

Q & A from IR Presentation (IR Meeting for FY 2019-2Q)

< General >

(Capital Policy)

Q. You mentioned, at the previous IR meeting for FY 2018, that you were not satisfied with the stock price at the time and also seeking what the capital policy should be. Has there being any progress?

A. We are still concerned about the current stock price. With our outside directors, we are engaging a serious discussion on general management including capital policy. We think that our priority needs to be given to a steady increase of profits generated from our main business in order for a long-term sustainable growth. However, we also would like to consider roles of shareholders return as well as financial stability preparing for unexpected situations.

Q. A description on capital cost has been added to the revised corporate governance code. Have you considered improving ROE by increasing financial leverage?

A. We are definitely aware of ROE. However, being only concerned with ostensible numbers of ROE could result in increasing the risk. As developers have many capital demands, financial stability is also an important indicator. We would like to keep the current leverage in current Mid- Term Management Plan.

Q. Do you have any plans for increasing financial leverage from the next Mid-Term Management Plan onwards?

A. The policy for the next Management Plan is currently under consideration. Too much financial risks might restrict flexibility of business activities when the market deteriorates, so we'd like to secure stability in order to handle various circumstances.

Q. It seems that your comments on financial leverage are mostly assuming extreme situations. Have you given any thoughts on making a little increase?

A. We'd like to continue our discussion on capital policy toward formulating the next management plan. In the past when buying opportunities for properties came at the time of deterioration of market, we had difficulties for buying properties due to limited financing capacity. That is why we need to take such situations into our discussion.

(Efficiency Improvement)

Q. You set target for 4% in ROA. Which measurements listed in your IR presentation do you find

the most effective?

- A. Each measurement listed is equally important, but we consider expanding and strengthening fee business is the most important. Most recently, we have been strengthening fee business by M&A. We also would like to consider to dispose of less valuable strategic-holding stocks and low-efficiency properties.

(Profit Growth)

- Q. Many investors find your company less attractive in terms of profit growth. I'd like to hear from you about ① current status of next redevelopment plans of Marunouchi area and ② possibility of expanding Hybrid Investment Business Model in overseas.
- A. Marunouchi and Otemachi have been our main areas of redevelopment. Currently we are looking into Yurakucho as our main area of development because there are many buildings to be rebuilt. The guideline for the whole Yurakucho area, including around Yurakucho station, needs to be discussed. Thus we are currently working on discussions with public administration people and land owners. In terms of profit growth, we are also trying to increase value of existing buildings, not by reconstructions, such as large-scale renovations of Otemachi buildings. In terms of Hybrid Investment Business Model, in the United States, we are already at the phase to expand the portfolio with funds from third-party equity. It is expected that fee income will increase along with the expansion of the portfolio.
- The same scheme has been underway in Asia and Europe, therefore, we are acquiring properties in order to establish open-ended fund.

- Q. You stated the importance of sustainable profit growth. However, there are different kinds of profits. From shareholders point of views, EPS and NAV per share come first. I believe you should manage your business to value your shareholders more.
- A. Our shareholders are important stake holders, thus we put importance on shareholders value. On the other hand, in fact there are all sorts of investors from the ones who focus on short term stock price changes to the ones who observe changes from mid to long term perspectives. In addition, our business is largely supported by our society, thus we'd like to manage our business by making sure the returns to various types of stakeholders are well balanced.

(Governance)

- Q. Do you think degree of NAV discount will make an impact on your judgment about renewal of anti-takeover defense? Prior to the Lehman shock, it seems that your company had a risk of takeover by foreign-affiliated company. Do you think that experience led you to a careful

judgment?

A. We acknowledge that keeping stock price at the appropriate level will act against takeover. We are discussing from scratch about how our company should be.

Q. What kinds of discussion have been made with outside directors?

A. We have 7 outside directors and their backgrounds vary from business management experts, university professors, diplomats to the former Governor of Bank of Japan. We all share common understanding that growth with 20-30 years span is important for our Group; thus they provide various views and opinions on our future.

We are the company with nominating committee etc., but each committee engage in various discussions beyond their designated themes from long-term perspective.

(Capital Gains)

Q. I understand that buildings in Marunouchi area are such valuable assets and you would like to keep hold of them.

However, a part of properties could be sold in order to be allotted for more efficient investment as well as share buybacks. Have you consider this as an alternative choice?

A. In Marunouchi, not all assets are high-profitting properties. Among properties which have been acquired fairly recently for the purpose of redevelopment, there are some that profitability is not up to the satisfactory level. We are discussing disposing of these properties by considering improvement of ROA.

Q. In the current Mid-Term Management Plan, around 40 billion yen of capital gains is expected for every fiscal year. However, the market has been the best time to sell. Are there any possibilities of additional disposal without any regard to budget of 39 billion yen of capital gains in this fiscal year?

A. We already have prospect on buyers and price for properties expected to be sold in this fiscal year. Therefore, it might be difficult to make big changes for these. However, we can sell more properties if we could get favorable offers.

Q. Have you been accumulating stocks of properties to be sold from the next Mid Term Management Plan onwards?

A. Investment for our capital recycling business, such as hotels, logistics facilities, office buildings and overseas assets, is progressing steadily. Particularly logistics facilities has been establishing the flow of developing 2~4 properties every period and selling them for the logistics REIT

listed in September 2017.

<Office Building Business>

- Q. I am aware that Shin Marunouchi Building and Marunouchi Building are the top rent in Marunouchi. Is it possible to raise the top rent reflecting the high demand for office spaces?
- A. THE PREMIER FLOOR series including THE PREMIER FLOOR in Marunouchi Building has achieved the rent level much greater than the top rent for an ordinary floor. However, the floor area is not that large; thus it might be difficult to be generalized. We continue to raise the appeal of Marunouchi area, but it is not so easy to raise the top rent just because of tight office market.
- Q. It is stated that, in regards to the leasing of Tokiwabashi building A, you aim for the level of the top rent in Marunouchi. Do you think it's possible to achieve such level despite the fact that its location is different from that of Marunouchi Building and Shin Marunouchi Building?
- A. Tokiwabashi area is located in the opposite side of Marunouchi across the JR railway track. Therefore, at the time of formulating this project's business plan, the rent was calculated conservatively by considering such location. On the other hand, Tokiwabashi is right in front of Tokyo station (Nihonbashi Exit) and thus high in its convenience. Therefore we plan to start leasing with the level close to the top rent by considering current market situation.
- Q. In *The Nikkei*, one of your executive officers commented on office market and stated that strong market would be expected to continue until 2022. What are some reasons behind stating "until 2022"?
- A. One of reasons is that the increase of office buildings supply is expected in Yaesu and other area in and after 2023. In addition, as far as we observe high demand for office spaces on Tokiwabashi building A which will be completed in 2021, we think it is not necessary to be anxious about the market until around 2022 because supply volume is expected to remain low.
- Q. Various companies in real estate sector state "Open Innovation". What do you think your strength is in terms of intangible factors other than the advantage in location of Marunouchi ?
- A. I think that concentration of companies is our strength. In Marunouchi, we are actively attracting start-ups to join in the area. Large companies to be in collaboration, professional firms to support them with business development, financial institutions and general trading companies to become prospective sponsors...all these companies are concentrated in Marunouchi. For attracting start-ups, that is the biggest strength. In Otemachi Building, "FinoLab", which gathers FinTech start-ups, has been generating various values. We'd like to

expand collaborations among various companies other than in FinTech field. In addition, by attracting facilities operated by outsiders, such as WeWork, we can invite people who haven't had a chance to come to Marunouchi and promote diversity and communication.

<Residential Business>

- Q. In terms of Residential Business, around 4,000 units have been sold in every fiscal year recently. Do you expect to keep the same scale?
- A. We are currently focusing on large-scale redevelopment projects and expect these to contribute in mid 2020s. FY 2020 and FY 2021 are expected to be tough for our domestic residential business. However, we will try not to be significantly less than 4,000 units for next 5 years average.

<International Business>

- Q. In terms of Hybrid Investment Business Model, have equity from third-party been accumulated from about 50 billion yen at the end of FY 2018?
- A. Yes, it has been increased.
- Q. In terms of International Business, due to some influence from Hybrid Investment Business Model as well as a large scale renovation of 1271 Avenue of the America, the amount of investments exceeds return have been demonstrated during current Mid-Term Management Plan period. Is it OK to understand that, for the future, your company will be at the phase to collect funds and thus the amount of net investment will decrease?
- A. The amount of return of cash is expected to increase, but in terms of investment, we'd like to discuss the volume as we observe market environment.

<Others>

- Q. Do you plan to be actively involved in casino business?
- A. We are reluctant to manage and own casinos.
- On the other hand, however, we also think that there might be some areas that our Group can be involved, such as architectural design and engineering business as well as management of hotels expected to be constructed around casinos.
- Q. By considering increasing expected returns from equity investors, it is difficult for your company to perform well beyond expected return because your company owns and develops many A class buildings with lower risk and return. On the other hand, expected return from real

estate investors could be lower. Have you considered pursuing these investors to acquire your stock?

A. It is possible that some real estate investors might have held our stocks already, but we haven't actively approached them from our end.

Q. Have you had any discussions on delisting among board members ?

A. No, we haven't had any concrete discussions. We find it meaningful to be listed in terms of flexibility of financing as well as social credibility.