

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

< Long-Term Management Plan >

Q. How do you assess progress of overall Long-Term Management Plan and each business segment as of now? Both domestic and international asset businesses look good, but how about non-asset business?

A. Despite series of negative factors, such as COVID-19 right after an announcement of the Long-Term Management Plan followed by many environmental changes including the situation in Ukraine, we are able to achieve a record high in profits. The details of each business segment are: **Offices** : Not simply as places for work but the importance of offices as places for interaction and mental satisfaction is increasing. By enhancing shared spaces, consolidation of offices from other areas to Marunouchi is growing. Tokiwabashi Tower has been doing well with the flow and its leasing is almost full.

Residential Business: Sales continue to go well but the number of units of condominiums sold is decreasing due to limited suitable lands for condominiums. While prices are rising closer to the limit of affordable level, cost improvements cannot be expected due to increasing price on land and materials. Therefore, we need to discuss these issues more including product planning.

International Business: We don't expect any changes on the direction taking advantage of the growth in Asia. However, at the moment, we are slightly sifting a direction to make major investments in Europe and the U.S where investment returns are easy to predict and local resources of our group companies can be used.

Non-asset Business: While some business segments confront difficulties to grow, in Investment Management Business, AUM steadily grows and PL is growing accordingly. We are also trying to earn project management fees through joint projects in Japan. We aim to pursue the same in overseas.

Q. Business profit forecast of 290 billion yen for FY 2023 seems higher than expected for the profit level in the first half of the Long-Term Management Plan. On the other hand, ROE is expected lower than FY2022. How do you plan to achieve ROE target?

A. As you say, profit forecast for the first half of the Long-Term Management Plan is higher than expected. We are aware the need of discussion on it since ROE improvement can't be achieved without decreasing net worth equity capital. We are aiming for increasing shareholders return by increasing profitability. We'd like to make business judgements focusing on an uncertain world situation.

In regard to ROE, we have resulted in 8.1% against initial forecast of 7.6% in FY2022. We think

that there can be a room for improvement during FY2023, so we'd like to continue making efforts to improve ROE.

We had a request for disclosing mid-term target before. This time we enhanced the disclosure by including details of investment return results and development pipelines in order to show more concrete profit growth forecast.

<Office Market >

Q. The vacancy rate of Marunouchi seems to be at relatively higher by historical level. How much do you expect for office rents?

A. Office rent may change depending on multiple factors, such as economic growth conditions, supply conditions of office buildings in Tokyo area, and impact of on-going weak yen on business profit. It's for sure that the rent will not be simply increasing. Even for Marunouchi where highly competitive, we are aware of the need for producing offices of choice through enhancing shared spaces and being environmentally friendly and more. Moreover by enhancing business support functions and intangible measures, we'd like to further establish Marunouchi as a hub between Tokyo and local cities.

< Capital Gains >

Q. It seems that profit increase is expected mainly from overseas capital gains. What are your prospects on capital gains as well as profit growth for FY2023?

A. In FY2023, a significant increase in overseas capital gains is expected as a result of sales of Central Saint Giles in London. However, it's not our intension to increase sales of overseas properties by forcing ourselves to record high profit. We have two large-scale properties under development in London and thus assets are being accumulated. We have decided to sell the property because we have now a prospect for selling it more than an expected price in addition to the implications of portfolio management.

Large-scale development projects in Japan, including Marunouchi area, and residential redevelopment projects are expected to make profit contributions in late 2020's and it's in line with growth scenario described in the Long-Term Management Plan. Until then, we'd like to make sure to combine various businesses, including investment management, outlet malls, rental apartments, and international businesses, in order to make profits.

Q. What are your thoughts on stabilized level of capital gains?

A. It's difficult to determine, but I think achieving sustainable growth including capital gains will lead to increase shareholders value. Continuing to hold assets is not important for us, so we'd like

to carefully monitor the timing of sales in each area both in Japan and overseas and also contribute to a stable profit growth.

< Investment and Development Pipelines >

Q. In regard to property pipelines shown in your IR presentation p.17 and 19, expected investment and NOI are disclosed. To what extent how much of construction and land costs have already been decided? What about returns of each property?

A. Disclosed figures are based on the total of expected amount for each property. These are also based on the plan at the time of land acquisitions; therefore, the land cost had been decided already and construction cost was estimated at that time. As for returns, we decide these depending on area and asset type with some adjustments base on expected return for each business disclosed in our IR presentation p.88.

Q. As property acquisitions become challenging, how do you plan to ensure returns and expand pipelines?

A. By utilizing various resources through previous businesses, we aim to increase opportunities for property acquisitions without bidding. We are also trying to increase development returns by gaining fee income from joint projects with land owners.

< Shareholders Return >

Q. With the current profit growth, do you think there is a room to consider payout ratio increase?

A. We'd like to work hard to enhance shareholders returns including share buybacks, however, we keep in mind that profit growth comes first and then we need to increase the amount of dividends while maintaining payout ratio. Currently the world situation and economic condition are difficult to foresee, therefore, it's important to maintain financial stability. We will also continue to discuss cash allocation from the aspects of increasing both social and shareholder values.

< COVID-19 Recovery >

Q. How are retail properties and hotels recovering?

A. As for retail properties, outlet malls have been on a recovery trend, but full recovery is not yet expected for FY2023 considering 10~15% of inbound ratio before COVID-19. Mixed-use facilities are still on the way for recovering. As for hotels, inbound ratio was 50% before COVID-19. More impact may remain for FY2023, but domestic demands are expected to be almost fully back for FY2023

< ESG Related >

- Q. You have been working on environment related goals, such as net zero in CO2 emissions and renewable energy. Do you expect cost increase due to an introduction of renewable energy?
- A. In Marunouchi and Yokohama Landmark Tower where renewable energy has been already introduced, there was almost no cost increase helped by our buying power. On the other hand, an impact on electricity cost becomes a concern due to price increase of raw materials affected by the situation in Ukraine, so we need to pay attention to future procurement. Environmental measures are essential for the office and residence to be chosen. We'd like to promote the introduction of renewable energy by controlling the cost.
- Q. In regard to Strategic-Holding Stock explained in your IR presentation p.30, gain on disposals of stocks are not planned to be recorded as an extraordinary income for FY2023. Is there any change in the policy of continuing to sell Strategic-Holding Stock?
- A. We have been proceeding with disposals of stocks by considering market conditions with strategic objectives in mind. It doesn't mean to continue to increase sales amount, but we plan to continue selling Strategic-Holding Stocks.

< Others >

- Q. Your company's stable portfolio has been appealing but I get a different impression of your portfolio in stock market with recent significant increase of profit growth in overseas. On the other hand, I find it difficult to foresee when to expect shareholders return. What are your selling points? What kind of investors would you like to attract?
- A. I would say one of our selling points is that the system is in place to make profit growth possible in various businesses. We'd like to work together to promote the business with investors who are willing to discuss social value in addition to profits and shareholder returns and also comfortable with our strategy to increase social value. We are constantly discussing shareholders returns including share buybacks and will make decisions at the right time given the world situation and economic condition.

(End)