Framework of the Current Medium-Term Management Plan

Positioning the four fiscal years from fiscal 2016 as a period of developing foundations for medium-to-long-term growth, the current medium-term management plan calls on the Group to (1) enhance value of the Umeda area and other line-side areas, and (2) develop new markets for medium-to-long-term growth. Moreover, as we pursue these business strategies we aim to capture burgeoning demand from non-Japanese tourists. Further, we will allocate funds in a balanced manner to realise returns to shareholders and continuous strengthening of our financial standing. At the same time, we will prepare for the future by investing in major development projects and developing new markets. The Group will also steadily invest in the maintenance and renewal of existing infrastructure.

Many of the projects that the Group tackles take a long time to bear fruit. As a result, periods arise when we do not anticipate near-term earnings growth. Over the medium-to-long term, however, I am confident that our projects will produce benefits steadily.

For overviews of specific projects and their progress, please see the special feature and the "Core Businesses: Overview and Outlook" section of this report. At this point, I would like to explain the thinking behind the two business strategies mentioned above.

Business strategies | Implementing two business strategies with a view to medium-to-long-term growth

Business strategy 1 — Enhance value of the Umeda area and other line-side areas

Create line-side areas people want to live in long term or visit frequently

Develop line-side areas ⇄ Enhancing line-side area value ⇄ Develop additional value in line-side areas

Business strategy 2 — Develop new markets for medium-to-long-term growth

Expand businesses in Tokyo metropolitan area and begin developing new businesses overseas

Tokyo metropolitan area | Overseas

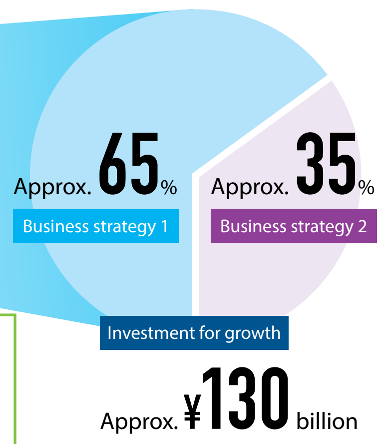
Combine business strategies 1 and 2

Capture burgeoning demand from non-Japanese tourists

Offset Japan's sluggish consumer market and step up efforts to capture rapidly growing demand from visitors to Japan

Financial strategy | Allocate funds in a balanced manner on forward-looking investment, continuous strengthening of financial standing, and returns to shareholders

Forward-looking investment
Give priority in fund allocation, mainly focus on initiatives reflecting business strategies 1 and 2



Continuous strengthening of financial standing
Mitigate risk of future interest rate rises and secure funding capacity over the medium-to-long term

Returns to shareholders
Endeavour to increase them while maintaining balance with investment and strengthening of financial standing

Business strategy 1 Enhance value of the Umeda area and other line-side areas

It is essential to continue investment aimed at bolstering the urban functions of the Umeda area, which is synonymous with the Kansai area and the Group's most important base. The Umeda area is known for having Japan's highest concentration of commercial facilities. This strong focus on the Umeda area is the result of continuous development aimed at increasing the area's appeal spanning several eras. Just as these past development efforts have created today's prosperity, we will take far-sighted measures to evolve and create new value in the Umeda area going forward. For example, we will develop multipurpose buildings with leading-edge disaster prevention capabilities and environmental performance. And, we will foster the entrepreneurs that may become the future tenants of such buildings.

Similarly, line-side areas other than the Umeda area need to evolve. However, I believe that, as well as the development of such infrastructure as railways and properties for lease, we need to create shared value in line-side areas with local communities. Although the population of the Group's line-side areas is rising, Japan's demographics mean that the time will come when it begins declining. Given this outlook, we believe contributing to the quality of residents' lives is key because this will ensure people continue to choose our line-side areas as the places they want to live in, remain in long term, or keep visiting. Based on this belief, we are creating value through the provision of new services in five areas: fostering of the next generation; health and seniors; community and culture; development of safe, secure towns; and industry creation.

A conceptual illustration of the Umeda 1-1 Project upon completion

Business strategy 2 Develop new markets for medium-to-long-term growth

Expanding businesses in the Tokyo metropolitan area and developing businesses overseas will allow the Group to capitalise on its accumulated expertise in new markets.

As one of Asia's most famous cities, Tokyo is an appealing market that is likely to maintain its importance in and links with the international economy even in an era of population decline. In preparation for the Tokyo 2020 Olympic and Paralympic Games, real estate development is moving up a gear in the centre of Tokyo. Against this backdrop, the Group is stepping up business development in the city. As well as steadily increasing the development and sale of condominiums, we plan to open a hotel mainly comprising guest rooms for overnight stays, REMM Roppongi, in March 2017. Other initiatives in Tokyo include our participation with business partners in a redevelopment project for the area in front of JR Yotsuya Station. In the above projects, we will take advantage of expertise garnered in the development of the Umeda area and other line-side areas. Further, we aim to use the projects as bridgeheads for expanding businesses in the Tokyo metropolitan area.

Overseas, in April 2016 we opened a logistics centre in Indonesia, which has begun handling such products as automotive components, medical equipment, and electronic components. In addition, plans call for the completion of a large logistics centre in Singapore in spring 2017. The International Transportation and the Real Estate businesses are working together closely to advance these projects and realise synergies within the Group.

A conceptual illustration of the Singapore logistics centre upon completion

Management Indicators through to Fiscal 2019

The management indicators that we are targeting and our approach to them are shown in the table below. In light of current business results, we have revised numerical targets for profitability and capital efficiency. Regarding profitability benchmarks, we have upwardly revised numerical targets for operating income and net income attributable to owners of the parent during the medium-term management plan by ¥10 billion each versus the numerical targets initially announced in fiscal 2016. Also, the likelihood of reaching benchmarks for capital efficiency (ROE) and financial soundness (interest-bearing debt) has been increasing steadily.

Further, we will maintain financial soundness over the medium-to-long term by keeping the interest-bearing debt/EBITDA ratio between 5 and 6 times and the D/E ratio around 1 time. In tandem with this policy, we want to allocate surplus funds to investment in growth and enhancement of returns to shareholders.

Numerical targets		
Profitability	Keep operating income at **¥90 billion** level and keep net income at **¥50 billion** level (Each up ¥10 billion versus previous target)	While focusing efforts on developing foundations for medium-to-long-term growth, we will maintain a certain level of operating income. Further, given that the risk of incurring significant extraordinary losses has lessened, we expect stable net income attributable to owners of the parent.
Capital efficiency	Realise ROE of at least **6%**	Through stable net income attributable to owners of the parent and the acquisition of treasury stock, we aim to realise ROE of at least 6% on a consistent basis.
Financial soundness	Reduce interest-bearing debt to **less than ¥900 billion** by the end of fiscal 2019	We will continue steadily strengthening our financial standing to mitigate the risk of interest rate rises and ensure our ability to secure surplus funds over the medium-to-long term.

Financial soundness targeted over medium-to-long term	Keep interest-bearing debt/EBITDA ratio **between 5 and 6 times** and D/E ratio **around 1 time**