Q&A at Business Segment IR Meeting
(Urban Development Group)

Date	December 12, 2019 (Thu.) 14:00 to 15:30	
Presenters	Mitsumasa Icho	Group CEO
	Takuya Kuga	General Manager, Group CEO Office
	Yoshiaki Kamata	General Manager, Group Administration Dept.
	Naoshi Ogikubo	Division COO, Urban Development Div.
	Takuji Naruse	General Manager, Strategic Planning Office, Urban Infrastructure Div.
	Hiroshi Nakanishi	Division COO, Asset Finance Div.
	Hiroshi Takehisa	General Manager, Investor Relations Dept.

Questions and Answers

Q. Please provide a breakdown by division of the ¥30 billion in consolidated net income of the Group. What is the anticipated time frame for achieving the medium to long term target of ¥50 billion and which divisions do you expect to see notable profit growth?

A.

- We expect the Urban Development Div. to contribute roughly 50% of the net income, while the Asset Finance Div. and Urban Infrastructure Div. to contribute 40% and 10%, respectively.
- We expect the Urban Development Div. and Urban Infrastructure Div. to become the growth drivers. With regard to the Urban Development Div., we will continue to engage in the conventional "Build-and-Sell type" real estate businesses while endeavoring to secure additional revenues by engaging in long-term, large-scale urban development projects. Meanwhile, we expect the Urban Infrastructure Division to achieve profit growth through 1) the data center business and 2) airport operation business. The airport operation business is a business sector that only commenced recently and is in a too early stage to contribute to the net income at this moment. This is mainly due to the payment of the fixed concession fees throughout the contract period which is calculated based on the expected number of passengers. As time progresses, we expect the number of passengers to increase and surpass the expected number and contribute to the overall income. The Asset Finance Div. has no plans for a large increases

in the size of its assets and does not anticipate a significant growth. However, we do intend to secure a steady (aprox.10% per year) increase in the division's net income.

Q. Compared to the investment plan I heard earlier, the scale of investment seems to have been reduced.
What is the reason for revising the plan to ¥200 billion yen this time?

A.

- This is because we have carefully selected investments that will contribute to the growth of our group based on the current external market environment. In addition, in the previous meeting, it was counted by the gross amount of investment, but this time it was counted by the net amount including the sale, so the scale may seem to be shrinking.

Q. What is the expected ROA once the ¥200 billion growth investment has been executed and the total assets has reached ¥1.0-¥1.1 trillion over the course of the current Midterm Corporate Strategy period? Is the ROA expected to improve from the current level?

A.

- We have a basic policy of not relying solely on expanding investment to secure revenue but instead to generate revenue through focusing on the quality of investment where we can create value through management of the asset. As for the ROA of the Group it is very difficult to provide a generic forecast. Although we do have a target return for each business/asset, multiple investment methods, assets, business engagement based on individual projects makes providing a universal return forecast very difficult.

Q. How do you manage return on investment across the entire group or division?

A.

- Each project is required to exceed the hurdle rate set by the entire company for each business in consideration of the cost of capital, and we use IRR as an indicator. The group monitors ROE, which exceeds the cost of capital.

Q. Please explain the proportions of capital gains and income gains of the Urban Development Division.

A.

- The net income from real estate development project consists entirely of profit from development and is, therefore, capital gain. Our principle subsidiaries, Mitsubishi Corporation Urban Development (Japan) and Diamond Realty Investment, Inc. (U.S.A.) are equally specialized in development and rarely engaged in the ownership business, so its proportion of income gain is small. In addition, there is also fee income from real estate asset management businesses.

Q. Instead of retaining ownership, do you intend to sell the properties completed in the course of the urban development project in ASEAN?

A.

- In principle, we will sell completed properties in each phase and utilize proceeds from the sale of such property to the development for the next phase. In the meantime, we may decide to retain ownership and operate the properties in future.

Q. Regarding the explanation on the intent to focus on "operations" rather than"ownership", does this apply to the urban infrastructure business and not the urban development business?

A.

- Yes. The Urban infrastructure business will focus on operations of airport and railways. Of course, we will not entirely rule out the possibility engaging in business opportunities associated with "operations" for the urban development business. Moreover, we may decide to retain certain assets in order to expand into operation business. In such circumstances, we will consider retaining asset ownership in order to provide services and content to the users despite our current policy of prioritizing selling properties after completion over retaining ownership.

Q. What are MC's competitive advantages in its real estate business?
Could you explain what differentiates MC from dedicated real estate developers based in Japan?

A.

- What differentiates us most is our track record in development projects outside Japan, global network, relationship with local partners, and integration with other MC Group businesses, such as inviting subsidiary companies or business partners of the other Groups as tenants.
- Furthermore, we think that, due to our wide range of business involvement in many sectors, we are in a relatively advantageous position when it comes to the construction of properties such as schools, hospitals, etc., which is an essential component of urban functions.

Q. Could you provide a forecast on the airport operation business?
How long will it take until it generates sustainable profit?

A.

- It depends on business plan of each airport so we are not positioned to provide a general forecast. However, for example, in the business case that concession fee is fixed throughout the contract period, net income tends to be low in the first few years of operation and improve gradually.