Q & A from IR Presentation（IR Meeting for FY 2018）

<General>

Stock Price Level

Q. I found stock performance is not favorable even within a good business environment. It seems relatively weak when it is compared with peers. What are your thoughts on stock prices?

A. We have been always keeping an eye on stock prices and not satisfied with the current stock price level. By showing sustainable and stable growth in profits, we would like to improve our reputation from the stock market. We also would like make an effort to improve ROA, ROE, and EPS by making careful selection on investment for growth.

Return to Shareholders

Q. The stock price had been up by increasing payout ratio at 2018/3-2Q, but the price has continued to be weak after that. Some peer companies have been making various actions such as share buybacks. What are your thoughts on expansion of shareholders return?

A. We are always seeking for what the shareholders return and our capital policy should be. However at the moment, we'd like to give priority to promote selected investments for further growth based on the Mid-Term Management Plan and increase profits. Share buybacks is one of our options. However, we think it is more important to increase business profits under the current situation.

Q. My understanding is your company stated three conditions for share buybacks: 1. stock prices themselves; 2. relative performance of stock prices compared with peers; and 3. keeping stability in finance. I think your company has been fulfilling conditions 1 and 2 and also is ready for condition 3 already by improving stability in FY2020. Is it durable to understand that overall environment for share buybacks is getting ready?

A: Our intension is not to state those three as necessary conditions for share buybacks.

As for stability, it is necessary to examine the validity of current level when we consider some risks of changes in financial environment.

In terms of share buybacks, we had exchanged various opinions at the meeting of its Board of Directors this week and all directors including outside directors are on the same page in regards to the current policy. We'd like to make a judgment on ~~it~~ share buybacks by taking outside perspectives into consideration.

Q. How would you evaluate in regards to share buybacks by Mitsui Fudosan CO., Ltd? What is your impression on that?

A. Even within the same business filed, we have our own management policies. We always have been aware of trends among peers as one of external business environmental factors that should be used for reference.

Q. When your company would do share buybacks, total shareholders return including share buybacks could be over 30%?

A. Share buybacks is one of our options. However, we don't have any particular images at the moment. We first would like to achieve a stable shareholders return with payout ratio close to the highest level within a range of 25~30%.

Investment

Q. I can see that capital investment for FY2019 is at the higher level than in the past. Does it continue to be at the same level from now on?

A. We are expecting around ¥900 billion in net CAPEX during the mid-term management plan. ¥290 billion capital investment was made for FY2018 and ¥380 billion is expected for FY2019; so that will leave us ¥230 billion for FY2020 which is the last year of the mid-term management plan. We will make the most investment for FY2019.

Mid-Term Management Plan Related

Q. You have just explained that expected operating income for FY2020 would go beyond the target estimates by ¥10 billion. Are there any on-going initiatives in order for profit increase aiming at the next mid-term management plan and thereafter ?

A. There are several initiatives currently taking place. Some examples are

Office Building Business:

To renovate Otemachi building (adding values not by redevelopment of building)

Lifestyle Property Business:

To build pipelines expecting to sell for the logistics REIT which was listed in September 2017

Residential Business:

Residential business in South East Asia

Redevelopment project in Japan

International Business:

To refurbish 1271 Avenue of the Americas

To expand areas for the Hybrid Investment Model (including Investment Management Business)

Q. In your prospect for FY2020, it looks like there could be less profits than initial estimates for some segments. Do you think that will be caused by the deteriorating business environment?

A. It will mainly be caused by changes in timing to sell property which was planned to be sold in FY2020. Therefore we don't expect the deteriorating business environment will take part.

Balance Sheet related

A. In terms of unrealized gains, do you still forecast much declining potential in cap rate in the future? How much is the cap rate for each area?

A. The cap rate has come down closer to the lowest level, therefore, we don't expect much declining potential. Increase in unrealized gains for FY 2019 includes ¥100 billion by our own efforts, such as increased cash flow and progress in redevelopment projects. We expect increase from these for a next couple of years.

The rough images of cap rate we have for each area are:

New buildings in Marunouchi: slightly less than 3 %

Existing buildings in Marunouchi: in between 3.5 and 4%

Outside of Marunouchi: around 4%

Q. Based on my analysis, increase in WACC caused by the lower Debt equity ratio as well as continuous investment return below WACC led a decrease of the aggregate market value of your company. Do you think the lower Debt equity ratio would be a risk?

A. We are definitely aware of levels of Debt equity ratio and WACC. However, we believe it is our priority to maintain financial strength which allows to make flexible investments even when the financial environment deteriorates.

Q. What are factors for the much increase in equity investment?

A. The equity investment is mainly for the International Business. Especially the Hybrid Investment Model accounts for a large percentage.

＜Office Building Business＞

Q. A large supply of office buildings in 2018 turned out to be less problematic as it used to be in the past. What are factors behind of such a large floor demand for tenants?

A. We found there were some new needs emerged. Such as establishment of new bases for new technological development among major manufacturers and also intension of concentrating group companies at one place. Some venture business companies that we have been supporting relocated their offices from small to larger size of offices.

Q. Is the top rent in Marunouchi on the uptrend?

A. For leasing buildings in Marunouchi, we are successful in reaching agreements of contracts more than we expected when we made the Mid-term management plan. It might be difficult to be generalized due to the fact that circumstances among tenants needs to be considered. However, we are confident that we are already in a good shape and ready to increase rents.

Q. When it's compared with other areas, I'd like to know what are some competitive edges of Marunouchi area and also would like to know some challenges need to be recognized. Are competitive edges reflected in rents?

A. In terms of a relative comparison with other areas, Marunouchi area has been receiving a positive evaluation on its rent. For the future challenges, we would say that we haven't had a chance to announce our plan for the new project to build new buildings between Tokiwabashi A and B; which means that we have not been catching up with needs of a large relocation of offices into Marunouchi area.

Q. It seems that Tokiwabashi Project is much closer to Nihonbashi and Yaesu than to Marunouchi in its location. How would that be possible to generate synergistic effects with Marunouchi area?

A. Tokiwabashi is located in front of Nihonbashi exit at Tokyo Station and considered to be a center of an international finance base which also includes Otemachi, Nihonbashi, and Kabutocho. By bringing the latest functions, we'd like to make Tokiwabashi more appealing both domestically and internationally.

Q. What are some reasons behind to renovate Otemachi building, not to reconstruct?

A. Otemachi building was build more than 60 years ago. However, its structure is strong enough to be under operation for 40 to 50 more years after its renewal. It has a good access to subways, accompanied with many supportive functions, and partitionable floor layout suited for smaller tenants. These factors add values on Otemachi building for its originality.

That’s why we decided to renovate, not to reconstruct. We’d like to release information on this matter in more details soon.

Q. What do you think of share offices such as Wework? I assume you consider these as excellent tenants at the moment, but do you think they could be your competitors in the future?

A. The majority of users of Wework are those whom we haven’t had a chance to invite for Marunouchi area. We believe it will be very effective for our end to attract these people to Marunouchi area. We are currently working on open-innovation filed in Marunouchi area prior to the completion of Tokiwabashi B expected in 2027. We hope to create an environment for different groups of people to collaborate each other. Therefore we believe that it is possible for Wework and us to be in a good cooperative relationship.

＜Residential Business＞

Q. Announcement on land banking has been made. What’s the current situation when it’s compared with the past? Don’t you think the profit rate would be increased with more redevelopment projects?

A. The level of land banking itself has not changed that much from the past.
Among properties for the land banking, properties expected to be accounted for sales rat the next Mid-Term Management Plan and thereafter period also include a certain number of properties for redevelopment projects. Therefore, it is possible to increase margines as we have more projects for redevelopment.

Q. The gross margin ratio in Residential Business for the previous FY2018 has been improved compared with its latest estimate. Was that due to be on conservative side in regards to the budget?

A. The improvement was due to the shift in timing to sell certain properties that had lower than the average gross margin ratio to the next FY. In terms of the estimates for the gross margin ratio at the beginning of FY, we had no choice but to set lower for budget expenses. Therefore, it was true that the results outperformed in the past.

Q. It looks like changes in the margins of the Residential Business are bigger than peers. Are there any specific reasons?

A. The timing of buying properties and the market change afterwards would make a significant influence on the Residential Business; therefore it causes big changes in margins. In addition, the margins also depends on the mixture of products such as a volume in large-scale tower condominiums sales as well as in properties in suburban areas in each FY.

＜International Business＞

Q. For FY2018, within a total operating income of ¥25 billion, capital gain was ¥15 billion and income gain was ¥10 billion. How much do you expect more for the future?

A. We are confident that our company is capable of generating more than ¥10 billion of capital gains every FY. For further increase in profits, a renewal of 1271 Avenue of the Americas as well as an expansion of the Hybrid Investment Model areas will play big roles. We also would like to increase the percentage of International Business up to around 20 % within the overall operating income for mid-long term goal.

< Others >

Q. According to the notice regarding the capital and business alliance with Heiwa Real Estate Co., Ltd. in 2011, its purpose was to cooperate in order to pursue Kabuto-cho Redevelopment Project. Do you now have any different ideas on its purpose, such as to strengthen the relationship?

A. No, no different ideas from the original.

As for Kabuto-cho Redevelopment Project which consists of several projects, we have been determining whether each project will be launched or not, then we also contribute to our group companies’ profits by providing fees, such as PJM and Architectural design & engineering Business.