2001

ANNUAL REPORT

Year ended March 31, 2001

MITSUI FUDOSAN CO.,LTD.

PROFILE

The **Mitsui Fudosan Group** is Japan's Largest Comprehensive Real Estate Group.

The Group's businesses comprise leasing, sales of housing, office building and land, construction, brokerage, consignment sales and consulting, property management, sales of housing materials and merchandise, facility operations and others.

In the 21st century in Japan, where the real estate and financial markets are merging to form a new hybrid field, **Mitsui Fudosan Co., Ltd.** aims to remain active as a key player in its 60th year of business by making optimal use of its power to create value toward building its influence and presence in the industry and further reinforcing its position as a leading real estate company.

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CONSOLIDATED FINANCIAL HIGHLIGHTS

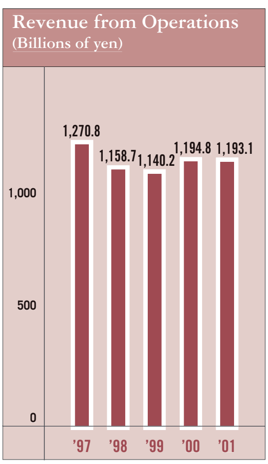
Mitsui Fudosan Co., Ltd. and Subsidiaries

	Millions of yen		Thousands of U.S. dollars	
Years ended March 31	2000	**2001**	2000	**2001**
Revenue from operations	¥1,194,837	**¥1,193,081**	$ 9,643,561	**$ 9,629,386**
Net income (loss)	(58,418)	**26,112**	(471,492)	**210,756**
As a percentage of revenue from operations	(4.9)%	**2.2%**		
As a percentage of shareholders' equity	(14.8)%	**6.4%**		
Cash dividends	4,063	**4,063**	32,791	**32,791**
Total assets	2,991,203	**2,846,467**	24,142,076	**22,973,908**
Shareholders' equity	395,132	**411,097**	3,189,123	**3,317,975**
Common stock	134,433	**134,433**	1,085,014	**1,085,014**

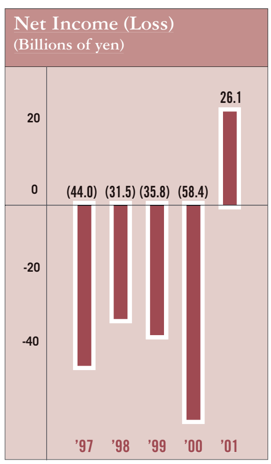
	Yen		U.S. dollars	
Amount per share of common stock:				
Net income (loss)	¥ (71.9)	**¥ 32.1**	$ (0.580)	**$ 0.259**
Diluted net income	—	**31.8**	—	**0.257**
Cash dividends applicable to the year	5.0	**6.0**	0.040	**0.048**

Number of shareholders	61,265	**51,704**
Number of employees	13,484	**13,380**

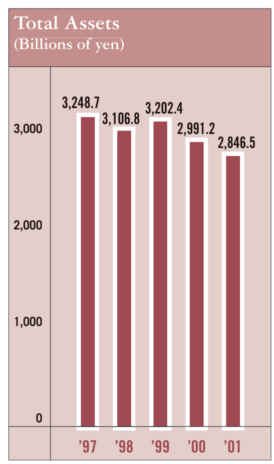
Note: U.S. dollar amounts are translated from yen at the rate of ¥123.90=U.S.$1.00, the approximate exchange rate at March 31, 2001.



Revenue from Operations (Billions of yen)



Net Income (Loss) (Billions of yen)



Total Assets (Billions of yen)

HIROMICHI IWASA
MEMBER OF THE BOARD
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Since the collapse of the bubble economy, the several years of structural reorganization successfully undertaken as the first step toward building a new, 21st century Mitsui Fudosan Group with high growth potential and profitability have created a reinforced base for Company growth.

Amid the major paradigm shift currently taking part in the Japanese real estate market, Mitsui Fudosan will continue making optimal use of its value-creating power and invest all of its energies toward expanding value for Group companies.

BUSINESS POLICY

Basic operating policies

Mitsui Fudosan Co., Ltd. created its Group Vision and Mission in the fiscal year 1999 ended March 31, 2000, with the aim of helping the whole Group maximize earnings and increase corporate value by providing the best urban assets, information and services as well as ensuring customer satisfaction. This means constantly using our value-creation capability for the benefit of society, customers and the market.

Midterm Strategy

In May 2000, we announced the Mitsui Fudosan Group's Midterm (three-year) Management Plan covering the period from fiscal 2000 to fiscal 2002. The goal of the plan is to create a new Mitsui Fudosan Group, rich in growth possibilities and profitability, in the 21st century.

To achieve the management objectives outlined in the plan, we are promoting five strategies: pursue customer-oriented management, create an asset portfolio that steadily generates profits, expand and reinforce the nonasset business, build an optimal value chain for the Group and develop new business models. To implement these strategies, we have emphasized two basic policies: harmonious coexistence with the environment and extensive usage of information technologies.

The table below shows a list of consolidated quantitative targets that we hope to achieve in the year ending March 2003, the final year of the Midterm Management Plan.

Quantitative targets for the year ending March 31, 2003

Operating Income	¥105 billion
Interest-Bearing Liabilities	¥1,450 billion
ROA*	3.9%
Total Assets	¥2,850 billion
D/E Ratio	3.2 times
Operating Cash Flow	¥110 billion

**ROA = (Operating Income + Non-operating Income)/Total Assets*

Issues to address

The creation of the real estate investment trust (JREIT) market is expected to help link real estate properties with capital markets and foster the liquidity of real estate assets. To this end, we will work to develop new business models that take full advantage of real estate securitization and devote our energies to expanding opportunities in the nonasset business to undertake management on behalf of funds and investors.

In the leasing business, we will meet the diversified and sophisticated needs of tenants by improving the attractiveness of our products. At the same time, we will use the comprehensive and specialist management strengths of the Group to promote joint investments with investors, in an effort to acquire maximum profits through minimum investment.

In the housing sales business, we will further upgrade our product-planning skills by quickly grasping customer needs. We have also established an After Service Center to provide after-sales support quickly and efficiently. In these ways, we will strive to further ingrain a customer-oriented mindset among employees.

Harmonious coexistence with the environment will become increasingly important in the future. To help create prosperous urban communities, we will promote businesses that are environmentally efficient. We will also use IT to accurately perceive changes in customer and market trends as part of our resolute quest to build new business models.

Management reorganization

In April 2001, we implemented the following structural reforms to realize the objectives of our Midterm Management Plan.

(1) Introduction of corporate officer system

We divided the management and execution functions, both previously handled by directors, by introducing a corporate officer system. This system aims to make management more efficient and sound while enhancing responsiveness to external conditions.

(2) Establishment of Advisory Committee

To embrace multifaceted perspectives, we set up an Advisory Committee consisting of academic experts and business leaders.

(3) Reinforcing compliance

From the standpoint of expanding and reinforcing our nonasset business, we selected an executive with responsibility for compliance. We also set up an internal Compliance Committee, headed by the compliance executive, to promote a fuller understanding and strengthen enforcement of compliance rules.

(4) Establishment of Principal Investments Division

In line with reinforcing the compliance function, we set up the Principal Investments Division to create Company-wide asset strategies for investments on the Company's own account and undertake the concentrated management of major rental assets already allocated to the Office Building Division and the Commercial Properties Division, which are clearly positioned as "service providers" for the new Principal Investments Division.

PERFORMANCE

Operating results

In the year under review, the Japanese economy was restricted to a minimal recovery. Despite generally solid capital investments amid a recovery in corporate earnings, personal consumption languished due partly to difficult employment conditions, while public spending and housing investments declined. The slowdown of the U.S. economy also had a negative impact.

In the real estate industry, the leasing sector benefited from increased demand for office space, led mainly by foreign-capital and IT-related firms. As a result, occupancies improved and leasing rates ceased to decline. The housing sales sector benefited from the continued low basic interest rates prescribed by the Government Housing Loan Corporation, as well as the extension of a housing loan interest tax deduction system and other government policies. These factors helped maintain purchasing demand among customers and foster healthy market conditions, brightening the prospects for the business environment.

Amid this operating environment, the Mitsui Fudosan Group devoted its full efforts toward raising corporate value by pursuing the policies outlined earlier in this report.

In addition, we completed a two-year restructuring of our balance sheets, which included devaluing some of our assets and strengthening the financial positions of some Group companies. In these ways, we built a solid foundation for growth in our quest to create a new Mitsui Fudosan Group, rich in growth possibilities and profitabilities, in the 21st century.

Consolidated revenue from operations in the year under review amounted to ¥1,193.1 billion, down 0.1% from the previous year. Operating income jumped 32.2% to ¥108,334 million. Net income was ¥26,112 million, compared with a net loss of ¥58,418 million a year earlier.

OUTLOOK

In the real estate industry, the outlook defies confident prediction. In the leasing sector, demand for office space in highly functional buildings in central urban locations remains strong, but business may be affected by changing conditions in the office market due to uncertainty about the future and an increase in the supply of new large-scale buildings. In the housing sales sector, we expect the market to remain healthy, but it may be affected if employment and income factors negatively influence people's will to purchase properties.

In the year ending March 31, 2002, we forecast consolidated net sales of ¥1,200 billion, operating income of ¥106 billion, ordinary income of ¥73 billion and net income of ¥39 billion.

Our basic cash dividend policy aims to maintain stable dividend levels in line with corporate performance, while strengthening retained earnings to ensure steady revenue growth.

We plan to pay cash dividends of ¥7.00 per share for the fiscal year 2001, including a ¥3.50 interim dividend.

Fully understanding its operating environment, the Mitsui Fudosan Group will resolutely tackle various issues in its quest to achieve objectives outlined in its midterm plan.

Hiromichi Iwasa

HIROMICHI IWASA
MEMBER OF THE BOARD
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Income Analysis

(Billions of yen, %)

Years ended March 31	1999		2000		**2001**	
Revenue from operations	¥1,140.2	(100.0)	¥1,194.8	(100.0)	**¥1,193.1**	**(100.0)**
Cost of revenue from operations	928.2	(81.4)	983.8	(82.3)	**950.3**	**(79.6)**
Selling, general and administrative expenses	155.1	(13.6)	129.1	(10.8)	**134.5**	**(11.3)**
Operating income	56.9	(5.0)	81.9	(6.9)	**108.3**	**(9.1)**
Other revenues	9.4	(0.8)	16.5	(1.4)	**61.2**	**(5.1)**
Interest expenses	46.4	(4.1)	39.0	(3.3)	**34.6**	**(2.9)**
Other expenses	71.0	(6.2)	171.6	(14.4)	**73.0**	**(6.1)**
Equity in net income of affiliated companies	(0.7)	—	4.8	(0.4)	**0.5**	**(0.0)**
Income (loss) before income taxes	(51.8)	—	(107.4)	—	**62.4**	**(5.2)**
Income taxes	4.8	(0.4)	(48.8)	—	**34.3**	**(2.9)**
Minority interests	20.8	(1.8)	0.2	(0.0)	**(2.0)**	**(0.2)**
Net income (loss)	¥ (35.8)	—	¥ (58.4)	—	**¥ 26.1**	**(2.1)**

In fiscal year 2000, revenue from operations slipped 0.1% to ¥1,193,081 million. Although cost of revenue from operations as a percent of revenue decreased 2.7 percentage points, selling, general and administrative expenses increased 4.1% to ¥134,453 million, or 11.3% of revenue from operations, a worsening of 0.5 percentage point from the previous term. Nevertheless, operating income advanced 32.2% to ¥108,335 million, and the operating income margin improved 2.2 percentage points to 9.1%.

Other revenues (interest, dividends and miscellaneous) increased nearly threefold to ¥61,205 million. The main reasons for this increase were gain on sale of shares in affiliated company of ¥30,532 million and gain on sale of investment securities of ¥19,273 million. Interest and dividend income declined ¥178 million to ¥4,360 million.

Interest expenses decreased ¥4,394 million to ¥34,591 million, reflecting continued low interest rates and a decline in interest-bearing debt. Costs and expenses—other fell ¥98,620 million to ¥73,019 million, owing primarily to a sharp decline in loss on valuation of real estate for sale to ¥5,501 million from ¥130,763 million a year earlier. For a full breakdown of other costs and expenses—other, see Note 14. Consequently, income before income taxes was ¥62,440 million, compared with loss before income taxes of ¥107,368 million in the previous fiscal year.

After income taxes of ¥34,256 million and minority interests of ¥2,072 million, net income amounted to ¥26,112 million for the fiscal year under review. Fiscal 2000 marked the first return to net income for the Company following four consecutive periods of net losses.

Financial Position

Assets (Billions of yen, %)

As of March 31	1999		2000		**2001**	
Cash and cash equivalents	¥ 166.2	(5.2)	¥ 165.3	(5.5)	**¥ 158.4**	**(5.5)**
Inventories	647.9	(20.2)	493.2	(16.5)	**453.0**	**(15.9)**
Other current assets	332.2	(10.4)	371.8	(12.4)	**221.1**	**(7.8)**
Investments and other assets	534.3	(16.7)	499.3	(16.7)	**563.5**	**(19.8)**
Net property and equipment	1521.8	(47.5)	1461.6	(48.9)	**1450.4**	**(51.0)**
Total	¥ 3202.4	(100.0)	¥ 2991.2	(100.0)	**¥ 2846.5**	**(100.0)**

Liabilities, Minority interest in consolidated subsidiaries and Shareholders' equity (Billions of yen, %)

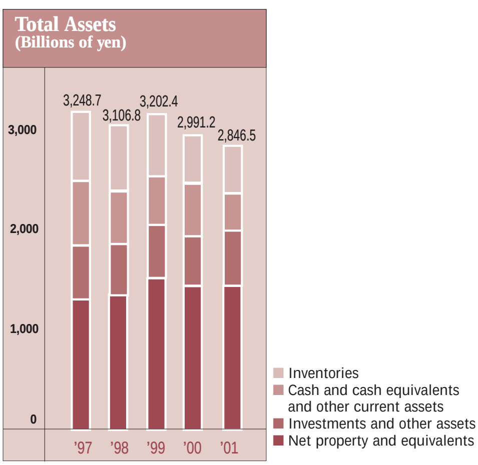
As of March 31	1999		2000		**2001**	
Bank loans and current portion	¥ 726.6	(22.7)	¥ 456.4	(15.3)	**¥ 403.8**	**(14.2)**
Other current liabilities	408.4	(12.8)	401.4	(13.4)	**371.7**	**(13.1)**
Long-term debt due after one year	1054.7	(32.9)	1203.7	(40.2)	**1150.6**	**(40.4)**
Other long-term liabilities	477.7	(14.9)	496.7	(16.6)	**471.5**	**(16.6)**
Minority interests in consolidated subsidiaries	42.4	(1.3)	37.9	(1.3)	**37.8**	**(1.3)**
Shareholders' equity	492.6	(15.4)	395.1	(13.2)	**411.1**	**(14.4)**
Total	¥ 3202.4	(100.0)	¥ 2991.2	(100.0)	**¥ 2846.5**	**(100.0)**

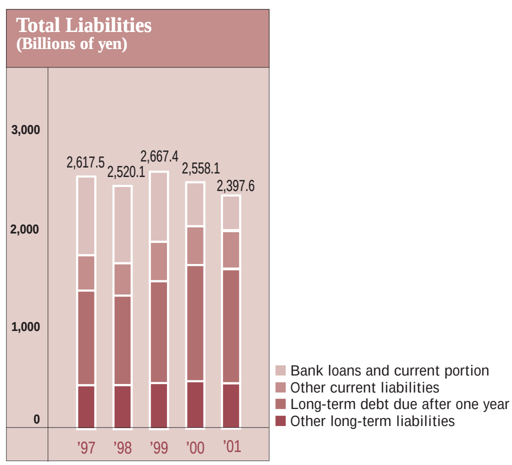
Total assets at fiscal-year end declined 4.8% from the previous year to ¥2,846,467 million. Compared with the peak level of ¥3,702,144 million at March 31, 1993, total assets have decreased 23.1%.

Inventories fell 8.2% to ¥452,981 million, as a result of progress made in inventories stemming from brisk real estate market and the liquidation of real estate development subsidiaries.

Total liabilities and shareholders' equity were down 6.3% to ¥2,397,618 million, reflecting the use of cash from operations and the sale of assets to retire debt. Interest-bearing debt (the sum of bank loans, commercial paper, long-term debt due within one year and long-term debt due after one year) decreased 6.4% to ¥1,554,361 million.

Total shareholders' equity increased 4.0% to ¥411,097 million, owing mainly to net income of ¥26,112 million. The equity ratio was 14.4% as of fiscal year-end, compared with 13.2% a year earlier.





Cash Flows

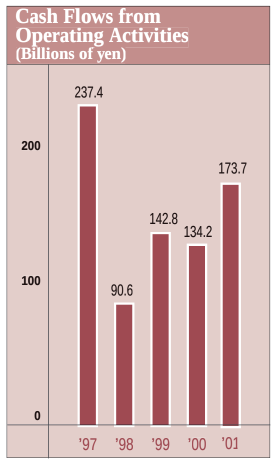
Years ended March 31	1999	2000	2001
			(Billions of yen)
Cash flows from operating activities	¥ 142.8	¥ 134.2	**¥173.7**
Cash flows from investing activities	(142.2)	(32.5)	**(32.1)**
Cash flows from financing activities	25.6	(96.6)	**(150.0)**
Effect of exchange rate changes on cash and cash equivalents	(0.7)	(6.1)	**1.5**
Net increase (decrease) in cash and cash equivalents	25.5	(1.0)	**(6.9)**
Cash and cash equivalents at beginning of year	139.9	166.2	**165.3**
Increase in cash and cash equivalents due to changes in consolidated subsidiaries	0.8	0.1	**—**
Cash and cash equivalents at end of year	¥ 166.2	¥ 165.3	**¥158.4**

Net cash provided by operating activities climbed 29.4% to ¥173,664 million. The primary sources of cash were income before income taxes of ¥62,440 million and depreciation and amortization of ¥44,418 million.

Net cash used in investing activities slipped 1.1% to ¥32,089 million. Despite proceeds from the sale of marketable and investment securities amounting to ¥100,907 million, the Company used ¥80,199 million for the purchase of property and equipment and ¥48,278 million for the purchase of marketable and investment securities.

Net cash used in financing activities advanced 55.3% to ¥150,001 million. The Company used strong cash flow from operations to pay back long-term debt, bank loans and commercial paper.

In aggregate, cash and cash equivalents at end of year declined ¥6,881 million to ¥158,436 million.



Segment Information

[1] LEASING

To meet rising demand for highly functional buildings, the Company undertook renewal projects at such properties as the Kasumigaseki Building and the Hibiya Mitsui Building (both in Tokyo). We also commenced construction of a number of projects, including the Nakanoshima Mitsui Building (Osaka), the Hiroshima Fukuromachi Building (Hiroshima) and the Jimbocho Mitsui Building (Tokyo). In addition, we have been proceeding with redevelopment of such sites as the Mitsui Honkan Building district and Nihonbashi 1-chome (both in Tokyo).

To improve the investment efficiency of commercial facilities, we promoted the development of outlet malls that make full use of business-use term-leasehold. During the year, we opened La Fete Tama Minami-Osawa (western Tokyo) and Garden Walk Makuhari (Chiba). We also started the development of Nagashima Outlet Mall (Mie Prefecture). In addition, to increase the customer drawing power of existing facilities, we opened Alpark Shinkan (Hiroshima) and expanded the floor space of such facilities as Marine Pia Kobe Port Bazaar (Kobe) and Tokyo Bay Lalaport (Chiba).

Revenues from the office and commercial building leasing business edged up from ¥265,752 million to ¥267,568 million.

The vacancy rate for leased space improved from 3.4% in the previous term to 2.2% in the current review, contributing to an increase of 73,182m^2 in owned floor space. Also, subleasing space declined by 34,455m^2 from such factors as cancellation of contracts for subleased buildings. In aggregate, floor space increased 38,727m^2.

During the year, we reinforced the housing rental business of the Mitsui Fudosan Group by forging ties with Mitsui Fudosan Sales Co., Ltd., Mitsui Fudosan Housing Lease Co., Ltd. and Mitsui Home Estate Co., Ltd.

Residential housing units rose by 2,197 units, and revenues from renting inched up from ¥42,321 million to ¥42,923 million.

As a result, revenue from leasing activities grew 1.3% to ¥329,835 million, and operating income climbed 12.1% to ¥68,551 million following robust profit growth at both Mitsui Fudosan and its consolidated subsidiaries.

Years ended March 31	2000	2001
Office and commercial		
Revenue (Millions of yen)	¥ 265,752	**¥ 267,568**
Floor space (m^2):		
Owned	1,953,670	**2,026,852**
Managed	1,311,403	**1,276,948**
Total	3,265,073	**3,303,800**
Residential		
Revenue (Millions of yen)	¥ 42,321	**¥ 42,923**
Units:		
Owned	869	**909**
Managed	26,551	**28,708**
Total	27,420	**29,617**
Other		
Revenue (Millions of yen)	¥ 17,570	**¥ 19,344**
Total	¥ 325,643	**¥ 329,835**
Operating income	¥ 61,148	**¥ 68,551**

[2] SALES OF HOUSING, OFFICE BUILDING AND LAND

To provide housing that guarantees customer satisfaction, we continued to improve our product planning capabilities. This included striving to accurately grasp customer needs via Mitsui Open Communication (MOC), a monitoring organization through which we gather input from homebuyers.

In the condominium category, we formulated and steadily implemented ecological specifications. This entailed adopting life-cycle assessment (LCA) methods to objectively evaluate the load imposed on the environment by each product during its life cycle, and embracing three key themes: energy efficiency, longevity and the use of environmentally friendly materials. New contributors to revenue included Park Court Ebisu Hill-Top Residence (Tokyo) and Park Haimu Yokohama Yamate (Yokohama).

In the detached housing category, new contributors included Fine Court Ogikubo North (Tokyo) and Keihanna Koentoshi (Kyoto).

Mitsui Fudosan is working to differentiate itself from the competition in the fluctuating market for housing by employing site selection strategies based on unparalleled information-gathering capabilities and product planning capabilities that subtly adapt to changes in the profile of buyers.

Furthermore, the Company aims to maintain high quality to ensure its prosperity in the current polarizing market through steady supply of between 5,000 to 5,500 condominiums and 750 to 1,000 detached houses.

In housing, the Company is aware that total units and sales have remained mostly unchanged from the previous fiscal year.

Total housing sales were down 0.6% to ¥286,854 million.

Total revenue in this segment, including that from other sales, fell 8.6% to ¥328,281 million. Amid generally healthy market conditions, operating income jumped 132.0% to ¥20,606 million. This was the result of a major improvement in profitability and a considerable reduction in the debt-ridden land and buildings following a downward reappraisal of marketable real estate in the previous term.

Years ended March 31	2000			**2001**		
Housing Sales	Units	Revenue (Millions of yen)	Unit price (Millions of yen)	Units	Revenue (Millions of yen)	Unit price (Millions of yen)
Detached housing:						
Tokyo area	670	¥ 40,951	¥61.1	**542**	**¥ 33,928**	**¥62.6**
Other	151	6,620	43.8	**227**	**9,319**	**41.1**
Total	821	¥ 47,571	¥57.9	**769**	**¥ 43,247**	**¥56.2**
Condominiums:						
Tokyo area	3,553	¥185,735	¥52.3	**3,589**	**¥188,447**	**¥52.5**
Other	1,697	55,403	32.6	**1,626**	**55,160**	**33.9**
Total	5,250	¥241,138	¥45.9	**5,215**	**¥243,607**	**¥46.7**
Total housing sales:						
Tokyo area	4,223	¥226,686	¥53.7	**4,131**	**¥222,375**	**¥53.8**
Other	1,848	62,023	33.6	**1,853**	**64,479**	**34.8**
Total	6,071	¥288,709	¥47.6	**5,984**	**¥286,854**	**¥47.9**

Year ended March 31	(Millions of yen) 2000	(Millions of yen) **2001**
Other sales revenue:		
Land	¥ 33,019	**¥ 24,174**
Buildings	37,598	**17,253**
Total	¥ 70,617	**¥ 41,427**
Total revenue	¥359,326	**¥328,281**
Operating income	¥ 8,882	**¥ 20,606**

[3] CONSTRUCTION

Mitsui Home Co., Ltd. is a leading company in the construction of 2X4 houses. In the year under review, we reinforced our brand by introducing Design Station, a new marketing system that fully uses the design strengths of Mitsui Home. In civil engineering, the main business of Group member Mitsui Harbour and Urban Construction Co., Ltd., we solidified our sales power, receiving an order to build a mooring facility at Port Island in Kobe Bay.

Revenue from the construction segment amounted to ¥283,807 million, up 3.9% from the previous year chiefly on account of increased revenues of Mitsui Home. Operating income rose 11.4% to ¥6,719 million.

Orders, Order Backlogs and Project Completions (Millions of yen)

Years ended March 31	2000			**2001**		
	Building construction	Civil engineering	Total	Building construction	Civil engineering	Total
Orders:						
Work-on-hand at beginning of period ..	¥106,059	¥ 75,736	¥181,795	**¥105,802**	**¥ 65,832**	**¥171,634**
Orders during period	169,862	63,659	233,521	**157,448**	**59,421**	**216,869**
Total	¥275,921	¥139,395	¥415,316	**¥263,250**	**¥125,253**	**¥388,503**
Project completions	¥170,119	¥ 73,562	¥243,681	**¥167,243**	**¥ 71,337**	**¥238,580**
Work-on-hand at end of period	¥105,802	¥ 65,833	¥171,635	**¥ 96,007**	**¥ 53,916**	**¥149,923**

Projects (Millions of yen)

Years ended March 31	2000			**2001**		
	Building construction	Civil engineering	Total	Building construction	Civil engineering	Total
Orders:						
Project completions	¥170,119	¥ 73,562	¥243,681	**¥167,243**	**¥ 71,337**	**¥238,580**
Work-on-hand at end of period:						
Total	105,802	65,833	171,635	**96,007**	**53,916**	**149,923**
Work in progress	13,624	12,103	25,727	**12,003**	**9,471**	**21,474**
As a percentage of work-on-hand, end of period	12.9%	18.4%	15.0%	**12.5%**	**17.6%**	**14.3%**
Projects during period	¥171,760	¥ 72,735	¥244,495	**¥165,621**	**¥ 68,706**	**¥234,327**

[4] BROKERAGE, CONSIGNMENT SALES AND CONSULTING

In this segment, an important nonasset business, we undertook project management of such projects as Shiodome Block B, Shiodome Block E and Iidamachi (all in Tokyo). Mitsui Fudosan Sales Co., Ltd. reinforced its area network centering on “Re-house” companies and regional sales companies, in order to meet customer needs more quickly and flexibly. Actively embracing IT, the company rolled out “e-Rehouse,” through which it provides real estate information for purchase and sale via the Internet.

Sales were brisk in the fiscal year under review for this segment, which is one of the Mitsui Fudosan Group’s most important nonasset businesses, which includes construction, brokerage, consignment sales and consulting, property management and sales of housing materials and merchandise.

As a result, revenue from brokerage, consignment sales and consulting increased 3.2% to ¥41,548 million.

Operating income edged up 1.9% to ¥13,608 million.

Years ended March 31	2000		**2001**	
	Units	Revenue (Millions of yen)	Units	Revenue (Millions of yen)
Brokerage	21,225	¥26,958	**22,941**	**¥26,910**
Consignment sales	4,805	7,027	**5,436**	**8,469**
Consulting	—	6,256	**—**	**6,169**
Total	—	¥40,241	**—**	**¥41,548**
Operating income	—	¥13,353	**—**	**¥13,608**

[5] PROPERTY MANAGEMENT

In this segment, we worked in alliance with fellow Group members, including Daiichi Seibi Co., Ltd. and M.F. Building Management Co., Ltd. Taking full advantage of our combined management expertise, we expanded our business in office management and property management.

The most remarkable performance for this segment in the fiscal year under review was an increase in income for renovation project management, namely from the dramatic rise in income in pre-tenant renovation from ¥22,793 million to ¥29,696 million.

In the year under review, Group members Mitsui Fudosan Housing Services Co., Ltd. and Daiichi Management Co., Ltd. attracted solid revenue from condominium management, whereas Lalaport Co., Ltd. and others performed well in the management of commercial facilities. Business from non-Group companies was also brisk.

As a result, property management revenue jumped 17.7% to ¥70,873 million, and operating income climbed 24.3% to ¥7,298 million.

Years ended March 31	2000	(Millions of yen) **2001**
Revenue:		
Property management	¥ 37,428	**¥ 41,177**
Renovation project management	22,793	**29,696**
Total	¥ 60,221	**¥ 70,873**
Operating income	¥ 5,872	**¥ 7,298**

[6] SALES OF HOUSING MATERIALS AND MERCHANDISE

To meet the rising demand for gardening products, Group member Daiichi Engei Co., Ltd. promoted its “Garden Sketch” service, which covers everything from garden design and planning to product sales. Uni Living Co., Ltd., a Group member operating “home centers,” where DIY products are sold, and supermarkets, opened a home center in Komae (western Tokyo) and a fresh food supermarket in Chiba Prefecture. In these ways, the Group worked to accurately grasp customer needs and strengthen its sales power.

Revenue from sales of housing materials and merchandise moved up 0.9% to ¥70,583 million. Operating income rose 177.0% to ¥834 million.

Years ended March 31	2000	(Millions of yen) **2001**
Revenue:		
Housing materials	¥ 20,927	**¥ 21,452**
Merchandise	49,010	**49,131**
Total	¥ 69,937	**¥ 70,583**
Operating income	¥ 301	**¥ 834**

[7] FACILITY OPERATIONS

In this segment, Group member Garden Hotels Co., Ltd. operates a domestic chain of hotels. In the year under review, that company opened its fifteenth facility, Mitsui Garden Hotel Okayama (Okayama Prefecture). Another Group company, Cany Corporation opened a fresh food restaurant in Ginza (central Tokyo). Meanwhile, Group member Mitsuinomori Co., Ltd. operates sports and leisure facilities, including a golf club in Nagano Prefecture.

Segment revenue grew 2.5% to ¥47,387 million. However, we reported an operating loss of ¥55 million, down ¥29 million from the previous year.

Years ended March 31	2000	(Millions of yen) **2001**
Revenue:		
Hotels	¥ 27,235	**¥ 29,549**
Other	18,999	**17,838**
Total	¥ 46,234	**¥ 47,387**
Operating loss	¥ (26)	**¥ (55)**

[8] OTHER

This segment encompasses such activities as leasing (Mitsui Home Linkage Co., Ltd.) and provision home loan guarantees (Mitsui Fudosan Loan Guarantee Co., Ltd.).

Revenue gained 3.3% to ¥20,767 million, and operating income jumped 34.4% to ¥3,807 million.

Years ended March 31	2000	(Millions of yen) **2001**
Revenue:		
Finance and lease	¥ 4,599	**¥ 4,068**
Other	15,494	**16,699**
Total	¥ 20,093	**¥ 20,767**
Operating income	¥ 2,832	**¥ 3,807**

TEN-YEAR SUMMARY

Mitsui Fudosan Co., Ltd. and Subsidiaries

Millions of yen

Years ended March 31	1992	1993	1994	1995	1996	1997	1998	1999	2000	**2001**
FOR THE FISCAL YEAR										
Revenue from operations	¥1,363,907	¥1,348,361	¥1,301,900	¥1,242,159	¥1,209,875	¥1,270,815	¥1,158,715	¥1,140,242	¥1,194,837	**¥1,193,081**
Interest, dividends and miscellaneous	26,114	18,295	23,018	89,794	28,202	88,433	46,535	9,426	16,565	**61,205**
Costs and expenses (including tax)	1,361,199	1,349,237	1,316,208	1,325,693	1,241,718	1,406,546	1,243,791	1,205,625	1,274,736	**1,226,612**
Equity in net income (loss) of affiliated companies	5,693	3,679	4,124	5,130	6,326	6,828	5,614	(663)	4,768	**510**
Minority interests	(3,413)	(2,026)	(2,646)	(2,300)	1,489	(3,521)	1,403	20,826	148	**(2,072)**
Net income (loss)	31,102	19,072	10,188	9,090	4,174	(43,991)	(31,524)	(35,794)	(58,418)	**26,112**
AMOUNT PER SHARE OF COMMON STOCK:										
Net income (loss) (yen)	¥ 38.7	¥ 23.7	¥ 12.6	¥ 11.2	¥ 5.1	¥ (54.1)	¥ (38.8)	¥ (44.1)	¥ (71.9)	**¥ 32.1**
Cash dividends applicable to the year (yen)	9.0	9.0	9.0	9.0	9.0	7.0	5.0	5.0	5.0	**6.0**
AT YEAR-END:										
Total assets	¥3,623,514	¥3,702,144	¥3,676,408	¥3,649,677	¥3,489,359	¥3,248,670	¥3,106,789	¥3,202,426	¥2,991,203	**¥2,846,467**
Shareholders' equity	588,032	597,143	604,100	606,326	602,949	558,515	516,754	492,591	395,132	**411,097**
Common stock	130,676	130,838	131,793	133,687	134,267	134,417	134,428	134,433	134,433	**134,433**
Number of employees	9,968	10,449	10,531	11,684	11,931	11,335	13,823	13,589	13,484	**13,380**

CONSOLIDATED BALANCE SHEETS

Mitsui Fudosan Co., Ltd. and Subsidiaries
As of March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	**2001**	2000	**2001**
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	¥ 165,317	**¥ 158,436**	$ 1,334,274	**$ 1,278,740**
Marketable securities (Note 3)	93,990	**165**	758,599	**1,329**
Notes and accounts receivable—trade (Note 4)	79,714	**60,611**	643,372	**489,193**
Short-term loans receivable	55,968	**40,040**	451,715	**323,167**
Allowance for doubtful accounts	(1,375)	**(1,785)**	(11,095)	**(14,408)**
Inventories (Note 5)	493,222	**452,981**	3,980,810	**3,656,021**
Advances paid for purchases (Note 6)	26,869	**31,198**	216,859	**251,796**
Deferred income taxes (Note 8)	66,135	**47,740**	533,779	**385,313**
Other current assets	50,488	**43,174**	407,488	**348,456**
Total current assets	1,030,328	**832,560**	8,315,801	**6,719,607**
INVESTMENTS & OTHER ASSETS				
Investments in unconsolidated subsidiaries and affiliated companies (Note 3)	79,518	**71,255**	641,789	**575,101**
Investment securities (Note 3)	39,168	**117,883**	316,123	**951,435**
Non-current loans and accounts receivable	141,377	**146,976**	1,141,059	**1,186,246**
Allowance for doubtful accounts	(35,445)	**(36,963)**	(286,074)	**(298,326)**
Lease deposits (Note 7)	247,599	**238,967**	1,998,380	**1,928,711**
Deferred income taxes (Note 8)	21,440	**19,068**	173,043	**153,899**
Other	5,642	**6,352**	45,536	**51,269**
	499,299	**563,538**	4,029,856	**4,548,335**
PROPERTY & EQUIPMENT, at cost:				
Land (Note 10)	842,904	**837,683**	6,803,100	**6,760,957**
Buildings and structures (Note 10)	900,809	**928,409**	7,270,452	**7,493,211**
Machinery and equipment	82,829	**97,164**	668,517	**784,216**
Construction in progress	41,908	**29,766**	338,242	**240,246**
	1,868,450	**1,893,022**	15,080,311	**15,278,630**
Accumulated depreciation	(406,874)	**(442,653)**	(3,283,892)	**(3,572,664)**
Net property & equipment	1,461,576	**1,450,369**	11,796,419	**11,705,966**
	¥2,991,203	**¥2,846,467**	$24,142,076	**$22,973,908**

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	**2001**	2000	**2001**
LIABILITIES, MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Banks loans (Note 10)	¥ 337,304	**¥ 240,494**	$ 2,722,389	**$ 1,941,028**
Commercial paper	—	**10,000**	—	**80,710**
Long-term debt due within one year (Note 10)	119,088	**153,270**	961,161	**1,237,051**
Notes and accounts payable—trade	149,131	**149,281**	1,203,641	**1,204,851**
Accrued expenses	27,228	**28,597**	219,757	**230,803**
Income taxes payable	6,274	**6,714**	50,637	**54,191**
Advances and deposits received	172,470	**152,689**	1,392,008	**1,232,355**
Deferred income taxes (Note 8)	—	**46**	—	**372**
Reserve for losses on debt guarantees	—	**679**	—	**5,479**
Other current liabilities	46,261	**33,730**	373,374	**272,236**
Total current liabilities	857,756	**775,500**	6,922,967	**6,259,076**
Allowance for employees' retirement benefits (Note 9)	24,016	**22,865**	193,834	**184,546**
Allowance for directors' and corporate auditors' retirement benefits	1,744	**2,080**	14,082	**16,789**
Long-term debt due after one year (Note 10)	1,203,735	**1,150,597**	9,715,380	**9,286,493**
Deposits from tenants (Note 11)	367,960	**345,101**	2,969,811	**2,785,322**
Deferred income taxes (Note 8)	10,381	**14,731**	83,784	**118,897**
Other liabilities and deferred credits	92,590	**86,744**	747,288	**700,110**
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	37,889	**37,752**	305,807	**304,700**
SHAREHOLDERS' EQUITY (Note 12):				
Common stock, par value ¥50 per share:				
Authorized—1,770,000,000 shares				
Issued—812,560,001 shares	134,433	**134,433**	1,085,014	**1,085,014**
Additional paid-in capital	204,693	**204,693**	1,652,085	**1,652,085**
Retained earnings	89,169	**98,644**	719,684	**796,155**
Net unrealized holding gains on securities	—	**729**	—	**5,883**
Foreign currency translation adjustment	(33,157)	**(27,397)**	(267,609)	**(221,121)**
	395,138	**411,102**	3,189,174	**3,318,016**
Treasury stock	(6)	**(5)**	(51)	**(41)**
TOTAL SHAREHOLDERS' EQUITY	395,132	**411,097**	3,189,123	**3,317,975**
	¥2,991,203	**¥2,846,467**	$24,142,076	**$22,973,908**

CONSOLIDATED STATEMENTS OF OPERATIONS

Mitsui Fudosan Co., Ltd. and Subsidiaries
For the years ended March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	**2001**	2000	**2001**
REVENUES				
Revenue from operations (Note 16)	¥1,194,837	**¥1,193,081**	$ 9,643,561	**$ 9,629,386**
Interest, dividends and miscellaneous (Note 13)	16,565	**61,205**	133,690	**493,991**
	1,211,402	**1,254,286**	9,777,251	**10,123,377**
COSTS AND EXPENSES				
Cost of revenue from operations	983,810	**950,293**	7,940,356	**7,669,843**
Selling, general and administrative expenses	129,104	**134,453**	1,041,999	**1,085,173**
Interest	38,985	**34,591**	314,652	**279,186**
Other (Note 14)	171,639	**73,019**	1,385,301	**589,339**
	1,323,538	**1,192,356**	10,682,308	**9,623,541**
EQUITY IN NET INCOME OF AFFILIATED COMPANIES	4,768	**510**	38,485	**4,116**
INCOME (LOSS) BEFORE INCOME TAXES	(107,368)	**62,440**	(866,572)	**503,952**
INCOME TAXES (Note 8)				
Current	8,051	**8,471**	64,984	**68,369**
Deferred	(56,853)	**25,785**	(458,869)	**208,106**
Total	(48,802)	**34,256**	(393,885)	**276,475**
	(58,566)	**28,184**	(472,687)	**227,477**
MINORITY INTERESTS	148	**(2,072)**	1,195	**(16,721)**
NET INCOME (LOSS)	¥ (58,418)	**¥ 26,112**	$ (471,492)	**$ 210,756**

	Yen		U.S. dollars (Note 1)	
	2000	**2001**	2000	**2001**
AMOUNT PER SHARE OF COMMON STOCK				
Net income (loss)	¥ (71.9)	**¥ 32.1**	$ (0.580)	**$ 0.259**
Diluted net income	—	**31.8**	—	**0.257**
Cash dividends applicable to the year	5.0	**6.0**	0.040	**0.048**

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Mitsui Fudosan Co., Ltd. and Subsidiaries
Years ended March 31, 2000 and 2001

	Shares of common stock (thousands)	Millions of yen					
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustment	Treasury stock
BALANCE AT MARCH 31, 1999	812,560	¥ 134,433	¥ 204,693	¥ 153,470	¥ —	¥ —	¥ (5)
Change in number of consolidated subsidiaries	—	—	—	(416)	—	—	—
Change in number of affiliates accounted for by the equity method	—	—	—	129	—	—	—
Revaluation of property and equipment	—	—	—	78	—	—	—
Decrease in revaluation reserve following disposal of assets at consolidated subsidiaries	—	—	—	(1,499)	—	—	—
Net loss	—	—	—	(58,418)	—	—	—
Cash dividends paid (¥5.0 per share)	—	—	—	(4,063)	—	—	—
Bonuses to directors	—	—	—	(112)	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	(33,157)	—
Treasury stock	—	—	—	—	—	—	(1)
BALANCE AT MARCH 31, 2000	812,560	134,433	204,693	89,169	—	(33,157)	(6)
Revaluation of property and equipment	—	—	—	101	—	—	—
Decrease due to merger of consolidated subsidiaries	—	—	—	(12,646)	—	—	—
Net income	—	—	—	26,112	—	—	—
Cash dividends paid (¥5.0 per share)	—	—	—	(4,063)	—	—	—
Bonuses to directors	—	—	—	(29)	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	5,760	—
Treasury stock	—	—	—	—	—	—	1
Net unrealized holding gains on securities	—	—	—	—	729	—	—
BALANCE AT MARCH 31, 2001	**812,560**	**¥ 134,433**	**¥ 204,693**	**¥ 98,644**	**¥ 729**	**¥ (27,397)**	**¥ (5)**

	Thousands of U.S. Dollars (Note 1)					
BALANCE AT MARCH 31, 1999	$1,085,014	$1,652,085	$1,238,655	$ —	$ —	$(38)
Change in number of consolidated subsidiaries	—	—	(3,358)	—	—	—
Change in number of affiliates accounted for by the equity method	—	—	1,043	—	—	—
Revaluation of property and equipment	—	—	631	—	—	—
Decrease in revaluation reserve following disposal of assets at consolidated subsidiaries	—	—	(12,103)	—	—	—
Net loss	—	—	(471,492)	—	—	—
Cash dividends paid (U.S.$0.040 per share)	—	—	(32,791)	—	—	—
Bonuses to directors	—	—	(901)	—	—	—
Foreign currency translation adjustment	—	—	—	—	(267,609)	—
Treasury stock	—	—	—	—	—	(13)
BALANCE AT MARCH 31, 2000	1,085,014	1,652,085	719,684	—	(267,609)	(51)
Revaluation of property and equipment	—	—	816	—	—	—
Decrease due to merger of consolidated subsidiaries	—	—	(102,068)	—	—	—
Net income	—	—	210,756	—	—	—
Cash dividends paid (U.S.$0.040 per share)	—	—	(32,791)	—	—	—
Bonuses to directors	—	—	(242)	—	—	—
Foreign currency translation adjustment	—	—	—	—	46,488	—
Treasury stock	—	—	—	—	—	10
Net unrealized holding gains on securities	—	—	—	5,883	—	—
BALANCE AT MARCH 31, 2001	**$1,085,014**	**$1,652,085**	**$ 796,155**	**$ 5,883**	**$(221,121)**	**$(41)**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mitsui Fudosan Co., Ltd. and Subsidiaries
For the years ended March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	**2001**	2000	**2001**
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income (loss) before income taxes	¥(107,368)	**¥ 62,440**	$ (866,572)	**$ 503,952**
Adjustments to reconcile profit or loss before income taxes to net cash provided by operating activities				
Depreciation and amortization	45,777	**44,418**	369,465	**358,499**
Loss on disposal of property and equipment	70	**7,290**	562	**58,842**
Allowance for doubtful accounts	3,192	**7,090**	25,764	**57,224**
Valuation loss on real property for sale	130,763	**5,500**	1,055,391	**44,395**
Interest and dividends income	(4,538)	**(4,360)**	(36,624)	**(35,189)**
Interest expense	38,985	**34,591**	314,653	**279,186**
Amortization differences arising from change in accounting method for retirement benefits	—	**4,168**	—	**33,637**
Loss on devaluation of marketable securities	—	**8,887**	—	**71,724**
Gain on sale of marketable securities	—	**(30,360)**	—	**(245,037)**
Gain on establishment of retirement benefit trust	—	**(2,713)**	—	**(21,897)**
Loss on restructuring subsidiaries	—	**7,612**	—	**61,434**
Other	31,858	**14,423**	257,130	**116,410**
Changes in assets and liabilities				
Accounts receivable	(15,520)	**24,025**	(125,259)	**193,909**
Real property for sale and advances paid for purchases	38,631	**32,374**	311,790	**261,294**
Accounts payable	1,678	**6,939**	13,544	**56,006**
Advances and deposits received	12,250	**(5,620)**	98,870	**(45,361)**
Other current assets and liabilities	650	**(7,057)**	5,245	**(56,957)**
Bonuses paid to directors	(137)	**(52)**	(1,108)	**(420)**
Cash receipts of interest and dividends income	6,623	**4,726**	53,459	**38,145**
Cash payments of interest expense	(42,009)	**(33,259)**	(339,058)	**(268,436)**
Income taxes paid	(6,705)	**(7,398)**	(54,119)	**(59,713)**
Net cash provided by operating activities	134,200	**173,664**	1,083,133	**1,401,647**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment	(87,870)	**(80,199)**	(709,203)	**(647,288)**
Proceeds from sale of property and equipment	51,514	**16,425**	415,774	**132,572**
Increase in deposits from tenants	45,265	**23,831**	365,334	**192,338**
Decrease in deposits from tenants	(53,383)	**(35,177)**	(430,857)	**(283,916)**
Increase in lease deposits	(10,708)	**(7,709)**	(86,420)	**(62,218)**
Decrease in lease deposits	20,687	**11,453**	166,961	**92,438**
Purchase of marketable and investment securities	(2,504)	**(48,278)**	(20,217)	**(389,654)**
Proceeds from sale of marketable and investment securities	2,327	**100,907**	18,785	**814,424**
Increase in non-current loans and accounts receivable	(4,797)	**(3,153)**	(38,714)	**(25,450)**
Decrease in non-current loans and accounts receivable	11,851	**7,754**	95,648	**62,583**
Repayment of long-term deposits in housing development business	—	**(10,381)**	—	**(83,785)**
Other	(4,831)	**(7,562)**	(38,994)	**(61,034)**
Net cash used in investing activities	(32,449)	**(32,089)**	(261,903)	**(258,990)**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from long-term debt	319,245	**84,576**	2,576,634	**682,614**
Repayment of long-term debt	(234,396)	**(127,707)**	(1,891,817)	**(1,030,726)**
Decrease in bank loans and commercial paper	(176,961)	**(102,139)**	(1,428,256)	**(824,367)**
Cash dividends paid	(4,465)	**(4,070)**	(36,034)	**(32,847)**
Income from issuance of shares to minority interests	—	**30**	—	**240**
Payment of dividends to minority interests	—	**(691)**	—	**(5,580)**
Net cash used in financing activities	(96,577)	**(150,001)**	(779,473)	**(1,210,666)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(6,124)	**1,545**	(49,426)	**12,475**
NET DECREASE IN CASH AND CASH EQUIVALENTS	(950)	**(6,881)**	(7,669)	**(55,534)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	166,196	**165,317**	1,341,374	**1,334,274**
INCREASE IN CASH AND CASH EQUIVALENTS DUE TO CHANGES IN CONSOLIDATED SUBSIDIARIES	71	**—**	569	**—**
CASH AND CASH EQUIVALENTS AT END OF YEAR	¥ 165,317	**¥ 158,436**	$ 1,334,274	**$ 1,278,740**

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mitsui Fudosan Co., Ltd. and Subsidiaries
Years Ended March 31, 2000 and 2001

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Mitsui Fudosan Co., Ltd. (the "Company"), a Japanese corporation, and its consolidated domestic subsidiaries maintain their records and prepare consolidated financial statements in Japanese yen in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been translated from the audited consolidated financial statements that were prepared for Japanese domestic purposes, from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc.", effective from the year ended March 31, 2000, the Company is required to prepare consolidated statement of cash flows.

In preparing the accompanying consolidated financial statements, certain reclassifications and modifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of shareholders' equity have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 30, 2001, which was ¥123.90 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

(A) CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its significant subsidiaries in accordance with the Securities and Exchange Law and related regulations of Japan. The excess of investment cost over net assets at the date of acquisition is amortized over five years on a straight-line basis. However, for amounts that are difficult to assess the term of occurrence and immaterial amounts are charged to income as incurred.

All significant inter-company accounts and transactions have been eliminated.

(B) EQUITY METHOD

Investments in all significant affiliated companies are accounted for by the equity method and, accordingly, stated at cost adjusted for equity in undistributed earnings and losses from the date of acquisition.

(C) TRANSLATION OF FOREIGN CURRENCY ACCOUNTS

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation," issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate.

The effect on the consolidated statements of operations of adopting the Revised Accounting Standard was immaterial.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate, except that shareholders' equity accounts are translated at historical rates and income statement items resulting from transactions with the Company at the rates used by the Company.

Differences arising from translation are presented as "Foreign currency translation adjustment" in shareholders' equity.

(D) CASH AND CASH EQUIVALENTS

Deposits in banks and short-term investments which are highly liquid, readily convertible to cash and with insignificant risk on market value fluctuation, with a maturity of three months or less at the time of purchase are treated as cash equivalents.

(E) SECURITIES

Prior to April 1, 2000, securities of the Company and its consolidated subsidiaries were stated at moving-average cost.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the statement of operations in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

The effect on the consolidated statements of operations of adopting the new accounting standard for financial instruments was immaterial. Also, based on the examination of the intent of holding each security upon application of the new accounting standard on April 1, 2000, trading securities as well as held-to-maturity debt securities and available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and other assets. As a result, at April 1, 2000, securities in current assets decreased by ¥93,847 million (U.S.$757,438 thousand) and investment securities increased by the same amount compared with what would have been reported under the previous accounting policy.

(F) INVENTORIES, REVENUE AND RELATED COSTS

Inventories are stated at cost, cost being determined mainly by the specific identification method. Costs do not include interest and administrative expenses incurred during or after development of real estate, which are charged to income when incurred.

Revenue from the leasing of office space is recognized on an accrual basis over the life of the lease.

Revenue from sale of land and residential housing is recognized in full when units are delivered and accepted by the customers. Payment terms generally involve a down-payment prior to delivery, a further payment upon delivery and a final payment shortly after delivery.

Revenue from construction work is recognized by completed-contract method, except long-term contracts exceeding certain amounts, which are accounted for by the percentage-of-completion method, and related costs are recognized as incurred.

(G) PROPERTY AND EQUIPMENT, RELATED DEPRECIATION AND REVALUATION

Property and equipment, including significant renewals, additions and improvements are carried mainly at cost. Land and buildings owned by consolidated subsidiaries in the United Kingdom and Turkey are stated at fair value, with unrealised gains and losses excluded from earnings and reported in a separate component of shareholders' equity as revaluation of property and equipment. When retired or otherwise disposed of, the cost and related accumulated depreciation or revaluation of property and equipment are removed from the respective accounts and the net difference, less any amounts realized on disposal, is reflected in the statement of operations.

Depreciation of property and equipment is computed principally by the declining-balance method.

Depreciation of commercial buildings acquired before April 1, 1998, is computed principally by the declining-balance method at rates based on the following estimated useful lives of the assets.

Buildings	29-50 years
Building equipment	15-17 years
Machinery	7-15 years
Equipment	3-15 years

Depreciation of property and equipment held by the Company's overseas subsidiaries is computed principally by the straight-line method.

For buildings on land with fixed assets, the Company computes depreciation using the straight-line method, over its lease term assuming no residual value.

Amortization of intangible fixed assets is computed using the straight-line method.

Software costs—In accordance with the provisional rule of the JICPA's Accounting Committee Report No.12 "Practical Guidance for Accounting for Research and Development Costs, etc.", the Company amortized software for its own use using the straight-line method over the estimated useful lives (five years).

(H) ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company and its domestic consolidated subsidiaries provide for doubtful accounts principally at an amount computed based on the historical bad debt ratio during a certain reference period plus an estimated uncollectable amount based on the analysis of certain individual accounts, including claims in bankruptcy.

(I) ALLOWANCE FOR EMPLOYEES' RETIREMENT BENEFITS

The Company has a retirement plan which provides for lump-sum payment and annuity. Upon retirement age or at 60, a regular employee is entitled to receive a lump-sum payment and an annuity, or in certain cases at the option of the retiring employee, the full amount of the retirement benefits may be paid in a lump sum. The retirement benefits are based primarily upon the years of employee's service and monthly pay at the time of retirement. At March 31, 2000, the Company accrued liabilities for lump-sum severance and retirement payments equal to 40% of the amount required had all eligible employees voluntarily terminated their employment at the balance sheet date. The Company recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the allowance and expenses for retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries provided allowance for employees' retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000, allowance for retirement benefits recorded as of April 1, 2000 and the amount of contribution of investment securities to the retirement benefit trust (the "net transition obligation") amounted to ¥4,168 million (U.S.$33,637 thousand) was expensed in the year ended March 31, 2001.

As a result of the adoption of the New Accounting Standard, in the year ended March 31, 2001, retirement benefit expenses increased by ¥3,506 million (U.S.$28,302 thousand) and income before income taxes decreased by ¥3,506 million (U.S.$28,302 thousand) compared with what would have been recorded under the previous accounting standard.

(J) ALLOWANCE FOR DIRECTORS' AND CORPORATE AUDITORS' RETIREMENT BENEFITS

Retirement benefits for directors and corporate auditors of the Company and its ten consolidated subsidiaries are also provided under the internal guidelines.

(K) ACCOUNTING FOR CERTAIN LEASE TRANSACTIONS

Finance leases which do not transfer ownership to lessees are accounted for as operating leases under accounting principles generally accepted in Japan.

(L) INCOME TAXES

Income taxes are provided for on the basis of income for financial statement purposes. The tax effect of temporary differences between the carrying amounts of assets and liabilities for financial statements and income tax purposes is recognized as deferred income taxes.

(M) DERIVATIVES AND HEDGE ACCOUNTING

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable, (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and
   (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(N) VALUATION OF THE ASSETS AND LIABILITIES OF SUBSIDIARIES

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

(O) AMOUNTS PER SHARE OF COMMON STOCK

In computing net income (loss) per share, the weighted average number of shares outstanding during each fiscal year has been used. The diluted net income per share of common stock for 2000 is not presented because of net loss.

(P) RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to the 2001 presentation. These changes had no impact on previously reported results of operations.

(Q) EFFECT OF BANK HOLIDAY ON MARCH 31, 2001

In case the balance sheet date is a bank holiday, notes maturing on the balance sheet date were settled on the following business day and accounted for accordingly.

3. MARKET VALUE INFORMATION OF SECURITIES AND DERIVATIVES

(A) MARKETABLE SECURITIES AND INVESTMENT SECURITIES

(1) The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of March 31, 2001:

(a) Held-to-maturity debt securities

	Millions of yen			Thousands of U.S. dollars		
	Book Value	Market Value	Difference	Book Value	Market Value	Difference
Securities whose market value exceeds book value						
National and local government bonds, etc.	¥ 503	¥ 511	¥ 8	$ 4,063	$ 4,127	$ 64
Securities whose market value does not exceed book value						
National and local government bonds, etc.	30	30	(0)	243	242	(1)
Total	¥ 533	¥ 541	¥ 8	$ 4,306	$ 4,369	$ 63

(b) Available-for-sale securities

	Millions of yen			Thousands of U.S. dollars		
	Historical Cost	Book Value	Difference	Historical Cost	Book Value	Difference
Securities whose book value (market value) exceeds historical cost						
Stocks	¥ 51,624	¥ 57,581	¥ 5,957	$ 416,658	$ 464,734	$ 48,076
Bonds						
National and local government bonds, etc.	114	119	5	921	963	42
Corporate bonds	10	12	2	80	100	20
Subtotal	¥ 51,748	¥ 57,712	¥ 5,964	$ 417,659	$ 465,797	$ 48,138
Securities whose book value (market value) does not exceed historical cost						
Stocks	¥ 35,627	¥ 30,885	¥ (4,742)	$ 287,545	$ 249,269	$ (38,276)
Bonds						
Other	1	1	—	9	9	—
Subtotal	35,628	30,886	(4,742)	287,554	249,278	(38,276)
Total	¥ 87,376	¥ 88,598	¥ 1,222	$ 705,213	$ 715,075	$ 9,862

(2) The following tables summarize book values of securities with no available fair values as of March 31, 2001:

(a) Available-for-sale securities

Other investments

Unlisted stocks (excluding OTC securities) ¥28,687 million (U.S.$231,530 thousand)

(3) Available-for-sale securities with maturities and held-to-maturity debt securities are as follows:

	Millions of yen				Thousands of U.S. dollars			
	Due within 1 Year	Due after 1 Year and within 5 Years	Due after 5 Years and within 10 Years	Due after 10 Years	Due within 1 Year	Due after 1 Year and within 5 Years	Due after 5 Years and within 10 Years	Due after 10 Years
National and local government bonds, etc.	¥ 90	¥381	¥190	¥—	$ 727	$3,071	$1,533	$—
Corporate bonds	2	40	—	—	16	323	—	—
Other	72	0	—	—	580	0	—	—
Total	¥164	¥421	¥190	¥—	$1,323	$3,394	$1,533	$—

(4) Total sales of available-for-sale securities sold in the year ended March 31, 2001 amounted to ¥54,371 million (U.S.$438,831 thousand) and the related gains and losses amounted to ¥19,273 million (U.S.$155,551 thousand) and ¥19,444 million (U.S.$156,935 thousand), respectively.

(B) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The Company and its consolidated subsidiaries use forward foreign exchange contracts and interest rate swaps contracts as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange rates and interest rate increases.

Forward foreign currency and interest rate swap contracts are subject to risks of foreign exchange rate changes and interest rate changes, respectively.

The derivative transactions are executed and managed by the Company's Finance Department in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed.

The Company does not use derivative financial instruments for speculative trading purposes. The derivative financial instruments are executed with creditworthy financial institutions, and the Company's management believes there is little risk of default by counterparties.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:
- Forward foreign exchange contracts
- Foreign currency swap contract
- Interest rate swap contracts

Hedged items:
- Foreign currency transactions
- Foreign currency debt
- Borrowings and debentures

Forward foreign exchange contracts are executed within the scope of ordinary payments and receipts in foreign currency to hedge against market fluctuation risks. Interest rate swap contracts are executed on a provisional basis to hedge against market fluctuation risks.

The assessment method of hedge effectiveness is omitted because significant terms of hedging instruments and those of the items hedged are the same and the risk of changes in foreign exchange rates and interest rates would be entirely eliminated.

4. ACCOUNTS RECEIVABLE—TRADE

During fiscal 2001, ¥15,691 million (U.S.$126,639 thousand) of accounts receivable—trade were sold to a third party and removed from the consolidated balance sheets. The Company guaranteed the collection of these receivables.

5. INVENTORIES

Inventories at March 31, 2000 and 2001, comprised the following:

	Millions of yen		Thousands of U.S. dollars	
	2000	**2001**	2000	**2001**
Real property for sale	¥455,314	**¥421,856**	$3,674,848	**$3,404,809**
Expenditure on contracts in progress	28,418	**21,528**	229,363	**173,754**
Materials and supplies	9,490	**9,597**	76,599	**77,458**
	¥493,222	**¥452,981**	$3,980,810	**$3,656,021**

6. ADVANCES PAID FOR PURCHASES

Advances paid for purchases comprise primarily advance payments for purchasing real estate.

7. LEASE DEPOSITS

The Company and its consolidated subsidiaries sometimes lease certain office buildings and commercial properties from the owners thereof and sublease them to subtenants. In these transactions, the Company and consolidated subsidiary pay lease deposits to the owners and receive deposits from subtenants.

8. INCOME TAXES

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2000 and 2001, are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	**2001**	2000	**2001**
Deferred tax assets:				
Allowance for loss on sale of real property held for sale	¥ 55,140	**¥ 33,064**	$ 445,036	**$ 266,856**
Unrealized inter-company transactions	26,021	**25,769**	210,015	**207,984**
Allowance for loss on valuation of securities	—	**15,144**	—	**122,231**
Net operating loss carryforwards	20,255	**11,022**	163,477	**88,960**
Excess allowance for doubtful accounts	—	**6,981**	—	**56,343**
Excess allowance for retirement benefits	4,998	**5,638**	40,339	**45,503**
Excess accrued employees' bonuses	1,579	**2,237**	12,749	**18,053**
Unrealized gain (loss) on valuation of securities	—	**2,016**	—	**16,270**
Excess depreciation expense	1,129	**1,277**	9,109	**10,310**
Excess prepaid expense	904	**1,154**	7,295	**9,318**
Excess retirement benefits	5,410	**—**	43,668	**—**
Other	6,466	**6,075**	52,185	**49,031**
Total	¥121,902	**¥110,377**	$ 983,873	**$ 890,859**
Deferred tax liabilities:				
Deferred gain on sale of land and buildings for tax purposes	¥ (34,210)	**¥(34,123)**	$(276,106)	**$ (275,410)**
Unrealized loss on valuation of shares held in consolidated subsidiaries	—	**(12,047)**	—	**(97,233)**
Unrealized inter-company transactions	(7,129)	**(6,954)**	(57,543)	**(56,126)**
Unrealized gain (loss) on valuation of securities	—	**(2,498)**	—	**(20,159)**
Consolidation difference in real property	(3,168)	**(423)**	(25,573)	**(3,418)**
Other	(200)	**(2,301)**	(1,612)	**(18,570)**
Total	¥(44,707)	**¥(58,346)**	$(360,834)	**$ (470,916)**
Net deferred tax assets	¥ 77,195	**¥ 52,031**	$ 623,039	**$ 419,943**

Significant differences between the statutory tax rate and the Company's effective tax rate as of March 31, 2001, are as follows:

	March 31, 2001
Statutory tax rate (adjustments)	**42.02%**
Sale of shares in subsidiaries accounted for by the equity method	**11.33**
Other	**1.51**
Effective tax rate	**54.86%**

9. EMPLOYEES' RETIREMENT BENEFITS

As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Company and its consolidated subsidiaries adopted the New Accounting Standard, under which the allowance and expenses for retirement benefits are determined based on the amounts obtained by actuarial calculations.

(1) Outline of retirement plan

The Company has adopted a tax qualified pension plan and lump-sum pension plans as a defined benefit pension plan. The Company has also adopted a retirement benefit trust.

Twenty-one consolidated subsidiaries have adopted tax qualified pension plans. Sixty-eight consolidated subsidiaries have adopted lump-sum pension plans. Three consolidated subsidiaries have adopted employees' pension funds.

(2) Details of projected benefit obligation (March 31, 2001)

	Millions of yen	Thousands of U.S. dollars
1. Projected benefit obligation	¥(57,228)	$(461,891)
2. Fair value of pension assets	30,806	248,635
3. Unaccrued projected benefit obligation (1+2)	(26,422)	(213,256)
4. Unrecognized actuarial differences	3,557	28,710
5. Allowance for employees' retirement benefits (3+4)	(22,865)	(184,546)

Note: Some consolidated subsidiaries adopt the simple method to calculate projected benefit obligation.

(3) Details of retirement benefit expenses (March 31, 2001)

	Millions of yen	Thousands of U.S. dollars
1. Service costs—benefits earned during the year	¥3,545	$28,610
2. Interest costs on projected benefit obligation	1,827	14,748
3. Expected return on plan assets	(1,021)	(8,244)
4. Amortization of net transition obligation	3,833	30,938
5. Amortization of prior service costs	(132)	(1,063)
6. Retirement benefit expenses (1+2+3+4+5)	8,052	64,989

Note: Retirement benefit expenses of consolidated subsidiaries adopting the simple method are included in service costs.

(4) Basis for measurement of projected benefit obligation and other items (March 31, 2001)

1. Allocation method for the projected retirement benefits	Straight-line method	
2. Discount rates	3.5%	
3. Expected rates of return on plan assets	3.5%	
4. Years over which the prior service costs are allocated	1-10 years	Straight-line method over a certain number of years within the average remaining service years
5. Years over which the actuarial differences obligations are allocated	5-10 years	Straight-line method over a certain number of years within the average remaining service years
6. Years over which the net transition obligation is allocated	1 year	

10. BANK LOANS AND LONG-TERM DEBT

Bank loans consist mainly of short-term notes and short-term borrowings under the loan agreements. The Company and its consolidated subsidiaries have had no difficulty in renewing such notes and borrowings, when they considered such renewal advisable.

Long-term debt at March 31, 2000 and 2001, comprised the following:

	Millions of yen		Thousands of U.S. dollars	
	2000	**2001**	2000	**2001**
Long-term loans, principally from banks and insurance companies:				
Loans secured by collateral or bank guarantees due through 2011	¥ 67,659	**¥ 65,311**	$ 546,075	**$ 527,127**
Unsecured loans due through 2022	983,922	**952,314**	7,941,265	**7,686,151**
	1,051,581	**1,017,625**	8,487,340	**8,213,278**
Bonds and debentures				
Domestic:				
1.4% convertible debentures due 2003	46,242	**46,242**	373,221	**373,221**
1.77% yen notes due 2002	20,000	**20,000**	161,421	**161,421**
2.45% yen notes due 2008	25,000	**25,000**	201,776	**201,776**
1.70% yen notes due 2003	35,000	**35,000**	282,486	**282,486**
3.00% yen notes due 2013	10,000	**10,000**	80,710	**80,710**
1.45% yen notes due 2002	30,000	**30,000**	242,131	**242,131**
1.05% yen notes due 2004	10,000	**10,000**	80,710	**80,710**
1.56% yen notes due 2006	10,000	**10,000**	80,710	**80,710**
2.08% yen notes due 2009	10,000	**10,000**	80,710	**80,710**
1.77% yen notes due 2006	10,000	**10,000**	80,710	**80,710**
2.20% yen notes due 2009	10,000	**10,000**	80,710	**80,710**
2.33% yen notes due 2009	10,000	**10,000**	80,710	**80,710**
2.17% yen notes due 2008	5,000	**5,000**	40,355	**40,355**
1.84% yen notes due 2006	10,000	**10,000**	80,710	**80,710**
2.29% yen notes due 2009	10,000	**10,000**	80,710	**80,710**
2.25% yen notes due 2012	—	**5,000**	—	**40,355**
2.04% yen notes due 2010	—	**10,000**	—	**80,710**
Overseas:				
6.05% euro yen notes due 2002	20,000	**20,000**	161,421	**161,421**
	1,322,823	**1,303,867**	10,676,541	**10,523,544**
Less amount due within one year	119,088	**153,270**	961,161	**1,237,051**
	¥1,203,735	**¥1,150,597**	$ 9,715,380	**$ 9,286,493**

The following assets were pledged as collateral for secured loans:

	Millions of yen		Thousands of U.S. dollars	
	2000	**2001**	2000	**2001**
Collateralized assets				
Land	¥ 35,021	**¥ 40,762**	$282,655	**$ 328,996**
Buildings and structures and others	88,173	**97,484**	711,647	**786,794**
	¥123,194	**¥138,246**	$994,302	**$1,115,790**

As is customary in Japan, collateral must be given if requested, under certain circumstances, by a lending bank and such bank has the right to offset cash deposited with it against any debt or obligation that becomes due and, in case of default and certain other specified events, against all debt payable to the bank. The Company and its consolidated subsidiaries have never received any such requests nor do they expect that any such request will be made.

The trust deeds, under which the 1.4% domestic convertible debentures were issued, provide for the conversion thereof into shares at the current conversion prices per share of ¥2,220.0.

If the outstanding convertible bonds had been converted at March 31, 2001, 20,830 thousand shares of common stock would have been issued.

The annual maturities of long-term debt at March 31, 2001, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥153,270	$1,237,051
2003	259,920	2,089,747
2004	235,140	1,897,824
2005	181,682	1,466,359
2006	103,615	836,276
Thereafter	¥371,240	$2,996,287

11. DEPOSITS FROM TENANTS

Deposits from tenants at March 31, 2000 and 2001, comprised the following:

	Millions of yen		Thousands of U.S. dollars	
	2000	**2001**	2000	**2001**
Deposits and guarantees				
Non-interest-bearing	¥320,798	**¥304,465**	$2,589,170	**$2,457,345**
Interest-bearing	47,162	**40,636**	380,641	**327,977**
	¥367,960	**¥345,101**	$2,969,811	**$2,785,322**

The Company and its consolidated subsidiaries generally make lease agreements with tenants under which they receive both interest-bearing deposits and non-interest-bearing deposits from tenants. The non interest-bearing deposits are not refundable during the life of the lease. The interest-bearing deposits are generally refundable to the tenant in ten equal annual payments commencing in the 11th year with an interest rate of 2% per annum from the beginning of the 11th year.

12. SHAREHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Code.

13. MAJOR COMPONENTS OF INTEREST, DIVIDENDS AND MISCELLANEOUS

	Millions of yen		Thousands of U.S. dollars	
Years ended March 31	2000	**2001**	2000	**2001**
Gain on sale of fixed assets	¥ 6,404	**¥ 314**	$ 51,687	**$ 2,534**
Gain on sale of shares in affiliated company	—	**30,531**	—	**246,422**
Gain on sale of investment securities	—	**19,273**	—	**155,551**
Gain on establishment of retirement benefit trust	—	**2,713**	—	**21,897**
Other	10,161	**8,374**	82,003	**67,587**
Total	¥ 16,565	**¥ 61,205**	$ 133,690	**$ 493,991**

14. MAJOR COMPONENTS OF COSTS AND EXPENSES—OTHER

	Millions of yen		Thousands of U.S. dollars	
Years ended March 31	2000	**2001**	2000	**2001**
Loss on sale of fixed assets	¥ 6,474	**¥ 7,604**	$ 52,248	**$ 61,376**
Loss on restructuring affiliated companies	—	**7,612**	—	**61,434**
Loss on sale of investment securities	—	**19,444**	—	**156,936**
Loss on devaluation of investment securities	—	**8,887**	—	**71,724**
Provision to allowance for doubtful accounts	3,192	**7,090**	25,764	**57,224**
Loss on disposal of fixed assets	4,985	**336**	40,238	**2,712**
Loss on devaluation of real estate for sale	130,763	**5,500**	1,055,391	**44,395**
Amortization differences arising from change in accounting method for retirement benefits	—	**4,168**	—	**33,637**
Provision for retirement benefits of employees	11,076	**—**	89,392	**—**
Provision for severance benefits of directors	948	**—**	7,653	**—**
Other	14,201	**12,378**	114,615	**99,901**
Total	¥171,639	**¥ 73,019**	$1,385,301	**$ 589,339**

15. INFORMATION OF CERTAIN LEASES

As lessee:

(A) Information on finance leases accounted for as operating leases;

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2000 and 2001, of finance leases that do not transfer ownership to the lessee are as follows:

	Millions of yen						Thousands of U.S. dollars					
	2000			**2001**			2000			**2001**		
	Buildings and structures	Machinery and equipment	Total	Buildings and structures	Machinery and equipment	Total	Buildings and structures	Machinery and equipment	Total	Buildings and structures	Machinery and equipment	Total
Acquisition cost	¥1,115	¥7,904	¥9,019	**¥1,856**	**¥9,228**	**¥11,084**	$9,004	$63,788	$72,792	**$14,978**	**$74,484**	**$89,462**
Accumulated depreciation	331	3,851	4,182	**463**	**4,715**	**5,178**	2,673	31,080	33,753	**3,737**	**38,057**	**41,794**
Net book value	784	4,053	4,837	**1,393**	**4,513**	**5,906**	6,311	32,708	37,039	**11,241**	**36,427**	**47,668**

(2) Future lease payment inclusive of interest at March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars	
	2000	**2001**	2000	**2001**
Amount due within one year	¥1,543	**¥1,809**	$12,452	**$14,604**
Amount due after one year	3,294	**4,097**	26,587	**33,064**
Total	¥4,837	**¥5,906**	$39,039	**$47,668**

(3) Lease payment and depreciation equivalent at March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars	
	2000	**2001**	2000	**2001**
Lease payment for the years ended March 31	¥1,691	**¥1,851**	$13,647	**$14,936**
Depreciation	1,691	**1,851**	13,647	**14,936**

(4) Calculation of depreciation equivalent

Assumed depreciation amounts are computed using the straight-line method over the lease terms assuming no residual value.

(B) Future lease payments under operating leases at March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars	
	2000	**2001**	2000	**2001**
Amount due within one year	¥ 8,345	**¥ 9,269**	$ 67,348	**$ 74,811**
Amount due after one year	42,215	**48,148**	340,722	**388,599**
Total	¥50,560	**¥57,417**	$408,070	**$463,410**

As lessor:

(A) Information on finance leases accounted for as operating leases;

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2000 and 2001, of finance leases that do not transfer ownership to the lessee are as follows:

	Millions of yen						Thousands of U.S. dollars					
	2000			**2001**			2000			**2001**		
	Buildings and structures	Machinery and equipment	Total	Buildings and structures	Machinery and equipment	Total	Buildings and structures	Machinery and equipment	Total	Buildings and structures	Machinery and equipment	Total
Acquisition cost	¥3,670	¥1,365	¥5,035	**¥3,185**	**¥1,171**	**¥4,356**	$29,620	$11,020	$40,640	**$25,701**	**$9,455**	**$35,156**
Accumulated depreciation	2,552	790	3,342	**1,967**	**730**	**2,697**	20,594	6,378	26,972	**15,873**	**5,894**	**21,767**
Net book value	1,118	575	1,693	**1,218**	**441**	**1,659**	9,026	4,642	13,668	**9,828**	**3,561**	**13,389**

(2) Future lease income inclusive of interest at March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars	
	2000	**2001**	2000	**2001**
Amount due within one year	¥ 676	**¥ 598**	$ 5,460	**$ 4,827**
Amount due after one year	1,026	**1,056**	8,278	**8,524**
Total	¥1,702	**¥1,654**	$13,738	**$13,351**

(3) Lease income and depreciation equivalent at March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars	
	2000	**2001**	2000	**2001**
Lease income for the years ended March 31	¥737	**¥706**	$5,951	**$5,698**
Depreciation	652	**643**	5,262	**5,192**

(B) Future lease income under operating leases at March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars	
	2000	**2001**	2000	**2001**
Amount due within one year	¥ 22,875	**¥ 24,451**	$ 184,626	**$ 197,343**
Amount due after one year	162,846	**168,219**	1,314,332	**1,357,699**
Total	¥185,721	**¥192,670**	$1,498,958	**$1,555,042**

16. SEGMENT INFORMATION

Segments:

(1) Leasing; (2) Sales of Housing, Office Building and Land; (3) Construction; (4) Brokerage, Consignment Sales and Consulting; (5) Property Management; (6) Sales of Housing Materials and Merchandise; (7) Facility Operations; (8) Other

	Millions of yen									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	Elimination or Corporate	Consolidated
For 2000										
Revenue from operations:										
Outside customers	¥ 325,643	¥359,326	¥273,142	¥40,241	¥60,221	¥ 69,937	¥ 46,234	¥20,093	¥ —	¥1,194,837
Inter-segment	4,126	—	19,456	9,124	24,280	32,563	—	9,858	(99,407)	—
	329,769	359,326	292,598	49,365	84,501	102,500	46,234	29,951	(99,407)	1,194,837
Costs and expenses*	268,621	350,444	286,567	36,012	78,629	102,199	46,260	27,119	(82,937)	1,112,914
Operating income (loss)	¥ 61,148	¥ 8,882	¥ 6,031	¥13,353	¥ 5,872	¥ 301	¥ (26)	¥ 2,832	¥(16,470)	¥ 81,923
Assets	¥1,635,187	¥518,597	¥225,965	¥47,379	¥28,059	¥ 52,898	¥171,099	¥95,230	¥216,789	¥2,991,203
Depreciation	31,193	553	1,427	143	435	1,383	5,387	4,937	319	45,777
Capital expenditures	72,904	483	1,412	360	511	838	2,771	4,357	310	83,946

*Includes cost of revenue from operations and selling, general and administrative expenses.

	Millions of yen									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	Elimination or Corporate	Consolidated
For 2001										
Revenue from operations:										
Outside customers	¥ 329,835	¥328,281	¥283,807	¥41,548	¥70,873	¥ 70,583	¥ 47,387	¥ 20,767	¥ —	¥1,193,081
Inter-segment	6,191	—	16,306	9,043	23,094	32,819	—	9,487	(96,940)	—
	336,026	328,281	300,113	50,591	93,967	103,402	47,387	30,254	(96,940)	1,193,081
Costs and expenses*	267,475	307,675	293,394	36,983	86,669	102,568	47,442	26,447	(83,907)	1,084,746
Operating income (loss)	¥ 68,551	¥ 20,606	¥ 6,719	¥13,608	¥ 7,298	¥ 834	¥ (55)	¥ 3,807	¥ (13,033)	¥ 108,335
Assets	¥ 1,618,454	¥486,329	¥165,680	¥48,641	¥32,488	¥ 56,145	¥166,986	¥ 68,202	¥ 203,542	¥2,846,467
Depreciation	29,217	461	1,698	732	606	1,257	5,477	4,521	449	44,418
Capital expenditures	46,344	554	3,689	1,155	1,213	681	9,957	3,832	53	67,478

For 2000	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	Elimination or Corporate	Consolidated
	Thousands of U.S. dollars									
Revenue from operations:										
Outside customers	$ 2,628,275	$2,900,130	$2,204,535	$324,785	$486,042	$ 564,461	$ 373,160	$ 162,173	$ —	$ 9,643,561
Inter-segment	33,296	—	157,034	73,641	195,963	262,819	—	79,562	(802,315)	—
	2,661,571	2,900,130	2,361,569	398,426	682,005	827,280	373,160	241,735	(802,315)	9,643,561
Costs and expenses*	2,168,046	2,828,446	2,312,891	290,654	634,613	824,848	373,363	218,880	(669,386)	8,982,355
Operating income (loss)	$ 493,525	$ 71,684	$ 48,678	$107,772	$ 47,392	$ 2,432	$ (203)	$ 22,855	$ (132,929)	$ 661,206
Assets	$13,197,638	$4,185,607	$1,823,769	$382,394	$226,464	$ 426,939	$1,380,944	$ 768,607	$1,749,714	$24,142,076
Depreciation	251,756	4,462	11,520	1,156	3,512	11,165	43,476	39,844	2,574	369,465
Capital expenditures	588,408	3,902	11,395	2,905	4,122	6,762	22,369	35,166	2,500	677,529

For 2001	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	Elimination or Corporate	Consolidated
	Thousands of U.S. dollars									
Revenue from operations:										
Outside customers	**$ 2,662,104**	**$2,649,565**	**$2,290,610**	**$335,334**	**$572,017**	**$ 569,680**	**$ 382,466**	**$ 167,610**	**$ —**	**$ 9,629,386**
Inter-segment	**49,965**	**—**	**131,606**	**72,985**	**186,393**	**264,878**	**—**	**76,574**	**(782,401)**	**—**
	2,712,069	**2,649,565**	**2,422,216**	**408,319**	**758,410**	**834,558**	**382,466**	**244,184**	**(782,401)**	**9,629,386**
Costs and expenses*	**2,158,797**	**2,483,252**	**2,367,994**	**298,489**	**699,507**	**827,827**	**382,910**	**213,454**	**(677,214)**	**8,755,016**
Operating income (loss)	**$ 553,272**	**$ 166,313**	**$ 54,222**	**$109,830**	**$ 58,903**	**$ 6,731**	**$ (444)**	**$ 30,730**	**$ (105,187)**	**$ 874,370**
Assets	**$13,062,582**	**$3,925,175**	**$1,337,210**	**$392,584**	**$262,212**	**$ 453,147**	**$1,347,744**	**$ 550,463**	**$1,642,791**	**$22,973,908**
Depreciation	**235,809**	**3,723**	**13,705**	**5,909**	**4,891**	**10,147**	**44,205**	**36,489**	**3,621**	**358,499**
Capital expenditures	**374,047**	**4,470**	**29,774**	**9,326**	**9,787**	**5,493**	**80,364**	**30,931**	**426**	**544,618**

The Company and its consolidated subsidiaries are primarily engaged in the development of real estate and related lease and sales in activities in eight major segments: leasing of office buildings and commercial properties; sales of housing, office buildings and land; construction and development of housing, buildings, harbors and land; brokerage, consigned sales and consulting for real estate, as well as project management related to the development of office buildings and commercial properties; property management (including construction) of office buildings, commercial properties and residential developments; sales of housing materials and products; operation of hotels, golf courses and other facilities; and other associated businesses including mortgage finance and leasing.

Japan accounted for more than 90% of the total net sales of all segments and the total amount of segment assets. Consequently, disclosure of segment information of areas other than Japan has been omitted.

Overseas sales accounted for less than 10% of the consolidated net sales. Consequently, disclosure of overseas sales information has been omitted.

17. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2001, are as follows:

	Millions of yen	Thousands of U.S. dollars
Notes endorsed	¥ 335	$ 2,703
Loans guaranteed	261,804	2,113,023

18. SUBSEQUENT EVENTS

(A) SALES OF SHARES IN AFFILIATE

On April 2, 2001, consolidated subsidiary MF Properties Co., Ltd. sold the Okawabata River City 21 property, which comprises the following two rental housing properties and managing facility property located in Chuo Ward, Tokyo, to support growth in the securitization business and improve the financial structure of the Group by reducing interest-bearing debt. The property was sold to R Two One Tokutei-Mokuteki-Kaisya, which was established on January 22, 2001, for ¥27.7 billion (U.S.$224 million when translating at U.S.$1=¥123.90). The estimated profit on the sale of ¥15.3 billion (U.S.$123 million when translating at U.S.$1=¥123.90) will be recorded in fiscal 2002.

Property Name	Park Side Wings	River Point Tower	Pier West House
Area of site (per party)	2,605.10 m^2	7,025.49m^2	491,93m^2
Use	Rental housing	Rental housing	Managing facility
Floor space (registered space)	15,737.63m^2	42,177.83m^2	847.27m^2
Units	154	390	—

(B) APPROPRIATION OF RETAINED EARNINGS

At the June 28, 2001, annual general shareholders' meeting, the Company's shareholders approved the appropriations of retained earnings of the Company at March 31, 2001 as follows:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends at ¥3.5 (U.S.$0.028) per share	¥2,844	$22,954

Report of Independent Public Accountants

To the Shareholders and the Board of Directors of MITSUI FUDOSAN CO., LTD. :

We have audited the accompanying consolidated balance sheets of MITSUI FUDOSAN CO., LTD. (a Japanese corporation) and its subsidiaries as of March 31, 2000 and 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of MITSUI FUDOSAN CO., LTD. and its subsidiaries as of March 31, 2000 and 2001, 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 applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, in the year ended March 31, 2001, MITSUI FUDOSAN CO., LTD. and its subsidiaries prospectively adopted the new Japanese accounting standards for employees' retirement benefits, financial instruments and foreign currency translation.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Tokyo, Japan
June 28, 2001

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

DIRECTORS AND CORPORATE AUDITORS

CHAIRMAN OF THE BOARD
Jun-Ichiro Tanaka

PRESIDENT AND CHIEF EXECUTIVE OFFICER
Hiromichi Iwasa

EXECUTIVE VICE PRESIDENT
Moriya Saito

SENIOR MANAGING DIRECTORS/SENIOR EXECUTIVE OFFICERS
Hisamitsu Tsubahara
Tadamasa Nishihara
Yoshihiko Katori
Yotaro Hayashi

MANAGING DIRECTORS/EXECUTIVE OFFICERS
Kouichi Ohmuro
Osamu Ogawa

EXECUTIVE OFFICERS
Hirohiko Kamei
Yuji Yokoyama
Kazuichi Nagata

OFFICERS
Mitsuhiro Matsumoto
Minoru Satou
Takayuki Namae
Kuniaki Ikeya
Tatsuo Soda
Yoshiki Kageyama
Nobumi Tobari
Shigeo Sasaki
Takayoshi Saito
Takashi Ikeda
Ryouji Nakamura

SENIOR CORPORATE AUDITOR
Atsuo Takanashi

CORPORATE AUDITORS
Sadafumi Abe
Ken-Ichi Kamiya
Ken Fujii
Akira Watanabe

(as of July 1, 2001)

CORPORATE DATA

MITSUI FUDOSAN CO., LTD.
Head Office:
Mitsui Honkan Building
1-1, Nihonbashi-Muromachi 2-chome Chuo-ku, Tokyo
103-0022, Japan

DATE OF ESTABLISHMENT:
July 15, 1941

CAPITAL:
Common stock issued and outstanding:
¥134 billion
812,560,001 shares (as of March 31, 2001)

NONCONSOLIDATED ANNUAL REVENUES:
¥595.7 billion (April 1, 2000–March 31, 2001)

SHAREHOLDERS:
51,704 (as of March 31, 2001)

EMPLOYEES:
1,304 (as of March 31, 2001)

HOME PAGE:
http://www.mitsuifudosan.co.jp/

MITSUI FUDOSAN

MITSUI FUDOSAN CO.,LTD.

This report was produced in 2001
Printed in Japan