Financial Analysis (Fiscal 2021)

Operating Conditions and an Overview of Results

The Japanese economy continued to experience unstable conditions throughout fiscal 2021. Despite initial signs of a recovery in corporate earnings and consumer spending due to the lifting of the state of emergency at the end of September and other factors amid prolonged restrictions on economic activities owing to the spread of COVID-19, this instability largely reflected the impact of highly infectious new virus variants from January 2022. In addition, rising geopolitical risks, including Russia's incursion into Ukraine, as well as soaring energy and raw material prices, exacerbated uncertainties surrounding the future.

In the real estate sector, trends in the office building leasing market were generally firm. Despite signs of a modest upswing in vacancy rates owing in part to the consolidation and downsizing of offices following a review of workstyles, this generally firm market was underpinned by such factors as solid demand for properties in prime city center locations. Meanwhile, the retail facility leasing market exhibited a steady recovery trend. While sales failed to reach the levels recorded prior to the COVID-19 pandemic owing to a variety of factors including the intermittent declaration of states of emergency, this steady recovery was supported by indications of a positive turnaround in sales for certain facilities, mainly those in the suburbs. Turning to the logistics facility leasing business, the scale of the market expanded on the back of such factors as the upswing in new supply. This largely reflected the rising demand for logistics facilities associated with growth in E-commerce. The hotel operation market continued to confront challenging conditions. Notwithstanding a partial pickup at lodging-focused as well as resort hotels owing to a temporary recovery in business use, successful efforts to capture outbound needs, and other factors, the market continued to suffer under a wide array of difficult conditions including prolonged restrictions on activities and delays in a recovery in inbound needs. In the property sales market, trends were firm as purchase demand among customers remained high due to growing interest and the diversification of needs concerning living environments, as well as continued low interest rates. As far as the real estate investment market is concerned, investors maintained their keen interest. Buoyed by the favorable financial environment, the J-REIT market continued to expand, with an increase in the amount of real estate holdings.

In this business environment, the Mitsui Fudosan Group implemented a raft of thoroughgoing measures aimed at addressing the pandemic at each of its facilities while working to normalize facility operations. As a new measure, the Group formulated the "Mitsui Fudosan 9BOX Infection Control Standards" for common use across all of its facilities. Under the supervision of specialists, these standards serve as a countermeasure against droplet, aerosol, and contact infections. In addition, the Group has worked to create new value based on its long-term vision, VISION 2025. With the post-pandemic era foremost in its mind, this includes responding to irreversible changes in workstyles and lifestyles under COVID-19 through such measures as strengthening remote work services at its "WORK STYLING" multi-site satellite offices for corporate clients, expanding business in its "&mall" E-commerce mall linked to real stores, and developing housing with workspaces in common areas.

The Mitsui Fudosan Group recognizes that it is its social mission as a property developer to contribute to solving a variety of social problems with the aim of successfully establishing a sustainable society through the creation of neighborhoods, and has set new action plans and initiatives to reduce environmental impact and enable its workforce to thrive.

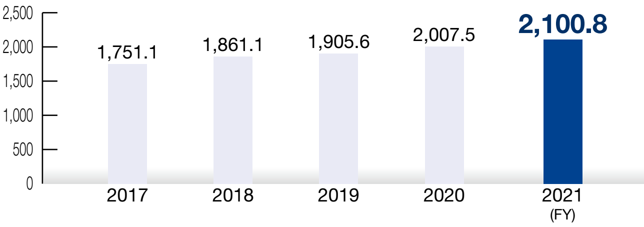
First, we formulated the "Group Action Plan for Achieving a Decarbonized Society" in order to achieve our goal of net-zero greenhouse gas emissions for the entire Group by fiscal 2050. Based on this, we promoted the greening of electricity in the common areas of our facilities in the Tokyo metropolitan area and launched green power supply services to tenant companies. Moreover, we pushed forward environment-focused initiatives. These include expanding the aforementioned measures to the Chubu and Kansai areas. Complementing these endeavors, we applied the Green Bonds issued to businesses that specialize in activities in the environmental field to fund the development of an office building in New York. Over and above the execution of a sustainability-linked loan, in which the borrowing interest rate fluctuates in line with the achievement of greenhouse gas emission reduction targets, we also procured funds through sustainable finance. As a result of these activities, we have been selected for inclusion by CDP, a non-profit organization engaged in international environmental surveys and information disclosure, in the CDP 2021 Climate Change A List of top-ranking companies in the climate change category.

Recognizing that human resources are the force that drives the continuous creation of new value, the Mitsui Fudosan Group formulated the "Diversity and Inclusion Declaration" and a policy for initiatives. Under its policy for initiatives, the promotion of women's active participation is positioned as an important theme. In addition to Mitsui Fudosan setting such targets as ratios for "women in management position of 10% and 20% by 2025 and 2030," respectively, as well as "a female recruitment ratio of 40%," Group companies have identified similar goals. Positive steps are also being taken to accelerate initiatives Group-wide by managing the status of progress. Among a variety of measures, we have conducted Group-wide training to change the awareness of the organization and supervisors. As a result of these endeavors, the Company was selected as a fiscal 2021 Nadeshiko Brand, a joint initiative by Japan's Ministry of Economy, Trade, and Industry and the Tokyo Stock Exchange to identify companies that take outstanding steps to encourage women's success in the workplace.

Despite the prolonged impact of COVID-19, operating income, ordinary income, and profit attributable to owners of parent exceeded consolidated business results forecasts announced during the fiscal year under review on the back of these various measures.

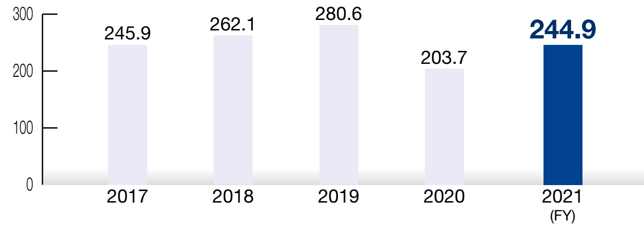
Revenue from Operations

(Billions of yen)



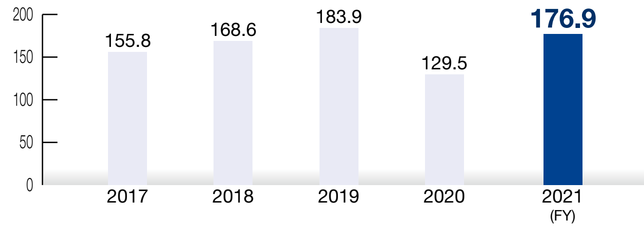
Operating Income

(Billions of yen)



Profit Attributable to Owners of Parent

(Billions of yen)



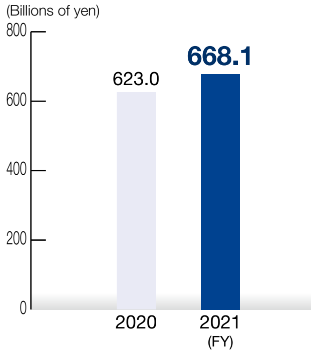
Segment Information

Leasing

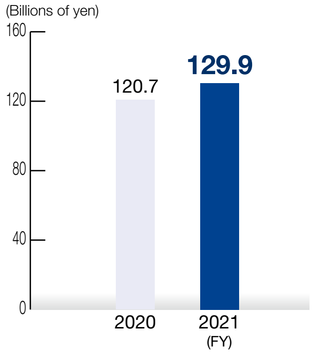
In the Leasing segment, overall revenue from operations and operating income increased ¥45.0 billion and ¥9.2 billion, respectively. In addition to the upswing in such items as existing office leasing revenue and contributions for the full fiscal year from various properties including Bunkyo Garden Gate Tokyo, which was completed during the previous fiscal year, these increases in revenue from operations and operating income were due to such factors as the year-on-year recovery in sales at retail facilities amid the ongoing impact of COVID-19.

Meanwhile, the office vacancy rate in the Tokyo metropolitan area was 3.2% on a non-consolidated basis.

Revenue from Operations
(Billions of yen)



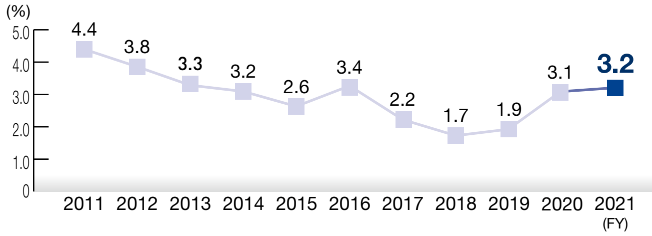
Operating Income
(Billions of yen)



(Millions of yen)

(FY)			2020	2021
Office Buildings and Retail Facilities	Revenue	Office Buildings	¥369,256	**¥389,811**
		Retail Facilities	208,841	**226,218**
	Total Leased Floor Space (1,000 m²)		5,751	**5,788**
	Office Buildings	Owned	1,955	**1,894**
		Managed	1,438	**1,502**
	Retail Facilities	Owned	1,825	**1,758**
		Managed	533	**634**
Other	Revenue		44,975	**52,137**
Total Revenue			623,073	**668,167**
Total Operating Income			120,777	**129,983**

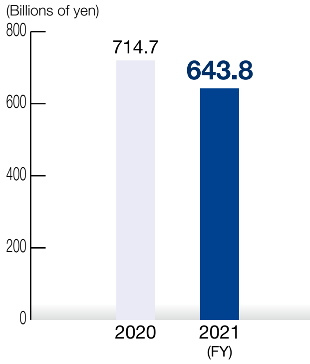
Vacancy Rate for Tokyo Metropolitan Area Office Buildings (Non-Consolidated)
(%)



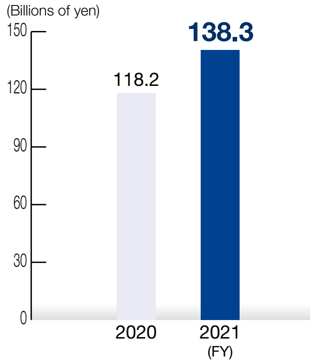
Property Sales

Revenue and earnings in the Property Sales to Individuals (Domestic) category decreased. This was mainly due to the year-on-year downturn in the reported number of condominium units in the fiscal year under review. Revenue and earnings in the Property Sales to Investors and Individuals (Overseas), etc., category increased owing largely to growth in the sale of properties to investors including J-REITs. In overall terms, revenue from operations in the Property Sales segment decreased ¥70.8 billion. In contrast, operating income reached a record high climbing ¥20.1 billion.

Revenue from Operations
(Billions of yen)



Operating Income
(Billions of yen)



Fiscal Year-End Inventories (Property Sales to Individuals [Domestic]) (Units)

(FY)	2017	2018	2019	2020	2021
Condominiums	108	141	128	150	**82**
Detached Housing	40	30	58	17	**7**
Total	148	171	186	167	**89**

(Millions of yen)

(FY)			2020	2021
Property Sales to Individuals (Domestic)	Condominiums			
	Tokyo Metropolitan Area	Revenue	¥268,854	**¥180,674**
		Units	3,332	**2,539**
	Other	Revenue	21,399	**25,995**
		Units	443	**669**
	Subtotal	Revenue	290,254	**206,669**
		Units	3,775	**3,208**
	Detached Housing			
	Tokyo Metropolitan Area	Revenue	33,183	**36,149**
		Units	482	**467**
	Other	Revenue	1,927	**2,335**
		Units	33	**40**
	Subtotal	Revenue	35,110	**38,485**
		Units	515	**507**
		Revenue	325,364	**245,155**
		Units	4,290	**3,715**
		Operating Income	40,003	**24,028**
Property Sales to Investors & Individuals (Overseas)		Revenue	389,374	**398,696**
		Operating Income	78,209	**114,315**
Total Revenue			714,739	**643,851**
Total Operating Income			118,213	**138,343**

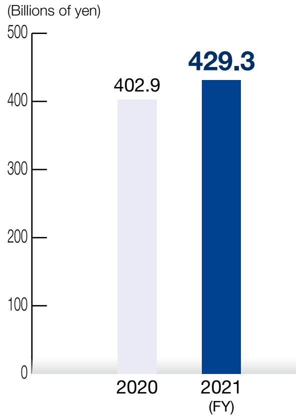
Management

In the Property Management category, revenue and earnings increased owing to a variety of factors including successful efforts to reduce costs on an ongoing basis and increase in occupancy rates in the Repark (car park leasing) business. Revenue and earnings in the Brokerage and Asset Management, etc., category also improved. This was mainly due to such factors as the year-on-year upswing in brokerage transactions and unit prices per transaction handled in the Rehouse (brokerage for individuals) business. In overall terms, both revenue from operations and operating income in the Management segment reached record highs climbing ¥26.4 billion and ¥17.2 billion, respectively.

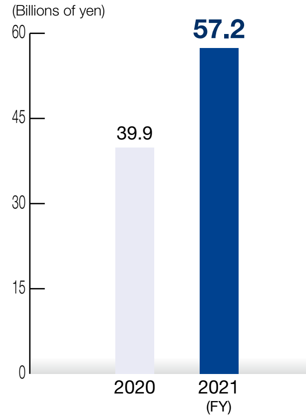
(Millions of yen)

(FY)		2020	2021
Property Management	Revenue	¥309,099	**¥321,572**
	Operating Income	21,888	**31,296**
Brokerage, Asset Management, etc.	Revenue	93,829	**107,777**
	Operating Income	18,081	**25,909**
Total Revenue		402,929	**429,350**
Total Operating Income		39,969	**57,205**

Revenue from Operations
(Billions of yen)



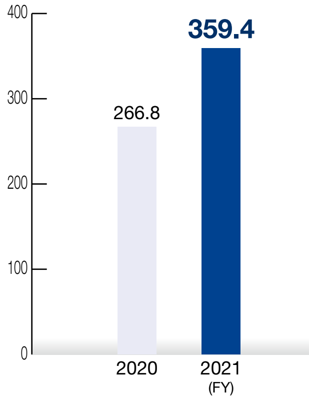
Operating Income
(Billions of yen)



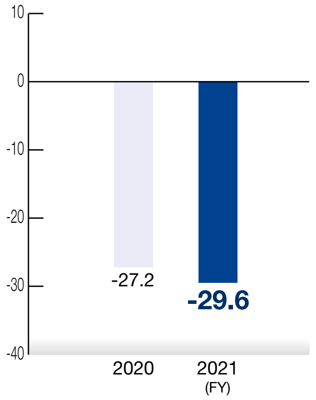
Other

Overall revenue from operations in the Other segment increased ¥92.6 billion, whereas the operating loss expanded ¥2.4 billion. This largely reflected the recovery trend in facility operations mainly in the hotel and resort businesses as well as the inclusion of TOKYO DOME's revenue and operating loss.

Revenue from Operations
(Billions of yen)



Operating Income
(Billions of yen)



(Millions of yen)

(FY)	2020	2021
New Construction Revenue	¥147,222	**¥158,307**
Facility Operations Revenue	32,736	**46,803**
TOKYO DOME Revenue	—	**59,388**
Other Revenue	86,854	**95,000**
Total Revenue	266,812	**359,499**
Total Operating Loss	-27,215	**-29,641**

Consolidated Financial Position

Assets

As of March 31, 2022, total assets were ¥8,208.0 billion, an increase of ¥466.0 billion from the end of the previous fiscal year.

This was mainly due to an increase of ¥121.1 billion in real property for sale (including real property for sale in progress, land for development and advances paid for purchases). There was an increase of ¥117.3 billion in tangible and intangible fixed assets mainly due to new investments, as well as an increase of ¥167.9 billion due to fair market valuation of investment securities.

Capital expenditures were ¥272.3 billion and depreciation and amortization was ¥111.5 billion.

Liabilities

Interest-bearing debt (the total of short-term debt, non-recourse short-term debt, commercial paper, bonds redeemable within one year, non-recourse bonds redeemable within one year, corporate bonds, non-recourse bonds, long-term debt, and non-recourse long-term debt) stood at ¥3,667.2 billion on an overall consolidated basis as of March 31, 2022, an increase of ¥43.7 billion from the end of the previous fiscal year.

Mitsui Fudosan has established committed lines of credit totaling ¥400.0 billion with several financial institutions to ensure access to funds and adequate liquidity. The Company had not accessed these lines of credit as of the balance sheet date.

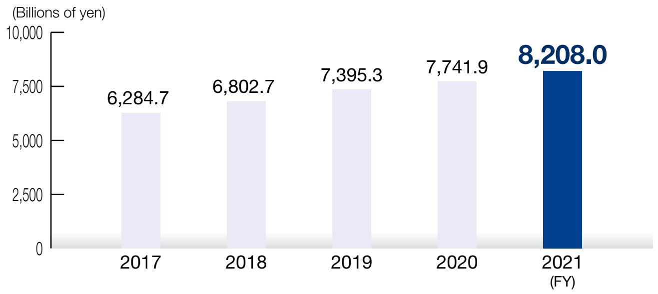
The current ratio (current assets/current liabilities) as of March 31, 2022, was 201%, a decrease compared with 245% as of March 31, 2021.

Net Assets

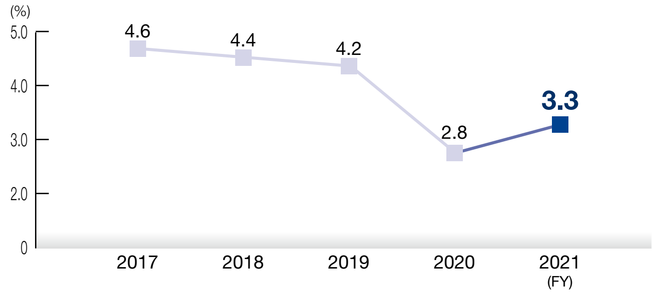
Total net assets as of March 31, 2022, were ¥2,913.7 billion, an increase of ¥257.7 billion compared with the end of the previous fiscal year. This increase was mainly attributable to upswings of ¥130.7 billion in retained earnings and ¥76.9 billion in net unrealized holding gains on securities, as well as a positive turnaround of ¥44.9 billion in foreign currency translation adjustment.

The equity ratio as of March 31, 2022, rose to 34.1% from 33.0% as of the end of the previous fiscal year, while the debt/equity ratio decreased to 1.31 times from 1.42 times. Net assets per share increased to ¥2,942.11 from ¥2,656.42 as of the previous fiscal year-end.

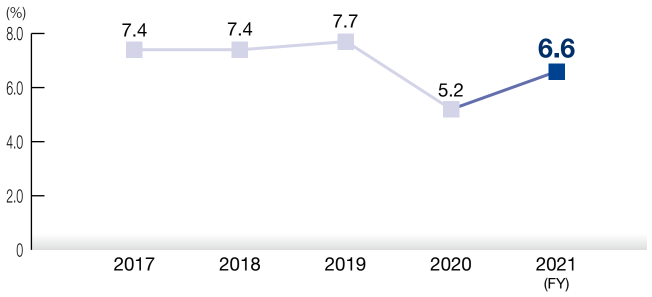
Total Assets



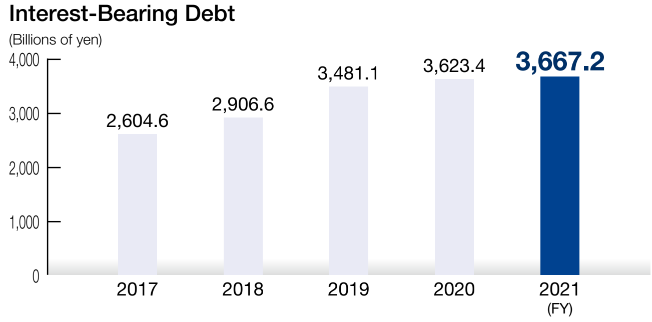
ROA



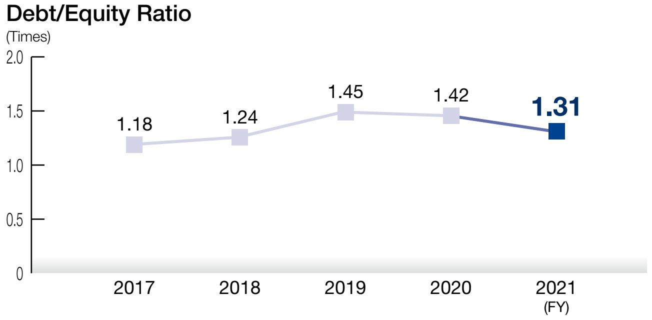
ROE



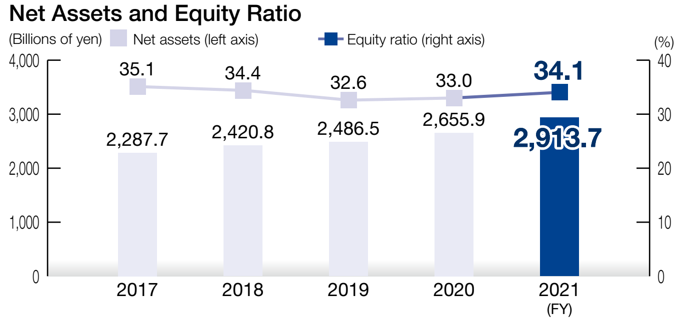
Interest-Bearing Debt



Debt/Equity Ratio



Net Assets and Equity Ratio



Consolidated Cash Flows

Consolidated Cash Flows

As of March 31, 2022, cash and cash equivalents were ¥142.6 billion, a decrease of ¥45.0 billion from the end of the previous fiscal year.

Cash Flows from Operating Activities

Operating activities provided net cash of ¥271.4 billion. Cash provided included income before income taxes of ¥262.4 billion and depreciation and amortization of ¥111.5 billion. Decreases included ¥90.0 billion in income taxes paid and refunded.

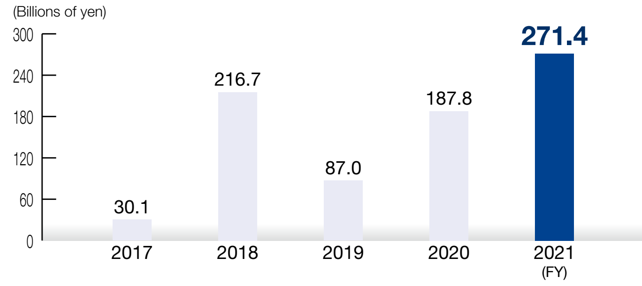
Cash Flows from Investing Activities

Investing activities used net cash of ¥210.0 billion. Cash purchases included ¥241.5 billion in tangible and intangible fixed assets and ¥64.1 billion in investment securities. Cash provided included proceeds from the sale of tangible and intangible fixed assets of ¥57.1 billion and proceeds from the sale of investment securities of ¥72.6 billion.

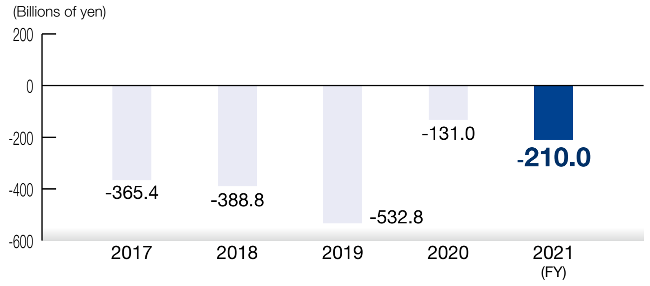
Cash Flows from Financing Activities

Financing activities used net cash of ¥139.6 billion, primarily for the payment of dividends and repayment of debt.

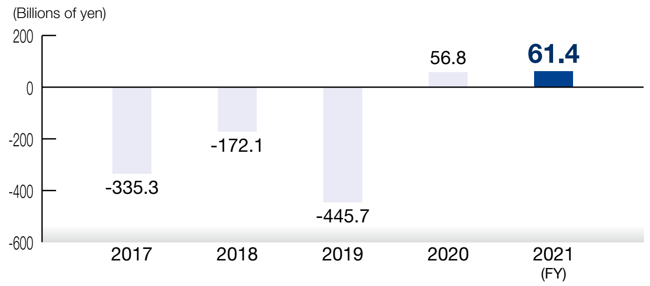
Cash Flows from Operating Activities



Cash Flows from Investing Activities



Free Cash Flows



Note: Free cash flow = Cash flow from operating activities + cash flow from investing activities

Rental Properties

Mitsui Fudosan and some of its consolidated subsidiaries have rental properties including office buildings and retail facilities in the Tokyo metropolitan area and other areas. In fiscal 2020, profit on such properties amounted to ¥118,075 million (with leasing revenue recorded in revenue from operations and leasing expenses recorded in cost of revenue from operations). An impairment loss of ¥29,795 million and a gain on sale of property and equipment of ¥20,668 million were recorded (with impairment loss recorded as an extraordinary loss and the gain on sale of property and equipment recorded as extraordinary income). In fiscal 2021, profit on such properties amounted to ¥127,249 million (with leasing revenue recorded in revenue from operations and leasing expenses recorded in cost of revenue from operations). An impairment loss of ¥8,048 million and a gain on sale of property and equipment of ¥6,682 million were recorded (with impairment loss recorded as an extraordinary loss and the gain on sale of property and equipment recorded as extraordinary income).

The carrying amount recorded on the consolidated balance sheets, the change during the fiscal year, and the market value of these properties are as shown on the right.

(Millions of yen)

(FY)	2020	2021
Rental Properties Carrying Amount Recorded on the Consolidated Balance Sheets		
Balance as of the Beginning of the Period	¥3,171,133	¥3,029,628
Increase (Decrease) during the Period	-141,505	76,920
Balance as of the End of the Period	3,029,628	3,106,548
Market Value at the End of the Period	5,856,124	6,136,879
Difference	2,826,496	3,030,331

Notes: 1. The carrying amount recorded on the consolidated balance sheets was calculated by deducting accumulated depreciation and amortization and accumulated impairment losses from acquisition costs.
2. Market value at the end of the fiscal year is calculated by the Company's own appraisal team and was based, in principle, on Japan's Real Estate Appraisal Standards.
3. The main increases and decreases in the balance sheet during fiscal 2020 were an increase in real estate acquisition (¥207,677 million), and decreases due to real estate sales (¥198,635 million), and transfers to real property for sale (¥110,141 million).
4. The main increases and decreases in the balance sheet during fiscal 2021 were an increase in real estate acquisition (¥183,902 million) and decreases due to transfers to real property for sale (¥41,166 million) and real estate sales (¥37,626 million).

Shareholder Returns

The Mitsui Fudosan Group has long considered ways to upgrade and expand the return of profits to shareholders with the aim of enhancing corporate and shareholder value. In addition to the recovery of its mainstay Leasing, Property Sales, and Management businesses in the fiscal year under review, the Group is confident of a sustainable upswing in its business performance in the next fiscal year and beyond. Acknowledging its ability to undertake investments for future while at the same time stably and continuously enhancing shareholder returns, the Group has decided to increase its total shareholder return ratio from around 35% to around 45%.

Annual dividend per share for fiscal 2021	¥55
Own shares being repurchased From February 7, 2022, to March 3, 2022 From May 16, 2022, to March 31, 2023 (Planned)	 ¥15.0 billion ¥15.0 billion (Planned maximum)
Total shareholder return ratio of profit attributable to owners of parent	46.6%

Outlook for Fiscal 2022 (Year Ending March 31, 2023)

While the impact of COVID-19 is yet to dissipate, social and economic activities are progressing toward business as usual amid efforts to control the pandemic.

Taking into consideration these prevailing trends, revenue from operations, operating income, ordinary income, and profit attributable to owners of parent are all projected to reach record highs in the fiscal year ending March 31, 2023. In addition to the recovery in operating results particularly in the retail facility category of the Leasing segment, the hotel and resort category of the Other segment, as well as Tokyo Dome Group, it is expected that this year-on-year improvement will largely be due to newly completed properties that will be used as offices and retail facilities in the Leasing segment and successful efforts to capture new demand through measures aimed at addressing the COVID-19 pandemic contributing to revenue and earnings.

Based on this, in fiscal 2022, Mitsui Fudosan is expected to report revenue from operations of ¥2,200.0 billion, up ¥99.1 billion year on year. Operating income is estimated to increase by ¥55.0 billion to ¥300.0 billion and ordinary income is estimated to increase by ¥35.0 billion to ¥260.0 billion. Profit attributable to owners of parent is forecast to increase by ¥13.0 billion to ¥190.0 billion.

While some of the effects of the pandemic are projected to linger impacting hotels, resorts, and Tokyo Dome Group, the Group will continue toward a performance recovery by improving profitability and reducing costs on an ongoing basis.

Segment Forecasts

Leasing: Reflecting such factors as contributions to revenue and earnings from TOKYO MIDTOWN YAESU, 50 Hudson Yards, and LaLaport FUKUOKA, which are scheduled for completion during the next fiscal year, the recovery in sales in retail facilities and an increase in sales in the Work Styling business, revenue from operations and operating income are expected to increase ¥51.8 billion and ¥22.0 billion, respectively, to reach record highs in the fiscal year ending March 31, 2023.

Property Sales: Taking into consideration increases in unit prices per property and improvements in profit margins in the Property Sales to Individuals (Domestic) category and the continuous replacement of assets in the Property Sales to Investors category, overall revenue and earnings in the Property Sales segment are anticipated to increase ¥6.1 billion and ¥1.6 billion, respectively, reaching record highs.

Management: Carrying on from the fiscal year under review, trends in the Brokerage for Individuals and Repark (car park leasing) businesses are expected to remain firm. Owing to these and other factors, revenue from operations and operating income are projected to decrease ¥9.3 billion and ¥0.2 billion, respectively, coming in at around the same level as the fiscal year ended March 31, 2022.

Other: The Other segment is anticipated to make a return to profit with increases in both revenue from operations and operating income of ¥50.5 billion and ¥32.6 billion, respectively, in the fiscal year ending March 31, 2023. In addition to the recovery from the fiscal year under review, this is mainly due to the promotion of measures aimed at capturing new demand.

Dividends

Taking into consideration a comprehensive range of factors including the outlook for fiscal 2022 and the aforementioned shareholder returns policy, the Company plans to pay a cash dividend of ¥60 per share (including an interim dividend of ¥30 per share) for the fiscal year ending March 31, 2023.