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

**at Announcement of Financial Results for FY2018 1Q**

**(For the fiscal year from April 1, 2018 to June 30, 2018)**

**Date & time: From 17:00 to 18:00, Wednesday, August 8, 2018**

**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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【Q1】

Could you explain the factors behind the deterioration in the gross profit ratio on construction under contract, and describe prospects for the near future?

(Reference) Financial Highlights: p8 “Business Segment Information (2)”

【A】

・In our Single-Family Houses Business and Rental Housing Business, the direct cost of sales ratio remains virtually unchanged from the previous year, but whereas indirect costs have been rising due to increases in labor costs relating to both construction and design, sales have declined, and thus the indirect cost of sales ratio has worsened. Normally, the deterioration in the profit rate is mitigated by sales for the second quarter, and this is expected to be the case in the current fiscal year, too.

・In our Condominiums Business, the gross profit ratio differs from one project to another, and the profit for the current term is within our projected range.

・In our Logistics, Business and Corporate Facilities Business, the gross profit ratio for the Group deteriorated by 4.3 percentage points from the previous year, but the cost of sales ratio for Daiwa House Industry on a non-consolidated basis has worsened by 7.8 points. Broadly speaking, this can be attributed to two factors.

The first factor is that the proportion of total sales accounted for by the percentage of completion method has increased. The percentage of completion basis for construction is recorded as sales based on performance budgeting, and thus the cost percentage tends to deteriorate as the percentage of sales on a completion basis increase. For the current business term, sales recorded on a percentage of completion basis have increased by approximately ¥30 billion year on year. As costs are adjusted upon completion of a project to reflect the actual costs incurred, an improvement of two or three percent is normally seen, and thus we expect an improvement in the cost to sales ratio.

The second factor is the existence of projects with a poor cost to sales ratio among our total number of large-scale projects. For the previous fiscal year, we recorded a number of highly profitable projects, but for the current term the cost to sales ratio on some projects has fallen. However, the majority of unprofitable projects were orders received from SPC, and this factor was already taken into account in our sales projections. Projects for which orders have been received in the second quarter of this term and subsequently have been carefully selected taking the cost to sales ratio into account, and we believe we are on track to achieve the 16.1 percent gross profit ratio announced in our forecasts for the full term.

The percentage of completion method is expected to have a much greater impact on the non-consolidated sales and gross profit of Daiwa House Industry for the current term—at ¥64.1 billion and ¥11.5 billion, respectively than the figures for the previous term, which were ¥8.2 billion and ¥7.8 billion, respectively.

・With regard to labor costs and materials costs, in our Single-Family Houses Business and Rental Housing Business, labor costs are relatively insignificant, as we employ prefabricated construction methods. In our Logistics, Business and Corporate Facilities Business, both labor and materials costs are following an uptrend compared with prior years, but we are able to compensate for these increases through higher selling prices. In our Commercial Facilities Business, we have been receiving orders carrying a favorable cost to sales ratio, and this business segment is expected to remain competitive.

【Q2】

Could you describe the recent trend in orders, including those received in July?

【A】

・There have been no particular changes in the orders situation for any of our business segments.

・In the housing segment, there has been no last-minute rush to place orders ahead of the anticipated increase in the consumption tax, and the overall business environment has not changed substantially. The situation remains one in which there are few incentives for customers to commit to purchasing a home.

・Regarding our Rental Housing Business, the impact of negative media reports is weakening, but financial institutions continue to tighten lending conditions, and other negative factors continue to affect the mortgage loan environment, such as fear of an insufficient number of buyer/tenant applicants, and subleasing issues.

・In our Commercial Facilities Business, we have been enjoying continued good business in the fields of hotels, offices, logistics facilities, car dealerships, drugstores, and medical and nursing treatment facilities. The ratio of sales of stores to total sales has fallen below the forty percent mark. We expect this tendency to persist for a while longer.

・In our Logistics, Business and Corporate Facilities Business, we continue to receive favorable volumes of orders, particularly for logistics facilities, as well as factories and offices.

【Q3】

With regard to your overseas operations, could you give a breakdown of operating conditions by area and outline the segment's first-quarter business performance?

(Reference) Financial Highlights: p17 “Overseas Business / Sales status of condominium for sale development”

【A】

・In our US operations, we have been engaged in the rental housing development business, and the sale of one project had been scheduled for within the current term. This sale in fact was completed in July, and our operations in the United States are proceeding as planned.

・In China, we have been selling condominium units in three projects in Dalian, Wuxi, and Changzhou. In the Changzhou project, we began selling the remaining 98 units in July, and they have now already been sold. The sale of units in the Wuxi project is also proceeding smoothly. The business environment for our projects in China continues to be favorable with respect to price and pace of progression, and they should contribute to our profits for the current term.

・In Australia, we have put on sale units in two condominium projects in the suburbs of Sydney. In the TEMPO Project, which is scheduled for completion this term, all units have already been sold in advance, and these sales will contribute to our overall profits for the third quarter.

・Our operations in the ASEAN nations have failed to show a profit, but this situation is not greatly outside our projections. In addition to our industrial park development projects, we are currently pursuing operations across a wide range of business areas such as the development of serviced apartments and the acquisition of logistics facilities. In our Midtown Project—a condominium project in Vietnam—we have commenced selling units in Phase 2, and sales are proceeding smoothly.

・The table below shows a breakdown of worldwide operations by region.

（¥billion）

| FY2018 1Q | Sales | Operating Income |
|---|---|---|
| USA | 13.0 | 0.6 |
| China | 9.4 | 1.2 |
| Australia | 6.5 | 0.1 |
| ASEAN nations | 7.4 | 0 |
| Others | 18.1 | -0.3 |
| Total | 54.3 | 1.2 |

【Q4】

Roughly what percentage of your Rental Housing Business is accounted for by investment-oriented customers who buy land and buildings together as a package?

(Reference) Financial Highlights: p8 “Business Segment Information (2)”

【A】

・Out of the ¥108 billion total value of sales of the rental housing construction we have undertaken during the current term, the sale of land accounted for ¥5.3 billion. Consequently, investment-oriented customers who buy land and buildings together as a package amount to only about five percent of sales. We started up this type of sales as a new business model a few years ago, but it does not yet amount to much in terms of sales value.

【Q5】

How much has amortization of goodwill for the first quarter amounted to?

【A】

・For the current term, the first-quarter figure was ¥1.1 billion, compared with ¥900 million for the same period of the previous year. The ¥200 million difference arises from the posting of two months' worth of goodwill costs relating to the Rawson Group Pty Ltd.

【Q6】

The NOI yield on investment real estate is showing improvement. What are the causal factors here?

(Reference) Financial Highlights: p9 “Breakdown of Investment Real Estates”

【A】

・The total yield on real estate available for sale has improved from 6.1 percent to 6.4 percent this term. Regarding logistics facilities, the yield declined at the end of March 2018, and we sold high-yield properties to a REIT, but within the current term the operating ratio of multi-purpose logistics facilities has risen, thereby causing an improvement in the yield. In addition, with regard to rental housing, the operating ratio of Royal Parks Sasashima has risen and the yield has improved. Consequently, the NOI yield has improved as a result of an improved operating ratio for existing properties and progress in their depreciation.

【Q7】

What are the reasons for the ¥1 billion year-on-year decrease in operating income of your Other Businesses segment?

(Reference) Financial Highlights: p7 "Business Segment Information (1)"

【A】

・Year-on-year decreases in operating income of ¥800 million and ¥600 million, respectively, were posted by the environmental energy business and the resort hotels business.

【Q8】

The current environment for orders is unfavorable, but how do your current business performance forecasts for the full term compare with your initial plans? Also, could you give your thoughts regarding prospects for next term and beyond?

【A】

・In the Single-Family Houses Business, in the second half of this term we expect last-minute demand ahead of the raising of the consumption tax rate, and business should thus improve. In the Rental Housing Business, the current difficult order environment is likely to affect business performance next term.

・Our initial plans projected an operating income of ¥354 billion, and this should be achievable.

・Under the Group's Fifth Medium-Term Management Plan, we have projected approximately ¥100 billion worth of gain on sale of development properties per annum, but taking into account the current situation on the real estate market, and assuming a rising trend in interest rates, we are considering accelerating the pace of selloff of properties and recovery of invested funds from next term onward.

【Q9】

What is the current situation regarding the proportion of xevoΣ sales to total sales?

【A】

This term, sales of xevoΣ models account for 53.2 percent of all houses built under contract, an increase from 47.6 percent for the previous term.

【Q10】

You previously indicated that you would be increasing the value of properties sold next term and after. Will you also be investing more overseas?

【A】

・In the domestic market, we plan to decrease the amount of funds invested and to increase the recovery of costs, but even so, we do not envisage the value of recovered funds exceeding the value of investments.

・Domestic market investments will decrease, but on the other hand, we intend to increase investments in overseas markets.

【Q11】

What is the situation with Fujita's business performance for the term under review?

【A】

The company's sales were ¥114 billion, with operating income of ¥4.2 billion.

【Q12】

What level of profit does your Logistics, Business and Corporate Facilities Business enjoy upon receipt of orders?

【A】

The gross profit ratio on receipt of an order is 25-27 percent for Daiwa House Industry on a non-consolidated basis and 12 percent or more for Fujita.

(End)