

# Message from the CEO

Conceptual Image of Value Creation  
Mitsui Fudosan Aims For

We aim to address social issues through neighborhood creation, which will enable us to balance social and economic value in managing our business.



President and Chief Executive Officer  
Mitsui Fudosan Co., Ltd.

*Masanobu Komoda*

## Introduction

More than two years have passed since the COVID-19 pandemic began. Now, with the progress of vaccination, the world is feeling its way toward a society where we can live with COVID-19 and is rapidly shifting its focus to economic recovery. At the same time, inflation is on the rise around the world due to a worldwide surge in demand on the back of the recovery from COVID-19, rising energy prices, food shortages and supply constraints such as disruption of supply chains and logistics. In addition, the recent Russian invasion of Ukraine has caused disruption in the world. As a democratic nation, we cannot allow this; we must continue to stand by the Ukrainian people who are in extreme misery and do whatever we can to maintain world peace and the international order.

As I note in this space every year, focusing on corporate philosophy and universal values is a vital key to surviving in such an era of uncertainty. Looking back at our corporate roots to understand the ceaseless efforts and innovations of our predecessors which led to the creation of social values and sustainable growth upon which our current business is built can provide us with a guiding light toward our future path.

This time, I would like to revisit the roots of Mitsui Fudosan and its DNA and philosophy to clarify our purpose and social mission. I will then share my thoughts on what we must do for the global environment and the society in which we live and the corporate values needed to achieve this.

## The Roots and DNA of Mitsui Fudosan, The “” Logo Principles

### (1) The Roots and DNA of Mitsui Fudosan

This year marks the 400th anniversary of the birth of Takatoshi Mitsui, the founder of the Mitsui Group. Next year will be the 350th anniversary of Takatoshi Mitsui’s relocation from Ise-Matsusaka to Edo and the opening of a kimono store in the Nihonbashi district.

In 1673, Takatoshi Mitsui founded a kimono store called Mitsui Echigo-ya Draper’s Shop in the Nihonbashi district of old Edo. The store’s business expanded rapidly driven by its groundbreaking business philosophy of “cash only and fixed, low prices.” So what was groundbreaking about this?

Originally, kimonos were worn by samurai and were luxury items out of the reach of common people. Kimonos were bespoke garments, with merchants visiting feudal lords’ residences to take orders. The process was time-consuming and labor-intensive, with significant wasted fabric. Garments were sold on credit, with payments made in the summer at the time of the O-Bon festival and at year-end. Merchants had to bear the burden of interest, and there was default risk as well. This was the backdrop when Japan entered the Genroku period (1688 to 1704). Society had matured, and common people wanted better clothes.

Takatoshi Mitsui chose to take a different approach. He sold ready-made kimonos for cash at the store and through drastic streamlining of production, distribution, and billing, succeeded in significantly reducing cost. In addition to the traditional silk and linen fabrics, he used cotton fabrics which were produced in his

hometown of Ise-Matsusaka, and innovated to better match consumer tastes in terms of price and quality. As a result of these changes, kimono became affordable for common people, and Mitsui Echigo-ya became very prosperous. It was Takatoshi Mitsui who first practiced the “spirit of enterprise” which enabled a “customer orientation” in the Edo era. This has been passed down as the DNA of Mitsui Fudosan.

Mitsui Echigo-ya’s business continued to expand, and in 1909, the holding company of the Mitsui *zaibatsu* (corporate conglomerate), Mitsui Gomei Kaisha, was established. In 1941, taking over the core business of Mitsui Gomei, Mitsui Fudosan Co., Ltd. was founded. Our history can be seen as one that, in step with the development of Japan’s economy and society, has created new value by innovating our business in ways that meet the demands of the times and the voices of our customers. (See page 5.)

A “customer orientation” that sincerely addresses customers’ needs and a “spirit of enterprise” that boldly tackles value creation and innovation in our business originated with Takatoshi Mitsui and has been inculcated into every one of our employees to this date as a part of our Group’s DNA.



Founder Takatoshi Mitsui  
(Mitsui Bunko archives)  
\* Reproduction prohibited



Nihonbashi during the Edo period/The Echigo-ya in Surugacho on New Year’s Day, a woodblock print by Kiyonaga Torii (The Mitsui Memorial Museum collection)



**(2) The “人” logo principles**

The symbolic crystallization of this DNA is the management vision of the “人” logo principles. Instead of making an “either-or” decision between conflicting concepts, we accept diversity even when the accepted wisdom suggests that some values are conflicting by nature. Our management philosophy is to make these values coexist in the spirit of “and” by overcoming conflict and to realize a sustainable society. This management vision was established on the 50th anniversary of our founding in 1991, long before keywords such as sustainability and ESG came into common use. I take great delight in this philosophy because it accurately indicates the direction the Company should aim for.

For example, real estate development used to be viewed as destroying nature. This is precisely why the Mitsui Fudosan Group has attached importance to coexistence with the global environment and local communities under the “人” logo principles. The development concept—“Preserving and Revitalizing the Heritage while Creating the Future”—of Mitsui’s home base, Nihonbashi, Tokyo, symbolizes this principle.

While we have chosen to conserve historical assets which deserve to be preserved such as the Mitsui Main Building, the Bank of Japan, the Takashimaya Main Building and the bridge of Nihonbashi, we will create leading-edge high-rise buildings, while seeking harmony by restoring the waterfront and blue skies of the scenery of Nihonbashi River and Fukutoku Shrine, which had been relegated to a neglected corner of the city in the flow of the times. On the other hand, on a back street, we will create a lane that reproduces the townscape of Edo. These epitomize the neighborhood creation of the “人” logo where “people and nature” and “tradition and innovation” coexist, and are the embodiment of our purpose.

I am convinced that the role of the Group will become more and more important for future socio-economic development and the preservation of the global environment; going forward, we will make every effort as a Group under the principles of “coexist in harmony with society,” “connect diverse values” and “achieve a sustainable society” which are symbolized by the “人” logo.



\* Preserving and Revitalizing the Heritage while Creating the Future

**Recognizing Issues to Be Addressed by Mitsui Fudosan**

Although companies have been assessed solely on financial factors, this is becoming a thing of the past. From here on out, the will and the execution ability of management to enhance corporate value from both financial and non-financial aspects will be valued. Looking back on history, it is clear that companies are required to create not only economic value but

also social value. Of course, these values are compatible, and I believe that contribution to a sustainable society through value creation is what will lead to sustainable growth for companies.

Now, I will discuss the issues the Group must proactively address to achieve further improvements in corporate value.

**(1) Realization of a decarbonized society**

Addressing climate change is a social responsibility for our Group, which undertakes the construction and development of social infrastructure. We position decarbonization initiatives as a top priority. Setting medium- to long-term goals for the reduction of greenhouse gas emissions is not enough; as a leader in the real estate industry, it is also important to have an action plan which outlines how we propose to achieve this. Based on repeated discussions involving the entire organization, we formulated a Group-wide action plan for the

achievement of a decarbonized society in November of last year. (See page 37.)

The achievement of a decarbonized society is an urgent issue that must be addressed by society as a whole, under the philosophy of “coexist in harmony with society” implicit in the “人” logo. Together with our stakeholders, our Group will strengthen our activities to put our action plan into practice.

**(2) Diversity and inclusion initiatives**

Another idea behind the “人” logo is “connect diverse values” or, in other words, “diversity and inclusion (D&I).” D&I has been an area of increased focus in recent years to ensure diversity in corporate management. One of the characteristics of the Group to this point has been our homogeneity, for better or worse. However, as values are maturing and diversifying, we will not be able to address changes of the times with homogeneity. Therefore, I can say that D&I is the biggest issue for the Group.

In particular, the real estate industry has long been considered to be a man’s job that requires physical strength, involving working in dangerous development sites and negotiating with local residents and governments day and night. I believe that women’s perspectives have a great influence on all aspects of our business, including housing, retail and hotels. In my view, this industry will eventually grind to a halt if we do not increase the number of female employees and support their active participation with a strong sense of

urgency. In addition, to truly promote the advancement of women, it is very important to change the mindset within the Company by eliminating the filter of gender, treating each employee as an individual, and being open and accepting.

Sparked by this, last year, our Group formulated a declaration on diversity and inclusion along with policies on related initiatives. We have set the promotion of the advancement of women as an important theme, and established quantitative and qualitative goals for the Group. (See page 39.)

Recognizing that the greatest driving force behind companies’ value creation is the asset of human resources, we will further expand diversity in terms of gender and global human resources, and will leverage the varied opinions and knowledge generated from this to create new business opportunities.

**(3) Dissemination of information and dialogue with the market regarding Mitsui Fudosan’s value creation**

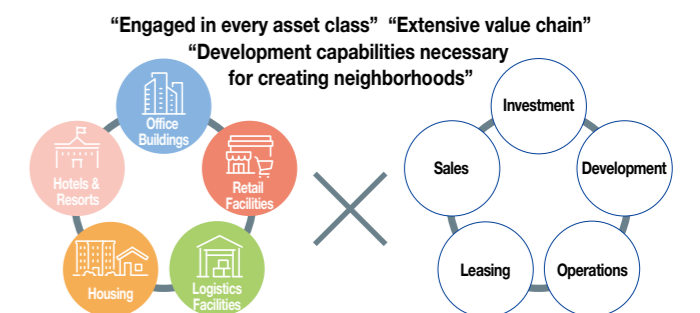
The third philosophy of the “人” logo is “achieving a sustainable society.” I feel that the challenge here is to firmly communicate to the market our thoughts on our purpose, social mission, and value creation as we move toward realizing our vision, to promote better understanding among investors.

Real estate companies in other geographies are typically differentiated by function, focusing on property ownership or development and often with simple asset classes. Although they deal with real estate as we do, their business models are quite different from those of the Japanese comprehensive developers.

A company like our Group, which deals with all types of assets as a single corporate entity, fulfills all functions of Holding & leasing, Development & sales and Management, with the ability to promote neighborhood creation by leveraging its comprehensive strengths, is globally very rare. In addition, even compared with the time horizon of the investors who support us, neighborhood creation is a business that operates on very long time spans. As such, I had felt that it might be difficult to

sufficiently convey our corporate value with conventional financial indicators alone.

I wanted to find a solution to this problem. Through continued dialogue with many investors, I have been exploring the ideal image of value creation for us by listening to the voices of the market and, at times, receiving encouragement. I would like to express my thoughts below.



## Conceptual Image of Value Creation Mitsui Fudosan Aims For

### (1) Mitsui Fudosan's neighborhood creation approach

In the value creation which we aim for, we view "creation of social value" and "creation of economic value" as two halves of a whole. The social value that our Group creates is nothing less than "providing people with emotional experiences," "enriching people's lives" and "achieving a sustainable society," through neighborhood creation. The following two points are at the core of this neighborhood creation.

#### Create neighborhoods that "put people first"

To meet the increasingly diverse and sophisticated needs of our customers, we must change our business approach in accordance with the underlying idea of providing our customers with not only a tangible element in the form of space, but also "living" and "office life" including services, which are intangible elements. In other words, we provide our customers with real estate in the form of services, and not simply a physical property. We call this "Real Estate as

a Service." When pursuing this approach, the leading role in neighborhood creation is not *buildings* but *people*.

#### Create neighborhoods that "get better with age"

When pursuing neighborhood creation that "puts people first," what is required of the neighborhoods will also change. If the people who visit the neighborhoods change, or if what such people want changes even if they themselves do not change, the neighborhoods must evolve accordingly. In addition, neighborhoods develop a spirit of place over time and its natural elements such as the greenery grow. Creating a high-quality community rooted in the neighborhood and providing high-quality town management will add appeal to the neighborhoods, making them more attractive as time goes by. We refer to this as "improving with age." From this perspective, the completion of a building is not the goal but a starting point for our neighborhood creation.

Through neighborhood creation  
 "Providing people with emotional experiences"  
 "Enriching people's lives" "Achieving a sustainable society"

### Mitsui Fudosan's Approach

Putting people first

"Real Estate as a Service"  
 Belonging to a high quality community



Getting better with age

Responding to changing human needs and values, neighborhoods continue to evolve

### (2) Impact on management indicators

Based on this approach, the neighborhood creation we aim for will continue to evolve and mature over a long period of time. As a result, there are also negative aspects when viewed only on a short-term time horizon with efficiency indicators. In viewing our Group, we would hope the unique characteristics of the assets of our Group, which plays the role of a long-term creator of neighborhoods, and how we create value through the utilization of such assets is given due consideration.

#### ① Assets under development

First, there are assets under development on our balance sheet that have yet to generate profits. The ratio of assets under development to the total real estate assets of the Company is around 30%. Such assets do not generate

profits and because they only add to the denominator but ake no contribution to the numerator, they have a negative impact on efficiency indicators such as ROE and ROA.

However, the very existence of these assets under development is the root source of solutions to social issues. It is also the root source of growth that will generate future profits through development. To achieve a sustainable society by solving social issues through neighborhood creation and give emotional experiences by creating new value, simply following what others created is not sufficient. Therefore, it is necessary to create neighborhoods from scratch, including power systems and infrastructure. To do so, developers require a certain amount of assets under development in their balance sheets to fulfil their social mission and purpose.

#### ② Existence of central urban assets

In addition, there are many so-called "central city assets" on our balance sheet. Including Tokyo and New York, the percentage of central city assets in our real estate assets is approximately 50%. Development in central cities has a unique characteristic because the efficiency indicator for properties is relatively low inevitably as the assessed land price is generally high.

However, assets in central cities are resistant to risks such as economic fluctuations and have stable cash flows, so they have the effect of stabilizing stock prices and reducing capital costs. There is also the advantage of being a source of large unrealized gains and realizing huge profits when sold.

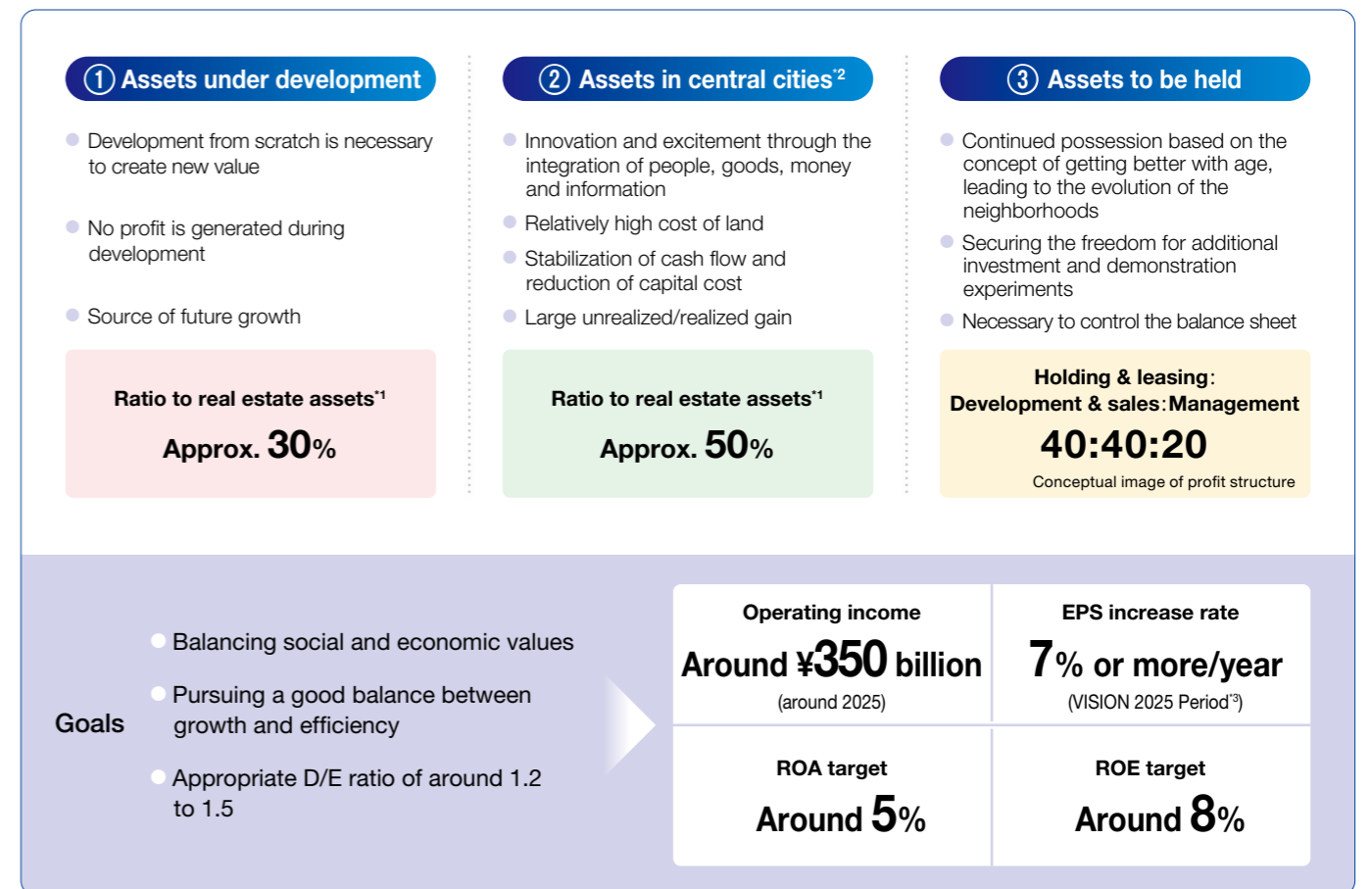
A city serves as a stage, where people and companies gather, innovation occurs, and new industries and values are created. Through entertainment and sports, many people get exciting experiences. From there, the competitiveness of the city will be enhanced, leading to economic and cultural development. In order to achieve these goals, it is essential to develop central cities where many people, goods, money, and information gather and intersect. I believe that this is also an important social mission for developers and the reason for our existence.

#### ③ Existence of assets to be held

The Company's policy is to maintain a good balance between the three business models of "holding and leasing, development and sales, and management" as a way to aim for "profit growth" and "improved efficiency" while "maintaining a strong financial standing." I think that an appropriate image for the profit split between Holding & leasing, Development & sales and Management in our Company is about 40:40:20.

I am aware that there are those that argue that it is possible to improve efficiency indicators such as ROE and maintain assets under development and urban center assets on the balance sheet by reducing the scale of assets we hold and stepping up the scale of completed projects for sale. However, as I mentioned earlier, our neighborhood creation approach is to "put people first" and develop neighborhoods that "get better with age." This requires high-quality town management to promote evolution of the neighborhoods together with the people and communities. Also, to address social issues and present a vision of the future of the world through neighborhood creation, we must conduct field tests in the neighborhoods we have created. In other words, even after development, we need to maintain a system which allows us to take the lead and make additional flexible and agile investments. At the same time, we need to continue to hold a certain amount of property which can contribute to further increasing the value of the neighborhoods.

### Characteristics of the Mitsui Fudosan Group's Assets



<sup>1</sup> Real estate assets = Fixed assets, real property for sale, etc. <sup>2</sup> Central city assets = assets in the three wards of central Tokyo and New York, USA <sup>3</sup> Assumes the average of VISION 2025 periods after FY2021.




### (3) Aiming for management that fuses “social value” and “economic value”

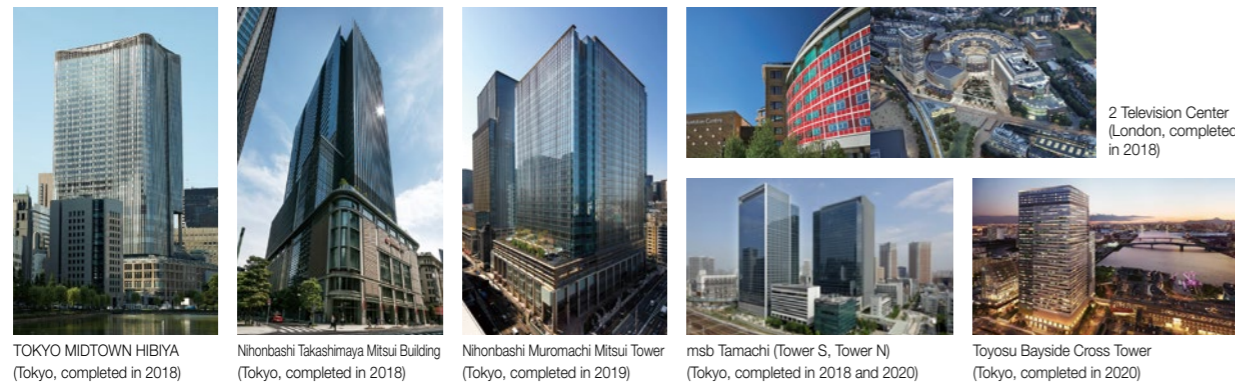
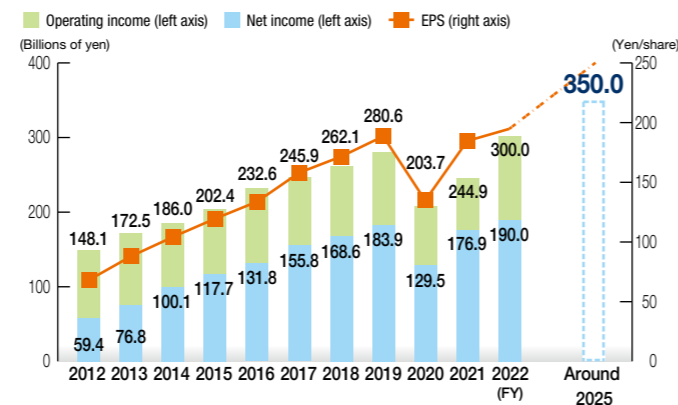
It is very important that we consistently meet the expectations of our investors who have taken risk in investing in the Company, through constant management efforts, including improvement of management metrics. However, I don't think it's a matter of simply showing positive numbers on our financial reports. In the age to come, it will be important to go beyond simply superficially tracking financial indicators, and to engage with investors on our corporate philosophy to ensure that they understand the underlying implications of the financial figures which are backed by our purpose and social mission.

Our Group will continue to promote management with a comprehensive view of “increasing social value,” “sustainable growth,” “improving efficiency,” and “maintaining financial soundness,” from a long-term perspective. Our social mission is “aiming to solve social issues through neighborhood creation to create a safe, secure and fulfilling society.” We define as elements necessary to achieve this: assets under development at a level of approximately 30%, urban center assets at approximately 50% and an appropriate debt/equity ratio of between 1.2 to 1.5 times. At these levels, ROA and ROE should be around 5% and 8% respectively. Based on the above, we aim to achieve an annual EPS growth ratio of 7% or more on a sustainable basis. With this framework, we will

manage the Company with the twin goals of creating both “Social Value” and “Economic Value.”

Under the “” logo principles the Group aims to create thriving neighborhoods that bring people together, where new values are created and where the interaction of people generates innovation. To achieve this, we must enhance our corporate value in fulfilling our purpose. We will continue to engage in dialogue with investors to share our long-term values, and to contribute to a sustainable society.

#### Outlook



### Creating a mixed-use neighborhood in Japan and overseas



**Social value**  
(Achieve a Sustainable Society)

**Economic value**  
(Drive Sustainable Profit Growth)

## Enhancing Shareholder Returns

As an executive of a business, I strongly recognize that clearly setting out a stance of ensuring stable and continuous returns is of the utmost importance to the shareholders who support the Company from a long-term perspective. This is evidenced by our track record of progressively maintaining and improving our dividends consistently over the past 20 years, even when net income declined. We are firmly committed to maintaining this stance.

Recently, we were able to confirm a recovery from COVID-19, an increased confidence in our ability to generate cash, the ability to maintain a good balance between equity and profit growth, and to maintain financial soundness while continuing to invest for growth. As a result, we chose to enhance shareholder returns, targeting a total shareholder return ratio of around 45%. Based on a dividend payout ratio of approximately 30%, we increased the annual dividend per share from ¥44 to ¥55. At the same time, we announced a share buyback program of ¥30 billion, bringing the total shareholder return ratio for fiscal year ended March 2022 to 46.6% of profit attributable to owners of parent. In addition, the forecast for the dividend per share was increased by ¥5 to ¥60 from ¥55 for the fiscal year ending March 2023, with a target dividend payout ratio of 30% against the net income target of ¥190 billion.

Compared with our peers, our Group has an abundant development pipeline in overwhelmingly diverse asset classes. Going forward, we will continue to pursue business growth based on a good balance of “Holding & leasing, Development & sales and Management” targeting ¥350 billion in operating income, as announced in VISION 2025. We will do this through the growth of leasing profits as a result of completing new properties, stable development profit contributions owing to asset turnover in each fiscal year, and increased profits from management over the medium to long term following property disposals. To ensure investors will continue to hold high expectations for the Group's growth and to reward them for their support, we aim for a stable and continuous increase in dividends linked to sustainable growth.

## In Closing (Together with Our Stakeholders)

We are now in a transition period to a new post-COVID-19 era. At the same time, we are at a major turning point regarding global climate change, and a power struggle between democracy and authoritarianism. As environmental issues, supply chain challenges, financial markets and other factors are all intertwined, it is essential to have a management perspective that brings long-term benefits to all stakeholders on a global scale to address these issues.

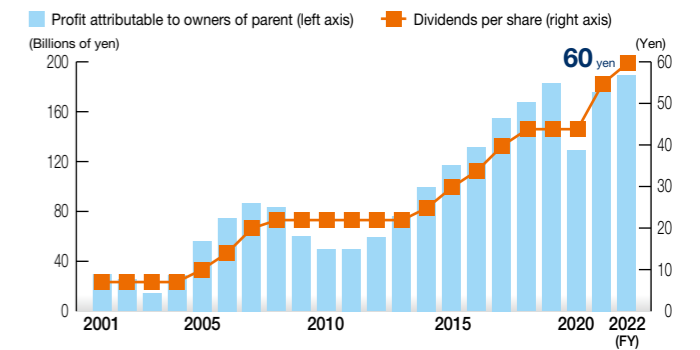
So far, through neighborhood creation, the Mitsui Fudosan Group has made every effort to improve the sustainability of humankind and make people's lives safe, secure and fulfilling.

### Basic Approach to Shareholder Return

#### A Stance of Maintaining Stable and Continuous Returns

Stable dividends and flexible repurchases of our Company's shares and our record of having consistently maintained and improved dividends

#### Dividends per Share/Profit Attributable to Owners of Parent



### Strengthening Ratio of Total Shareholder Return\*

#### Identifying a Total Shareholder Return Ratio of Around 45%

(In the past, a total shareholder return ratio of around 35% was targeted)

\* Revised in May 2022

#### Total Dividends, Total Amount of Treasury Stock Acquired, and Total Shareholder Return Ratio

