

## Three-Year Medium-Term Management Plan: Main Questions and Answers at a Briefing for Investors

March 27, 2015

※ This document provides information by referring to the details of questions and answers at the presentation. Please note that the document is not a full transcription of discussions at the presentation. Rather, it is a succinct summary that the Company has prepared.

### (Questions about overall issues)

Q. Please explain the primary aim of the changes to the segment categories.

- One of the reasons for the changes to the segment categories was to further enhance the overall competitiveness through the collaboration of the strength and resources of the Group's retail companies. Accordingly, to clarify the performance of the Retail Business, we decided to present the Life Service Business by categorizing it into "Retail" and "ICT and Media."
- We have internally established a Retail Business Headquarters that looks over the Tokyu Department Store, Tokyu Store Chain and Shopping Centers and other operations and have given its headquarters powerful functions. As a result, Shopping Center operations have been changed from the real estate segment to retail, a sub-segment of the Life Services segment.
- Moreover, we have determined that, as part of the TOKYU area media strategy in line with the progress of urban development, we will strengthen the advertising business as the OOH (Out Of Home Media) Business through collaboration with the Life Service Business. As a result, we have changed the category of companies, including Tokyu Agency, the main driver of the OOH Business, to "ICT and Media," a sub-segment of the life service segment.

- In addition, businesses in the Business Support segment have been changed to the business segments of the entities to which the businesses provide support. Adopting the structure of four segments from the FY2015-2017 Management Plan, the Transportation Business, the Real Estate Business, the Life Service Business and the Hotel and Resort Business, we will promote businesses by making use of more extensive collaborations.

Q. Please explain the background of adopting management indicators for each business segment.

- Tokyu Corporation is engaged in a variety of businesses, and we have adopted clear and concise management indicators for management of each of the businesses.
- In the Transportation Business, Tokyu Corporation's railway business accounts for a majority of the segment's profits. We have adopted the "Number of passengers carried" because it is a source of strength for Tokyu Corporation's business foundation and one of the important indicators that represent the vitality of the TOKYU areas.
- The Real Estate Business is a driver for profit growth in the future and its key mission is to take on responsibilities for the expansion of profit scale in the near future. For these reasons, we have adopted TOKYU EBITDA.
- The Life Service Business and the Hotel and Resort Business are required to simultaneously achieve business expansion and improve business efficiency under the growth strategy while responding to changes in the business environment. Consequently, we have adopted an operating profit margin.

Q. Of target indices in the Long-Term Corporate Strategy, the targets of TOKYU EBITDA and operating profit have been set at levels approximately 30 billion yen higher than those in the 2017 plan. What are the details of these increases?

- At the time when I, Nomoto, was appointed to become President, I put out the “three best categories in Japan” and “one TOKYU” as the Long-Term Vision for 2022, the year of the 100th anniversary since Tokyu Corporation was established. Concerning the potential profits, I had a vision to achieve a TOKYU EBITDA of 200 billion yen and an operating profit of 100 billion yen. When we were recently adding up figures, we started to see a chance of reaching an operating profit of 100 billion yen. Thus, we have presented the targets in this manner.
- Concerning Shibuya development, the openings of the Shibuya Station South Block (in FY2018) and Shibuya Station Block East building (in FY2019) will make significant contributions to profits. Also, we will improve the profit margin of the Retail Business instead of simply investing in real estate. With these factors, I believe that we will be able to move closer to the target level in FY2022. In addition, an increase in profits from the Hotel and Resort Business that attracts a higher demand from inbound tourists will contribute to the overall performance.

Q. Operating profit in FY2015 will temporarily decline to 65 billion yen. How will it increase in the following terms when no large-scale real estate leasing properties will be completed in FY2015-2017.

- A decline in operating profit in FY2015 is attributable to expenses related to the opening of the Futako Tamagawa Rise Phase II. We expect costs to be incurred in the first year, but the effects of opening up the property will clearly become visible from 2016, resulting in higher profits.

Q. The Life Service Business is expected to make the largest increase in profits in the plan over the three years and is regarded as a strength in the future. What kind of performance can we expect?

- In the Life Service Business, although sales (operating revenue) account for almost 50% of consolidated overall results, operating profit only accounts for between 8% and 9%. The biggest issue has been how individual businesses can be improved and expanded.
- There are cases in which, even in the same retail segment, Tokyu Corporation and Tokyu Department Store manage shopping center business, entertaining the same tenants. In addition, there are cases of Tokyu Store Chain procuring goods from the same suppliers of Tokyu Department Store. We were aware of the inconvenience when negotiations were held individually with the same tenants and suppliers. In response, we have established an internal committee and it has concluded that new profits will be able to be generated by inspecting processes over procurement, tenant negotiations and store opening strategies.
- By rectifying these matters, we will aim to improve profit margins. Because the Retail Business generates sales of approximately 500 billion yen, an improvement to the profit margin by only 1% is expected to create profits of five billion yen.

Q. While Tokyu Corporation aims to achieve “one TOKYU” through promotion of human resources management from the perspective of consolidated management, how are you specifically going to carry out the optimum allocation of human resources?

- We will manage human resources from a consolidated perspective for recruiting, relocation and other various opportunities as we utilize human resources.
- For example, on the recruiting front, we believe that if the Group adopts as

a whole presentation meetings and other events, we can make Tokyu Corporation's diversified operations appeal to students. In addition, because the Group includes a range of business types, by offering greater opportunities to students who possess a variety of competencies, we encourage them to demonstrate their capabilities in each business field.

- Moreover, we are now strengthening the information network and promoting cross-industrial exchanges in the Group between each generation and the hierarchy. In addition, we will develop a system to achieve the optimal allocation and use of human resources from the perspective of the Group, not from the perspective of each company.

### **(Questions related to capital expenditures and cash flows)**

Q. The cash flow plan provides for a recouping of investments of 50 billion yen for the cash-in flow. What type of investment recouping are you expecting, and what is its impact on PL?

- In the Key Initiative 2, we stated our intention to promote an "investment cycle business model." Working with TOKYU REIT and other parties, we will establish a cycle of acquisition, maintenance, management, sales and reinvestment of properties. Investment recouping mainly includes the cash-in flow that is generated in this cycle.
- I would like to refrain from making statements about how this will directly affect PL because the matter is related to details for individual properties.

Q. With respect to the degree of certainty of investments concerning growth, how many investments have already been decided? In addition, what is your expectation of returns from such investments?

- Investments of 77 billion yen in Shibuya redevelopment as presented in the three-year plan are mainly targeted at the Shibuya Station South Block and

Shibuya Station Block East building, and they will certainly be carried out. Investments in the Futako Tamagawa Rise Phase II account for a majority of the 53 billion yen utilized for development in the TOKYU areas. As there are other plans for development in the TOKYU areas, we believe that the amount stated is almost certainly required for TOKYU area development. In strategic projects, we expect the acquisition of properties, the reconstruction of the existing buildings and other activities. Investments at a pace of more than 20 billion yen each year are by no means a negligible amount, but we are still determined to steadily carry out these investments.

- As for returns from these investments, in principle, it is our basic stance to secure NOI yields of between 5% and 6% for each plan.

Q. In strategic projects, what is your opinion regarding overseas development?

- As for strategic projects, we plan investments of 70 billion yen in three years and 150 billion in six years. However, a majority of such investments consist of the acquisition of properties for real estate leasing and the ratio of overseas projects is marginal.
- The overseas businesses in which the Tokyu Corporation is currently engaged are mainly operations of collecting what it has already invested and making further reinvestments, and they are not a type of investment that are made as investments in growth on a large-scale.

### **(Questions related to individual businesses)**

Q. Did the investment plan include the new airport line? The interim report that the Tokyo metropolitan government recently announced did not refer to the new airport line. What is your opinion on this matter?

- The scheme of the new airport line is that, with the assumption of the application of the Act on Enhancement of Convenience of Urban Railways, etc., the national and regional governments and third-sector companies will take the responsibility for financing and Tokyu Corporation will use the line by paying lease fees. Therefore, please note that the investment plan includes almost no investments for the line, although it is not absolutely zero.
- In addition, although the order of priorities in the development appears to have taken a step back, we have received comments from Ota Ward and the Tokyo metropolitan government that the new airport line is a necessary line. Therefore, we will continue to cooperate with authorities by considering what is the best access to Haneda Airport, which will have increasing demand from inbound tourists and other customers, for local communities and Tokyo overall.

Q. Please update the businesses in Vietnam. In addition, please confirm if the timing for ROI in Vietnam is included in the three-year plan.

- In the project in Binh Duong, Vietnam, the construction of a high rise condominium building with approximately 400 condominium units is about to be completed, and we have currently secured sales of almost half of the units.
- We understand that Vietnam is expected to revise laws so that foreigners will be able to acquire real estate. Therefore, we believe we can expect that Japanese companies that dispatch a number of their employees to local areas will acquire the properties as their corporate dormitories and foreign investors will also acquire the properties as investments.
- Although the annual growth rate of Vietnam overall is more or less 6%, in Binh Duong, the area in which we manage our operations, the annual growth rate has been amounting to around 13%. Because we have secured

a sizable amount of land at an early stage, we believe that in the future we will be able to increase value by developing businesses in the long-term.

- As for the timing of ROI, the management plan has included collection of around several hundred million yen each year. Basically, we consider that we are in a period when investments collected should be reinvested, and therefore, we do not anticipate significant profits. Full contributions from the business in Vietnam will be materialized from the next management plan and thereafter.