January 24, 2020

Q&A from Long-Term Management Plan Presentation

＜General＞

（Quantitative Target）

Q. What's the reason behind setting a target for 10% in ROE? I understand that even 9 % is not an easy task to achieve. Have you been more careful in selecting investment projects than before?

A. As ROE is improving up to around 8% at the moment, we've set a target for 10% following expectations from the stock market. As for investments, selected investment on projects has been made steadily and thus we come to agree that 10% is feasible based on our internal simulation with future pipelines.

Q. What is the most important indicator among ROA, ROE, and EPS? Do you plan, for example, at least EPS needs to be achieved through share buybacks when business profits don't grow as expected?

A. There's no priority among those. We'd like to improve them all well balanced and it's possible to do so if drastic changes will not happen in economic conditions. Increasing both social and shareholder value is a theme for this management plan. When we face any significant changes in conditions, while focusing on increasing social value, we'd like to come up with measures based on communication with the stock market as well as shareholders understanding and acceptance.

Q. In regard to 2030 target, in case business profits can't be achieved, do you continue to achieve the target even by increasing leverage to the highest level? Or targets in ROE and EPS will also be revised downward?

A. It's important to establish system and flow in order to achieve each target for every 10 year term aiming for 2030. Increasing both social and shareholder value is a theme for this management plan. In order to reach these targets, considering external environment conditions and profit situations, we'd like to continue to communicate with the stock market and make the optimal judgement to obtain shareholders understanding.

Q. In regard to quantitative target, such as ROE and EPS, someone has just asked a question if you'd like to achieve the target even by increasing leverage. However, do you also think that it's wise to enhance financial stability instead in a situation where risk profile has been changing due to an expansion of international business? Do you have any plans for risk management?

A. In Europe and U.S., we have a long enough business experience thus already have well established risk management system. On the other hand, our business experience in Asia is rather shorter than that in Europe and we recognize various business risks in each area. However, investments are limited to projects which profitable returns can be expected with risks taken into account. As a company, risk taking is necessary to some extent, however, I believe that we have already established risk management know-how including careful selection of business partners.

Q. Do you expect continued increase in ROA and ROE? Do you think there will be times when these are expected to stay the same or have temporary down time?

A. In a process of executing initiatives to enhance each indicator, there would be situations where ROA and ROE would stay the same or go down, however, we expect these to be temporary in order to achieve targets.

Q. Do you plan to release additional target plan, such as for 3 years or mid-term target?

A. Three-year investment return plan is explained in page 14. We'd like to focus on executing initiatives aiming for 10 years from now instead of short-term (3 years). We also would like to communicate well with the stock market through timely disclosure of development process along with necessary adjustments on initiatives based on an external environment.

（Profit Growth）

Q. In regard to business profit, do you have any expectations on ratio between income and capital gains as well as increase in equity in earnings (loss) of unconsolidated subsidiaries and affiliates?

A. How business profit will be counted depends on prospective investment projects and structure. Capital gains occupy around 20% in total business profit and it will more likely to be remain still.

Q. Do you plan to strategically increase equity in earnings (loss) of unconsolidated subsidiaries and affiliates?

A. Possibility of launching projects with minor shares including new businesses is higher than existing businesses; thus we will manage figures including profits come from these. For example, in case of local based businesses such as airport concessions and businesses in new domains with partners who could provide business know-how, it's not necessary to persist in major shares but rather adequate allocation of shares becomes more important.

Q. The roadmap for profit growth in each business is explained in page 12. It shows domestic asset business which occupies the most will stay the same in an early stage. Does that mean overall benefit growth would be at the moderate level?

A. I would think so. In regard to domestic asset business, schedule for an early stage is almost predictable and profit growth is expected to be the same or increase moderately. By 2030, the share of international asset business is planned to increase to around 1/4 and counted 30 % including international profit comes from investment management business.

(Shareholders Return and Share Buybacks)

Q. The market looks favorable for selling at the moment. With such situation, can we expect more shareholders returns in an early stage within this long-term plan?

A. We understand that the domestic market is currently favorable for selling, however, situations are different depending on the area in the international market. By considering both domestic and international business environments, funding demands and KPI in comprehensive way, we'd like to make appropriate judgements on funds allocation in communication with the stock market.

Q. A note, "Shareholders returns method and scale will be adjusted." is stated in the section on Base Shareholders Return in page 10. Are there any possibilities that payout ratio will also be adjusted?

A. Both increasing and decreasing payout ratio could be possible depending on situations.
Providing stable returns of around 30% is our basic policy. However, when cash flow is going well, it's possible to increase payout ratio. On the other hand, the way to handle payout ratio when cash flow is stagnated has not been decided yet, but it's also possible to decrease payout ratio while maintaining the current level.

Q. In your presentation, you explained EPS 200 yen included the impact of share buybacks. How much do you expect in the next 10 years? Do you have any concrete figures, for example percentages in both early and late stages?

A. It's true that EPS target is set acquiring share buybacks as a premise and thus simulation has been run. However, actual amount and volume will be decided depending on conditions at the time. Therefore it's not appropriate to announce in advance.

Q. In simulation on share buybacks aiming for EPS 200 yen, do you consider increase in stock price?

A. We've run several simulation patterns with different stories. Thus stock price is one of variables.

(Others)

Q. I've got the impression that asset sales became less interested than before. Do you have any directions from now on?

A. As indicated in page 14, we expect asset sales assuming that market condition of next three-years continues to be the same as current one. In regard to asset sales in order to generate capital gains, 600 billion yen in base return (on the book value base, excluding domestic condominiums) is expected. This is almost the same level as the on-going mid-term management plan. (650 billion yen for FY 2018 to FY 2020). For the next three-years, we expect 100~200 billion yen from disposal of underperforming assets as a part of portfolio strategy. By adding those, asset sales will be more than previous three years.

Q. In regard to disposal of assets for capital efficiency, do you have any specific timing and methods?

A. We plan to do it in strategic return mentioned in page 14 and expect 100 ~ 200 billion yen (book value base) in the next three years. Specific timing and methods are difficult to announce at the moment.

Q. Do you have any thoughts on M&A? Suppose you plan to do so, is it done as a part of "strategic allocation" in capital allocation?

A. We don't have any specific plans but there are possibilities. You are right that it's our basic idea to do so as a part of strategic allocation.

Q. In regard to segment changes in page 49, I'm concerned that these changes would make it difficult to analyze financial statement. What was your intension on making these changes?

A. We wanted to make disclosure segments simpler and easier to understand. In our IR documents, we'd like to do our upmost to make disclosure easier to understand including comparison with the past statements.

＜Domestic Asset Business＞

Q. In regard to Marunouchi NEXT Stage, 600~700 billion yen of investment is planned by 2030. Could you explain the details?

A. Almost half of investment will be made to Tokiwabashi, but this is still an estimate as of now since the amount of investment for Tokiwabashi Building B has not determined yet. The next big investment is expected on Yurakucho redevelopment project. We are not ready to make official announcement on project name yet. In terms of 600~700 billion yen, in addition to redevelopment projects mentioned in the presentation, it includes both renovation and refurbishment investments in order to improve overall values of Otemachi, Marunouchi, and Yurakucho area.

Q. How much NOI will be increased by 600~700 billion yen investment in Marunouchi NEXT Stage?

A. We can't tell you actual figures, but we are looking at 10% in ROI as a return for construction cost in Marunouchi redevelopment. However, it should be noted that we would acquire some newly created floors with land ownerships in some redevelopment projects in Marunouchi NEXT Stage and also this investment amount includes renovation and refurbishment investments; therefore, ROI for total project cost is expected to be less than 10%.

Q. Working population in Marunouchi has been increased to 280 thousand after Marunouchi redevelopment. Do you have a target number after 10 years from now?

A. We'd like to focus on revitalizing the area rather than increasing working population. Instead of turning all floor areas into offices thus increasing working population, we believe it's more important to increase attractiveness of the area through various opportunities for learning and fun for visitors.

＜International Asset Business>

Q. What is the strategy for international asset business overall? It seems that Asia is a key to accelerate profit growth. Do you think that profit level is durable to achieve only with existing pipelines?

A. In Europe and U.S., we plan to further promote and strengthen existing pipelines and the capital recycling business in the U.S.. In Asia, we'd like to increase investment projects with major stake. It is expected to obtain new investment opportunities in addition to existing pipelines; however, we'll carefully select investments to those with stable revenue while increasing area value, not to pursue expansion of pipelines at random.

＜Non-Asset Business＞

Q. In regard to Existing Business explained in page 32, 20~25 billion yen of business profit growth is expected in 10 years. Could you give us more details? Do you plan to expand AUM in investment management after mid 2020's?

A. Within 20~25 billion yen, 40~50% is expected from investment management business. We plan to moderately expand AUM after mid-2020s.

In addition, including international development projects, we'd like to increase opportunities to receive fees, such as project management fees, architectural design fees, property management fees, by inviting outside investors from developmental stage.

Q. In regard to new initiatives in Non-Asset business explained from page 33, do you have any estimate or examples to make us easier to visualize specific business to generate 25~30 billion yen of business profit?

A. For example, ELE-CINEMA in page 35 is easy to install and beneficial business for owners. Thus we can expect rapid business expansion by installing ELE-CHINEMA in elevators all over in Tokyo. In addition, new experimental approaches are in progress at condominium management site.

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