



MITSUBISHI ESTATE CO., LTD. ANNUAL REPORT 2005



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.

With a core in development, the Mitsubishi Estate Group aims to increase corporate value by wielding the synergistic effects of its value chain of businesses related to real estate.

To this end, we have positioned compliance and consideration of the global environment as cornerstones of our efforts to fulfill our corporate social responsibility. We aim to become a trusted partner of society and to meet the expectations of all stakeholders.

An aerial photograph of a city skyline. In the foreground, a large, historic red brick building with a dark grey roof and several dormer windows is visible. The building has a classic architectural style. In the background, a dense cluster of modern skyscrapers and office buildings rises against a clear blue sky. The city streets are visible, with cars and a few trees scattered throughout. The overall scene depicts a blend of old and new urban architecture.

MISSION



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We provide an overview of our future business strategies outlined in our new Medium-Term Management Plan commencing the fiscal year ending March 31, 2006.

6. Special Feature

In this section, we detail the progress to date of the first stage of the Marunouchi Redevelopment Project, and look at the second stage. Leveraging the know-how accumulated through this project, we describe our activities in areas outside Marunouchi.

13. Business Information

Guided by the Real Estate Consulting & Solution Department, Mitsubishi Estate strives to reinforce proposal-oriented marketing capabilities across the Group. In each of its business activities, Mitsubishi Estate leverages the collective strengths of the Group in an effort to promote high-value-added businesses.

25. Financial Review

In the fiscal year ended March 31, 2005, Mitsubishi Estate achieved its primary objective of recording earnings before interest, taxes, depreciation and amortization (EBITDA) of ¥178.4 billion. We will continue to pursue management focusing on increased shareholder value.

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As corporate social responsibility (CSR) gains in importance with each passing year, Mitsubishi Estate is implementing a variety of CSR initiatives with the aim of securing market confidence as a responsible corporate citizen.

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.

To Our Shareholders



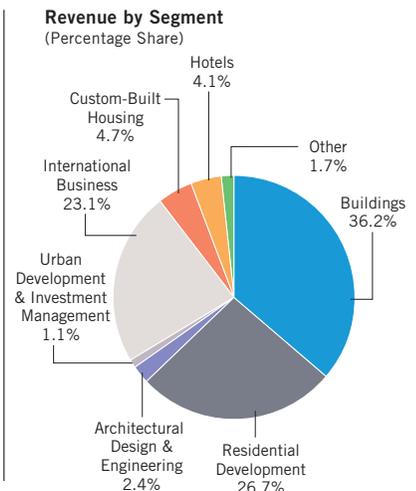
Mitsubishi Estate Co., Ltd. ("Mitsubishi Estate" or the "Company") deeply regrets the inconvenience caused to the customers who purchased condominiums and all the parties involved in connection with the sale of condominiums at OAP Residence Tower. Spurred by this unfortunate event, Mitsubishi Estate has implemented customer-oriented measures to resolve all issues in order to prevent similar incidents from recurring, and to restore market confidence. In moving forward, the Company will continue to enhance its compliance structure as a key management priority.

Financial Results

During the fiscal year ended March 31, 2005, Mitsubishi Estate Co., Ltd. and its consolidated subsidiaries (collectively, the "Mitsubishi Estate Group" or the "Group") recorded revenue from operations of ¥775,381 million, an increase of 14.0% from the previous fiscal year. Operating income also climbed 14.0% year on year to ¥118,233 million. In Building Business operations, the closure of certain buildings as part of the Marunouchi Redevelopment Project negatively impacted on revenue. In the Residential Development business, however, results were boosted by an increase in the number of condominiums sold, and in International Business operations by the sale of certain overseas-owned properties. Net income for the period under review was ¥36,245 million, impacted by the loss on disposal of businesses, the loss on disposal of fixed assets in

Years ended March 31	Millions of yen						Thousands of U.S. dollars	
	2000	2001	2002	2003	2004	2005	2005	
Revenue from operations	¥ 574,396	¥ 630,990	¥ 631,564	¥ 681,726	¥ 679,918	¥ 775,381	\$ 7,220,234	
Net income (loss)	18,421	19,832	(71,058)	36,039	34,989	36,245	337,508	
As a percentage of revenue from operations	3.2%	3.1%	(11.3)%	5.3%	5.1%	4.7%	—	
As a percentage of shareholders' equity	4.1%	4.1%	(10.5)%	4.3%	4.0%	4.0%	—	
Total assets	2,285,771	2,535,263	3,035,795	3,007,927	3,068,842	3,124,514	29,095,018	
Total shareholders' equity	440,731	518,766	832,497	839,953	897,499	920,930	8,575,565	
Common stock	86,534	86,534	86,534	86,534	86,534	86,534	805,791	
Yen								
Per share amounts:							U.S. dollars	
Net income (loss)	¥14.18	¥15.26	¥(54.70)	¥27.61	¥26.96	¥27.93	\$0.26	
Cash dividends applicable to the year	8.00	8.00	8.00	8.00	8.00	8.00	0.07	

Note: Yen amounts shown are translated into U.S. dollars, solely for convenience, at the prevailing exchange rate on March 31, 2005, of ¥107.39 to US\$1.00.



connection with the reconstruction of the Shin-Marunouchi Building, and other factors.

Operating Environment

In the office building market, the negative impact caused by the excess amount of large space supply in 2003 softened, as the number of new office building completions halved. Favorable conditions were also encouraged by the consolidation of offices and the trend toward relocation, which generated new demand and helped to reduce the vacancy rate. Rising rates offered to prospective tenants already reflect the upswing in the market. Renegotiations with existing tenants, however, continue to lag, with some time expected before existing contracts contribute to an increase in rental revenues.

Despite the continuous supply of condominiums in the Tokyo Metropolitan area, demand in the residential market remains steady, buoyed by a low interest rate environment and demand primarily from the post-war baby boom generation and the elderly. In certain areas, however, where supply remains high, competition continues to be stiff as consumers become increasingly selective, casting a keen eye over the comparative merits of location, product planning and design, and price.

In the real estate investment market, conditions were bolstered by an easing of quantitative monetary government policy and the

subsequent inflow of investment funds. As competition for the acquisition of prime properties intensified, particularly in the Tokyo Metropolitan area which consists of the five central wards of Tokyo, property prices increased overall for the first time in 14 years. Buoyed by continuous strong investment demand both in trust funds and real estate investment trusts (REITs), these favorable conditions are expected to spread through to other major cities in regional areas.

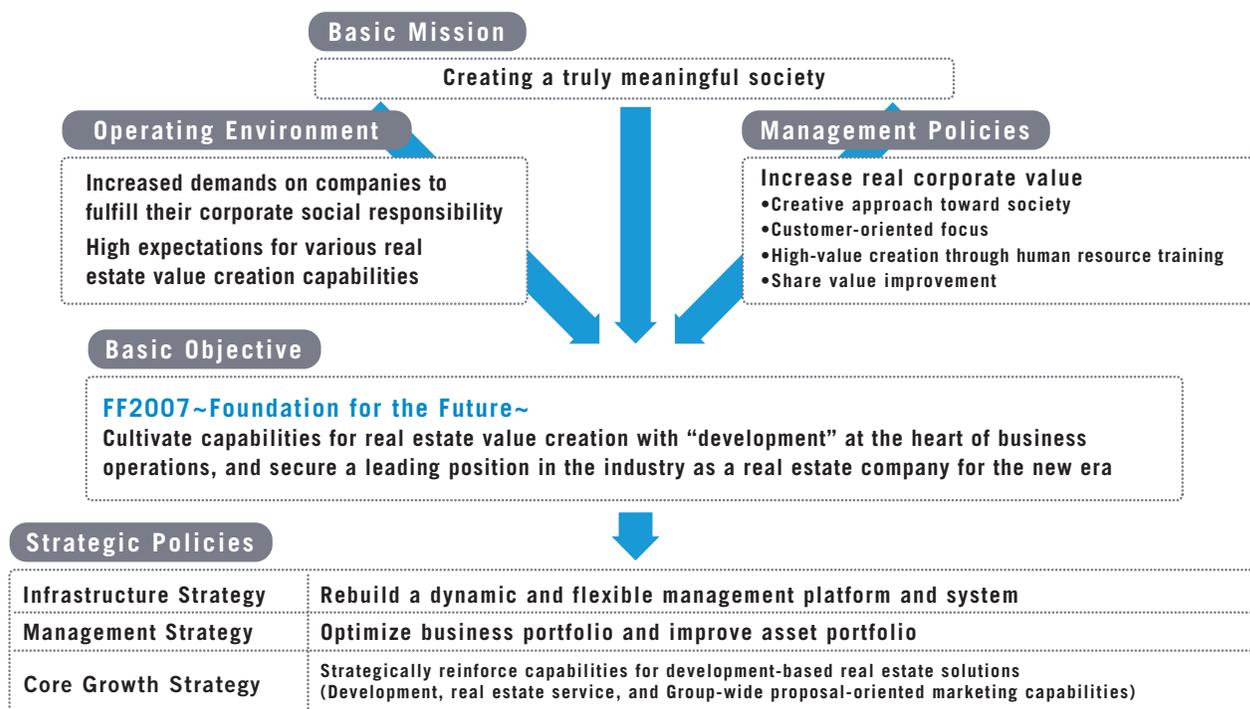
Under these circumstances, the Mitsubishi Estate Group will endeavor to foresee changes in its business environment, while enhancing management efficiency and earnings power.

New Medium-Term Management Plan

In its three-year Medium-Term Management Plan announced in March 2002, Mitsubishi Estate identified an EBITDA target of ¥170.0 billion for the final year of the plan. Against this target, EBITDA for the fiscal year ended March 31, 2005 was ¥178.4 billion, mainly owing to continued progress in the Marunouchi Redevelopment Project, increased earnings power in condominium operations, and growth in the Urban Development & Investment Management business.

In recent years, the real estate investment market has been providing new investment alternatives in Japan such as J-REITs and private funds. As a result, inflow of funds to the real estate market has steadily increased, prompting calls for real estate companies

Overview of the New Medium-Term Management Plan



Targets

	Fiscal Year Ending March 31, 2008	Fiscal Year Ended March 31, 2005
EBITDA	¥200.0 billion	¥178.4 billion
EBITDA/Net Interest Bearing Debt*	5 times or less	6.16 times
* Net Interest Bearing Debt = Interest Bearing Debt - (Cash + Marketable Securities)		
Assumptions:		
Revenue from Operations	¥863.0 billion	¥775.3 billion
Operating Income	¥135.0 billion	¥118.2 billion

to deliver more sophisticated products and services and to enhance their value creation capabilities. Under these circumstances, Mitsubishi Estate formulated its new three-year Medium-Term Management Plan commencing the fiscal year ending March 31, 2006. As a real estate company for the new era with “development function” at the heart of its operations, Mitsubishi Estate will leverage its value creation capabilities to achieve a leading position in the industry. Within its Medium-Term Management Plan, the Company has employed the corporate slogan FF (Foundation for the Future) 2007 and established a new EBITDA target of ¥200.0 billion. Throughout the duration of the plan, Mitsubishi Estate will continuously strive to increase its value as a real estate company based on the fundamental strategies of rebuilding a dynamic and flexible management structure, securing an optimal business portfolio, improving its asset portfolio, and strengthening its development-based real estate solutions capabilities.

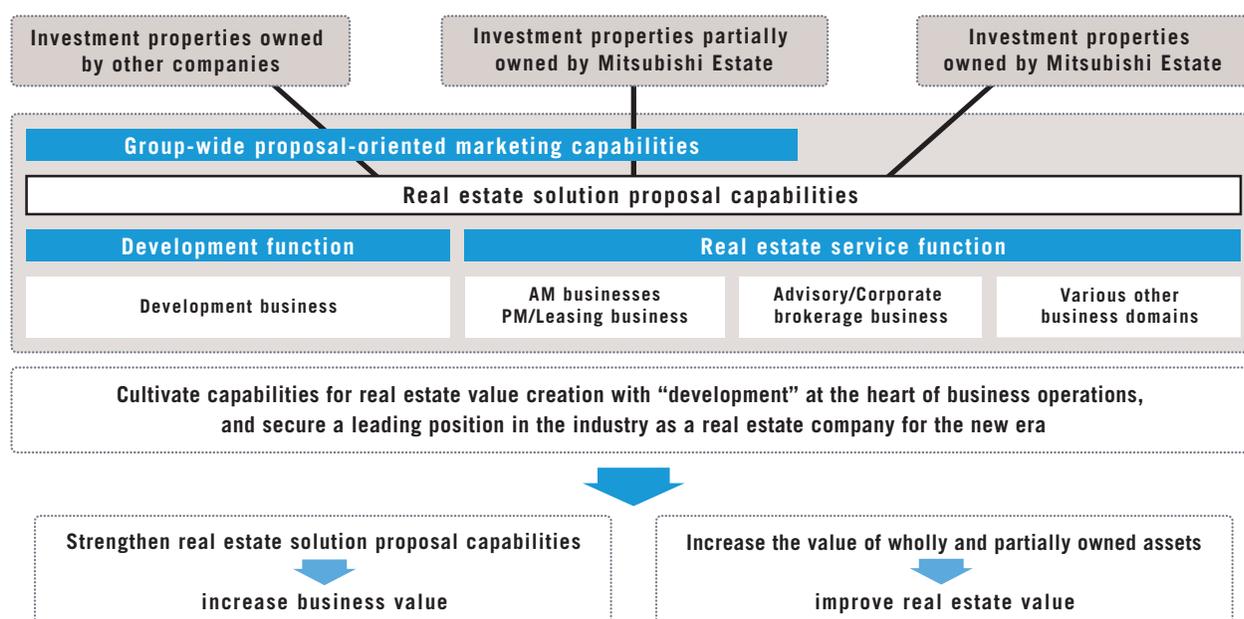
Business Strategies

The goal of the Mitsubishi Estate Group is to effectively combine the merits of its development-oriented asset business that strives to increase asset value through income gain, with those of its non-asset business that strives to increase its capital efficiency through the introduction of third-party capital as a means to expand capital gain and fee income based on exit strategies.

In this context, we are working to increase our competitiveness and expand business opportunities by improving the Group’s capabilities across three key functions, namely development, real estate services and proposal-oriented marketing.

In Building Business operations, Mitsubishi Estate will improve and enhance its functions through the Marunouchi Redevelopment Project intending to further distinguish Marunouchi from all other areas. At the same time, we will invest in highly profitable, growth-oriented assets and consistently update our property holdings in an

Growth Strategy Overview



effort to enhance asset portfolio quality.

In Residential Development operations, we will continue our focus on the Tokyo Metropolitan area, which is expected to face ongoing population growth, and supply an estimated 3,500 condominiums to address needs. In addition to this area-based strategy and an emphasis on product planning to better address the needs of demanding consumers, we will further reinforce our competitive advantage by strengthening the equity participation in TOWA REAL ESTATE DEVELOPMENT CO., LTD., with which a business cooperation agreement was concluded in March 2005, in order to better leverage the complementary position of both companies.

In the Urban Development & Investment Management operations, we will continue to expand development of income-generating real estate projects beyond exit strategies and strengthen our asset solutions business by providing solutions for our customers' property portfolios focused on effective real estate usage, disposal and management. In addition, we will actively develop our fee-based asset management and other businesses primarily through Group company, Mitsubishi Jisho Investment Advisors, Inc.

By providing a significant risk hedge and working to build a global real estate service network, we are developing International Business operations as a strategic activity based on considerations of risks and return.

In the overall context of its business portfolio, Mitsubishi Estate will allocate resources to high-potential areas. In addition to the operations of Building Business, Residential Development, and Urban Development & Investment Management, we will strengthen our capabilities in businesses that are essential to increasing our development prowess, leasing and related activities. We will also pursue growth in high-profit areas such as corporate brokerage and advisory services, and at the same time, further promote selection and focus initiatives while undertaking drastic measures to shift away from underperforming operations.

Corporate Governance

With a focus on shareholder value, the Mitsubishi Estate Group strives to rebuild a dynamic and flexible management system 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 established the Strategic Planning Committee to encourage Group-wide discussion of management strategies, and the Strategic Investment Committee to assess and consider major investment proposals, and as a support organization for the Group's Executive Committee to raise the quality of management resolutions. Furthermore, we created an Advisory Board, comprised of externally appointed leading professionals, and in June 2005, we set up the specialist Internal Audit Office, reporting directly to the president, with the aims of enhancing the internal audit function and securing greater management transparency and objectivity in the decision-making process.

Compliance

Mitsubishi Estate recognizes that its social responsibility is not limited to compliance with statutory requirements. Of equal importance is the Company's ability to address and satisfy the needs of all stakeholders. To this end, we acknowledge the need for each and every employee to maintain an acute personal awareness of their individual responsibilities, and to act with integrity, humility, common sense and to the highest ethical standards. Our goal is to create a truly meaningful society through honest and open communication with all stakeholders and a corporate culture based on teamwork.

Driven by its focus on the growth of development business, Mitsubishi Estate will endeavor to increase its asset value, and at the same time, to enhance the value of assets held by its customers and business partners. By leveraging its capabilities to create real estate value, the Company will evolve toward a company for the new era. Underpinning these activities, we will reposition compliance at the heart of our business platform. With the commitment of each and every member of the Mitsubishi Estate Group, we will fulfill our corporate social responsibility, restore market confidence, and enhance corporate value.

August 2005



Keiji Kimura
President