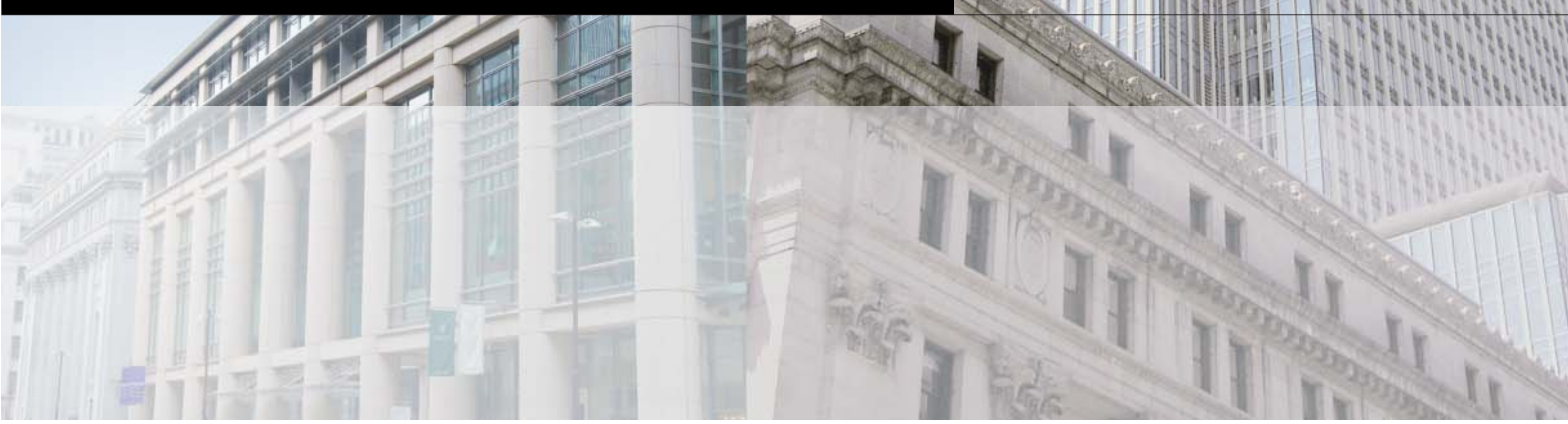
Delivering the Performance We Promised

Solid progress under our long-term plan, backed by a strong focus on our core businesses of holding, trading and management, has positioned Mitsui Fudosan to drive sustainable growth as a leader at every stage of Japan's real estate value chain.

Annual Report 2006

Year ended March 31, 2006



Mitsui Fudosan

High-potential developments and...

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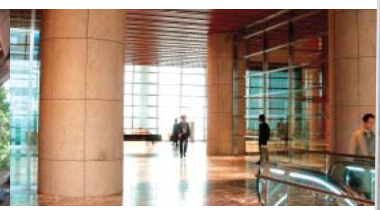
Capturing opportunities in new growth segments of the real estate market will lay the groundwork for the next generation of expansion.



Nihonbashi Mitsui Tower

Exemplifying our commitment to enhancing the richness of Nihonbashi's past with modern amenities, this 39-story high-rise complex complements the historically significant Mitsui Main Building with leading-edge office space and the Mandarin Oriental Hotel.

. . . SOLID FINANCIAL STRUCTURE . . .

An improved debt/equity ratio and a heightened emphasis on cash flow and less capital-intensive businesses give Mitsui Fudosan the flexibility to invest for growth.

Tokyo Midtown

Set to open in spring 2007, Tokyo Midtown will offer office, retail and residential facilities. A Ritz-Carlton Hotel and the Suntory Museum of Art will add further appeal to this innovative urban development.

Shibaura Island Project

This impressive urban housing development will feature 4,000 condominium units, including both units for sale and rental apartments, on a 60,000 square-meter site.

...POSITION MITSUI FUDOSAN TO DELIVER...

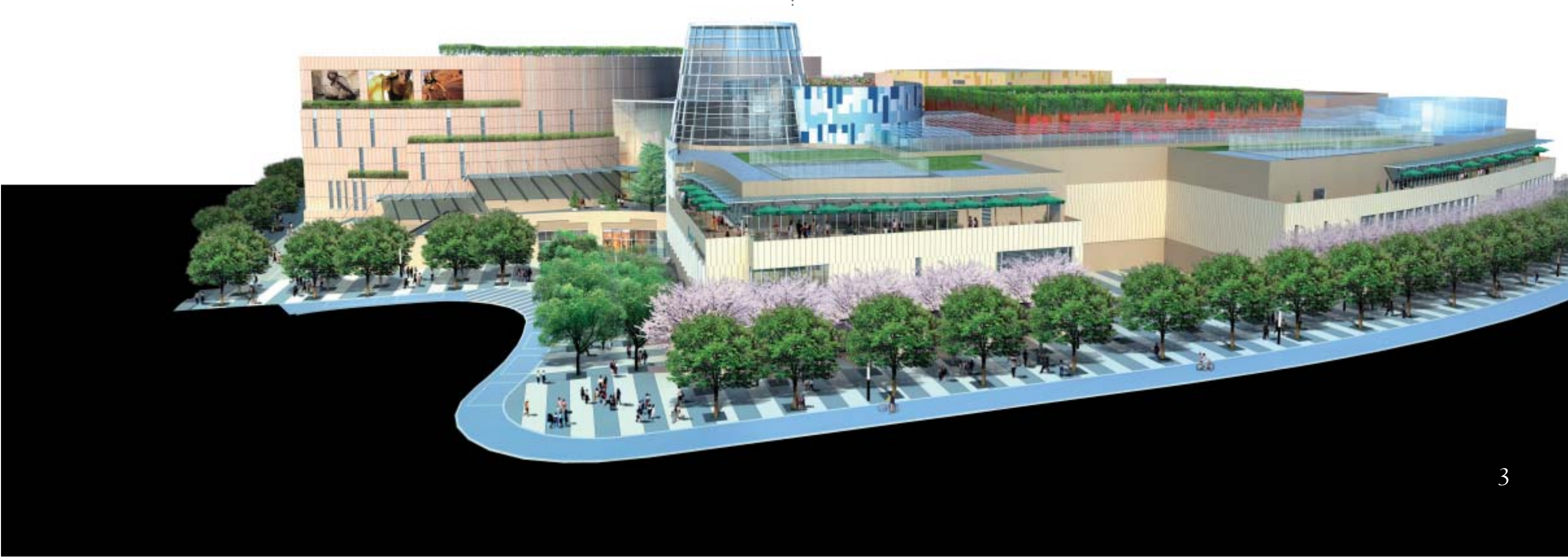
An intelligent balance among stable long-term revenue, medium-term capital gains, and increased revenue from fee businesses is driving performance gains.

...THE PERFORMANCE WE PROMISED.

We are delivering on our promise of superior performance as we work to achieve the objectives of Challenge Plan 2008.

LaLaport Kashiwanoha

One of four major shopping centers that Mitsui Fudosan will complete in the greater Tokyo area during 2006 and 2007, LaLaport Kashiwanoha is designed to offer lifestyle solutions for residents of the surrounding area. This facility is replete with greenery.



Hiromichi Iwasa
President and Chief Executive Officer

Challenge Plan 2008:

STEADY PROGRESS

Mitsui Fudosan has passed the halfway point in implementing Challenge Plan 2008, its management strategy for the six years ending March 31, 2009. Challenge Plan 2008 gives Mitsui Fudosan the focus and drive needed to generate strong, sustainable growth in value for customers, investors and other stakeholders.

Operating Results

Results for fiscal 2005, the year ended March 31, 2006, demonstrate the excellent progress we have made in executing our management plan and moving within reach of its goals. Revenue from operations increased 4.3 percent year-on-year, or ¥47.9 billion, to ¥1,159.3 billion. Operating income grew 18.8 percent, or ¥21.8 billion, to ¥137.5 billion, keeping us well on course to achieve our target of ¥160 billion under Challenge Plan 2008. Factors supporting revenue and earnings growth included office buildings and retail facilities that began operating recently, an increase in sales of buildings to investors, and higher brokerage transaction volume with corporations and individuals. Net income increased 97.1 percent, or ¥27.8 billion, to ¥56.5 billion. Mitsui Fudosan recorded an extraordinary loss on sale of fixed assets, but it was substantially lower than the extraordinary loss in the previous fiscal year due to the adoption of impairment accounting for fixed assets. This further enhanced the year-on-year comparison of net income. Cash dividends totaled ¥10.0 per share, compared with ¥7.0 per share for the previous fiscal year.

We also made progress toward optimizing our financial structure while continuing to invest aggressively in our businesses. The debt/equity ratio decreased from 1.9 times to 1.4 times, supported by conversion of convertible bonds to shares during the fiscal year. Indicating success in our drive to generate better earnings from our asset portfolio, return on assets (ROA) increased to 4.9 percent from 4.3 percent for the previous fiscal year.

Clear Strategies for Changing Markets

In formulating Challenge Plan 2008, Mitsui Fudosan recognized its responsibility as an industry leader to energize Japan's real estate investment market, and has been decisive and proactive in doing so. While increasingly operating real estate ownership and management as discrete businesses, we have also acted on our outlook that the real estate and finance businesses will converge further. Our forward-looking approach originated with our joint investment in the real

Financial Highlights

Mitsui Fudosan Co., Ltd. and its Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen except per share amounts		% Change	Thousands of U.S. dollars except per share amounts
	2006	2005	2006/2005	**2006**
For the Year:				
Revenue from operations	**¥1,159,280**	¥1,111,359	4.3%	**$9,868,732**
Operating income	**137,543**	115,764	18.8	**1,170,878**
Net income	**56,541**	28,693	97.1	**481,323**
As a percentage of revenue from operations	**4.9%**	2.6%	2.3 pt.	
As a percentage of average shareholders' equity	**7.3%**	4.3%	3.0 pt.	
Free cash flow	**(38,324)**	23,265	—	**(326,245)**
Cash dividends	**6,986**	5,756	21.4	**59,471**
At Year-End:				
Total assets	**¥2,986,501**	¥2,928,199	2.0%	**$25,423,529**
Shareholders' equity	**858,364**	687,718	24.8	**7,307,092**
Debt / Equity ratio (times)	**1.4**	1.9		
Number of shareholders	**43,521**	47,511	(8.4)	
Number of employees	**13,053**	12,707	2.7	
Per Share Data:				
Net income	**¥67.5**	¥34.7	94.5%	**$0.575**
Diluted net income	**—**	32.5		**—**
Cash dividends applicable to the year	**10.0**	7.0	42.8	**0.085**

Notes: 1. Free cash flow = Cash flows from operating activities + Cash flows from investing activities
2. Debt / Equity ratio = Interest-bearing debt / Shareholders' equity
3. U.S. dollar amounts are translated from yen at the rate of ¥117.47 = U.S.$1.00, the approximate exchange rate at March 31, 2006.

estate securitization business with foreign investors, which we began in the late 1990s. Moreover, we took the initiative in the newly created Japanese Real Estate Investment Trust (J-REIT) market in 2001 by listing Nippon Building Fund Inc.

Our strategy revolves around cooperating with real estate investors, rather than competing with them. We have therefore positioned investors as customers alongside our traditional customer segments of end users and originators, which are property owners that provide us with various business opportunities. As we expected, the scale of the J-REIT market has increased, and the presence of investors, including private funds executing real estate transactions, has become increasingly pronounced. These evolutionary trends have presented Mitsui Fudosan with an expanding array of outstanding business opportunities. We are now planning to list two J-REITs, one for rental housing and another for retail facilities, to complement our initiatives to increase assets under management as the real estate investment market expands.

A key component of Challenge Plan 2008 is business model innovation to cooperate with real estate investors rather than compete with them.

While options for deploying our capital and expertise have increased, we have taken a disciplined, selective approach that generates corporate value. Challenge Plan 2008 places strategic emphasis on generating earnings by making full use of Mitsui Fudosan's expertise rather than on simply expanding the

Challenge Plan 2008: Management Strategy

Business environment and growth strategy

Normalization of real estate markets ► Real estate value to reflect market cyclicality

Growing inflow of financial capital into real estate markets and expanded ownership of real estate by investors

- Growing number of low-cost capital players
- Expanding opportunities from Trading and Management businesses for investors

Sustainable growth of corporate value should be assured even as asset value fluctuates

Cooperate, not compete, with J-REITs and private real estate funds = Growth attained through value-creation capabilities as a developer and not only relying on asset expansion

Note: Challenge Plan 2008 for FY 2003 through FY 2008 was announced in May 2003.

Consolidated Targets of Challenge Plan 2008 (Billions of yen)

	FY 2002	FY 2005	FY 2008 (Targets)
Revenue from operations	·1,082.4	·1,159.3	·1,300.0
Operating income	·103.3	·137.5	·160.0
Operating income margin	9.5%	11.9%	12.3%
Operating cash flow	·118.5	·22.5	·130.0
Total assets	·2,929.1	·2,986.5	·2,700.0
Interest-bearing debt	·1,397.2	·1,199.3	·990.0
ROA*	3.8%	4.9%	6.0%
Debt / Equity ratio**	2.2 times	1.4 times	1.2 times

* ROA = (Operating income + Non-operating income) / Total assets (Note: Total assets for FY 2002 and FY 2006 are averages; total assets for FY 2008 are as of the fiscal year end.)

** Debt / Equity ratio = Interest-bearing debt / Shareholders equity

Company's asset portfolio. Pricing mechanisms for real estate have normalized as the market has equilibrated after the unrestrained price appreciation of Japan's bubble economy and the painful price depreciation and liquidity squeezes that characterized its aftermath. Asset values now move in closer correlation to the economic cycle, and companies that rely solely on asset value are no longer able to generate consistent growth in corporate value that exceeds the rate of growth of the overall economy. On the other hand, growing competition for prime building sites can drive up capital requirements and unfavorably impact returns. We have therefore intensified our focus on return on capital while growing our presence in the real estate investment market. Fee-based management and consulting engagements are other strategic emphases that allow Mitsui Fudosan to employ its expertise to create value without necessarily adding assets to our portfolio.

Objectives and Progress of Challenge Plan 2008

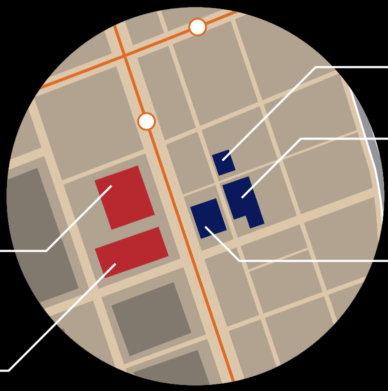
Challenge Plan 2008 is designed to help us capture opportunities in new growth segments of the real estate market. It encompasses three core strategies — customer-focused management; business model reform to stay at the forefront of market change; and efficient Group management — based on our mission of evolving as Japan's leading provider of real estate solutions and services. In concrete terms, the objective of Challenge Plan 2008 is to generate balanced growth from our three core businesses of holding, trading and management.

The feature section beginning on page 10 presents a detailed explanation of our strategies for growth in each of these core businesses. Essentially, the holding business encompasses the office buildings and retail facilities that we own. This business is stable and generates strong cash flow and earnings. Our growth strategy centers on increasing the value of our portfolio by developing new properties, renovating existing ones and selectively disposing of others. Mitsui Fudosan's strong sales capabilities in leasing and reputation for quality properties allow us to acquire outstanding office building tenants. In our retail facilities business, our extensive network of relationships with large companies that own land and our ability to develop various types of retail facilities support consistent growth in assets that exhibit strong return on investment. A central tenet of Challenge Plan 2008, however, is business model reform that moves us away from our former model of generating growth solely by expanding our asset portfolio. Instead, we are working to generate growth by creating a value chain that responds to increasing institutional ownership of real estate by linking investment capital with property. The trading and management businesses are central to this initiative. The trading business entails selling residential properties to end users and income-producing properties to investors such as J-REITs and private funds. The management business generates fees by providing services to individuals, corporations and investors that own or plan to own property. Providing management services for investors exhibits particularly strong synergy with the trading business. Once Mitsui Fudosan sells a property to investors, it is well positioned to generate fee income as the property manager.

Our business model therefore places us at every stage of the real estate value chain, from development to trading, brokerage and management. This gives us excellent flexibility in deploying our comprehensive strengths to generate value from emerging market opportunities as well as our existing assets. Given our depth and breadth, we have access to a wide range of real estate customers, including end users purchasing housing, retail customers at shopping centers, tenant corporations and stores, and investors seeking property. Long-term relationships of trust are essential to creating value, and we intend to maintain our reputation for integrity and reliability. As a result, we are confident that the business model we are building under Challenge Plan 2008 will help keep Mitsui Fudosan one of the strongest brands in Japan.

Muromachi East District Development Project

We will renovate the Mitsui Building Annex No. 3, the Mitsui Building Annex No. 5, and the Mitsui Building No. 6 as part of the Muromachi East District Development Project. Renovation of these three buildings is expected to spur the redevelopment of the area.



Midway through Challenge Plan 2008, we are proud that we are delivering on our promises to our stakeholders and invigorated by the sense that we are at the starting point of the future of Mitsui Fudosan.

A related objective of Challenge Plan 2008 is improving Mitsui Fudosan's financial structure. While investing to generate earnings growth, we will continue to reduce interest-bearing debt as a means of improving the debt/equity ratio.

Fiscal 2006: Reaching Goals, Setting Goals

We are in an increasingly strong position as we move into fiscal 2006 and beyond. The contribution of new properties such as the Nihonbashi Mitsui Tower, completed in July 2005, and the Ginza Mitsui Building, completed in September 2005, along with factors including the increase in condominium unit sales and expansion in fee-based revenue from assets under management, support our projection that fiscal 2006 revenue from operations and operating income will each increase by more than 5 percent year-on-year.

Over the first three years of Challenge Plan 2008, we have reached a point where achievement of our goals is in sight, giving us confidence that the issue now is how quickly we can achieve our objectives. While our operating environment has changed dramatically, since initiating Challenge Plan 2008 we have deployed our comprehensive strengths to make steady progress toward our numerical targets. During the second and final three-year stage of Challenge Plan 2008, we will reconfirm the validity of our strategies as we work steadily toward our goals.

On the other hand, our core real estate development business entails projects executed over extended time frames that are not delineated by the first or last three-year periods of Challenge Plan 2008. We are exercising our skills as a developer to the fullest in areas such as large-scale urban redevelopments, including the Muromachi East District Development Project in Nihonbashi, and integrated developments, including the redevelopment of the JFE Building. These projects will serve as the basis for earnings growth in the post-Challenge Plan 2008 era.

We have passed the halfway point of the six-year Challenge Plan 2008, but we certainly do not intend to coast complacently toward its conclusion. Rather, we are invigorated by the sense that we are at the starting point of the future of Mitsui Fudosan. While achieving the objectives of Challenge Plan 2008 is, of course, important, during the current fiscal year we plan to build on the successes of the past three years in formulating the management strategies that will also help Mitsui Fudosan continue growing after Challenge Plan 2008.

Stakeholder-Oriented Management

Sound management that is transparent and efficient illuminates Mitsui Fudosan's approach to corporate governance. We employ a corporate officer system that clarifies responsibility for supervision and execution, and more than half of our auditors are external auditors. Moreover, as part of our program of continuously improving corporate governance, in June 2005 we invited Toshiharu Aoki, Counselor of NTT Data Corporation, to join the Board of Directors as an outside director. His objective insights have meaningfully enhanced strategic discussion.

The Mitsui Fudosan Group vision embraces a corporate philosophy of achieving sustainable growth by linking diverse values and coexisting in harmony with society. Environmental conservation remains a priority. We set environmental targets and plans for each business, and evaluate progress annually. In addition, our contribution to society encompasses economic and industrial development, health and welfare improvement, and promotion of art and culture.

Mitsui Fudosan is committed to enhancing customer satisfaction as the means to increase shareholder value through earnings growth. In addition, we are working to create value for people and communities in projects in Nihonbashi and many other regions.

Our people have demonstrated outstanding commitment during the first half of Challenge Plan 2008, and we intend to continue doing our utmost to earn the trust and meet the expectations of customers and society. In a rapidly changing operating environment, Mitsui Fudosan has also maintained its high standards of compliance and ethical conduct, and will continue to do so in working toward future objectives. Personally, I am committed to providing the leadership the Company will require as we work to expand the value we create and deliver to our stakeholders. We will continue to rely on your support as we fulfill our commitments.

July 2006

Hiromichi Iwasa
President and Chief Executive Officer

The Mitsui Fudosan Group is making the most of its strength throughout the real estate value chain in taking a balanced approach to generating sustainable growth from the core holding, trading and management businesses.

Holding Business

Capital efficiency and return on investment are key emphases as we raise portfolio quality in the holding business.

Ginza Mitsui Building

Completed in September 2005, the 25-story Ginza Mitsui Building integrates office and hotel functions in one of Tokyo's most desirable neighborhoods. Cutting-edge office space occupies floors 2 to 15, while the Mitsui Garden Hotel provides 361 rooms on floors 16 to 25. The Ginza Mitsui Building exemplifies our strategy of replacing aging properties with new buildings that generate strong return on investment. We developed this project on the site of an aging hotel, and minimized risk by pre-leasing all of the office space prior to completion.

(Completed in September 2005 / 50,000m^2)

The Holding Business: Stable, Long-Term Cash Flow

The holding business consists of leasing office buildings and retail facilities owned by Mitsui Fudosan to generate stable, long-term cash flow. This business represents Mitsui Fudosan's heritage as a dynamic real estate developer and manager. More important, it is a changing business in which a company with courage and vision can capture the profitable opportunities that are emerging. Challenge Plan 2008 gives us that courage and vision.

Our primary strategy in the holding business is to raise the overall quality of our portfolio while controlling its volume by simultaneously employing two methods: renovation and selective disposal of existing assets on the one hand, and new development on the other. Urban centers in general, and Tokyo in particular, are dynamic areas where technological and economic progress are rapid. Cutting-edge urban tenants want world-class space to support achievement of their goals, which makes continuous improvement in the quality of our asset portfolio imperative. Our intelligent approach embraces market realities and emphasizes capital efficiency and return on investment (ROI).

Jimbocho Mitsui Building

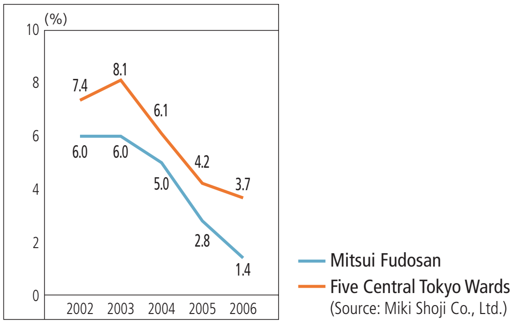
Part of a large-scale redevelopment of Tokyo's Jimbocho district, this office building offers next-generation facilities.

(Completed in 2003 / 88,000m²)

Selective Redevelopment and Disposal for Capital-Efficient Gains in Portfolio Quality

Property redevelopment entails tearing down an existing building and constructing a new one on the site. It is a source of ROI that is less capital intensive than new

Vacancy Rate: Mitsui Fudosan vs. Five Central Tokyo Wards



(As of March 31)

JFE Building

Mitsui Fudosan acquired the JFE Building, located in the Otemachi central business district of Tokyo, in April 2006. We plan to redevelop this prime site into a sophisticated office complex that will meet emerging tenant needs while adding vitality to its surrounding area.

(Existing building completed in 1974 / 63,000m²)

development because Mitsui Fudosan does not need to acquire new land. It also improves portfolio quality by transforming staid existing buildings into compelling new properties that contribute strongly to earnings growth.

The Nihonbashi Mitsui Tower and the Ginza Mitsui Building are representative, capital-efficient property redevelopment projects. Completed during the year ended March 2006, both are expected to make a strong contribution to results during the current fiscal year. Their high ROI demonstrates the benefits of property redevelopment, particularly as competition for prime sites is driving land acquisition costs higher. Other property redevelopment projects currently in the planning stage include the Mitsui Building Annex No. 3, the Mitsui Building Annex No. 5, and the Mitsui Building No. 6 as part of the Muromachi East District Development Project in Nihonbashi and the Sanshin Building in Hibiya.

Mitsui Fudosan has developed several channels for selectively disposing of existing assets, including transfers to Nippon Building Fund, Inc. (NBF), private funds and other entities. For example, in April 2006 Mitsui Fudosan transferred five office buildings to NBF in a transaction valued at ¥110 billion. Including this transaction, Mitsui Fudosan has transferred assets with a cumulative market value of ¥200 billion since fiscal 2003. While selling assets to NBF temporarily reduces leasing revenue, it also provides capital to develop new properties and redevelop existing buildings. This supports our strategy of raising portfolio efficiency. To wit, the April 2006 transfer to NBF funded the acquisition of the JFE Building, which we plan to transform into a core office building property.

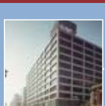
Retail Facilities: Experience Adds Value

Expertise is the key to success in the retail facilities business, which requires both intelligently situated facilities that are well suited to retail trade, and superior management that promotes consistent customer traffic and sales growth. Since opening the Tokyo-Bay LaLaport shopping mall over 25 years ago, Mitsui Fudosan has enhanced its presence in the retail facilities business by developing and managing numerous properties throughout Japan. As a result, our management expertise and network of tenant relationships are powerful factors that clearly differentiate us from other real estate companies.

Mitsui Fudosan has positioned its retail facilities in every sector of the market, from urban retail facilities and lifestyle centers to regional and outlet malls. We

Renovation and Selective Disposal of Existing Assets

Renovations



Mitsui East No. 3 Wing
Completed in 1973

Nihonbashi Mitsui Tower
Completed in July 2005

Ginza Dai-ichi Hotel
Completed in 1972

Ginza Mitsui Building
Completed in September 2005

Mitsui Building Annex No. 3
Completed in 1963

Muromachi East District Development
Scheduled completion: FY2012

LAZONA Kawasaki Plaza

This large-scale commercial facility is located on the former site of a factory, adjacent to a major passenger railway terminal. We are complementing it by developing Lazona Residence, a 667-unit residential building that will create a vibrant, mixed-use community that features convenience and a high quality of life.

(Opening in September 2006 / 172,000m^2)

therefore offer potential tenants a full array of value-added opportunities to serve their desired consumer segments.

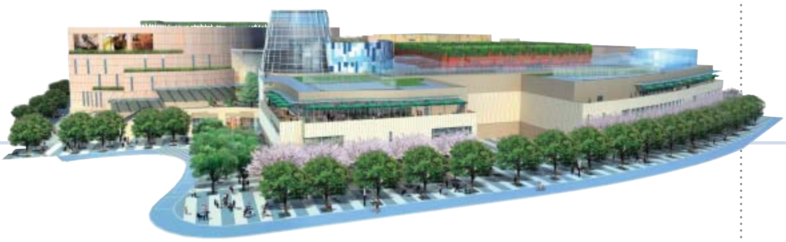
Shopping centers are a high-ROI business, with relatively low building construction costs and the practice of setting rent as a percentage of sales. Mitsui Fudosan therefore benefits directly from its expertise in selecting sites, marketing and managing retail facilities, for these operating strengths drive sales at tenant stores.

In addition, the use of fixed-term leaseholds makes the retail facilities business particularly attractive because it reduces initial capital outlays, thus enhancing ROI. Mitsui Fudosan has relationships with large corporate and government landowners that generate opportunities for development without outright purchase of the land. Recent projects that employ this approach include LAZONA Kawasaki Plaza and Urban Dock LaLaport Toyosu, which are two of the four major shopping malls that Mitsui Fudosan will begin operating in succession from fall 2006 through spring 2007.

LaLaport Kashiwanoha

Well-positioned at a station on the Tsukuba Express railway line, LaLaport Kashiwanoha has a wide array of shops and amenities that satisfy the various and changing needs of its customers. We are complementing this facility with an 800-unit condominium development.

(Opening in November 2006 / 159,000m^2)



LaLaport Yokohama

As with each of the major shopping centers detailed here, Mitsui Fudosan has supported the future success of LaLaport Yokohama from the planning phase by conducting marketing studies and group interviews of local citizens to identify what customers want in the project. Close attention to the customer opinions will help ensure this top-quality facility will always reflects the needs and desires of the people it serves.

(Opening in spring 2007 / 227,000m^2)

Trading Business

End users of residential housing and investors in all types of properties are core customer groups in Mitsui Fudosan's trading business.

A Shibaura Island Project

This project involves a public-private partnership to create a sustainable, multigenerational residential district in Tokyo. Mitsui Fudosan is therefore focusing on meeting a wide array of needs for various types of residents in this large-scale urban development, which embraces the vision of creating a safe, beautiful town that is an urban oasis of water and greenery.

(Completion scheduled for December 2006 and March 2007 / 1,928 condominium units for sale)

The Trading Business: Complementary Growth Opportunities

Japan's real estate industry has evolved beyond the creation and management of modern society's physical infrastructure. Families and individuals have new, sophisticated needs in looking for the place they can call home, and investors are increasingly interested in the cash flow that well-managed properties can generate. Mitsui Fudosan's trading business embraces the opportunities that are resulting. It encompasses sales of condominiums and detached houses to end users, and the development and sale of income-producing residential, office and other properties to investors. Rather than the buy-and-hold model of the holding business, Mitsui Fudosan employs various approaches to acquire opportunities and generate medium-term capital gains after creating value.

Sales for End Users: Cooperation and Innovation

Mitsui Fudosan's brands in the condominium and detached housing market are synonymous with quality and lasting value. While demand remains strong, end users have become increasingly selective and the market

Park City Toyosu

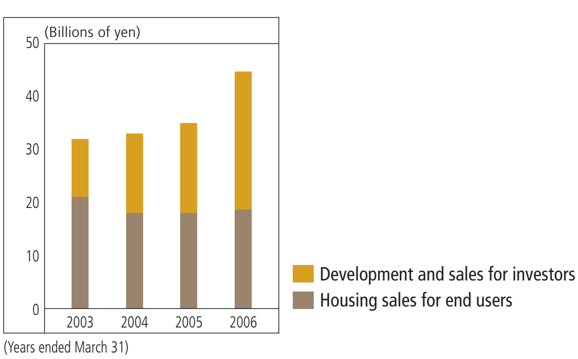
Developed on a former dockyard site, these two towers will stand next to Urban Dock LaLaport Toyosu, a shopping mall currently under construction.

(Completion scheduled for March 2008 / 1,481 units)

has polarized on the basis of buyer needs, particularly regarding location, price and products. At the same time, competition in acquiring prime sites has intensified, which in turn has increased land costs. Mitsui Fudosan's strategy centers on increasing profit margins by maintaining a stable supply of housing and reducing sales and inventory costs, rather than by relying on greater sales volume to recoup higher acquisition costs.

Our partnerships in large-scale redevelopment projects with a variety of landowners have supported our success in acquiring prime sites over the past several

Trading Business Operating Income



LAZONA Kawasaki Residence

Lazona Kawasaki Residence abuts the Lazona Kawasaki shopping center, giving residents access to a broad array of shopping options and amenities such as a sports club. The units in this condominium tower range from one to four bedrooms, thus accommodating the needs of many different demographic segments.

(Completion scheduled for March 2007 / 667 units)

years. The relationships we have from the holding business with quality companies and our expertise in total advisory services that optimize land use have supported these partnerships. We have built a solid reputation for our ability to reinvigorate entire neighborhoods by creating new value, which has contributed to our ability to find and undertake new opportunities. Over the next few years, we will have a number of projects available for sale for which demand and profit margins should be solid.

Innovation and integration will enhance our ability to sustain growth in this business. In October 2006, we will launch a new company, Mitsui Fudosan Residential Co., Ltd., to vertically integrate housing development and sales operations. Our objective is to have the flexibility to meet changing customer needs and thus generate strong earnings growth as the leading company in housing development and sales.

Expertise Creates Compelling Opportunities for Investors

An old real estate adage is that the three most important factors defining the success of a property are location, location and location. As the real estate and finance industries converge, however, that may change to

Fine Court Mitaka

This development is strategically situated between metropolitan Tokyo and major suburban towns, and exemplifies the high standards of the Fine Court Series of detached houses. Quality of life was a focus from the planning stage, as expressed by an open, relaxed configuration and extensive landscaping and greenery.

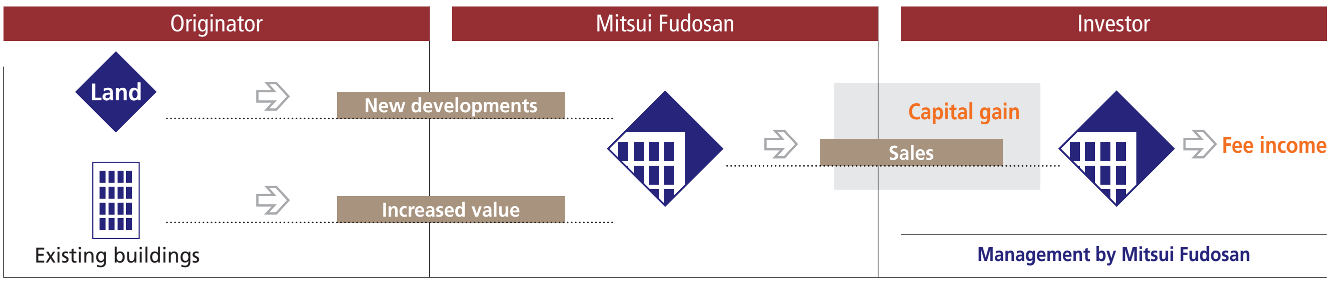
(Completed in 2004 / 46 units)

Park Axis Shiroganedai

This quality development, a recent addition to the Park Axis line of rental properties, features 99 units available for tenants who prefer to lease a quality apartment in the heart of the city rather than buy. The latest amenities and security features create a comfortable and secure living environment. Mitsui Fudosan undertook the development and sold the property to Nippon Accommodations Fund Inc., which is a new J-REIT established and managed by Mitsui Fudosan.

(Opened in September 2005 / 99 units)

Value Chain (from Trading Business to Management Business)

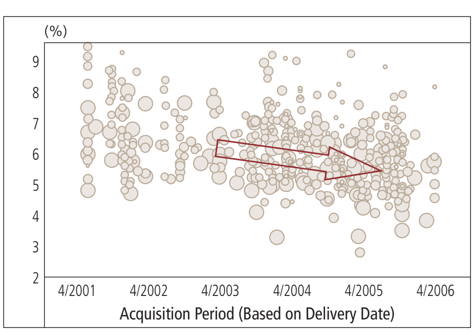


expertise, expertise and expertise. Today, the ability to determine the optimum use for a property, add value and streamline management makes properties attractive in increasingly liquid markets in which low-cost capital seeks solid returns. Mitsui Fudosan's trading business encompasses both new property development and a wide range of measures to enhance the value of acquired properties. Specific examples of our methods of adding value include using our expertise to increase occupancy, lower property management costs, and implement other strategies to enhance returns and make the properties compelling opportunities for purchase by investors.

The Park Axis series of rental condominiums has generated solid growth. These premier residential properties in outstanding locations have proven popular with investors. We are also developing office and retail facilities in commercial areas in Tokyo and other urban centers to offer investors the opportunity to obtain stable cash flow.

Moreover, investors typically rely on us to provide management services for the buildings we sell to them, which is contributing to revenue growth in our core management business. This synergy as we move along the real estate value chain indicates that the trading business will provide strategic support for sustainable growth based on our expertise and capabilities rather than asset expansion alone

Cap Rate of Properties Acquired by J-REITs



(Years ended March 31)

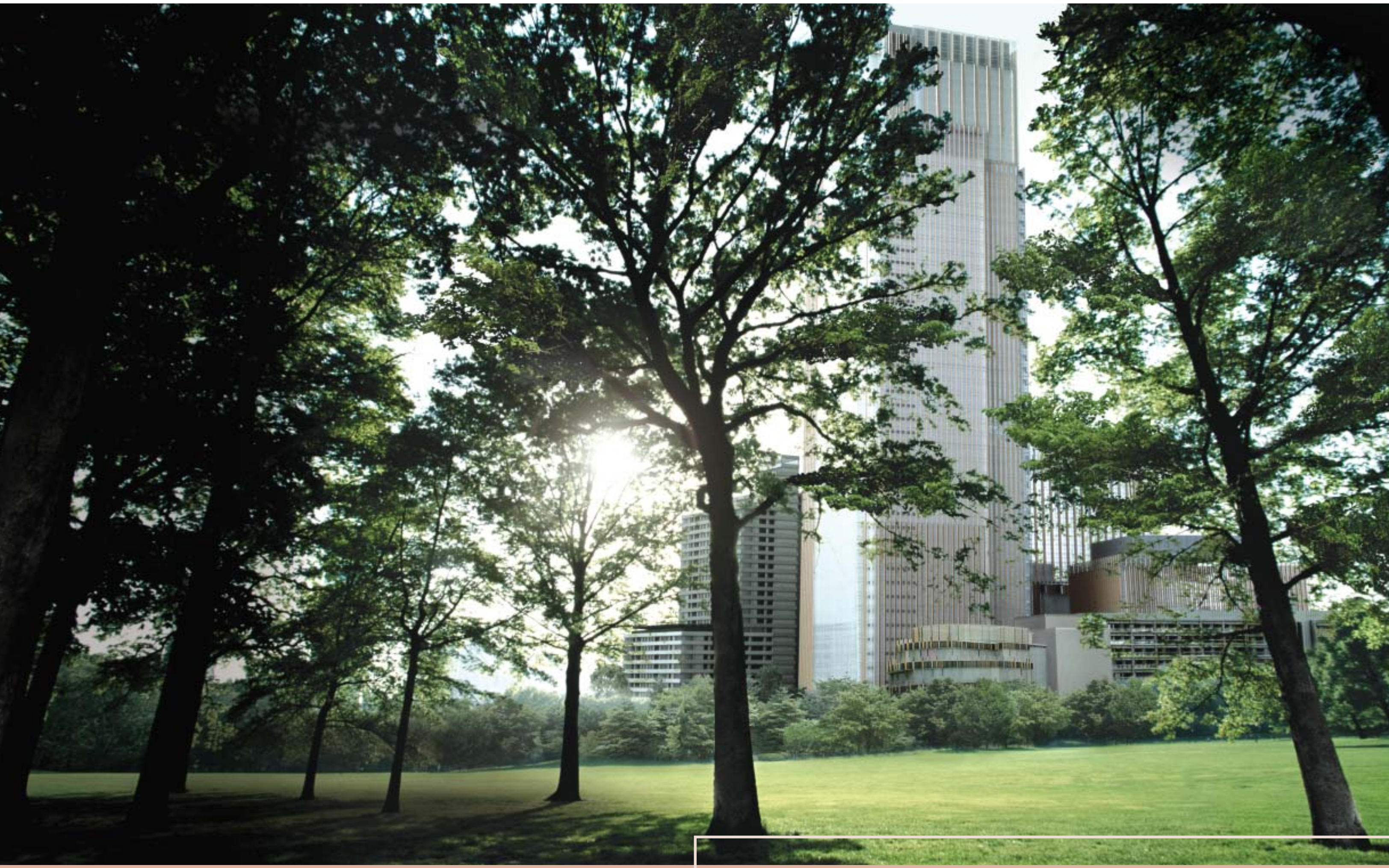
Source: Created by Mitsui Fudosan based on the information disclosed by J-REITs
Note: Size of bubbles represents acquisition price.

Kita-Aoyama Project

After acquiring the obsolete former Hazama Corporation Headquarters Building (shown below) in Kita-Aoyama, Minato-ku, Tokyo, Mitsui Fudosan is deploying its redevelopment expertise to replace it with a new building.

(Opening in July 2008 / 47,000m^2)

Management Business



The expertise of the Mitsui Fudosan Group is driving growth in assets under management and generating revenue gains in brokerage operations.

Tokyo Midtown

Tokyo Midtown is a redevelopment project on a former Defense Agency site in Roppongi, Tokyo that will encompass office, retail and residential facilities. Mitsui Fudosan holds a 40 percent stake in the project and is serving as project manager during development. Upon completion of the project, we will provide asset management services to enhance profitability and area management services to maintain the attractiveness of the site.

(Opening in spring 2007 / 569,000m^2)

Ario Kameari

Retailer Ito-Yokado Co., Ltd. called on Mitsui Fudosan to provide development planning, tenant leasing and other services to support the development of this large-scale shopping center, and Mitsui Fudosan is now providing facility management services.

(Opened in March 2006 / 138,000m^2)

The Management Business: Full Value Chain Coverage

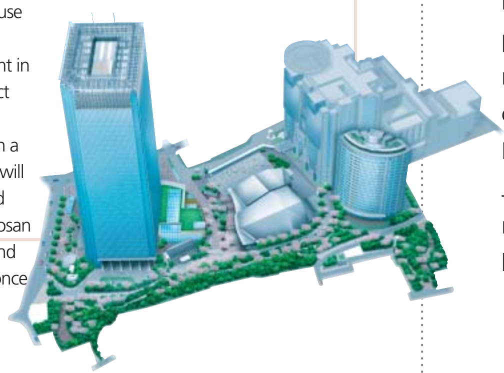
In Japan's real estate business, the division among the roles of owner, user and manager is becoming increasingly pronounced. The management business entails generating fee income from a comprehensive range of services, including brokerage, consulting, project management, masterleasing, and asset and property management. The emphasis on deploying our professional expertise makes it less capital intensive than other business areas. Positioning management as a core business is a major factor distinguishing Mitsui Fudosan from other real estate companies, as well as a primary driver of sustainable growth. Moreover, the know-how, skills and expertise that are the source of management income result from our long-term relationships of trust with tenants of office buildings and retail facilities, and purchasers and tenants of residential properties.

Growing assets under management and expanding the potential of the brokerage business are the core growth drivers in this field. Mitsui Fudosan works to maximize the value of its assets under management from J-REITs, private funds and other real estate investors, as well as corporations looking to make more effective use of their real estate holdings as a management resource. We also work to expand transaction volume in our customer network as we enhance business opportunities in areas from retail brokerage for used residential properties to wholesale brokerage that supports corporate asset reduction strategies.

Akasaka TBS Project

Moving to make more effective use of its real estate assets, Tokyo Broadcasting System, Inc. brought in Mitsui Fudosan to serve as project manager in executing this comprehensive redevelopment in a premier Tokyo neighborhood. It will encompass office, residential and theater components. Mitsui Fudosan will also provide masterleasing and property management services once construction is complete.

(Opening in January 2008 / 219,000m^2)



Growing Assets under Management

Assets under management have increased from ¥1.2 trillion at the start of Challenge Plan 2008 in March 2003 to ¥2.15 trillion as of March 2006, exhibiting solid progress toward our target of ¥3.0 trillion by March 2009. A number of approaches support our efforts to increase assets under management. We provide solutions to companies that own real estate and to investors, while strengthening the value chain linkage between sales of properties to investors and subsequent property management responsibilities. Fund management in connection with J-REITs we sponsor also contributes to expansion in assets under management. Operations in this business currently center on Nippon Building Fund Management Ltd. In the future, we plan to establish two new J-REITs, with fund management handled by two newly established companies.

Tokyo Midtown exemplifies our strategy of using our broadly based real estate expertise to transition from the development component of our value chain to ongoing, fee-based opportunities. This project, which is scheduled to open in spring 2007, will encompass office, retail, residential and hotel facilities. Cooperating with domestic investors in this redevelopment of a former Defense Agency site, Mitsui Fudosan holds a 40 percent share and is serving as the project manager during development. After completion, we will provide asset management services for investors to maintain profitability and area management services for users to enhance attractiveness of the site.

Brokerage: Strong Potential

Another pillar of the management business is the brokerage services that Group company Mitsui Real Estate Sales Co., Ltd. provides in the secondary market for residential properties. In Japan, transaction volume in this market relative to that in the market for new properties is low compared to the corresponding balance in the U.S. and Europe. We see excellent potential for future growth in Japan. The Mitsui Fudosan Group's Re-house brand is number one in Japan's brokerage market, and we intend to build on this strength in generating future growth.

Mitsui Fudosan's corporate philosophy is to coexist in harmony with society and to link diverse values. We strive to contribute to social and economic development and environmental conservation.

Environmental Policy

The Mitsui Fudosan Group Vision and Mission delineate our intent to contribute to social and economic development and the conservation of the global environment. We have also established and implemented an Environmental Policy in accordance with our Group Vision and Mission.

The Mitsui Fudosan Group's mission encompasses the creation of affluent, comfortable urban environments. This mission includes harmonious coexistence with the environment, and we have a clear, specific philosophy and set of policies to guide our energetic environmental conservation activities. Specifically, we establish environmental goals and incorporate clear assessments of environmental impact from the earliest stages of planning, while continually promoting conservation. Our initiatives to reduce environmental impact include preventing pollution, strictly observing environmental laws, and setting independent standards when necessary. The Group raises employee awareness of environmental policies through education and other activities, and promotes information disclosure to keep society and local communities informed of our environmental measures and their results.

The Mitsui Fudosan Group and Its Commitment to the Environment 2005

• Environmental Support System

The Mitsui Fudosan Group encourages environmental initiatives that cut across organizational boundaries within the Group through the Environmental Special Committee, which is chaired by the director responsible for administration at Mitsui Fudosan. The Environmental Special Committee summarizes and deliberates upon environmental targets and plans proposed by divisions and departments, and then sets goals, makes plans and reports on results at meetings of the Executive Management Committee, chaired by the president and chief executive officer.

• Mitsui Fudosan's Environmental Measures

The Mitsui Fudosan Group takes a proactive stance in its commitment to environmental improvement. We include environmental planning from the earliest stages of planning a building. We also implement numerous measures, such as eliminating volatile chemical compounds, so that the space inside buildings will not be harmful to the health of users. The Mitsui Fudosan Group is currently working toward ISO 14001 certification of its environmental management system. As of October 2005, a total of five divisions, five facilities and six Group companies had obtained ISO 14001 certification.

Designing office buildings for long life to increase energy efficiency and reduce CO_2 emissions throughout each building's life cycle is another core initiative. We also promote recycling and have energetically worked with outside experts to devise systems to handle various types of waste generated during the course of operations. Moreover, Mitsui Fudosan applies environmental accounting to all buildings it owns and manages in its Office Building Division. The system is linked to the Office Building Division's financial management system to permit automatic, efficient calculation of environmental costs and benefits.

Promoting Urban Greening

Mitsui Fudosan sets its own standards to promote greening programs in its businesses related to housing, office buildings, and retail facilities. Our aim is to create a comfortable urban environment that is friendly to both residents and the environment. The Mitsui Fudosan Group's efforts to create buildings with ample greenery have earned official recognition from various organizations, including the Urban Greenery Award from the Ministry of Land, Infrastructure and Transport (in the Facilities Greenery Category) for Park Court Futakotamagawa.

Improving Indoor Air Quality

Improving indoor air quality and reducing harmful substances help to ensure the safety of building users and the quality of the environment around them. As one initiative in this area, we have been working to eliminate the use of building materials that employ formaldehyde and other substances that may pose health issues for building occupants.

Reducing CO_2 Emissions

The Mitsui Fudosan Group has adopted the life cycle assessment (LCA) method to reduce CO_2 emissions throughout the lifetime of buildings, from construction and use to demolition.

Social Contribution

Our logo (&: ampersand) symbolizes our two key principles: to coexist in harmony with society, and to link diverse values. The Mitsui Fudosan Group therefore cooperates with local communities and society at large in a variety of fields. These include environmental conservation, economic and industrial development, health and welfare improvement, support of the arts, and conservation of traditional cultural assets.

Mitsui Fudosan's sponsorship of annual events includes the Tokyo Summer Festival, which introduces music from around the world, and the Sumida River Fireworks, one of the most famous fireworks displays in Tokyo. We also sponsor Flower Highway, an annual event that decorates a central Tokyo thoroughfare with flowers.

Mitsui Fudosan employees volunteer at the grassroots level to contribute to the Nihonbashi area in ways such as participating in neighborhood cleaning and beautification programs.

The Mitsui Fudosan Group cooperates with the communities it serves and society at large.

Contributing to the Revitalization of Nihonbashi

The Mitsui Group originated in the Nihonbashi district of Tokyo. Throughout its history, Mitsui Fudosan has participated in and supported local organizations, such as the Nihonbashi Area Renaissance 100-Year Planning Committee and the Preservation Society for the Famed Nihonbashi Bridge, and has been building strong ties with local communities by sponsoring annual events. We also contribute to the revitalization and restoration of the area through urban redevelopment projects that respect and pass down the traditions and culture of the area. Since April 2003, the Nihonbashi Urban Planning and Development Department has been building even stronger ties with the local community while bringing new energy to the area.

Tokyo *Metrolink*, sponsored in part by Mitsui Fudosan, is a convenient electric shuttle that serves the Nihonbashi area.

Sound, transparent and efficient management is the objective of Mitsui Fudosan's approach to corporate governance.

The objective of Mitsui Fudosan's approach to corporate governance is sound, transparent and efficient management that earns the trust of stakeholders. We continuously monitor and improve corporate governance to exceed legal requirements as we work to enhance flexibility in anticipating market change and objectivity in managing our businesses.

Mitsui Fudosan has strengthened the supervisory function of its Board of Directors by increasing the number of members to ten, including the addition of one director from outside the Company. An external viewpoint on the Board has enhanced debate and awareness of broader management issues. In addition, Mitsui Fudosan obtains an objective viewpoint from its Advisory Committee, which consists of experts from business and academia who advise and critique management. We also maintain a high degree of objectivity on the Board of Corporate Auditors, which consists of five members. Three corporate auditors are from outside the Company. The internal Audit Department cooperates with auditors in objectively evaluating the performance of senior management as it executes its responsibilities. An emphasis on effective internal controls, such as audits in all departments, also contributes to sound and objective management. In April 2006, Mitsui Fudosan established the Internal Control Special Committee, with responsibilities that include formulating policies and action plans and implementing them throughout the Group.

Japan's real estate business is evolving in step with our rapidly changing operating environment. Flexibility and focus are essential. Mitsui Fudosan therefore employs a Corporate Officer System that separates and reinforces supervision and execution in order to raise both efficiency and accountability. Directors and corporate officers on the Executive Management Committee follow business execution and keep management well informed, while standing corporate auditors attend meetings of the Executive Management Committee to ensure that directors are fulfilling their responsibilities.

Corporate governance structures must encompass the entire Mitsui Fudosan Group to be effective, and one of the goals of Challenge Plan 2008 is to strengthen Group management. Executives at Group companies have therefore been given a status and mission similar to those of parent company corporate officers. Mitsui Fudosan has operated under its Group Corporate Officer system since April 2003.

Given the importance of the trust of stakeholders and society, strict compliance and a keen awareness of risk are essential components of corporate governance. A member of the Board of Directors oversees Group compliance and chairs the Compliance Special Committee, which manages the Compliance Manual and promotes a thorough understanding of and adherence to compliance-related rules. We have also established the Mitsui Fudosan Group Compliance Policy as part of our commitment to ensuring appropriate business activity among all officers and employees throughout the Mitsui Fudosan Group. The Risk Management Special Committee reinforces and optimizes the Company's risk management capabilities. The Committee locates and identifies risks, determines appropriate responses, and provides access to relevant information throughout the Company.

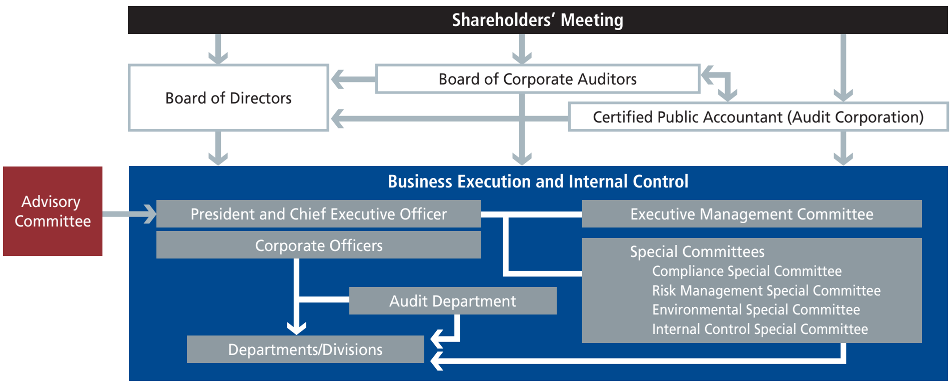
The following outlines compensation for directors and corporate auditors in the year ended March 31, 2006:

Compensation for Directors	¥399 million
Compensation for Corporate Auditors	¥80 million

The components of compensation for independent auditors are as follows in the year ended March 31, 2006:

Contractual compensation for audit certification and related responsibilities	¥61 million
Additional compensation	¥25 million

Corporate Governance Organization



Management Team

(As of June 29, 2006)

From left: Hiromichi Iwasa, Jun-Ichirō Tanaka

From left: Yoshiki Kageyama, Tatsuo Soda, Kazuichi Nagata, Yotaro Hayashi, Koichi Omuro, Takayuki Namae, Minoru Satou

Members of the Board

Chairman of the Board
Jun-Ichirō Tanaka

President and Chief Executive Officer
Hiromichi Iwasa

Executive Vice Presidents
Yotaro Hayashi
Koichi Omuro

Senior Executive Managing Directors
Kazuichi Nagata
Takayuki Namae
Tatsuo Soda

Executive Managing Directors
Minoru Satou
Yoshiki Kageyama

Managing Director (Outside Director)
Toshiharu Aoki

Auditors

Senior Corporate Auditor
Hisamitsu Tsubahara

Corporate Auditor
Nobumi Tobari

Corporate Auditors (Outside Auditors)
Ken Fujii
Akira Watanabe
Akishige Okada

Corporate Officers

President and Chief Executive Officer
Hiromichi Iwasa

Executive Vice Presidents
Yotaro Hayashi
Koichi Omuro

Senior Executive Managing Officers
Kazuichi Nagata
Takayuki Namae
Tatsuo Soda
Mitsuhiro Matsumoto

Executive Managing Officers
Minoru Satou
Yoshiki Kageyama
Kuniaki Ikeya
Masayuki Isobe
Hidehisa Takei

Managing Officers
Takayoshi Saito
Takao Iwadou
Teruaki Ueyama
Tetsu Oana
Takeshi Suzuki
Yoshiaki Iinuma
Seizo Kuramoto
Hitoshi Saito
Hiroshi Asai
Toshihide Ichikawa
Masanobu Komoda

Six-Year Summary

Mitsui Fudosan Co., Ltd. and its Subsidiaries

Years ended March 31,	2006	2005	2004	2003	2002	2001	2006
	Millions of yen except per share amounts and number of employees						Thousands of U.S. dollars except per share amounts
FOR THE YEAR:							
Revenue from operations	**¥1,159,280**	¥1,111,359	¥1,102,844	¥1,082,398	¥1,152,484	¥1,193,081	**$ 9,868,732**
Interest, dividends and miscellaneous	**16,949**	11,320	11,652	11,187	35,842	61,205	**144,284**
Costs and expenses (including tax)	**1,121,676**	1,096,075	1,103,241	1,070,613	1,163,972	1,226,612	**9,548,617**
Equity in net income of affiliated companies	**3,155**	3,596	3,535	2,905	3,301	510	**26,858**
Minority interests	**(1,167)**	(1,507)	(335)	(323)	2,152	(2,072)	**(9,934)**
Net income	**56,541**	28,693	14,455	25,554	29,807	26,112	**481,323**
AT YEAR-END:							
Total assets	**¥2,986,502**	¥2,928,199	¥2,916,583	¥2,929,070	¥3,028,969	¥2,846,467	**$25,423,529**
Shareholders' equity	**858,364**	687,718	659,165	628,434	609,536	411,097	**7,307,092**
Common stock	**174,296**	134,433	134,433	134,433	134,433	134,433	**1,483,749**
Number of employees	**13,053**	12,707	12,808	12,615	12,503	13,380	
PER SHARE DATA:							
Net income	**¥ 67.5**	¥ 34.7	¥ 17.5	¥ 31.1	¥ 36.7	¥ 32.1	**$ 0.575**
Cash dividends applicable to the year	**10.0**	7.0	7.0	7.0	7.0	6.0	**0.085**
RATIOS:							
Equity ratio (%)	**28.7**	23.5	22.6	21.5	20.1	14.4	
Return on assets (%)	**4.92**	4.30	4.06	3.78	3.86	3.98	

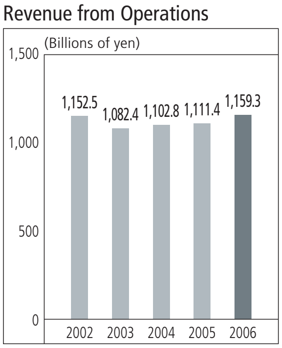
Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥117.47 = U.S.$1.00, the approximate exchange rate at March 31, 2006.
2. Return on assets (ROA) = (Operating income + Non-operating income) / Average total assets

Income Analysis

(Billions of yen, %)

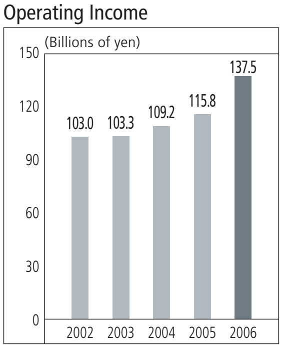
Years ended March 31	2006		2005		2004	
Revenue from operations	**¥1,159.3**	**100.0%**	¥1,111.4	100.0%	¥1,102.8	100.0%
Cost of revenue from operations	**904.2**	**78.0**	879.3	79.1	873.6	79.2
Selling, general and administrative expenses	**117.5**	**10.1**	116.3	10.5	120.0	10.9
Operating income	**137.5**	**11.9**	115.8	10.4	109.2	9.9
Other revenues	**16.9**	**1.4**	11.3	1.0	11.7	1.1
Interest expenses	**20.3**	**1.8**	20.4	1.8	22.8	2.1
Other expenses	**44.4**	**3.8**	58.5	5.3	78.0	7.1
Equity in net income of affiliated companies	**3.2**	**0.3**	3.6	0.3	3.5	0.3
Income before income taxes	**93.0**	**8.0**	51.8	4.6	23.6	2.1
Income taxes	**35.3**	**3.0**	21.6	1.9	8.8	0.8
Minority interests	**(1.2)**	**(0.1)**	(1.5)	(0.1)	(0.3)	(0.0)
Net income	**¥ 56.5**	**4.9**	¥ 28.7	2.6	¥ 14.5	1.3

Revenue from Operations



(Years ended March 31)

Operating Income



(Years ended March 31)

Revenue from Operations

For fiscal 2005, the year ended March 31, 2006, consolidated revenue from operations increased 4.3 percent year-on-year, or ¥47.9 billion, to ¥1,159.3 billion. Revenue increased in the Leasing segment because of office buildings and retail facilities completed during the previous fiscal year that made their first full-year contribution. Increased sales of income-producing properties to investors in the Sales of Housing, Office Buildings and Land segment also contributed to revenue growth. Growth in management fees from assets under management drove solid revenue gains in the Property Management segment, and higher real estate brokerage revenue also contributed to higher overall revenue for the fiscal year.

Cost of Revenue from Operations and SGA Expenses

Cost of revenue from operations increased 2.8 percent year-on-year, or ¥24.9 billion, to ¥904.2 billion, which was lower than the increase in revenue from operations. As a result, gross profit increased 9.9 percent, or ¥23.0 billion, to ¥255.1 billion, and the gross margin improved to 22.0 percent from 20.9 percent for the previous fiscal year.

Selling, general and administrative (SGA) expenses increased 1.0 percent year-on-year, or ¥1.2 billion, to ¥117.5 billion, a rate of increase below that of the growth in revenue from operations. The growing proportion of property sales to investors in the Sales of Housing, Office Buildings and Land segment, which tend to require lower marketing outlays than sales of residential properties to individuals, was one factor restraining growth in SGA expenses.

Operating Income

The accompanying consolidated financial statements do not include operating income as a discrete line item. Calculated as revenue from operations less cost of revenue from operations and SGA expenses, operating income increased 18.8 percent, or ¥21.8 billion, year-on-year to ¥137.5 billion. This was the third consecutive year of record-high operating income.

Other Revenue and Expenses and Interest Expense

Interest, dividends and miscellaneous revenue increased to ¥16.9 billion. Interest income decreased 37.4 percent, or ¥0.4 billion, and Mitsui Fudosan did not record gain on sale of investment securities, which totaled ¥4.3 billion in the previous fiscal year. Dividend income decreased 49.9 percent, primarily because of an accounting policy change during the year ended March 2006 under which dividends from J-REITs are now included in revenue from operations. Gain on sale of fixed assets totaled ¥9.4 billion, and primarily represented the sale of land in Nagoya.

Interest expense decreased marginally to ¥20.3 billion, reflecting Mitsui Fudosan's ongoing program of decreasing interest-bearing liabilities and generating revenue from less capital intensive businesses. The interest coverage ratio, calculated as the sum of operating income and interest, dividends and miscellaneous revenue divided by interest expense, improved to 7.6 times compared to 6.2 times for the previous fiscal year.

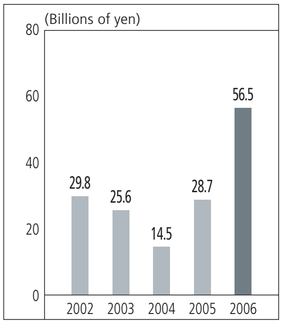
Other expenses decreased 23.9 percent, or ¥14.0 billion, to ¥44.4 billion. This year-on-year change resulted primarily from the absence of the one-time charge to earnings for loss on impairment of fixed assets totaling ¥33.8 billion in the previous fiscal year. However, Mitsui Fudosan recorded loss on sale of fixed assets totaling ¥26.4 billion, primarily due to sales of buildings to funds as part of the Company's program of selective disposal of properties to enhance portfolio quality. This resulted in a non-cash charge to earnings that did not reduce cash provided by operations or the Company's ability to meet current obligations and pay dividends. Mitsui Fudosan continues to restructure Group operations to enhance operating effectiveness. Liquidation of consolidated subsidiaries resulted in a one-time charge to earnings totaling ¥4.8 billion, compared to a charge of ¥7.7 billion in the previous fiscal year.

Income before Income Taxes and Net Income

Equity in net income of affiliated companies decreased 12.3 percent to ¥3.2 billion. Given improved operating income and the year-on-year reduction in other expenses discussed above, income before income taxes increased 79.3 percent year-on-year, or ¥41.1 billion, to ¥93.0 billion, setting a record. Income taxes net of deferrals increased 62.9 percent, or ¥13.6 billion, to ¥35.3 billion.

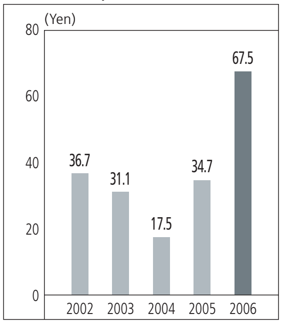
Consequently, net income increased 97.1 percent year-on-year, or ¥27.8 billion, to a record ¥56.5 billion. Net income per share increased to ¥67.5 from ¥34.7 for the previous fiscal year. In view of this solid performance, Mitsui Fudosan increased annual cash dividends per share to ¥10.0 from ¥7.0 for the previous fiscal year.

Net Income



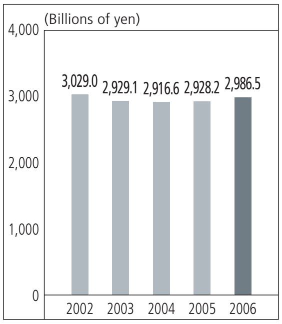
(Years ended March 31)

Net Income per Share



(Years ended March 31)

Total Assets



(As of March 31)

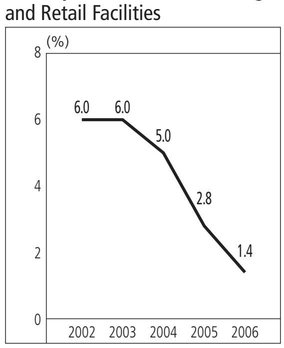
Leasing

Years ended March 31	2006 Floor space (m²)	2006 Revenue (Millions of yen)	2005 Floor space (m²)	2005 Revenue (Millions of yen)
Office buildings and retail facilities:				
Owned	**1,950,660**		1,957,426	
Managed	**1,450,452**		1,464,710	
Office buildings		**¥222,069**		¥215,718
Retail facilities		**56,968**		50,957
Total	**3,401,112**	**¥279,037**	3,422,135	¥266,675
Residential:	Units		Units	
Owned	**236**		258	
Managed	**55,521**		50,081	
Total	**55,757**	**¥ 55,768**	50,339	¥ 51,311
Other (car parks, etc.)		**29,533**		25,733
Total revenue		**¥364,339**		¥343,719
Operating income		**¥ 67,928**		¥ 62,520

Segment revenue increased 6.0 percent, or ¥20.6 billion, to ¥364.3 billion. Performance in the office buildings category benefited from the full-year operation of multiple projects completed during the previous fiscal year, including the Toranomon Kotohira Tower (Minato-ku, Tokyo), Oval Court Ohsaki Mark East (Shinagawa-ku, Tokyo) and the Shinkiba Center Building No. 2 (Koto-ku, Tokyo). Other positive factors included increased income from existing buildings as improved market conditions supported higher demand for office space. Performance in the retail facilities category also benefited from the full-year contribution of projects completed in the previous fiscal year, including Stellar Town (Saitama-shi, Saitama), the Kojun Building (Chuo-ku, Tokyo), LaLaport Koshien (Nishinomiya-shi, Hyogo) and ZOE Ginza (Chuo-ku, Tokyo). Other positive factors included increased revenue from existing retail facilities as improved market conditions supported a recovery in retail sales, and renovation and floor space expansion contributed to higher revenue. The residential leasing and the car-park leasing businesses generated increased revenue as a result of growth in units under management.

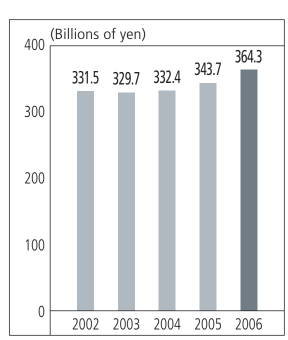
Segment operating income increased 8.7 percent, or ¥5.4 billion, to ¥67.9 billion. Factors included the contribution of several office building and retail facility projects that began operating during the previous fiscal year. Moreover, the vacancy rate for office buildings in the Tokyo metropolitan area on a non-consolidated basis improved to 1.0 percent from 3.0 percent at the previous fiscal year-end. On a consolidated basis including overseas operations, the vacancy rate for office buildings and retail facilities was 1.4 percent as of March 31, 2006, compared to 2.8 percent as of March 31, 2005 and 5.0 percent as of March 31, 2004.

Vacancy Rate for Office Buildings and Retail Facilities



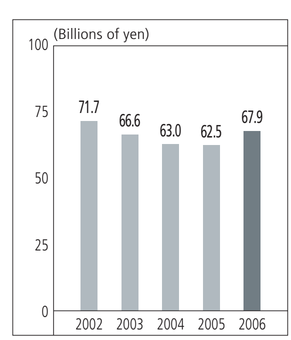
(As of March 31)

Revenue from Operations



(Years ended March 31)

Operating Income



(Years ended March 31)

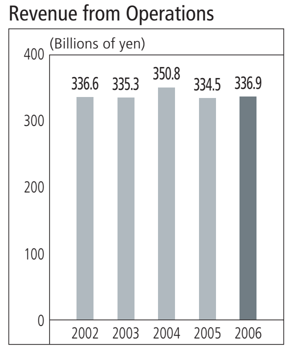
Sales of Housing, Office Buildings and Land

Years ended March 31		2006			2005		
		Units	Revenue (Millions of yen)	Average unit price (Millions of yen)	Units	Revenue (Millions of yen)	Average unit price (Millions of yen)
Detached housing:	Tokyo metropolitan area	**597**	**¥ 30,590**	**¥51.2**	560	¥ 30,400	¥54.3
	Other	**109**	**4,971**	**45.6**	116	2,610	22.5
	Total	**706**	**¥ 35,561**	**¥50.4**	676	¥ 33,010	¥48.8
Condominiums:	Tokyo metropolitan area	**3,274**	**¥146,763**	**¥44.8**	3,445	¥170,601	¥49.5
	Other	**1,067**	**34,138**	**32.0**	1,685	52,017	30.9
	Total	**4,341**	**¥180,902**	**¥41.7**	5,130	¥222,618	¥43.4
Total housing sales:	Tokyo metropolitan area	**3,871**	**¥177,353**	**¥45.8**	4,005	¥201,001	¥50.2
	Other	**1,176**	**39,109**	**33.3**	1,801	54,627	30.3
	Total	**5,047**	**¥216,463**	**¥42.9**	5,806	¥255,628	¥44.0
Other sales revenue			**¥120,453**			¥ 78,844	
Total revenue			**¥336,918**			¥334,472	
Operating income			**¥ 44,654**			¥ 35,154	

Segment revenue increased 0.7 percent, or ¥2.4 billion, to ¥336.9 billion. Revenue from sales of condominiums to individual customers declined due to a decrease in the number of units sold to 4,341 from 5,130 in the previous fiscal year. Sales of detached homes to individual customers, however, increased to 706 units from 676 in the previous fiscal year. Revenue from sales to investors of income-producing properties developed by the Company expanded substantially, reflecting the growing importance of investors in Japan's real estate market. As of March 31, 2006, Mitsui Fudosan Co., Ltd. had 255 units in completed inventories, consisting of 235 condominium units and 20 detached houses, down 290 units from a total of 545 units a year earlier, which consisted of 490 condominium units and 55 detached houses.

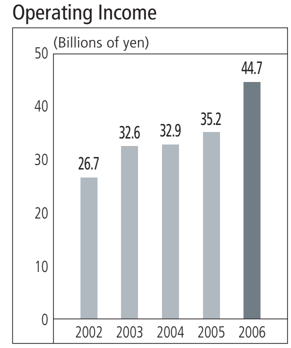
Segment operating income increased 27.0 percent year-on-year, or ¥9.5 billion, to ¥44.7 billion. Although total units of detached housing and condominiums sold to individuals decreased by 759 to 5,047 units, sales of properties to investors expanded significantly and were solidly profitable. The greater weighting of property sales to investors in segment results also served to restrain marketing expenses.

Revenue from Operations



(Years ended March 31)

Operating Income



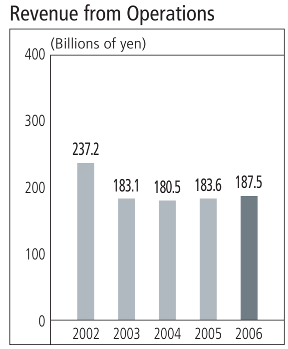
(Years ended March 31)

Construction

Segment revenue increased 2.1 percent, or ¥3.9 billion, to ¥187.5 billion. Mitsui Home Co., Ltd. is the Group company responsible for operations in this segment. It is one of Japan's leading builders of two-by-four wood-frame homes, and specializes in high-quality, upscale housing and the high-end of the renovation market. The order backlog for Mitsui Home projects at the beginning of the fiscal year and orders received during the fiscal year both increased compared to the previous fiscal year. The consolidation of a new subsidiary during fiscal 2005 contributed ¥1.0 billion in orders to the order backlog.

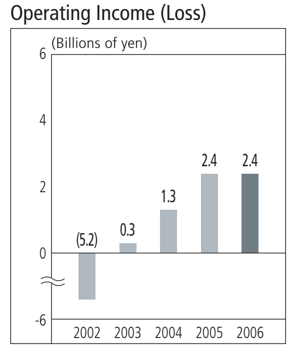
Segment operating income decreased marginally to ¥2.4 billion, primarily due to increases in prices of raw materials.

Revenue from Operations



(Years ended March 31)

Operating Income (Loss)



(Years ended March 31)

Orders, Order Backlogs and Project Completions
Years ended March 31

(Millions of yen)

	2006	2005
Orders: Work-on-hand at beginning of period	**¥108,223**	¥106,914
Orders during period	**199,425**	190,727
Total	**¥307,648**	¥297,641
Net sales	**¥195,138**	¥189,418
Work-on-hand at end of period	**¥112,510**	¥108,223

Note: Consolidated results of Mitsui Home Co., Ltd. Work-on-hand at beginning of period for 2005 includes ¥1,040 million from Higashi Kyusyu Home Co. Ltd., which was added to consolidation at the end of the interim period.

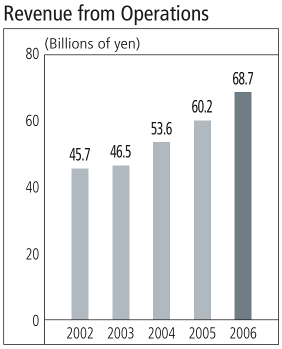
Brokerage, Consignment Sales and Consulting

Years ended March 31	2006 Units	2006 Revenue (Millions of yen)	2005 Units	2005 Revenue (Millions of yen)
Revenue:				
Brokerage	**30,671**	**¥48,791**	28,966	¥41,532
Consignment sales	**6,040**	**8,204**	6,653	8,809
Consulting		**11,752**		9,883
Total revenue		**¥68,749**		¥60,224
Operating income		**¥22,593**		¥18,608

Segment revenue increased 14.2 percent, or ¥8.5 billion, to ¥68.7 billion. In the brokerage business, Group company Mitsui Real Estate Sales Co., Ltd. provides brokerage services for individual and corporate clients. With a nationwide network of 224 brokerage offices as of March 2006, Mitsui Real Estate Sales has the leading brokerage share in Japan's residential housing secondary market. Both the number of properties handled and transaction volume increased, which supported the year-on-year gain in segment revenue. Segment results also benefited from growth in assets under management by the entire Group, including assets of Nippon Building Fund, a J-REIT managed by Nippon Building Fund Management Ltd., and a private placement-type real estate fund managed by Mitsui Fudosan Investment Advisors, Inc. Revenue from project management, in which Mitsui Fudosan provides investors and landowners with expertise and specialized knowledge in real estate development, also contributed to year-on-year growth in segment revenue.

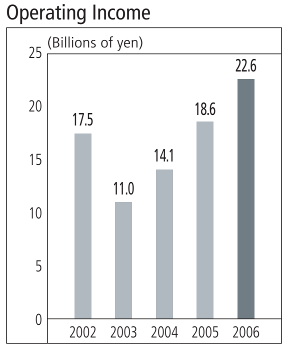
Segment operating income increased 21.4 percent, or ¥4.0 billion, to ¥22.6 billion. A substantial increase in fee income from project and investment fund management supported earnings in this segment, as did higher brokerage transaction volume and the greater number of properties handled in the individual and corporate markets.

Revenue from Operations



(Years ended March 31)

Operating Income



(Years ended March 31)

Property Management

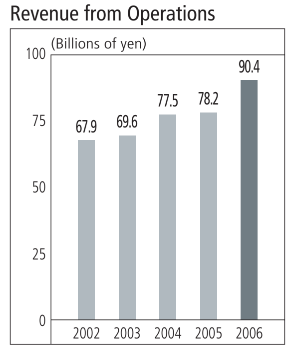
(Millions of yen)

Years ended March 31	2006	2005
Revenue:		
Property management	**¥59,394**	¥56,145
Tenant improvement	**31,043**	22,104
Total revenue	**¥90,437**	¥78,249
Operating income	**¥12,747**	¥10,768

Segment revenue increased 15.6 percent, or ¥12.2 billion, to ¥90.4 billion. The Property Management segment is strategic because it allows Mitsui Fudosan to increase fee-based revenue and earnings. The Mitsui Fudosan Group provides office management services primarily through Group companies Mitsui Fudosan Building Management Co., Ltd. and First Facilities Co., Ltd. Other Group companies involved in property management include Mitsui Fudosan Housing Services Co., Ltd., which manages condominiums developed by Mitsui Fudosan, and Lalaport Co., Ltd., which manages retail facilities. Results drew strength from the inclusion of new office buildings, retail facilities and other properties that the Group manages. Revenue from tenant improvement also increased as new tenants moved into large-scale office buildings, such as the Nihonbashi Mitsui Tower.

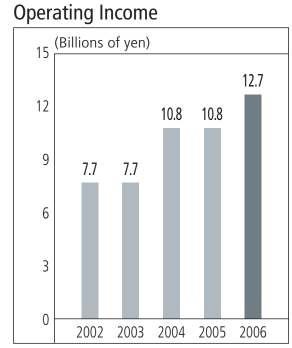
Segment operating income increased 18.4 percent, or ¥1.8 billion, to ¥12.7 billion. Earnings benefited from the inclusion of new office buildings, retail facilities and other properties managed by the Group, while higher revenue from tenant improvement also resulted in increased operating income.

Revenue from Operations



(Years ended March 31)

Operating Income



(Years ended March 31)

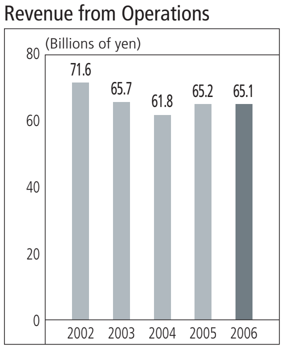
Sales of Housing Materials and Merchandise

(Millions of yen)

Years ended March 31	2006	2005
Revenue:		
Housing materials	**¥20,759**	¥20,417
Merchandise	**44,306**	44,812
Total revenue	**¥65,066**	¥65,229
Operating income	**¥ 832**	¥ 188

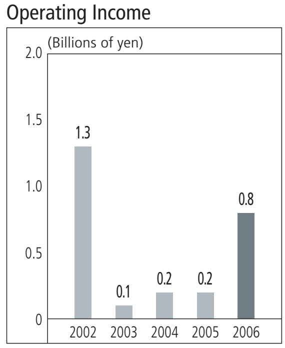
Segment revenue totaled ¥65.1 billion, essentially unchanged from the previous fiscal year. Revenue increased in Mitsui Home's housing materials processing and sales business, and revenues increased year-on-year at home centers operated by Uni Living Co., Ltd. The sale of part of the business of Daiichi Seed Co., Ltd. in the previous fiscal year resulted in a decrease in segment revenue that offset the above gains. Segment operating income increased by more than four times to ¥0.8 billion, primarily as a result of increased earnings at Uni Living.

Revenue from Operations



(Years ended March 31)

Operating Income



(Years ended March 31)

Facility Operations

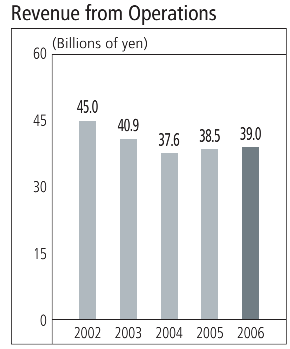
(Millions of yen)

Years ended March 31	2006	2005
Revenue:		
Hotels	**¥26,510**	¥25,486
Other	**12,465**	13,023
Total revenue	**¥38,977**	¥38,509
Operating income	**¥ 1,922**	¥ 1,385

Segment revenue increased 1.2 percent year-on-year, or ¥0.5 billion, to ¥39.0 billion. Factors increasing revenue included the start of operations of Mitsui Garden Hotel Ginza (Chuo-ku, Tokyo) and the inclusion of Kokusai Kanko Kaikan Co. Ltd., the operator of the Celestine Hotel (Minato-ku, Tokyo), in the scope of consolidation. The Halekulani Hotel in Hawaii also performed well. These gains offset the negative impact on revenue of the sale of three hotels in Japan during the fiscal year. Segment operating income increased 38.7 percent, or ¥0.5 billion, to ¥1.9 billion.

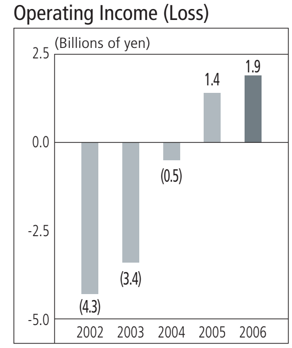
As of March 31, 2006, the Garden Hotel chain operated 2,900 rooms in 12 hotels throughout Japan. The Group also manages seven golf courses in Japan.

Revenue from Operations



(Years ended March 31)

Operating Income (Loss)



(Years ended March 31)

Other

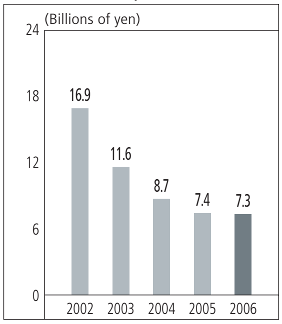
(Millions of yen)

Years ended March 31	2006	2005
Revenue:		
Finance and lease	**¥1,302**	¥1,549
Other	**5,995**	5,856
Total revenue	**¥7,297**	¥7,405
Operating income	**¥2,470**	¥1,850

Segment revenue decreased 1.5 percent year-on-year, or ¥0.1 billion, to ¥7.3 billion. Segment operating income increased 33.5 percent, or ¥0.6 billion, to ¥2.5 billion.

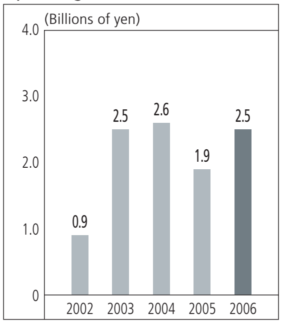
Mitsui Home Linkage Co., Ltd. provides bridging finance to the customers of Mitsui Home and engages in finance and leasing businesses. Mitsui Fudosan Loan Guarantee Co., Ltd. provides home loan guarantees.

Revenue from Operations



(Years ended March 31)

Operating Income



(Years ended March 31)

Liquidity, Capital Resources and Financial Position

Current Assets

Current assets decreased 3.8 percent from the previous fiscal year-end, or ¥28.3 billion, to ¥717.4 billion. Cash and cash equivalents decreased 44.7 percent, or ¥50.5 billion, from a year earlier, in part because Mitsui Fudosan deployed internal capital resources to fund acquisition of real property for sale. Compared to the previous fiscal year-end, inventories increased 12.8 percent, or ¥47.5 billion, to ¥418.8 billion. New acquisitions of real property for sale exceeded cost recovery through property sales. Equity investments in properties for sale, which primarily represent securitized interests in properties for sale, decreased 11.2 percent, or ¥10.3 billion, as Mitsui Fudosan liquidated holdings in special purpose companies and other vehicles through sales to external investors.

Working capital increased to ¥135.4 billion from ¥110.8 billion a year earlier, and the current ratio was 1.23 times, compared to 1.17 times a year earlier.

Investments and Other Assets

Investments and other assets increased 10.5 percent from a year earlier, or ¥57.2 billion, to ¥602.7 billion. Investment securities increased 45.8 percent, or ¥71.9 billion, as a result of increased investment in properties through special purpose companies. The market value of securities holdings also increased during the fiscal year. Lease deposits decreased 7.8 percent, or ¥15.6 billion, primarily because a masterleasing agreement covering an office building ended as scheduled.

Property and Equipment

Net property and equipment increased 1.8 percent from a year earlier, or ¥29.4 billion, to ¥1,666.5 billion. Capital expenditures totaled ¥92.8 billion, which was offset by depreciation totaling ¥40.2 billion and sale of properties by the parent company and subsidiaries.

Current Liabilities

Current liabilities decreased 8.3 percent from a year earlier, or ¥52.9 billion, to ¥582.0 billion. As a result, the current ratio improved. Mitsui Fudosan has established committed lines of credit totaling ¥150.0 billion with several financial institutions to ensure access to funds and adequate liquidity. The Company had not accessed these lines of credit as of the balance sheet date.

Assets

(Billions of yen, %)

As of March 31	2006		2005		2004	
Cash and cash equivalents	¥ 62.6	2.1%	¥ 113.1	3.9%	¥ 141.7	4.9%
Inventories	418.8	14.0	371.3	12.7	340.1	11.7
Other current assets	235.9	7.9	261.3	8.9	190.1	6.5
Investments and other assets	602.7	20.2	545.4	18.6	598.0	20.5
Net property and equipment	1,666.5	55.8	1,637.1	55.9	1,646.7	56.4
Total	¥2,986.5	100.0%	¥2,928.2	100.0%	¥2,916.6	100.0%

Liabilities, Minority Interests in Consolidated Subsidiaries and Shareholders' Equity

(Billions of yen, %)

As of March 31	2006		2005		2004	
Interest-bearing debt—Short term	¥ 258.7	8.7%	¥ 272.1	9.3%	¥ 275.2	9.4%
Interest-bearing debt—Long term	940.6	31.5	1,007.0	34.4	1,046.3	35.9
Total interest-bearing debt	1,199.3	40.2	1,279.1	43.7	1,321.5	45.3
Other current liabilities	323.3	10.8	362.8	12.4	340.1	11.7
Other long-term liabilities	587.1	19.7	578.6	19.7	579.8	19.9
Minority interests in consolidated subsidiaries	18.4	0.6	20.0	0.7	16.0	0.5
Shareholders' equity	858.4	28.7	687.7	23.5	659.2	22.6
Total	¥2,986.5	100.0%	¥2,928.2	100.0%	¥2,916.6	100.0%

Long-term Liabilities

Long-term liabilities decreased 3.7 percent from a year earlier, or ¥57.9 billion, to ¥1,527.7 billion. Long-term debt due after one year decreased 6.6 percent from a year earlier, or ¥66.4 billion, to ¥940.6 billion, reflecting Mitsui Fudosan's emphasis on steadily reducing interest-bearing debt, which decreased 6.2 percent, or ¥79.8 billion, to ¥1,199.3 billion. Interest-bearing debt also decreased as a result of the conversion to common stock of yen-denominated convertible bonds with stock acquisition rights totaling ¥80.0 billion that had been due in 2010. Mitsui Fudosan also raised ¥30.0 billion through the issue of straight bonds.

Shareholders' Equity and Total Capital

Shareholders' equity increased 24.8 percent from a year earlier, or ¥170.6 billion, to ¥858.4 billion. Common stock increased by ¥39.9 billion to ¥174.3 billion as a result of the conversion of convertible bonds to common stock during the fiscal year. In addition, retained earnings increased 28.8 percent, or ¥44.6 billion. One factor in the increase was net income for fiscal 2005. Moreover, reserve on land revaluation, which is recorded as a component of shareholders' equity under Japanese GAAP, increased by ¥7.5 billion. Higher financial asset prices during the fiscal year increased shareholders' equity through net unrealized holding gains on securities totaling ¥63.4 billion, which is recorded as a component of shareholders' equity under Japanese GAAP. Negative foreign currency translation adjustment resulting from the yen's value relative to the U.S. dollar at the fiscal year-end decreased shareholders' equity.

Total capital, the sum of bank loans, commercial paper, long-term debt due within one year, long-term debt due after one year, and shareholders' equity, increased ¥90.9 billion to ¥2,057.7 billion from ¥1,966.8 billion at the previous fiscal year-end. While Mitsui Fudosan continued to reduce interest-bearing debt, growth in net income and the conversion of convertible bonds to common shares resulted in a substantial increase in shareholders' equity. Consequently, shareholders' equity represented 41.7 percent of total capital, compared to 35.0 percent at the previous fiscal year-end.

Return on assets (ROA), calculated as the sum of operating income and non-operating income divided by average total assets, was 4.9 percent, compared to 4.3 percent for the previous fiscal year. Return on average total shareholders' equity (ROE), calculated as net income divided by average total shareholders' equity, was 7.3 percent, compared to 4.3 percent for the previous fiscal year.

Cash Flow

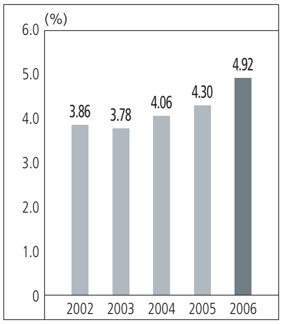
Net cash provided by operating activities totaled ¥22.5 billion, compared to ¥100.1 billion for the previous fiscal year, primarily due to net additions to working capital in the form of property for sale in the future. The line item "(Increase) decrease in real property for sale and advances paid for purchases" represents the net effect of cost recovery and purchase of inventories, which consist primarily of property held for sale. Net increase in inventories used cash totaling ¥100.9 billion, up substantially from the use of ¥26.1 billion in the previous fiscal year. The increase in income before income taxes offset the increase in working capital. Depreciation and amortization increased to ¥40.2 billion from ¥38.5 billion for the previous fiscal year.

Net cash used in investing activities totaled ¥60.8 billion, compared to ¥76.9 billion for the previous fiscal year. Consequently, the above acquisition of inventories to prepare Mitsui Fudosan for future growth eliminated free cash flow, which totaled ¥23.3 billion for the previous fiscal year. Purchases of property and equipment totaled ¥99.8 billion, compared to ¥70.4 billion for the previous fiscal year as the Company invested in large-scale development projects. This included outlays for the construction of the Nihonbashi Mitsui Tower and the acquisition of joint ownership at Gate City Ohsaki and the Jimbocho Mitsui Building. Net changes in deposits from tenants and in lease deposits provided cash totaling ¥14.4 billion, compared to use of cash totaling ¥5.9 billion for the previous fiscal year. Net purchase of marketable and investment securities totaled ¥6.6 billion, compared to net purchase of ¥4.0 billion for the previous fiscal year.

Net cash used in financing activities totaled ¥12.4 billion, compared to ¥52.1 billion for the previous fiscal year, primarily because Mitsui Fudosan used internal capital resources to acquire inventories rather than to pay down borrowings. Net decrease in bank loans and commercial paper totaled ¥0.4 billion, compared to a net increase of ¥9.3 billion for the previous fiscal year, reflecting Mitsui Fudosan's strong liquidity and consequent ability to fund short-term working capital requirements from operating cash flow. Proceeds from long-term debt totaled ¥154.0 billion, up from ¥106.3 billion for the previous fiscal year as Mitsui Fudosan moved to take advantage of low long-term rates in Japan. Repayment of long-term debt, consisting primarily of long-term bank loans, totaled ¥187.3 billion, compared to ¥171.3 billion for the previous fiscal year as the Company continued to make progress toward its goals for reducing interest-bearing debt. Proceeds from issuance of bond totaling ¥30.0 billion represented the domestic issue of unsecured yen straight bonds. Net repayments of long-term debt therefore totaled ¥3.6 billion on a cash basis, reflecting Mitsui Fudosan's ongoing emphasis on balancing reduction in operating leverage and future interest expense with funding to invest in future growth. Cash dividends paid totaled ¥7.0 billion, compared to ¥5.5 billion for the previous fiscal year as a result of increased cash dividends per share for fiscal 2005.

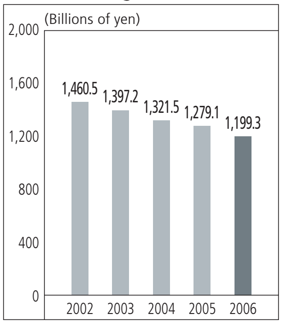
The Company invested in intelligent growth opportunities while reducing interest-bearing debt, which required cash beyond the scope of operating cash flow. This resulted in a net decrease in cash and cash equivalents of 44.7 percent from a year earlier, or ¥50.5 billion, to ¥62.6 billion. While Mitsui Fudosan relied on internal capital resources to fund operating requirements, cash

ROA



(Years ended March 31)

Interest-Bearing Debt



(As of March 31)

Cash Flow Highlights

(Billions of yen)

Years ended March 31	2006	2005	2004
Cash flows from operating activities	**¥ 22.5**	¥100.1	¥141.6
Cash flows from investing activities	**(60.8)**	(76.9)	(21.1)
Cash flows from financing activities	**(12.4)**	(52.1)	(92.5)
Effect of exchange rate changes on cash and cash equivalents	**0.3**	0.2	(1.1)
Net (decrease) increase in cash and cash equivalents	**(50.5)**	(28.6)	26.9
Cash and cash equivalents at beginning of year	**113.1**	141.7	114.8
Cash and cash equivalents at end of year	**¥ 62.6**	¥113.1	¥141.7

and cash equivalents remained at a level that provides strong liquidity at approximately three times interest payment obligations.

Risk Information

The operations of the Mitsui Fudosan Group are subject to a number of risks, some of which are outlined below along with issues that may not necessarily constitute risk factors but that may influence investor decisions.

Changes in Demand

Economic conditions influence demand among tenant companies for space in the office buildings that the Mitsui Fudosan Group owns and manages, and influence demand among individuals for housing. A downturn in the Japanese economy may exert a material impact on the Mitsui Fudosan Group's performance and the value of its assets.

Interest Rates

Higher interest rates in the future could increase the Mitsui Fudosan Group's funding costs, raise the returns investors expect from real estate investments and reduce demand among individuals for housing, and may therefore exert a material impact on the Mitsui Fudosan Group's performance and the value of its assets.

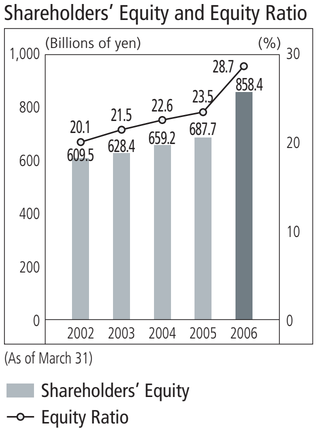
Regulations and Taxation

Changes in the regulations and systems of taxation relevant to the real estate business may exert a material impact on the Mitsui Fudosan Group's performance and the value of its assets.

Natural Disasters

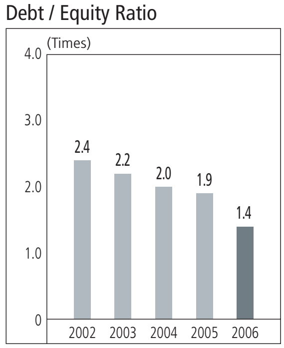
Natural disasters may damage or destroy the Mitsui Fudosan Group's assets, and may therefore exert a material impact on the Mitsui Fudosan Group's performance and the value of its assets.

Shareholders' Equity and Equity Ratio



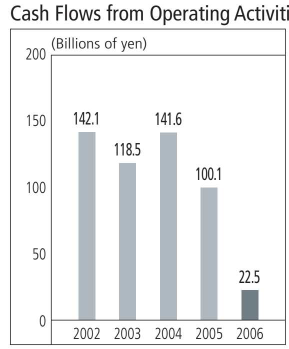
(As of March 31)

Debt / Equity Ratio



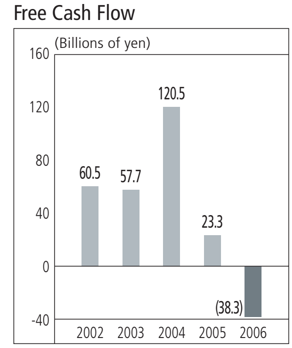
(As of March 31)

Cash Flows from Operating Activities



(Years ended March 31)

Free Cash Flow



(Years ended March 31)

Consolidated Balance Sheets

Mitsui Fudosan Co., Ltd. and its Subsidiaries
As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	**¥ 62,588**	¥ 113,079	**$ 532,800**
Marketable securities (Note 3)	**50**	304	**426**
Notes and accounts receivable — trade	**26,797**	28,533	**228,118**
Short-term loans receivable	**8,065**	12,137	**68,656**
Allowance for doubtful accounts	**(531)**	(3,132)	**(4,520)**
Inventories (Note 5)	**418,843**	371,328	**3,565,532**
Advances paid for purchases (Note 6)	**25,164**	23,331	**214,216**
Equity investments in properties for sale (Note 3)	**81,546**	91,851	**694,186**
Deferred income taxes (Note 8)	**49,004**	50,873	**417,162**
Other current assets	**45,846**	57,400	**390,277**
Total current assets	**717,372**	745,704	**6,106,853**
INVESTMENTS and OTHER ASSETS			
Investments in unconsolidated subsidiaries and affiliated companies	**88,477**	79,059	**753,188**
Investment securities (Note 3)	**228,613**	156,755	**1,946,139**
Non-current loans and accounts receivable	**60,101**	60,973	**511,629**
Allowance for doubtful accounts	**(9,568)**	(11,734)	**(81,451)**
Lease deposits (Note 7)	**184,671**	200,266	**1,572,069**
Deferred income taxes (Note 8)	**24,134**	30,708	**205,448**
Deferred tax assets on land revaluation	**18,423**	21,263	**156,832**
Other	**7,811**	8,127	**66,494**
Total investments and other assets	**602,662**	545,417	**5,130,348**
PROPERTY and EQUIPMENT, at cost:			
Land (Note 10)	**1,106,130**	1,111,123	**9,416,276**
Buildings and structures (Note 10)	**929,083**	892,337	**7,909,109**
Machinery and equipment	**83,120**	79,637	**707,585**
Construction in progress	**11,013**	30,693	**93,752**
	2,129,346	2,113,790	**18,126,722**
Accumulated depreciation	**(462,878)**	(476,712)	**(3,940,394)**
Net property and equipment	**1,666,468**	1,637,078	**14,186,328**
	¥2,986,502	¥2,928,199	**$25,423,529**

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
LIABILITIES, MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Banks loans (Note 10)	**¥ 64,356**	¥ 73,916	**$ 547,851**
Commercial paper	**36,000**	29,000	**306,461**
Long-term debt due within one year (Note 10)	**158,314**	169,163	**1,347,697**
Notes and accounts payable — trade	**106,346**	114,236	**905,303**
Accrued expenses	**20,593**	17,867	**175,304**
Income taxes payable	**16,463**	16,755	**140,146**
Advances and deposits received	**142,767**	171,603	**1,215,349**
Other current liabilities	**37,178**	42,381	**316,489**
Total current liabilities	**582,017**	634,921	**4,954,600**
LONG-TERM LIABILITIES			
Allowance for employees' retirement benefits (Note 9)	**27,295**	26,978	**232,357**
Allowance for directors' and corporate auditors' retirement benefits	**1,851**	1,943	**15,757**
Long-term debt due after one year (Note 10)	**940,621**	1,006,971	**8,007,330**
Deposits from tenants (Note 11)	**288,313**	288,252	**2,454,354**
Deferred income taxes (Note 8)	**59,600**	46,497	**507,364**
Deferred tax liabilities on land revaluation	**163,002**	157,996	**1,387,605**
Other liabilities and deferred credits	**46,992**	56,946	**400,034**
Total long-term liabilities	**1,527,674**	1,585,583	**13,004,801**
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	**18,447**	19,977	**157,036**
CONTINGENT LIABILITIES (Note 18)			
SHAREHOLDERS' EQUITY (Note 12)			
Common stock			
Authorized—3,290,000,000 shares (Note 19)			
Issued—881,424,727 and 823,390,384 shares in 2006 and 2005, respectively	**174,296**	134,433	**1,483,749**
Additional paid-in capital	**248,295**	205,830	**2,113,689**
Reserve on land revaluation	**191,097**	183,626	**1,626,773**
Retained earnings	**199,706**	155,097	**1,700,060**
Net unrealized holding gains on securities	**63,425**	33,348	**539,925**
Foreign currency translation adjustment	**(16,308)**	(23,256)	**(138,827)**
	860,511	689,078	**7,325,369**
Treasury stock	**(2,147)**	(1,360)	**(18,277)**
Total shareholders' equity	**858,364**	687,718	**7,307,092**
	¥2,986,502	¥2,928,199	**$25,423,529**

See accompanying notes.

Consolidated Statements of Income

Mitsui Fudosan Co., Ltd. and its Subsidiaries
For the years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
REVENUES				
Revenue from operations (Note 17)	**¥1,159,280**	¥1,111,359	¥1,102,844	**$ 9,868,732**
Interest, dividends and miscellaneous (Note 14)	**16,949**	11,320	11,652	**144,284**
	1,176,229	1,122,679	1,114,496	**10,013,016**
COSTS AND EXPENSES				
Cost of revenue from operations	**904,200**	879,260	873,627	**7,697,284**
Selling, general and administrative expenses	**117,536**	116,334	119,971	**1,000,562**
Interest	**20,262**	20,443	22,758	**172,487**
Other (Note 15)	**44,424**	58,396	78,028	**378,173**
	1,086,422	1,074,433	1,094,384	**9,248,506**
EQUITY IN NET INCOME OF AFFILIATED COMPANIES	**3,155**	3,596	3,535	**26,858**
INCOME BEFORE INCOME TAXES	**92,962**	51,842	23,647	**791,368**
INCOME TAXES (Note 8)				
Current	**26,178**	26,489	23,915	**222,849**
Deferred	**9,076**	(4,847)	(15,058)	**77,262**
Total	**35,254**	21,642	8,857	**300,111**
NET INCOME BEFORE MINORITY INTERESTS	**57,708**	30,200	14,790	**491,257**
MINORITY INTERESTS	**(1,167)**	(1,507)	(335)	**(9,934)**
NET INCOME	**¥ 56,541**	¥ 28,693	¥ 14,455	**$ 481,323**

	Yen			U.S. dollars (Note 1)
PER SHARE INFORMATION	**2006**	2005	2004	**2006**
Net assets per share	**¥ 975.6**	¥ 836.5	¥ 801.5	**$ 8.305**
Net income per share				
— Basic	**67.5**	34.7	17.5	**0.575**
— Diluted	**—**	32.5	16.3	**—**
Cash dividends	**10.0**	7.0	7.0	**0.085**

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Mitsui Fudosan Co., Ltd. and its Subsidiaries
For the years ended March 31, 2006, 2005 and 2004

	Shares of common stock (thousands)	Millions of yen						
		Common stock	Additional paid-in capital	Reserve on land revaluation	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustment	Treasury stock
BALANCE AT MARCH 31, 2003	823,390	¥ 134,433	¥ 205,823	¥ 162,289	¥ 155,391	¥ (3,452)	¥ (25,010)	¥ (1,040)
Revaluation of property and equipment (Note 2 (H))	—	—	—	—	(285)	—	—	—
Reversal of reserve on land revaluation, net of tax	—	—	—	(4,062)	4,204	—	—	—
Other	—	—	—	—	(6)	—	—	—
Net income	—	—	—	—	14,455	—	—	—
Cash dividends paid	—	—	—	—	(5,756)	—	—	—
Bonuses to directors	—	—	—	—	(113)	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	(7,535)	—
Treasury stock	—	—	—	—	—	—	—	60
Net unrealized holding gains on securities	—	—	—	—	—	29,769	—	—
BALANCE AT MARCH 31, 2004	823,390	134,433	205,823	158,227	167,890	26,317	(32,545)	(980)
Integration of consolidated subsidiaries	—	—	—	—	(8,876)	—	—	—
Decrease in number of consolidated subsidiaries	—	—	—	—	(665)	—	—	—
Decrease in number of affiliated companies	—	—	—	—	5	—	—	—
Revaluation of property and equipment (Note 2 (H))	—	—	—	—	288	—	—	—
Reversal of reserve on land revaluation, net of tax	—	—	—	25,399	(26,376)	—	—	—
Net income	—	—	—	—	28,693	—	—	—
Cash dividends paid	—	—	—	—	(5,756)	—	—	—
Bonuses to directors	—	—	—	—	(106)	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	9,289	—
Treasury stock	—	—	—	—	—	—	—	(380)
Gain on sales of treasury stock	—	—	7	—	—	—	—	—
Net unrealized holding gains on securities	—	—	—	—	—	7,031	—	—
BALANCE AT MARCH 31, 2005	823,390	134,433	205,830	183,626	155,097	33,348	(23,256)	(1,360)
Common stock issued upon conversion of convertible bonds with stock acquisition rights	**55,909**	**39,863**	**39,807**	—	—	—	—	—
Common stock issued in exchange for minority shares of subsidiary, Kokusai Kanko Kaikan Co., Ltd.	**2,126**	—	**2,642**	—	—	—	—	—
Revaluation of property and equipment (Note 2 (H))	—	—	—	—	**2,648**	—	—	—
Reversal of reserve on land revaluation, net of tax	—	—	—	**7,471**	**(7,471)**	—	—	—
Net income	—	—	—	—	**56,541**	—	—	—
Cash dividends paid	—	—	—	—	**(6,986)**	—	—	—
Bonuses to directors	—	—	—	—	**(123)**	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	**6,948**	—
Treasury stock	—	—	—	—	—	—	—	**(787)**
Gain on sale of treasury stock	—	—	**16**	—	—	—	—	—
Net unrealized holding gains on securities	—	—	—	—	—	**30,077**	—	—
BALANCE AT MARCH 31, 2006	**881,425**	**¥174,296**	**¥248,295**	**¥191,097**	**¥199,706**	**¥63,425**	**¥(16,308)**	**¥(2,147)**

	Thousands of U.S. dollars (Note 1)						
	Common stock	Additional paid-in capital	Reserve on land revaluation	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustment	Treasury stock
BALANCE AT MARCH 31, 2005	$1,144,403	$1,752,192	$1,563,174	$1,320,312	$ 283,885	$(197,974)	$(11,577)
Common stock issued upon conversion of convertible bonds with stock acquisition rights	**339,346**	**338,870**	—	—	—	—	—
Common stock issued in exchange for minority shares of subsidiary, Kokusai Kanko Kaikan Co., Ltd.	—	**22,491**	—	—	—	—	—
Revaluation of property and equipment (Note 2 (H))	—	—	—	**22,542**	—	—	—
Reversal of reserve on land revaluation, net of tax	—	—	**63,599**	**(63,599)**	—	—	—
Net income	—	—	—	**481,323**	—	—	—
Cash dividends paid	—	—	—	**(59,471)**	—	—	—
Bonuses to directors	—	—	—	**(1,047)**	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	**59,147**	—
Treasury stock	—	—	—	—	—	—	**(6,700)**
Gain on sale of treasury stock	—	**136**	—	—	—	—	—
Net unrealized holding gains on securities	—	—	—	—	**256,040**	—	—
BALANCE AT MARCH 31, 2006	**$1,483,749**	**$2,113,689**	**$1,626,773**	**$1,700,060**	**$ 539,925**	**$(138,827)**	**$(18,277)**

See accompanying notes.

Consolidated Statements of Cash Flows

Mitsui Fudosan Co., Ltd. and its Subsidiaries
For the years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Cash flows from operating activities:				
Income before income taxes	¥ 92,962	¥ 51,842	¥ 23,647	$ 791,368
Adjustments to reconcile income before income taxes to net cash provided by operating activities				
Depreciation and amortization	40,159	38,513	40,415	341,866
Loss on impairment of fixed assets	—	33,807	—	—
Equity in net income of affiliated companies	(3,156)	(3,596)	(3,535)	(26,866)
Loss (gain) on sales of property and equipment, net	16,937	3,294	(411)	144,181
Loss on disposal of property and equipment	—	1,054	855	—
Allowance for doubtful accounts, net	(2,233)	683	1,040	(19,009)
Loss on devaluation of real property for sale	4,274	—	64,231	36,384
Interest and dividend income	(1,697)	(3,118)	(3,163)	(14,446)
Interest expense	20,262	20,443	22,758	172,487
Gain on sales of marketable securities, net	—	(4,560)	(4,669)	—
Loss on liquidation of consolidated subsidiaries	4,761	7,675	—	40,529
Decrease (increase) in accounts receivable	2,152	(60)	3,962	18,320
(Increase) decrease in real property for sale and advances paid for purchases	(100,890)	(26,094)	35,951	(858,858)
Decrease (increase) in equity investments in properties for sale	10,305	(6,699)	—	87,725
Increase (decrease) in accounts payable	16	3,182	(2,711)	136
Bonuses paid to directors	(127)	(110)	(117)	(1,081)
Interests and dividends received	2,588	4,030	3,819	22,031
Interests paid	(20,266)	(20,681)	(22,652)	(172,521)
Income taxes paid	(26,763)	(27,811)	(5,765)	(227,828)
Other, net	(16,774)	28,341	(12,055)	(142,795)
Net cash provided by operating activities	22,510	100,135	141,600	191,623
Cash flows from investing activities:				
Purchases of property and equipment	(99,757)	(70,401)	(45,120)	(849,213)
Proceeds from sale of property and equipment	38,730	8,710	13,442	329,701
Increase in deposits from tenants	39,608	46,533	51,100	337,175
Decrease in deposits from tenants	(39,447)	(51,977)	(63,605)	(335,805)
Increase in lease deposits	(11,417)	(18,607)	(18,962)	(97,191)
Decrease in lease deposits	25,659	18,105	30,845	218,430
Purchases of marketable and investment securities	(30,737)	(10,362)	(14,957)	(261,658)
Proceeds from sale of marketable and investment securities	24,184	6,401	11,526	205,874
Increase in non-current loans and accounts receivable	(3,655)	(8,886)	(6,404)	(31,114)
Decrease in non-current loans and accounts receivable	7,583	6,390	26,090	64,553
Other, net	(11,585)	(2,776)	(5,077)	(98,620)
Net cash used in investing activities	(60,834)	(76,870)	(21,122)	(517,868)
Cash flows from financing activities:				
Proceeds from long-term debt	154,000	106,267	180,140	1,310,973
Repayments of long-term debt	(187,270)	(171,252)	(219,781)	(1,594,194)
(Decrease) increase in bank loans and commercial paper	(371)	9,324	24,250	(3,158)
Proceeds from issuance of bond	30,000	20,000	10,000	255,384
Payments for redemption of bond	(330)	(10,000)	(81,242)	(2,809)
Cash dividends paid	(6,983)	(5,501)	(5,757)	(59,445)
Payments of dividends to minority shareholders	(705)	(539)	(554)	(6,002)
Sale of treasury stocks	—	—	434	—
Net increase in treasury stocks	(786)	(381)	—	(6,691)
Net cash used in financing activities	(12,445)	(52,082)	(92,510)	(105,942)
Effect of exchange rate changes on cash and cash equivalents	278	179	(1,083)	2,367
Net (decrease) increase in cash and cash equivalents	(50,491)	(28,638)	26,885	(429,820)
Cash and cash equivalents at beginning of year	113,079	141,717	114,832	962,620
Cash and cash equivalents at end of year	¥ 62,588	¥ 113,079	¥ 141,717	$ 532,800

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2006	2006
Supplemental information of non-cash transaction:		
Non-cash investing and financing activities for the year ended March 31, 2006:		
Issuance of common stock upon conversion of convertible bonds with stock acquisition rights — Issued 55,908,718 shares		
Common stock	¥39,863	$339,346
Additional paid-in capital	39,807	338,870
Issuance of common stock in exchange for minority shares of subsidiary, Kokusai Kanko Kaikan Co., Ltd. — Issued 2,125,625 shares		
Additional paid-in capital	2,642	22,491

See accompanying notes.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Mitsui Fudosan Co., Ltd. (the "Company") have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2006, which was ¥117.47 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 subsidiaries. The difference between the cost and the underlying net equity at fair value of investments in consolidated subsidiaries and in companies accounted for by the equity method is amortized over a period of 5 years. However, if the amount of the difference is immaterial, it is amortized in the period as incurred.

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

(B) USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with the generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts in the financial statements and the accompanying notes. Actual results could differ from those estimates.

(C) 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.

(D) TRANSLATION OF FOREIGN CURRENCY ACCOUNTS

Foreign currency receivables and payables are translated at appropriate year-end rates and the resulting translation gains or losses are taken into income currently.

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.

(E) CASH AND CASH EQUIVALENTS

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

(F) SECURITIES

Held-to-maturity securities are stated at amortized cost.

Other securities with market values are stated at 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.

Other securities without market values are stated at moving-average cost.

The Company and its consolidated subsidiaries recognize losses for the difference between the market value and the carrying amount when the market value significantly declines. The Company and its consolidated subsidiaries consider the decline to be significant when the market value of the other securities declines more than 50% of the carrying amount. When the market value of the other securities declines from 30% to less than 50% of the carrying amount, the decline is also determined to be significant if the market value of the securities is considered not to be recoverable to the carrying amount.

If the net realizable value of the securities without market value declines significantly below the carrying amount, it is written down to net realizable value with a corresponding charge in the statements of income.

(G) 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 is recognized on an accrual basis over the lease term. Revenue from sale of properties is recognized in full when delivered and accepted by the customers. Revenue from construction work is recognized by the 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.

(H) PROPERTY AND EQUIPMENT, RELATED DEPRECIATION AND REVALUATION

Property and equipment are carried mainly at cost. Land and buildings owned by consolidated subsidiary in the United Kingdom are stated at fair value. Unrealized gains and losses are directly charged or credited to retained earnings. A former consolidated subsidiary in Turkey, whose land and buildings had been stated at fair value, was excluded from consolidation as of March 31, 2005 due to sale of the Company's equity in the subsidiary during the year then ended.

When 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 statements of income.

Depreciation of property and equipment is mainly computed by the declining-balance method over the estimated useful lives of the assets, except for those listed below which are calculated using the straight-line method.

1. Office buildings of the Company
2. Buildings acquired by the domestic consolidated subsidiaries after April 1, 1998
3. Property and equipment of the overseas consolidated subsidiaries

Estimated useful lives used in the computation of depreciation are generally as follows:

Buildings	29-50 years
Structures	15-17 years
Machinery	7-15 years
Equipment	3-15 years

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

(I) IMPAIRMENT LOSSES ON FIXED ASSETS

Effective April 1, 2005, the Company and its consolidated domestic subsidiaries adopted early the new accounting standards for impairment of fixed assets ("Opinion on Establishment of Accounting Standards for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the guidance on accounting standards for impairment of fixed assets (the "Financial Accounting Standard Guidance No. 6" issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result of adopting the accounting standards and the guidance, income before income taxes (and minority interests) for the year ended March 31, 2005 decreased by ¥33,807 million compared to what would have been reported under the previous accounting standards.

Accumulated impairment losses are deducted from book values of related fixed assets.

(J) LAND REVALUATION

Pursuant to the Law Concerning Land Revaluation and the revisions thereof, the Company and certain consolidated subsidiaries revalued land used for business activities on March 31, 2002.

The land prices for revaluation were determined based on the appraisal prices by real estate appraisers in accordance with Article 2, Paragraph 5 of the Enforcement Ordinance Concerning Land Revaluation. The difference between quoted appraisal value and the carrying amount is recorded, net of applicable income taxes, as "Reserve on land revaluation" as a separate component of shareholders' equity.

(K) ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company and its consolidated domestic 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 uncollectible amount based on the analysis of certain individual accounts, including claims in bankruptcy.

(L) 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.

The allowance and expenses for retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries provide allowance for employees' retirement benefits at fiscal year end based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

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

Allowance for retirement benefits for directors and corporate auditors of the Company and its 24 consolidated subsidiaries are also provided at the amounts to be paid if all eligible directors and corporate auditors would have been retired at year end under the internal guidelines.

(N) ACCOUNTING FOR CERTAIN LEASE TRANSACTIONS

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

(O) INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to a corporate tax of 30%, an inhabitant tax of approximately 6% and a deductible enterprise tax of approximately 8%, which in the aggregate resulted in a statutory income tax rate of approximately 41% for the years ended March 31, 2006 and 2005, and a corporate tax of 30%, an inhabitant tax of approximately 6% and a deductible enterprise tax of approximately 10%, which in the aggregate resulted in a statutory income tax rate of approximately 42% for the year ended March 31, 2004.

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 statement and income tax purposes is recognized as deferred income taxes.

With the promulgation of the "Revision of the Local Tax Law" (Legislation No. 9, 2003) on March 31, 2003, the tax bases for assessing enterprise taxes comprise "amount of income," "amount of added value" and "amount of capital" commencing April 1, 2004. Enterprise taxes based on "amount of added value" and "amount of capital," totaling ¥1,568 million, are included in "Selling, general and administrative expenses" commencing the year ended March 31, 2005 pursuant to "Practical Solutions on Presentation for Size-Based Components of Corporate Enterprise Tax on the Income Statement" (Accounting Standards Board, Practical Solution Report No. 12 issued on February 13, 2004).

(P) DERIVATIVES AND HEDGE ACCOUNTING

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, if derivative financial instruments are used as hedges and meet certain hedging criteria.

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 statements 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.

(Q) EQUITY INVESTMENTS REGARDING REAL ESTATE SECURITIZATION-RELATED BUSINESS

In connection with enforcement of "Revision of the Securities Exchange Law ("the Securities Exchange Law")" (Legislation No. 97, June 9, 2004) on December 1, 2004 and amendment of "Practical Guidelines Concerning Accounting for Financial Instruments ("the Guideline")" on February 15, 2005, the Company and its consolidated subsidiaries changed its balance sheet presentation of equity investments in tokumei-kumiai, or silent partnerships ("TK"), preferred securities issued by tokutei-mokuteki-kaisha, or specific purpose companies ("TMK") and others regarding real estate securitization-related business (together, "equity investments") commencing March 31, 2005. As a result of the change, those equity investments held for sale are presented as "Equity investments in properties for sale" under "CURRENT ASSETS" and those held for other than sale are presented as "Investment securities" under "INVESTMENTS and OTHER ASSETS."

Preferred securities issued by TMK regarding real estate securitization-related business had been included in "Investment securities" under "INVESTMENTS and OTHER ASSETS" as securities without market value defined under "Accounting Standard for Financial Instruments." With enforcement of the Securities Exchange Law and amendment of the Guideline, those preferred securities issued by such TMK held for sale and those preferred securities issued by TMK whose investments in real estate are held for sale (together, "preferred securities for sale") are included in "Equity investments in properties for sale" under "CURRENT ASSETS," commencing March 31, 2005.

Equity investments in TK regarding real estate securitization-related business held other than for sale and equity investments in TK whose investments in real estate are held other than for sale (together, "TK investments other than for sale") had been included in "Non-current loans and accounts receivable" under "INVESTMENTS and OTHER ASSETS." TK investments other than for sale are included in "Investment securities" under "INVESTMENTS and OTHER ASSETS," commencing March 31, 2005.

Similarly, TK investments held for sale are included in "Equity investments in properties for sale" under "CURRENT ASSETS" whereas it had been included in "Other current assets" under "CURRENT ASSETS."

In connection with the change in balance sheet presentation referred to above, the Company and its consolidated subsidiaries reported "Decrease (increase) in equity investments in properties for sale" under "Cash flows from operating activities" in the consolidated statements of cash flows commencing in the year ended March 31, 2005. Increase or decrease in equity investments in properties for sale for the years ended March 31, 2004 is included in "Other, net" under "Cash flows from operating activities."

(R) REVENUE FROM JAPANESE REAL ESTATE INVESTMENT TRUST (J-REIT)

Revenue from J-REIT, formerly classified as "Interest, dividends and miscellaneous" revenues, has been reclassified as "Revenue from operations" commencing the year ended March 31, 2006. The change was made due to the expected future growth of the revenue, which is derived from the Company's ordinary course of business.

As a result, "Revenue from operations" increased by ¥619 million ($5,269 thousand) and "Interest, dividends and miscellaneous" decreased by the same amount compared with what would have been recorded under previous classification.

(S) EARNINGS PER SHARE

Basic income per share is computed by dividing the net income available for distribution to shareholders of common stock by the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed by dividing the net income available for distribution to shareholders by the weighted average number of shares of common stock outstanding during each year assuming full conversion of convertible bonds and full execution of warrants. Diluted net income per share for the year ended March 31, 2006 is not presented since no dilutive potential common shares were outstanding as of March 31, 2006.

(T) RECLASSIFICATIONS

Certain prior years' amounts have been reclassified to conform to the 2006 presentation. These changes had no impact on previously reported results of operations.

3. MARKET VALUE INFORMATION OF MARKETABLE SECURITIES, INVESTMENT SECURITIES AND OTHERS

(1) The following tables summarize historical cost, book value and market value of securities with market values as of March 31, 2006 and 2005:

(a) Held-to-maturity securities with market values

	Millions of yen					
	2006			2005		
	Book Value	Market Value	Difference	Book Value	Market Value	Difference
Securities whose market value exceeds book value						
National and local government bonds, etc.	**¥206**	**¥210**	**¥ 4**	¥493	¥503	¥10
Securities whose market value does not exceed book value						
National and local government bonds, etc.	**314**	**307**	**(7)**	50	50	—
Total	**¥520**	**¥517**	**¥(3)**	¥543	¥553	¥10

	Thousands of U.S. dollars		
	2006		
	Book Value	Market Value	Difference
Securities whose market value exceeds book value			
National and local government bonds, etc.	**$1,754**	**$1,788**	**$ 34**
Securities whose market value does not exceed book value			
National and local government bonds, etc.	**2,673**	**2,613**	**(60)**
Total	**$4,427**	**$4,401**	**$(26)**

(b) Other securities with market values

	Millions of yen					
	2006			2005		
	Historical Cost	Book Value (Market Value)	Difference	Historical Cost	Book Value (Market Value)	Difference
Securities whose book value (market value) exceeds historical cost						
Stocks	¥57,316	¥151,768	¥ 94,452	¥46,825	¥ 95,755	¥48,930
Bonds						
National and local government bonds, etc.	40	41	1	50	52	2
Other	11,296	21,305	10,009	9,747	16,204	6,457
Subtotal	68,652	173,114	104,462	56,622	112,011	55,389
Securities whose book value (market value) does not exceed historical cost						
Stocks	2,033	1,965	(68)	153	127	(26)
Other	1	1	—	21	18	(3)
Subtotal	2,034	1,966	(68)	174	145	(29)
Total	¥70,686	¥175,080	¥104,394	¥56,796	¥112,156	¥55,360

	Thousands of U.S. dollars		
	2006		
	Historical Cost	Book Value (Market Value)	Difference
Securities whose book value (market value) exceeds historical cost			
Stocks	$487,920	$1,291,972	$804,052
Bonds			
National and local government bonds, etc.	340	349	9
Other	96,161	181,365	85,204
Subtotal	584,421	1,473,686	889,265
Securities whose book value (market value) does not exceed historical cost			
Stocks	17,307	16,728	(579)
Other	9	9	—
Subtotal	17,316	16,737	(579)
Total	$601,737	$1,490,423	$888,686

(2) The following tables summarize other securities sold in the years ended March 31, 2006, 2005 and 2004:

Millions of yen								
2006			2005			2004		
Sales amount	Gains	Losses	Sales amount	Gains	Losses	Sales amount	Gains	Losses
¥180	¥145	¥—	¥29,239	¥4,340	¥8	¥11,030	¥4,669	¥160

Thousands of U.S. dollars		
2006		
Sales amount	Gains	Losses
$1,532	$1,234	$—

(3) The following tables summarize the book value of securities without market value as of March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Equity investments in properties for sale*	**¥81,546**	¥91,851	**$694,186**
Other securities			
Unlisted stocks (excluding OTC securities)	**15,834**	15,458	**134,792**
Other (TK investments, preferred securities and others)	**37,066**	28,741	**315,536**

*See Note 2 (Q)

(4) The redemption schedule on held-to-maturity securities as of March 31, 2006 and 2005 is shown as follows:

	Millions of yen			
	2006			
	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.	**¥50**	**¥496**	**¥15**	**¥ —**
Total	**¥50**	**¥496**	**¥15**	**¥ —**
	2005			
	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.	¥324	¥256	¥15	¥ —
Total	¥324	¥256	¥15	¥ —

	Thousands of U.S. dollars			
	2006			
	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.	**$426**	**$4,222**	**$128**	**$ —**
Total	**$426**	**$4,222**	**$128**	**$ —**

4. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

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

Forward foreign currency and foreign currency swap contracts are subject to risk of foreign exchange rate changes and interest rate swap contracts are subject to risk of interest rate changes.

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

The Company and its consolidated subsidiaries do 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 Company and its consolidated subsidiaries and items hedged:

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

Hedged items:
- Expected 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. Foreign currency swap contracts and interest rate swap contracts are executed on a provisional basis to hedge against market fluctuation risks.

The assessment 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.

5. INVENTORIES

Inventories at March 31, 2006 and 2005 comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Real property for sale	**¥399,757**	¥351,889	**$3,403,056**
Expenditure on contracts in progress	**9,633**	9,891	**82,004**
Other	**9,453**	9,548	**80,472**
	¥418,843	¥371,328	**$3,565,532**

6. ADVANCES PAID FOR PURCHASES

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

7. LEASE DEPOSITS

The Company and its consolidated subsidiaries lease certain office buildings and commercial facilities from the owners thereof and sublease them to subtenants. In these transactions, the Company and its consolidated subsidiaries pay lease deposits to the owners and receive deposits from subtenants (See Note 11).

8. INCOME TAXES

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Allowance for loss on sale of real property held for sale	¥ 34,163	¥ 36,184	$ 290,823
Unrealized inter-company transactions	4,935	4,879	42,011
Allowance for loss on valuation of securities	17,320	25,082	147,442
Net operating loss carryforwards	18,046	2,108	153,622
Excess allowance for retirement benefits	11,412	11,041	97,148
Excess allowance for doubtful accounts	3,250	6,554	27,667
Accrued employees' bonuses	5,135	4,555	43,713
Unrealized loss on valuation of securities	209	16	1,779
Excess depreciation expense	2,554	2,424	21,742
Excess prepaid expense	1,727	1,627	14,702
Loss on impairment of fixed assets*	13,952	23,323	118,771
Other	13,138	13,833	111,841
Total	¥ 125,841	¥131,626	$1,071,261
Deferred tax liabilities:			
Deferred gain on sale of land and buildings for tax purposes	¥ (32,429)	¥ (35,790)	$ (276,062)
Unrealized loss on valuation of shares held in consolidated subsidiaries	(14,869)	(15,078)	(126,577)
Unrealized inter-company transactions	(378)	(1,980)	(3,218)
Unrealized gain on valuation of securities	(42,631)	(22,608)	(362,910)
Consolidation difference in real property	(6,265)	(5,845)	(53,333)
Other	(15,731)	(15,241)	(133,915)
Total	¥(112,303)	¥ (96,542)	$ (956,015)
Net deferred tax assets	¥ 13,538	¥ 35,084	$ 115,246

Amounts of total deferred tax assets as of March 31, 2006 and 2005 are presented net of valuation allowances of ¥20,786 million ($176,947 thousand) and ¥18,377 million, respectively.

(*) Deferred tax assets related to loss on impairment of fixed assets as of March 31, 2005 included reversal of deferred tax assets on land revaluation of ¥15,861 million.

Significant differences between the statutory tax rate and the Company's effective tax rate as of March 31, 2006 and 2004 are as follows:

	2006	2004
Statutory tax rate	40.66%	42.02%
(Adjustments)		
Equity in net income of affiliated companies	(1.38)	(6.28)
Permanent differences:		
Entertainment expenses and other	1.16	4.89
Dividend income and other	(0.42)	(0.65)
Other	(2.10)	(2.52)
Effective tax rate	37.92%	37.46%

Information as of March 31, 2005 has not been disclosed as the differences are immaterial.

9. EMPLOYEES' RETIREMENT BENEFITS

(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.

20 consolidated subsidiaries have adopted tax qualified pension plans. 60 consolidated subsidiaries have adopted lump-sum pension plans. One consolidated subsidiary has adopted employees' pension funds.

(2) Details of projected benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
1. Projected benefit obligation	**¥(85,708)**	¥(82,245)	**$(729,616)**
2. Fair value of plan assets	**46,415**	37,329	**395,122**
3. Unaccrued projected benefit obligation (1+2)	**¥(39,293)**	¥(44,916)	**$(334,494)**
4. Unrecognized actuarial differences	**12,277**	18,191	**104,512**
5. Unrecognized prior service costs	**(187)**	(214)	**(1,592)**
6. Prepaid pension expenses	**(92)**	(39)	**(783)**
7. Allowance for employees' retirement benefits (3+4+5+6)	**¥(27,295)**	¥(26,978)	**$(232,357)**

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

(3) Details of retirement benefit expenses

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
1. Service costs—benefits earned during the year	**¥4,332**	¥4,418	¥3,990	**$36,878**
2. Interest costs on projected benefit obligation	**1,966**	1,888	1,750	**16,736**
3. Expected return on plan assets	**(856)**	(789)	(618)	**(7,287)**
4. Amortization of actuarial differences	**2,569**	2,541	2,755	**21,869**
5. Amortization of prior service costs	**414**	(31)	(31)	**(3,524)**
6. Supplemental benefits	**204**	—	—	**1,737**
7. Retirement benefit expenses (1+2+3+4+5+6)	**¥8,629**	¥8,027	¥7,846	**$73,457**

Notes: 1. Retirement benefit expenses of consolidated subsidiaries adopting the simple method are included in service costs.
2. Supplemental benefits include ¥184 million ($1,566 thousand) of premium retirement benefits paid specifically for employment transfer within consolidated subsidiaries, which is included in "Other" as a component of "COSTS AND EXPENSES."

(4) Basis for measurement of projected benefit obligation and other items

	2006		2005		2004	
1. Allocation method for the projected retirement benefits	**Straight-line method**		Straight-line method		Straight-line method	
2. Discount rates	**2.5%**		2.5%		2.5%	
3. Expected rates of return on plan assets	**1.0-2.5%**		0.75-2.5%		2.5%	
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**	1-10 years	Straight-line method over a certain number of years within the average remaining service years	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**	5-10 years	Straight-line method over a certain number of years within the average remaining service years	5-10 years	Straight-line method over a certain number of years within the average remaining service years

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 it appropriate to do so.

Long-term debt at March 31, 2006 and 2005 comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Long-term loans, principally from banks and insurance companies:			
Loans secured by collateral or bank guarantees	**¥ 66,308**	¥ 65,611	**$ 564,468**
Unsecured loans	**847,627**	875,523	**7,215,689**
	913,935	941,134	**7,780,157**
Bonds and debentures			
Domestic:			
2.45% yen notes due 2008	**25,000**	25,000	**212,820**
3.00% yen notes due 2013	**10,000**	10,000	**85,128**
1.56% yen notes due 2006	**10,000**	10,000	**85,128**
2.08% yen notes due 2009	**10,000**	10,000	**85,128**
1.77% yen notes due 2006	**10,000**	10,000	**85,128**
2.20% yen notes due 2009	**10,000**	10,000	**85,128**
2.33% yen notes due 2009	**10,000**	10,000	**85,128**
2.17% yen notes due 2008	**5,000**	5,000	**42,565**
1.84% yen notes due 2006	**10,000**	10,000	**85,128**
2.29% yen notes due 2009	**10,000**	10,000	**85,128**
2.25% yen notes due 2012	**5,000**	5,000	**42,565**
2.04% yen notes due 2010	**10,000**	10,000	**85,128**
1.04% yen notes due 2013	**10,000**	10,000	**85,128**
1.81% yen notes due 2014	**10,000**	10,000	**85,128**
1.64% yen notes due 2014	**10,000**	10,000	**85,128**
1.65% yen notes due 2015	**10,000**	—	**85,128**
1.81% yen notes due 2016	**20,000**	—	**170,256**
Overseas:			
0% convertible bonds with stock acquisition rights due 2010	**—**	80,000	**—**
	185,000	235,000	**1,574,870**
Less amount due within one year	**158,314**	169,163	**1,347,697**
	¥940,621	¥1,006,971	**$8,007,330**

The following assets are pledged as collateral for secured loans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Collateralized assets			
Land	**¥ 52,021**	¥ 46,550	**$ 442,845**
Buildings and structures and others	**91,313**	85,923	**777,330**
Total	**¥143,334**	¥132,473	**$1,220,175**

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 annual maturities of long-term debt at March 31, 2006 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 158,314	$1,347,697
2008	154,588	1,315,979
2009	147,401	1,254,797
2010	149,824	1,275,424
2011	52,772	449,238
Thereafter	436,036	3,711,892
Total	¥1,098,935	$9,355,027

11. DEPOSITS FROM TENANTS

Deposits from tenants at March 31, 2006 and 2005 comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Non-interest-bearing	**¥265,761**	¥261,732	**$2,262,373**
Interest-bearing	**22,552**	26,520	**191,981**
Total	**¥288,313**	¥288,252	**$2,454,354**
Average interest rate	**1.72%**	1.57%	

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 and some of the interest-bearing deposits are not refundable during the life of the lease. The rest of the interest-bearing deposits are generally refundable to the tenant in equal annual or monthly payments with interest over certain periods of time commencing after the grace periods, depending on the terms of the contracts.

12. SHAREHOLDERS' EQUITY

Under the Japanese Commercial Code (the "Code"), the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

The Code also requires that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as statutory reserves until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal reserve is included in retained earnings in the accompanying financial statements.

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

13. IMPAIRMENT LOSSES ON FIXED ASSETS

The Company and its certain consolidated domestic subsidiaries recognized impairment losses for the following groups of assets in the year ended March 31, 2005.

Primary use	Type of assets	Location
Golf courses (4 groups)	Buildings Land Other fixed assets, etc.	Narita-shi, Chiba Prefecture, etc.
Leasing assets (18 groups)	Buildings Land, etc.	Utsunomiya-shi, Tochigi Prefecture, etc.

For the purpose of identifying fixed assets that are impaired, the Company and its certain consolidated domestic subsidiaries grouped their fixed assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets or groups of assets. The corporate headquarter facilities are treated as common assets.

In the light of decrease of land prices and significant deterioration of profitability due to decline in current rental rates, adverse changes in market conditions and other factors, the Company and its certain consolidated domestic subsidiaries reduced book values of 22 groups of assets to recoverable amounts, and recognized the reduced values as impairment losses totaling ¥33,807 million. The impairment losses comprise ¥12,384 million for land, ¥11,179 million for buildings and structures, and ¥10,244 million for others, respectively.

Recoverable amounts are measured by net realizable values or values in current use. Net realizable values are determined mainly based upon appraisal value calculated by real-estate appraisers. Values in current use are calculated based on the present values of future cash flows, using a discount rate of 5%.

14. MAJOR COMPONENTS OF INTEREST, DIVIDENDS AND MISCELLANEOUS

	Millions of yen			Thousands of U.S. dollars
Years ended March 31,	**2006**	2005	2004	**2006**
Interest income	**¥ 668**	¥ 1,066	¥ 1,220	**$ 5,686**
Dividend income	**1,029**	2,052	1,943	**8,760**
Gain on sale of fixed assets	**9,418**	—	411	**80,174**
Reversal of allowance for doubtful accounts	**2,233**	—	—	**19,009**
Gain on sale of shares in affiliated companies	**—**	220	—	**—**
Gain on sale of investment securities	**—**	4,340	4,669	**—**
Other	**3,601**	3,642	3,409	**30,655**
Total	**¥16,949**	¥11,320	¥11,652	**$144,284**

15. MAJOR COMPONENTS OF COSTS AND EXPENSES — OTHER

	Millions of yen			Thousands of U.S. dollars
Years ended March 31,	**2006**	2005	2004	**2006**
Provision for doubtful accounts	**¥ —**	¥ 683	¥ 1,518	**$ —**
Loss on sale of fixed assets	**26,355**	3,294	—	**224,355**
Loss on disposal of fixed assets	**—**	1,054	855	**—**
Loss on impairment of fixed assets	**—**	33,807	—	**—**
Loss on liquidation of consolidated subsidiaries	**4,761**	7,675	—	**40,529**
Loss on devaluation of real property for sale	**4,274**	—	64,231	**36,384**
Other	**9,034**	11,883	11,424	**76,905**
Total	**¥44,424**	¥58,396	¥78,028	**$378,173**

16. INFORMATION OF CERTAIN LEASES

As lessee:

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

(1) Summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2006 and 2005, of finance leases that do not transfer ownership to the lessee is as follows:

	Millions of yen					
	2006			2005		
	Buildings and structures	Machinery and equipment	Total	Buildings and structures	Machinery and equipment	Total
Acquisition cost	**¥2,008**	**¥11,500**	**¥13,508**	¥2,209	¥10,808	¥13,017
Accumulated depreciation	**1,044**	**5,293**	**6,337**	1,038	4,547	5,585
Net book value	**¥ 964**	**¥ 6,207**	**¥ 7,171**	¥1,171	¥ 6,261	¥ 7,432

	Thousands of U.S. dollars		
	2005		
	Buildings and structures	Machinery and equipment	Total
Acquisition cost	**$17,094**	**$97,897**	**$114,991**
Accumulated depreciation	**8,888**	**45,058**	**53,946**
Net book value	**$ 8,206**	**$52,839**	**$ 61,045**

(2) Future rental payment inclusive of interest at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Amount due within one year	**¥2,015**	¥1,962	**$17,153**
Amount due after one year	**5,156**	5,471	**43,892**
Total	**¥7,171**	¥7,433	**$61,045**

(3) Rental expense and assumed amount of depreciation expense for the years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Rental expense	**¥2,103**	¥1,787	¥1,507	**$17,902**
Depreciation expense	**2,103**	1,787	1,507	**17,902**

(4) Calculation of assumed amount of depreciation expense:

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

(B) Future rental payments under operating leases at March 31, 2006 and 2005;

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Amount due within one year	**¥16,823**	¥ 19,063	**$143,211**
Amount due after one year	**79,526**	102,989	**676,990**
Total	**¥96,349**	¥122,052	**$820,201**

As lessor:

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

(1) Summary of amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2006 and 2005, of finance leases that do not transfer ownership to the lessee is as follows:

	Millions of yen					
	2006			2005		
	Buildings and structures	Machinery and equipment	Total	Buildings and structures	Machinery and equipment	Total
Acquisition cost	**¥2,140**	**¥1,742**	**¥3,882**	¥2,135	¥1,603	¥3,738
Accumulated depreciation	**1,383**	**1,042**	**2,425**	1,381	1,009	2,390
Net book value	**¥ 757**	**¥ 700**	**¥1,457**	¥ 754	¥ 594	¥1,348

	Thousands of U.S. dollars		
	2006		
	Buildings and structures	Machinery and equipment	Total
Acquisition cost	**$18,217**	**$14,830**	**$33,047**
Accumulated depreciation	**11,773**	**8,871**	**20,644**
Net book value	**$ 6,444**	**$ 5,959**	**$12,403**

(2) Future rental revenue inclusive of interest at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Amount due within one year	**¥ 508**	¥ 579	**$ 4,325**
Amount due after one year	**977**	856	**8,317**
Total	**¥1,485**	¥1,435	**$12,642**

(3) Rental revenue and depreciation expense for the years ended March 31, 2006, 2005 and 2004:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Rental revenue	**¥637**	¥636	¥635	**$5,423**
Depreciation expense	**569**	560	575	**4,844**

(B) Future rental revenue under operating leases at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Amount due within one year	**¥ 35,856**	¥ 29,160	**$ 305,235**
Amount due after one year	**160,226**	150,099	**1,363,974**
Total	**¥196,082**	¥179,259	**$1,669,209**

17. SEGMENT INFORMATION

(1) Leasing
Leasing of office buildings, commercial facilities, residential properties, etc.
(2) Sales of Housing, Office Buildings and Land
Sales of detached housing, condominiums, buildings, and land, etc.
(3) Construction
Construction of detached housing, apartments, etc. (including planning and design)
(4) Brokerage, Consignment Sales and Consulting
Real estate agency, sales agency, and sales consignment services, as well as project management services for development of office buildings, commercial facilities, etc., and asset management services for investors
(5) Property Management
Property management services (including tenant improvement)
(6) Sales of Housing Materials and Merchandise
Manufacture and sales of housing materials, as well as wholesale and retail sale of general goods
(7) Facility Operations
Operation of hotels and golf courses, etc.
(8) Other
Financing operations for housing loans and leasing business, etc.

	Millions of yen									
Year ended March 31, 2006	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	Elimination or Corporate	Consolidated
Revenue from operations:										
Outside customers	¥ 364,339	¥336,918	¥187,497	¥68,749	¥90,437	¥65,066	¥38,977	¥ 7,297	¥ —	¥1,159,280
Inter-segment	5,579	12	7,761	9,264	22,213	34,493	297	10,385	(90,004)	—
	369,918	336,930	195,258	78,013	112,650	99,559	39,274	17,682	(90,004)	1,159,280
Costs and expenses*	301,990	292,276	192,907	55,420	99,903	98,727	37,352	15,212	(72,051)	1,021,736
Operating income	¥ 67,928	¥ 44,654	¥ 2,351	¥22,593	¥12,747	¥ 832	¥ 1,922	¥ 2,470	¥ (17,953)	¥ 137,544
Assets	¥1,918,067	¥555,233	¥ 54,674	¥61,457	¥50,381	¥52,236	¥83,506	¥26,976	¥183,972	¥2,986,502
Depreciation	29,046	499	2,271	850	844	967	2,282	2,643	757	40,159
Capital expenditures	78,115	289	3,128	1,051	973	409	3,470	3,649	1,669	92,753

	Millions of yen									
Year ended March 31, 2005	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	Elimination or Corporate	Consolidated
Revenue from operations:										
Outside customers	¥ 343,719	¥334,472	¥183,552	¥60,224	¥78,249	¥65,229	¥38,509	¥ 7,405	¥ —	¥1,111,359
Inter-segment	5,970	—	6,227	10,579	19,307	34,620	472	10,298	(87,473)	—
	349,689	334,472	189,779	70,803	97,556	99,849	38,981	17,703	(87,473)	1,111,359
Costs and expenses*	287,169	299,318	187,420	52,195	86,788	99,661	37,596	15,853	(70,406)	995,594
Operating income	¥ 62,520	¥ 35,154	¥ 2,359	¥18,608	¥10,768	¥ 188	¥ 1,385	¥ 1,850	¥ (17,067)	¥ 115,765
Assets	¥1,934,690	¥498,466	¥ 56,317	¥86,407	¥44,567	¥51,686	¥77,423	¥27,686	¥150,957	¥2,928,199
Depreciation	26,373	639	2,503	824	967	1,158	2,612	2,715	722	38,513
Loss on impairment of fixed assets	8,272	2,475	84	—	—	—	22,976	—	—	33,807
Capital expenditures	67,183	430	2,760	748	958	1,414	2,385	2,557	464	78,899

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

Year ended March 31, 2004	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	Elimination or Corporate	Consolidated
	Millions of yen									
Revenue from operations:										
Outside customers	¥ 332,380	¥350,762	¥180,503	¥53,585	¥77,482	¥61,769	¥ 37,630	¥ 8,733	¥ —	¥1,102,844
Inter-segment	5,329	—	7,251	11,656	20,722	32,463	386	10,855	(88,662)	—-
	337,709	350,762	187,754	65,241	98,204	94,232	38,016	19,588	(88,662)	1,102,844
Costs and expenses*	274,692	317,825	186,422	51,163	87,360	94,081	38,543	16,997	(73,485)	993,598
Operating income (loss)	¥ 63,017	¥ 32,937	¥ 1,332	¥14,078	¥10,844	¥ 151	¥ (527)	¥ 2,591	¥ (15,177)	¥ 109,246
Assets	¥1,914,041	¥485,771	¥ 57,076	¥43,973	¥39,911	¥49,742	¥116,140	¥31,633	¥205,296	¥2,916,583
Depreciation	27,353	565	2,198	823	1,076	1,138	3,503	3,083	676	40,415
Capital expenditures	23,204	1,396	2,412	1,578	964	2,043	1,754	1,968	520	35,839

Year ended March 31, 2006	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	Elimination or Corporate	Consolidated
	Thousands of U.S. dollars									
Revenue from operations:										
Outside customers	**$ 3,101,549**	**$2,868,120**	**$1,596,127**	**$585,247**	**$769,873**	**$553,895**	**$331,804**	**$ 62,117**	**$ —**	**$ 9,868,732**
Inter-segment	**47,493**	**102**	**66,068**	**78,863**	**189,095**	**293,632**	**2,528**	**88,406**	**(766,187)**	**—**
	3,149,042	**2,868,222**	**1,662,195**	**664,110**	**958,968**	**847,527**	**334,332**	**150,523**	**(766,187)**	**9,868,732**
Costs and expenses*	**2,570,784**	**2,488,091**	**1,642,181**	**471,780**	**850,455**	**840,444**	**317,971**	**129,497**	**(613,357)**	**8,697,846**
Operating income	**$ 578,258**	**$ 380,131**	**$ 20,014**	**$192,330**	**$108,513**	**$ 7,083**	**$ 16,361**	**$ 21,026**	**$ (152,830)**	**$ 1,170,886**
Assets	**$16,328,143**	**$4,726,594**	**$ 465,429**	**$523,172**	**$428,884**	**$444,675**	**$710,871**	**$229,642**	**$1,566,119**	**$25,423,529**
Depreciation	**247,263**	**4,248**	**19,333**	**7,236**	**7,185**	**8,232**	**19,426**	**22,499**	**6,444**	**341,866**
Capital expenditures	**664,978**	**2,460**	**26,628**	**8,947**	**8,283**	**3,482**	**29,539**	**31,063**	**14,209**	**789,589**

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

Japan area accounted for more than 90% of the consolidated revenue of all segments and the total amount of segment assets. Consequently, disclosure of segment information by geographic area has been omitted.

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

18. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Loans guaranteed	**¥106,426**	¥123,033	**$905,985**

19. SUBSEQUENT EVENTS

(A) DEMERGER AGREEMENT REGARDING BUSINESS REORGANIZATION

1. Demerger agreement regarding reorganization of residential sales business

On May 23, 2006, based on the resolutions of the Board of Directors' Meetings held on the date at the Company, Mitsui Real Estate Sales Co., Ltd. ("MRES") and Mitsui Fudosan Residential Co., Ltd. ("MFR"), the latter two of which are the Company's wholly-owned subsidiaries, those three companies entered into a demerger agreement, for the purpose of integrating residential sales business into MFR. Pursuant to the terms of the agreement which is scheduled to be effective on October 1, 2006, the Company and MRES will transfer their residential sales business and residential sales consignment services business, with any associated rights and obligations except for employment contracts, to MFR in exchange for 996,000 shares and 2,000 shares of common stock issued by MFR, respectively. There will be no change in the amount of common stock in connection with the demerger.

Book values of assets and liabilities as of March 31, 2006 to be transferred are as follows:

	Millions of yen	Thousands of U.S. dollars
Assets and liabilities to be transferred from the Company:		
Current assets	¥296,366	$2,522,908
Non-current assets	6,650	56,610
Total	¥303,016	$2,579,518
Current liabilities	¥149,761	$1,274,887
Long-term liabilities	95,757	815,162
Total	¥245,518	$2,090,049
Assets and liabilities to be transferred from MRES:		
Current assets	¥ 47,515	$ 404,486
Non-current assets	1,488	12,667
Total	¥ 49,003	$ 417,153
Current liabilities	¥ 48,903	$ 416,302
Long-term liabilities	—	—
Total	¥ 48,903	$ 416,302

2. Demerger agreement regarding reorganization of building leasing business of MRES

On May 23, 2006, based on the resolutions of the Board of Directors' Meetings held on the date at the Company and MRES, the two companies entered into a demerger agreement. Pursuant to the terms of the agreement which is scheduled to be effective on October 1, 2006, MRES will transfer its building leasing business, with any associated rights and obligations except for employment contracts, to the Company, in which case the Company's shares of common stock are not issued as a consideration. The demerger will enable specialization by MRES in promising areas of real estate brokerage and car park leasing operations, and concentration of building leasing business in the Company. There will be no change in the amount of common stock in connection with the demerger.

Book values of assets and liabilities as of March 31, 2006 to be transferred are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 4,212	$ 35,856
Non-current assets	27,134	230,987
Total	¥31,346	$266,843
Current liabilities	¥10,134	$ 86,269
Long-term liabilities	3,112	26,492
Total	¥13,246	$112,761

(B) APPROPRIATION OF RETAINED EARNINGS

On June 29, 2006, at the 94th Ordinary General Shareholders' Meeting, the Company's shareholders approved the appropriations of retained earnings of the Company at March 31, 2006 as follows:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends at ¥5.0 (U.S. $0.043) per share	¥4,398	$37,439
Bonuses to directors	167	1,422

KPMG

To the Board of Directors of
Mitsui Fudosan Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Mitsui Fudosan Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2006, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsui Fudosan Co., Ltd. and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As discussed in Note 19 (A) to the consolidated financial statements, on May 23, 2006, Mitsui Fudosan Co., Ltd. entered into demerger agreements with its subsidiaries.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2006

Corporate Information

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67 Investor Information

Office Buildings

Mitsui Fudosan operates approximately 300 office buildings that are occupied by more than 3,300 corporate tenants. Strong in Tokyo's central business district, Mitsui Fudosan's office portfolio also covers Japan's other major urban areas.

Mitsui Main Building

The Mitsui Main Building was designated a Registered Important Cultural Property in 1998.

(Opened in 1929 / 36,000m²)

Kasumigaseki Building

This 36-story high-rise building was Japan's first skyscraper.

(Opened in 1968 / Renewal in 2001 / 153,000m²)

Shinjuku Mitsui Building

Built more than 30 years ago, this skyscraper remains a landmark in Shinjuku, the new urban hub of Tokyo.

(Opened in 1974 / Renewal in 2000 / 180,000m²)

Gate City Ohsaki

Gate City Ohsaki is a large-scale, mixed-use intelligent building.

(Opened in 1999 / 292,000m²)

Shiodome City Center

This complex encompasses office space, retail shops and restaurants.

(Opened in 2003 / 212,000m²)

Nihonbashi 1-chome Building

This new landmark features a striking plaza and atrium.

(Opened in 2004 / 98,000m²)

Retail Facilities

Mitsui Fudosan operates approximately 50 retail facilities throughout Japan, including regional malls, factory outlet malls and urban facilities.

Tokyo-Bay LaLaport

The first large-scale suburban shopping center in Japan.

(Opened in 1981 / 278,000m² / 540 stores)

Jazz Dream at Nagashima

The largest outlet mall in Japan's Tokai region.

(Opened in 2002 / 21,000m² / 85 stores)

LALA Garden Tsukuba

This shopping center encompasses small and medium-sized retail spaces.

(Opened in 2004 / 22,000m²)

Kojun Building

Offers dining and shopping in the famed Ginza district.

(Opened in 2004 / 22,000m²)

GARDEN WALK MAKUHARI

An outlet shopping complex with 60 stores.

(Opened in 2000 / 14,800m² / 60 stores)

MARINE PIA KOBE PORTO BAZAR

A factory outlet and restaurant mall.

(Opened in 1999 / 26,000m² / 80 stores)

Housing

Quality and value are the hallmarks of the condominiums and detached houses that Mitsui Fudosan develops for sale and lease.

Okawabata River City 21

A large-scale residential development on the banks of the Sumida River.

(Completed in 1988-1999)

Park Mansion Chidorigafuchi

A high-quality condominium building that truly meets the needs of residents at the high end of the housing market.

(Completed in 2004 / 62 units)

Aoyama Park Tower

A high-rise condominium tower that offers gracious living in the sophisticated Aoyama area of Tokyo.

(Completed in 2003 / 314 units)

Park Court Futakotamagawa

This condominium complex won the prestigious Good Design Award.

(Completed in 2003 / 79 units)

Fine Court Mitaka

This Good Design Award winner is representative of Mitsui Fudosan's high-end detached housing developments.

(Completed in 2004 / 46 units)

Park Axis Minami-Azabu

One of the Park Axis series of rental condominiums in excellent Tokyo locations.

(Completed in 2003 / 64 units)

Other

Hotels and serviced apartments are other areas of the real estate market in which Mitsui Fudosan has a presence.

Halekulani Hotel

A luxury hotel on Waikiki Beach in Honolulu, Hawaii, the Halekulani Hotel is known for comfort and fine service.

(Opened in 1984 / 455 rooms)

Mitsui Garden Hotel Ginza

The Garden Hotel chain operates approximately 2,900 hotel rooms at 12 locations throughout Japan.

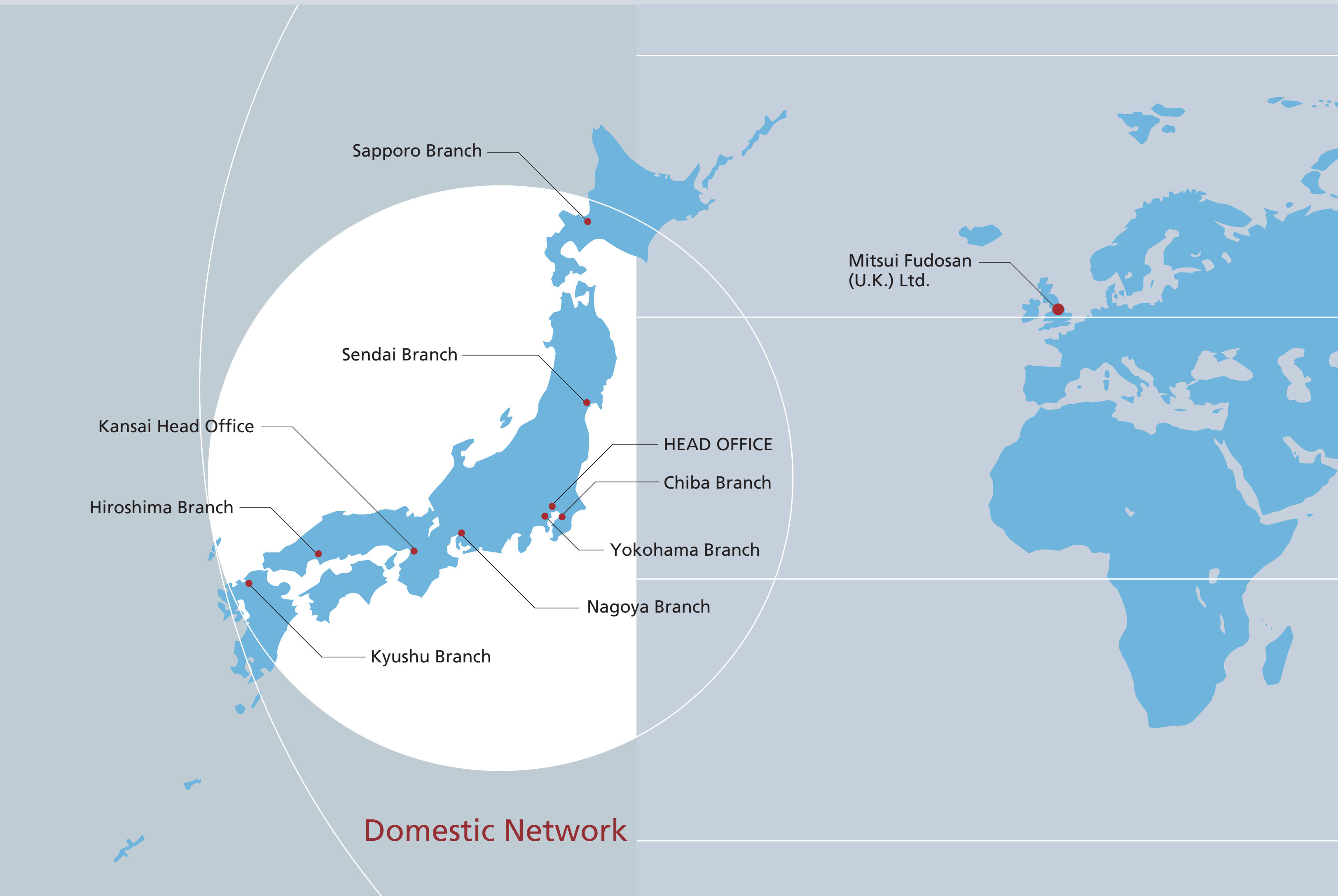
(Completed in 2005 / 361 rooms)

Oakwood Residence Azabu Juban

Mitsui Fudosan's first building of serviced apartments that was sold to a foreign investor.

(Opened in 2004 / 83 units)

Domestic and Overseas Networks



HEAD OFFICE

1-1, Nihonbashi-Muromachi 2-chome,
Chuo-ku, Tokyo 103-0022

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Midosuji Mitsui Building
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Osaka 541-0051

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Sapporo-shi,
Hokkaido 060-0002

Sendai Branch
Mitsui Seimei Building
1-1, Honcho 1-chome, Aoba-ku
Sendai-shi,
Miyagi 980-0021

Chiba Branch
Chiba Chuo Twin Building No.1
11-1, Chuo 1-chome, Chuo-ku, Chiba-shi,
Chiba 260-0013

Yokohama Branch
Yokohama Creation Square
5-1, Sakae-cho, Kanagawa-ku,
Yokohama-shi,
Kanagawa 221-0052

Nagoya Branch
Nagoya Mitsui Main Building
24-30, Meieki Minami 1-chome,
Nakamura-ku, Nagoya-shi,
Aichi 450-0003

Hiroshima Branch
Nakamachi Mitsui Building
9-12, Nakamachi, Naka-ku, Hiroshima-shi,
Hiroshima 730-0037

Kyushu Branch
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222 Huai Hai Zhong Road, Luwan District
Shanghai 200020, China
Tel : 86-21-5396-6969
Fax: 86-21-5396-6899

The History of Mitsui Fudosan

1673
- Opening of the Echigo-ya clothing store in Nihonbashi by Takatoshi Mitsui, founder of the House of Mitsui

1929
- Completion of Mitsui Main Building (Chuo-ku, Tokyo)

1941
- Establishment of Mitsui Fudosan Co., Ltd.

1960
- Completion of Hibiya Mitsui Building (Chiyoda-ku, Tokyo)

1968
- Completion of Kasumigaseki Building (Minato-ku, Tokyo), the first skyscraper in Japan
- Start of development and sale of condominiums

1974
- Completion of Shinjuku Mitsui Building (Shinjuku-ku, Tokyo)

1981
- Completion of Japan's first large-scale regional shopping center, LaLaport Funabashi, now called Tokyo-Bay LaLaport (Funabashi-shi, Chiba Prefecture)

1986
- Acquired Exxon Building (New York City, U.S.A., now called 1251 Avenue of the Americas)

1997
- Formation of consortium with overseas financial institution and successful bid for the site of Shiodome City Center (Minato-ku, Tokyo)

1998
- Completion of a factory outlet mall, Yokohama Bayside Marina Shops and Restaurants (Yokohama-shi, Kanagawa Prefecture), using a fixed-term leasehold

1999
- Acquisition of Shin Nikko Building (Minato-ku, Tokyo), initiating joint investment business with investors using a securitization scheme
- Acquisition of Japan Landic portfolio, initiating value-enhanced fund business

2001
- Listing of Japan's first real estate investment trust (J-REIT), Nippon Building Fund, Inc.
- Formation of consortium with domestic investors and successful bid for the former Defense Agency site in Roppongi, Tokyo (now called Tokyo Midtown)

2003
- Shiodome City Center completed

2005
- Nihonbashi Mitsui Tower completed (Chuo-ku, Tokyo)

Office Buildings


Nihonbashi in the Edo Period


Shinjuku Mitsui Building


Shiodome City Center


Nihonbashi Mitsui Tower

Retail Facilities


LaLaport Funabashi


Yokohama Bayside Marina Shops and Restaurants

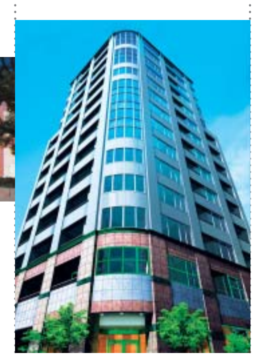

LaLaport Koshien

Housing


Yurigaoka


Park City Honmoku


Tokyo Park Tower


Park Axis Nihonbashi

Investor Information

(Parent company; as of March 31, 2006)

Mitsui Fudosan Co., Ltd.

Head Office:
1-1, Nihonbashi-Muromachi 2-chome, Chuo-ku, Tokyo, 103-0022, Japan

Date of Establishment:
July 15, 1941

Common Stock:
¥174,296 million

Listings:
Tokyo, Osaka (Ticker: 8801)

Number of Shares:
Authorized: 3,290,000,000
Issued and outstanding: 881,424,727

Number of Shareholders:
43,521

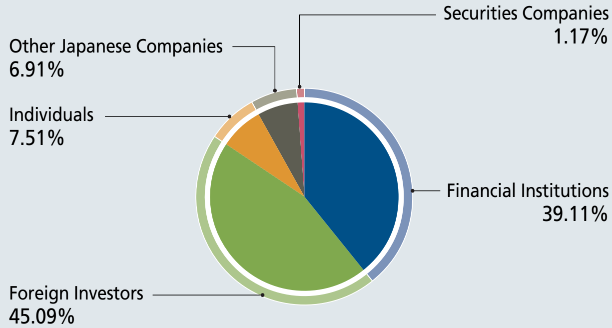
Transfer Agent:
The Chuo Mitsui Trust and Banking Company, Limited

Number of Employees:
1,575 (Nonconsolidated)

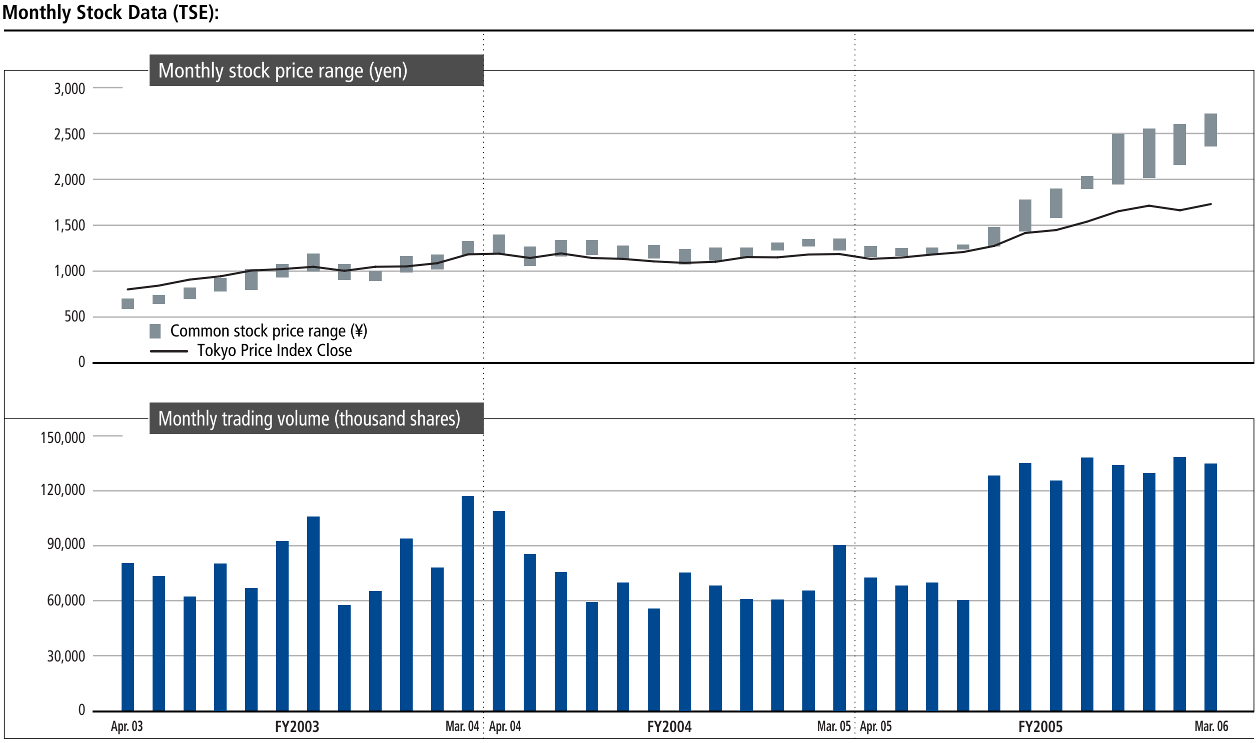
URL:
http://www.mitsuifudosan.co.jp/english

E-mail:
mfir@mitsuifudosan.co.jp

Composition of Shareholders:



Monthly Stock Data (TSE):



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MITSUI FUDOSAN

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