CONSOLIDATED STATEMENTS OF INCOME

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2006	2005	**2006**
Revenue from operations (Note 2)	**¥ 844,217**	¥775,381	**$ 7,186,660**
Cost of revenue from operations	**(650,389)**	606,957	**(5,536,639)**
Selling, general and administrative expenses	**(56,213)**	50,190	**(478,530)**
Operating income	**137,614**	118,233	**1,171,482**
Other income (expenses):			
Interest and dividend income	**2,788**	2,046	**23,733**
Interest expenses	**(19,876)**	(26,102)	**(169,200)**
Equity in earnings of unconsolidated subsidiaries and affiliates	**6,556**	2,670	**55,809**
Other, net (Note 14)	**(19,169)**	(20,912)	**(163,182)**
	(29,701)	(42,300)	**(252,839)**
Income before income taxes and minority interests	**107,913**	75,933	**918,643**
Income taxes (Notes 1 and 9):			
Current	**(28,509)**	11,525	**(242,691)**
Deferred	**(17,217)**	20,956	**(146,565)**
	(45,726)	32,482	**(389,256)**
Minority interests	**(6,360)**	7,205	**(54,141)**
Net income	**¥ 55,825**	¥ 36,245	**$ 475,227**

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2006	2005	**2006**
Assets			
Current assets:			
Cash (Note 15)	**¥ 139,605**	¥ 83,226	**$ 1,188,431**
Notes and accounts receivable—trade	**63,763**	75,063	**542,802**
Marketable securities (Note 4)	**27,289**	12,547	**232,306**
Allowance for doubtful receivables	**(3,303)**	(3,127)	**(28,117)**
Inventories (Note 5)	**305,800**	263,566	**2,603,217**
Equity investments (Note 4)	**108,978**	103,761	**927,709**
Deferred income taxes (Note 9)	**38,786**	36,545	**330,177**
Other current assets	**47,758**	34,006	**406,554**
Total current assets	**728,679**	605,590	**6,203,107**
Investments:			
Investments in and advances to unconsolidated subsidiaries and affiliates	**51,558**	50,520	**438,903**
Investment securities (Note 4)	**311,519**	176,068	**2,651,902**
Other investments (Notes 6 and 7)	**132,584**	128,641	**1,128,662**
Total investments	**495,662**	355,231	**4,219,477**
Property and equipment (Note 7):			
Land	**1,293,186**	1,365,534	**11,008,649**
Buildings and structures	**1,503,768**	1,509,040	**12,801,293**
Machinery and equipment and other	**102,634**	94,369	**873,703**
Construction in progress	**28,353**	22,778	**241,363**
	2,927,942	2,991,723	**24,925,019**
Less accumulated depreciation	**(931,570)**	(890,762)	**(7,930,280)**
Property and equipment, net	**1,996,372**	2,100,961	**16,994,739**
Intangible and other assets	**59,495**	62,731	**506,469**
Total assets	**¥3,280,209**	¥3,124,514	**$27,923,801**

See accompanying notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2006	2005	**2006**
Liabilities and shareholders' equity			
Current liabilities:			
Short-term borrowings and current portion of long-term debt (Note 7)	**¥ 166,746**	¥ 218,603	**$ 1,419,477**
Notes and accounts payable—trade	**85,502**	82,192	**727,862**
Accrued income taxes (Note 9)	**20,889**	7,291	**177,824**
Advances and deposits	**95,823**	80,477	**815,723**
Accrued expenses and other current liabilities (Note 9)	**76,706**	60,075	**652,983**
Total current liabilities	**445,668**	448,639	**3,793,887**
Long-term debt (Note 7)	**841,015**	979,768	**7,159,402**
Lease deposits received	**304,189**	298,388	**2,589,503**
Accrued employees' retirement benefits (Note 8)	**11,787**	10,590	**100,340**
Deferred income taxes (Note 9)	**459,752**	388,516	**3,913,782**
Other non-current liabilities	**51,456**	42,375	**438,035**
Total liabilities	**2,113,868**	2,168,280	**17,994,960**
Minority interests	**32,717**	35,303	**278,513**
Shareholders' equity (Note 10):			
Common stock, without par value:			
Authorized—1,980,000,000 shares;			
Issued—1,371,189,197 shares in 2006 and 1,299,185,054 shares in 2005	**129,736**	86,534	**1,104,418**
Capital surplus	**158,421**	115,236	**1,348,608**
Land revaluation reserve	**466,259**	424,785	**3,969,175**
Retained earnings	**246,246**	243,577	**2,096,245**
Unrealized holding gain on securities	**142,040**	68,865	**1,209,159**
Foreign currency translation adjustments	**(7,057)**	(16,268)	**(60,074)**
	1,135,647	922,730	**9,667,549**
Less treasury stock, at cost; 1,801,675 shares in 2006 and 1,865,364 shares in 2005	**(2,024)**	(1,800)	**(17,229)**
Total shareholders' equity	**1,133,623**	920,930	**9,650,319**
Contingent liabilities (Note 13)			
Total liabilities and shareholders' equity	**¥3,280,209**	¥3,124,514	**$27,923,801**

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

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, 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
Net income	**—**	**—**	**—**	**55,825**	**—**	**—**	**—**	**55,825**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**9,210**	**—**	**9,210**
Net increase in unrealized holding gain on securities	**—**	**—**	**—**	**—**	**73,175**	**—**	**—**	**73,175**
Gain on sales of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Increase arising from conversion of convertible bonds	**43,202**	**43,202**	**—**	**—**	**—**	**—**	**—**	**86,404**
Land revaluation reserve (Note 1)	**—**	**—**	**41,474**	**(41,474)**	**—**	**—**	**—**	**0**
Changes in consolidated subsidiaries and companies accounted for by the equity method	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**—**	**(11,676)**		**—**	**—**	**(11,676)**
Directors' and statutory auditors' bonuses	**—**	**—**	**—**	**(5)**	**—**	**—**	**—**	**(5)**
Treasury stock	**—**	**(17)**	**—**	**—**	**—**	**—**	**(223)**	**(240)**
Balance at March 31, 2006	**¥129,736**	**¥158,421**	**¥466,259**	**¥246,246**	**¥142,040**	**¥ (7,057)**	**¥(2,024)**	**¥1,133,623**

Thousands of U.S. Dollars (Note 3)

	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, 2005	$ 736,647	$ 980,982	$3,616,114	$2,073,525	$ 586,234	$(138,486)	$(15,323)	$7,839,703
Net income	**—**	**—**	**—**	**475,227**	**—**	**—**	**—**	**475,227**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**78,402**	**—**	**78,402**
Net increase in unrealized holding gain on securities	**—**	**—**	**—**	**—**	**622,925**	**—**	**—**	**622,925**
Gain on sales of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Increase arising from conversion of convertible bonds	**367,770**	**367,770**	**—**	**—**	**—**	**—**	**—**	**735,540**
Land revaluation reserve (Note 1)	**—**	**—**	**353,060**	**(353,060)**	**—**	**—**	**—**	**0**
Changes in consolidated subsidiaries and companies accounted for by the equity method	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**—**	**(99,395)**		**—**	**—**	**(99,395)**
Directors' and statutory auditors' bonuses	**—**	**—**	**—**	**(42)**	**—**	**—**	**—**	**(42)**
Treasury stock	**—**	**(144)**	**—**	**—**	**—**	**—**	**(1,898)**	**(2,043)**
Balance at March 31, 2006	**$1,104,418**	**$1,348,608**	**$3,969,175**	**$2,096,245**	**$1,209,159**	**$ (60,074)**	**$(17,229)**	**$9,650,319**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2006	2005	**2006**
Operating activities			
Income before income taxes and minority interests	**¥ 107,913**	¥ 75,933	**$ 918,643**
Depreciation and amortization	**53,655**	55,545	**456,754**
(Gain) loss on sales or disposal of property and equipment	**(55,530)**	11,434	**(472,716)**
Loss on sales of beneficial interests in trust of property and equipment	**3,327**	(0)	**28,322**
Gain on sales of securities	**(1,031)**	(2,644)	**(8,776)**
Valuation loss on securities	**336**	346	**2,860**
Valuation loss on inventories	**27,639**	5,102	**235,285**
Impairment loss	**35,321**	—	**300,681**
Equity in net income of affiliates	**(6,556)**	(2,670)	**(55,809)**
Increase in allowances	**624**	958	**5,311**
Interest and dividend income	**(2,788)**	(2,047)	**(23,733)**
Interest expense	**19,876**	26,105	**169,200**
Decrease (increase) in notes and accounts receivable	**16,147**	(15,237)	**137,456**
Decrease (increase) in inventories	**(18,425)**	17,005	**(156,848)**
Increase in equity investments	**(514)**	(70,960)	**(4,375)**
Increase in notes and accounts payable	**1,104**	29,462	**9,398**
Decrease in lease deposits received	**5,800**	(10,818)	**49,374**
Other	**11,860**	4,603	**100,961**
Subtotal	**198,763**	122,111	**1,692,032**
Interest and dividends received	**5,396**	2,814	**45,935**
Interest paid	**(19,293)**	(25,195)	**(164,237)**
Income taxes paid	**(15,121)**	(10,830)	**(128,722)**
Net cash provided by operating activities	**169,744**	88,900	**1,444,998**
Investing activities			
Proceeds from sales of marketable securities	**2,029**	2,025	**17,272**
Purchases of marketable securities	**(3,898)**	(1,899)	**(33,182)**
Proceeds from sales of property and equipment	**113,006**	7,304	**961,998**
Purchases of property and equipment	**(60,491)**	(79,793)	**(514,948)**
Proceeds from sales of investment securities	**1,812**	5,498	**15,425**
Purchases of investment securities	**(26,792)**	(25,705)	**(228,075)**
Proceeds from sales of beneficial interests in trust of property and equipment	**9,277**	58	**78,973**
Other	**(5,059)**	101	**(43,066)**
Net cash provided by (used in) investing activities	**29,883**	(92,409)	**254,388**
Financing activities			
Net increase (decrease) in short-term borrowings	**1,544**	(1,487)	**13,143**
Net increase (decrease) in commercial paper	**(58,000)**	58,000	**(493,743)**
Increase in long-term borrowings	**52,347**	152,513	**445,620**
Repayment of long-term borrowings	**(68,305)**	(133,234)	**(581,467)**
Proceeds from issuance of corporate bonds	**40,196**	51,489	**342,180**
Repayment of corporate bonds	**(77,361)**	(146,618)	**(658,559)**
Payments of capital reduction to minority shareholders	**(4,939)**	—	**(42,044)**
Cash dividends paid to minority shareholders	**(11,676)**	(10,381)	**(99,395)**
Other	**(6,269)**	(3,764)	**(53,366)**
Net cash used in financing activities	**(132,463)**	(33,485)	**(1,127,632)**
Effect of exchange rate changes on cash and cash equivalents	**2,602**	(1,977)	**22,150**
Net (decrease) increase in cash and cash equivalents	**69,766**	(38,971)	**593,904**
Cash and cash equivalents at beginning of year	**97,324**	136,063	**828,500**
Increase in cash and cash equivalents arising from mergers and acquisitions	**—**	233	**—**
Cash and cash equivalents at end of year (Note 15)	**¥ 167,090**	¥ 97,324	**$ 1,422,405**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
March 31, 2006 and 2005

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, 2006 and 2005 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.

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 non-current 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. Revenue from consignment commissions for residential sales earned by the real estate service business segment is recognized at the time of contract conclusion for services provided up to the conclusion and at the time of ownership transfer for services provided up to the transfer.

(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 engineering business is recognized at the date of completion of each relevant project, except that certain long-term (over one year) 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 (over one year) 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. See Note 10.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2005 financial statements in order to conform them to the 2006 presentation.

2. ACCOUNTING CHANGE

The Company recognized revenue from consignment-in commissions earned by the real estate services business segment when the ownership was transferred from the seller to the buyer. However, effective from the fiscal year ended March 31, 2006, the Company changed this accounting method for revenue recognition to recognize commissions for services provided up to the conclusion of contracts when the contract is concluded and those for services supplied after the contract conclusion and up to the transfer of ownership when the ownership is transferred.

This new revenue recognition method was adopted to present profit and loss more properly by seeking more reasonable match of expense and revenue in response to the business trend, given that consignment sales for long-term and large-sized projects have been increasing.

As a result of this change, income before income taxes and minority interests increased by ¥1,521 million, compared with the amounts that would have been recorded under the previous accounting method.

As the Accounting Standard for Impairment of Fixed Assets ("Opinion Concerning Establishment of the Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council (BADC) on August 9, 2002) and the Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets ("Financial Accounting Standards Implementation Guidance No. 6" issued on October 31, 2003) became applicable to consolidated financial documents relating to the business years that would start on and after April 1, 2005, the Company has applied the above Accounting Standard and Implementation Guidance for the fiscal year ended March 31, 2006.

As a result, income before income taxes and minority interests decreased by ¥35,321 million compared with the previous accounting method.

The accumulated impairment loss is included in the accumulated depreciation in accordance with the revised Consolidated Financial Statements Regulations.

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 ¥117.47 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2006. 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, 2006 and 2005 are summarized as follows:

			2006			
			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	**¥68,320**	**¥302,986**	**¥234,665**	**$581,595**	**$2,579,262**	**$1,997,658**
Other	**5,330**	**10,364**	**5,033**	**45,373**	**88,226**	**42,844**
Subtotal	**73,651**	**313,350**	**239,699**	**626,977**	**2,667,489**	**2,040,512**
Securities whose cost exceeds their fair value:						
Equity securities	**—**	**—**	**—**	**—**	**—**	**—**
Corporate bonds	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥73,651**	**¥313,350**	**¥239,699**	**$626,977**	**$2,667,489**	**$2,040,512**

			2005
			Millions of yen
	Cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their cost:			
Equity securities	¥60,139	¥176,341	¥116,202
Subtotal	60,139	176,341	116,202
Securities whose cost exceeds their fair value:			
Equity securities	66	49	(17)
Corporate bonds	108	108	—
Subtotal	175	157	(17)
Total	¥60,314	¥176,498	¥116,184

Proceeds from sales of securities classified as other securities totaled ¥166 million ($1,413 thousand) in 2006 and ¥3,752 million in 2005. Gross realized gain was ¥160 million ($1,362 thousand) in 2006 and ¥2,644 million in 2005, respectively.

Marketable debt securities classified as held-to-maturity securities at March 31, 2006 and 2005 are summarized as follows:

			2006			
			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	**¥ 94**	**¥ 95**	**¥ 0**	**$ 800**	**$ 808**	**$ 0**
Subtotal	**94**	**95**	**0**	**800**	**808**	**0**
Debt securities whose cost exceeds their fair value:						
Government bonds	**143**	**140**	**(2)**	**1,217**	**1,191**	**(17)**
Corporate bonds	**1,999**	**1,999**	**(0)**	**17,017**	**17,017**	**(0)**
Other	**1,899**	**1,896**	**(3)**	**16,165**	**16,140**	**(25)**
Subtotal	**4,041**	**4,036**	**(5)**	**34,400**	**34,357**	**(42)**
Total	**¥4,136**	**¥4,131**	**¥(5)**	**$35,208**	**$35,166**	**$(42)**

			2005
			Millions of yen
	Amortized cost	Fair value	Unrealized gain (loss)
Debt securities whose fair value exceeds their cost:			
Government bonds	¥ 197	¥ 199	¥ 1
Subtotal	197	199	1
Debt securities whose cost exceeds their fair value:			
Government bonds	9	9	(0)
Other	1,899	1,898	(0)
Subtotal	1,909	1,908	(0)
Total	¥2,106	¥2,107	¥ 0

Marketable and investment securities recorded at cost at March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Other securities:			
Nonmarketable equity securities			
(other than equity securities listed on the over-the-counter market)	**¥ 18,727**	¥ 18,948	**$ 159,419**
Mutual funds	**351**	343	**2,988**
Commercial papers	**21,671**	10,181	**184,481**
MMF	**1,337**	—	**11,382**
Investments in silent partnerships	**78,849**	84,299	**671,227**
Other	**468**	—	**3,984**
Total	**¥121,403**	¥113,771	**$1,033,481**

The redemption schedule for securities classified as other securities at March 31, 2006 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	¥ 30	¥185	¥25	$ 255	$1,574	$212
Corporate bonds	2,060	—	—	17,536	—	—
Other bonds	1,900	—	—	16,174	—	—
Total	¥3,990	¥185	¥25	$33,966	$1,574	$212

The Company recognized losses on other securities considered other-than-temporary amounting to ¥336 million ($2,860 thousand) and ¥346 million for the years ended March 31, 2006 and 2005, respectively.

5. INVENTORIES

Inventories at March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Real estate for sale	**¥136,926**	¥128,853	**$1,165,625**
Land and housing projects in progress	**147,709**	109,600	**1,257,418**
Land held for development	**8,886**	13,616	**75,644**
Other	**12,277**	11,495	**104,511**
Total	**¥305,800**	¥263,566	**$2,603,217**

6. OTHER INVESTMENTS

Other investments at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Lease deposits	**¥ 71,949**	¥ 72,625	**$ 612,488**
Long-term prepaid expenses and other	**60,634**	56,016	**516,165**
Total	**¥132,584**	¥128,641	**$1,128,662**

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At March 31, 2006 and 2005, short-term borrowings and the current portion of long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Loans, principally from banks	**¥ 49,118**	¥ 45,971	**$ 418,132**
Commercial paper	**—**	58,000	**—**
Current portion of long-term debt	**117,627**	114,631	**1,001,336**
Total	**¥166,746**	¥218,603	**$1,419,477**

The weighted-average interest rates per annum on short-term borrowings outstanding at March 31, 2006 and 2005 were 0.72% and 0.68%, respectively. Short-term borrowings are principally unsecured.

At March 31, 2006 and 2005, long-term debt consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Zero coupon convertible bonds due 2006	**¥ 13,595**	¥ 100,000	**$ 115,731**
4.8% mortgage bonds due 2005	**—**	50,000	**—**
2.125% unsecured bonds due 2005	**—**	10,000	**—**
2.21% unsecured bonds due 2006	**—**	10,000	**—**
1.325% unsecured bonds due 2006	**10,000**	10,000	**85,128**
3.4% unsecured bonds due 2006	**10,000**	10,000	**85,128**
3% unsecured bonds due 2006	**10,000**	10,000	**85,128**
2.975% unsecured bonds due 2007	**30,000**	30,000	**255,384**
2.575% unsecured bonds due 2008	**10,000**	10,000	**85,128**
0.37% unsecured bonds due 2008	**10,000**	10,000	**85,128**
2.525% unsecured bonds due 2008	**10,000**	10,000	**85,128**
3.1% unsecured bonds due 2008	**10,000**	10,000	**85,128**
1.82% unsecured bonds due 2009	**10,000**	10,000	**85,128**
3.075% unsecured bonds due 2009	**10,000**	10,000	**85,128**
2% unsecured bonds due 2009	**10,000**	10,000	**85,128**
1.985% unsecured bonds due 2009	**10,000**	10,000	**85,128**
0.72% unsecured bonds due 2009	**10,000**	10,000	**85,128**
1.9% unsecured bonds due 2010	**10,000**	10,000	**85,128**
1.55% unsecured bonds due 2011	**10,000**	10,000	**85,128**
1.44% unsecured bonds due 2011	**10,000**	10,000	**85,128**
1.16% unsecured bonds due 2011	**10,000**	10,000	**85,128**
3.275% unsecured bonds due 2012	**10,000**	10,000	**85,128**
1.47% unsecured bonds due 2012	**10,000**	10,000	**85,128**
1.58% unsecured bonds due 2012	**20,000**	20,000	**170,256**
1.395% unsecured bonds due 2012	**10,000**	10,000	**85,128**
1.2% unsecured bonds due 2012	**10,000**	10,000	**85,128**
1% unsecured bonds due 2013	**10,000**	10,000	**85,128**
0.785% unsecured bonds due 2013	**10,000**	10,000	**85,128**
1.675% unsecured bonds due 2014	**10,000**	10,000	**85,128**
1.349% unsecured bonds due 2014	**10,000**	10,000	**85,128**
1.65% unsecured bonds due 2014	**10,000**	10,000	**85,128**
1.75% unsecured bonds due 2014	**10,000**	10,000	**85,128**
1.655% unsecured bonds due 2014	**10,000**	10,000	**85,128**
1.409% unsecured bonds due 2015	**10,000**	10,000	**85,128**
1.295% unsecured bounds due 2015	**10,000**	—	**85,128**
1.572% unsecured bounds due 2015	**10,000**	—	**85,128**
1.443% unsecured bounds due 2016	**15,000**	—	**127,692**
3.125% unsecured bonds due 2017	**10,000**	10,000	**85,128**
3% unsecured bonds due 2018	**10,000**	10,000	**85,128**
2.5% unsecured bonds due 2020	**10,000**	10,000	**85,128**
2.42% unsecured bonds due 2022	**10,000**	10,000	**85,128**
1.50% unsecured bonds due 2022	**10,000**	10,000	**85,128**
2.28% unsecured bonds due 2024	**10,000**	10,000	**85,128**
2.9% unsecured bonds due 2032	**10,000**	10,000	**85,128**
2.615% unsecured bonds due 2032	**10,000**	10,000	**85,128**
2.04% unsecured bonds due 2032	**20,000**	20,000	**170,256**
1.72% unsecured bonds due 2033	**10,000**	10,000	**85,128**
7.37% unsecured bonds due 2008 (payable in U.S. dollars)	**2,530**	2,977	**21,537**
Floating rate bonds due 2005 (payable in U.S. dollars)	**—**	2,261	**—**
Floating rate bonds due 2006 (payable in U.S. dollars)	**1,207**	—	**10,274**
Loans from banks and insurance companies:			
Secured	**75,314**	78,821	**641,133**
Unsecured	**390,995**	400,340	**3,328,466**
	958,642	1,094,399	**8,160,738**
Less current portion	**(117,627)**	(114,631)	**(1,001,336)**
Total	**¥ 841,015**	¥ 979,768	**$ 7,159,402**

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, 2006 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2007	¥117,626	$1,001,327
2008	94,602	805,329
2009	92,967	791,410
2010	146,972	1,251,144
2011 and thereafter	506,473	4,311,509
Total	¥958,642	$8,160,738

The assets pledged as collateral for short-term borrowings of ¥5,167 million ($43,985 thousand) and long-term debt of ¥75,314 million ($641,133 thousand) at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Inventories	¥ 25,920	$ 220,652
Land	11,574	98,527
Buildings and structures	72,465	616,880
Machinery and equipment	12,420	105,729
Investment securities	0	0
Other investments	1,064	9,057
Total	¥123,445	$1,050,864

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, 2006 and 2005 for the Company's and its consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Retirement benefit obligation	**¥(84,455)**	¥(80,222)	**$(718,949)**
Plan assets at fair value	**89,914**	62,062	**765,420**
Unfunded retirement benefit obligation	**5,458**	(18,159)	**46,462**
Unrecognized net benefit obligation at transition	**388**	391	**3,302**
Unrecognized actuarial loss	**(13,242)**	10,869	**(112,726)**
Unrecognized prior service cost	**494**	922	**4,205**
Net amounts recognized in the consolidated balance sheet	**(6,900)**	(5,976)	**(58,738)**
Prepaid pension expenses	**4,886**	4,614	**41,593**
Accrued employees' retirement benefits	**¥(11,787)**	¥(10,590)	**$(100,340)**

The components of expenses related to the pension and severance plans for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Service cost	**¥ 3,660**	¥ 3,740	**$ 31,156**
Interest cost	**2,043**	1,982	**17,391**
Expected return on plan assets	**(1,267)**	(1,194)	**(10,785)**
Amortization of net retirement benefit obligation at transition	**51**	48	**434**
Other	**2,669**	1,700	**22,720**
Total	**¥ 7,158**	¥ 6,277	**$ 60,934**

The assumptions used in accounting for the pension and severance plans for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Discount rate	**2.0 – 5.7%**	2.0 – 6.0%
Expected rate of return on plan assets	**1.0 – 7.5%**	1.0 – 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 years ended March 31, 2006 and 2005. 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, 2006 differ from the statutory tax rate for the following reasons:

	2006	2005
Statutory tax rate	**40.69%**	40.69%
Increase (decrease) in income taxes resulting from:		
Change in valuation allowance	**(0.19)**	(2.26)
Different tax rates applied	**1.22**	1.88
Revenues deductible for income tax purposes	**(0.32)**	(0.26)
Expenses not deductible for income tax purposes	**0.34**	0.48
Undistributed earnings of affiliates	**5.15**	2.53
Equity income	**(2.22)**	—
Other	**(2.30)**	(0.27)
Effective tax rates	**42.37%**	42.79%

The significant components of deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred tax assets:			
Net operating loss carry forwards	**¥ 14,719**	¥ 22,362	**$ 125,300**
Accrued retirement allowances and pension costs	**17,029**	14,813	**144,964**
Valuation loss on inventories	**32,615**	23,192	**277,645**
Unrealized loss on property and equipment	**57,761**	46,505	**491,708**
Land revaluation reserve	**63,727**	98,555	**542,495**
Other	**20,606**	17,419	**175,414**
	206,460	222,850	**1,757,555**
Valuation allowance	**(16,212)**	(14,366)	**(138,009)**
Total deferred tax assets	**190,248**	208,483	**1,619,545**
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	**(58,197)**	(63,127)	**(495,420)**
Land revaluation reserve	**(383,346)**	(389,720)	**(3,263,352)**
Unrealized gain on property and equipment	**(31,966)**	(33,062)	**(272,120)**
Unrealized gain on securities	**(97,533)**	(47,282)	**(830,280)**
Other	**(35,646)**	(24,498)	**(303,447)**
Total deferred tax liabilities	**(606,689)**	(557,690)	**(5,164,629)**
Net deferred tax liabilities	**¥(416,441)**	¥(349,207)	**$(3,545,083)**

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 ($184,413 thousand) and ¥21,663 million as of March 31, 2006 and 2005, 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. The Company's shares of common stock have no par value in accordance with the Code.

11. AMOUNTS PER SHARE

Inventories at March 31, 2006 and 2005 are summarized as follows:

	Yen		U.S. dollars
Year ended March 31,	**2006**	2005	**2006**
Net income:			
Basic	**¥42.60**	¥27.93	**$0.36**
Diluted	**40.42**	26.24	**0.34**
Cash dividends applicable to the year	**10.00**	8.00	**0.08**

	Yen		U.S. dollars
March 31,	**2006**	2005	**2006**
Net assets	**¥827.79**	¥709.83	**$7.04**

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, 2006 and 2005, 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:

								2006
	Millions of yen				Thousands of U.S. dollars			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings and structures	**¥12,102**	**¥2,811**	**¥422**	**¥ 8,868**	**$103,022**	**$23,929**	**$3,592**	**$ 75,491**
Others	**8,580**	**4,661**	**165**	**3,754**	**73,039**	**39,678**	**1,404**	**31,957**
Total	**¥20,683**	**¥7,472**	**¥587**	**¥12,623**	**$176,070**	**$63,607**	**$4,997**	**$107,457**

				2005
	Millions of yen			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings and structures	¥ 7,881	¥1,646	—	¥ 6,234
Others	8,746	4,378	—	4,366
Total	¥16,629	¥6,026	—	¥10,602

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥2,959 million ($25,189 thousand) and ¥2,683 million for the years ended March 31, 2006 and 2005, respectively.

Future minimum lease payments subsequent to March 31, 2006 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,				
2007	¥ 3,225	¥ 7,044	$ 27,453	$ 59,964
2008 and thereafter	9,985	45,643	85,000	388,550
	¥13,210	¥52,687	$112,454	$448,514

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, 2006 from noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2007	¥105,826	$ 900,876
2008 and thereafter	592,712	5,045,645
Total	¥698,539	$5,946,531

13. CONTINGENT LIABILITIES

At March 31, 2006, 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	¥ 904	$ 7,695
Guarantees of order made house purchasers' loans from banks and others	361	3,073
Guarantees of employees' housing loans from banks and others	359	3,056
Other	29	246
Total	¥1,654	$14,080

14. OTHER INCOME (EXPENSES)

The components of "Other, net" in "Other income (expenses)" for each of the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Loss on disposal of fixed assets	**¥ (5,054)**	¥ (6,733)	**$ (43,023)**
Loss on sales of fixed assets	**0**	(4,730)	**0**
Gain on sales of fixed assets	**57,823**	1,196	**492,236**
Gain on sales of investment securities	**—**	2,644	**—**
Loss on valuation of investment securities	**—**	—	**—**
Loss on cancellation of sublease contracts	**—**	—	**—**
Loss on valuation of inventories	**(27,639)**	(5,102)	**(235,285)**
Loss on disposal of resort and golf businesses	**—**	(6,390)	**—**
Impairment loss (*1)	**(35,321)**	—	**(300,681)**
Loss on sales of beneficial interest in trust of fixed assets	**(3,327)**	—	**(28,322)**
Loss on soil solution related countermeasures (*2)	**(4,859)**	—	**(41,363)**
Other, net	**(790)**	(1,799)	**(6,725)**
	¥(19,169)	¥(20,912)	**$(163,182)**

(*1) Impairment loss

The Company recorded consolidated impairment losses for the following asset groups for the year under review.

Major application	Category	Location
Golf courses (total 3 groups)	Buildings, land, leasehold, etc.	Sendai, Miyagi Prefecture and other locations
Hotels (total 2 groups)	Buildings, land, structures, etc.	Sendai, Miyagi Prefecture and other locations
Leased assets, etc. (total 41 groups)	Buildings, land, leasehold, etc.	Hiroshima, Hiroshima Prefecture and other locations
Overseas businesses (total 2 groups)	Intangible assets	California, USA and other locations

The asset grouping is made based on minimum unit that generates cash flows, which is substantially independent from cash flows of other assets or asset groups. Company houses are deemed and categorized as shared assets.

As a result, for the year ended March 31, 2006, the book value of a total of 48 asset groups above was reduced to the respective collectible amounts and the reductions were recorded as an impairment loss (¥35,321 million), because the market price fell considerably compared with the book values due to the decline in land price, or profitability considerably decreased due to fallen rent levels or deteriorated market conditions.

The breakdown of such impairment loss was ¥24,618 million in land and leasehold, ¥5,374 million in buildings and structures and ¥5,329 million in other.

The collectible amounts of asset groups are measured with net sale value or use value, and the net sale value is principally expressed as an appraised value by a real estate appraiser. Future cash flows discounted at a rate of 5% are used to compute the use value.

As for the impairment loss on fixed assets in the overseas business, the impairment loss is calculated in accordance with accounting principle generally accepted in the United States.

(*2) Loss on soil solution related countermeasures

This loss represented the loss related to the contaminated soil and groundwater of the OAP Residence Tower in Osaka.

15. SUPPLEMENTAL CASH FLOW INFORMATION

The following table represents a reconciliation of cash and cash equivalents as of March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Cash	**¥139,605**	¥83,226	**$1,188,431**
Time deposits with maturities of more than three months	**(815)**	(1,375)	**(6,937)**
Marketable securities with maturities of three months or less	**23,300**	10,472	**198,348**
Resell agreements with maturities of three months or less	**5,000**	5,000	**42,564**
Cash and cash equivalents	**¥167,090**	¥97,324	**$1,422,405**

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, 2006 and 2005:

	2006					
	Millions of yen			Thousands of U.S. dollars		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Interest rate swaps:						
Receive/floating and pay/fixed	**¥ —**	**¥ —**	**¥ —**	**$ —**	**$ —**	**$ —**
Receive/fixed and pay/floating	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥ —**	**¥ —**	**¥ —**	**$ —**	**$ —**	**$ —**

	2005		
	Millions of yen		
	Notional amount	Fair value	Unrealized gain (loss)
Interest rate swaps:			
Receive/floating and pay/fixed	¥ 5,000	¥(49)	¥(49)
Receive/fixed and pay/floating	5,000	75	75
Total	¥10,000	¥ 25	¥ 25

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, 2006, the Company reorganized its corporate structure and changed its business segmentation from eight segments to newly established nine segments in order to present and disclose the Group businesses more appropriately. The business segments are newly reclassified in terms of the nature of each operation or service and consist of nine segments: (1) buildings; (2) residential development; (3) urban development & investment management; (4) international business; (5) architectural design & engineering; (6) custom-built housing; (7) hotels; (8) real estate services; and (9) other businesses.

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 are summarized as follows:

Millions of Yen

2006	Buildings	Residential development	Urban development & investment management	International business	Architectural design & engineering	Custom-built housing	Hotels	Real estate services	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income												
Revenue from:												
External customers	¥ 306,290	¥203,286	¥ 34,252	¥193,223	¥10,488	¥37,534	¥32,143	¥24,210	¥ 2,787	¥ 844,217	¥ —	¥ 844,217
Intersegment or transfers	5,808	927	21	—	6,614	3,942	256	6,564	1,930	26,065	(26,065)	—
Total revenue	312,099	204,213	34,274	193,223	17,103	41,477	32,399	30,775	4,717	870,283	(26,065)	844,217
Operating expense	222,606	186,476	20,105	170,024	16,875	41,881	31,151	23,022	3,969	716,114	(9,511)	706,603
Operating income (loss)	¥ 89,492	¥ 17,736	¥ 14,169	¥ 23,199	¥ 227	¥ (404)	¥ 1,247	¥ 7,753	¥ 747	¥ 154,169	¥(16,554)	¥ 137,614
Total assets, depreciation, and capital expenditures												
Assets	¥1,987,595	¥338,026	¥103,796	¥345,483	¥18,732	¥16,531	¥30,986	¥70,845	¥37,555	¥2,949,553	¥330,656	¥3,280,209
Depreciation	41,766	833	249	8,578	103	157	1,366	217	167	53,440	214	53,655
Impairment loss	4,048	24,606	—	2,064	—	1,162	2,337	—	1,100	35,321	—	35,321
Capital expenditures	43,432	977	12,924	7,345	12	243	1,358	320	168	66,783	(2,030)	64,753

Thousands of U.S. dollars

2006	Buildings	Residential development	Urban development & investment management	International business	Architectural design & engineering	Custom-built housing	Hotels	Real estate services	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income												
Revenue from:												
External customers	$ 2,607,389	$1,730,535	$291,580	$1,644,871	$ 89,282	$319,519	$273,627	$206,095	$ 23,725	$ 7,186,660	$ —	$ 7,186,660
Intersegment or transfers	49,442	7,891	178	—	56,303	33,557	2,179	55,878	16,429	221,886	(221,886)	—
Total revenue	2,656,840	1,738,426	291,768	1,644,871	145,594	353,085	275,806	261,981	40,154	7,408,555	(221,886)	7,186,660
Operating expense	1,895,002	1,587,435	171,150	1,447,382	143,653	356,525	265,182	195,981	33,787	6,096,143	(80,965)	6,015,178
Operating income (loss)	$ 761,828	$ 150,983	$120,618	$ 197,488	$ 1,932	$ (3,439)	$ 10,615	$ 65,999	$ 6,359	$ 1,312,411	$ (140,921)	$ 1,171,482
Total assets, depreciation, and capital expenditures												
Assets	$16,920,022	$2,877,551	$883,595	$2,941,031	$159,461	$140,725	$263,777	$603,090	$319,698	$25,108,989	$2,814,812	$27,923,801
Depreciation	355,546	7,091	2,119	73,022	876	1,336	11,628	1,847	1,421	454,924	1,821	456,754
Impairment loss	34,459	209,466	—	17,570	—	9,891	19,894	—	9,364	300,681	—	300,681
Capital expenditures	369,728	8,317	110,019	62,526	102	2,068	11,560	2,724	1,430	568,511	(17,281)	551,230

To conform to the segmentation used in the year ended March 31, 2006, the segment information for the year ended March 31, 2005 has been restated in accordance with the new segments.

Millions of Yen

2005	Buildings	Residential development	Urban development & investment management	International business	Architectural design & engineering	Custom-built housing	Hotels	Real estate services	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income												
Revenue from:												
External customers	¥ 281,454	¥199,528	¥ 8,501	¥183,185	¥12,435	¥35,723	¥31,974	¥18,963	¥ 3,614	¥ 775,381	¥ —	¥ 775,381
Intersegment or transfers	5,504	937	108	—	6,423	1,733	136	4,931	2,012	21,788	(21,788)	—
Total revenue	286,959	200,465	8,609	183,185	18,859	37,456	32,111	23,895	5,627	797,170	(21,788)	775,381
Operating expense	203,173	187,217	4,662	156,740	19,224	38,926	31,199	20,166	4,377	665,688	(8,541)	657,147
Operating income (loss)	¥ 83,785	¥ 13,248	¥ 3,946	¥ 26,445	¥ (364)	¥(1,470)	¥ 912	¥ 3,728	¥ 1,250	¥ 131,481	¥(13,247)	¥ 118,233
Total assets, depreciation, and capital expenditures												
Assets	¥2,063,603	¥365,607	¥88,268	¥302,049	¥16,415	¥14,812	¥33,069	¥83,690	¥41,852	¥3,009,370	¥115,144	¥3,124,514
Depreciation	43,702	997	539	7,793	113	161	1,312	157	264	55,042	502	55,545
Capital expenditures	67,398	924	5,374	9,121	22	333	1,634	440	492	85,742	(954)	84,787

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, 2006 and 2005 is summarized as follows:

						2006
						Millions of yen
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
Revenue from:						
External customers	**¥ 651,716**	**¥144,434**	**¥ 48,066**	**¥ 844,217**	**¥ —**	**¥ 844,217**
Intersegment or transfers	**668**	**—**	**—**	**668**	**(668)**	**—**
Total revenue	**652,385**	**144,434**	**48,066**	**844,886**	**(668)**	**844,217**
Operating expenses	**524,314**	**129,330**	**40,141**	**693,786**	**12,816**	**706,603**
Operating income	**¥ 128,071**	**¥ 15,103**	**¥ 7,925**	**¥ 151,100**	**¥ (13,485)**	**¥ 137,614**
Total assets	**¥2,561,007**	**¥231,963**	**¥113,291**	**¥2,906,261**	**¥373,947**	**¥3,280,209**

						2006
						Thousands of U.S. dollars
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
Revenue from:						
External customers	**$ 5,547,935**	**$1,229,539**	**$409,176**	**$ 7,186,660**	**$ —**	**$ 7,186,660**
Intersegment or transfers	**5,686**	**—**	**—**	**5,686**	**(5,686)**	**—**
Total revenue	**5,553,630**	**1,229,539**	**409,176**	**7,192,355**	**(5,686)**	**7,186,660**
Operating expenses	**4,463,386**	**1,100,961**	**341,712**	**5,906,069**	**109,100**	**6,015,178**
Operating income	**$ 1,090,244**	**$ 128,568**	**$ 67,464**	**$ 1,286,285**	**$ (114,795)**	**$ 1,171,482**
Total assets	**$21,801,370**	**$1,974,657**	**$964,424**	**$24,740,452**	**$3,183,340**	**$27,923,801**

						2005
						Millions of yen
	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

Unallocatable operating expenses

Unallocatable operating expenses included under "Eliminations or corporate" for the years ended March 31, 2006 and 2005 amounted to ¥13,673 million ($116,395 thousand) and ¥12,778 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, 2006 and 2005 amounted to ¥496,471 million ($4,226,364 thousand) and ¥303,660 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, 2006 and 2005:

			Millions of yen
			2006
	United States	Other areas	Total
Overseas revenue			
Overseas revenue	**¥144,441**	**¥48,109**	**¥192,550**
Consolidated revenue			**844,217**
% of overseas revenue to consolidated revenue	**17.1%**	**5.7%**	**22.8%**

			Thousands of U.S. dollars
			2006
	United States	Other areas	Total
Overseas revenue			
Overseas revenue	**$1,229,599**	**$409,542**	**$1,639,141**
Consolidated revenue			**$7,186,660**

			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%

ERNST & YOUNG SHINNIHON

Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

Tel: 03 3503 1100
Fax: 03 3503 1197

Report of Independent Auditors

The Board of Directors
Mitsubishi Estate Co., Ltd.

We have audited the accompanying consolidated balance sheets of Mitsubishi Estate Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

1. As described in Note 2, effective April 1, 2005, the Company has changed its accounting method for revenue recognition concerning consignment commissions for residential sales earned by the real estate services business segment.

2. As described in Note 2, effective April 1, 2005, the Company has adopted a new accounting standard for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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, 2006