Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)

at Announcement of Financial Results for FY2017 1Q

(For the 3 months from April 1, 2017 to June 30, 2017)

Date & time: From 17:00 to 18:00, Tuesday, August 8, 2017

Presenters: Takeshi Kosokabe, Representative Director, Senior Managing Executive Officer and CFO

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

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●About the Monthly Orders

[Q1]

Regarding the status of monthly orders through July, can you tell us about trends in orders received for the three businesses you have positioned as growth drivers?

[A]

- There has been no particularly significant change in orders received environments for each business.

- Although there are monthly fluctuations, we believe cumulative figures for Rental Housing's orders received between April and July (+1% YoY) reflect our current view of the market.

- Among Commercial Facilities, facility demand is expanding for non-roadside stores, including business hotels, educational facilities, and medical and nursing care facilities. In particular, orders received for business hotels are firm and we believe this trend will continue for some time.

- Logistics facilities continue to represent the mainstay of orders received for the Construction Business. However, orders for plants and offices are also increasing. Our forecast for the full year is +3% year on year and, for the first half, we are planning for

+23% year on year due to the inclusion of sales to Daiwa Hose REIT. As such, orders received are currently outperforming forecasts.

<u>●About the Cost-of-Sales Ratio Improvement</u>

[Q2]

Can you tell us about cost-of-sales ratio improvement factors and future forecasts?
(Reference: Financial Highlights: p. 2 "Summary of Account Settlement in FY2017 1Q: Overview")

[A]

- Because the orders received environment was favorable. Although there are some concerns of rising labor costs due to construction related to the 2020 Tokyo Olympic and Paralympic Games, we anticipate the current environment will continue for the next 1-2 years so we believe we expect being able to secure a certain gross margin ratio.

<u>●About the Rental Housing Business</u>

[Q3]

The gross profit ratio is declining for rental management in the Rental Housing Business. Can you tell us about the factors behind this decline?
Also, rental housing occupancy rates are declining somewhat. Is this related to the decline in the gross profit ratio?
(Reference: Financial Highlights: p. 8 "Business Segment Information (2)" and p. 16 "Management of rental housing units and occupancy rates")

[A]

- We are working towards cost reductions through the leveling of construction as we aim to improve the gross profit ratio for construction contracts. At the same time, newly constructed properties are completed in periods during which new resident activity is low. As such, occupancy rates are down slightly, which is in turn one of the factors driving down the gross profit ratio for rental management.

- This is impacted by the indemnity period activation timing. After completion of a property, an indemnity period of a certain length is established to allow for tenant soliciting activities. During this period, all earned rent is treated as revenue but due to the same reason noted above, occupancy rates are down so this drives down the gross profit ratio. Regarding occupancy rates for March of next year, we are expecting this to recover to the 97% range, which is on par with the End of March 2017.

●About the Logistics, Business and Corporate Facilities Business

[Q4]

Regarding the sales of development properties by the Logistics, Business and Corporate Facilities, the gross profit ratio for the first quarter is 44.1%, a significant improvement of 17.0% compared to the previous year. Can you tell us the reason for this improvement? Also, do you have benchmark or goal figures for gross profit ratio?

(Reference: Financial Highlights: p. 8 “Business Segment Information (2)”)

[A]

- The gross profit ratio for sales of development properties also varies depending on factors such as the timing of property development and the number of years retained.

- During the previous year, the gross profit ratio was lower than normal because we sold D Project Ariake I immediately upon completion.

- Our general goal is to secure a gross profit ratio of 20% and higher.

[Q5]

Regarding logistics facilities, it would appear that it is becoming more difficult to secure yield due to factors such as rising land acquisition costs and construction costs. What is your view on this and what do you view as your bottom line for yield?

[A]

- Although this varies depending on the area, for logistics facilities we develop moving forward, we want to secure a NOI yield of 6% and higher as of the development phase.

[Q6]

There are reports that you will engage in the development of offices. Can you please provide a comment on this?

[A]

- At present, we have begun working on a development in Nishi-Shinjuku but we are not considering aggressive engagement in the development of offices.

●About the Investment Plans

[Q7]

Regarding the progress of investment plans, compared to last year it appears that your investment pace has slowed down. Can you tell us your future forecasts?

(Reference: Financial Highlights: p. 13 "Status of Investment Plan")

[A]

- As usual, there is an abundance of potential investment projects for consideration and there are multiple projects for the second quarter and beyond for which payment decisions have already been made. Looking at the full year, we think investment plans are progressing smoothly.

●About Other Businesses

[Q8]

About Overseas Business, can you tell us the status of operations, first quarter operating income results, and full-year forecasts by area?

(Reference: Financial Highlights: p. 17 "Overseas Business")

[A]

- The results and forecasts for operating income for each area are as indicated below.

(¥ billion)	FY2017 1Q (Results)	FY2017 (Plan)
China	0.3	2.1
U.S	0.2	3.0
Australia	0.0	1.0
ASEAN	0.0	1.9
Other areas	-0.6	2.0
Total	0.0	10.0

- In China, we are selling units at three condominiums for sale in Dalian, Wuxi, Changzhou. We believe sales prices and progress rate are favorable for all three properties.
- In the U.S., we are conducting the development of rental housing. We make a major investment in the project secured by Lincoln Property Company and the project is advancing with Lincoln Property Company mainly conducting leasing. Occupancy rates are all favorable at over 90% and we are planning to sell one property this fiscal year.
- In Australia, we are selling units for two condominiums for sale in a suburb of Sydney.

The properties scheduled for construction completion this fiscal year are going smoothly and are nearly sold out.

- In the ASEAN, we are engaged in a wide variety of business, including the development of industrial parks, serviced apartment development, and the acquisition of logistics facilities.

- Regarding other areas, in Qatar a large-scale project received by Fujita Corporation has been incorporated into profit plans for this year.

[Q9]

Can you provide a breakdown of major earnings from Other Businesses?

[A]

FY2017 1Q (Results) (¥ billion)	Net sales	Operating Income
Construction Support Business (Logistics, home centers, etc.)	46.8	0.9
Environment and Energy Business	26.4	2.3
Financing Services (Credit sales, leases)	12.9	1.1
Health & Leisure (Resort hotels, sports clubs, etc.)	17.5	0.0
City Hotels	9.9	1.8

(End)