

We create harmony.



NTT Urban Development Corporation

ANNUAL REPORT
For the year ended March 31, 2006

2006

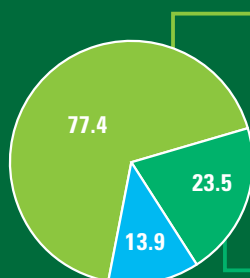
Continuing to Create Spaces that Provide an Ideal Balance between Living, Working and Playing

Established in 1986, NTT Urban Development Corporation is the sole comprehensive real estate company in the NTT Group. The Company has continued to expand its operations in Tokyo's Otemachi district and has participated in the urban development of various regions throughout Japan. In its ongoing efforts to enhance corporate value through long-term growth, NTT Urban Development will continue to expand its mainstay leasing business, generating a sustained and stable revenue base. The Company will also augment its residential property sales business as another pillar of future growth and work to develop fee-based business by leveraging its management of real estate funds.

"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. Our mission is to continue providing spaces that imbue both visitors and residents with feelings of calmness and well-being.

Composition of Net Sales in Fiscal 2006

Total: ¥110.8 billion



Leasing Business*

The leasing business is our core segment, accounting for approximately 70% of net sales. At the time of our establishment, we acquired land in favorable locations from our parent company, Nippon Telegraph and Telephone Corporation (NTT). We have developed approximately 100 office buildings and commercial facilities on this land, creating a well-balanced portfolio of superior assets throughout the country that generates attractive cash flows.

Residential Property Sales Business*

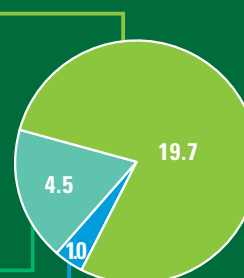
In this segment, we are striving to build the *Wellith* brand by leveraging the NTT brand value.

Others*

Operations in this segment include office building management, refurbishment construction and the management of food and beverage facilities.

Composition of Operating Income in Fiscal 2006

Total: ¥21.7 billion



* Segment figures include inter-segment transactions and transfers.

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Cautionary Note 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.

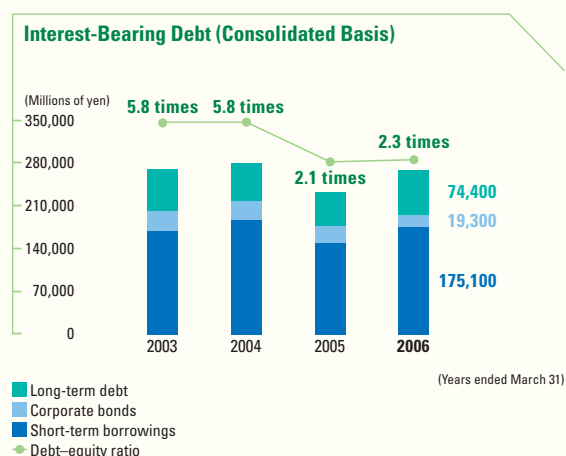
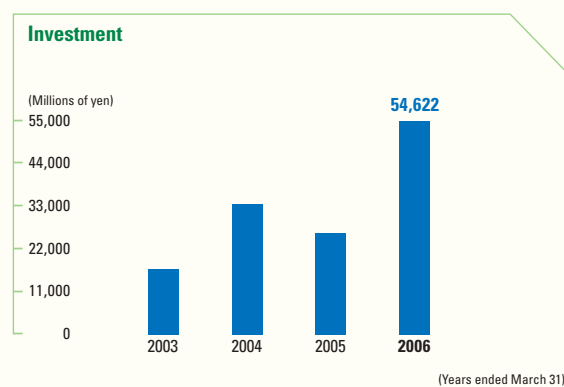
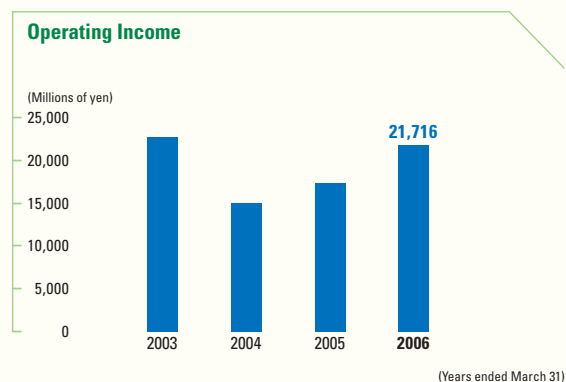
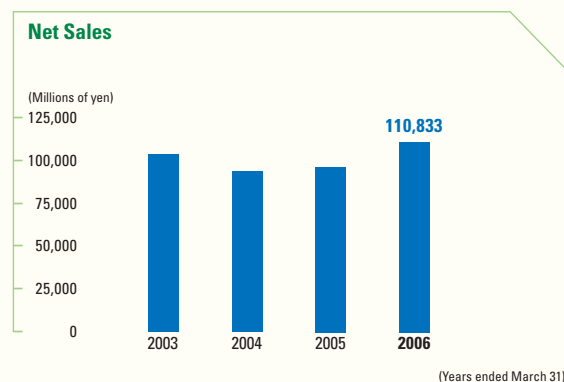
FINANCIAL HIGHLIGHTS

	Millions of Yen		Thousands of U.S. Dollars ³	
	2004	2005	2006	2006
Fiscal year data:				
Net sales	¥ 93,556	¥ 96,188	¥110,833	\$ 943,501
Operating income	15,005	17,335	21,716	184,871
Income before income taxes and minority interests	6,652	12,174	19,166	163,159
Net income	3,740	7,182	11,401	97,055
Investment ¹	33,378	26,070	54,622	464,988
Depreciation and amortization	24,658	23,865	23,828	202,846
Free cash flow ²	(9,206)	(3,240)	(22,913)	(195,061)
As of March 31:				
Total assets	467,914	480,228	543,792	4,629,200
Total shareholders' equity	47,928	109,009	115,696	984,898
Interest-bearing debt	278,620	231,784	268,942	2,289,457
Debt-equity ratio (times)	5.8	2.1	2.3	
Per-share data:				
Net income (yen, U.S. dollars)	7,007.92	12,271.53	17,201.07	146.42
Dividends (yen, U.S. dollars)	5,000	5,000	5,000	42.56
Employees	448	446	503	

Notes: 1. Includes capital investment and investments in securities

2. Free cash flow = Cash flows from operating activities + Cash flows from investing activities

3. The dollar amounts represent the arithmetical results of translating yen to dollars using the exchange rate prevailing on March 31, 2006, which was ¥117.47 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.



“We are steadily building up our operations to maximize corporate value.”

During fiscal 2006, ended March 31, 2006, the operation of new properties and a reduction in vacancy rates on existing properties pushed up leasing business sales. The residential property sales business benefited from a greater number of residences sold. As a result, the Company posted a record performance, with net sales of ¥110.8 billion and net income of ¥11.4 billion. During the year, our large-scale Akihabara UDX project opened. This facility has become a landmark of Tokyo's Akihabara district, which aims to become an IT center. As a publicly listed company, we will increase our shareholder-focused management orientation as we work to raise corporate value steadily over the long term.

Business Environment and Record Operating Performance

In fiscal 2006, the market had recovered from the so-called “2003 problem” of an oversupply of office space in central Tokyo. Vacancy rates on rental office space rapidly improved, and rents began to rise. Backed by this favorable market environment, revenues of the Company’s leasing business benefited from strong ongoing performance at existing buildings, such as Urbannet Otemachi Building, and the commencement of full-fledged operations for such new buildings as Urbannet Nagoya Building. As a result, Leasing segment sales improved 5.0%, to ¥77,488 million, and operating income expanded 6.3%, to ¥19,773 million.

Our residential property sales business delivered extremely strong operating results, owing to a massive increase in the number of residences sold. In this segment, net sales surged 61.3%, to ¥23,543 million, while operating income rocketed 212.5%, to ¥4,503 million. However, in November 2005 the Japanese real estate industry was rocked by a scandal involving the falsification of structural calculation reports, tarring the entire industry. An internal survey confirmed that we have absolutely no relationship with the architectural office that was implicated in this scandal and that our own earthquake resistance standards and quality levels meet all criteria of the Architectural Standards Law and other relevant regulations. Nevertheless, we recognize the need to take our social responsibility initiatives even more seriously than in the past.

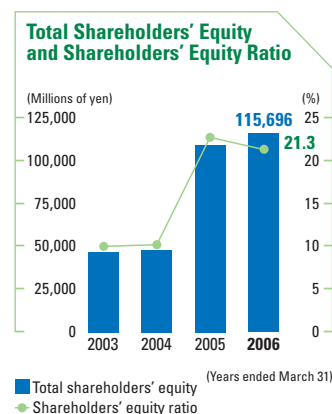
In the Others segment, operating results expanded apace, with sales increasing 16.0%, to ¥13,956 million. Operating income jumped 171.9%, to ¥1,001 million.

As a result of these positive results in each segment, net sales in fiscal 2006 totaled ¥110,833 million, up 15.2%. Operating income grew 25.3%, to ¥21,716 million, recurring income climbed 35.3%, to ¥18,346 million, and net income expanded 58.7%, to ¥11,401 million. These results represented historic highs for net sales, recurring income and net income.

Management Strategy Targets Record Performance in Fiscal 2007

Against the backdrop of a favorable real estate market, in fiscal 2007 we intend to surpass the performance targets set in Change & Proceed to 2007 (C&P07), the medium-term management plan we announced in May 2005, and hit new highs in net sales and all income categories. We anticipate net sales of ¥123.0 billion (up 11.0%), operating income of ¥23.5 billion (up 8.2%), recurring income of ¥21.5 billion (up 17.2%) and net income of ¥12.0 billion (up 5.3%).

In March 2006, Akihabara UDX, our extremely large-scale development project, opened its doors with tenancy contracts for all spaces. This multipurpose facility has floor space of 160,000 m² and has become a symbol of Tokyo’s up-and-coming Akihabara district—an area that has



“We are investing aggressively in preparation for future development.”



become affectionately known throughout the world as “Electric Town.” The extensive Akihabara UDX project aims to promote synergies with the town’s existing facilities. In 2007, we will commence construction on a chain redevelopment project in Otemachi, evincing our ability to participate in city redevelopment projects on a grand scale. We plan to invest ¥50.0 billion in new development projects similar to the Otemachi project and the acquisition of standing buildings in good locations for future development.

The leasing business provides a stable revenue base for the Company, generating regular ongoing cash flows, and we strive to maximize these earnings from existing projects. In addition to increasing service levels and maintaining low vacancy rates at existing properties, we are raising rents in line with the market, as well as expanding rentable area.

In the residential property sales business, we are building up our *Wellith* brand, which already has contributed to robust sales. We carefully select sites and product plans, while working to supply homes that answer increasingly diverse needs and meet growing demand for permanent dwellings. In our view, this market will support the steady expansion of our business. The key to success in residential property sales is to acquire the right land, and we have already purchased all the sites we need to build enough residences to meet our financial projections in this segment for fiscal 2007 and fiscal 2008.

Embarking on a new business, in March 2006 we set up a private-placement real estate fund that focuses on stable investments in office buildings in metropolitan Tokyo. Structuring funds out of office buildings that we have completed ourselves provides a way for us to exit from our building development investments. We are increasing our involvement in asset management, which focuses on the optimization of the portfolio assets within a fund, and property management, which enables us to operate and manage properties on behalf of other investors. These methods afford opportunities for us to shore up revenues through fee-based businesses without having to own the underlying assets.

Achieving Further Increases in Corporate Value

From the time our shares were listed publicly in November 2004, I believe that the speed at which we make management decisions has increased, and that executives and employees alike have become more attuned to achieving further corporate growth. As part of our aim to enhance corporate value, I view the acceleration of management and decision making as essential elements of our human resource efforts.

NTT Urban Development’s basic policy on distribution of profits is to maintain a stable level of dividends over the long term. To ensure the long-term growth of our real estate operations, we will distribute profits

to investors while maintaining adequate internal reserves to contribute to ongoing increases in our corporate value. We will use these internal reserves to invest in quality properties for future development, which in turn will raise corporate value even further.

Corporate Governance and CSR

In addition to our pursuit of profits as a company, we recognize that our social responsibilities include respecting all laws and regulations, contributing to shareholders, business partners and regional communities, and environmental consideration. We believe proper corporate governance plays a vital role in helping to satisfy these needs, responding to changes in the management environment and bolstering corporate value. To deepen trust-based relationships with all our stakeholders—including clients, business partners and the members of societies in all regions where we conduct business—we are stepping up efforts to guarantee management transparency and accountability, ensure the thoroughness of risk management and compliance initiatives, and raise management efficiency.

One step toward raising the level of our corporate social responsibility (CSR) activities was the December 2005 establishment of a CSR Promotion Department. Approaching CSR specifically from economic and social angles, as well as from an environmental perspective, we concentrate on maintaining the health and safety of urban environments through the sustainable design, development, preservation and management of urban spaces. We also intend to fulfill our social responsibility as a company through such measures as providing greenery on rooftops and wall areas, and aggressively conserving energy and reducing waste.

As the sole comprehensive real estate company in the NTT Group, we will maintain the respective autonomy of our operations and those of our parent company while at the same time seeking to maximize the profits of the NTT Group overall. As we continue expanding our business, the NTT Urban Development Group will work together to remain worthy of the trust of our shareholders, customers, tenants, employees and other stakeholders.

July 2006



Kiyoshi Mita
President and Chief Executive Officer



Medium- and Long-Term Management Policies

Having already achieved the major targets we set for ourselves in our medium-term management plan, **Change & Proceed to 2007 (C&P07)**, we are now forging ahead to establish new performance records.

Backed by recovery in the Japanese economy, demand for office space in central Tokyo remains robust, and vacancy rates continue to improve, painting an attractive backdrop for the rental office building market. Despite such factors as higher interest rates on home loans and potentially higher prices resulting from rising land values, the baby boomer generation should help to shore up overall demand for condominiums.

Under these conditions, the Company will remain aggressive in its mainstay office building development and leasing businesses, focusing specifically on enhancing its revenue base and raising service levels. We will also expand our residential property sales business and endeavor to grow our fee-based business through increasing involvement in such areas as real estate funds.

Business segment	Fiscal 2006, ended March 31, 2006 (Billions of yen)	Percentage increase (decrease)	Forecast for Fiscal 2007, ending March 31, 2007 (Billions of yen)
Net sales	¥110.8	11.0%	¥123.0
Leasing	77.4	9.3	84.7
Residential property sales	23.5	32.5	31.2
Others	13.9	(26.9)	10.2
Operating income	21.7	8.2	23.5
Leasing	19.7	15.3	22.8
Residential property sales	4.5	2.2	4.6
Others	1.0	(70.0)	0.3

Note: The decrease in sales in "Others" reflects an expected decrease compared with a temporary increase during the preceding term in contract construction orders from tenants.

Promoting Development

In fiscal 2006, we invested in new construction, including office buildings, which should contribute to future revenue growth. We also acquired business properties for future expansion. Altogether, the Company invested ¥54.6 billion in such activities. While keeping a close eye on our financial structure, we plan to invest another ¥50.0 billion in these areas in fiscal 2007.

1. Actively Participate in the Otemachi Redevelopment Project

Currently, we are planning the first-stage development of Otemachi common government office sites 1 and 2, as part of a chain redevelopment project that aims to recast these sites as an international business center. Using the joint government building sites as a linchpin, we will 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 development on the original holdings is completed. We will participate in the first phase of the Otemachi redevelopment project as a corporate partner, investing up to ¥30.0 billion over the course of the project, which is scheduled to last from April 2007 through March 2009.

The Otemachi district has been a core area for NTT Urban Development since its time of establishment, and is home to such landmark buildings as the Urbannet Otemachi Building and Otemachi First Square. We plan to remain actively involved in redevelopment projects in this vicinity.

2. Participate in Development Projects in Western Japan, Centered on Osaka

We are focusing on western Japan as the stage for our next round of development, following the Akihabara UDX and Otemachi redevelopment projects. In September 2005, the Urbannet Nagoya Building opened its doors with a full tenant roster. This facility offers some of the largest floor space in Nagoya's centrally located Sakae district.

In January 2006, we acquired the UD Kanematsu Building, located in Osaka's Midotsuji business district, and in Kyoto we acquired a site at a central crossroads for business and commerce. We are planning development projects on both sites.

Furthermore, after participating in the bidding to develop the A, B and C blocks of a plot located north of Osaka Station, in June 2006 we were selected as a member of the consortium to redevelop the B block. We will deploy our skills to maximum benefit on this North Yard urban redevelopment project, which is sited in an area where property is particularly scarce.



Artist rendering of the B block construction on a plot located north of Osaka Station

Expanding the Leasing Business

In fiscal 2007, we plan to improve service levels at existing properties, raise rents in line with the market, and actively engage in solution-based sales and subleasing. Through these efforts, we aim to secure net sales in the leasing business of ¥84.7 billion, up 9.3%, and achieve a 15.3% increase in operating income, to ¥22.8 billion.

1. Increase Rents on the Back of a Favorable Market Environment

As demand for office space increases, average rents in metropolitan Tokyo continue to rise, and the decline in rents in other regional cities appears to have stopped. In fiscal 2006, rental income from existing buildings rose for the first time since the emergence of the "2003 problem" of an over-supply of office space in central Tokyo, stemming from new construction. As rental contracts expire, we plan to raise rents to keep pace with favorable market conditions, which should expand revenues in fiscal 2007.

2. Engage in Aggressive Solution-Based Sales

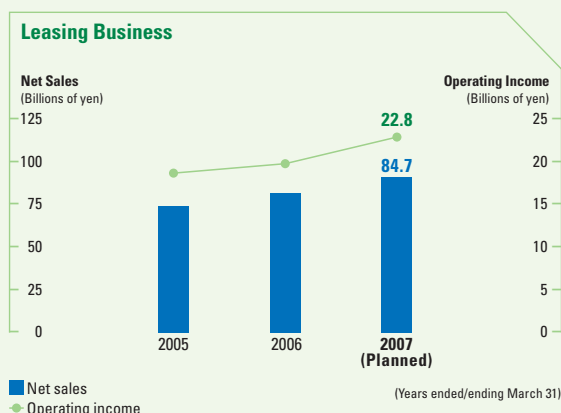
Targeting major tenants, including companies in the NTT Group, we will launch solution-based sales efforts. These sales include a chain of activity ranging from offering proposals on real estate utilization to providing mediation, relocation and construction services. In addition to meeting client needs, such efforts should increase our opportunities to acquire additional property.

3. Expand Total Rentable Floor Space through the Master-Lease Structure and Other Means

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. Implement Further Measures to Reduce Agency Commissions and Other Costs

We will continue our efforts to cut costs.



Growing the Residential Property Sales Business

We are expanding our volume of residential property sales as part of our efforts to entrench the *Wellith* brand. By increasing the number of condominiums and building lots sold, we aim to increase sales in this segment to ¥31.2 billion in fiscal 2007, an increase of 32.5%. We anticipate operating income of ¥4.6 billion, up 2.2%.

1. Building the *Wellith* Brand

We aim to increase our sales of condominiums to approximately 700 per year. Combined with the sale of building lots, this business should generate sales of approximately ¥30.0 billion. 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.

2. Accelerated Site Acquisition and Diversified Business Methods

To expand our residential property sales business, we are stepping up the pace with which we acquire development sites. In addition to purchasing sites from NTT Group companies, we are actively acquiring sites from outside entities, and our rate of acquisition is proceeding favorably as a result. In addition to utilizing the NTT Group's former corporate housing sites effectively, by acquiring sites from entities outside this group and collaborating with other developers we expect to continue the stable provision of residential property.



Major Projects Scheduled for Completion in Fiscal 2007

Project Name	Location	Units	Sales Ratio (%)
Tanta Town Albo no Oka (Phase II)	Yokohama	352	40.0
Mita 4-chome (one building sold)	Minato-ku, Tokyo	104	100.0
Wellith Garden Chiba Minato Koen	Chiba	146	60.0
Wellith Geo Umeda Residence	Osaka	137	60.0
Wellith Kemigawahama	Chiba	57	100.0
Wellith House Midorii	Hiroshima	63	55.0

Others

NTT Urban Development is moving assertively into the real estate fund business. In March 2006, we structured the NU-1 Fund as a private-placement real estate fund. In addition to providing an exit from our investments in buildings we have constructed, such funds enable us to enter such non-asset-based businesses as asset management (AM) and property management (PM), further expanding the scale of application of our assets.

NU-1 Fund

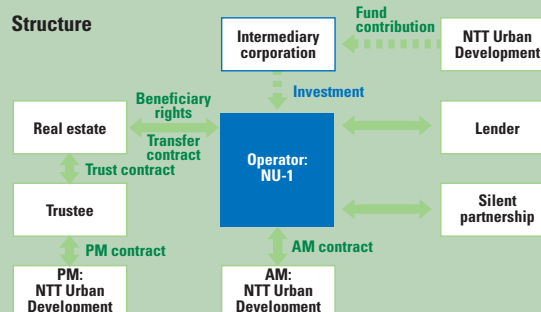
On March 30, 2006, NTT Urban Development completed the structuring of and began operating its first real estate fund, the NU-1 Fund. There are three primary reasons for our aggressive move into this fund. First, it provides us with ongoing opportunities to exit from our investments in properties we have developed. Second, it allows us to enter the AM and PM businesses, providing fee revenues, and third, it increases the number of opportunities for us to acquire property and collaborate on joint development projects.

Outline of the Fund Concepts

- With a specific focus on the Tokyo metropolitan area, the fund invests in office and residential properties throughout Japan that offer stable returns, with the goal of (IRR) of 7% or higher.
- The fund contains a portfolio of assets that includes property transferred from NTT Urban Development and real estate acquired from outside parties. We aim to expand the fund by acquiring additional properties.

Investment period: Three years
Fund size: Approximately ¥11.7 billion (initially)
Equity investment: Approximately ¥3.3 billion (initially)

Structure



Note: IRR refers to the internal rate of return.

Akihabara UDX

(Completed January 2006; grand opening March 2006)



New Landmark for Akihabara, Which Aims to Become a Global IT Center

March 2006 marked the grand opening of Akihabara UDX, a multipurpose facility and the central structure of Akihabara Crossfield, located in front of the JR Akihabara train station. The facility combines office space with restaurants, showrooms, event spaces and a leading-edge parking garage. Akihabara UDX promises to become a crucial force driving the winds of change in the Akihabara district.



5-22F	Office space Conference facilities (6F)
4F	Design museum Field of advanced knowledge •Tokyo Food Theater 5+1 •Akihabara Advanced Academy and leading-edge laboratory •Akiba 3D Theater and 3D Studio Tokyo Anime Center
1-3F	Akiba Ichi •Restaurants and cafes •Shops •Post office, ATM corner, police station Akiba Square (2F) •Event space
B3-B1F	Parking

Location: Chiyoda-ku, Tokyo
Footprint: 11,547 m²
Floor space: 161,482 m²
Size: 22 floors above ground, three below
Completed: January 2006

After World War II, Akihabara became known for its sales of household appliances. More recently, the area has earned a global reputation for its trade in computers, video games and anime products, spawning its own culture. Resolving to turn Akihabara into a global hub for IT-related business, the Tokyo metropolitan government held a competition to build an IT center in front of Akihabara Station. In 2002, NTT Urban Development, along with Kajima Corporation and Daibiru Corporation, were selected to develop this project.

The result is a large-scale multipurpose facility called Akihabara UDX, which has become a symbol of the Akihabara area. Office spaces are some of the largest in Japan, at 4,800 m² per floor, and—appropriate to Akihabara—incorporating an IT

center and other event spaces to attract customers. A dining concourse houses approximately 30 restaurants, and a large parking facility is also available.

The UDX Special-Purpose Company, established by NTT Urban Development and Kajima, employs a real estate securitization scheme, and project financing was used to procure funds for business operations. These new development and operating methods also have drawn attention.



Photos of Akihabara UDX (front cover and pages 3, 10 and 11)
by Koji Okumura

Urbannet Nagoya Building (Completed September 2005)

A New Landmark in Nagoya's Sakae District

In September 2005, we completed construction on the Urbannet Nagoya Building, in Nagoya's central Sakae district. Developed as a next-generation environment, the building was based on a design concept that favors consideration for people, living places and the environment. The building has quickly become a vaunted landmark of the Sakae district.

Advanced Multipurpose Facility Graces the Sakae District

The Urbannet Nagoya Building comprises a high-rise office tower and a lower tower for shops. In a highly convenient traffic location, the building is situated for convenient business and leisure access. Furthermore, the location of this advanced multipurpose building in the Sakae district, which has relatively few large-scale multipurpose facilities, is proving a major attraction to local residents.

A Comfortable Next-Generation Workplace

Designed with all the characteristics of a next-generation workplace, the office tower features an astylar expanse of approximately 2,000 m² on each floor—one of the largest such spaces in Nagoya. The building's next-generation environment includes a high-end IT infrastructure, superior energy conservation technologies, high earthquake resistance and a highly reliable security system. The shop tower, which features a number of stores that are opening their doors in Nagoya for the first time, bustles with customers almost every day of the week, evincing the success of this exercise in harmony between office and retail space.



Location: Higashi-ku, Nagoya
Footprint: 6,954 m²
Floor space: 76,467 m²
Size: 22 floors above
ground, three below
Completed: September 2005

Office Buildings

Providing Advanced Offices Equipped with the Newest Technologies and Designed for the Comfort of Working People

Most of the properties that NTT Urban Development owns are situated in convenient business locations, increasing their value as office buildings. As most of these buildings have been developed since 1986, they feature advanced air conditioning, security and communication facilities, perfectly suiting the needs of working people.



Vaulted interior of the Urbannet Otemachi Building

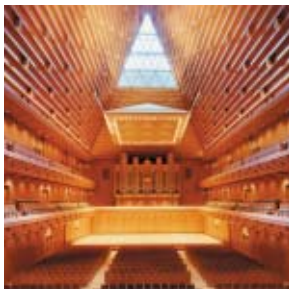
←Urbannet Otemachi Building

Location: Chiyoda-ku, Tokyo
 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

↓Otemachi First Square

Location: Chiyoda-ku, Tokyo
 Footprint: 6,267 m² (portion owned by NTT Urban Development)
 Floor space: 79,471 m² (portion owned by NTT Urban Development)
 Size: 23 floors above ground, five below (West Tower)
 23 floors above ground, four below (East Tower)
 Completed: February 1992 (West Tower)
 May 1997 (East Tower)
 Awards: 1998 International Lighting Design Awards, special award for outdoor lighting
 32nd Japan SDA Awards, second-place prize, district design prize, society performance prize





Tokyo Opera City hall and pipe organ



↑Tokyo Opera City

Location: Shinjuku-ku, Tokyo
 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



↑Seavans N Building

Location: Minato-ku, Tokyo
 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

Residential Properties

Quality Residences for Comfortable Living that Hold their Value as Assets

One of the Company's pillars of growth is its residential property sales business. We are developing the *Wellith* brand, whose concept is comfortable living in pleasant surroundings. In this business, we concentrate on providing quality residences that serve as permanent dwellings and meet increasingly diverse customer needs.



Grand Wellith Tetsugakudo Koen

Location: Nakano-ku, Tokyo
 Size: 79 residences
 Completed: February 2003
 Award: Fiscal 2003 Good Design Award



Geo Wellith Nishinomiya Kitaguchi

Location: Nishinomiya, Hyogo Prefecture
 Size: 212 residences
 Completed: November 2005



The Suwayama Residence

Location: Meguro-ku, Tokyo
 Size: 40 residences
 Completed: March 2005



Grand Wellith Seta

Location: Setagaya-ku, Tokyo
 Size: 72 residences
 Completed: March 2006

Overview of Operations and Performance in Fiscal 2006

The Japanese economy continued to recover in fiscal 2006, as improved corporate revenues spurred higher levels of private-sector demand, including capital investment and personal consumption. However, the economic impacts of high crude oil prices and an end to the Bank of Japan's policy of quantitative easing, leading to higher interest rates, are potential concerns.

In the Tokyo metropolitan area, the rental office building market recovered steadily, with March 2006 vacancy rates in the five wards of central Tokyo (Chiyoda-ku, Chuo-ku, Minato-ku, Shinjuku-ku and Shibuya-ku) averaging 3.41%*, an improvement of 2.1 percentage points from March 2005. Vacancy rates also showed improvement in Osaka, Nagoya and other urban centers, suggesting that the overall market is beginning to recover. Average rents also began to rise in some parts of central Tokyo.

The supply of condominiums available for sale in the Tokyo metropolitan area has exceeded 80,000 for seven consecutive years. Condominium sales were solid during the year, with 80% of purchase contracts concluded within the first month condominiums were offered for sale. The outlook in this area appears positive, with the number of condominiums completed in inventory decreasing and prices beginning to rise in some locations.

In this economic environment, the Company continued to aggressively expand its operations. As a result, in fiscal 2006 net sales were ¥110,833 million (up ¥14,644 million from the preceding term). Operating income was ¥21,716 million (up ¥4,381 million), recurring income amounted to ¥18,346 million (up ¥4,789 million), and net income totaled ¥11,401 million (up ¥4,218 million).

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

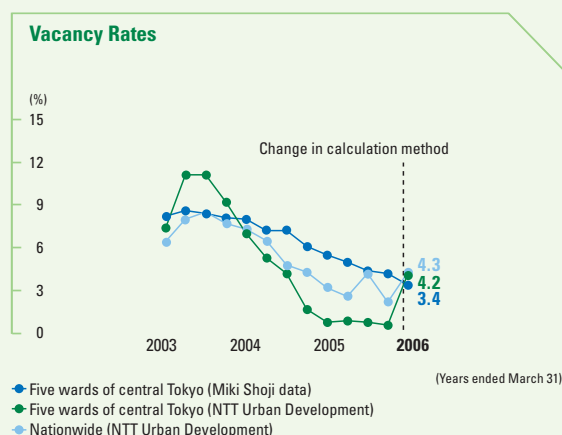
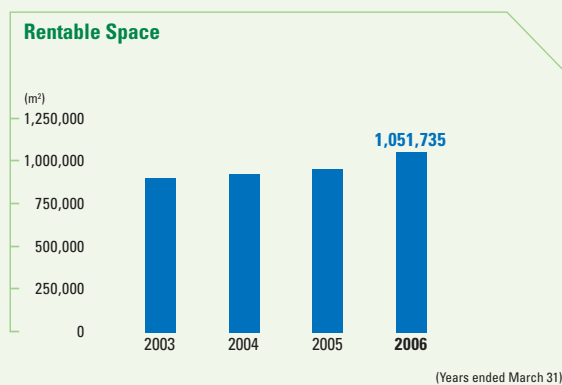
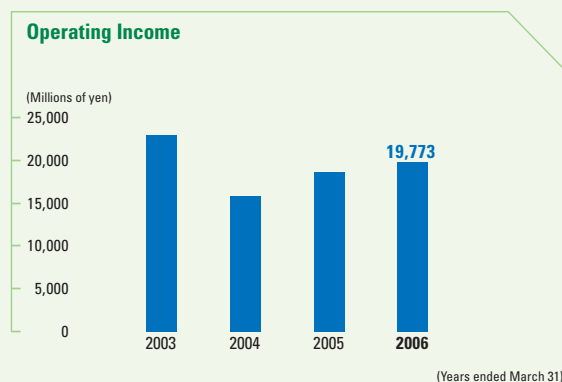
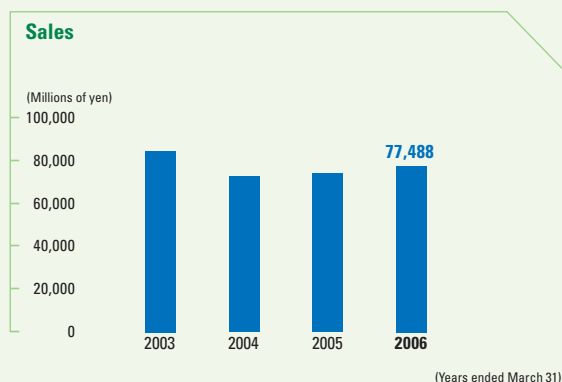
Leasing Business

The Company's leasing business benefited from a positive market environment in fiscal 2006. Full tenancy was maintained at nearly all the rental buildings we own, and revenues continued to expand from such existing properties as Urbannet Otemachi Building (Chiyoda-ku). In terms of new buildings, Urbannet Nagoya Building (Nagoya) opened in September 2005, as did Akihabara UDX (Chiyoda-ku) in March 2006. Proactive efforts to attract tenants were successful, and both buildings opened their doors with tenant contracts on all spaces. As of March 31, 2006, approximately 80% of tenants had already relocated to Akihabara UDX. We are now acquiring secondhand buildings

to pursue additional redevelopment in the vicinity, which will augment leasing business revenues in the future. As a result of the above-mentioned activities, in fiscal 2006 the leasing business generated sales of ¥77,488 million (up ¥3,672 million from fiscal 2005) and operating income of ¥19,773 million (up ¥1,170 million).

The Company uses net operating income, or NOI, as an important indicator of value on leased buildings. During the year, NOI* increased steadily to ¥47.2 billion, up ¥1.3 billion from the preceding term.

* NOI = Property rental income – Property rental costs + Depreciation expense (including prepaid long-term expenses)



NOI on Principal Buildings

Building	Primary use*	Millions of yen	
		Fiscal 2005	Fiscal 2006
Urbannet Otemachi Building	Chiyoda-ku, Tokyo ●	4,597	5,087
Otemachi First Square	Chiyoda-ku, Tokyo ●	4,720	4,739
NTT Makuhari Building	Mihama-ku, Chiba ●	1,982	2,007
Granpark Tower	Minato-ku, Tokyo ●	3,604	4,075
Seavans N Building	Minato-ku, Tokyo ●	2,676	2,521
Tokyo Opera City	Shinjuku-ku, Tokyo ●	1,445	1,522
Urbannet Ikebukuro Building	Toshima-ku, Tokyo ●	964	977
Urbannet Oroshi-machi Building	Wakabayashi-ku, Sendai ●	450	462
Nagoya Mitsukoshi OS Center	Kita-ku, Nagoya ○	419	392
Urbannet CS Building	Naka-ku, Nagoya ●	357	327
Urbannet Shizuoka Building	Shizuoka ●	351	335
Urbannet Shizuoka Otemachi Building	Shizuoka ●	328	375
Urbannet Kaminagoya Building	Nishi-ku, Nagoya ●	93	86
Urbannet Fushimi Building	Naka-ku, Nagoya ●	446	448
Urbannet Nagoya Building	Higashi-ku, Nagoya ●	—	760
NTT Osaka Chuo Building	Chuo-ku, Osaka ●	491	441
Urban Ace Kitahama Building	Chuo-ku, Osaka ●	514	530
Urban Ace Higobashi Building	Nishi-ku, Osaka ●	307	344
Urban Ace Sannomiya Building	Chuo-ku, Kobe ●	451	444
Urban Ace Awaza Building	Nishi-ku, Osaka ●	491	465
Urbannet Motomachi Building	Chuo-ku, Osaka ●	334	357
NTT Cred Motomachi Building	Naka-ku, Hiroshima ◎	3,977	3,696
NTT Cred Hakushima Building	Naka-ku, Hiroshima ●	807	827
NTT Cred Okayama Building	Okayama ●	557	531
NTT-T Building	Chuo-ku, Fukuoka ◎	2,028	2,044
NTT-KF Building	Chuo-ku, Fukuoka ●	297	313
Urbannet Hakata Building	Hakata-ku, Fukuoka ●	225	231
Emuzu Odori Building	Chuo-ku, Sapporo ●	459	427
Emuzu Minami 22-jo Building	Chuo-ku, Sapporo ●	89	108
Urbannet Sapporo Building	Chuo-ku, Sapporo ●	74	649
Other properties, subtotal		12,338	11,701
Total		45,887	47,237

*Primary use ● Office
◎ Commercial
○ Other

NOI by Region and Use

Region	Millions of yen			Millions of yen		
	Total	Office, Commercial	Residential, Other	Total	Office, Commercial	Residential, Other
Central Tokyo		20,923			21,555	
Other parts of Tokyo and surrounding area	27,782	5,084	1,774	28,267	4,977	1,735
Regional cities	18,105	15,445	2,659	18,969	16,475	2,493
Total	45,887	41,453	4,433	47,237	43,007	4,229

Note: The above-stated regions are defined as:

Central Tokyo: The five central wards—Chiyoda, Chuo, Minato, Shibuya and Shinjuku

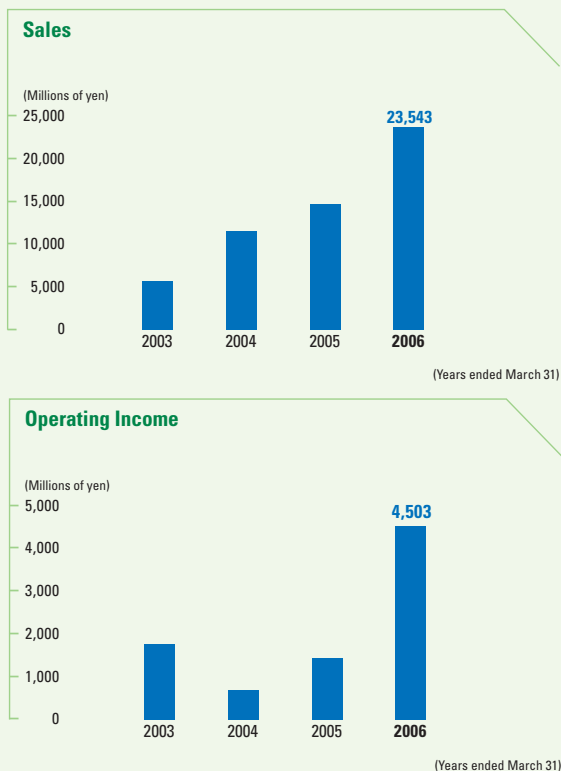
Other parts of Tokyo and the surrounding area: Parts of Tokyo other than the five wards mentioned above, as well as Kanagawa, Chiba and Saitama prefectures

Regional cities: Locations other than those indicated above

Residential Property Sales Business

During the year, in the residential property sales business the Company generated revenue through the sale of residences in Grand Wellith Seta (Setagaya-ku), Tokyo Front Court (Koto-ku), Tanta Town Albo no Oka (Inagi) and Geo Wellith Nishinomiya Kitaguchi (Nishinomiya). We also sold residences in Wellith Kemigawahama (Chiba), Wellith Uehonmachi Laurel Tower (Osaka) and Wellith Geo Umeda Residence (Osaka). Overall, we sold 566 condominiums in fiscal 2006, up sharply from 318 in fiscal 2005, and we are acquiring land to allow for the aggressive expansion of this business in the future.

Buoyed by this strong increase, sales in the residential property sales business amounted to ¥23,543 million, up ¥8,949 million from fiscal 2005. Operating income likewise increased ¥3,062 million, to ¥4,503 million.



Breakdown of Residential Property Sales

			Fiscal 2005		Fiscal 2006	
Category			Residences (Units)	Sales (Millions of yen)	Residences (Units)	Sales (Millions of yen)
Condominiums						
Units transferred	Tokyo region		307	12,504	429	18,422
	Other regions		10	834	137	5,120
Completed in inventory			34	—	16	—
Building lots						
Units transferred	Tokyo region		6	887	—	—
	Other regions		1	367	—	—
Completed in inventory			—	—	—	—
Residential total						
Units transferred	Tokyo region		313	13,392	429	18,422
	Other regions		11	1,201	137	5,120
Completed in inventory			34	—	16	—

Notes: 1. For units having more than one use, the Company's sales ratio is used to determine the number of units.

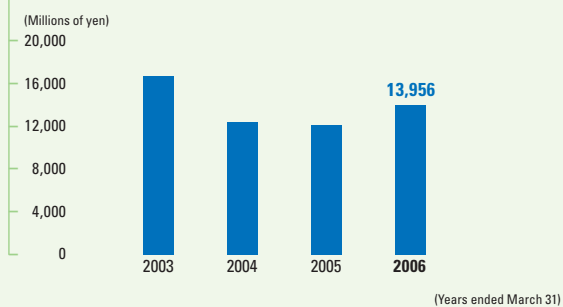
2. The units indicated as "completed in inventory" include two from fiscal 2006 and 14 from fiscal 2005 for which contracts were complete, but for which ownership had not yet been transferred.

3. The "Tokyo region" includes Tokyo, Kanagawa, Chiba, Saitama, Ibaraki, Gunma and Tochigi prefectures.

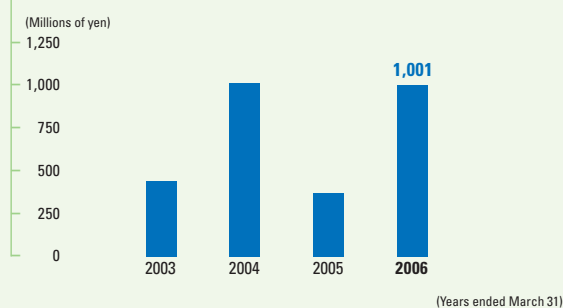
Others

Fiscal 2006 sales in the Others segment amounted to ¥13,956 million, up ¥1,923 million, and operating income rose ¥633 million, to ¥1,001 million, owing to such factors as an increase in orders for contract construction from subsidiaries.

Sales



Operating Income



To ensure that its corporate social responsibility (CSR) initiatives are approached proactively, the Company established a CSR Promotion Office in December 2005 and a CSR Committee. In July 2006, we also created the NTT Urban Development CSR Basic Policy, which defines important CSR spheres of activity and specific domains, based on our corporate slogan, “We create harmony.” This policy embodies the spirit of our corporate philosophy on addressing social issues.

We create harmony.

NTT Urban Development CSR Basic Policy

CSR Message

As a member of the NTT Group, NTT Urban Development endeavors to develop excellent real estate that ensures harmony between people, living places and the environment. Through these efforts, we are working toward a society that is both comfortable and sustainable.

CSR Themes

Harmony between people and living places

- As the places where people live, work and visit, cities are important partners. By maintaining serious communication with each of our partners, we will work toward harmony with and the creation of ever more abundant urban environments.
- We aim to develop spaces where people can reside in safety and comfort, that function as convenient business locations and centers of activity that harmonize between homes and business spaces.

Harmony between urban surroundings and the environment

- Through urban development that places a minimal burden on the environment, we seek to develop comfortable spaces where people come into close contact with nature, providing harmony between people and their natural surroundings.

Harmony between employees and the environment

- We respect each of our employees as individuals. We seek to help them develop as active people who are unafraid of failure and maintain a sense of vitality in the workplace.
- Retaining our sense of gratitude and upholding a high level of ethics, we strive for healthy business operations and seek to contribute to a society of abundance.

Environmental Preservation Activities

The Company conducts ongoing activities, based on its environmental policy.

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

To prevent global warming through its operations by reducing the emission of greenhouse gases, the Company uses cogeneration systems to pre-process exhaust, and uses and installs energy-efficient equipment.

Reduce resource use

As the preservation of forests helps restrain global warming, we are working to increase the use of recycled paper. Our offices use 100% recycled paper, and office paper refuse is recycled into toilet paper. We also are reducing our use of paper products. Although we failed to reach our reduction target during the year, our use of raw pulp has decreased substantially.

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, and we reached our targets in these areas in the year under review.

Fiscal 2006 Environmental Targets and Levels of Achievement

Policy	Fiscal 2006 target	Level of achievement
Reduce greenhouse gas emissions:		
Reduce CO ₂ emissions by economizing on use of electricity and natural gas ¹	Reduce emissions by 1% of previous year's level (by 1.99% or more of fiscal 2004 level), to less than 42,033 tonnes of CO ₂	Result: 38,671 tonnes of CO ₂ (total volume of 40,251 tonnes) ² Actual was 92% of target amount; target achieved
Reduce paper waste:		
Use 100% recycled paper	Total volume used: 205.8 tonnes or less	Result: 227.2 tonnes used (total volume of 237.3 tonnes)
Reduce overall use of paper	Raw pulp requirement: 2,337 kg or less	Actual was 110% of target amount; target not achieved
Reduce waste (construction by-products):		
Promote recycling of construction by-products	Achieve a recycle volume of more than 95% (concrete, asphalt and wood products)	Result: recycle volume of 97% Actual exceeded target by 2%; target achieved

Notes: 1. Although reducing energy use in tenant-occupied spaces of leased buildings is desirable, owners have difficulty controlling the use of electricity in those spaces. Therefore, the use of electricity and other energy in non-tenant spaces, such as shared areas, is publicized. The amount of CO₂ emitted is calculated according to the volumes of electricity and gas used.

2. Target amount comparison against the previous fiscal year was possible for 63 buildings; the total volume was calculated using 66 buildings, including newly constructed buildings.

Corporate Governance

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 adherence to corporate ethics standards, as well as raise management efficiency.

Implementation of Corporate Governance Measures

A. Management Decision Making, Executive and Supervisory Control Structures and Other Corporate Governance Systems

i. Internal Organizations

NTT Urban Development employs a system of corporate auditors. As stipulated in Japan's Company Law, our internal organizations include a General Ordinary Meeting of Shareholders, a Board of Directors, a Board of Corporate Auditors and an independent accounting auditor. 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 the speedy execution of duties and decision making. Full-time corporate auditors attend Management Council Meetings.

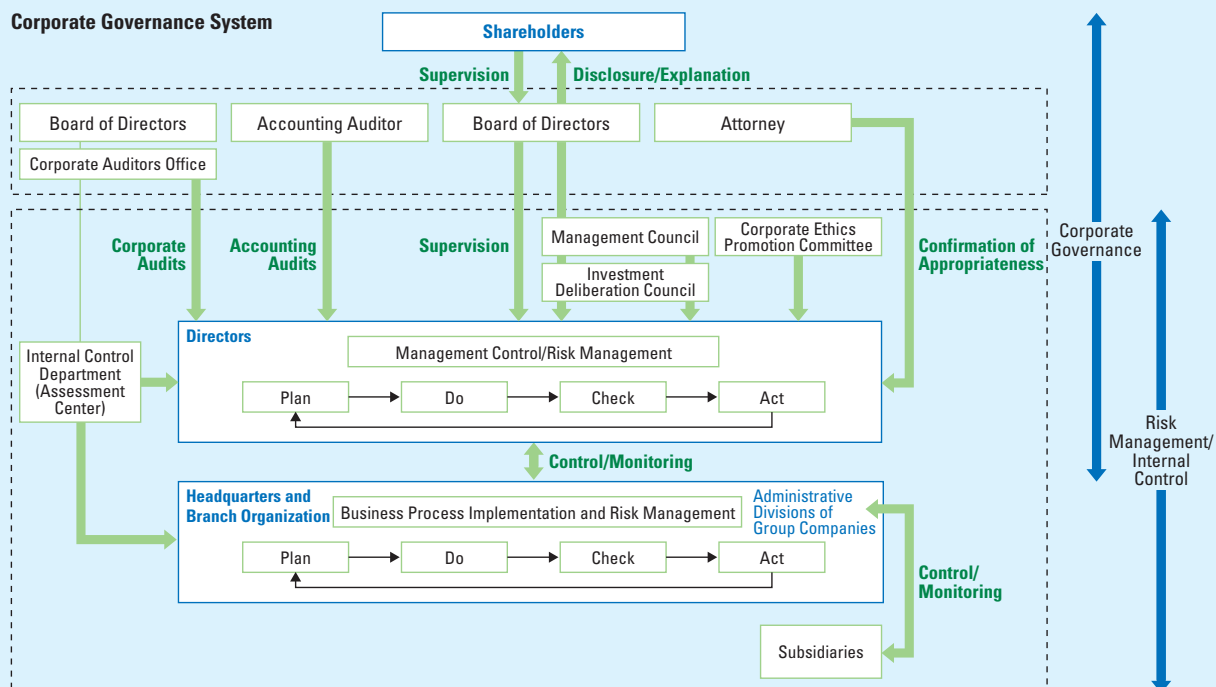
The Board of Directors comprises 14 Directors, one of whom is an outside Director. The Board decides important matters, sets basic policies regarding management and business execution, and supervises the execution of duties by directors. In principle, the Board of Directors convenes once a month, with additional meetings as necessary for quick decision making.

The Board of Corporate Auditors has four members, all of whom are outside auditors. In principle, this Board meets regularly once a month and holds additional meetings as necessary. Auditors conduct their duties according to the audit plan established by the Board of Corporate Auditors. Auditors attend Board of Directors and other important meetings, evaluate the execution of business and conduct management audits.

ii. Internal Control System

The President is charged with business execution involving the creation and development of the internal control system, under the supervision of the Board of Directors and the Board of Corporate Auditors.

During fiscal 2006, the Company's Board of Directors met 16 times, and the Board of Corporate Auditors convened 18 times.



On May 11, 2006, the Board of Directors passed a resolution on the Company's Internal Control System Basic Policy. The policy includes the following:

1. A system to ensure that Directors and employees adhere to laws and regulations and the Articles of Association in the execution of their duties
2. A structure for storing and managing information pertaining to the execution of duties by Directors
3. Provisions and other structures concerning administration of the danger of losses
4. A framework to ensure the efficient execution of duties by Directors
5. A system for ensuring the appropriateness of operations of the Company and the entire corporate group, including its parent company and subsidiaries
6. Items pertaining to employees who are appointed to assist corporate auditors in their duties
7. Items concerning the independence from Directors of employees who are appointed to assist corporate auditors in their duties
8. A system for Directors and employees to report to corporate auditors and for other reporting to corporate auditors
9. A structure to ensure that audits are performed effectively by other corporate auditors

With regard to compliance, the Company has initiated a number of activities involving corporate ethics. The Company has created the Corporate Ethics Promotion Committee to deliberate corporate ethics policies and conduct corporate ethics training. A corporate ethics help line has been implemented to respond to employee questions concerning corporate ethics.

iii. Risk Management System

Risk management is an essential part of the internal control 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. For example, the Company seeks to determine all potential risks, such as the risk of rent decreases, the risk of construction delays, the risk of neighborhood backlash, the risk of ground pollution or other environmental issues, and then to implement thorough risk management.

iv. Internal Audits, Audits by Corporate Auditors and Accounting Audits

a. Internal Audits and Audits by Corporate Auditors
The Company's internal control system includes a four-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.

Audits by corporate auditors are conducted in accordance with the audit policies and audit plans determined by the Board of Corporate Auditors. These audits concern the status of operations and the condition of assets of the parent company and its major offices. If necessary, audits may request the submission of subsidiaries' sales reports. Communications with other audit departments include quarterly meetings with the independent accounting auditor and semi-annual meetings with the Assessment Center. In addition, these organizations exchange opinions and share information as necessary and cooperate in performing audits.

b. Accounting Audits

NTT Urban Development's consolidated financial statements for the year ended March 31, 2006, have been audited by Yasushi Hamada and Kazushi Nakamura, certified public accountants with ChuoAoyama PricewaterhouseCoopers, independent auditors, which have performed these audits consecutively for the past four years. Assisting in these audits were five other certified public accountants, seven accounting assistants and two others.

B. Personal, Capital, Transactional or Other Special-Interest Relationships between the Company and its Outside Directors and Outside Corporate Auditors

As of March 31, 2006, one of the Company's outside directors, Hiroshi Nakagawa, is an employee of Nippon Telegraph and Telephone Corporation (NTT), which owns 67.3% of the Company's shares. Seiji Uehara, an outside Director who resigned as of March 31, 2006, is an employee of Nippon Telegraph and Telephone East Corporation. Of outside corporate auditors, Toshio Maegawa is an employee of NTT, and Hirokazu Muto is an employee of NTT Communications Corporation.

At the 21st General Ordinary Meeting of Shareholders, Yasuhiro Yamamoto, who was selected as an outside Director, is an NTT employee. Kenji Sato, who was elected as an outside corporate auditor, is an employee of NTT Communications.

C. Efforts to Enhance Corporate Governance during the Past Year

D. Compensation of Directors and Corporate Auditors

Compensation for duties paid to Directors and corporate auditors, and compensation paid to the independent auditor for audit services during the fiscal year ended March 31, 2006, is indicated below.

Executive compensation:

Compensation paid to Directors	¥249 million
Compensation paid to corporate auditors	¥ 29 million
Total	¥279 million

Compensation paid for audit activities in accordance with Section 1, Article 2, of the Certified Public Accountants Law ¥ 35 million

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32	Consolidated Statements of Cash Flows
33	Notes to Consolidated Financial Statements
47	Report of Independent Auditors

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Performance

Net sales

During fiscal 2006, ended March 31, 2006, the Company recorded net sales of ¥110,833 million, a 15.2% increase from fiscal 2005. The primary reasons for this increase were substantially higher revenues from the Leasing and Residential Property Sales business segments.

- Leasing Business**

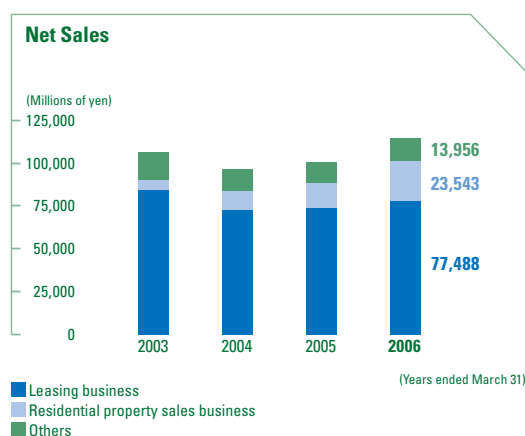
Sales from the Leasing business segment increased 5.0%, to ¥77,488 million. Principal factors included the commencement of operations and high operating ratios at the Urbannet Nagoya Building and the Urbannet Sapporo Building, as well as lower vacancy rates at existing properties, including the Urbannet Otemachi Building and Otemachi First Square.
- Residential Property Sales Business**

In this segment, sales surged 61.3%, to ¥23,543 million, buoyed by sales of residences at Grand Wellith Seta (Setagaya-ku), Tokyo Front Court (Koto-ku), Tanta Town Albo no Oka (Inagi), Geo Wellith Nishinomiya Kitaguchi (Nishinomiya) and other projects. In fiscal 2006, we sold and transferred ownership of 566 residences, a substantial increase from 318 residences in the preceding term.
- Others**

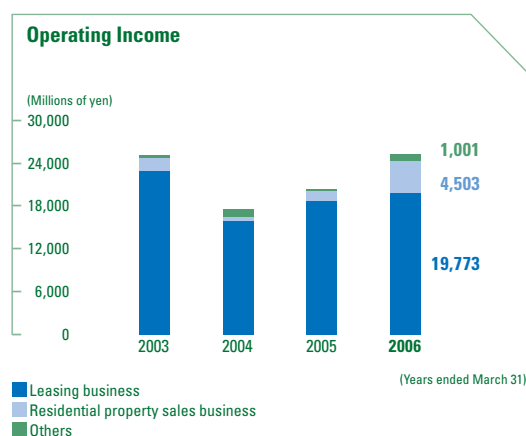
Sales in the Others business segment amounted to ¥13,956 million, up 16.0% from fiscal 2005.

Gross profit

In fiscal 2006, cost of sales was ¥78,462 million, up 12.6% from the previous fiscal year. In the leasing business, the completion of new buildings pushed up costs, and in the residential property sales business and Others segment, costs increased in line with expanded revenues. As a result, gross profit increased 22.2% in fiscal 2006, to ¥32,371 million.



Note: Segment figures include inter-segment transactions and transfers.



Note: Segment figures include inter-segment transactions and transfers.

Operating Income

Selling, general and administrative expenses grew 16.3%, to ¥10,654 million, affected by an increase in real estate acquisition taxes and higher sales commissions in the residential property sales business. Consequently, in fiscal 2006 operating income totaled ¥21,716 million, up 25.3%.

Recurring Income

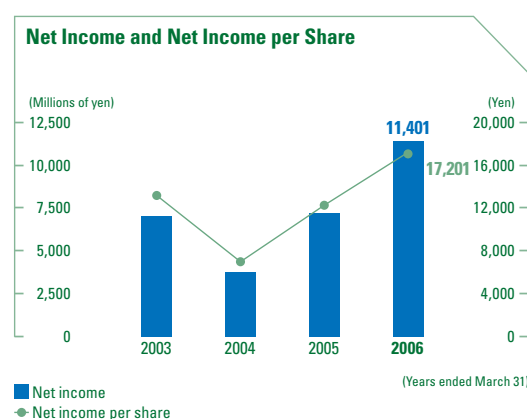
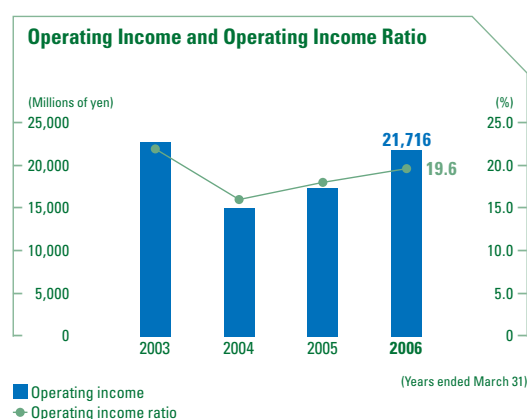
Other income expanded 44.8%, to ¥586 million, while other expenses decreased 5.4%, to ¥3,956 million. Principal other expenses include interest paid, which decreased ¥389 million during the year. Also, the absence of new share issuance expenses and expenses related to public offering, which were present in fiscal 2005, reduced other expenses ¥574 million. However, the advance appropriation of commissions caused a ¥679 million increase. The net result of these activities was a 35.3% rise in recurring income in fiscal 2006, to ¥18,346 million.

Income before Income Taxes and Minority Interests

During the year, the Company posted extraordinary income from the sale of fixed assets to the NU-1 Fund, which lifted extraordinary income ¥3,784 million, to ¥4,107 million. Extraordinary losses totaled ¥3,287 million, up ¥1,582 million, primarily because of impairment losses. As a result, in fiscal 2006 income before income taxes and minority interests was ¥19,166 million, up 57.4%.

Net Income

Income taxes amounted to ¥7,760 million, up 55.6%. After these deductions, fiscal 2006 net income was ¥11,401 million, a 58.7% improvement over the previous term.



Financial Position

Consolidated Balance Sheet Highlights

On March 31, 2006, assets, liabilities and shareholders' equity were all higher than one year earlier. The main factors behind the higher asset levels were capital investment, the acquisition of investment securities and increased inventory assets in the residential property sales business. The primary reason for higher liabilities was the expansion of interest-bearing debt, while shareholders' equity increased mainly because of higher retained earnings.

Consolidated Statements of Cash Flows

Net cash provided by operating activities was ¥22,243 million, ¥2,328 million less than in the preceding term. Although income before income taxes and minority interests provided ¥19,166 million, and depreciation and amortization ¥23,828 million, the increase in inventories used ¥25,108 million, resulting in a decrease overall.

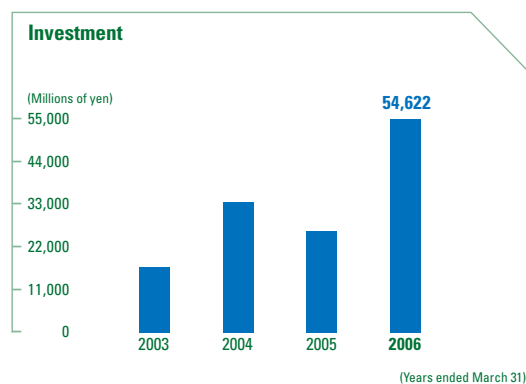
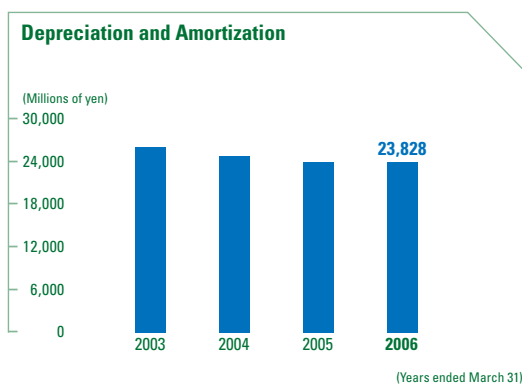
Net cash used in investing activities totaled ¥45,157 million, up ¥17,344 million. Major reasons were ¥43,936 million in purchases of property and equipment and ¥9,196 million used in purchases of investment securities.

Net cash provided by financing activities was ¥25,132 million higher, at ¥32,214 million. The net increase in short-term borrowings was ¥24.5 billion, while proceeds from long-term borrowings provided ¥62,940 million. At the same time, repayments of long-term borrowings used ¥45,282 million.

At the end of the year, Rating and Investment Information, Inc., rated the Company's commercial paper (short-term debt) a-1 and its corporate bonds (long-term debt) A+.

Investment

The NTT Urban Development Group, comprising the Company and its consolidated subsidiaries, invests in new construction sites, both to increase the level of contribution provided by the leasing business and to expand its overall business activities. In fiscal 2006, investment in the leasing business included ¥17,510 million for the Urbannet Nagoya Building, ¥10,336 million for our portion of the joint investment in Granpark Tower and ¥8,042 million for the UD Kanematsu Building.



Note: Investment amount includes capital investment and investments in securities.

Operating Risks

Leasing Business Risk

In fiscal 2006, the leasing business accounted for 67.4% of consolidated 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

An increase in rivalry in the condominium market, higher rates of interest on home loans and rising land prices could cause selling prices to increase, resulting in a downturn in consumer sentiment. Such factors could have a negative impact on the Group's operating performance.

Risk of Building Damage, Loss or Deterioration

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. In fiscal 2006, the implementation of this standard resulted in an extraordinary loss of ¥1,625 million. However, a substantial downturn in the real estate market might necessitate the recording of additional impairment losses, which could impact the Group's business performance.

Effects of Interest-Bearing Debt

As of the year ended March 31, 2006, the Company's interest-bearing debt was ¥268,942 million, all of which was procured at fixed rates of interest. However, 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

Not applicable

CONSOLIDATED BALANCE SHEETS

March 31, 2005 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2006	2006
Current assets:			
Cash and cash equivalents	¥ 10,203	¥ 19,503	\$ 166,033
Time deposits and short-term investments	20	23	195
Notes and accounts receivable, trade	6,291	6,174	52,560
Less allowance for doubtful receivables	(7)	(2)	(20)
Inventories (Note 4)	13,685	40,445	344,307
Deferred tax assets (Note 13)	238	1,304	11,108
Other current assets	2,384	3,037	25,855
Total current assets	32,816	70,486	600,040
Property and equipment (Notes 7 and 11):			
Buildings and structures	587,313	609,280	5,186,688
Machinery and vehicles	13,346	13,953	118,784
Tools, furniture and fixtures	12,334	12,902	109,840
Land	60,612	76,374	650,162
Construction in progress	7,087	307	2,621
Subtotal	680,693	712,819	6,068,097
Less accumulated depreciation	(284,248)	(302,041)	(2,571,221)
Property and equipment, net	396,445	410,777	3,496,875
Investments and other assets:			
Investment securities (Note 5)	20,138	29,768	253,417
Long-term prepaid expenses	22,525	21,191	180,401
Intangible assets, net	1,910	1,801	15,335
Deferred tax assets (Note 13)	4,901	3,449	29,368
Other assets (Note 5)	1,496	6,321	53,811
Less allowance for doubtful receivables	(6)	(5)	(49)
Total investments and other assets	50,966	62,527	532,284
Total assets	¥ 480,228	¥ 543,792	\$ 4,629,200

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

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2006	2006
Current liabilities:			
Short-term borrowings (Note 6)	¥ 10,000	¥ 34,500	\$ 293,692
Current portion of long-term debts (Notes 6 and 7)	45,223	39,957	340,147
Notes and accounts payable, trade	4,523	13,274	113,002
Accrued income taxes (Note 13)	1,449	6,226	53,005
Other current liabilities	15,125	17,717	150,826
Total current liabilities	76,322	111,675	950,674
Long-term liabilities:			
Long-term debts (Notes 6 and 7)	176,560	194,485	1,655,618
Accrued employees' retirement benefits (Note 8)	4,670	5,084	43,286
Accrued directors' and corporate auditors' retirement benefits	235	200	1,704
Deposits from tenants	113,336	116,563	992,285
Other long-term liabilities	5	5	44
Total long-term liabilities	294,808	316,339	2,692,939
Minority interests in consolidated subsidiaries	88	80	687
Shareholders' equity (Notes 9 and 19):			
Common stock:			
Authorized—2,100,000 shares;			
Issued—658,240 shares	48,760	48,760	415,084
Capital surplus	34,109	34,109	290,370
Retained earnings	25,903	32,299	274,960
Unrealized gain on securities	236	526	4,482
Total shareholders' equity	109,009	115,696	984,898
Total liabilities and shareholders' equity	¥480,228	¥543,792	\$4,629,200

CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2006	2006
Net sales	¥96,188	¥110,833	\$943,501
Cost of sales	69,692	78,462	667,933
Gross profit	26,495	32,371	275,568
Selling, general and administrative expenses (Note 10)	9,160	10,654	90,696
Operating income	17,335	21,716	184,871
Other income (expenses):			
Interest income	2	0	8
Interest expense	(3,562)	(3,173)	(27,012)
Equity in earnings of affiliates	125	247	2,106
Loss on impairment of fixed assets (Notes 11 and 18)	—	(1,625)	(13,833)
Other, net (Note 12)	(1,725)	1,999	17,018
	(5,160)	(2,550)	(21,712)
Income before income taxes and minority interests	12,174	19,166	163,159
Income taxes (Note 13):			
Current	6,786	7,575	64,490
Deferred	(1,798)	185	1,577
Total income taxes	4,987	7,760	66,067
Minority interests	(4)	(4)	(36)
Net income (Note 14)	¥ 7,182	¥ 11,401	\$ 97,055

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2006	2006
Common stock:			
Balance at beginning of the year	¥26,320	¥48,760	\$415,084
Add:			
New shares issued (2005—132,000 shares)	22,440	—	—
Balance at end of the year	¥48,760	¥48,760	\$415,084
Capital surplus:			
Balance at beginning of the year	¥ 0	¥34,109	\$290,370
Add:			
New shares issued (2005—132,000 shares)	34,108	—	—
Balance at end of the year	¥34,109	¥34,109	\$290,370
Retained earnings:			
Balance at beginning of the year	¥21,405	¥25,903	\$220,509
Add:			
Net income	7,182	11,401	97,055
Deduct:			
Cash dividends paid	(2,631)	(4,936)	(42,026)
Bonuses to directors and corporate auditors	(53)	(67)	(577)
Balance at end of the year	¥25,903	¥32,299	\$274,960
Unrealized gain on securities:			
Balance at beginning of the year	¥ 202	¥ 236	\$ 2,010
Net change during the year	33	290	2,472
Balance at end of the year	¥ 236	¥ 526	\$ 4,482

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2006	2006
Operating activities:			
Income before income taxes and minority interests	¥ 12,174	¥ 19,166	\$ 163,159
Adjustment for:			
Depreciation and amortization	23,865	23,828	202,846
Loss on impairment of fixed assets	—	1,625	13,833
Increase (decrease) in allowance for doubtful receivables	7	(5)	(46)
Increase in accrued employees' retirement benefits	3,947	413	3,524
Interest and dividends income	(29)	(31)	(267)
Interest expense	3,562	3,173	27,012
Commission paid on early repayments	—	679	5,783
Equity in earnings of affiliates	(125)	(247)	(2,106)
Gain on sales of property and equipment	(322)	(4,107)	(34,962)
Loss on disposal of property and equipment	1,704	1,427	12,154
Loss on devaluation of investment securities	—	234	1,997
(Increase) decrease in notes and accounts receivable, trade	(1,845)	117	1,000
Increase in inventories	(4,142)	(25,108)	(213,743)
Increase (decrease) in notes and accounts payable, trade	(1,434)	8,751	74,499
Increase (decrease) in deposits from tenants	(2,961)	3,211	27,341
Bonuses to directors and corporate auditors	(53)	(67)	(577)
Other	2,056	(4,096)	(34,873)
Subtotal	36,402	28,965	246,574
Interest and dividends received	64	67	577
Interest paid	(3,779)	(3,234)	(27,532)
Commission paid on early repayments	—	(679)	(5,783)
Income taxes paid	(8,115)	(2,875)	(24,481)
Net cash provided by operating activities	24,572	22,243	189,355
Investing activities:			
Increase in time deposits	—	(3)	(25)
Purchases of property and equipment	(19,834)	(43,936)	(374,020)
Proceeds from sales of property and equipment	327	8,128	69,195
Purchases of investment securities	(8,159)	(9,196)	(78,288)
Proceeds from sales of investment securities	—	1	8
Other	(146)	(151)	(1,286)
Net cash used in investing activities	(27,812)	(45,157)	(384,417)
Financing activities:			
Net increase (decrease) in short-term borrowings	(9,000)	24,500	208,563
Net decrease in commercial paper	(4,000)	—	—
Proceeds from long-term borrowings	8,000	62,940	535,796
Repayments of long-term borrowings	(31,835)	(45,282)	(385,479)
Payments of redemption of bonds	(10,000)	(5,000)	(42,564)
Proceeds from issuance of new shares of common stock	56,548	—	—
Cash dividends paid	(2,631)	(4,931)	(41,984)
Cash dividends paid to minority shareholders	—	(11)	(98)
Net cash provided by financing activities	7,081	32,214	274,233
Net increase in cash and cash equivalents	3,841	9,300	79,171
Cash and cash equivalents at beginning of the year	6,362	10,203	86,861
Cash and cash equivalents at end of the year	¥ 10,203	¥ 19,503	\$ 166,033

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

NOTES TO CONSOLIDATED 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 application and disclosure requirements from 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 Japanese text and the scope and nature of the information is limited to that 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 upon 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, 2005 and 2006 are as follows:

2005	2006
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.

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, 2005 and 2006 are as follows:

2005	2006
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	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 in hand, cash in banks, which can be withdrawn at any time, and short-term investments with an original maturity of three months or less, and which can be easily converted to cash and are subject to only an insignificant risk of change in value.

(c) Inventories

Real estate 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) Accounting for the Impairment of Fixed Assets

In the year ended March 31, 2006, the Company and its subsidiaries adopted the new accounting standard for impairment of fixed assets (the Accounting Standard for Impairment of Fixed Assets (the "Standard") and the implementation guidance for the accounting standard for impairment of fixed assets (the "Guidance")). The Standard and Guidance require that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized in the statement of income by directly reducing the carrying value of impairment assets or a group of assets to the recoverable amount, which is the higher of the net selling price or the value in use.

As a result of the adoption of this new accounting standard, income before income taxes and minority interests decreased by ¥1,625 million (\$13,833 thousand) for the year ended March 31, 2006.

(f) Property and Equipment

Property and equipment are stated at cost. Depreciation of the property and equipment of the Company and its subsidiaries is calculated principally using 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.

(g) Intangible Assets and Amortization

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

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

(h) Long-term Prepaid Expenses

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

(i) New Share Issuance Expenses

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

(j) Leases

Non-cancelable 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.

(k) Allowance for Doubtful Receivables

The Company and its subsidiaries provided for on allowance for doubtful receivables to cover possible losses on collection. It consists of the general reserve calculated based on the historical write-off rate of each company, and the specific reserve which is the estimated uncollectible amount with respect to identified doubtful receivables.

(l) 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 costs. The retirement benefit obligation is attributed, using the straight-line method, to each period over the estimated years of service of the eligible employees.

When actuarial differences are recognized, they are amortized using the straight-line method over the eligible employees' average remaining period of service from the following year.

Prior service costs are amortized using the straight-line method over the estimated years of service of the eligible employees from the year when the cost is incurred.

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 represents the estimated amounts, which would be payable if all of them were to retire on the balance sheet date.

(m) Income Taxes

Deferred income taxes are accounted for using 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.

(n) Revenue Recognition

Revenues from the sale of land and residential homes are recognized when units are delivered and accepted by customers. Revenues from leasing land and buildings are recognized as rent accrued over the lease term.

(o) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of these taxes.

(p) Derivatives

The Company and certain subsidiaries have entered into derivative transactions in order to manage certain risks arising from adverse fluctuations in interest rates. Derivative financial instruments are stated at fair value, with changes in unrealized gains or losses charged to income, except for those that meet the criteria for deferral hedge accounting under which unrealized gains or losses are deferred as an asset or a liability. Interest rate 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.

(q) Appropriation of Retained Earnings

On May 1, 2006, the Corporation Law of Japan, which represents part of the general reform of corporate legislation promulgated in July 2005, was put into effect. The Corporation Law becomes effective after the end of the current fiscal year; therefore, the information in the accompanying consolidated financial statements is disclosed based on the former Commercial Code of Japan.

Under the former Commercial Code of Japan, the appropriation of retained earnings was carried out through a resolution of shareholders at a general meeting which must be held within three months of 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.

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, 2006, which was ¥117.47 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 this or any other rate of exchange.

4 Inventories

Inventories as of March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Real estate for sale	¥ 1,559	¥ 374	\$ 3,191
Real estate projects in progress	11,981	39,883	339,518
Raw materials, supplies and others	143	187	1,597
Total	¥13,685	¥40,445	\$344,307

5 Securities

(a) The acquisition costs, carrying value and unrealized gains and losses of marketable securities as of March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Acquisition cost:			
Equity securities	¥ 953	¥ 953	\$ 8,118
Debt securities	59	—	—
Total	¥1,013	¥ 953	\$ 8,118
Carrying value:			
Equity securities	¥1,355	¥1,841	\$15,676
Debt securities	59	—	—
Total	¥1,415	¥1,841	\$15,676
Unrealized gains:			
Equity securities	¥ 401	¥ 887	\$ 7,558
Debt securities	0	—	—
Total	¥ 401	¥ 887	\$ 7,558

(b) The aggregate book value of securities with no available fair value as of March 31, 2005 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Unlisted domestic stocks	¥ 553	¥ 317	\$ 2,705
Unlisted preferred equity securities	100	100	851
Investments in silent partnerships	2,350	10,168	86,559
Total	¥3,003	¥10,585	\$90,115

(c) The redemption schedule for securities with maturity dates as of March 31, 2005 and 2006, all of which are Japanese government bonds, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Due within one year	¥ 59	¥—	\$—
Due after one year through five years	—	—	—
Due after five years through ten years	—	—	—
Due after ten years	—	—	—
Total	¥59	¥—	\$—

(d) Investments in affiliates as of March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Common stock	¥ 1,131	¥ 1,221	\$ 10,394
Preferred equity securities	14,649	16,132	137,329
Total	¥15,780	¥17,353	\$147,724

(e) The proceeds and gross gains (losses) from the sale of available-for-sale securities for the years ended March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Proceeds	¥—	¥61	\$519
Gross gains	—	0	2
Gross losses	—	—	—

6 Short-term Debts and Long-term Debts

Short-term debts and their weighted average interest rates as of March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars	Weighted average interest rate	
	2005	2006	2006	2005	2006
Short-term bank loans	¥10,000	¥34,500	\$293,692	0.2%	0.1%

As of March 31, 2005 and 2006, long-term debts consist of the following:

Description	Interest rate	Maturity	Millions of yen		Thousands of U.S. dollars
			2005	2006	2006
Unsecured bonds	1.50%	2005	¥ 5,000	¥ —	\$ —
Unsecured bonds	0.70%	2006	7,500	7,500	63,846
Unsecured bonds	0.80%	2007	4,300	4,300	36,605
Unsecured bonds	0.60%	2007	5,000	5,000	42,564
Unsecured bonds	0.90%	2008	10,000	10,000	85,128
Borrowings from banks and other financial institutions:					
Secured	0.85–4.40%	2007–2022	49,910	44,252	376,712
Unsecured	0.00–3.77%	2006–2014	140,073	163,390	1,390,910
			221,784	234,442	1,995,765
Less current portion			45,223	39,957	340,147
Total			¥176,560	¥194,485	\$1,655,618

The maturities of long-term debts as of March 31, 2006 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
2007	¥ 39,957	\$ 340,147
2008	35,561	302,730
2009	50,040	425,987
2010 and thereafter	108,882	926,900
Total	¥234,442	\$1,995,765

7 Mortgaged Assets

The assets mortgaged for long-term borrowings totaling ¥49,910 million and ¥44,252 million (\$376,712 thousand) as of March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Buildings	¥144,505	¥140,239	\$1,193,835
Land	6,636	14,145	120,413
Total	¥151,142	¥154,384	\$1,314,249

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 of employment 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, 2005 and 2006 for the Company and its subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Retirement benefit obligation	¥(7,633)	¥(8,688)	\$(73,965)
Plan assets at fair value	4,033	4,958	42,209
Unfunded retirement benefit obligation	(3,599)	(3,730)	(31,755)
Unrecognized actuarial differences	(1,075)	(1,358)	(11,561)
Unrecognized prior service costs	3	3	30
Accrued employees' retirement benefits	¥(4,670)	¥(5,084)	\$(43,286)

The components of retirement benefit expenses for the years ended March 31, 2005 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Service costs	¥283	¥ 241	\$2,058
Interest costs	211	188	1,601
Expected return on plan assets	(35)	(101)	(863)
Amortization of actuarial differences	7	(73)	(627)
Amortization of prior service costs	0	0	3
Employees' contribution	(14)	(15)	(128)
Retirement benefit expenses	¥453	¥ 240	\$2,043

The assumptions used in accounting for the above plans as of March 31, 2005 and 2006 are as follows:

	2005	2006
Discount rates	2.5%	2.5%
Expected rate of return on assets	2.5%	2.5%
Amortization period of unrecognized actuarial differences	10.5–13.2 years	9.6–13.2 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 the 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 approval from the Minister of Health, Labour and Welfare to be exempted from the obligation to pay benefits related to future employee services under that portion. In addition, the Company must obtain approval from the Minister to separate the remaining benefit obligation under that portion in relation to past employee services. On obtaining this 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 exemption from the obligation to pay benefits relating to future employee services and received approval from the Minister of Health, Labour and Welfare on September 1, 2003. The amount of the government-specified portion of plan assets to be transferred to the government was ¥873 million and ¥937 million (\$7,984 thousand) as of March 31, 2005 and 2006, respectively. Had the plan assets been transferred on that day, the projected gain would have been ¥684 million and ¥963 million (\$8,206 thousand) for the years ended March 31, 2005 and 2006, respectively.

9 Shareholders' Equity

On May 1, 2006, the Corporation Law of Japan, which represents part of the general reform of the corporate legislation promulgated in July 2005, was put into effect. The Corporation Law becomes effective after the end of the current fiscal year; therefore, the information in the accompanying consolidated financial statements is disclosed based on the former Commercial Code of Japan.

In accordance with the former 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 ¥3,437 million (\$29,261 thousand) as of March 31, 2005 and 2006.

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 through a resolution of the shareholders, or may be transferred to common stock through 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 an increase of common stock and additional paid-in capital of ¥22,440 million and ¥34,108 million, respectively.

10 Selling, General and Administrative Expenses

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

	Millions of yen
Salaries, allowances and bonuses	¥2,947
Outsourcing	1,421
Advertising expenses	1,115
Employees' retirement benefits	330
Directors' and corporate auditors' retirement benefits	72

Selling, general and administrative expenses consist primarily of the following for the year ended March 31, 2006:

	Millions of yen	Thousands of U.S. dollars
Salaries, allowances and bonuses	¥3,194	\$27,193
Outsourcing	1,911	16,274
Dues and taxes	1,354	11,531
Advertising expenses	1,105	9,411
Employees' retirement benefits	203	1,732
Directors' and corporate auditors' retirement benefits	32	273

11 Impairment Loss on Fixed Assets

In the year ended March 31, 2006, the Company and its subsidiaries recognized impairment losses on the following groups of assets:

Description	Classification	Location	Millions of yen	Thousands of U.S. dollars
Office building	Building and land	Chiyoda-ku, Tokyo	¥ 219	\$ 1,865
Office building	Land	Minato-ku, Tokyo	411	3,502
Commercial facility	Building	Nagoya-shi, Aichi	994	8,465
Total			¥1,625	\$13,833

The Company and its subsidiaries reviewed impairment of fixed assets for each piece of real estate. As a result, assets were recognized as impaired whenever the carrying amounts exceed the fair values or net cash flows. The carrying amounts of the impaired assets were reduced to the recoverable amounts, and the reduced value was recorded as "Loss on impairment of fixed assets" which is included in other expenses. The impairment amount consisted of ¥1,103 million (\$9,396 thousand) relating to buildings and ¥521 million (\$4,436 thousand) relating to land.

The Company and its subsidiaries assess the recoverability of the assets based on their net selling prices or the values in use. The net selling prices are determined mainly based on the appraisal value calculated by real-estate appraisers, while the values in use are calculated based on the present values of future cash flows, using a discount rate of 5%.

12 Other Income (Expenses)

The components of "Other, net" in "Other income (expenses)" for the years ended March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Dividend income	¥ 26	¥ 30	\$ 259
Commission received	72	—	—
Contributions received in aid of construction	113	215	1,837
Gain on donated fixed assets	5	2	18
Gain on sales of property and equipment	322	4,107	34,962
New share issuance expenses	(347)	—	—
Expenses relating to public offerings	(227)	—	—
Commission paid on early repayments	—	(679)	(5,783)
Loss on disposal of property and equipment	(1,704)	(1,427)	(12,154)
Loss on devaluation of investment securities	—	(234)	(1,997)
Other	12	(14)	(125)
Total	¥(1,725)	¥ 1,999	\$ 17,018

Commission received, which was presented separately in the prior fiscal year, is included in Other for the year 2006 because the account balance is less than 10 percent of the gross other income.

The components of "Gain on sales of property and equipment" in "Other income (expenses)" for the years ended March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Land	¥322	¥4,107	\$34,962

The components of "Loss on disposal of property and equipment" in "Other income (expenses)" for the years ended March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Buildings	¥(1,049)	¥ (761)	\$ (6,482)
Structures	(38)	(7)	(67)
Removal cost	(550)	(475)	(4,046)
Tools, furniture and fixtures	(66)	(182)	(1,556)
Total	¥(1,704)	¥(1,427)	\$(12,154)

13 Income Taxes

Income taxes in Japan applicable to the Company and its consolidated subsidiaries consist of corporation tax, inhabitant taxes and enterprise taxes, which, in aggregate, resulted in a statutory tax rate of 40.6% in 2005 and 40.7% in 2006.

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

The significant components of deferred tax assets and liabilities as of March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Accrued bonuses	¥ 138	¥ 140	\$ 1,192
Enterprise taxes payable	49	495	4,216
Loss on land devaluation	3,573	2,918	24,840
Real estate acquisition taxes payable	—	198	1,693
Depreciation	1,121	1,256	10,696
Accrued employees' retirement benefits	1,889	2,064	17,574
Loss on impairment of fixed assets	—	643	5,479
Other	324	373	3,181
Total	7,096	8,090	68,875
Deferred tax liabilities:			
Depreciation reserve for tax purposes	(1,795)	(2,925)	(24,902)
Other	(161)	(410)	(3,495)
Total	(1,956)	(3,335)	(28,398)
Net deferred tax assets	¥ 5,140	¥ 4,754	\$ 40,477

For the years ended March 31, 2005 and 2006, reconciliation of the difference between the statutory tax rate and the effective tax rate is omitted because the total of these differences is less than 5% of the statutory tax rate.

14 Amounts Per Share

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Net income	¥7,182	¥11,401	\$97,055
Amounts not attributable to common stock:			
Bonuses to directors and corporate auditors by appropriation of retained earnings	67	78	669
Net income attributable to common stock	¥7,114	¥11,322	\$96,385
The average number of common stocks outstanding during the year	579,763 shares	685,240 shares	

	Yen		U.S. dollars
	2005	2006	2006
Basic net income per share	¥ 12,271.53	¥ 17,201.07	\$ 146.42
Cash dividends per share	5,000	5,000	42.56
Net assets per share	¥165,606.94	¥175,765.71	\$1,496.26

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.

15 Lease Transactions

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets of the Company and its subsidiaries as of March 31, 2005 and 2006, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases without transfer of ownership, which are currently accounted for as operating leases:

	Millions of yen		
	Acquisition costs	Accumulated depreciation	Net book value
March 31, 2005			
Machinery and vehicles	¥ 84	¥ 60	¥ 23
Tools, furniture and fixtures	582	251	331
Intangible assets	200	77	123
Total	¥867	¥388	¥478

	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
March 31, 2006						
Machinery and vehicles	¥ 80	¥ 47	¥ 33	\$ 689	\$ 406	\$ 282
Tools, furniture and fixtures	524	183	340	4,465	1,564	2,901
Intangible assets	200	96	104	1,710	821	889
Total	¥806	¥328	¥478	\$6,865	\$2,792	\$4,072

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥162 million and ¥170 million (\$1,448 thousand) for the years ended March 31, 2005 and 2006, respectively. These amounts are equal to the depreciation of the leased assets computed using the straight-line method over the respective lease terms with no residual value of assets for the years ended March 31, 2005 and 2006, 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 interest expense portion.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2005 and 2006 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Due within one year	¥154	¥147	\$1,256
Due after one year	324	330	2,816
Total	¥478	¥478	\$4,072

16 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 entered 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 are omitted 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, as well as 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.

17 Related Party Transactions

The Company has engaged in 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, 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 transaction	Allotment sale of condominium	Rent of the Company residence
Transaction amount	¥9 million	¥1 million
Balance at year-end	Accounts receivable: —	Accounts receivable—other: ¥0 million

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 transaction	Borrowing	
Transaction amount	—	
Balance at year-end	Long-term borrowing: ¥26,200 million	

Related party transactions for the year ended March 31, 2006 are as follows:

Group Companies		2006
Nature of relationship	Subsidiary of parent company	Subsidiary of parent company
Name of the related party	Nippon Telegraph and Telephone West Corporation	NTT Leasing Co., Ltd.
Equity ownership percentage	—	(Owned) 1.4%
Description of transaction	a) Purchase of land for sale b) Purchase of land	Borrowing
Transaction amount	a) ¥10,852 million (\$92,381 thousand) b) ¥ 1,704 million (\$14,508 thousand)	—
Balance at year-end	Accounts payable: ¥6,944 million (\$59,119 thousand) Other current liabilities: ¥1,004 million (\$8,549 thousand)	Short-term borrowing: ¥20,000 million (\$170,256 thousand) Long-term borrowing: ¥36,200 million (\$308,163 thousand)

These related party transactions took place on terms similar to those with third parties.

On April 1, 2005, NTT Leasing Co., Ltd. merged with NTT Finance Japan Co., Ltd.: retaining NTT Leasing Co., Ltd. and dissolving NTT Finance Japan Co., Ltd.

18 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 business market: 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, 2005 and 2006 is as follows:

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, 2006	Millions of yen					
	Leasing	Residential property sales	Others	Total	Eliminations or Corporate	Consolidated
Sales and operating income:						
Sales and operating income:						
Sales to third parties	¥ 77,150	¥23,543	¥10,138	¥110,833	¥ —	¥110,833
Inter-segment sales and transfers	338	—	3,817	4,155	(4,155)	—
Total sales	77,488	23,543	13,956	114,988	(4,155)	110,833
Operating expenses	57,715	19,040	12,954	89,710	(593)	89,116
Operating income	¥ 19,773	¥ 4,503	¥ 1,001	¥ 25,278	¥ (3,561)	¥ 21,716

Assets, depreciation and capital expenditures:

Total assets	¥440,931	¥45,522	¥ 6,206	¥492,660	¥51,131	¥543,792
Depreciation	23,652	1	3	23,656	171	23,828
Loss on impairment of fixed assets	1,625	—	—	1,625	—	1,625
Capital expenditures	44,980	—	10	44,991	433	45,425

March 31, 2006	Thousands of U.S. dollars					
	Leasing	Residential property sales	Others	Total	Eliminations or Corporate	Consolidated
Sales and operating income:						
Sales and operating income:						
Sales to third parties	\$ 656,767	\$200,423	\$ 86,310	\$ 943,501	\$ —	\$ 943,501
Inter-segment sales and transfers	2,881	—	32,495	35,376	(35,376)	—
Total sales	659,648	200,423	118,806	978,878	(35,376)	943,501
Operating expenses	491,319	162,086	110,280	763,686	(5,056)	758,629
Operating income	\$ 168,328	\$ 38,337	\$ 8,526	\$ 215,192	\$ (30,320)	\$ 184,871

Assets, depreciation and capital expenditures:

Total assets	\$3,753,562	\$387,527	\$ 52,834	\$4,193,925	\$435,274	\$4,629,200
Depreciation	201,346	14	25	201,385	1,460	202,846
Loss on impairment of fixed assets	13,833	—	—	13,833	—	13,833
Capital expenditures	382,913	—	93	383,007	3,692	386,699

Operating expenses not attributable to the business segments are included in Eliminations or Corporate. These amounted to ¥3,079 million and ¥3,563 million (\$30,331 thousand) for the years ended March 31, 2005 and 2006, 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 ¥34,489 million and ¥53,761 million (\$457,658 thousand) as of March 31, 2005 and 2006, respectively.

Capital expenditures and depreciation include payment for long-term prepaid expenses and the related 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.

19 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, 2006, were approved at a general shareholders' meeting held on June 22, 2006:

	Millions of yen	Thousands of U.S. dollars
Increase in retained earnings:		
Decrease in depreciation reserve for tax purposes	¥ 21	\$ 185
Decrease in retained earnings:		
Year-end cash dividends:		
(¥2,500 = U.S.\$21.28 per share)	(1,645)	(14,008)
Bonuses to directors and corporate auditors	(78)	(669)
Increase in depreciation reserve for tax purposes	(1,634)	(13,916)

REPORT OF INDEPENDENT AUDITORS

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

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 2006, 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 2006, 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.

As described in Note 2, effective for the year ended March 31, 2006, the Company and its subsidiaries adopted the new Japanese accounting standard for impairment of fixed assets.

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 PricewaterhouseCoopers
Tokyo, Japan
June 26, 2006

COMPANY INFORMATION

As of March 31, 2006

Official Name	NTT Urban Development Corporation
Headquarters	14-1, Sotokanda 4-chome, Chiyoda-ku, Tokyo 101-0021, Japan
Established	January 21, 1986
Paid-in Capital	¥48,760 million
Employees	503 (consolidated basis)
Branches	Tokai, Kansai, Chugoku, Kyushu, Hokkaido

Directors

As of June 22, 2006

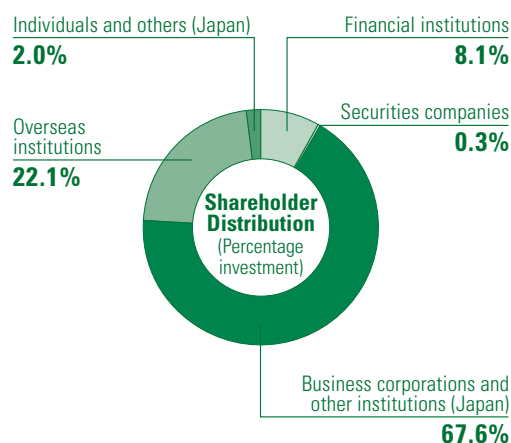
President and CEO	Kiyoshi Mita			
Senior Executive Director	Masayasu Tango			
Executive Directors	Takeomi Yasuda	Tsuneo Kumei	Hiroto Miyake	Seiya Wakaizumi
Directors	Kimito Muragishi	Nobuhiro Koga	Michihiko Kaite	Hideki Tokunaga
	Akitoshi Ito	Takahiro Okuda	Yoshiharu Nishimura	Yasuhiro Yamamoto
Corporate Auditors	Hikozaemon Enoki	Reiichi Nakano		
Corporate Auditors (part time)	Toshio Maegawa	Kenji Sato		

Share Information

As of March 31, 2006

Common Stock	Number of authorized shares	2,100,000
	Number of issued and outstanding shares	658,240
Shareholders		7,221

		Number of Shares Held	Equity Position (%)
Principal Shareholders	Nippon Telegraph and Telephone Corporation (NTT)	442,963	67.3
	The Master Trust Bank of Japan, Ltd. (Trust account)	17,674	2.69
	Japan Trustee Services Bank, Ltd. (Trust account)	13,303	2.02
	Bank of New York GCM Client Accounts EISG	10,052	1.53
	State Street Bank and Trust Company	8,876	1.35
	Morgan Stanley	8,713	1.32
	Goldman Sachs International	8,108	1.23
	The Bank of New York Treaty JASDAQ Account	7,835	1.19
	CMBL SA Re Mutual Funds	6,498	0.99
	The Chase Manhattan Bank, N.A., London	5,059	0.77



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, management and operation 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

*A resolution was passed to liquidate GP Building Management Co., Ltd., as of March 31, 2006.

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	32,000	50.0	Development of Akihabara Ekimae 3-1 area
Crossfield Management Corporation	10	38.0	Development and management of Akihabara Crossfield

Branch Network

Chugoku Branch

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

Hokkaido
Region

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

Kyushu
Region

Kyushu Branch

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

Chugoku
Region

Hokuriku/Kansai/
Shikoku Regions

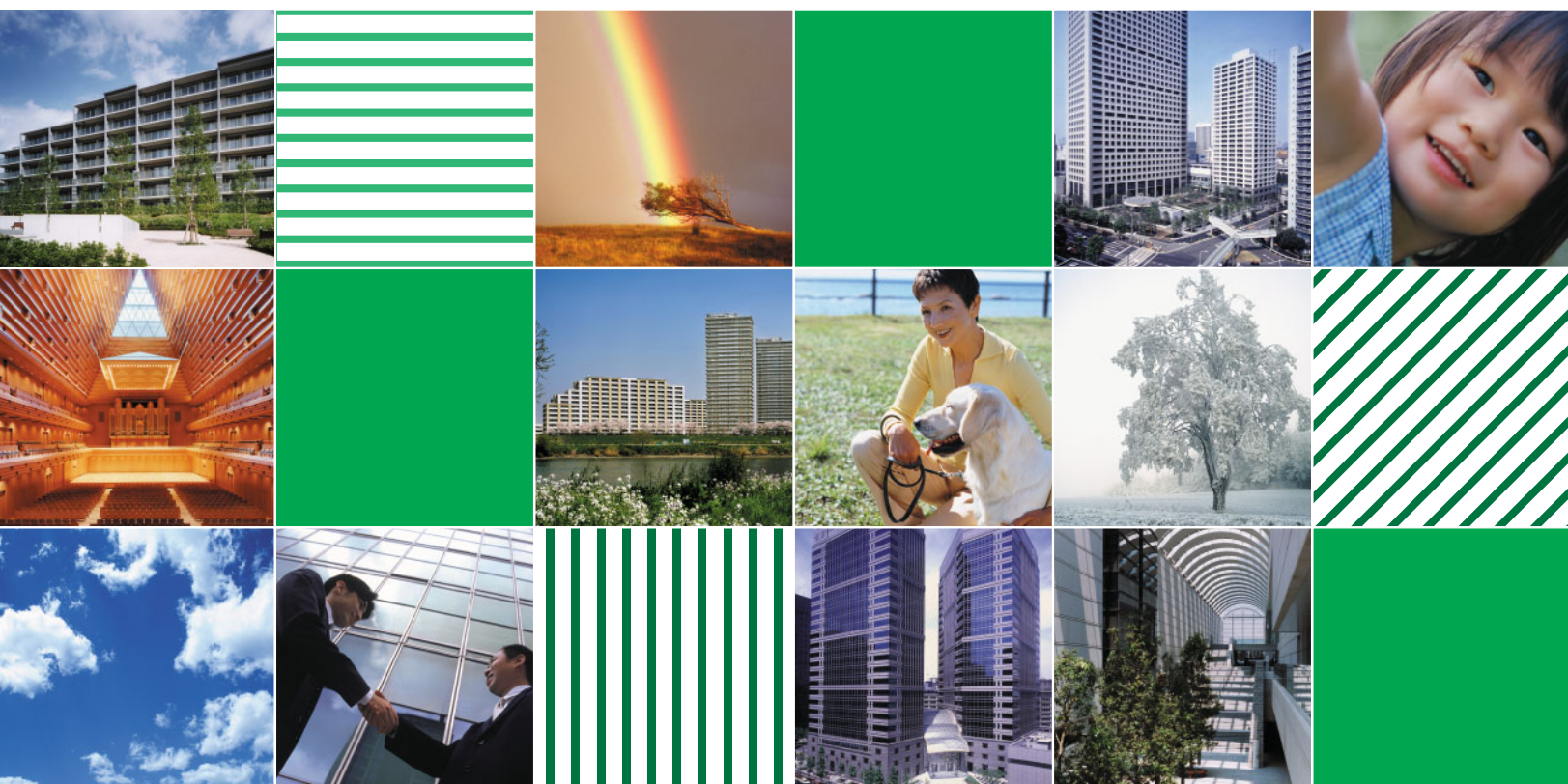
Tokai
Region

Kansai Branch

UD Kanematsu Building
2-15, Awaji-cho 4-chome, Chuo-ku, Osaka, Osaka 541-0047, Japan
Tel: (06) 6208-3939 Fax: (06) 6208-3888

Tokai Branch

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