(Translation only)

# Q&A at IR Teleconference for Analyst/Institutional Investors (Summary) at Announcement of Financial Results for FY2015 1Q (For the 3 months from April 1, 2015 to June 30, 2015)

Date and time: From 17:00 to 18:00, Friday, August 7, 2015

Presenters: Takeshi Kousokabe, Representative Director and Senior Managing Executive Officer

Yuji Yamada, Executive Officer and General Manager of Finance and IR Departments

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●About Orders received (Non-consolidated)

[Q1]

What was the status of orders received in 1Q and which segments performed particularly well?

(Reference: Financial Highlights: P15 "Orders Received by Business Segment (Non-consolidated)")

[A]

- In the full-year plan, we target an overall order increase of 2.5% year-on-year. However, in 1Q alone, orders rose 16.5% and 1Q order growth was 6.8%, after excluding the positive benefit from confirmed property sales. This reflects the brisk sales performance we saw in all of our business segments during the quarter.
- Specifically, Rental Housing, Commercial Facilities, and Logistics, Business & Corporate Facilities performed particularly well. In a comparison that excludes the impact of properties sold, the Rental Housing segment increased 8.5% versus 2.0% in the full-year plan, the Commercial Facilities segment increased 7.8% versus 3.0% in the full-year plan, and the Logistics, Business & Corporate Facilities segment increased 10.5% versus 2.5% in the full-year plan.
- The full-year plan also outlines an increase of 0.2% for Single-Family Houses but 1Q performance resulted in an increase of 5.7%, indicating that conditions have improved compared to when we originally drafted the full-year plan.

● About Earnings

[Q2]

**Earnings appear to be solid but how have earnings progressed in comparison to plans when you exclude the impact of properties sold?**

**(Reference: Financial Highlights: P9 "Business Segment Information (2)")**

[A]

- Earnings are on an overall upward trend. As it is still early in the fiscal year we have not made any changes to our current earnings forecasts but we think a revision may be necessary depending on the status of 2Q earnings.

● Single-Family Houses Business

[Q3]

**Please tell us the reason for the improvement in the gross margin ratio for Single-Family Houses.**

**(Reference: Financial Highlights: P9 "Business Segment Information (2)")**

[A]

- We believe greater balance in the timing of construction had a positive impact on costs.

● Rental Housing Business

[Q4]

**Compared to the previous fiscal year, the gross margin ratio for Rental Housing (Construction) is down by 1.0pt and down by 1.1pt compared to the full-year plan. Are we seeing some kind of change occurring in the Rental Housing Business operating environment?**

**(Reference: Financial Highlights: P9 "Business Segment Information (2)")**

[A]

- The decline in the gross margin ratio is largely due to special factors related to consolidated accounting. The decline in gross margin ratio for low-rise rental housing units, a key business, was limited to 0.1pt.
- Another factor was an increase in indirect costs due to increase in personnel, including site supervisors and other engineering personnel. Over the course of the year, we expect the gross margin ratio to approach the figure outlined in the full-year plan.
- It is not the case that the operating environment has declined. In fact, the increase in inheritance tax is having a beneficial impact and performance continues to be favorable.

● Commercial Facilities Business

[Q5]

Please tell us about the business environment for Commercial Facilities.

[A]

- Saturation in the large-scale shopping center market is resulting in a somewhat conservative environment for development.
- However, the roadside storefront market, a segment in which we specialize, continues to see strong demand for store openings in a variety of fields, and we believe this market will continue to performance favorably.

● Logistics, Business & Corporate Facilities Business

[Q6]

**Please tell us the reason the gross margin ratio for Logistics, Business & Corporate Facilities (Construction) is down compared to the previous fiscal year.**

[A]

- The previous fiscal year was influenced by the sale of land for an industrial park, a profitable but unique element drove up the gross margin ratio for this segment.

[Q7]

**Overall conditions are favorable for the general contractors industry. I am not sure how much this impacts your company's operations but can you explain this current market environment and how the market has changed compared to before?**

[A]

- Fujita recorded an increase in net sales and operating income. Like other general contractors, the company has been able to implement selective order acceptance for the last several years. I think we have reached a point where such properties are now contributing to sales.
- I think the only segment where there is crossover between us and other general contractors is the construction of logistics facilities. However, our business model entails both finding land and inserting the tenants so I do not see any direct competition with other general contractors.

[Q8]

**Please tell us about the state of contracts for your Logistics, Business & Corporate Facilities Business excluding the impact of properties sold and revenues from Fujita and other subsidiaries.**

<u>(Reference: Financial Highlights: P3 "Summary of Account Settlement in FY2015 1Q: Overview")</u>

[A]

- As outlined in the statement on factors including the increase in net sales for the Logistics, Business & Corporate Facilities Business, of the ¥30.6 billion in revenues for Daiwa House Industry (non-consolidated), properties sold was ¥22.8 billion and the increase in revenues from contracts was ¥7.8 billion.

[Q9]

**・Please tell us about net sales and operating income for Fujita.**

[A]

| | FY2015 1Q | FY2014 1Q | Changes |
|---|---|---|---|
| Net sales | ¥66.8 billion | ¥55.2 billion | ＋¥11.6 billion |
| Operating income | ¥2.5 billion | ¥1.5 billion | ＋¥1.0 billion |

● Overseas Business

[Q10]

**Please tell us about sales trends and market conditions for your China business.**

<u>(Reference: Financial Highlights: P14 "Overseas Business")</u>

[A]

- Yihe Xinghai in Dalian had applications and contracts for 125 units between April and June, bringing the total to 1,599 units.
- The Changzhou Grace Residence had applications and contracts for 77 units between April and June, for a total of 211 units.
- Sales for Moonlit Garden in Wuxi began in April and there were applications and contracts for 46 units during the three-month period.
- The majority of these sales represent actual demand and we do not believe the environment will change in a way that will see an increase advanced sales.

● Real Estate Development and Rental Real Estates Businesses

**[Q11]**

**Please tell us about the status of domestic real estate investments, your year-end balance forecast for rental real estates, and the environment for land procurement.**

(Reference: Financial Highlights: P12 "Breakdown of Rental Real Estates")

[A]

- The real estate investment amount for 1Q was ¥33.8 billion, with a breakdown as follows.
  Logistics, Business & Corporate Facilities (logistics facilities): ¥26.3 billion
  Commercial Facilities Business: ¥5.5 billion
  Rental Housing Business: ¥2.0 billion
- We forecast the year-end rental real estate balance will be near ¥800 billion.
    - End of June balance: ¥672.4 billion
    - Invest just under ¥120 billion from July onward (full-year investment plan of over ¥150 billion)
    - Properties sold from July onward: None planned

- We will continue focusing investments on logistics facilities and we see no change in the current trend of difficulty procuring land for rental housing developments.

**[Q12]**

**What were the factors behind the slight improvement in the NOI yield for rental real estates?**

[A]

- This was the result of multiple factors, including a decrease in book value due to depreciation, contributions from newly rented properties, and improvement in the NOI of rented properties.

[Q13]

**Due to the difficulty in acquiring new properties, it would appear that yield is trending in a negative direction but is this not the case for your company?**

[A]

- For example, logistics facilities in the category of rented real estate available for sale increased from ¥66.5 billion at the end of the previous fiscal year to ¥86.9 billion, resulting in the NOI yield improving from 5.6% to 6.2%, an improvement of 0.6pt. This is the result of factors such as newly rented large-scale, multi-function facilities, which produce a better yield.
- Properties that we began renting this year are on land that was procured at least three years ago and we do not believe any of these properties will have a negative impact on yield.

End