


Together with Our Customers and Society



An aerial photograph of a city, likely Osaka, Japan, showing a dense urban landscape with various buildings, green spaces, and a large crane structure in the distance. The sky is clear and blue.

For the past fifty years  
the Daiwa House Group has worked  
closely together with its customers and society as a whole  
to create more enjoyable, more fulfilling living environments.  
Answering the needs of the times, we have designed  
living proposals in harmony with nature,  
and have constantly striven to offer  
products and services of true value to society.  
Over the next fifty years and beyond,  
the Daiwa House Group aims to further strengthen  
its bonds with all its stakeholders  
to achieve major strides in business growth  
and raise the Group's public profile.  
Our Group symbol – the Endless Heart –  
embodies the way we look at business, and at life.  
The Endless Heart is not just a corporate mark,  
it is a vivid visual representation of the determination  
that unites the roughly 35,000 staff  
of the Daiwa House Group.

anywhere





anytime



Daiwa House Group

三井住友

→

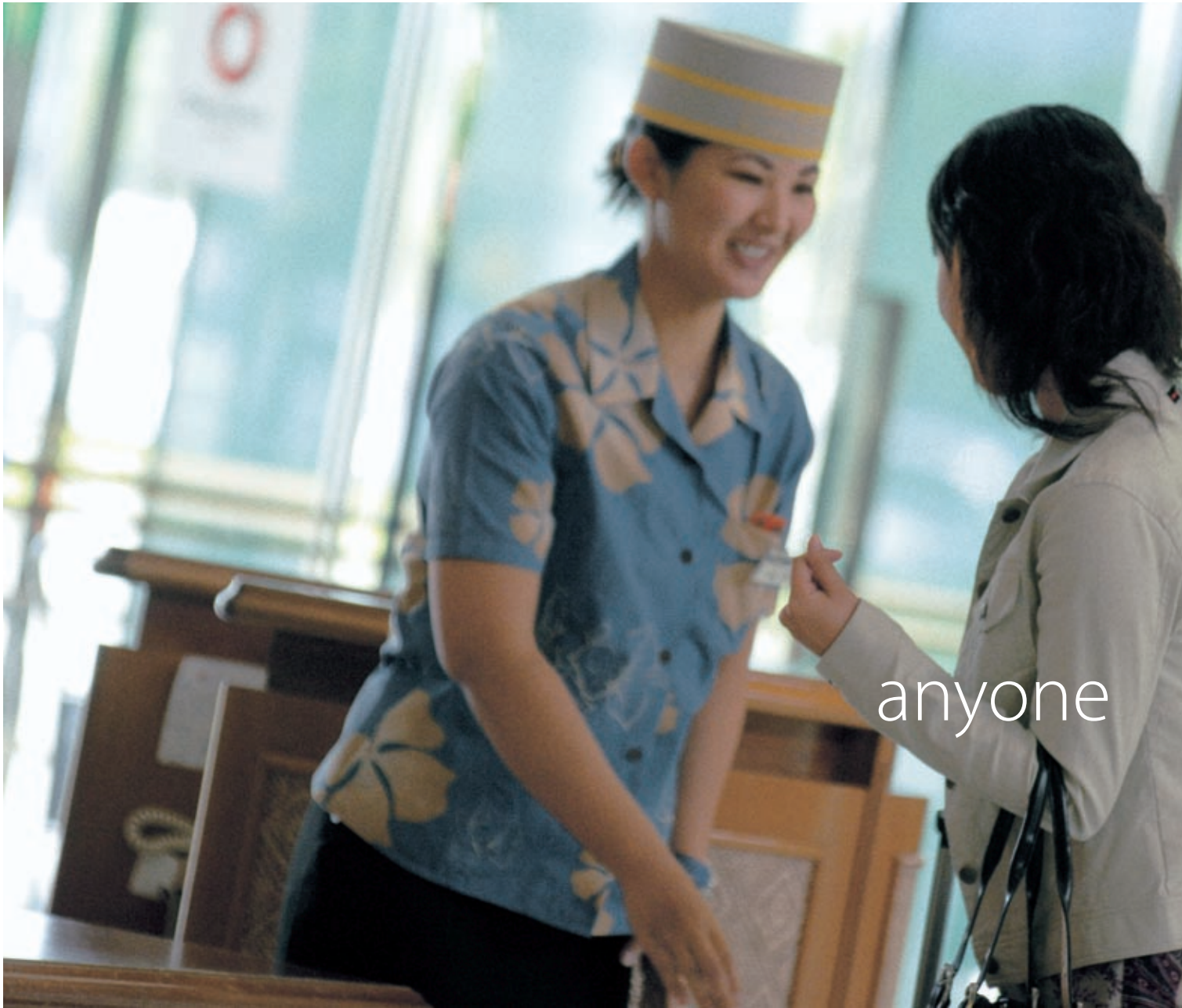
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歩行者  
自転車

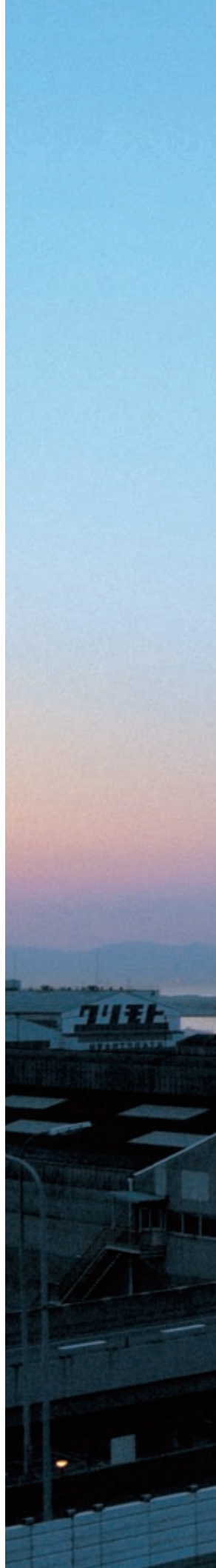
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CHUO-ODORI

禁止左折



anyone



Creating Together Supporting Each Other

# We Build Hearts





# Dear Stakeholders

## Building Everlasting Ties

Having marked the 50th anniversary in April 2005, the Daiwa House Group introduced a new Group management structure for the next 50 years as a group that co-creates value for individuals, communities, and peoples' lifestyles under its new Group symbol, "Endless Heart."

We are pleased to announce that the Group recorded increases in both sales and profit for the third consecutive term and its best performance ever. Consolidated sales were ¥1,528.9 billion, and net income was ¥45.1 billion. We would like to express our sincere gratitude to all shareholders for their continued support. We will be paying an annual dividend of ¥20 per share, including a commemorative dividend.

To expand its operations, Daiwa House Industry Co., Ltd. entered into a share exchange arrangements in fiscal 2006 with three listed Group companies: Daiwa Kosho Lease Co., Ltd., Daiwa Rakuda Industry Co., Ltd. and Daiwa Logistics Co., Ltd. (The three companies have become wholly-owned subsidiaries of Daiwa House Industry.) We also made Nippon Athletic Service Co., Ltd. a consolidated subsidiary. Through these measures, the Daiwa House Group its further bolstering Group management.

We will position this business year as the year in which we make a fresh start towards realizing the dream of Nobuo Ishibashi, the recently deceased founder of Daiwa House Industry, namely to create a Group with consolidated sales of ¥10 trillion in 2055, our 100th anniversary. We will move forward steadily to achieve the goals for fiscal 2007 (consolidated sales of ¥1,700 billion, recurring profit of ¥100 billion, and ROE of 9.0%) in our Medium-Term Management Plan "Challenge 2005."

Under the new Group management structure, the Daiwa House Group will continue its efforts to bolster the confidence and appreciation of society through sincere corporate activities, further develop its relationship with customers, and build a lasting bond with all stakeholders.



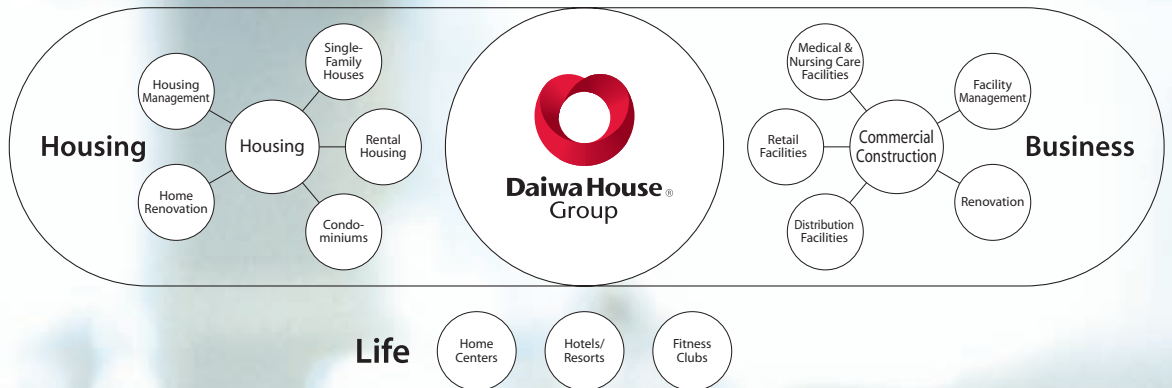
Takeo Higuchi  
Chairman and CEO

We are the



**Daiwa House**®  
Group

Daiwa House Group — working to co-create value for individuals, communities and people's lifestyles



Co-creating value for individuals, communities and people's lifestyles, the Daiwa House Group has three main business domains: Housing, Business, and Life. The Endless Heart symbol is shared by our five main Endless Heart businesses: Housing, Commercial Construction, Resort Hotel and Sports Life, Home Centers, and Other Businesses.



**Daiwa House**<sup>®</sup>  
Daiwa House Group

Daiwa House Industry Co., Ltd.  
Housing, Rental apartment buildings,  
Condominiums  
Home renovations,  
Retail and wholesale facilities  
General construction, Resort hotels



**Daiwa Lease**<sup>™</sup>  
Daiwa House Group

Daiwa Kosho Lease Co., Ltd.  
Prefabricated construction,  
Sale of model houses  
Commercial construction,  
Housing, Car rental



**Daiwa Rakuda**<sup>™</sup>  
Daiwa House Group

Daiwa Rakuda Industry Co., Ltd.  
Interior & exterior, Space systems  
Lease & rental, Insurance



**Daiwa Logistics**<sup>™</sup>  
Daiwa House Group

Daiwa Logistics Co., Ltd.  
Housing logistics services  
Logistics service systems for store operators  
Real estate



**Daiwa Living**<sup>™</sup>  
Daiwa House Group

Daiwa Living Co., Ltd.  
Management/operation of rental housing  
Subcontractor for renovation work  
Sale of goods, and insurance agency



**Daiwa Service**<sup>™</sup>  
Daiwa House Group

Daiwa Service Co., Ltd.  
Packing/transport of goods to be moved  
Management/building and repair of  
buildings, condominiums, etc.  
Manpower dispatching



**Daiwa Info.Service**<sup>™</sup>  
Daiwa House Group

Daiwa Information Service Co., Ltd.  
Lease and rental of real estate  
Operation of shopping centers



**Nihon Jyutaku Ryutu**<sup>™</sup>  
Daiwa House Group

Nihon Jyutaku Ryutu Co., Ltd.  
Buying/selling, sales agency  
and acquisition of real estate  
Real estate leasing, management  
and agency service  
Design and construction work  
Sale of trust beneficiary rights



**Daiwa Royal**<sup>™</sup>  
Daiwa House Group

Daiwa Royal Co., Ltd.  
Planning and consulting related to  
use of real estate  
Real estate management  
and agency service  
Operation of business hotels

Endless Heart



**Daiwa Renew**™  
Daiwa House Group

Daiwa House Renew Co., Ltd.

Specified manpower  
dispatch business  
for home renovation

**スポーツクラブNAS**

Daiwa House Group™

Nippon Athletic Service Co., Ltd.  
(Sports Club NAS)

Management and operation of sports clubs,  
tennis clubs, and sports schools

**ロイヤルホームセンター**

Daiwa House Group™

Royal Home Center Co., Ltd.

Selling of DIY equipment/household articles/  
interior/ pets/gardening goods, etc.



**Daiwa Energy**™  
Daiwa House Group

Daiwa Energy Co., Ltd.

ESCO business, Renovations,  
Environmental equipment business,  
Housing equipment business



**DAIWA ROYAL HOTELS**

Daiwa House Group™

Daiwa Resort Co., Ltd.  
(Daiwa Royal Hotels)

Management and operation of hotel,  
Golf and other resort facilities

**大和ハウス・リート・マネジメント**

Daiwa House Group™

Daiwa House REIT Management Co., Ltd.

Asset management

**シンクローラー**

Daiwa House Group™

Synchroller Co., Ltd.

Manufacturing of housing components



**Daiwa Estate**™  
Daiwa House Group

Daiwa Estate Co., Ltd.

Real estate agency service



Daiwa House Group™

Jukeikai Co., Ltd.  
(Neo Summit Yugawara)

Operation of health-management facilities  
for the elderly

**伸和エージェンシー**

Daiwa House Group™

Shinwa Agency Co., Ltd.

Ad agency  
General travel agency  
Domestic tourism business



**Daiwa House**®  
大和房屋集團

DH (Dalian) Administrative  
Consulting Center Co., Ltd.

Provision of outsourced  
administrative work  
Data input and software development

**大阪マルビル**

Daiwa House Group™

Osaka Marubiru Co., Ltd.

Operation of hotels, restaurants  
Lease and rental of real estate



**MEDIA TECH INC.**

Daiwa House Group™

Media Tech Inc.

Information processing services  
Online trading  
Network management contractor

# Companies

# Group Results Summary

As of March 31, 2006

## Consolidated Financial Highlights

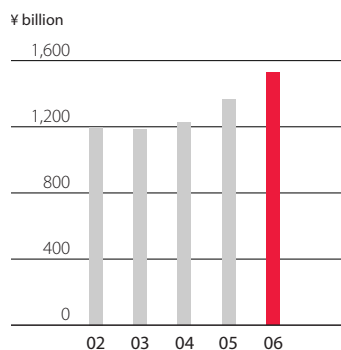
Daiwa House Industry Co., Ltd. and subsidiaries

Years ended March 31,	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Net sales	¥1,528,983	¥1,365,914	¥1,224,648	\$13,068,231
Operating income	80,072	67,849	59,661	684,376
Other income (expenses)	2,083	(4,741)	8,236	17,803
Net income	45,184	40,262	37,257	386,188
Per share of common stock (in yen and dollars)				
Basic net income	81.88	73.26	68.16	0.70
Shareholders' equity	1,053.37	959.08	902.32	9.00
Cash dividends applicable to the year	20.00	17.00	15.00	0.17
Total assets	1,475,197	1,358,807	1,087,658	12,608,521
Shareholders' equity	576,534	524,110	493,050	4,927,641
Return on equity (%)	8.21	7.92	7.63	
Return on asset (%)	3.19	3.29	3.41	
Equity ratio (%)	39.08	38.57	45.33	

Note: The U.S. dollar amounts represent translations of Japanese yen for convenience only at the approximate exchange rate on March 31, 2006 of ¥117 = U.S.\$1.

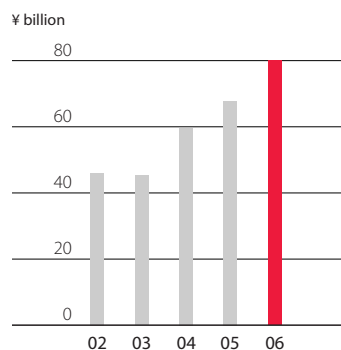
### Net Sales

¥1,528.9 billion



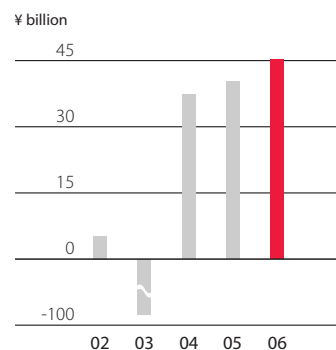
### Operating Income

¥80.0 billion



### Net Income

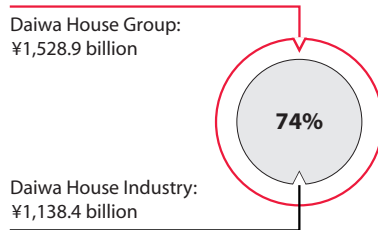
¥45.1 billion



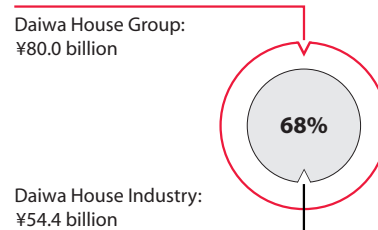
- The Group posted **record-high** sales and net income, and increased revenues and profit for the third consecutive term.
- Earnings per share came in at **¥81.88**, the highest level in 7 years, and we increased the dividend by ¥3 to **¥20**.
- Shareholders' equity jumped **10%** year-on-year on the leap in earnings, and the shareholders' equity ratio rose 0.5 percentage point to **39.1%**.
- Aggressive investments in land and buildings for sale, and business-use land pushed up total assets by **¥116.3 billion**.

## The Parent Company's Share of the Group Total

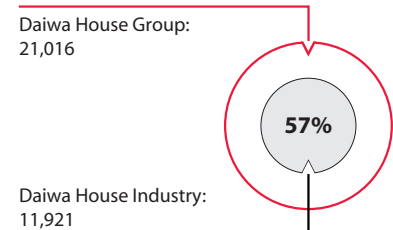
### Sales



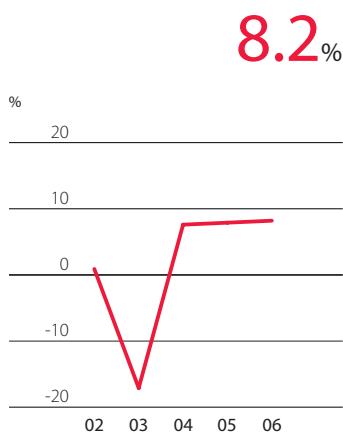
### Operating income



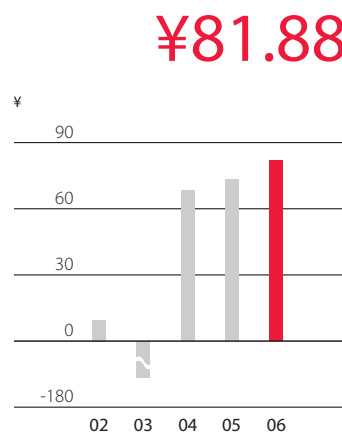
### Number of employees



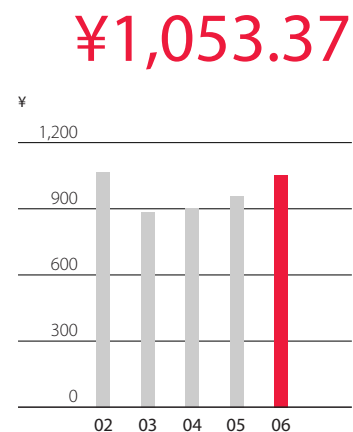
### ROE (Return on Equity)



### Net income per share



### Shareholders' equity per share



# Business Outline



**Daiwa House**  
Group

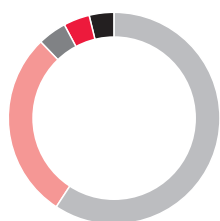


## Residential

The housing business is the core business of Daiwa House Group, accounting for 59.2% of all sales. During the term, sales in this business rose 6.4% year-on-year to ¥909.5 billion, and operating income rose 1.9% to ¥50.6 billion. The operating income margin decreased 0.2 percentage point year-on-year to 5.6%.

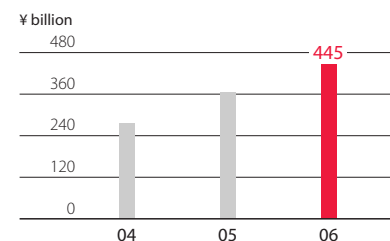
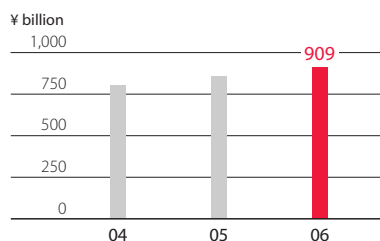
## Commercial Construction

Our second-largest business is commercial construction, accounting for 28.6% of total sales. During the term, sales rose 22.4% to ¥445.2 billion, operating income increased 44.3% to ¥39.4 billion, and the operating income margin increased 1.4 percentage point year-on-year to 8.9%.

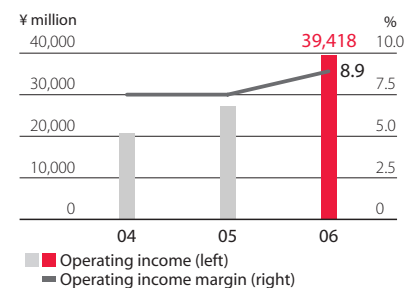
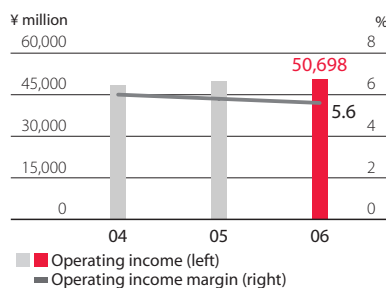


Residential	59.2%
Commercial Construction	28.6%
Resort Hotel and Spots Life Business	4.4%
Home Center Business	4.0%
Other Businesses	3.8%

### Sales



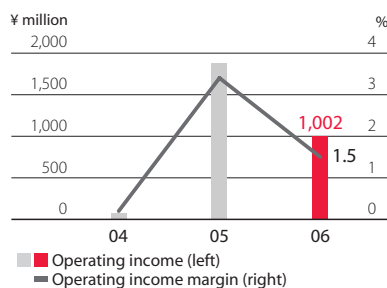
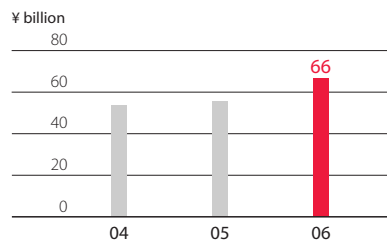
### Operating income/Operating income margin





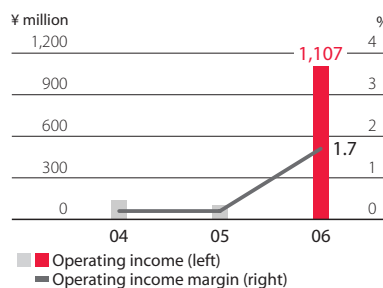
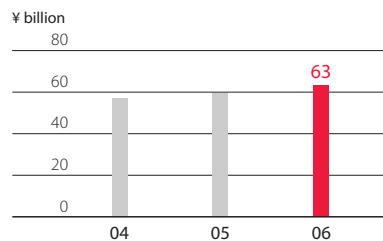
### Resort Hotel and Sports Life Business

This business accounts for 4.4% of total sales. Sales increased by 19.3% year-on-year to ¥66.4 billion during the term, reflecting the acquisition of Nippon Athletic Service Co., Ltd. as a consolidated subsidiary, but operating income fell 46.6% to ¥1.0 billion, and the operating income margin fell 1.9 percentage points to 1.5%.



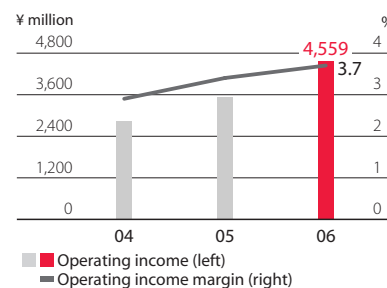
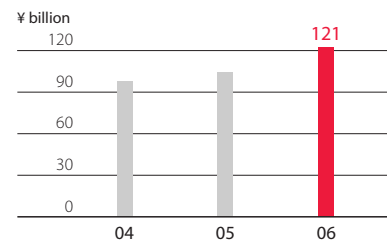
### Home Center Business

This business accounts for 4.0% of total sales. During the term, sales grew 6.9% year-on-year to ¥63.2 billion, and operating income rose approximately 10 times to ¥1.1 billion. The operating income margin rose 1.5 percentage point to 1.7%.



### Other Businesses

Other businesses account for 3.8% of total sales. Sales during the term rose 17.1% year-on-year to ¥121.9 billion. Operating income increased 29.0% to ¥4.5 billion, and the operating income margin rose 0.3 percentage point to 3.7%.



# Investor Information

As of March 31, 2006

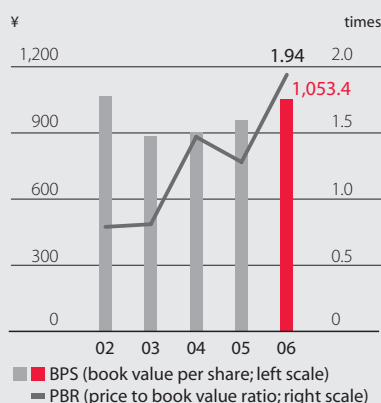
## Common Stock

¥110,120 million  
(US\$941,196 thousand)

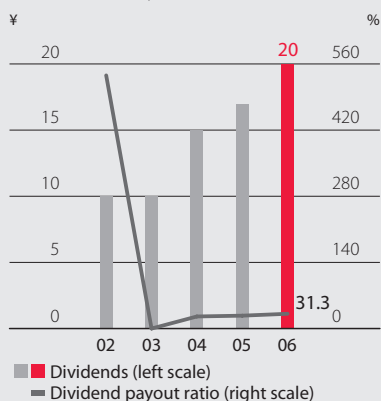
## Shares

Authorized 1,900,000,000  
Issued 550,664,416  
Number of shareholders 27,154

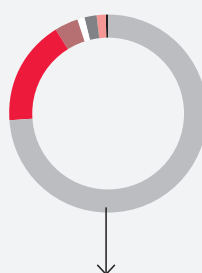
## BPS and PBR



## Dividends and dividend payout ratio (Daiwa House Industry, non-consolidated)



## Shareholdings by scale

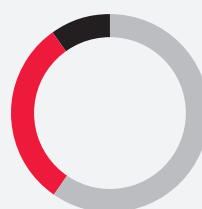


Scale	Shares	%
1 million or more	407,044,845	73.92
100 thousand or more	94,683,670	17.19
10 thousand or more	21,163,700	3.85
5 thousand or more	6,521,109	1.18
2 thousand or more	10,939,025	1.98
1 thousand or more	8,188,661	1.49
Less than 1 thousand	2,123,406	0.39

## Principal shareholders

Shareholder	Thousands of shares	Equity stake (%)
Japan Trustee Services Bank, Limited (trust account)	49,758	9.0
The Master Trust Bank of Japan, Ltd. (trust account)	32,605	5.9
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	13,196	2.4
Nippon Life Insurance Company	12,503	2.3
The Dai-ichi Mutual Life Insurance Company	11,065	2.0
The Chase Manhattan Bank NA, London	10,420	1.9
Sumitomo Mitsui Banking Corporation	10,000	1.8
The Chuo Mitsui Trust and Banking Company, Limited	9,499	1.7
Mizuho Corporate Bank, Ltd.	9,209	1.7
The Daiwa House Employee Shareholders' Association	8,654	1.6

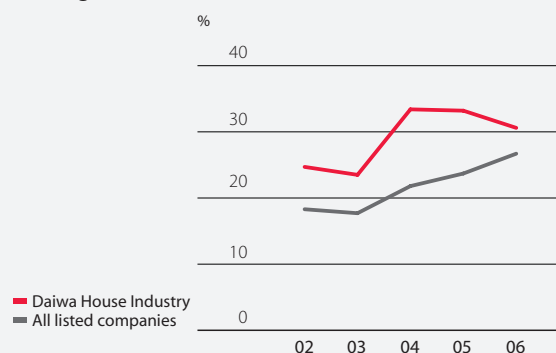
## Shareholdings by shareholders



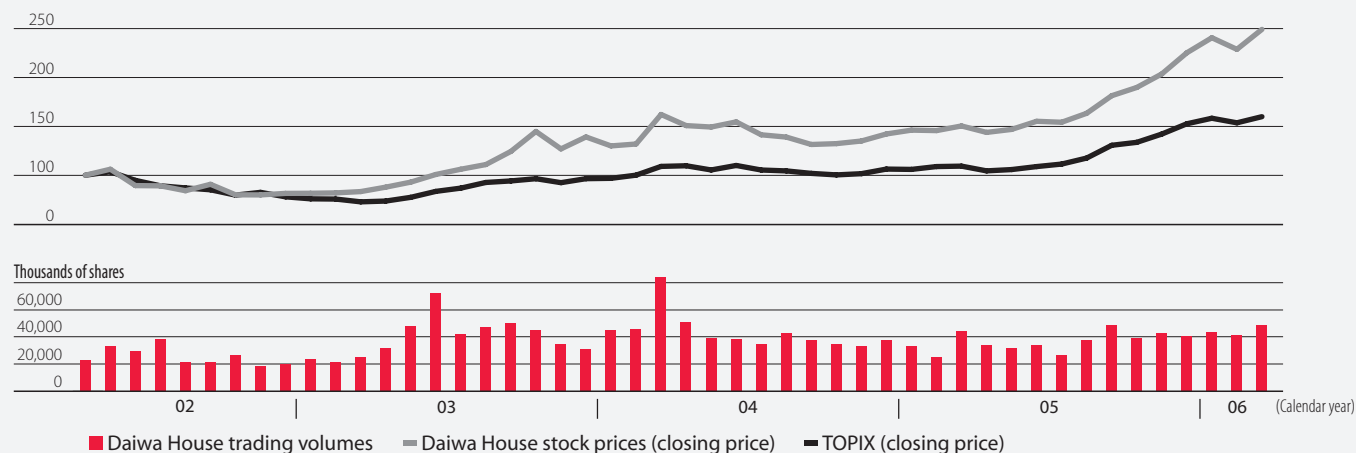
Shareholder Type	Percentage
Domestic corporations	59.58%
Overseas individuals and corporations	30.57%
Domestic individuals and others	9.85%

Region	Percentage
Europe	56.76%
USA & Canada	32.07%
Asia (excluding Japan)	7.80%
Oceania & others	3.37%

## Foreign shareholdings over time



Indices of Daiwa House's stock price and trading volumes on the Tokyo Stock Exchange (Base month: April 2002=100)



## Daiwa House Industry Co., Ltd.

### Head office

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Phone: +81-6-6346-2111 Fax: +81-6-6342-1399

## Contact

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Daiwa House Industry Co., Ltd.

Finance Department

Phone: +81-6-6342-1400 Fax: +81-6-6342-1419

e-mail: [zaimu@daiwahouse.jp](mailto:zaimu@daiwahouse.jp)

## Daiwa House website

Daiwa House offers information on its latest corporate performance, annual report etc. on our website.

Daiwa House Group: <http://www.daiwahouse.com/English>

Daiwa House Industry: <http://www.daiwahouse.co.jp/English>

## Term-end

March 31 every year

## Ordinary general meeting of shareholders

Held in Osaka by the end of June, which is within 3 months from the day following the balance sheet date for each year

## Administrator of shareholders' register

The Chuo Mitsui Trust and Banking Co., Ltd.

3-33-1 Shiba, Minato-ku, Tokyo

## Securities traded

Tokyo and Osaka stock exchanges

## Securities code

1925



# Vision

## Corporate Messages

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44	Corporate Management



35,000 Hearts

# — One Vision

The Daiwa House Group is made up of the aspirations of 35,000 employees.







Daiwa House Industry Co., Ltd.

**Takeo Higuchi** (middle)  
*Chairman and CEO*

**Kenji Murakami** (left)  
*President and COO*

**Tetsuji Ogawa** (right)  
*Executive Vice President and CFO*

## Message from the CEO



Takeo Higuchi

# Towards to a Brighter Tomorrow

In 2006, Japan reached a turning point, ahead of other countries.

“Endless Heart,” the new symbol of the Daiwa House Group, represents the Group’s heart — a big heart filled with courage and passion that will open the way to a new future for Japanese society. “Endless Heart” denotes the mission of the Daiwa House Group, which is to achieve great dreams together with our customers, building emotional ties with them and strengthening bonds.

Since the founding of the Daiwa House Industry Co., Ltd., we have been adding new value to the Japanese housing industry as a pioneer and leader in the industry. We have built about 1.2 million houses and expanded into commercial construction, the resort hotel business, the home center business, and distribution, to become a multi-business synergy enterprise enriching people’s lifestyles.

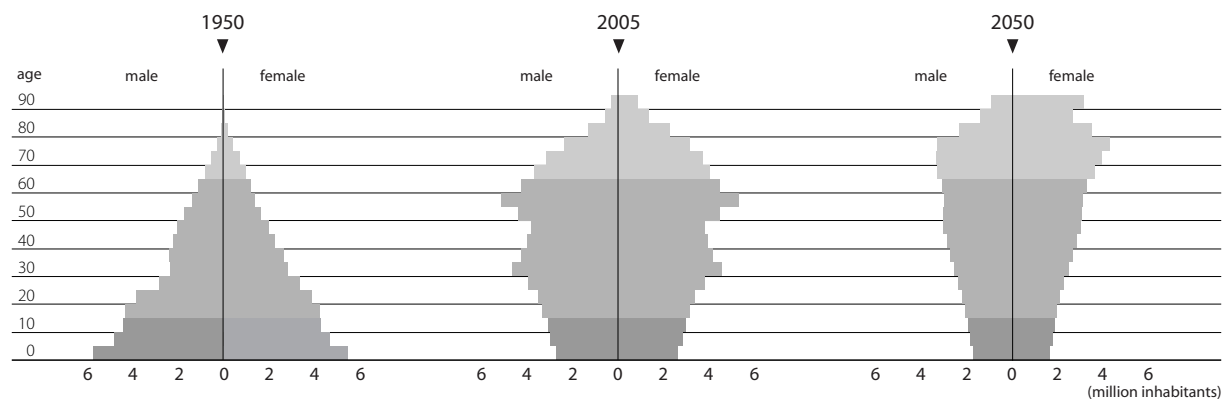
Japanese society has reached a crucial turning point: in 2005, the nation’s population declined for the first time since the present Ministry of Health, Labor and Welfare began collecting demographic statistics in 1899. The census has revealed that the ratio of elderly people at least 65 years old to the total population has reached 21.0%, the highest in the world. In contrast, the ratio of young people under 15 years old has fallen to 13.6%, the lowest.

The decrease in the birth rate and the acceleration in demographic aging mean that the environment surrounding us has changed dramatically. A new society is at hand, and it is not an extension of past societies. People’s values and their attitudes, from birth to old age, about what form a family should take, how they should work, and how they should live later in life are changing significantly.

To create a society in which everyone lives an emotionally rich life, pursuing their dreams, we seek to develop emotional ties with each customer, create new value together, and help them realize their dreams.

With the “Endless Heart,” our symbol, at the core of our management principles, we will endeavor to create more value through a concerted effort as a Group. In doing so, we hope to build a society in which everyone can live a fulfilled life.

Changes in Japan’s population by age



# Our Mission for a New Japanese Society

## Creating global value in Japanese housing industry

Since the time of our foundation, we have developed prefabricated housing based on its concept of the industrialization of construction. We have consistently added new value in the Japanese housing industry in a pioneering spirit. We cherish the concept of co-creating a brighter future as our invariable principle and as a driving force for building a new society. Consequently, we are tied to society through the construction business and with people living in society through lifestyle services.

As a group that co-creates value for individuals, communities, and people’s lifestyles, we will respond seriously to the challenges that Japan is facing in the business domains of “housing,” “business,” and “life.” In doing so, we will seek to co-create value with individual citizens for their entire lives and new social value to develop a prosperous Japanese society.

Our mission in the “housing” domain is to add new value to Japanese housing from a global perspective.

In terms of quantity, Japanese have enough houses. The ratio of housing stock to the total number of households is about 115%. But there are multifarious quality issues. Living areas are smaller than they are in the United States and Europe. The percentage of earthquake-resistant houses is only about 75%, a low percentage for an earthquake-prone country like Japan. The issues associated with the rapidly aging society need to be addressed as well.

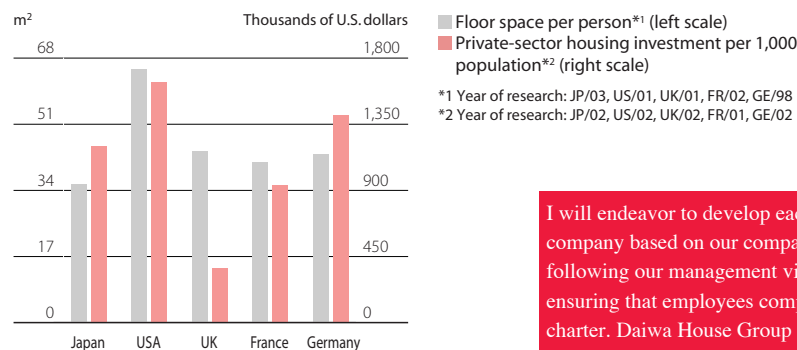
With new housing construction starts set to fall below one million units per year with the decline in population, we need to develop a strategy with insight into both flow and stock markets.

To create a good stock-oriented society, we aim to provide houses that can endure 100 years. For that purpose, we are developing a number of technologies and features, including vibration-damping and earthquake-absorbing and resistant technologies, environmental load reduction, and harmony with the streetscape. The market value of typical Japanese wooden houses falls to almost zero 20 years after construction.

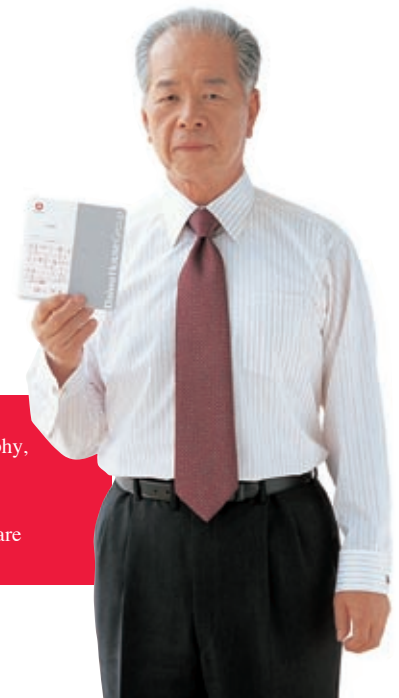
To extend the life of a house, we need to develop a quality resale housing market.

Reforming Japanese housing values through business is our mission as a housing industry pioneer.

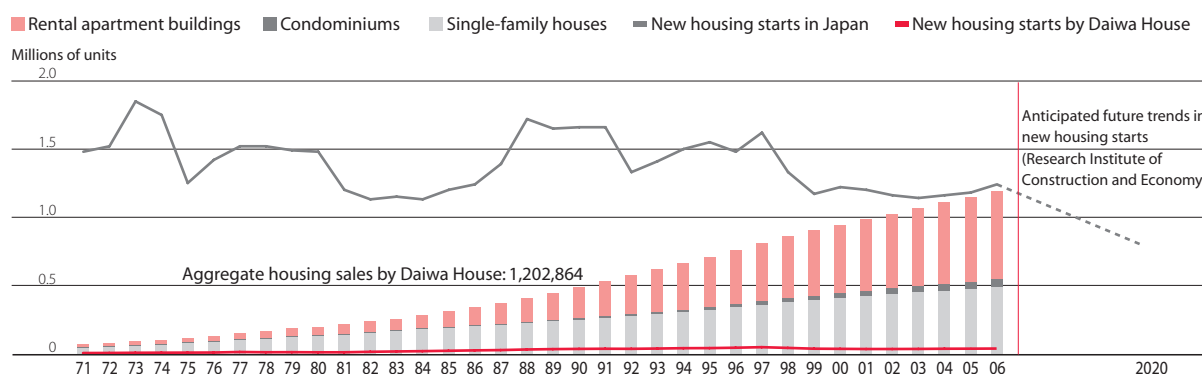
Average housing space and investment



I will endeavor to develop each Group company based on our company philosophy, following our management vision, and ensuring that employees comply with the charter. Daiwa House Group companies are pledged to contribute to society.



### Total housing starts and Daiwa House aggregate sales



### Creating new value in “business” and “life”

Our mission in the domain of “business” is to co-create shining communities together with local society and residents.

In commercial construction, we support our clients’ business through quality asset management services for landowners based on the needs of local communities and a nationwide land information network that has earned their trust. We are also creating new value for communities through our sophisticated and specialized business and advanced consulting capabilities. Our abilities are demonstrated in our initiatives in Hazard Analysis Critical Control Point (HACCP) for safety at food processing, the provision of logistics solutions supporting corporate distribution strategies, and the study of the lifestyles of elderly people at the Silver Age Research Center.

The vitality of a community is generated when each person lives or works there with a shining heart and enthusiasm. We will create new and vital communities in cooperation with local societies, developing a prosperous Japanese society.

Our mission in the “life” domain is to build emotional ties with people, strengthening bonds, and allowing people to live a meaningful and emotionally rich life.

Through ties with their families, spouses, associates and friends, people find joy in living together, are satisfied in their daily lives, and live by their own values. We believe that a meaningful life will be developed among these ties and a heart-to-heart understanding among people.

Japanese society has become materially affluent with sufficient industrial products and social capital after years of economic growth. But having put priority on economic growth, Japanese may not have fully considered the purposes in life of individual citizens.

Having been considering housing and communities, and creating value in cooperation with society, we believe we can help people live a meaningful life through our operations in the “life” domain.

## Main Improvements and Group Management Structure

	Up to FY2004	FY2005 and after
<b>Management</b>	<ul style="list-style-type: none"> <li>• Introduction of in-house entrepreneur system</li> <li>• Creation of Customer Satisfaction Department</li> <li>• Strengthened efforts to promote CSR</li> <li>• Establishment of Quality Assurance Department</li> <li>• Development of the Company Code of Ethics and Group Behavioral Guidelines</li> </ul>	<ul style="list-style-type: none"> <li>• Formulation of new management vision and new symbol known as "Endless Heart"</li> <li>• Drafting of Medium-Term Management Plan "Challenge 2005"</li> <li>• Drafting of environmental vision, "Environment Action Plan 2005"</li> <li>• Abolishing of retirement benefits for directors</li> <li>• Setting up the CSR Office</li> <li>• Announcement of a basic policy related to the building of an internal control system</li> <li>• Reorganization of the Risk Management Committee to the Compliance and Risk Management Committee</li> <li>• Established the Internal Audit Office</li> <li>• Introduction of a branch manager "volunteering" (in-house recruitment) system, a free agent (FA) system, and a workplace selection program</li> </ul>
<b>Operations</b>	<ul style="list-style-type: none"> <li>• Strengthening consulting functions in commercial construction; promotion of development of complex-type and large-scale commercial facilities; strengthening investment in real-estate development</li> <li>• Introduction of customer asset value assessment system</li> <li>• Conversion of Daiwa Kosho Lease Co., Ltd. into a consolidated subsidiary</li> <li>• Making Osaka Marubiru Co., Ltd. a consolidated subsidiary</li> <li>• Meeting standards in the Revised Building Standard Law to prevent sick-building syndrome</li> </ul>	<ul style="list-style-type: none"> <li>• Daiwa House Industry entered into a business merger with Daiwa Kosho Lease Co., Ltd., Daiwa Rakuda Industry Co., Ltd., and Daiwa Logistics Co., Ltd. (The three companies have become wholly-owned subsidiaries through share exchange arrangements.)</li> <li>• Making Nippon Athletic Service Co., Ltd. a consolidated subsidiary</li> <li>• Launch of sales of "Wind-Blown Whale" 10kw wind power generation facilities</li> <li>• Establishment of an Urban Planning Institute, which supports the joint development and redevelopment of condominiums</li> <li>• Partnership with Baoye Group Co., Ltd. for joint technical development of industrialized housing</li> <li>• Achievement of zero-emissions at new-build housing sites</li> <li>• Establishment of Daiwa House REIT Management Co., Ltd.</li> </ul>
<b>Financial position</b>	<ul style="list-style-type: none"> <li>• Began to charge lump-sum amortizations of unrecognized actuarial gains and losses on retirement benefits when incurred</li> <li>• Return of substitution part of the employees' pension fund assets to the government</li> <li>• Posted an extraordinary loss of ¥212.7 billion in fiscal 2002, including depreciation on fixed assets of ¥75.2 billion and a loss on valuation of land for sale of ¥22.9 billion</li> </ul>	<ul style="list-style-type: none"> <li>• Increases both in sales and profit for the third consecutive year; posting of record consolidated sales, recurring income, and net income</li> <li>• Plans for total investment of ¥150 billion mainly in real-estate development and M&amp;A over the next three years</li> <li>• Emphasis on cash flow, aiming to reach an ROE of 9% in fiscal 2007</li> </ul>



## Together with Society — Shining “Endless Heart”

Thank you for reading our explanation about the Daiwa House Group’s dream. How do you feel about it?

As Japan enters a new era, it is the dreams and new values of individuals that will chart the course towards a brighter future. To continue to grow over the next 50 years, our Group will make a concerted effort to realize its concept of “Endless Heart,” a symbol for the Daiwa House Group, so that it continues to shine in society. To develop the “Endless Heart” as a socially recognized symbol, we really need human resources. We will therefore create a working environment and education and personnel systems that will enable each employee to maximize their imagination across the Group.

In our management system, we will actively disclose information, promote environmental and social contribution, enhance compliance, manage risks, and thereby continue and further strengthen our relationships with all stakeholders.

Our heartfelt hope is that the “Endless Heart” will exist in the hearts of our stakeholders and that you will build emotional ties with the Daiwa House Group, to paint a picture of a brighter future together for Japanese society.

Takeo Higuchi  
*Chairman and CEO*



## Message from the COO



Kenji Murakami

# Building a Group That Co-Creates Value for Individuals, Communities and People's Lifestyles

## We aim to grow our business through management integration

On this occasion of its 50th anniversary, the Daiwa House Group introduced a new Group management structure to become a group that co-creates value for individuals, communities, and people's lifestyles.

At the same time, we have developed our first three-year Medium-Term Management Plan, "Challenge 2005," which sets out numerical targets for fiscal 2007, the final year of the plan. These targets call for consolidated sales of ¥1,700 billion, recurring profit of ¥100 billion, and ROE of at least 9%. In fiscal 2005, the first year of the plan, consolidated sales were ¥1,528.9 billion, recurring profit was ¥103 billion, and ROE was 8.2%. All figures exceeded those set by the plan.

In fiscal 2006, the Daiwa House Industry enters into share exchange arrangements with three listed Group companies (Daiwa Kosho Lease Co., Ltd., Daiwa Rakuda Industry Co., Ltd., and Daiwa Logistics Co., Ltd.), which become wholly-owned subsidiaries. The management integration is designed primarily to ensure the effectiveness of the three basic strategies specified in the Medium-Term Management Plan; namely 1) a growth strategy that encompasses comprehensive portfolio management, 2) a strategy to bolster efficiency and correct redundancies and dispersion in procurement, production, and distribution, and 3) a strategy to strengthen the management base as a Group by ensuring strategic functions and appropriate governance. The purposes of management integration are to strengthen the core of Group management and to make a strategic move toward further growth strategies. We hope the Group will be united under the management symbol, "Endless Heart," and take full advantage of its scale and diversity so that it will be able to continue to grow in a new market environment for the next 50 years.

### Business Objective

	FY 2004 performance	FY 2005 performance	FY 2007 target
Consolidated sales	¥1,365.9 billion	¥1,528.9 billion	¥1,700 billion
Consolidated recurring profit	¥74.2 billion	¥103.0 billion	¥100 billion
ROE	7.9%	8.2%	9.0%

### Daiwa House Group Medium-Term Management Plan "Challenge 2005"



# Comprehensive portfolio management by segment, leveraging the advantages of a multi-business enterprise

The Daiwa House Group has a broad array of operations, including a business that supports housing by constructing single-family houses and condominiums, a business that supports the customer's business through construction of stores, medical and nursing care facilities, distribution facilities, and other facilities, and a business that supports lifestyles through resort hotels, fitness clubs, home centers, and other means.

The Group has two major advantages as a multi-business enterprise aiming to become a group that co-creates value for individuals, communities, and people's lifestyles. The first advantage is that the Group as a whole can support the lifestyles of each customer throughout their entire life through different types of businesses, and can create value from the customer's perspective. The second advantage is that the variety of businesses ensures management stability. Since the risks that have accompanied the changes in markets are diversified, we can continue to grow steadily without being impacted by business cycles.

To continue to grow as a multi-business enterprise, we have to increase our competitiveness in each business segment. We will therefore promote comprehensive portfolio management, where we distribute management resources based on the marketability and strategy of each segment. Please see the Group's business portfolio at the end of fiscal 2005 (table on page 33). In all segments except the fitness club segment, which was newly acquired, our sales growth rate exceeded the market growth rate.

Sales/ sales growth rate/ market growth rate by business segment

Segment	FY2005 Sales (¥billion)	Group sales growth rate [FY2003-FY2005]	Market growth rate*1 [FY2003-FY2005]
Single-family houses	384.2	2.0%	-1.2%
Condominiums	151.0	9.5%	4.1%
Rental housing	342.9	9.7%	4.7%
Home renovation	27.3	8.2%	1.9%
Commercial facilities	314.2	11.8%	9.6%
Distribution, and medical and nursing care facilities	122.6	10.2%	5.9%
Resorts	56.1	2.3%	0.2%
Fitness club	10.4	(-0.3%)*2	3.0%
Home centers	61.9	2.4%	0.3%
Others	58.4		
Total	1,528.9		

\*1 Market growth rate calculated by Daiwa House Industry.

\*2 The Group sales growth rate of Nippon Athletic Service (NAS) is calculated based on the figure before the merger.

We will step up the investment of management resources in commercial facilities, distribution, and medical and nursing care facilities, rental housing, condominium, and home renovation segments, because we expect market growth in these areas. In the commercial facilities, distribution facilities, and rental housing segments, in particular, we are actively investing in real estate development projects, with an eye on the provision of property to the REIT market, where we plan to go public in 2008.

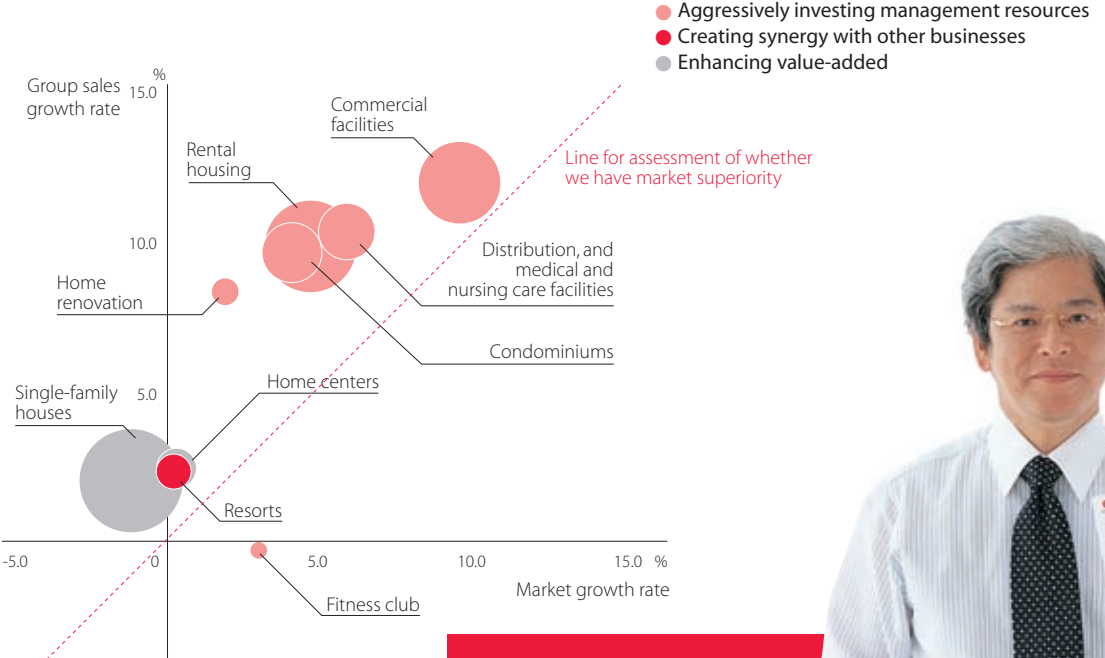
In the resort hotels segment, to raise usage rates on weekdays, we have launched a weekday resort membership system and will try to provide higher value added services such as weddings.

We have reformed the home center segment to keep it profitable as competition in the market intensifies. We will try to further improve profitability by meeting local needs and location conditions.

The biggest challenge for us is to make the single-family housing segment, our core business, return to growth. We cannot expect the market size to expand in the medium- to long-term because of the decrease in population caused by the declining birthrate. We do, however, believe that we can revitalize and expand the segment by creating new market value, partly because our market share is only 2.4% and there is sufficient room for expansion, and partly because demand for durable and high-quality single-family houses is expected to grow.

In the autumn of 2006, we will launch new products that will reduce both running costs, including heating and lighting costs that residents must bear, and maintenance costs for maintenance and repairs, changing the method of construction we have used for 25 years. Starting with these new products, we will consolidate our competitiveness in the single-family housing market and enhance our profitability.

Business Portfolio



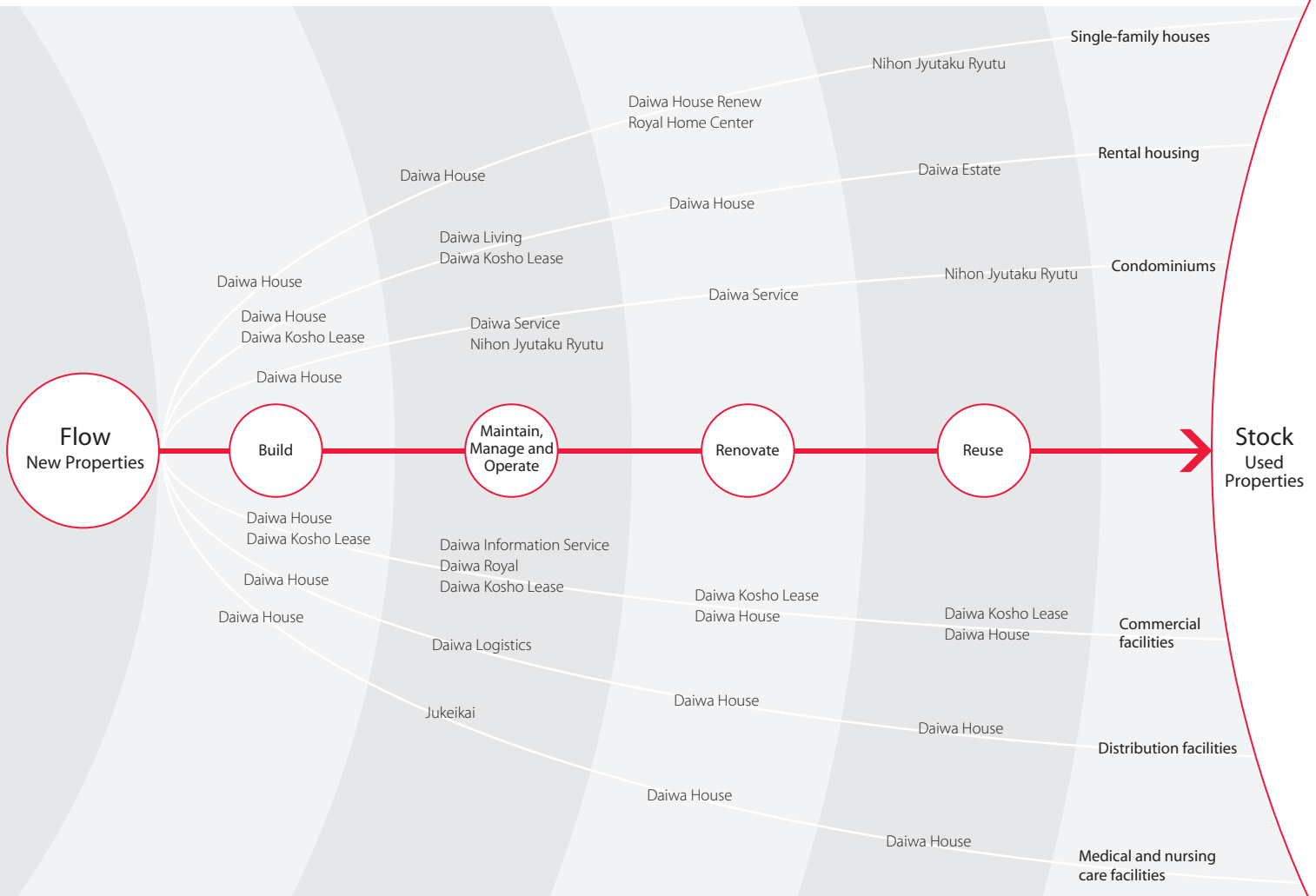
Note: The sales growth rate is a compound annual growth rate (CAGR) averaged between fiscal 2003 and 2005, with size of circles indicating scale of sales

Implementing the Medium-Term Management Plan "Challenge 2005"



# Flow-to-Stock Property Management System

## Endless Management System



The Daiwa House Group not only constructs buildings but encourages the building of the Endless Management System, whereby we link the lifecycle of the land and building with the customer's life stage. Specifically, Group companies cooperate in building a comprehensive service for residents called an Endless Partnership in the single-family house segment. We also combine the businesses of different segments to create value from the customers' perspective and generate synergy. For example, we add medical and nursing care facilities to condominiums and add fitness clubs to business hotels.

## An Ambitious Dream to Create an “Endless Heart”

The Daiwa House Group’s greatest resources are its people.

I call on the 35,000 people working for the Group to have a dream, a dream that helps people to grow. I believe that having a dream and trying to achieve that dream provides the strongest possible motivation for working. You cannot make a dream come true if you fear failure. Holding an ambitious dream and trying hard to achieve it is the starting point for the Group.

We aim to develop executive candidates and a vibrant corporate culture, for example by introducing the branch manager in-house recruitment system. We have also commenced a human resources development program, the content of which includes financial affairs, strategy building, coaching, employee evaluation, and other elements, to foster next-generation leaders. We are also improving our in-house entrepreneur system and in-house recruiting system and strengthening systems to help all employees realize their dreams.

We must be a Group that constantly has the empathy and expectations of all stakeholders. I will therefore consider compliance with corporate governance as my responsibility, exercise sound and transparent leadership, and bolster corporate value through the concerted efforts of all executives and employees.

We will pursue our dream, as symbolized by the “Endless Heart” with our customers and society. The Daiwa House Group will continue to move hand-in-hand with its customers toward a brighter future.



Kenji Murakami  
*President and COO*



## Message from the CFO



In fiscal 2005, the Daiwa House Group posted record sales, recurring profit, and net income. Net income was ¥45.1 billion, up 12.2%, and ROE was 8.2%. The main reasons for the performance was that in general sales of Group companies were higher, and in particular, in the rental housing and condominium segments, the number of units sold increased. We will pay an annual dividend of ¥20 per share, which includes a 50th anniversary commemorative dividend.

Under the new Group symbol “Endless Heart” the Daiwa House Group will unite in strengthening its financial base through transparent management.

### FY2004

Consolidated balance sheets	Millions of yen
Account title	
Current assets	612,543
Cash and cash equivalents	150,461
Property, plant and equipment	441,388
Investments and other assets	304,876
Current liabilities	385,256
Short-term bank loans	13,175
Current portion of long-term debt	1,368
Long-term liabilities	377,642
Long-term debt	6,555
Minority interests	71,799
Shareholders' equity	524,110
Common stock	110,120
Capital surplus	147,759
Retained earnings	325,893
Total assets	1,358,807

Tetsuji Ogawa

## FY2005 Financial Statements

Consolidated statements of income		Millions of yen	
Account title		Yoy Change	
Net sales	1,528,983	163,069	①
Cost of sales	1,213,644	131,511	
Selling, general and administrative expenses	235,267	19,335	
Operating income	80,072	12,223	
Other income(expenses)-net	2,083	6,824	
Income before income taxes and minorities interests	82,155	19,047	
Income taxes	33,645	13,288	
Minority interests in net income of subsidiaries	(3,326)	(837)	
Net income	45,184	4,922	①

Consolidated statements of cash flows		Millions of yen	
Account title		Yoy Change	
Net cash provided by operating activities	90,482	34,387	
Net cash used in investing activities	(107,857)	(54,788)	
Net cash used in financing activities	(9,264)	(15,153)	
Net decrease in cash and cash equivalents	(26,639)	(35,554)	
Cash and cash equivalents, beginning of year	150,461		
Cash and cash equivalents, end of year	123,822		

Consolidated account of retained earnings		Millions of yen	
Account title			
Net income	45,184		
Cash dividends	(9,210)		
Bonuses to directors and corporate auditors	(226)		
Decrease due to exclusion from equity method accounting of former associated companies	(527)		
Transfer due to sales of land	(5,619)		
Net increase in retained earnings	29,602		
Retained earnings, beginning of year	325,893		
Retained earnings, end of year	355,495		

### ① Sales and profit increased for the third consecutive term

As a result of aggressive business development, sales, recurring income, and net income hit record highs. Sales and profit rose for the third consecutive term.

### ② Aggressive investment as a strategic move for the future

We aggressively invested in lands and buildings for sale, commercial land, and loanable assets based on the business portfolio. Total assets increased ¥116.3 billion.

### ③ Maintained a sound financial ground

We maintained a sound financial situation through efficient asset management. The equity ratio was 39.1%, up 0.5 percentage point year on year.

Consolidated balance sheets		Millions of yen	
Account title			
Current assets	620,019		
Cash and cash equivalents	123,822		
Property, plant and equipments	505,471		
Investments and other assets	349,707		
Current liabilities	427,369		
Short-term bank loans	6,183		
Current portion of long-term debt	2,928		
Long-term liabilities	396,638		
Long-term debt	13,528		
Minority interests	74,656		
Shareholders' equity	576,534		③
Common stock	110,120		
Capital surplus	148,019		
Retained earnings	355,495		
Total assets	1,475,197		②

# Aiming to Further Enhance the Group's Value through Cash Flow Management

We can take the risks required for growth only when we have a sound financial foundation.

In fiscal 2005, under the Medium-Term Management Plan "Challenge 2005," the Daiwa House Group invested a total of around ¥100 billion in commercial facilities and other real-estate development business, to generate future cash flows, and in M&A and alliances, which will bring synergy to the existing operations.

Despite negative free cash flow for fiscal 2005 of ¥17.3 billion, our balance sheet shows that we are maintaining a sound financial position. The equity ratio was 39.1%. This was far above the average of the construction industry (25.8%) and that of the real-estate industry (28.1%), which are heavily dependent on loans.

The Bank of Japan lifted the zero-interest-rate policy after an interval of five years, and the Japanese economy is returning to normal. This is very good news for us. Now our real managerial capabilities are being called into question.

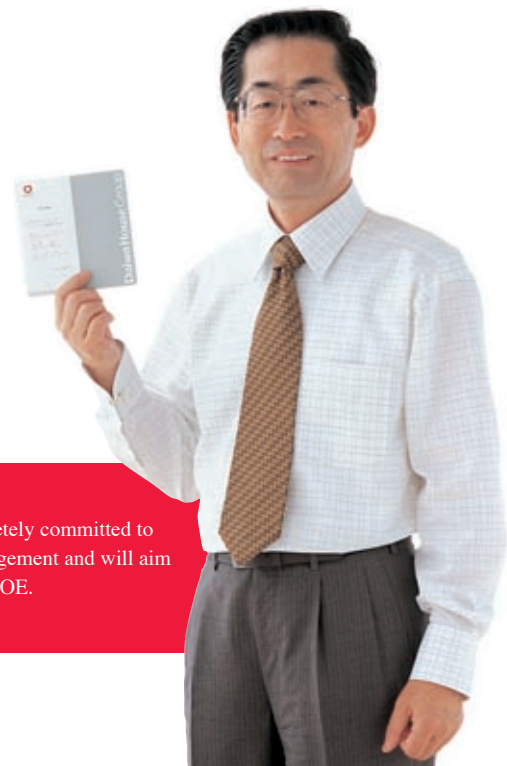
To improve cash flows provided by operating activities, it is important to develop competitive segments through comprehensive portfolio-based management and concerted efforts to promote a strategy to improve efficiency as a Group. The share exchange arrangements in August 2006 between Daiwa House Industry and three Group companies, Daiwa Kosho Lease, Daiwa Rakuda Industry, and Daiwa Logistics, turning them into wholly-owned subsidiaries of Daiwa House Industry, will ensure the effectiveness of an efficiency strategy for procurement, production, and distribution. I believe the merger will help improve cash flows provided by operating activities.

We are aggressively investing not only in tangible assets but also in intangible assets such as brands, technologies and design capabilities, which will help create corporate characters and become a source of value creation. We thus continue to build strength for the future.

Under the new "Endless Heart" brand, I will improve the Group's management structure and maintain sound financial conditions. At the same time, I will try to further improve our corporate value through comprehensive cash flow management, taking the effect of financial leverage into consideration.

Tetsuji Ogawa

*Executive Vice President and CFO*



I will be completely committed to cash flow management and will aim to reach a 9% ROE.



# Corporate Governance

The Daiwa House Group has been bolstering its corporate governance, establishing an internal control system that facilitates fast and appropriate decision-making, transparent and efficient management, and compliance.

## Fundamental policy for the improvement of corporate governance

The Daiwa House Group positions corporate governance as a critical managerial task. Our basic posture is to establish an efficient and transparent management structure by building a system whereby we can execute duties quickly based on

fast and appropriate decision-making and can monitor and supervise execution so that we can continue to increase our corporate value and boost the confidence of shareholders and other stakeholders.

## Major Initiatives to Improve Corporate Governance

Faster decision-making and clearer management responsibility	
June 1999	Introduction of an executive officer system
June 2001	The directors' term of office shortened from two years to one year
June 2004	Revision of the Articles of Incorporation to allow the acquisition of the Company's own shares solely by resolution of the Board of Directors
March 2006	Resolution at board meetings of the Company and three listed companies for a business merger
May 2006	Resolution at a board meeting that sets out a basic policy on the building of an internal control system
Improved disclosure and accountability	
June 2002	Online disclosure of invitations to shareholders' meetings (Japanese/English); online execution of voting rights
August 2003	First disclosure of quarterly business performance data
June 2005	Abolishment of the lump-sum system of directors' retirement benefits (transition to performance-based compensation)
Improvement in management transparency	
June 2003	One outside auditor added to the board of corporate auditors, making five members (three of whom are outside auditors)
June 2005	One corporate auditor added to the board of corporate auditors, making six members (three of whom are outside auditors)

## Establishment of Corporate Ethical Code and Conduct Guidelines

In April 2004, the Daiwa House Group laid down a Corporate Ethical Code clearly stating the principles of behavior that serve as a basis for realizing the Group's management philosophy and policies, and compiled supplementary Conduct Guidelines laying down the details of this code. To ensure maximum understanding of the issues, we distributed to all employees of the Group an educational manual containing the Corporate Ethical Code, Conduct Guidelines, 76 case studies, and a corporate ethics helpline for reporting of unethical behavior.

In line with these measures, we have created a corporate ethical program for the whole Group. This program is designed to instill in all Group employees understanding of the Corporate Ethical Code and Conduct Guidelines, in line with the Plan, Do, Check, Action (PDCA) formula. It was improved after canvassing of employee opinions, and we believe it will further increase trust in the Daiwa House Group.

## Internal control system

Daiwa House Industry set up the Internal Auditing Office in April 2006 to check that internal operations are being performed appropriately and that internal systems are functioning as they should. In May we established the following eight basic policies as part of our internal control system: (1) ensuring that duties are performed in conformity with the law and our Articles of Incorporation; (2) appropriate storage and management of information relating to conduct of duties; (3) appropriate crisis management (minimizing losses); (4)

ensuring efficient conduct of duties; (5) ensuring appropriate conduct of operations in Group companies; (6) ensuring the independence of corporate auditors and their assistants from their directors; (7) due reporting by directors and employees to the corporate auditors, and (8) ensuring effective auditing.

The Company gives instructions for improvement if necessary based on the results of audits by the Internal Auditing Office. In this case, the results of improvements must be reported. The Company thus conducts appropriate and effective audits.

# Risk Management and Compliance

Improving compliance is also an important managerial task for the Daiwa House Group, given the close connections that the Group's business has with people's daily lives. Daiwa House Industry has reorganized the Risk Management Committee, which was set up in September 1999 to handle important complaints quickly and appropriately, develop recurrence prevention measures, and propose business improvements, into a Compliance and Risk Management Committee, based on a policy covering the building of an internal control system drawn up in May 2006.

The Compliance and Risk Management Committee meets once a month to discuss the building of a compliance system and a risk management system across the Group, the improvement of the storage and management of information, including the issue of personal information protection. These discussions follow the Code of Ethics of the Daiwa House Group and the Behavioral Guidelines, both of which were established in April 2004 as the Group's rules for ethics and conduct.

Our Group Members



**Daiwa House**  
Group

## Residential

General housing-related business, from construction of single-family houses, condominiums, and rental housing, to renovation and from real estate agency to management.

- Daiwa House Industry Co., Ltd.
- Daiwa House Kanto Co., Ltd.
- Daiwa House Kansai Co., Ltd.
- Nihon Jyutaku Ryutu Co., Ltd.
- Synchroller Co., Ltd.
- Beijin East Palace Apartment Co., Ltd.
- Daiwa Kosho Lease Co., Ltd.
- Daiwa House Hokushinetsu Co., Ltd.
- Daiwa House Chushikoku Co., Ltd.
- Daiwa Living Co., Ltd.
- Daiwa Estate Co., Ltd.
- Shanghai International Realty Co., Ltd.
- Daiwa House Kitanihon Co., Ltd.
- Daiwa House Chubu Co., Ltd.
- Daiwa House Kyushu Co., Ltd.
- Daiwa Service Co., Ltd.
- Daiwa House Renew Co., Ltd.

## Commercial Construction

Consists of commercial construction operations (suburban commercial facilities), and distribution and medical and nursing care facilities, which plans, builds and manages business and medical and care facilities.

- Daiwa House Industry Co., Ltd.
- Daiwa Royal Co., Ltd.
- Daiwa Kosho Lease Co., Ltd.
- LOC Development Co., Ltd.
- Daiwa Information Service Co., Ltd.

## Resort Hotel and Sports Life Business

Through operation of resort hotels, golf clubs, and sports facilities throughout Japan, this business provides spaces for relaxation.

- Daiwa House Industry Co., Ltd.
- Nippon Athletic Service Co., Ltd. (Sports Club NAS)
- Daiwa Resort Co., Ltd. (Daiwa Royal Hotels)

## Home Center Business

Operates home centers that carry an average of over 50,000 items. The centers are used by a wide spectrum of customers, from consumers to businesses.

- Royal Home Center Co., Ltd.

## Other Businesses

Supports people, communities and lifestyles through various businesses: logistics, building and automobile leasing, business hotels, and construction materials manufacturing and sales.

- Daiwa House Industry Co., Ltd.
- Daiwa Service Co., Ltd.
- Daiwa Royal Co., Ltd.
- Daiwa House REIT Management Co., Ltd.
- Jukeikai Co., Ltd. (Neo Summit Yugawara)
- Daiwa Rakuda Industry Co., Ltd.
- Shinwa Agency Co., Ltd.
- Media Tech Inc.
- Daiwa Logistics Co., Ltd.
- Daiwa Kosho Lease Co., Ltd.
- Daiwa Energy Co., Ltd.
- Osaka Marubiru Co., Ltd.

# Group Business Structure

As of June 30, 2006

# Corporate Management

As of June 29, 2006

## Board of Directors and Corporate Auditors

\*Representative Director



**Takeo Higuchi\***  
*Chairman and CEO*



**Kenji Murakami\***  
*President and COO*



**Tetsuji Ogawa\***  
*Executive Vice President and CFO*



**Tatsushi Nishimura**  
*Executive Managing Director*



**Takeshi Kajimoto**  
*Managing Director*



**Takashi Uzui**  
*Managing Director*



**Hiroshi Azuma**  
*Managing Director*

## Presidents of Principal Subsidiaries and Affiliates



**Mutsuo Kajimoto**  
*Daiwa Kosho Lease Co., Ltd.*



**Katsumi Masumura**  
*Daiwa Rakuda Industry Co., Ltd.*



**Katsuyoshi Tateno**  
*Daiwa Logistics Co., Ltd.*



**Atsushi Kanakubo**  
*Daiwa Living Co., Ltd.  
Daiwa Estate Co., Ltd.*



**Masanori Nishio**  
*Royal Home Center Co., Ltd.*



**Keiichi Otsuka**  
*Daiwa Resort Co., Ltd.  
(Daiwa Royal Hotels)*



**Toshihiko Ikeda**  
*Daiwa House Kitanihon Co., Ltd.*



**Katsuaki Handa**  
*Daiwa House Kanto Co., Ltd.*



**Yasuhiko Tanaka**  
*Daiwa House Kyushu Co., Ltd.*



**Hidekazu Matsushima**  
*Daiwa Energy Co., Ltd.*



**Toshinori Inaguchi**  
*Jukeikai Co., Ltd.  
(Neo Summit Yugawara)*



**Haruyuki Yoshimoto**  
*Osaka Marubiru Co., Ltd.*



**Mitsuo Funatsu\***  
*Executive Vice President*

**Tamio Ishibashi\***  
*Executive Vice President;  
Concurrently President of Media Tech Inc.*

**Naotake Ohno**  
*Executive Managing Director*

**Takuya Ishibashi**  
*Executive Managing Director*



**Shigeo Otsuka**  
*Managing Director*

**Eiichi Takeda**  
*Managing Director*

*Directors*  
**Seiki Nishi**  
**Chiyohiro Aoyagi**  
**Yoshiharu Noto**

**Takashi Hama**  
**Katsutomo Kawai**  
**Osao Fukushima**

*Corporate Auditors  
(standing)*  
**Toshihiko Emi**  
**Yoshikazu Tano**  
**Kiyoshi Arase**

*Corporate Auditors*  
**Hiromi Doi**  
**Kazuhiro Iida**  
**Kiichiro Iwasaki**



**Hiromi Yamane**  
*Daiwa Service Co., Ltd.*

**Masahiro Sakakura**  
*Daiwa Information Service Co., Ltd.*

**Minoru Fujita**  
*Nihon Jyutaku Ryutu Co., Ltd.*

**Tsuyoshi Ochi**  
*Daiwa Royal Co., Ltd.*



**You Higashiguchi**  
*Daiwa House Hokushinetsu Co., Ltd.*

**Osamu Takimoto**  
*Daiwa House Chubu Co., Ltd.*

**Shozo Yusa**  
*Daiwa House Kansai Co., Ltd.*

**Tsuyoshi Natsume**  
*Daiwa House Chushikoku Co., Ltd.*

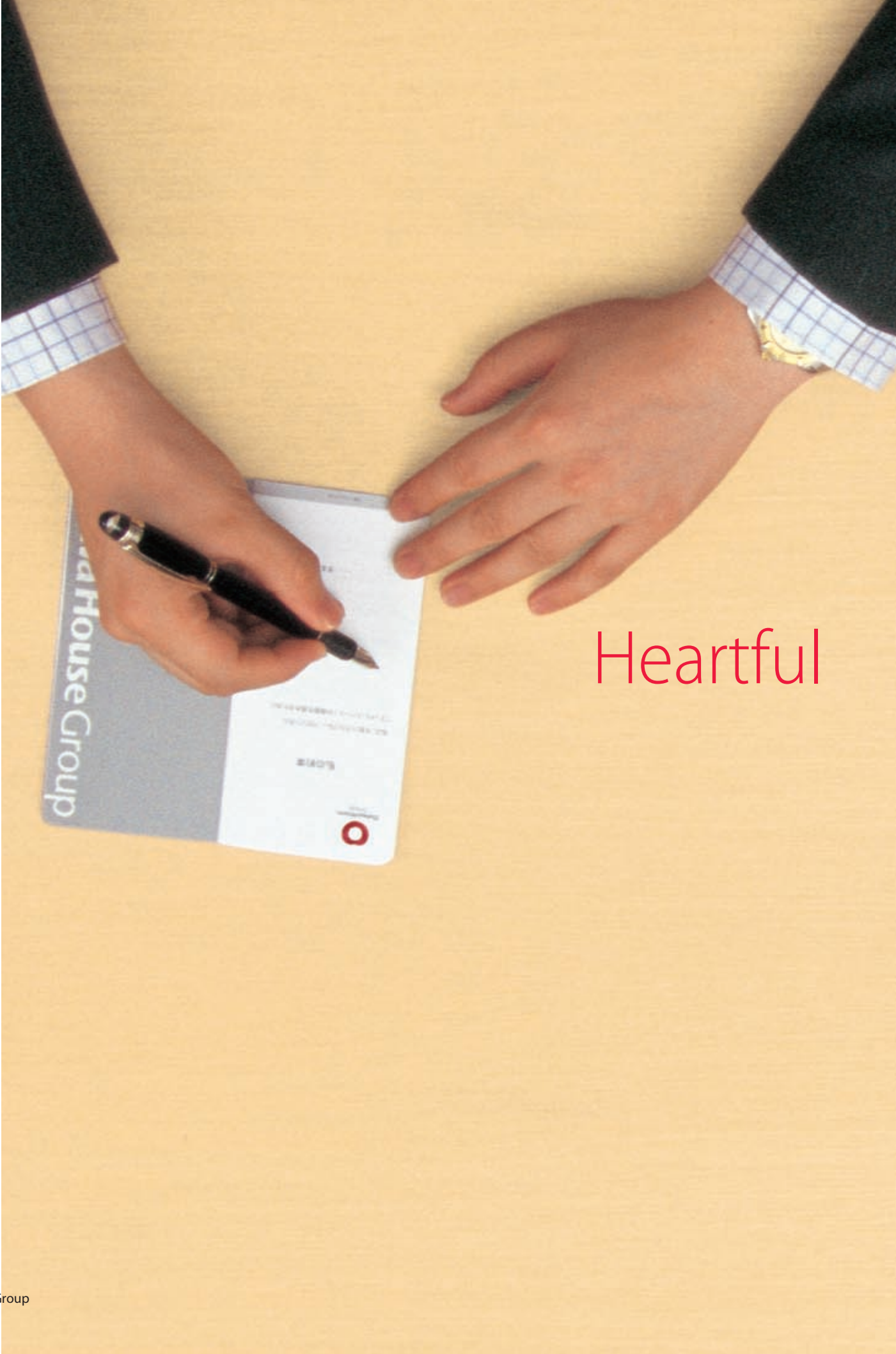


**Taisuke Ishibashi**  
*Nippon Athletic Service Co., Ltd.  
(Sports Club NAS)*

**Takeshi Kousokabe**  
*Daiwa House REIT Management Co., Ltd.*

**Hiroyuki Nakamura**  
*Synchroller Co., Ltd.*

**Michio Aritomo**  
*Shinwa Agency Co., Ltd.*



Heartful



# Future through Personal Pledges

We are determined to increase the value of our Endless Heart concept.

I incorporate customer preferences  
in my design proposals. I want  
to create spaces where customers  
can enjoy daily life.



Commercial Facility Manager



Interior Coordinator



Systems Engineer

I work to expand our property  
management business. I promote  
construction of safe facilities  
that please our customers.



I am committed to producing  
valuable goods and services  
that please customers.



I promise to provide the impetus  
for change within the Group  
by encouraging everyone  
to relentlessly pursue innovation.



With a smile and a kind word  
for everyone, I make good relations  
my top priority.

My goal is to make  
new forms of energy  
available to everyone.

I get feedback from customers,  
to ensure they are satisfied  
with our Group's products and services.



Real Estate Agency Business



Housing Contact Center  
Supervisor



Personnel Affairs

It's simple. I am committed  
to punctuality.

I promote projects to ensure  
our workplace is welcoming  
to female employees, so that  
they'll want to join us  
and never leave.

I put my heart into fully satisfying customers, offering delicious food with a smile.

To ensure the success of our business in China, I work with our Chinese partners to create win-win relationships.



Vehicle Leasing Sales



Hotel Restaurant Chef



China Business

I undertake the sales activities desired by the Company and our customers alike, with honesty, enthusiasm, and integrity.



I aim to develop products  
that will impress my customers.

I am working to improve  
my esthetic sense,  
and incorporating it  
into my work.

Product  
Development

Sales Promotion Planning  
and Production

Distribution Center Manager

Safety is my top priority.  
Next, to provide the type of services  
that are welcomed by customers.

I promise to offer an attractive  
lineup of products and services.  
I want customers to always feel welcome  
in my store.



Designer of  
Rental Apartment Buildings



Aerobics Instructor



Home Center Manager

I put my heart into  
designing products  
that excite customers.

Let's exercise!  
Enhance your life and leisure time  
through sports. Join me, and I'll  
help bring happiness and health  
to your mind and body.

I enjoy serving customers,  
and work hard so that I may hear  
a kind word of thanks.



Condominium Call Center Operator



After-Sales Service



Hotel Restaurant Service

By serving customers with a smile,  
I hope to make them smile, too.

I serve customers attentively,  
with a smile.

Conscientiously preparing meals,  
I deliver food that is safe,  
made with reliable ingredients.

I do my best to provide  
quality care, to inspire confidence,  
and ensure customer satisfaction.

Hotel Restaurant Master Chef



Nursing Care Worker



Moving Service



I try to bring joy and excitement  
to the moving process.



I pledge ...

to raise the value of our  
Group symbol "Endless Heart."



### 私の約束

私は、大和ハウスグループのシンボル  
「エンドレスハート」の価値を高めるために

お客様に良質なサービスと  
提供し、お客様の満足と信頼が  
得られるよう最善をつくすこと



### 私の約束

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得られるよう最善をつくすこと  
を約束します。

### 私の約束

大和ハウスグループのシンボル

# Commitment

Corporate Citizenship

60	Our Clients
62	Our People
64	Our Partners
66	Our Community
68	Our Environment
70	Our Quality

司にある大切な何か。  
は、新しいグループシンボル  
ART」に

永遠の絆と  
連帯感を託しました。  
価値共創グループとして、  
こハートを提供してまいります。

35,000 Hearts

We Build Hearts

— Commitment to Society »





## 1 Our Clients

We promote customer satisfaction (CS) activities based on the dual philosophy of “putting the customer first” and “customer empathy.” Our aim is to continue to be a company that is loved and trusted by its customers. We therefore make every effort to put ourselves in our customers’ shoes, to reflect our customers’ viewpoints in every aspect of our business activities and to develop and provide high-added-value products and services.

- Creating a Customer Satisfaction Committee
- Establishing a support structure

## 2 Our People

We believe that human resources will form the basis for the future development and growth of the Daiwa House Group. That is why, in addition to developing a work environment conducive to the mental and physical well-being of all of our employees, we are also aiming to establish a personnel system that will enable career development based on employees’ aptitudes.

Elsewhere, we are taking steps to increase recruitment of female employees, to bolster core operational personnel, as well as encouraging elderly reemployment.

- Enhancing personnel systems
- Recruiting and promoting female employees
- Employment for disabled persons and human rights awareness activities
- Improving working environments

## 3 Our Partners

From cooperating companies and business partners to academic institutions, our partners are essential to help us achieve business growth across a wide range of housing, business and lifestyle related fields. We strive to develop, maintain and improve suitable relationships with all of our partners on a fair and equal basis at all times to ensure mutual harmony and benefit and enable us to provide high quality products and services.

- Developing mutually beneficial and harmonious relationships with partner companies
- Support for academic research
- Technical cooperation to help improve daily life
- Technical partnership with a Chinese company



## 4 Our Community

In view of the importance of coexisting with the environment and society, we organize a range of social contribution initiatives on a continual basis to contribute to the development of society as a whole and to help improve living environments in our role as a corporate citizen. In addition to making a contribution through our business activities, including efforts to provide safe and environmentally friendly products, we also undertake a range of other activities as a member of the local community, such as passing on traditional culture and providing educational support.

- Support for the development of future generations
- Stepping up volunteer activities
- Corporate philanthropy initiatives

## 5 Our Environment

We work towards the ideal of a society that coexists in harmony with nature and enables people to live pleasant, comfortable lives. With the aim of “creating a spiritually enriched society,” we have set out an environmental vision consisting of our environmental principles, priority themes and action guidelines and make every effort as work together as a Group to substantially reduce the environmental impact of our activities.

- Establishing an environmental management system
- Initiatives as part of our business activities
- Environmentally friendly product development

## 6 Our Quality

Based on the key concepts of Safety and Security, Speed & Stock (used properties), Welfare, the Environment, Health and Information Technology, we conduct a diverse range of lifestyle and architectural research in cooperation with other industries, governments or universities as well as users themselves. We intend to continue to create innovative technology, both tangible and intangible, to cater to the needs of future generations and society, always keeping in mind the balance between people and lifestyles and between urban development and nature.

- Full-scale testing of earthquake resistant and absorbing technology
- Promoting Friendly Design
- Research geared towards environmental measures



1

## Our Clients

Taking our customers' view point before proceeding with corporate activities

Approx. **320,000** (as of March 31, 2006)  
Total number of household that moved into our single-family housing

The Daiwa House Group's CS Philosophy is based on two concepts.

**Putting the customer first**

Based on our goal of being a company that is loved and trusted by its customers, the Daiwa House Group's corporate activities are designed to respond to our customers needs quickly and courteously and to provide products and services that offer good value from the customer's perspective.

**From "customer orientation" to "customer empathy"**

In addition to reflecting our customers' viewpoints in every aspect of our business activities, we go one step beyond "customer orientation," whereby activities are carried out with a focus on the customer, and model our actions on the principle of "customer empathy," whereby we view our own business through the eyes of our customers.

### Initiatives for improvement through enhanced customer satisfaction

Working on the basic philosophy of “putting the customer first,” the Daiwa House Group strives to improve the quality of its products and services to raise levels of customer satisfaction. In an effort to ensure that our customers’ viewpoints are reflected directly in our business activities, on April 1, 2004 we established a Customer Satisfaction Committee headed by the company president and run by the Customer Satisfaction Department. In addition to outlining business problem areas based on the opinions and requests of our customers, the Customer Satisfaction Department is pursuing various activities to develop methods of evaluating how successful improvements have been and also helps improve and support housing products.

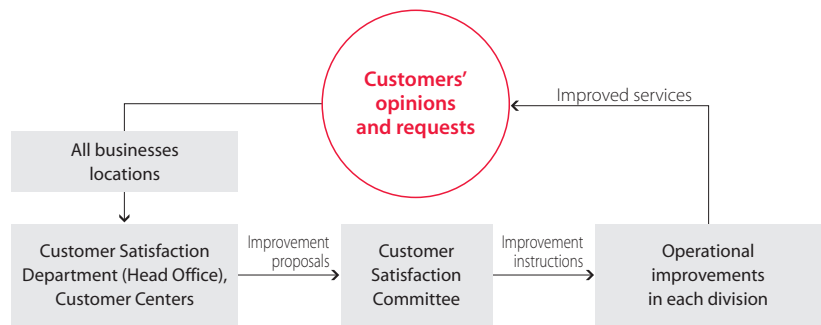
### Product support structure

Daiwa House Industry implements comprehensive quality control measures at every stage of the process, from design and development through to after-sales services, based primarily around the Quality Assurance Department, established in October 2004. As part of our efforts to improve our after-sales services, we operate a long-term guarantee system called the 21c Secure Support System that guarantees houses’ structural framework and water proofing for up to 40 years.

In November 2005, we established the Kanto Customer Center to handle all inquiries within the region regarding matters such as regular inspections and additional repair work organized by Customer Advice Centers at each of our branches. In addition to providing our customers with smooth, high quality services, this has enabled the integrated management of information and will be used to improve CS promotion activities in the future.



Improvement activities based on customers’ viewpoints





# 2

## Our People

Human resources — the driving force behind every company

Approx. **35,000** (as of March 31, 2006)  
Total of Daiwa House Group employees

The basis for the continued development of the Daiwa House Group is human resources training.

The Daiwa House Group considers human resources training to be an important management task that is essential to the growth of the company. Based on the principles of freedom of choice and independence, we are therefore developing a personnel system that will enable individual employees to focus of their own career development. We make revisions to all of our personnel systems on a continual basis in an effort to develop working environments designed to encourage increased employment for women, handicapped persons and the elderly so as to reflect changing attitudes towards work.

### A motivation-driven personnel system

Having introduced a system whereby motivated employees can volunteer for the position of Branch Manager by way of a challenge, nine new Branch Managers were appointed in April 2006. In addition to this, as a result of the introduction of a Free Agent (FA) system in August 2005, 15 employees were transferred to their desired position as part of the annual round of transfers in spring 2006, and as part of the existing in-house recruitment system a further 21 are being transferred in fiscal 2005 to the posts or departments they prefer. Elsewhere, we continue to encourage independence for individual employees through initiatives such as educational programs, including our optional career development training schemes (open to all employees), and looking into the introduction of an in-house certification scheme and make every effort to implement various systems to improve motivation as we strive to ensure sound human resources training.

#### Progress report on optional career development training schemes (fiscal 2005)

Title	Duration	Attendance
Management Skills Training/Personnel Evaluation Course	12 sessions	627 people
Team Leader Training	26 sessions	1,327 people
Introductory On-the-Job Training (OJT)	9 sessions	419 people

### Creating opportunities for female employees to play leading roles

Daiwa House Industry actively recruits female employees. In fiscal 2005, 26% of our total workforce consisted of female employees, an increase of 4 percentage points from the 22% in fiscal 2004. To institutionalize efforts to create a workplace suitable for female employees, we set up a women's organization called the Wave Heart Project in November 2004 and are working towards the establishment of a new system.

Elsewhere, the company continues to actively appoint and promote female employees. The number of female chiefs has almost doubled from 67 as of April 1, 2005 (0.55% of all full time employees) to 129 as of April 1, 2006 (1.01%).

### Employment for handicapped persons and human rights awareness activities

The percentage of handicapped persons employed by Daiwa House Industry, as of June 1, 2006, was 1.88%, which was higher than the legally stipulated employment rate for the twelfth year in a row. We aim to provide disabled persons with a challenging, meaningful work environment and to foster understanding amongst able-bodied employees.

Daiwa House Industry continually organizes carefully-planned human rights awareness activities on a company-wide scale and beyond, extending to Group companies as well. Activities are all based on the fundamental policy of creating a corporate culture and workplaces built on respect for human rights.

### Enhancing working environments

Daiwa House Industry introduced a workplace selection program in fiscal 2005 and is striving to improve working environments through initiatives such as the adoption of a half-day paid leave transfer system and a paid leave reserve system. In terms of healthcare, in addition to providing optional health checks such as ultrasound or tumor marker examinations on top of regular health checks, we also provide a simple work-related stress assessment website and a mental health self-check service via the company intranet and run a 24 hour telephone advice line to address any worries concerning mental or physical health.



# 3

## Our Partners

Growing and developing together with our partner companies based on mutual harmony and benefit

Approx. **5,300** (as of March 31, 2006)  
Number of major cooperating companies

We at the Daiwa House Group strive to improve the services we provide to our customers based on a cooperative business framework that incorporates a wide range of organizations and academic institutions, including cooperating companies, technical partner companies and universities.

### Establishing relationships with partner companies based on mutual harmony and benefit

In accordance with our Group Behavioral Guidelines, the Daiwa House Group strives to build healthy relationships and work together with cooperating companies, and partner companies such as materials and housing equipment suppliers and to contribute to the mutual business development and growth of all parties. We also make every effort to mutually refine our technical capabilities through steps to minimize environmental impact and operational improvement initiatives to provide our customers with a higher standard of products and services.

We organize safety patrols, safety education, events to raise awareness such as the Safety Promotion Event and other safety promotion activities as part of our efforts to minimize occupational health and safety risks and to ensure the safety of all concerned parties in the workplace.



### Technical cooperation to help improve daily life

The Daiwa House Group promotes research and development of technology that is closely linked to daily life. Having declared ourselves a health conscious company, Daiwa House Industry announced the Intelligent Toilet (see photos at left, and center), a toilet with a home health check system jointly developed in conjunction with Toto Ltd., at the end of fiscal 2004 and started to standardize some of its housing products from fiscal 2005 onwards.

### Support for academic research

We are researching household applications for lithium batteries, which offer high power and large capacity, to even out electricity demand over the day by using lower-load nighttime power. As part of this initiative, we are involved in a joint project with industry, government and academic organizations to encourage the use of lithium batteries and lower their cost: the project to develop Eliica, an electric car that will run on lithium batteries (see photo at right).

Elsewhere, we also promote donation-assisted research support and are providing support for initiatives such as the Gerontology Assisted Research Department, which was set up for a period of three years starting in April 2006 as part of the University of Tokyo Division of Project Coordination, and a course to deal with indoor air pollution and housing-related health disorders, caused by allergens and microorganisms, which was held in 2006 at Nara Medical University.



### Technical partnership with a Chinese company

In March 2006, Daiwa House Industry announced a partnership with Baoye Group Co. Ltd., a general building contractor and real estate developer in China. We are now working on the joint technical development of industrialized housing for construction and sale with an eye on the Chinese market, which is expected to grow in the future.



# 4

## Our Community

Contributing to society as a member of the local community

The Daiwa Housing Group's policy of contributing to local communities is based on the principle of coexisting with the environment and society.

We organize a wide range of social contribution initiatives on a continual basis to contribute to the development of society as a whole and to help improve living environments in our role as a corporate citizen.

### Local educational support

We provide assistance for the Dreams Come True School — Academic project, which is run by the Osaka Chamber of Commerce and Industry and the non-profit organization Japan Association for Entrepreneurship Education (JAEE) as part of the Ministry of Economy, Trade and Industry's Regionally Independent and Private Sector-Initiated Career Education Project, by visiting junior high schools to give classes on houses of the future.

Approx. **11,000** (for FY2005)  
Number of employees taking part in Company-planned Voluntary activities

Nippon Athletic Service has made it compulsory from January 2005 onwards for all children enrolled on its swimming school courses to take clothed swimming lessons so that they can learn how to swim whilst fully clothed in the event of an accident by water. The company also organizes free courses for local elementary schools.

### Promoting employee volunteer activities

The Group organizes social contribution initiatives in close cooperation with their local communities. Such initiatives include local cleanup activities and support for local events and vary depending on the contents of each company's business activities. We also introduced a fund raising system (the "Heart" and "Endless" fund raising campaigns) aimed at individual employees via the company intranet in October 2005.

In an effort to promote active initiatives and employee participation in volunteer activities at all sites, Daiwa House Industry appointed Social Contribution Promotion Supervisors at each of its business premises around the country in April 2006. We have also launched D-Volunteer, a volunteer information system designed to promote activities on an individual level and to enable employees to exchange opinions and send, receive and search for information via the intranet.

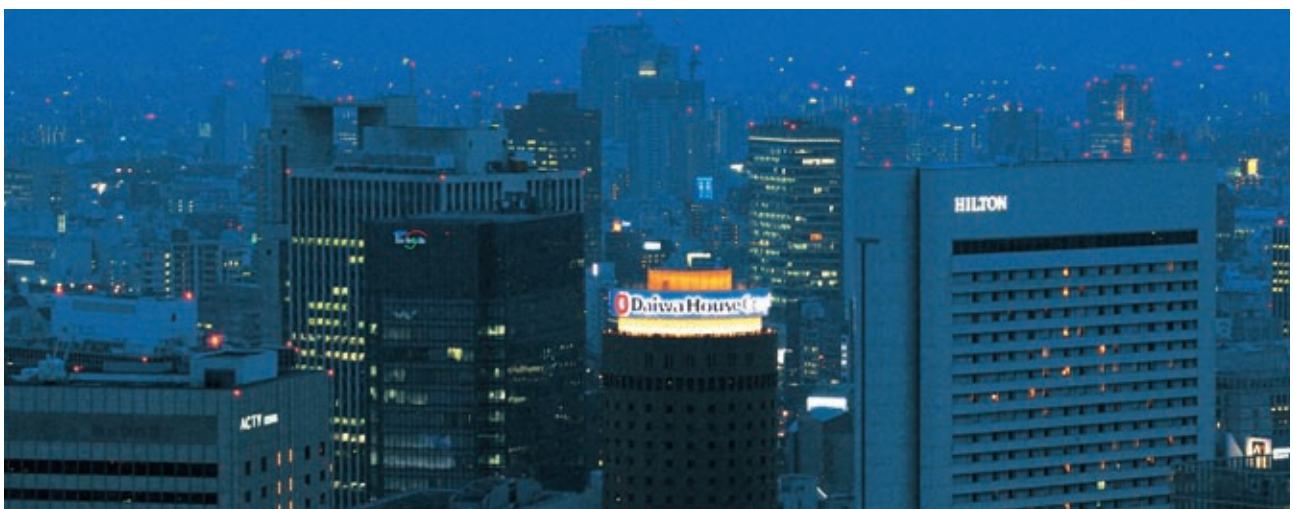


### Expanding initiatives and opportunities to promote culture and the arts

In October 2005, Daiwa House Industry restored the electronic billboards on top of the Osaka Marubiru Tower, which are a symbol of Osaka but had been discontinued in 2003, as part of its acquisition of Osaka Marubiru as a subsidiary. As one aspect of our corporate philanthropy initiatives in support of culture and the arts, Daiwa House Chairman Takeo Higuchi was appointed Chairman of the Board of the Osaka Symphoniker Society, a support group working with the Osaka

Symphoniker orchestra, in April 2006. We provide comprehensive support for the running of the orchestra and are actively involved in related corporate philanthropy initiatives.

Elsewhere, we plan to set up a pavilion at Kidzania Tokyo, a work experience theme park for children that is scheduled to open in October 2006, to enable children to experience the job of coordinating interiors.



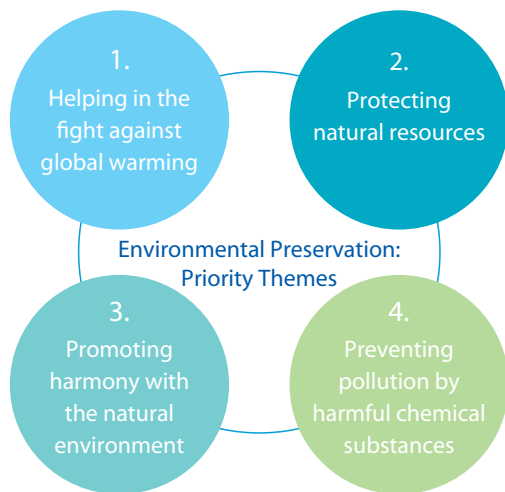
# 5

## Our Environment

Initiatives and a framework for coexistence with the environment

### Daiwa House Group Environmental Principles

As a Group that “co-creates value for people, communities and lifestyles,” we strive to maintain an empathetic and forward-thinking approach to the environment and, through the provision of more environmentally friendly products and services, to create a society that can coexist in harmony with the environment and provide a spiritually enriched lifestyle.



### Establishing an environmental management system

Daiwa House Industry has established an Environmental Preservation Committee headed by the director in charge of environmental issues to discuss and make decisions regarding the direction of our business activities.

The Daiwa House Group has obtained international standard ISO14001 certification at 13 plants and Production and Procurement Division of Daiwa House Industry, and at all Daiwa Koshu Lease Co. Ltd. business premises, as well as at the Mie Sales Office, Nara Sales Office, Environmental Management Office and Kansai Distribution Center belonging to Daiwa Logistics Co. Ltd.



### Initiatives as part of our business activities

#### ■ Environmental risk reduction (Daiwa House Industry)

We monitor and manage environmental data, such as details of waste output from all business premises and plants, via the *ei-system*, our intranet-based environmental information system. In an effort to combat issues such as the illegal disposal of industrial waste, we regularly verify all processing flows and monitor and inspect waste disposal sites, as well as organizing internal inspection by head office organizations.

#### ■ Environmental Load Reduction

With the Kyoto Protocol coming into effect, we are striving to cut CO<sub>2</sub> emissions through efforts such as reducing the amount of energy used by air conditioning and heating equipment at our business premises. Elsewhere, in addition to achieving zero emissions (100% recycling rate; Daiwa House Industry) at new-build housing projects, we also make every effort to use environmentally friendly materials.



### Environmentally friendly product development

Daiwa House Industry has jointly developed an exceptionally safe small-sized wind power generator called "Wind-Blown Whale" in conjunction with Nikko Company (see photo above).

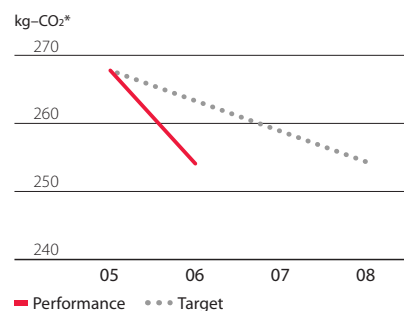
We have set out the following targets in relation to single-family housing products.

- All houses sold in fiscal 2007 to be next generation energy-saving standard houses so as to reduce energy consumption stemming from air conditioning and heating and to cut CO<sub>2</sub> emissions
- 50% of houses sold in fiscal 2007 to be environmentally friendly houses\*

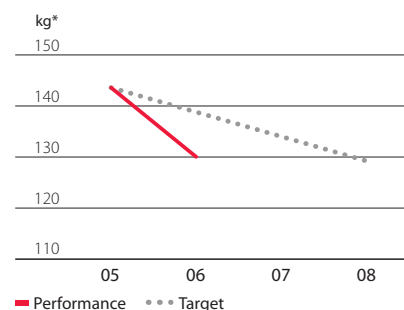
\* Environmentally friendly houses are those based on the three objectives of protecting the natural environment, blending in with the surrounding environment, and ensuring a healthy, comfortable living environment, and have been certified by the Institute for Building Environment and Energy Conservation. Daiwa House Industry achieved the best overall construction statistics as part of this scheme in fiscal 2005.



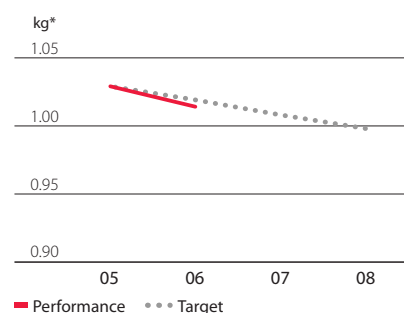
### CO<sub>2</sub> emissions



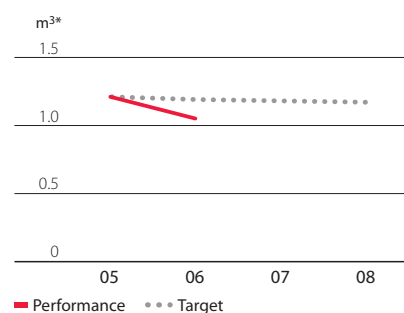
### Waste output



### Volume of PRTR harmful chemical substances used



### Water consumption



Note: The units marked with asterisks in the graphs above are equivalents per ¥1 million in sales by Daiwa House Industry on a non-consolidated basis.



# 6

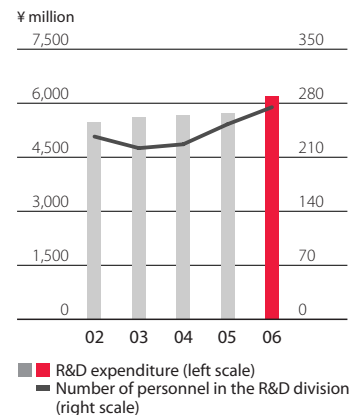
## Our Quality

Pride in quality resulting from continued research

Established in 1994 our Central Research Laboratory develops hardware for buildings as well as building products and technologies that offer high quality and outstanding cost performance. Its research focuses on more liveable homes based on the key concepts of Safety and Security, Speed & Stock (used properties), Welfare, the Environment, Health and Information Technology, as well as software and environmental awareness from the user viewpoint.

In conjunction with industry, government, academia and consumers, it carries out long-term research to create comfortable, safe lifestyles for our customers and to provide total solutions based around building technology.

R&D expenditure, and number of personnel in the R&D division



### Developing new methods for constructing houses with industry-leading earthquake resistance and absorbing capabilities

Daiwa House Industry has developed a new method of constructing lightweight iron frame houses that offer both improved earthquake resistance and absorbing capabilities and greater freedom in terms of design. At the E-Defense\* 3-D full-scale earthquake testing facility (see photo), as a first private company, the largest such facility in the world, houses built using this new method have undergone tests of various aspects of their capabilities (response acceleration spectrum, seismic displacement, etc.). The results confirmed that this new method produces industry-leading standard results (Daiwa House Industry findings).

\* Part of the National Research Institute for Earth Science and Disaster Prevention's Hyogo Earthquake Engineering Research Center



### Using Friendly Design

Friendly Design is a unique user-friendly design concept that combines the basics of universal design, namely making buildings easy to use, easy to understand and safe, with the concept of beauty, in terms of harmony within living spaces. We actively incorporate Friendly Design in to all of our houses and buildings. We conduct a diverse range of ergonomic and other such tests with the aim of creating spaces that enable everyone to live comfortable, healthy lives.

\* Slide-Out Shoe-Donning Bench (see photo)

We determined the ideal height for the taking off and putting on shoes after many studies into shoe-donning and -removal patterns among the young and elderly, by age, wearer height, gender, and shoe type.



### Establishing a framework for environmental analysis

We have established a new Environmental Analysis Office (see photo) as part of our Central Research Laboratory and equipped it with analytical equipment to enable the study of harmful substances released into the atmosphere, water or soil. We undertake research and improvement measures in areas such as soil pollution on land used by the Daiwa House Group, asbestos countermeasures during demolition and the control of harmful substances at our plants. In November 2005, we became the first housing manufacturer to be registered as a Concentration Measurement Certification Business.





# Action

## Our Business Domains

75	<b>Residential</b> Single-Family Houses Condominiums Rental Housing Home Renovation Real Estate Agency Services
87	<b>Commercial Construction</b> Commercial Facilities Distribution and Medical and Nursing Care Facility Construction
95	<b>Resort Hotels and Sports Life Business</b>
98	<b>Home Center Business</b>
100	<b>Other Businesses</b>

人・街・暮らしの価値共創グループ

35,000 Hearts



# — Field of Action

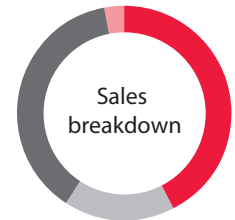


# Housing




# Residential

Employing the Group's collective strength to take the largest share



Sales   
**¥909.5 billion**  
 (year-on-year + 6.4%)

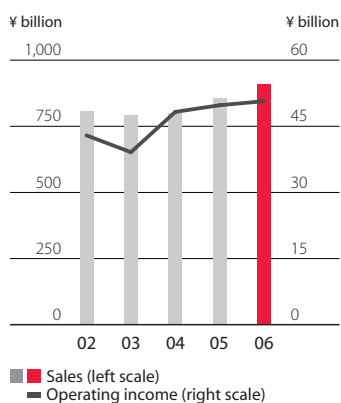
Operating income   
**¥50.6 billion**  
 (year-on-year + 1.9%)

Housing is the Daiwa House Group's core business, accounting for 59.2% of total sales. Group companies cooperate with one another to cover a comprehensive array of businesses related to housing, from the construction of single-family houses, condominiums, and apartment houses, and home renovation, to real-estate brokerage and management, to proposals on the use of leasehold property.

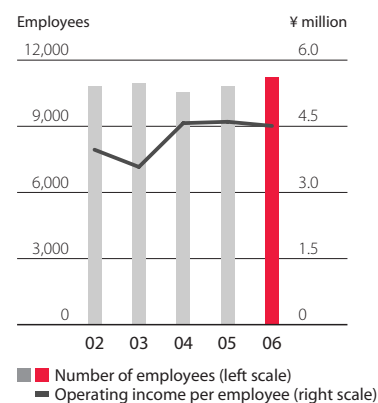
The business environment for the term was favorable. Housing demand grew as the fall in land prices in city centers came to an end and the terms of the low-interest policy and the mortgage tax break were extended. As a result, new housing starts increased for the third consecutive year, rising 4.7% year on year. Performance was especially good in the condominium and rental housing segments.

Since the number of housing units is expected to fall with the rapid aging of society, we will consider strategies to invigorate housing stock to take the largest share in the housing business by employing the Group's collective strength.

Sales and operating income



Number of employees and operating income per employee



## Single-Family Houses

Sales ¥384.2 billion <sup>\*1</sup>

20.0%

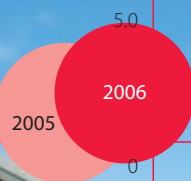
Sales growth rate<sup>\*2</sup>

<sup>\*1</sup> Sales to outside customers

<sup>\*2</sup> The sales growth rate is a compound annual growth rate (CAGR), with size of circles indicating scale of sales  
2005: FY2002 to FY2004      2006: FY2003 to FY2005

<sup>\*3</sup> The market growth rate is based on Daiwa House's own calculation.

15.0  
10.0



5.0      10.0      15.0      20.0%  
Market growth rate<sup>\*3</sup>

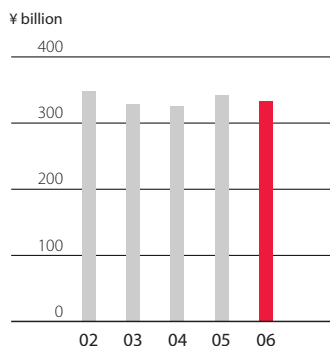


The single-family house segment sell custom-made and lot subdivision houses across the nation, employing its abundant experience as a pioneer in the business.

To retain our ties with customers, we are promoting a new housing strategy called the building of Endless Partnerships, to enable us to generate synergies in partnership with Daiwa House Group businesses. We will focus on supplying houses with high future value based on quality, reliable technologies, customer-first services, and high-value-added proposals. Using Customer Centers, which we began to set up across the nation in fiscal 2005 as bases, we aim to achieve real customer satisfaction and become the No. 1 company both in name and in fact, and a Company that is trusted and supported by customers.

### Sales

(Daiwa House Industry; non-consolidated; excluding sales of land)



### Providing houses with high future value

In quantitative terms, there are already enough houses in Japan. In June 2006 the long-awaited Housing Life Basic Law was established to ensure that people feel satisfied with the quality of housing.

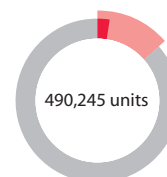
We welcome the enactment of this law that sets out a grand design for the future of Japanese houses and the living environment because we believe it will present us with a major opportunity to invigorate the housing industry. On the other hand, the industry will need to accept that it has a social responsibility related to the living environment. We must maintain the quality of houses and provide appropriate information.

Against this backdrop, we will focus on providing houses of high future value based on the building of what we call the Endless Partnerships. We will strengthen our core technologies and at the same time improve basic functions such as earthquake-resistant, burglary-prevention, barrier free and energy-saving functions, which we have been developing ahead of our competitors. We will also provide high value-added products and services.

In addition, we aim to enrich the community and provide ties among the people who live there by considering the environment and landscape preservation, improving welfare and cultural facilities, and enhancing convenience. We will also propose recommendations on the development of laws on housing acquisition support, among other areas, to create and develop a richer Japanese housing living environment, and to develop good housing stock as social assets.



### Share of single-family house market (FY2005)

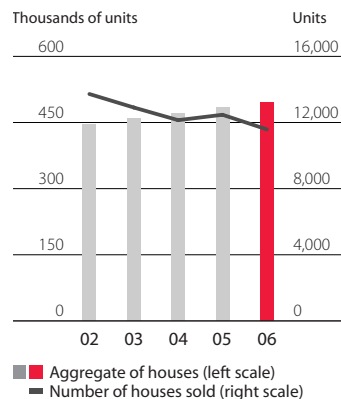


Daiwa House (non-consolidated)	2.4%
Top 5 companies	13.5%
Other companies	86.5%

Note: Total shares based on statistics by the Ministry of Land Infrastructure and Transport.  
The share for Daiwa House and top 5 companies based on our estimates.

### Aggregate of houses and number of houses sold

(Daiwa House Industry, non-consolidated)



I promise to come up with ideas and products from the consumer's perspective

Studying consumer lifestyles

## Contracting business

### xevo, “a house with ties”

xevo, launched in September 2006, was developed based on the concept of “a house with ties” to people, nature, and communities and to the next generation. The concept is that the house evolves with technologies. With the evolution of core technologies, there has been a dramatic improvement in basic housing functions such as durability, earthquake resistance, heat resistance, and energy conservation. We will provide comfortable houses in which people can live happily for many years, by proposing comfortable exterior appearance in harmony with the streetscape, and a variety of ideas in line with the concept of “house with ties.”



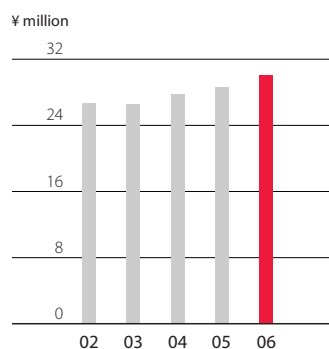
### Property value enhanced by new concepts and the development of technologies

The new product was developed as a house with high future value, equipped with advanced core technologies. We use the external breathable insulated wall and thereby strengthened the waterproof property of the wall, leading to a dramatic improvement of durability. Heat insulation also reduces dew condensation inside walls and improves building durability. The photovoltaic power system reduces CO<sub>2</sub> emissions from inside the house as well as heat and light expenses. When we apply inorganic coating with improved weather resistance on the outside wall together with the system, the heat insulation effect is accelerated and heat efficiency improved. As a result, we can dramatically reduce heat and light expenses and maintenance costs.

To reduce the costs of the structural frame, we have developed a new construction method through which we have increased the strength of the bearing wall 30% (compared with our conventional products). This method has also allowed us to design floor-plans with more freedom and flexibility. We have been able to reduce the number of partitions and create an open-plan house.

We are advertising the product through the media and sales promotion activities nationwide. We will also improve training and education for salespeople by enhancing the quality of e-learning and textbooks and by introducing a certification system. Our salespeople are tested on their knowledge of this product, and only those who pass our exam may market it. Through these measures, we aim to become No. 1 in terms of housing supply rate.

Average sales per unit  
(Contracting business)



With heartfelt sincerity;  
daily efforts

Single-family house design



## Subdivisions

### Improving the living environment, with due consideration of streetscape development

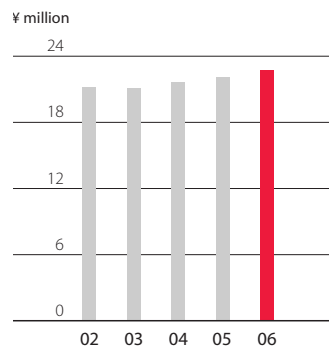
With the number of subdivision single-family housing starts declining 1.2% in fiscal 2005, we developed and sold properties that reflected our commitment to asset value. An example is the subdivision house “Floral Avenue,” for which we consider the comprehensive revitalization of urban communities or urban development. We stepped up housing supply in areas where demand for housing is large, employing the Group’s information about local land conditions. When we redeveloped the idle land of public offices, Group companies cooperated in operating complex projects. We promoted industrial activities and employment and created social welfare services and cultural and inter-community exchange. We developed customer-oriented CS activities in such a manner as to meet the housing needs of customers. We also sought to improve after-purchase servicing.



### Focusing on select areas to improve the efficiency of marketing and sales promotion

From now on, we will aim to properly grasp trends related to both customers and the marketplace through comprehensive research, and will select building lots that meet the needs of customers. We will also collect and use the information we obtain based on the results of our research. Moreover, we will plan and develop housing products for sale for particular areas or targets. For that purpose, we will develop strategies for particular areas in metropolitan areas. We will use the Group’s network to bolster our land development capabilities. We will select areas where we have set up subdivision offices, and concentrate marketing efforts there. We will also bolster sales promotion through the Internet while calling on temporary employees with connections in local communities. Through these actions we will seek to maintain and improve the value of houses and the surrounding communities and environment. Meanwhile, we will focus on training people with skills in life planning, funding, and tax practice, and on building a CS system.

Average sales per unit  
(Subdivisions)



# Condominiums

Sales ¥151.0 billion \*1

20.0%

Sales growth rate\*2

\*1 Sales to outside customers

\*2 The sales growth rate is a compound annual growth rate (CAGR), with size of circles indicating scale of sales  
2005: FY2002 to FY2004      2006: FY2003 to FY2005

\*3 The market growth rate is based on Daiwa House's own calculation.

15.0

10.0

2006

2005

0

5.0

10.0

15.0

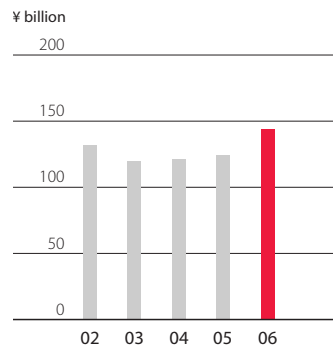
20.0%

Market growth rate\*3



The D' Series of condominiums developed by our Condominium Division offers four different lines throughout Japan. These are designed to match the lifestyles of their owners, and include urban-style and high-rise condominiums. We pay attention to functionality and comfort, and pay close attention to ensuring the harmonization of city life and the natural environment. We have our own high standards with respect to safety, management and customer service. We have developed D's Bridge, a system that evaluates the asset value of condominiums objectively and over the long term, so that customers, with whom this has proven very popular, can feel secure in owning and enjoying their investment.

Sales (Daiwa House Industry, non-consolidated)



### Condominiums are growing in scale, while owners' needs are diversifying

Accompanying the successive waves of people relocating from the suburbs to the city center, particularly in the case of Tokyo, and demand created in connection with urban redevelopment projects, we are seeing more and more large-scale condominium developments, some with over 1,000 units. The Daiwa House Group is offering 11 large condominiums in parts of the country where the Group has particular strength. A division dedicated to a large-scale multiple use redevelopment, and incorporating our Urban Design Laboratory was established by us in October 2005, we will further expand our multiple-use condominium offerings by incorporating medical and commercial facilities while ensuring the harmonization of city life with the natural environment.

We have developed a reasonably-priced, enjoyable-to-live-in line, called "aie" (for Amenity of Intelligence and Elegance), targeting first-time buyers such as young families in their early thirties, an age bracket that constitutes a demographic spike in Japan.

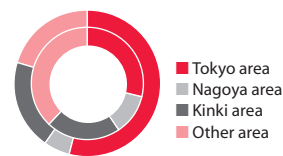
### Toward a more effective condominium business

In the condominium business, orders received increased 16.7% over the previous period. We were third in Japan in condominium units delivered in 2005 (Survey by Real Estate Economic Institute Co., Ltd.).

To further enhance profitability, we will make the business more effective by using online marketing, and by selective concentration of our sales offices. We will strengthen our promotion strategies by tailoring them to our target markets and our product concepts. We will also work to provide services and improve our selling power by exploiting the synergy created by collaboration among the Daiwa House Group companies. We intend to raise the proportion of online sales contracts from the current 16.8% to more than 30% in two years.

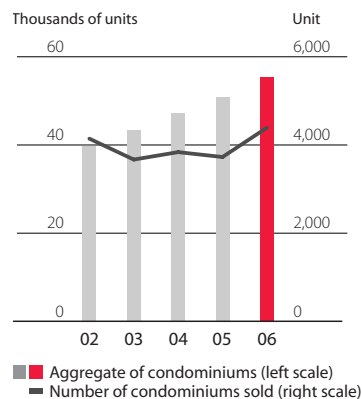
Since January 2002, all D' Series condominium units have been certified in terms of performance indicator evaluations under the Housing Quality Assurance Act. In particular, our minimum earthquake resistance grade is 2 (the second-best). While continuing to adhere to these high standards of basic functions and quality, we will work to improve our selling power by focusing on development and approaches that more precisely reflect our customers' needs, by utilizing our Condominium Friendship Clubs and our marketing research in the vicinities of proposed building sites.

### Area breakdown of condominium sales



Inner circle: Daiwa House sales in FY2005 (non-consolidated)  
 Oute circle: Location of condominiums nationwide in FY2005

### Aggregate of condominiums and number of condominiums sold (Daiwa House Industry, non-consolidated)

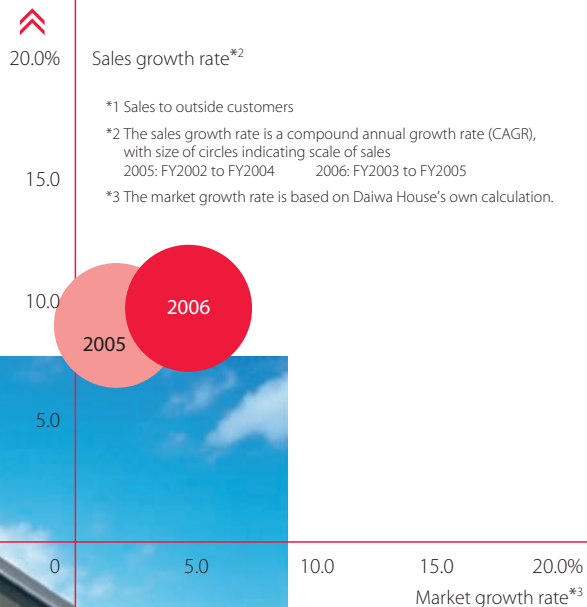


■ Aggregate of condominiums (left scale)  
 — Number of condominiums sold (right scale)

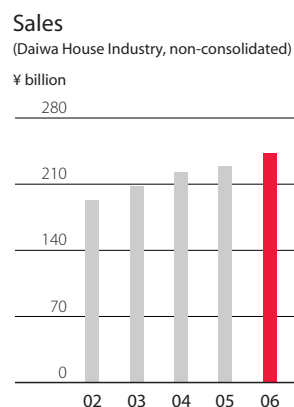


# Rental Housing

Sales ¥342.9 billion \*1



The Rental Housing Division offers business solutions, based on creation of high-asset-value rental housing products, to owners of land suitable for rental housing. After sale of the units, we offer many services to our land-owner customers to ensure consistently high occupancy rates and income. We develop properties to meet the diversifying needs of tenants arising from changing lifestyles. Thanks to their solid strictures, these properties protect tenants' lives and assets. Selection of equipment and drafting of specifications are based primarily on safety considerations. We also offer comprehensive support to owners, ranging from finding and introducing tenants to the building management, to maintenance to meet the owner's asset management needs.

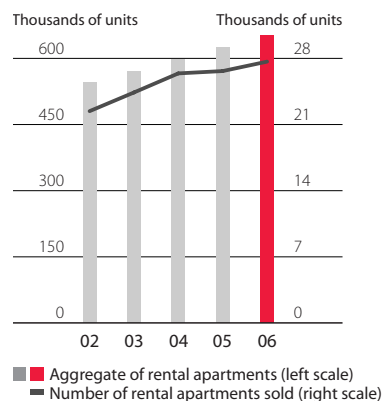


### Strategic business that captures the needs of both owners and tenants

The number of new rental housing starts increased again in FY2005, and exceeded 500,000 for the first time in eight years. The Nagoya and Kinki areas stood out, with 21.1% and 21.8% growth, respectively. Given this backdrop, we have developed three business strategies: (1) aggressive growth in the three major metropolitan areas, (2) strengthening of business solutions for large-scale developments, (3) enhancing relationships with owners. With respect to (1), we have established mid- to high-rise property sales offices in Osaka and Nagoya in addition to Tokyo, and have begun to market mid- to high-rise properties suited to urban land use. With respect to (2), we have enhanced our capacity to offer viable proposals to owners of large sites, and also to create quality rental housing that reflects our assignment of high priority to the harmonization of city life with the natural environment. With respect to (3), we will continue to promote our DAPS, a system which supports owners in managing their rental housing through facility management support, operating support and asset management support. We have also developed a system (the PDB system) which meticulously analyzes the status of the assets and comprehensively helps with asset strategies.



**Aggregate of rental apartments and number of rental apartments sold**  
(Daiwa House Industry, non-consolidated)



### Enhancing the value of D-Room, the Daiwa House's rental housing line

We will continue to advance solutions in the form of quality rental housing, based on the needs of both owners and tenants. To support our owner clients, we are improving D-RoomChintai, our website attracting tenants for rental housing we have built, and enhancing recognition of the D-Room name. In addition to emphasizing development of large-scale properties, in urban areas, we are also developing more 3-story houses, which are more efficient in land use. In city-center areas, we are enhancing sales of mid- to high-rise properties and becoming more active in the use of real estate investment securitization schemes. In these ways, we are working to increase sales. We are also improving services by utilizing the synergy from the cooperation of the Daiwa House Group companies.



Providing services that reassure customers

Rental Housing Business

## Home Renovation

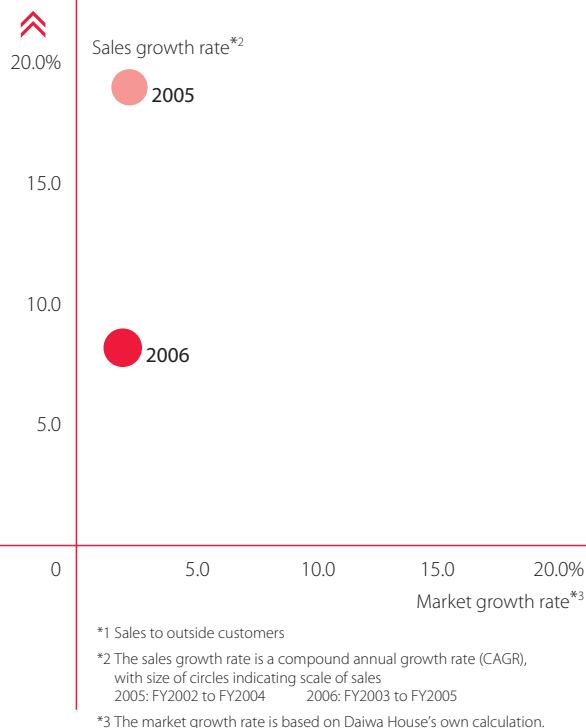
Sales ¥27.3 billion \*1

### Renew — passionate town house renovation

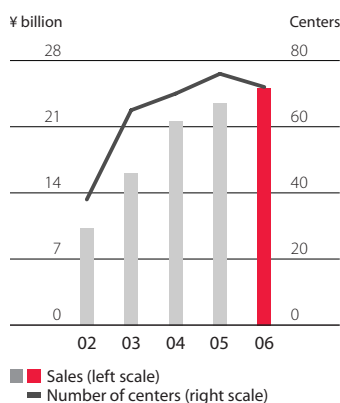
Due to factors such as an increase in housing stock, longer-lasting houses, improvements in anti-earthquake measures and crime prevention and an increasingly diverse range of lifestyles, there will be a growing need for home renovation. The home renovation market in Japan is therefore expected to increase in scale from ¥7 trillion in fiscal 2005 to over ¥8 trillion by 2010. In conjunction with Daiwa House Renew Co., Ltd., which was established in October 2004, as of August 2006, Daiwa House Industry's home renovation division operated primarily via 70 sales offices around the country. The division renovates more than 2,200 buildings each month on average. Operations are based on the concepts of "proposing comfortable lifestyles," "safe and secure living," "elderly resident-friendly housing" and "healthy living support housing."

### A CS-focused framework designed to instill confidence and provide peace of mind

By identifying latent needs based on studies of housing stock and by forming close relationships with potential customers, Daiwa House Industry's home renovation advice desks, located in 100 places in Japan, including in central areas and housing developments, continue to run initiatives such as organizing renovation-related events and providing information tailored to individual communities to gain customers' confidence and expand its business. As a high repeat rate has a major impact on business results, we also promote improvements to living spaces and environments based on factors such as the characteristics and climates of individual regions and changing generations and trends. Elsewhere, in addition to working on the development of the required training and sales structure and improving CS levels, we also focus on the continued recruitment of personnel with technical backgrounds and the establishment of a framework that will improve employees' skill levels and increase our retention rate.



### Renovation by Daiwa House Renovation Centers (Daiwa House Industry, non-consolidated)



Making our customers happy is my job.



Renovation

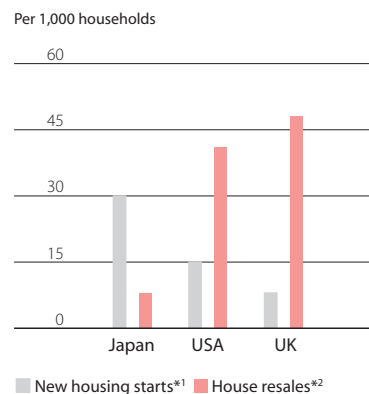


## Real Estate Agency Services

### More efficient business through “endless management” system

In addition to operations catering to our customers’ house-moving needs due to changing living environments and lifestyles, including the sale and purchase of housing and management schemes for short-term rental housing, the Daiwa House Group’s real estate agency operations also cover a comprehensive range of services such as management and maintenance. The Group’s real estate agency service company Nihon Jyutaku Ryutu Co., Ltd. works on ways to increase the asset value of condominiums, such as the D’s Bridge scheme, and also provides real estate securitization services for rental properties. As a result of our efforts to promote cooperation and collaboration between Group companies, we have increased the number of single-family houses, condominiums and other properties that we handle. In addition to expanding our network of sales offices, which are currently concentrated in the Kansai and Kanto areas, on a national scale, we also intend to develop a framework that will enable even greater synergy between business operations undertaken by individual Group companies.

### Comparison of circulation of resale houses



\*1: as of 1997

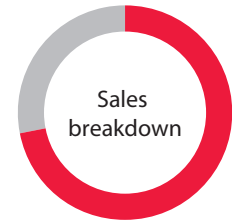
\*2: Japan, 1994; USA & UK, 1996




# Business

# Commercial Construction

Aiming to be the leader with our superior technical expertise and market database



Sales   
**¥445.2 billion**  
 (year-on-year + 22.4%)

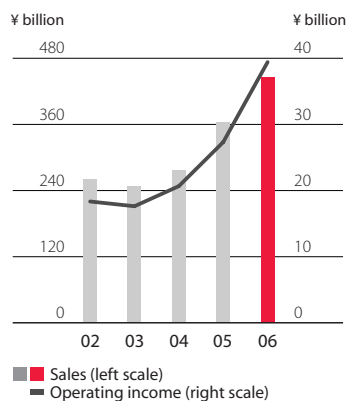
Operating income   
**¥39.4 billion**  
 (year-on-year + 44.3%)

The commercial construction business is the second pillar of the Daiwa House Group, accounting for 28.6% of total sales. This business consists of two divisions: the commercial facilities division, and the distribution and medical and nursing care facilities division.

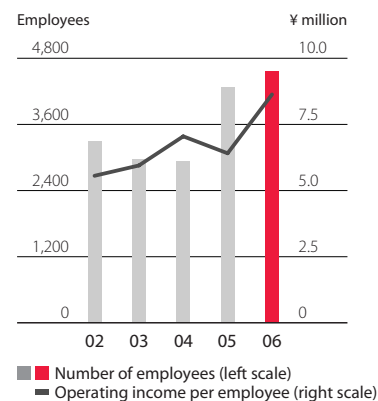
Based on nationwide land information, the commercial construction business promotes the application of land to the construction of commercial facilities best suited given the characteristics of the land. These commercial facilities include road-side shops and shopping centers, factories and distribution centers, and food manufacturing facilities and medical/care-related facilities, all with land development needs tailored to business purpose and land characteristics.

This segment is expanding its operations, not only into system construction, which manages the overall process of construction from production to completion in an integrated manner, but also operational management, conversion, and business consulting for efficient asset management.

Sales and operating income



Number of employees and operating income per employee



# Commercial Facilities Division

Sales ¥314.2 billion \*1

20.0%

Sales growth rate \*2

\*1 Sales to outside customers

\*2 The sales growth rate is a compound annual growth rate (CAGR), with size of circles indicating scale of sales  
2005: FY2002 to FY2004      2006: FY2003 to FY2005

\*3 The market growth rate is based on Daiwa House's own calculation.

15.0

10.0

5.0

0

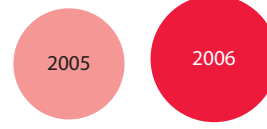
5.0

10.0

15.0

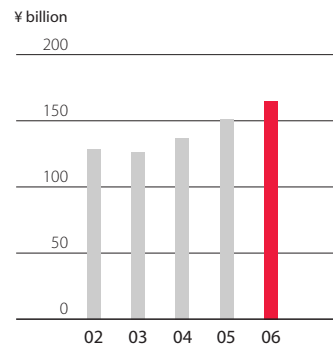
20.0%

Market growth rate \*3



The commercial facilities division operates its business mainly based on the LOC System, an effective land utilization system that links land owners with tenant companies. Leveraging the information on land and store openings collected from the nationwide network, we bring an effective commercial shop business to reality for both land owners and tenant companies by proposing plans that effectively use the attributes of each site.

Sales (Daiwa House Industry, non-consolidated)



**Enhanced system responding to various store-opening patterns**

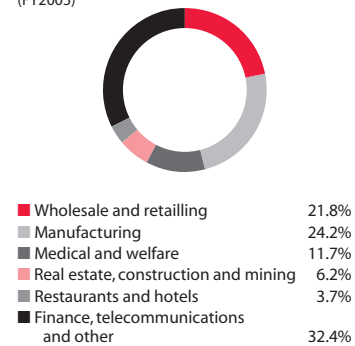
In the market for the commercial facility construction, our mainstay business, some changes are noticeable: a decline in idle land with favorable conditions, renovations and reuse of existing buildings, and the emergence of larger-scale shops and complex commercial facilities. During the term we focused on strengthening development of multiplex commercial facilities and of systems to drive the reuse of existing shops and the replacement of tenants. Also, to respond to trends toward more diversified and complex commercial facilities, we reorganized the types of commercial facilities into certain patterns, such as the power-center type in which tenants are arranged around a shared parking area in the middle of the site, the open-mall type in which attached tenant shops with a unified exterior surround the parking space, and the in-mall type in which shops are constructed along a path inside the building. Consequently, we developed operational management and support systems better suited to the facilities of each type.



**Aggressive operations in the renovation market**

With respect to road-side shops along the main road in suburban residential areas, market demand for alternative applications focuses not only on the effective use or reconstruction of idle land and little-used land but also the reuse or renovations of existing shops. The Daiwa House Group proposes the creation of new value through renovations, additions, reconstruction, and the sale of existing buildings based on the solutions presented by our New Value Creation (NVC) System. In the fiscal year under review, we set up specialized teams of conversion in three areas, namely Tokyo, Osaka, and Nagoya. These teams have outstanding expertise in real estate and legal matters as well as a strong leasing capability for the recruitment of new tenants to deal with problems confronting land and building owners and tenant companies. In this way, we are addressing issues facing land and building owners and tenant companies — dealing with tenant exits, changes in surround neighborhoods, and the need to raise profitability.

**Large private-sector non-residential buildings in Japan (FY2005)**



**I am always customer oriented.  
I am constantly committed to improving quality.**



Commercial Construction Work

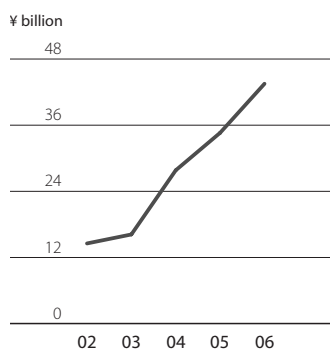
### Enhanced services to land owners

The number of members in the Owners Club, which was established to promote friendship and interaction among the land owners in the LOC System and improve their knowledge about asset utilization, reached 5,121 at the end of fiscal 2005. In the year under review, we strengthened the operational management proposal system by Group companies to respond to more diversified building maintenance needs. We also endeavored to maintain and increase royalties from landowners by bolstering our real estate business support services for land owners through proposals to trade land and buildings. We took steps to expand business opportunities as observed in the increase and progress in continuous orders and orders through introduction. We will continue to grow the size of the Owners Club by promoting activities to bolster relations among members and encouraging those who have not yet joined the Club to participate.

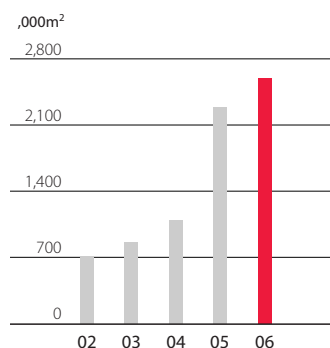
### Strengthened integrated power for asset utilization

To use land and buildings efficiently as business assets, we need to further improve the power to make propositions for the maintenance, management and operation of buildings going forward. In this respect, we not only effectively use the call center established in February 2006, but also accumulate know-how by setting up a team specializing in property management. At the same time, we are strengthening our ability to develop new store openings and power to make propositions for the effective move-in and replacement of tenants and the efficient and profitable use of land and buildings. Bearing in mind the supply of properties to J-REIT, we are also making an aggressive effort to develop and resell high value-added property investment products, while examining the use of diverse property development and investment methods, including securitization and the use of special purpose companies (SPCs).

### Orders for large commercial facilities



### Areas subleased in commercial buildings



**I will undertake sales activities to inspire our customers, making full use of the Group's business resources!**

Sales, Commercial Facilities



Sales growth rate\*2 20.0%

## Distribution and Medical and Nursing Care Facilities Division

Sales ¥122.6 billion \*1

2005

15.0

10.0

2006

5.0

0

5.0 10.0 15.0 20.0%

Market growth rate\*3

\*1 Sales to outside customers

\*2 The sales growth rate is a compound annual growth rate (CAGR), with size of circles indicating scale of sales  
2005: FY2002 to FY2004 2006: FY2003 to FY2005

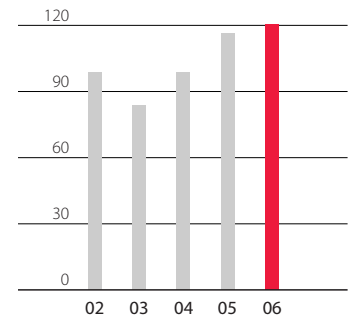
\*3 The market growth rate is based on Daiwa House's own calculation.



### Sales

(Daiwa House Industry, non-consolidated)

¥ billion



The distribution and medical and nursing care facilities division consists of two sub-divisions: distribution facilities and medical and nursing care facilities.

In distribution facilities, encompassing factories and food-related facilities, we propose not only the use of idle or little-used land as asset solutions, but also store opening plans, construction plans, and facilities management, leveraging our nationwide information network of the most appropriate locations.

In medical and nursing care facilities, we make comprehensive propositions ranging from facility construction plans to operational support from diverse perspectives, encompassing revisions to the law and social changes and the views of the elderly, caretakers and facilities operators, mainly based on our research and analyses at the Silver Age Research Center, established in 1989.



## Distribution Facilities

### Providing integrated solutions to distribution facilities

In the efficiency of distribution systems and the trend toward outsourcing, particularly in retailing and distribution industries, demand is rising for integrated high value-added multifunctional and fragmented distribution services, including distribution processing functions. With distribution facilities becoming larger and multifunctional, we promote the Partner Coordination System (PCS), which links distributors with cargo owner companies, and apply our nationwide information network making use of the Group's strengths in our distribution proposals. We also focus on the construction and commercialization of distribution facilities using idle land of corporate customers.

### Proposal of ideal solutions for detailed user needs

Based on active information exchange and collaboration with potential corporate customers, by narrowing down target companies and through PCS, the Daiwa House Group proposes not only the construction of distribution facilities, but also effective, efficient and comprehensive distribution solutions designed to optimize the business overall.

To acquire and effectively use land with conditions that meet the needs of users, we are bolstering area research and community-oriented sales activities. On that basis, we endeavor to expand our market share by proposing solutions for the construction and leasing of food facilities matching HACCP\*1, based on our own scheme called "food factory lease," which makes use of our business consulting capability for HACCP and sophistication approvals in cooperation with the Food Hygiene Technology Advisory Group, and also leverages our broad network and information capability. In addition to solution proposals, we also promote real estate liquidation businesses such as D Project\*2.

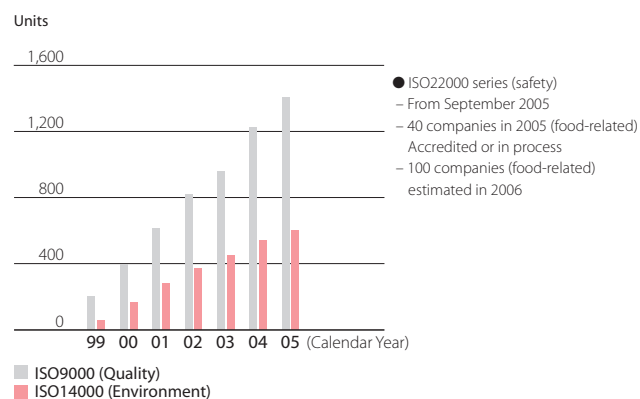
\*1 HACCP (Hazard Analysis and Critical Control Point): The international standard for food sanitary management.

\*2 D Project: Daiwa House Industry purchases commercial land and makes a contract for the construction of a building with a leasing company after renting the land out to the leasing company. The leasing company as building owner enters into a contract with tenant companies. Bearing in mind the sale (exit strategy) of the property to domestic and foreign funds and REITs, etc. in the future, Daiwa House Industry will purchase the building from the leasing company to own both the land and the building, so as to construct a business able to respond to the securitization of real estate and simultaneously secure construction profit, leasing profit and sales profit.



### Number of organizations in Japan accredited for conformity with international standards regarding product quality and environmental management systems (food, beverages and cigarettes)

(as of January 10, 2006)



I fill both of the hands of our customers with satisfaction: the success of business on the one hand and the satisfaction of working with Daiwa House on the other.

### Construction of Distribution Facilities



## Medical and Nursing Care Facilities

### From large care facilities to small multifunctional homes

The medical and nursing care facilities business offers comprehensive business consulting services covering every aspect from research and study in areas related to medical, nursing care, and welfare for the elderly to concepts, design, construction, and operational plans, mainly provided by the Silver Age Research Center. In Japan, the percentage of the population consisting of older people aged 65 and over is expected to reach 25% in 2015, so demand for medical and nursing care facilities is certainly rising.

The performance of Reanju and Reanju Sopra, products for private nursing homes in commemoration of the 50th anniversary of foundation, has remained brisk. We are also pushing ahead with the development of small multifunctional homes, demand for which is expected to grow further, employing and standardizing the Reanju system.

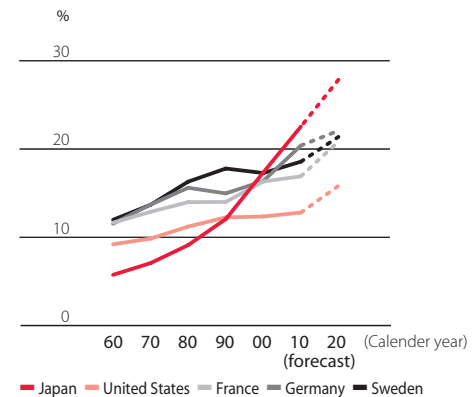
### For the coming era of an aging population

The Silver Age Research Center aggressively promotes research and study in cooperation with other companies and based on academia-industrial alliances, as observed in the collaboration with Nichii Gakkan Company and a joint research project with Osaka City University. We are aggressively applying the results of the research to business, the formation of plans for houses designed for elderly residents and small multifunctional homes, and land utilization proposals, which we have cultivated through the activities of the Group. Particularly in small multifunctional homes, demand for new construction and large renovations is expected to rise, since the Ministry of Health, Labor and Welfare has recognized small multifunctional home caring services as a style that should serve as a model for caring for the elderly in Japan, and has included this item in the amendment to the Nursing Care Insurance Law in fiscal 2006.

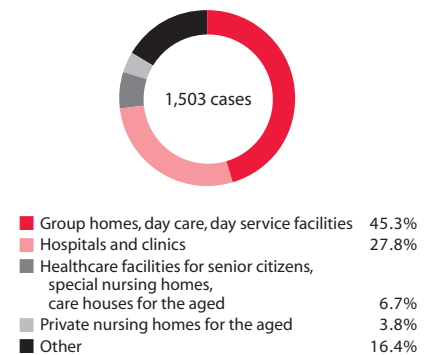
We are seizing business opportunities by making use of the land information of the Group and our strong track record in conversion. We are also involved in a market analysis for the development of business for healthy elderly persons and social welfare for the non-elderly segments of the population.



Global comparison of aging populations



Projects of the Silver Age Research Center




A photograph of an outdoor dining area. In the foreground, there are several round tables with white tablecloths and wooden chairs. A waiter in a floral shirt is standing and serving a table. In the background, there are people sitting at tables, a swimming pool, and a building. The word "Life" is written in white text on the left side of the image.


Life

# Resort Hotels and Sports Life Business

Adding new sports facilities and supporting an enriched way of life



Sales   
**¥66.4 billion**  
 (year-on-year + 19.3%)

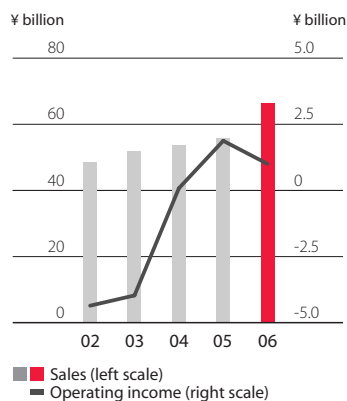
Operating income   
**¥1.0 billion**  
 (year-on-year - 46.6%)

The business segment, up to fiscal 2004 centered on resort hotels, absorbed Nippon Athletic Service Co., Ltd. as a new Group member in fiscal 2005 and was relaunched as the Resort Hotels and Sports Life Business.

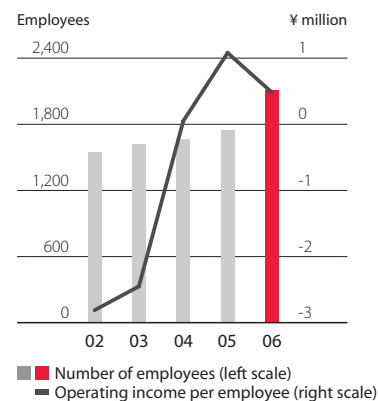
The segment now operates 29 resort hotels, 10 golf courses and 46 sports-related facilities around Japan. It is committed to providing relaxing spaces at a time of rising health consciousness and concern regarding use of leisure time.

In addition to providing accommodation services in resort areas of great natural beauty and offering access to rich local cuisines, the business also runs sports clubs (golf, tennis, fitness, swimming, and other sports). The business accounts for 4.4% of total sales.

Sales and operating income



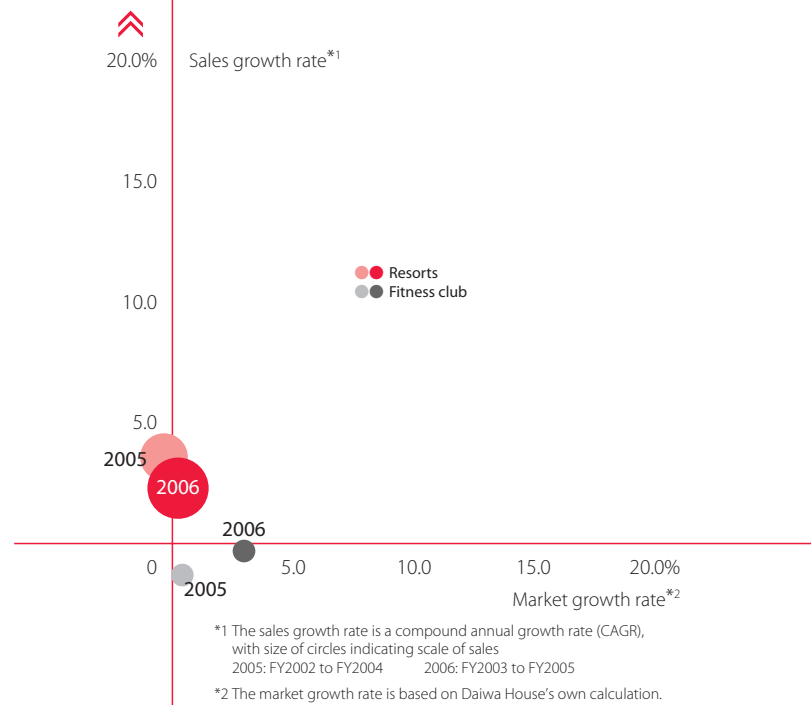
Number of employees and operating income per employee



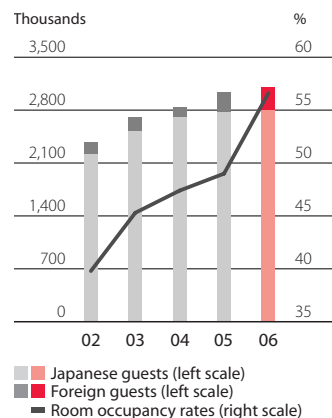
### Focus on overseas visitors and older, still active customers

Reflecting positive trends in the Japanese economy, the domestic tourism industry saw an increase in the number of domestic overnight trips from 1.71 per person the previous fiscal year to 1.82 in fiscal 2005, with a similar increase in the number of nights spent in hotel accommodation from 2.78 to 2.94. The number of overseas visitors coming to Japan reached a record high 6.73 million, due in part to the government's Visit Japan campaign.

Efforts to boost the pulling power of Daiwa Royal Hotels in the eyes of overseas visitors attracted approximately 320,000 overseas guests over the course of fiscal 2005 (up 16.0% year-on-year). In an effort to increase weekday occupancy rates, we also launched a weekday resort hotel membership campaign called Aging Resort Tourism aimed at retired members of the baby boom generation and active seniors. Elsewhere, we launched a new service called Comfort Club, which organizes golf, hiking, fishing, photography and other interest-oriented activities, for customers belonging to the Daiwa Royal Hotel Members Club to encourage existing members of get more use out of our hotels.



### Daiwa Royal Hotels: Number of guests and room occupancy rates



### Network 46 Sports clubs in Japan



#### Offering services carefully tailored to meet specific resort hotel needs

Efforts to boost the pulling power of Daiwa Royal Hotels are proceeding according to plan, with hotels attracting approximately 3.11 million overnight users in fiscal 2005 (up 2.3% year-on-year) and an increase in occupancy rates of 7.5 percentage points from the previous fiscal year. However, investing in human resources to provide new services, increasing costs due to rising energy bills as a result of high oil prices and improvements in profitability are becoming serious issues.

In addition to efforts to offer our customers a wider choice of food, by introducing macrobiotic (designed to boost longevity through natural ingredients), oriental-western fusion or multi-dish menus for example, to increase customer numbers and the amount spent per customer, we also intend to focus on enhancing hotel facilities with the aim of developing overnight resort hotels in the future. In terms of wedding services, we are making every effort to provide services carefully tailored to meet a wide range of needs through initiatives such as the introduction of an advance ordering system to enable us to provide wedding reception guests with menus that suit their individual tastes and improving our overnight wedding and evening wedding services.



#### Striving to achieve synergy with NAS sports facilities

We are striving to increase attendance rates at the ten golf courses that we manage around the county through initiatives such as competition and course design schemes for active members and the introduction of a sub-membership system for Friendship Clubs. In the future, we plan to develop overnight packages in conjunction with our resort hotels and establish a joint membership system incorporating NAS sports clubs run by Nippon Athletic Service in an effort to provide access to more convenient, easy to use sports facilities. In addition to capitalizing on the synergy effect resulting from the similarities between customers using NAS clubs, resort hotels and golf courses and working to increase fitness club membership numbers, we are also making every effort to improve our results by expanding NAS clubs into shopping malls and hotel complexes run by the Daiwa House Group to achieve a synergy effect across the entire Group.




**I offer the best possible services  
to make our customers happy.**


Bridal Coordinator

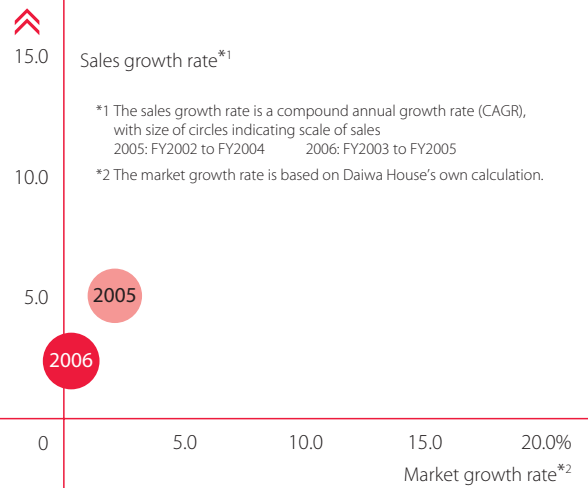


# Home Center Business

Identifying customers' precise needs and developing shops

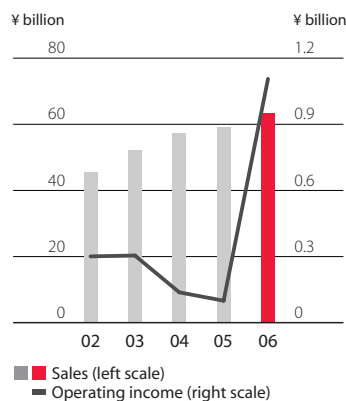
Sales   
**¥63.2 billion**  
 (year-on-year + 6.9%)

Operating income   
**¥1.1 billion**  
 (year-on-year + 1,004.4%)

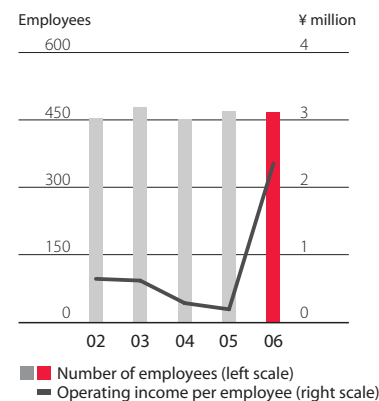


Our home center business accounts for 4.0% of our overall business activities. We operate Royal Home Centers, which stock over 50,000 items on average and have a wide range of users from members of the general public to specialist companies, throughout the country. In fiscal 2005, we opened the Yokohama Shiki No Mori Royal Home Center in Kanagawa Prefecture, taking the total number of shops to 40 nationwide. In an effort to break away from intensifying cut-price competition within the industry, we have also implemented product and price reviews and sales area reforms.

Sales and operating income



Number of employees and operating income per employee



Network 40 home centers in Japan



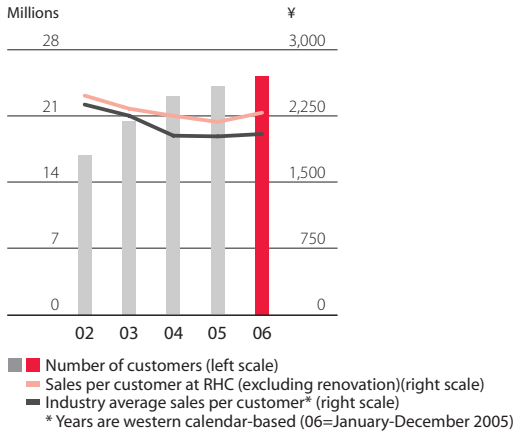
**Shop development geared towards breaking away from price competition**

In the face of intensifying price competition from rival companies in the home center industry and companies from other industries on the back of the current modest economic recovery, we have been actively implementing strategies designed to expand our customer base and attract repeat customers. We have moved away from our previous marketing strategy, which relied on sales of special-offer and low price products, in favor of a new strategy based on ranges of made-to-order high-added-value “home solution” products and improvements in development of sales spaces. This has enabled us to cut operating costs. We have also developed a sales area system that gives more power to individual shops to enable the development shops that reflect local needs and their respective locations and have started to expand or scale down opening hours (early morning opening) and departments at individual shops as necessary. As a result of these efforts, the total number of customers purchasing products in fiscal 2005 increased to 25.2 million, up 4.5% year-on-year, with the amount spent by each customer rising to ¥2,301, a year-on-year increase of 4.9%.

**Making full use of existing facilities and developing shops in line with local needs**

To make individual shops more competitive, we intend to establish a system to encourage the development of sales areas that closely reflect the local region and surrounding area in the future. In addition to giving significantly more power to individual shops and sharing and reviewing information on sales area design (including shopping flow) and product composition between shops, we are also promoting initiatives such as enhanced training schemes to improve CS levels and a standardized feedback system in response to customer inquiries. In terms of measures to increase the number of returning customers, we plan to introduce ESLP (Everyday Same Low Price) household items and made-to-order high-added-value products and to improve information provision and services. In addition to increasing overall customer numbers and the amount spent per customer, initiatives such as these will help reduce operating costs and increase our profit margins.

**Royal Home Centers:  
Number of customers and average sales per customer**



**I am striving to stay ahead of trends and develop the best shop in the region!**


Home Center Development






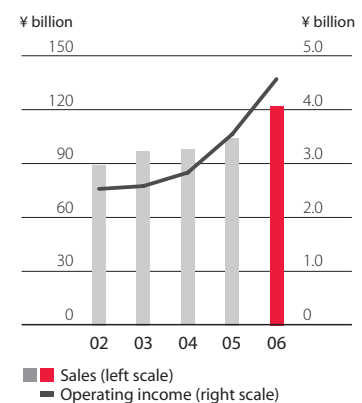
## Other Businesses

Providing multifaceted support for all areas of business as a Group

Sales   
**¥121.9 billion**  
 (year-on-year + 17.1%)

Operating income   
**¥4.5 billion**  
 (year-on-year + 29.0%)

Sales and operating income



### Commencing infill business

Daiwa Rakuda Industry Co., Ltd., which handles the manufacture and sale of household equipment and furniture and insurance agency services, has expanded its building materials manufacturing and sales division to include sales of interior fittings such as curtains and lighting. It has also launched an infill business offering comprehensive layout and interior options for condominiums. In addition to accepting more orders for shop-related interior fitting work and health and welfare facilities, the company's space system division has also established a system designed to accept showroom refurbishment orders from the likes of pre-fabricated housing suppliers and local construction firms. The lease division has stepped up the lease and sales of furniture and fixtures for various events and government and public institutions and has set up a new delivery center in Kanagawa Prefecture to increase leasing business in the Kanto area, with the framework in place for a full-scale launch in May 2006.



### Operating a comprehensive distribution service business

Daiwa Logistics Co., Ltd., provides logistics services covering any industry and field based on distribution expertise built up through the transportation of housing and building materials. It has changed its three-block sales structure to a seven-zone structure to increase operating profits and create a sales system in closer contact with its customers and is working to speed up the decision making process at all of its premises in an effort to improve customer service. After starting construction two years ago, all eight distribution centers around the country have now been completed, enabling the full-scale launch of our Asset 3PL service, whereby we will handle all distribution operations for client companies. As part of this service, Daiwa Logistics provides not only its distribution network and distribution system but also the necessary distribution centers (hardware) that companies require. It is designed to resolve issues facing companies looking to review their logistics operations whilst also taking care of all of their distribution operations. We intend to focus on this service to turn it into a key source of profit in the future.

### Business hotels designed to secure repeat customers

Over the course of fiscal 2005, the business hotel industry has seen a general reduction in prices across the board, the expansion of customer and repeat customer bases and the increasing use of IT in rooms. In addition to focusing on online reservations and the provision of internet connections in all rooms as part of our hotel businesses, we have also been working on improving services for female guests, couples and families with children, resulting in an occupancy rate of 77.3% (up 8.2 percentage points year-on-year). After opening a new Daiwa Roynet Hotel in Wakayama in fiscal 2005, we now operate a total of five such hotels, along with our existing Roynet Hotels, the Royton Sapporo and the Osaka Marubiru (Osaka Dai-ichi Hotel). We plan to open a further five new hotels in fiscal 2006 and intend to continue to open a number of new hotels every year in the future as we actively develop this line of business.



**For me, it's the smile  
that does it.  
I always welcome guests  
with a smile.**

Hotel Receptionist

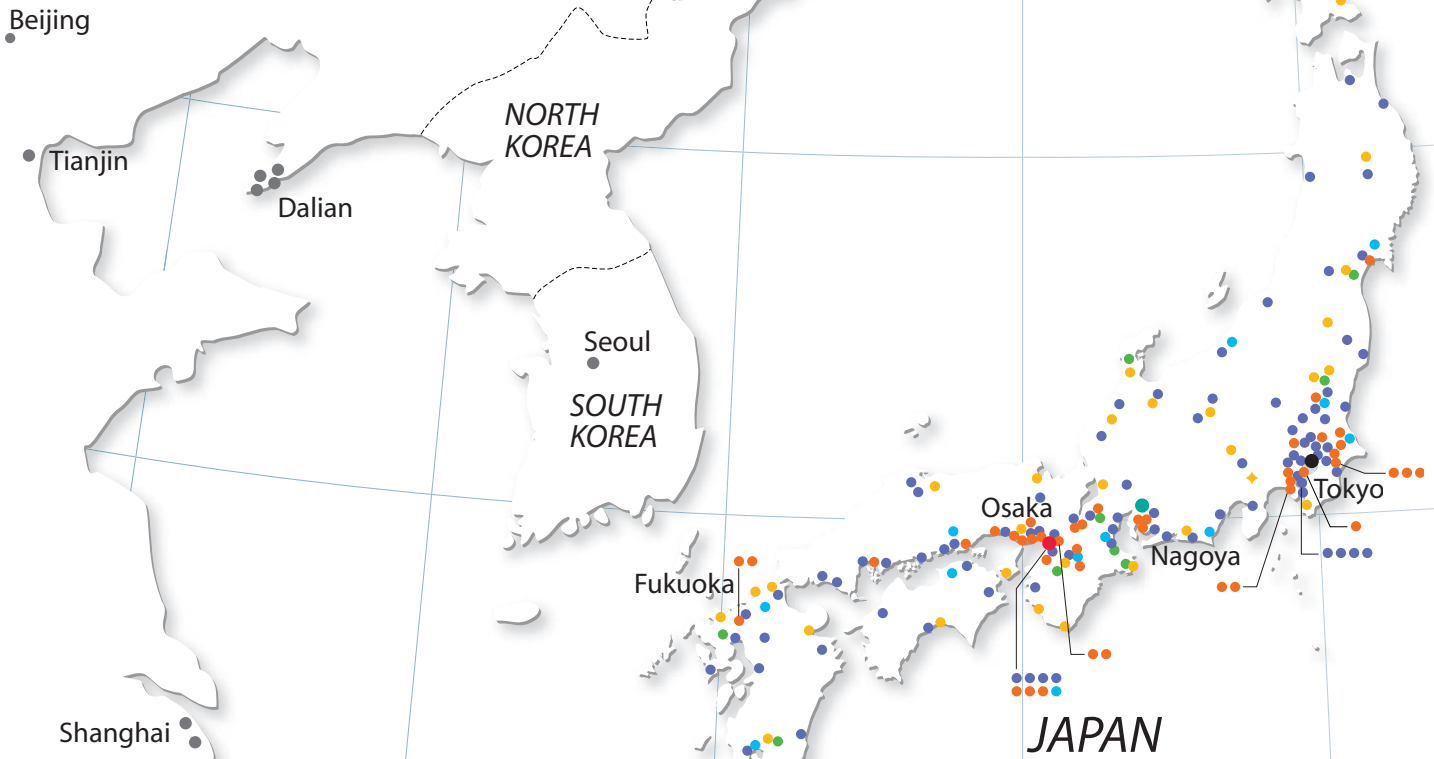




# Group Network

- Head office
- Tokyo office
- Nagoya office
- Branches: 91 (including Head Branch)
- Factories: 13  
(The above places of business are directly operated by Daiwa House.)
- Golf courses: 10
- Daiwa Royal Hotels: 29
- Royal Home Centers: 40  
Daiwa Resort Co., Ltd. also manages the Royton Sapporo, and the Lake Yamanaka Fujisan Royal Cottages (marked with ◆).
- It also operates a branch office in Seoul (marked with ●).
- Overseas subsidiaries and affiliates: 9

As of July 1, 2006



## Principal Group Companies

### Daiwa House Industry Co., Ltd.

3-3-5 Umeda, Kita-ku, Osaka 530-8241  
Phone: +81-6-6346-2111  
URL: [www.daiwahouse.co.jp](http://www.daiwahouse.co.jp)

### Daiwa Logistics Co., Ltd.

Transportation of goods; warehousing; logistics services

1-5-16 Awaza, Nishi-ku, Osaka 550-0011  
Phone: +81-6-4968-6355  
URL: [www.daiwabutsuryu.co.jp](http://www.daiwabutsuryu.co.jp)

### Daiwa Information Service Co., Ltd.

Land development; management of commercial facilities  
7-14-4 Ueno, Taito-ku, Tokyo 110-0005  
Phone: +81-3-5828-8891  
URL: [www.dis-net.jp](http://www.dis-net.jp)

### Royal Home Center Co., Ltd.

Sale of do-it-yourself, gardening, and interior goods  
3-3-5 Umeda, Kita-ku, Osaka 530-0001  
Phone: +81-6-6342-1676  
URL: [www.royal-hc.co.jp](http://www.royal-hc.co.jp)

### Daiwa Kosho Lease Co., Ltd.

Leasing of buildings and vehicles; business leasing  
2-1-36 Noninbashi, Chuo-ku, Osaka 540-0011  
Phone: +81-6-6942-8011  
URL: [www.daiwakosho.co.jp](http://www.daiwakosho.co.jp)

### Daiwa Living Co., Ltd.

Management of rental housing  
3-13-1 Iidabashi, Chiyoda-ku, Tokyo 102-0072  
Phone: +81-3-5214-2330  
URL: [www.daiwaliving.co.jp](http://www.daiwaliving.co.jp)

### Nihon Jyutaku Ryutu Co., Ltd.

Real estate agency (including property management, asset appraisal, housing renovation, etc.)  
1-1-3-800 Umeda, Kita-ku, Osaka 530-0001  
Phone: +81-6-6344-6356  
URL: [www.jyutaku.co.jp](http://www.jyutaku.co.jp)

### Daiwa Resort Co., Ltd. (Daiwa Royal Hotels)

Management of hotels and golf courses  
3-3-5 Umeda, Kita-ku, Osaka 530-0001  
Phone: +81-6-6342-1731  
URL: [www.daiwaresort.co.jp](http://www.daiwaresort.co.jp)

### Daiwa Rakuda Industry Co., Ltd.

Sale of household equipment and furniture; insurance agency  
1-5-16 Awaza, Nishi-ku, Osaka 550-0011  
Phone: +81-6-6536-6111  
URL: [www.daiwarakuda.co.jp](http://www.daiwarakuda.co.jp)

### Daiwa Service Co., Ltd.

Management of office & condominium buildings; staff dispatch; house-moving service  
1-5-16 Awaza, Nishi-ku, Osaka 550-0011  
Phone: +81-6-6536-6270  
URL: [www.daiwaservice.co.jp](http://www.daiwaservice.co.jp)

### Daiwa Royal Co., Ltd.

Rental of commercial facilities; hotel operations  
7-14-4 Ueno, Taito-ku, Tokyo 110-0005  
Phone: +81-3-3844-8357  
URL: [www.daiwaroyal.com](http://www.daiwaroyal.com)

## Housing Sales Companies

Daiwa House Kansai Corporation 6 other companies

## Others

### Daiwa House Renew Co., Ltd.

Specified manpower dispatch business for home renovation

### Jukeikai Co., Ltd. (Neo Summit Yugawara)

Operation of health-management facilities for the elderly

### Daiwa House REIT Management Co., Ltd.

Asset management

### Media Tech Inc.

Information processing services

### Daiwa Energy Co., Ltd.

Energy conservation support

### Osaka Marubiru Co., Ltd.

Management of hotels and restaurants

### Synchroller Co., Ltd.

Manufacture of housing components

### LOC Development Co., Ltd.

Development and management of shopping centers

### Daiwa Estate Co., Ltd.

Real estate agency services

### Nippon Athletic Service Co., Ltd.

Management of Sports Club NAS

### Shinwa Agency Co., Ltd.

Advertising and travel agency

### The Mortgage Corporation of Japan, Ltd.

Finance of housing loan

## Overseas Affiliated Companies

DH (Dalian) Administrative Management Consulting Center Co., Ltd.  
Clerical work outsourcing provider

Dalian Fuji Zhuang International Villa Co., Ltd.  
Management of rental housing

Dalian Dahezhongsheng Estate Co., Ltd.  
Development and marketing of condominiums

Tianjin Jiuhue International Villa Co., Ltd.  
Management of rental housing

Shanghai International Realty Co., Ltd.  
Management of rental housing

Dalian Acacia Town Villa Co., Ltd.  
Management of rental housing

Dalian Civil Aviation Hotel Co., Ltd.  
Management of Royal Hotel at Dalian

Beijing East Palace Apartment Co., Ltd.  
Management of rental housing

Shanghai Happy House Decoration Co., Ltd.  
Design and installation of housing interiors

# A Story of Daiwa House Group



1955 Daiwa House Industry Co., Ltd. established  
First house model, the "Pipe House," launched on market



1957 Steel pipe structure used for warehouse at sake brewery receives certification from Japan Lightweight Iron Construction Association as first such full-fledged structure in Japan



1959 Daiwa Kosho (current Daiwa Kosho Lease Co., Ltd.) and Daiwa Konpo (current Daiwa Logistics Co., Ltd.) established  
"Midget House" pilot prefabricated house model launched on market



1961 Daiwa Danchi established (merged with Daiwa House in April 2001)  
Stock listed on Osaka, Tokyo and Nagoya stock exchanges

1965 Nara Factory constructed, Japan's first specialist plant for production of prefabricated houses

1968 Network of housing showrooms set up across Japan

1969 Fullscale start of new town development business (Midorigaoka Neopolis)

1971 Daiwa Jutakukiki (current Daiwa Rakuda Industry Co., Ltd.) established

1974 Seven of the Company's plants — the Nara, Mie, Ryugasaki, Sapporo, Shikoku, Fukuoka and Kagoshima plants — receive product quality management awards from MITI

1977 Condominium Business starts

1978 Resort hotels business started with opening of Noto Royal Hotel, the first Daiwa Royal Hotel

1979 Real Estate Information centers set up within each of the Company's offices as first step in developing the used housing market

Tentakubin (current Daiwa Service Co., Ltd.) established

1980 First Royal Home Center opened in Nara City

1983 Exports and construction of high-end prefabricated houses to China (a first for Japan)

1986 Daiwa Information Service Co., Ltd. established

1989 Daiwa Living Co., Ltd. established  
Silver Age Research Center established

1994 Daiwa House Central Research Laboratory opened in Kansai Science City

1995 The Daiwa House Group provided disaster relief to areas hit by the Great Hanshin Earthquake, constructing temporary housing in January

2001 Daiwa House Industry Co., Ltd. merged with Daiwa Danchi Co., Ltd.

2003 All 13 of the Company's plants reach "zero emission" targets

2004 Home center business spun-off

The Daiwa House Group draws up its Corporate Ethics Guidelines and Behavioral Guidelines

2005 **50th anniversary**

Sales of "Intelligence Toilet" commenced

Daiwa House Group draws up a new management vision and an Employee Charter to mark 50th anniversary

New Group symbol — the "Endless Heart" — introduced



2006 Group management unified through share exchange arrangements between Daiwa House Industry and its subsidiaries Daiwa Kosho Lease, Daiwa Rakuda Industry, and Daiwa Logistics, by which the subsidiaries became wholly owned subsidiaries of Daiwa House Industry

We will fulfil the mission of continuous growth entrusted to us by our founder Nobuo Ishibashi.

# Never Stop Growing

## Toward Our 100th Anniversary

The Daiwa House Group developed prefabricated housing in Japan after the Second World War. Founder Nobuo Ishibashi pushed out the boundaries of the housing market in Japan and made important contributions to the development of Japan's society and economy. We consider ourselves heirs to this pioneer spirit, and will continue to realize his enduring legacy in the future.





Iva House  
Group



自転車を除く



環状線  
Loop



自転車を除く



自転車を除く

自転車専用