Financial Review

Summary

In the fiscal year ended March 31, 2005, revenue from operations showed an increase. In Building Business operations, results were impacted by the closure of buildings in connection with the Marunouchi Redevelopment Project and a drop in revenues from existing buildings. This was more than offset by growth in Residential Development operations, driven by an increase in the number of condominiums sold and contributions from the sale of overseas property holdings. Operating income increased mainly from profits generated through the sale of overseas buildings. Results were further boosted by an increase in profits in Residential Development operations and from Urban Development & Investment Management operations. Income before income taxes and minority interests also grew on the back of improvements in the Company's net other income and expenses position. This was mainly attributed to the drop in interest expenses reflecting the low interest rate environment that extended throughout the period.

Additional items of significance within other income and expenses included gains on the sale of fixed assets and investment securities and losses on disposal of its ski and golf resort ONIKOUBE business, disposal of fixed assets relating to the reconstruction of the Shin-Marunouchi Building, sales of fixed assets, and valuation of inventories. As a result, net income for the fiscal year under review amounted to ¥36,245 million.

Analysis of Revenue

Revenue from operations for the fiscal year ended March 31, 2005 was ¥775,381 million, an increase of 14.0% compared with the previous fiscal year. Details of results and operating conditions for each business segment are provided as follows.

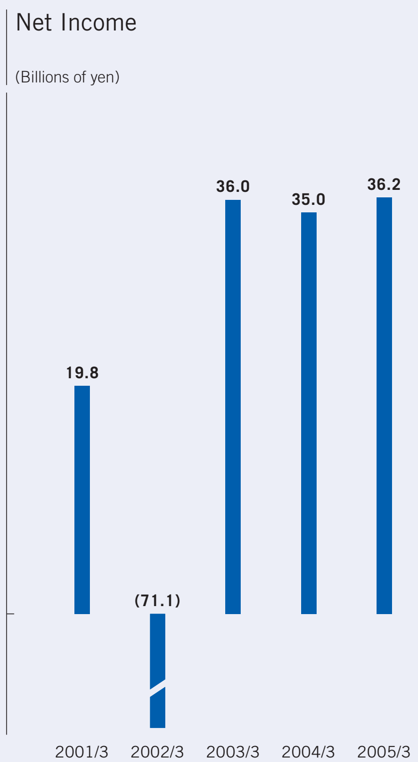
In the Buildings segment, occupancy rates for existing buildings improved significantly, while the Marunouchi OAZO Building, which was completed in September 2004, commenced full operations. However, results were impacted by the closure of the Shin-Marunouchi Building for reconstruction as part of the Marunouchi Redevelopment Project, and a decline in revenue from existing buildings. Accounting for these factors, total revenue in this segment edged down 0.1% compared with the previous fiscal year, to ¥286,959 million.

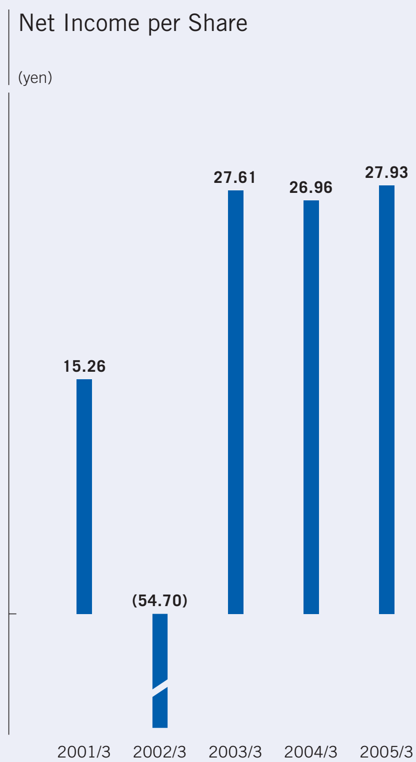
In the Residential Development segment, revenue climbed substantially by 42.2% year on year, to ¥211,088 million. This was due to a jump in the number of condominiums sold particularly in the Tokyo Metropolitan area, and an increase in the number of real estate brokerage transactions by Mitsubishi Real Estate Services Co., Ltd.

Revenue from the Architectural Design & Engineering segment rose 2.9% to ¥18,859 million. This was attributable to increasing revenues from interior and design work.

In the Urban Development & Investment Management segment, revenue surged 188.5% year on year to ¥8,609 million. In April 2004, construction of Nibancho Garden was completed and the building became fully operational. This contributed significantly to the segment's robust performance. Results were also buoyed by benefits from anonymous associations investments underpinned by the Company's use of special purpose companies in its development business.

Focusing mainly on the robust U.S. real estate market, revenue from Mitsubishi Estate's International Business segment rose 19.1% to ¥183,185 million. This was primarily attributed to the increase in profit at Cushman & Wakefield, Inc. and to the sale of





the 777 Tower located in Los Angeles.

In the Custom-Built Housing segment, revenue declined 10.3% to ¥37,456 million. Despite an increase in orders through efforts to promote product differentiation with enhanced features such as "Aerotech," a 24-hour central heating, cooling and ventilation system, the drop in revenue reflects the delays in property settlement, which caused a fall in the number of completions,.

No longer affected by the Iraq conflict and the SARS outbreak of the pervious year, results in the Hotels segment were steady. Performance was also spurred by a full-year contribution from the Royal Park Shiodome Tower, which opened during the previous year. As a result, revenue in this segment increased 3.1% to ¥32,111 million.

Revenue from the Other segment climbed 26.2% to ¥13,480 million. This healthy performance was the result of increases in revenues at Shiki Resorts Company, Limited, in recreational facility accommodation businesses, and in the fitness club business of Liv Sports Co., Ltd.

Analysis of Income

Compared with the previous fiscal year, operating income increased 14.0% to ¥118,233 million.

Operating income in the Buildings segment declined 3.4% due to a drop in income from existing buildings. Losses in the Custom-Built Housing segment continued to deteriorate owing to the delays in property settlement resulting in a drop in completions, and the increase in cost of sales. Despite these results, the increase in overall operating income is attributed to a year-on-year increase in the Residential Development segment, underpinned by the increase in the number of condominiums sold, and to the significant 89.3% jump in operating income from the International Business segment following the sale of the 777 Tower.

Other Income (Expenses)

Other income (expenses) for the fiscal year under review amounted to net other expenses of ¥42,300 million. This was a decline of ¥4,506 million compared with the previous fiscal year. Within other income, Mitsubishi Estate reclassified profits from silent partnerships, which were transferred to operating income (expenses). Other, net totaled expenses of ¥20,912 million. This included loss on disposal of fixed assets of ¥6,733 million relating to the reconstruction of the Shin-Marunouchi Building, and loss on sales of fixed assets of ¥4,730 million. The Company also reported gains on sales of fixed assets and investment securities of ¥1,196 million and ¥2,644 million, respectively. During the fiscal year under review, Mitsubishi Estate also incurred loss on valuation of inventories of ¥5,102 million, loss on disposal of resort and golf businesses of ¥6,390 million, mainly reflecting the sale of the ONIKOUBE business, and other, net expenses of ¥1,799 million.

Net Income

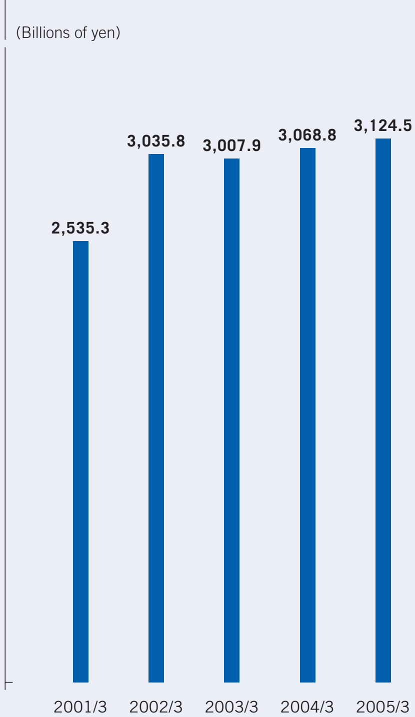
Compared with the previous fiscal term, income before income taxes and minority interests increased ¥18,990 million to ¥75,933 million. Net income in the period under review rose ¥1,256 million to ¥36,245 million, and net income per share was ¥27.93.

Analysis of Financial Position

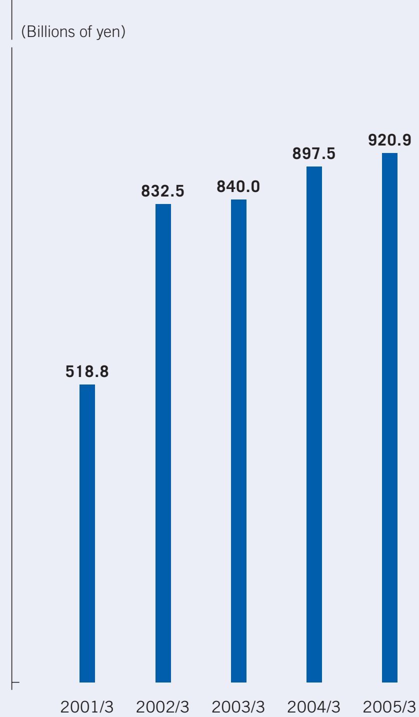
(1) Consolidated Cash Flows

On a consolidated basis, cash and cash equivalents (hereafter "cash") at end of the fiscal year declined ¥38,739 million to

Total Assets



Shareholder' Equity



¥97,324 million. The main sources of cash were income before income taxes and minority interests, depreciation and amortization, increase in commercial paper, and increase in long-term borrowings, while the main uses of cash were purchases of property and equipment, repayments of corporate bonds and long-term borrowings.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥88,900 million, up ¥11,192 million compared with the previous fiscal year. In the period under review, income before income taxes and minority interests of ¥75,933 million and non-cash items such as depreciation and amortization of ¥55,545 million were recorded. In addition, Mitsubishi Estate reported an increase in cash from recovery of the cost of inventories.

Cash Flows from Investing Activities

In the fiscal year under review, net cash used in investing activities was ¥92,409, an increase of ¥31,764 million from the previous fiscal year. This was mainly attributed to capital investment in connection with construction work related to the Marunouchi Redevelopment Project, including Marunouchi OAZO and the Tokyo Building.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥33,485 million, an increase of ¥1,827 million. While Mitsubishi Estate received cash from the increase in long-term borrowings and the increase in commercial paper, this was more than offset by outflows attributed to repayments of long-term borrowings and corporate bonds.

(2) Consolidated Balance Sheets

Compared with the previous fiscal year-end, total assets increased ¥55,672 million to ¥3,124,514 million as a result of the operating, investing, and financing activities previously mentioned.

Liabilities, when compared with the previous fiscal year-end, rose ¥29,040 million to ¥2,168,280 million. Minority interests climbed ¥3,201 million to ¥35,303 million. Total shareholders' equity stood at ¥920,930 million, an increase of ¥23,431 million. This was mainly attributed to net income and the increase in land revaluation reserve.

Management Initiatives and Financial Strategies

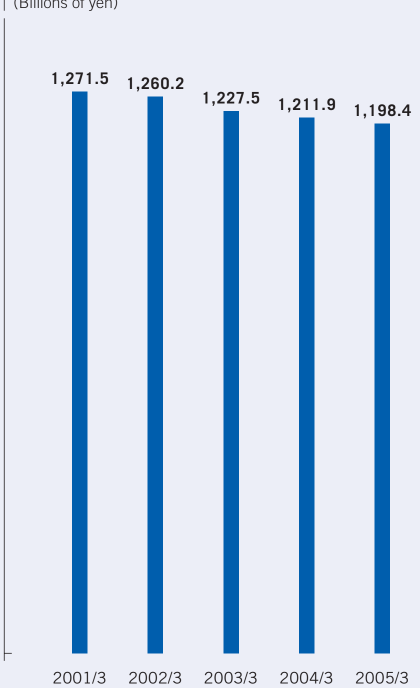
In its three-year Medium-Term Management Plan (April 1, 2002 through March 31, 2005), the Company set a goal for earnings before interest, taxes, depreciation and amortization (EBITDA) of ¥170 billion, to be achieved by the fiscal year ended March 31, 2005. Against this target, EBITDA for the fiscal year under review was ¥178.4 billion.

Looking to the future, Mitsubishi Estate has identified an EBITDA goal of ¥200 billion in its new three-year Medium-Term Management Plan, which covers the period from April 1, 2005 through March 31, 2008. To this end, the Company has formulated 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.

Recognizing the long-term nature of cash flows in its mainstay Building Business operations, Mitsubishi Estate has adopted a financial strategy based on stable interest rate long-term funds procurement. At the present time, Mitsubishi Estate is taking advantage of favorably low interest rates through the issue of long-term corporate bonds with maturity dates of more than 10 years.

Interest-Bearing Debt

(Billions of yen)



EBITDA

(Billions of yen)