

# Results for the First Half of FY2016: Main Questions and Answers at a Briefing for Investors

November 11, 2016

\* This document provides information with reference to details of questions and answers given at the presentation. Please note that this document is not a full transcription of discussions at the presentation. Rather, it is a concise summary that has been prepared by the Company.

## (Questions about overall issues)

### Q. Assessment and perception of progress with the Medium-Term Management Plan

- Although we projected operating profit of ¥65 billion in the first year of our Medium-Term Management Plan (FY2015), rising to ¥75 billion in the final year (FY2017), we actually achieved our target in the first year, reaching ¥75.4 billion. For this year (FY2016), we revised our forecast upwards from ¥77 billion to ¥79 billion.
- We attribute this to the success of our Futako-Tamagawa Redevelopment project. Thanks to the opening of new office and commercial facilities, the average number of passengers using Futako-Tamagawa Station each day has risen from approximately 100,000 prior to redevelopment to around 150,000. This has had a knock-on effect along the line, in areas such as Jiyugaoka and Shibuya, leading to an increase in passenger revenue.
- Our hotels are doing well due to the effects of inbound business, with the retail sector also performing strongly. Conditions have improved considerably since we formulated our Medium-Term Management Plan. Although we revised figures upwards again this year, we are aiming to exceed projections in terms of operating profit once again next year.

### Q. What will be the key drivers and factors behind increased or decreased profits next year?

- With performance remaining strong in the railway sector, we expect to meet our projections. We also expect to meet projections in the real estate sector, as we shift towards leasing operations as planned. If there is any cause for concern, it is our life service business. We are nonetheless working to implement committee-led structural reforms, leverage existing stores, review regional stores, and step up cooperation throughout the group's retail operations, and believe that in FY2017 we will be able to exceed our projected full-year operating profit of ¥79 billion for FY2016.

### Q. What are the factors behind the projected increase in capital investment on a full-year basis?

- This is down to the fact that, of the investment in growth set out in our Medium-Term Management Plan, we are making steady progress with the acquisition of new properties as part of strategic projects.

## (Questions related to individual businesses)

Q. How do you envision SHIBUYA CAST. and SHIBUYA STREAM contributing to revenue?

- When we undertake development projects, we aim to achieve a NOI yield of 5-6%.
- We expect SHIBUYA CAST. to start at 100% capacity.
- Details for SHIBUYA STREAM aren't as clear at the moment as we are yet to finalize tenants.

Q. How do you envision Sendai International Airport contributing to revenue?

- Although we have got involved in Sendai International Airport as an off-shoot from our airport operations on the basis of projected profits and effects it is expected to have, we are focusing on securing a profit from our own airport business. As the first few years will require an intensive period of reforms, we are projecting a slight operating deficit due to active capital investment. We are nonetheless working to establish an airport network and intend to secure an operating profit within a number of years.

Q. Are you still looking at entering the concession market?

- We will continue to look at all potential projects.
- As airports are focal points for inbound and tourist business, we approach them from the point of view of area development rather than airport businesses alone. Although there are various possibilities in terms of market entry, from major to minor, we need to think about safety within our transportation business. We intend to make the most of our specialist areas as a company, and target projects that are significant and will increase added value.

Q. What are the reasons for your strong performance in the real estate leasing sector?

- We attribute the strong performance of our leasing business to three factors. First, the burden of opening the second phase of Futako-Tamagawa has temporarily been lifted, and this started to contribute to profits in full scale. Second, there has been a decrease in utilities and other overheads. Thirdly, we have maintained high occupancy rates, and have continued to increase revenue by revising rents when renewing contracts.

Q. You mentioned that the Futako-Tamagawa Redevelopment project has been a success. What are the reasons for that?

- We started out with the idea of working with all those concerned to create a "compact city" in the southwest part of Tokyo. In spite of concerns at the planning stages, because it was not an area commonly perceived as that for offices, we have been focused on creating a setting in which people would want to work. We consider it important to create mechanisms that will bring people together and enable them to share information, so that creative people can produce ideas while working in the very latest offices. To attract people, we have built a movie theatre, hotel and studio, and have opened new types of businesses that complement such facilities, including TSUTAYA. We have also organized countless events, such as film festivals for children. Our efforts to get people to associate going to Futako-Tamagawa with doing something special have proved effective.

Q. Please explain your thinking and policy behind redevelopment in Shibuya

- The key will be developing hand-in-hand with the area around us. It is important to increase the number of times people visit the area, by getting them to think “we went there last time, so lets try going here this time”, for example. Crucially, we need to create places that are fun and where people enjoy working. As with previous area development projects, we want to develop alongside roads, squares and other such spaces in Shibuya, to create a sense of fluidity. We want to come up with ways to attract people, and ways to enable people to drift from Shibuya to Harajuku via Cat Street, for instance, or walk from SHIBUYA STREAM to Daikanyama. It’s important for people to discover something new in Shibuya no matter how many times they visit. We want to give people reasons to come to Shibuya, to choose Shibuya ahead of the various other mini-centers around Greater Tokyo, and to move between Shibuya and other areas.

Q. Please provide an update on progress with your overseas business.

- Although we initially struggled to sell apartments in Binh Duong New City in Vietnam, we are now making progress with sales and are within sight of around 80%. The fact that we purchased land several years ago is a key advantage. The number of people living in and around Binh Duong New City is gradually increasing as the city continues to expand. Having acquired land in a central area of the city, we are confident this will contribute to profits in a few years time.
- There will be potential for a development site in the outskirts of Perth in Western Australia within the next one or two years. Rail links due to be extended in 2020 and everything is going according to plan so far. As land prices are also on the increase, we believe that this will contribute to profits before long.

Q. Has your hotel ADR increased? Please explain the reasons why you have revised your full-year forecasts for sales downwards and profit upwards.

- ADR has increased approximately 10% compared to the previous year.
- The fact that hotel occupancy rates are down year on year has led to a fall in sales. We nonetheless believe that we can maintain high rates of 85%, not far off full occupancy, and intend to shore up sales by continuing to increase prices per room. We are aiming to reliably secure profits meanwhile through rigorous cost control.

Q. What are your views on the slowdown in inbound customers staying overnight?

- The percentage of foreign visitors staying at Tokyu Hotels is around 30%. That level has remained steady rather than falling, as customers consistently choose our hotels. Almost one third of foreign visitors are high quality customers on personal travel from Europe or the United States.