (Note 14)	¥ 136,063	¥ 152,450	¥ 131,374	$ 1,287,378

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
March 31, 2004 and 2003

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The accompanying consolidated financial statements of Mitsubishi Estate Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of 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.

As permitted by the Securities and Exchange Law, amounts of less than one million yen have been rounded off. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and the subsidiaries that 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 that affect the amounts reported in the financial statements and accompanying notes. The actual results could differ from those estimates.

Foreign currency translation

Current and non-current monetary accounts denominated in foreign currencies are translated into yen at the current rates.

The revenue and expense accounts of the foreign consolidated subsidiaries are translated using the average rate during the year. Except for shareholders' equity, the balance sheet accounts are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates.

Cash equivalents

The Company considers all highly liquid investments that are readily convertible into cash and have an original maturity of three months or less to be cash equivalents. Reconciliation between cash in the balance sheet and cash equivalents at March 31, 2004, 2003 and 2002 is presented in Note 14.

Marketable securities and investment securities

Securities other than those of subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

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 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 exits. If 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 that 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.

Retirement benefits

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.

Accrued employees' retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the employees.

The net retirement benefit obligation at transition incurred at the Company and its domestic consolidated subsidiary was charged to operations as incurred. The net retirement benefit obligation at transition incurred at certain foreign subsidiaries is amortized over 20 years.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over the period of the range from 5 years to 17 years which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over the period of 6 years or 10 years which are shorter than the average remaining years of service of the employees.

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 carry forwards. 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.

Derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or liability.

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, except that certain long-term projects over ¥500 million in total revenue are recognized by the percentage of completion method.
(e) 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.
(f) 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.

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 2003 and 2002 financial statements in order to conform them to the 2004 presentation.

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 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 ¥105.69 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2004. 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, 2004 and 2003 are summarized as follows:

	2004					
	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	¥60,088	¥178,687	¥118,599	$568,530	$1,690,670	$1,122,140
Debt securities:						
Corporate bonds	392	392	—	3,708	3,708	—
Subtotal	60,480	179,079	118,599	572,239	1,694,379	1,122,140
Securities whose cost exceeds their fair value:						
Equity securities	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—
Total	¥60,480	¥179,079	¥118,599	$572,239	$1,694,379	$1,122,140

	2003		
	Millions of yen		
	Cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their cost:			
Equity securities	¥44,272	¥ 99,261	¥54,988
Debt securities:			
Corporate bonds	1,347	1,347	—
Subtotal	45,619	100,608	54,988
Securities whose cost exceeds their fair value:			
Equity securities	4,054	3,224	(829)
Subtotal	4,054	3,224	(829)
Total	¥49,673	¥103,832	¥54,159

Proceeds from sales of securities classified as other securities totaled ¥8,755 million ($82,836 thousand) in 2004 and ¥2,191 million in 2003. Gross realized gain and gross realized loss were ¥7,160 million ($67,745 thousand) and ¥86 million ($813 thousand) in 2004 and ¥1,872 million and ¥59 million in 2003, respectively.

Marketable debt securities classified as held-to-maturity securities at March 31, 2004 and 2003 are summarized as follows:

	2004					
	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	¥ 1	$ 2,100	$ 2,119	$ 9
Subtotal	222	224	1	2,100	2,119	9
Debt securities whose cost exceeds their fair value:						
Other	1,899	1,898	(1)	17,967	17,958	(9)
Subtotal	1,899	1,898	(1)	17,967	17,958	(9)
Total	¥2,121	¥2,122	¥ 0	$20,068	$20,077	$ 0

	2003		
	Millions of yen		
	Amortized cost	Fair value	Unrealized gain (loss)
Debt securities whose fair value exceeds their cost:			
Government bonds	¥ 222	¥ 224	¥ 2
Subtotal	222	224	2
Debt securities whose cost exceeds their fair value:			
Other	1,899	1,898	(1)
Subtotal	1,899	1,898	(1)
Total	¥2,121	¥2,122	¥ 1

Marketable and investment securities recorded at cost at March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Other securities:			
Nonmarketable equity securities (other than equity securities listed on the over-the-counter market)	¥10,831	¥20,387	$102,478
Mutual funds	448	1,674	4,238
Commercial paper	2,142	1,486	20,266
MMF	9	8,945	85
Other	20	148	189
Corporate bonds	1,000	—	9,461
Held-to-maturity securities:			
Commercial paper	1,999	—	18,913
Total	¥16,449	¥32,640	$155,634

The redemption schedule for securities classified as other securities at March 31, 2004 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
Bonds:						
Government bonds	¥ 143	¥ 60	¥20	$ 1,353	$ 567	$189
Corporate bonds	1,000	374	—	9,461	3,538	—
Other bonds	1,900	—	—	17,977	—	—
Other	2,000	—	—	18,923	—	—
Total	¥5,043	¥434	¥20	$47,715	$4,106	$189

The Company recognized losses on other securities considered other-than-temporary amounting to ¥1,059 million ($10,019 thousand) and ¥3,956 million for the years ended March 31, 2004 and 2003, respectively.

5. INVENTORIES

Inventories at March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Real estate for sale	¥141,443	¥130,369	$1,338,281
Land and housing projects in progress	109,668	80,634	1,037,638
Land held for development	14,262	18,750	134,941
Other	11,070	10,500	104,740
Total	¥276,445	¥240,253	$2,615,621

6. OTHER INVESTMENTS

Other investments at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease deposits	¥ 74,691	¥ 84,250	$ 706,698
Long-term prepaid expenses and other	76,539	63,794	724,183
Total	¥151,230	¥148,044	$1,430,882

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At March 31, 2004 and 2003, short-term borrowings and the current portion of long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loans, principally from banks	¥ 47,325	¥ 87,181	$ 447,771
Current portion of long-term debt	253,003	175,060	2,393,821
Total	¥300,328	¥262,241	$2,841,593

The weighted-average interest rates per annum on short-term borrowings outstanding at March 31, 2004 and 2003 were 0.46% and 0.48%, respectively. Short-term borrowings are principally unsecured.

At March 31, 2004 and 2003, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Zero coupon convertible bonds due 2006	¥ 100,000	¥ 100,000	$ 946,163
5.6% mortgage bonds due 2004	50,000	50,000	473,081
5.275% mortgage bonds due 2005	50,000	50,000	473,081
4.8% mortgage bonds due 2005	50,000	50,000	473,081
1.775% unsecured bonds due 2003	—	10,000	—
2.35% unsecured bonds due 2003	—	20,000	—
3.05% unsecured bonds due 2003	—	15,000	—
1.7% unsecured bonds due 2003	—	10,000	—
3.1% unsecured bonds due 2003	—	10,000	—
2.55% unsecured bonds due 2003	—	10,000	—
1.7% unsecured bonds due 2004	—	10,000	—
0.9% unsecured bonds due 2004	10,000	10,000	94,616
2.55% unsecured bonds due 2004	10,000	10,000	94,616
2.125% unsecured bonds due 2005	10,000	10,000	94,616
2.21% unsecured bonds due 2006	10,000	10,000	94,616
1.325% unsecured bonds due 2006	10,000	10,000	94,616
3.4% unsecured bonds due 2006	10,000	10,000	94,616
3% unsecured bonds due 2006	10,000	10,000	94,616
2.975% unsecured bonds due 2007	30,000	30,000	283,848
2.575% unsecured bonds due 2008	10,000	10,000	94,616
0.37% unsecured bonds due 2008	10,000	10,000	94,616
2.525% unsecured bonds due 2008	10,000	10,000	94,616
3.1% unsecured bonds due 2008	10,000	10,000	94,616
1.82% unsecured bonds due 2009	10,000	10,000	94,616
3.075% unsecured bonds due 2009	10,000	10,000	94,616
2% unsecured bonds due 2009	10,000	10,000	94,616
1.985% unsecured bonds due 2009	10,000	10,000	94,616
0.72% unsecured bonds due 2009	10,000	10,000	94,616
1.9% unsecured bonds due 2010	10,000	10,000	94,616
1.55% unsecured bonds due 2011	10,000	10,000	94,616
1.44% unsecured bonds due 2011	10,000	10,000	94,616
1.16% unsecured bonds due 2011	10,000	10,000	94,616
3.275% unsecured bonds due 2012	10,000	10,000	94,616
1.47% unsecured bonds due 2012	10,000	10,000	94,616
1.58% unsecured bonds due 2012	20,000	20,000	189,232
1.395% unsecured bonds due 2012	10,000	—	94,616
1.2% unsecured bonds due 2012	10,000	10,000	94,616
1% unsecured bonds due 2013	10,000	10,000	94,616
0.785% unsecured bonds due 2013	10,000	—	94,616
1.349% unsecured bonds due 2014	10,000	—	94,616
1.65% unsecured bonds due 2014	10,000	10,000	94,616
1.655% unsecured bonds due 2014	10,000	10,000	94,616
3.125% unsecured bonds due 2017	10,000	10,000	94,616
3% unsecured bonds due 2018	10,000	10,000	94,616
2.5% unsecured bonds due 2020	10,000	10,000	94,616
2.42% unsecured bonds due 2022	10,000	10,000	94,616
1.50% unsecured bonds due 2022	10,000	—	94,616
2.9% unsecured bonds due 2032	10,000	10,000	94,616
2.615% unsecured bonds due 2032	10,000	10,000	94,616
2.04% unsecured bonds due 2032	20,000	—	189,232
1.72% unsecured bonds due 2033	10,000	—	94,616
7.37% unsecured bonds due 2008 (payable in U.S. dollars)	3,826	5,139	36,200
Floating rate bonds due 2003 (payable in U.S. dollars)	—	21,813	—
Floating rate bonds due 2004 (payable in U.S. dollars)	14,024	7,758	132,689
Floating rate bonds due 2005 (payable in U.S. dollars)	2,324	2,602	21,988
Loans from banks and insurance companies:			
Secured	72,599	98,314	686,905
Unsecured	381,788	299,717	3,612,337
	1,164,561	1,140,343	11,018,648
Less current portion	(253,002)	(175,060)	(2,393,812)
	¥ 911,559	¥ 965,283	$ 8,624,836

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 ($11) 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, 2004 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2005	¥ 253,002	$ 2,393,812
2006	126,216	1,194,209
2007	240,812	2,278,474
2008	71,543	676,913
2009 and thereafter	472,988	4,475,238
Total	¥1,164,561	$11,018,648

The assets pledged as collateral for short-term borrowings of ¥7,359 million ($69,628 thousand), other current liabilities of ¥387 million ($3,661 thousand), long-term debt of ¥72,598 million ($686,895 thousand) and other noncurrent liabilities of ¥5,036 million ($47,648 thousand) at March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
Other investments	¥ 1,046	$ 9,896
Land	18,358	173,696
Buildings and structures	114,534	1,083,678
Machinery and equipment	6,138	58,075
Total	¥140,078	$1,325,366

Additionally, all assets of the Company are subject to the terms of an enterprise mortgage for mortgage bonds, which amounted to ¥150,000 million ($1,419,244 thousand) at March 31, 2004.

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, 2004 and 2003 for the Company's and its consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Retirement benefit obligation	¥(77,622)	¥(72,019)	$(734,430)
Plan assets at fair value	63,190	39,271	597,880
Unfunded retirement benefit obligation	(14,432)	(32,748)	(136,550)
Unrecognized net benefit obligation at transition	453	563	4,286
Unrecognized actuarial loss	10,397	25,490	98,372
Unrecognized prior service cost	1,083	99	10,246
Unrecognized gain of plan assets	(2,903)	—	(27,467)
Net amounts recognized in the consolidated balance sheet	(5,402)	(6,596)	(51,111)
Prepaid pension expenses	4,241	2,964	40,126
Accrued employees' retirement benefits	¥ (9,644)	¥ (9,560)	$ (91,247)

The components of expenses related to the pension and severance plans for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost	¥ 3,470	¥ 2,950	$ 32,831
Interest cost	2,210	2,185	20,910
Expected return on plan assets	(1,105)	(1,221)	(10,455)
Amortization of net retirement benefit obligation at transition	54	58	510
Other	3,202	2,266	30,296
Total	¥ 7,833	¥ 6,238	$ 74,112

The assumptions used in accounting for the pension and severance plans for the years ended March 31, 2004 and 2003 were as follows:

	2004	2003
Discount rate	2.0–6.25%	2.50–6.75%
Expected rate of return on plan assets	2.25–7.5%	2.25–7.5%

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 42.05%. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2004 and 2003 differ from the statutory tax rate for the following reasons:

	2004	2003	2002
Statutory tax rate	42.05%	42.05%	*1
Increase (decrease) in income taxes resulting from:			
Change in valuation allowance	(15.95)	(7.62)	
Different tax rates applied	1.41	1.07	
Revenues deductible for income tax purposes	(0.22)	(0.10)	
Expenses not deductible for income tax purposes	0.77	0.65	
Undistributed earnings of affiliates	4.86	2.69	
Adjustment of deferred tax assets to reflect change in effective tax rate	—	1.41	
Other	0.17	3.81	
Effective tax rates	33.09%	43.96%	

**1 The differences between the statutory tax rate and the effective tax rate reflected in the accompanying consolidated statement of operation 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, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Net operating loss carry forwards	¥ 28,720	¥ 28,490	$ 271,738
Accrued retirement allowances and pension costs	11,925	12,021	112,829
Valuation loss on inventories	30,213	29,827	285,864
Unrealized loss on property and equipment	49,139	67,570	464,935
Land revaluation reserve	100,885	108,566	954,536
Other	18,995	17,540	179,723
	239,880	264,014	2,269,656
Valuation allowance	(14,776)	(18,252)	(139,805)
Total deferred tax assets	225,104	245,762	2,129,851
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	(63,616)	(68,680)	(601,911)
Land revaluation reserve	(390,170)	(390,265)	(3,691,645)
Unrealized gain on property and equipment	(31,161)	(40,104)	(294,833)
Unrealized gain on securities	(48,258)	(21,173)	(456,599)
Other	(23,349)	(20,108)	(220,919)
Total deferred tax liabilities	(556,555)	(540,330)	(5,265,919)
Net deferred tax liabilities	¥(331,451)	¥(294,568)	$(3,136,067)

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 and ¥613 million, 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 at March 31, 2003 and to increase income taxes-deferred by the same amount for the year ended March 31, 2003.

10. SHAREHOLDERS' EQUITY

Retained earnings include a legal reserve provided in accordance with the Commercial Code of Japan. 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. The Code also provides that if the total amount of capital surplus and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

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, 2004 and 2003, 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, 2004						
Buildings and structures	¥ 4,322	¥ 888	¥3,434	$ 40,893	$ 8,401	$32,491
Others	8,432	3,864	4,567	79,780	36,559	43,211
Total	¥12,756	¥4,753	¥8,002	$120,692	$44,971	$75,711
March 31, 2003						
Buildings and structures	¥ 2,666	¥ 596	¥2,070			
Others	8,114	3,618	4,496			
Total	¥10,780	¥4,214	¥6,566			

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥2,105 million ($19,916 thousand), ¥1,864 million and ¥1,798 million for the years ended March 31, 2004, 2003 and 2002, respectively.

Future minimum lease payments subsequent to March 31, 2004 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:				
2005	¥2,070	¥ 5,385	$19,585	$ 50,950
2006 and thereafter	5,932	41,781	56,126	395,316
	¥8,002	¥47,166	$75,711	$446,267

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, 2004 from noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2005	¥ 86,799	$ 821,260
2006 and thereafter	731,739	6,923,445
	¥818,539	$7,744,715

12. CONTINGENT LIABILITIES

At March 31, 2004, 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	¥1,117	$10,568
Guarantees of employees' housing loans from banks and others	600	5,676
Other	109	1,031
Total	¥1,827	$17,286

13. OTHER INCOME (EXPENSES)

The components of "Other, net" in "Other income (expenses)" for each of the years ended March 31, 2004, 2003 and 2002 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Loss on disposal of fixed assets	¥(18,002)	¥(7,541)	¥ —	$(170,328)
Loss on sales of fixed assets	(4,562)	—	(7,171)	(43,163)
Loss on impairment of fixed assets	—	—	(156,365)	—
Gain on sales of fixed assets	—	18,427	1,741	—
Gain on sales of investment securities	7,160	1,872	—	67,745
Loss on valuation of investment securities	(1,059)	(3,957)	(3,595)	(10,019)
Loss on cancellation of sublease contracts	(5,061)	—	—	(47,885)
Loss on valuation of inventories	(4,008)	(5,915)	(9,680)	(37,922)
Other, net	1,806	(3,828)	(435)	17,087
	¥(23,729)	¥ (942)	¥(175,506)	$(224,515)

14. SUPPLEMENTAL CASH FLOW INFORMATION

The following table represents a reconciliation of cash and cash equivalents as of March 31, 2004, 2003 and 2002:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Cash	¥127,185	¥143,553	¥131,738	$1,203,377
Time deposits with maturities of more than three months	(1,665)	(1,925)	(2,055)	(15,753)
Marketable securities with maturities of three months or less	5,543	10,822	1,691	52,445
Resell agreements with maturities of three months or less	5,000	—	—	47,308
Cash and cash equivalents	¥136,063	¥152,450	¥131,374	$1,287,378

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, 2004 and 2003:

	Millions of yen			Thousands of U.S. dollars		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
March 31, 2004						
Interest rate swaps:						
Receive/floating and pay/fixed	¥ 5,000	¥(86)	¥(86)	$47,308	$ (813)	$ (813)
Receive/fixed and pay/floating	5,000	138	138	47,308	1,305	1,305
Total	¥10,000	¥ 51	¥ 51	$94,616	$ 482	$ 482
March 31, 2003						
Interest rate swaps:						
Receive/floating and pay/fixed	¥ 5,000	¥(137)	¥(137)			
Receive/fixed and pay/floating	5,000	214	214			
Total	¥10,000	¥ 77	¥ 77			

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 and 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, 2004, 2003 and 2002 are summarized as follows:

	Millions of yen									
	2004									
	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	¥ 345,519	¥143,383	¥14,172	¥83,266	¥39,560	¥30,986	¥ 23,028	¥ 679,918	¥ —	¥ 679,918
Intersegment or transfers	5,727	363	4,156	151	1,757	148	1,864	14,169	(14,169)	—
Total revenue	351,246	143,747	18,329	83,417	41,318	31,134	24,893	694,087	(14,169)	679,918
Operating expense	250,004	128,506	17,291	80,508	41,668	30,813	25,535	574,327	1,840	576,168
Operating income (loss)	¥ 101,242	¥ 15,240	¥ 1,038	¥ 2,908	¥ (350)	¥ 321	¥ (641)	¥ 119,760	¥(16,010)	¥ 103,749
Total assets, depreciation, and capital expenditures										
Assets	¥2,224,297	¥306,393	¥16,831	¥63,836	¥14,871	¥32,272	¥127,891	¥2,786,395	¥282,447	¥3,068,842
Depreciation	49,402	655	122	2,909	167	1,265	1,794	56,317	707	57,024
Capital expenditures	69,331	701	81	1,390	164	2,381	7,062	81,113	11	81,125

	Thousands of U.S. dollars									
	2004									
	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	$ 3,269,173	$1,356,637	$134,090	$787,832	$374,302	$293,178	$ 217,882	$ 6,433,134	$ —	$ 6,433,134
Intersegment or transfers	54,186	3,434	39,322	1,428	16,624	1,400	17,636	134,061	(134,061)	—
Total revenue	3,323,360	1,360,081	173,422	789,261	390,935	294,578	235,528	6,567,196	(134,061)	6,433,134
Operating expense	2,365,446	1,215,876	163,601	761,737	394,247	291,541	241,602	5,434,071	17,409	5,451,490
Operating income (loss)	$ 957,914	$ 144,195	$ 9,821	$ 27,514	$ (3,311)	$ 3,037	$ (6,064)	$ 1,133,125	$ (151,480)	$ 981,634
Total assets, depreciation, and capital expenditures										
Assets	$21,045,482	$2,898,978	$159,248	$603,992	$140,703	$305,345	$1,210,057	$26,363,847	$2,672,409	$29,036,256
Depreciation	467,423	6,197	1,154	27,523	1,580	11,968	16,974	532,850	6,689	539,540
Capital expenditures	655,984	6,632	766	13,151	1,551	22,528	66,818	767,461	104	767,574

	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

	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

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 operation	Operating income (loss)
Architectural and 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 and 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:

	Increase (decrease) of assets
Segments	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:

	Decrease of assets
Segments	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, 2004, 2003 and 2002 is summarized as follows:

	Millions of yen					
	2004					
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income (loss)						
Revenue from:						
External customers	¥ 526,598	¥110,043	¥43,276	¥ 679,918	¥ —	¥ 679,918
Intersegment or transfers	594	—	4	599	(599)	—
Total revenue	527,193	110,043	43,280	680,517	(599)	679,918
Operating expenses	423,862	97,927	39,169	560,959	15,209	576,168
Operating income (loss)	¥ 103,331	¥ 12,116	¥ 4,111	¥ 119,558	¥ (15,809)	¥ 103,749
Total assets	¥2,482,924	¥219,673	¥77,921	¥2,780,519	¥288,323	¥3,068,842

	Thousands of U.S. dollars					
	2004					
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income (loss)						
Revenue from:						
External customers	$ 4,982,477	$1,041,186	$409,461	$ 6,433,134	$ —	$ 6,433,134
Intersegment or transfers	5,620	—	37	5,667	(5,667)	—
Total revenue	4,988,106	1,041,186	409,499	6,438,802	(5,667)	6,433,134
Operating expenses	4,010,426	926,549	370,602	5,307,588	143,901	5,451,490
Operating income (loss)	$ 977,680	$ 114,637	$ 38,896	$ 1,131,213	$ (149,578)	$ 981,634
Total assets	$23,492,515	$2,078,465	$737,259	$26,308,250	$2,728,006	$29,036,256

	Millions of yen					
	2003					
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
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

	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

Unallocatable operating expenses

Unallocatable operating expenses included under "Eliminations or corporate" for the years ended March 31, 2004, 2003 and 2002 amounted to ¥15,729 million ($148,822 thousand), ¥14,806 million and ¥12,689 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, 2004, 2003 and 2002 amounted to ¥378,598 million ($3,582,155 thousand), ¥248,536 million and ¥332,193 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
	¥4,724

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, 2004, 2003 and 2002:

	Millions of yen		
	2004		
	United States	Other areas	Total
Overseas revenue			
Overseas revenue	¥112,568	¥40,665	¥153,233
Consolidated revenue			¥679,918
% of overseas revenue to consolidated revenue	16.6%	6.0%	22.5%

	Thousands of U.S. dollars		
Overseas revenue			
Overseas revenue	$1,065,077	$384,757	$1,449,834
Consolidated revenue			$6,433,134

	Millions of yen		
	2003		
	United States	Other areas	Total
Overseas revenue			
Overseas revenue	¥104,177	¥24,029	¥128,207
Consolidated revenue			¥681,726
% of overseas revenue to consolidated revenue	15.3%	3.5%	18.8%

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

Non-Consolidated Statements of Operations

Mitsubishi Estate Co., Ltd.
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Revenue from operations	¥379,340	¥397,102	¥ 381,145	$3,589,176
Cost of revenue from operations	281,684	304,537	299,790	2,665,190
Selling, general and administrative expenses	23,087	25,759	24,557	218,440
Operating income	74,568	66,806	56,798	705,535
Other income (expenses):				
Interest and dividend income	3,554	2,381	2,002	33,626
Interest expense	(22,398)	(24,601)	(25,982)	(211,921)
Other, net	(29,902)	3	(167,117)	(282,921)
	(48,747)	(22,217)	(191,097)	(461,226)
Income (loss) before income taxes and minority interests	25,821	44,589	(134,299)	244,308
Income taxes:				
Current	15	16	16	141
Deferred	10,875	19,983	(56,860)	102,895
	10,891	19,999	(56,844)	103,046
Net income (loss)	¥ 14,930	¥ 24,590	¥ (77,455)	$ 141,262

Non-Consolidated Balance Sheets

Mitsubishi Estate Co., Ltd.
March 31, 2004 and 2003

Assets	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current assets:			
Cash	¥ 89,744	¥ 62,793	$ 849,124
Notes and accounts receivable—trade	41,202	41,763	389,838
Marketable securities	2,899	1,899	27,429
Allowance for doubtful receivables	(276)	(1,269)	(2,611)
Inventories	251,565	230,594	2,380,215
Deferred income taxes	48,598	33,710	459,816
Other current assets	25,456	15,306	240,855
Total current assets	459,189	384,796	4,344,677
Investments:			
Investments in and advances to unconsolidated subsidiaries and affiliates	193,352	191,519	1,829,425
Investment securities	188,964	115,482	1,787,908
Lease deposits	65,801	74,933	622,584
Other investments	37,551	22,483	355,293
Allowance for doubtful accounts	(1,212)	(1,438)	(11,467)
	484,456	402,979	4,583,744
Property and equipment:			
Land	1,264,825	1,268,182	11,967,310
Buildings and structures	1,208,645	1,254,794	11,435,755
Machinery and equipment	18,817	20,497	178,039
Construction in progress	23,486	11,462	222,215
	2,515,775	2,554,935	23,803,339
Less accumulated depreciation	(728,865)	(751,627)	(6,896,253)
Property and equipment, net	1,786,909	1,803,308	16,907,077
Intangible and other assets	13,006	13,084	123,057
Total assets	¥2,743,562	¥2,604,167	$25,958,576

Liabilities and shareholders' equity	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current liabilities:			
Short-term borrowings and current portion of long-term debt	¥ 232,929	¥ 219,683	$ 2,203,888
Accounts payable—trade	30,056	39,772	284,378
Advances and deposits	105,794	43,059	1,000,984
Accrued expenses and other current liabilities	17,821	21,865	168,615
Total current liabilities	386,601	324,379	3,657,876
Long-term debt	827,562	840,132	7,830,087
Lease deposits received	263,085	274,321	2,489,213
Accrued employees' retirement benefits	334	—	3,160
Deferred income taxes	348,538	292,552	3,297,738
Other noncurrent liabilities	23,005	26,517	217,664
Total liabilities	1,849,129	1,757,901	17,495,780
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	818,752
Capital surplus	115,216	115,216	1,090,131
Land revaluation reserve	421,663	410,607	3,989,620
Legal reserve	21,658	21,658	204,920
Retained earnings	180,453	187,143	1,707,380
Unrealized gain on securities	70,280	26,226	664,963
	895,806	847,384	8,475,787
Less treasury stock—1,471,130 shares in 2004; 1,229,510 shares in 2003	(1,373)	(1,118)	(12,990)
Total shareholders' equity	894,433	846,266	8,462,796
Total liabilities and shareholders' equity	¥2,743,562	¥2,604,167	$25,958,576