Financial Statements

Consolidated Statements of Income

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2004	2003	**2005**
Revenue from operations (Note 2)	**¥775,381**	¥679,918	¥681,726	**$7,220,234**
Cost of revenue from operations	**606,957**	530,729	538,105	**5,651,894**
Selling, general and administrative expenses	**50,190**	45,438	47,598	**467,361**
Operating income	**118,233**	103,749	96,023	**1,100,968**
Other income (expenses):				
Interest and dividend income	**2,046**	2,240	2,618	**19,052**
Interest expense	**(26,102)**	(27,482)	(29,647)	**(243,058)**
Equity in earnings of unconsolidated subsidiaries and affiliates	**2,670**	2,164	1,811	**24,862**
Other, net (Note 14)	**(20,912)**	(23,729)	(942)	**(194,729)**
	(42,300)	(46,806)	(26,159)	**(393,891)**
Income before income taxes and minority interests	**75,933**	56,943	69,864	**707,077**
Income taxes (Notes 1 and 9):				
Current	**11,525**	10,970	11,925	**107,319**
Deferred	**20,956**	7,872	18,786	**195,139**
	32,482	18,842	30,711	**302,467**
Minority interests	**7,205**	3,111	3,114	**67,091**
Net income	**¥ 36,245**	¥ 34,989	¥ 36,039	**$337,508**

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
March 31, 2005 and 2004

Assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Current assets:			
Cash (Note 15)	**¥ 83,226**	¥ 127,185	**$ 774,988**
Notes and accounts receivable—trade	**75,063**	60,497	**698,975**
Marketable securities (Note 4)	**12,547**	7,612	**116,835**
Allowance for doubtful receivables	**(3,127)**	(3,041)	**(29,118)**
Inventories (Note 5)	**263,566**	276,445	**2,454,288**
Equity investments (Notes 2 and 4)	**103,761**	—	**966,207**
Deferred income taxes (Note 9)	**36,545**	50,073	**340,301**
Other current assets	**34,006**	37,027	**316,658**
Total current assets	**605,590**	555,799	**5,639,165**
Investments:			
Investments in and advances to unconsolidated subsidiaries and affiliates	**50,520**	26,526	**470,434**
Investment securities (Note 4)	**176,068**	190,040	**1,639,519**
Other investments (Notes 6 and 7)	**128,641**	151,230	**1,197,886**
Total investments	**355,231**	367,798	**3,307,859**
Property and equipment (Note 7):			
Land	**1,365,534**	1,341,932	**12,715,653**
Buildings and structures	**1,509,040**	1,492,552	**14,051,960**
Machinery and equipment	**94,369**	89,995	**878,750**
Construction in progress	**22,778**	30,119	**212,105**
	2,991,723	2,954,600	**27,858,487**
Less accumulated depreciation	**(890,762)**	(867,778)	**(8,294,645)**
Property and equipment, net	**2,100,961**	2,086,821	**19,563,842**
Intangible and other assets	**62,731**	58,422	**584,141**
Total assets	**¥3,124,514**	¥3,068,842	**$29,095,018**

See accompanying notes to consolidated financial statements.

Liabilities and shareholders' equity	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Current liabilities:			
Short-term borrowings and current portion of long-term debt (Note 7)	**¥ 218,603**	¥ 300,328	**$ 2,035,599**
Notes and accounts payable—trade	**82,192**	59,270	**765,359**
Accrued income taxes (Note 9)	**7,291**	5,913	**67,892**
Advances and deposits	**80,477**	72,208	**749,390**
Accrued expenses and other current liabilities (Note 9)	**60,075**	42,920	**559,409**
Total current liabilities	**448,639**	480,641	**4,177,660**
Long-term debt (Note 7)	**979,768**	911,559	**9,123,456**
Lease deposits received	**298,388**	309,209	**2,778,545**
Accrued employees' retirement benefits (Note 8)	**10,590**	9,644	**98,612**
Deferred income taxes (Note 9)	**388,516**	383,484	**3,617,804**
Other non-current liabilities	**42,375**	44,700	**394,589**
Total liabilities	**2,168,280**	2,139,240	**20,190,706**
Minority interests	**35,303**	32,102	**328,736**
Shareholders' equity (Note 10):			
Common stock, without par value:			
Authorized—1,980,000,000 shares;			
Issued—1,299,185,054 shares in 2005 and 2004	**86,534**	86,534	**805,791**
Capital surplus	**115,236**	115,216	**1,073,060**
Land revaluation reserve	**424,785**	421,663	**3,955,535**
Retained earnings	**243,577**	220,178	**2,268,153**
Unrealized holding gain on securities	**68,865**	70,296	**641,260**
Foreign currency translation adjustments	**(16,268)**	(15,016)	**(151,485)**
	922,730	898,872	**8,592,327**
Less treasury stock, at cost; 1,865,364 shares in 2005 and 1,471,130 shares in 2004	**(1,800)**	(1,373)	**(16,761)**
Total shareholders' equity	**920,930**	897,499	**8,575,565**
Contingent liabilities (Notes 13 and 18)			
Total liabilities and shareholders' equity	**¥3,124,514**	¥3,068,842	**$29,095,018**

Consolidated Statements of Shareholders' Equity

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005, 2004 and 2003

	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, 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
Net income	—	—	—	36,245	—	—	—	36,245
Foreign currency translation adjustments	—	—	—	—	—	(1,252)	—	(1,252)
Net decrease in unrealized gain on securities	—	—	—	—	(1,430)	—	—	(1,430)
Gain on sales of treasury stock	—	20	—	—	—	—	—	20
Land revaluation reserve (Note 1)	—	—	3,121	(2,739)	—	—	—	382
Changes in consolidated subsidiaries and companies accounted for by the equity method	—	—	—	278	—	—	—	278
Cash dividends paid	—	—	—	(10,381)	—	—	—	(10,381)
Directors' and statutory auditors' bonuses	—	—	—	(5)	—	—	—	(5)
Treasury stock	—	—	—	—	—	—	(427)	(427)
Balance at March 31, 2005	**¥86,534**	**¥115,236**	**¥424,785**	**¥243,577**	**¥68,865**	**¥(16,268)**	**¥(1,800)**	**¥920,930**

	Thousands of U.S. dollars (Note 3)							
Balance at March 31, 2004	$805,791	$1,072,874	$3,926,464	$2,050,265	$654,586	$(139,826)	$(12,785)	$8,357,379
Net income	—	—	—	337,508	—	—	—	337,508
Foreign currency translation adjustments	—	—	—	—	—	(11,658)	—	(11,658)
Net decrease in unrealized gain on securities	—	—	—	—	(13,315)	—	—	(13,315)
Gain on sales of treasury stock	—	186	—	—	—	—	—	186
Land revaluation reserve (Note 1)	—	—	29,062	(25,505)	—	—	—	3,557
Changes in consolidated subsidiaries and companies accounted for by the equity method	—	—	—	2,588	—	—	—	2,588
Cash dividends paid	—	—	—	(96,666)	—	—	—	(96,666)
Directors' and statutory auditors' bonuses	—	—	—	(46)	—	—	—	(46)
Treasury stock	—	—	—	—	—	—	(3,976)	(3,976)
Balance at March 31, 2005	**$805,791**	**$1,073,060**	**$3,955,535**	**$2,268,153**	**$641,260**	**$(151,485)**	**$(16,761)**	**$8,575,565**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2004	2003	**2005**
Operating activities				
Income (loss) before income taxes and minority interests	**¥ 75,933**	¥ 56,943	¥ 69,864	**$ 707,077**
Depreciation and amortization	**55,545**	56,982	56,739	**517,152**
Loss (gain) on sales or disposal of property and equipment	**11,434**	12,809	(10,508)	**106,471**
Loss (gain) on sales of beneficial interests in trust of property and equipment	**(0)**	174	—	**(0)**
Gain on sales of securities	**(2,644)**	(7,074)	(1,887)	**(24,620)**
Valuation loss on securities	**346**	1,059	3,957	**3,221**
Valuation loss on inventories	**5,102**	4,008	5,915	**47,509**
Equity in net income of affiliates	**(2,670)**	(2,164)	(1,811)	**(24,862)**
Increase (decrease) in allowances	**958**	(3,324)	(225)	**8,920**
Interest and dividend income	**(2,047)**	(2,240)	(2,619)	**(19,061)**
Interest expense	**26,105**	27,482	29,649	**243,085**
Increase in notes and accounts receivable	**(15,237)**	(8,126)	(7,342)	**(141,884)**
Decrease (increase) in inventories	**17,005**	(614)	12,917	**158,348**
Increase in equity investments	**(70,960)**	—	—	**(660,769)**
Increase (decrease) in notes and accounts payable	**29,462**	(7,529)	17,518	**274,345**
Decrease in lease deposits received	**(10,818)**	(10,989)	(2,907)	**(100,735)**
Other	**4,603**	(4,705)	1,816	**(617,906)**
Subtotal	**122,111**	112,692	171,076	**1,137,079**
Interest and dividends received	**2,814**	3,457	3,010	**26,203**
Interest paid	**(25,195)**	(26,991)	(29,854)	**(234,612)**
Income taxes paid	**(10,830)**	(11,449)	(9,626)	**(100,847)**
Net cash provided by operating activities	**88,900**	77,708	134,606	**827,823**
Investing activities				
Proceeds from sales of marketable securities	**2,025**	10,028	41,946	**18,856**
Purchases of marketable securities	**(1,899)**	(8,200)	(20,093)	**(17,683)**
Proceeds from sales of property and equipment	**7,304**	3,459	29,325	**68,013**
Purchases of property and equipment	**(79,793)**	(70,205)	(128,807)	**(743,020)**
Proceeds from sales of investment securities	**5,498**	9,292	6,689	**51,196**
Purchases of investment securities	**(25,705)**	(7,149)	(4,609)	**(239,361)**
Proceeds from sales of beneficial interests in trust of property and equipment	**58**	954	—	**540**
Other	**101**	1,175	3,238	**940**
Net cash used in investing activities	**(92,409)**	(60,645)	(72,311)	**(860,499)**
Financing activities				
Net decrease in short-term borrowings	**(1,487)**	(39,609)	(5,566)	**(13,846)**
Net increase (decrease) in commercial paper	**58,000**	—	(1,877)	**540,087**
Increase in long-term borrowings	**152,513**	139,960	61,972	**1,420,178**
Repayment of long-term borrowings	**(133,234)**	(78,737)	(42,760)	**(1,240,655)**
Proceeds from issuance of corporate bonds	**51,489**	85,190	132,538	**479,458**
Repayment of corporate bonds	**(146,618)**	(115,406)	(171,723)	**(1,365,285)**
Cash dividends paid	**(10,381)**	(10,383)	(10,391)	**(96,666)**
Other	**(3,764)**	(12,672)	(1,094)	**(35,049)**
Net cash used in financing activities	**(33,485)**	(31,658)	(38,901)	**(311,807)**
Effect of exchange rate changes on cash and cash equivalents	**(1,977)**	(1,801)	(2,431)	**(18,409)**
Net (decrease) increase in cash and cash equivalents	**(38,971)**	(16,397)	20,963	**(362,892)**
Cash and cash equivalents at beginning of year	**136,063**	152,450	131,374	**1,266,998**
Increase in cash and cash equivalents arising from mergers and acquisitions	**233**	9	113	**2,169**
Cash and cash equivalents at end of year (Note 15)	**¥ 97,324**	¥ 136,063	¥ 152,450	**$ 906,266**

See accompanying notes to consolidated financial statements.

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, 2005, 2004 and 2003 is presented in Note 15.

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 a period of 5 years or an estimated economical period 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 15 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 and certain of its consolidated subsidiaries utilize derivative financial instruments for the purpose of hedging their exposure to adverse fluctuations and changes in interest rates (interest rate swaps) and weather (weather derivatives), but do 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.

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 2004 and 2003 financial statements in order to conform them to the 2005

2.
Accounting Change

Effective April 1, 2004, the Company has changed its presentation of income and loss concerning real estate business using special purpose companies from non-operating income and loss to operating income and loss. 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 ¥3,656 million. There was no effect to income before income taxes and minority interests for the year ended March 31, 2005.

According to the above change, the Company reclassified investments in silent partnerships, preferred investments and real estate trust investments relating to the real estate business to the account of Equity investments in the balance sheet as of March 31, 2005. At the last year end, March 31, 2004, those investments were included in and presented as Other investments (investments in silent partnership of ¥21,870 million) and Investment securities (preferred investments and real estate trust investments totaled ¥11,463 million).

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 ¥107.39 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2005. 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, 2005 and 2004 are summarized as follows:

	2005					
	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	**¥60,139**	**¥176,341**	**¥116,202**	**$560,005**	**$1,642,061**	**$1,082,056**
Subtotal	**60,139**	**176,341**	**116,202**	**560,005**	**1,642,061**	**1,082,056**
Securities whose cost exceeds their fair value:						
Equity securities	**66**	**49**	**(17)**	**614**	**456**	**(158)**
Corporate bonds	**108**	**108**	**—**	**1,005**	**1,005**	**—**
Subtotal	**175**	**157**	**(17)**	**1,629**	**1,461**	**(158)**
Total	**¥60,314**	**¥176,498**	**¥116,184**	**$561,635**	**$1,643,523**	**$1,081,888**

	2004		
	Millions of yen		
	Cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their cost:			
Equity securities	¥60,088	¥178,687	¥118,599
Debt securities:			
Corporate bonds	392	392	—
Subtotal	60,480	179,079	118,599
Securities whose cost exceeds their fair value:			
Equity securities	—	—	—
Subtotal	—	—	—
Total	¥60,480	¥179,079	¥118,599

Proceeds from sales of securities classified as other securities totaled ¥3,752 million ($34,938 thousand) in 2005 and ¥8,755 million in 2004. Gross realized gain was ¥2,644 million ($24,620 thousand) in 2005 and ¥7,160 million in 2004 and ¥86 million in 2003, respectively.

Marketable debt securities classified as held-to-maturity securities at March 31, 2005 and 2004 are summarized as follows:

	2005					
	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	**¥ 197**	**¥ 199**	**¥ 1**	**$ 1,834**	**$ 1,853**	**$ 9**
Subtotal	**197**	**199**	**1**	**1,834**	**1,853**	**9**
Debt securities whose cost exceeds their fair value:						
Government bonds	**9**	**9**	**(0)**	**83**	**83**	**(0)**
Other	**1,899**	**1,898**	**(0)**	**17,683**	**17,673**	**(0)**
Subtotal	**1,909**	**1,908**	**(0)**	**17,776**	**17,767**	**(0)**
Total	**¥2,106**	**¥2,107**	**¥ 0**	**$19,610**	**$19,620**	**$(0)**

	2004		
	Millions of yen		
	Amortized cost	Fair value	Unrealized gain (loss)
Debt securities whose fair value exceeds their cost:			
Government bonds	¥ 222	¥ 224	¥ 1
Subtotal	222	224	1
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	¥ 0

Marketable and investment securities recorded at cost at March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Other securities:			
Nonmarketable equity securities (other than equity securities listed on the over-the-counter market)	**¥ 18,948**	¥10,831	**$ 176,441**
Mutual funds	**343**	448	**3,193**
Commercial paper	**10,181**	2,142	**94,803**
MMF	**—**	9	**—**
Other	**—**	20	**—**
Corporate bonds	**—**	1,000	**—**
Other:			
Investments in silent partnerships	**84,299**	—	**784,979**
Held-to-maturity securities:			
Commercial paper	**—**	1,999	**—**
Total	**¥113,771**	¥16,449	**$1,059,418**

The redemption schedule for securities classified as other securities at March 31, 2005 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	¥ 40	¥160	¥10	$ 372	$1,489	$93
Corporate bonds	160	—	—	1,489	—	—
Other bonds	1,900	—	—	17,692	—	—
Other	—	—	—	—	—	—
Total	¥2,100	¥160	¥10	$19,554	$1,489	$93

The Company recognized losses on other securities considered other-than-temporary amounting to ¥346 million ($3,221 thousand) and ¥1,059 million for the years ended March 31, 2005 and 2004, respectively.

5.
Inventories

Inventories at March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Real estate for sale	**¥128,853**	¥141,443	**$1,199,860**
Land and housing projects in progress	**109,600**	109,668	**1,020,579**
Land held for development	**13,616**	14,262	**126,790**
Other	**11,495**	11,070	**107,039**
Total	**¥263,566**	¥276,445	**$2,454,288**

6.
Other Investments

Other investments at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Lease deposits	**¥ 72,625**	¥ 74,691	**$ 676,273**
Long-term prepaid expenses and other	**56,016**	76,539	**521,612**
Total	**¥128,641**	¥151,230	**$1,197,886**

7.
Short-Term Borrowings and Long-Term Debt

At March 31, 2005 and 2004, short-term borrowings and the current portion of long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Loans, principally from banks	**¥ 45,971**	¥ 47,325	**$ 428,075**
Commercial paper	**58,000**	—	**540,087**
Current portion of long-term debt	**114,631**	253,003	**1,067,427**
Total	**¥218,603**	¥300,328	**$2,035,599**

The weighted-average interest rates per annum on short-term borrowings outstanding at March 31, 2005 and 2004 were 0.68% and 0.46%, respectively. Short-term borrowings are principally unsecured.

At March 31, 2005 and 2004, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Zero coupon convertible bonds due 2006	**¥ 100,000**	¥ 100,000	**$ 931,185**
5.6% mortgage bonds due 2004	**—**	50,000	**—**
5.275% mortgage bonds due 2005	**—**	50,000	**—**
4.8% mortgage bonds due 2005	**50,000**	50,000	**465,592**
0.9% unsecured bonds due 2004	**—**	10,000	**—**
2.55% unsecured bonds due 2004	**—**	10,000	**—**
2.125% unsecured bonds due 2005	**10,000**	10,000	**93,118**
2.21% unsecured bonds due 2006	**10,000**	10,000	**93,118**
1.325% unsecured bonds due 2006	**10,000**	10,000	**93,118**
3.4% unsecured bonds due 2006	**10,000**	10,000	**93,118**
3% unsecured bonds due 2006	**10,000**	10,000	**93,118**
2.975% unsecured bonds due 2007	**30,000**	30,000	**279,355**
2.575% unsecured bonds due 2008	**10,000**	10,000	**93,118**
0.37% unsecured bonds due 2008	**10,000**	10,000	**93,118**
2.525% unsecured bonds due 2008	**10,000**	10,000	**93,118**
3.1% unsecured bonds due 2008	**10,000**	10,000	**93,118**
1.82% unsecured bonds due 2009	**10,000**	10,000	**93,118**
3.075% unsecured bonds due 2009	**10,000**	10,000	**93,118**
2% unsecured bonds due 2009	**10,000**	10,000	**93,118**
1.985% unsecured bonds due 2009	**10,000**	10,000	**93,118**
0.72% unsecured bonds due 2009	**10,000**	10,000	**93,118**
1.9% unsecured bonds due 2010	**10,000**	10,000	**93,118**
1.55% unsecured bonds due 2011	**10,000**	10,000	**93,118**
1.44% unsecured bonds due 2011	**10,000**	10,000	**93,118**
1.16% unsecured bonds due 2011	**10,000**	10,000	**93,118**
3.275% unsecured bonds due 2012	**10,000**	10,000	**93,118**
1.47% unsecured bonds due 2012	**10,000**	10,000	**93,118**
1.58% unsecured bonds due 2012	**20,000**	20,000	**186,237**
1.395% unsecured bonds due 2012	**10,000**	10,000	**93,118**
1.2% unsecured bonds due 2012	**10,000**	10,000	**93,118**
1% unsecured bonds due 2013	**10,000**	10,000	**93,118**
0.785% unsecured bonds due 2013	**10,000**	10,000	**93,118**
1.675% unsecured bonds due2014	**10,000**	—	**93,118**
1.349% unsecured bonds due 2014	**10,000**	10,000	**93,118**
1.65% unsecured bonds due 2014	**10,000**	10,000	**93,118**
1.75% unsecured bonds due2014	**10,000**	—	**93,118**
1.655% unsecured bonds due 2014	**10,000**	10,000	**93,118**
1.409% unsecured bonds due2015	**10,000**	—	**93,118**
3.125% unsecured bonds due 2017	**10,000**	10,000	**93,118**
3% unsecured bonds due 2018	**10,000**	10,000	**93,118**
2.5% unsecured bonds due 2020	**10,000**	10,000	**93,118**
2.42% unsecured bonds due 2022	**10,000**	10,000	**93,118**
1.50% unsecured bonds due 2022	**10,000**	10,000	**93,118**
2.28% unsecured bonds due2024	**10,000**	—	**93,118**
2.9% unsecured bonds due 2032	**10,000**	10,000	**93,118**
2.615% unsecured bonds due 2032	**10,000**	10,000	**93,118**
2.04% unsecured bonds due 2032	**20,000**	20,000	**186,237**
1.72% unsecured bonds due 2033	**10,000**	10,000	**93,118**
7.37% unsecured bonds due 2008 (payable in U.S. dollars)	**2,977**	3,826	**27,721**
Floating rate bonds due 2004 (payable in U.S. dollars)	**—**	14,024	**—**
Floating rate bonds due 2005 (payable in U.S. dollars)	**2,261**	2,324	**21,054**
Loans from banks and insurance companies:			
Secured	**78,821**	72,599	**733,969**
Unsecured	**400,340**	381,788	**3,727,907**
	1,094,399	1,164,561	**10,190,883**
Less current portion	**(114,631)**	(253,002)	**(1,067,427)**
Total	**¥ 979,768**	¥ 911,559	**$ 9,123,456**

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, 2005 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2006	¥ 114,631	$ 1,067,427
2007	244,876	2,280,249
2008	93,248	868,311
2009	60,653	564,791
2010 and thereafter	580,990	5,410,094
Total	¥1,094,399	$10,190,883

The assets pledged as collateral for short-term borrowings of ¥1,846 million ($17,189 thousand), and long-term debt of ¥78,821 million ($733,969 thousand) at March 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 12,979	$ 120,858
Buildings and structures	73,190	681,534
Machinery and equipment	13,310	123,940
Other investments	27,975	260,499
Total	¥127,276	$1,185,175

Additionally, all assets of the Company are subject to the terms of an enterprise mortgage for mortgage bonds, which amounted to ¥50,000 million ($465,592 thousand) at March 31, 2005.

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, 2005 and 2004 for the Company's and its consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Retirement benefit obligation	**¥(80,222)**	¥(77,622)	**$(746,987)**
Plan assets at fair value	**62,062**	63,190	**577,912**
Unfunded retirement benefit obligation	**(18,159)**	(14,432)	**(169,066)**
Unrecognized net benefit obligation at transition	**391**	453	**3,640**
Unrecognized actuarial loss	**10,869**	10,397	**101,182**
Unrecognized prior service cost	**922**	1,083	**8,585**
Unrecognized gain of plan assets	**—**	(2,903)	**—**
Net amounts recognized in the consolidated balance sheet	**(5,976)**	(5,402)	**(55,647)**
Prepaid pension expenses	**4,614**	4,241	**42,964**
Accrued employees' retirement benefits	**¥(10,590)**	¥ (9,644)	**$ (98,612)**

The components of expenses related to the pension and severance plans for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Service cost	**¥ 3,740**	¥ 3,470	**$ 34,826**
Interest cost	**1,982**	2,210	**18,456**
Expected return on plan assets	**(1,194)**	(1,105)	**(11,118)**
Amortization of net retirement benefit obligation at transition	**48**	54	**446**
Other	**1,700**	3,202	**15,830**
Total	**¥ 6,277**	¥ 7,833	**$ 58,450**

The assumptions used in accounting for the pension and severance plans for the years ended March 31, 2005 and 2004 were as follows:

	2005	2004
Discount rate	**2.0–6.0%**	2.0–6.25%
Expected rate of return on plan assets	**1.0–7.5%**	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 40.69% for the year ended March 31, 2005 and 42.05% for the years ended March 31, 2004 and 2003. 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 three years ended March 31, 2005 differ from the statutory tax rate for the following reasons:

	2005	2004	2003
Statutory tax rate	**40.69%**	42.05%	42.05%
Increase (decrease) in income taxes resulting from:			
Change in valuation allowance	**(2.26)**	(15.95)	(7.62)
Different tax rates applied	**1.88**	1.41	1.07
Revenues deductible for income tax purposes	**(0.26)**	(0.22)	(0.10)
Expenses not deductible for income tax purposes	**0.48**	0.77	0.65
Undistributed earnings of affiliates	**2.53**	4.86	2.69
Adjustment of deferred tax assets to reflect change in effective tax rate	**—**	—	1.41
Other	**(0.27)**	0.17	3.81
Effective tax rates	**42.79%**	33.09%	43.96%

The significant components of deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets:			
Net operating loss carry forwards	**¥ 22,362**	¥ 28,720	**$ 208,231**
Accrued retirement allowances and pension costs	**14,813**	11,925	**137,936**
Valuation loss on inventories	**23,192**	30,213	**215,960**
Unrealized loss on property and equipment	**46,505**	49,139	**433,047**
Land revaluation reserve	**98,555**	100,885	**917,729**
Other	**17,419**	18,995	**162,203**
	222,850	239,880	**2,075,146**
Valuation allowance	**(14,366)**	(14,776)	**(133,774)**
Total deferred tax assets	**208,483**	225,104	**1,941,363**
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	**(63,127)**	(63,616)	**(587,829)**
Land revaluation reserve	**(389,720)**	(390,170)	**(3,629,015)**
Unrealized gain on property and equipment	**(33,062)**	(31,161)	**(307,868)**
Unrealized gain on securities	**(47,282)**	(48,258)	**(440,283)**
Other	**(24,498)**	(23,349)	**(228,121)**
Total deferred tax liabilities	**(557,690)**	(556,555)	**(5,193,127)**
Net deferred tax liabilities	**¥(349,207)**	¥(331,451)	**$(3,251,764)**

10.
Shareholders' Equity

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the common stock account. The legal reserve amounted to ¥21,663 million ($201,722 thousand) and ¥21,658 million as of March 31, 2005 and 2004, respectively.

The Code provides that neither additional paid-in capital 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 additional paid-in capital 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.
Amounts Per Share

	Yen			U.S. dollars
Year ended March 31,	**2005**	2004	2003	**2005**
Net income:				
Basic	**¥27.93**	¥26.96	¥27.61	**$0.26**
Diluted	**26.24**	25.33	25.87	**0.24**
Cash dividends applicable to the year	**8.00**	8.00	8.00	**0.07**

	Yen		U.S. dollars
	March 31,		
	2005	2004	**2005**
Net assets	**¥709.83**	¥691.60	**$6.60**

Basic net income per share was 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 the year, and diluted net income per share was 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 after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of warrants and stock subscription rights.

Amounts per share of net assets are computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

12.
Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2005 and 2004, 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, 2005						
Buildings and structures	**¥ 7,881**	**¥1,646**	**¥ 6,234**	**$ 73,386**	**$15,327**	**$58,050**
Others	**8,746**	**4,378**	**4,366**	**81,441**	**40,767**	**40,655**
Total	**¥16,629**	**¥6,026**	**¥10,602**	**$154,846**	**$56,113**	**$98,724**
March 31, 2004						
Buildings and structures	¥ 4,322	¥ 888	¥3,434			
Others	8,432	3,864	4,567			
Total	¥12,756	¥4,753	¥8,002			

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥2,683 million ($24,983 thousand), ¥2,105 million and ¥1,864 million for the years ended March 31, 2005, 2004 and 2003, respectively.

Future minimum lease payments subsequent to March 31, 2005 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:				
2006	¥ 2,801	¥ 5,661	$26,082	$ 52,714
2007 and thereafter	7,801	39,139	72,641	364,456
Total	¥10,602	¥44,800	$98,724	$417,171

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, 2005 from noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2006	¥105,993	$ 986,991
2007 and thereafter	573,069	5,336,334
Total	¥679,062	$6,323,326

13.

Contingent Liabilities

At March 31, 2005, 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	¥1,011	$ 9,414
Guarantees of employees' housing loans from banks and others	534	4,972
Other	68	633
Total	¥1,613	$15,020

14.

Other Income (Expenses)

The components of "Other, net" in "Other income (expenses)" for each of the years ended March 31, 2005, 2004 and 2003 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	**2005**
Loss on disposal of fixed assets	**¥ (6,733)**	¥(18,002)	¥(7,541)	**$ (62,696)**
Loss on sales of fixed assets	**(4,730)**	(4,562)	—	**(44,045)**
Gain on sales of fixed assets	**1,196**	—	18,427	**11,136**
Gain on sales of investment securities	**2,644**	7,160	1,872	**24,620**
Loss on valuation of investment securities	**—**	(1,059)	(3,957)	**—**
Loss on cancellation of sublease contracts	**—**	(5,061)	—	**—**
Loss on valuation of inventories	**(5,102)**	(4,008)	(5,915)	**(47,509)**
Loss on disposal of resort and golf businesses	**(6,390)**	—	—	**(59,502)**
Other, net	**(1,799)**	1,806	(3,828)	**(16,733)**
Total	**¥(20,912)**	¥(23,729)	¥ (942)	**$(194,738)**

15.

Supplemental Cash Flow Information

The following table represents a reconciliation of cash and cash equivalents as of March 31, 2005, 2004 and 2003:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	**2005**
Cash	**¥83,226**	¥127,185	¥143,553	**$774,988**
Time deposits with maturities of more than three months	**(1,375)**	(1,665)	(1,925)	**(12,803)**
Marketable securities with maturities of three months or less	**10,472**	5,543	10,822	**97,513**
Resell agreements with maturities of three months or less	**5,000**	5,000	—	**46,559**
Cash and cash equivalents	**¥97,324**	¥136,063	¥152,450	**$906,266**

16.
Derivatives

The Company and certain of its consolidated subsidiaries utilize derivative financial instruments for the purpose of hedging their exposure to adverse fluctuations and changes in interest rates (interest rate swaps) and weather (weather derivatives), 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, 2005 and 2004:

	Millions of yen			Thousands of U.S. dollars		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
March 31, 2005						
Interest rate swaps:						
Receive/floating and pay/fixed	**¥ 5,000**	**¥(49)**	**¥(49)**	**$46,559**	**$(456)**	**$(456)**
Receive/fixed and pay/floating	**5,000**	**75**	**75**	**46,559**	**698**	**698**
Total	**¥10,000**	**¥ 25**	**¥ 25**	**$93,118**	**$ 232**	**$ 232**
March 31, 2004						
Interest rate swaps:						
Receive/floating and pay/fixed	¥ 5,000	¥(86)	¥(86)			
Receive/fixed and pay/floating	5,000	138	138			
Total	¥10,000	¥ 51	¥ 51			

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.

17.
Segment Information

Business segments

The Company and its consolidated subsidiaries are primarily engaged in the real estate business. Effective the year ended March 31, 2005, the Company reorganized its corporate structure and changed its business segmentation from seven segments to newly established eight segments in order to present and disclose the group businesses more appropriately. Their business segments are newly reclassified in terms of the nature of each operation or service and consist of eight segments: (1) buildings; (2) residential development; (3) architectural design & engineering; (4) urban development & investment management; (5) international business; (6) custom-built housing; (7) hotels; and (8) other businesses.

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2005, 2004 and 2003 are summarized as follows:

Millions of yen

2005

	Buildings	Residential development	Architectural design & engineering	Urban development & investment management	International business	Custom-built housing	Hotels	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income											
Revenue from:											
External customers	¥ 281,454	¥210,681	¥12,435	¥8,501	¥183,185	¥35,723	¥31,974	¥11,426	¥ 775,381	¥ —	¥ 775,381
Intersegment or transfers	5,504	407	6,423	108	—	1,733	136	2,054	16,369	(16,369)	—
Total revenue	286,959	211,088	18,859	8,609	183,185	37,456	32,111	13,480	791,750	(16,369)	775,381
Operating expense	203,173	193,436	19,224	4,662	156,740	38,926	31,199	12,891	660,255	(3,107)	657,147
Operating income (loss)	¥ 83,785	¥ 17,651	¥ (364)	¥3,946	¥ 26,445	¥ (1,470)	¥ 912	¥ 589	¥ 131,495	¥(13,261)	¥ 118,233
Total assets, depreciation, and capital expenditures											
Assets	¥2,063,603	¥368,760	¥16,415	¥88,268	¥302,049	¥14,812	¥33,069	¥73,277	¥2,960,257	¥164,256	¥3,124,514
Depreciation	43,702	689	113	539	7,793	161	1,312	730	55,042	502	55,545
Capital expenditures	67,398	945	22	5,374	9,121	333	1,634	911	85,742	(954)	84,787

Thousands of U.S. dollars

2005

	Buildings	Residential development	Architectural design & engineering	Urban development & investment management	International business	Custom-built housing	Hotels	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income											
Revenue from:											
External customers	$ 2,620,858	$1,961,830	$115,792	$ 79,160	$1,705,791	$332,647	$297,737	$106,397	$ 7,220,234	$ —	$ 7,220,234
Intersegment or transfers	51,252	3,789	59,810	1,005	—	16,137	1,266	19,126	152,425	(152,425)	—
Total revenue	2,672,120	1,965,620	175,612	80,165	1,705,791	348,784	299,012	125,523	7,372,660	(152,425)	7,220,234
Operating expense	1,891,917	1,801,247	179,011	43,411	1,459,539	362,473	290,520	120,039	6,148,198	(28,931)	6,119,256
Operating income (loss)	$ 780,193	$ 164,363	$ (3,389)	$ 36,744	$ 246,251	$ (13,688)	$ 8,492	$ 5,484	$ 1,224,462	$(123,484)	$ 1,100,968
Total assets, depreciation, and capital expenditures											
Assets	$19,215,969	$3,433,839	$152,854	$821,938	$2,812,636	$137,927	$307,933	$682,344	$27,565,480	$1,529,527	$29,095,018
Depreciation	406,946	6,415	1,052	5,019	72,567	1,499	12,217	6,797	512,543	4,674	517,226
Capital expenditures	627,600	8,799	204	50,041	84,933	3,100	15,215	8,483	798,416	(8,883)	789,524

To conform to the segmentation used in the year ended March 31, 2005, the segment information for the year ended March 31, 2004 has been restated in accordance with the new segments.

Millions of yen

2004 (renewal segment)

	Buildings	Residential development	Architectural design & engineering	Urban development & investment management	International business	Custom-built housing	Hotels	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income											
Revenue from:											
External customers	¥ 281,606	¥147,993	¥14,172	¥ 2,825	¥153,819	¥39,560	¥30,986	¥ 8,954	¥ 679,918	¥ —	¥ 679,918
Intersegment or transfers	5,675	417	4,156	158	—	1,757	148	1,731	14,045	(14,045)	—
Total revenue	287,281	148,410	18,329	2,984	153,819	41,318	31,134	10,685	693,964	(14,045)	679,918
Operating expense	200,666	132,097	17,291	2,678	139,850	41,668	30,813	11,258	576,324	(155)	576,168
Operating income (loss)	¥ 86,615	¥ 16,313	¥ 1,038	¥ 305	¥ 13,968	¥ (350)	¥ 321	¥ (572)	¥ 117,639	¥(13,890)	¥ 103,749
Total assets, depreciation, and capital expenditures											
Assets	¥1,996,856	¥298,395	¥16,831	¥59,676	¥314,790	¥14,871	¥32,272	¥70,039	¥2,803,733	¥265,109	¥3,068,842
Depreciation	44,328	701	122	198	8,852	167	1,265	845	56,482	542	57,024
Capital expenditures	48,856	821	81	4,373	24,597	164	2,381	338	81,614	(489)	81,125

	Millions of yen									
	2004 (former segment)									
	Buildings	Residential development	Architectural design & 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

	Millions of yen									
	2003 (former segment)									
	Buildings	Residential development	Architectural design & 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	254,950	146,006	18,246	79,037	34,971	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

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, 2005, 2004 and 2003 is summarized as follows:

	Millions of yen					
	2005					
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
Revenue from:						
External customers	**¥ 592,791**	**¥148,420**	**¥34,169**	**¥ 775,381**	**¥ —**	**¥ 775,381**
Intersegment or transfers	**590**	**—**	**—**	**590**	**(590)**	**—**
Total revenue	**593,381**	**148,420**	**34,169**	**775,972**	**(590)**	**775,381**
Operating expenses	**489,133**	**126,799**	**29,453**	**645,386**	**11,761**	**657,147**
Operating income	**¥ 104,247**	**¥ 21,621**	**¥ 4,715**	**¥ 130,585**	**¥ (12,351)**	**¥ 118,233**
Total assets	**¥2,652,657**	**¥207,870**	**¥93,811**	**¥2,954,338**	**¥170,175**	**¥3,124,514**

	Thousands of U.S. dollars					
	2005					
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
Revenue from:						
External customers	**$ 5,519,983**	**$1,382,065**	**$318,176**	**$ 7,220,234**	**$ —**	**$ 7,220,234**
Intersegment or transfers	**5,493**	**—**	**—**	**5,493**	**(5,493)**	**—**
Total revenue	**5,525,477**	**1,382,065**	**318,176**	**7,225,737**	**(5,493)**	**7,220,234**
Operating expenses	**4,554,735**	**1,180,733**	**274,262**	**6,009,740**	**109,516**	**6,119,256**
Operating income	**$ 970,732**	**$ 201,331**	**$ 43,905**	**$ 1,215,988**	**$ (115,010)**	**$ 1,100,968**
Total assets	**$24,701,154**	**$1,935,655**	**$873,554**	**$27,510,364**	**$1,584,644**	**$29,095,018**

	Millions of yen					
	2004					
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
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	¥ 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

	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	¥ 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

Unallocatable operating expenses

Unallocatable operating expenses included under “Eliminations or corporate” for the years ended March 31, 2005, 2004 and 2003 amounted to ¥12,778 million ($118,986 thousand), ¥15,729 million and ¥14,806 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, 2005, 2004 and 2003 amounted to ¥303,660 million ($2,827,637 thousand), ¥378,598 million and ¥248,536 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.

Overseas revenue

The following table represents overseas revenue earned by the Company’s consolidated subsidiaries in foreign countries during the years ended March 31, 2005, 2004 and 2003:

	Millions of yen		
	2005		
	United States	Other areas	Total
Overseas revenue			
Overseas revenue	**¥148,428**	**¥34,170**	**¥182,598**
Consolidated revenue			**775,381**
% of overseas revenue to consolidated revenue	**19.1%**	**4.4%**	**23.5%**

	Thousands of U.S. dollars		
Overseas revenue			
Overseas revenue	**$1,382,139**	**$318,186**	**$1,700,325**
Consolidated revenue			**$7,220,234**

	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%

	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%

18.

Subsequent Events

The Company has seriously continued negotiations with related parties to resolve the issue on how to treat the contaminated soil and underwater of the OAP Residence Tower in Kita-ku, Osaka. In this matter, the entrepreneurs participated in the development project (Mitsubishi Materials Corporation, the Company, OBAYASHI CORPORATION, and Mitsubishi Materials Real Estate Corporation) and the OAP Residence Tower Management Association achieved on May 8, 2005, an agreement on making proposals regarding monetary solution and other matters to the current owners who purchased the OAP Residence Tower condominiums from the entrepreneurs, and entered into a confirmation. The Company formally decided the confirmation at the Board of Directors meeting held on May 12, 2005, to the effect as described below.

1. Proposal to purchasers who intend to continuously own their condominiums

The entrepreneurs shall pay a 25% amount of the purchase price to each purchaser. If any objection will be raised after investigation results are revealed and the subsequent countermeasure works are determined, the purchaser side may be able to make a proposal for negotiations. If the negotiations between the entrepreneurs and the purchasers cannot reach an amicable agreement, the final solution shall be handed to a public conflict-solving organization.

2. Proposal to purchasers who intend to sell their condominiums

An appraisal of the real property shall be requested to a real estate appraiser whom both parties shall agree with on the supposition that there is no problem regarding soil and underground water, then the entrepreneurs shall repurchase the relevant condominiums at the appraised prices. The entrepreneurs shall pay an extra amount of 10% the appraised price other than the repurchase price to each purchaser.

3. Proposal to purchasers who wish any solutions other than the above two proposals

The method of resolving the soil and underwater problems shall be negotiated in good faith. If the negotiations cannot reach an amicable agreement, the final solution shall be handed to a public conflict-solving organization. The entrepreneurs shall pay 5% of the purchase price to each purchaser. This value shall be included in and form a part of the settlement money to be paid by the entrepreneurs to the purchasers.

Based on the substance of the confirmation described above as a basic guideline, the intention of all the owners who bought the condominiums will be checked from now onward and the agreement along with the guidelines will be pursued individually. At this time, the final amount of influence is undeterminable.

Report of Independent Auditors

The Board of Directors
Mitsubishi Estate Co., Ltd.

We have audited the accompanying consolidated balance sheet of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries as of March 31, 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the year ended March 31, 2005, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries at March 31, 2005, and the consolidated results of their operations and their cash flows for the year ended March 31, 2005 in conformity with accounting principles generally accepted in Japan.

Supplemental Information

1. As described in Note 2, effective April 1, 2004, the Company has changed its presentation of income and loss concerning real restate business using specific purpose companies, etc. from non-operating income and loss to operating income and loss.

2. As described in Note 17, effective April 1, 2004, the Company has changed its business segmentation.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

Tokyo, Japan
June 29, 2005

Independent Auditors' Report

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

We have audited the consolidated balance sheets of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries as of March 31, 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.

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.