Mitsui Fudosan Co., Ltd.

2Q FY2019 Analyst Meeting Q&A Summary

Q. With regard to Real Property for Sale, please discuss the pace of asset sales going forward. Please also comment on the outlook for the outstanding balance of Real Property for Sale on the balance sheet and how you plan to use the proceeds generated from the sale of property.

A. The outstanding balance of Real Property for Sale (excluding domestic residential assets) reflects an increase in properties that are now ready for sale. These are projects acquired several years ago where profitability has now stabilized, following the completion of development and leasing. Reflecting the strong selling conditions for property sales to investors, we have revised up our full-year forecasts for the current fiscal year. For FY2020, we are aiming for a similar pace of property sales as FY2019.

For Real Property for Sale, our aim is to identify the optimal timing to sell, to ensure that we do not miss opportunities. We will continue to monitor the real estate investment market closely while being mindful of the balance sheet. We aim to allocate proceeds appropriately, maintaining a good balance between growth investments and shareholder returns.

Q. How are you thinking about shareholder returns in the medium- to long-term?

A. Last spring, we announced our Long-term Vision: VISION2025 (hereafter VISION2025). Reflecting our improved ability to generate cash, we felt we could enhance shareholder returns while also continuing to invest in our robust pipeline going forward. Hence, we upgraded our shareholder return policy from targeting a 25% dividend payout ratio to a total shareholder return ratio of 35%. We note that the 35% level is based on a number of assumptions put in place at the time of formulating the plan. If conditions diverge significantly from our initial assumptions for VISION2025, we would be prepared to consider a flexible approach to reflect such changes.

Q. What are the rent levels for Otemachi One and the Yaesu redevelopment projects?

A. We are making good progress on leasing for Otemachi One based on our initial assumptions for rent levels. Going forward, we do not believe that simply building offices will be sufficient to drive increases in rent revenue. One way we could grow rent revenues is by improving customer satisfaction through mixed use development and other initiatives, in order to create neighborhoods. This would contribute more to the creation of significant added value than simply building standalone offices.

Q. What is your stance on selling property, including core rental tangible assets?

A. We regularly review our overall portfolio in considering which properties to sell, including tangible assets as well as Real Property for Sale. We take a comprehensive approach, factoring in developments in the neighboring area and the maturity of the local neighborhood in determining the right buyer and how we would sell.

Q. Are you considering adjustments to VISION2025, which was announced 18 months ago, such as adding additional KPIs like as ROE?
A. VISION2025 is our vision for the direction of our long-term strategy to 2025. 18 months have elapsed since the launch but we are not currently considering major changes to the plan. That said, on an ongoing basis, senior management is always discussing issues such as the appropriate size of the balance sheet or efficiency metrics such as ROA and ROE, reflecting input from investor engagement or the changing market. ROE is increasingly important to management; we aim to maintain or improve ROE from its current levels.

Q. Related to the sale of overseas assets, are you considering the use of a UPREIT structure or other structures that allow the deferral of tax?
A. To achieve the VISION2025 target for overseas profit, we believe it will be important to capture profits from the Property Sales business, alongside the overseas Leasing business. We recognize that we have many choices for exit strategies. As such, we will continue to consider what represents our best choice, including tax treatment.

Q. Given rising e-commerce penetration, how much room is there for further growth in the number of retail facilities?
A. It is certainly necessary to monitor the impact of e-commerce in Japan. Our retail facilities have been able to maintain positive YoY GMV growth on a like-for-like basis, reflecting the impact of many initiatives to create memorable and value-creating experiences to attract consumers to real stores. In terms of the potential for further development of retail facilities, we believe we can continue to open new LaLaport-style facilities by analyzing customer needs and catchment areas. However, for outlet malls, we think there are a limited number of promising new domestic locations, compared to LaLaport-style facilities. As such, our focus will be on opening new outlet malls primarily in Southeast Asia, where we can benefit from continued population growth.

Q. Are you considering creating a REIT or fund into which you can sell overseas assets?
A. Our overseas business is currently focused on acquiring promising assets. We are still in the early, preparatory stages in terms of considering asset sales.

Q. With regard to the Nihonbashi Muromachi 1-chome redevelopment plan, can you comment on the scale of your investments? Could you also touch upon your vision for neighborhood creation in Stage 3 of the Nihonbashi revitalization plan?
A. Starting with the launch of Coredo Nihonbashi in 2004, we have been executing our plan to revitalize Nihonbashi based on the development concepts of 'Retain', 'Revive' and 'Create'. Under Stage 3 of the Nihonbashi Revitalization Plan, the Nihonbashi Muromachi 1-chome Type 1 Urban Area Redevelopment project includes high-rise office buildings along Chuo Dori and low-rise buildings along the river. Behind the high-rise offices, there is a neighborhood of restaurants which preserves the atmosphere of the historic Nihonbashi area. Through the dynamic combination of different elements, we aim to create a neighborhood where you can enjoy experiences unique to Nihonbashi.

Q. Within the framework of your financial strategy, please discuss your expectations for leverage going forward.
A. As a function of investments in relatively long-term development projects, our balance sheet has grown to more than ¥7 trillion. Our interest-bearing debt now exceeds ¥3 trillion. We feel that our ability to generate cashflow has improved. However, as a result of a large number of assets under development which have yet to generate profits, we will need to consider the leverage level, taking into account the need to maintain a good balance between cashflow and interest-bearing debt. In the event of a change in the interest rate environment, we expect there will be opportunities to acquire land funded by debt; the current level of leverage comprehensively takes these factors into account.

Q. How many retail facility projects do you expect to be able to develop on an annual basis going forward?
A. We aim to increase the pace of development slightly, relative to the current level. We will continue to be rigorous in selecting locations for domestic and overseas projects, and are focused on capturing many opportunities.

Q. What is the outlook for GMV for your retail facilities going forward? Could you also discuss the impact of the consumption tax hike?
A. Ahead of the consumption tax hike, there was a slight demand pull-forward in September, pushing up overall GMV on a YoY basis. In reaction, there was a slight decline in October. However, the combined GMV for September and October is up YoY; on a full-year basis, we believe the impact will not be large. GMV at Mitsui Fudosan's retail facilities has consistently improved YoY.

We believe this reflects the added value we create, which drives customer traffic at our facilities. Going forward, we will continue to anticipate changing and evolving customer tastes. Through the constant evolution of our facilities, we aim to continue to grow our retail facilities business.