

SUMMARY

In the fiscal year ended March 31, 2008, revenue from operations decreased 16.9% compared with the previous fiscal year. This was mainly attributable to a drop in the number of condominiums sold in the Residential Business segment; the sale of large-scale properties during the fiscal year ended March 31, 2007, resulting in a decline in the distribution of benefits from an anonymous partnership in the Urban Development & Investment Management segment; and lower revenue in the International Business segment following the sale of a Group real estate brokerage company during the previous fiscal year. From an earnings perspective, operating income increased 7.1% year on year, the sixth consecutive fiscal year of growth. Ordinary income improved for the eighth consecutive fiscal year, climbing 6.8% compared with the previous fiscal year. This was primarily attributable to substantial contributions from the sale of properties, income generated from newly constructed buildings in the Marunouchi area, and the revision of rental rates applicable to existing buildings. Despite these favorable results, net income for the fiscal year under review declined 11.0% year on year.

REVENUE FROM OPERATIONS

Revenue from operations for the fiscal year under review was ¥787,652 million, a decrease of ¥159,988 million, or 16.9%, 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, revenue from operations increased ¥26,605 million, or 7.5%, compared with the previous fiscal year to ¥380,562 million. In addition to contributions from the Shin-Marunouchi Building, completed in April 2007, and The Peninsula Tokyo, opened in September 2007, as well as revisions to rental rates applicable to existing buildings, this favorable result was attributable to an increase in repair contract construction revenue.

On a year-on-year basis, revenue in the Residential Business segment decreased ¥17,611 million, or 7.6%, to ¥213,903 million, mainly reflecting a drop in the number of condominiums sold.

In the Urban Development & Investment Management segment, revenue declined ¥8,785 million, or 23.0%, to ¥29,430 million. Despite contributions from equity and other investments following the sale of such properties as Somerset Azabu East, a serviced apartment complex, results were impacted by a decrease in the distribution of benefits from an anonymous partnership following the sale of large-scale properties during the fiscal year ended March 31, 2007.

As of the end of the previous fiscal year, Mitsubishi Estate's consolidated subsidiary Rockefeller Group, Inc. sold its entire equity investment in Cushman & Wakefield, Inc. As a result, revenue from operations in the International Business segment decreased substantially, falling ¥154,523 million, or 68.2%, year on year to ¥71,920 million.

In the Architectural Design & Engineering segment, Mitsubishi Jisho Sekkei Inc. recorded revenue and earnings in connection with the Shin-Marunouchi Building and other buildings. In addition, this segment enjoyed the benefits of an increase in the number of completed projects. As a result, revenue from segment operations climbed ¥1,295 million, or 7.3%, compared with the previous fiscal year to ¥19,086 million.

On a year-on-year basis, revenue in the Custom-Built Housing segment declined ¥3,333 million, or 9.6%, to ¥31,216 million. This was mainly attributable to a drop in the number of orders for custom-built housing and contract work placed with Mitsubishi Estate Home Co., Ltd.

In the Hotel Business segment, results from Royal Park Hotels and other hotels were robust. This was offset, however, by the absence of contributions from the Atsugi Royal Park Hotel, which was sold during the fiscal year ended March 31, 2007. Accounting for these factors, revenue from segment operations decreased ¥330 million, or 1.0%, year on year to ¥33,163 million.

Owing to a drop in revenue at Mitsubishi Real Estate Services Co., Ltd., reflecting a decline in the number of home agency sales,

revenue in the Real Estate Services segment decreased ¥910 million, or 3.2%, to ¥27,941 million.

Revenue from the Other segment increased ¥722 million, or 16.9%, compared with the previous fiscal year to ¥4,982 million.

OPERATING INCOME

On a year-on-year basis, operating income climbed ¥11,818 million, or 7.1%, to ¥177,983 million.

Operating income in the Building Business segment rose 14.2% due to contributions from newly completed buildings, revision of rental rates applicable to existing buildings, property sales and other factors. In addition, operating income edged up 1.4% in the Residential Business segment, resulting from improvements in condominium gross profit margins, and increased 25.2% in the International Business, owing to a variety of factors including the elimination of real estate comprehensive service marketing expenses and contributions from property sales. Operating income in the Architectural Design & Engineering segment surged 96.8% on the back of improvements in gross profit margins primarily for large-scale properties. In the Urban Development & Investment Management segment, operating income declined 28.3% year on year owing to a drop in the distribution of benefits from an anonymous partnership following the sale of large-scale properties during the fiscal year ended March 31, 2007. Year-on-year decreases in operating income were also reported in the Custom-Built Housing, Hotel Business and Real Estate Services segments.

OTHER INCOME (EXPENSES)

In the fiscal year under review, other income amounted to ¥14,316 million, a decrease of ¥386 million compared with the previous fiscal year. This was mainly due to a decline in equity in earnings of unconsolidated subsidiaries and affiliates. Other expenses climbed ¥1,044 million year on year to ¥30,238 million, owing to increased interest expenses.

Turning to extraordinary items, extraordinary gains totaled ¥5,690 million, mainly comprised of gain on sales of beneficial interest in trust of fixed assets amounting to ¥1,737 million, gain on sales of investment securities of ¥1,697 million, and gain on sales of shares of affiliated companies totaling ¥2,255 million. Extraordinary losses amounted to ¥8,088 million. Principal components were loss on valuation of inventories totaling ¥1,458 million, loss on disposal of fixed assets of ¥1,194 million, loss on valuation of investment securities of ¥2,769 million, and impairment loss amounting to ¥1,498 million.

NET INCOME

Compared with the previous term, income before income taxes and minority interests decreased ¥18,306 million, or 10.3%, to ¥159,663 million. Net income in the fiscal year under review declined ¥10,698 million, or 11.0%, to ¥86,963 million, while net income per share was ¥62.99.

ANALYSIS OF FINANCIAL POSITION

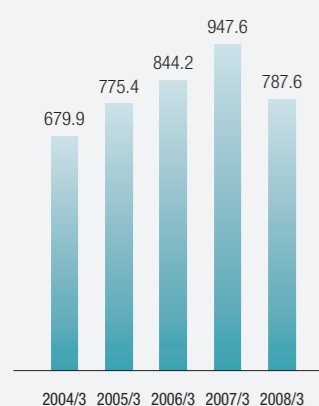
(1) Consolidated Cash Flow

On a consolidated basis, cash and cash equivalents (hereafter "cash") at the end of the fiscal year under review rose ¥13,622 million to ¥219,712 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 an increase in long-term borrowings. The principal uses of cash were purchases of property and equipment, repayment of corporate bonds and repayment of long-term borrowings.

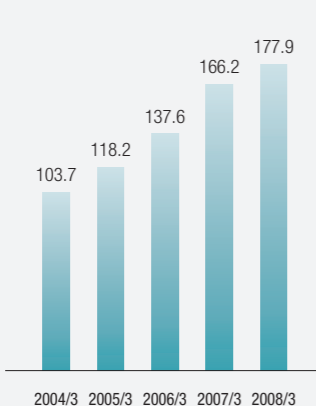
Cash Flows from Operating Activities

Net cash used in operating activities was ¥16,248 million, a decrease of ¥166,958 million compared with net cash provided by operating activities in the previous fiscal year. For the period under review, income before income taxes and minority interests amounted to ¥159,663

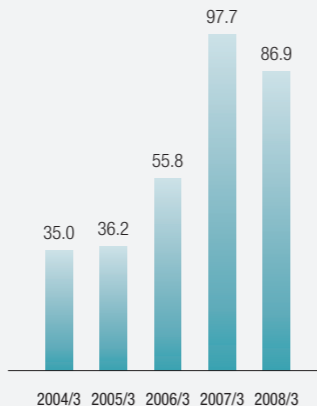
Revenue from Operations (Billions of yen)



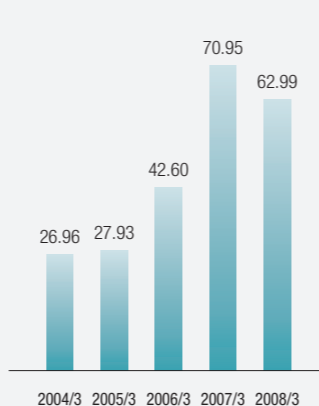
Operating Income (Billions of yen)



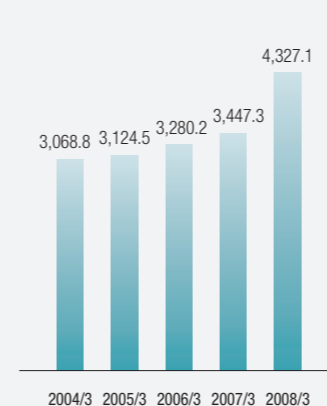
Net Income (Billions of yen)



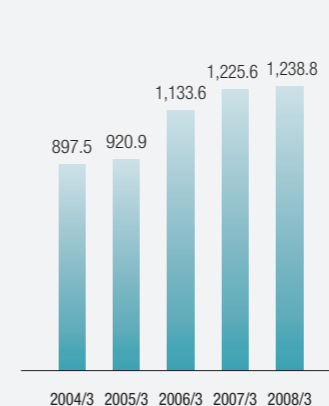
Net Income Per Share (Basic) (Yen)



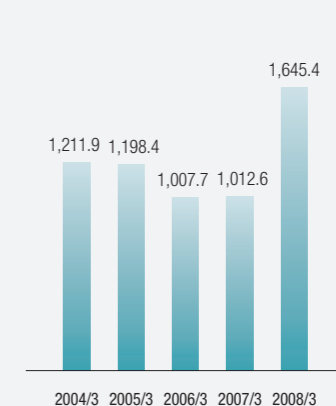
Total Assets (Billions of yen)



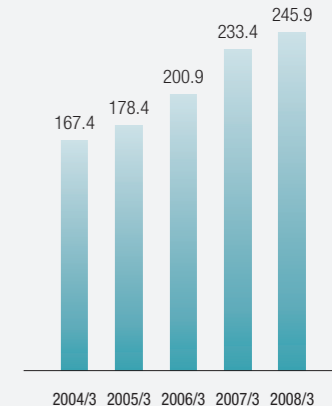
Total Equity (Billions of yen)



Interest-Bearing Debt (Billions of yen)



EBITDA (Billions of yen)



million, and non-cash items such as depreciation and amortization totaled ¥56,867 million. These cash inflows were adjusted to reflect movements in notes and accounts receivable, equity investments, notes and accounts payable as well as other items.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥212,207 million, an increase of ¥126,817 million. This was attributable to a variety of factors including the acquisition of property and equipment.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥238,942 million, a turnaround of ¥273,036 million from net cash used in financing activities in the previous fiscal year. The principal components were increases in long-term borrowings and the issuance of corporate bonds.

(2) Consolidated Balance Sheets

Compared with the previous fiscal year-end, total assets increased ¥879,865 million to ¥4,327,137 million as a result of the operating, investing and financing activities previously mentioned.

Total liabilities, when compared to the previous fiscal year-end, increased ¥793,477 million to ¥2,979,841 million. Net assets climbed ¥86,387 million to ¥1,347,295 million, due primarily to retained earnings growth.

MANAGEMENT INITIATIVES AND FINANCIAL STRATEGIES

Under its Medium-Term Management Plan, covering the three-year period from April 1, 2005 to 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. 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 years ended March 31, 2007 and March 31, 2008 were ¥233.4

billion and ¥245.9 billion, respectively, surpassing the established target by a considerable margin. Under its new Medium-Term Management Plan, "Action 2010," Mitsubishi Estate has envisioned the Company attaining the status of "a global real estate solutions provider—with development as the core driver." Under this new Plan, the Company will increase the relative involvement of the Real Estate Management and Real Estate Services businesses, complementing the existing concentrated allocation of management resources in the Real Estate Holding and Real Estate Development and Investment businesses. In nurturing each of these areas as a core business, Mitsubishi Estate is well placed to deliver high-value-added products and services to real estate end customers, owners and investors, and to realize customer value. In the final fiscal year of the Plan, ending March 31, 2011, the Company has established the following numerical targets.

EBITDA: ¥300 billion
EBITDA/Total assets: over 6.5%
Net interest-bearing debt/EBITDA multiple: under 6 times

From a financial management perspective, Mitsubishi Estate has adopted a financial strategy based on the procurement of long-term funds at fixed rates of interest. At the present time, along with borrowings, the Company is taking advantage of favorably low interest rates through the issued of long-term corporate bonds with maturity dates of more than 10 years. Mitsubishi Estate also promotes management awareness of how to determine the level of interest-bearing debt based on earning capacity. In the fiscal year under review, the Company issued corporate bonds and procured funds through borrowings. As a result, the balance of interest-bearing debt as of March 31, 2008 stood at ¥1,645.4 billion. Deducting cash and cash equivalents, the net balance of interest-bearing debt as of the fiscal year-end was ¥1,425.6 billion. This included companies newly incorporated in the scope of consolidation during the fiscal year ended March 31, 2007.

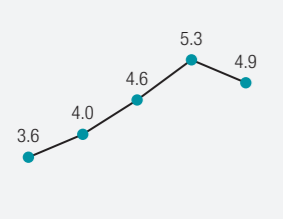
Consolidated Statements of Income

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

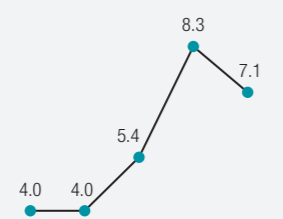
| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|-----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Revenue from operations | ¥ 787,652 | ¥ 947,641 | \$ 7,861,588 |
| Cost of revenue from operations | (551,455) | (719,337) | (5,504,098) |
| Selling, general and administrative expenses | (58,213) | (62,137) | (581,030) |
| Operating income | 177,983 | 166,165 | 1,776,459 |
| Other income (expenses): | | | |
| Interest and dividend income | 6,823 | 4,112 | 68,107 |
| Interest expenses | (22,251) | (18,873) | (222,095) |
| Equity in earnings of unconsolidated subsidiaries and affiliates | 3,739 | 8,094 | 37,327 |
| Other, net (Note 14) | (6,631) | 18,470 | (66,192) |
| | (18,320) | 11,804 | (182,852) |
| Income before income taxes and minority interests | 159,663 | 177,969 | 1,593,606 |
| Income taxes (Notes 1 and 9): | | | |
| Current | (52,390) | (54,069) | (522,906) |
| Deferred | (9,472) | (20,100) | (94,546) |
| | (61,862) | (74,169) | (617,452) |
| Minority interests | (10,836) | (6,137) | (108,163) |
| Net income | ¥ 86,963 | ¥ 97,662 | \$ 867,989 |

See accompanying notes to consolidated financial statements.

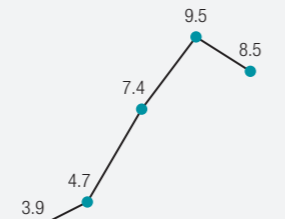
ROA (%)



ROE (%)



Interest Coverage Ratio (Times)



Consolidated Balance Sheets

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
March 31, 2008 and 2007

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|-------------|---------------------------------------|
| | 2008 | 2007 | 2008 |
| Assets | | | |
| Current assets: | | | |
| Cash (Notes 7 and 15) | ¥ 186,321 | ¥ 201,107 | \$ 1,859,678 |
| Notes and accounts receivable – trade | 37,063 | 33,912 | 369,930 |
| Marketable securities (Note 4) | 31,739 | 6,160 | 316,789 |
| Allowance for doubtful receivables | (436) | (421) | (4,356) |
| Inventories (Notes 5 and 7) | 602,824 | 300,180 | 6,016,816 |
| Equity investments (Note 4) | 185,640 | 127,099 | 1,852,881 |
| Deferred income taxes (Note 9) | 47,053 | 36,827 | 469,639 |
| Other current assets | 51,179 | 33,702 | 510,825 |
| Total current assets | 1,141,385 | 738,568 | 11,392,205 |
| Investments: | | | |
| Investments in and advances to unconsolidated subsidiaries and affiliates | 17,017 | 57,571 | 169,851 |
| Investment securities (Notes 4 and 7) | 236,331 | 300,470 | 2,358,830 |
| Other investments (Note 6) | 143,329 | 132,075 | 1,430,576 |
| Total investments | 396,678 | 490,116 | 3,959,258 |
| Property and equipment (Note 7): | | | |
| Land | 1,564,953 | 1,414,754 | 15,619,860 |
| Land in trust | 280,547 | – | 2,800,149 |
| Buildings and structures | 1,766,921 | 1,515,603 | 17,635,710 |
| Machinery and equipment and other | 106,432 | 82,207 | 1,062,307 |
| Construction in progress | 83,271 | 88,170 | 831,136 |
| | 3,802,126 | 3,100,735 | 37,949,164 |
| Less accumulated depreciation | (1,087,391) | (916,496) | (10,853,293) |
| Property and equipment, net | 2,714,735 | 2,184,239 | 27,095,870 |
| Intangible and other assets (Note 7) | 74,339 | 34,348 | 741,983 |
| Total assets | ¥ 4,327,137 | ¥ 3,447,272 | \$ 43,189,317 |

See accompanying notes to consolidated financial statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|-------------|---------------------------------------|
| | 2008 | 2007 | 2008 |
| Liabilities and net assets | | | |
| Current liabilities: | | | |
| Short-term borrowings and current portion of long-term debt (Note 7) | ¥ 271,137 | ¥ 140,969 | \$ 2,706,234 |
| Notes and accounts payable – trade | 114,780 | 72,301 | 1,145,629 |
| Accrued income taxes (Note 9) | 38,372 | 38,078 | 383,001 |
| Advances and deposits | 87,500 | 104,577 | 873,349 |
| Accrued expenses and other current liabilities | 72,121 | 118,029 | 719,843 |
| Total current liabilities | 583,913 | 473,956 | 5,828,059 |
| Long-term debt (Note 7) | 1,374,269 | 871,619 | 13,716,634 |
| Lease deposits received | 359,561 | 306,546 | 3,588,798 |
| Accrued employees' retirement benefits (Note 8) | 18,083 | 13,433 | 180,488 |
| Deferred income taxes (Note 9) | 550,194 | 481,667 | 5,491,509 |
| Goodwill | 67,172 | – | 670,455 |
| Other non-current liabilities | 26,646 | 39,140 | 265,961 |
| Total liabilities | 2,979,841 | 2,186,364 | 29,741,908 |
| Net assets: | | | |
| Shareholders' equity (Note 10): | | | |
| Common stock, without par value: | | | |
| Authorized – 1,980,000,000 shares; | | | |
| Issued – 1,382,518,351 shares in 2008 and 2007 | 136,534 | 136,534 | 1,362,752 |
| Capital surplus | 165,216 | 165,216 | 1,649,029 |
| Retained earnings | 387,214 | 324,611 | 3,864,801 |
| Less treasury stock, at cost | (3,440) | (2,965) | (34,335) |
| Total shareholders' equity | 685,524 | 623,396 | 6,842,247 |
| Valuation, translation adjustments and others: | | | |
| Unrealized holding gain on securities | 89,621 | 133,843 | 894,516 |
| Deferred gains or losses on hedging instruments | (357) | 161 | (3,563) |
| Land revaluation reserve | 472,578 | 470,397 | 4,716,819 |
| Foreign currency translation adjustments | (8,478) | (2,154) | (84,622) |
| Total valuation, translation adjustments and others | 553,364 | 602,247 | 5,523,149 |
| Stock acquisition rights | 142 | 79 | 1,422 |
| Minority interests | 108,264 | 35,185 | 1,080,589 |
| Contingent liabilities (Note 13) | | | |
| Total net assets | 1,347,295 | 1,260,908 | 13,447,409 |
| Total liabilities and net assets | ¥ 4,327,137 | ¥ 3,447,272 | \$ 43,189,317 |

Consolidated Statements of Changes in Net Assets

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

| | Millions of yen | | | | |
|---|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Shareholders' equity | | | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at March 31, 2006 | ¥129,736 | ¥158,421 | ¥246,246 | ¥(2,024) | ¥532,381 |
| 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 | | | | | |
| Balance at March 31, 2007 | 136,534 | 165,216 | 324,611 | (2,965) | 623,396 |
| Changes in the year: | | | | | |
| Cash dividends paid | | | (22,089) | | (22,089) |
| Net income | | | 86,963 | | 86,963 |
| Purchase of treasury stock | | | | (870) | (870) |
| Disposal of treasury stock | | | (90) | 396 | 305 |
| Land revaluation reserve (Note 1) | | | (2,180) | | (2,180) |
| Net change in items other than those in shareholders' equity | | | 62,603 | (474) | 62,128 |
| Total of changes in the year | | | 62,603 | (474) | 62,128 |
| Balance at March 31, 2008 | ¥136,534 | ¥165,216 | ¥387,214 | ¥(3,440) | ¥685,524 |

| | 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, 2006 | ¥142,040 | ¥ - | ¥466,259 | ¥(7,057) | ¥601,242 | ¥ - | ¥ 32,717 | ¥1,166,340 |
| 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 |
| Balance at March 31, 2007 | 133,843 | 161 | 470,397 | (2,154) | 602,247 | 79 | 35,185 | 1,260,908 |
| Changes in the year: | | | | | | | | |
| Cash dividends paid | | | | | | | | (22,089) |
| Net income | | | | | | | | 86,963 |
| Purchase of treasury stock | | | | | | | | (870) |
| Disposal of treasury stock | | | | | | | | 305 |
| Land revaluation reserve (Note 1) | | | | | | | | (2,180) |
| Net change in items other than those in shareholders' equity | (44,222) | (518) | 2,180 | (6,323) | (48,883) | 63 | 73,079 | 24,259 |
| Total of changes in the year | (44,222) | (518) | 2,180 | (6,323) | (48,883) | 63 | 73,079 | 86,387 |
| Balance at March 31, 2008 | ¥ 89,621 | ¥(357) | ¥472,578 | ¥(8,478) | ¥553,364 | ¥142 | ¥108,264 | ¥1,347,295 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets (continued)

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

| | Thousands of U.S. dollars | | | | |
|--|---------------------------|-----------------|-------------------|----------------|----------------------------|
| | Shareholders' equity | | | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at March 31, 2007 | \$1,362,752 | \$1,649,029 | \$3,239,957 | \$(29,598) | \$6,222,140 |
| Changes in the year: | | | | | |
| Cash dividends paid | | | (220,477) | | (220,477) |
| Net income | | | 867,989 | | 867,989 |
| Purchase of treasury stock | | | | (8,693) | (8,693) |
| Disposal of treasury stock | | | (904) | 3,955 | 3,051 |
| Land revaluation reserve (Note 1) | | | (21,763) | | (21,763) |
| Net change in items other than those in shareholders' equity | | | 624,844 | (4,737) | 620,106 |
| Total of changes in the year | | | 624,844 | (4,737) | 620,106 |
| Balance at March 31, 2008 | \$1,362,752 | \$1,649,029 | \$3,864,801 | \$(34,335) | \$6,842,247 |

| | Thousands of U.S. dollars | | | | | | | |
|--|---|---|--------------------------|--|---|--------------------------|--------------------|------------------|
| | 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, 2007 | \$1,335,899 | \$ 1,609 | \$4,695,055 | \$(21,507) | \$6,011,056 | \$ 790 | \$ 351,183 | \$12,585,171 |
| Changes in the year: | | | | | | | | |
| Cash dividends paid | | | | | | | | (220,477) |
| Net income | | | | | | | | 867,989 |
| Purchase of treasury stock | | | | | | | | (8,693) |
| Disposal of treasury stock | | | | | | | | 3,051 |
| Land revaluation reserve (Note 1) | | | | | | | | (21,763) |
| Net change in items other than those in shareholders' equity | (441,382) | (5,172) | 21,763 | (63,115) | (487,906) | 632 | 729,405 | 242,131 |
| Total of changes in the year | (441,382) | (5,172) | 21,763 | (63,115) | (487,906) | 632 | 729,405 | 862,237 |
| Balance at March 31, 2008 | \$ 894,516 | \$(3,563) | \$4,716,819 | \$(84,622) | \$5,523,149 | \$1,422 | \$1,080,589 | \$13,447,409 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|-----------|---------------------------------------|
| | 2008 | 2007 | 2008 |
| Cash flows from operating activities | | | |
| Income before income taxes and minority interests | ¥ 159,663 | ¥ 177,969 | \$ 1,593,606 |
| Depreciation and amortization | 56,867 | 54,257 | 567,592 |
| Loss on sales or disposal of property and equipment | 1,319 | 9,789 | 13,174 |
| (Gain) on sales of beneficial interests in trust of property and equipment | (1,737) | (1,895) | (17,341) |
| Gain on sales of securities | (3,950) | (40,945) | (39,427) |
| Valuation loss on securities | 2,769 | 119 | 27,640 |
| Gains on sale of investment | - | (2,150) | - |
| Valuation loss on inventories | 1,458 | - | 14,555 |
| Impairment loss | 1,498 | 5,503 | 14,952 |
| Equity in net income of affiliates | (3,739) | (8,094) | (37,327) |
| Increase (decrease) in allowances | 959 | (1,501) | 9,581 |
| Interest and dividend income | (6,823) | (4,112) | (68,107) |
| Interest expense | 22,251 | 18,873 | 222,095 |
| Early repayment of a portion of borrowings | 1,168 | - | 11,661 |
| Increase in notes and accounts receivable | (6,452) | (18,132) | (64,401) |
| (Increase) decrease in inventories | (79,102) | 8,394 | (789,525) |
| Increase in equity investments | (85,042) | (20,388) | (848,817) |
| (Decrease) increase in notes and accounts payable | (465) | 16,225 | (4,646) |
| Increase (decrease) in lease deposits received | 25,538 | (35) | 254,899 |
| Other | (35,692) | 5,793 | (356,250) |
| Subtotal | 50,487 | 199,668 | 503,916 |
| Interest and dividends received | 8,233 | 4,818 | 82,180 |
| Interest paid | (21,128) | (18,637) | (210,884) |
| Income taxes paid | (53,840) | (35,138) | (537,386) |
| Net cash (used in) provided by operating activities | (16,248) | 150,710 | (162,174) |
| Cash flows from investing activities | | | |
| Proceeds from sales of marketable securities | - | 3,928 | - |
| Purchases of marketable securities | - | (109) | - |
| Proceeds from sales of property and equipment | 1,157 | 7,771 | 11,551 |
| Purchases of property and equipment | (270,798) | (138,169) | (2,702,853) |
| Proceeds from sales of investment securities | 11,448 | 56,388 | 114,268 |
| Purchases of investment securities | (18,796) | (22,640) | (187,612) |
| Proceeds from sales of beneficial interests in trust of property and equipment | 12,095 | 2,858 | 120,727 |
| Other (Note 15) | 52,686 | 4,583 | 525,868 |
| Net cash used in investing activities | (212,207) | (85,389) | (2,118,050) |
| Cash flows from financing activities | | | |
| Net increase (decrease) in short-term borrowings | 9,700 | (2,835) | 96,824 |
| Increase in long-term borrowings | 248,925 | 119,922 | 2,484,535 |
| Repayment of long-term borrowings | (78,410) | (123,524) | (782,619) |
| Proceeds from issuance of corporate bonds | 140,612 | 21,974 | 1,403,454 |
| Repayment of corporate bonds | (51,997) | (33,077) | (518,989) |
| Cash dividends paid | (22,089) | (15,132) | (220,477) |
| Other | (7,798) | (1,420) | (77,836) |
| Net cash provided by (used in) financing activities | 238,942 | (34,093) | 2,384,891 |
| Effect of exchange rate changes on cash and cash equivalents | (2,765) | 3,344 | (27,601) |
| Net increase in cash and cash equivalents | 7,721 | 34,571 | 77,065 |
| Cash and cash equivalents at beginning of year | 206,089 | 167,090 | 2,056,986 |
| Increase in cash and cash equivalents arising from mergers and acquisitions | 5,901 | 4,427 | 58,903 |
| Cash and cash equivalents at end of year (Note 15) | ¥ 219,712 | ¥ 206,089 | \$ 2,192,955 |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Mitsubishi Estate Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

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 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 Financial Instruments and Exchange Law of Japan.

The financial statements of the 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, 2008 and 2007 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 shareholders' equity. 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 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 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 exists. If impairment is determined to exist, any related loss on impairment is calculated based on the cash flow analyses.

The useful lives of property and equipment are summarized as follows:

| | |
|-----------------------------------|---------------|
| Buildings and structures | 2 to 75 years |
| Machinery and equipment and other | 2 to 35 years |

i. 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.

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 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.

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, 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 1 year 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 3 years 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 to be 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 and the balance of unpaid retirement benefits as of March 31, 2007 was 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 carryforwards. 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 foreign exchange rates (currency swaps), 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:

- Revenue from the leasing of office space is recognized as rent accrued over the leasing period.
- 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.

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

Effective April 1, 2007, the Company and its domestic subsidiaries and affiliates have changed their method of depreciation based on an amendment to the Corporation Tax Law of Japan for tangible fixed assets acquired on or after April 1, 2007.

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 ¥100.19 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2008. 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, 2008 and 2007 are summarized as follows:

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|-----------------|------------|------------------------|---------------------------|-------------|------------------------|
| | Cost | Fair value | Unrealized gain (loss) | Cost | Fair value | Unrealized gain (loss) |
| 2008 | | | | | | |
| Securities whose fair value exceeds their cost: | | | | | | |
| Equity securities | ¥71,157 | ¥213,864 | ¥142,707 | \$710,221 | \$2,134,593 | \$1,424,372 |
| Other | 5,330 | 11,786 | 6,456 | 53,205 | 117,645 | 64,439 |
| Subtotal | 76,487 | 225,651 | 149,164 | 763,426 | 2,252,238 | 1,488,812 |
| Securities whose cost exceeds their fair value: | | | | | | |
| Equity securities | 10,429 | 9,799 | (629) | 104,099 | 97,812 | (6,286) |
| Total | ¥86,917 | ¥235,451 | ¥148,534 | \$867,525 | \$2,350,051 | \$1,482,526 |

| | Millions of yen | | |
|---|-----------------|------------|------------------------|
| | Cost | Fair value | Unrealized gain (loss) |
| 2007 | | | |
| Securities whose fair value exceeds their cost: | | | |
| Equity securities | ¥72,698 | ¥287,717 | ¥215,019 |
| Other | 5,330 | 15,851 | 10,520 |
| Subtotal | 78,029 | 303,569 | 225,540 |
| Securities whose cost exceeds their fair value: | | | |
| Equity securities | 566 | 509 | (57) |
| Total | ¥78,596 | ¥304,078 | ¥225,482 |

Proceeds from sales of securities classified as other securities totaled ¥5,636 million (\$56,256 thousand) in 2008 and ¥999 million in 2007. Gross realized gain was ¥1,698 million (\$16,947 thousand) in 2008 and ¥911 million in 2007, respectively. Gross realized loss was ¥3 million (\$29 thousand) in 2008.

Marketable debt securities classified as held-to-maturity securities at March 31, 2008 and 2007 are summarized as follows:

| | Millions of yen | | | Thousands of U.S. dollars | | |
|--|-----------------|------------|------------------------|---------------------------|------------|------------------------|
| | Amortized cost | Fair value | Unrealized gain (loss) | Amortized cost | Fair value | Unrealized gain (loss) |
| | 2008 | | | | | |
| Debt securities whose fair value exceeds their cost: | | | | | | |
| Government bonds | ¥ 64 | ¥ 65 | ¥ 1 | \$ 640 | \$ 652 | \$ 12 |
| Corporate bonds | 2,418 | 2,431 | 13 | 24,135 | 24,270 | 138 |
| Subtotal | 2,482 | 2,497 | 15 | 24,776 | 24,923 | 151 |
| Debt securities whose cost exceeds their fair value: | | | | | | |
| Government bonds | 138 | 138 | (0) | 1,386 | 1,386 | (0) |
| Corporate bonds | 2,759 | 2,759 | - | 27,545 | 27,545 | - |
| Subtotal | 2,898 | 2,898 | (0) | 28,932 | 28,932 | (0) |
| Total | ¥5,381 | ¥5,395 | ¥15 | \$53,709 | \$53,855 | \$150 |

| | Millions of yen | | |
|--|-----------------|------------|------------------------|
| | Amortized cost | Fair value | Unrealized gain (loss) |
| | 2007 | | |
| Debt securities whose fair value exceeds their cost: | | | |
| Government bonds | ¥ 35 | ¥ 35 | ¥ 0 |
| Corporate bonds | 116 | 116 | 0 |
| Other | 3,633 | 3,633 | - |
| Subtotal | 3,784 | 3,785 | 0 |
| Debt securities whose cost exceeds their fair value: | | | |
| Government bonds | 183 | 182 | (1) |
| Corporate bonds | - | - | - |
| Other | - | - | - |
| Subtotal | 183 | 182 | (1) |
| Total | ¥3,967 | ¥3,967 | ¥ 0 |

Marketable and investment securities recorded at cost at March 31, 2008 and 2007 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2008 | 2007 | 2008 |
| Other securities: | | | |
| Nonmarketable equity securities (other than equity securities listed on the over-the-counter market) | ¥ 6,753 | ¥ 7,908 | \$ 67,402 |
| Mutual funds | 293 | 291 | 2,924 |
| Commercial papers | 6,741 | 4,992 | 67,291 |
| MMF | 22,558 | 876 | 225,154 |
| Investments in silent partnerships | 21,286 | 36,208 | 212,460 |
| Other | 2,678 | 267 | 26,731 |
| Total | ¥60,310 | ¥50,543 | \$601,965 |

The redemption schedule for securities classified as other securities at March 31, 2008 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 |
| | 2008 | | | | | |
| Bonds: | | | | | | |
| Government bonds | ¥20 | ¥ 165 | ¥20 | \$199 | \$ 1,646 | \$199 |
| Corporate bonds | - | 5,177 | - | - | 51,681 | - |
| Other bonds | - | - | - | - | - | - |
| Total | ¥20 | ¥5,342 | ¥20 | \$199 | \$53,328 | \$199 |

The Company recognized losses on other securities considered temporary amounting to ¥2,760 million (\$27,552 thousand) and other securities considered other-than-temporary amounting to ¥8 million (\$87 thousand) and ¥106 million for the years ended March 31, 2008 and 2007 respectively.

5. Inventories

Inventories at March 31, 2008 and 2007 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------------------|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Real estate for sale | ¥303,523 | ¥ 89,960 | \$3,029,474 |
| Land and housing projects in progress | 279,141 | 192,305 | 2,786,120 |
| Land held for development | 8,742 | 8,965 | 87,256 |
| Other | 11,418 | 8,948 | 113,965 |
| Total | ¥602,824 | ¥300,180 | \$6,016,816 |

6. Other Investments

Other investments at March 31, 2008 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------------|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Lease deposits | ¥ 86,595 | ¥ 77,571 | \$ 864,316 |
| Long-term prepaid expenses and other | 56,733 | 54,503 | 566,260 |
| Total | ¥143,329 | ¥132,075 | \$1,430,576 |

7. Short-Term Borrowings and Long-Term Debt

At March 31, 2008 and 2007, short-term borrowings and the current portion of long-term debt consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------------------|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Loans, principally from banks | ¥ 56,131 | ¥ 47,043 | \$ 560,251 |
| Commercial paper | 10,000 | - | 99,810 |
| Current portion of long-term debt | 205,006 | 93,925 | 2,046,173 |
| Total | ¥271,137 | ¥140,969 | \$2,706,234 |

The weighted-average interest rates per annum on short-term borrowings outstanding at March 31, 2008 and 2007 were 1.08% and 1.14%, respectively. Short-term borrowings are principally unsecured.

At March 31, 2008 and 2007, long-term debt consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| 2.975% unsecured bonds due 2007 | ¥ - | ¥ 30,000 | \$ - |
| 2.575% unsecured bonds due 2008 | - | 10,000 | - |
| 0.37% unsecured bonds due 2008 | - | 10,000 | - |
| 2.525% unsecured bonds due 2008 | 10,000 | 10,000 | 99,810 |
| 3.1% unsecured bonds due 2008 | 10,000 | 10,000 | 99,810 |
| 1.82% unsecured bonds due 2009 | 10,000 | 10,000 | 99,810 |
| 3.075% unsecured bonds due 2009 | 10,000 | 10,000 | 99,810 |
| 2% unsecured bonds due 2009 | 10,000 | 10,000 | 99,810 |
| 1.985% unsecured bonds due 2009 | 10,000 | 10,000 | 99,810 |
| 0.72% unsecured bonds due 2009 | 10,000 | 10,000 | 99,810 |
| 2.12% unsecured bonds due 2009 | 10,000 | - | 99,810 |
| 1.9% unsecured bonds due 2010 | 10,000 | 10,000 | 99,810 |
| 2.29% unsecured bonds due 2010 | 10,000 | - | 99,810 |
| 1.55% unsecured bonds due 2011 | 10,000 | 10,000 | 99,810 |
| 1.44% unsecured bonds due 2011 | 10,000 | 10,000 | 99,810 |
| 1.16% unsecured bonds due 2011 | 10,000 | 10,000 | 99,810 |
| 1.47% unsecured bonds due 2012 | 10,000 | 10,000 | 99,810 |
| 1.58% unsecured bonds due 2012 | 20,000 | 20,000 | 199,620 |
| 2.77% unsecured bonds due 2012 | 10,000 | - | 99,810 |
| 3.275% unsecured bonds due 2012 | 10,000 | 10,000 | 99,810 |
| 1.395% unsecured bonds due 2012 | 10,000 | 10,000 | 99,810 |
| 1.2% unsecured bonds due 2012 | 10,000 | 10,000 | 99,810 |
| 1% unsecured bonds due 2013 | 10,000 | 10,000 | 99,810 |
| 0.785% unsecured bonds due 2013 | 10,000 | 10,000 | 99,810 |
| 1.675% unsecured bonds due 2014 | 10,000 | 10,000 | 99,810 |
| 1.349% unsecured bonds due 2014 | 10,000 | 10,000 | 99,810 |
| 1.65% unsecured bonds due 2014 | 10,000 | 10,000 | 99,810 |
| 1.75% unsecured bonds due 2014 | 10,000 | 10,000 | 99,810 |
| 1.655% unsecured bonds due 2014 | 10,000 | 10,000 | 99,810 |
| 1.409% unsecured bonds due 2015 | 10,000 | 10,000 | 99,810 |
| 1.572% unsecured bonds due 2015 | 10,000 | 10,000 | 99,810 |
| 1.295% unsecured bonds due 2015 | 10,000 | 10,000 | 99,810 |
| 1.443% unsecured bonds due 2016 | 15,000 | 15,000 | 149,715 |
| 1.985% unsecured bonds due 2016 | 10,000 | 10,000 | 99,810 |
| 1.88% unsecured bonds due 2016 | 10,000 | 10,000 | 99,810 |
| 1.79% unsecured bonds due 2017 | 10,000 | - | 99,810 |
| 2.045% unsecured bonds due 2017 | 10,000 | - | 99,810 |
| 1.825% unsecured bonds due 2017 | 10,000 | - | 99,810 |
| 3.125% unsecured bonds due 2017 | 10,000 | 10,000 | 99,810 |
| 1.77% unsecured bonds due 2017 | 20,000 | - | 199,620 |
| 3% unsecured bonds due 2018 | 10,000 | 10,000 | 99,810 |
| 1.975% unsecured bonds due 2019 | 10,000 | - | 99,810 |
| 1.805% unsecured bonds due 2019 | 10,000 | - | 99,810 |
| 2.5% unsecured bonds due 2020 | 10,000 | 10,000 | 99,810 |
| 2.42% unsecured bonds due 2022 | 10,000 | 10,000 | 99,810 |
| 1.50% unsecured bonds due 2022 | 10,000 | 10,000 | 99,810 |
| 2.075% unsecured bonds due 2023 | 10,000 | - | 99,810 |
| 2.28% unsecured bonds due 2024 | 10,000 | 10,000 | 99,810 |
| 2.305% unsecured bonds due 2027 | 10,000 | - | 99,810 |
| 2.385% unsecured bonds due 2027 | 10,000 | - | 99,810 |
| 2.52% unsecured bonds due 2027 | 15,000 | - | 149,715 |
| 2.425% unsecured bonds due 2027 | 10,000 | - | 99,810 |
| 2.9% unsecured bonds due 2032 | 10,000 | 10,000 | 99,810 |
| 2.615% unsecured bonds due 2032 | 10,000 | 10,000 | 99,810 |
| 2.04% unsecured bonds due 2032 | 20,000 | 20,000 | 199,620 |
| 1.72% unsecured bonds due 2033 | 10,000 | 10,000 | 99,810 |
| Floating rate bonds due 2007 (payable in U.S. dollars) | - | 980 | - |
| Floating rate bonds due 2008 (payable in U.S. dollars) | 13,587 | - | 135,612 |
| Loans from banks and insurance companies: | | | |
| Secured | 443,265 | 111,008 | 4,424,243 |
| Unsecured | 552,423 | 388,556 | 5,513,753 |
| | 1,579,275 | 965,544 | 15,762,808 |
| Less current portion | (205,006) | (93,925) | (2,046,173) |
| | ¥1,374,269 | ¥871,619 | \$13,716,634 |

The aggregate annual maturities of long-term debt subsequent to March 31, 2008 are summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|-----------------------|-----------------|---------------------------|
| 2009 | ¥ 205,006 | \$ 2,046,173 |
| 2010 | 239,933 | 2,394,789 |
| 2011 | 307,571 | 3,069,881 |
| 2012 | 168,630 | 1,683,111 |
| 2013 | 141,164 | 1,408,972 |
| 2014 and thereafter | 516,968 | 5,159,882 |
| Total | ¥1,579,275 | \$15,762,808 |

The assets pledged as collateral for short-term borrowings of ¥211 million (\$2,105 thousand) and long-term debt of ¥443,265 million (\$4,424,246 thousand) at March 31, 2008 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|------------------------------|-----------------|---------------------------|
| Cash | ¥ 5,518 | \$ 55,077 |
| Inventories | 127,409 | 1,271,677 |
| Buildings and structures | 172,827 | 1,724,992 |
| Machinery and equipment | 6,375 | 63,633 |
| Land | 118,825 | 1,186,006 |
| Land in trust | 279,567 | 2,790,369 |
| Other property and equipment | 3 | 33 |
| Other intangible assets | 27 | 272 |
| Investment securities | 94 | 944 |
| Total | ¥710,648 | \$7,093,008 |

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, 2008 and 2007 for the Company's and its consolidated subsidiaries' defined benefit pension plans:

| | 2008 | 2007 | 2008 |
|--|------------|-----------|--------------|
| Retirement benefit obligation | ¥(93,391) | ¥(85,510) | \$(932,145) |
| Plan assets at fair value | 83,962 | 91,733 | 838,029 |
| Unfunded retirement benefit obligation | (9,429) | 6,222 | (94,116) |
| Unrecognized actuarial loss | 619 | (13,776) | 6,187 |
| Unrecognized prior service cost | 488 | 648 | 4,880 |
| Net amounts recognized in the consolidated balance sheet | (8,319) | (6,904) | (83,038) |
| Prepaid pension expenses | 10,134 | 6,911 | 101,151 |
| Accrued employees' retirement benefits | ¥(18,453)* | ¥(13,816) | \$(184,189)* |

* The accrued employees' retirement benefits recognized by Rockefeller Group, Inc., a consolidated subsidiary, in the amount ¥370 million (\$3,692 thousand) were presented in accrued expenses and other current liabilities.

The components of expenses related to the pension and severance plans for the years ended March 31, 2008 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2008 | 2007 | 2008 |
| Service cost | ¥ 3,836 | ¥ 3,806 | \$ 38,288 |
| Interest cost | 2,209 | 2,113 | 22,056 |
| Expected return on plan assets | (1,686) | (1,573) | (16,837) |
| Amortization of net retirement benefit obligation at transition | 74 | 77 | 745 |
| Other | (520) | (216) | (5,195) |
| Total | ¥ 3,913 | ¥ 4,207 | \$ 39,058 |

The assumptions used in accounting for the pension and severance plans for the years ended March 31, 2008 and 2007 were as follows:

| | 2008 | 2007 |
|--|------------|------------|
| Discount rate | 2.0 ~ 6.0% | 2.0 ~ 5.7% |
| Expected rate of return on plan assets | 0.5 ~ 7.5% | 0.5 ~ 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, 2008

and 2007. 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 two years ended March 31, 2008 differ from the statutory tax rate for the following reasons:

| | 2008 | 2007 |
|---|--------|--------|
| Statutory tax rate | 40.69% | 40.69% |
| Increase (decrease) in income taxes resulting from: | | |
| Change in valuation allowance | (1.84) | (3.48) |
| Different tax rates applied | 1.10 | 0.99 |
| Revenues deductible for income tax purposes | (1.56) | (0.51) |
| Expenses not deductible for income tax purposes | 0.38 | 0.23 |
| Undistributed earnings of affiliates | 5.25 | 7.44 |
| Equity income | (1.14) | (1.77) |
| Other | (4.13) | (1.91) |
| Effective tax rates | 38.75% | 41.68% |

The significant components of deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|------------|---------------------------|
| | 2008 | 2007 | 2008 |
| Deferred tax assets: | | | |
| Net operating loss carryforwards | ¥ 13,465 | ¥ 14,653 | \$ 134,401 |
| Accrued retirement allowances and pension costs | 14,827 | 11,828 | 147,991 |
| Valuation loss on inventories | 37,705 | 32,021 | 376,340 |
| Unrealized loss on property and equipment | 56,527 | 45,669 | 564,201 |
| Land revaluation reserve | 55,179 | 56,586 | 550,744 |
| Other | 46,289 | 20,604 | 462,012 |
| | 223,995 | 181,363 | 2,235,702 |
| Valuation allowance | (27,541) | (16,556) | (274,888) |
| Total deferred tax assets | 196,454 | 164,807 | 1,960,816 |
| Deferred tax liabilities: | | | |
| Reserves under Special Taxation Measures Law | (59,373) | (57,262) | (592,604) |
| Land revaluation reserve | (379,132) | (379,044) | (3,784,132) |
| Unrealized gain on property and equipment | (141,394) | (35,717) | (1,411,259) |
| Unrealized gain on securities | (59,069) | (91,609) | (589,577) |
| Other | (52,469) | (40,897) | (523,703) |
| Total deferred tax liabilities | (691,439) | (604,530) | (6,901,278) |
| Net deferred tax liabilities | ¥(494,984) | ¥(439,723) | \$ (4,940,462) |

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 capital reserve amounted to ¥165,216 million (\$1,649,029 million), and the legal reserve amounted to ¥21,663 million (\$216,227 million) at March 31, 2008. 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 |
|---------------------------------------|---------|---------|--------------|
| | 2008 | 2007 | 2008 |
| Year ended March 31, | | | |
| Net income: | | | |
| Basic | ¥62.99 | ¥70.95 | \$0.62 |
| Diluted | 62.97 | 70.71 | 0.62 |
| Cash dividends applicable to the year | 16.00 | 14.00 | 0.15 |
| | | | |
| | | | |
| March 31, | | | |
| Net assets: | ¥897.40 | ¥887.79 | \$8.95 |

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, accumulated impairment loss and net book value of the leased assets as of March 31, 2008 and 2007,

which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

| | Millions of yen | | | | Thousands of U.S. dollars | | | |
|--------------------------|-------------------|--------------------------|-----------------------------|----------------|---------------------------|--------------------------|-----------------------------|----------------|
| | Acquisition costs | Accumulated depreciation | Accumulated impairment loss | Net book value | Acquisition costs | Accumulated depreciation | Accumulated impairment loss | Net book value |
| | 2008 | | | | | | | |
| Buildings and structures | ¥15,323 | ¥4,930 | ¥141 | ¥10,251 | \$152,942 | \$49,210 | \$1,413 | \$102,318 |
| Others | 7,634 | 3,976 | 24 | 3,633 | 76,203 | 39,692 | 242 | 36,267 |
| Total | ¥22,958 | ¥8,907 | ¥165 | ¥13,884 | \$229,146 | \$88,903 | \$1,656 | \$138,586 |

| | Millions of yen | | | | Net book value |
|--------------------------|-------------------|--------------------------|-----------------------------|----------------|----------------|
| | Acquisition costs | Accumulated depreciation | Accumulated impairment loss | Net book value | |
| | 2007 | | | | |
| Buildings and structures | ¥12,381 | ¥3,892 | ¥256 | ¥ 8,233 | |
| Others | 8,783 | 4,868 | 66 | 3,848 | |
| Total | ¥21,165 | ¥8,760 | ¥323 | ¥12,081 | |

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥3,520 million (\$35,133 thousand) and ¥3,046 million for the years ended March 31, 2008 and 2007, respectively.

Future minimum lease payments subsequent to March 31, 2008 on noncancelable operating leases and finance leases accounted for as operating leases are summarized as follows:

| Year ending March 31, | Millions of yen | | Thousands of U.S. dollars | |
|-----------------------|-----------------|------------------|---------------------------|------------------|
| | Finance leases | Operating leases | Finance leases | Operating leases |
| 2009 | ¥ 3,744 | ¥ 2,341 | \$ 37,370 | \$ 23,368 |
| 2010 and thereafter | 10,306 | 22,633 | 102,872 | 225,903 |
| | ¥14,050 | ¥24,974 | \$140,242 | \$249,272 |

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, 2008 from noncancelable operating leases are summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|-----------------------|-----------------|---------------------------|
| 2009 | ¥150,956 | \$1,506,697 |
| 2010 and thereafter | 723,845 | 7,224,726 |
| Total | ¥874,801 | \$8,731,423 |

13. Contingent Liabilities

At March 31, 2008, 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 | ¥ 1,872 | \$ 18,688 |
| Guarantees of house purchasers' loans from banks and others | 41,451 | 413,725 |
| Other | 573 | 5,729 |
| Total | ¥43,897 | \$438,142 |

14. Other Income (Expenses)

The components of "Other, net" in "Other income (expenses)" for each of the years ended March 31, 2008 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Gain on sales of fixed assets | ¥ - | ¥ 1,115 | \$ - |
| Gain on sales of shares of affiliated companies | 2,255 | 40,060 | 22,511 |
| Gain on sales of investments | - | 2,150 | - |
| Gain on transfer of business | - | 1,895 | - |
| Gain on sales of beneficial interest in trust of fixed assets | 1,737 | - | 17,341 |
| Gain on sales of investment securities | 1,697 | - | 16,947 |
| Loss on disposal of fixed assets | (4,616) | (6,843) | (46,082) |
| Loss related to retirement of fixed assets | (1,194) | (13,423) | (11,920) |
| Loss on valuation of inventories | (1,458) | (736) | (14,555) |
| Impairment loss (*1) | (1,498) | (5,503) | (14,952) |
| Early repayment of a portion of borrowings | (1,168) | - | (11,661) |
| Loss on valuation of investment securities | (2,769) | - | (27,640) |
| Other, net | 382 | (244) | 3,821 |
| | ¥(6,631) | ¥18,470 | \$(66,192) |

(*1) Impairment loss

The Company recorded consolidated impairment losses for the following asset groups for the year ended March 31, 2008:

| Major Application | Category | Location |
|---|--|-------------------------------|
| Leased assets, etc. (total 6 groups) | Buildings, land, etc. | Chiba, Chiba Prefecture, etc. |
| International businesses (total 2 groups) | Goodwill, construction in progress, etc. | California, USA, etc. |

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. Company condominiums are regarded as shared assets. As a result, for the fiscal year ended March 31, 2008, the book values of 8 asset groups, consisting of those for which the market prices fell considerably compared with the book values due to the decline of land prices and those for which profitability decreased considerably due to fallen rent levels or deteriorated market conditions, etc., were reduced to the respective collectible amounts and such reduced amounts were recorded as an impairment loss (¥1,498 million) under extraordinary losses.

The breakdown of such impairment loss was ¥789 million in goodwill, ¥482 million in construction in progress and ¥225 million in buildings and structures and others.

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 in the international business, the impairment loss is calculated for consolidated foreign subsidiaries in accordance with the U.S. accounting standards.

15. Supplemental Cash Flow Information

The following table represents a reconciliation of cash and cash equivalents as of March 31, 2008 and 2007:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Cash | ¥186,321 | ¥201,107 | \$1,859,678 |
| Time deposits with maturities of more than three months | (1,348) | (1,178) | (13,455) |
| Marketable securities with maturities of three months or less | 31,739 | 6,160 | 316,789 |
| Resell agreements with maturities of three months or less | 3,000 | — | 29,943 |
| Cash and cash equivalents | ¥219,712 | ¥206,089 | \$2,192,955 |

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, etc. |
| International 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 book value of a total of 10 asset groups above was reduced to the respective collectible amounts and the reductions were recorded as an impairment loss (¥5,503 million (\$46,201 thousand)), because the market price considerably fell 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 ¥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 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 International Business, the impairment loss is calculated for consolidated foreign subsidiaries in accordance with accounting principles generally accepted in the United States.

The following are major components of assets and liabilities of a consolidated subsidiary, which was acquired by the Company through additional purchase of its stocks, as well as a reconciliation

of the difference between the acquisition price of these assets and liabilities and the proceeds and payments from the acquisition.

| | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| | 2008 | |
| Current assets | ¥ 260,126 | \$ 2,596,331 |
| Fixed assets | 268,436 | 2,679,276 |
| Goodwill | 22,809 | 227,662 |
| Current liabilities | (142,723) | (1,424,532) |
| Non-current liabilities | (243,458) | (2,429,970) |
| Goodwill | (32,170) | (321,090) |
| Minority interests | (63,134) | (630,150) |
| Acquisition cost | 69,885 | 697,526 |
| Investment value on an equity basis before acquisition | (45,971) | (458,844) |
| Acquisition cost of additional purchase | 23,913 | 238,681 |
| Unpaid amount | (33) | (334) |
| Cash and cash equivalents of subsidiary | (77,518) | (773,711) |
| Proceeds from acquisition | 62,134 | 620,163 |
| Payments for acquisition | ¥ (8,495) | \$ (84,798) |

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 foreign exchange rates (currency swaps), 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 newly established nine segments in order to present and disclose the Group businesses more appropriately. Their business segments are

newly reclassified in terms of the nature of each operation or service and consist of eight segments: (1) Building Business; (2) Residential Business; (3) Urban Development & Investment Management; (4) International Business; (5) Architectural Design and 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, 2008 and 2007 is summarized as follows:

| Millions of yen | | | | | | | | | | | | |
|---|-------------------|----------------------|---|------------------------|--------------------------------------|----------------------|----------------|----------------------|---------|------------|---------------------------|--------------|
| For the year ended March 31, 2008 | | | | | | | | | | | | |
| | Building Business | Residential Business | Urban Development and Investment Management | International Business | Architectural Design and Engineering | Custom-Built Housing | Hotel Business | Real Estate Services | Other | Total | Eliminations or corporate | Consolidated |
| Revenue and operating income | | | | | | | | | | | | |
| Revenue from: | | | | | | | | | | | | |
| External customers | ¥ 374,041 | ¥212,869 | ¥ 29,391 | ¥ 71,920 | ¥11,569 | ¥29,082 | ¥32,577 | ¥23,773 | ¥ 2,427 | ¥ 787,652 | ¥ - | ¥ 787,652 |
| Intersegment or transfers | 6,521 | 1,033 | 39 | - | 7,517 | 2,134 | 585 | 4,167 | 2,554 | 24,554 | (24,554) | - |
| Total revenue | 380,562 | 213,903 | 29,430 | 71,920 | 19,086 | 31,216 | 33,163 | 27,941 | 4,982 | 812,207 | (24,554) | 787,652 |
| Operating expense | 266,071 | 189,576 | 12,567 | 44,376 | 16,762 | 31,833 | 31,801 | 23,832 | 3,986 | 620,808 | (11,139) | 609,669 |
| Operating income (loss) | ¥ 114,490 | ¥ 24,326 | ¥ 16,863 | ¥ 27,544 | ¥ 2,324 | ¥ (616) | ¥ 1,362 | ¥ 4,108 | ¥ 995 | ¥ 191,398 | ¥(13,415) | ¥ 177,983 |
| Assets, depreciation, and capital expenditures | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | |
| Assets | ¥2,566,825 | ¥731,816 | ¥337,375 | ¥351,016 | ¥22,155 | ¥14,992 | ¥28,626 | ¥31,909 | ¥26,406 | ¥4,111,124 | ¥216,013 | ¥4,327,137 |
| Depreciation | 45,893 | 795 | 2,316 | 5,539 | 40 | 144 | 1,510 | 388 | 139 | 56,767 | 99 | 56,867 |
| Impairment loss | - | 32 | - | 1,401 | - | 56 | - | - | - | 1,490 | 7 | 1,498 |
| Capital expenditures | 122,149 | 1,835 | 106,345 | 44,857 | 63 | 205 | 1,216 | 729 | 397 | 277,799 | 3,798 | 281,597 |

| Thousands of U.S. dollars | | | | | | | | | | | | |
|---|-------------------|----------------------|---|------------------------|--------------------------------------|----------------------|----------------|----------------------|-----------|--------------|---------------------------|--------------|
| For the year ended March 31, 2008 | | | | | | | | | | | | |
| | Building Business | Residential Business | Urban Development and Investment Management | International Business | Architectural Design and Engineering | Custom-Built Housing | Hotel Business | Real Estate Services | Other | Total | Eliminations or corporate | Consolidated |
| Revenue and operating income | | | | | | | | | | | | |
| Revenue from: | | | | | | | | | | | | |
| External customers | \$ 3,733,317 | \$2,124,655 | \$ 293,355 | \$ 717,839 | \$115,477 | \$290,268 | \$325,161 | \$237,283 | \$ 24,229 | \$ 7,861,588 | \$ - | \$ 7,861,588 |
| Intersegment or transfers | 65,089 | 10,319 | 394 | - | 75,027 | 21,308 | 5,844 | 41,599 | 25,499 | 245,081 | (245,081) | - |
| Total revenue | 3,798,406 | 2,134,975 | 293,750 | 717,839 | 190,504 | 311,576 | 331,006 | 278,882 | 49,728 | 8,106,670 | (245,081) | 7,861,588 |
| Operating expense | 2,655,673 | 1,892,173 | 125,432 | 442,919 | 167,304 | 317,727 | 317,407 | 237,876 | 39,794 | 6,196,310 | (111,181) | 6,085,128 |
| Operating income (loss) | \$ 1,142,733 | \$ 242,801 | \$ 168,317 | \$ 274,919 | \$ 23,200 | \$ (6,150) | \$ 13,598 | \$ 41,006 | \$ 9,934 | \$ 1,910,360 | \$ (133,900) | \$ 1,776,459 |
| Assets, depreciation, and capital expenditures | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | |
| Assets | \$25,619,582 | \$7,304,288 | \$3,367,355 | \$3,503,504 | \$221,139 | \$149,635 | \$285,718 | \$318,492 | \$263,561 | \$41,033,278 | \$2,156,038 | \$43,189,317 |
| Depreciation | 458,068 | 7,939 | 23,116 | 55,285 | 401 | 1,442 | 15,075 | 3,876 | 1,390 | 566,598 | 994 | 567,592 |
| Impairment loss | - | 322 | - | 13,991 | - | 562 | - | - | - | 14,876 | 75 | 14,952 |
| Capital expenditures | 1,219,175 | 18,317 | 1,061,434 | 447,721 | 637 | 2,052 | 12,141 | 7,283 | 3,964 | 2,772,727 | 37,910 | 2,810,637 |

| Millions of yen | | | | | | | | | | | | |
|---|-------------------|----------------------|---|------------------------|--------------------------------------|----------------------|----------------|----------------------|---------|------------|---------------------------|--------------|
| For the year ended March 31, 2007 | | | | | | | | | | | | |
| | Building Business | Residential Business | Urban Development and Investment Management | International Business | Architectural Design and 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 |
| Assets, depreciation, and capital expenditures | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | |
| 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 |

Geographical segments

The Company and its consolidated subsidiaries operate primarily in Japan, the United States and certain other areas. In the year ended March 31, 2008, Japan area accounted for more than 90% of the

consolidated revenue of all segments and the total amount of segment assets. Consequently, disclosure of segment information by geographic area has been omitted.

The geographical segment information of the Company and its consolidated subsidiaries for the year ended March 31, 2007 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 expenses | 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 |

Unallocatable operating expenses

Unallocatable operating expenses included under "Eliminations or corporate" for the year ended March 31, 2007 amounted to ¥12,543 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

amounted to ¥454,614 million 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

For the year ended March 31, 2008, overseas sales accounted for less than 10% of the consolidated revenue. Consequently, disclosure of overseas sales information has been omitted.

The following table represents overseas revenue earned by the Company's consolidated subsidiaries in foreign countries during the years ended March 31, 2007:

| Millions of yen | | | |
|---|---------------|-------------|----------|
| 2007 | | | |
| | United States | Other areas | Total |
| 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% |

18. Business Combination

AQUACITY PROPERTIES held a portion of beneficial interests in trust of the Aqua City Odaiba commercial complex (the "Property") as management company of Silent Partnership Aquacity Properties, consolidated subsidiary of the Company. On December 27, 2007, the Company merged AQUACITY PROPERTIES for the purpose of directly holding the Property. Accordingly, AQUACITY PROPERTIES was dissolved and Silent Partnership Aquacity Properties was terminated.

This business combination was treated as transactions under common control in accordance with "Accounting Standard for Business Combinations" (issued by the Business Accounting Council on October 31, 2003) and "Guidelines for Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Financial Accounting Standard Implementation Guidelines No. 10 issued by the Accounting Standards Board of Japan on December 22, 2006).

19. Transactions with Special Purpose Companies

As part of its real estate business, the Company makes preferred investments in 12 special purpose companies that are established under the Asset Liquidation Law of Japan. The Company intends to recover such preferred investments through rental revenue and subsequent sale of real estate that has been obtained by the special purpose companies from their customers or sale of such real estate

after construction of buildings on it. The Company sees no future loss on these preferred investments as of March 31, 2008 and the Company considers that its exposure to loss that may arise in the future is limited to the amount of its preferred investments. The following tables represent the Company's transactions with major special purpose companies for the year ended March 31, 2008.

Amounts of preferred investment as of March 31, 2008

| | | Millions of yen | Thousands of U.S. dollars |
|---------------------------------|------|-----------------|---------------------------|
| Preferred investment securities | (*1) | ¥82,327 | \$821,709 |

Major revenue (cost) from transactions with special purpose companies

| | | Millions of yen | Thousands of U.S. dollars |
|--|------|-----------------|---------------------------|
| Preferred investment securities: revenue | (*1) | ¥ 874 | \$ 8,723 |
| Management business: revenue | (*2) | 447 | 4,462 |
| Intermediate business: revenue | (*3) | 104 | 1,038 |
| Real estate rent: cost | (*4) | 1,335 | 13,325 |
| Design management business: revenue | (*5) | 123 | 1,228 |

(*1) Preferred investment securities are indicated as amount of investment as at March 31, 2008. The Company records dividends from such investments as revenue from operations.

(*2) The Company and Mitsubishi Jisho Investment Advisors, Inc. provide asset management business to special purpose companies and record such service income as revenue from operations.

(*3) Mitsubishi Real Estate Services Co., Ltd. provides real estate intermediate business to special purpose companies and records such service income as revenue from operations.

(*4) The Company enters into real estate rental agreements with special purpose companies and records such rent expenses as cost of revenue from operations.

(*5) Mitsubishi Jisho Sekkei, Inc. provides design management services to special purpose companies and records such service income as revenue from operations.

(*6) The Company does not own investments with voting rights for any special purpose companies and does not send directors and employees to any special purpose companies. The following table sets forth major assets and liabilities of the special purpose companies as of their recent financial closing dates. Excluded are special purpose companies whose financial closing dates are yet to come because their initial fiscal years have just started.

Major assets

| | | Millions of yen | Thousands of U.S. dollars |
|-------------|--|-----------------|---------------------------|
| Real estate | | ¥292,823 | \$2,922,677 |
| Other | | 18,901 | 188,652 |
| Total | | ¥311,725 | \$3,111,338 |

Major liabilities and net assets

| | | Millions of yen | Thousands of U.S. dollars |
|-----------------------|------|-----------------|---------------------------|
| Debt | | ¥188,239 | \$1,878,820 |
| Preferred investments | (*6) | 122,850 | 1,226,170 |
| Other | | 635 | 6,338 |
| Total | | ¥311,725 | \$3,111,338 |

(*6) Preferred investments include contributions made by the Company as described in (*1) above.

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

■ Certified Public Accountants
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Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel: 03 3503 1100
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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, 2008 and 2007, 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, 2008 and 2007, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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 Shin Nihon

Tokyo, Japan
June 27, 2008