Operating Environment

During the fiscal year ended March 31, 2009, conditions in the office building leasing market in Japan, which had shown relatively steady expansion until the previous fiscal year, changed dramatically. These conditions included a vacancy rate that, in general, turned to and continued on an upward trend, attributable to the rapid worsening of performance in the Japanese corporate sector. As the operating environment in the corporate sector remains severe, corporations are aggressively promoting cost reduction initiatives. This situation is expected to lead to circumstances where these corporations may heighten their calls for reducing office-related costs and expenses. Accordingly, the operating environment for the Mitsubishi Estate Group will allow no optimism in its outlook for the time being.

In the condominium market, condominium sales were stagnant, due to a rise in condominium prices resulting from surging construction costs and expenses as well as to weakened consumer sentiment owing to the deterioration in economic conditions. Consequently, the number of residential units actually supplied remained extremely low during the fiscal year under review. Reflecting the favorable adjustments in condominium prices and the reinforcement of mortgage tax breaks by the Japanese government, there are signs of recovery in market demand, including a larger number of people visiting model rooms. However, full-fledged recovery in market conditions is expected to require a long time period.

The credit crunch in the financial market during the period has significantly affected the real estate industry in Japan, causing the real estate investment market to contract substantially and leading into the bankruptcy of several real estate companies due to their funding difficulties. Amid the ongoing financial turmoil, the Japanese real estate industry has yet to attract investments, and the real estate investment market is slated to continue to face harsh conditions.

Under these circumstances, the Mitsubishi Estate Group will endeavor to respond appropriately to changes in its operating and market environments as it strives to enhance management efficiency, earnings power and corporate value.

Financial Results

For the fiscal year under review, revenue from operations increased 19.7% year on year to ¥942,626 million, while operating income declined 22.1% to ¥138,567 million. The increase in revenue from operations was attributable to the positive impact of the first full-year of operation of the Shin-Marunouchi Building, which was completed in April 2007, and upward rent revisions for existing buildings, as well as to the contribution of earnings of new consolidated subsidiaries—namely, Sunshine City Corporation and Tokyo Kotsu Kaikan Co., Ltd. The decrease in operating income was mainly due to Towa Real Estate Development Co., Ltd.—a Mitsubishi Estate consolidated subsidiary in the Building Business—which posted an operating loss, and to the International Business, which was negatively impacted by the significant appreciation of the yen.

Ordinary income dropped 33.0% year on year to ¥108,624 million. Mitsubishi Estate recorded extraordinary gains on sales of shares of affiliated companies, while posting extraordinary losses on valuation of investment securities and inventories, on cancellation of real estate transaction contracts and on disposal of fixed assets, as well as impairment loss. As a result, net income decreased 47.8% year on year to ¥45,423 million. (For more details, please see the Financial Review section starting on page 36 of this report.)

Dividend Policy

Mitsubishi Estate adheres to the basic policy of stably returning profits to its shareholders through such means as cash dividends. In doing so, the Company gives due consideration to reserving funds necessary for future business developments, including the Marunouchi Redevelopment Project. In the fiscal year ended March 31, 2009, Mitsubishi Estate paid an interim dividend of ¥8 per share, the same as the previous fiscal year, and decided to pay a year-end dividend of ¥8 per share, for an annual per-share dividend of ¥16.

Mitsubishi Estate will determine future dividend levels by comprehensively taking into account performance levels for each period and aiming to keep its consolidated payout ratio at a 25% to 30% level. In line with such a stance, the Company plans to pay an annual per-share dividend of ¥12 for the fiscal year ending March 31, 2010, which comprises an interim and year-end per-share dividend of ¥6, respectively.

Financial Highlights Years ended March 31

						Millions of yen	Thousands of U.S. dollars
	2004	2005	2006	2007	2008	2009	2009
Revenue from operations	¥ 679,918	¥ 775,381	¥ 844,217	¥ 947,641	¥ 787,652	¥ 942,626	$ 9,596,116
Net income	34,989	36,245	55,825	97,662	86,963	45,423	462,415
As a percentage of revenue from operations	5.1%	4.7%	6.6%	10.3%	11.0%	4.8%	—
As a percentage of total equity	4.0%	4.0%	5.4%	8.3%	7.1%	3.8%	—
Total assets	3,068,842	3,124,514	3,280,209	3,447,272	4,327,137	4,429,070	45,088,779
Total equity	897,499	920,930	1,133,623	1,225,644	1,238,889	1,148,494	11,691,896
Common stock	86,534	86,534	129,736	136,534	136,534	136,534	1,389,943
Per share amounts:						Yen	U.S. dollars
Net income	¥ 26.96	¥ 27.93	¥ 42.60	¥ 70.95	¥ 62.99	¥ 32.90	$ 0.33
Cash dividends applicable to the year	8.00	8.00	10.00	14.00	16.00	16.00	0.16

Notes: 1. Yen amounts shown are translated into U.S. dollars, solely for convenience, at the prevailing exchange rate on March 31, 2009, of ¥98.23 to US$1.00.
2. Total equity is calculated by deducting minority interests and stock acquisition rights from total net assets.

Caution regarding forward-looking statements

Plans, estimates and strategies included in this annual report are forward-looking statements concerning the future performance of the Mitsubishi Estate Group. These statements are based on management's assumptions, which have been made in accordance with information available to the Company as of the date of this report's preparation. Accordingly, the content of this report should not be relied upon unduly. Mitsubishi Estate cautions that a number of factors could cause future results to differ from its forecasts.

Medium-Term Management Plan "Action 2010"

Mitsubishi Estate's current medium-term management plan, ACTION 2010, covers the three-year period from April 1, 2008 to March 31, 2011. Under ACTION 2010, Mitsubishi Estate has established a new corporate brand slogan, "A Love for People, A Love for the City." Embracing this brand slogan, we have defined a future vision for the Mitsubishi Estate Group, as described below, by reflecting the outcome of the previous medium-term management plan and ongoing changes in operating environments. The entire Group is accelerating the implementation of various action items toward realizing this vision.

Mitsubishi Estate's Future Vision under ACTION 2010
To become "a global real estate solutions provider — development as a core driver"

Practical Action Items for Each Business Domain

Domain	Business Attribute Action Item	Action Item
1st Domain	Real Estate Holding Obtains rental revenues (income gain) from real estate	Maximize the value of assets held in Marunouchi and other locations
2nd Domain	Real Estate Development and Investment Obtains capital gains from real estate	Further reinforce development and risk management capabilities
3rd Domain	Real Estate Investment Management Provides management services to investors and obtains a fee income	Build a global platform
4th Domain	Real Estate Services Provides fee-based services to customers involved in real estate	Aim to be a leading service provider that contributes to advancing development capabilities

Action Items for Strengthening Domain/Cross-Sectional Competitiveness

Globalize Each Domain	Strengthen Each Domain, Leveraging Development Capabilities	Further Develop Proposal-Based Marketing
While seeking to continually increase the value of overseas assets held, position development and investment, investment management and real estate services as growth fields, and over the medium to long term, work to earn approximately 20% of consolidated operating income overseas, while promoting globalization at a pace optimal for each operation	Affirm development capabilities as the source of competitive strength for all domains and seek further reinforcement. At the same time, have the Real Estate Development and Investment domain, which has gained strength as the core of the Company's development capabilities, help other domains to grow and promote the creation of a mechanism for producing synergies in investment management, real estate services, and so forth	Focus on medium- to long-term "Customer Value" and reaffirm the significance of proposal-based marketing, which seeks new business creation by continually promoting solutions to customers, and, as an advantage unique to Mitsubishi Estate, further strengthen this marketing capability

Management Infrastructure Action Items

Reinforcing Management, People and Organization Infrastructure	Active Measures toward Harmonious Environmental Co-Existence
Facilitate the development of globally capable human resources and other initiatives by clearly defining the dissemination of management policies throughout the Group, the fostering of a corporate culture that promotes a spirit of taking on challenges and the globalization of management and personnel as basic infrastructure reinforcement policies. Also, for each Group segment that continues to expand, diversify and increase sophistication, work to reinforce and raise awareness of the corporate governance system, including risk management, compliance and internal controls	Formulate a "Long-Term Environmental Vision" to proactively work toward harmonious environmental co-existence and further clarify the Company's stance of actively contributing to society with the view of reducing the environmental impact of Group operations. In order to realize this "Long-Term Environmental Vision," formulate and implement action plans

Management Indicator Targets for the Fiscal Year Ending March 31, 2011

Consistent with its previous medium-term management plan from April 1, 2005 to March 31, 2008, Mitsubishi Estate will continue to enhance corporate value by increasing cash flows, taking into consideration the optimal balance with efforts to secure a sound financial position. From a quantitative perspective, the Group has identified the following key management indicator targets to be achieved by the end of the final year of ACTION 2010.

EBITDA*1	EBITDA*1 / Total Assets	Net Interest-Bearing Debt / EBITDA Multiple*2
¥300.0 billion	Over 6.5%	Under 6.0 times

*1 EBITDA = Operating income + Interest and dividend income + Equity in earnings (losses) of unconsolidated subsidiaries and affiliates + Depreciation and amortization
*2 Net interest-bearing debt = Interest-bearing debt – Cash and cash equivalents