

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

**< General >**

**(Capital Policy)**

- Q. What is the background for announcing the change in the capital policy at this timing?
- A. From the beginning of the current Mid-Term Management Plan, repurchasing own shares has been one of options. We've reached this decision by considering the followings: an agreement has been made on the direction of capital policy which had been under discussion aiming for the next Mid-Term Management Plan; the probability of cash flow condition during the current Mid-Term Management Plan has been increased. With an improvement of capital efficiency in mind and along with these factors, we've come to this conclusion.
- Q. I understand that capital policy has been discussed for a long time. Did you decide to repurchase own shares because surplus of cash is expected?
- A. As I explained earlier, it is not that simple to decide to repurchase own shares based solely on surplus of cash. After the discussion on capital policy for 2020's considering how our general management should be, we came to the decision on repurchasing own shares as a part of such capital policy.
- Q. Do you plan to continue repurchasing your own shares?
- A. There's a fair chance of doing so. With our mission of providing additional values to our society through real estate business as a prerequisite, we'd like to make flexible management decisions in light of the cycle of the real estate market along with continuous growth investments for long-term redevelopment projects.
- Q. How much do you think capital cost is? Do you think the current ROE level is adequate?
- A. It is difficult to say exactly because capital cost changes depending upon how it's calculated and how much it is affected by environmental change.
- We are not satisfied with the current ROE level. We will discuss selling underperforming properties as one of options to improve the efficiency.
- Q. What is the appropriate financial leverage at the market favorable for buying?
- A. It is difficult to set the level as a general rule because many factors, such as interest rate, need to be taken into account. We'd like to control leverage within a range which allows to maintain the current rating.

Q. I understand that the rating agencies place importance on Net Interest-bearing debt/EBITDA ratio. Do they also take unrealized gains into account? Do you think it is necessary to maintain the current rating?

A. According to the rating agencies, I've heard that unrealized gains are also taken into account to some extent.

From mid to long-term perspectives, demerits need to be considered when the rating goes down. Financial stability is an important indicator for sustainable promotion of our business.

**(Profit Growth)**

Q. Estimated operating income for FY2020 is 230 billion which is almost the same as FY2019. Will profit growth slow down from now onward?

A. At the time of formulating the current Mid-Term Management Plan, operating income target was 220 billion for FY2020. However, last year, we announced the final estimate would be 10 billion plus, thus 230 billion. At that time, the estimation of 230 billion for FY 2020 was remain unchanged even though a part of expected profits for FY2020 was recorded advance for FY2019. Therefore, it is fair to say that profit level is going up.

**(Efficiency Improvement)**

Q. You mentioned that selling underperforming properties is under consideration. Does that mean NOI yield will be improved thus efficiency will also be improved from now on?

A. We'd like to improve efficiency more for a long-term perspective. For a short-term perspective, there is a possibility that the level might get changed based on factors, such as a temporary decrease in income gain due to redevelopments as well as a nature of the Company's business which requires time to generate profits from long-term projects. We'd like to improve efficiency with various ways, including redevelopment and renovation of properties.

**(Market)**

Q. In your presentation p.12, it is mentioned that shareholders return will decrease in market condition favorable for buying. Are there any possibilities of increasing shareholders return when the stock price is weak in such market condition?

A. IR presentation shows a generalized direction that shareholders return gets reduced at the time of expanding investments; therefore, business environment and stock price need to be considered when making decision on shareholders return. There is a possibility to increase shareholders return depending upon conditions at the time.

Q. How do you plan to acquire properties in the market favorable for buying?

A. We'd like to acquire properties in premium locations both in the Greater Tokyo area and local cities. We also would like to build a good relationship with landowners so that we can suggest effective use of properties, not just about acquisitions.

Q. What do you expect the next market condition will be?

A. I imagine that the current condition will continue for the time being. As for the office building market, I expect strong demand to be continued due to factors, such as work-style reform and recruiting; thus, rent fee level might keep steady increase. As for the domestic condominium market, there are ups and downs depending on properties, however, properties in good locations stays still. The real market itself has been changing steady even with a strong influence from world's economy.

Q. Have you considered that it might bring bad influences on Japan's real estate market when your company determines market conditions as favorable for selling?

A. We are not the only one to determine market conditions. In fact, we'd like to contribute to Japanese economy by making Japan's real estate market more appealing with providing attractive properties to the market as well as by maintaining property values through our Group's high-quality administrations after disposal. I also expect inbound in the tourism market will continue to be in a favorable condition.

**(Investment)**

Q. Investments seem to slow down at the moment. How do you plan to make growth investments from now on?

A. There are differences between segments, however, the amount of investment in gross is expected to remain the same as the one from the time of formulating current Mid-Term Management Plan. Main factor for decreasing investments in net is due to an increase in return. The size of investments can be changed depending on the schedule of development projects. Therefore, we'd like to think about it from a long-term perspective.

The investment size got reduced for some projects due to the following reasons: cash out has been postponed because of more than expected increasing number of long-term redevelopment projects, such as domestic condominiums; our Company's share has been reduced more than expected because of collaborating projects with others. However, I must say that the number of projects which we are involved has been steadily increasing.

Q. You have few large-scale projects going on at the moment, but several large scale projects are expected during the same period, such as Tokyo Tokiwabashi Project and Redevelopment of Ikebukuro station West Gate area. Is there any way that you can control the period for each project?

A. It's difficult to control project periods for long-term ones just by our end. We'd like to make a judgement on business depending on the market. As for Marunouchi area, we'll continue our discussion on how to make Yurakucho more attractive.

Q. I believe that your company usually seeks for other investments when short exposure is expected. Why did you decide to do shareholders return this time?

A. I understand there are still many investments available. It is not about short exposure, but rather change in timing for investment, such as cash out being postponed due to long-term redevelopment projects. Therefore, our general attitude toward investments has not largely changed. We will try to keep balance between active investments and shareholders return.

Q. Do you plan to continue to make an investment in business model innovations in the next Mid-Term Management Plan?

A. Under the current Mid-Term Management Plan, 2/3 of 100 billion of investment budgets for business model innovations are expected to be used. I'd like to continue challenges for new business models, such as an airport concession business in Hokkaido, in the next Mid-Term Management Plan as well.

Q. Do you think that, as a result of setting a budget for investments, achieving the budget itself becomes the goal thus unnecessary investments might be made?

A. We are thorough in selecting investments carefully with improving assessment abilities of properties.

#### **(Governance)**

Q. You mentioned that a chairperson of audit committee will be an outside director. If investment overheating would occur, is the Audit Committee able to perform tasks in business management?

A. We have 2 out of 5 as full time audit committee members. 3 outside directors have been regularly informed and information is well shared. Aside from the audit committee, the Board of Director acts as supervisors to perform the task. In addition, executive director is also in charge of

performing explanations.

Q. Do you continue to sell strategic-holding stocks from now on?

A. We'd like to continue selling stocks less related to our business.

**<Office Building Business>**

Q. Do you plan to consider selling properties in Marunouchi?

A. In Marunouchi, some office buildings have lower book value because we have been holding them for a long time. On the other hand, some have higher book value because we have acquired them recently. Properties which generate large profits come with higher tax as well. Therefore, we'd like to continue our discussion on selling underperforming properties based on the assumption that disposal should not contribute to devalue nor lose social roles of Marunouchi area.

**<International Business>**

Q. How do you see the risks in London market? Is rebalancing portfolio under consideration?

A. Brexit affected some industries and caused them to move out, however, London is the biggest business city in Europe. Thus, I don't expect economical function in London be largely contracted. With some factors in mind, such as favorable office building market, lack of rental apartments, and active trade in real estate market, I think London market will remain strong. However, not from the perspective of risk-off, it is possible to dispose properties aiming at the market favorable for selling.