

Q&A from IR Presentation (IR Meeting for FY2022-2Q)

< Marunouchi / Office Building Business >

Q. In regards to changes in Marunouchi tenant mix shown in your IR presentation p.52, could you explain your evaluation of inviting growing companies thus far as well as future strategies on inviting potential tenants?

A. In recent years, there has been a notable progress on inviting professional firms. We are also actively pursuing start-up companies because they are expected to become new partners and investees of existing tenant companies in Marunouchi. For some companies who have not made their ways to Marunouchi due to higher rent in Tokyo office market, optimization of headquarters function associated with an expansion of telecommuting might help them to come to the area if total amount of rent stays the same. With such possibilities, we'd like to promote diversity among tenant companies.

Q. The data shows that vacancy rates have been increasing in office market overall. Do you think that tenant companies have not yet reached decisions on new role of own offices? Or is it because supply and demand for offices became unbalanced due to negative factors, such as deterioration of business performance among companies?

A. In Marunouchi as our main portfolio, there have been transfers by around 1,000 tsubo recently. Having seen this move, we think policies on new role of offices among tenant companies are gradually coming clear. Major reduction on floor area is not planned and, with collaborations among companies and recruitment of human resources in mind, we have an impression that demands for locating center offices in Marunouchi are still strong because of Marunouchi's competitive edge with concentration of companies and high convenience in transportation. Due to the impact of extension of the state of emergency, there are some cases that require more time for discussion on new role of offices and decision-making of companies. However, we think such situation has not made any impact on structural change.

Q. Could you share your future strategy plan for inviting potential tenants to Marunouchi? Have you noticed any changes on the role of offices and workstyle of each company?

A. As for inviting potential tenants, we plan to increase diversity among companies in Marunouchi. Thus, we are offering facilities for the purpose of inviting new businesses which includes collaborations between venture and major companies. We also plan to make use of area's uniqueness in Marunouchi. For example, redevelopments of Yurakucho Building and Shin-Yurakucho Building aim to invite fashion and media related tenants as they become hubs for Ginza

and Marunouchi as well as to be used as locations for various field trials. In addition, we would like to promote urban development in Otemachi to become an international finance center.

As for new role of offices, we think that functions as places for communication as well as creating ideas become more important. For this reason, I feel that demands for communication spaces and more relaxed meeting spaces have been increasing.

< Capital Policy / Shareholders Return >

Q. You have just explained that investments will be a main focus for the next few years but you also hold up flexible capital policies in response to market conditions. It is clear that a current condition is sellers' market, however, why do you keep investment-first stance despite the sellers' market?

A. The market itself is active but it depends on asset types and areas. Under current environment, there are some valuable lands come onto the market. So, we are sure to seize such opportunities. The general direction to make prior investments in order to increase profitability at the late stage in the Long-Term Management Plan is still in place. However, we'd like to make flexible decisions with careful monitoring on the timing for sellers' and buyers' markets.

Q. Does it mean that there will be no possibility to accelerate share buybacks at the early stage in the Long-Term Management Plan even if sellers' market continues for a while?

A. We'll make decisions flexibly. However, at this stage, the main scenario is to enhance shareholders return at the late stage in the Long-Term Management Plan when profits are expected from large projects such as Tokiwabashi.

< Stock Price >

Q. What do you think about factors for relatively weak stock price? How have you been discussing Phantom Stock Plan?

A. I think it is because of a reflection of negative impressions, such as weak in profit growth for the next few years, less expectation for post-COVID-19 office market, and impression of being passive toward shareholders return. I wanted to get rid of such negative impressions by making this presentation. As we show steady profit growth from now onward, I'm sure future stock market will have positive expectations for us.

In terms of Phantom Stock Plan, we have been discussing to reconsider it from the point of view that there are time lags between our investment decision, profit contribution and reflection in stock price. We'd like Phantom Stock Plan aiming for sharing values with our shareholders and engaging business activity together toward the same direction.

< Profit Growth and Development Pipelines >

- Q. Do you consider disclosing mid-term target in the Long-Term Management Plan in order to show medium term profit growth?
- A. We understand the necessity of disclosing mid-term target in regards to profit growth of domestic asset business mainly in Marunouchi and also future strategies and growth plan of international business. However, we need to take a close look at the influence of COVID-19. Therefore we'd like to discuss disclosing mid-term target once we see the outlook of the influence.
- Q. I believe you have your own sourcing routes in Europe and U.S. with a long business history there. How about in Asia? A list of major future pipelines indicated in your IR presentation p.14 shows many projects which will be completed in FY 2022 to FY 2023. Is it possible to constantly acquire new projects after mid-2020's?
- A. Sourcing power in Asia is not as strong as the one in Europe and U.S. yet. We mainly work on minor shares in JV projects with promising local business partners in Asia. However, in Indonesia and Vietnam, in addition to JV projects with minor share, we also would like to pursue projects that we will take initiatives in development. Other than projects listed in p.14, we have projects confidentially in progress and also under consideration. We aim to generate profit by increasing pipelines after mid-2020's.
- Q. You have set a higher target for capital gains of 64.0 billion yen in FY 2022. Is it all right to see capital gains as the growth driver?
- A. We have set much higher target for capital gains since current FY. We also plan to continue increasing capital gains after FY2023. By considering situation for preparation of the capital recycling business both in domestic and overseas, we see capital gains as one of growth drivers in order to achieve both profit growth and enhancement of shareholders return.
- Q. There are projects indicated as "under consideration" in a list of major future pipelines in your IR presentation p.14. Do these projects make profit contributions within the Long-Term Management Plan? It is reported that you will acquire a land of British Embassy Tokyo. Are there any possibilities that you will carry on negotiations with other Embassies in Tokyo?
- A. For projects "under consideration", we can't disclose the schedule at this time. There are at the different stage of consideration, but all are in good progress in order to make profit contributions by the end of the Long-Term Management Plan. We have been negotiating the land acquisition, which will be a project of rare location with British Embassy Tokyo. We have experienced embassy related projects in the past. Thus we believe that receiving good evaluations from other

embassies through multiple projects will make it possible to produce new projects in the future.

< Post-COVID-19 >

Q. While there has been underlying negative impact of COVID-19, your performance is expected to return to growth when the pandemic is over. Could you tell us about negative impact expected to remain in post-COVID-19 as well as any business domains you'd like to develop more?

A. As for demands for accommodations and air flights, recovery is expected for tourists, However, there is a possibility that business trip demands will not be fully recovered. Initiatives by utilizing attractiveness of areas are important for tourism demands. For example, at newly opened hotel in Sapporo, the hotel has been busy since its opening in October by featuring regional characteristics such as effective use of lumber from Hokkaido and collaboration with local sake makers.

For other business domains, we'd like to focus on creating new workstyles and offering new experiences through digital technology. In addition, our development know-hows both in domestic and overseas are well recognized and fee business opportunities have been increasing. Thus, we also would like to expand fee business.

Q. Do you have any initiatives, including existing hotels and airport operation businesses, which will bring profit to tourism when tourism demand is recovered in post-COVID-19?

A. We have various initiatives mainly in hotel and airport operation businesses. For example, at Mt. Fuji Shizuoka Airport, we have collaboration events with railway companies, Mt. Fuji sightseeing flight tour, and satellite shops from GOTEMBA PREMIUM OUTLETS. We also open some hotels only in selected locations where recovery of tourism demand is expected.

< Others >

Q. What is your direction of effective use of human resources? Could you tell us your ideas and outcomes of creating new business?

A. We have a system called "10 % rule" which employees can spend their work time to do something other than tasks in charge. We also think it's important to respect individuality of each employee and give junior staff members responsibilities with some works. For example, when we transferred our headquarters, we left everything in developing new office concept to junior staff members. We hope employees of next generation are able to have concrete images of their ideal workstyles and ways to create value. We, as a company, turn these images into practice in order to offer new values for our tenant companies.

(End)