

(Translation only)

**Management Strategy Conference Q&A Session (Summary) in FY2015-1H**

**Date:** From 15:00 to 16:00, Tuesday, November 10, 2015

**Location:** Daiwa House Industry Co., Ltd., Tokyo Head Office

**Speakers:** Naotake Ohno, President and COO

**Tatsushi Nishimura, Representative Director and Senior Managing Executive Officer, Head of Technology, Deputy Head of Information Systems, Head of Urban and Residential Area Development Businesses**

**Takeshi Kousokabe, Representative Director and Senior Managing Executive Officer and CFO, Head of Administration Division, Management Administration General Manager**

---

**Income growth strategy:**

[Q1]

I would like to ask about strategies aimed at future income growth.

This fiscal year you revised your forecast for operating income upward by 20% from the initial target of 200 billion yen to 240 billion yen. At the same time, obstacles have grown higher.

In regards to the next Medium-Term Management Plan, the Rental Housing, Commercial Facilities, and Logistics, Business & Corporate Facilities segments, which are currently core growth segments for your company, are likely to continue growing for the time being but there is doubt as to whether these segments can continue growing indefinitely.

Also, please tell us about what steps you are taking and in which segments to establish new businesses that will become key players in the future.

[A]

- We expect the Rental Housing, Commercial Facilities, and Logistics, Business & Corporate Facilities segments will continue to record growth through our next 5th Medium-Term Management Plan and we think that related segments also have incredible growth potential.
- As we move from the 5th Medium-Term Management Plan into the 6th Medium-Term Management Plan, we expect the focus will be on new business areas.
- Considering Japan's population decline and aging society, we do not expect the current state of core growth segments to continue forever. This is another reason why we are expanding our businesses overseas.
- We expect that from next year onward the business in the U.S.A. will become an income source for us. With continuing efforts in China and ASEAN, we are moving forward with the goal of achieving 500 billion yen in overseas sales.

**●About the overall residential housing business:**

[Q2]

**Operating income has been revised upward significantly for Single-Family Houses Business Segment.**

**This appears due to the popularity of your high-end product xevoΣ so how will you incorporate this strategy into overall residential housing business, including rental housing and condominiums?**

[A]

- Whether it be Single-Family Houses or Rental Housing business segments, we are progressing carefully and steadfastly, ensuring that our new products are aligned with market needs.
- xevoΣ sales grew significantly as a result of such efforts. However, we do not expect the same level of success to continue in the next fiscal or the fiscal year after that when the consumption tax rate is hiked up to 10%.
- Currently xevoΣ is our flagship product and the high price reflects this accordingly.

We will have to evaluate whether or not it will be possible to continue sales in this price range.

- As for condominiums, we are continuing to procure land for development in major cities such as Tokyo, Osaka, and Nagoya but, truth be told, things have not gone according to plan due to rising land prices.

In response, simultaneous to our efforts to procure land in major cities, we are using our network of 83 offices throughout Japan to procure land in the prime areas of rural cities. This strategy is producing results.

**●About rental real estates:**

[Q3]

**During the 4th Medium-Term Management Plan you increased your inventory of rental real estates.**

**What are your plans for the rental real estates in the next Medium-Term Management Plan?**

**The economic environment could make it difficult to sell real estates. In that case, you could be forced to hold off on new procurement. What are your thoughts on the timing of real estate sales?**

[A]

- We would like to increase our inventory of rental real estates a little more.
- The timing of real estate sales will be based on an evaluation of conditions.
- As part of the process of developing real estate, we always work to avoid real estates that would be unsellable in a down economy.

**●About domestic logistics facility development:**

[Q4]

**You are investing aggressively in the development of logistics facilities.**

**Recently there was an article in the newspaper about an investment property in Nagareyama City,**

**Chiba Prefecture. It would seem that the procurement environment has become difficult as land prices continue to rise. Can you talk about your procurement strategy? In what areas will you look at and what measures will you apply toward securing quality land?**

[A]

- Without a doubt we are now seeing a development boom for logistics facilities and it has become extremely difficult to procure land through general bidding.
- However, we have knowhow from years of experience in urban development and housing complex development, and we have numerous employees with vast experience from past projects.
- Instead of procuring land at the stage of logistics facility construction, getting involved from the development stage enables us to procure quality land while controlling costs.

**●About overseas logistics facilities:**

[Q5]

**The logistics industry is seeing the globalization of 3PL and value chains, and foreign competitors have secured a significant portion of that demand. I would think that the same kind of business development is applicable to your company. Can you tell us about your current progress and approach?**

[A]

- Currently we are making some efforts toward the global development of our logistics facilities business and moving forward we hope to accelerate these efforts.
- However, our logistics facilities are primarily the BTS type, which involves conducting development according to the needs of the tenant. As such, we cannot advance our overseas expansion at the same speed as our overseas rivals but we do expect to see some growth during the next Medium-Term Management Plan.

**●About overseas business:**

[Q6]

**Your target is net sales of 500 billion yen for your overseas business. Can you tell us about your thoughts on risks related to overseas business, core investment areas, and what you see as the timing for reaping a profit?**

[A]

- As for the area, we expect significant weight to be placed on the U.S.A. Other areas will include Asia and Australia.
- From the perspective of risk measures, our present philosophy is to avoid retaining long-term properties in order to sell off and begin reaping benefits as soon as possible.
- Every business involves risks and we cannot conduct business overseas by fearing risks. We want to

carefully select areas and choose businesses at which Daiwa House can be successful. We will develop business without fearing risks.

- There is a possibility that overseas business will become a core business for us and so we will continue expanding our capabilities while carefully analyzing conditions as we work to develop business.
- At present, the business fields in which we are involved vary vastly depending on the area. We are working to validate risks while assessing whether or not in our current capacity we have the ability to conduct business in specific areas.

**●About concession business:**

[Q7]

**I want to ask about the concessions business.**

**The management company for Kansai International Airport and Osaka International Airport has been selected and there is the possibility that similar projects could be developed for rural airports and roads. In particular, with your company already involved in regional hotel management and having numerous sales offices in rural areas, there appears to be strong potential for the development of a concessions business in rural areas. Can you tell us your thoughts on this type of business?**

[A]

- We do have a strong interest in Kansai International Airport and roadside concessions businesses but currently our company lacks the operational capacity for such expansion. Full-scale business development will require that we study up on these areas.
- We have numerous offices in rural areas and in addition to the Commercial Facilities, Logistics, Business & Corporate Facilities Business and housing-related businesses, our affiliates are involved in a truly vast range of businesses. Such a business is surely possible if we utilize our collective strengths and we certainly will welcome such a challenge if the timing is right.

[Q8]

**You are not planning on involvement in the airport concessions business despite significant interest but your company is operating parking lots at sites like Osaka Castle Park and Tennoji Park.**

**If, for example, the PFI business between Daiwa House and Daiwa Lease produces income in the range of several billion yen, there would seem to be potential for growing this into a 10 billion yen business that is on the same level as the Single-Family Houses Business. Can you tell us your thoughts on this subject?**

[A]

- We operate parking lots at Osaka Castle Park and Tennoji Park but this is a far cry from 10 billion yen in income.

- However, we will continue to aggressively develop businesses as part of our mission of "co-creating value for individuals, communities, and people's lifestyles" in order to make our customers happy.

**●About D/E ratio:**

[Q9]

**Regarding your approach to leverage, it would seem that instead of focusing on a D/E ratio of 0.5, even a ratio of 0.65 or 0.7 would open up new possibilities in terms of growing income. What are your thoughts on this subject?**

[A]

- We do not view the D/E ratio of 0.5 as an ironclad rule but as a warning sign.
- There is always the possibility of the D/E ratio exceeding 0.5 temporarily if we encounter a good property. We believe we would suffer greater losses by avoiding investment opportunities by focusing too heavily on a D/E ratio of 0.5.
- We are planning on net income of 154 billion yen this fiscal year and even after distributing dividends we will add net assets above 100 billion yen. This would result in the ability to increase our debt balance by 50 billion yen.
- Also, except for some major unforeseeable event, operating income of 240 billion yen will result in significant operating cash flow.
- The 4th Medium-Term Management Plan outlines a three-year investment amount of 770 billion yen. We feel that operating cash flow and an expanded debt balance created by the increase in net assets is more than sufficient for conducting this level of investments.

**●About corporate governance/interlocking stock ownership:**

[Q10]

**Please tell us about your current approach to interlocking stock ownership.**

[A]

- Listed shares of interlocking stock held by the Company as of the end of March 2015 consisted of 98 issues with a book value of 56.7 billion yen and a market value of 178.8 billion yen. As of the end of September 2015, this consisted of 97 issues with a book value of 54.8 billion yen and a market value of 156.0 billion yen. All shares of one issue have been completely sold.
- We conducted a review of interlocking stocks and provided feedback to the departments that originally proposed stock acquisition. We have identified 20 issues based on our evaluation of relevance and currently are taking action to sell these issues. This fiscal year, we already have begun the partial selloff.
- The book value of the 20 issues planned for sale was 3.8 billion yen as of the end of September.
- The Finance Department will gradually conduct meetings with the relevant companies to provide explanations so the selloff of these issues is likely to occur next fiscal year or the fiscal year after that.

**●About corporate governance/corporate auditor system:**

[Q11]

**Your company employs the corporate auditor system. Can you explain the reasons why you chose this format as opposed to the committee system?**

[A]

- As a company that practices the corporate auditor system, the corporate auditors and the Audit & Supervisory board supervise and monitor the execution of operations conducted by directors and executive officers. Furthermore, two outside directors and four outside corporate auditors serve to elevate management supervisory and monitoring functions.
- We continue to practice the corporate auditor system because this system is functioning properly and at present we can find no reason to change to a committee system.

End

**Disclaimer:**

This English translation has been prepared for general reference purposes only. The Company shall not be responsible for any consequence resulting from the use of the English translation in place of the original Japanese text. In any legal matter, readers should refer to and rely upon the original Japanese text.

**Notes regarding forward-looking statements:**

Forecasts are based on assumptions in light of the information available as of the date of announcement of this material and the factors of uncertainty that may possibly impact the future results of operation. These statements do not mean that the Company pledges to realize such statements. Actual results may differ significantly from those presented herein as a consequence of numerous factors such as the financial market, economic conditions, competitor situations and fluctuations in land prices.