

(Translation only)

FY2015 Management Strategy Conference Q&A Session (Summary)

Date: May 18, 2015 (Mon.) 4:30pm – 5:30pm  
Location: Daiwa House Industry Co., Ltd., Tokyo Head Office  
Speakers: Takeo Higuchi, Chairman and CEO  
Naotake Ohno, President and COO  
Tetsuji Ogawa, Executive Vice President  
Takeshi Kousokabe, Director and Senior Managing Executive Officer and CFO

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● **Single-Family Houses Business / Consumption Tax Increase**

[Q1]

**The consumption tax rate hike to 10% is expected to occur in April 2017. What measures are you planning to implement to address changes in the operating environment expected before and after, particularly after, the tax hike?**

[A]

- It is not easy to predict market conditions following a tax rate hike but we are assuming that market conditions will be difficult.
- We see the biggest impact being felt in the Single-Family Houses Business Segment. Prior to the tax rate hike to 8%, we took measures such as acquiring land for housing development projects in advance. With the hike to 10% as well, we will have to proceed forward under the assumption of extremely difficult market conditions.

● **Real Estate Development Investment Business**

**(Reference: Management Policies: P4 Expansion of Investment Targets)**

[Q2]

**You revised real estate investment plans from 400 million yen to 500 million yen. In particular, investments slated for Logistics, Business & Corporate Facilities Business Segment was raised from 200 million yen to 310 million yen. Can you tell us specifics about this?**

[A]

- Within Logistics, Business & Corporate Facilities Business Segment, the majority will be logistics facilities.

[Q3]

**The real estate market has its ups and downs. The increase in real estate investments to 500 million yen entails lowering the amount for Commercial Facilities and increasing Logistics, Business & Corporate Facilities (logistics facilities). At present, the operating environment for logistics facilities is favorable and you have listed REIT as an exit strategy for those investments so there is no significant cause for concern but I have heard that some REIT have lowered rent rates. Can you tell us about the points of caution you consider when conducting real estate investments?**

[A]

- There are two types of logistics facilities, BTS type and multi-tenant type. At present, over 80% of our development properties are the BTS type.
- Multi-tenant type logistics facilities have an upside when times are good but the reverse is also true. In this sense, they are highly susceptible to economic trends. On the other hand, BTS type are known for their stability and not experiencing as much rent fluctuation. We think this is the biggest difference between the multi-tenant type and the BTS type.
- We conduct investments by giving due consideration to our ratio of stable BTS types and multi-tenant types, which tend to have an upside.

[Q4]

**It seems that this increase in real estate investment plans particularly focuses on expanding the development of logistic facilities. I assume this is because logistics facilities by Daiwa House are viewed favorably by the market. What do you think led to this evaluation of the market?**

[A]

- In the real estate development business, we are focusing on building facilities that will maintain both soft and hard property value when economic conditions take a turn for the worse. When developing BTS type logistics facilities, which account for over 80% of the logistics facilities we have developed, we make comprehensive evaluations of the area, application, tenant needs, etc. We also remain in close contact with the tenant through our develop projects. I think this has led to our strong evaluation by the market.
- During the last two years of our 4th Medium-Term Management Plan, we have been successful at acquiring and developing land for logistics facilities. Moving forward, we will continue to assess area, application, and tenant needs as we work to provide logistics facilities that are favored by the market.

[Q5]

**You have indicated investment amounts for real estate development projects related to Rental Housing, Commercial Facilities, Logistics, Business & Corporate Facilities Business Segments as well as your rental real estate assets balance. As the real estate market is becoming overheated, do you not feel the need to expand asset portfolio, for example, housing for the elderly with nursing care services, and hotels that you have experience building?**

[A]

- We operate nearly 40 business hotels. Many of those are leased properties that we do not own directly. Moving forward, we will consider land acquisition as a part of our investment strategy. Similarly, we will evaluate potential investments in housing for the elderly with nursing care services.
- We already operate five private nursing homes for the elderly. There is still a significant lack of such facilities in urban areas as there are more applicants than available units. As such, we would like to be working on a new facility in an urban area this year.

[Q6]

**Moving forward, do you intent to continue increasing capital investments to achieve sustained growth?**

[A]

- Capital investments are a necessity for profit growth. At the same time, we believe it important to conduct business with a focus on a balanced financial platform as indicated by benchmarks such as cash flows and the DE ratio.

## ●Overseas Business

[Q7]

**What is the status of your overseas business?**

[A]

- During FYE March 2015, net sales were 61 billion yen and net losses were 4.4 billion yen. This includes 4.3 billion in losses on inventory assets from the Wuxi (China) project.
- With a lack of transparency with operating conditions on the China market, we have outlined a conservative plan for overseas businesses during FYE March 2016. We are planning net sales of 62 billion yen and net losses of 1.4 billion yen.
- Moving forward, we will see improvement in sales and income if projects in the U.S.A., Australia, ASEAN, etc., can get on track.

[Q8]

**What is your view of the current real estate market in China?**

[A]

- The real estate market in China has worsened compared to at the start of the project.
- On the other hand, there has not been a decline in the trust consumers have in Japanese brands. We would have reached a certain level of sales if we had more accurately set the sales price so we do not see this as an issue for major concern.

● **DE ratio**

[Q9]

**You have indicated your intention to adhere to the financial rule of a DE ratio of 0.5. Under the current favorable real estate environment, do you see a possibility of a change in this standard as you increase real estate investments?**

[A]

- We view DE ratio 0.5 as a financial rule. At the same time, we understand that overemphasizing this 0.5 rule and failing to take advantage of strong investment opportunities does not constitute proper management decision-making. We treat this as one of multiple standards and each time a promising opportunity arises we conduct thorough internal evaluations before deciding on that investment.
- As we revised investment plans upward to 770 billion yen, there is a possibility that we may exceed the DE ratio 0.5 standard by the end of the current fiscal year but we have the ability to improve DE ratio through operating cash flow and cash constriction, so we do not anticipate going significantly beyond 0.5.

## ●Future Forecasts

[Q10]

**For FYE March 2016, you are planning for operating income of 200 billion yen, due in part to increases from gains on development property sales contributing nearly 20 billion yen. Moving forward, is it your thinking that maintaining such a high level of gains on development property sales will drive growth? Or, do you think you can secure increased income from sources other than development property sales such as Rental Housing, Commercial Facilities, Logistics, and Business & Corporate Facilities Business Segments?**

[A]

- Thus far, we have aimed to achieve business growth without assuming the sale of development properties.
- On the other hand, the most recent decision to sell was based on the need to provide the stable supply of properties to the listed REIT we sponsor.
- For the time being, we think it is possible for us to achieve our targets without relying on the sale of development properties. However, we will continue looking to secure promising development properties in order to ensure balance in the future.

## ●Energy Business

[Q11]

**The energy business, one of the diversified businesses outlined in your Medium-Term Management Plan, has a FYE March 2016 target of 60 billion yen in sales. Can you tell us about current progress?**

[A]

- The energy business is transitioning favorable with FYE March 2015 net sales of 75.7 billion yen and operating income of 3.7 billion yen. Thus, we already have achieved the 60 billion yen sales target outlined in the Medium-Term Management Plan.
- For FYE March 2016, we forecast net sales of 80 billion yen and operating income just under 4 billion yen.

[Q12]

**What are your thoughts on the future of the energy business in light of the upcoming deregulation of electricity sales scheduled for April 2016?**

[A]

- We have established both solar-power and wind-power business divisions, and we have begun working on a hydro-power business.
- While we see the deregulation of electricity sales as a definitely business opportunity for us, there still is a lack of transparency in terms of business schemes and potential revenues and costs. As such, we will approach this market with caution.

## ●New Business

[Q13]

**You are planning for net sales of 3 trillion yen during for the current fiscal year but can you tell us about initiatives you are implementing as you look forward to likely future goals of 4 trillion and 5 trillion yen?**

[A]

• As we aim for 10 trillion yen by our 100<sup>th</sup> anniversary, we realize that our current business scheme is insufficient for achieving that goal. As such, we believe it vital that we be able to launch beneficial, industry-leading products on the global market.

• For example, there is the robot suit HAL® produced by CYBERDYNE Co., Ltd.(\*). This year in January, the company received the METI Minister's Award (Partnership of Venture Businesses and Large Enterprises) at the Japan Venture Awards sponsored by METI. We are extremely proud that a company with which we partnered has been able to grow with us and there are merits for our partner company. We want this to be the foundation of our business promotion.

• Our founder passed on the business philosophy that we must act not focused on what we can do to make a profit, but on the type of business and kinds of products that are useful to and will bring joy to our customers. We will continue to embrace this philosophy as we evaluate new businesses and develop new products.

\*Registered trademark of CYBERDYNE Co., Ltd.

[Q14]

**You are involved in the management and operation of Osaka Castle Park but what is your thinking regarding the public infrastructure management business?**

[A]

• We want to be proactively involved in businesses deeply related to goal of being a group that "co-creates value for individuals, communities, and people's lifestyles." This includes industries such as public infrastructure management and the PFI business. We are reviewing our current business domains from upstream to downstream and we will undertake such initiatives while continuously evaluating the balance of risks and profitability.

[Q15]

**What are your thoughts on industrial real estate as a new business? Over the long-term span of 5-10 years, global logistics facilities development, industrial park development, as well as airport and road concessions could develop into major businesses if regulations are eased. Also, these businesses would be useful to society and have a significant synergy effect for your company. In the U.S.A., electricity and communications infrastructure is being structured into REIT and the scale is growing. As you aim for net sales of 10 trillion yen and operating income of 300 billion yen, your involvement in large-scale, profitable businesses that also benefit society will become more important. Can you tell us about your long-term outlook?**

[A]

- For real estate investments, we are actively investing in our fields of expertise. This applies to both Japan and markets overseas. One of the conditions to participating in overseas investment projects is whether or not we have a reliable partner in that country. We invest in projects that fall within those lines.
- The electricity facility and infrastructure market in the U.S.A. is certainly attractive but at present we are short-staffed in Japan, which we are unable to perform a proper evaluation. I think it will be a while before we are able to provide a clear answer or provide policy concerning this question.
- New business is the engine for growth. As we head towards the next Medium-Term Management Plan, we will give serious consideration toward how we will look to achieve growth in which segments.

## ●Corporate Governance

[Q16]

**Can you tell us about current initiatives and future measures to be implemented in relation to corporate governance?**

[A]

- We already have appointed two outside directors and three outside corporate auditors and they are fulfilling their role as a system of checks and balances. In addition to providing valuable opinions at the board of directors and board of auditors meetings, we arrange regular meetings between the representative director and outside directors and corporate auditors.
- We have selected a corporate auditing firm. We also intend to establish a corporate governance committee, a compensation advisory committee, and a designated advisory committee to enhance corporate governance.
- In addition to redefining existing corporate governance, active deliberations are being held as we prepare to draft guidelines to ensure compliance. We will release this documentation once it is completed\*.

\*This documentation was released on May 27, 2015.

End

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