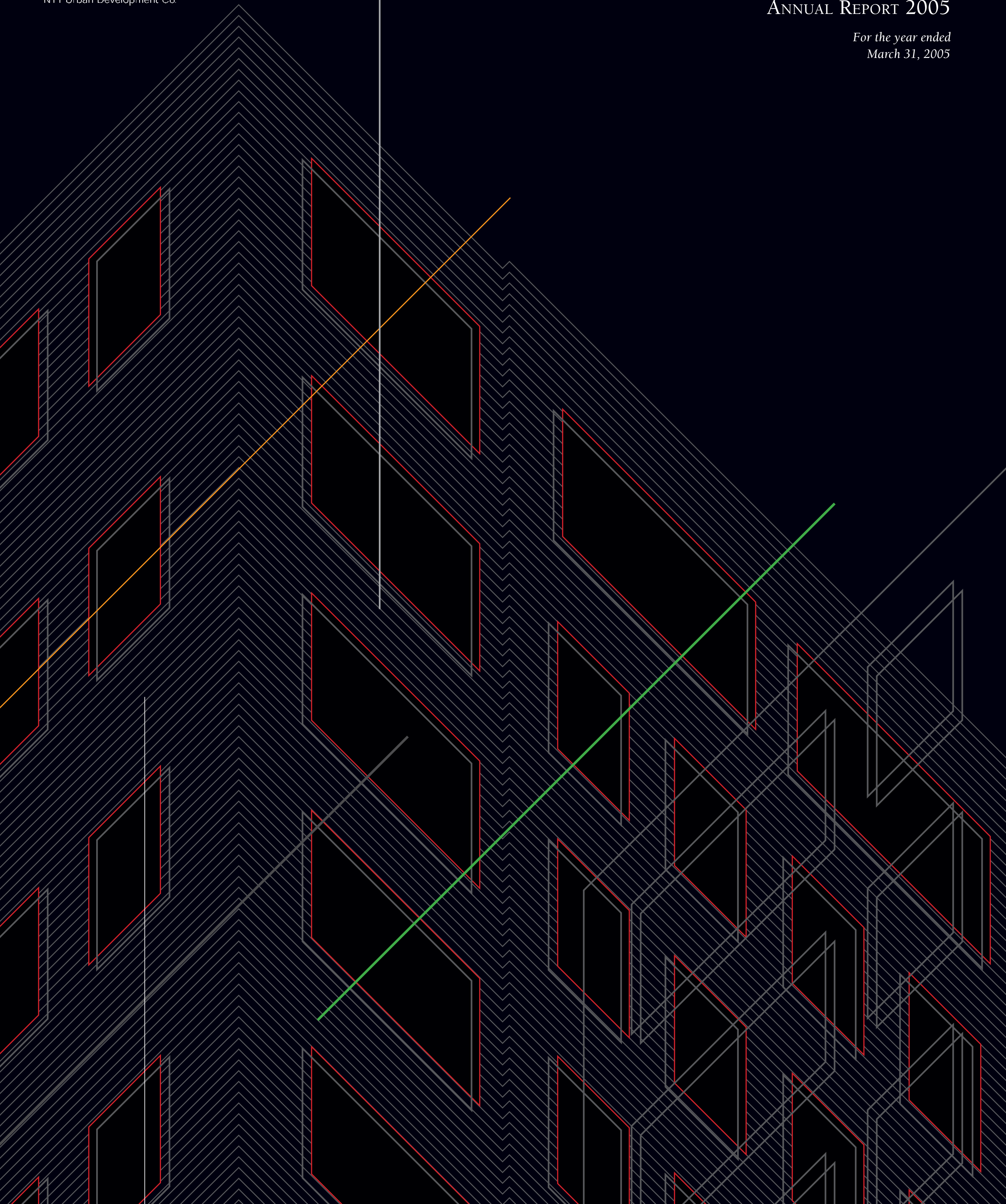
NTT Urban Development Co.

NTT Urban Development Corporation
Annual Report 2005

For the year ended
March 31, 2005



NTT Urban Development's Vision

"We create harmony." This corporate slogan aims to express our paramount objective: the creation of spaces that provide the ideal balance between living, working and playing.

We aim to develop spaces where people can reside in safety and comfort, and we approach this goal by creating comfortable buildings and pleasant urban surroundings. Our mission is to continue providing spaces that imbue both visitors and residents with feelings of calmness and well being.

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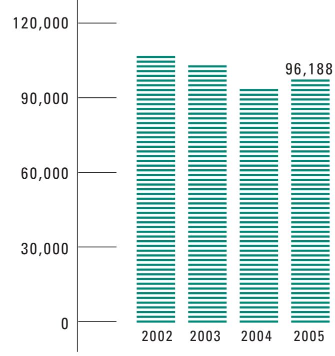
Cautionary Statement with Regard to Forward-Looking Statements

Certain of the statements made in this annual report are forward-looking statements, which involve certain risks and uncertainties that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which are valid only as of the date thereof. NTT Urban Development undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date thereof or to reflect the occurrence of unanticipated events.

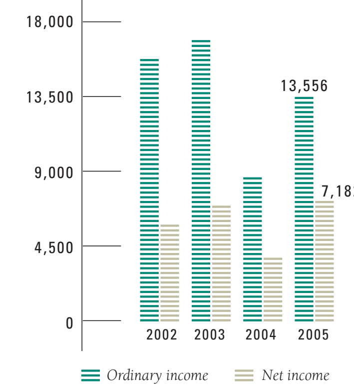
Financial Highlights

Fiscal years ended March 31

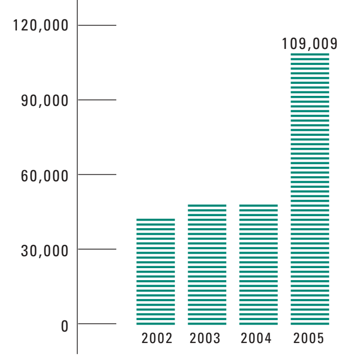
(Millions of yen) **Net Sales**



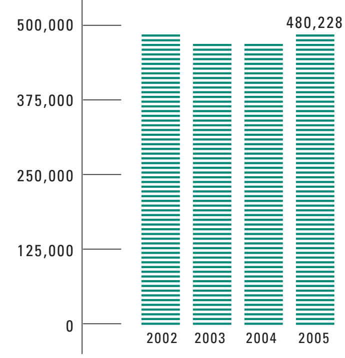
(Millions of yen) **Ordinary Income and Net Income**



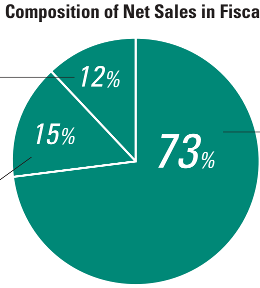
(Millions of yen) **Shareholders' Equity**



(Millions of yen) **Total Assets**



Composition of Net Sales in Fiscal 2005



Others **¥12.0** billion*

Activities
Office building management, refurbishment construction, management of food and beverage facilities, others

Residential Property Sales Business **¥14.5** billion*

Activities
Construction and sales of condominiums

In fiscal 2005, sales of 318 *condominiums*

Leasing Business **¥73.8** billion*

Activities
Development and leasing of office buildings, commercial facilities and rental housing

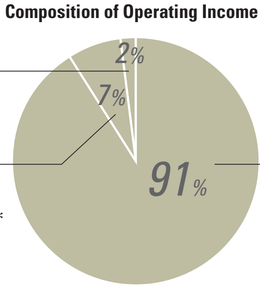
Completed in October 2004

URBANNET SAPPORO BUILDING

(10 floors above ground, 1 below)

**Segment figures include inter-segment transactions and transfers.*

Composition of Operating Income in Fiscal 2005



Others **¥0.3** billion*

Residential Property Sales Business **¥1.4** billion*

Leasing Business **¥18.6** billion*

**Segment figures include inter-segment transactions and transfers.*

Aiming to Create Additional Corporate Value

We took a major step forward in November 2004, when we listed our shares on the First Section of the Tokyo Stock Exchange. Established in 1986, originally we acquired land, buildings and other assets at their historical book values from our parent company, Nippon Telegraph and Telephone Corporation (NTT). Beginning with these quality assets, we have developed landmark office buildings that contributed to strong earnings and prompted further development. We plan to continue adding to corporate value by building on the foundations of stable cash flow from our leasing business and steadily expanding the quality condominiums offered through our residential property sales business. We are also embarking on the office building development and sales business. Akihabara UDX marks our initial foray into this business, which we believe will accelerate the Company's growth.

Operating Environment

In fiscal 2005, the market had mostly recovered from the so-called "2003 problem" of an oversupply of office space in metropolitan Tokyo. By redoubling our sales efforts and enacting various development measures, we posted strong business performance.

	Millions of yen		Thousands of U.S. dollars*1
	2004	2005	2005
Net sales	¥ 93,556	¥ 96,188	$ 895,692
Operating income	15,005	17,335	161,421
Net income	3,740	7,182	66,881
Depreciation and amortization	24,658	23,865	222,233
Investment*2	33,378	26,070	242,760
Shareholders' equity	47,928	109,009	1,015,076
Total assets	467,914	480,228	4,471,815
Interest-bearing debt	278,620	231,784	2,158,338
Cash flows from operating activities	21,457	24,572	228,813
Cash flows from investing activities	(30,663)	(27,812)	(258,988)
Cash flows from financing activities	5,422	7,081	65,945
	Yen		U.S. dollars*1
Per-share data:			
Net income	¥ 7,007.92	¥ 12,271.53	114.27
Shareholders' equity	91,077.18	165,606.94	1,542.10

Notes:
1. *The dollar amounts represent the arithmetical results of translating yen to dollars using the exchange rate prevailing on March 31, 2005, which was ¥107.39 to US$1.00. Such dollar amounts are solely for the convenience of readers outside Japan and are not intended to imply that the yen amounts have been, or could be, readily converted, realized, or settled in dollars at that rate or any other rate of exchange.*
2. *Includes capital investment and investments in securities.*

We view the residental property sales business, particularly condominiums, as a driver of growth for the Company. In this area, we positioned the Company and the larger NTT Group as a trustworthy, quality building brand. Our success in this area helped overcome such natural disadvantages as being a late entrant to this market and an oversupply of condominiums. Consequently, we enjoyed high levels of growth in fiscal 2005.

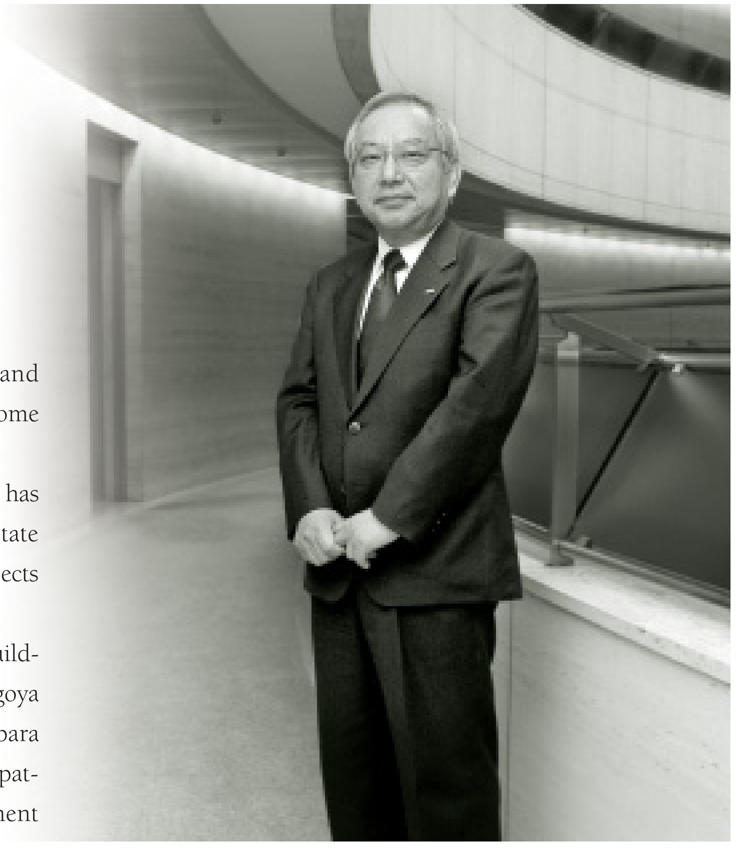
We see the office building development and sales business as another driver of growth. Akihabara UDX marks our launch into this field of business, and we plan to continue expanding these activities.

As a result of the business activities described above, our fiscal 2005 operating results described a clear V-shaped curve. We posted net sales of ¥96.1 billion, up 2.8%.

Operating income expanded 15.5%, to ¥17.3 billion, and ordinary income surged 57.4%, to ¥13.4 billion. Net income jumped 92.0%, to ¥7.1 billion.

The listing of our shares on the Tokyo Stock Exchange has launched us into a new phase of our history. As a real estate developer, we will continue to invest aggressively in new projects and promote the development business.

We finalized construction on the Urbannet Sapporo Building in October 2004. We plan to complete the Urbannet Nagoya Building in September 2005, and construction on Akihabara UDX is slated to open in March 2006. Also, we are participating proactively in the Otemachi chain urban redevelopment project.



We will also pursue business reform aggressively in other areas. We will review our business activities from a customer viewpoint, as we seek to boost our efficiency and service quality. By creating leeway for growth in personnel, assets and time, we will continue to pursue expansion opportunities.

Policy for Returning Value to Shareholders

NTT Urban Development's basic policy on distributing profits is to maintain a stable level of dividends that is in line with our business performance. To ensure the long-term growth of our real estate operations, we will distribute profits to investors while maintaining adequate internal reserves to ensure ongoing increases in our corporate value.

As we continue to expand our business as a real estate developer, we will remain aware of our responsibilities to society as a listed company and remain worthy of the trust our stakeholders have placed in us.

August 2005

Kiyoshi Mita

Kiyoshi Mita
President and Representative Director

C&P 07

(Change & Proceed to 2007)

C&P 07, the medium-term management plan designed to guide the Company through the three years ending from March 31, 2006, through March 31, 2008, aims to build up our corporate foundation in a stable and sustainable manner, thereby setting the stage to maximize long-term corporate value. Specifically, we aim to expand our revenue generation base for the leasing business segment, and grow the residential property sales business segment.

To achieve these goals, we will upgrade our customer service and create a framework to constantly feed new projects into the development pipeline. As the sole full-service real estate company in the NTT Group, we will continue to provide solutions that meet Group companies' real estate needs and serve a vital supporting role that enables them to take advantage of new business opportunities. By the fiscal year ending March 31, 2008, C&P07 calls for the NTT Urban Development Group to achieve annual net sales of ¥110 billion, ordinary income of ¥18.5 billion, and to post year-on-year revenue and profit increases for each year during which the plan is in effect.

Business Strategy

Development

1. Continue the Urbannet Nagoya Building and Akihabara UDX projects

The Urbannet Nagoya Building, which is slated for completion in September 2005, is centrally located, offering various means of access to Nagoya's Sakae-kita business and commercial area. This building is unique in that it offers an astylar expanse of 1,983 m^2 on each floor—one of the largest such areas in the city. In March 2006, we expect to finish construction on Akihabara UDX, which we are developing in conjunction with Kajima Corporation. Having more than 161,000m^2 of floor space, this project is located in the heart of one of the world's IT-industry hubs, where it should serve as a new landmark. We are endeavoring to perfect our tenant leasing and project management processes to ensure that both projects will be considered resounding successes.

2. Actively participate in the Otemachi Redevelopment Project

Currently, we are planning the first-stage development of Otemachi common government office sites 1 and 2. Using the joint government building sites as a linchpin, we plan to chain together developments in the area by developing parcels of land held by special-purpose company Otemachi Kaihatsu, Ltd., then switching this company's land holdings for others nearby as developments on the original holdings are completed. We will also participate in the first phase of the Otemachi redevelopment project as a corporate partner. The Company will play an active role in the redevelopment of the Otemachi area, which has been a core area for NTT Urban Development since its conception.

		Fiscal year ending March 31, 2008	Fiscal year ended March 31, 2005 (Reference)
Revenue Targets	Net sales	¥110.0 billion (up 4.6%)	¥96.1 billion
	Operating income	¥ 22.0 billion (up 8.3%)	¥17.3 billion
	Ordinary income	¥ 18.5 billion (up 11.1%)	¥13.5 billion
	Operating margin	20.0%	18.0%

Note: Figures in parentheses ( ) are compound annual growth rates.

		Fiscal year ending March 31, 2008	Fiscal year ended March 31, 2005 (Reference)	Fiscal year ended March 31, 2004 (Reference)
Financial Indicators	Interest-bearing debt	¥275.0 billion	¥231.7 billion	¥278.6 billion
	Debt-equity ratio	2.2 times	2.1 times	5.8 times

3. Participate in new projects following Akihabara UDX

We plan to drive ongoing growth by maintaining a steady flow of projects in our pipeline for the office building development and sales business. To this end, we will actively pursue new opportunities for development after the completion of Akihabara UDX.

Leasing

1. Achieve ¥78 billion in segment net sales by the fiscal year ending March 31, 2008

2. Engage in solution-based sales to principal clients

We will deepen our relationships with primary clients through solution-based sales efforts that focus on specific customer needs.

3. Expand total rentable floor space through the master-lease structure

As the amount of space that is available for rent is key to increasing leasing sales and income, we will expand this volume through such methods as subleasing space owned by other entities.

4. Strengthen the platform to expand property management and other non-asset businesses

We will take on the property management tasks of the office building development and sales business. The first property to be handled in this way will be Akihabara UDX.

5. Implement further measures to reduce agency commissions and other costs

We will step up the pace of our ongoing cost-cutting efforts.

Residential Property Sales

1. By the fiscal year ending March 31, 2008, expand segment net sales to ¥24 billion

2. Build up the *Wellith* brand

The *Wellith* series focuses on the six concepts of paying careful attention to developments as permanent dwellings, creating comfortable living spaces, ensuring safety and security, offering advanced information technology, developing individual environments and providing reliable management. We are determined to build high-quality condominiums that are comfortable to live in and maintain high asset values.

3. Expand land acquisition sources and diversify development approach

We will accelerate our acquisition of construction sites in preparation to increase residential property sales. The Company will also diversify its development approach to match the characteristics of individual plots.

Major Projects Completed throughout NTT Urban Development's History

1986–1991

Overview

1986 • NTT Urban Development established

1987 • Urbannet Kojimachi Building completed

• Urbannet Mita Building completed

1988 • Harajuku Quest, a multipurpose commercial facility, opens

1990 • Urbannet Otemachi Building completed

1991 • *Seavans* N Building completed

Urbannet Otemachi Building

Footprint: 9,361 m²

Floor space: 120,536 m²

Size: 22 floors above ground, five below

Completed: June 1990

Awards: Illuminating Engineering Institute of Japan award for outstanding lighting

25th Japan Sign Design Association (SDA) Award

'91 Japanese Society of Commercial Space Designers merit award

33rd Building Contractors Society (BCS) Award

Vaulted interior of the Urbannet Otemachi Building

Seavans N Building *(at right)*

Footprint: 13,144 m²

Floor space: 82,890 m²

Size: 24 floors above ground, two below

Completed: January 1991

Awards: Urban Design Center cityscape grand prize (landscape design division)

25th Japan SDA Awards

Encouragement Award in the symbols division

Encouragement Award in the systems division

31st Society of Heating, Air Conditioning and Sanitary Engineers of Japan Awards Technology Award, building mechanical service system category

33rd BCS Award

1992–2000

Overview

1992 ● Otemachi First Square (West Tower) completed

1993 ● NTT Actif Co., Ltd., and NTT Crais Co., Ltd., merged into NTT Urban Development

● NTT Makuhari Building Completed

1995 ● NTT Estate Co., Ltd., merged into NTT Urban Development

1996 ● Tokyo Opera City completed

● Granpark Tower completed

1997 ● Otemachi First Square (East Tower) completed

1999 ● Five NTT Group real estate companies throughout Japan merge

2000 ● Began residential property sales business

● NTT Urban Development Building Services Co., Ltd., established

Otemachi First Square

Footprint: 6,267 m^2 (Portion owned by NTT Urban Development)

Floor space: 79,471 m^2 (Portion owned by NTT Urban Development)

Size: West Tower: 23 floors above ground, five below

East Tower: 23 floors above ground, four below

Completed: West Tower: February 1992
East Tower: May 1997

Awards: 1998 International Lighting Design Awards, special award for outdoor lighting

32nd Japan SDA Awards, second-place prize, district design prize

Granpark Tower

Footprint: 12,322 m^2 (Portion owned by NTT Urban Development)

Floor space: 107,110 m^2 (Portion owned by NTT Urban Development)

Size: 34 floors above ground, four below

Completed: August 1996

Awards: 31st Japan SDA Awards, public sector award

18th Green City Awards, Yomiuri Shimbun Prize

NTT Makuhari Building

Footprint: 40,603 m^2

Floor space: 174,717 m^2

Size: 26 floors above ground, one below

Completed: June 1993

Awards: 4th Intelligent Awards

Merit Award

Tokyo Opera City atrium and garden (above), hall and pipe organ (below)

Tokyo Opera City

Footprint:	4,259 m² (Portion owned by NTT Urban Development)
Floor space:	57,548 m² (Portion owned by NTT Urban Development)
Size:	54 floors above ground, four below
Completed:	August 1996
Awards:	41st BCS Awards, special prize
	Seventh Japan Association for Real Estate Sciences business performance award

Grand Wellith Tetsugakudo Koen

Size:	79 residences
Completed:	February 2003
Awards:	Fiscal 2003 good design award

2001–2003

Overview

2001 • Formulated long-term vision, Change & Proceed to 2015 (C&P15)

2002 • Bid on and acquired Akihabara lots 1 and 3 in cooperation with Daibiru Corporation and Kajima Corporation

• YRP Goban-kan completed

2003 • Urbannet Hakata Building completed

• Akihabara UDX construction begins

• Urbannet Fushimi Building completed

• Urbannet Kayabakabuto Building completed

2004–2005

Recently Completed Projects

2004 ● Quest Court Harajuku completed

● Urbannet Sapporo Building completed

2005 ● Medium-term management plan, Change & Proceed to 2007 (C&P07), initiated

First-floor entrance to Quest Court Harajuku

Quest Court Harajuku

Footprint: 2,439 m^2

Floor space: 4,302 m^2

Size: Four floors above ground, one below

Completed: January 2004

Urbannet Sapporo Building

Footprint: 5,369 m^2

Floor space: 33,733 m^2

Size: 10 floors above ground, one below

Completed: October 2004

Wellith Hikarigaoka Koen Park House

Toyocho Central Tower

Seaside Court Zushi Kaigan Wellith Stage

The Suwayama Residence

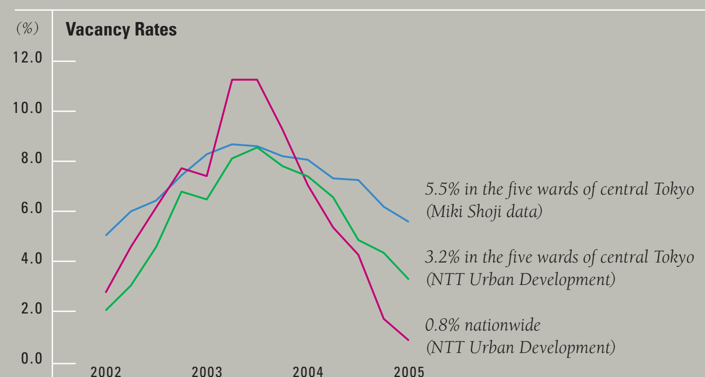
Overview of Operations and Performance in Fiscal 2005

During fiscal 2005, vacancy rates averaged 5.51%* in the five wards of central Tokyo—Chiyoda, Chuo, Minato, Shinjuku and Shibuya wards. Vacancy rates in this area improved for eight consecutive months, evincing a steady recovery in the real estate market. Vacancy rates also showed signs of improving in the urban areas of Osaka and Nagoya, suggesting an overall uptrend in Japan's urban real estate market.

For six consecutive years, the supply of condominiums available for sale in the Tokyo metropolitan area has exceeded 80,000 units. Condominium sales proved robust during the year, with 80% of purchase contracts concluded within the first month condominiums were offered for sale. Nevertheless, the future remains uncertain, owing to the large supply of condominiums remaining on the market.

In this operating environment, the Company posted consolidated net sales of ¥96,188 million, up ¥2,632 million from the preceding fiscal year. Operating income increased ¥2,329 million, to ¥17,335 million. Ordinary income amounted to ¥13,556 million, up ¥4,941 million, and net income expanded ¥3,441 million, to ¥7,182 million.

* *Vacancy rates are taken from the* Office Report, *published by Miki Shoji Co., Ltd.*



Note: Miki Shoji's data is as of the final day of the preceding month; NTT Urban Development's data is as of the first day of the current month.

Topics 2005

October 2004

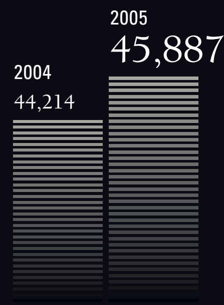
Urbannet Sapporo Building completed

Featuring an IT infrastructure capable of supporting next-generation networks, Urbannet Sapporo is fostering the development of a new business center. Offering the largest astylar interior space in Sapporo, floors range in size from 222m² to 2,440m², suiting the building to a wide variety of office layouts and shared spaces.

November 2004

NTT Urban Development's shares listed on the **First Section of the Tokyo Stock Exchange**

NOI
(Millions of yen)



The Company Uses Net Operating Income (NOI)*1 as Its Indicator of Value on Leased Buildings.

*1: NOI is calculated as:
NOI = property rental income – property rental costs + depreciation expense (including prepaid long-term expenses)

NOI on Principal Buildings

(Millions of yen)

Building		Primary use	2004	2005
Urbannet Otemachi Building	Chiyoda-ku, Tokyo	●	4,880	**4,597**
Otemachi First Square	Chiyoda-ku, Tokyo	●	4,443	**4,720**
NTT Makuhari Building	Mihama-ku, Chiba	●	1,713	**1,982**
Granpark Tower	Minato-ku, Tokyo	●	3,759	**3,604**
Seavans N Building	Minato-ku, Tokyo	●	2,566	**2,676**
Tokyo Opera City	Shinjuku-ku, Tokyo	●	1,485	**1,445**
Urbannet Ikebukuro Building	Toshima-ku, Tokyo	●	1,025	**964**
Urbannet Oroshi-machi Building	Wakabayashi-ku, Sendai	●	481	**450**
Nagoya Mitsukoshi OS Center	Kita-ku, Nagoya	◆	448	**419**
Urbannet CS Building	Naka-ku, Nagoya	●	387	**357**
Urbannet Shizuoka Building	Shizuoka	●	361	**351**
Urbannet Shizuoka Otemachi Building	Shizuoka	●	241	**328**
Urbannet Kaminagoya Building	Nishi-ku, Nagoya	●	283	**93**
Urbannet Fushimi Building	Naka-ku, Nagoya	●	278	**446**
NTT Osaka Chuo Building	Chuo-ku, Osaka	●	492	**491**
Urban Ace Kitahama Building	Chuo-ku, Osaka	●	558	**514**
Urban Ace Higobashi Building	Nishi-ku, Osaka	●	192	**307**
Urban Ace Sannomiya Building	Chuo-ku, Kobe	●	553	**451**
Urban Ace Awaza Building	Nishi-ku, Osaka	●	504	**491**
Urbannet Motomachi Building	Chuo-ku, Osaka	●	70	**334**
NTT Cred Motomachi Building	Naka-ku, Hiroshima	■	3,684	**3,977**
NTT Cred Hakushima Building	Naka-ku, Hiroshima	●	723	**807**
NTT Cred Okayama Building	Okayama	●	541	**557**
NTT-T Building	Chuo-ku, Fukuoka	■	1,970	**2,028**
NTT-KF Building	Chuo-ku, Fukuoka	●	291	**297**
Urbannet Hakata Building	Hakata-ku, Fukuoka	●	196	**225**
Emuzu Odori Building	Chuo-ku, Sapporo	●	429	**459**
Emuzu Minami 22-jo Building	Chuo-ku, Sapporo	●	93	**89**
Urbannet Sapporo Building	Chuo-ku, Sapporo	●	—	**74**
Other properties, subtotal			11,556	**12,338**
Total			44,214	**45,887**

Primary use ● Office ■ Commercial ◆ Other

NOI by Region and Use

Fiscal 2004	Total	Office, commercial	Residential, other
Central Tokyo	26,942	20,245	1,360
Other parts of Tokyo and surrounding area		5,336	
Regional cities	17,272	14,640	2,632
Total	44,214	40,222	3,992

Fiscal 2005	Total	Office, commercial	Residential, other
Central Tokyo	**27,782**	**20,923**	**1,774**
Other parts of Tokyo and surrounding area		**5,084**	
Regional cities	**18,105**	**15,445**	**2,659**
Total	**45,887**	**41,453**	**4,433**

Note: The above-stated regions are defined as:
Central Tokyo: The five central wards—Chiyoda, Chuo, Minato, Shibuya and Shinjuku wards
Other parts of Tokyo and surrounding area: Parts of Tokyo other than the five wards mentioned above, as well as Kanagawa, Chiba and Saitama prefectures
Regional cities: Locations other than those indicated above

Fiscal 2006

Major projects scheduled for completion

September 2005

Urbannet Nagoya Building

Scheduled for completion

Our high-end office buildings that are Designed as next-generation workplace spaces are multimedia-capable and feature advanced security systems. In an effort to stimulate Nagoya's Sakae-kita area, we are endeavoring to develop urban spaces that will form part of an attractive city.

Floor space: 76,525 m^2
Size: 22 floors above ground, three below

March 2006

Akihabara UDX

Scheduled to open

Akihabara, affectionately dubbed "electric town" for all the appliances it sells, has a unique ambiance. The multi-functional Akihabara UDX will fit into this bustling atmosphere by combining office space with an IT center, restaurant area, spacious parking lot and event space, as well as a large open area with abundant greenery.

Floor space: 161,000m^2
Size: 22 floors above ground, three below

* *Segment figures include inter-segment transactions and transfers.*

Leasing Business

During the term, the Company's leasing business concentrated on aggressive and effective marketing activities to improve occupancy rates in a market affected by the so-called "2003 problem" of an oversupply of leased office space in central Tokyo. We began accepting new tenant leases for the Urbannet Sapporo Building (Sapporo), which was completed in October 2004. The Company's occupancy rates in the five central wards of Tokyo improved dramatically during the year, with vacancies dropping from 7.9% to 0.8%. Although lease contract amounts decreased, the rate of decline slowed considerably.

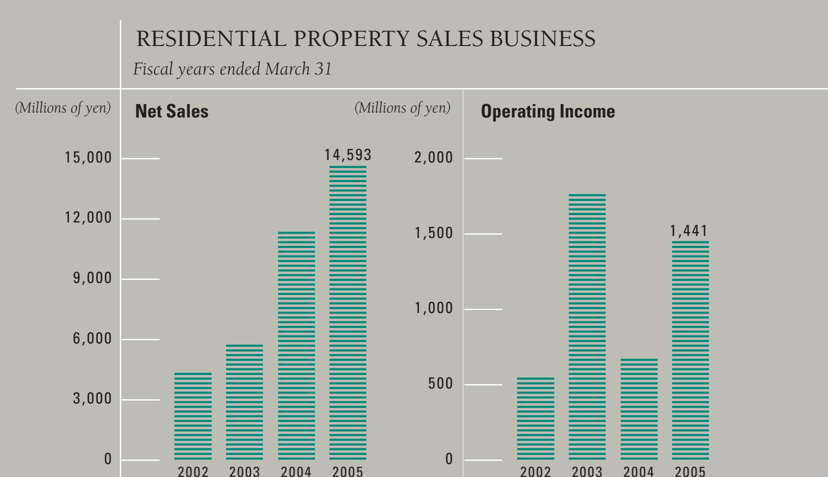
As a result, net sales from the leasing business segment expanded ¥1,282 million during the year, to ¥73,816 million. Operating income was ¥18,602 million, a ¥2,792 million improvement.

Residential Property Sales Business

During the year, the Company posted sales in the residential property sales business segment from sales of The River Place (Ota-ku, Tokyo), Gentry House Shinagawa Ooi (Shinawaga-ku, Tokyo), The Suwayama Residence (Meguro-ku, Tokyo), Tanta

Major Condominium Developments from Fiscal 2003 through Fiscal 2005

2002 July	Wellith Maruyama Minami 4-jo City House	Chuo-ku, Sapporo
2003 February	Grand Wellith Tetsugakudo Koen	Nakano-ku, Tokyo
June	Hills Fuchu Tenjincho Vale Arena	Fuchu-shi, Tokyo
November	Wellith Abeno	Abeno-ku, Osaka
December	Wellith Livio Shin-Okachimachi	Taito-ku, Tokyo
2004 January	Shoto Apartment	Shibuya-ku, Tokyo
January	Wellith Hikarigaoka Koen Park House	Nerima-ku, Tokyo
February	Park House 2-bancho	Chiyoda-ku, Tokyo
February	Park Homes Johshin Sky View Stage	Nishi-ku, Nagoya
March	Toyocho Central Tower	Koto-ku, Tokyo
September	Gentry House Shinagawa Ooi	Shinagawa-ku, Tokyo
2005 March	The River Place	Ota-ku, Tokyo
March	The Suwayama Residence	Meguro-ku, Tokyo
March	Seaside Court Zushi Kaigan Wellith Stage	Zushi-shi, Kanagawa
March	Tanta Town (phase I)	Tsuzuki-ku, Yokohama
March	Park Wellith Ushida Asahi	Higashi-ku, Hiroshima



* *Segment figures include inter-segment transactions and transfers.*

Breakdown of Residential Property Sales

			2004		2005	
			Units	Sales (Millions of yen)	Units	Sales (Millions of yen)
Condominiums	Region	Tokyo	159	9,387	**307**	**12,504**
		Other	46	1,490	**10**	**834**
	Completed in inventory		5	—	**34**	—
Building lots	Region	Tokyo	7	546	**6**	**887**
		Other	—	—	**1**	**367**
	Completed in inventory		4	—	—	—
Residential total	Region	Tokyo	166	9,933	**313**	**13,392**
		Other	46	1,490	**11**	**1,201**
	Completed in inventory		9	—	**34**	—

Notes:
1. *"Units" indicates the number of units for which the transfer of ownership has been completed.*
2. *For units having more than one use, the Company's sales ratio is used to determine the number of units.*
3. *The 34 units indicated as "completed in inventory" at the end of fiscal 2005 includes 14 units for which contracts were complete, but for which ownership had not yet been transferred.*
4. *The "Tokyo region" includes Tokyo, Kanagawa, Chiba, Saitama, Ibaragi, Gunma and Tochigi prefectures.*

Town (Yokohama), as well as Tokyo Front Court (Koto-ku, Tokyo), Wellith Garden Chiba Minato Koen (Chiba), Geo Wellith Nishinomiya Kitaguchi (Nishinomiya), and Tanta Town Albo no Oka (Inagi, Tokyo). We have enjoyed a steady increase in revenues from the sale of residential condominiums since we entered this business in fiscal 2001, and in fiscal 2005 we sold 318 condominiums, up sharply from 205 in fiscal 2004.

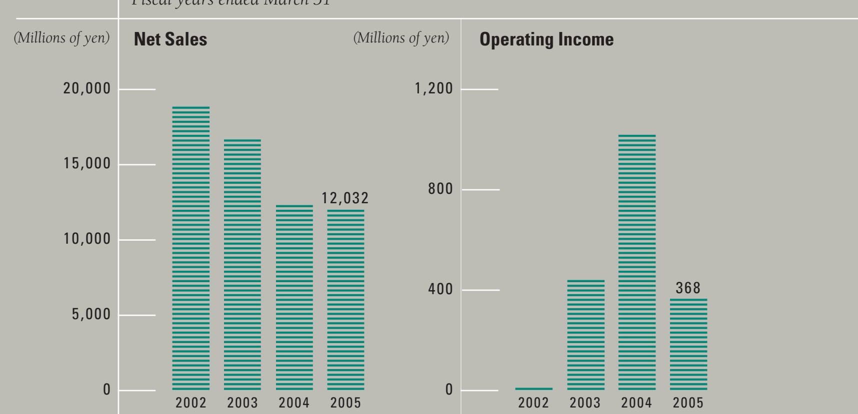
Buoyed by this strong increase, net sales from the residential property sales business amounted to ¥14,593 million, up ¥3,169 million. Operating income grew ¥764 million, to ¥1,441 million.

Others

Net sales in the others segment amounted to ¥12,032 million, down ¥297 million from the previous year. Operating income dropped ¥643 million, to ¥368 million.

OTHERS

Fiscal years ended March 31



** Segment figures include inter-segment transactions and transfers.*

Environmental Policy

NTT Urban Development seeks to create and maintain sustainable cities and architectural spaces that achieve harmony with the natural environment in terms of both health and safety by minimizing resource requirements, environmental impact and waste.

Basic Themes for Environmental Activities

1. Prevent global warming
   Conserve resources and energy to reduce emissions of greenhouse gases.
2. Use resources effectively and reduce waste
   Minimize and collect waste, recycling products where possible.
3. Promote harmony with the environment
   Achieve a balance between nature's mechanisms and human activities by creating development plans that take into account the preservation of the natural environment and its cycles, while implementing measures to counter natural disasters.
4. Support and participate in regional societies' activities
   Aggressively participate in and support regional environmental preservation efforts.
5. Preserve the ozone layer
   Collect and reuse or break down emissions that are harmful to the ozone layer.

Prevent global warming One way the Company endeavors to prevent global warming is by reducing emissions of greenhouse gases through our operations. In addition to using cogeneration systems to pre-process exhaust, we employ solar cell electric power generation systems, and proactively use and install energy-efficient equipment.

	2003	2004	**2005**
Greenhouse gas emissions[1,2] (tonnes of CO_2)	38,330	42,181	**44,533**

Notes: 1. Refers to greenhouse gas emissions each fiscal year resulting from the use of electricity, natural gas, fuel oil and heat supply.
Electricity: 0.357 kg CO_2/kWh; natural gas: 2.2 kg CO_2/m³;
fuel oil: 2.9 kg CO_2/l; heat supply: 0.067 kg CO_2/mJ
2. As reducing the use of electricity in tenant-occupied areas of leased buildings is difficult to control and measure, these amounts have been excluded.

Reduce resource use As the preservation of forests helps restrain global warming, we are reducing our use of paper products, particularly our raw pulp requirements. Our offices use 100% recycled paper, and office paper refuse is recycled into toilet paper. Such efforts have reduced our use of raw pulp.

	2003	2004	**2005**
Raw pulp usage (tonnes)	3.4	2.3	**0.8**

Minimize waste by-products The primary loads that the real estate business places on the environment are in the development of buildings and equipment—including the planning, design and construction stages—as well as building operation, refurbishment and removal. NTT Urban Development endeavors to minimize these burdens through aggressive measures to reduce construction by-products at every stage of its operations. In particular, we have begun employing "green building design," through which we reduce waste products at each stage, beginning from the determination of designs and construction methods.

Reuse of construction by-products (fiscal 2005)	Generated initially (tonnes)	Final disposal (tonnes)
Concrete waste	4,480.90	2.7
Asphalt/concrete waste	40.7	0
Wood waste	306.7	34.7
Other	2,893.20	674.8

Fiscal 2005 Environmental Targets and Levels of Achievement

Item	Policy	Fiscal 2005 target	Level of Achievement
Greenhouse gas emissions	Reduce CO_2 emissions by economizing on use of electricity and natural gas.	For buildings where comparison is possible, reduce emissions by 1% of previous year's level (to less than 40,935 tonnes of CO_2).	Target not achieved Result: 42,838 tonnes of CO_2 (total volume: 44,533 tonnes)
Reduce paper waste	Reduce demand for raw pulp by promoting the use of 100% recycled paper.	For buildings where comparison is possible, reduce waste by 1% of previous year's level (to less than 2.3 tonnes).	Target achieved Result: 0.8 tonnes
	Reduce overall use of paper.	For buildings where comparison is possible, reduce waste by 1% of previous year's level (to less than 193.2 tonnes).	Target not achieved Result: 197.6 tonnes
Waste (construction by-products)	By recycling construction by-products continue to reduce this waste.	Achieve a recycle volume[3] of more than 95% (concrete, asphalt/concrete and wood products).	Target achieved Result: 99.3%

Note 3: Indicates that, with the exception of waste that was transported directly from construction sites to final treatment facilities, all such products were recycled.

Basic Policies on Corporate Governance

The Company recognizes strong corporate governance as a key management issue, and views the implementation of such measures as one of the most important methods of maximizing corporate value. We believe that strong corporate governance deepens our trust-based relationships with our stakeholders, including shareholders and other investors, as well as customers, business partners and the societies in which we operate. Through its corporate governance initiatives, the Company aims to ensure management transparency, strengthen accountability, and promote appropriate risk management, compliance and the adherence to corporate ethics standards, as well as raise management efficiency.

Implementation of Corporate Governance Measures

Management decision making, executive and supervisory control structures and other corporate governance systems

a) Internal Organizations

NTT Urban Development employs a system of corporate auditors. As stipulated in Japan's Commercial Code, our internal organizations include a General Ordinary Meeting of Shareholders, a Board of Directors and a Board of Corporate Auditors. We have also established a Management Council that advises the President on matters within his decision-making capacity. The Management Council deliberates matters of management importance, with the goal of ensuring speedy execution of duties and decision making.

b) Internal Control System

The figure below illustrates the Company's systems to promote management decision making, executive and supervisory control and corporate governance.

c) Risk Management System

The Company's risk management initiatives aim to promote and increase corporate value by understanding the internal and external risks borne by our operations, implementing pertinent countermeasures and ensuring appropriate management decisions.

d) Internal Audits, Audits by Corporate Auditors and Accounting Audits

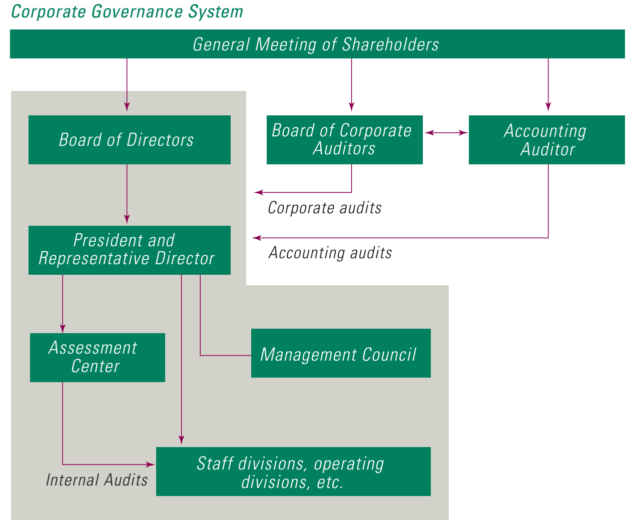
Internal Audits and Audits by Corporate Auditors

The Company's internal control system includes a three-person Assessment Center, which acts as an internal audit department and reports directly to the President. This center, which is independent from the execution of other duties, performs internal audits. Based on internal audit plans, the Assessment Center verifies that the Company's operating activities conform to relevant laws and regulations, the Articles of Association and management policies and plans. The center is responsible for uncovering any issues that may exist and proposing solutions. Such activities are designed to raise management efficiency and profitability, and to contribute to the overall health of the corporate group.

Accounting Audit

NTT Urban Development's consolidated financial statements for the year ended March 31, 2004, have been audited by ChuoAoyama PricewaterhouseCoopers, independent auditors. This audit was performed in accordance with the Securities Exchange Law and Law for Special Exceptions to the Commercial Code Concerning Audit of Joint-Stock Companies.

Corporate Governance System



Financial Section

Operating Performance

Net sales

During fiscal 2005, ended March 31, 2005, the Company posted net sales of ¥96,188 million, up 2.8% from the preceding term. The primary reason for this rise was an increase in revenues from the residential property sales business segment.

LEASING BUSINESS Revenues from the leasing business segment increased 1.8%, to ¥73,816 million. Driving this rise were revenues from newly completed office buildings, such as the Urbannet Sapporo Building, which buoyed segment revenues ¥1,887 million. This growth more than offset the negative effects of downward rent adjustments and the liquidation of consolidated subsidiaries, which reduced revenues ¥278 million and ¥257 million, respectively.

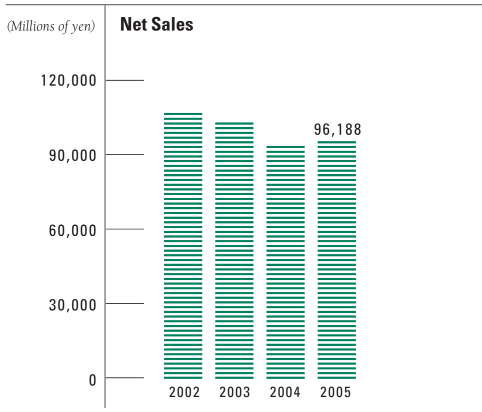
RESIDENTIAL PROPERTY SALES BUSINESS In this segment, revenues surged 27.7%, to ¥14,593 million, as the number of new units sold increased considerably during the year, helped by the completion and sale of condominiums at The Suwayama Residence and other projects.

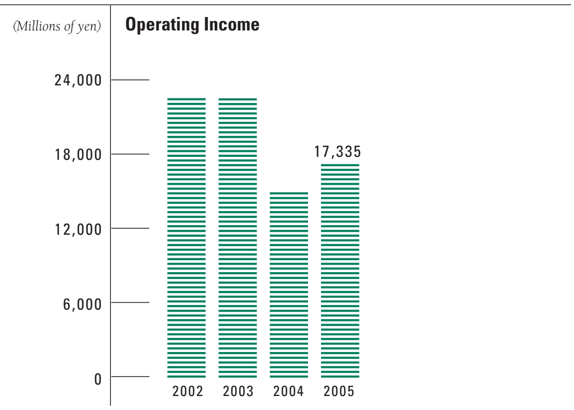
OTHERS Other business revenues declined 2.4%, to ¥12,032 million. The primary reason was a ¥568 million decrease in revenues owing to the liquidation of subsidiaries.

Gross profit

The Company reduced cost of sales 0.5%, to ¥69,692 million. In the leasing business segment, the completion of new buildings pushed up cost of sales. However, lower depreciation costs on existing properties more than offset this rise, and the total cost of sales in this segment consequently fell, compared with the preceding year. Cost of sales rose in the residential property sales business segment, in line with the sharp expansion in the number of condominiums sold during the year, whereas cost of sales declined in the other business segment, as we reduced the number of consolidated subsidiaries. As a result, gross profit rose 12.7%, to ¥2,992 million.

Fiscal years ended March 31





Operating income

Selling, general and administrative expenses grew 7.8%, to ¥9,160 million, affected by the adoption of external taxation standards and higher advertising costs in the residential property sales segment. Outpacing this rise, operating income improved 15.5%, to ¥2,329 million.

Income before income taxes and minority interests

During the year, the Company posted new share issuance expenses of ¥574 million. However, interest expense was ¥1,983 million less than one year previously, as deferred charges that were paid in fiscal 2004 were absent in fiscal 2005. The loss on disposal of property and equipment also decreased ¥514 million, resulting in income before income taxes and minority interests of ¥5,522 million, up 83.0%.

Net income

Income taxes amounted to ¥4,987 million, up 71.5%. Net income surged 92.0%, to ¥7,182 million.

Financial Position

Consolidated balance sheet highlights

On March 31, 2005, total assets were slightly higher than one year previously, mainly because of increases in property and equipment and the acquisition of investment securities. Inventories also grew, particularly in the residential property sales business segment.

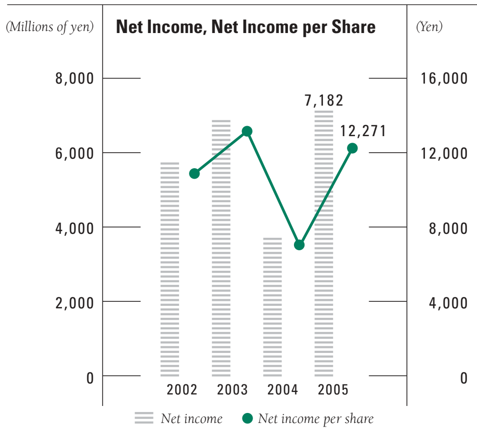
Liabilities decreased, due primarily to reduced short-term borrowings. Shareholders' equity expanded, chiefly caused by the issuance of new shares.

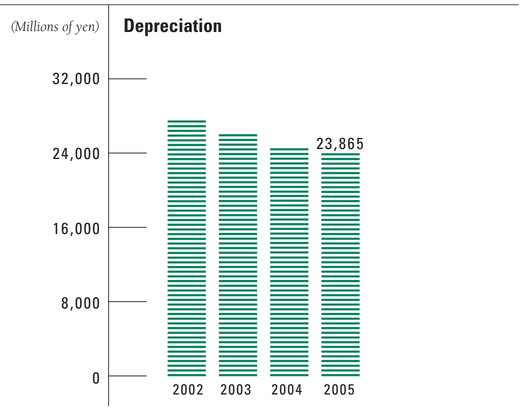
Consolidated statements of cash flows

Net cash provided by operating activities was ¥24,572 million, ¥3,115 million higher than in the preceding term. Although income before income taxes and minority interests increased, higher inventory assets and income taxes paid both required more cash than during the previous year.

Net cash used in investing activities was ¥27,812 million, down ¥2,851 million from the previous year's requirements. Major uses of cash were purchases of property and equipment and purchases of investment securities.

Fiscal years ended March 31





The Company used cash flow from financing activities to repay long-term debts, thereby reducing capital. Because we also issued new shares during the year, net cash provided by financing activities was up ¥1,658 million, to ¥7,081 million. At the end of the year, Rating and Investment Information, Inc., rated the Company's commercial paper a-1, the highest possible level for short-term debt. The agency also accorded NTT Urban Development's corporate bonds, or long-term debt, an A+ rating.

Capital Expenditures

NTT Urban Development and its consolidated subsidiaries invest in new construction projects, both to increase the level of contribution provided by the leasing business and to expand our overall business activities. Our primary capital expenditures during fiscal 2005 are outlined in the chart to the right. Capital expenditures in the leasing business included ¥4,678 million for the Urbannet Sapporo Building and ¥5,771 million for the Urbannet Nagoya Building.

Business Segment	Capital Expenditures (Millions of yen)
Leasing business	17,827
Residential property sales business	4
Others	13
Subtotal	17,844
Elimination and corporate	66
Total	17,911

Operating Risks

Leasing business risk

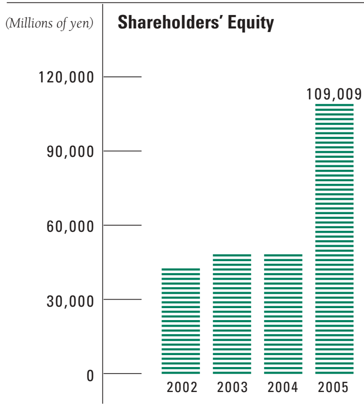
In fiscal 2005, the leasing business segment accounted for 73.5% of net sales. As this business tends to be easily affected by changes in the operating environment, a worsening demand-supply situation in the real estate market could cause vacancy rates to increase and leasing rates to decline. This situation could substantially impact the operating performance of the NTT Urban Development Group. Furthermore, changes in our major tenants' financial resources, a major tenant departure or changes in usage patterns could affect our real estate utilization rate, thereby significantly affecting business real estate revenues.

Residential property sales business risk

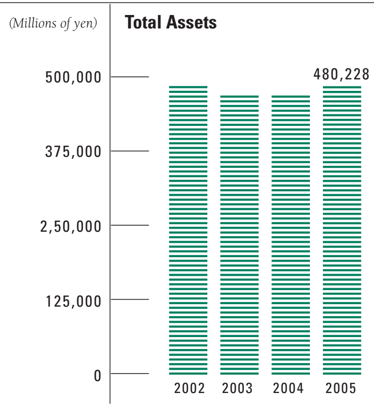
In the residential property sales business sector, the Company primarily operates in Tokyo and the surrounding metropolitan area. Industry rivalry is expected to become more intense, and within the next several years numerous high-rise condominium towers are likely to be built. The resulting increase in the supply of condominiums available on the market could cause competition to become even more severe. This scenario could cause residential housing prices to decline, and have an impact on Group business performance.

As of March 31

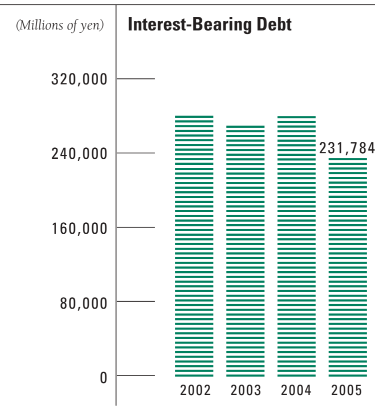
Shareholders' Equity



Total Assets



Interest-Bearing Debt



Risk of damage or loss on buildings

A major earthquake, flood or other natural disaster, fire, accident or terrorist incident could cause damage, loss or deterioration of the real estate we hold for leasing. Such an incident could affect the business performance of the Group.

Effect of implementing impairment loss accounting

On August 9, 2002, the Business Accounting Council in Japan issued the Accounting Standard for Impairment of Fixed Assets. This standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Given the current business environment, we have judged that the Group holds few fixed assets that are subject to impairment loss accounting. However, a substantial downturn in the real estate market might necessitate impairment loss accounting for business real estate, which could impact the Group's business performance.

Effects of interest-bearing debt

At the end of the year ended March 31, 2005, the Company's interest-bearing debt was ¥231,784 million, substantially lower than one year previously. A rise in market interest rates could affect the business developments of the Group. Also, the Group's capital procurement activities could be hampered by changes in the capital markets, the credit limits extended by financial institutions, business failures by such institutions or by downgrades in the Group's debt ratings.

Significant Management Contracts

Preferential investment in special-purpose company for Akihabara Eki-mae development

NTT Urban Development and Kajima Corporation have formed the UDX Special-Purpose Company (SPC) to raise a portion of the funds from the Tokyo metropolitan government designated for the purchase of land and construction of a building in connection with the aforementioned development project. On February 24, 2005, NTT Urban Development provided preferential investment of ¥5.8 billion, for a total investment in this company of ¥11.6 billion.

On June 26, 2002, NTT Urban Development provided preferential investment of ¥5.0 billion to the SPC, plus another ¥3.85 billion on February 24, 2004. Consequently, at the end of the fiscal year ended March 31, 2005, the Company's outstanding investment in the SPC was ¥14.65 billion.

Consolidated Balance Sheets

As of March 31, 2004 and 2005

Assets

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Current assets:			
Cash and cash equivalents	¥ 6,362	¥ 10,203	$ 95,014
Time deposits and short-term investments	20	20	186
Notes and accounts receivables, trade	4,446	6,291	58,588
Less allowance for doubtful receivables	(0)	(7)	(66)
Inventories (Note 4)	8,074	13,685	127,433
Deferred tax assets (Note 12)	237	238	2,222
Other current assets	2,238	2,384	22,203
Total current assets	21,378	32,816	305,582
Property and equipment (Notes 7 and 14):			
Buildings and structures	578,295	587,313	5,468,977
Machinery and vehicles	13,008	13,346	124,277
Tools, furniture and fixtures	11,919	12,334	114,855
Land	59,788	60,612	564,411
Construction in progress	4,802	7,087	66,001
Sub-total	667,813	680,693	6,338,522
Less accumulated depreciation	(263,830)	(284,248)	(2,646,879)
Property and equipment, net	403,983	396,445	3,691,642
Investments and other assets:			
Investment securities (Note 5)	11,835	20,138	187,529
Long-term prepaid expenses	23,953	22,525	209,755
Intangible assets, net	2,036	1,910	17,790
Deferred tax assets (Note 12)	3,125	4,901	45,642
Other assets	1,606	1,496	13,933
Less allowance for doubtful receivables	(6)	(6)	(61)
Total investments and other assets	42,551	50,966	474,590
Total assets	¥ 467,914	¥ 480,228	$ 4,471,815

The accompanying notes are an integral part of the financial statements.

Liabilities and Shareholder's Equity

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Current liabilities:			
Short-term borrowings (Note 6)	¥ 19,000	¥ 10,000	$ 93,118
Current portion of long-term debts (Note 6 and 7)	37,780	45,223	421,118
Notes and accounts payable, trade	5,957	4,523	42,117
Accrued income taxes (Note 12)	407	1,449	13,501
Other current liabilities (Note 6)	20,102	15,125	140,845
Total current liabilities	83,249	76,322	710,701
Long-term liabilities:			
Long-term debts (Note 6 and 7)	217,839	176,560	1,644,109
Accrued employees' retirement benefits (Note 8)	723	4,670	43,494
Accrued directors' and corporate auditors' retirement benefits	239	235	2,188
Deposits from tenants	117,803	113,336	1,055,368
Other long-term liabilities	46	5	54
Total long-term liabilities	336,653	294,808	2,745,216
Minority interests in consolidated subsidiaries	83	88	820
Shareholders' equity (Notes 9 and 18):			
Common stock:			
Authorized—2,100,000 shares;			
Issued—526,240 shares in 2004 and 658,240 shares in 2005	26,320	48,760	454,046
Capital surplus	0	34,109	317,625
Retained earnings	21,405	25,903	241,206
Unrealized gain on securities	202	236	2,198
Total shareholder s' equity	47,928	109,009	1,015,076
Total liabilities and shareholders' equity	¥467,914	¥480,228	$4,471,815

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Income

Years ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Net sales	¥93,556	¥96,188	$895,692
Cost of sales	70,052	69,692	648,968
Gross profit	23,503	26,495	246,723
Selling, general and administrative expenses (Note 10)	8,497	9,160	85,302
Operating income	15,005	17,335	161,421
Other income (expenses):			
Interest income	0	2	27
Interest expense	(4,929)	(3,562)	(33,171)
Equity in earnings of affiliates	104	125	1,165
Other expenses, net (Note 11)	(3,529)	(1,725)	(16,071)
	(8,353)	(5,160)	(48,050)
Income before income taxes and minority interests	6,652	12,174	113,370
Income taxes (Note 12):			
Current	2,939	6,786	63,194
Deferred	(31)	(1,798)	(16,750)
Total income tax	2,908	4,987	46,444
Minority interests	(3)	(4)	(44)
Net income (Note 13)	¥ 3,740	¥ 7,182	$ 66,881

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31,2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Common stock:			
Balance at beginning of the year	¥ 26,320	¥26,320	$245,087
Add:			
New shares issued (2005—132,000 shares)	—	22,440	208,958
Balance at end of the year	¥ 26,320	¥48,760	$454,046
Capital Surplus:			
Balance at beginning of the year	¥ 0	¥ 0	$ 0
Add:			
New shares issued (2005—132,000 shares)	—	34,108	317,616
Balance at end of the year	¥ 0	¥34,109	$317,625
Retained earnings:			
Balance at beginning of the year	¥ 20,350	¥21,405	$199,320
Add:			
Net income	3,740	7,182	66,881
Deduct:			
Cash dividends paid	(2,631)	(2,631)	(24,501)
Bonuses to directors and corporate auditors	(54)	(53)	(493)
Balance at end of the year	¥ 21,405	¥25,903	$241,206
Unrealized gain on securities:			
Balance at beginning of the year	¥ 66	¥ 202	$ 1,885
Net change during the year	136	33	313
Balance at end of the year	¥ 202	¥ 236	$ 2,198

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Operating activities:			
Income before income taxes and minority interests	¥ 6,652	¥ 12,174	$ 113,370
Adjustment for:			
Depreciation and amortization	24,658	23,865	222,233
Increase (decrease) in allowance for doubtful receivables	(2)	7	65
Increase in accrued employees' retirement benefits	245	3,947	36,754
Interest and dividends income	(27)	(29)	(276)
Interest expense	4,929	3,562	33,171
Commissions paid on early repayments	1,983	—	—
Equity in earnings of affiliates	(104)	(125)	(1,165)
Gain on sales of property and equipment	(722)	(322)	(3,007)
Loss on sales of property and equipment	206	—	—
Loss on disposal of property and equipment	2,219	1,704	15,875
Loss on devaluation of investment securities	76	—	—
(Increase) decrease in notes and accounts receivable, trade	1,707	(1,845)	(17,184)
(Increase) decrease in inventories	2,014	(4,142)	(38,577)
Increase (decrease) in notes and accounts payable, trade	478	(1,434)	(13,361)
Decrease in deposits from tenants	(9,661)	(2,961)	(27,577)
Bonuses to directors and corporate auditors	(54)	(53)	(493)
Other	(4,663)	2,056	19,147
Sub-total	29,934	36,402	338,975
Interest and dividends received	60	64	601
Interest paid	(5,206)	(3,779)	(35,192)
Commissions paid on early repayments	(1,983)	—	—
Income taxes paid	(1,347)	(8,115)	(75,570)
Net cash provided by operating activities	21,457	24,572	228,813
Investing activities:			
Decrease in time deposits	35	—	—
Purchases of property and equipment	(27,748)	(19,834)	(184,692)
Proceeds from sales of property and equipment	2,215	327	3,044
Purchases of investment securities	(3,882)	(8,159)	(75,980)
Other	(1,284)	(146)	(1,360)
Net cash used in investing activities	(30,663)	(27,812)	(258,988)
Financing activities:			
Net increase (decrease) in short-term borrowings	11,000	(9,000)	(83,806)
Net increase (decrease) in commercial paper	4,000	(4,000)	(37,247)
Proceeds from long-term borrowings	59,300	8,000	74,494
Repayments of long-term borrowings	(64,814)	(31,835)	(296,449)
Proceeds from issuance of bonds	10,000	—	—
Payments of redemption of bonds	—	(10,000)	(93,118)
Payments of other long-term accounts payable	(11,431)	—	—
Proceeds from issuance of new shares of common stock	—	56,548	526,574
Cash dividends paid	(2,631)	(2,631)	(24,501)
Net cash provided by financing activities	5,422	7,081	65,945
Net increase (decrease) in cash and cash equivalents	(3,783)	3,841	35,770
Cash and cash equivalents at beginning of the year	10,146	6,362	59,244
Cash and cash equivalents at end of the year	¥ 6,362	¥ 10,203	$ 95,014

The accompanying notes are an integral part of the financial statements.

1. Basis of Presentation

The accompanying consolidated financial statements of NTT Urban Development Corporation (the "Company") and its subsidiaries are prepared on the basis of generally accepted accounting principles in Japan, which are different in certain aspects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The information disclosed in the accompanying consolidated financial statements is translated from the original text and the scope and nature of the information is limited to those disclosed therein. However, certain reclassifications have been made to present the accompanying consolidated financial statements in a format that is familiar to readers outside Japan.

As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen have been truncated. Consequently, the totals shown in the accompanying consolidated financial statements (both in Japanese yen and U.S. dollars) do not necessarily agree with the sum of the individual accounts.

2. Summary of Significant Accounting Policies

(a) Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of the companies controlled directly or indirectly by the Company. All significant inter-company balances and transactions have been eliminated on consolidation. Upon acquisition of a subsidiary, all of its assets and liabilities are revalued to their respective fair value at the date of acquisition.

The consolidated subsidiaries as of March 31, 2004 and 2005 are as follows:

2004	2005
NTT Hokkaido Espace Corporation	NTT Hokkaido Espace Corporation
Otemachi First Square Inc.	Otemachi First Square Inc.
GP Building Management Co. Ltd.	GP Building Management Co. Ltd.
NTT Urban Development Builservice Co.	NTT Urban Development Builservice Co.
Knox Twenty-One Co., Ltd.	Knox Twenty-One Co., Ltd.
DN Food Co., Ltd.	DN Food Co., Ltd.
Motomachi Parking Access Co., Ltd.	Motomachi Parking Access Co., Ltd.

In addition, NTT Asset Planning Co., Ltd. was liquidated for the year ended March 31, 2004. It has been excluded from the scope of consolidation. However, its statements of income and statements of cash flows up to the liquidation are consolidated.

The companies over which the Company exercises significant influence in terms of their operating and financial policies are included in the consolidated financial statements on an equity basis.

The affiliated companies accounted for by the equity method as of March 31, 2004 and 2005 are as follows:

2004	2005
Tokyo Opera City Building Co., Ltd.	Tokyo Opera City Building Co., Ltd.
DHC Tokyo Co., Ltd.	DHC Tokyo Co., Ltd.
Tokyo Opera City Heat Supply Co., Ltd.	Tokyo Opera City Heat Supply Co., Ltd.
UDX Special Purpose Company	UDX Special Purpose Company
	Crossfield Management Corporation

All of the above-shown consolidated subsidiaries and affiliated companies use a fiscal year ending on March 31 for each year, which is the same as the fiscal year of the Company.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, which can be withdrawn at any time, and short-term investments with an original maturity of three months or less, which can be easily converted to cash and are subject to only an insignificant risk of change in value.

(c) Inventories

Inventories are stated at cost determined by the specific identification method.

(d) Short-term Investments and Investment Securities

Marketable securities are stated at fair value with changes in unrealized gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities are stated at cost. Cost of securities sold is determined by the moving average method.

(e) Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment of the Company and its subsidiaries is calculated principally by the declining-balance method, except that the straight-line method is applied to all buildings acquired subsequent to April 1998 as well as three other buildings, based on their estimated useful lives; 15 to 50 years for buildings and structures, 5 to 17 years for machinery and vehicles, and 2 to 20 years for tools, furniture and fixtures. Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income when incurred.

(f) Intangible Assets and Amortization

Intangible assets are stated at cost. Amortization of intangible assets is calculated by the straight-line method.

Capitalized software for internal use is amortized over its estimated useful life (five years).

(g) Long-term Prepaid Expenses

Amortization of long-term prepaid expenses is calculated by using the straight-line method.

(h) New share issuance expenses

Expenses relating to new share issuance are charged to income when incurred.

(i) Leases
Non-cancelable finance leases are accounted for as operating leases. However, if lease agreements stipulate that the ownership of the leased assets is to be transferred to the lessee, they are accounted for as finance leases.

(j) Retirement Benefits
Accrued employees' retirement benefits have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet dates, adjusted for unrecognized actuarial differences and unrecognized prior service cost. The retirement benefit obligation is attributed by the straight-line method to each period over the estimated years of service of the eligible employees.

Actuarial differences are amortized following the year in which the differences are recognized by the straight-line method over the eligible employees' average remaining period of service.

Prior service cost is amortized as incurred by the straight-line method over the estimated years of service of the eligible employees.

In addition, directors and corporate auditors of the Company and certain subsidiaries are entitled to lump-sum payments under their respective unfunded severance benefits plans. Provision for the indemnity for such benefits are estimated amounts, which would be payable if all of them were to retire on the balance sheet date.

(k) Income Taxes
Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for estimated future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of assets and liabilities.

Deferred tax assets and liabilities are measured using the enacted tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(l) Revenue Recognition
Revenues from sale of land and residential houses are recognized when units are delivered and accepted by customers. Revenues from leasing of land and buildings are recognized as rent accrued over the lease-term.

Allowance for doubtful receivables is provided based on the Company's historical write-off rate in addition to an estimate of irrecoverable amounts for doubtful receivables on a specific account basis.

(m) Consumption Taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of these taxes.

(n) Derivatives
The Company and certain subsidiaries have entered into derivative transactions in order to manage certain risks arising from adverse fluctuations with interest rates. Derivative financial instruments are stated at fair value with changes in unrealized gain or loss charged to income, except for those that meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Interest swaps which meet specific criteria are not re-measured at market value but the differences paid or received under swap agreements are recognized and included under interest expense or income.

(o) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings is made by a resolution of shareholders at a general meeting which must be held within three months after the end of each fiscal year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements represents the result of such appropriations applicable to the immediately preceding fiscal year which was approved by the shareholders and disposed of during that year.

(p) Accounting Standard for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council in Japan issued the Accounting Standard for Impairment of Fixed Assets (the "Standard"). The Standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impairment assets or a group of assets to the recoverable amount, is the higher of net selling price and value in use.

The Standard shall be effective for fiscal years beginning April 1, 2005. However, earlier adoption is permitted for fiscal years beginning on or after April 1, 2004 and for fiscal years ending between March 31, 2004 and March 31, 2005.

The Company has not yet applied the Standard. Management is still in the process of assessing the impact; however, it believes that application of the Standard would not have a significant impact on the Company's consolidated financial statements.

3. *U.S. Dollar Amounts*

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of readers, using the exchange rate on March 31, 2005, which was ¥107.39 to U.S. $1. This translation should not be construed as a representation that the Japanese yen amounts have been or could be readily converted, realized or settled in U.S. dollars at the above or any other rate of exchange.

4. *Inventories*

Inventories as of March 31, 2004 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Land and condominiums for sale	¥ 479	¥ 1,559	$ 14,523
Land and condominium projects in progress	7,490	11,981	111,573
Raw materials, supplies and others	103	143	1,336
Total	¥8,074	¥13,685	$127,433

5. Securities

(a) The acquisition costs, carrying value and unrealized gains and losses of marketable securities as of March 31, 2004 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Acquisition cost:			
Equity securities	¥ 953	¥ 953	$ 8,880
Debt securities	59	59	558
Total	¥1,013	¥1,013	$ 9,438
Carrying value:			
Equity securities	¥1,301	¥1,355	$12,618
Debt securities	59	59	558
Total	¥1,361	¥1,415	$13,177
Unrealized gains:			
Equity securities	¥ 347	¥ 401	$ 3,738
Debt securities	0	0	0
Total	¥ 347	¥ 401	$ 3,738

(b) The aggregate book value of securities with no available fair value as of March 31, 2004 and 2005 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Unlisted domestic stocks (excluding those traded on the over-the-counter market)	¥ 547	¥ 553	$ 5,151
Unlisted preferred stocks	100	100	931
Investments in silent partnership	–	2,350	21,882
Total	¥647	¥3,003	$27,965

(c) The redemption schedule for securities with maturity dates as of March 31, 2004 and 2005, all of which are Japanese government bonds, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Due within one year	¥50	¥59	$558
Due after one year through five years	9	—	—
Due after five years through ten years	—	—	—
Due after ten years	—	—	—
Total	¥59	¥59	$558

(d) Investments in affiliates as of March 31, 2004 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Common stock	¥1,034	¥ 1,131	$ 10,533
Preferred stock	8,851	14,649	136,411
	¥9,886	¥15,780	$146,944

6.

Short-Term Debts and Long-Term Debts

Short-term debts and their weighted average interest rates as of March 31, 2004 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars	Weighted average interest rate	
	2004	2005	2005	2004	2005
Short-term bank loans	¥19,000	¥10,000	$93,118	0.2%	0.2%
Commercial paper included in other current liabilities	4,000	—	—	0.0%	—%

As of March 31, 2004 and 2005, long-term debts consist of the following:

Description	Interest rate	Maturity	Millions of yen 2004	Millions of yen 2005	Thousands of U.S. dollars 2005
Unsecured bonds	1.40%	2004	¥ 10,000	¥ —	$ —
Unsecured bonds	1.50%	2005	5,000	5,000	46,559
Unsecured bonds	0.70%	2006	7,500	7,500	69,838
Unsecured bonds	0.80%	2007	4,300	4,300	40,040
Unsecured bonds	0.60%	2007	5,000	5,000	46,559
Unsecured bonds	0.90%	2008	10,000	10,000	93,118
Borrowings from banks and other financial institutions:					
Secured	0.85–5.80%	2022	48,778	49,910	464,763
Unsecured	0.00–3.77%	2006–2014	165,041	140,073	1,304,348
			255,620	221,784	2,065,228
Less current portion			37,780	45,223	421,118
Total			¥217,839	¥176,560	$1,644,109

The maturities of long-term debts as of March 31, 2005 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
2006	¥ 45,223	$ 421,118
2007	40,333	375,581
2008	35,501	330,583
2009 and thereafter	100,725	937,944
Total	¥221,784	$2,065,228

7.

Mortgaged Assets

The assets mortgaged for long-term borrowing totaling ¥48,778 million and ¥49,910 million ($464,763 thousand) as of March 31, 2004 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Buildings	¥147,457	¥144,505	$1,345,615
Land	5,811	6,636	61,800
Total	¥153,269	¥151,142	$1,407,416

8.

Retirement Benefit Plans

The Company and certain subsidiaries have defined benefit plans for employees, consisting of Employees Pension Fund plans, which are established under the Welfare Pension Insurance Law of Japan, contract-type corporate pension plans and lump-sum payment plans, based on an employee's basic pay, length of service, and the conditions under which termination occurs.

The following table sets forth the funding and accrual status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2004 and 2005 for the Company's and its subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Retirement benefit obligation	¥(2,186)	¥(7,633)	$(71,077)
Plan assets at fair value	1,429	4,033	37,556
Unfunded retirement benefit obligation	(756)	(3,599)	(33,520)
Unrecognized actuarial differences	29	(1,075)	(10,011)
Unrecognized prior service costs	4	3	37
Accrued retirement benefits	¥ (723)	¥(4,670)	$(43,494)

The components of retirement benefit expenses for the years ended March 31, 2004 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Service costs	¥436	¥283	$2,643
Interest costs	42	211	1,972
Expected return on plan assets	(23)	(35)	(332)
Amortization of actuarial differences	26	7	65
Amortization of prior service costs	0	0	1
Employees' contribution	(38)	(14)	(131)
Retirement benefit expenses	¥443	¥453	$4,218

The assumptions used in accounting for the above plans as of March 31, 2004 and 2005 are as follows:

	2004	2005
Discount rates	2.5%	2.5%
Expected rate of return on assets	2.5%	2.5%
Amortization period of unrecognized actuarial differences	10.8–11.5 years	10.5–13.2 years
Amortization period of unrecognized prior service costs	11.2–11.5 years	11.2–11.5 years

Transfer of the substituted portion of an employee pension plan to the government:

The retirement plan of the Company includes a portion of the Japanese government pension plan, which the Company manages on behalf of the government, in addition to the retirement benefit plan of the Company. In June 2001, the Contributed Benefit Pension Plan Law was enacted, which allows a company to transfer the portion of a pension plan that is managed on the Japanese government's behalf back to the government, thereby eliminating the Company's liability for benefits related to future employee services under that portion. In order to transfer that portion, the Company must obtain an approval from the Minister of Health, Labor and Welfare to be exempt from the obligation to pay benefits related to future employee services under that portion. In addition, the Company must obtain an approval from the Minister to separate the remaining benefit obligation under that portion in relation to past employee services. On obtaining the approval, the remaining benefit obligation under that portion (relating to past services) as well as the government-specified portion of the plan assets will be transferred to the government.

The Company applied for an exemption from the obligation to pay benefits relating to future employee services and received approval from the Minister of Health, Labor and Welfare on September 1, 2003. The amount of the government-specified portion of plan assets to be transferred to the government was ¥443 million and ¥873 million ($8,137 thousand) as of March 31, 2004 and 2005, respectively. Had the plan assets been transferred on that day, the projected gain would have been ¥341 million and ¥684 million ($6,373 thousand) for the year ended March 31, 2004 and 2005, respectively.

9. Shareholders' Equity

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which is included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of such reserve and additional paid-in capital equals 25% of common stock. The legal reserve amounted to ¥3,168 million and ¥3,437 million ($32,008 thousand) as of March 31, 2004 and 2005, respectively.

The Code provides that neither additional paid-in capital nor the legal reserve may be made available for dividends, but both may be used to reduce or eliminate a deficit by a resolution of the shareholders or may be transferred to common stock by a resolution of the Board of Directors. The Code also provides that if the total amount of additional paid-in capital and the legal reserve exceeds 25% of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

On November 4, 2004, the Company issued 132,000 shares with increase of common stock and additional paid-in capital by ¥22,440 million ($208,958 thousand) and ¥34,108 million ($317,625 thousand), respectively.

10. Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of the following for the year ended March 31, 2004:

	Millions of yen
Salaries, allowances and bonuses	¥2,823
Outsourcing	1,449
Advertising expenses	856
Employees' retirement benefits	315
Directors' and corporate auditors' retirement benefits	65

Selling, general and administrative expenses consist primarily of the following for the year ended March 31, 2005:

	Millions of yen	Thousands of U.S. dollars
Salaries, allowances and bonuses	¥2,947	$27,447
Outsourcing	1,421	13,236
Advertising expenses	1,115	10,389
Employees' retirement benefits	330	3,079
Directors' and corporate auditors' retirement benefits	72	673

11. Other Income (Expenses)

The components of "Other, net" in "Other income (expenses)" for the years ended March 31, 2004 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Dividends income	¥ 26	¥ 26	$ 248
Commission received	62	72	673
Contributions received in aid of construction	95	113	1,058
Gain from donated fixed assets	118	5	54
Cancellation fee income	63	—	—
Gain on sales of property and equipment	515	322	3,007
Gain on reversal of allowance for doubtful receivable	2	—	—
New share issuance expenses	—	(347)	(3,231)
Expenses relating to public offering	—	(227)	(2,121)
Commissions paid on early repayments	(1,983)	—	—
Loss on disposal of property and equipment	(2,219)	(1,704)	(15,875)
Loss on devaluation of investment securities	(76)	—	—
Loss on devaluation of memberships	(1)	—	—
Loss on liquidation of subsidiaries	(170)	—	—
Loss on discontinued operations	(14)	—	—
Other	51	12	114
Total	¥(3,529)	¥(1,725)	$(16,071)

The components of "Gain (Loss) on sales of property and equipment" in "Other income (expenses)" for the years ended March 31, 2004 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Land	¥ 722	¥ 322	$3,007
Buildings	(206)	—	—
Total	¥ 515	¥ 322	$3,007

The components of "Loss on disposal of property and equipment" in "Other income (expenses)" for the years ended March 31, 2004 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Buildings	¥(1,601)	¥(1,049)	$ 9,774
Structures	(148)	(38)	354
Removal cost	(419)	(550)	5,128
Tools, furniture and fixtures	(50)	(66)	618
Total	¥(2,219)	¥(1,704)	$(15,875)

12.

Income Taxes

Income taxes in Japan applicable to the Company and its consolidated subsidiaries consist of corporation tax, inhabitant's taxes and enterprise taxes, which, in aggregate, resulted in a statutory tax rate of 40.6% in both 2004 and 2005. Due to a revision of the Local Tax Law, which introduced the Businesses Scale Taxation as a part of the enterprise taxes, effective from the fiscal years beginning April 1, 2004, the amount of a value-added component and capital-based component in the enterprise taxes included in selling, general and administrative expenses is ¥203 million ($1,894 thousand) for the year ended 31, 2005.

Previously, the Company was a fully-owned subsidiary of Nippon Telegraph and Telephone Corporation ("NTT") and included in consolidated tax return system of NTT. Due to the public offering, the Company has been excluded from the scope of the Consolidated Tax System since November 3, 2004.

The significant components of deferred tax assets and liabilities as of March 31, 2004 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Deferred tax assets:			
Accrued bonuses	¥ 98	¥ 138	$ 1,291
Enterprise taxes payable	92	49	464
Loss on land devaluation	3,575	3,573	33,272
Depreciation	989	1,121	10,439
Accrued employees' retirement benefits	—	1,889	17,597
Other	528	324	3,017
Total	5,285	7,096	66,082
Deferred tax liabilities:			
Depreciation reserve for tax purpose	(1,504)	(1,795)	(16,716)
Other	(416)	(161)	(1,501)
Total	(1,921)	(1,956)	(18,217)
Net deferred tax assets	¥ 3,363	¥ 5,140	$ 47,865

For the years ended March 31, 2004 and 2005, no reconciliation is disclosed because the differences between statutory tax rates and effective tax rates are less than 5% of statutory tax rates.

13.

Amounts Per Share

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Net income	¥3,740	¥7,182	$66,881
Amounts not attributable to common stock:			
Bonuses to directors and corporate auditors by appropriation of retained earnings	53	67	631
Net income attributable to common stock	¥3,687	¥7,114	$66,249
The average number of common stock outstanding during the year	526,240 shares	579,763 shares	

	Yen		U.S. dollars
	2004	2005	2005
Net income per share:			
Basic	¥7,007.92	¥12,271.53	$114.27
Cash dividends per share	5,000	5,000	46.55

	Yen		U.S. dollars
	2004	2005	2005
Net assets per share	¥91,077.18	¥165,606.94	$1,542.10

Diluted net income per share is not disclosed because the Company does not have any dilutive securities. Basic net income per share was computed by dividing net income available for distribution to shareholders of common stock by the weighted average number of shares of common stock outstanding during the year. Amounts per share of net assets were computed by dividing net assets available for distribution to shareholders of common stock by the number of shares of common stock outstanding at the year end. Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

14.

Lease Transactions

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the Company's leased assets as of March 31, 2004 and 2005, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		
March 31, 2004	Acquisition cost	Accumulated depreciation	Net book value
Machinery and vehicles	¥ 84	¥ 45	¥ 39
Tools, furniture and fixtures	560	290	270
Intangible assets	160	65	94
Total	¥805	¥401	¥404

	Millions of yen			Thousands of U.S. dollars		
March 31, 2005	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and vehicles	¥ 84	¥ 60	¥ 23	$ 786	$ 563	$ 222
Tools, furniture and fixtures	582	251	331	5,423	2,338	3,085
Intangible assets	200	77	123	1,865	719	1,145
Total	¥867	¥388	¥478	$8,075	$3,621	$4,453

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥206 million and ¥162 million ($1,511 thousand) for the years ended March 31, 2004 and 2005, respectively, which are equal to the depreciation of the leased assets computed by the straight-line method over the respective lease terms with no residual value of assets for the years ended March 31, 2004 and 2005, respectively.

Interest implicit in these leases is included in the above minimum lease payments because of the immateriality of the leased property. Acquisition costs and future minimum lease payments under finance leases are also included in the imputed interest expense portion.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2004 and 2005 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Due within one year	¥139	¥154	$1,435
Due after one year	265	324	3,018
Total	¥404	¥478	$4,453

15. Derivative Transactions

The Company and certain subsidiaries have entered into derivative transactions in order to manage certain risks arising from adverse fluctuations of interest rates, but have not enter into such transactions for speculative or trading purposes. The Company and certain subsidiaries are exposed to credit risks in the event of nonperformance by the counterparties in the interest rate contracts; however, the Company's management believes that any such loss would be immaterial because all of these counterparties are banks with high credit ratings. The notional amounts and estimated fair value of outstanding derivative transactions have not been disclosed because interest rate swap hedge accounting is applied for all derivative transactions.

Principal hedging techniques and items hedged are as follows:

Techniques: interest rate swap contracts

Hedged items: borrowings

Under the Company's internal rules which prescribe the persons authorized to execute derivative transactions, the limits and other items concerning derivative transactions, transactions are executed by the finance department upon approval by the director in charge. Periodic assessment of hedge effectiveness is not performed because the swaps are interest swaps to which special matching criteria are applied.

16. Related Party Transactions

The Company has carried out transactions with NTT, its other subsidiaries, and its affiliated companies in the ordinary course of business.

Related party transactions for the year ended March 31, 2004 are as follows:

Group Companies		2004
Nature of relationship	Subsidiary of parent company	Subsidiary of parent company
Name of the related party	NTT Finance Japan Co., Ltd.	NTT Leasing Co., Ltd.
Equity ownership percentage	—	(Owned) direct 1.4%
Description of transactions	Borrowing	Money deposited
Transaction amount	¥ 6,000 million	¥7,500 million
Balance at year-end	¥37,200 million	—

Related party transactions for the year ended March 31, 2005 are as follows:

Officers and Principal Individual Shareholders, etc.		2005
Nature of relationship	Officer	Officer
Name of the related party	Hideki Tokunaga	Hideki Tokunaga
Equity ownership percentage	—	—
Description of transactions	Allotment sale of condominium	Rent of the Company residence
Transaction amount	¥9 million ($92 thousand)	¥1 million ($10 thousand)
Balance at year-end	—	¥0 million ($0 thousand)

Group Companies	2005
Nature of relationship	Subsidiary of parent company
Name of the related party	NTT Finance Japan Co., Ltd.
Equity ownership percentage	—
Description of transactions	Borrowing
Transaction amount	—
Balance at year-end	¥26,200 million ($243,970 thousand)

17. Segment Information

The Company and its subsidiaries are primarily engaged in the real estate business. Their business is principally classified into the following three segments in terms of the type, nature and markets of their business: leasing, residential property sales, and others. The leasing segment mainly engages in the leasing of building space. The residential property sales segment mainly engages in the sale of residential housing; primarily condominiums and houses. The other segment mainly engages in property management.

The business segment information for the Company and its subsidiaries for the years ended March 31, 2004 and 2005 is as follows:

	Millions of yen					
March 31, 2004	Leasing	Residential property sales	Others	Total	Eliminations or Corporate	Consolidated
Sales and operating income:						
Sales to third parties	¥ 72,103	¥11,423	¥10,028	¥ 93,556	¥ —	¥ 93,556
Inter-segment sales and transfers	429	–	2,300	2,730	(2,730)	—
Total sales	72,533	11,423	12,329	96,286	(2,730)	93,556
Operating expenses	56,722	10,747	11,317	78,788	(238)	78,550
Operating income	¥ 15,810	¥ 676	¥ 1,012	¥ 17,498	¥(2,492)	¥ 15,005
Assets, depreciation and capital expenditures:						
Total assets	¥431,904	¥11,562	¥ 7,209	¥450,676	¥17,237	¥467,914
Depreciation	24,611	2	18	24,632	26	24,658
Capital expenditures	29,304	1	13	29,320	176	29,496

March 31, 2005	Millions of yen Leasing	Residential property sales	Others	Total	Eliminations or Corporate	Consolidated
Sales and operating income:						
Sales to third parties	¥ 73,437	¥14,593	¥ 8,156	¥ 96,188	¥ —	¥ 96,188
Inter-segment sales and transfers	378	—	3,875	4,253	(4,253)	—
Total sales	73,816	14,593	12,032	100,442	(4,253)	96,188
Operating expenses	55,213	13,152	11,663	80,029	(1,176)	78,853
Operating income	¥ 18,602	¥ 1,441	¥ 368	¥ 20,412	¥ (3,077)	¥ 17,335
Assets, depreciation and capital expenditures:						
Total assets	¥423,051	¥18,779	¥ 6,709	¥448,540	¥31,688	¥480,228
Depreciation	23,686	1	3	23,692	173	23,865
Capital expenditures	17,827	4	13	17,844	66	17,911

March 31, 2005	Thousands of U.S. dollars Leasing	Residential property sales	Others	Total	Eliminations or Corporate	Consolidated
Sales and operating income:						
Sales to third parties	$ 683,841	$135,895	$ 75,955	$ 895,692	$ —	$ 895,692
Inter-segment sales and transfers	3,522	—	36,088	39,611	(39,611)	—
Total sales	687,364	135,895	112,043	935,303	(39,611)	895,692
Operating expenses	514,136	122,477	108,612	745,226	(10,955)	734,271
Operating income	$ 173,227	$ 13,418	$ 3,430	$ 190,076	$ (28,655)	$ 161,421
Assets, depreciation and capital expenditures:						
Total assets	$3,939,392	$174,872	$ 62,477	$4,176,741	$295,074	$4,471,815
Depreciation	220,569	18	32	220,620	1,613	222,233
Capital expenditures	166,002	37	128	166,168	616	166,785

Operating expenses not attributable to the business segments are included in Eliminations or Corporate, which amounted to ¥2,495 million and ¥3,079 million ($28,671 thousand) for the years ended March 31, 2004 and 2005, respectively.

Assets not attributable to the business segments, but included in Eliminations or Corporate, are mainly cash and deposits, investment securities and assets for administration. The balances of assets not attributable to the business segments amounted to ¥20,110 million and ¥34,489 million ($321,162 thousand) as of March 31, 2004 and 2005, respectively.

Capital expenditures and depreciation included payment for long-term prepaid expenses and its amortization expense.

The Company has not disclosed geographical segment information or overseas sales, since none of the Company's subsidiaries or important branches are located outside Japan, and the Company does not have any overseas sales.

18. *Subsequent Events*

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2005, were approved at a general shareholders' meeting held on June 22, 2005:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends:		
(¥5,000 = U.S.$46.55 per share)	¥3,291	$30,647
Bonuses to directors and corporate auditors	67	631

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

Report of Independent Auditors

To the Board of Directors of
NTT Urban Development Corporation

We have audited the accompanying consolidated balance sheets of NTT Urban Development Corporation (the "Company") and its subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 the Company and its subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama Pricewaterhouse Coopers

ChuoAoyama Pricewaterhouse Coopers
Tokyo, Japan
June 22, 2005

Company Information

As of March 31, 2005

OFFICIAL NAME	NTT Urban Development Corporation
HEADQUARTERS	2-2, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-0004, Japan
ESTABLISHED	January 21, 1986
PAID-IN CAPITAL	¥48,760 million
EMPLOYEES	446 (consolidated basis)
BRANCHES	Tokai, Kansai, Chugoku, Kyushu, Hokkaido

Directors

As of June 22, 2005

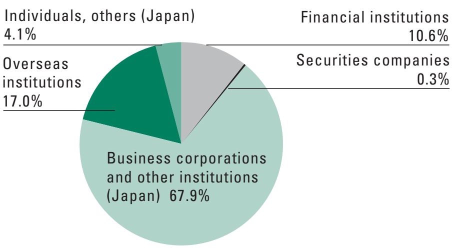
PRESIDENT AND REPRESENTATIVE DIRECTOR	Kiyoshi Mita			
EXECUTIVE DIRECTOR AND REPRESENTATIVE DIRECTOR	Masayasu Tango			
EXECUTIVE DIRECTORS	Takeomi Yasuda	Tsuneo Kumei	Hiroto Miyake	Seiya Wakaizumi
DIRECTORS	Yasuo Sajika	Kimito Muragishi	Nobuhiro Koga	Michihiko Kaite
	Hideki Tokunaga	Hiroshi Saito	Akitoshi Ito	Takahiro Okuda
	Yoshiharu Nishimura	Hiroshi Nakagawa	Seiji Uehara	
CORPORATE AUDITORS	Mitsuharu Otani	Reiichi Nakano		
CORPORATE AUDITORS *(part-time)*	Toshio Maegawa	Hirokazu Muto		

Share Information

As of March 31, 2005

COMMON STOCK	Number of authorized shares		2,100,000
	Number of issued and outstanding shares		658,240
SHAREHOLDERS			13,513
		Number of Shares Held	Equity Position (%)
PRINCIPAL SHAREHOLDERS	Nippon Telegraph and Telephone Corporation (NTT)	442,963	67.30
	The Chase Manhattan Bank, N.A., London	22,205	3.37
	The Master Trust Bank of Japan, Ltd. (Trust account)	22,201	3.37
	Japan Trustee Services Bank, Ltd. (Trust account)	15,506	2.36
	Bank of New York GCM Client Accounts EISG	12,188	1.85
	State Street Bank and Trust Company	11,589	1.76
	State Street Bank and Trust Company 505041	9,222	1.40
	The Bank of New York Treaty JASDAQ Account	6,329	0.96
	Trust & Custody Services Bank, Ltd. (Trust Account B)	4,847	0.74
	Japan Trustee Services Bank, Ltd. (Trust Account 4)	4,253	0.65

Shareholder Distribution
(Percentage investment)



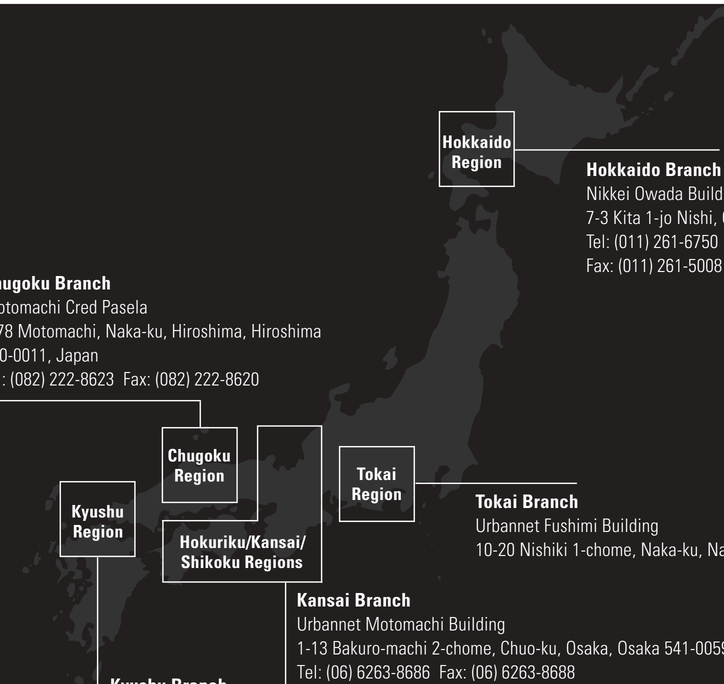
Affiliated Companies and Branch Network

Affiliated Companies

Consolidated Subsidiaries	Capitalization (Millions of yen)	Voting Rights	Fields of Operation
NTT Espace Corporation	50	100.0	Effective use and management of NTT-owned real estate in Hokkaido
Otemachi First Square Inc.	50	56.5	Management of Otemachi First Square building
GP Building Management Co., Ltd.	20	75.0	Management of Granpark Tower
NTT Urban Development Builservice Co.	300	100.0	Remodeling of buildings in the greater Tokyo metropolitan area
Knox Twenty-One Co., Ltd.	24	100.0	Operation of NTT Group's convention facilities
DN Food Co., Ltd.	40	100.0	Operation of restaurants catering to tenants of buildings owned by NTT Urban Development
Motomachi Parking Access Co., Ltd.	60	58.3	Maintenance of underground passages in Hiroshima's Motomachi area

Equity Method Affiliates			
Tokyo Opera City Building Co., Ltd.	20	23.7	Management of Tokyo Opera City building
DHC Tokyo Co., Ltd.	20	50.0	District heating and cooling services for Granpark Tower building
Tokyo Opera City Heat Supply Co., Ltd.	980	36.2	District heating and cooling services for Tokyo Opera City building
UDX Special Purpose Company	29,300	50.0	Development of Akihabara Ekimae 3-1 area
Crossfield Management Corporation	10	38.0	Development and management of Akihabara Crossfield

Branch Network



Hokkaido Branch
Nikkei Owada Building
7-3 Kita 1-jo Nishi, Chuo-ku, Sapporo, Hokkaido 060-0001, Japan
Tel: (011) 261-6750
Fax: (011) 261-5008

Chugoku Branch
Motomachi Cred Pasela
6-78 Motomachi, Naka-ku, Hiroshima, Hiroshima 730-0011, Japan
Tel: (082) 222-8623 Fax: (082) 222-8620

Tokai Branch
Urbannet Fushimi Building
10-20 Nishiki 1-chome, Naka-ku, Nagoya, Aichi 460-0003, Japan

Kansai Branch
Urbannet Motomachi Building
1-13 Bakuro-machi 2-chome, Chuo-ku, Osaka, Osaka 541-0059, Japan
Tel: (06) 6263-8686 Fax: (06) 6263-8688

Kyushu Branch
NTT-KF Building
4-38 Tenjin-machi, Chuo-ku, Fukuoka, Fukuoka 810-0001, Japan
Tel: (092) 731-6633 Fax: (092) 731-0978

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