Financial Section

Contents

Financial Review

SUMMARY

In the fiscal year ended March 31, 2007, Mitsubishi Estate reported historic highs in each of its major revenue and earnings categories. Revenue from operations increased 12.3% compared with the previous fiscal year. On the earnings front, operating income climbed 20.7%, while net income surged 74.9% year on year.

In the Buildings segment, strong results were fueled by contributions for the full fiscal year mainly from new buildings in connection with the Marunouchi Redevelopment Project and the sale of assets. Conditions were also positive in the Residential Development segment, which benefited from an improvement in condominium gross profit margins and an increase in the of condominiums sold, and in the Urban Development & Investment Management segment, which benefited from gains on sales of development properties. Buoyed by positive results, revenue from operations increased for the third year in succession. Operating income climbed for the fifth consecutive year, while net income rose for the third year in a row.

REVENUE FROM OPERATIONS

Revenue from operations for the fiscal year ended March 31, 2007 was ¥947,641 million, an increase of ¥103,424 million, or 12.3%, compared with the previous fiscal year. Details of results and operating conditions for each business segment are provided as follows.

In the Building Business segment, despite the impact of a decline in revenue from the closure of existing buildings for reconstruction as part of the Marunouchi Redevelopment Project, results benefited from an increase in occupancy rates and contributions for the full fiscal year from the Tokyo Building, which was completed in October 2005, as well as contributions from the disposition of a portion of equity held in the Sanno Grand Building, the Harumi Park Building, the new wing of the Harumi Park Building, and the Nishiki Park Building, the latter of which was acquired in March 2005. As a result of the above factors, revenue from segment operations increased ¥41,857 million, or 13.4%, to ¥353,956 million.

On a year-on-year basis, revenue in the Residential Business segment climbed ¥27,301 million, or 13.4%, to ¥231,514 million, thanks an increase in the number of condominiums sold by 575 to 3,445.

In the Urban Development & Investment Management segment, revenue advanced due to the sale of Kitanomaru Square, a building completed in January 2006, and the inclusion of a part of an anonymous partnership. As a result, revenue from operations increased ¥3,942 million, or 11.5%, to ¥38,216 million.

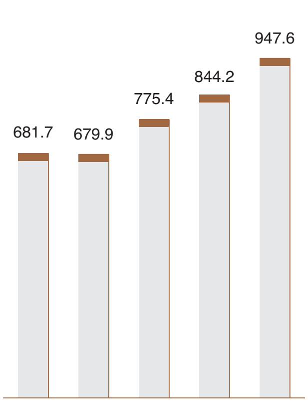
Focusing mainly on the robust real estate markets in Europe and the United States, revenue from Mitsubishi Estate's International Business segment rose ¥33,221 million, or 17.2%, to ¥226,444 million. This was primarily attributed to increased revenue from the real estate brokerage business of Cushman & Wakefield, Inc., and to stable operations in real estate development and leasing businesses.

In the Architectural Design & Engineering segment, an increase in the number of completed projects, a decline in the sales cost ratio and other factors contributed to an increase in revenue of ¥687 million, or 4.0%, to ¥17,790 million.

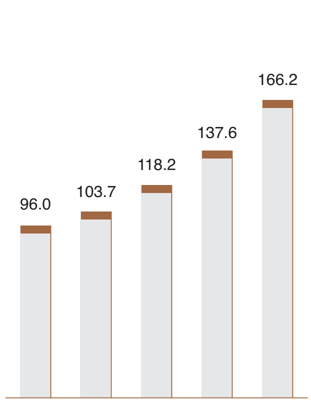
In the Custom-Built Housing segment, revenue decreased ¥6,927 million, down 16.7% year on year, to ¥34,550 million, due to greater consolidation of sales bases in the Tokyo and Osaka metropolitan areas compared to the previous fiscal year.

In the Hotel Business segment, despite the sale of the Atsugi Royal Park Hotel, brisk business in the banquet-related business at the Yokohama Royal Park and other hotels contributed to an increase in revenue from operations of ¥1,094 million, or 3.4%, to ¥33,493 million.

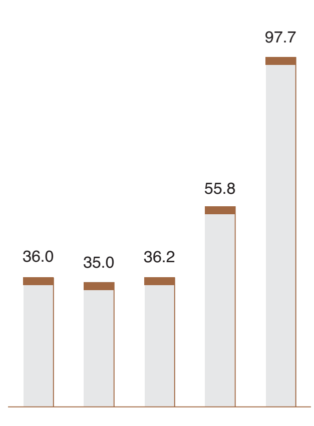
Revenue from Operations (Billions of yen)



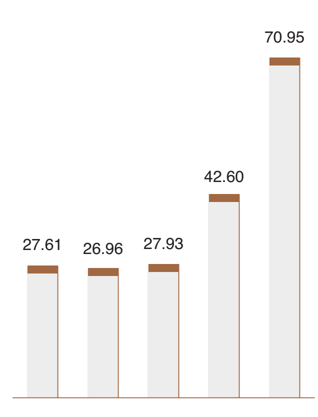
Operating Income (Billions of yen)



Net Income (Billions of yen)



Net Income Per Share (Basic) (Yen)



In the Real Estate Services segment, higher revenue from real estate brokerage was more than offset by a decline in home sales agency revenue caused by a change in accounting standards for recording real estate brokerage fees from the previous fiscal year, resulting in a decrease in revenue from operations of ¥1,924 million, or 6.3%, to ¥28,851 million.

Revenue from the Other segment declined ¥457 million, down 9.7%, to ¥4,260 million.

ANALYSIS OF INCOME

Compared with the previous fiscal year, operating income increased ¥28,551 million, or 20.7%, to ¥166,165 million.

Operating income in the Building Business segment climbed 12.0% due to the full fiscal year contributions from buildings completed during the fiscal year ended March 31, 2006. In addition, operating income in the Residential Business segment rose 35.2%, resulting from the improvement in gross profit margins, and surged 66.0% in the Urban Development & Investment Management segment, owing to the distribution of profits from investments in an anonymous partnership in association with the sale of properties. On a year-on-year basis, operating income in the International Business segment fell 5.1%, reflecting a decline in fee income from a Group investment advisory company. In the Real Estate Services segment, operating income dropped 21.6% on the back of lower sales brokerage revenue resulting from changes in accounting standards related to the recording of sales. Operating income in the Architectural Design & Engineering and Hotel Business segments improved while the operating loss in the Custom-Built Housing segment narrowed.

OTHER INCOME (EXPENSES)

In the fiscal year under review, other income (expenses) amounted to net other income of ¥11,804 million, an improvement of ¥41,505 million compared to the previous fiscal year. This was mainly due to increases in interest and dividend income as well as to gain on sales of shares of affiliated companies in “other, net.” Interest and dividend income increased ¥1,324 million to ¥4,112 million. Equity in earnings of unconsolidated subsidiaries and affiliates climbed ¥1,538 million to ¥8,094 million. Interest expenses totaled ¥18,873 million, a year-on-year improvement of ¥1,003 million. Other, net income jumped by ¥37,639 million to ¥18,470 million.

NET INCOME

Compared with the previous fiscal term, income before income taxes and minority interests increased ¥70,056 million, or 64.9%, to ¥177,969 million. Net income in the fiscal year under review rose ¥41,837 million, or 74.9%, to ¥97,662 million, and net income per share was ¥70.95.

ANALYSIS OF FINANCIAL POSITION

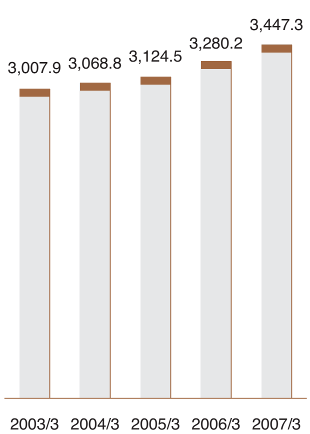
(1) Consolidated Cash Flow

On a consolidated basis, cash and cash equivalents (hereafter “cash”) at the end of the fiscal year under review rose ¥38,999 million to ¥206,089 million. The main sources of cash were income before income taxes and minority interests, depreciation and amortization, proceeds from sales of property and equipment, proceeds from issuance of corporate bonds and increase in long-term borrowings. The main uses of cash were purchases of property and equipment, repayment of corporate bonds and repayment of long-term borrowings.

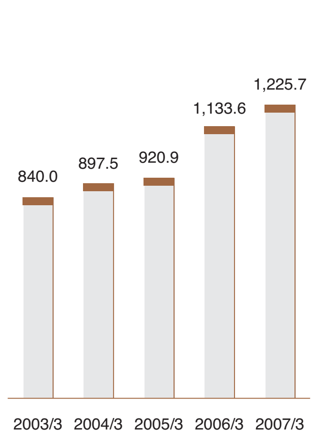
Cash Flows from Operating Activities

Net cash provided by operating activities was ¥150,710 million, down ¥19,034 million compared with the previous fiscal year. For the period under review, income before income taxes and minority interests amounted to ¥177,969 million and non-cash items such as

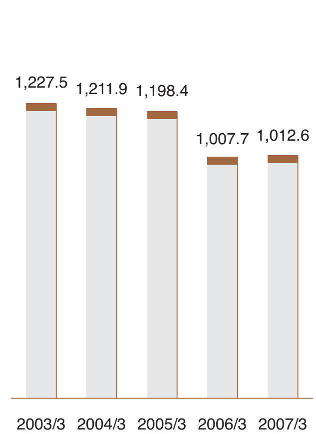
Total Assets (Billions of yen)



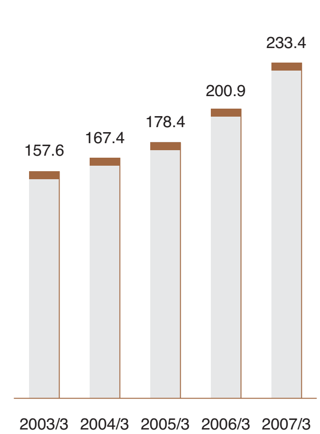
Total Equity (Billions of yen)



Interest-Bearing Debt (Billions of yen)



EBITDA (Billions of yen)



depreciation and amortization totaled ¥54,257 million. In addition, Mitsubishi Estate recorded decreases in notes and accounts receivable as well as equity investments, and an increase in notes and accounts payable.

Cash Flows from Investing Activities

In the fiscal year under review, net cash used in investing activities was ¥85,389 million, a turnaround of ¥115,272 million. This was mainly attributed to the acquisition of property and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥34,093 million, down ¥98,370 million compared with the previous fiscal year. While Mitsubishi Estate received cash from the increase in long-term borrowings and the issuance of corporate bonds, this was more than offset by outflows attributed to the repayment of both long-term borrowings and corporate bonds.

(2) Consolidated Balance Sheets

Compared with the previous fiscal year-end, total assets increased ¥167,063 million to ¥3,447,272 million as a result of the operating, investing and financing activities previously mentioned.

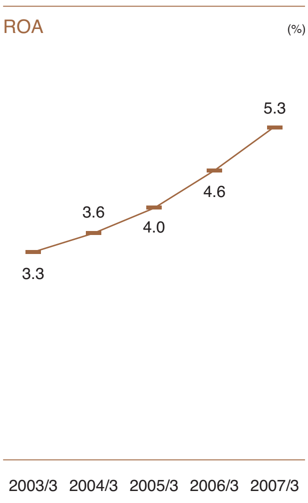
Total liabilities, when compared to the previous fiscal year-end, increased ¥72,496 million to ¥2,186,364 million. Net assets increased ¥94,568 million to ¥1,260,908 million due primarily to an increase in retained earnings.

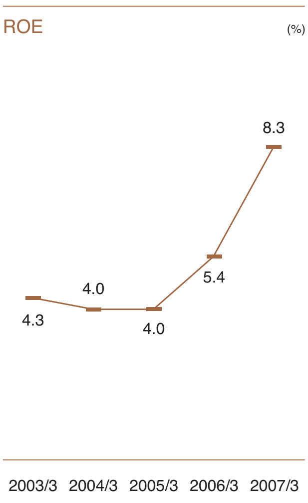
Note: In line with changes to accounting standards adopted in fiscal 2006, figures for "shareholders' equity" for the fiscal year ended March 31, 2006 have been restated as "net assets."

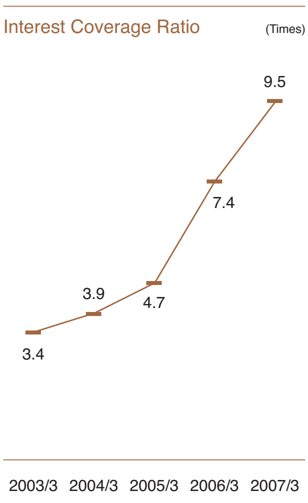
MANAGEMENT INITIATIVES AND FINANCIAL STRATEGIES

In its new three-year Medium-Term Management Plan (April 1, 2005 through March 31, 2008), the Company set a goal for earnings before interest, taxes, depreciation and amortization (EBITDA) of ¥200 billion, to be achieved by the final fiscal year of the Plan, ending March 31, 2008. Against this target, EBITDA for the fiscal year ended March 31, 2006 was ¥200.9 billion. Accordingly, Mitsubishi Estate achieved its goal two years in advance. EBITDA for the fiscal year under review increased year on year to ¥233.4 billion. Looking to the future, Mitsubishi Estate will continue to position EBITDA as a core component of its management policies. To this end, the Company has formulated the fundamental strategies of rebuilding a dynamic and flexible management structure, securing an optimal business portfolio, improving its asset portfolio, and strengthening its development-based real estate solutions capabilities.

Recognizing the long-term nature of cash flows in its mainstay Building Business operations, Mitsubishi Estate has adopted a financial strategy based on the procurement of long-term funds at stable interest rates. At the present time, Mitsubishi Estate is taking advantage of favorably low interest rates through the issue of long-term corporate bonds with maturity dates of more than 10 years. Under its Medium-Term Management Plan, Mitsubishi Estate has identified the goal to maintain the net balance of interest-bearing debt as of March 31, 2008 to within five times of EBITDA, and it promotes management awareness of the level of interest-bearing debt based on earning capacity. As a result of the repayment of liabilities and the conversion of convertible bonds to common stock, the balance of interest-bearing debt as of March 31, 2007 stood at ¥1,012.6 billion. Deducting cash and cash equivalents, the net balance of interest-bearing debt as of the fiscal year-end was ¥806.5 billion, clearing the aforementioned target ratio of EBITDA.







Consolidated Statements of Income

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Revenue from operations	¥ 947,641	¥ 844,217	$ 7,956,016
Cost of revenue from operations	(719,337)	(650,389)	(6,039,274)
Selling, general and administrative expenses	(62,137)	(56,213)	(521,684)
Operating income	166,165	137,614	1,395,057
Other income (expenses):			
Interest and dividend income	4,112	2,788	34,531
Interest expenses	(18,873)	(19,876)	(158,451)
Equity in earnings of unconsolidated subsidiaries and affiliates	8,094	6,556	67,958
Other, net (Note 14)	18,470	(19,169)	155,067
	11,804	(29,701)	99,105
Income before income taxes and minority interests	177,969	107,913	1,494,162
Income taxes (Notes 1 and 9):			
Current	(54,069)	(28,509)	(453,942)
Deferred	(20,100)	(17,217)	(168,759)
	(74,169)	(45,726)	(622,701)
Minority interests	(6,137)	(6,360)	(51,523)
Net income	¥ 97,662	¥ 55,825	$ 819,937

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Assets			
Current assets:			
Cash (Notes 7 and 15)	¥ 201,107	¥ 139,605	$ 1,688,417
Notes and accounts receivable – trade (Note 7)	33,912	63,763	284,718
Marketable securities (Note 4)	6,160	27,289	51,718
Allowance for doubtful receivables	(421)	(3,303)	(3,542)
Inventories (Note 5)	300,180	305,800	2,520,198
Equity investments (Note 4)	127,099	108,978	1,067,073
Deferred income taxes (Note 9)	36,827	38,786	309,185
Other current assets	33,702	47,758	282,953
Total current assets	738,568	728,679	6,200,723
Investments:			
Investments in and advances to unconsolidated subsidiaries and affiliates	57,571	51,558	483,346
Investment securities (Note 4)	300,470	311,519	2,522,628
Other investments (Notes 6 and 7)	132,075	132,584	1,108,849
Total investments	490,116	495,662	4,114,824
Property and equipment (Note 7):			
Land	1,414,754	1,293,186	11,877,712
Buildings and structures	1,515,603	1,503,768	12,724,400
Machinery and equipment and other	82,207	102,634	690,181
Construction in progress	88,170	28,353	740,246
	3,100,735	2,927,942	26,032,540
Less accumulated depreciation	(916,496)	(931,570)	(7,694,539)
Property and equipment, net	2,184,239	1,996,372	18,338,001
Intangible and other assets	34,348	59,495	288,372
Total assets	¥3,447,272	¥3,280,209	$28,941,922

See accompanying notes to consolidated financial statements.

		Millions of yen	Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Liabilities and net assets			
Current liabilities:			
Short-term borrowings and current portion of long-term debt (Note 7)	¥ 140,969	¥ 166,746	$ 1,183,519
Notes and accounts payable – trade	72,301	85,502	607,015
Accrued income taxes (Note 9)	38,078	20,889	319,693
Advances and deposits	104,577	95,823	877,992
Accrued expenses and other current liabilities (Note 9)	118,029	76,706	990,931
Total current liabilities	473,956	445,668	3,979,151
Long-term debt (Note 7)	871,619	841,015	7,317,770
Lease deposits received	306,546	304,189	2,573,640
Accrued employees' retirement benefits (Note 8)	13,433	11,787	112,779
Deferred income taxes (Note 9)	481,667	459,752	4,043,888
Other non-current liabilities	39,140	51,456	328,609
Total liabilities	2,186,364	2,113,868	18,355,839
Net assets:			
Shareholders' equity (Note 10):			
Common stock, without par value:			
Authorized — 1,980,000,000 shares;			
Issued — 1,382,518,351 shares in 2007 and			
1,371,189,197 shares in 2006	136,534	129,736	1,146,286
Capital surplus	165,216	158,421	1,387,089
Retained earnings	324,611	246,246	2,725,307
Less treasury stock, at cost	(2,965)	(2,024)	(24,896)
Total shareholders' equity	623,396	532,381	5,233,786
Valuation, translation adjustments and others:			
Unrealized holding gain on securities	133,843	142,040	1,123,698
Deferred gains or losses on hedging instruments	161	–	1,353
Land revaluation reserve	470,397	466,259	3,949,270
Foreign currency translation adjustments	(2,154)	(7,057)	(18,090)
Total valuation, translation adjustments and others	602,247	601,242	5,056,231
Stock acquisition rights	79	–	664
Minority interests	35,185	32,717	295,399
Contingent liabilities (Note 13)			
Total net assets	1,260,908	1,166,340	10,586,082
Total liabilities and net assets	¥3,447,272	¥3,280,209	$28,941,922

Consolidated Statements of Changes in Net Assets

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2005	¥ 86,534	¥115,236	¥243,577	¥(1,800)	¥443,547
Increase arising from conversion of convertible bonds	43,202	43,202			86,404
Cash dividends paid			(11,676)		(11,676)
Net income			55,825		55,825
Treasury stock		(17)		(223)	(240)
Directors' and statutory auditors' bonuses			(5)		(5)
Land revaluation reserve (Note 1)			(41,474)		(41,474)
Net change in items other than those in shareholders' equity					
Balance at March 31, 2006	129,736	158,421	246,246	(2,024)	532,381
Changes in the year:					
Increase arising from conversion of convertible bonds	6,797	6,797			13,594
Cash dividends paid			(15,132)		(15,132)
Net income			97,662		97,662
Purchase of treasury stock				(1,145)	(1,145)
Disposal of treasury stock		(2)	(13)	204	187
Directors' and statutory auditors' bonuses			(5)		(5)
Land revaluation reserve (Note 1)			(4,138)		(4,138)
Changes in consolidated subsidiaries and companies accounted for by the equity method			(8)		(8)
Net change in items other than those in shareholders' equity					
Total of changes in the year	6,797	6,794	78,364	(941)	91,015
Balance at March 31, 2007	¥136,534	¥165,216	¥324,611	¥(2,965)	¥623,396

	Millions of yen							
	Valuation, translation adjustments and others							
	Unrealized gain on securities	Deferred gains or losses on hedging instruments	Land revaluation reserve	Foreign currency translation adjustments	Total valuation, translation adjustments and others	Stock acquisition rights	Minority interests	Total net assets
Balance at March 31, 2005	¥ 68,865	¥ –	¥424,785	¥(16,268)	¥477,382	¥ –	¥35,303	¥ 956,233
Increase arising from conversion of convertible bonds								86,404
Cash dividends paid								(11,676)
Net income								55,825
Treasury stock								(240)
Directors' and statutory auditors' bonuses								(5)
Land revaluation reserve (Note 1)								(41,474)
Net change in items other than those in shareholders' equity	73,175		41,474	9,210	123,860		(2,585)	121,274
Balance at March 31, 2006	142,040	–	466,259	(7,057)	601,242	–	32,717	1,166,340
Changes in the year:								
Increase arising from conversion of convertible bonds								13,594
Cash dividends paid								(15,132)
Net income								97,662
Purchase of treasury stock								(1,145)
Disposal of treasury stock								187
Directors' and statutory auditors' bonuses								(5)
Land revaluation reserve (Note 1)								(4,138)
Changes in consolidated subsidiaries and companies accounted for by the equity method								(8)
Net change in items other than those in shareholders' equity	(8,197)	161	4,138	4,902	1,005	79	2,467	3,552
Total of changes in the year	(8,197)	161	4,138	4,902	1,005	79	2,467	94,567
Balance at March 31, 2007	¥133,843	¥161	¥470,397	¥ (2,154)	¥602,247	¥79	¥35,185	¥1,260,908

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets (continued)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	Thousands of U.S. dollars (Note 3)				
	Shareholders' equity				
Balance at March 31, 2006	$1,089,217	$1,330,044	$2,067,389	$(16,993)	$4,469,658
Changes in the year:					
Increase arising from conversion of convertible bonds	57,069	57,069			114,138
Cash dividends paid			(127,042)		(127,042)
Net income			819,937		819,937
Purchase of treasury stock				(9,616)	(9,616)
Disposal of treasury stock		(24)	(114)	1,712	1,573
Directors' and statutory auditors' bonuses			(45)		(45)
Land revaluation reserve (Note 1)			(34,742)		(34,742)
Changes in consolidated subsidiaries and companies accounted for by the equity method			(74)		(74)
Net change in items other than those in shareholders' equity					
Total of changes in the year	57,069	57,044	657,917	(7,903)	764,127
Balance at March 31, 2007	$1,146,286	$1,387,089	$2,725,307	$(24,896)	$5,233,786

	Unrealized gain on securities	Deferred gains or losses on hedging instruments	Land revaluation reserve	Foreign currency translation adjustments	Total valuation, translation adjustments and others	Stock acquisition rights	Minority interests	Total net assets
	Thousands of U.S. dollars (Note 3)							
	Valuation, translation adjustments and others							
Balance at March 31, 2006	$1,192,518	$ –	$3,914,527	$(59,253)	$5,047,792	$ –	$274,681	$9,792,132
Changes in the year:								
Increase arising from conversion of convertible bonds								114,138
Cash dividends paid								(127,042)
Net income								819,937
Purchase of treasury stock								(9,616)
Disposal of treasury stock								1,573
Directors' and statutory auditors' bonuses								(45)
Land revaluation reserve (Note 1)								(34,742)
Changes in consolidated subsidiaries and companies accounted for by the equity method								(74)
Net change in items other than those in shareholders' equity	(68,819)	1,353	34,742	41,163	8,439	664	20,718	29,822
Total of changes in the year	(68,819)	1,353	34,742	41,163	8,439	664	20,718	793,949
Balance at March 31, 2007	$1,123,698	$1,353	$3,949,270	$(18,090)	$5,056,231	$664	$295,399	$10,586,082

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 177,969	¥ 107,913	$ 1,494,162
Depreciation and amortization	54,257	53,655	455,522
Loss (gain) on sales or disposal of property and equipment	9,789	(55,530)	82,184
(Gain) loss on sales of beneficial interests in trust of property and equipment	(1,895)	3,327	(15,909)
Gains on sales of securities	(40,945)	(1,031)	(343,760)
Valuation loss on securities	119	336	1,005
Gains on sale of investment	(2,150)	–	(18,057)
Valuation loss on inventories	–	27,639	0
Impairment loss	5,503	35,321	46,206
Equity in net income of affiliates	(8,094)	(6,556)	(67,958)
(Decrease) increase in allowances	(1,501)	624	(12,609)
Interest and dividend income	(4,112)	(2,788)	(34,531)
Interest expense	18,873	19,876	158,451
(Decrease) increase in notes and accounts receivable	(18,132)	16,147	(152,236)
Decrease (increase) in inventories	8,394	(18,425)	70,475
Increase in equity investments	(20,388)	(514)	(171,176)
Increase in notes and accounts payable	16,225	1,104	136,222
(Decrease) increase in lease deposits received	(35)	5,800	(298)
Other	5,793	11,860	48,640
Subtotal	199,668	198,763	1,676,334
Interest and dividends received	4,818	5,936	40,451
Interest paid	(18,637)	(19,293)	(156,472)
Income taxes paid	(35,138)	(15,121)	(295,009)
Net cash provided by operating activities	150,710	169,744	1,265,304
Cash flows from investing activities			
Proceeds from sales of marketable securities	3,928	2,029	32,984
Purchases of marketable securities	(109)	(3,898)	(920)
Proceeds from sales of property and equipment	7,771	113,006	65,243
Purchases of property and equipment	(138,169)	(60,491)	(1,160,018)
Proceeds from sales of investment securities	56,388	1,812	473,414
Purchases of investment securities	(22,640)	(26,792)	(190,083)
Proceeds from sales of beneficial interests in trust of property and equipment	2,858	9,277	24,002
Other	4,583	(5,059)	38,480
Net cash (used in) provided by investing activities	(85,389)	29,883	(716,897)
Cash flows from financing activities			
Net (decrease) increase in short-term borrowings	(2,835)	1,544	(23,807)
Net decrease in commercial paper	–	(58,000)	–
Increase in long-term borrowings	119,922	52,347	1,006,817
Repayment of long-term borrowings	(123,524)	(68,305)	(1,037,062)
Proceeds from issuance of corporate bonds	21,974	40,196	184,486
Repayment of corporate bonds	(33,077)	(77,361)	(277,701)
Payments of capital reduction to minority shareholders	–	(4,939)	–
Cash dividends paid	(15,132)	(11,676)	(127,042)
Other	(1,420)	(6,269)	(11,928)
Net cash used in financing activities	(34,093)	(132,463)	(286,238)
Effect of exchange rate changes on cash and cash equivalents	3,344	2,602	28,076
Net increase in cash and cash equivalents	34,571	69,766	290,244
Cash and cash equivalents at beginning of year	167,090	97,324	1,402,828
Increase in cash and cash equivalents arising from mergers and acquisitions	4,427	–	37,172
Cash and cash equivalents at end of year (Note 15)	¥ 206,089	¥ 167,090	$ 1,730,245

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

1. Significant Accounting Policies

a. 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 from 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.

The financial statements of the Company's overseas consolidated subsidiaries are prepared on the basis of the accounting and relevant legal requirements of their countries of domicile.

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 of Japan, 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.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

b. 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.

c. 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.

d. 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.

e. 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, 2007 and 2006 is presented in Note 15.

f. 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 net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

g. 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.

h. 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, for 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 related unrealized gain, net of applicable income taxes, has been recorded as "land revaluation reserve" in net assets.

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.

i. Leases

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except for leases that stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

j. 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 amortized over a period of five 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 through 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.

k. 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, adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is calculated for 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 a period ranging from five to 15 years, which are shorter than the average remaining years of service of the employees.

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

Until the fiscal year ended March 31, 2007, the Company and certain of its consolidated subsidiaries had retirement benefit plans for directors and statutory auditors who were customarily entitled to lump-sum payments under the Company's and its consolidated subsidiaries' respective internal regulations. Accrued severance benefits for these officers were provided at estimated amounts and were included in "other non-current liabilities."

The Annual General Shareholders' Meeting held on June 29, 2006 approved a resolution for the termination of the Company's retirement benefit plans for directors and statutory auditors and for the payment of the related benefits to them based on their respective service periods commencing from the date of appointment to June 29, 2006. The Company has reversed all accumulated reserved benefits for them, with the balance of unpaid retirement benefits as of March 31, 2007 included in "other non-current liabilities." Certain consolidated subsidiaries still have retirement benefit plans for directors and statutory auditors and provide an accrual for such retirement benefits at estimated amounts.

l. 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.

m. 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.

n. 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 the Architectural Design & Engineering business segment 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.

o. Appropriation of retained earnings

Under the Corporation Law 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 for more information.

2. Accounting Changes

a) Accounting standards for presentation of net assets in the balance sheet
Effective the year ended March 31, 2007, the "Accounting Standards for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No. 5 issued by the ASBJ on December 9, 2005) and the "Implementation Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet" (ASBJ Implementation Guidance No. 8 issued by the ASBJ on December 9, 2005) have been applied.
Had this change not been implemented, the previous category of "shareholders' equity" would have been ¥1,225,482 million ($10,288,657 thousand).

b) Accounting standards for share-based payment including stock options
Effective the year ended March 31, 2007, the "Accounting Standards for Share-Based Payment" (ASBJ Statement No. 8 issued by the ASBJ on December 27, 2005) and the "Implementation Guidance on Accounting Standards for Share-Based Payment" (ASBJ Implementation Guidance No. 11 issued by the ASBJ on May 31, 2006) have been applied.
As a result of this change, income before income taxes and minority interests decreased by ¥79 million ($663 thousand) compared with the previous accounting method.

c) Accounting standards regarding accounting for business combinations
Effective the year ended March 31, 2007, the "Accounting Standards for Business Combinations" (issued by the Business Accounting Deliberation Council on October 31, 2003), the "Accounting Standards for Business Divestitures" (ASBJ Statement No. 7 issued by the ASBJ on December 27, 2005) and the "Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures" (ASBJ Implementation Guidance No. 10 issued by the ASBJ on December 27, 2005) have been applied.

d) Practical solutions for application of control criteria and influence criteria for investment associations
Effective the year ended March 31, 2007, the "Practical Solutions for Application of Control Criteria and Influence Criteria for Investment Associations" (Practical solutions report No. 20 issued by ASBJ on September 8, 2006) have been applied.
As a result of this change, consolidated total assets increased ¥129,838 million ($1,090,068 thousand) compared with the previous accounting method. This change had no significant impact on consolidated income.

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 ¥119.11 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2007. 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, 2007 and 2006 are summarized as follows:

2007						
			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	¥72,698	¥287,717	¥215,019	$610,343	$2,415,557	$1,805,213
Other	5,330	15,851	10,520	44,748	133,078	88,321
Subtotal	78,029	303,569	225,540	655,100	2,548,644	1,893,543
Securities whose cost exceeds their fair value:						
Equity securities	566	509	(57)	4,751	4,273	(478)
Total	¥78,596	¥304,078	¥225,482	$659,860	$2,552,917	$1,893,056

2006			
			Millions of yen
	Cost	Fair value	Unrealized gain
Securities whose fair value exceeds their cost:			
Equity securities	¥68,320	¥302,986	¥234,665
Other	5,330	10,364	5,033
Total	¥73,651	¥313,350	¥239,699

Proceeds from sales of securities classified as other securities totaled ¥999 million ($8,387 thousand) in 2007 and ¥166 million in 2006. Gross realized gain was ¥911 million ($7,648 thousand) in 2007 and ¥160 million in 2006.

Marketable debt securities classified as held-to-maturity securities at March 31, 2007 and 2006 are summarized as follows:

2007						
			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	¥ 35	¥ 35	¥ 0	$ 293	$ 296	$ 2
Corporate bonds	116	116	0	974	978	3
Other	3,633	3,633	–	30,503	30,503	0
Subtotal	3,784	3,785	0	31,772	31,778	5
Debt securities whose cost exceeds their fair value:						
Government bonds	183	182	(1)	1,540	1,529	(10)
Corporate bonds	–	–	–	–	–	–
Other	–	–	–	–	–	–
Subtotal	183	182	(1)	1,540	1,529	(10)
Total	¥3,967	¥3,967	¥(0)	$33,313	$33,308	$ (4)

			2006
			Millions of yen
	Amortized cost	Fair value	Unrealized gain (loss)
Debt securities whose fair value exceeds their cost:			
Government bonds	¥ 94	¥ 95	¥ 0
Subtotal	94	95	0
Debt securities whose cost exceeds their fair value:			
Government bonds	143	140	(2)
Corporate bonds	1,999	1,999	(0)
Other	1,899	1,896	(3)
Subtotal	4,041	4,036	(5)
Total	¥4,136	¥4,131	¥(5)

Marketable and investment securities recorded at cost at March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Other securities:			
Nonmarketable equity securities			
(other than equity securities listed on the over-the-counter market)	¥ 7,908	¥ 18,727	$ 66,384
Mutual funds	291	351	2,450
Commercial papers	4,992	21,671	41,910
MMF	876	1,337	7,356
Investments in silent partnerships	36,208	78,849	303,991
Other	267	468	2,249
Total	¥50,543	¥121,403	$424,343

The redemption schedule for securities classified as other securities at March 31, 2007 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	¥10	¥ 180	¥30	$83	$ 1,511	$251
Corporate bonds	–	116	–	–	–	–
Other bonds	–	3,633	–	–	–	–
Total	¥10	¥3,929	¥30	$83	$32,987	$251

The Company recognized losses on other securities considered other-than-temporary amounting to ¥106 million ($889 thousand) and ¥336 million for the years ended March 31, 2007 and 2006, respectively.

5. Inventories

Inventories at March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Real estate for sale	¥ 89,960	¥136,926	$ 755,274
Land and housing projects in progress	192,305	147,709	1,614,521
Land held for development	8,965	8,886	75,271
Other	8,948	12,277	75,131
Total	¥300,180	¥305,800	$2,520,198

6. Other Investments

Other investments at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Lease deposits	¥ 77,571	¥ 71,949	$ 651,258
Long-term prepaid expenses and other	54,503	60,634	457,590
Total	¥132,075	¥132,584	$1,108,849

7. Short-Term Borrowings and Long-Term Debt

At March 31, 2007 and 2006, short-term borrowings and the current portion of long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loans, principally from banks	¥ 47,043	¥ 49,118	$ 394,960
Current portion of long-term debt	93,925	117,627	788,558
Total	¥140,969	¥166,746	$1,183,519

The weighted-average interest rates per annum on short-term borrowings outstanding at March 31, 2007 and 2006 were 1.14% and 0.72%, respectively. Short-term borrowings are principally unsecured.

At March 31, 2007 and 2006, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Zero coupon convertible bonds due 2006	¥ –	¥ 13,595	$ –
1.325% unsecured bonds due 2006	–	10,000	–
3.4% unsecured bonds due 2006	–	10,000	–
3% unsecured bonds due 2006	–	10,000	–
2.975% unsecured bonds due 2007	30,000	30,000	251,868
2.575% unsecured bonds due 2008	10,000	10,000	83,956
0.37% unsecured bonds due 2008	10,000	10,000	83,956
2.525% unsecured bonds due 2008	10,000	10,000	83,956
3.1% unsecured bonds due 2008	10,000	10,000	83,956
1.82% unsecured bonds due 2009	10,000	10,000	83,956
3.075% unsecured bonds due 2009	10,000	10,000	83,956
2% unsecured bonds due 2009	10,000	10,000	83,956
1.985% unsecured bonds due 2009	10,000	10,000	83,956
0.72% unsecured bonds due 2009	10,000	10,000	83,956
1.9% unsecured bonds due 2010	10,000	10,000	83,956
1.55% unsecured bonds due 2011	10,000	10,000	83,956
1.44% unsecured bonds due 2011	10,000	10,000	83,956
1.16% unsecured bonds due 2011	10,000	10,000	83,956
3.275% unsecured bonds due 2012	10,000	10,000	83,956
1.47% unsecured bonds due 2012	10,000	10,000	83,956
1.58% unsecured bonds due 2012	20,000	20,000	167,912
1.395% unsecured bonds due 2012	10,000	10,000	83,956
1.2% unsecured bonds due 2012	10,000	10,000	83,956
1% unsecured bonds due 2013	10,000	10,000	83,956
0.785% unsecured bonds due 2013	10,000	10,000	83,956
1.675% unsecured bonds due 2014	10,000	10,000	83,956
1.349% unsecured bonds due 2014	10,000	10,000	83,956
1.65% unsecured bonds due 2014	10,000	10,000	83,956
1.75% unsecured bonds due 2014	10,000	10,000	83,956
1.655% unsecured bonds due 2014	10,000	10,000	83,956
1.409% unsecured bonds due 2015	10,000	10,000	83,956
1.295% unsecured bounds due 2015	10,000	10,000	83,956
1.572% unsecured bounds due 2015	10,000	10,000	83,956
1.443% unsecured bounds due 2016	15,000	15,000	125,934
1.985% unsecured bounds due 2016	10,000	10,000	83,956
1.88% unsecured bounds due 2016	10,000	10,000	83,956
3.125% unsecured bonds due 2017	10,000	10,000	83,956
3% unsecured bonds due 2018	10,000	10,000	83,956
2.5% unsecured bonds due 2020	10,000	10,000	83,956
2.42% unsecured bonds due 2022	10,000	10,000	83,956
1.50% unsecured bonds due 2022	10,000	10,000	83,956
2.28% unsecured bonds due 2024	10,000	10,000	83,956
2.9% unsecured bonds due 2032	10,000	10,000	83,956
2.615% unsecured bonds due 2032	10,000	10,000	83,956
2.04% unsecured bonds due 2032	20,000	20,000	167,912
1.72% unsecured bonds due 2033	10,000	10,000	83,956
7.37% unsecured bonds due 2008 (payable in U.S. dollars)	–	2,530	–
Floating rate bonds due 2006 (payable in U.S. dollars)	–	1,207	–
Floating rate bonds due 2007 (payable in U.S. dollars)	980	–	8,223
Loans from banks and insurance companies:			
Secured	111,008	75,314	931,978
Unsecured	388,556	390,995	3,262,161
	965,544	958,642	8,106,329
Less current portion	(93,925)	(117,627)	(788,556)
	¥871,619	¥ 841,015	$7,317,770

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, such as the Company issuing stock at a price lower than market value.

Aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2008	¥ 93,925	$ 788,559
2009	118,005	990,725
2010	175,695	1,475,066
2011	59,353	498,305
2012	112,391	943,590
2013 and thereafter	406,175	3,410,083
Total	¥965,544	$8,106,329

Assets pledged as collateral for short-term borrowings of ¥1,000 million ($8,395 thousand) and long-term debt of ¥111,008 million ($931,980 thousand) at March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
Cash	¥ 2,926	$ 24,567
Notes and accounts receivable – trade	43	361
Buildings and structures	115,683	971,230
Machinery and equipment	3,796	31,872
Land	45,576	382,639
Construction in progress	2,031	17,056
Other property and equipment	22	187
Other intangible assets	3	32
Investment securities	0	4
Total	¥170,083	$1,427,952

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 other banks which become due in cases of default or certain other specified events. The Company has never received any such request nor does it expect that any such request will be made.

8. Pension and Severance Plans

The following table sets forth the funded status of pension and severance plans, and the amounts recognized in the consolidated balance sheets at March 31, 2007 and 2006 for the Company's and its consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Retirement benefit obligation	¥(85,510)	¥(84,455)	$(717,914)
Plan assets at fair value	91,733	89,914	770,157
Unfunded retirement benefit obligation	6,222	5,458	52,243
Unrecognized net benefit obligation at transition	–	388	–
Unrecognized actuarial loss	(13,776)	(13,242)	(115,659)
Unrecognized prior service cost	648	494	5,447
Net amounts recognized in the consolidated balance sheet	(6,904)	(6,900)	(57,968)
Prepaid pension expenses	6,911	4,886	58,030
Accrued employees' retirement benefits	¥(13,816)*	¥(11,787)	$(115,999)*

* Accrued employees' retirement benefits recognized by Rockefeller Group, Inc., a consolidated subsidiary, in the amount ¥383 million ($3,216 thousand) were presented in accrued expenses and other current liabilities.

Components of expenses related to the pension and severance plans for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥ 3,806	¥ 3,660	$ 31,955
Interest cost	2,113	2,043	17,746
Expected return on plan assets	(1,573)	(1,267)	(13,209)
Amortization of net retirement benefit obligation at transition	77	51	652
Other	(216)	2,669	(1,817)
Total	¥ 4,207	¥ 7,158	$ 35,327

The assumptions used in accounting for the pension and severance plans for the years ended March 31, 2007 and 2006 were as follows:

	2007	2006
Discount rate	2.0 – 5.7%	2.0 – 5.7%
Expected rate of return on plan assets	0.5 – 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 a statutory tax rate of 40.69% in each of the years ended March 31, 2007 and 2006. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2007 and 2006 differ from the statutory tax rate for the following reasons:

	2007	2006
Statutory tax rate	40.69%	40.69%
Increase (decrease) in income taxes resulting from:		
Change in valuation allowance	(3.48)	(0.19)
Different tax rates applied	0.99	1.22
Revenues deductible for income tax purposes	(0.51)	(0.32)
Expenses not deductible for income tax purposes	0.23	0.34
Undistributed earnings of affiliates	7.44	5.15
Equity income	(1.77)	(2.22)
Other	(1.91)	(2.30)
Effective tax rates	41.68%	42.37%

The significant components of deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Net operating loss carry forwards	¥ 14,653	¥ 14,719	$ 123,022
Accrued retirement allowances and pension costs	11,828	17,029	99,308
Valuation loss on inventories	32,021	32,615	268,837
Unrealized loss on property and equipment	45,669	57,761	383,421
Land revaluation reserve	56,586	63,727	475,081
Other	20,604	20,606	172,984
	181,363	206,460	1,522,656
Valuation allowance	(16,556)	(16,212)	(139,001)
Total deferred tax assets	164,807	190,248	1,383,655
Deferred tax liabilities:			
Reserves under the Special Taxation Measures Law	(57,262)	(58,197)	(480,751)
Land revaluation reserve	(379,044)	(383,346)	(3,182,303)
Unrealized gain on property and equipment	(35,717)	(31,966)	(299,865)
Unrealized gain on securities	(91,609)	(97,533)	(769,114)
Other	(40,897)	(35,646)	(343,362)
Total deferred tax liabilities	(604,530)	(606,689)	(5,075,398)
Net deferred tax liabilities	¥(439,723)	¥(416,441)	$(3,691,743)

10. Shareholders' Equity

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. The Company's capital reserve amounted to ¥165,216 million ($1,387,089 thousand), and the legal reserve amounted to ¥21,663 million ($181,880 thousand) at March 31, 2007. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

11. Amounts per Share

		Yen	U.S. dollars
Year ended March 31,	2007	2006	2007
Net income:			
Basic	¥70.95	¥42.60	$0.59
Diluted	70.71	40.42	0.59
Cash dividends applicable to the year	14.00	10.00	0.11

		Yen	U.S. Dollars
March 31,	2007	2006	2007
Net assets	¥887.79	¥827.79	$7.45

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. 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, accumulated impairment loss and net book value of leased assets as of March 31, 2007 and 2006, 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:

								2007
				Millions of yen				Thousands of U.S. dollars
	Acquisition Costs	Accumulated depreciation	Accumulated impairment loss	Net book value	Acquisition Costs	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings and structures	¥12,381	¥3,892	¥256	¥ 8,233	$103,954	$32,677	$2,153	$ 69,122
Others	8,783	4,868	66	3,848	73,741	40,872	560	32,308
Total	¥21,165	¥8,760	¥323	¥12,081	$177,695	$73,550	$2,714	$101,431

				2006
				Millions of yen
	Acquisition Costs	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings and structures	¥12,102	¥2,811	¥422	¥ 8,868
Others	8,580	4,661	165	3,754
Total	¥20,683	¥7,472	¥587	¥12,623

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥3,046 million ($25,572 thousand) and ¥2,959 million for the years ended March 31, 2007 and 2006, respectively.

Future minimum lease payments subsequent to March 31, 2007 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
Years ending March 31,				
2008	¥ 3,743	¥ 2,328	$ 31,430	$ 19,545
2009 and thereafter	8,661	24,741	72,715	207,721
	¥12,404	¥27,069	$104,145	$227,266

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, 2007 from noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31,		
2008	¥239,879	$2,013,929
2009 and thereafter	430,382	3,613,315
Total	¥670,261	$5,627,244

13. Contingent Liabilities

At March 31, 2007, 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	¥1,798	$15,095
Guarantees of order-made house purchasers' loans from banks and others	74	621
Other	249	2,090
Total	¥2,122	$17,815

14. Other Income (Expenses)

The components of "other, net" in "other income (expenses)" for each of the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Gain on sales of fixed assets	¥ 1,115	¥ 57,823	$ 9,366
Gain on sales of shares of affiliated companies	40,060	–	336,333
Gain on sales of investments	2,150	–	18,057
Gain on transfer of business	1,895	–	15,912
Loss on disposal of fixed assets	(6,843)	(5,054)	(57,458)
Loss related to retirement of fixed assets	(13,423)	–	(112,695)
Loss on valuation of inventories	(736)	(27,639)	(6,184)
Impairment loss (*1)	(5,503)	(35,321)	(46,206)
Loss on sales of beneficial interest in trust of fixed assets	–	(3,327)	–
Loss on soil solution related countermeasures (*2)	–	(4,859)	–
Other, net	(244)	(790)	(2,056)
	¥ 18,470	¥(19,169)	$ 155,067

(*1) Impairment loss

The Company recorded consolidated impairment losses for the following asset groups for the year ended March 31, 2007.

Major application	Category	Location
Tennis club (total 1 group)	Buildings, land, etc.	Sendai, Miyagi Prefecture
Leased assets, etc. (total 8 groups)	Buildings, land, etc.	Shinagawa-ku, Tokyo, others
Overseas businesses (total 1 group)	Goodwill	California, USA

Asset grouping for the Group was made based on a minimum unit that generates cash flows, which is substantially independent from cash flows of other assets or asset groups. As a result, for the year ended March 31, 2007, the total book value of the 10 asset groups listed above was reduced to the respective collectible amounts, with the reductions recorded as an impairment loss of ¥5,503 million ($46,201 thousand), attributed to either market prices falling considerably below the book values due to a decline in land prices, or to significantly lower profitability due to falling rent levels or deteriorated market conditions.

The breakdown of such impairment loss was ¥4,153 million ($34,867 thousand) in goodwill, ¥1,329 million ($11,158 thousand) in land and ¥20 million ($168 thousand) in buildings and structures.

The Company recorded consolidated impairment losses for the following asset groups for the year ended March 31, 2006.

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

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 losses.

The collectible amounts of asset groups are measured according to net sale value or use value, with the net sale value 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 businesses, the impairment loss is calculated for consolidated foreign subsidiaries in accordance with accounting principles generally accepted in the United States.

(*2) Loss on contaminated soil 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, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash	¥201,107	¥139,605	$1,688,417
Time deposits with maturities of more than three months	(1,178)	(815)	(9,891)
Marketable securities with maturities of three months or less	6,160	23,300	51,718
Resell agreements with maturities of three months or less	–	5,000	–
Cash and cash equivalents	¥206,089	¥167,090	$1,730,245

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.

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 nine segments in order to present and disclose Group businesses more appropriately. Business segments are newly reclassified in terms of the respective operations or services, and consist of nine segments: (1) building business; (2) residential business; (3) urban development & investment management; (4) international business; (5) architectural design & engineering; (6) custom-built housing; (7) hotel business; (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, 2007 and 2006 are summarized as follows:

Millions of yen

2007

	Building business	Residential business	Urban development & investment management	International business	Architectural design & engineering	Custom-built housing	Hotel business	Real estate services	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income												
Revenue from:												
External customers	¥ 347,540	¥230,631	¥ 38,181	¥226,444	¥11,802	¥33,718	¥33,100	¥ 23,896	¥ 2,324	¥ 947,641	¥ –	¥ 947,641
Intersegment or transfers	6,416	882	35	–	5,988	831	393	4,954	1,935	21,437	(21,437)	–
Total revenue	353,956	231,514	38,216	226,444	17,790	34,550	33,493	28,851	4,260	969,078	(21,437)	947,641
Operating expense	253,742	207,535	14,695	204,438	16,609	34,719	31,877	22,769	3,461	789,849	(8,373)	781,475
Operating income (loss)	¥ 100,214	¥ 23,979	¥ 23,520	¥ 22,005	¥ 1,181	¥ (169)	¥ 1,616	¥ 6,082	¥ 798	¥ 179,229	¥ (13,064)	¥ 166,165
Total assets, depreciation, and capital expenditures												
Assets	¥2,017,633	¥397,118	¥250,542	¥332,225	¥19,664	¥14,225	¥30,127	¥104,559	¥37,977	¥3,204,074	¥243,198	¥3,447,272
Depreciation	38,531	780	2,931	9,774	51	119	1,444	279	114	54,029	227	54,257
Impairment loss	–	776	486	4,153	–	–	–	–	87	5,503	–	5,503
Capital expenditures	93,906	816	23,846	26,816	17	254	1,353	665	172	147,849	(890)	146,958

Thousands of U.S. dollars

2007

	Building business	Residential business	Urban development & investment management	International business	Architectural design & engineering	Custom-built housing	Hotel business	Real estate services	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income												
Revenue from:												
External customers	$ 2,917,811	$1,936,293	$ 320,557	$1,901,135	$ 99,088	$283,090	$277,895	$200,629	$ 19,516	$ 7,956,016	$ –	$ 7,956,016
Intersegment or transfers	53,869	7,407	294	–	50,275	6,978	3,307	41,597	16,250	179,980	(179,980)	–
Total revenue	2,971,681	1,943,701	320,851	1,901,135	149,363	290,068	281,202	242,227	35,766	8,135,997	(179,980)	7,956,016
Operating expense	2,130,320	1,742,381	123,379	1,716,382	139,446	291,490	267,630	191,162	29,062	6,631,257	(70,298)	6,560,958
Operating income (loss)	$ 841,360	$ 201,319	$ 197,471	$ 184,752	$ 9,916	$ (1,421)	$ 13,571	$ 51,064	$ 6,704	$ 1,504,739	$ (109,681)	$ 1,395,057
Total assets, depreciation, and capital expenditures												
Assets	$16,939,243	$3,334,051	$2,103,457	$2,789,231	$165,096	$119,431	$252,936	$877,838	$318,839	$26,900,126	$2,041,795	$28,941,922
Depreciation	323,493	6,556	24,614	82,066	435	1,005	12,130	2,346	961	453,611	1,911	455,522
Impairment loss	–	6,518	4,082	34,875	–	–	–	–	730	46,206	–	46,206
Capital expenditures	788,398	6,853	200,202	225,143	150	2,136	11,363	5,588	1,444	1,241,281	(7,478)	1,233,803

												Millions of yen
												2006
	Building business	Residential business	Urban development & investment management	International business	Architectural design & engineering	Custom-built housing	Hotel business	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

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, 2007 and 2006 is summarized as follows:

						Millions of yen
						2007
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
Revenue from:						
External customers	¥ 721,883	¥154,139	¥71,618	¥ 947,641	¥ –	¥ 947,641
Intersegment or transfers	805	–	–	805	(805)	–
Total revenue	722,689	154,139	71,618	948,447	(805)	947,641
Operating expense	566,125	142,641	61,357	770,124	11,351	781,475
Operating income	¥ 156,563	¥ 11,498	¥10,260	¥ 178,322	¥ (12,156)	¥ 166,165
Total assets	¥2,822,916	¥254,884	¥77,803	¥3,155,604	¥291,667	¥3,447,272

						Thousands of U.S. dollars
						2007
	Japan	United States	Other	Total	Eliminations or corporate	Consolidated
Revenue and operating income						
Revenue from:						
External customers	$ 6,060,642	$1,294,097	$601,277	$ 7,956,016	$ –	$ 7,956,016
Intersegment or transfers	6,766	–	–	6,766	(6,766)	–
Total revenue	6,067,408	1,294,097	601,277	7,962,782	(6,766)	7,956,016
Operating expense	4,752,963	1,197,560	515,135	6,465,659	95,299	6,560,958
Operating income	$ 1,314,445	$ 96,536	$ 86,141	$ 1,497,123	$ (102,065)	$ 1,395,057
Total assets	$23,700,079	$2,139,906	$653,208	$26,493,194	$2,448,727	$28,941,922

					Millions of yen
						2006
	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 expense	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

Unallocatable operating expenses

Unallocatable operating expenses included under "eliminations or corporate" for the years ended March 31, 2007 and 2006 amounted to ¥12,543 million ($105,312 thousand) and ¥13,673 million, respectively, and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "eliminations or corporate" as of March 31, 2007 and 2006 amounted to ¥454,614 million ($3,816,758 thousand) and ¥496,471 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, 2007 and 2006:

			Millions of yen
			2007
	United States	Other areas	Consolidated
Overseas revenue			
Overseas revenue	¥148,783	¥71,739	¥220,523
Consolidated revenue			947,641
% of overseas revenue to consolidated revenue	15.7%	7.6%	23.3%

			Thousands of U.S. dollars
			2007
	United States	Other areas	Consolidated
Overseas revenue			
Overseas revenue	$1,249,126	$602,299	$1,851,426
Consolidated revenue			$7,956,016

			Millions of yen
			2006
	United States	Other areas	Consolidated
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%

ERNST & YOUNG SHINNIHON

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, 2007 and 2006, and the related consolidated statements of income, changes in net assets, 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, 2007 and 2006, 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

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 28, 2007