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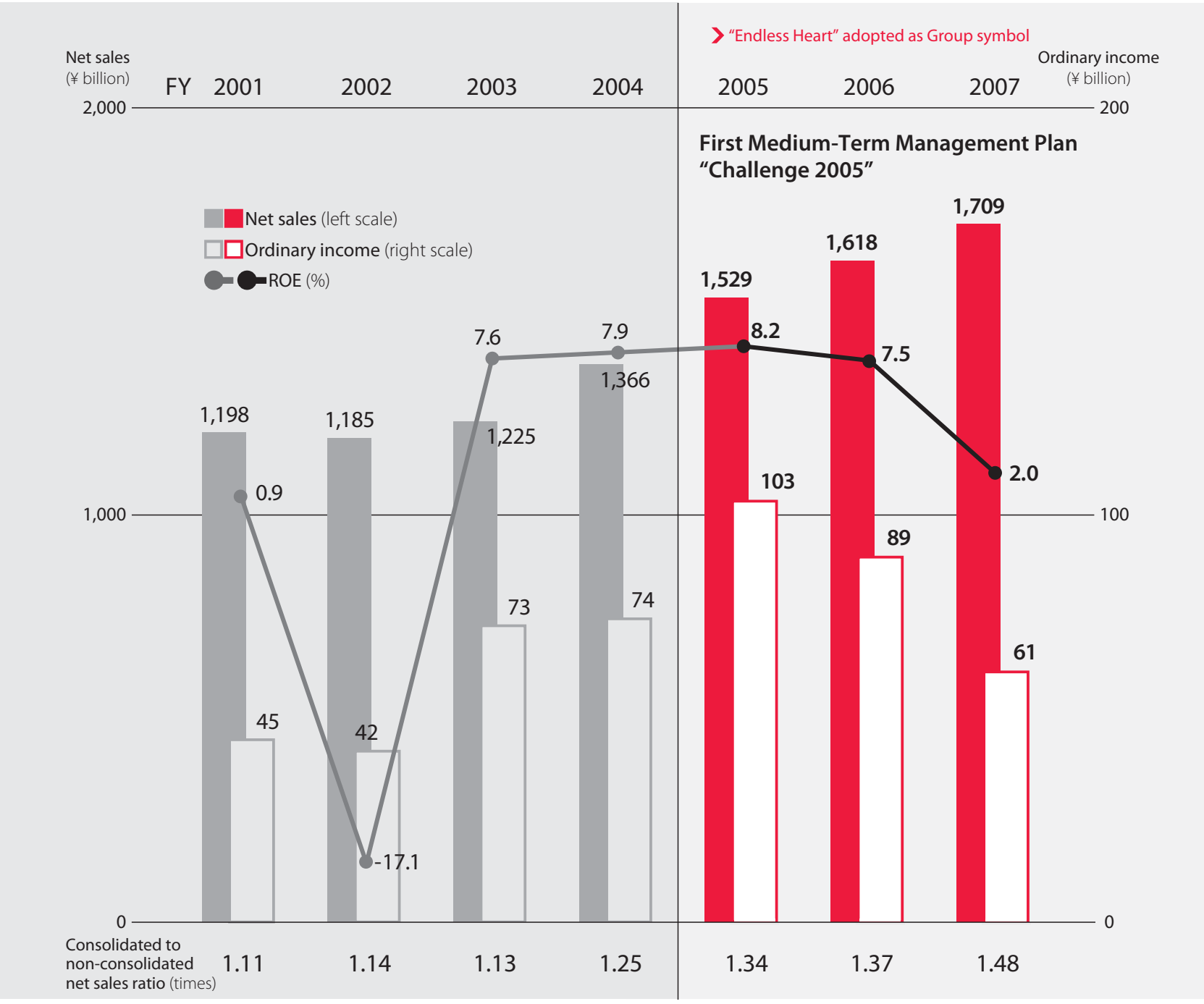
Notes to financial data and graphs
- Unless otherwise specified, annual figures in the graphs are for years ending March 31.
- Figures for sales, operating income, and operating income margin for each segment in this Annual Report include intersegment transactions.
- Sales percentages for each segment in this Annual Report refer only to sales to outside customers.

Forward-looking statements
- This Annual Report contains future estimates, targets, plans and strategies by the Company and the Daiwa House Group. They are based on judgments made using information available at the time of writing. For various reasons, actual results may differ substantially from these estimates.

3 Years' Results

In April 2005, the Daiwa House Group adopted the Endless Heart symbol — a heart-shaped Möbius strip — to symbolize its never-ending commitment to the ideals of Company founder Nobuo Ishibashi. This signaled the start of a new management system for the Daiwa House Group, and performance results have subsequently been posted for the two business years FY2006 and FY2007, which were also the last two years under our first medium-term management plan. We hereunder announce the business performance of the Daiwa House Group for the past three years.

3 Years' Performance



Targets and Results for three years

Under the Group's first medium-term management plan, covering the three-year period from fiscal 2005 to fiscal 2007, we set targets for fiscal 2007 – the final year – of ¥1,700 billion in sales on a consolidated basis, ¥100 billion in ordinary income, and 9.0% for ROE. Thanks to efforts over the three-year period, the Group achieved record-high sales for the final year, but ordinary income and ROE fell short of target.

Net sales ▲

25.1 % up

2008.3/2005.3
¥1,709.3 billion/¥1,365.9 billion

Ordinary income ▼

17.4 % down

2008.3/2005.3
¥61.3 billion/¥74.2 billion

ROE ▼

5.9 percentage points down

2008.3/2005.3
2.0%/7.9%

Basic strategy evaluation

Growth strategies	○ Comprehensive portfolio management △ Strengthen group ties in business segments △ Develop core technologies ○ Actively invest in future growth	We set targets for each business, and earmarked resources more clearly, created value chain partnerships and shared customer bases, overhauled construction methods for single-family houses for the first time in 25 years and refreshed brands at the same time, and also made aggressive investments for future growth through M&A and alliances with universities and public authorities and overseas investors.
Efficiency boosting strategies	△ Strengthen the procurement system △ Review the production system — Rebuild the distribution system	In response to an increasingly severe operating environment against the backdrop of rising prices of construction materials, we reorganized our production system, reducing the number of our factories from 13 to 11, and set up the Cost Management Office to bring down sales costs. Further measures will be taken to deal with rising raw material prices.
Strategies for strengthening our management base	○ Secure and train personnel ○ Strengthen planning functions of management and management systems	We took steps to strengthen our corporate governance through the management integration of our three listed subsidiaries, hired approximately 4,000 new employees groupwide over the three-year plan period to secure sufficient skilled human resources, and reinforced our internal control system. Urgent issues for ensuring future growth include setting up an effective risk management system, and improving our compliance system.

January 2008
US: Crude oil price (WTI) tops $100 a barrel

August 2007
US: Subprime loan issues lead to financial crisis

The World Has Changed

2005/4 → 2008/3

February 2007
China: Shanghai stock market plunge unsettles global markets

January 2007
EU: Accession of Bulgaria and Romania means expansion to 27 member states

August 2005
US: Hurricane Katrina hits southeastern states

July 2005
China: Renminbi appreciates

Up

Wheat price rises **230**% and corn price **152**%

Wheat and corn rise to $10.9 and $5.3 a bushel

Crude oil price **93**% higher

West Texas Intermediate (WTI) reaches $105 a barrel

Daiwa House's sales increase by **25.1**%

Annualized sales growth rate during FY2005-2007 for Daiwa House Group is 7.8%

World population increases by **3.6**%, BRICs population by **4.6**%

The world population increases by 234 million to 6,671 million
Total population of Brazil, Russia, India, and China increases by 125 million to 2,832 million

Down

Housing starts decrease by **31**%

New private sector housing starts in the US decrease 600,000 to 1.35 million

Daiwa House's ordinary income decreases by **17.4**%, ROE decreases **5.9** pp

Ordinary income and ROE of the Group for FY2007 decrease from FY2005-2007

Housing starts in Japan decrease by **13.2**%

Housing starts in Japan decrease by 13.2% from FY2005-2007

Labor force (population aged 15-64) decreases by **2.5**%, total population too starts to decline

Japan's labor force decreases by 2.15 million to 82.66 million people,
while total population also trends downward after peak in 2005

Dear Stakeholders

Having marked its 50th anniversary in April 2005, the Daiwa House Group introduced a new management structure, as a group that co-creates value for individuals, communities, and people's lifestyles under its new Group symbol, "Endless Heart." The reporting fiscal 2007, the year ended March 31, 2008, was the third and final year of our First Medium-Term Management Plan "Challenge 2005." In fiscal 2007, we achieved record consolidated sales of ¥1,709.3 billion, for a 5.6% year-on-year increase. Consolidated operating income was also a record ¥89.1 billion, up 4.0% year on year. We were able to achieve these results only thanks to the loyalty of our stakeholders, and we would like to take this opportunity to express our deep appreciation for their support.

We regret, however, that we realized ordinary income of only ¥61.3 billion, a decrease of 31.4% year on year. This decline was mainly attributable to the posting of expenses for the amortization of actuarial losses on employees' retirement benefits as a non-operating expense, amid an unexpectedly challenging business environment characterized by the ripple effects of the deceleration in the US economy, surging prices for crude oil and raw materials, and a plunge in Japanese stock prices. Consequently, we failed to achieve our target of ¥100 billion in ordinary income. Similarly, consolidated net income came to ¥13.1 billion, down 71.8% year on year, owing principally to development business losses and a loss on valuation of investments in securities. Return on equity came to 2.0%, compared with a target of 9.0%. However, we have kept our annual dividend for fiscal 2007 at ¥24 per share, as originally planned.

We deeply regret that we were unable to achieve some of our performance targets, and will make our utmost efforts to implement the necessary reforms in operations so as to show a substantial improvement in the near future.

This is a time of great change, as evidenced by dramatic changes in the global economy, as well as in Japanese society. We must return to the drawing board and follow the advice of our founder, Nobuo Ishibashi, who urged his employees to "Think far ahead." We need to consider the value that we have created to date, and the value that we must create in the future, to weather the current challenges and realize an affluent society in the years to come.

Our Second Medium-Term Management Plan "Challenge 2010," places priority on creating a financial position strong enough to absorb the impact of these changes. We aim to realize ¥1,850 billion in sales, ¥115 billion in operating income, an operating income ratio of 6.2%, and an ROE of 9.0% on a consolidated basis by the end of fiscal 2010. The Daiwa House Group members will work together to achieve these targets, with the goal of realizing sales of ¥10 trillion by 2055, our centennial anniversary. The Daiwa House Group will continue to serve as a leader during times of change, as all Group employees work together to realize our ambitious dreams, along with all of you, and all members of society.

Takeo Higuchi

Takeo Higuchi, *Chairman and CEO*

Group Performance

As of March 31, 2008

Consolidated financial highlights

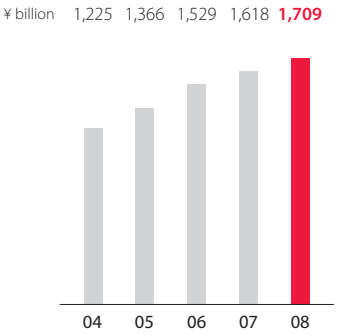
Daiwa House Industry Co., Ltd. and Subsidiaries
Years Ended March 31,

	Millions of Yen			YoY increase (decrease)	Thousands of U.S. Dollars
	2008	2007	2006	2008/2007	2008
Net sales	1,709,254	1,618,450	1,528,983	5.6%	17,092,540
Operating income	89,121	85,679	80,072	4.0%	891,210
Other income (expenses)	(64,259)	(9,230)	2,083	(750.4%)	(642,590)
Net income	13,080	46,394	45,184	(71.8%)	130,800
Total assets	1,791,052	1,630,022	1,475,197	9.9%	17,910,520
Equity	649,441	661,145	576,534	(1.8%)	6,494,410
Per share of common stock (in yen and dollars)					
Basic net income	22.46	81.15	81.88	(72.3%)	0.22
Equity	1,092.04	1,122.88	1,053.37	(2.7%)	10.92
Cash dividends applicable to the year	24.00	20.00	20.00	20.0%	0.24
Dividend payout ratio (%)	106.8	24.6	24.4	82.2 points	
Return on equity (%)	2.0	7.5	8.2	(5.5 points)	
Return on assets (%)	0.8	3.0	3.2	(2.2 points)	
Equity to total assets (%)	35.3	40.4	39.1	(5.1 points)	

Notes: 1. The U.S. dollar amounts represent translations of Japanese yen for convenience only at the approximate exchange rate on March 31, 2008 of ¥100 = U.S.$1.
2. Beginning with the fiscal year ended March 31, 2007, minority interests have been included in Equity.

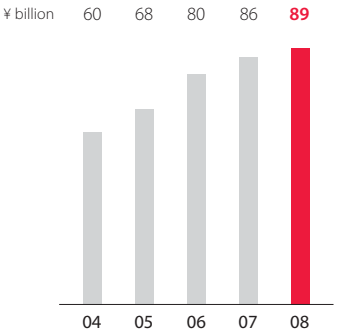
Net sales

¥1,709.3 billion



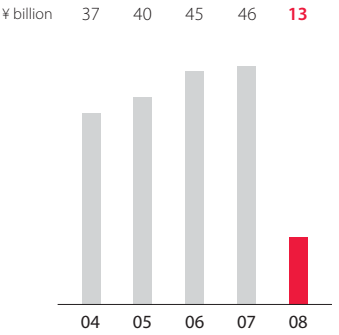
Operating income

¥89.1 billion



Net income

¥13.1 billion



Positive factors in fiscal 2007

Japan

- Exports overall again increased year on year, with a solid performance by exports to Asian emerging economies and Europe covering a big fall in US-bound shipments from the second half of 2007.
- Land prices rose for the second year, climbing 1.7% (national average) year on year. The rise was particularly striking in the three major urban areas of Japan, fueled by a deep-rooted boom in office and residential demand, which has spread out to key regional hubs and other large cities.

Negative factors in fiscal 2007

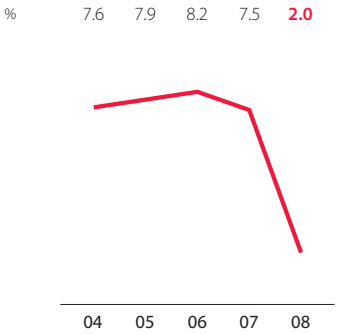
Japan

- The number of new housing starts declined steeply year on year due to the impact of the amendment to the Building Standards Law. Additionally, a reduction in floorspace of construction starts also dampened the market overall.
- Public-sector construction investment continued its decline, falling 5.4% to ¥50 trillion on the year to approximately 60% of the peak 1992 level.
- Corporate profitability was hit by the credit crunch in the United States, triggered by the subprime crisis, soaring oil and construction-material prices and a stronger yen against the dollar.

- Sales and operating income grew for the fifth consecutive year, reaching **all-time highs**.
  Mainstream residential and commercial construction businesses also had a good year
- As a result of posting a ¥26.4 billion expenses for the amortization of actuarial loss on employees' retirement benefits, ordinary income fell **31.4%** year on year.
  Deterioration in pension fund performance due to falling stock markets
- As a result of an extraordinary loss of ¥38.1 billion, net income fell **71.8%**.
  The booking of a loss on impairment of investment securities, and a loss on development of business due to revised inventory valuation for long-term development projects
- Total assets increased **¥161 billion**.
  Rises in inventory centered on land and buildings for sale, and rises in plant, property and equipment, mainly real estate for rental use

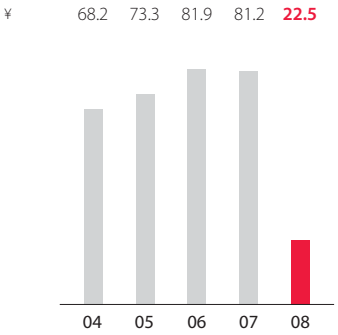
ROE (Return on equity)

2.0 %



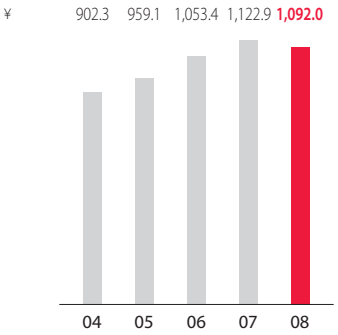
Net income per share

¥22.46



Equity per share*

¥1,092.04



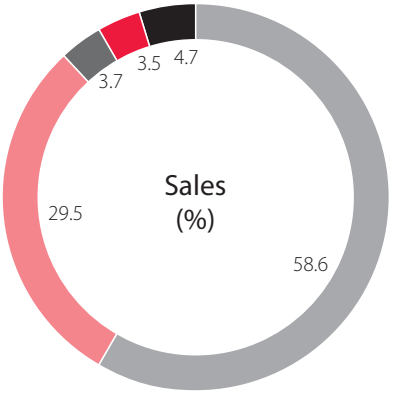
* See note 2 in the consolidated financial highlights on P8.

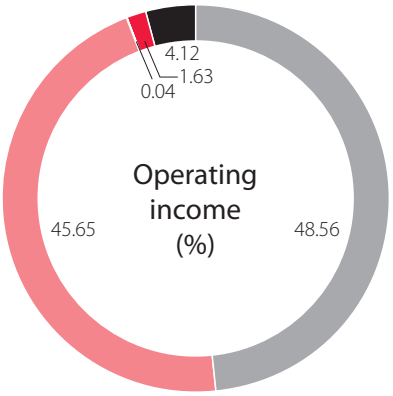
Business Outline

As of March 31, 2008

Sales and operating income by business segment

- Residential Business
- Commercial Construction Business
- Resort Hotels and Sports Life Business
- Home Center Business
- Other Businesses





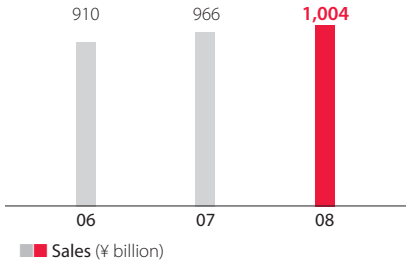
Residential Business

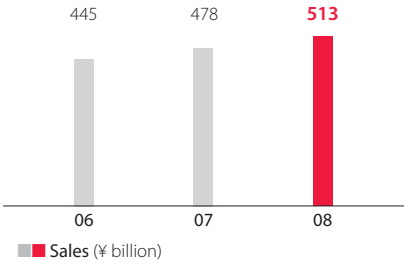
The Daiwa House Group continued to develop housing as its core business, a comprehensive range of enterprises related to residences, from construction and lot-subdivision for sale of single-family houses, condominiums, and rental housing, to renovations, real estate agency and property management operations. These businesses accounted for 58.6% of total sales on a consolidated basis for the period under review. Sales rose 4.0% from the previous fiscal year, to ¥1,004.4 billion. Operating income was ¥53.7 billion, a 1.1% increase. The operating income margin was 5.4%, a decrease of 0.1 percentage point.

Commercial Construction Business

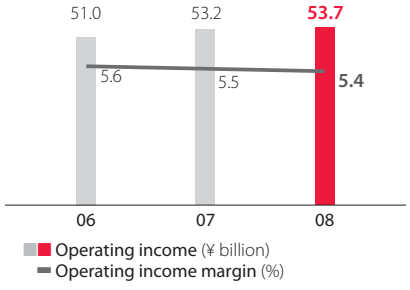
The Group's No. 2 leading business, Commercial Construction, is divided into two sub-divisions. One is the construction and management of commercial facilities such as retail outlets and shopping malls, and the other comprises the planning, design and construction of distribution, medical and nursing care facilities and miscellaneous corporate facilities. Sales in this segment, which accounted for 29.5% of total sales, were ¥512.7 billion, up 7.3% from the previous fiscal year. Operating income also increased substantial 7.6% to ¥50.5 billion. The operating income margin was 9.9%, an increase of 0.1 percentage point.

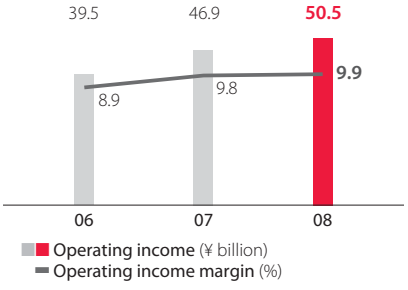
Sales





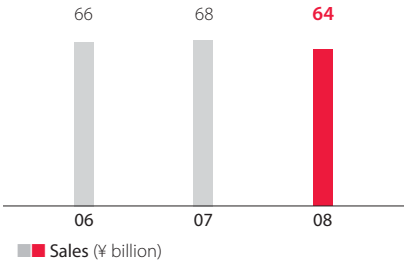
Operating income/Operating income margin

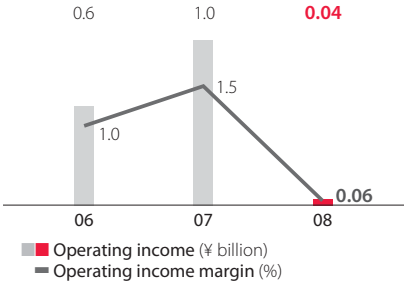




Resort Hotels and Sports Life Business

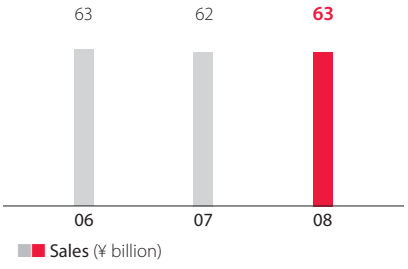
This business operates resort hotels, golf courses and sports facilities throughout Japan, proposing healthy and fulfilled life by enjoying leisure. Sales in this segment, which accounted for 3.7% of total sales, were ¥63.7 billion, down 6.0% from the previous fiscal year. This was mainly attributable to the Noto Peninsula Earthquake in March 2007 and an increase in expenses caused by the rising crude oil prices. Operating income was ¥40 million, a drastic decrease of 96.0%.

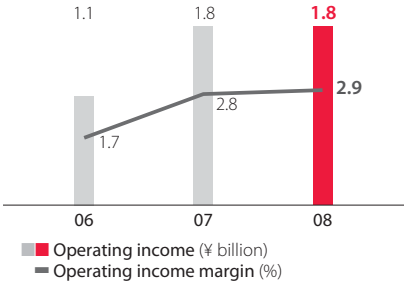




Home Center Business

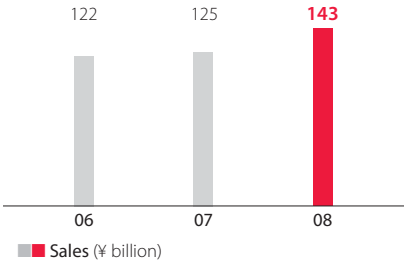
The Group operates Royal Home Center nationwide that carries high quality products centering on home related items, responding to the needs of various customers from contractors and other professionals to general consumers. Sales in this segment, which accounted for 3.5% of total sales, edged upward 0.6% to ¥62.6 billion. Operating income rose 2.0% to ¥1.8 billion. The operating income margin was 2.9%, an increase of 0.1 percentage point.

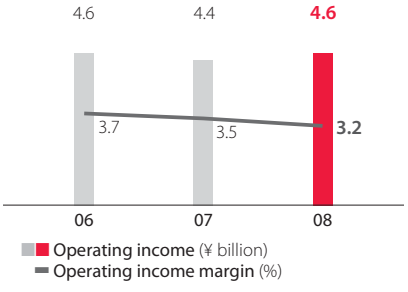




Other Businesses

Other businesses offer a wide range of activities in such fields as the manufacture and sale of housing construction materials, distribution and related logistics services, automobile leasing, city hotels, and others, expanding and strengthening Group comprehensive performance. These businesses accounted for 4.7% of total sales for the term. Sales in this segment were ¥143.3 billion, a 15.0% increase. Operating income rose 4.3% to ¥4.6 billion. The operating income margin was 3.2%, a 0.3 percentage point decrease.





Share Information

As of March 31, 2008

Common stock

¥110,120 million
(US$1,101,200 thousand)

Shares

Authorized	1,900,000,000
Issued	599,921,851
Number of shareholders	36,158

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

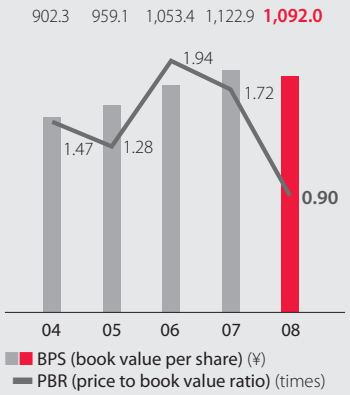
Securities traded

Tokyo and Osaka stock exchanges

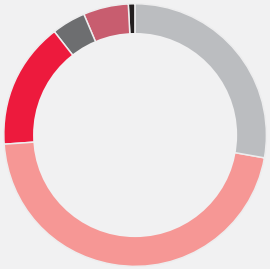
Securities code

1925

BPS and PBR



Shareholdings by scale



	Shares	%
10 million or more	167,420,189	27.9
1 million or more	276,790,680	46.1
100 thousand or more	93,138,709	15.5
10 thousand or more	25,538,521	4.3
1 thousand or more	33,053,649	5.5
Less than 1 thousand	3,980,103	0.7

Principal shareholders

	Thousands of shares	Equity stake*1 (%)	YoY Change (point)
The Master Trust Bank of Japan, Ltd. (trust account)	28,366	4.7	(1.0)
Japan Trustee Services Bank, Ltd. (trust account)	26,314	4.4	(0.6)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	15,470	2.6	0
Nippon Life Insurance Company	14,931	2.5	0.1
Moxley & Co.	14,603	2.4	2.4
Hero and Company	12,189	2.0	1.9
Sumitomo Mitsui Banking Corporation	12,117	2.0	0
The Dai-ichi Mutual Life Insurance Company	11,501	1.9	0
Mizuho Corporate Bank, Ltd.	11,261	1.9	0
The Chuo Mitsui Trust and Banking Company, Limited	9,521	1.6	0

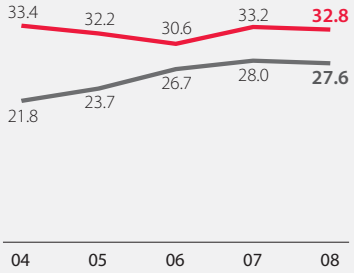
*1 % of issued shares.

Shareholdings by shareholders*2

Financial institutions	40.6%
Securities companies	1.8%
Other corporations	10.5%
Foreign investors	33.0%
Individuals and others	14.1%

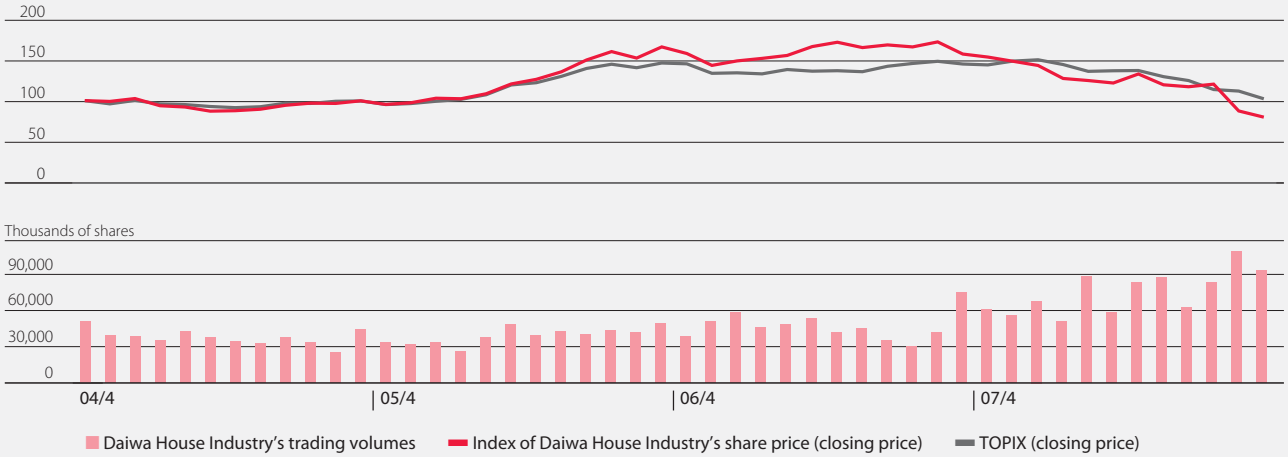
*2 Numbers of shares less than one unit are excluded.

Foreign shareholdings



Europe	US & Canada	Asia (excluding Japan)	Oceania & others
46.5%	44.2%	6.1%	3.2%

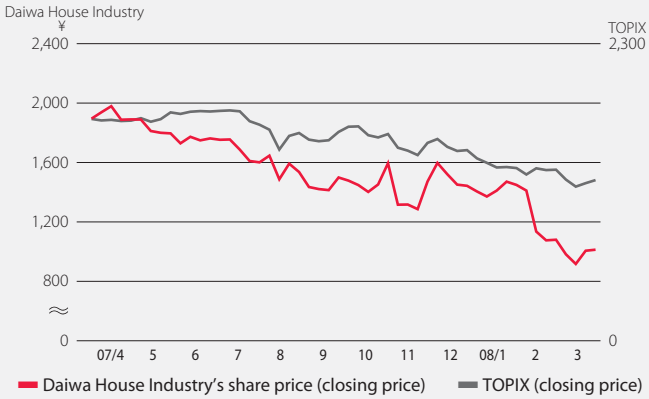
Indices of Daiwa House Industry's share price and trading volumes on the Tokyo Stock Exchange (base month: April 2004 = 100)



Share prices and volumes

	2005	2006	2007	2008
Share price high (yen)	1,366	2,055	2,260	2,055
Share price low (yen)	1,060	1,141	1,601	881
Share price at year-end (yen)	1,232	2,040	1,933	987
Cumulative trading volume (thousands)	450,348	467,867	564,518	899,185

Share price movements in fiscal 2007



The Nikkei Stock Average followed a rising trend from the second half of the previous fiscal year, supported by a buoyant US stock market from the beginning of 2007, which encouraged overseas investment in Japanese stocks. A firm overall tone in the Japanese economy also helped. However, after hitting an all-time peak at ¥18,261 on July 9, the Average suffered volatility from late July amid spreading fears of a credit crunch triggered by the subprime crisis and yen strength against the dollar, and in January 2008 had fallen back 11.2% or ¥1,715.

Business Structure

The Daiwa House Group's symbol is the Endless Heart.
Under our management vision of "Connecting Hearts,"
we aim to achieve on-going expansion of
our business operations through the co-creation of value
for individuals, communities and people's lifestyles.

Daiwa House®
Group

Approx.
1.3 million units*1
Units completed by the Residential Business

Approx.
1,080 thousand households*2
Number of households that have moved into our homes

Approx.
30 thousand facilities*3
Number of structures completed by the Commercial Construction Business

Approx.
4.18 million guests
Annual total of guests at our resort hotels

150 facilities*4
Number of facilities operated by the Daiwa House Group

As of March 31, 2008

*1 Total of single-family houses, rental apartment buildings and condominiums built by the Daiwa House Group. Figures for condominiums refer to the total of subdivisions
*2 Total of customers living in single-family houses, rental apartment buildings and condominiums built by the Daiwa House Group
*3 Total of commercial facilities, medical and nursing care facilities, and distribution facilities completed by the Daiwa House Group
*4 Total of resort hotels, golf courses, city-type hotels, home centers and fitness clubs operated by the Daiwa House Group

Group companies and equity stake held by the parent company.
Figures in parentheses are equity stake held by the Group as a whole.

As of August 1, 2008

Residential Business

Daiwa House Industry Co., Ltd.	Daiwa Lease Co., Ltd. 100%	Daiwa Living Co., Ltd. 100%	Daiwa Service Co., Ltd. 50% (100%)
Nihon Jyutaku Ryutu Co., Ltd. 100%	Daiwa House Renew Co., Ltd. 100%	Daiwa Estate Co., Ltd. Daiwa Living Co., Ltd. 100%	Daiwa Monthly Co., Ltd. 100%
Daiwa Lantec Higashinihon Co., Ltd. 100%	Daiwa Lantec Nishinihon Co., Ltd. 100%	Synchroller Co., Ltd. 100%	Tianjin Jiuhe International Villa Co., Ltd. 90%
Daiwa House (Suzhou) Real Estate Development Co., Ltd. 100%			

Commercial Construction Business

Daiwa House Industry Co., Ltd.	Daiwa Lease Co., Ltd. 100%	Daiwa Information Service Co., Ltd. 100%	Daiwa Royal Co., Ltd. 100%
Higashi-Fuji Co., Ltd. 75%	Odakyu Construction Co., Ltd. 33%	LOC Development Co., Ltd. 50%	

Resort Hotels and Sports Life Business

Daiwa House Industry Co., Ltd.	Daiwa Resort Co., Ltd. (Daiwa Royal Hotels) 100%	Daiwa Royal Golf Co., Ltd. 100%	Nippon Athletic Service Co., Ltd. (Sports Club NAS) 99.6%

Home Center Business

Royal Home Center Co., Ltd. 100%			

Other Businesses

Daiwa House Industry Co., Ltd.	Daiwa Lease Co., Ltd. 100%	Daiwa Rakuda Industry Co., Ltd. 100%	Daiwa Logistics Co., Ltd. 100%
Daiwa Service Co., Ltd. 50% (100%)	Daiwa Royal Co., Ltd. 100%	Daiwa Energy Co., Ltd. 100%	Jukeikai Co., Ltd. (Neo Summit Yugawara) 100%
Osaka Marubiru Co., Ltd. 93.5%	Daiwa House REIT Management Co., Ltd. 100%	Daiwa House Financial Co., Ltd. 60%	Daiwa House Insurance Co., Ltd. 100%
Shinwa Agency Co., Ltd. 100%	Media Tech Inc. 100%	Eneserve Corporation 92.5%	DH (Dalian) Administrative Management Consulting Center Co., Ltd. 100%

Endless Heart Companies

As of August 1, 2008

Daiwa House®
Daiwa House Group

Daiwa House Industry Co., Ltd.

Housing/Commercial facilities/
Urban development, etc.

Daiwa Lease®
Daiwa House Group

Daiwa Lease Co., Ltd.

Building & vehicle leasing/
Land utilization

Daiwa Rakuda®
Daiwa House Group

Daiwa Rakuda Industry Co., Ltd.

Housing equipment/Layout for
offices and stores/Leasing

Daiwa Info.Service™
Daiwa House Group

Daiwa Information Service Co., Ltd.

Land utilization/Maintenance &
operation of commercial facilities

Nihon Jyutaku Ryutu®
Daiwa House Group

Nihon Jyutaku Ryutu Co., Ltd.

Real estate agency & property management
services/Appraisals/Renovation work

Daiwa Royal®
Daiwa House Group

Daiwa Royal Co., Ltd.

Rental of commercial facilities/
Daiwa Roynet Hotels

Daiwa Monthly™
Daiwa House Group

Daiwa Monthly Co., Ltd.

Real estate rental & management

Daiwa Lantec™
Daiwa House Group

Daiwa Lantec Higashinihon Co., Ltd.

Foundation assessment & reinforcement

Daiwa Lantec™
Daiwa House Group

Daiwa Lantec Nishinihon Co., Ltd.

Foundation assessment & reinforcement

ロイヤルホームセンター
Daiwa House Group®

Royal Home Center Co., Ltd.

DIY/Gardening/Interior items

DAIWA ROYAL HOTELS
Daiwa House Group®

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

Resort hotels

ダイワロイヤルゴルフ
Daiwa House Group®

Daiwa Royal Golf Co., Ltd.

Golf course operation

大和ハウスフィナンシャル
Daiwa House Group®

Daiwa House Financial Co., Ltd.

Credit card operations

シンクローラー
Daiwa House Group®

Synchroller Co., Ltd.

Manufacture of housing parts
& materials

伸和エージェンシー
Daiwa House Group®

Shinwa Agency Co., Ltd.

Advertising & travel agency

Daiwa Logistics®
Daiwa House Group

Daiwa Logistics Co., Ltd.

Transportation/Warehouse & storage

Daiwa Living®
Daiwa House Group

Daiwa Living Co., Ltd.

Management/
Operation of rental housing

Daiwa Service®
Daiwa House Group

Daiwa Service Co., Ltd.

Management of buildings & condominiums/
Manpower dispatching/Moving services

Daiwa Renew®
Daiwa House Group

Daiwa House Renew Co., Ltd.

Renovation work

Daiwa Energy®
Daiwa House Group

Daiwa Energy Co., Ltd.

ESCO business/Environmental equipment/
Facility installation

Daiwa Estate®
Daiwa House Group

Daiwa Estate Co., Ltd.

Real estate agency

Daiwa REIT™
Daiwa House Group

Daiwa House REIT Management Co., Ltd.

Asset management

Daiwa Insurance™
Daiwa House Group

Daiwa House Insurance Co., Ltd.

Non-life insurance agency

Daiwa House™
大和房屋集團

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

Provision of outsourced administrative work

介護付有料老人ホーム
ネオサミット 湯河原
Daiwa House Group®

Jukeikai Co., Ltd.
(Neo Summit Yugawara)

Operator of homes for the aged

大阪マルビル
Daiwa House Group®

Osaka Marubiru Co., Ltd.

Management of hotels,
rental premises & parking lot

余暇の創造を提案します
スポーツクラブNAS
Daiwa House Group®

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

Fitness clubs

MEDIA TECH INC.
Daiwa House Group®

Media Tech Inc.

Data systems/Data services

eneserve
Daiwa House Group®

Eneserve Corporation

Comprehensive energy
services

東富士
Daiwa House Group®

Higashi-Fuji Co., Ltd.

Real estate development,
sale of commercial real estate

MAGNIFICE
IMPRESS

The Time Has Come

The world is changing, and so is Japan.
Viewing this as an opportunity, we are getting ready for change.
The Daiwa House Group welcomes the challenges of a new age.

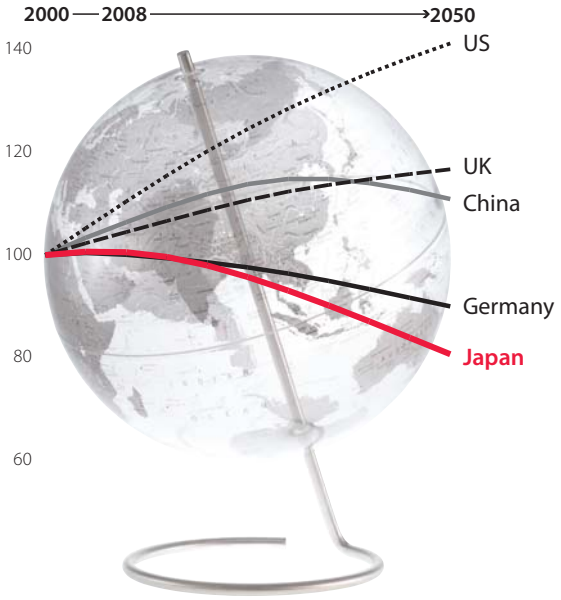
Japan is Changing

What role will Japan play in the world in the future? Unlike the United States, United Kingdom and emerging countries, Japan is expected to see population decline and little economic growth, if any, in the future. Is Japanese growth now a thing of the past? No. Japan does have a future. Nobuo Ishibashi, the founder of the Daiwa House Group, had a dream of constant value creation for society, whose realization will create the values that Japan will need in years ahead.

Forecast for Japan and the world

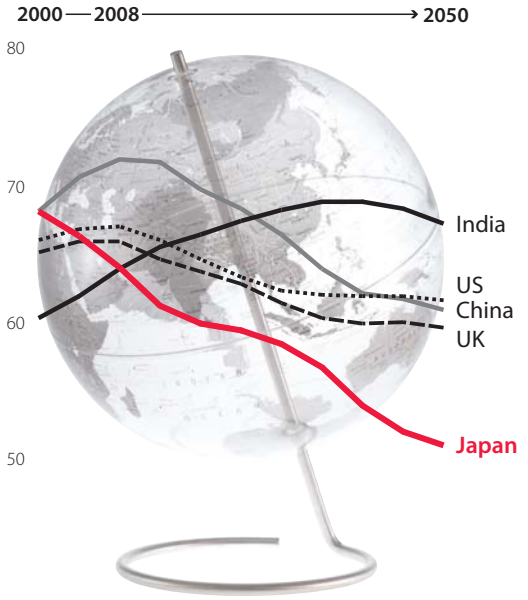
Total population*1

(Base year: 2000 = 100)



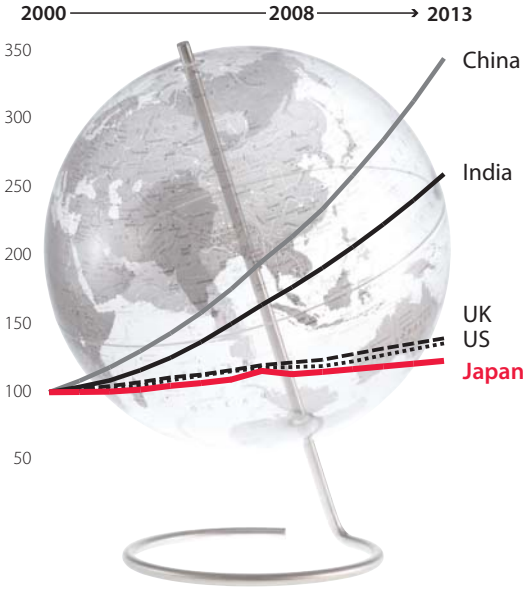
Percentage of labor force to total population*1

(%)



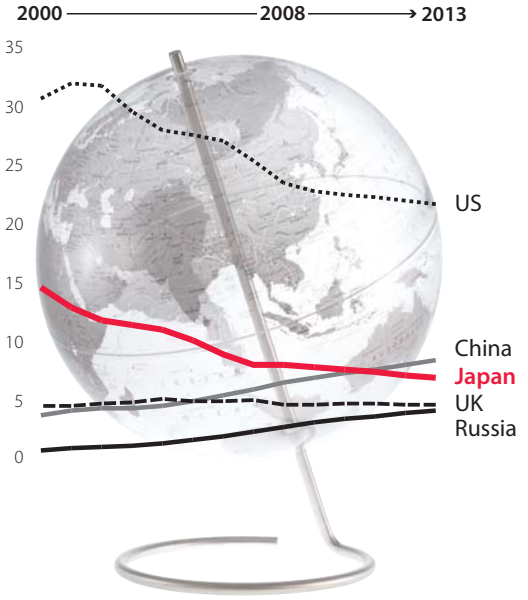
Real GDP*2

(Base year: 2000 = 100)



Share of world GDP*2

(%)



Sources: *1 United Nations databases
*2 International Monetary Fund data and statistics

A New Start

Daiwa House Industry Co., Ltd.

Takeo Higuchi (middle)
Chairman & CEO

Kenji Murakami (right)
President & COO

Tetsuji Ogawa (left)
Executive Vice President & CFO

Creating a New Strategy

2nd Medium-Term Management Plan, "Challenge 2010"

Business targets

Sales:	**¥1,850 billion**
Operating income:	**¥115 billion** (Ratio: 6.2%)
ROE:	**9.0%**

In April 2008, the Second Medium-Term Management Plan, "Challenge 2010," which covers three years, was launched, following our first medium-term management plan. The main themes of the plan are improving the profit structure and nurturing new future earnings drivers. We have taken a step forward for the year 2010, aiming for the growth of Daiwa House Group to benefit the society as a whole.

Main themes

1 Improve profit structure

Restructure basic organization

To become the leader in each of our business fields, we have restructured our more than 30 business units into eight strategic business domains. By placing each domain under three policies — expansion, value restoration, and nurturing businesses — we aim to realize further growth through closer collaboration within the Group.

Driving our Growth (Expansion)

Driving growth

- Rental Housing
- Commercial Facilities
- Business and Corporate Facilities

Making more Profit (Value Restoration)

Improve operating income margin

- Single-Family Houses
- Condominiums
- Health & Leisure

Changing the Future (Nurturing Businesses)

Ensure future growth in earnings

- Existing Home Business
- Other Businesses

2 Nurture new future earnings drivers

Invest more in entry into new business fields

We are focusing efforts on creation of four next-generation businesses, which are related to business fields we excel at. We will invest more in the businesses that are sure to grow and are closely linked with our existing businesses, such as energy and robot businesses, financial services, and overseas businesses, particularly in China.

- Energy Businesses
- Robot Businesses
- Financial Services
- Overseas Businesses

Takeo Higuchi

Message from the CEO

Getting Ready for Change

Pioneering a new age amid dramatic changes, working together with Japan and the world

The world economy has entered a period of rapid change. The world economy, which had previously shown signs of being on a steady growth trend, seems to be on a downturn, triggered by the subprime mortgage loan crisis in the US. The result has been a dramatic reconfiguration of the world's economic map. Changes in the global economy are unavoidable, given the recent upward trends in the prices of crude oil, grain, and raw materials. The rapidly changing world economy can be likened to a stormy sea, and this is having a substantial impact on Japan's economy, which had finally returned to the recovery track for the first time since the bursting of the bubble economy.

The Global Competitiveness Report 2007-2008, published by the World Economic Forum, a private Swiss research organization, has created a ranking of the economic competitiveness of the world's countries. The US placed first, followed closely by Switzerland, Denmark, and Sweden. Japan, ranking eighth, is on the decline.

The world's economic map is in the process of being dramatically redrawn. The BRIC economies — Brazil, Russia, India and China — continue to show strong economic growth. Amid such remarkable changes in the global economy, Japan must find a way to achieve economic growth along with the rest of the world. To create options for the future, we will be required to come up with new ideas that will serve as a strong breath of fresh air. In Japan, the Daiwa House Group has continuously served as a leader in the creation of new value for the housing industry. Now more than ever, we must meet our changing world head-on, and make utmost efforts to create new value with our own hands.

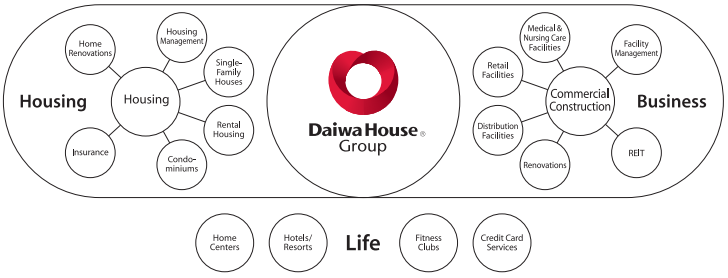
It is in times of great change that the value of a new era is produced. In this period of continuous change, the Daiwa House Group, as a group that co-creates value for individuals, communities, and people's lifestyles, will work to create new value, with our "Endless Heart" symbol close to our hearts, while showing appropriate consideration for our existing customer base.

The Global Competitiveness Report 2007-2008

Ranking	Overall competitiveness	Basic requirements*1	Efficiency enhancers*2	Innovation factors*3
1	US	Denmark	US	Switzerland
2	Switzerland	Finland	UK	Japan
3	Denmark	Singapore	Hong Kong	Germany
4	Sweden	Switzerland	Denmark	US
5	Germany	Hong Kong	Canada	Sweden
6	Finland	Sweden	Singapore	Finland
7	Singapore	Netherlands	Switzerland	Republic of Korea
8	Japan	Norway	Sweden	Denmark
9	UK	Germany	Netherlands	Israel
10	Netherlands	Austria	Australia	Taiwan

*1. Basic requirements: Institutions (the legal system), security, social infrastructure, macroeconomic stability (inflation rate), health and primary education.
*2. Efficiency enhancers: Higher education and training, market efficiency (goods, labor and financial markets).
*3. Innovation factors: the sophistication of individual firms' operations and strategies, the sophistication of a country's business networks and supporting industries, academia-industry collaborations, the capacity for innovation (the availability of scientists and engineers).

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



Social change in Japan — Implementing new reforms, building on a strong foundation

The Daiwa House Group got its start with the founding of Daiwa House Industry in 1955. Since then, we have developed prefabricated housing based on the concept of the industrialization of construction. We have consistently added new value in the Japanese housing industry in a pioneering spirit. Our Group now consists of 68 companies (as of August 1, 2008), and ¥1.7 trillion in consolidated sales. This concept of co-creating a brighter future, in our ties to society through the construction business and to people through lifestyle services, is the source of the Group's strength as we identify changes and continue to make reforms and pioneer advancements. This period is one of unprecedented change in the history of Japan. We are focusing on the areas of housing, business and lifestyles. Looking ahead, we will transform the value we provide as a group that co-creates value for individuals, communities, and people's lifestyles.

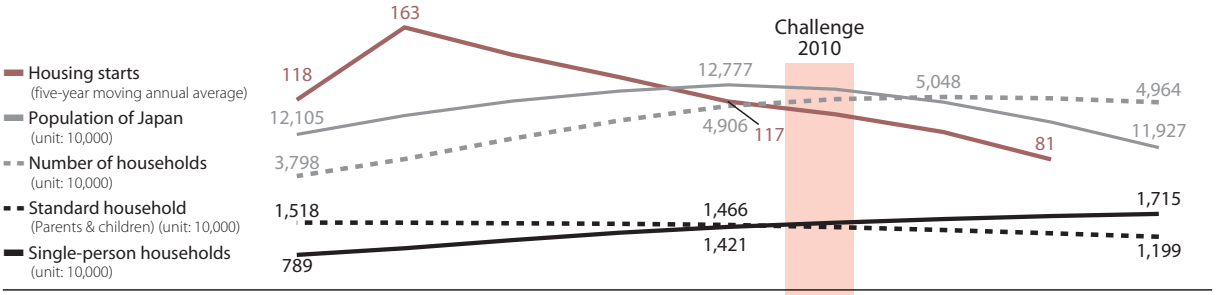
Housing

Japan has become a mature society, as evidenced by the declining birthrate and steadily growing elderly population. The number of housing starts fell 19.4% year on year to 1.04 million in fiscal 2007, and is expected to drop to 1 million by 2015. The flow market (demand for new homes) is decreasing. In the housing stock market (existing houses), where the value of a typical wooden house is said to fall almost to zero 20 years after construction, the emphasis is now on making houses more durable. The introduction of the Basic Housing Act in 2006 marks this shift in focus in basic housing policy from quantity to quality. The result has been growth in demand for renovation services to extend the life of existing homes. The new priority is the creation of a high-quality stock of existing houses. We have begun designing housing that will last for 200 years, and are now developing the technologies necessary for prolonging the lifespan of houses. These technologies include vibration-damping, earthquake-absorbing and earthquake-resistant technologies, as well as technologies to reduce the environmental load. We are also working to increase our share of the home renovation market and develop a quality resale market. Once again, we are playing a leading role, from a global perspective, in the realization of enhanced value for homes in both the flow and stock markets.

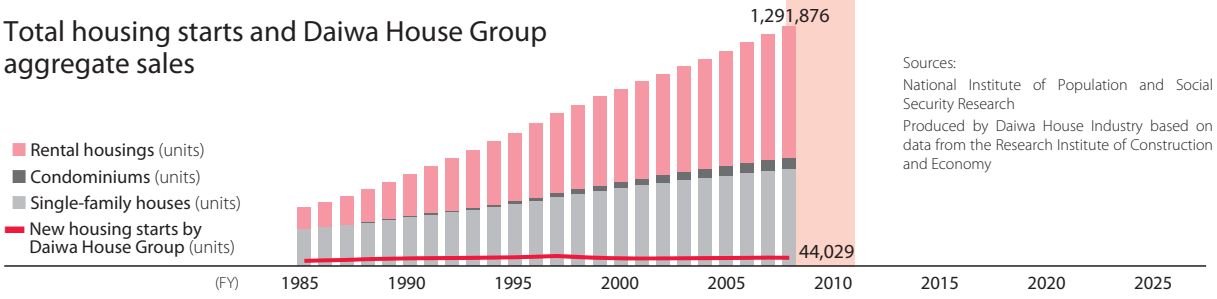
Business (Commercial Construction)

In the Business (Commercial Construction) area, our position, characterized by distinctiveness and creativity, marks a clear distinction from ordinary construction and real estate firms. Our solid position in the industry is built on our sophisticated asset management capabilities involving the effective utilization of land, and our nationwide data network for real estate properties. We draw on a wealth of expertise and high-level consulting capabilities to provide support for our client companies' business development activities. We utilize our extensive experience in development of logistics facilities, which are responsible for the logistics strategies of commercial facilities and ordinary companies, as well as our experience in the development of facilities targeting the elderly, led by our Silver Age Research Center. The needs of customers in these various business fields are becoming increasingly complex and diversified, and will require ever higher levels of expertise in the future. As a group, we will work together to further raise our position in the industry by providing comprehensive asset management services that include the proposal of solutions to newly emerging customer needs, as well as facility operation and management.

Trends in demographics, number of households, and housing starts in Japan



Total housing starts and Daiwa House Group aggregate sales



Sources:
National Institute of Population and Social Security Research
Produced by Daiwa House Industry based on data from the Research Institute of Construction and Economy

Life

Our activities in the Life area have not only resulted in the creation of a new set of values in Japan's maturing society, but have also produced businesses that are extremely important for the creation of the Group's growth strategy. In our resort hotel business, the first in Japan to incorporate a members' only system, and our home center business (a nationwide chain of stores tailored to the preferences of each region), we are working to increase profitability by further improving the services offered. As a group that co-creates value for individuals, communities, and people's lifestyles, we have expanded into the new business areas of sports clubs and the "city hotel" (upscale urban hotels) business. In these businesses, we will actively target specific market needs, and nurture new profit drivers. We are further reinforcing our strengths in our lifestyle support businesses, which include an non-life insurance agency and a financial services business centered on credit cards. By creating new value in these businesses, we can help to enhance the life-time value of our customers and achieve further growth as a Group.

Winning a share of the world market through the creation of new technologies

To achieve substantial growth in the future, it will be necessary for the Daiwa House Group not only to achieve a restructuring of its business operations in a mature market, but also to create new businesses that will yield new growth markets. This pioneering spirit brings us back to where we started. We will undertake active investments in new businesses to maximize their potential and serve as future core businesses. The following are examples of such initiatives.

Construction utilizing new environmental technologies

Over ten years have passed since the Kyoto Protocol in 1997. Environmental issues, which again came to the fore at the Hokkaido Toyako Summit in 2008, are very important for Japan, a world-leader in terms of its technology. Daiwa House Industry has commercialized environmental technologies through its development of exterior thermal ventilation walls and solar-powered electricity generation systems. With regard to the prevention of global warming, we have developed a solar-power system

that uses the unlimited energy from the sun, and hope to see the widespread adoption of this system in homes and commercial facilities. However, before we can see a significant growth in the installation rate of solar-powered electricity generation systems, we must first develop and commercialize electricity storage technology, which will resolve the problems of assuring an adequate supply of power to remain unaffected by changes in the weather. We must also raise compatibility with the existing electric utilities infrastructure.

Through acquisition of an equity stake in ELIIY Power Co., Ltd., the Daiwa House Group has been able to participate in the commercialization of lithium ion batteries for use in homes and commercial facilities. We are planning to develop a new market for this technology, not only in Japan but also globally, and expect to grow this new technology into a core business in the future. In addition, through Eneserve, engaged in the total energy services business, we expanded our energy management business. We will begin selling electricity through our large-sized wind power generation operations. In this way, we will continue to develop and commercialize next-generation environmental technologies, primarily for buildings.

Main improvements and group management structure

	Up to FY2006	FY2007 and after
Management	• Formulation of new management vision and new symbol named "Endless Heart" • Drafting of First Medium-Term Management Plan "Challenge 2005" • Abolishing of retirement benefits for directors • Introduction of a branch manager "volunteering" (in-house recruitment) system, a free agent (FA) system, and a workplace selection program • Basic policies announced on creation of internal control system • Executive officer system adopted to strengthen the supervisory function of the Company's directors	• Establishment of the Overseas Business Division • Name of J-SOX Law Project Department changed to J-SOX Law Department • Set up an IR Department in the Management Administration Headquarters • Drafted our Second Medium-Term Management Plan "Challenge 2010" • Drafted our Medium-Term Environmental Action Plan "Endless Green Program 2010"
Operations	• Strengthening consulting functions in commercial construction; promotion of development of complex-type and large-scale commercial facilities; strengthening investment in real-estate development • Introduction of condominium asset valuation system, D's Bridge • Daiwa House Industry implemented a management integration with Daiwa Kosho Lease (name changed to Daiwa Lease in April 2007), Daiwa Rakuda Industry, and Daiwa Logistics. (The three companies have become fully integrated through share exchange transactions) • Daiwa House Financial (a credit card company) established • Daiwa House Insurance (a non-life insurance agency) established • Capital participation made in ELIIY Power Co., Ltd. (a lithium ion battery manufacturer) • Signed an agreement for a business alliance concluded with CYBERDYNE Inc. (robot suit business)	• E-cubic Co., Ltd., through a business alliance, launched comprehensive energy service operations • Opened the large-scale commercial complex Rinku Pleasure Town SEACLE • Received an award from the Ministry of the Environment of Japan (the Commendation for Global Warming Prevention Activity 2007) for the development and commercialization of energy-saving houses • Royal Parks Momozaka rental apartments won the Award for Excellence at the First Osaka Sustainable Architecture Prize • The first company approved to set up operations in Fuji Gotemba Industrial Park, a first large-scale industrial park • Through a capital and business tie-up with Odakyu Construction Co., Ltd., Daiwa House Industry is strengthening its operating base in the Tokyo area • Eneserve and Yuasa Logitec made into consolidated subsidiaries
Financial position	• Plans for total investment of ¥150 billion mainly in real-estate development and M&As over the three years from fiscal 2005 • Emphasis on cash flow management	• Achieved record earnings and revenues for the fifth straight year for both sales and operating income on a consolidated basis • To give the management of the Company greater flexibility in raising capital to respond to changes in the business environment, the Company management acquired approximately 7.8 million shares of the Company's own shares

New robotic technologies for applications in daily life

Japan will soon become a super-aged society, with 25% of the population expected to be over the age of 65 by 2013. We identified this rapid aging of the population early on, and established the Silver Age Research Center in 1989. This center specializes in research and analysis of data pertaining to problems faced by medical and nursing care facilities. With the Silver Age Research Center and other organizations, we have built more than 2,200 medical and nursing care facilities. The elderly population requiring nursing care is expected to reach 5.3 million by 2025. Meanwhile, the working population will decrease, and the shortage of nursing-care staff will become more severe. In response, it will become necessary to raise labor productivity. One solution would be to relieve the burden on the bodies of elderly people through mechanization. We have worked together with CYBERDYNE Inc. on the development of the robotic suit "HAL™." In the next fiscal year, we will finally move into the commercialization phase. To this end, we have already created a Robot Business Promotion Office within the Daiwa House Industry headquarters and have begun construction of a new R&D center for the suits. To stimulate demand for the suits, we will introduce them as aids to the disabled and elderly with walking difficulties. In this way, we plan to create a market for this product both in Japan and overseas.

Global expansion of our businesses

At a time when a high level of economic growth cannot be expected in Japan as a whole, the only way to achieve future growth and expansion is to globalize our construction and other core businesses. In Asia, especially, there is a growing demand nationwide for construction throughout China, whose economy regularly records double-digit growth and is expected to continuing expanding. Armed with our construction technology and know-how cultivated in Japan, we have begun undertaking active investments in China to prepare a base for our construction and real estate businesses. We will steadily pursue the global expansion of our operations, and are currently conducting feasibility studies in Vietnam, India and other countries.

Enduring dreams that connect hearts

In every age, we are committed to connecting hearts, and creating an affluent society. This is the enduring dream of the Daiwa House Group. Our society must have a bright future. We are facing a mature market, and will be the first to face a shrinking population amid a rapid graying of the population. Japan must make people the priority, and create a warm and caring society. This is the example we must set for the other countries of the world. We must critically reexamine the values of the high-growth economic period, which was dominated by material objects. Instead, it is now time to create a society in which the emotional well-being of the individual is made the priority. Such an approach is the key to creating a set of values that can be shared worldwide, and will lead to the realization of a bright future.

As a social enterprise with construction as its base, the Daiwa House Group has, since its founding, adhered to the spirit of co-creating a brighter future, together achieving continuous growth. In the future, we will work to connect hearts, and working together with people, continue creating new value. All members of the Daiwa House Group will work together to realize our dream of a better future, in our ties to society through the construction business and to individuals through our lifestyle services. Thank you for your ongoing support.

Takeo Higuchi

Takeo Higuchi, *Chairman and CEO*

Message from the COO

New Design Action Plan

The Second Medium-Term Management Plan, "Challenge 2010"

Our New Challenge

"Meeting change head-on" Moving towards sustainable growth

Under a new management team, Daiwa House Group members worked together to implement our three-year First Medium-Term Management Plan "Challenge 2005," which ended in fiscal 2007. An overview of our performance, including a discussion of the degree to which we were able to achieve our three-year business targets, appears in the section entitled "3 Years' Performance" on pages 2-3. Although we posted a 25% growth in sales, we failed to realize our ordinary income and ROE targets amid the recent dramatic changes in the world economy. We regret falling short of our targets, we will face up to this fast soberly, meet the changes being seen in Japan and the global economy, and work with passion to realize sustainable growth in the future. We undertake this challenge with determination.

Our Group management strategy is built around our Second Medium-Term Management Plan "Challenge 2010." This "new" plan is not just the next plan, but rather a new design which builds on the foundation created by the first medium-term management plan. The plan focuses on two main themes: 1) improvement of the profit structure; and 2) the nurturing of new future earnings drivers.

As for our business targets, we aim to achieve ¥1,850 billion in sales on a consolidated basis, operating income of ¥115 billion and ROE of 9.0%. Our principal initiatives for realizing these targets are the redesigning of the Group to create basic strategic organizational units, and strengthened measures for entering new business fields. These actions are being taken in line with our four basic policies: 1) Realize further growth through closer collaboration within the Group; 2) Nurture new future earnings drivers; 3) Conduct R&D into the growing home renovation market and the nursing care business, as well as steps to help prevent global warming; and 4) Reinforce the Group's business base. Under the new medium-term management plan, the Daiwa House Group will constantly work to meet the challenges posed by the changing business environment, and make concerted efforts with the aim of achieving further growth.

The Second Medium-Term Management Plan, "Challenge 2010"

Main themes	Business targets		Principal initiatives
Improve profit structure	Sales:	**¥1,850 billion**	Redesign basic strategic organization unit
Nurture new future earnings drivers	Operating income:	**¥115 billion** (Ratio: 6.2%)	Invest more in entry into new business fields
	ROE:	**9.0%**	

Kenji Murakami

Our Four Basic Policies

Providing leadership amid dramatic economic and social changes

Basic policy 1: Realize further growth through closer collaboration within the Group

Restructure business domains to become No. 1

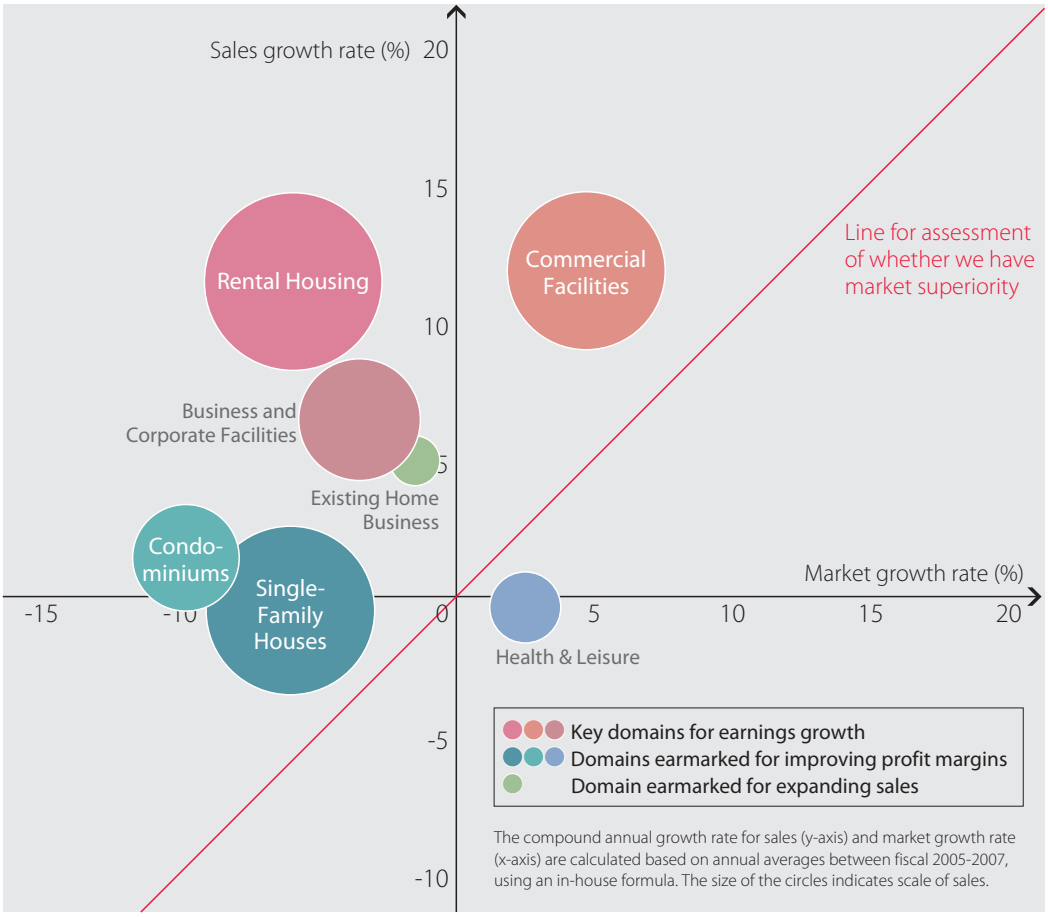
As a business conglomerate that encompasses diverse business operations, the Daiwa House Group must ensure that individual businesses work together to provide new value to the market, so that these businesses may maintain the support of the general public. Furthermore, each individual business must be able to establish a distinctive position within its market relative to other

Delineation of our new business segments

corporate rivals, and ensure adequate differentiation. Unless each business is competitive enough to target the top spot in its industry, there is little likelihood that the business in question will be able to survive in the still-dramatically changing business environment. In the "New Design" medium-term management plan, we have divided our businesses into eight new domains. We have also set three categories for each business, Expansion (earnings growth), Value Restoration (improved profit margin), and Nurturing Businesses. This reform enables us to set specific targets for each business, and strengthen competitiveness and profitability while reallocating management resources appropriately for each entity, creating new market value. The portfolios of the eight new business domains are outlined below.

The real estate business affects operations of the entire Group. Partnerships among Group companies have enabled investments with maximized comprehensive potential from construction through building ownership, management and operation, and asset management. Investments in real estate development over the three-year period total approximately ¥460 billion.

Daiwa House Group business portfolio (as of end of FY 2007)



Basic policy 2: Nurture new future earnings drivers

Invest in four next-generation businesses to nurture new earnings drivers

Regarding new future earnings drivers, Japan is characterized by mature markets in nearly every industry, and the only option is to cultivate new markets. To this end, it is necessary to create new market value. The Daiwa House Group, focusing on fields peripheral to its fields of strength, has identified the following four areas in which to concentrate investments in the nurturing of next-generation core businesses. The first area is the energy business, which is related to our home construction business. Here, we are targeting commercialization of lithium ion batteries for houses and large facilities. The second area involves the commercialization of the robotic suit "HAL™," a promising technology targeted at nursing and care homes, and other facilities for use in physical therapy programs. The third area is the financial business, which includes credit card operations, leveraging the customer strategy of our commercial facilities, hotels, home centers and sports clubs, with the aim of strengthening the Group's shared customer base. The fourth area is our overseas business. We intend to continue investing in construction projects in China, which is maintaining a high level of growth, while simultaneously undertaking global expansion, beginning with Asian countries such as Vietnam and India.

Positioning of individual business domains, and business targets

(¥ billion)			Sales		Operating income (estimate)		Operating income ratio (estimate) (%)	
			FY2007 (results)	FY2010 (plan)	FY2007 (results)	FY2010 (plan)	FY2007 (results)	FY2010 (plan)
Expansion	Driving growth of comprehensive real estate business	Rental Housing	427.7	500.0	39.0	49.0	9.1	9.8
		Commercial Facilities	311.5	350.0	29.7	36.0	9.5	10.3
		Business and Corporate Facilities	201.3	220.0	18.0	21.0	8.9	9.5
Value Restoration	Restructuring of strategies relating to products, areas, selling, and others	Single-Family Houses	381.7	390.0	6.7	8.5	1.8	2.2
		Condominiums	156.6	150.0	5.2	7.0	3.3	4.7
		Health & Leisure	64.8	70.0	0.1	3.0	0.2	4.3
Nurturing Businesses	Solidifying business base through sales expansion	Existing Home Business	34.2	50.0	1.5	2.5	4.4	5.0
		Other Businesses	209.0	220.0	10.4	11.0	5.0	5.0
		Eliminations/ corporate	(77.5)	(100.0)	(21.5)	(23.0)		
		Total	1,709.2	1,850.0	89.1	115.0	5.2	6.2

Business strategy

Single-Family Houses	Expand the use of LABO model houses*1 for subdivision housing as a new channel. Establish a brand of long-lasting, high-quality houses that meet the requirements of the Basic Housing Act. Bolster initiatives in the existing home business beginning with the home renovation business, with the aim of raising the value of existing houses. Improve management efficiency by implementing a structural reorganization of business divisions and related head office departments through the integration and restructuring of the wooden houses business department. Revise our cost structure to successfully cope with the soaring cost of raw materials.	Housing
Condominiums	Focus on large-scale projects, high-rise and redevelopment condominium building projects in Japan's three major metropolises. Take an aggressive stance on multipurpose development projects, including commercial facilities and hotels. Make efforts to cut costs by streamlining sales offices and revamping the marketing system.	
Existing Home Business	Expand business in extension work and renovations for the existing home business, (comprising sub-division condominiums and rental housing). Strengthen our real estate agent business for commercial properties in the Tokyo area, and reinforce our resale system for used condominiums and existing homes.	
Rental Housing	Beef up operations for medium-to-high rise rental housing units in major cities and three-story rental housing in urban areas. Strengthen capabilities in the management of monthly condominiums and develop business models for the holding and operation of such rental housing units. Strengthen marketing to expand the number of houses under our management targeting buildings built by us.	Business
Commercial Facilities	Expand development of neighborhood shopping centers (small-scale shopping centers of 10,000m^2 or less located in close proximity to residential areas) and mini power centers (shopping centers comprising several specialized retailers from different industries). Enhance our leasing capabilities and event-planning functions to attract a larger number of customers. Develop closer relationships with the approximately 21,000 existing landowners, while working to capture secondary demand through store renovations and expansions following the expiration of tenant contracts.	
Business and Corporate Facilities	Enhance our developer capabilities. Maximize the first-mover advantage enjoyed by developers and operators' proceeds in the areas of distribution, production and nursing care. Upgrade proposal-generation capabilities for such businesses as private finance initiatives.	
Health & Leisure	Create a system for sharing a common advertising and PR base for membership-format businesses, which include resort hotels, golf courses, travel agencies, and a fitness club chain.	Life
Other Businesses	Strengthen our dominance in the home center market*2, and undertake M&A activities aimed at enhancing logistics services. Accelerate the opening of upscale hotels in urban areas. (Targeting the opening of 20 new hotels within three years.)	

*1 Daiwa House's LABO model houses: These are model houses that are the same as houses actually for subdivision sale, and are open for customer viewing for a limited period. (The name was changed to Machinaka **xevo** on September 1, 2008.)
*2 In the case of retail chain development, dominance is achieved through a strategy of concentrating development of the chain within a specific geographic region to raise management efficiency and increase market share.

Basic policy 3: Conduct R&D into the growing home renovation market and nursing care business, and take steps to help prevent global warming

In a changing Japan, become a world leader in R&D

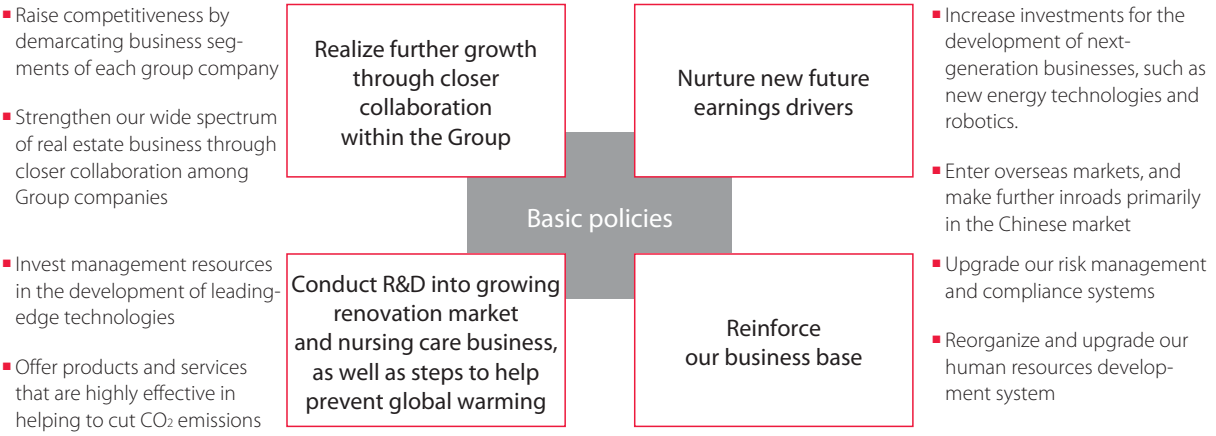
Japan leads the world in terms of the speed at which its population is aging. In such a society, housing, which is the foundation for people's lives, is expected to play an even more important role in the future. As the first company in Japan to achieve the commercialization of housing as an industry, our mission is to create new value for housing in this new demographic environment, and we will make our utmost efforts to meet the public's expectations. We are channeling management resources into the development of leading-edge technologies, and are actively undertaking research and development. Worldwide, a major theme is global warming, and our own initiatives include the drafting of a new environmental action plan, "The Endless Green Program 2010." Under this program, we aim to curb CO_2 emissions generated by our business activities, as well as popularize products and services that contribute to the reduction of CO_2 emissions.

Basic policy 4: Reinforcing our business base

A company is comprised of people. We must nurture this resource while implementing strict crisis management for sustainable growth

The Daiwa House Group's greatest resources are its people. At the time of its establishment in 1955, Daiwa House Industry had only 18 employees, while today, the Group has over 36,000 employees. In the future, as a business conglomerate spanning a variety of industries, we must recruit even more highly skilled individuals with expertise in diverse areas. Therefore, we are putting great effort into cultivating employees who will be responsible for creating our future. To this end, we will strengthen our HR system and training programs. To realize sustainable growth for the Company, it is necessary to create a groupwide crisis management system. Therefore, we will make active efforts to upgrade our crisis management system, which includes risk management and compliance.

Basic policies of the second medium-term management plan



Connecting Hearts

May the dreams symbolized by the "Endless Heart" shine brightly

Our top priority since the Company's earliest days has always been "the cultivation of people through our businesses." Japanese society has undergone so many changes: the post-war reconstruction period, the high economic growth period, the asset-inflated bubble economy, and the collapse of the bubble economy. In each period, we have worked to create new value. And now, today, we find ourselves in the midst of dramatic changes involving a reconfiguration of the map of the global economy. Amid such changes, we must ask ourselves what Japan's role in the world is. I believe it is our responsibility to remind people of the importance of having heart, and including it in one's set of values. Going beyond the valuing of material objects, and giving more consideration to people's hearts — these must be our objectives if we are to realize a truly affluent society.

Under our Daiwa House Group management vision "Connecting Hearts," we are always taking into consideration people's hopes and dreams in our business activities, centered primarily on construction, while upholding a value system that allows for contributions to the formation of an affluent, people-centered society. We will continue making strenuous efforts so that our Group symbol, the "Endless Heart," may continue to shine brightly for all people in their daily lives. Under our new medium-term management plan, the Daiwa House Group, through its commitment to co-creating value for individuals, communities and people's lifestyles, will work to achieve the dreams of society.

Kenji Murakami, *President and COO*

Message from the CFO

Raising Corporate Value

In fiscal 2007, the final year of our first medium-term management plan, the Daiwa House Group posted record sales, although dramatic changes in our business environment prevented us from realizing our earnings targets. Our second medium-term management plan builds on these results, under the two main themes of improving our profit structure and nurturing new future earnings drivers. Amid the current challenging business environment, which is expected to persist, we have carried out a strategic reorganization of business units to meet market trends. Our aim is not only to achieve our numerical targets, but also to contribute to the Group's various stakeholders, to give greater consideration to the environment, and to co-create value for individuals, communities, and people's lifestyles through our daily business operations. Moreover, we give consideration to environmental preservation measures in all our business activities.

1. A dramatic reduction in trade payables and an increase in inventory assets have resulted in cash used in operating activities of ¥15.7 billion (US$157 million).

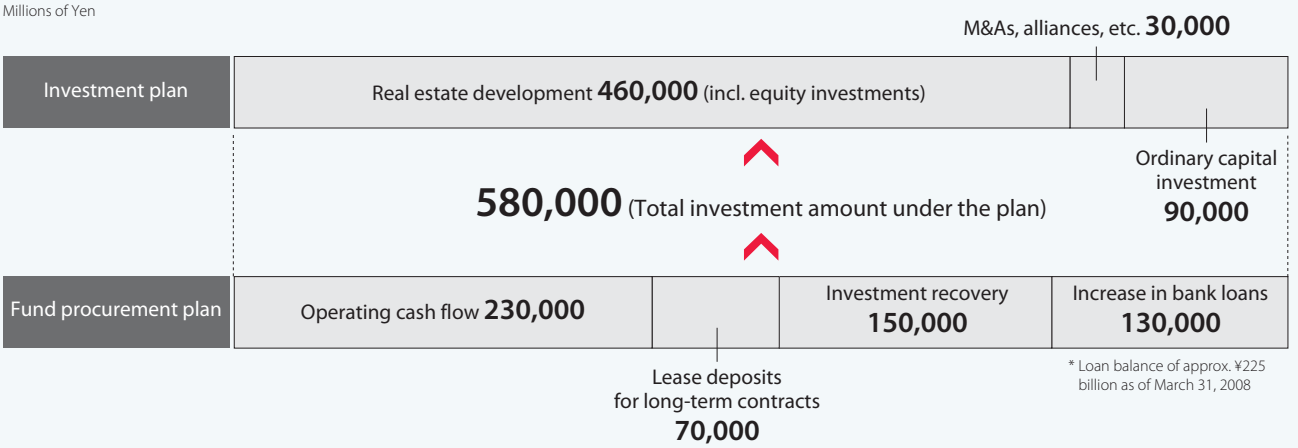
2. Net cash used in investing activities came to ¥123.3 billion (US$1,233 million), consisting mainly of expenditure for the acquisition of land intended for the construction of large-scale rental commercial facilities, as well as buildings, etc., in line with our policy for aggressive investment in real estate development projects.

3. Net cash provided by financing activities came to ¥135.8 billion (US$1,358 million), due to the proceeds from long-term debt and net increases in short-term bank loans and commercial paper to finance investments.

Tetsuji Ogawa

Investment planned under Second Medium-Term Management Plan "Challenge 2010" (FY2008-10)

Millions of Yen



Cash flow in fiscal 2007 (blue is inflows, red is outflows)

Summary of consolidated balance sheets (Assets)	Millions of Yen	YoY change
Current assets	761,877	95,543
Cash and cash equivalents	98,889	(3,238)
Inventories	495,613	63,285
Property, plant and equipment, net	642,816	40,556
Buildings and structures	237,456	33,095
Land	341,408	(2,699)
Investments and other assets	386,359	24,931
Investment securities	90,622	(19,533)
Total assets	1,791,052	161,030

Summary of consolidated balance sheets (Liabilities)	Millions of Yen	YoY change
Current liabilities	484,323	(5,265)
Trade payables	189,860	(63,395)
Short-term bank loans	11,918	4,985
Current portion of long-term debt	1,595	525
Commercial paper	20,000	20,000
Long-term liabilities	657,288	177,999
Long-term debt	193,377	142,807
Long-term deposits received from the Company's club members	45,793	(3,025)
Lease deposits received	204,288	15,344
Liability for employees' retirement benefits	124,170	29,877
Equity	649,441	(11,704)
Retained earnings	381,480	(6,362)
Total liabilities and equity	1,791,052	161,030

Summary of consolidated statements of cash flows	Millions of Yen
Net cash used in operating activities	(15,738)
Income before income taxes and minority interests	24,862
Depreciation	35,622
Provision for employees' retirement benefits, net of payments	30,108
Write-down of marketable and investment securities	7,859
Loss on development businesses	24,537
Increase in inventories	(87,402)
Decrease in payables - trade	(48,548)
Net cash used in investing activities	(123,297)
Purchases of property, plant and equipment	(93,038)
Purchases of marketable and investment securities	(12,877)
Net cash provided by financing activities	135,797
Net increase in short-term bank loans	985
Net increase in commercial paper	20,000
Proceeds from long-term debt	153,691
Cash and cash equivalents, end of year	98,889

Summary of consolidated statements of income	Millions of Yen
Net sales	1,709,254
Operating income	89,121
Other income (expenses)	(64,259)
Amortization of actuarial loss for employees' retirement benefits	(26,411)
Write-down of marketable and investment securities	(7,859)
Loss on development businesses	(24,537)
Income before income taxes and minority interests	24,862
Net income	13,080

Steadily implementing an investment plan aimed at enhancing corporate value

The financing plan to fund our second medium-term management plan

To achieve our targets of ¥1,850 billion in sales, ¥115 billion in operating income, an operating income margin of 6.2%, and an ROE of 9.0% for the final year under our second medium-term management plan, we must place more emphasis on the real estate development business, leveraging Group synergies, and also strengthen our new business development initiatives. We are planning capital investment of ¥580 billion over the three-year period covered by the plan. Of this total, ¥460 billion has been earmarked for our real estate development operations, while ¥90 billion will go to ordinary plant and equipment investment, and ¥30 billion will be used for new business development, primarily in the form of M&As and business alliances.

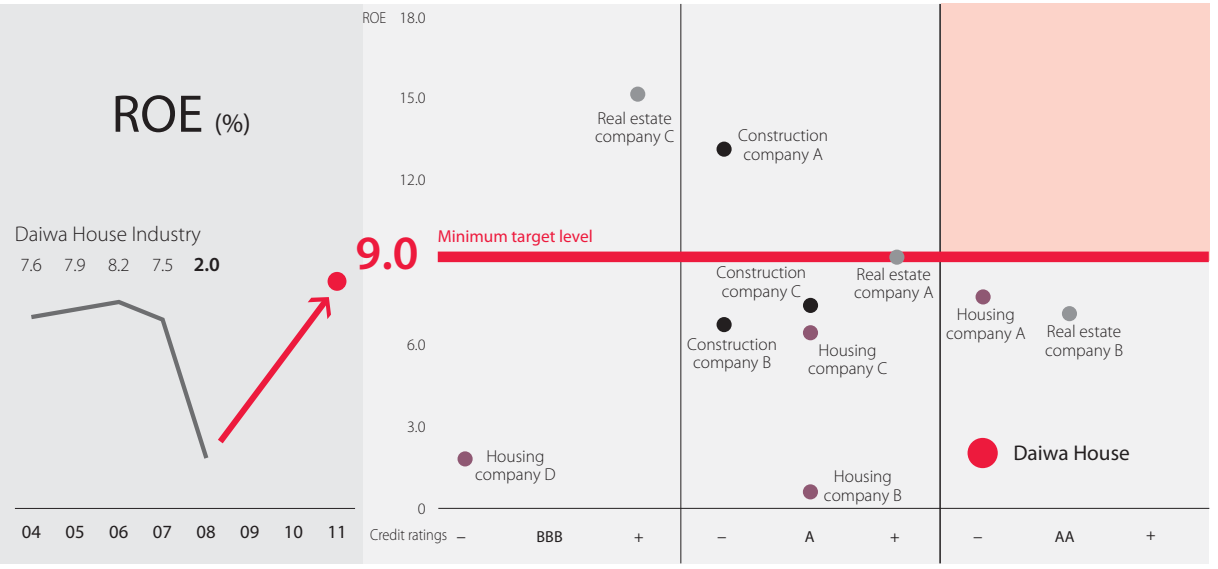
Investment plan focuses on real estate development business

We will give priority to real estate development investments, utilizing our expertise in this field and our extensive knowledge of the real estate industry. The targets of these investments will not be limited to rental and subdivision condominiums, and commercial and logistics facilities (our conventional targets), but will also include industrial parks and medical/nursing care facilities. The selection of properties for development will be undertaken by the Real Estate Investment Committee after adequate deliberations. Given the declining population, it will be more important than ever to precisely identify the latest trends in the real estate development market and steadily undertake investments while taking into account possible changes in the future.

Increase investment for entry into new business fields

The Daiwa House Group is already investing, through capital participation and business tie-up, in next-generation businesses such as energy and robots. In the case of such investments, we select fields that are closely related to our existing businesses, with the aim of growing these new enterprises into high value-added businesses in the future.

Financial strategy map ■ Target area



For reference: Flash reports of Daiwa House Industry, and other companies; Rating and Investment Information (R&I) (As of May 31, 2008).

Simultaneously, we are strengthening our overseas operations by expanding our real estate business, particularly in China. In addition to rental housing, we are developing the condominium subdivision and single-family house businesses as new earnings drivers. Our development efforts so far have focused on Dalian, Suzhou and other coastal-belt cities with a high proportion of wealthy individuals. We will carry out careful research and feasibility studies to expand our business to other locations.

Fund procurement policy

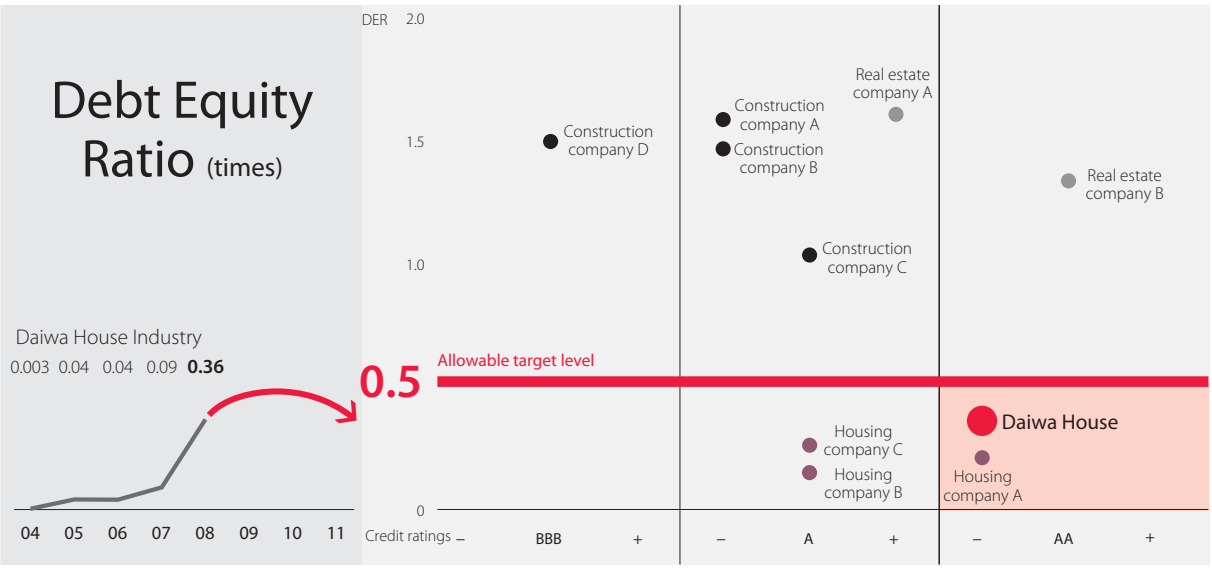
Investments funds totaling ¥580 billion will be procured in the following manner: operating cash flow of ¥230 billion, an investment recovery of ¥150 billion, an increase in bank borrowings of ¥130 billion, and lease deposits for long-term contracts of ¥70 billion. We intend to keep the debt-to-equity ratio at the 0.5 level to ensure the financial soundness of the Group.

Raising corporate value

Rapid growth cannot be expected in a mature construction market like Japan's. Amid this business environment, the Daiwa House Group will move beyond the simple construction of facilities, strengthening its business as a developer and expanding its real estate development operations to achieve further growth. The results of such growth will be returned to shareholders. In fiscal 2007, we acquired 7.8 million of our own shares. We will undertake further share-buybacks as necessary, taking into account the requirements of our operating environment, with a commitment to flexibly paying a sufficient level of returns corresponding to earnings.

While doing my best to maintain a firm financial position, I will make utmost efforts as Chief Financial Officer to achieve the targets of our second medium-term management plan, and work steadily to raise corporate value.

Tetsuji Ogawa, *Executive Vice President and CFO*



Corporate Management

Daiwa House management gathered around a statue of founder Nobuo Ishibashi.

Board of Directors

As of August 1, 2008

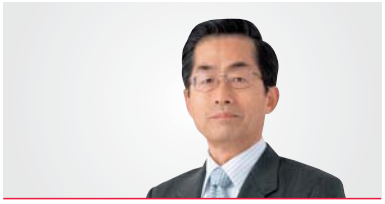
* Representative Director

Takeo Higuchi*
Chairman and CEO

Born in 1938
1963: Joins Daiwa House Industry
1984: Director of Daiwa House Industry
1993: Becomes President of Daiwa Danchi
2001: President of Daiwa House Industry
2004: Chairman and CEO

Kenji Murakami*
President and COO

Born in 1947
1970: Joins Daiwa House Industry
1997: Director
2004: President and COO



Tetsuji Ogawa*
Executive Vice President and CFO
Head of Management Administration

Born in 1941
1964: Joins Daiwa House Industry
2000: Managing Director
2004: Executive Vice President and CFO

Takuya Ishibashi
Director and Senior Managing Executive Officer
Head of Osaka Honten Branch

Born in 1953
1988: Joins Daiwa Danchi
2001: Managing Director of Daiwa House Industry
2007: Director and Senior Managing Executive Officer

Hiroshi Azuma
Director and Senior Managing Executive Officer
Head of Production and Procurement
Head of Overseas Business

Born in 1946
1969: Joins Daiwa House Industry
1993: Director
2007: Director and Senior Managing Executive Officer

Takashi Uzui
Director and Managing Executive Officer
Head of General Housing Operations

Born in 1947
1970: Joins Daiwa House Industry
2001: Director
2007: Director and Managing Executive Officer

Chiyohiro Aoyagi
Director and Senior Executive Officer
General Manager, CS Planning Department
Head of CS Division

Born in 1950
1969: Joins Daiwa House Industry
2004: Director
2007: Director and Senior Executive Officer

Yoshiharu Noto
Director and Senior Executive Officer
General Manager, General Affairs Department,
Tokyo Branch
Deputy Head of Safety

Born in 1949
1972: Joins Daiwa House Industry
2005: Director
2007: Director and Senior Executive Officer

Katsutomo Kawai
Director and Senior Executive Officer
General Manager, Personnel Department,
Management Administration
Head of Strategic Division, Management Administration
Deputy Head of CSR Office

Born in 1948
1972: Joins Daiwa House Industry
2006: Director
2007: Director and Senior Executive Officer

Naotake Ohno*

Executive Vice President
Head of Marketing Division

Born in 1948
1971: Joins Daiwa House Industry
2000: Director
2007: Executive Vice President

Tamio Ishibashi*

Executive Vice President
Head of Information Systems
Head of CSR Office
Head of Marketing Support Department
Head of TKC Promotion Department
Concurrently President of Media Tech Inc.

Born in 1956
1979: Joins Daiwa House Industry
1989: Director
2000: Executive Managing Director
2001: Executive Vice President

Tatsushi Nishimura*

Director and Senior Managing Executive Officer
Head of Technology
Deputy Head of Information Systems

Born in 1949
1972: Joins Daiwa House Industry
2003: Director
2008: Director and Senior Managing Executive Officer

Shigeo Otsuka

Director and Managing Executive Officer
Head of Tokyo Branch
Head of Rental Apartment Building Operations

Born in 1947
1971: Joins Daiwa House Industry
2001: Director
2007: Director and Managing Executive Officer

Eiichi Takeda

Director and Managing Executive Officer
Head of Administration Division,
Management Administration

Born in 1947
1970: Joins Daiwa House Industry
2006: Managing Director
2007: Director and Managing Executive Officer

Takashi Hama

Director and Managing Executive Officer
Head of Central Research Laboratory, Technology
Head of Product Development, Technology

Born in 1954
1976: Joins Daiwa House Industry
2005: Director
2007: Director and Managing Executive Officer

Isamu Ogata

Director and Senior Executive Officer
Head of Nagoya Branch
Head of Retail and Wholesale Facilities Division

Born in 1949
1972: Joins Daiwa House Industry
2007: Director and Senior Executive Officer

Shigeru Numata

Director and Senior Executive Officer
Sendai Branch Manager
Head of Tohoku Region

Born in 1950
1974: Joins Daiwa House Industry
2007: Director and Senior Executive Officer

Ryozo Terada

Director and Senior Executive Officer
Deputy Head of Technology
Head of Design Department (Buildings),
Technology Headquarters
Head of Safety

Born in 1946
1970: Joins Daiwa House Industry
2008: Director and Senior Executive Officer

Presidents of Principal Subsidiaries

As of August 1, 2008

Shunsaku Morita
Daiwa 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.

Shinsei Yoshimori
Royal Home Center Co., Ltd.

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

Seishu Umaoka
Daiwa Royal Golf Co., Ltd.

Junichi Sugiura
Daiwa House Renew Co., Ltd.

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

Haruyuki Yoshimoto
Osaka Marubiru Co., Ltd.

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

Takeshi Kousokabe
Daiwa House REIT Management Co., Ltd.

Yoshio Kinoshita
Eneserve Corporation

Masafumi Iwami
Higashi-Fuji Co., Ltd.

Yoshiaki Takamura
Odakyu Construction Co., Ltd.

Kazuhiko Hazama
LOC Development Co., Ltd.

Hiromi Yamane
Daiwa Service Co., Ltd.

Osao Fukushima
Daiwa Information Service Co., Ltd.

Minoru Fujita
Nihon Jyutaku Ryutu Co., Ltd.

Tsuyoshi Ochi
Daiwa Royal Co., Ltd.

Hidekazu Matsushima
Daiwa Energy Co., Ltd.

Masaaki Tsuboshima
Daiwa Monthly Co., Ltd.

Katsuaki Handa
Daiwa Lantec Higashinihon Co., Ltd.

Osamu Takimoto
Daiwa Lantec Nishinihon Co., Ltd.

Osami Nishikawa
Daiwa House Financial Co., Ltd.

Shigeru Sasashita
Daiwa House Insurance Co., Ltd.

Masaru Izuoka
Synchroller Co., Ltd.

Michio Aritomo
Shinwa Agency Co., Ltd.

Corporate Auditors

As of August 1, 2008

Toshihiko Emi
Corporate Auditor (standing)

Adding our own perspectives to regular auditing

Today, with laws such as the Corporation Law and the Financial Instruments and Exchange Law (the Japanese-version of the SOX Law) firmly in place, companies are facing still greater pressure to fulfill their corporate social responsibilities more rigorously. In these circumstances, statutory auditors stipulated under the Corporate Law must ensure that executives and employees strictly meet compliance requirements, and the company's internal control and corporate governance systems are sufficient. In other words, we, the statutory auditors, must ask ourselves as we conduct our audits whether or not our Group has met the requirements resulting from these changes.

At Daiwa House Industry, we have combined conventional auditing policy with our own policy under which we investigate problems thrown up by regular audits at their source. We call this policy "Making negative information positive." Here, negative information means any negative feedback (internal alerts, uncovered problems or stakeholder complaints to our representatives). We find out the reason why issues have arisen, indicate problems to the management, suggest preventive measures and request improvement. We also make follow-up investigations to see whether action is indeed taken. We do all this because we believe that taking action on negative feedback on a case-by-case basis leads to a significant positive effect for the entire Group.

Regarding business performance, we look out for abnormally high or low figures in the results of our sales offices and Group companies nationwide, and specify the causes when they occur. At the same time, we take care to ensure that such events do not negatively affect the worth of the Company in the near or long term. We must continue to make profits as long as we are a joint-stock company. However, we must make all executives and employees fully aware that profits gained without strict compliance are not true profits. Vagueness on compliance must be avoided.

People make a company. Unless each executive and employee carefully nurtures staff with high ethical standards in business, and shows good judgment standards, practices and knowledge, a company cannot survive, much less grow. I believe that we must also take account of the most effective way to nurture staff as a crucial aspect of our auditing role.

Toshihiko Emi

Corporate Auditor (standing)

Born in 1939
1964: Joins Daiwa House Industry
1999: Corporate Auditor (standing)
(currently serving)

Yoshikazu Tano

Corporate Auditor (standing)

Born in 1941
1959: Joins Daiwa House Industry
1989: Director
2000: Managing Director
Counselor of Daiwa Kosho Lease Co., Ltd.
2001: Representative and Managing Director of
Daiwa Kosho Lease Co., Ltd.
2002: Director of Daiwa House Kansai Co., Ltd.
2004: Counselor of Daiwa House Kansai Co., Ltd.
2005: Corporate Auditor (standing) (currently serving)

Kiyoshi Arase

Corporate Auditor (standing)

Born in 1949
1972: Joins Daiwa House Industry
2006: Corporate Auditor (standing)
(currently serving)

Hiromi Doi

Corporate Auditor

Born in 1937
1960: Joins Yamazen Corporation
1987: Director of Yamazen Corporation
1996: Managing Director of Yamazen Corporation
1999: Senior Managing Director of Yamazen Corporation
2001: Special Counselor of Yamazen Corporation
President of Yamazen Create Co., Ltd.
2003: Corporate Auditor (currently serving)
2004: Corporate Auditor of Royal Home Center
Co., Ltd. (currently serving)
2005: Corporate Auditor of Takara Standard Co., Ltd.
(currently serving)

Kazuhiro Iida

Corporate Auditor

Born in 1960
1986: Member attorney of the Osaka Bar
Association (currently serving)
2005: Corporate Auditor (currently serving)

Kiichiro Iwasaki

Corporate Auditor

Born in 1937
1961: Joins Nomura Securities Co., Ltd.
1985: Director of Nomura Securities Co., Ltd.
1987: Managing Director of Nomura Securities Co., Ltd.
1989: Senior Managing Director of Nomura Securities
Co., Ltd.
1993: Deputy President of Nomura Securities Co., Ltd.
1997: Corporate Auditor of Nomura Securities Co., Ltd.
Corporate Auditor of Nomura Research Institute, Ltd.
2000: President of Executive Partners Inc.
2003: Chairman of Executive Partners Inc.
2005: Corporate Auditor (currently serving)
Director of the Sankei Building Co., Ltd.
(currently serving)
Special Counselor of Executive Partners Inc.
(currently serving)
2006: Corporate auditor of Matsumoto Yushi-Seiyaku
Co., Ltd. (currently serving)

Yukinori Kuwano

Corporate Auditor

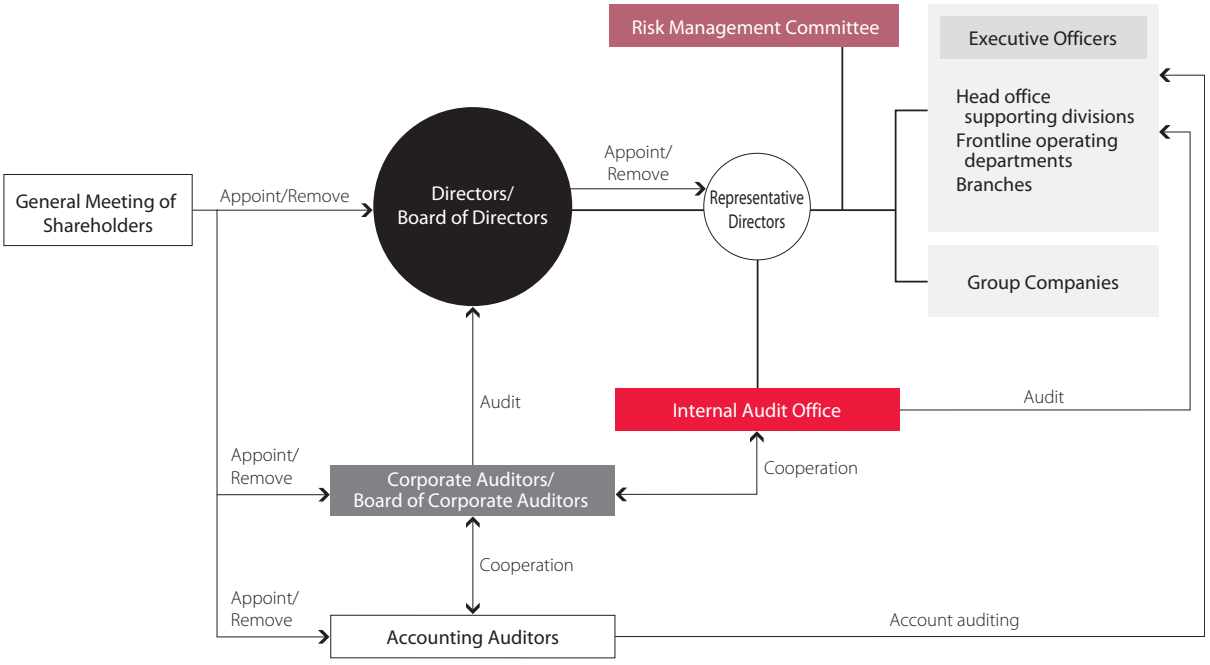
Born in 1941
1963: Joins Sanyo Electric Co., Ltd.
1993: Director of Sanyo Electric Co., Ltd.
Head of R&D Division of Sanyo Electric Co., Ltd.
1994: Corporate Auditor of Optex Co., Ltd.
1996: Managing Director of Sanyo Electric Co., Ltd.
1999: Director and Senior Managing Officer of
Sanyo Electric Co., Ltd.
2000: President and COO of Sanyo Electric Co., Ltd.
2004: President & CEO and COO of Sanyo Electric Co., Ltd.
President of Photovoltaic Power Generation
Technology Research Association (PVTEC)
(currently serving)
2005: Director and Advisor of Sanyo Electric Co., Ltd.
Advisor of Sanyo Electric Co., Ltd.
2006: Director of Optex Co., Ltd. (currently serving)
Senior Counselor of Sanyo Electric Co., Ltd.
2008: Corporate Auditor (currently serving)

Corporate Governance

Basic policies

The management of the Daiwa House Group put a high priority on corporate governance as a management issue that is vital to the Group's aims of effecting a continuous increase in its enterprise value and of maintaining the trust of its shareholders and other stakeholders. The Group's overriding objective is to establish a management system characterized by efficiency, transparency, through swift and accurate decision-making and execution of decisions made, together with an effective system for overseeing the conduct of management. We are also working to realize a stronger corporate governance system in line with the document *Basic Policies with Regard to the Creation of an Internal Control System*, announced in May 2006.

Corporate governance system



Organizations and committees: their roles and members

(As of the end of June 2008)

Board of Directors	Members
The Board makes decisions on matters mandated by law, as well as on matters of importance to the management of the Company, and also monitors the execution of business operations by the Company's executive offices. To clarify the management responsibilities of the directors, in June 2001 the term of office of directors was set at one year. In April 2007, the responsibilities, roles and specific duties of directors and executive officers were stipulated, and a new executive officer system was adopted to strengthen the supervisory functions of the directors. During fiscal 2007, the business term under review, the Board of Directors met 23 times.	Directors: 18 Corporate auditors: 3 Corporate auditors (external): 4
Board of Corporate Auditors	**Members**
The Company employs the statutory auditor system stipulated under the Corporation Law. The Company's corporate auditors number seven, of whom four are outside auditors. In accordance with the Company's auditing policy and system of dividing up responsibilities among individual auditors, certain auditors attend meetings of the Board of Directors and other important management meetings as deemed necessary, certain auditors receive reports from the Board of Directors and other high-level management bodies, and certain auditors peruse documents relating to significant Board decisions. Additionally, the auditors investigate the administrative processes and properties and other assets under the management of the Company's head office divisions and other major branches and offices. They also receive business reports from the management of Company subsidiaries as deemed necessary. Furthermore, the auditors check that directors do not engage in any competitive work or possess conflicts of interest. They also audit the gratis provision of warrants and other rights to directors, request reports on the said matters from the directors, and investigate all details of the matter at hand when deemed necessary. Audits are carried out independently and objectively, with outside opinion solicited where necessary. There are no conflicts of interest between the Company and its outside auditors. During the term under review, the Board of Auditors met 18 times.	Corporate auditors: 3 Corporate auditors (external): 4 (Support staff for auditors: 4)
Joint Management Council	**Members**
Reports are made regarding major decisions by a meeting of the Board of Directors on issues relating to the business of the Company, as well as implementation, promotion and follow-up activities. Activity reports are also drafted for each business and discussed once a month based on the main report. During the term, the Joint Management Council met 12 times.	Directors: 43 (18 Directors; total includes 18 executive officers with Director functions) Corporate auditors: 3 Corporate auditors (external): 4
Risk Management Committee	**Members**
With the head of Management Administration as chair, the Risk Management Committee comprises the heads of other principal divisions of the Head Office responsible for business promotion, management administration, technology, production and purchasing. It meets once a month to progress the creation and maintenance of a risk management system for the Company and takes measures to prevent recurrence of risk. In addition, it assures functional flexibility through means such as appropriate and effective committees and subcommittees, which devise risk management projects. During the reporting term, the Risk Management Committee met 12 times (please see page 59 for more details).	Head of Management Administration Heads of all business units: 60
Internal Audit Office	**Members**
The Company has set up an internal audit office with the responsibility of checking whether the Company's administrative processes and systems are working correctly, and proposing remedial action when deemed necessary. The office gives instructions to audited divisions or departments for improvements on the basis of the audit results, and requests status reports on measures taken after the audit to ensure that the auditing process is conducted correctly and efficiently.	Regular employees: 12

Major initiatives undertaken during fiscal 2007

- Employee training in risk management, compliance and internal controls (Financial Instruments and Exchange (J-SOX) Law etc.)
- Incorporate into the second medium-term management plan measures for strengthening risk management and compliance
- Daiwa House Group Case Book (training manual) containing Code of Ethics, Behavioral Guidelines, and 89 case studies. Third edition (distributed April 2008)

April 2008 and beyond

- J-SOX Law Project Department upgraded into J-SOX Department (April 2008)
- IR Department established within Management Administration Headquarters (April 2008)
- Recruitment of one external auditor (June 2008)

Compensation for directors and corporate auditors

Compensation for directors of Daiwa House Group is based on recognized standards for compensation laid down by a meeting of the Board of Directors within maximum limits approved at a general meeting of shareholders. Details of compensation paid to directors were as follows during fiscal 2007. We have already abolished our system for payment of retirement benefit allowances to directors, in which seniority and accrued payments were factored in, and now are considering shifting to a performance-linked approach to compensation across-the-board.

Payments made to directors and corporate auditors

Compensation (including bonuses but excluding lump-sum retirement payments)

21 Directors: ¥873 million

6 Corporate Auditors: ¥151 million

Notes: 1. As of the end of the term under review, the Company employed 18 directors and six corporate auditors.
2. Maximum compensation amounts (not including bonuses paid to directors and auditors, and salaries paid to directors simultaneously serving as employees for their services as employees)
Directors: Total annual amount = ¥840 million
Corporate Auditors: Total annual amount = ¥144 million

Payments made to independent auditing company

Payments made by the Company and its consolidated subsidiaries to our accounting auditor, the auditing company Deloitte Touche Tohmatsu, for their services in auditing the financial statements of the Company and its consolidated subsidiaries, in accordance with Clause 1, Article 2 of the Certified Public Accountants Law, and with respect to their audit certification work for the fiscal 2007 business term, amounted to total of ¥183 million. Payments for other services amounted to ¥6 million.

Internal Control

Under our program to strengthen corporate governance and compliance, the Board of Directors has approved a basic plan for creation of an internal control system, to ensure that directors and employees comply with the law and ordinances and the Company's articles of incorporation in their conduct of duties, as laid down in the Corporation Law and Financial Instruments and Exchange (J-SOX) Law, and to ensure that operations of the Company are carried out in an appropriate way.

Basic policies and developmental status of internal control system

1 System to ensure that the performance of their duties by the directors and employees of the Company conforms to laws and regulations as well as the Company's own Articles of Incorporation

We have established the Code of Ethics of the Daiwa House Group as part of our resolve to ensure that all aspects of our corporate activities comply with laws and regulations. Representative directors convey this resolve to Daiwa House Group management and lead by example. The following system has been established.

(1) From among the directors, one director is assigned responsibility for overall compliance (the Risk Management Committee Chairperson) to orchestrate the compliance system across the Daiwa House Group and identify problem areas.

(2) One person from each division is assigned responsibility for the analysis of compliance and risk issues particular to that division. Specific response measures are devised, and the necessary compliance education and training related to enacted and revised laws and regulations is conducted.

(3) In the event that directors, corporate auditors or those responsible for compliance discover compliance-related problems, the problems are immediately reported to the Risk Management Committee Chairperson.

(4) In order to gather information related to compliance, a Corporate Ethics Hotline has been set up in the CSR Office. The CSR Office investigates the details of reports, and discusses and decides on recurrence prevention measures in conjunction with the respective division. If it is determined that a director or directors are intimately involved or if there is a serious violation of laws or regulations, the problem is reported to the Risk Management Committee, the Board of Directors or the Board of Auditors, depending on the situation.

(5) The Internal Audit Office has been established to audit various process and work-related matters, identify as well as prevent misconduct, and improve work-related processes.

(6) The Company's corporate auditors, CSR Office, Internal Audit Office, Consolidated Management Administration Department, and Legal Department routinely collaborate to identify any problems in the compliance system of the Daiwa House Group.

(7) Disciplinary Guidelines are established to deal with conduct that violates laws and regulations or our Articles of Incorporation. These matters are handled fairly, based on the respective guidelines.

2 System to store and manage information related to the performance of their duties by the directors of the Company

From among its directors, one director is assigned responsibility for the storage and management of information related to the performance of their duties by directors and employees. The following system has been established.

(1) Document Management Guidelines have been drawn up and published. Information that relates to director or employee performance of duties is appropriately recorded and stored in written documents or electronic media (hereafter "documents, etc.").

(2) Directors and corporate auditors may view these documents, etc. at any time.

(3) Management of information is handled in accordance with guidelines related to information security and the Company's basic policy on the protection of personal information.

3 Crisis management system (for minimization of losses)

From among the Daiwa House Group directors, one director is assigned responsibility for risk management (the Risk Management Committee Chairperson) to orchestrate the risk management organization across the Daiwa House Group, defined as follows, and to take preventive measures against the materialization of risks.

(1) Risk management for the Daiwa House Group is systematically prescribed in the Risk Management Guidelines.

(2) Based on the Risk Management Guidelines, the Risk Management Committee Chairperson promptly relays the appropriate information in the event of a contingency corresponding to an assumed risk and organizes the emergency setup. (This includes the establishment of an emergency task force in the event of a large-scale accident, natural disaster or scandal.)

(3) In addition, the Risk Management Committee has been established: the committee regularly checks the status of system development in (2) as well as makes improvements to the overall system by investigating specific cases.

(4) The Risk Management Committee Administration Office has been set up within the Legal Department as the administrative division of the Risk Management Committee.

(5) One staff member responsible for risk management is designated in each division, with the responsibility for continuously monitoring risks in his or her division. In addition, serious scandals or accidents occurring within the Daiwa House Group or at other companies are quickly made public, and the necessary education and training conducted.

(6) In conjunction with the corporate auditors, the Internal Audit Office routinely monitors the status of risk management in each division.

(7) Items related to risk management in (3) and (6) are regularly reported to the Board of Directors and Board of Auditors.

(8) The Risk Information Hotline has been set up to enable employees who discover risks or potential risks at the Company to directly contact the Risk Management Committee.

4 System to ensure efficient performance of duties by directors

Through implementation of the following management system, the Daiwa House Group ensures the efficient performance of their duties by the Company's directors.

(1) Companywide objectives shared among directors and employees are set out and made well known, and a medium-term management plan is formulated based on these objectives.

(2) To execute the medium-term management plan, the Board of Directors establishes performance objectives and budgets for each business division each term, based on the plan.
In principle, the respective priority levels of R&D, investment in facilities and new businesses are determined on the basis of the estimated degree of contribution to achieving the objectives of the medium-term management plan. At the same time, human resources are efficiently allocated to each business division.

(3) Directors determine the organization to realize efficient performance of duties, including specific measures to be implemented by respective divisions and the division of authority.

(4) Actively utilizing IT, performance is quickly turned into management accounting data on a monthly basis and reported to the respective director as well as the Board of Directors.

(5) The Board of Directors assesses results on a monthly basis. The respective director analyzes the factors that resulted in objectives not being attained, and must report on improvement measures designed to reduce and/or eliminate these factors, revising the objectives as necessary.

(6) On the basis of the results of the analysis carried out in (5), the director makes improvements to the system or procedures to facilitate the efficient performance of duties, including specific measures to be implemented by the respective division and the division of authority.

5 System to ensure fair business practices by the corporate group (Group companies)

From among the directors, one director is assigned responsibility for ensuring that the business practices of the Daiwa House Group are fair. The following system has been established:

(1) In conjunction with Group companies, related divisions of the Company implement measures to enhance the effectiveness of internal controls at Group companies as well as to give instructions and assistance to Group companies as necessary.

(2) In conjunction with Group companies, related divisions of the Company ascertain the status of internal controls at Group companies and give instructions to make improvements as necessary.

(3) The Internal Audit Office conducts internal audits of Group companies.

(4) The staff member holding overall responsibility reports to the Board of Directors on the status of internal controls at the respective Group company on an as-needed basis.

6 System for the management of employees requested to assist the corporate auditors, and items related to the independence of the said employees from the Company's directors

The Company has established the following system for employees assigned to assist the corporate auditors, and employees in charge of internal audits.

(1) The Auditors Office has been set up to serve as a department to assist the corporate auditors. Employees are exclusively assigned to it at the request of corporate auditors.

(2) The Board of Auditors receives a report in advance from the director in charge of human resources regarding transfers of personnel to the Auditors Office. Accompanied by appropriate reasons, the Board of Auditors can also make requests to the director in charge of human resources for personnel changes on an as-needed basis.

(3) In the case of disciplinary action against an employee or employees assigned to assist the auditors, the director in charge of human resources must obtain the approval of the Board of Auditors in advance.

(4) Personnel transfers and disciplinary action with respect to employees in charge of internal audits are also subject to the stipulations in (2) and (3).

7 System for the Board of Directors and employees to report to the Board of Auditors and other related systems

1) The Board of Directors reports the following prescribed items to the Board of Auditors.

(1) Items that may result in significant losses to the Company

(2) Important items related to monthly management status

(3) Important items related to status of internal audits and risk management

(4) Serious violations of laws, regulations and the Articles of Incorporation

(5) Status and details of Corporate Ethics Hotline and Risk Information Hotline reports

(6) Other important items related to compliance

2) In the event that an employee discovers incidents related to the aforementioned (1) and (4), they may report directly to corporate auditors.

8 Additional system to ensure effective audits by corporate auditors

The Company has established the following system to ensure that the corporate auditors can conduct audits effectively.

(1) In the case of a request for an interview by a corporate auditor, directors and employees must comply.

(2) Corporate auditors receive reports on the status of implementation of internal audits, and may request additional audits, formulation of improvement measures or other matters as necessary.

(3) Corporate auditors attend important meetings, including those of the Board of Directors, the Risk Management Committee and other management meetings, and may request explanations and the presentation of relevant materials as necessary.

(4) The Board of Auditors and corporate auditors may exchange views with representative directors and auditing firms at any time.

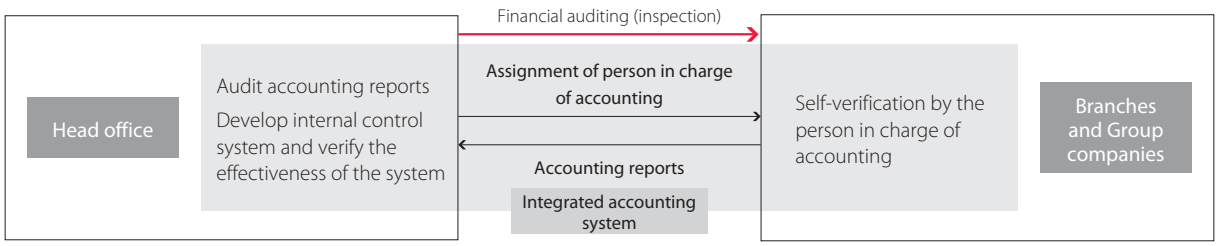
(5) The Board of Auditors may hire specialist lawyers and accountants as necessary to receive advice related to auditing duties.

Ensuring accurate accounting

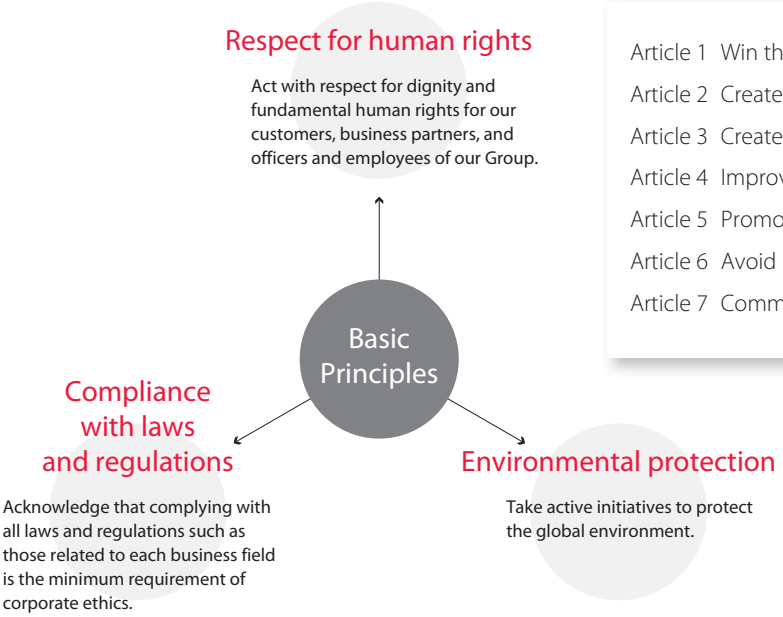
The Company settles its accounts at the end of every fiscal year, under a unified accounting system for its offices and Group companies. In addition to verifying operations at Head Office and conducting financial audits, officers are sent by the accounts department of Head Office under a rigorous system of self-inspection before reports are drafted, with subsequent auditing of all submitted accounting reports. This ensures Companywide integrated system for accounting purposes.

Ahead of implementation of the Financial Instruments and Exchange (J-SOX) Law, we established a J-SOX Law Project Department in October 2006 and set up internal controls for our financial reporting. From April 2008, we have stepped up our measures in this area, having upgraded the project department to the J-SOX Department. This office makes judgments determining the parameters of assessment, and makes effective use of the accuracy and speed of existing systems to monitor the status of implementation of internal controls for risks needing attention. Resultant improvements will enable smoother and more effective internal controls.

Accounting system (summary)



Compliance

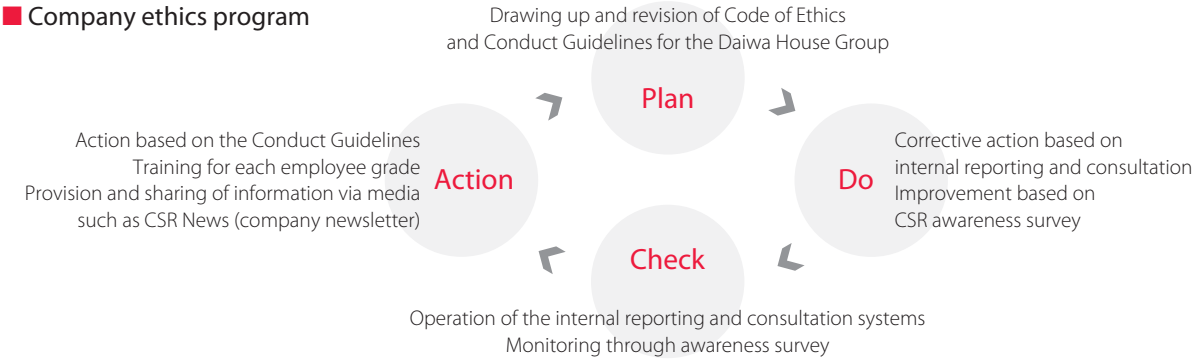


Article 1 Win the trust of customers through our conduct
Article 2 Create good relationships with suppliers
Article 3 Create an ideal working environment
Article 4 Improve ethics
Article 5 Promote fair competition
Article 6 Avoid involvement with antisocial elements
Article 7 Commit to environmental issues

Daiwa House Group Code of Ethics

To ensure rigorous compliance, the Daiwa House Group in April 2004 compiled its Code of Ethics and Behavioral Guidelines setting ethical and conduct standards to be followed by the entire Group. In April 2008, we compiled and distributed in-house the third edition of the Daiwa House Group Case Book (training manual) containing our Code of Ethics and Behavioral Guidelines, as part of further efforts to ensure that all employees of the Group have a thorough understanding of corporate ethics. In addition, the Group in April 2004 set up an internal reporting mechanism (including hotline) for ethics issues, available to all employees (including part-timers and staff sent by temporary agencies). In fiscal 2007, consultations were held and issues raised relating to working environments and relations between personnel on 231 occasions. Based on the views expressed through this channel, we are committed to early detection of issues requiring attention.

Company ethics program



Risk Management

Risk management

With the aim of swiftly addressing complaints from customers and drawing up plans to improve our business processes and prevent recurrence of problems, the Company set up the Risk Management Committee as an administrative office of the Legal Affairs Department in September 1999. In April 2002, this committee released a set of Risk Management Guidelines. Based on these guidelines, the Risk Management Committee, chaired by the head of Management Administration, is tasked with documenting past cases of risk materialization, devising specific countermeasures and improving the risk situation in problem areas during operations. In April 2007, we enhanced the scope of the risk management guidelines and renamed them the Daiwa House Group Risk Management Guidelines. Through them, we are taking measures to prevent risk through a cross-sectional risk management infrastructure for the entire Daiwa House Group.

In fiscal 2008, the second medium-term management plan began, with risk management and compliance positioned as priority matter for management. We are creating the necessary infrastructure for Groupwide risk control.

The Second Medium-Term Management Plan (extract)

- **Appointment of compliance and risk managers**

  Group legal sections to have staff of 50

  Dedicated legal affairs officer assigned to major business operations

- **Expand scope of authority of Risk Management Committee**

  Create and enhance Groupwide risk management system

- **Implement more thorough compliance education**

  Conduct cross-sector compliance training across the entire Group

Status of activities

The Risk Management Committee reacts flexibly and with the promptness demanded by business today, through means such as appropriate and effective committees and subcommittees, which devise risk management projects tailored to prevailing social conditions.

May 2006	In line with Board of Directors-approved basic policies with regard to the creation of an internal control system, we have established compliance subcommittees for each of our divisions, and are creating an internal control system tasked with finding ways to prevent materialization of risk and violation of compliance principles.
September 2006	As a subordinate organization to the Risk Management Committee, we have established a Business Continuity Management (BCM) subcommittee, tasked with creating infrastructure for risk management (please see pages 60, 61).
April 2007	In Japan, a Consumer Product Safety Law has been enacted in light of a recent spate of fatal and serious accident issues with everyday products in Japan such as oil-fan heaters and water heaters. In response, we have established a Consumer Product Safety Law Project Subcommittee, which documents incidents involving daily products sold by Daiwa House Group, and gathers information concerning customers.

Activities carried out during fiscal 2007

In fiscal 2007, as the first stage in promoting Daiwa House Group ERM (Enterprise Risk Management), the Risk Management Committee took a central role in compiling information on risks that existed within the Group, as well as actively educating executives and employees to establish a high level of awareness on compliance and risks among Group companies.

Risk management education

In fiscal 2007 we conducted 286 executive/employee education seminars on risk management or compliance topics for Daiwa House Industry (18,426 attendees) and 41 for our Group companies (1,770 attendees), which was an increase of 242 seminars and 16,580 attendees over the 85 seminars (3,616 attendees) for the entire Group last year. We plan further executive/employee education in fiscal 2008.

Analyzing risk information

As a result of compiling risk information from the entire Group, we documented risk in 239 cases of various significance in fiscal 2007 alone. The table below summarizes the results. Based on it, we create a list of priorities based on urgency, and apply it in risk management activities in fiscal 2008.

Category	Some major cases of risk	Number of cases	Ratio (%)
Compliance risks	Deviation from working standards, violation of law, employee misconduct, misconduct of business partner	35	14.6
Product risks	Product defects, defective work/design	34	14.2
Procurement risks	Defective parts, raw material flaws (resulting from supplier errors)	20	8.4
Environmental risks	Soil contamination, VOC* accidents, waste processing, illegal disposal	16	6.7
Risks of natural disaster, accidents	Natural disasters (earthquakes, wind), criminal cases such as suspicious break-ins	13	5.4

* VOC (Volatile Organic Compounds): A general term for chemical substances that vaporize at room temperature.

BCM*1 (Business Continuity Management)

As part of its risk management activities, Daiwa House Industry decided in September 2006 to work on drafting a BCP*2 program that restructures the existing disaster prevention plan, and established a BCM Subcommittee subsidiary to the Risk Management Committee. The BCM Subcommittee has its secretariat in the General Affairs Department at Head Office, and holds meetings once a month with a total of 27 members from each department. Starting May 2008, we launched the Group BCM Subcommittee, expanding the scope to include the 15 major Group companies.

*1 BCM (Business Continuity Management): A management system that drafts, operates and reviews the plan (Business Continuity Plan) that stipulates what actions need to be taken in the event of an emergency in order to sustain core operations or allow early recovery while minimizing damage to business assets when the Company faces an emergency situation such as a natural disaster, major fire or a terrorist attack.
*2 BCP (Business Continuity Plan): Plan for sustaining business

Basic policy of BCP

The Company aims to be a "disaster-resistant" organization, able to fulfill its corporate social responsibility even in a major disaster or other crises that cause significant damage. We will sustain crucial operations that support our business activity and strive for early recovery in the event of the temporary suspension of activities. We will also provide relief to disaster-hit regions, conduct recovery activities immediately and contribute to the local community.

Behavioral guidelines

- Secure the safety of employees and their families.
- Carry out preventive measures and establish recovery systems that could sustain crucial operations that support our business activities.
- Establish a relief system that enables us to provide rescue support for disaster-hit regions, and launch recovery operations immediately.
- Constantly review and improve the Business Continuity Plan to bring us closer to our goal of being a "disaster-resistant" organization.

Major activities

Up to fiscal 2007

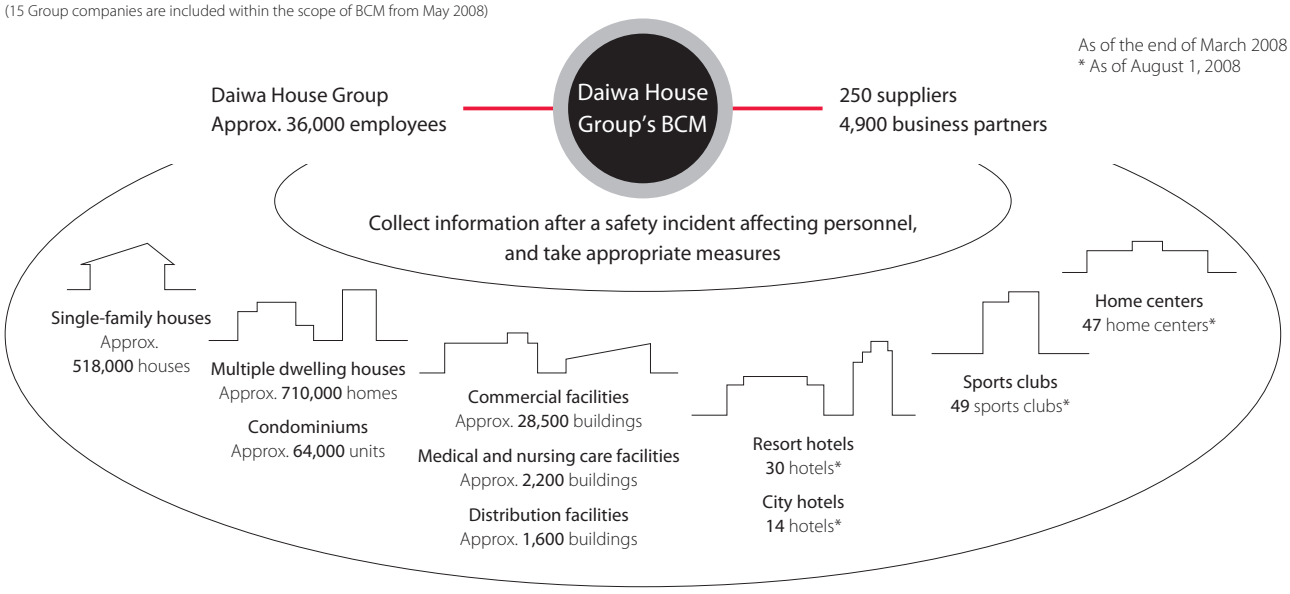
Establish a system that enables listing of buildings we have constructed in disaster-hit areas;
Establish a system for confirming the survival of our partner company employees (in charge of construction work) (plan to be completed by the end of fiscal 2008);
Establish a system for confirming employee survival (conduct training twice a year); etc.

From fiscal 2008 and beyond

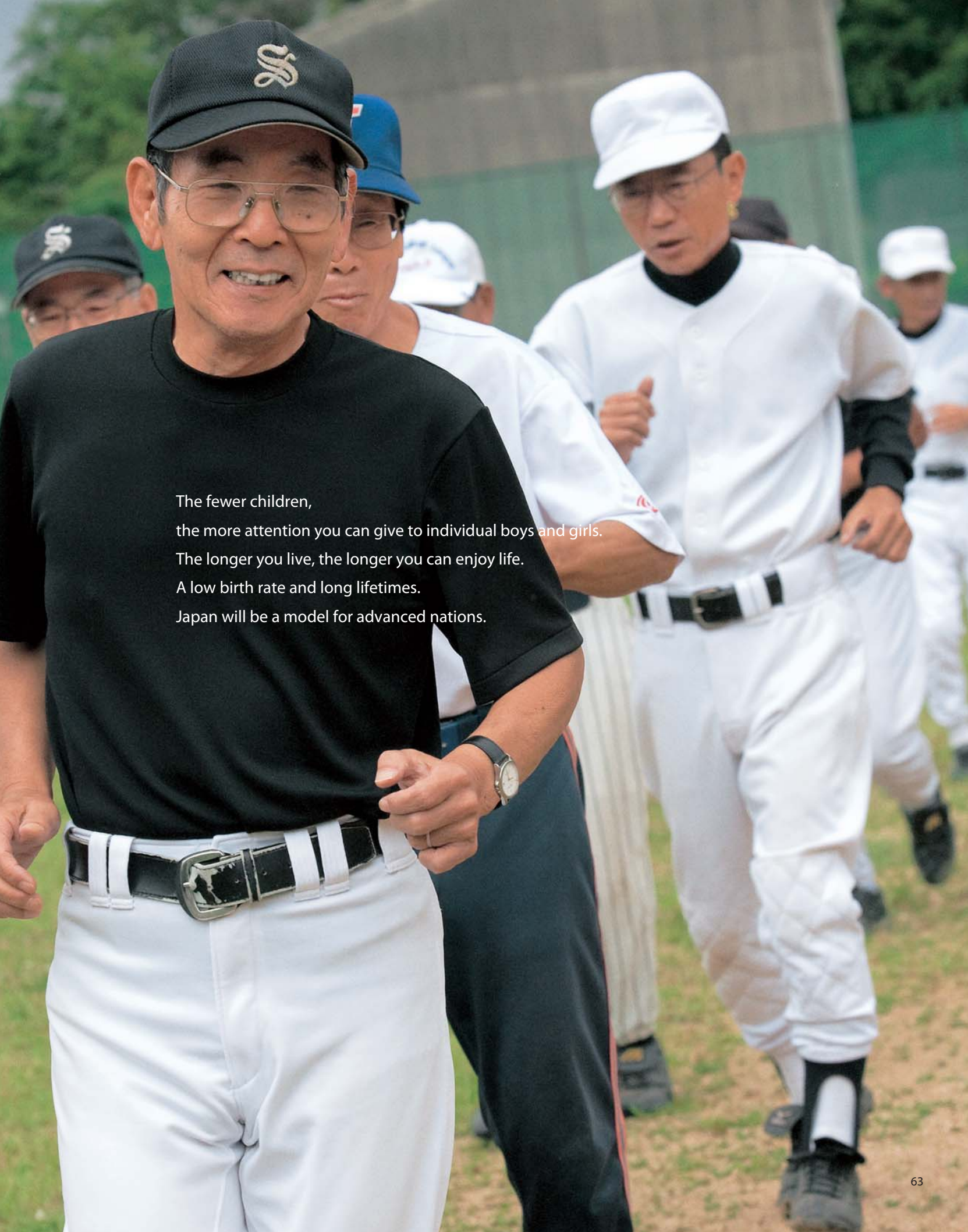
Establish a system for confirming the degree of damage to buildings we have constructed in disaster-hit areas;
Switch the Head Office main server network facilities over to an outside facility;
Establish an Earthquake Early Warning system;
Establish a system for dispersing production bases;
Stock emergency provisions and items to assist employees to return home;
Draft manuals for separate business units and individual employees with action guidelines in the event of a major disaster;
Draft BCPs for major Group companies and strengthen collaborations; etc.

Outline of Daiwa House Group's BCM

(15 Group companies are included within the scope of BCM from May 2008)



Collect information after a safety incident affecting buildings and other physical properties, and take appropriate measures



The fewer children,
the more attention you can give to individual boys and girls.
The longer you live, the longer you can enjoy life.
A low birth rate and long lifetimes.
Japan will be a model for advanced nations.

The power of the wind is the future energy of the country.
The fruit of the land has always provided the energy of the people.
Japan is rich in resources that will help solve urgent issues facing the world.

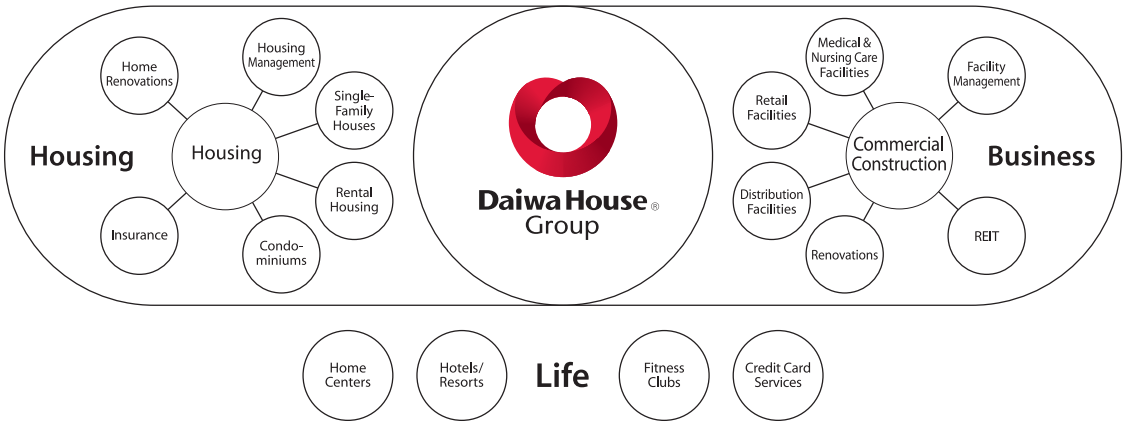
However the world changes, we at the Daiwa House Group
know that the heart continues to beat,
in people, in nature and in daily life, connecting and caring.

The Heart of Life

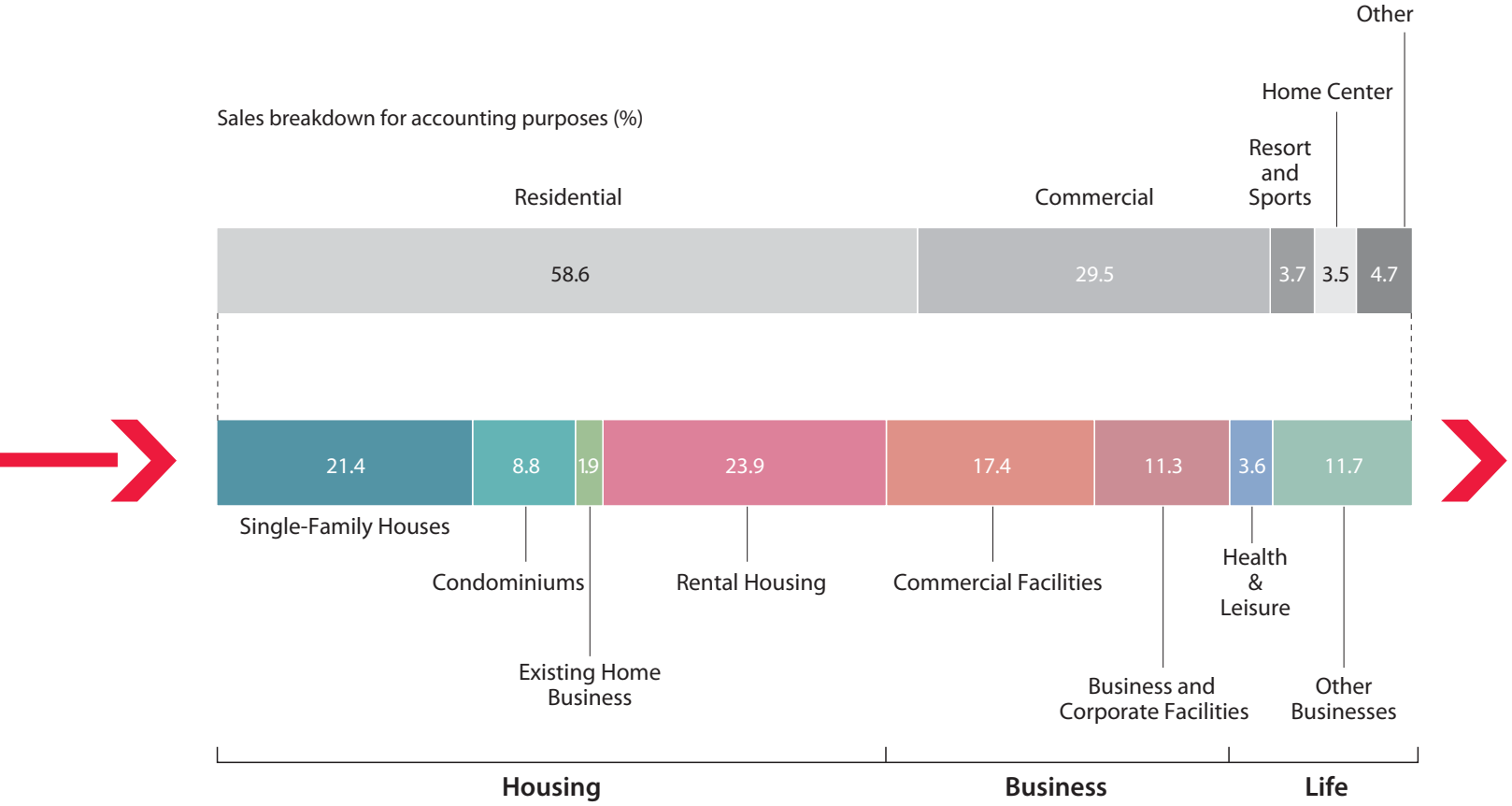
Business Overview

The Daiwa House Group divides its operations into five segments for accounting purposes. But this business overview uses the eight 'domains' under our new medium-term management plan. These will be explained below. The Daiwa House Group will address the challenge of change through faster decision-making, deeper specialization and greater competitiveness.

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



For the purposes of the President's Message (P32-39) and Business Overview (P68-101), the segment information in this Annual Report is based on eight business domains based on the second medium-term management plan. However, the current five-segment division for accounting purposes is used elsewhere.



Sales breakdown by business domain (%)

Housing

Single-Family Houses

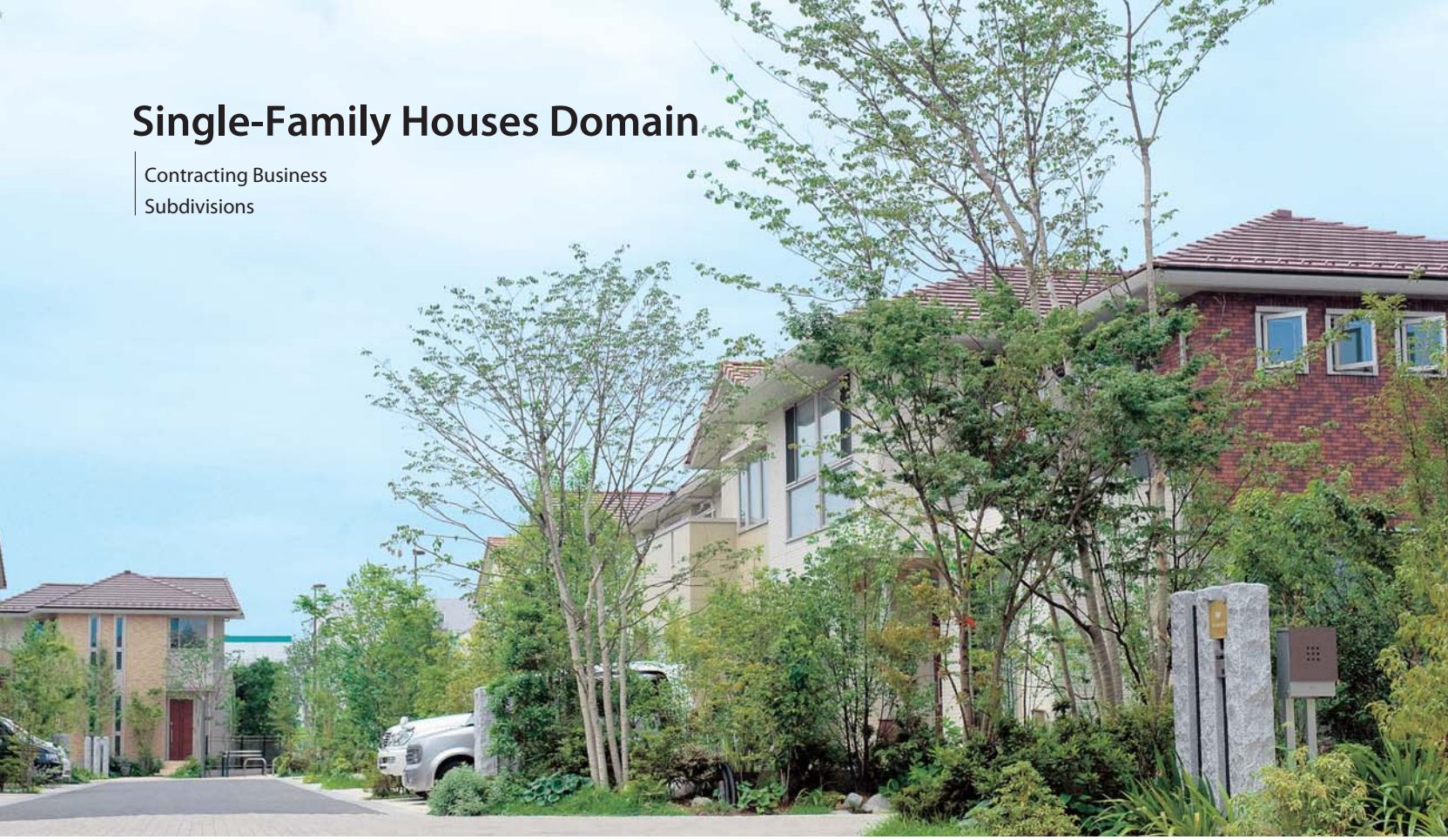
Condominiums

Existing Home Business

Rental Housing

Single-Family Houses Domain

Contracting Business
Subdivisions



In the Single-Family Houses Domain, Daiwa House Industry was a pioneer of prefabricated homebuilding and is currently engaged in contracted businesses and subdivision development in Japan. By leveraging our Group capabilities and partnerships under the "Endless Partnership" concept, we offer total support from home and community creation to aftersales services. We value our links with our customers and are committed to handing down homes to later generations.

Challenge 2010

Value Restoration

(¥ billion)

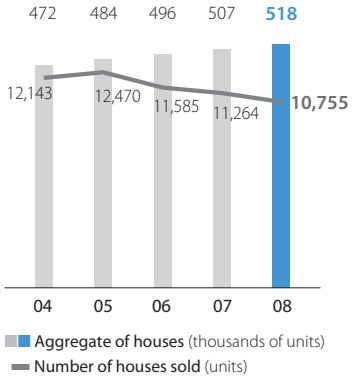
	FY2007 (results)	FY2010 (plan)
Sales	381.7	390.0
Operating income (est.)	6.7	8.5

Second Medium-Term Management Plan: Business Strategies

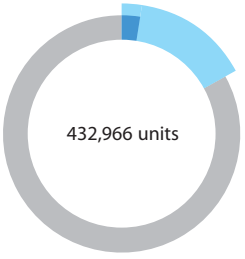
- Develop new marketing channels and focus management resources on selected areas
- Enhance our "existing home business" as means of raising the value of customers' home properties
- Improving planning and marketing capabilities in subdivision housing field
- Reform cost structure to improve earning power

Aggregate of houses and number of houses sold

(Daiwa House Industry, non-consolidated)

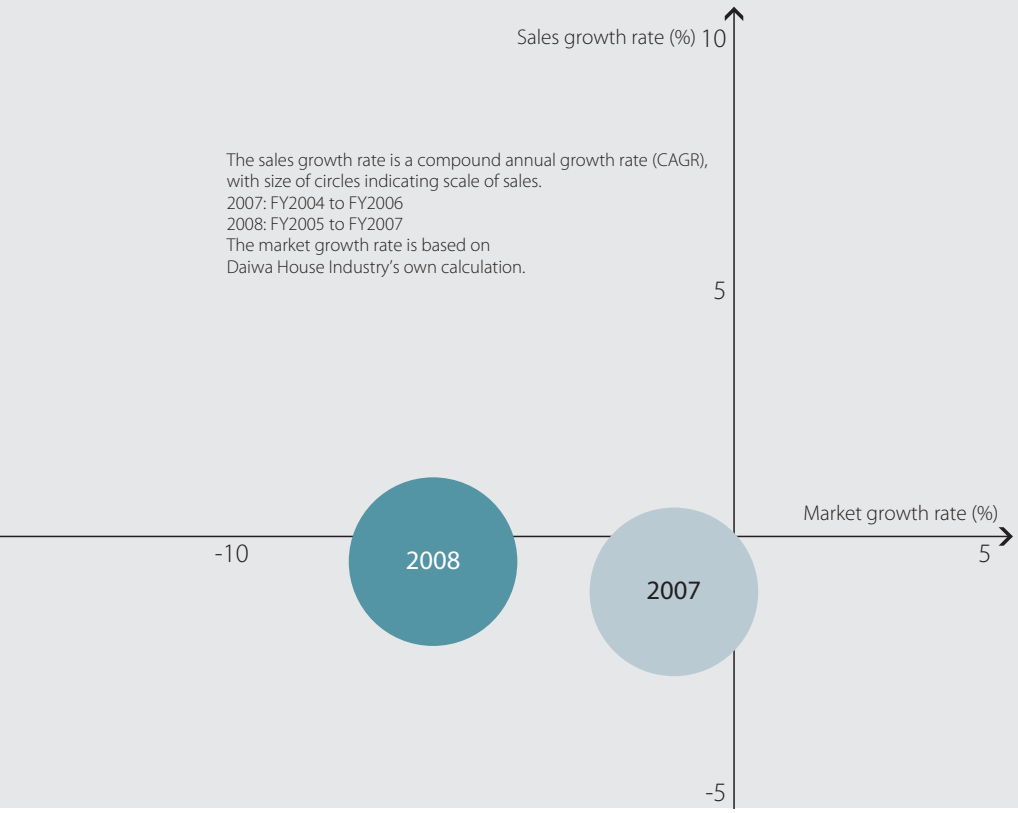


Share of single-family house market (FY2007)



Daiwa House Industry (non-consolidated)	2.5%
Top seven companies	17.2%
Other companies	82.8%

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



Beyond 2009 ›

1. The selection of our permanent **xevo** show-house (LABO model houses*1) and our model for subdivisions that harmonize with their neighborhoods by the Ministry of Land, Infrastructure, Transport and Tourism under its promotion of model businesses pioneering ultra-durable housing has greatly raised the profile of the **xevo** brand.
2. We are developing our 4M2G Construction Method*2 with a view to mass production in 2010. Through supply chain management upgrades and research into iron substitute materials, we will further cut costs and increase the gross margin.
3. We have extended our maintenance warranty by 10 years to 50 years, to increase the number of high-quality durable homes, and have introduced a new method of appraisal of buildings under a maintenance program based on inspections.

*1 Daiwa House's LABO model houses: These are model houses that are the same as houses actually for subdivision sale, and are open for customer viewing for a limited period. (The name was changed to Machinaka **xevo** on September 1, 2008.)
*2 4M2G Construction Method: No scaffolding, No paint, No onsite welding, and No caulking, plus highly value-added exterior Walls and exterior Walls with pre-fitted tiles

Single-Family Houses Domain
Contracting Business

xevo: Ahead of its time, increasing Daiwa House product appeal

We are terminating the use of brand names other than the **xevo** brand of single-family houses, which now runs to five series. We have focused on lowering construction costs through shared use of materials. The 2007 Minister of the Environment Award for global warming prevention activities was one of several accolades the Company has won through its efforts to promote and propagate development of energy-saving homes, embodied in the **xevo** concept. We took further steps to increase product appeal by the expanding exterior options under our design variation range (in which different exteriors are applied to the same interior), and by developing interior solutions for diversified needs in our mainstay **xevo E** product.

By meeting the conditions of the 200-year housing vision* based on the "stock"-focused Basic Housing Act, we are convinced that we are on the cutting edge of home construction, and will continue to enjoy good customer feedback in this area.

* 200-year housing vision: Concept for longer life housing released in May 2007 by the Liberal Democratic Party Policy Research Council's vision of an affluent home lifestyle

xevo E

xevo WE

Jointly planned solutions for diversifying home needs

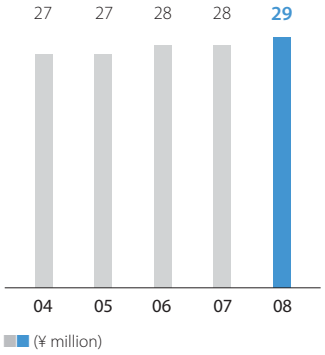
We have strengthened solution proposals for our customers through creation of living spaces for three-generation families, with elders at hand but separately housed, and the Happy Hug concept for child-rearing, drawing on our hardware skills in **xevo**. The Happy Hug concept, jointly designed with Benesse Corporation (publisher of magazines for mothers-to-be and new parents) involves mail-order marketing of everyday products for mothers and young children. We develop housing solutions that take account of young mothers' day-to-day needs, by drawing on Benesse's expertise. Looking ahead, we will continue to develop lifestyle proposals closely targeted on specific customers. We also won the Japan Industrial Design Promotion Organization's fiscal 2007 Good Design Award for our special model house created in collaboration with interior design adviser Noriko Kondo enabling visitors to get a feel of cosy, comfortable living. We plan to open a special model house in Nagoya, following openings in Yokohama, Kobe and Hiroshima.

Pioneering models for ultra-durable housing

In July 2008, the Ministry of Land, Infrastructure, Transport and Tourism recognized our wide-ranging activities to promote the **xevo** model as a model in the Ministry's ultra-durable housing pioneering model business program. We set up LABO model houses across Japan and publish images of construction sites during works on a website. Additionally, our home history pack enables users to check project planning and process records, information about building materials and facilities used, and maintenance records of the property after residents have moved in. This is part of our initiatives to ensure transparency from the building stage onward. These activities also cast light on the future of more durable housing in Japan, and help raise awareness. This model business will also enable us to reduce the number of unprofitable showhouses built on large premises, and, we believe, further cut business costs.

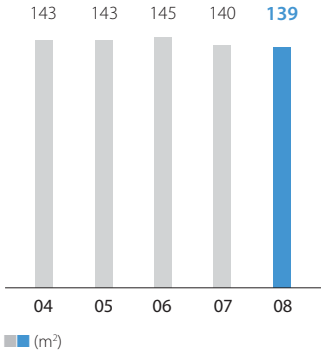
Average sales per unit

(Contracting business, Daiwa House Industry, non-consolidated)



Average floor space per unit

(Contracting business, Daiwa House Industry, non-consolidated)



Floral Avenue Kiyoshikojin

EDDI+S TOWN

Single-Family Houses Domain
Subdivisions

Community building with a focus on asset building and safety

Subdivisions, being vulnerable to changes in land prices, have continued to face difficult market conditions. At the same time, a need has grown for new communities that exist in harmony with the environment and their localities, while generating asset value and offering pleasant, secure community living. In our subdivision projects such as "Floral Avenue," which we are developing across Japan, we aim to meet these needs. Based on the concept of harmony with nature, we are strengthening efforts to develop a high value-added business model with highly green living environments, high levels of convenience, comfort and safety, fostering creation of regional communities in which relationships between people are the priority.

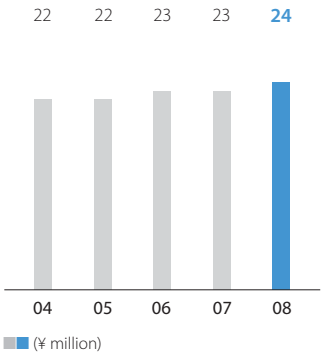
In new developments, we are systematically applying market-in theory to purchase of optimal land sites, after thorough analysis of customer data, and developing businesses based on specific regions and targets customers.

EDDI+S TOWN

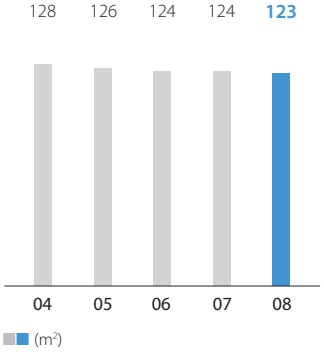
EDDI+S TOWN, jointly developed with architect Edward Suzuki, is a 10-block subdivision development at Komae, Tokyo. Under a collaboration with Tokyo Electric Power Company, the EDDI's House residences are all-electric. Innovation is the hallmark of this development, in which special lighting placed outside each home is used to create a refined atmosphere, and water-retaining coating has been applied to road surfaces to lower the surface temperatures as a measure to counteract the heat-island effect.

At Koshigaya Lake Town in Saitama Prefecture, designed as an "environmental harmony" city, we are undertaking integrated development of subdivisions and condominiums for sale. Marketing has begun, and people are already moving in.

Average sales per unit
(Subdivisions, Daiwa House Industry, non-consolidated)



Average floor space per unit
(Subdivisions, Daiwa House Industry, non-consolidated)



Condominiums Domain

In addition to the four-brand D'Series Condominiums, we are developing the new PREMIST brand in the Condominium Domain. PREMIST emphasizes location, project planning and amenity creation, and will strengthen our brand power. In this business, we supply condominiums for sale in areas such as multipurpose major developments and environment-friendly housing, and D's Bridge condominium asset valuation system.

Challenge 2010

Value Restoration

(¥ billion)

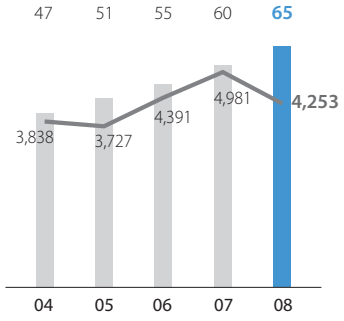
	FY2007 (results)	FY2010 (plan)
Sales	156.6	150.0
Operating income (est.)	5.2	7.0

Second Medium-Term Management Plan: Business Strategies

- Focus on development of major high-rise condominium buildings
- Expand intermediation service businesses for residential sales and rentals
- Continue improving operating income margin by cutting selling costs

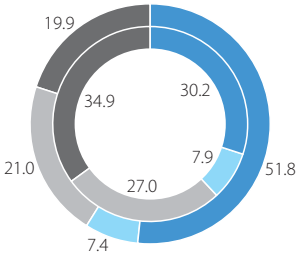
Number of condominium units sold (aggregate/single year)

(Daiwa House Industry, non-consolidated)



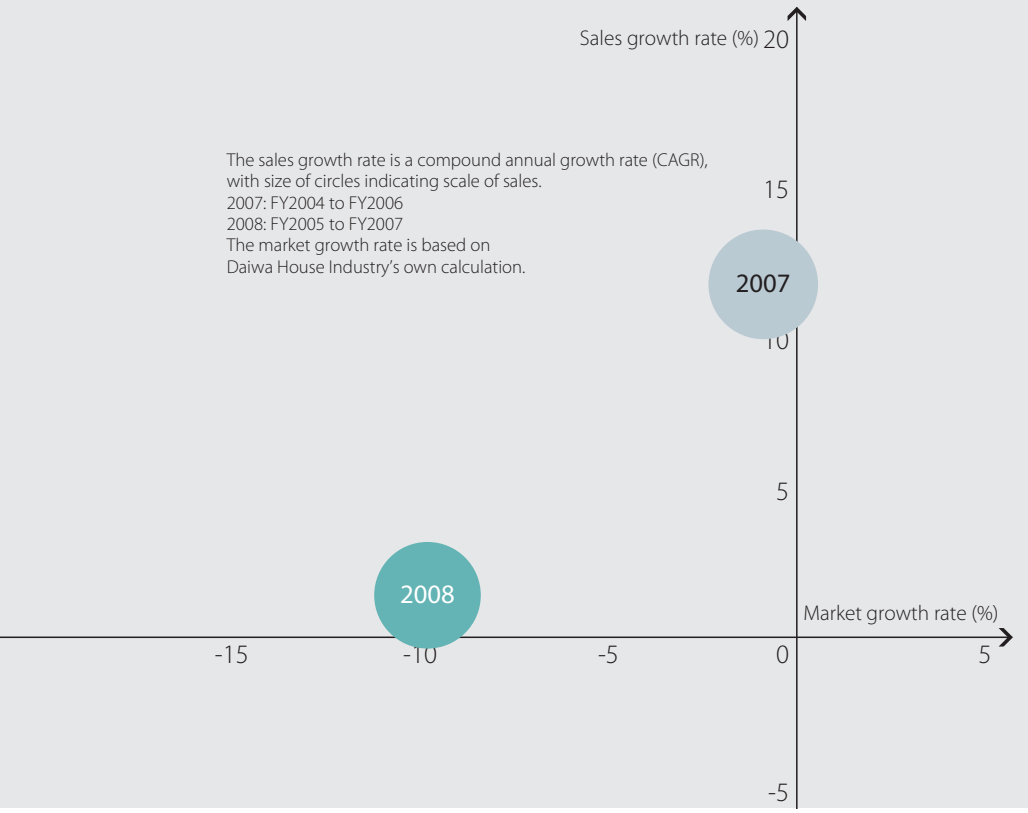
Area breakdown of condominiums

(FY2007)



Inner circle: Daiwa House Industry sales in FY2007 (non-consolidated)(%)

Outer circle: Condominiums built nationwide in FY2007 (%)



Beyond 2009 ›

1. We will focus on increasing the weighting of operations in the Tokyo, Kansai and Nagoya areas and on large-scale, multipurpose and redevelopment projects.
2. We are systemizing model rooms and marketing tools to strengthen our brand.
3. We aim to acquire sites near railway stations and downtown areas, with the accent on convenience, and are developing new concept condominiums.

Condominiums

Organizational reform, and higher business efficiency

The condominium market faces difficult operating conditions due to high construction material costs, combined with high gasoline and food prices affecting household budgets. To cut costs through a more efficient operating structure, we are concentrating more on the large Tokyo, Kansai and Nagoya area markets.

We are also strengthening our redevelopment team and joint venture specialist team to focus on large projects and other multipurpose redevelopments and joint ventures with other companies to generate high value-added. In addition, through cross-Group collaborations in areas such as retail stores and rental housing, we are continuing to position ourselves to more effectively create comprehensive residential environments.

D's Bridge: Supporting the brand

With the "draft law on promotion of good ultra-durable housing" at the review stage in the Japanese parliament, there are signs that the "200-year housing vision" is beginning to build traction. Up to now, the Condominium Business has always been quick to respond to a national housing policy initiatives. An example is the drafting of a proposed 40-year repair plan for all houses (excluding those sold before December 2001), acquisition of certification for housing performance and the introduction of D'File home history packs. In the above-mentioned law, a key element is creation and active use of a home history file. Here too we have pre-empted a government measure with the D's Bridge condominium asset valuation system, launched in 2004. In case of future sale, by using our original D'File-based valuation system, we are increasing accuracy of asset valuation and differentiating the brand.

Existing Home Business Domain

Home Renovation
Real Estate Agency Services

The Existing Home Business Domain consists of home renovations (contracted extension and rebuilding) and general real estate agency. While responding to government policy for improving existing housing, we will aggressively develop this business through collaboration among Group member companies, to ensure future generations can continue to benefit from existing housing.

Challenge 2010

Nurturing Businesses

(¥ billion)

	FY2007 (results)		FY2010 (plan)
Sales	34.2	>	50.0
Operating income (est.)	1.5	>	2.5

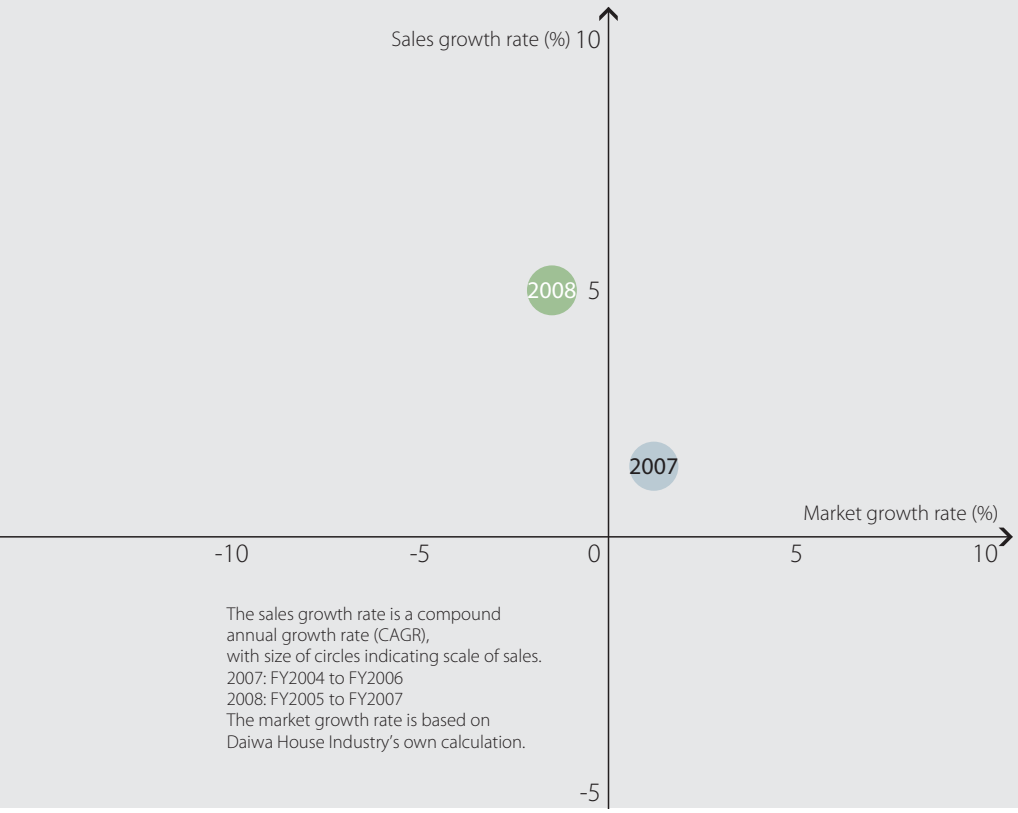
Second Medium-Term Management Plan: Business Strategies

- Expand business by offering renovation work on entire housing originally built by the Daiwa House Group companies
- Set up more marketing offices to strengthen capability in intermediary services involving real estate for business purposes
- Expand scale of business in sale of pre-owned houses and condominiums

Existing Home Business Domain
Home Renovation

Stronger basics, and generating more business from established customers

To more effectively tap the ¥6-7 trillion home renovation market in Japan, in October 2007 we established within Daiwa House Industry's home renovations business a special advisory service, with staff transferred from the "customer satisfaction" department acting as customer relations advisors. In fiscal 2008, through a partnership of our Customer Center and customer consultation corner providing information about our businesses, we are promoting incentive based maintenance proposals through longer term inspection times (10 years, 15 years, and 20 years after construction). This initiative covers all companies existing housing stock (single-family houses, rental apartment buildings, and condominiums for sale). To further expand this business, we will focus on single-family houses in fiscal 2008.



Beyond 2009 ›

1. In the home renovation business, we aim to improve business efficiency and strengthen the brand, by converting existing customer-care services from a "cost burden" to a revenue-generating business.
2. In renovation operations, we offer package proposals tailored to region, budget and design theme. In the future, we plan to focus more on proposals that combine ecological and economic benefits.
3. We aim to meet general needs for renovation works through our regionally focused Reform Salon consultation services, and through partnerships principally with household electronics mass retailers.

Existing Home Business Domain

Real Estate Agency Services

Peace of mind, safety and reliability, through partnerships in the Group

With the market for homes for resale retaining its buoyancy, an increasing number of customers can be expected to show interest in high-quality used properties in future years. The three things that customers now look for when making a used property purchase is peace of mind, safety and reliability. Nihon Jyutaku Ryutu, a Group company engaged in real estate agency services, has further strengthened operations through an alliance with Daiwa House Industry. By sharing information and making decisions on a joint basis, through regular meetings, and through promotional office design and marketing tools, Nihon Jyutaku Ryutu seeks to embody the Group's "Endless Heart" concept. By emphasizing this company's membership in the Daiwa House Group, we will offer still greater peace of mind and reliability.

While monitoring the market, develop the second-hand residential business

Under the D's Bridge condominium asset valuation system pioneered jointly with other Group companies, Nihon Jyutaku Ryutu offers condominium-owners sales or rental agency services. Performance at both businesses is improving. With Nihon Jyutaku Ryutu and the residential business departments of Daiwa House Industry, the Group is developing mechanisms for asset-value appraisal for single-family houses too, and plans to have these operational by the end of September, 2008.

In our used home residential business, in which homes for resale are purchased and then improved prior to re-marketing, if the stock of suitable existing housing increases in the future and the market for homes for resale picks up, we see a strong possibility of a new genre emerging in the business of buying and selling used housing. Depending on developments, we are preparing measures for this.

Rental Housing Domain

In the Rental Housing Domain, we develop medium-to-high-rise and low-rise buildings around Japan by buying up and managing the best urban and regional sites. In this business, the D-Room range of high-quality rental accommodation is popular. We have launched full-scale operations in the monthly rental housing business, too. While providing a safe, comfortable living environment after residents move in, our property management business provides long-term support to landlords during and after works through our Daiwa House Apartment House Partnership System (DAPS).

Challenge 2010

Expansion

(¥ billion)

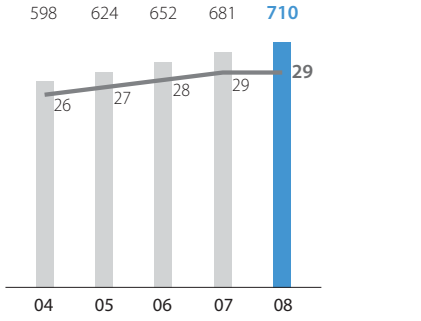
	FY2007 (results)	FY2010 (plan)
Sales	427.7	500.0
Operating income (est.)	39.0	49.0

Second Medium-Term Management Plan: Business Strategies

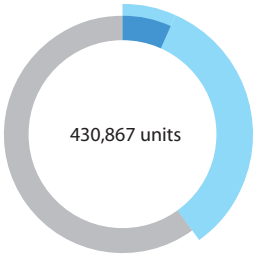
- Strategy for metropolises and major regional cities
- Target large-scale projects
- Strengthen capabilities in management of monthly condominiums and develop business models for the holding and operation of buildings
- Strengthen real estate rental mediation services
- Expand scale of business in property management

Aggregate of rental apartments and number of rental apartments sold

(Daiwa House Industry, non-consolidated)

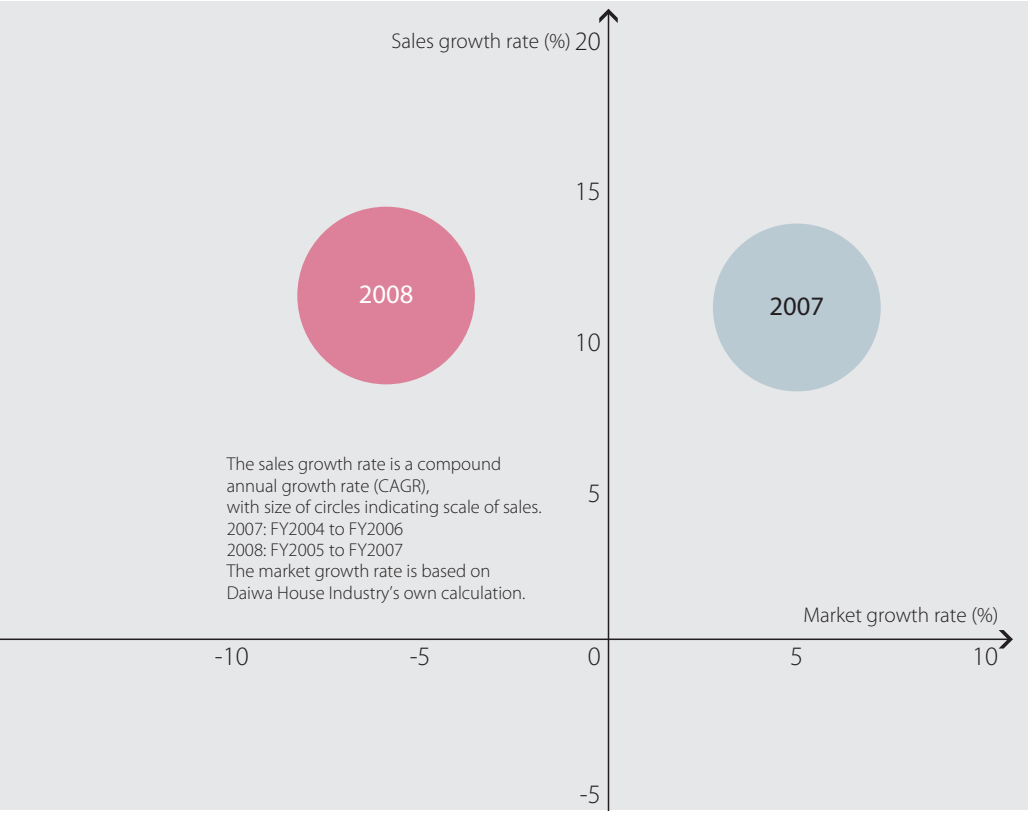


Share of rental housing market (FY2007)



Daiwa House Industry (non-consolidated)	6.7%
Top four companies	40.1%
Other companies	59.9%

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



Beyond 2009 ›

1. We will develop medium-to-high-rise structures in big cities, three-story buildings in urban areas and Friendly Square community-building projects, with parks and pathways, at large sites. In addition, we will retain our focus on site optimization, developing products for specific regions as with our Kyoto style, such as Séjour Wilmore.
2. To build resilient partnerships with owners whose land we have used for developments, we are broadening activities of our Owners Club (16,000 members at the end of fiscal 2007), the Ladies Club (4,700 members) and the Junior Club (3,700 members) for families of owners.
3. In our monthly rental housing business, we are focusing mainly on above-standard properties in terms of size and facilities. We aim to provide a total of 3,300 units for fiscal 2010.

Rental Housing

Expanding the Technology Center for medium-to-high-rise buildings, focusing on large-scale properties

Starts have recently declined in the rental market due chiefly to the impact of the amendment to the Building Standards Law. But the market has expanded as single-person households become common and lifestyles continue to diversify. This has prompted us to set up technology centers for medium-to-high-rise buildings in Fukuoka and Yokohama, having already done so in Tokyo, Osaka and Nagoya, to generate more orders for large properties in downtown areas, for which demand has grown rapidly. We have also strengthened technological capabilities in this regard. Among our medium-to-high-rise properties, Royal Parks Momozaka was awarded the first Osaka sustainable architecture prize for its ecological features.

At the same time, sales have also increased in urban areas for our Séjour OTT's series of three-story buildings designed to make optimum use of site characteristics. In addition, our two-story building Séjour Wilmore (Kyoto style) designed to meet the conditions of Kyoto's townscape blueprint has been launched, vindicating our painstaking approach to product development.

A higher profile in the monthly rental housing business

In our new monthly rental housing business, we had provided 339 units by the end of March 2008. With areas neighboring major stations in prefectural capitals as our main market, we targeted personnel on long-term secondment, foreigners on fixed-term postings in Japan, temporary returnees, single executives on assignment, trainees, and residents of short-term lodgings. We aim to differentiate our product through spacious, well-serviced rooms with designs that emphasize high-quality lifestyles. Through integrated development of our medium-to-high-rise rental apartment buildings (Royal Parks series) and properties for monthly rental housing as well as development of a monthly rental version of the three-story Séjour OTT's, we aim to focus on particularly promising businesses for the future.

Business

Commercial Facilities

Business and Corporate Facilities

Commercial Facilities Domain

The Commercial Facilities Domain has adopted a core business model based on its Land Owner Company (LOC) system, which facilitates effective land utilization by linking land-owners up with tenant companies. At a time in which the future concept of commercial facilities is being rethought, in light of legal changes and evolving consumer perceptions, this business is building an overwhelming edge over its rivals on the back of its broad-based development capabilities based on a record of achievement.

Challenge 2010

Expansion

(¥ billion)

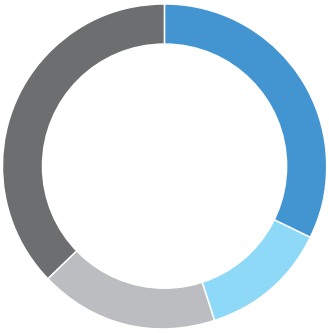
	FY2007 (results)		FY2010 (plan)
Sales	311.5	>	350.0
Operating income (est.)	29.7	>	36.0

Second Medium-Term Management Plan: Business Strategies

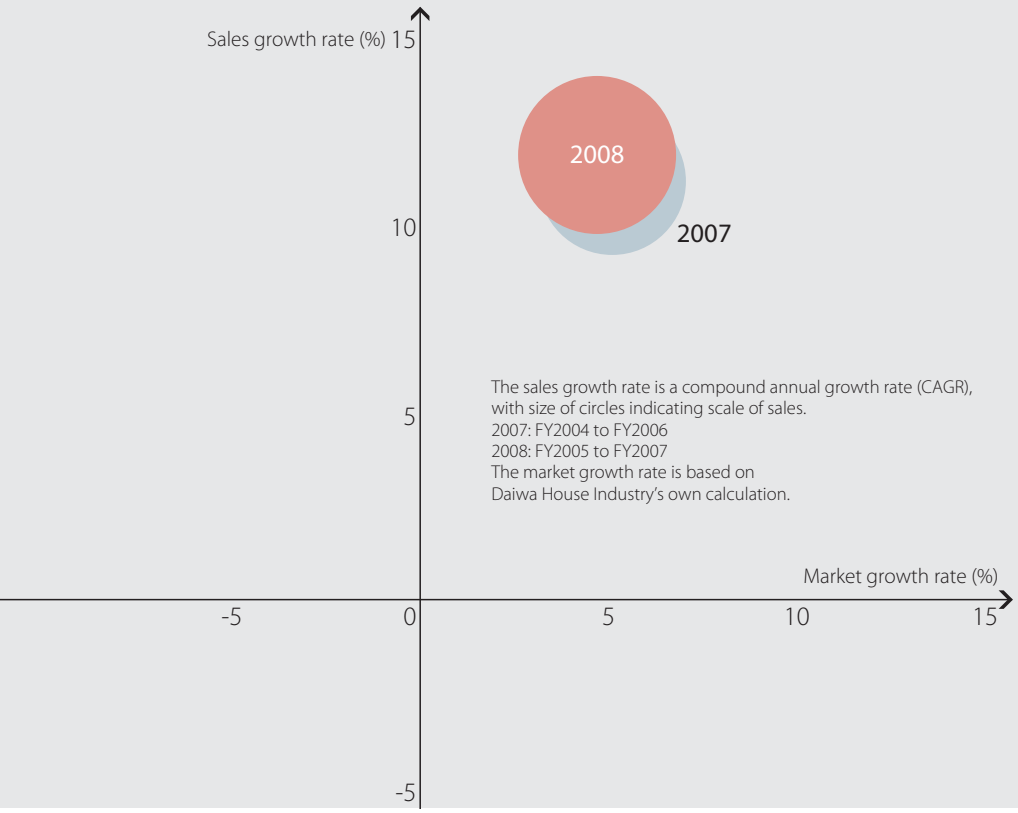
- Expand business as developer
- Strengthen shopping center management and store operations
- Cement strong relationships with owners

Area breakdown of commercial facilities sales

(Daiwa House Industry, non-consolidated, FY2007)



Kanto area	32.3%
Nagoya area	12.7%
Kinki area	18.0%
Other areas	37.0%



Beyond 2009 ›

1. In commercial facilities of up to 10,000m², in which increased demand is expected to fuel fierce competition, we are expanding our development of neighborhood shopping centers*1 and mini power centers*2.
2. We will improve our property management operations by strengthening our ability to attract high-class and new tenants.
3. We will tap renovation and other secondary demand by strengthening our links with land-owners (30,000 as of March 31, 2008) with whom we have business relationships through forums such as the Owners Club (5,608 members), the Ladies Club (1,700 members) and the Junior Club (180 members) for family of owners.

*1 Neighborhood shopping center: Shopping center targeting local residents who make frequent visits, to buy mainly foodstuffs and daily sundries
*2 Mini power center: Shopping center consisting of multiple specialist stores from various sectors

Commercial Facilities

Greater focus on multipurpose large-scale commercial facilities

The total number of large buildings in Japan subject to the Building Standards Law fell in fiscal 2007, as more projects failed to conform with amended requirements. At the same time, per-store floor area increased 40% year on year due to widening scope of regulations. A clear trend towards scale increases has emerged. Multipurpose, large-scale commercial facilities are being designed to attract more customers, to generate benefits of synergy from a diversified portfolio of tenant companies. Individual stores have also increased retail areas. We have expanded staff for promotion of large-scale facilities, to address this market more effectively. An increase in technical staff, in particular, enabled us to enhance reliability of facility design and complete construction in a shorter period.

In major projects, we opened Rinku Pleasure Town Seacle, the largest leisure facility on the shore of the island on which Kansai International Airport stands. New developments due to open in autumn 2008 include major shopping centers at Tsukuba, Sapporo and Otsu.

"Three urban development laws" play to Daiwa House strengths

In November 2007, the Japanese Parliament enacted "three urban development laws" restricting the construction of large-scale commercial facilities of over 10,000m² to suburban areas. For Daiwa House, which since its launch has steadily built up a lead in development of stores along suburban main roads and neighborhood shopping centers, these legal changes are a real boon, playing to Group strengths. In particular, we have been able to win more contracts through proposals that satisfy both land-owners and tenant companies, by leveraging our capabilities in documenting and analyzing the needs of land-owners and tenant companies, a task carried out by approximately 740 staff deployed at 69 offices around Japan. To consolidate and build on these strengths, we are strengthening relations with networks of land-owners and candidate tenants.

UNIQLO

QiZ GATE Urawa

Building up the conversion business in existing facilities

Increasingly, tenant companies opening new stores are seeking ways of cutting their costs or achieving low-cost operation. For this reason, the Group is expanding its operations in renovation, conversions, maintenance, management and other businesses.

In the conversion business, we have deployed specialists to promote our New Value Creation system*1. Based on the LOC system for land-owners, our experts combine their superior market analysis skills and asset appraisal techniques, drawing on years of experience, and restore facilities in ways that are sympathetic to both modern building styles and neighborhood ambience, enabling value-added land-use.

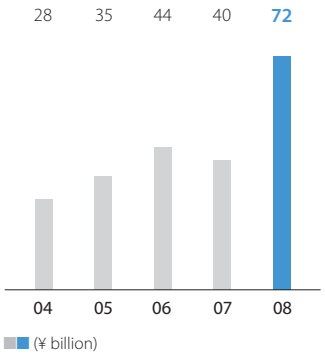
*1 New Value Creation (NVC) system: A system used by Daiwa House Industry to propose new solutions for creating value through the use of existing buildings. These solutions are adapted to modern needs and changes in conditions.

Increasing building orders while developing real estate and rental operations

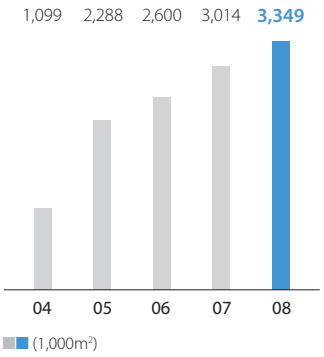
The Daiwa House Group has diversified its exit strategies – land lease and sale, securitization, transfer to Daiwa House Industry ownership – to meet land-owners' particular needs when they wish to terminate a lease. In its comprehensive maintenance, management and operation of facilities, the Group has expanded the rental floor area under its ownership to 3,300,000m^2, yielding annual rent of approximately ¥84 billion. By increasing the proportion of rental income from properties under Company ownership, we are improving the profit margin on new assets. We will further increase the operating income margin by leveraging our know-how from store developments with high customer footfall, and by reducing the fixed ratio. We will expand our business while striking an appropriate balance between pursuit of construction orders using our highly competitive technological competencies, and our real estate and rental operations.

*2 Large commercial facilities: Refers to single-tenant commercial buildings with a construction amount of ¥500 million or more and multi-tenant commercial facilities with a construction amount of ¥300 million or more.

Orders for large commercial facilities*2
(Daiwa House Industry, non-consolidated)

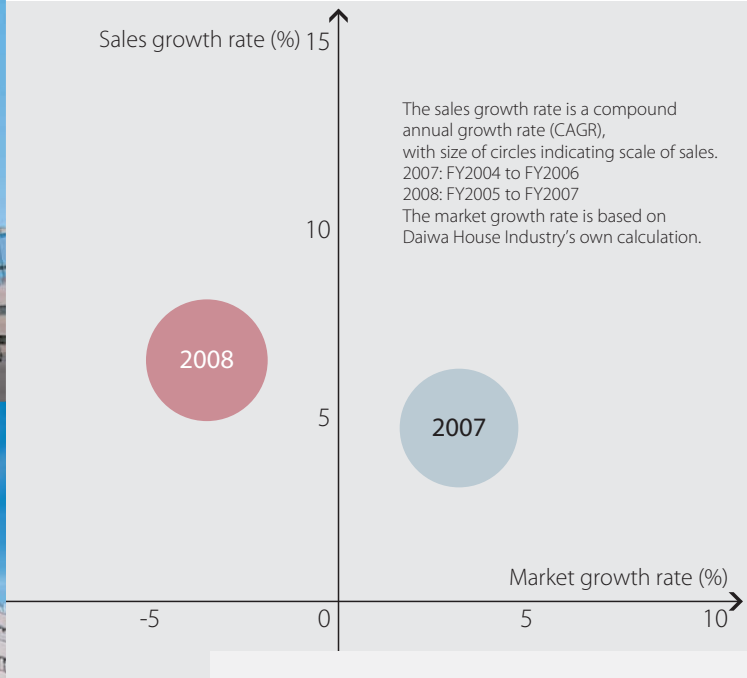


Rental floor space of commercial buildings



Business and Corporate Facilities Domain

Distribution Facilities
Medical and Nursing Care Facilities
Corporate Facilities



Beyond 2009

1. For "distribution facilities," we will work to increase profits from development and management primarily by employing a REIT, and for expanding our businesses overseas to apply our accumulated know-how across a broader field.
2. With "medical and nursing care facilities," we will quickly respond to the conversion of hospital facilities into care facilities for senior citizens. We will also proactively make self-funded investments, so that we achieve our primary objective: creating the facilities of choice for potential residents.
3. With respect to "corporate facilities," we will focus on approaching our potential customers at an early stage by continuing to collect and analyze corporate information. We will also commit ourselves to receiving orders from business partners of Daiwa House Group companies to encourage the creation of businesses for both our partners and ourselves.

The Business and Corporate Facilities Domain consists of the "distribution facilities business," "medical and nursing care facilities business," and "corporate facilities business." In constructing these facilities, we display our comprehensive capabilities, making proposals for optimum land and facility use and collaborating with a range of specialist companies, under a "Partner Coordinate System" that connects us with land owners and other parties. We are generating greater profits from facility development and management not only by undertaking contracts for construction, but also by making our own investments.

Challenge 2010

Expansion

(¥ billion)

	FY2007 (results)	FY2010 (plan)
Sales	201.3	220.0
Operating income (est.)	18.0	21.0

Second Medium-Term Management Plan: Business Strategies

- Increase profits on development and facility operations mainly through the effective use of a REIT
- Expand business for leasing offices, logistics facilities, plants, etc.
- Strengthen capabilities in PFI* fields

* PFI (Private Finance Initiative): Constructing public facilities and maintaining, managing, and operating their functions by making use of funds and management know-how from the private sector

D Project Urayasu

Business and Corporate Facilities Domain

Distribution Facilities

Strong performance by D Project, in which we participate in our customers' businesses

In the distribution market, the integration and reorganization of businesses have accelerated and demand has become polarized, with either large facilities or small regional facilities created. Responding to these trends, the Daiwa House Group leverages its unmatched store of land data to promote the D Project, in which various Company businesses participate, helping to improve the efficiency of customer companies' business and asset management. We are also achieving good results in the provision of logistics solutions, which allows us to generate profits from development and management.

In 2007, we completed D Project Fukuoka Umi, a high-profile facility featuring a convenient location and the first rampway attached to a facility of this kind in Kyushu. In 2008, we completed the large-scale distribution zone, D Project Urayasu, which was given an A ranking by CASBEE*, a first for logistics facilities in Japan. With these facilities, we have established a reputation for our state-of-the-art technologies and know-how, which are applied for our designs and constructions that emphasize environmental qualities, not to mention their large scale and impressive functionality.

* CASBEE refers to the "Comprehensive Assessment System for Building Environmental Efficiency;" developed by the Institute for Building Environment and Energy Conservation.

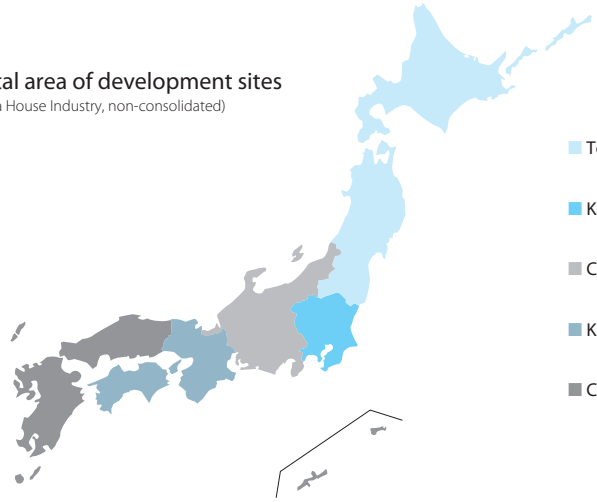
Good progress made in industrial parks and food-production facilities

At the Fuji Gotemba Industrial Park in Gotemba in Shizuoka Prefecture, in which our involvement dates from 2006, many corporate facilities for user companies are being constructed. In 2007, we launched new development projects in Aichi Prefecture and elsewhere, and responded to a series of requests from municipalities. We have been expanding our businesses, focusing on real estate securitization.

Amid rising concerns over food safety, we are also making contributions in the field of food-production facilities. We have teamed up with food sanitation experts to provide comprehensive support for developing the latest, optimum hygiene and production control systems.

Major logistics projects: Total area of development sites
(Includes projects at planning stage; Daiwa House Industry, non-consolidated)

(As of July 31, 2008)



- Tohoku/Hokkaido area: 100,000m^2
- Kanto area: 910,000m^2
- Chubu area: 330,000m^2
- Kinki area: 130,000m^2
- Chugoku/Kyushu area: 160,000m^2

Aburatsubo Marina Hills

A showroom

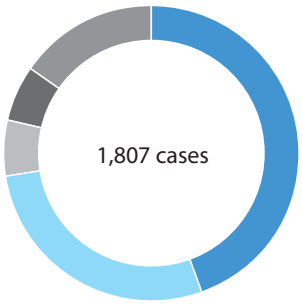
Business and Corporate Facilities Domain
Medical and Nursing Care Facilities

Leveraging the advantages of the industry leader in a range of ways

With the torrent of law revisions, the number of large-scale nursing care facilities that are dependent on subsidies has been falling. Currently, the government is encouraging upgrading of small, community-based multifunctional facilities under collaborations of medical care and nursing care facilities. The Silver Age Research Center has been leading the construction of medical and nursing care facilities since the early days, and has constructed more than 1,800 buildings. We have drawn up a model plan for small-scale multifunctional facilities in an attempt to increase orders.

With respect to housing for the elderly, which is facing rising demand, we have called on our extensive experience to connect medical facilities and other facilities for the aged with land owners, and achieved good results in the construction of private nursing homes and rental housing for the aged. In the field of care facilities, on which a stricter regulations are now being imposed, our self-financing business scheme has proven effective, allowing us to achieve very good results. For instance, we received an order for the construction of Aburatsubo Marina Hills in Miura in Kanagawa Prefecture, a private nursing facility for the aged.

Projects of the Silver Age Research Center



Group homes, day care, day service facilities, small-scale, highly functional homes	44.5%
Hospitals and clinics	28.2%
Healthcare facilities for senior citizens, special nursing homes, care houses for the aged	6.0%
Private nursing homes for the aged, rental housing for the aged	6.1%
Other	15.2%

Business and Corporate Facilities Domain
Corporate Facilities

Providing strategic support for businesses in their development of operational bases in Japan

Companies making gains in overseas markets are now highly motivated to invest in consolidating their bases in Japan, and companies in general have growing needs to streamline their operational bases due to M&A, management integration, and so on. The Daiwa House Group identifies and responds to these demands ahead of other companies through collaboration with its sales divisions, which provide nationwide coverage, and the head office that controls them. We help our corporate clients develop facilities rapidly and with high investment efficiency, for example by proposing specification plans based on standard designs to their head offices. Thanks to our strength in comprehensive support, including strategic site location proposals with our detailed land data, proposals of business schemes, including those we invest and participate in, and our outstanding after-sales support system utilizing our 24-hour call center, we have been generating excellent earnings.

A corporate facility

Life

ダイワロイネットホテル
Daiwa House Group
MORIVA COFFEE
ワロイネットホテル
名古屋駅前
2Fフロント

Health & Leisure
Other Businesses

Health & Leisure Domain

In Health & Leisure Domain, we manage 30 resort hotels nationwide operating under the Daiwa Royal Hotels chain, as well as 10 golf courses operating under Daiwa Royal Golf name, and 49 fitness clubs operating under the Sports Club NAS name. At these facilities, we are contributing to public health and to the enrichment of leisure activities. (As of March 31, 2008)

Challenge 2010

Value Restoration

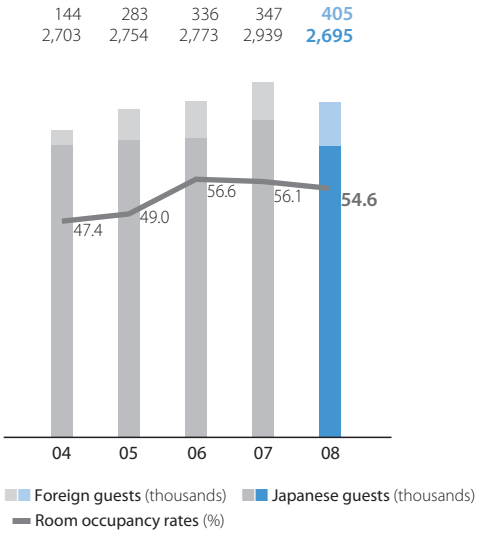
(¥ billion)

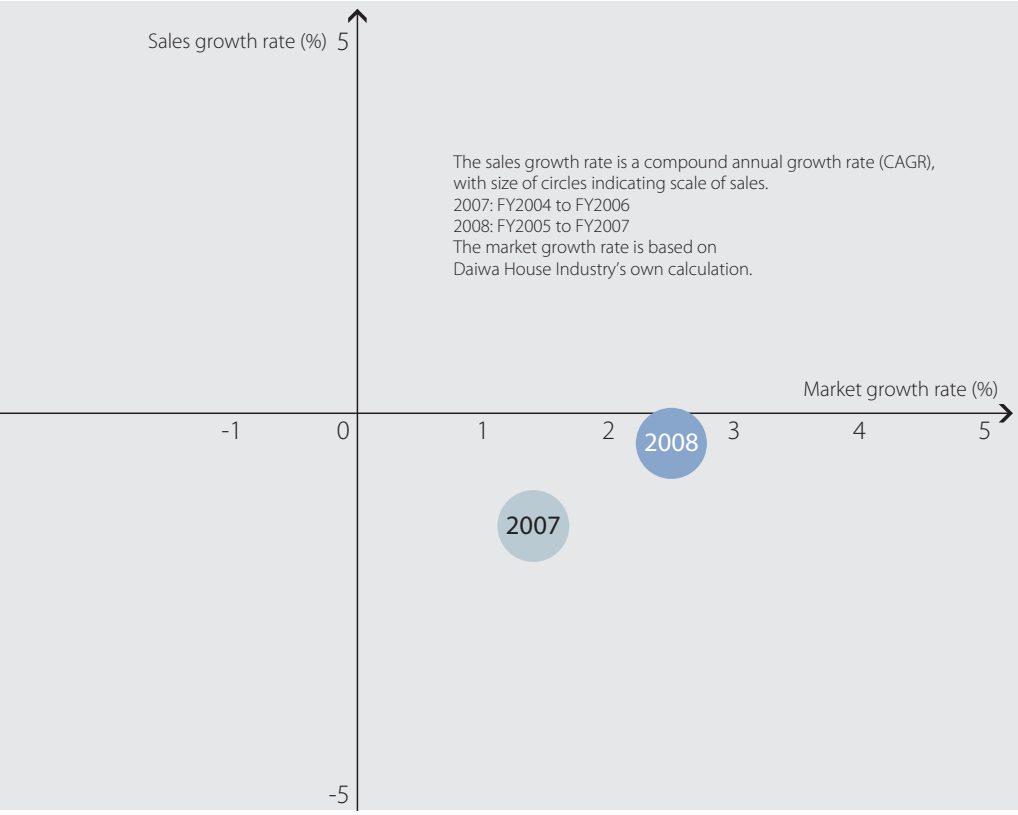
	FY2007 (results)		FY2010 (plan)
Sales	64.8	>	70.0
Operating income (est.)	0.1	>	3.0

Second Medium-Term Management Plan: Business Strategies

- Create common advertising platform for all health- and leisure-related businesses
- Use health and leisure operations as introduction for potential customers to the Group's entire range of businesses

Daiwa Royal Hotels: Number of guests and room occupancy rates





Beyond 2009

1. To raise the awareness of our employees, we have bolstered human resource development by holding training sessions for executives and executive candidates. These initiatives are designed to increase the satisfaction of our employees, who contribute to customer satisfaction.
2. We have been proceeding with the refurbishment of all our hotels one after another. This will improve earnings by raising price bands, and further stabilize management.
3. We continue to emphasize the skills development of our food and beverage staff under the "At Least One Qualification for Every Employee" campaign, which aims at having all 700 staff obtain some kind of trade certification.

Health & Leisure

Strictly observing our most important policy — "Comfort, Safety, and Hospitality"

At Daiwa Royal Hotels, in addition to safety measures for fire and crime prevention, we focus on hygiene control to prevent food poisoning. In comparison with other hotels, we practice a higher level of hygiene control, by giving thorough instructions to our employees and by establishing a checking system.

In addition, as a way of practicing our belief that "the most important part of a hotel is its people," we have been committed to the skills development of our food and beverage staff*1, assisting them in obtaining professional skills certificates, for instance as a Certified Restaurant Service Provider*2. The total number of qualifications obtained by our staff (including multiple qualifications obtained by single employees) has increased from 295 (as of April 2007) to 380 (as of April 2008). One of them won the Ministry of Health, Labor and Welfare Prize, the leading award in the Restaurant Service Division of the Skill Olympics. We will continue to improve the quality of our hospitality services as the first step in increasing customer satisfaction, by encouraging our staff to obtain qualifications so that they are more confident in themselves and can improve their skills.

*1 Food and beverage staff refers to employees who serve food and beverages to our customers.
*2 Certified Restaurant Service Provider is the only national qualification related to the service of food and beverage.

Kirishima Royal Hotel

Sports Club NAS

"Local production for local consumption" to lower cost and boost customer satisfaction

Amid the price surge of food ingredients and the rising price of crude oil that is increasing the cost of transportation, our hotels have been emphasizing "local production for local consumption" in an attempt to lower the cost. We believe that use of safe, fresh ingredients produced in local communities not only leads to enhanced customer satisfaction, but also helps to revitalize the local economy, preserve traditional food culture, and protect the environment with reduced energy use for transportation. As community-based hotels, we will continue to promote "local production for local consumption."

Opening new Sports Club NAS branches within Group facilities

Sports Club NAS is a nationwide fitness club chain operated by our subsidiary, Nippon Athletic Service. As urban-type facilities targeting businesspeople, the chain is increasing synergies with the Daiwa House Group companies, for instance by opening a new branch called NAS Osaki, which is attached to Daiwa Roynet Hotel Tokyo-Osaki.

In April 2008, a specific health check-up and specific health guidance became compulsory as counter-measures for the prevalence of metabolic syndrome. We regard this as a new business opportunity and are providing health care advice programs primarily to medical insurance associations under the public insurance system.

Other Businesses Domain

- Home Center
- Construction Support
- Credit Card
- City Hotels

In our Other Businesses, our Group companies, which operate in collaboration with Daiwa House Industry, are playing the central roles. We have been expanding and deepening our all-around capability as a group that co-creates value for individuals, communities, and people's lifestyles by engaging in activities in a broad array of fields from the home center business through construction support business and business hotels to credit cards.

Challenge 2010

Nurturing Businesses

(¥ billion)

	FY2007 (results)		FY2010 (plan)
Sales	209.0	>	220.0
Operating income (est.)	10.4	>	11.0

Second Medium-Term Management Plan: Business Strategies

Construction Support

- Strengthen our dominance in the home center market; M&A aimed at enhancing logistics services
- Strengthen capabilities in provision of comprehensive 3rd Party Logistics (3PL) services
- Strengthen ability in provision of logistics services to other home builders and construction materials suppliers
- Upgrade functions of logistics centers

City Hotels

- Increase pace of opening new hotels in Daiwa Roynet Hotel chain
- Invest in renovation of the Osaka Marubiru

Beyond 2009

1. In the Home Center Business, we have fully up and running five new retail facilities. We intend to create growth momentum through newly acquired businesses and M&A.
2. In the Construction Support Business, we aim to strengthen 3rd Party Logistics (3PL) and bolster outside sales of logistics services to housing manufacturers and suppliers.
3. We are planning to open nine new Daiwa Roynet Hotels by the summer of 2009. We will step up the speed of expansion, mainly in urban areas, aiming to operate a nationwide network of 30 Daiwa Roynet Hotels by 2010.

Other Businesses Domain
Home Center Business

Expansion through business transfers, and reforms for efficiency

The size of the home center market in 2007 was approximately ¥3.6 trillion — representing a slight increase from the previous year. In this industry, Royal Home Center has been proceeding with an expansion strategy through M&A and the acquisition of the businesses of other companies, and by taking over premises from other companies*1. It opened five new retail facilities through a business transfer from Daiya Tsusho Co., Ltd., and now operates 47 home centers all over Japan. Its efforts to expand its business also included the expansion of the floor of one existing store and the refurbishment of two stores.

Royal Home Center also emphasizes management efficiency, and introduced sweeping reforms in terms of IT and logistics. To achieve very efficient management, it aims to develop a new system for unifying the management of all stores by the end of fiscal 2008 and to reduce the investment cost for increasing the number of stores.

*1 "Taking over premises from other companies" means opening new stores by using the buildings of closed stores in the same business category or in other categories.

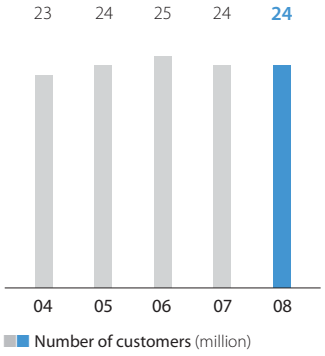
Differentiation through emphasis on professional-use products and private-brand products

To differentiate itself with its own strength in the increasingly competitive home center market, Royal Home Center expanded the range of housing-related products other than livingware. In particular, it seeks to provide a range of quality products that will meet the demands of builders and other professionals. In FY2007, while developing PB products*2 named "Royvalue," it still focused on the development of products for professional use to differentiate itself from other companies that focus on introducing livingware as PB products.

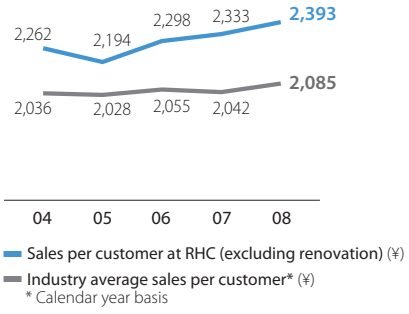
Royal Home Center is also developing a reputation for Everyday Same Low Price (ESLP) strategy*3 for consumables and for its highly refined services, such as installation and set-up. It seeks to differentiate itself by bolstering these services.

*2 PB stands for "private brand." It refers to products and services sold with the shop's own brand name. These are planned and developed by the shop to respond to the needs of its customers.
*3 Everyday Same Low Price (ESLP) is the concept of offering good deals every day.

Royal Home Centers: Number of customers making purchases



Royal Home Centers: Average sales per customer

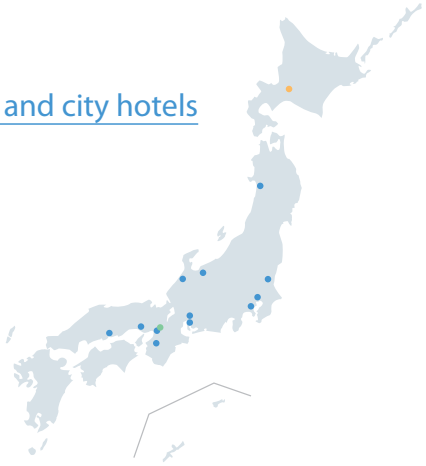


Daiwa Saison Card
"Heart One"

Daiwa Roynet Hotel
NAGOYA-Ekimae

14 business and city hotels

- Daiwa Roynet Hotels
- Royton Sapporo
- Osaka Marubiru (Osaka Daiichi Hotel)



Other Businesses Domain
Construction Support Business

Improving performance through inventive business promotions

Daiwa Rakuda Industry, which engages in the manufacture and sale of construction materials and other products, has stepped up marketing of the Smart System, its new brand of semi-custom system furniture, and opened the dia collection Fukuoka, a shop that coordinates luxury-brand furniture. These efforts were aimed at expanding its interior businesses.

With a diversified business portfolio—sales/lease of commercial facilities, car rental, warehousing rental—based on property leasing, Daiwa Lease proposes leasing concepts based on reuse of products.

Daiwa Logistics, which aims to be a general logistics company, has been engaging in value-added logistics business such as maintenance services for fixtures and furniture of retail facilities. It has made Yuasa Logitec a consolidated subsidiary in an attempt to expand its businesses, for instance with maintenance services and construction work for power supply for telecommunication facilities.

Other Businesses Domain
Credit Card Business

Pursuing synergy within the Group to increase membership

Daiwa House Financial, which issued the Daiwa Saison Card "Heart One" in June 2007 and commenced full operation of its credit card business, has been concentrating all its energy on increasing cardholders. Above all, in January 2008, it collaborated with Royal Home Center, which has one million customers, and started to accept applications for the Royal Home Center Heart One Card at each store. This will also allow Royal Home Center to improve the precision of its customer management and to strengthen its relationship with its most-valued customers. In the credit card business, we will continue to pursue synergy within the Group while increasing membership and transaction volumes.

Other Businesses Domain
City Hotels

Daiwa Roynet Hotels achieves rapid progress

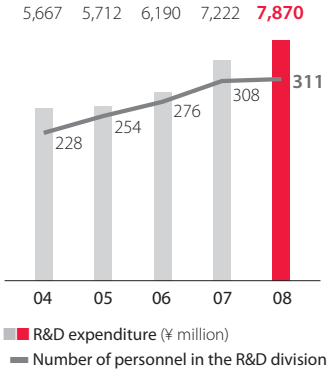
In the city-type hotel business, we opened four new hotels, including Daiwa Roynet Hotel Tokyo-Osaki, expanding our network to 12 hotels nationwide (as of June 2008). Each guestroom is larger than usual, or at least 18m^2, and we sought to differentiate the hotels by offering a high level of sophisticated security and services based on a rich variety of facilities and comfortable rooms. This has been effective, and the Daiwa Roynet Hotels have sustained solid growth. The hotels have also received high marks from our guests. For instance, Daiwa Roynet Hotel Kobe-Sannomiya won the Gold Prize (in the category of city/business hotels of Kansai region) at the Rakuten Travel Award 2007, organized by Rakuten Travel, the nation's largest hotel booking site. Prizewinners are determined based on questionnaires completed by guests.

The project for refurbishing the Osaka Marubiru, which is a landmark in Umeda, the central district of Osaka, has been making steady progress. We have been able to increase the unit price for the refurbished rooms, achieving revenues of ¥1,514 million (up 5% from the previous year) in FY2007.

Research & Development

As a Group that co-creates value for individuals, communities and people's lifestyles, we are conducting research and development in conjunction with business communities, academia, government bodies, and medical universities and research institutes, and pioneering advancements in new technological fields.

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



Roles and functions of the Central Research Laboratory

Technology Development Center
Undertakes technology development aimed at strengthening existing technologies

Frontier Technology Center
Develops cutting-edge technology research leading to the creation of new technologies and businesses

Central Research Laboratory

Reliability Center
Verifies the technological performance of products and sets technological standards

Research Support Center
Provides support for each research group

The focus areas of technology research and related initiatives

Focus areas	Research themes	Development technology	Development examples
Environment- and energy-related technology	Protection of the global environment	Technology for reducing CO_2 emissions Technology for conserving natural resources	• Energy-use monitoring system for commercial facilities (G-Pacs: General Power Auto Count System) • Development of large lithium-ion storage batteries with electric power source
Technology to meet the growing needs in the existing home business	Revitalization of cities and towns	New know-how to help customers improve their asset values	• Exterior thermal ventilation wall, which improves heat insulation and enhances durability • Restore & Rebuild System enabling buildings to be easily dismantled and re-erected on different premises
Technology to meet the needs of the aging population	Home-life improvements	Technology incorporating service robots	• "HAL™" robot suit which assists medical patients and nursing home residents to achieve self-sufficiency
ICT and information robotic technologies (IRT)	Maximize the enterprise value of the three focus areas mentioned above using ICT & IRT	Next-generation residential computer network	• "Next-generation home network," home server linking appliances with outside support services • IT automated disaster prevention system utilizing emergency earthquake information

Future-oriented, diverse R&D themes

With the aim of developing technologies that will contribute to the creation of new value for its customers and society, the Daiwa House Group is advancing research and development in a wide range of fields. Our research and development activities, while centered primarily around our Central Research Laboratory, involve close cooperation with the product development and design divisions, the Silver Age Research Center, and the Group's various business divisions, as well as external resources, including companies in other industries, government research institutes and universities. In April 2007 we undertook organizational reform of the Central Research Laboratory to clarify the direction of research and development activities and the functions of each division.

Four priority technology fields

Diverse R&D activities are undertaken with the themes of Safety & Comfort, Speed/Stock, Welfare, Environment, Health, and Information-Communication Technology (ICT).

In fiscal 2008-2010, the new Daiwa House Group medium-term management plan calls for the investment of management resources, on a priority basis, in the development of leading-edge technologies. We have selected the following four focus areas: 1) Environment- and energy-related technology; 2) Technology to meet the needs of the existing home business; 3) Technology to meet the needs of the aging population (nursing care, etc.); and 4) Information and communications technology (ICT) and related information robotic technology (IRT), which forms the base of support for all these other technologies. We will undertake initiatives incorporating these technologies to contribute to the well-being of individuals, communities and people's lifestyles in the future.

New Businesses

Tsukuba Research and Development Center, where "HAL™" robot suit will be made

The Daiwa House Group is actively developing next-generation businesses and overseas businesses, with the aim of nurturing new future earnings drivers.

Development of a total energy service business

The Daiwa House Group is working on the development of a total energy service business, featuring wind-power generation and energy-saving equipment, as a countermeasure to the surging cost of fuel resources and global warming.

In September 2007, Daiwa House Industry and Daiwa Energy, through a business tie-up with energy service provider E-cubic Co., Ltd., established an Energy Business Unit which provides an "Energy Doctor Service" using our G-Pacs energy-use monitoring system, and is working to expand sales of energy-saving equipment.

In 2006, Daiwa House Industry took an equity stake in ELIIY Power Co., Ltd. to create a lithium-ion battery joint venture. In 2008, Sharp Corporation became a participant in the joint venture, planning to build the world's first factory for commercial production of lithium-ion batteries for stationary use. The factory is scheduled to commence operation by the end of fiscal 2009.

Robot business for Japan's future

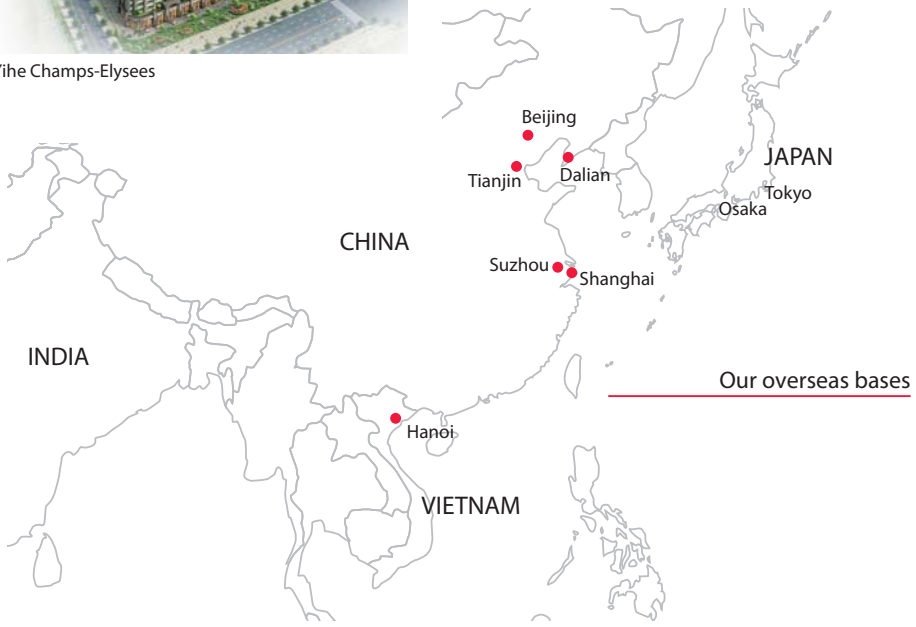
Through a business alliance with CYBERDYNE Inc., a venture business focused on the commercialization of leading-edge robotics technologies, Daiwa House Industry is conducting research on human power-support technologies in the fields of housing, medical and nursing care, manufacturing and building construction, primarily as a response to Japan's rapidly aging society and shrinking workforce. In the autumn of 2008, the Tsukuba Research and Development Center will be established and commercial production of the wearable robotic suit "HAL™" (hybrid assistive limb) commenced. At that time, we will begin renting out these suits to nursing homes and welfare facilities as exclusive distributor in Japan. Onsite trials of the suit have been underway at plants and facilities since November 2007.

Underfloor inspection robots will be first put into practical use in April 2009. These robots, which aim at reducing the workload for inspection staff, will be distributed to suitable Daiwa House branches by the end of the current period, and will be used mainly to conduct periodic inspections of single-family homes.

Home-use lithium-ion storage battery

"HAL™" robot suit

Yihe Champs-Elysees



Expanding overseas operations, centering on China

The Daiwa House Group has been actively engaged in overseas markets since 1960, with numerous achievements in Brazil and US in the field of home construction. Today, we are focusing on East Asian markets, primarily China. In April 2008, Daiwa House Industry made its Overseas Business Office into the new Overseas Business Division, and has entrusted it with the responsibility for developing various means to establish the Daiwa House brand in overseas markets.

Daiwa House Industry began importing construction materials from China in 1972, following the normalization of relations between Japan and China. The Company has thus been active in China from early on. In the 1980s, we established joint ventures and local subsidiaries, building rental homes targeted at foreign residents, and also undertook management and maintenance of these rental units. In time, the Company also began development of condominiums. Based on its solid relationship with local partners, cultivated over many years, the Daiwa House Group has gained a reputation for its high-quality homes and its ability to propose new lifestyle-related house designs, and continues to achieve steady growth.

China, Vietnam, and other Asian and world markets

Our first condominium project in China was in collaboration with local general contractors in Dalian. Construction of this project, the Yihe Champs-Elysees (on a 63,549m^2 site, with 836 condominium units and 137 residences with adjacent stores, as of August 1, 2008), will be completed in the autumn of 2008. In the same city, we are applying the Group's expertise in housing construction and urban development know-how to an extensive development project on the former site of the Dalian Medical University (measuring over 150,000m^2). In the city of Suzhou, we have acquired a 77,000m^2 site within the Suzhou Industrial Park, and plan to build a high-rise condominium there, which would be a first for a wholly owned subsidiary of a Japanese company. We are planning other real estate development projects in the cities of Beijing, Shanghai, Tianjin, and Hangzhou.

Meanwhile, we opened a representative office in the Vietnamese capital of Hanoi in 2006, and have been undertaking preparations for property development in the country. Since then, we have been conducting feasibility studies in other ASEAN countries, and are also considering India, which is showing remarkable growth. Thus, we aim to expand our scope of operations within Asia and eventually enter other overseas markets.

CSR Initiatives

The Daiwa House Group pledges to continue the spirit of co-creating a brighter future with people and communities as a good corporate citizen, and to face its stakeholders with sincerity. Under the CSR Promotion Program, we intend to dedicate ourselves to everything the Daiwa House Group stands for in the pursuit of our business, in the hopes of continuing to be a company needed and trusted by society.

Daiwa House® Group

Creating Together　Supporting Each Other

Clients

- Organized plans for continuous improvement
- Complete localized customer support structure
- Improvement in construction quality

Partners

- Strengthening partnerships with client companies
- Ongoing emphasis on safety patrols and training
- Eco-friendly activities and programs

Shareholders

- Profit return policy
- Developing proactive IR programs
- Accurate and prompt information disclosure

People

- Developing autonomous, self-starting personnel
- Respect for diversity in human resource development
- Developing a comfortable working environment

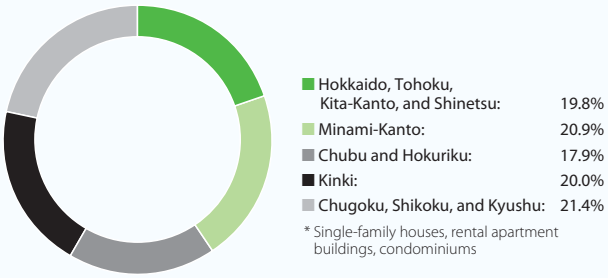
Community

- Actively engage in community support activities
- Developing activities that leverage our core business
- Cooperation with NPOs and NGOs

Environment

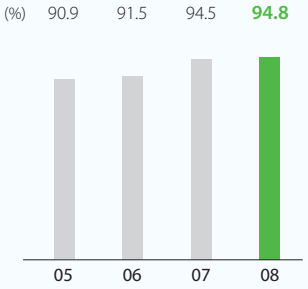
- Endless Green Program 2010
- Developing eco-friendly products and business activities

Distribution of customers* by Area



* Single-family houses, rental apartment buildings, condominiums

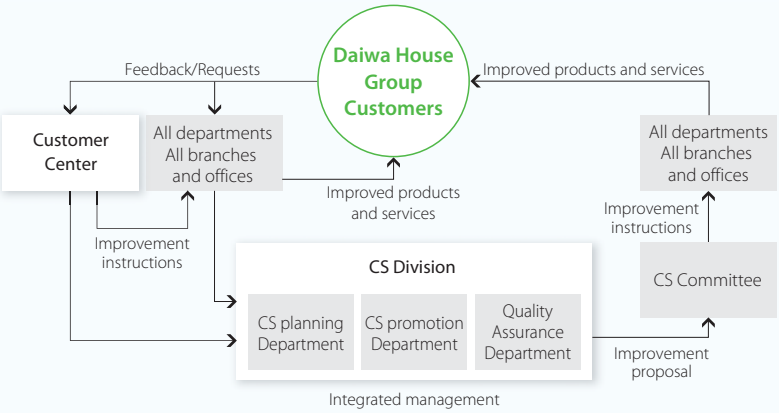
Overall customer satisfaction questionnaire (after 1 month of residence)



Clients

We intend to devote tireless efforts towards listening to and responding to customers in order to continue to be a company trusted by its customers.

Improvement activities based on customer viewpoints



Q What types of CS activities are you doing?

A We believe that CS activities are business process improvement activities. We have established and are moving toward carrying out goals consistent with resolution of issues such as better quality, safety, environmental protection, risk management, compliance, employee satisfaction and work ethic. It's fairly straightforward. By building on a series of small improvements over time, customer satisfaction improves, management efficiency improves across the companies in the group, and ultimately, we believe that these activities will help us give back to our customers.

Going Forward ›

- Analyze the causes and frequency of maintenance and repair issues, and strengthen localized response structures accordingly
- Promote CS internally through reforms and educational programs that raise awareness

Our goal: Even greater customer satisfaction

Daiwa House Industry works in conjunction with the CS Division, a new department responsible for customer satisfaction activities established in April 2007 to provide a structured approach to business improvement activities. The department provides centralized handling and processing of all feedback and requests addressed to the Customer Center (the main point of contact for customers living in single-family houses and condominiums and land owners for rental apartment buildings) and is totally focused on improving products and services. The CS Committee meets once each month at the head office and at each business location. The minutes of these meetings are recorded and a summary is prepared by the department and made available internally through the corporate intranet. Information is shared nationally throughout the Company so that all concerned can continuously work toward improving customer satisfaction.

Since October 2007, seminars have been held at all Group companies with the goal of expanding CS activities and strengthening the means to do so throughout the Group.

Customer support structure

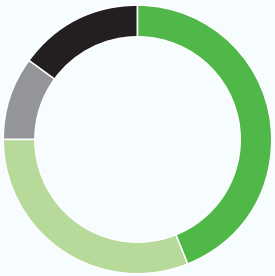
As of June 2007, the nation was divided into five areas, each covered by a region-specific customer center. In this way, more localized customer support can be provided than was possible with a single centralized national center. In addition to handling consultation requests over the telephone on such matters as inspections and repairs, 24 hours a day, 365 days a year, the customer centers also manage and administer long-term housing guarantee and inspection program. Efforts towards the constant improvement of these programs include gathering feedback on the quality of service and staff responsiveness through telephone interviews and questionnaires, after repairs are complete. Feedback from customers is immediately sent to the responsible division(s) at the various business locations and at the Head Office. Support for commercial and distribution facilities is also provided 24/7, through a new 24-hour call center that was established in February 2006 to provide emergency support for situations involving commercial and logistics facilities, and to handle consultation requests and respond to inquiries regarding inspections and maintenance.

Our Daiwa Family Club website is for the exclusive use of single-family houses and condominiums customers, and includes tips, advice and videos on simple maintenance, and ideas for better quality of life. Membership has increased every year. As of June 30, 2008, more than 50,000 people had joined the club.

Product support

In addition to long-term housing guarantee and inspection program for single-family houses, the Independent Verification Photography System for Construction was introduced in April 2007, in which construction quality is recorded in photographs. By assuring quality even in the invisible areas of construction, proof of product quality is created for future reference purposes. We will continue our efforts to assure the highest degree of quality in all construction projects in the future.

Questionnaire on Business Continuity Plan (BCP)*1



Already created BCP	44%
Currently creating BCP	31%
Planning to create BCP	10%
No recognition of BCP	15%

*1 193 companies out of 231 companies answered the survey (response rate: 82.6%).

Status of shared transportation system*2

Number of vehicles

57.4% down

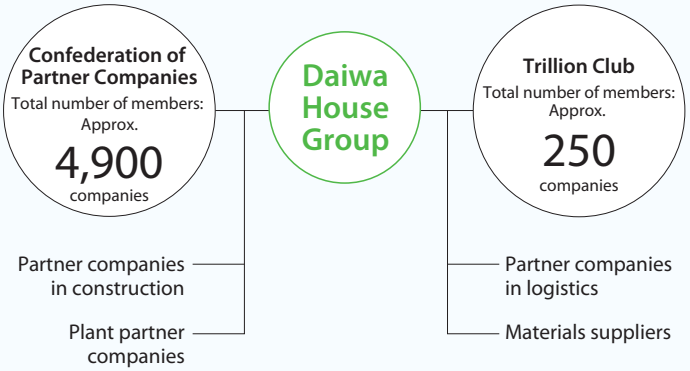
CO_2 emissions

56.8% down

*2 Comparison with pre-introduction of the system (fiscal 1997)

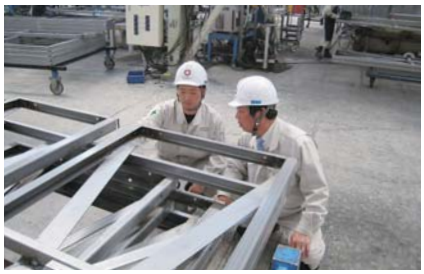
Partners

The Daiwa House Group pursues its vision of co-creating a brighter future by maintaining and strengthening relationships with business partners and by continuing to create high-quality products and services.



Q What goals are you aiming toward with your business partners?

A Our business partners are vital to the success of Daiwa House Group. These relationships are built over time and are based on trust and a mutual desire to excel, and have brought about mutual prosperity. Going forward, we intend to apply the same degree of effort in strengthening cooperative relationships with our partners in the area of CSR, through community support activities and reduction of environmental impact. We intend to always be a trusted corporate citizen of society.



Going Forward ›

- Developing human resources of the highest technical and moral caliber, with good manners
- Zero work-related accidents

Developing cooperative relationships with partner companies

Daiwa House Industry has built excellent relationships with partner companies in a broad variety of industries, from materials and facilities procurement to construction, and has built a robust supply chain network that enables us to provide high-quality products and services to our customers.

In FY2007, the basic direction of the Confederation of Partner Companies was to operate under the key concept of improving work and management efficiency while assuring legal compliance, and to address the seven themes of safety, quality, construction time, environment, sales promotion, continuous improvement, and to education. Members support each other so that each member can build a solid management foundation and participate in the constant sharing of new skills and technologies. As an example, a members-only website (D-PC = Daiwa Partners Club) was established in January 2008 to enable sharing of information between approximately 3,800 registered partner companies. The site enables members to share information such as technical know-how and the activities in which each company is involved.

Members of the Trillion Club jointly contribute to projects involving reducing environmental impact of logistics operations, and have set up a Business Continuity Management (BCM)*1 study group. At the same time, the Daiwa House Group continuously evaluates new and existing suppliers based on its supplier selection criteria, to ensure appropriate evaluation and transactions between members.

*1 Business Continuity Management (BCM): Planning the methods for enabling quick restoration and continuation of core business activities while minimizing damage to business assets in the event of an emergency such as a natural disaster, major fire or terrorist attack

Continuing and strengthening partnerships

The Daiwa House Group has established Conduct Guidelines for Partner Companies, designed to ensure mutual compliance with the three fundamental principles of respect for human rights, legal compliance, and environmental preservation.

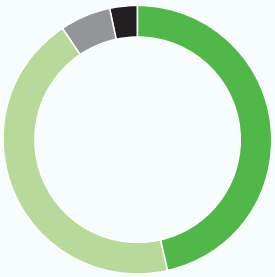
In the area of human rights, we expanded safety patrols of construction sites and safety training programs. As a result, in FY2007, we had 10 fewer work-related accidents than the year before. We have made significant progress in business continuity planning and procedures with particular emphasis on means of quickly determining the state of business locations and the well-being of business owners and workers at sites affected by a major disaster. We are looking to implement these policies and procedures on a nationwide basis in FY2008.

For legal compliance, the Basic Agreement for Construction Subcontracting outlines the payment terms and conditions and other particulars of subcontracted construction work so as to provide a high degree of transparency to subcontractors. Additionally, in FY2008, we are planning a nationwide roll-out of an EDI*2 (Electronic Data Interchange) program, which is intended to refine the certainty and reliability of standard written documentation exchanged between companies.

Environmental preservation is one of the themes that we are working on along with members of the Trillion Club. As part of our eco-driving activities launched in FY2007, a fuel metering program was implemented. We worked together with component and construction material manufacturers to do a modal shift and participate in shared transportation endeavors.

*2 Electronic Data Interchange (EDI): A system that allows companies to exchange format-standardized electronic data for business transactions over IT networks

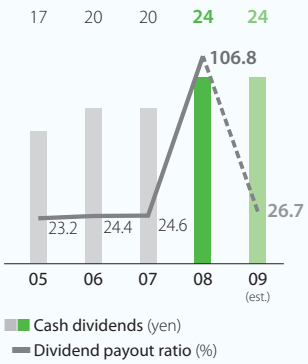
Percentage of investors abroad by region*



Europe	46.5%
US and Canada	44.2%
Asia (excluding Japan)	6.1%
Oceania and other	3.2%

* Odd lots are not included in calculations of total shares.

Cash dividends and dividend payout ratio



Number of institutional investors (companies) attending our IR activities

	FY2006	FY2007
Analyst meetings held in Japan	190	312
IR conferences	52	27
Analyst meetings held abroad	73	27
Other	0	25
Total	315	391

Shareholders

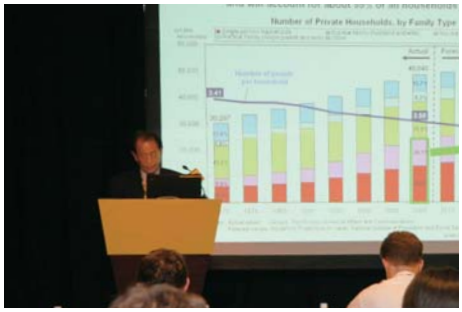
We intend to continue to increase enterprise value by being totally above-board in all aspects of our business activities based on socially acceptable conventions, in order to enhance our standing within society.

Rating information (as of May 31, 2008)

Long-term credit ratings	AA-	Rating and Investment Information (R&I)
	AAp	Japan Credit Rating Agency (JCR)
	A2	Moody's Japan
Short-term rating	a-1+	Rating and Investment Information (R&I)

Q Where are you headed in terms of IR?

A First and foremost, the goal of our IR activities is to increase the value of our stock to an appropriate price consistent with improvements in enterprise value by maintaining close contact with those involved with the financial markets. To strengthen IR efforts, an IR office was established in April 2008. This IR Department will help management communicate and connect with financial markets better than ever before, meeting the information needs of domestic and overseas investors, in a timely and fair manner.



Going Forward

- Challenge 2010: Target 9% ROE
- Target dividend payout ratio: 30%
- Flexible profit return through own-share purchases on the market as deemed appropriate

The Group's investor relations calendar

Events	2008									2009				
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
Announcement of FY2007 accounts settlement meeting		❯												
Annual General Meeting of Shareholders			❯											
Announcement of accounts settlement for FY2008 Q1					❯									
Publication of Annual Report						❯								
Announcement of accounts settlement meeting for FY2008 Q2								❯						
Announcement of accounts settlement for FY2008 Q3											❯			
Announcement of FY2008 accounts settlement meeting														❯

Note: The schedule is subject to change without notice.

Basic profit distribution policy

Profits are distributed to our shareholders in the form of dividends after due consideration of the balance between dividends issued and capital that must be retained internally for future business development needs and to strengthen our business base.

In addition to investing in R&D and production equipment and improving our profitability and competitiveness as a company, we intend to become even stronger financially in order to expand our business locations and corporate foundation. In order to meet our dividend payout ratio target of 30%, we will engage in flexible profit return through acquisition of own shares on the market as deemed appropriate.

In FY2007, with a view to achieving strategic room for maneuver in financing, we purchased approximately 7.8 million own shares (worth ¥11.7 billion).

IR focus: Accurate and prompt disclosure

We made presentations on financial results to analysts on two occasions in FY2007, visited and spoke with individual institutional investors in Japan and overseas, and also actively participated in a broad range of IR conferences. We sincerely listened to the important feedback we received through these activities, and shared this with management so that this feedback is fully reflected in our IR activities.

With IR increasingly going online, we introduced RSS*1 services in May 2008 to ensure prompt diffusion of IR-related information. We also enhanced the content of our IR website, for example by including monthly orders from 2008, to meet investor needs and increase convenience.

We will remain committed to accurate and prompt disclosure to our stakeholders in Japan and overseas, through coordination of our various departments.

*1 RSS stands for "Resource Description Framework Site Summary" — an automatic feed or update generated whenever new information appears on a website or blog.

External evaluations

Daiwa House Industry has been highly evaluated for its IR programs and continued involvement in CSR activities. These have been incorporated into our SRI (socially responsible investments)*2 as noted below. (As of August 1, 2008)

MS-SRI

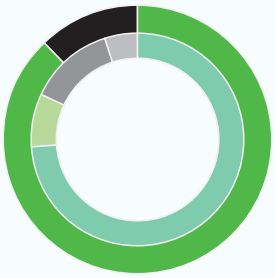
Morningstar Socially Responsible Investment Index

FTSE4Good

FTSE4Good Index Series

*2 Socially Responsible Investments (SRI): These are investments in which the Company not only pursues profit, but socially responsible activities with environmental considerations as well.

Employee breakdown (As of April 1, 2008)



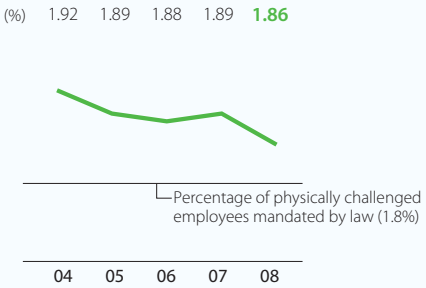
(Outer circle)

- Full-time employees: 88%
- Employees contracted for specific periods of time: 12%

(Inner circle)

- Full-time male employees: 74%
- Male employees contracted for specific periods of time: 8%
- Full-time female employees: 13%
- Female employees contracted for specific periods of time: 5%

Percentage of physically challenged people hired (As of June 1, 2008)

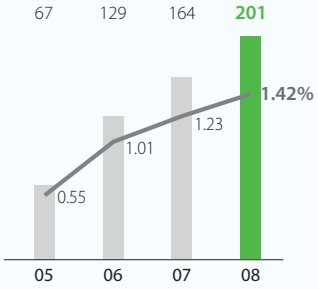


People

We aim to develop personnel who will support management in the achievement of its objectives as well as CSR activities, and to provide them with a comfortable working environment and be an employer they can trust.

Percentage and number of women serving as managers or junior managers, compared with total workforce*

* Data collected each April; covers all employees



Q What is your HR vision?

A As Japan progresses toward becoming an aging society with fewer children being born, recruiting and developing good people becomes an increasingly crucial component of the Daiwa House Group's management strategy. To address this, we have worked to create a workplace where diverse individuals will feel comfortable, regardless of gender or age, and can advance based on their abilities, drive, and desire. From these individuals will come tomorrow's leaders, which we will identify and develop. Our people are our greatest assets for the future.

Going Forward ›

- Developing next-generation management to sustain the Company's growth
- Focus on the proactive development of female employees
- Promoting the appropriate positioning and autonomy of employees based on abilities

Policy on personnel, hiring, and working environment

The Daiwa House Group has implemented a personnel policy based on the principles of freedom of choice and independence, that allows each individual freedom and autonomy in designing their careers, and a comfortable working environment in which they can grow and develop. Recognizing the need for balance in the lives of employees, Daiwa House Group also has dedicated its efforts toward improving working conditions and reducing long working hours and other forms of support so that employees are able to spend time with their families.

Developing autonomous, self-starting personnel

As part of our HR programs to provide freedom and autonomy in employee career paths, Daiwa House Group has developed an aggressive policy of promoting from within. Employees are able to attend branch manager recruiting and development seminars, for example, and also have the option of transferring to the division or position offering the type of work they would most like to do. In addition, the Company offers career path programs open to all employees, and the Di-Q Examination, an in-house certification program (designed to develop younger employees after their initial probation period) introduced in July 2007, and a course begun in May 2008, the next-generation management development course called Daiwa House Juku (management skill development course). Thus, based on their initiative and drive, employees are provided with the means to advance as far as their abilities can take them.

Respect for diversity and individuality

The Wave Heart Promotion Office was established in May 2007 to address the advancement of female employees at Daiwa House Industry. The office is charged with creating a female-friendly workplace. As of April 2008, there were 201 females in junior management roles (senior staff members and assistant managers), nearly three times as many as in 2005. Regarding the Post-Retirement Employment Program, benefits have been substantially increased over FY2007 for retirees who have been rehired, including dormitory privileges and company housing. For 14 years in a row, the employment of the physically challenged at the Company has exceeded the legal requirement of 1.8%. It is our intention to provide a comfortable, fulfilling workplace where all individuals can fully bring their capabilities to bear.

A comfortable workplace

In April 2007, we introduced a system requiring employees to take paid leave (Home Holiday) and another program (Hello Papa) that grants paid leave for childcare to male employees. In employee healthcare, we implemented a new mental health self-check accessible on the Company intranet, a 24-hour employee counseling help-line, and an Employee Assistance Program (EAP).*1 These programs allow employees and their families to freely seek guidance and counseling, and represent some of the ways the Company has sought to provide a working environment mindful of all aspects of employee health.

*1 Employee Assistance Program (EAP): A company-provided program designed to support the mental health and well-being of employees

Personnel programs in place

Description		2007	Change
Child Care Leave Program	New users of program	69	+16
Hello Papa Program*2	Number of users	170	—
Reduced Working Hours Program	Applicable personnel	89	+30
Nursing Care Leave Program	New users of program	4	+2
Lump Sum Payment for Development of the Next Generation	People (children)	683	+61
Paid Leave Reserve Program	Number of users	100	-64
	Number of days	2,088	-549
Home Holiday Program*3	Rate of holidays taken	65.1%	—

*2 This program allows a male employee whose spouse has given birth to take a leave of five (5) consecutive business days in a row.
*3 This program is part of the work-life balance program and allows an employee to take a planned paid leave of one (1) day each quarter to spend with family or in community activities.

Typical examples of group member company activities

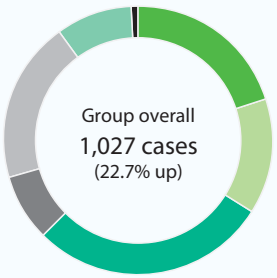
Daiwa Resort	Daiwa Lease	Royal Home Center
273 cases	**79** cases	**69** cases
Work experience programs and internships (87) at hotels nationwide, and participation in local community events	Clean-up patrols (37) in areas surrounding its locations nationwide, and participation in and support of local community events	Work experience programs for junior high school students (48)

Nippon Athletic Service (NAS)	LOC Development	Daiwa Living
54 cases	**41** cases	**27** cases
Work experience programs at all athletic facilities nationwide (28), and participation in and cooperation with festivals and health-building events	Once a month at 10 locations nationwide: clean-ups and security patrols participated in by local customers	Clean-ups around locations nationwide and in surrounding mountain areas

Community

As a corporate citizen operating in harmony with the environment and local communities, the Daiwa House Group is involved in a range of community support activities on an ongoing basis. Through these activities, we contribute to the development of all of society and to a better living environment for all.

Community support activities in fiscal 2007



Being a good neighbor (street sweeping)	20.1%
Being a good neighbor (activities other than street sweeping)	14.0%
Support for schools	28.5%
Humanitarian activities	8.1%
Social welfare	19.6%
Environment protection	9.2%
International cooperation	0.6%

Q What does the Daiwa House Group mean by "community support activities?"

A We consider ourselves to be a group that co-creates value for individuals, communities and people's lifestyles. We include giving back to the community as a form of gratitude as part of our responsibility within this overall context. We consider these community support activities to be an important part of our corporate role, and vital to the happiness of people, the development of towns and cities, and the improvement of the overall quality of life in the communities in which we operate. We constantly ask ourselves "What can we do next?"

Going Forward ›

- Community support activities: 1,200
- Employee participation in donations and collections for various causes: 50% or more
- Strengthening of activities that leverage our core business

Volunteering at healthcare facilities for senior citizens

In FY2007 seven visits were made to nationwide senior citizen healthcare facilities built by the Company. Twenty-three employees participated and developed friendships with residents of the facilities.

Teaching trips to primary and junior high schools

In FY2007, teaching trips were made to 18 schools, exposing 1,988 children and students to living environment concepts.

Campaign to Deliver Picture Books

Participated in the Shanti Volunteer Association's campaign to deliver Japanese picture books with local language translations to Cambodia and Laos.

Creating infrastructure for stronger support

To complement the existing community support activity philosophy, in April 2007 the Daiwa House Group established new community support slogans for environment, welfare, and education. In September 2007, the President's Award Program for Community Service was established to provide incentives at the various locations for employees to actively engage in community support activities.

Local community support activities

In FY2007, the Daiwa House Group was actively involved in a broad variety of community support activities embodied in the slogans mentioned above. In particular, on the social welfare front, joint activities with local communities increased to 101, up from 59 the year before. The ratio of employees taking leave for voluntary work increased by 1.3 percentage points, indicating a widening circle of activity. Additionally, in FY2007, employee donations and collection activities in the three areas of community support activities of welfare, environment, and education amounted to ¥8,319,018. ¥31,975,788 was donated for disaster relief.

Activities that leverage our core business

Since FY2007, Daiwa House Industry employees have volunteered for such activities as home and lifestyle education and at healthcare facilities for senior citizens, thereby leveraging the Company's core business expertise in a community support setting. Similarly, employees at other companies in the group are becoming increasing involved in volunteer activities leveraging each company's particular field and specialties, and these projects are increasing.

Continuing on in FY2008, these activities will be promoted and encouraged, and the companies in the group will collaborate in activities that leverage the combined strengths of the group.

Collaboration with NPOs and NGOs

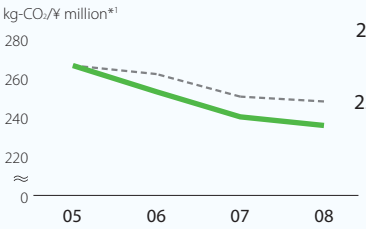
In FY2007, visits were made primarily to 19 NPO organizations to exchange information. Activities such as campaign to deliver picture books for children overseas (photo at right) get employees increasingly involved in collaborative activities. In this fashion, the Group will continue to exchange information with such groups and causes that can benefit from the volunteer activities of its employees, and their proactive collaboration.

Percentage of paid holidays given over to voluntary activities by each employee over the year
(Daiwa House Industry, non-consolidated)

FY2006	FY2007	›	FY2008
8.2%	9.5%		10.0% (Target)

— Performance --- Target

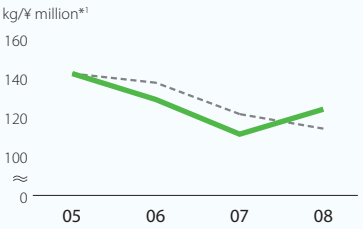
CO_2 emissions



2005
267.76kg-CO_2/¥ million
↓
2008
236.50kg-CO_2/¥ million

11.7% down

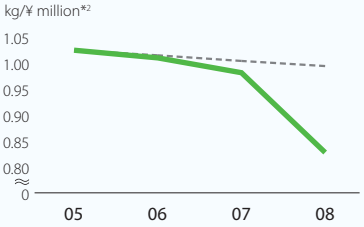
Waste output



2005
143.56kg/¥ million
↓
2008
124.97kg/¥ million

12.9% down

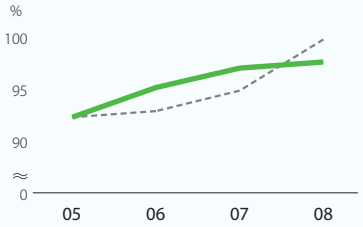
Volume of PRTR harmful chemical substances used



2005
1.029kg/¥ million
↓
2008
0.829kg/¥ million

19.4% down

Next-generation energy-saving standards (degree of achievement)



2005
92.4%
↓
2008
97.8%

5.4 points up

*1 Figures represent emissions per ¥1 million in sales value at Daiwa House Industry, Royal Home Center, and Daiwa Resort.
*2 Figures represent emissions per ¥1 million in sales value at Daiwa House Industry's factories.

Environment

We intend to continually and proactively work to help secure an abundant future by considering the environment in our business activities and products.

Environmental preservation: Priority themes

1. Helping in the fight against global warming
2. Protecting natural resources
3. Promoting harmony with the natural environment
4. Preventing pollution by harmful chemical substances

Q What is the status of the Daiwa House Group's Environmental Action Plan?

A The first step in the Group's environment-related projects ended in FY2007, the last year of Environmental Action Plan 2005. Based on those results, it was time to devise a new action plan in which all companies in the group would participate. This plan is called the Endless Green Program 2010, and will begin in FY2008 as the second step in the Environmental Action Plan. The motto is "cut two units of CO_2 for every one unit generated." We have already begun to take action based on our mid-term environmental strategy.

Going Forward ›

- Cut two units of CO_2 for every one unit generated
- Expand energy-saving product and service offerings
- Reduce overall CO_2 emissions generated by business activities and processes

Expand our environmental management system

We have established an environmental management system based on the Environmental Principles and Priority Themes defined in our vision for the environment. The system will manage environmental improvements in all business activities from every conceivable perspective.

FY2005 through FY2007 made up the first step in our Environmental Action Plan 2005, and involved environmental improvements with the collaboration of three companies including Group companies. FY2008 through FY2010 will be the second step, under the Endless Green Program 2010, where the plan will be expanded to include a total of 13 Group companies, with the focus on the prevention of global warming.

Activities to prevent global warming

The Daiwa House Group has been focusing on the reduction of CO_2 emissions from the dual standpoints of product and business processes. In FY2007, we focused on increasing sales of single-family houses (**xevo E**) equipped with solar power generation systems and the popularization of high-efficiency hot water heaters. The effect is equivalent to an annual reduction of approximately 5,766 tons of CO_2 emissions. In terms of business processes, we integrated the use of wind and solar power generation systems into our company facilities.

We received the FY2007 Ministry of the Environment Award for Global Warming Prevention Initiatives for our efforts in developing and popularizing energy-saving homes incorporating our proprietary energy simulation software Eco Navigator.

Conserving resources and reducing the use of toxic chemicals

In FY2007, we received the Resource Recycling Technologies and Systems Award*1 for a re-locatable, eco-friendly retail store product, the Restore & Rebuild System, and a deck made from recycled scrap wood powder. We were also successful in commercializing a rooftop greenery system that is made out of recycled scrap plastic. We also reduced our use of hazardous chemical substances subject to PRTR*2 regulations by 9.4% from the previous fiscal year.

*1 Sponsored by the Clean Japan Center (CJC) Foundation
*2 PRTR (Pollutant Release and Transfer Register): Emissions of chemical substances are reported annually by business operators, and national statistics are published based on these data.

Activities for harmony with the natural environment

Daiwa House Industry is working toward leaving a legacy of an abundant natural environment to future generations by creating communities that co-exist harmoniously with the environment. The Ministry of the Environment awarded Daiwa House Industry with a certification for reducing CO_2 by 20% for an entire community (Koshigaya Lake Town, Saitama Prefecture), with respect to the single-family houses and condominium units that made up the community we developed in this area. In FY2007, we were also awarded a certification for environmentally harmonious dwellings*3 for 1,458 single-family houses, approximately twice the number for the previous year.

*3 Environmentally harmonious dwellings: Certification program by the Institute of Building Environment and Energy Conservation

Main targets of "Endless Green Program 2010"

Reduction in CO_2 emissions	
Products/services in all business fields	Decrease CO_2 emissions resulting from the use of our products more than twice of CO_2 emissions generated from our business activities
Clerical and construction	Decrease 4%*4 (total CO_2 emissions)
Services	Decrease 6%*4 (CO_2 emissions per sales)
Reduction in waste output	
Factories and construction sites	Decrease 10%*4 (Total construction waste output excluding demolition)
Reduction in volume of PRTR harmful chemical substances used	
Factories	Decrease 5%*4 (Total volume of PRTR harmful chemical substances used)
Treeplanting promotion	
Factories	100,000 trees or more (Number of tree planted/3-year total)

*4 Comparison with FY2007

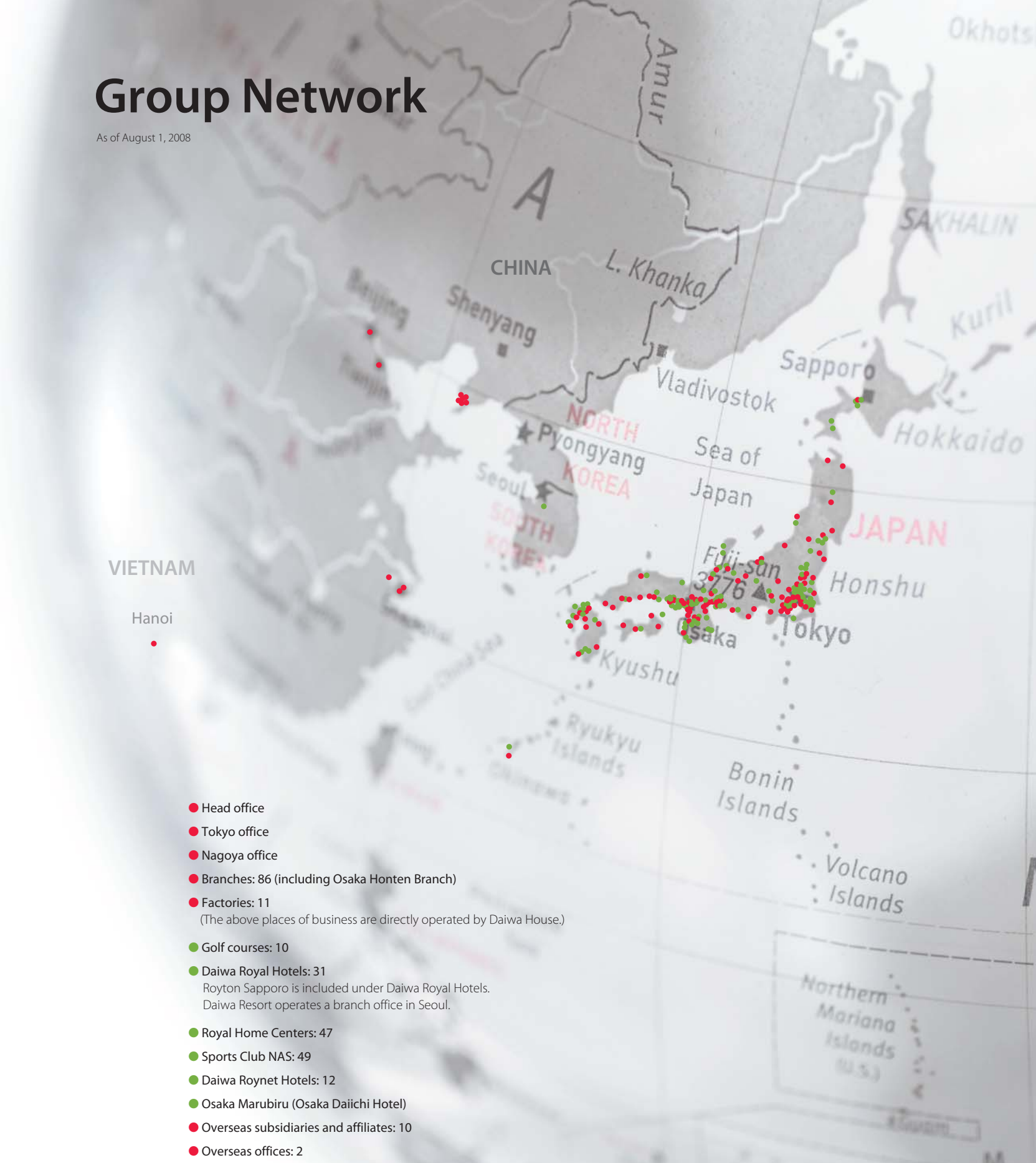
A Life with Heart

A Story of Daiwa House Group

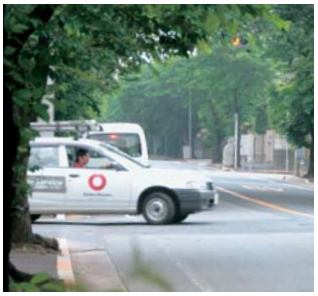
1955	Founding of Daiwa House Industry and launch of our first product, the "Pipe House."
1957	Steel pipe structure used for warehouse at sake brewery receives certification from Japan Lightweight Iron Construction Association as first such full-fledged structure in Japan
1959	Daiwa Kosho (current Daiwa Lease) and Daiwa Konpo (current Daiwa Logistics) 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) established
1975	Opening of the Daiwa House Group's first golf course at the Shikabe Country Club
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
1980	First Royal Home Center opened in Nara City
1983	Exports and construction of high-end prefabricated houses to China (a first for Japan) Tentakubin (current Daiwa Service) established
1986	Daiwa Information Service established
1989	Daiwa Living established Silver Age Research Center established
1994	Daiwa House Central Research Laboratory opened in Kansai Science City
2001	Daiwa House Industry merged with Daiwa Danchi
2004	Home center business split off from Daiwa House Industry The Daiwa House Group draws up its Corporate Ethics Guidelines and Behavioral Guidelines
2005	The 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 integration through share exchange transactions between Daiwa House Industry and Daiwa Kosho Lease, Daiwa Rakuda Industry, and Daiwa Logistics, by which the subsidiaries became wholly owned subsidiaries of Daiwa House Industry Daiwa House Financial and Daiwa House Insurance are founded
2007	Daiwa Royal Golf is founded The resort hotel business is split off from Daiwa House Industry Nobuo Ishibashi Memorial Museum opens Eneserve becomes a consolidated subsidiary
2008	Daiwa House Industry forms capital alliance with Odakyu Construction Co., Ltd.

Group Network

As of August 1, 2008



- Head office
- Tokyo office
- Nagoya office
- Branches: 86 (including Osaka Honten Branch)
- Factories: 11
  (The above places of business are directly operated by Daiwa House.)
- Golf courses: 10
- Daiwa Royal Hotels: 31
  Royton Sapporo is included under Daiwa Royal Hotels.
  Daiwa Resort operates a branch office in Seoul.
- Royal Home Centers: 47
- Sports Club NAS: 49
- Daiwa Roynet Hotels: 12
- Osaka Marubiru (Osaka Daiichi Hotel)
- Overseas subsidiaries and affiliates: 10
- Overseas offices: 2



Principal Group Companies

Daiwa House Industry Co., Ltd.
Housing/Commercial facilities/
Urban development, etc.
www.daiwahouse.co.jp

Daiwa Lease Co., Ltd.
Building & vehicle leasing/Land utilization
www.daiwalease.co.jp

Daiwa Rakuda Industry Co., Ltd.
Housing equipment/Layout for offices
and stores/Leasing
www.daiwarakuda.co.jp

Daiwa Logistics Co., Ltd.
Transportation/Warehouse & storage
www.daiwabutsuryu.co.jp

Daiwa Living Co., Ltd.
Management/Operation of rental housing
www.daiwaliving.co.jp

Daiwa Service Co., Ltd.
Management of buildings & condominiums/
Manpower dispatching/Moving services
www.daiwaservice.co.jp

Daiwa Information Service Co., Ltd.
Land utilization/Maintenance & operation
of commercial facilities
www.dis-net.jp

Nihon Jyutaku Ryutu Co., Ltd.
Real estate agency & property management
services/Appraisals/Renovation work
www.jyutaku.co.jp

Daiwa Royal Co., Ltd.
Rental of commercial facilities/
Daiwa Roynet Hotels
www.daiwaroyal.com

Royal Home Center Co., Ltd.
DIY/Gardening/Interior items
www.royal-hc.co.jp

Daiwa Resort Co., Ltd. (Daiwa Royal Hotels)
Resort hotels
www.daiwaresort.co.jp

Daiwa Royal Golf Co., Ltd.
Golf course operation
www.daiwaroyalgolf.jp

Daiwa House Renew Co., Ltd.
Renovation work
www.daiwahouse-renew.co.jp

Daiwa Energy Co., Ltd.
ESCO business/Environmental equipment/
Facility installation
www.daiwa-energy.com

Daiwa Estate Co., Ltd.
Real estate agency
www.daiwaestate.jp

Daiwa Monthly Co., Ltd.
Real estate rental & management
www.daiwamonthly.co.jp

Daiwa Lantec Higashinihon Co., Ltd.
Foundation assessment & reinforcement
www.daiwalantec-east.jp

Daiwa Lantec Nishinihon Co., Ltd.
Foundation assessment & reinforcement
www.daiwalantec-west.jp

Jukeikai Co., Ltd. (Neo Summit Yugawara)
Operator of homes for the aged
www.neo-summit.com

Osaka Marubiru Co., Ltd.
Management of hotels, rental premises & parking lot
www.marubiru.com

Nippon Athletic Service Co., Ltd. (Sports Club NAS)
Fitness clubs
www.nas-club.co.jp

Daiwa House REIT Management Co., Ltd.
Asset management

Daiwa House Financial Co., Ltd.
Credit card operations
www.daiwasaisoncard.com

Daiwa House Insurance Co., Ltd.
Non-life insurance agency
www.daiwahouse-ins.jp

Synchroller Co., Ltd.
Manufacture of housing parts & materials

Shinwa Agency Co., Ltd.
Advertising & travel agency
www.go-to-s.com

Media Tech Inc.
Data systems/Data services
www.mediatech.jp

Eneserve Corporation
Comprehensive energy services
www.eneserve.co.jp

Higashi-Fuji Co., Ltd.
Real estate development, sale of commercial real estate

Odakyu Construction Co., Ltd.
General Construction/Real Estate
www.odakyu-kensetsu.co.jp

Overseas Affiliated Companies

LOC Development Co., Ltd.
Development and management of shopping centers
www.loc-kaihatsu.co.jp

DH (Dalian) Administrative Management Consulting Center Co., Ltd.
Provision of outsourced administrative work

Dalian Fujiazhuang International Villa 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

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

Dalian Yihe Property Management Co., Ltd.
Management of Dahezhongsheng Estate condominiums

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

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

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

Daiwa House (Suzhou) Real Estate Development Co., Ltd.
Development and marketing of condominiums

Dreams

The word “dream” encompasses a wide range of meanings.
When we go to sleep at night, we dream.
We also often refer to the past as “seeming like a dream.”
But for us at the Daiwa House Group, these definitions of
the word can be put to one side.
When we use the word “dream,” which to us is very important,
we are referring to hopes for the future.

The late Nobuo Ishibashi,
founder of Daiwa House Industry

(October 1963: By Yoshino Lake)

石橋信夫記念館
NOBUO ISHIBASHI MEMORIAL MUSEUM

Corporate Data

As of April 1, 2008

Corporate name:	Daiwa House Industry Co., Ltd.
Founding:	April 5, 1955 (Established: March 4, 1947)
Paid-in capital:	¥110,120,483,981
Employees:	14,106
Head Office:	3-3-5 Umeda, Kita-ku, Osaka 530-8241, Japan Phone: +81-6-6346-2111
Tokyo Office:	3-13-1 Iidabashi, Chiyoda-ku, Tokyo 102-8112, Japan Phone: +81-3-5214-2111
Nagoya Office:	1-20-22 Aoi, Naka-ku, Nagoya 460-8491, Japan Phone: +81-52-933-2703
Branches:	86 (including Osaka Honten Branch)
Factories:	11 (As of July 1, 2008)
Research center:	Central Research Laboratory (Nara)
Training centers:	Osaka, Tokyo and Nara
Overseas offices:	Shanghai, Hanoi

Contact:	Daiwa House Industry Co., Ltd. IR Department, Management Administration Headquarters Phone: +81-6-6342-1400 Fax: +81-6-6342-1419 e-mail: dh.ir.communications@daiwahouse.jp
Daiwa House website:	Daiwa House Group: http://www.daiwahouse.com/English Daiwa House Industry Co., Ltd.: http://www.daiwahouse.co.jp/English
Securities traded:	Tokyo and Osaka stock exchanges
Securities Code:	1925

Sources

P5	Population (World, BRIC countries): United Nations Population Division, World Population Prospects Population (Japan): Ministry of Internal Affairs and Communications, Statistics Bureau, Population Estimates Oil prices: New York Mercantile Exchange (NYMEX) trading prices (West Texas Intermediate) Wheat and corn prices: Chicago Board of Trade (CBOT) trading prices U.S. housing starts: U.S. Census Bureau, New Privately Owned Housing Units Started
P12	Stock markets in Japan, Survey into distribution of shares in fiscal 2007
P21	Population: United Nations Population Division, World Population Prospects GDP: IMF/World Economic and Financial Surveys
P27	World Economic Forum, The Global Competitiveness Report 2007-2008
P29	Population: National Institute of Population and Social Security Research, Population Projections for Japan (December 2006) Number of households: As above (estimated number of households in Japan (as of October 2003)) Housing starts (units): Research Institute of Construction and Economy, long-term forecasts for investment in construction for 2010 through 2020
P29, 76, 121	Ministry of Land, Infrastructure and Transport, housing start statistics

Overall responsibility • Tetsuji Ogawa/Daiwa House Producer & creative director • Keisuke Izumoto/Daiwa House
Art director • Hiroaki Kitagawa/Nippon Arts Inc. Designer • Mayumi Makino/D & Join Inc. Photographer • Kazumasa Kondo
Japanese writer • Masaki Kobayashi/Daiwa House; Yumi Minobe, Junko Takabe Editor • Masaki Kobayashi/Daiwa House
English translator & editor • Stephen Lloyd/D & Join Inc. Director & coordinator • Katsuya Iwado/D & Join Inc.
Assistant director • Nao Kishigami • Tetsuo Kubo • Yusuke Fukuda/Daiwa House