

Financial Report

Message from the CFO	116	Notes to Consolidated Financial Statements	151
Business Results	122	① Basis of presenting consolidated financial statements	151
Single-Family Houses	124	② Summary of significant accounting policies	151
Rental Housing	125	③ Marketable and investment securities	156
Condominiums	126	④ Inventories	156
Existing Home Business	127	⑤ Land revaluation	156
Commercial Facilities	128	⑥ Long-lived assets	157
Business and Corporate Facilities	129	⑦ Investment property	158
Health & Leisure	130	⑧ Short-term bank loans, bonds and long-term debt	158
Other Businesses	131	⑨ Retirement and pension plans	159
Financial Overview	132	⑩ Asset retirement obligations	159
Consolidated seven-year summary	132	⑪ Equity	160
Performance indicators of major companies	133	⑫ Segment information	160
Management's Discussion and Analysis	134	⑬ Reversal of liability for loss on disaster	165
Results 2011	134	⑭ Losses from a natural disaster	165
Outlook 2012	143	⑮ Other income (expenses): Other — net	165
Financial Statements	144	⑯ Income taxes	166
Consolidated Balance Sheets	144	⑰ Research and development costs	166
Consolidated Statements of Income	146	⑱ Supplemental cash flow information	167
Consolidated Statement of Comprehensive Income	147	⑲ Leases	167
Consolidated Statements of Cash Flows	148	⑳ Financial instruments and related disclosures	169
Consolidated Statements of Changes in Equity	150	㉑ Derivatives	173
		㉒ Contingencies	174
		㉓ Comprehensive income	174
		㉔ Subsequent event	174
		Independent Auditors' Report	175

Message from the CFO

Strategy for renewed growth

Overview of the Second Medium-Term Management Plan

Looking back on the operating environment during the period of the Company's Second Medium-Term Management Plan starting from fiscal 2008, the nation's GDP growth rate declined by 0.6 of a percentage point — from 1.0% for fiscal 2007 to 0.4% for fiscal 2010 — while the yen's exchange rate against the US dollar strengthened by approximately 20% from ¥103.87 in April 2008 to ¥83.15 in March 2011. During the same three-year period, the ratio of private-sector jobs to applicants declined by 0.46 of a point, from 1.02 in fiscal 2007 to 0.56 in fiscal 2010. The Daiwa House Group was thus faced with difficult circumstances in all the wide range of industries in which it operates.

In housing and real estate, consumer confidence and investor sentiment in Japan and overseas showed an overall decline. This was due to the US financial crisis that began in the first year of the medium-term plan and led to a wider financial crisis, as well as the European currency crisis. In fiscal 2009, the number of new housing construction starts fell below the 800,000 mark for the first time in the 35 years since 1974. Although we had foreseen this development, the weakness of the economy seemed destined to last for quite some time. As the Group's Chief Financial Officer, I followed a financial policy aimed at enabling the Group to ride out this difficult period. Specifically, I assigned priority to two themes — patiently nurturing the seeds of future growth, and further enhancing the quality of the Group's healthy financial base built up over many years.

Under the Second Medium-Term Management Plan we pursued two main themes — improving the Group's profit structure, and nurturing new future earnings drivers. To realize these aims, we disposed of assets that were expected to become a burden in the future, including unprofitable commercial facilities and resort developments. In addition, in fiscal 2010 we registered our best figures for operating income and net income during the three-year plan period. This was a truly significant achievement. In spite of the extremely difficult operating environment, I am proud to say that I put my whole effort into steadily raising the Company's enterprise value. By succeeding in this, I fulfilled my role as CFO.

Investment performance

Firstly, with regard to real estate development in the Japanese market, at Daiwa House we realized early on that the market was deteriorating as a result of the global recession that began in the latter half of fiscal 2008, and we therefore focused our investment activities on properties in Japan's major cities, where economic recovery was comparatively advanced. We emphasized profitability and realizable investment returns, and adopted stringent investment criteria, making it a condition that projects generate a yield of at least 7.0% on a net operating income (NOI) basis and at least 8.5% on an internal rate of return (IRR) basis. As a result of the revision of our investment strategy, the initially planned investment figure of ¥580 billion over the three-year plan was reduced to ¥441.5 billion, but on the other hand, I believe we were able to realize more stable fund management.

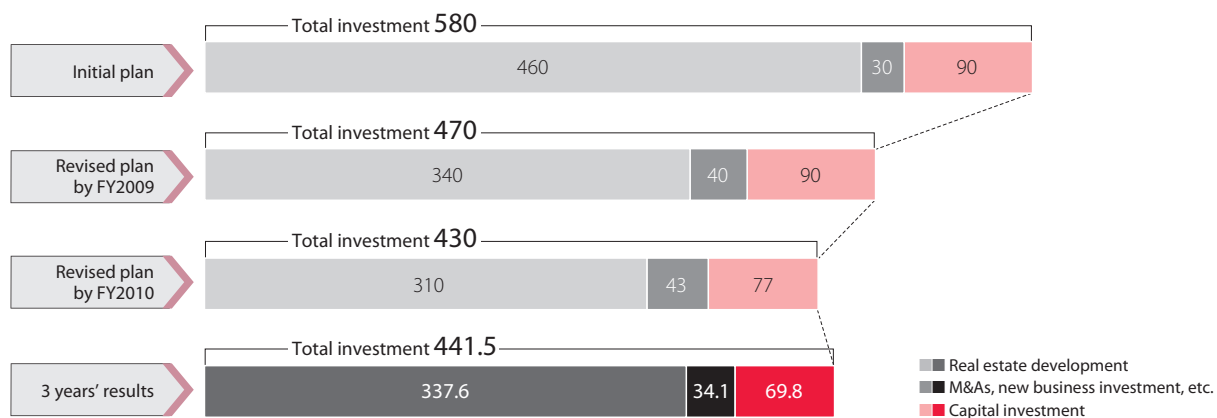
With regard to our goal of nurturing new future earnings drivers, we aggressively invested in M&As and established new business ventures with a view to reaping the fruits of this investment over the medium to long term. We focused efforts on shifting our investment emphasis from the building of new homes and other properties to lifestyle-related services involving existing housing stock, to build a better-balanced business portfolio across the whole Group, and were able to create a more stable management structure that is strongly resistant to the impact of economic fluctuations.

With respect to our condominium management business, in September 2009 we made Cosmos Life into a consolidated subsidiary under the name of Daiwa LifeNext, bringing the total number of condominium units managed by the Group to



approximately 200,000 and putting us in fifth place in the Japanese market (in terms of orders received in fiscal 2010 for comprehensive condominium management services). Along with the expansion of our customer base, this acquisition made a major contribution to the Group's business performance for fiscal 2010. From here onward, too, we plan to make active investments in building high value-added businesses in related fields where we can leverage our strengths in existing business operations.

Investment plan and results (¥ billion)



Fiscal 2010 financial highlights

- With respect to its noncurrent assets held, the Company recorded extraordinary losses. Principal components included an impairment loss of ¥18.8 billion, due to the decline in real estate prices and the deterioration in profitability resulting from increasingly severe competition, as well as losses amounting to ¥8.0 billion owing to the Great East Japan Earthquake.
- Despite an upswing in condominiums sold, inventory assets increased by ¥2.0 billion compared with the previous fiscal year-end due to purchases of land for sale. In addition, growth in trade notes and accounts receivable and other positives outweighed the decrease in cash and deposits owing to the repayment of long-term debt. As a result, current assets rose by ¥2.5 billion.
- Property, plant and equipment declined by ¥18.5 billion compared with the end of the previous fiscal year. This was attributable to the sale of real estate held for leasing purposes and other factors.
- Total interest-bearing debt was down by ¥62.8 billion compared with the previous fiscal year-end. This reflected such factors as the repayment of long-term debt totaling ¥99.3 billion.

Consolidated statements of income	Millions of Yen	YoY change
Net sales	1,690,151	80,267
Cost of sales	1,352,937	49,056
Gross profit	337,214	31,211
Selling, general and administrative expenses	249,516	6,227
Operating income	87,698	24,984
Other expenses — net	(46,985)	(22,340)
Net income	27,268	8,155

Consolidated balance sheets	Millions of Yen	YoY change
Assets:		
Current assets	681,261	2,503
Property, plant and equipment	760,124	(18,486)
Investments and other assets	492,851	33,291
Total assets	1,934,236	17,308
Liabilities and equity:		
Current liabilities	389,706	45,104
Long-term liabilities	909,344	(45,212)
Equity	635,186	17,416
Total liabilities and equity	1,934,236	17,308

Other expenses	Millions of Yen	YoY change
Impairment loss on property, plant and equipment	(18,769)	(7,864)
Write-down of investment securities	(1,013)	8,637
Other — net	(27,203)	(23,113)
Other expenses — net	(46,985)	(22,340)

Inventories	Millions of Yen	YoY change
Finished residential homes and condominiums	23,538	(6,585)
Construction projects in progress	15,307	209
Residential homes and condominiums in process	30,010	5,847
Land held:		
For resale	208,180	10,460
Under development	6,634	(5,342)
Undeveloped	2,237	(1,524)
Merchandise, construction materials and others	16,082	(1,080)
Total	301,988	1,985

Property, plant and equipment	Millions of Yen	YoY change
Land	387,343	(2,244)
Buildings and structures	327,809	(5,922)
Other — net	44,972	(10,320)
Net property, plant and equipment	760,124	(18,486)

Interest-bearing debt	Millions of Yen	YoY change
Short-term bank debt	9,136	(5,635)
Current portion of bonds	4,500	4,500
Current portion of long-term debt	25,122	22,220
Bonds	101,300	(4,000)
Long-term debt	255,498	(79,890)
Total interest-bearing debt	395,557	(62,804)

Cash flows from operating activities		Millions of Yen
2011		127,957
	Income before income taxes and minority interests	40,713
	Depreciation	44,614
	Provision for employees' retirement benefits, net of payments	11,822
	Loss on sales and disposal of property, plant and equipment	3,992
	Impairment loss on property, plant and equipment	18,769
	Increase in allowance for investment loss	3,672
	Loss on adjustment for changes of accounting standard for asset retirement obligations	2,805
	Loss on prior periods adjustment	1,416
	Decrease (increase) in receivables	(19,871)
	Decrease (increase) in inventories	(5,858)
	Increase (decrease) in payables — trade	17,118
	Increase (decrease) in deposits received from customers	4,324
	Other — net	4,441

Cash flows from investing activities		Millions of Yen
2011		(83,595)
	Purchases of property, plant and equipment	(61,352)
	Proceeds from sales of property, plant and equipment	562
	Purchases of investment securities	(12,583)
	Proceeds from sales and redemption of investment securities	3,614
	Other — net	(13,836)

Cash flows from financing activities		Millions of Yen
2011		(77,834)
	Net increase (decrease) in short-term bank loans	(5,635)
	Proceeds from long-term debt	41,693
	Repayments of long-term debt	(99,312)
	Proceeds from issuance of bonds	500
	Dividends paid to shareholders	(9,845)
	Remittance to trust of receivables collected	(3,697)
	Other — net	(1,538)

Financial policies for renewed growth

We are fully aware that the next few years, starting from the current fiscal year, during which we will be working toward the resumption of growth, will be even more crucial to the Group's success than hitherto. Because our goal is to resume growth, our need for funds will be strong. However, since we have decided to maintain our policy of a debt-equity ratio of 0.5% as the benchmark, we have no intention of increasing our total investments by raising the amount of interest-bearing debt significantly above this level. Regarding the Group's future demand for funds, we plan to speed up the cycle of fund reutilization by making increased use of gains from the sale of investment projects to finance new projects. This is in line with our policy of maintaining the Company's tradition of debt-free management.

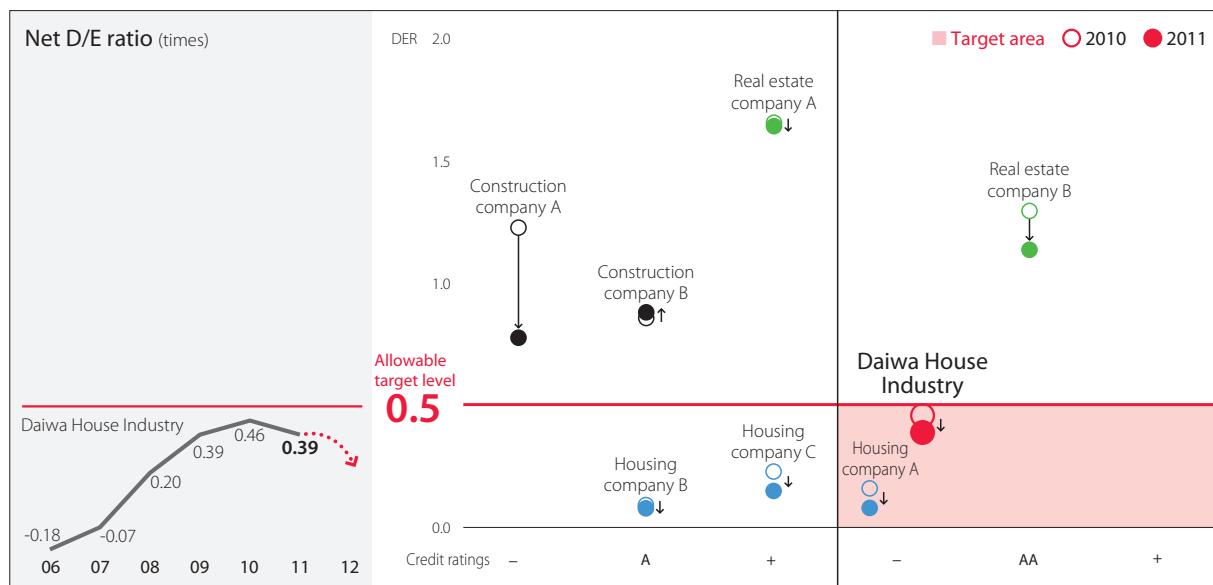
In addition, as a form of exit strategy, we will continue to keep a close watch on the REIT market, and will ensure strict cash flow management. Regarding our portfolio of residential properties, at BLife Investment Corporation,* relaunched through a merger in April 2010, we are starting to see improved profitability and reduced costs.

In February 2011 we set up a privately placed fund, among other initiatives, to expand our business in the area of distribution industry facilities. From here onward, we will leverage the Company's expertise in development and operation to create residential properties and distribution and commercial facilities that will be attractive to investors, to prepare the way for eventual listing on the J-REIT market.

* Subject to approval at the general meeting of investors on November 30, 2011, BLife Investment Corporation will be renamed Daiwa House Residential Investment Corporation.

Strategically expanding our investments on a global scale

Japanese society has entered a period of full-scale decline in the birthrate and an increasingly aging population, leading eventually to population decline. For this reason, we can no longer hope for economic growth of the type that accompanies growth in the volume of goods produced and consumed, as in Japan's former high-growth era. In this situation, to secure its own growth prospects, the Group must begin full-scale strategic investments on the global stage.



In 2006, 40 years after commencing business operations in China, we began engaging in large-scale real estate development projects in that country. Large-scale condominium projects commenced in fiscal 2009 in Suzhou and Dalian are scheduled for completion in 2011, and our “made-in-Japan” brand has built up a strong reputation for trustworthiness in the local market. We have also invested in projects in Wuxi and Changzhou, and plan strategic real estate developments in China as a whole, totaling ¥300 billion by the year 2020.

To leverage the know-how we have acquired in our Chinese operations, we are also examining new investment possibilities in other Asian countries such as Vietnam, as well as the United States and Australia. We plan to make strategic decisions in real estate development possibilities in countries all over the world, and to invest promptly in top-quality projects when they appear.

Medium- to long-term issues

Major changes are occurring in societies and economies all over the globe. On a global scale, we are faced with a host of issues such as environmental degradation, population growth, and food shortages. At the Daiwa House Group, we believe it is our mission to tackle these social problems head-on by creating and expanding business operations that will make valuable contributions to societies around the world.

For this purpose, our duty as a business corporation is to identify society's needs and conscientiously create business enterprises that supply those needs. As the CFO of the Daiwa House Group, my role is to build a strong financial position that will enable the Group to compete in markets all over the world, while at the same time actively engaging in information disclosure so as to raise the transparency of the Group's management. The International Financial Reporting Standards (IFRS) are likely to be introduced in Japan in the near future, and as our response to this change will also be one step toward the level of transparency required of us, we are making all the necessary preparations.

We are currently working to realize financial stability over the long term, as only in this way can the Group vigorously achieve the renewed growth at which we aim from fiscal 2011 onward. For this purpose, we are following a management policy that we call “The Three Gs.” This refers to the initial G of “Group” in the phrase “Growth by the Group,” the G of “Global” in “Global Development,” and the G of “Great” in “Realizing a Great Company.” Under this policy, we will move steadily forward to forge unbreakable bonds of trust with our stakeholders.

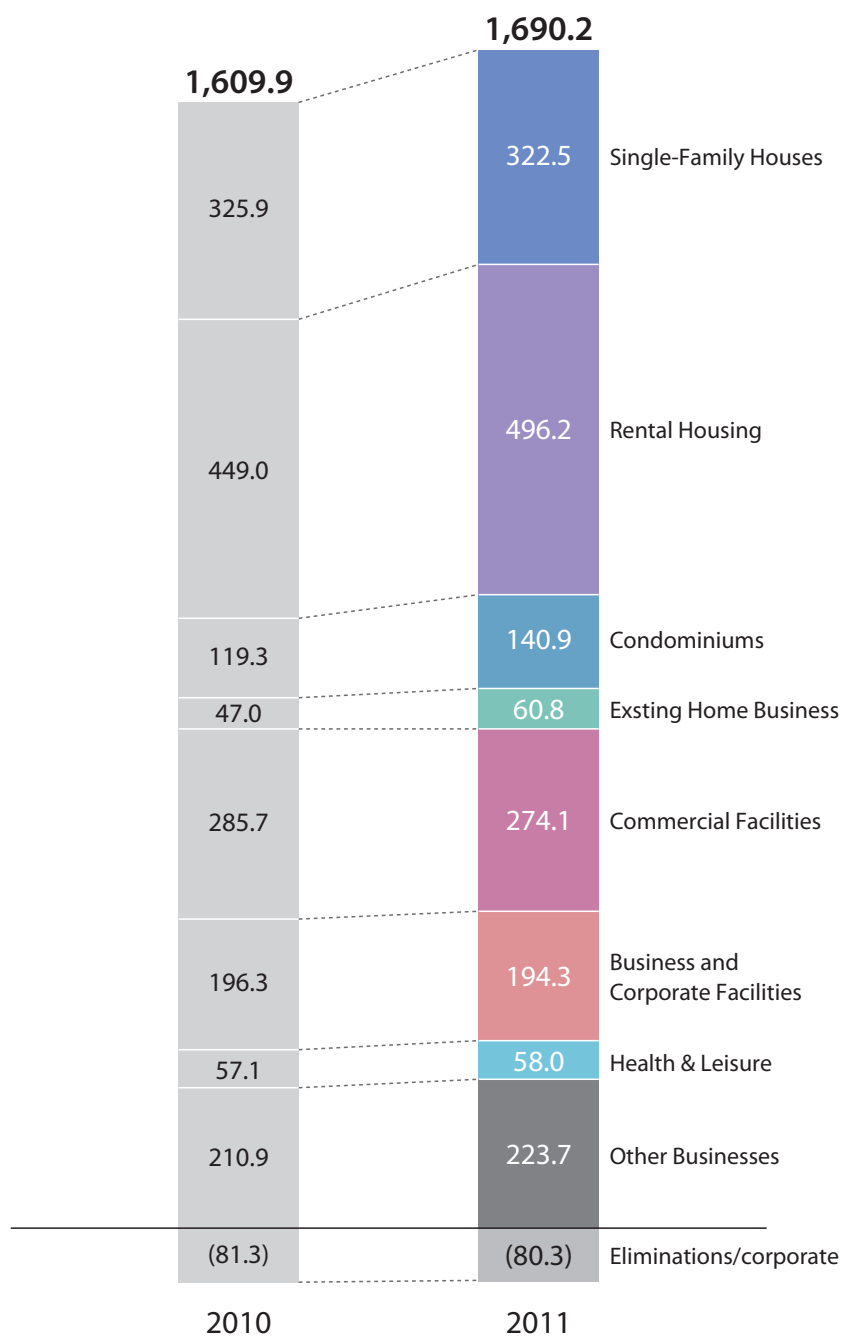


Tetsuji Ogawa
Executive Vice President and CFO

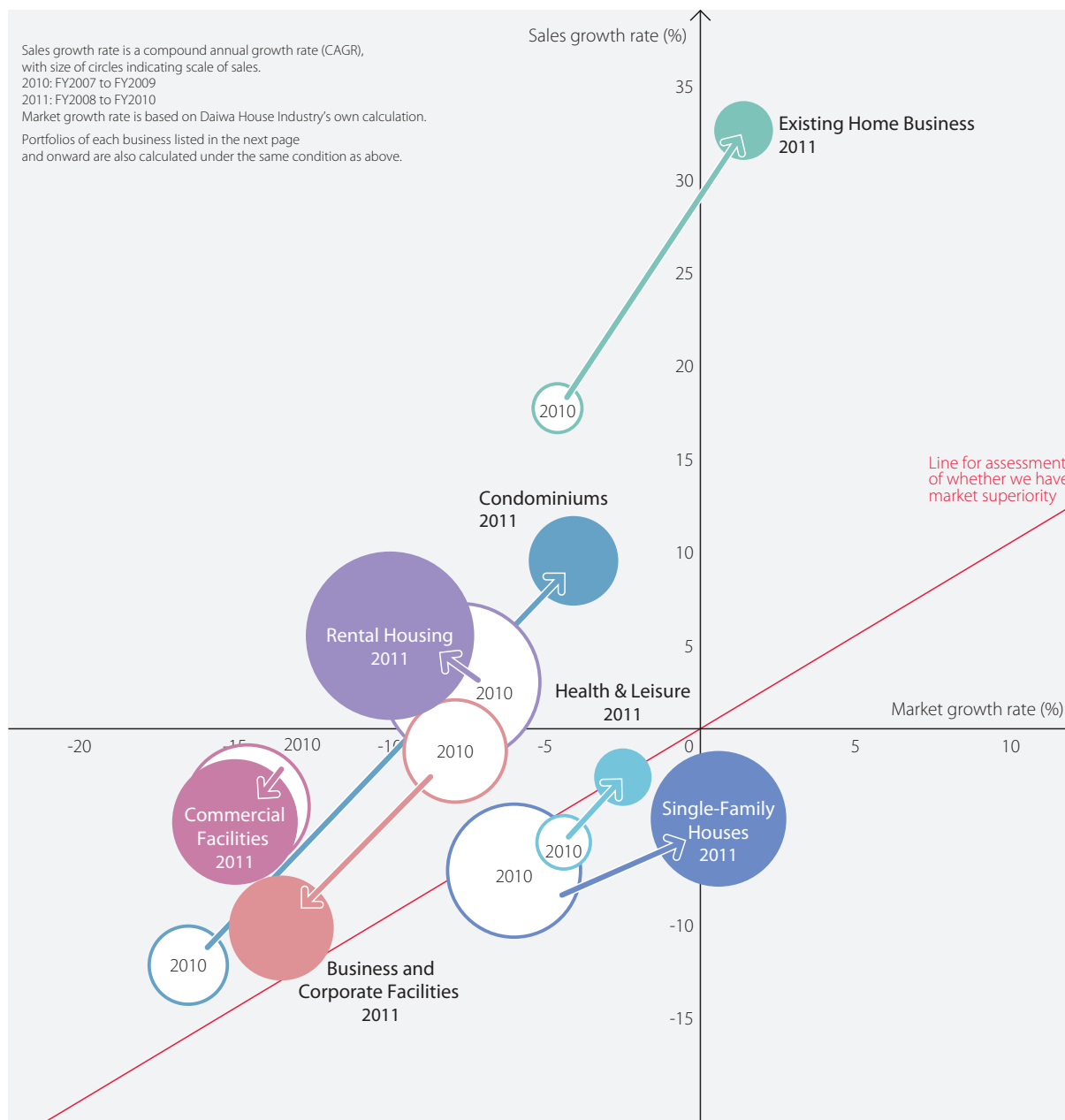


Business Results

Net sales (¥ billion)



Business portfolio 2011



Single-Family Houses

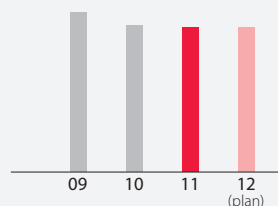
Contracting Business / Subdivisions



Sales

¥322.5 billion

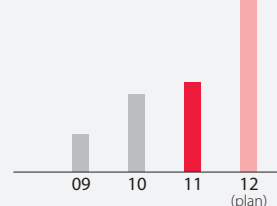
¥ billion 356.1 325.9 **322.5** 322.8



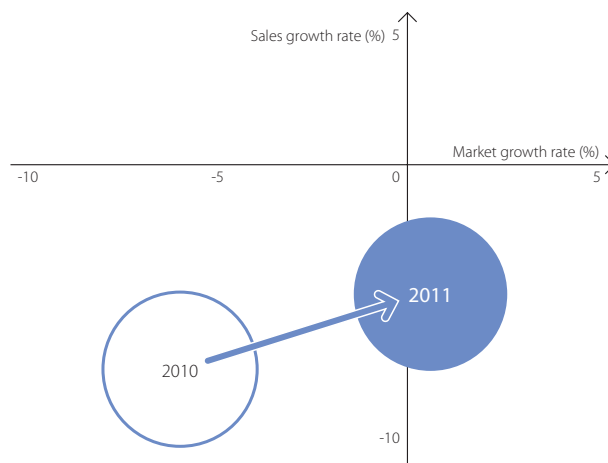
Operating income

¥7.2 billion

¥ billion 3.0 6.2 **7.2** 15.0

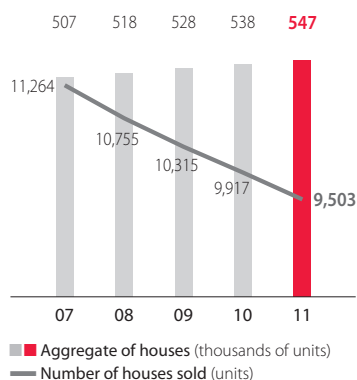


During the reporting term we worked to expand sales of our mainstay xevo series. The standard specifications for our xevo models satisfy the criteria for the government's high-quality long-term housing certification and qualify for application of the eco-point system for housing. Buyers can also take advantage of the government's measures to encourage home acquisition. As a result of the Great East Japan Earthquake, however, sales declined, but the cost-to-sales ratio improved by 2.5 points thanks to our continued restructuring efforts. We also succeeded in curbing fixed costs, leading to an increase in operating income.



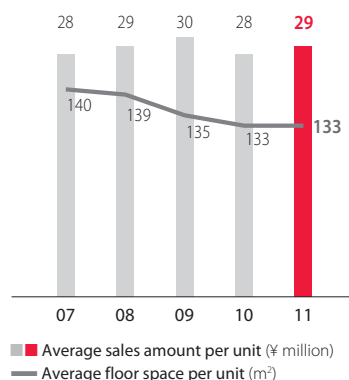
Aggregate of houses and number of houses sold

(Daiwa House Industry, non-consolidated)



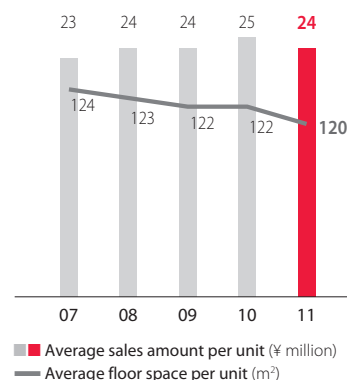
Average sales amount and floor space per unit

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



Average sales amount and floor space per unit

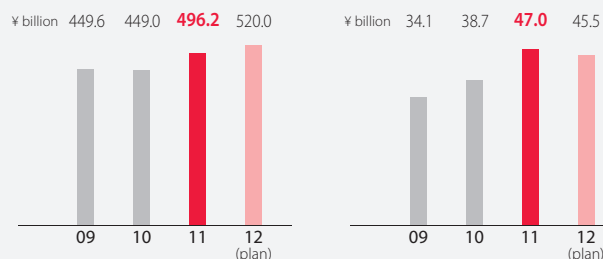
(Subdivisions, Daiwa House Industry, non-consolidated)



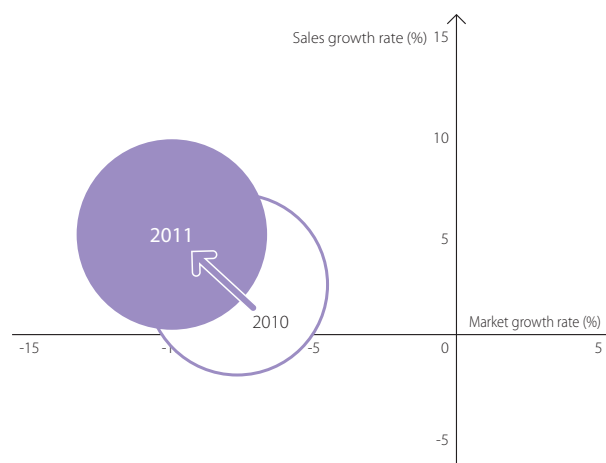
Rental Housing



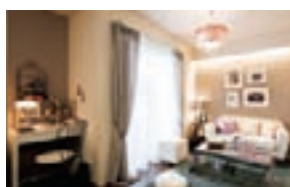
Sales **¥496.2 billion** Operating income **¥47.0 billion**



During the reporting term we continued marketing two- and three-story rental housing models fitted with home security systems as standard, and launched a new four-story model that can easily be adapted to meet the diverse needs and lifestyles of landowners and tenants. Both sales and operating income rose as a result of the sale of properties, an increase in the number of dwelling units managed by Daiwa Living, and a higher profit margin thanks to an improved vacancy ratio.



The Séjour WIT-S (Stack-on-type with a hallway on the first floor for all households)



Featuring colors and designs that are popular with female tenants

Rental housing featuring security system as standard

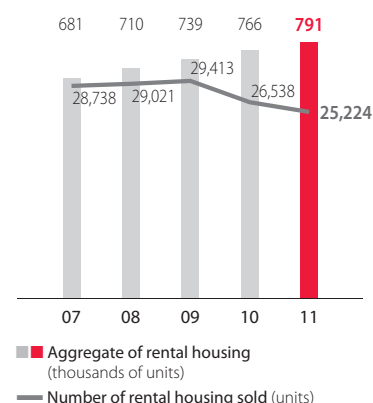
We have launched on the market our Séjour WIT-S and Séjour OTT's-S rental housing products, which are fitted with a security system. When sensors report the door or windows being forced open, the nearest ALSOK guard center is alerted, and security staff are dispatched to the scene. If the security staff confirm that a successful or attempted break-in has occurred, the emergency contact number is rung and the tenant informed of the facts. The security system provides tenants with effective anti-crime measures around the clock, when they are at home, too, and even after they have gone to bed.

Rental housing with focus on security and featuring items designed to appeal to female tenants

Our Séjour WIT-SW and Séjour OTT's-SW models have been developed to meet female tenants' needs regarding safety and security, beauty, storage space, and design, all of which are important criteria when choosing a rental home. These models come with a security system and lights fitted with timer-switches as standard, and the storage space accounts for 10% of the apartment's floorspace. To attract female tenants, each apartment also features a special makeup-application space, with carefully designed vanity table and other items provided.

Aggregate of rental housing and number of rental housing units sold

(Daiwa House Industry, non-consolidated)

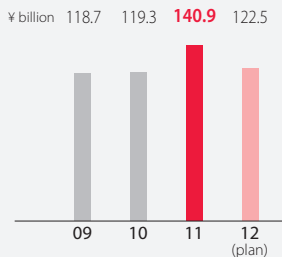


Condominiums



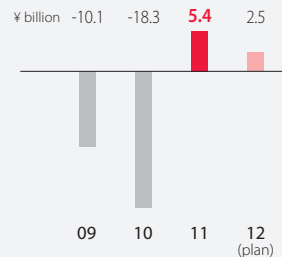
Sales

¥140.9 billion

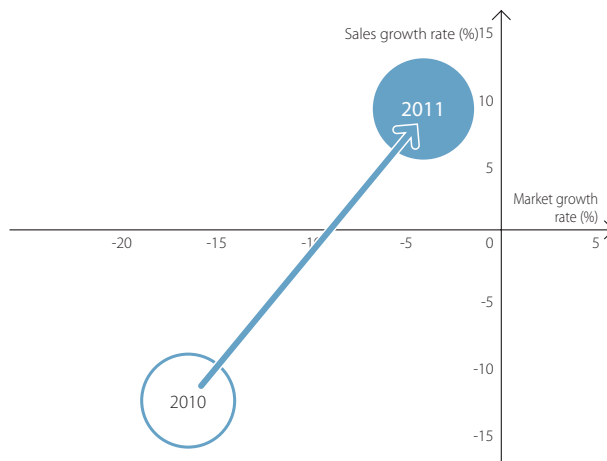


Operating income (loss)

¥5.4 billion

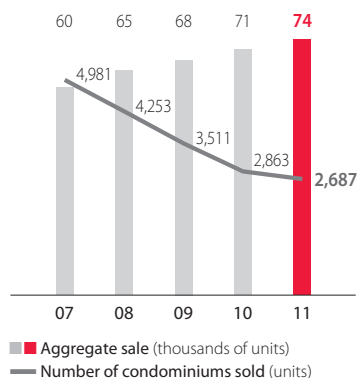


During the reporting term we sold units in super high-rise twin-tower condominiums featuring vibration dampening, high-class common facilities and superior services, as well as high value-added condominiums with eco-friendly features. Major increases were recorded in both sales and operating income, thanks to a recovery by the Tokyo and Osaka condominium markets and the full-term contribution of the business results of Daiwa LifeNext (a Group subsidiary since September 2009).



Number of condominium units sold

(Daiwa House Industry, non-consolidated)



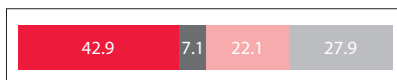
Area breakdown of condominiums

(FY2010)

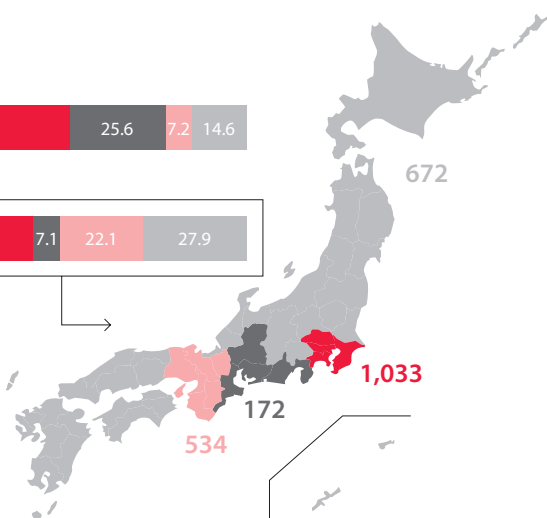
Condominiums built nationwide (%)



Daiwa House Industry sales (non-consolidated) (%)



■ Tokyo area (units)
 ■ Chukyo area (units)
 ■ Kinki area (units)
 ■ Other areas (units)



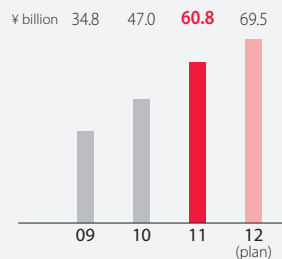
Existing Home Business

Home Renovation / Real Estate Agency Services



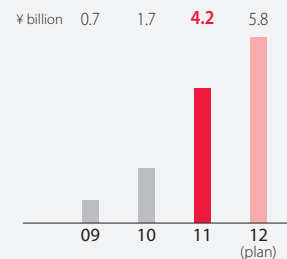
Sales

¥60.8 billion

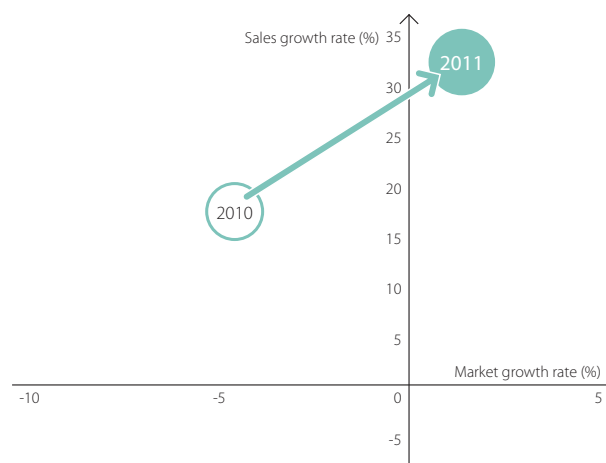


Operating income

¥4.2 billion

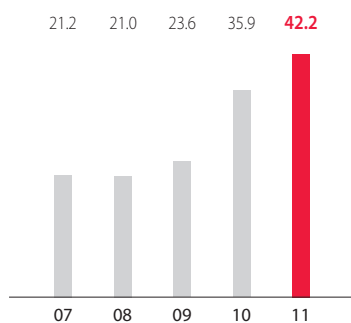


During the term we worked to improve our overall proposal capabilities by strengthening collaboration among Group members and revamping our marketing, design, and construction systems. We also conducted home renovation marketing campaigns to take advantage of the government's housing safety net promotion initiative as well as the rising interest in solar power generation, and posted particularly good business results in renovation work on condominiums and rental apartment buildings. Sales were up 29.4% year on year, and operating income soared 143.6%.



Number of renovations

(Daiwa House Industry, non-consolidated)



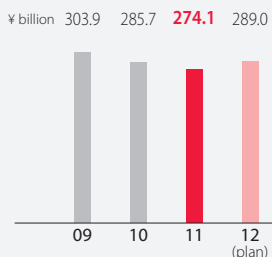
■ Renovations (thousands of units)

Commercial Facilities



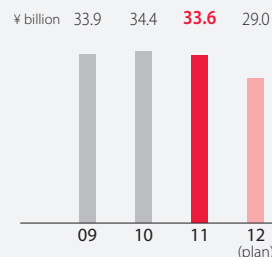
Sales

¥274.1 billion

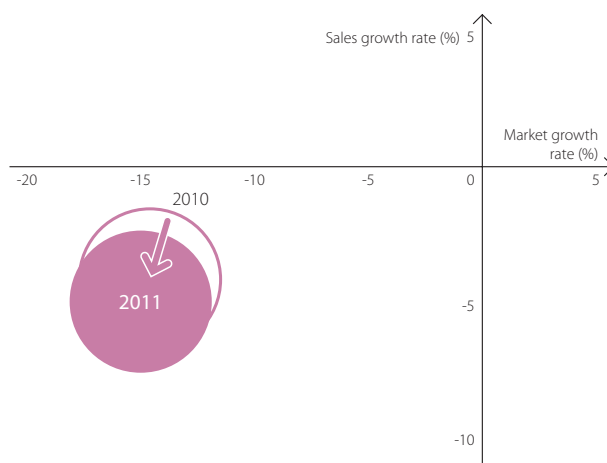


Operating income

¥33.6 billion

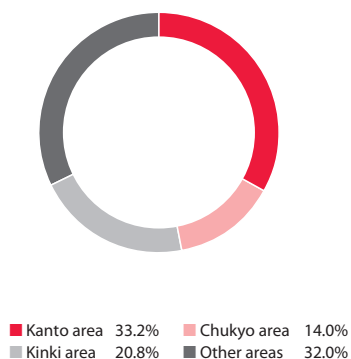


We made optimum use of our extensive fund of information relating to land availability and our know-how in support of new store openings by tenant companies to pursue planning- and proposal-driven marketing centered on roadside store developments. We are developing open-mall-type commercial facilities serving small retail trading zones around Japan, and opened six more such facilities during the term as part of our policy of operating facilities with deep roots in their local communities. However, in line with the declining popularity of suburban shopping centers, we acquired fewer orders for large-scale facilities, leading to a slight decrease in both sales and operating income.



Area breakdown of commercial facilities sales

(Daiwa House Industry, non-consolidated)



Orders for large commercial facilities*

(Daiwa House Industry, non-consolidated)



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

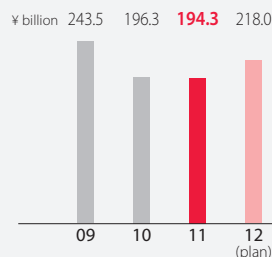
Business and Corporate Facilities

Distribution Facilities / Medical and Nursing Care Facilities / Corporate Facilities



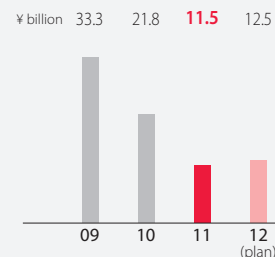
Sales

¥194.3 billion

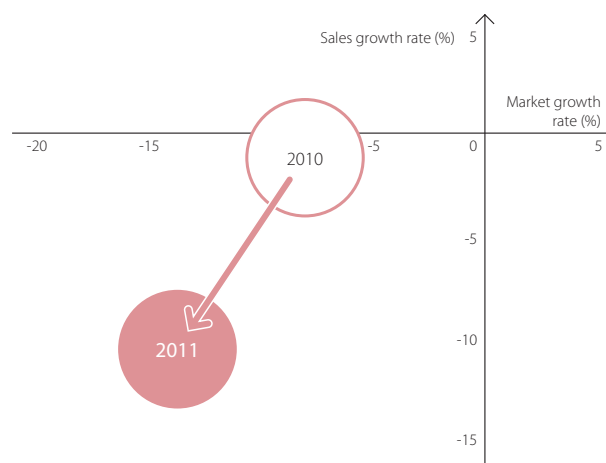


Operating income

¥11.5 billion

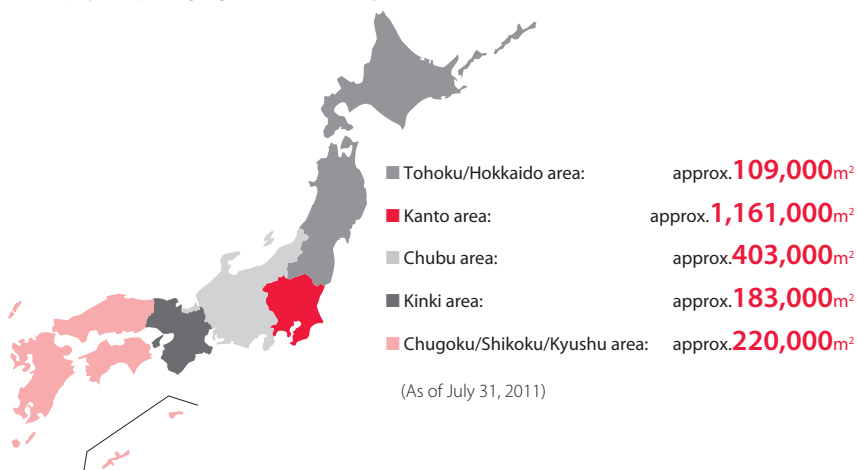


During the term we constructed large-scale distribution centers, marketing and production facilities needed as a result of corporate scrap-and-build policies, and production facilities for food processing companies. We also aggressively marketed housing products for senior citizens, including fee-based homes for the elderly and serviced housing for elderly persons. We also leveraged our consulting capabilities based on our accumulated know-how and data to commence the development of large-scale industrial parks. Owing to a deterioration in the cost-to-sales ratio on the back of rising steel prices, operating income of this domain recorded a sharp year-on-year decline.



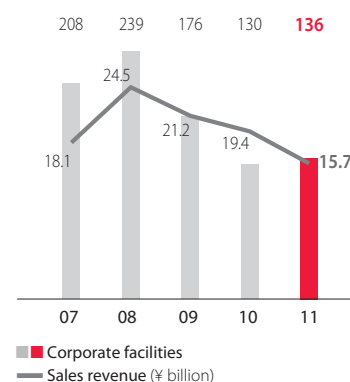
Major logistics projects: Total area of development sites

(Includes projects at planning stage; Daiwa House Industry, non-consolidated)



Number of corporate facilities and sales revenue

(Daiwa House Industry, non-consolidated)

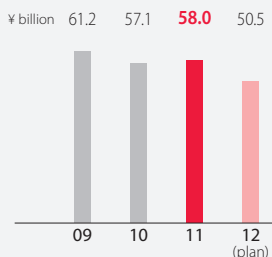


Health & Leisure



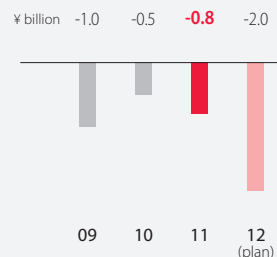
Sales

¥58.0 billion

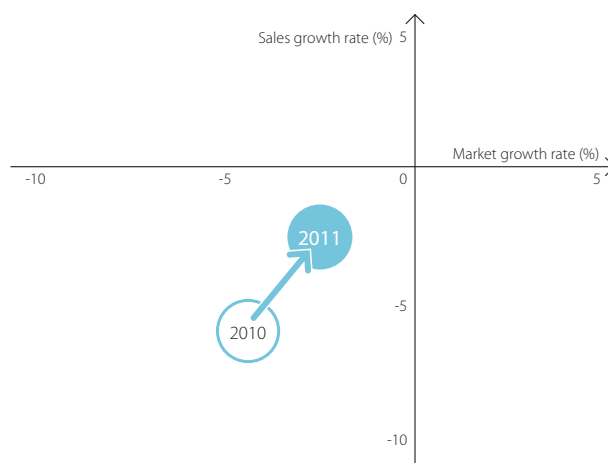


Operating loss

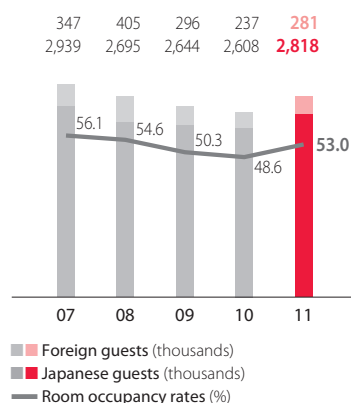
-¥0.8 billion



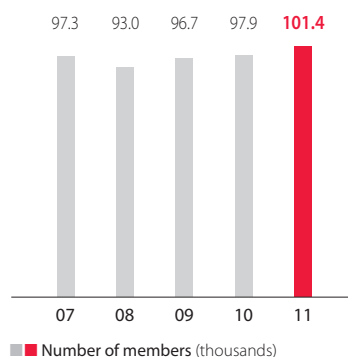
In the Resort Hotels operations, our efforts to offer high-quality services led to an increased number of guests, particularly during the Golden Week holidays, the summer vacation season, and the autumn travel season. In our Sports Life operations, we opened two new urban-type facilities in Tokyo. However, following the massive earthquake in March we were forced to close some facilities to conduct safety checks and to shorten operating hours to accommodate the planned power outages. As a result, sales of the Health & Leisure posted a year-on-year decrease.



Daiwa Royal Hotels: Number of guests and room occupancy rates



Sports club NAS: Number of members



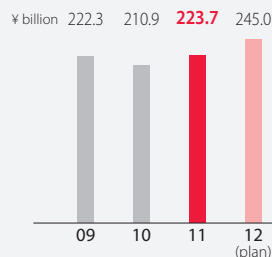
Other Businesses

Home Centers / Construction Support / Credit Cards / City Hotels / Others



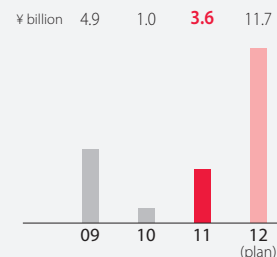
Sales

¥223.7 billion



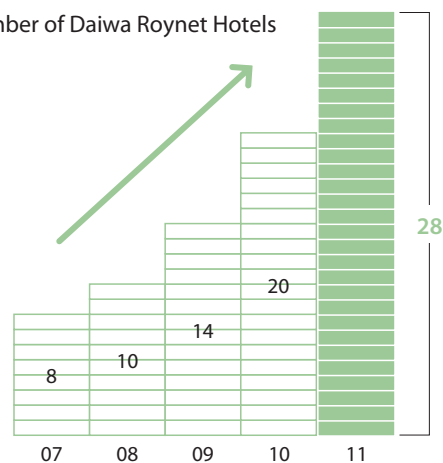
Operating income

¥3.6 billion

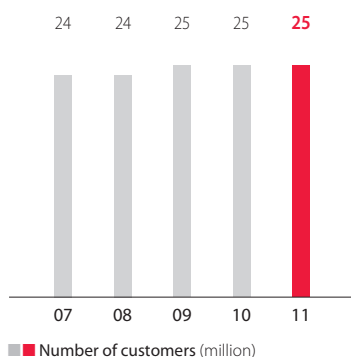


In the Home Center business, we conducted sales promotion campaigns to mark the Company's 30th anniversary, and further developed private-brand products to meet consumers' needs for both quality and reasonable prices. Our home center at Shiogama in Miyagi Pref. was forced to close temporarily due to damage caused by the tsunami of March 11, and other extraordinary losses were posted as a result of earthquake-caused damage to stores in the Eastern Japan region. In our City Hotels operations, we opened eight new hotels, bringing the total to 30.

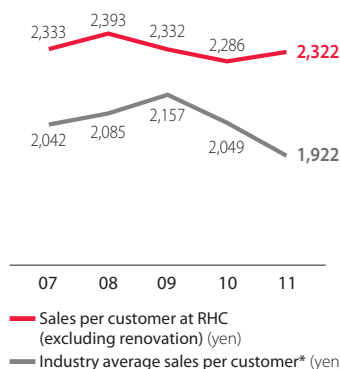
Number of Daiwa Roynet Hotels



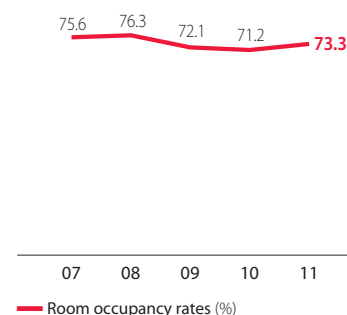
Royal Home Center (RHC): Number of customers making purchases



Royal Home Center (RHC): Average sales per customer



Daiwa Roynet Hotels: Room occupancy rates



* Calendar year basis.

Financial Overview

Consolidated seven-year summary

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 to 2011

(Millions of Yen)

	2011	2010	2009	2008	2007	2006	2005
Net sales	¥1,690,151	¥1,609,884	¥1,690,956	¥1,709,254	¥1,618,450	¥1,528,983	¥1,365,914
Cost of sales	1,352,937	1,303,881	1,357,821	1,360,348	1,283,587	1,213,644	1,082,133
Selling, general and administrative expenses	249,516	243,289	259,555	259,785	249,184	235,267	215,932
Operating income	87,698	62,714	73,580	89,121	85,679	80,072	67,849
Operating income margin (%)	5.2	3.9	4.4	5.2	5.3	5.2	5.0
Income before income taxes and minority interests	40,713	38,069	13,721	24,862	76,449	82,155	63,108
Net income	27,268	19,113	4,170	13,080	46,394	45,184	40,262
Total assets	1,934,236	1,916,928	1,810,573	1,791,052	1,630,022	1,475,197	1,358,807
Equity*1	635,186	617,770	607,428	649,441	661,145	576,534	524,110
Property, plant and equipment	760,124	778,610	728,953	642,816	602,260	505,471	441,388
Capital investments	93,875	99,786	160,601	103,856	136,171	110,144	56,696
Depreciation	44,614	43,917	39,318	35,622	29,536	26,815	19,243
Net cash provided by (used in) operating activities	127,957	133,315	109,811	(15,738)	136,061	90,482	56,095
Net cash used in investing activities	(83,595)	(138,237)	(199,679)	(123,297)	(172,074)	(107,857)	(53,069)
Net cash provided by (used in) financing activities	(77,834)	79,269	96,503	135,797	14,318	(9,264)	5,889
Issued and outstanding (thousands)	578,807	579,092	579,171	579,256	587,158	546,916	546,223
Stock prices at the end of term (in yen)	1,022	1,055	792	987	1,933	2,040	1,232
Per share of common stock (in yen):							
Basic net income	47.09	33.00	7.20	22.46	81.15	81.88	73.26
Equity	1,095.62	1,065.15	1,047.50	1,092.04	1,122.88	1,053.37	959.08
Price earnings ratio (PER) (times)	21.70	31.97	110.01	43.94	23.82	24.91	16.82
Price to book value ratio (PBR) (times)	0.93	0.99	0.76	0.90	1.72	1.94	1.28
Return on equity (ROE) (%)	4.4	3.1	0.7	2.0	7.5	8.2	7.9
Equity to total assets (%)	32.8	32.2	33.5	35.3	40.4	39.1	38.6
Current ratio (%)	174.8	197.0	177.4	157.3	136.1	145.1	159.0
Fixed ratio (%)	197.3	200.4	189.2	158.5	145.8	148.3	142.4
Number of employees*2	26,310	26,542	23,985	23,421	22,240	21,016	19,770
Consolidated to non-consolidated net sales ratio (times)	1.60	1.56	1.47	1.48	1.37	1.34	1.25
Consolidated to non-consolidated net income ratio (times)	2.14	1.47	0.75	1.76	1.21	1.28	1.17

*1 Beginning with the fiscal year ended March 31, 2007 minority interests are included in equity.

*2 Regular employees only.

Performance indicators of major companies

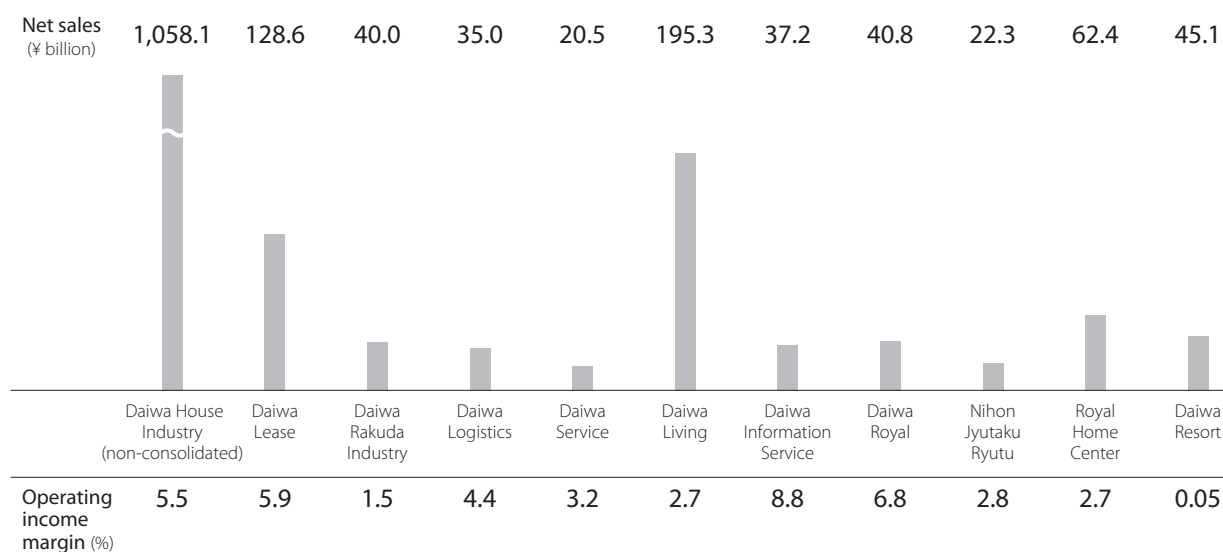
(Millions of Yen)

Company name (Voting rights)	Capital		Net sales	Operating income	Net income	Total assets	Equity	Interest- bearing debt*2
Daiwa Lease (100%)	¥21,768	10/03	¥127,797	¥7,628	¥3,070	¥307,007	¥104,371	¥41,900
		11/03	128,594	7,647	1,709	307,367	105,122	43,100
Daiwa Rakuda Industry (100%)	¥450	10/03	38,672	746	437	35,694	20,662	—
		11/03	39,983	586	130	36,241	20,633	—
Daiwa Logistics (100%)	¥3,764	10/03	31,707	1,442	747	30,476	16,200	8,337
		11/03	34,978	1,530	594	39,369	16,555	8,537
Daiwa Service (50%*1)	¥130	10/03	22,631	1,000	976	11,618	6,351	—
		11/03	20,471	654	422	11,604	6,480	—
Daiwa Living (100%)	¥140	10/03	176,050	3,766	2,789	60,078	18,315	—
		11/03	195,278	5,247	2,691	66,963	20,169	426
Daiwa Information Service (100%)	¥200	10/03	35,711	2,943	1,515	72,102	8,108	2,433
		11/03	37,246	3,288	529	76,388	8,183	2,474
Daiwa Royal (100%)	¥500	10/03	35,811	2,127	1,102	79,555	8,691	12,270
		11/03	40,838	2,764	999	95,138	9,359	17,270
Nihon Jyutaku Ryutu (100%)	¥729	10/03	20,453	440	220	15,182	3,544	3,838
		11/03	22,281	614	(159)	15,457	3,319	3,475
Royal Home Center (100%)	¥100	10/03	61,211	1,095	(483)	42,890	33,341	1,500
		11/03	62,363	1,706	189	44,644	33,530	1,000
Daiwa Resort (100%)	¥10,084	10/03	44,811	136	(3,665)	61,520	10,258	—
		11/03	45,073	23	(3,298)	56,719	6,960	—

*1 Figures in parentheses are equity stake held by the Group as a whole.

*2 Excluding lease obligations.

Net sales and operating income margin of major Daiwa House Group companies in 2011



Management's Discussion and Analysis

Results 2011

Group outline

As of the fiscal 2010 year-end (March 31, 2011), the Daiwa House Group comprised Daiwa House Industry, 62 consolidated subsidiaries (a net increase of three from the previous fiscal year-end), 13 associated companies (unchanged), and one unconsolidated subsidiary (unchanged), for a total of 77 companies (an increase of three).

Summary of business operations

In fiscal 2010 the Japanese economy was impacted by a steep appreciation of the yen and a slowdown in the global economy, while the effects of the government's economic stimulus measures petered out, and both exports and production activity went through a temporary period of stagnancy. The second half of the term saw an upturn in private-sector production and employment figures, and the economy appeared to be heading for a recovery. However, oil prices rose against the backdrop of political and social unrest in the Middle East, and then on March 11 Eastern Japan was hit by a massive earthquake and subsequent tsunami, which stalled production activity at many

companies and completely clouded the outlook for the economy. The housing industry benefited from a number of measures taken by the government to stimulate demand, including expansion of the scope of tax exemptions for home buyers, implementation of the Flat 355 long-term fixed-interest home mortgage package, and initiation of the eco-point system for housing. As a result, new housing construction starts (excluding rental housing starts) showed a slight recovery trend.

Amid these circumstances, the Daiwa House Group worked to achieve its targets under the Second Medium-Term Management Plan "Challenge 2010," under which fiscal 2010 was the third and final year. Specifically, we took steps to: 1) reinforce our capabilities in proposal-based marketing in our core business operations, 2) expand the scale of our operations in growth markets, and 3) promote real estate development operations in China.

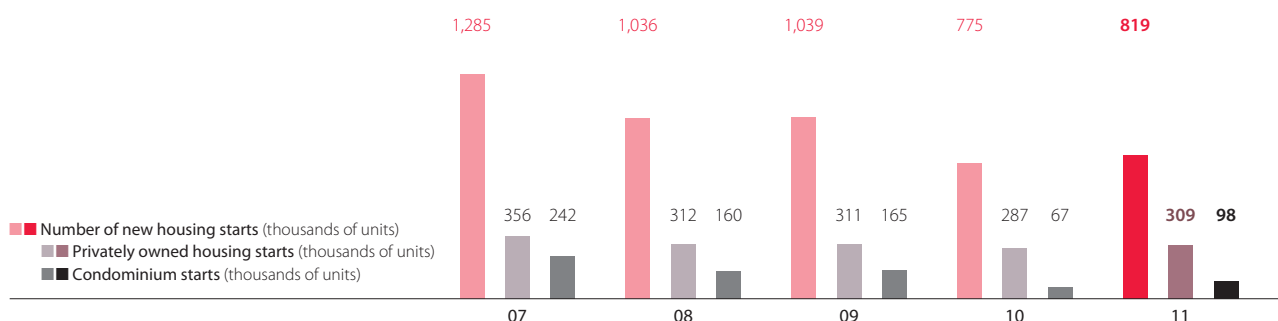
With regard to reinforcing our capabilities in proposal-based marketing in our core business operations, in our single-family house operations we developed new eco-friendly models including the SMAxEco HOUSE, Japan's first home fitted with lithium ion storage batteries. We opened models of the

Group companies



	2007	2008	2009	2010	2011
Daiwa House Industry Co., Ltd.	1	1	1	1	1
Consolidated subsidiaries	48	55	57	59	62
Associated companies	11	13	13	13	13
Unconsolidated subsidiaries	—	1	1	1	1
Total	60	70	72	74	77

New housing starts



SMAxEco HOUSE for public viewing, and began conducting tests. We also developed and launched the xevo YU, a net zero energy house, as well as the xevo CLEVA, which is targeted at two-income households and features as standard the Cocoom Space, a special make-up space for the woman of the house. Another newly launched product was the xevo SORA, which is a three-story wooden-frame house priced the same per square meter as a two-story house and featuring a large loft that can be used as a regular room.

With the goal of expanding the scale of our operations in growth markets, in our businesses involved with Japan's stock of existing housing we reinforced intra-Group collaboration to centralize information use and achieve more efficient operations.

We also promoted real estate development operations in China, commencing a housing subdivision project in the city of Wuxi in Jiangsu Province on the country's east coast. Comprising town houses and condominiums, the project will have a total of approximately 400 homes.

As a result of our efforts, net sales for fiscal 2010 came to ¥1,690.2 billion (US\$20,363 million), a year-on-year increase of 5.0%, while operating income was ¥87.7 billion (US\$1,057 million) for a sharp year-on-year growth of 39.8%.

As a result of the Great East Japan Earthquake, damage was sustained by marketing offices, factories, commercial facilities and hotels belonging to the Group and located in the Tohoku and Kanto regions. Repair work has proceeded smoothly, and these facilities have been brought smoothly back online. To cope with the extensive damage caused by the earthquake and tsunami, we have set up a Disaster Response Headquarters and are taking all possible measures to ensure the smooth operation of our after-sales service system in the disaster-hit areas. We are also cooperating extensively with the authorities in the erection of temporary housing, as part of overall Group efforts to support the reconstruction of the devastated region.

Changes in accounting standards

With effect from fiscal 2010 the Group applies the Accounting Standards for Asset Retirement Obligations and the Guidance on Accounting Standards for Asset Retirement Obligations. As a result, operating income decreased by ¥1.5 billion, and net income before income taxes and minority interests decreased by ¥4.3 billion. The change in asset retirement obligations resulting from the application of these standards and guidelines amounted to ¥22.6 billion.

Summary of income statement

	(Billions of Yen)		
	2010	2011	YoY change
Net sales	1,609.9	1,690.2	80.3
Cost of sales	1,303.9	1,352.9	49.0
Gross profit	306.0	337.2	31.2
Selling, general and administrative expenses	243.3	249.5	6.2
Operating income	62.7	87.7	25.0
Income before income taxes and minority interests	38.1	40.7	2.6
Net income	19.1	27.3	8.2

Net sales

Net sales for the fiscal year under review rose ¥80.3 billion over the previous fiscal year, to ¥1,690.2 billion (US\$20,363 million), for a year-on-year increase of 5.0%. Compared with the previous fiscal year, the application of the Percentage of Completion (PoC) method for the posting of earnings from construction contracts caused a decrease of ¥7.1 billion. However, sales on a consolidated accounts basis were pushed up by revenue from the sale of developments in the Rental Housing Business, as well as by increased sales posted by Daiwa Living and in the Existing Home Business, and in the Condominium Business the contribution made by the inclusion of Daiwa LifeNext in the scope of consolidation. Small year-on-year increases were registered by the Health & Leisure and Other Businesses, whereas a decline in revenue was recorded by the Single-Family Houses, Commercial Facilities, and Business and Corporate Facilities Businesses. The impact of application of the PoC accounting method on sales posted was ¥9.2 billion for Single-Family Houses, ¥11.4 billion for Rental Housing, ¥1.6 billion for Commercial Facilities, and ¥9.2 billion for Business and Corporate Facilities.

Cost of sales, and selling, general and administrative expenses

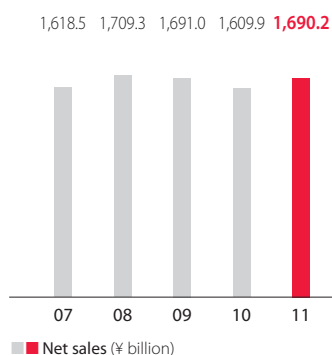
Cost of sales for the term under review increased by ¥49.0 billion, or 3.8%, from the previous fiscal year, to ¥1,352.9 billion (US\$16,300 million). Thanks to steps taken in each business segment to improve the cost-of-sales ratio, the ratio of cost of sales

declined by 1.0 percentage point to 80.0%. Gross profit rose by ¥31.2 billion to ¥337.2 billion (US\$4,063 million), for a year-on-year increase of 10.2%. Selling, general and administrative (SG&A) expenses posted an increase of ¥6.2 billion to ¥249.5 billion (US\$3,006 million), a year-on-year increase of 2.6%. This is mainly attributable to increases in labor expenses (including employee benefit costs) as well as advertising and sales promotion expenses. As a result, the ratio of selling, general and administrative expenses to sales declined by 0.3 of a percentage point, to 14.8%.

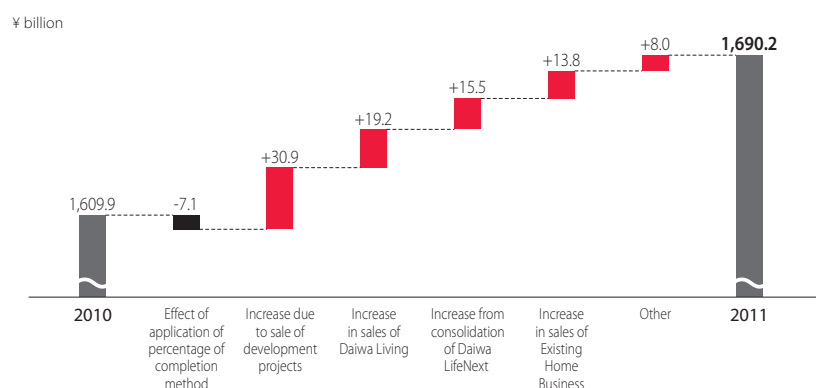
Operating income

Operating income for the fiscal year under review rose ¥25.0 billion to ¥87.7 billion (US\$1,057 million), a year-on-year increase of 39.8%. Negative factors included a decline in earnings posted of ¥2.2 billion from the adoption of the PoC method, and an increase of ¥6.2 billion in SG&A expenses, but these were more than offset by an increase of ¥11.2 billion in sales, a contribution of ¥15.3 billion from the improvement in the cost-of-sales ratio, and an increase of ¥4.5 billion from the sale of development projects. As a result, the operating income margin rose by 1.3 percentage points, to 5.2%. The impact of application of the PoC accounting method on operating income was ¥2.4 billion for Single-Family Houses, ¥2.6 billion for Rental Housing, and ¥0.5 billion for Business and Corporate Facilities.

Net sales



Changes in net sales



Other income and expenses

Net other expenses came to ¥47.0 billion, a ¥22.3 billion year-on-year increase. Despite such positive factors of a ¥1.4 billion increase in interest income and dividends and an ¥8.6 billion decrease in write-down of investment securities, the increase was mainly attributable to a ¥2.4 billion increase in loss on sales and disposal of property, plant and equipment, an ¥8.9 billion increase in amortization of actual gain (loss) for employees' retirement benefits, a ¥7.9 billion higher impairment loss on property, plant and equipment, and ¥8.0 billion in losses from natural disaster.

Income before income taxes and minority interests

Income before income taxes and minority interests rose ¥2.6 billion to ¥40.7 billion, for a year-on-year increase of 6.9%. The main factor behind this was the sharp increase in operating income.

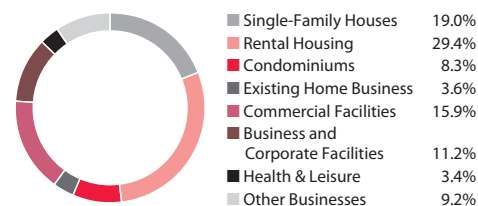
Net income

As a result of the above, the net income of the Daiwa House Group rose ¥8.2 billion to ¥27.3 billion (US\$329 million), for a year-on-year increase of 42.7%. The ratio of net income to sales rose by 0.4 of a percentage point, to 1.6%. Net income per share rose by ¥14.09 to ¥47.09, for a year-on-year increase of 42.7%.

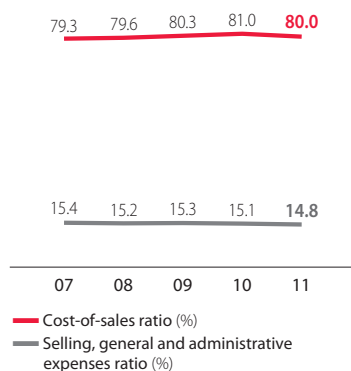
Net sales by segment

	2010	2011	YoY change
Net sales	1,609.9	1,690.2	80.3
Single-Family Houses	325.9	322.5	-3.4
Rental Housing	449.0	496.2	47.2
Condominiums	119.3	140.9	21.6
Existing Home Business	47.0	60.8	13.8
Commercial Facilities	285.7	274.1	-11.6
Business and Corporate Facilities	196.3	194.3	-2.0
Health & Leisure	57.1	58.0	0.9
Other Businesses	210.9	223.7	12.8
Eliminations/corporate	(81.3)	(80.3)	1.0

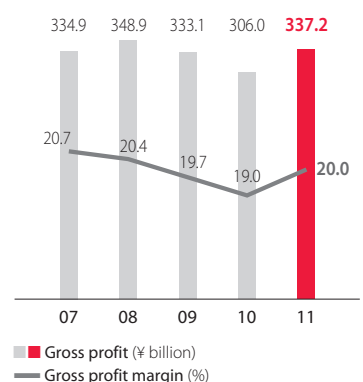
(Billions of Yen)



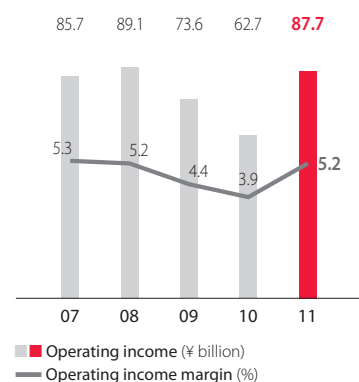
Cost-of-sales, and selling, general and administrative expenses ratios



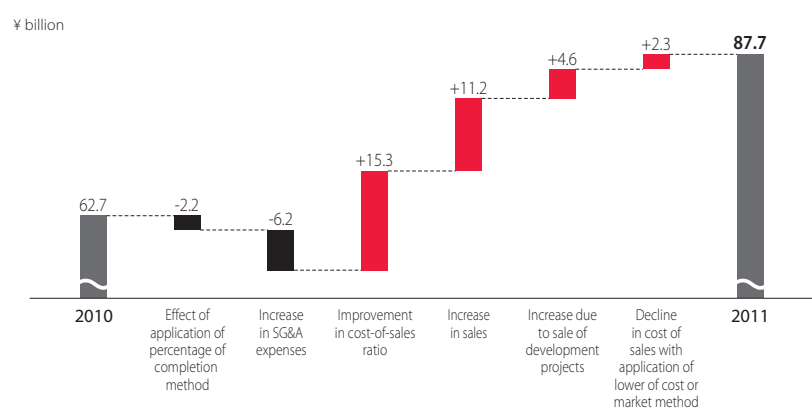
Gross profit and gross profit margin



Operating income and operating income margin

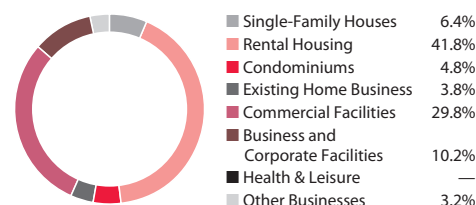


Changes in operating income



Operating income by segment

	2010	2011	YoY change
Operating income	62.7	87.7	25.0
Single-Family Houses*	6.2	7.2	1.0
Rental Housing	38.7	47.0	8.3
Condominiums	(18.3)	5.4	23.7
Existing Home Business	1.7	4.2	2.5
Commercial Facilities	34.4	33.6	-0.8
Business and Corporate Facilities	21.8	11.5	-10.3
Health & Leisure	(0.5)	(0.8)	-0.3
Other Businesses	1.0	3.6	2.6
Eliminations/corporate	(22.3)	(24.0)	-1.7



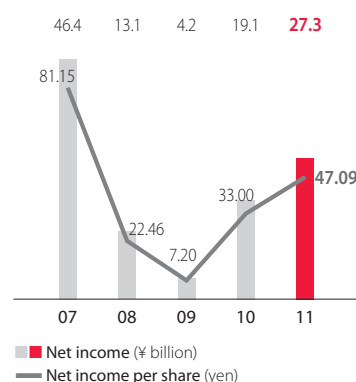
* Operating income includes intra-company transactions with regard to totals for seven segments excluding Health & Leisure, which posted losses of ¥0.8 billion.

* Including the valuation loss of ¥7.7 billion on Inventories.

Impairment loss on property, plant and equipment

	2010	2011	YoY Change
Hotels	3,746	2,717	-1,029
Assets used under sublease agreements	4,737	15,100	10,363
Idle assets	322	26	-296
Home centers	982	97	-885
Fitness clubs	3	680	677
Offices, factories and others	1,115	149	-966

Net income and net income per share



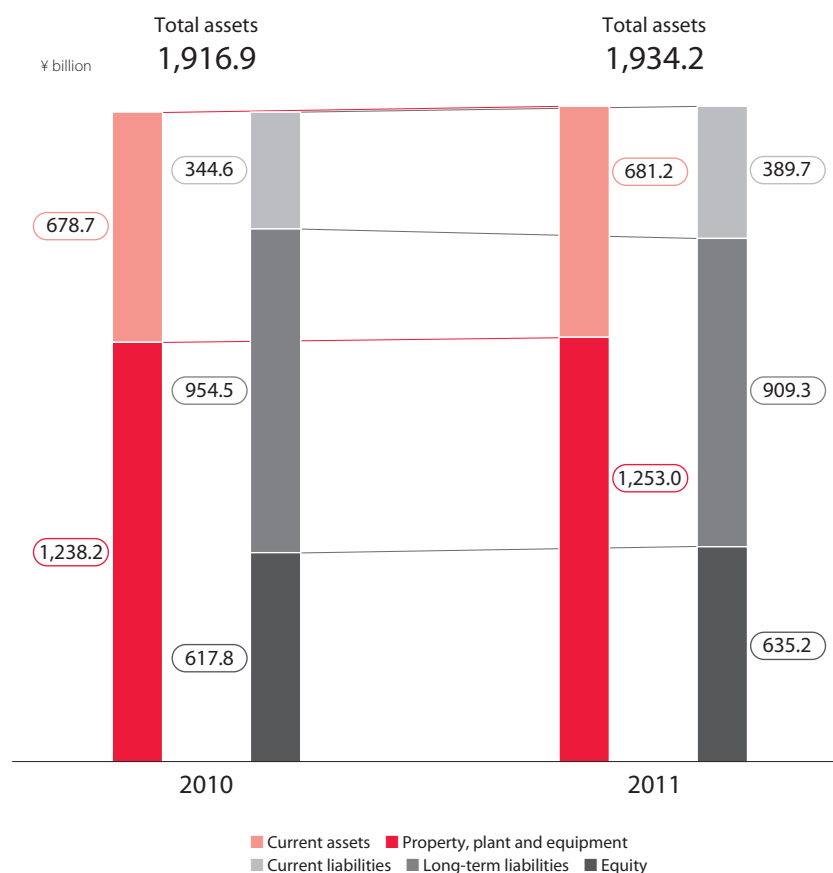
Assets

Total assets at the end of the fiscal year under review amounted to ¥1,934.2 billion (US\$23,304 million), for an increase of ¥17.3 billion, or 0.9%, over the previous fiscal year-end. The principal factors behind this were an increase in accounts receivable-trade and increase in investment securities, which more than offset a decline in cash and deposits resulting from the repayment of long-term debt payable. Current assets at the end of the fiscal year rose by ¥2.6 billion to ¥681.2 billion, for a year-on-year increase of 0.4%, and net property, plant and equipment and investments and other assets rose by ¥14.8 billion to ¥1,253.0 billion, for a year-on-year increase of 1.2%.

Liabilities

Total liabilities as of the end of the fiscal year under review declined slightly from the previous fiscal year-end, by ¥0.1 billion, to ¥1,299.0 billion (US\$15,651 million). This is principally attributable to the payment of income taxes and the repayment of loans, which more than offset the posting of asset retirement obligations in line with the application of Accounting Standards for Asset Retirement Obligations and an increase in accounts payable-trade. Current liabilities increased by ¥45.1 billion over the previous fiscal year-end, to ¥389.7 billion (US\$4,695 million), for a year-on-year increase of 13.1%, while noncurrent liabilities decreased by ¥45.2 billion to ¥909.3 billion (US\$10,956 million), for a year-on-year decline of 4.7%.

Summary of consolidated balance sheets (2010/2011)



In current liabilities, income taxes payable decreased, but an increase was recorded in notes payable and accounts payable for construction contracts and other, and in the current portion of long-term debt payable. Regarding noncurrent liabilities, increases were recorded in lease obligations and in provisions for retirement benefits, but long-term debt payable decreased by ¥79.9 billion, or 23.8%, from the previous fiscal year-end. As a result, total interest-bearing debt came to ¥395.6 billion, down by ¥62.8 billion from the previous fiscal year-end, for a year-on-year decrease of 13.7%. The D/E ratio declined by 0.12 of a percentage point to 0.62, while the net D/E ratio was down by 0.06 of a percentage point, at 0.39.

Inventories

	(Billions of Yen)		
	2010	2011	YoY change
Finished residential homes and condominiums	30.1	23.6	-6.5
Construction projects in progress	15.1	15.3	0.2
Residential homes and condominiums in process	24.2	30.0	5.8
Land held:			
For resale	197.7	208.2	10.5
Under development	12.0	6.6	-5.4
Undeveloped	3.7	2.2	-1.5
Merchandise, construction materials and others	17.2	16.1	-1.1
Total	300.0	302.0	2.0

Property, plant and equipment

	(Billions of Yen)		
	2010	2011	YoY change
Land	389.6	387.3	-2.3
Buildings and structures	333.7	327.8	-5.9
Other — net	55.3	45.0	-10.3
Total	778.6	760.1	-18.5

Interest-bearing debt

	(Billions of Yen)		
	2010	2011	YoY change
Short-term bank loans	14.8	9.2	-5.6
Current portion of bonds	—	4.5	4.5
Current portion of long-term debt	2.9	25.1	22.2
Bonds	105.3	101.3	-4.0
Long-term debt	335.4	255.5	-79.9
Total interest-bearing debt	458.4	395.6	-62.8
Debt/Equity ratio	0.74	0.62	-0.12
Net Debt/Equity ratio	0.45	0.39	-0.06

Equity

Equity at the end of the fiscal year under review rose ¥17.4 billion over the previous fiscal year-end, to ¥635.2 billion (US\$7,653 million), for a year-on-year increase of 2.8%. The principal reason for this increase was the posting of ¥27.3 billion in net income, which more than offset the payment of dividends for the previous fiscal year. As a result, the equity ratio at the end of the fiscal year stood at 32.8%, little changed from the 32.2% at the previous fiscal year-end. The return on equity (ROE) rose 1.3 percentage points year on year, to 4.4%, as a result of the substantial increase in net income.

Working capital

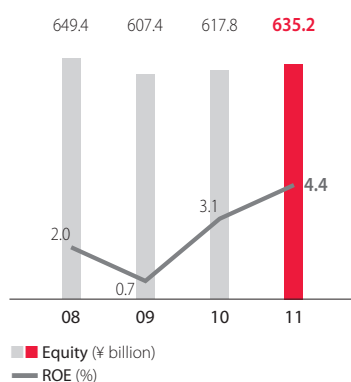
Working capital (current assets minus current liabilities) recorded a decrease of ¥42.6 billion from the previous fiscal year-end, to ¥291.6 billion, down 12.7% year on year. This was due to an increase in the current portion of long-term debt payable. Although the ratio of current assets to current liabilities declined from 197.0% at the previous fiscal year-end, to 174.8%, an adequate level of financial liquidity was nonetheless secured.

Capital investments

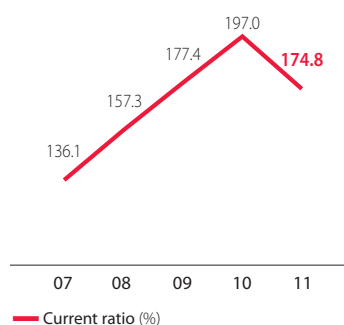
Capital investments (including increases in asset values resulting from the application of the Accounting Standards for Asset Retirement Obligations) in the fiscal year under review decreased by ¥5.9 billion to ¥93.9 billion, for a year-on-year decline of 5.9%. In a breakdown by business segment, capital investment amounted to ¥6.2 billion for the Single-Family Houses segment, ¥15.9 billion for the Rental Housing segment, ¥2.9 billion for the Condominium segment, ¥1.0 billion for the Existing Home Business segment, ¥30.1 billion for the Commercial Facilities segment, ¥18.4 billion for the Business and Corporate Facilities segment, ¥4.0 billion for the Health & Leisure segment, and ¥17.4 billion for the Other Businesses segment.

In fiscal 2011, we plan to make capital investments in the amount of ¥85.0 billion, for a year-on-year decrease of ¥8.9 billion, or 9.5%. By business segment, capital investments are planned in the amounts of ¥3.5 billion for the Single-Family Houses segment, ¥11.7 billion for the Rental Housing segment, ¥3.2 billion for the Condominium segment, ¥0.8 billion for the Existing Home Business segment, ¥24.0 billion for the Commercial Facilities segment, ¥21.2 billion for the Business and Corporate Facilities segment, ¥4.9 billion for the Health & Leisure segment, and ¥16.0 billion for the Other Businesses segment.

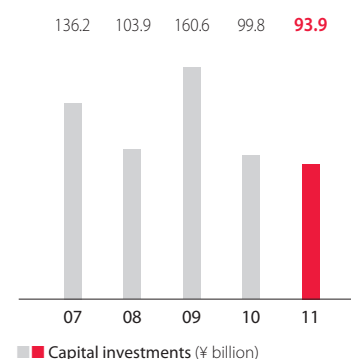
Equity and ROE



Current ratio



Capital investments



Cash flows

Cash and cash equivalents at the end of the fiscal year under review amounted to ¥146.2 billion (US\$1,762 million), for a year-on-year decrease of ¥33.5 billion, or 18.6%.

Net cash provided by operating activities amounted to ¥128.0 billion (US\$1,542 million), down ¥5.3 billion year on year, or 4.0%. This was principally the result of the posting of income before income taxes and minority interests in the amount of ¥40.7 billion, as well as increases in notes and accounts payable-trade for construction contracts and deposits received from customers.

Net cash used in investing activities amounted to ¥83.6 billion (US\$1,007 million), which compares with net cash provided in the amount of ¥138.2 billion for the previous fiscal year. This was the result of the acquisition of property, plant and equipment in the form of real estate for rental, hotels, and others, as well as ongoing investment in real estate development projects.

Net cash used in financing activities amounted to ¥77.8 billion (US\$938 million), compared with net cash provided in the amount of ¥79.3 billion for the previous fiscal year. This consisted principally of expenditures for the payment of dividends for the previous fiscal year, and for the repayment of long-term debt payable.

As a result of the above, free cash flow, which is the sum of cash flows from operating and investing activities, amounted to ¥44.4 billion.

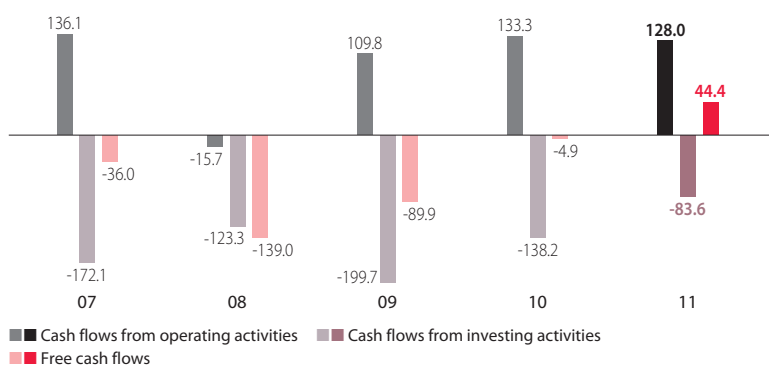
Basic policies regarding profit distribution

In determining its dividend payments, the Daiwa House Group takes into account the need to maintain a good balance between the appropriation of profits to shareholders on the one hand, and the necessity of securing sufficient retained earnings for future business expansion and the reinforcement of the Group's business base on the other. In addition, we endeavor to strengthen our financial soundness, broaden our base of operations by investing in research and development and production facilities, and expand our business premises to raise our competitiveness and improve profitability. Taking these factors into account, we have set a dividend payout ratio target of 30%, and will adopt a flexible stance on shareholder returns by pursuing acquisition of our own shares for inclusion in treasury stock as appropriate.

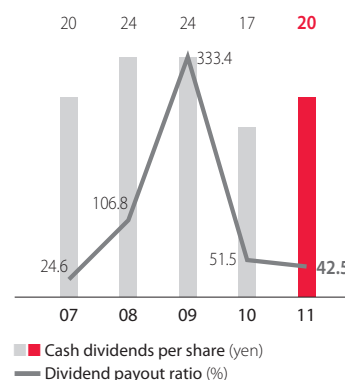
On this basis, in appropriating profit for the fiscal year ended March 31, 2011, we plan to offer an annual dividend of ¥17 per share in addition to a special commemorative dividend of ¥3 per share to mark the 55th anniversary of the Company's founding, for a total per-share dividend of ¥20 (US\$0.24). The total dividend value will be ¥11.6 billion.

Free cash flows

¥ billion



Cash dividends per share and dividend payout ratio



Outlook 2012

Management policy and outlook for fiscal 2011

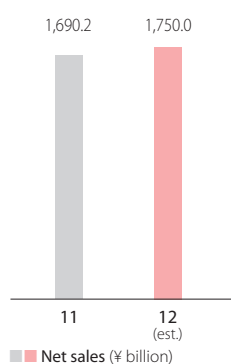
The Great East Japan Earthquake, which occurred on March 11, 2011, has had an extremely major impact on the economy in the form of damage to factories, disruption of distribution networks and supply chains, and a shortfall in electric power generation capacity, among other effects. Overseas, meanwhile, prices of crude oil and various raw materials remain high due to political unrest in the Middle East. Against this background, the outlook for the Japanese economy continues to be very uncertain, and the situation is likely to remain difficult.

In the Company's principal operational sectors, the housing industry, sales of homes continue to benefit from a number of measures taken by the government to stimulate demand, including expansion of the scope of tax exemptions for home buyers and tax breaks for renovations. However, the earthquake and tsunami in March have had an adverse impact in the form of a shortage of building materials and weak consumer sentiment, and it is feared that this situation will continue. In any event, future developments are impossible to predict, and this is likely to remain so for some time. Amid these circumstances, the Daiwa House Group will continue to put priority on the reconstruction of the areas devastated by the earthquake and tsunami, and will work as fast as possible to erect temporary housing in the affected areas.

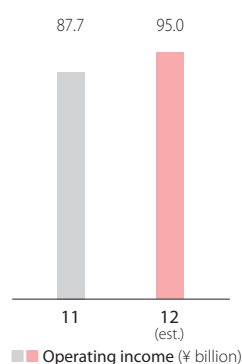
At the same time, we intend to strengthen our network of community-based marketing offices, to develop products and services that precisely match our customers' diverse range of requirements, and to continue offering homes that provide their owners with safety and comfort. In parallel with this, in overseas markets with good growth prospects, we will continue to investigate and analyze a range of possibilities for future business development.

The Daiwa House Group had originally planned to unveil its Third Medium-Term Management Plan, "Challenge 2013," in April 2011. As the name indicates, this plan was to have run for three years from fiscal 2011 to fiscal 2013. However, the major negative economic impact of the earthquake and tsunami in March has forced us to reconsider our plans in this regard. With respect to the Group's business performance for fiscal 2011, we project net sales of ¥1,750 billion, operating income of ¥95 billion, an operating income margin of 5.4%, and net income of ¥47 billion.

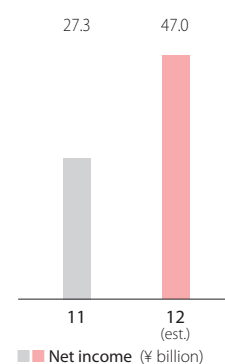
Net sales



Operating income



Net income



Financial Statements

Consolidated Balance Sheets

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries
March 31, 2011 and 2010

Assets	Millions of Yen		Thousands of U.S. Dollars ¹
	2011	2010	2011
Current assets:			
^{2 d 8 20} Cash and cash equivalents	¥ 146,243	¥ 179,744	\$ 1,761,964
^{2 e 3 20} Marketable securities	6	6	72
^{2 j 19 20} Investments in lease	16,959	9,741	204,325
^{2 f 20} Short-term investments	3,137	49	37,795
^{8 20} Receivables:			
Trade notes	5,528	6,157	66,603
Trade accounts	90,000	69,372	1,084,337
Unconsolidated subsidiaries and associated companies	159	286	1,916
Allowance for doubtful receivables	(1,380)	(2,690)	(16,627)
^{2 g 4} Inventories	301,988	300,003	3,638,410
^{2 o 16} Deferred tax assets	46,173	46,681	556,301
⁸ Prepaid expenses and other current assets	72,448	69,409	872,868
Total current assets	681,261	678,758	8,207,964
^{2 h 7} Property, plant and equipment:			
^{5 6 8} Land	387,343	389,587	4,666,783
^{6 8} Buildings and structures	605,561	594,317	7,295,916
Accumulated depreciation	(277,752)	(260,586)	(3,346,410)
^{6 8} Machinery and equipment	90,347	93,242	1,088,518
Accumulated depreciation	(62,481)	(59,922)	(752,783)
⁶ Furniture and fixtures	36,575	36,611	440,663
Accumulated depreciation	(29,013)	(27,413)	(349,554)
^{6 19} Lease assets	8,561	4,587	103,144
Accumulated depreciation	(1,716)	(745)	(20,675)
Construction in progress	2,699	8,932	32,518
Net property, plant and equipment	760,124	778,610	9,158,120
Investments and other assets:			
^{2 e 3 20} Investment securities	101,046	89,568	1,217,422
^{2 e 20} Investments in unconsolidated subsidiaries and associated companies	49,168	35,990	592,385
Advances to unconsolidated subsidiaries and associated companies	205	158	2,470
^{2 e} Long-term loans receivable	7,327	7,006	88,277
^{8 20} Lease deposits	189,608	190,024	2,284,434
^{2 o 16} Deferred tax assets	117,685	109,605	1,417,892
⁶ Other assets	40,305	35,842	485,602
Allowance for doubtful accounts	(8,821)	(8,633)	(106,277)
Allowance for investment loss	(3,672)		(44,241)
Total investments and other assets	492,851	459,560	5,937,964
Total	¥1,934,236	¥1,916,928	\$23,304,048

See notes to consolidated financial statements.

Liabilities and equity	Millions of Yen		Thousands of U.S. Dollars ¹
	2011	2010	2011
Current liabilities:			
⁸ ²⁰ Short-term bank loans	¥ 9,136	¥ 14,771	\$ 110,072
⁸ ²⁰ Current portion of bonds	4,500		54,217
⁸ ²⁰ Current portion of long-term debt	25,122	2,902	302,675
²⁰ Payables:			
Trade notes	21,956	21,213	264,530
Trade accounts	106,579	90,355	1,284,084
Unconsolidated subsidiaries and associated companies	927	2,240	11,169
Other accounts	76,756	71,849	924,771
¹⁹ Current portion of long-term lease obligations	1,782	1,113	21,470
Deposits received from customers	32,091	27,404	386,638
²⁰ Income taxes payable	6,675	24,037	80,422
Accrued bonuses	22,165	21,161	267,048
Provision for product warranties	6,304	6,770	75,952
² ^l ¹⁰ Asset retirement obligations	1,780		21,446
Accrued expenses and other current liabilities	73,933	60,787	890,759
Total current liabilities	389,706	344,602	4,695,253
Long-term liabilities:			
⁸ ²⁰ Bonds	101,300	105,300	1,220,482
⁸ ²⁰ Long-term debt	255,498	335,388	3,078,289
¹⁹ Long-term lease obligations	15,215	5,994	183,313
² ^k ⁹ Liability for employees' retirement benefits	175,533	163,711	2,114,855
⁵ Deferred tax liabilities on land revaluation	29,076	28,540	350,313
Long-term deposits received from the Company's club members	38,730	40,749	466,627
²⁰ Lease deposits received	226,316	226,322	2,726,699
² ^l ¹⁰ Asset retirement obligations	21,673		261,121
Other long-term liabilities	46,003	48,552	554,253
Total long-term liabilities	909,344	954,556	10,955,952
Equity:			
¹¹ Common stock, authorized, 1,900,000,000 shares; issued, 599,921,851 shares in both 2011 and 2010	110,120	110,120	1,326,747
Capital surplus	226,825	226,825	2,732,831
²⁴ Retained earnings	362,282	375,155	4,364,843
Treasury stock — at cost, 21,115,009 shares in 2011 and 20,829,959 shares in 2010	(19,875)	(19,616)	(239,458)
Accumulated other comprehensive income:			
² ^e Unrealized gain on available-for-sale securities	7,582	6,696	91,350
⁵ Land revaluation difference	(47,315)	(77,593)	(570,060)
² ^r Foreign currency translation adjustments	(5,468)	(4,766)	(65,880)
Total	634,151	616,821	7,640,373
Minority interests	1,035	949	12,470
Total equity	635,186	617,770	7,652,843
Total	¥1,934,236	¥1,916,928	\$23,304,048

Consolidated Statements of Income

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2011, 2010 and 2009

	Millions of Yen			Thousands of U.S. Dollars ¹
	2011	2010	2009	2011
Net sales	¥1,690,151	¥1,609,884	¥1,690,956	\$20,363,265
Cost of sales	1,352,937	1,303,881	1,357,821	16,300,446
Gross profit	337,214	306,003	333,135	4,062,819
¹⁷ Selling, general and administrative expenses	249,516	243,289	259,555	3,006,217
Operating income	87,698	62,714	73,580	1,056,602
Other income (expenses):				
Interest income and dividends	4,463	3,104	2,841	53,771
Interest expense	(7,208)	(6,869)	(5,161)	(86,843)
Write-down of investment securities	(1,013)	(9,650)	(7,534)	(12,205)
Loss on sales and disposal of property, plant and equipment	(3,992)	(1,599)	(1,493)	(48,096)
⁹ Gain on amortization of prior service cost		205		
⁹ Amortization of actuarial gain (loss) for employees' retirement benefits	(8,421)	473	(31,495)	(101,458)
⁶ Impairment loss on property, plant and equipment	(18,769)	(10,905)	(14,892)	(226,133)
Loss on disaster			(2,015)	
¹³ Reversal of liability for loss on disaster	1,303			15,699
¹⁴ Losses from a natural disaster	(7,974)			(96,072)
¹⁵ Other — net	(5,374)	596	(110)	(64,747)
Other expenses — net	(46,985)	(24,645)	(59,859)	(566,084)
Income before income taxes and minority interests	40,713	38,069	13,721	490,518
² ¹⁶ Income taxes:				
Current	21,076	35,492	24,892	253,928
Deferred	(7,705)	(16,559)	(14,862)	(92,832)
Total	13,371	18,933	10,030	161,096
Net income before minority interests	27,342			329,422
Minority interests in net (income) loss of subsidiaries	(74)	(23)	479	(892)
Net income	¥ 27,268	¥ 19,113	¥ 4,170	\$ 328,530

	Yen			U.S. Dollars ¹
	2011	2010	2009	2011
² ^t Per share of common stock:				
Basic net income	¥47.09	¥33.00	¥ 7.20	\$0.57
Cash dividends applicable to the year	20.00	17.00	24.00	0.24

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2011

	Millions of Yen	Thousands of U.S. Dollars ¹
	2011	2011
Net income before minority interests	¥27,342	\$329,422
23 Other comprehensive income:		
Unrealized gain on available-for-sale securities	1,012	12,193
Foreign currency translation adjustments	(648)	(7,807)
Share of other comprehensive income (loss) in associates	(177)	(2,133)
Total other comprehensive income	187	2,253
23 Comprehensive income	¥27,529	\$331,675
23 Total comprehensive income attributable to:		
Owners of the parent	¥27,455	\$330,783
Minority interests	74	892

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2011, 2010 and 2009

	Millions of Yen			Thousands of U.S. Dollars ¹
	2011	2010	2009	2011
Operating activities:				
Income before income taxes and minority interests	¥ 40,713	¥ 38,069	¥ 13,721	\$ 490,518
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Income taxes — paid	(40,986)	(17,942)	(41,799)	(493,807)
Depreciation	44,614	43,917	39,318	537,518
Write-down of investment securities	1,013	9,650	7,534	12,205
Write-down of golf club memberships	61	17	97	735
Loss on sales and disposal of property, plant and equipment	3,992	1,599	1,493	48,096
Impairment loss on property, plant and equipment	18,769	10,905	14,892	226,133
Equity in earnings of associated companies	(992)	(1,242)	(542)	(11,952)
Provision for employees' retirement benefits, net of payments	11,822	3,110	36,033	142,434
Increase in allowance for investment loss	3,672			44,241
Loss on adjustment for changes of accounting standard for asset retirement obligations	2,805			33,795
Loss on prior periods adjustment	1,416			17,060
Changes in certain assets and liabilities, net of consolidation:				
Decrease (increase) in receivables	(19,871)	(22,872)	11,579	(239,410)
Decrease (increase) in inventories	(5,858)	97,761	71,622	(70,578)
Increase (decrease) in payables — trade	17,118	(22,445)	(65,520)	206,241
Increase (decrease) in deposits received from customers	4,324	(33,668)	2,410	52,097
Other — net	45,345	26,456	18,973	546,325
Total adjustments	87,244	95,246	96,090	1,051,133
Net cash provided by operating activities	127,957	133,315	109,811	1,541,651
Investing activities:				
Purchases of property, plant and equipment	(61,352)	(93,548)	(153,737)	(739,181)
Purchases of investment securities	(12,583)	(9,342)	(20,271)	(151,602)
Increase in investments in and advances to unconsolidated subsidiaries and associated companies	(13,228)	(360)	(10,654)	(159,373)
Proceeds from sales and redemption of investment securities	3,614	950	377	43,542
Proceeds from sales of property, plant and equipment	562	262	2,488	6,771
Purchases of investments in subsidiaries	(12)	(85)	(12,443)	(145)
¹⁸ Payments for purchases of shares of newly consolidated subsidiaries		(13,323)	(158)	
Proceeds from purchases of shares of newly consolidated subsidiaries		1,636	596	
Increase in lease deposits		(19,952)	(5,882)	
Decrease in lease deposits	1,768			21,301
¹⁸ Proceeds from transfer of business	280			3,373
¹⁸ Proceeds from acquisition of business	3,194			38,482
Net decrease (increase) in other assets	(5,838)	(4,475)	5	(70,337)
Net cash used in investing activities	(83,595)	(138,237)	(199,679)	(1,007,169)

(Continued)

	Millions of Yen			Thousands of U.S. Dollars ¹
	2011	2010	2009	2011
Financing activities:				
Net increase (decrease) in short-term bank loans	¥ (5,635)	¥ (1,637)	¥ 3,740	\$ (67,892)
Proceeds from long-term debt	41,693	27,587	132,850	502,326
Repayments of long-term debt	(99,312)	(31,464)	(2,255)	(1,196,530)
Proceeds from issuance of bonds	500	105,300		6,024
Net decrease in commercial paper			(20,000)	
Repayments of finance lease obligations	(1,257)	(737)	(208)	(15,145)
Purchase of treasury stock	(306)	(93)	(139)	(3,687)
Proceeds from disposal of treasury stock	25	17	58	301
Dividends paid to shareholders	(9,845)	(13,900)	(13,902)	(118,614)
Proceeds from receivables sold to trust			3,004	
Remittance to trust of receivables collected	(3,697)	(5,804)	(6,645)	(44,542)
Net cash provided by (used in) financing activities	(77,834)	79,269	96,503	(937,759)
Foreign currency translation adjustments on cash and cash equivalents	(29)	16	(143)	(350)
Net increase (decrease) in cash and cash equivalents	(33,501)	74,363	6,492	(403,627)
Cash and cash equivalents, beginning of year	179,744	105,381	98,889	2,165,591
Cash and cash equivalents, end of year	¥146,243	¥179,744	¥105,381	\$1,761,964

See notes to consolidated financial statements.

(Concluded)

Consolidated Statements of Changes in Equity

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2011, 2010 and 2009

	Thousands					Millions of Yen					
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income			Total	Minority Interests	Total Equity
						Unrealized Gain on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments			
Balance, April 1, 2008	579,256	¥110,120	¥226,825	¥381,480	¥(19,534)	¥13,432	¥(79,195)	¥ (557)	¥632,571	¥16,870	¥649,441
2 b Adjustment of retained earnings due to an adoption of PITF No.18				42					42		42
Net income				4,170					4,170		4,170
Cash dividends, ¥24.0 per share				(13,902)					(13,902)		(13,902)
Change in scope of consolidation				(142)					(142)		(142)
Transfer due to sales and impairment of land				(1,346)			1,346				
Net increase in land revaluation difference							(29)		(29)		(29)
Purchase of treasury stock	(152)				(139)				(139)		(139)
Disposal of treasury stock	67			(61)	119				58		58
Net change in the year						(11,397)		(4,549)	(15,946)	(16,125)	(32,071)
Balance, March 31, 2009	579,171	110,120	226,825	370,241	(19,554)	2,035	(77,878)	(5,106)	606,683	745	607,428
Net income				19,113					19,113		19,113
Cash dividends, ¥24.0 per share				(13,900)					(13,900)		(13,900)
Transfer due to sales and impairment of land				(285)			285				
Purchase of treasury stock	(97)				(93)				(93)		(93)
Disposal of treasury stock	18			(14)	31				17		17
Net change in the year						4,661		340	5,001	204	5,205
Balance, March 31, 2010	579,092	110,120	226,825	375,155	(19,616)	6,696	(77,593)	(4,766)	616,821	949	617,770
Net income				27,268					27,268		27,268
Cash dividends, ¥17.0 per share				(9,845)					(9,845)		(9,845)
Transfer due to sales and impairment of land				(30,274)			30,274				
Net increase in land revaluation difference							4		4		4
Purchase of treasury stock	(312)				(306)				(306)		(306)
Disposal of treasury stock	27			(22)	47				25		25
Net change in the year						886		(702)	184	86	270
Balance, March 31, 2011	578,807	¥110,120	¥226,825	¥362,282	¥(19,875)	¥ 7,582	¥(47,315)	¥(5,468)	¥634,151	¥ 1,035	¥635,186

	Thousands of U.S. Dollars 1										
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income			Total	Minority Interests	Total Equity	
					Unrealized Gain on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments				
Balance, March 31, 2010	\$1,326,747	\$2,732,831	\$4,519,940	\$(236,337)	\$80,675	\$(934,856)	\$(57,422)	\$7,431,578	\$11,434	\$7,443,012	
Net income			328,530					328,530		328,530	
Cash dividends, \$0.20 per share			(118,614)					(118,614)		(118,614)	
Transfer due to sales and impairment of land			(364,748)			364,748					
Net increase in land revaluation difference						48		48		48	
Purchase of treasury stock				(3,687)				(3,687)		(3,687)	
Disposal of treasury stock			(265)	566				301		301	
Net change in the year					10,675		(8,458)	2,217	1,036	3,253	
Balance, March 31, 2011	\$1,326,747	\$2,732,831	\$4,364,843	\$(239,458)	\$91,350	\$(570,060)	\$(65,880)	\$7,640,373	\$12,470	\$7,652,843	

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries

① Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements issued for domestic reporting purposes in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act. Daiwa House Industry Co., Ltd. (the "parent company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Companies Act of Japan (the "Companies Act") and in conformity with generally accepted accounting principles in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. Foreign subsidiaries maintain their accounts and records in conformity with those of their countries of domicile.

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 23. Pursuant to Article 12 of the Accounting Standards Board of Japan (the "ASBJ") Statement No.25, the information with respect to other comprehensive income for the year ended March 31, 2009 under the new accounting standard is not disclosed in Note 23. In addition, "net income before minority interests" is disclosed in the consolidated statement of income from the year ended March 31, 2011.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the parent company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥83 to \$1, the approximate rate of exchange at March 31, 2011. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

② Summary of significant accounting policies

a. Consolidation

The consolidated financial statements as of March 31, 2011 include the accounts of the parent company and its 63 significant (63 in 2010, 59 in 2009) subsidiaries (together, the "Company").

Under the control or influence concept, those companies in which the parent company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for by the equity method.

Investments in 14 (13 in 2010 and 2009) associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of 20 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Company is eliminated.

During the year ended March 31, 2009, DAIWA HOUSE MORIMOTO ASSET MANAGEMENT Co., Ltd. and eight subsidiaries, have been included in the consolidation as a result of new formation or acquisition and five subsidiaries have been excluded from the consolidation as a result of merger.

During the year ended March 31, 2010, DAIWA LIFENEXT CO., LTD. (formerly COSMOS LIFE CO., LTD.) and five subsidiaries, have been included in the consolidation as a result of new formation or acquisition and two subsidiaries have been excluded from the consolidation as a result of the sale of their shares or liquidation.

During the year ended March 31, 2011, Daiwa House (Wuxi) Real Estate Development Co., Ltd. and four subsidiaries, have been included in the consolidation as a result of new formation and five subsidiaries have been excluded from the consolidation as a result of liquidation or merger.

b. Unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements

In May 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No.18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. PITF No.18 was effective for fiscal years beginning on or after April 1, 2008.

The Company applied this accounting standard effective April 1, 2008. The impact on the consolidated statement of income for the year ended March 31, 2009 from the adoption was not material. In addition, the Company adjusted the beginning balance of retained earnings at April 1, 2008, as if this accounting standard had been retrospectively applied.

c. Unification of accounting policies applied to foreign associated companies for the equity method

In March 2008, the ASBJ issued ASBJ Statement No.16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States

tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of fair value model accounting for property, plant, and equipment and investment properties and incorporation of cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. This standard was applicable to the equity method of accounting for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective April 1, 2010.

d. Cash and cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, all of which mature or become due within three months of the date of acquisition.

e. Marketable and investment securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and ii) available-for-sale securities, which are not classified as held-to-maturity.

Marketable available-for-sale securities are stated at fair value estimated by using the average market prices during last month of the fiscal year, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The costs of their sales are determined by the moving average method.

Non-marketable available-for-sale securities are stated at cost, determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

Investment securities, investments in unconsolidated subsidiaries and associated companies and long-term loans receivable pledged as collateral for an associated company and other items were ¥5 million (\$60 thousand), ¥31 million (\$373 thousand) and ¥18 million (\$217 thousand), respectively, as of March 31, 2011.

Investment securities deposited in accordance with Act on Assurance of Performance of Specified Housing Defect Warranty was ¥1,539 million (\$18,542 thousand) as of March 31, 2011.

f. Short-term investments

Short-term investments are time deposits, all of which mature or become due later than three months after the date of acquisition. Time deposits pledged as collateral as substitutes for deposits for certain construction and advertisement contracts were ¥49 million (\$590 thousand) as of March 31, 2011.

g. Inventories

Inventories of land, residential homes and condominiums, and construction projects in progress are stated at the lower of cost, determined by the specific identified cost method, or net selling value. Construction materials and supplies are stated at the lower of cost, determined by the average method, or net selling value.

h. Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed substantially by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. Lease assets are depreciated by the straight-line method over the respective lease periods. The range of useful lives is principally from 15 to 50 years for buildings and structures, from 10 to 13 years for machinery and equipment, from 5 to 15 years for furniture and fixtures and from 3 to 20 years for lease assets.

i. Long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

j. Leases

In March 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

ASBJ Guidance No.16, "Guidance on Accounting Standard for Lease Transactions," clarifies the accounting treatment for lease transactions involving real estate. The Company adopted the guidance on April 1, 2008, and therefore, lease transactions commencing on or after April 1, 2008 are accounted for in accordance with ASBJ Guidance No.16. In preparing the note to the financial statements as of March 31, 2009, the Company applied ASBJ Guidance No.16 to leases involving real estate which commenced before April 1, 2008 to determine whether they would be classified as finance lease transactions or operating lease transactions. Regarding a lease of real estate in which both land and buildings are leased together, the Company reconsidered the portion attributable to the land and the portion attributable to the buildings in accordance with ASBJ Guidance No.16, and as a result, certain lease transactions involving real estate which had previously been accounted for and disclosed as operating lease transactions are disclosed as finance lease transactions as of March 31, 2009.

Lessee

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

Lessor

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if sold” information was disclosed in the note to the lessor’s financial statements. The revised accounting standard requires that all finance leases that are deemed to transfer ownership of the leased property to the lessee be recognized as lease receivables, and all finance leases that are not deemed to transfer ownership of the leased property to the lessee be recognized as investments in lease.

The Company applied the revised accounting standard effective April 1, 2008. The effect of this change was not material.

k. Retirement and pension plans

The parent company and certain of its subsidiaries have unfunded retirement benefit plans and non-contributory funded pension plans.

Liability for employees’ retirement benefits is provided based on the projected benefit obligations and plan assets at the balance sheet date.

l. Asset retirement obligations

In March 2008, the ASBJ published ASBJ Statement No.18, “Accounting Standard for Asset Retirement Obligations” and ASBJ Guidance No.21, “Guidance on Accounting Standard for Asset Retirement Obligations.” Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate

of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective April 1, 2010. The effect of this change was to decrease operating income by ¥1,515 million (\$18,253 thousand) and income before income taxes and minority interests by ¥4,319 million (\$52,036 thousand), respectively, for the year ended March 31, 2011.

m. Construction contracts

In December 2007, the ASBJ issued ASBJ Statement No.15, “Accounting Standard for Construction Contracts” and ASBJ Guidance No.18, “Guidance on Accounting Standard for Construction Contracts.” Under the previous Japanese GAAP, either the completed-contract method or the percentage-of-completion method was permitted to account for construction contracts. Under this new accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts. This standard is applicable to construction contracts and software development contracts and was effective for fiscal years beginning on or after April 1, 2009. The Company applied the new accounting standard effective April 1, 2009. The effect of this change was to increase net sales by ¥38,574 million, operating income and income before income taxes by ¥7,633 million, respectively, for the year ended March 31, 2010.

n. Revenue and profit recognition derived from finance lease transaction

The Company recognizes revenues and cost of sales from finance lease transactions at the time of receiving lease payments.

o. Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying

amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

p. Appropriations of retained earnings

Appropriations of retained earnings at each year end are reflected in the financial statements of the following year after shareholders' approval has been obtained.

q. Foreign currency transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statements of income.

r. Foreign currency financial statements

The balance sheet accounts of the consolidated foreign subsidiaries and associated companies are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical exchange rate. Revenue and expense accounts of the consolidated foreign subsidiaries and associated companies are translated into yen at the current exchange rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity in the consolidated balance sheet.

s. Derivatives and hedging activities

The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange interest rates and commodity prices. Interest rate swaps are utilized by the Company to reduce interest rate risks. Commodity swaps are utilized by a subsidiary to reduce fuel price risk. The Company does not enter into derivatives for trading or speculative purposes.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differentials paid or received under the swap agreements are recognized and included in interest expenses or income.

t. Per share information

Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the year.

The weighted-average number of common shares outstanding for the years ended March 31, 2011, 2010 and 2009 were 579,009 thousand, 579,134 thousand and 579,216 thousand, respectively.

Diluted net income per share of common stock for the years ended March 31, 2011, 2010 and 2009 were not disclosed due to the absence of dilutive securities.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

u. New accounting pronouncements

Accounting changes and error corrections

In December 2009, ASBJ issued ASBJ Statement No.24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No.24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) Changes in accounting policies

When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in presentations

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in accounting estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of prior period errors

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

v. Reclassifications

Certain reclassifications have been made in the 2010 and 2009 financial statements to conform to the classifications used in 2011.

3 Marketable and investment securities

Marketable and investment securities as of March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of
	2011	2010	U.S. Dollars
Current:			
Government and corporate bonds	¥ 6	¥ 6	\$ 72
Non-current:			
Equity securities	¥ 62,448	¥62,994	\$ 752,386
Government and corporate bonds	2,205	1,296	26,566
Investments in limited liability partnership	8,404	7,378	101,253
Preferred fund certificates	27,839	17,737	335,410
Other	150	163	1,807
Total	¥101,046	¥89,568	\$1,217,422

The costs and aggregate fair values of marketable and investment securities at March 31, 2011 and 2010 were as follows:

	Millions of Yen			
	2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥38,969	¥16,274	¥1,623	¥53,620
Debt securities	500		29	471
Other	120	32	2	150
Held-to-maturity	1,539	16	3	1,552

	Millions of Yen			
	2010			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥38,415	¥14,680	¥1,720	¥51,375
Debt securities	500		44	456
Other	119	44		163
Held-to-maturity	797		5	792

	Thousands of U.S. Dollars			
	2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$469,506	\$196,072	\$19,554	\$646,024
Debt securities	6,024		349	5,675
Other	1,446	385	24	1,807
Held-to-maturity	18,542	193	36	18,699

The impairment losses on available-for-sale equity securities for the years ended March 31, 2011 and 2010 were ¥1,013 million (\$12,205 thousand) and ¥9,650 million, respectively.

4 Inventories

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of
	2011	2010	U.S. Dollars
Finished residential homes and condominiums	¥ 23,538	¥ 30,123	\$ 283,590
Construction projects in progress	15,307	15,098	184,422
Residential homes and condominiums in process	30,010	24,163	361,566
Land held:			
For resale	208,180	197,720	2,508,193
Under development	6,634	11,976	79,928
Undeveloped	2,237	3,761	26,952
Merchandise, construction materials and others	16,082	17,162	193,759
Total	¥301,988	¥300,003	\$3,638,410

The Company engages in two principal business activities. The Company manufactures and constructs prefabricated houses and structures and also engages in various contracted construction projects, primarily for the construction of large-scale commercial and residential buildings. To further the business, the Company purchases land for development and resale.

5 Land revaluation

Under the "Law of Land Revaluation," the parent company and certain subsidiaries elected a one-time revaluation of their own-use land to a value based on real estate appraisal information as of March 31, 2002.

The resulting land revaluation difference represents unrealized depreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the consolidated statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation difference account and related deferred tax liabilities.

As at March 31, 2011 and 2010, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥21,869 million (\$263,482 thousand) and ¥22,288 million, respectively.

As to significant change in the land revaluation difference, see the consolidated statements of changes in equity.

⑥ Long-lived assets

The Company recognized impairment losses on property, plant and equipment for the following group of assets in the years ended March 31, 2011, 2010 and 2009, respectively.

2011				
Classification of Company	Type of Assets	Location	Millions of Yen	Thousands of U.S. Dollars
Hotel	Buildings and structures, machinery and equipment, furniture and fixtures, land and lease assets	Wakayama Prefecture and others	¥ 2,717	\$ 32,735
Assets used under sublease agreements	Buildings and structures, machinery and equipment, furniture and fixtures, land and lease assets	Fukuoka Prefecture and others	15,100	181,928
Idle assets	Land	Yamanashi Prefecture and others	26	313
Home center	Buildings and structures, machinery and equipment, furniture and fixtures and lease assets	Osaka Prefecture and others	97	1,169
Fitness clubs	Buildings and structures, furniture and fixtures, lease assets and other assets	Tokyo Prefecture and others	680	8,193
Offices, factories and others	Buildings and structures, furniture and fixtures, land, lease assets and other assets	Akita Prefecture and others	149	1,795
Total			¥18,769	\$226,133

2010			
Classification of Company	Type of Assets	Location	Millions of Yen
Hotel	Buildings and structures, machinery and equipment, furniture and fixtures, land and lease assets	Kyoto Prefecture and others	¥ 3,746
Assets used under sublease agreements	Buildings and structures, machinery and equipment, furniture and fixtures, land and lease assets	Osaka Prefecture and others	4,737
Idle assets	Buildings and structures, machinery and equipment, furniture and fixtures, and land	Shizuoka Prefecture and others	322
Home center	Buildings and structures, machinery and equipment, furniture and fixtures, lease assets and other assets	Kanagawa Prefecture and others	982
Fitness clubs	Buildings and structures, furniture and fixtures, and lease assets	Kanagawa Prefecture	3
Offices, factories and others	Buildings and structures, machinery and equipment, furniture and fixtures, land and other assets	Osaka Prefecture and others	1,115
Total			¥10,905

2009			
Classification of Company	Type of Assets	Location	Millions of Yen
Hotel	Buildings and structures, machinery and equipment, furniture and fixtures, land and lease assets	Fukuoka Prefecture and others	¥ 4,880
Golf course	Buildings and structures, machinery and equipment, furniture and fixtures, and land	Miyagi Prefecture and others	3,497
Assets used under sublease agreements	Buildings and structures, furniture and fixtures, land, lease assets and other assets	Chiba Prefecture and others	5,391
Idle assets	Land	Niigata Prefecture and others	48
Home center	Buildings and structures, furniture and fixtures, and lease assets	Chiba Prefecture and others	83
Fitness clubs	Buildings and structures, furniture and fixtures, lease assets and other assets	Tokyo Prefecture and others	609
Offices, factories and others	Buildings and structures, machinery and equipment, furniture and fixtures, land and lease assets	Ishikawa Prefecture and others	384
Total			¥14,892

The Company classified the fixed assets by business control unit such as branch office, plant, and each property leased, which controls its revenue and expenditure.

Book values of the above assets were written down to recoverable amounts due to decreases in the land prices or significant declines in profitability caused by severe competition.

The recoverable amount was measured at its net selling price determined by quotation from a third-party appraiser.

7 Investment property

In November 2008, the ASBJ issued ASBJ Statement No.20 "Accounting Standard for Investment Property and Related Disclosures" and issued ASBJ Guidance No.23 "Guidance on Accounting Standard for Investment Property and Related Disclosures." This accounting standard and the guidance are applicable to investment property and related disclosures at the end of fiscal years ending on or after March 31, 2010. The Company applied the new accounting standard and guidance effective March 31, 2010.

The Company owns rental properties such as rental housing, commercial facilities and business facilities in Tokyo and other areas. Rental income, net of operating expenses; loss on sales and disposal, impairment loss for those rental properties and losses from a natural disaster were ¥15,249 million (\$183,723 thousand), ¥3,296 million (\$39,711 thousand), ¥13,392 million (\$161,349 thousand) and ¥1,096 million (\$13,205 thousand), respectively, for the fiscal year ended March 31, 2011. Rental income, net of operating expenses, loss on sales and disposal and impairment loss for those rental properties were ¥9,879 million, ¥219 million and ¥4,323 million, respectively, for the fiscal year ended March 31, 2010.

In addition, the carrying amounts, changes in such balances and market prices of such properties are as follows.

Millions of Yen			
Carrying Amount		Fair Value	
April 1, 2010	Increase/Decrease	March 31, 2011	March 31, 2011
¥427,484	¥(20,394)	¥407,090	¥401,292

Millions of Yen			
Carrying Amount		Fair Value	
April 1, 2009	Increase/Decrease	March 31, 2010	March 31, 2010
¥374,760	¥52,724	¥427,484	¥419,832

Thousands of U.S. Dollars			
Carrying Amount		Fair Value	
April 1, 2010	Increase/Decrease	March 31, 2011	March 31, 2011
\$5,150,410	\$(245,711)	\$4,904,699	\$4,834,843

Notes:

- 1) Carrying amount is net of accumulated depreciation and accumulated impairment losses, if any.
- 2) Increase during the fiscal year ended March 31, 2011 primarily represents the acquisition of certain properties for ¥37,938 million (\$457,084 thousand), and decrease primarily represents depreciation of ¥16,491 million (\$198,687 thousand), and the transfer to inventories of ¥44,468 million (\$535,759 thousand).
- 3) Increase during the fiscal year ended March 31, 2010 primarily represents the acquisition of certain properties for ¥63,489 million, and decrease primarily represents depreciation of ¥16,441 million.
- 4) Fair value of properties as of March 31, 2011 and 2010 are primarily measured by the Company in accordance with its Real-estate Appraisal Standard.

8 Short-term bank loans, bonds and long-term debt

The annual interest rates for the short-term bank loans ranged from 0.38% to 1.53% and ranged from 0.42% to 1.65% at March 31, 2011 and 2010, respectively.

Bonds at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
1.19% (1.24% in 2010) bonds, due 2011	¥ 4,500	¥ 4,500	\$ 54,217
0.68% bonds, due 2013	800	800	9,639
0.73% bonds, due 2015	100,000	100,000	1,204,819
2.06% bonds, due 2021	500		6,024
Total	105,800	105,300	1,274,699
Less current portion	4,500		54,217
Bonds, net of current portion	¥101,300	¥105,300	\$1,220,482

Long-term debt at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Loans from banks, 0.20% to 4.86% (0.72% to 4.86% in 2010), due on various dates through 2040:			
Collateralized	¥ 16,537	¥ 18,770	\$ 199,241
Unsecured	264,083	319,520	3,181,723
Total	280,620	338,290	3,380,964
Less current portion	25,122	2,902	302,675
Long-term debt, net of current portion	¥255,498	¥335,388	\$3,078,289

Annual maturities of bonds at March 31, 2011, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥ 4,500	\$ 54,217
2013	800	9,639
2015	100,000	1,204,819
2017 and thereafter	500	6,024
Total	¥105,800	\$1,274,699

Annual maturities of long-term debt at March 31, 2011, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥ 25,122	\$ 302,675
2013	155,191	1,869,771
2014	45,273	545,458
2015	46,066	555,012
2016	782	9,422
2017 and thereafter	8,186	98,626
Total	¥280,620	\$3,380,964

At March 31, 2011, assets pledged as collateral for secured long-term debt were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash and cash equivalents	¥ 856	\$ 10,313
Receivables	11,214	135,109
Buildings and structures	8,537	102,855
Machinery and equipment	81	976
Land	7,511	90,494
Lease deposits	684	8,241
Accrued income (Other current assets)	92	1,108
Total	¥28,975	\$349,096

Pursuant to Article 128 of the Law Concerning Liquidation of Assets (Law No.105, 1998), DH Makishi, an SPC (special purpose company), has pledged assets as security for special corporate bonds totaling ¥500 million (\$6,024 thousand) at March 31, 2011.

As is customary in Japan, a company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal. In addition, collateral must be provided if requested by the lending banks and certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the bank concerned. The Company has never received any such request.

9 Retirement and pension plans

Under the unfunded employees' retirement benefit plan, employees of the parent company and certain subsidiaries terminating their employment are entitled, in most circumstances, to lump-sum severance payments determined by reference to wage rates at the time of termination and years of service. In addition, the parent company, together with certain subsidiaries and associated companies, has adopted non-contributory funded defined benefit pension plans covering most of their employees. The liability for employees' retirement benefits at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Projected benefit obligation	¥359,741	¥337,160	\$4,334,229
Fair value of plan assets	(184,208)	(173,449)	(2,219,374)
Net liability	175,533	163,711	2,114,855
Liability for employees' retirement benefits	¥175,533	¥163,711	\$2,114,855

The components of net periodic benefit costs are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2011	2010	2009	2011
Service cost	¥18,438	¥17,842	¥17,167	\$222,144
Interest cost	8,382	7,861	7,262	100,988
Expected return on plan assets	(4,308)	(3,867)	(4,120)	(51,904)
Gain on amortization of prior service cost		(205)		
Recognized actuarial loss (gain)	8,421	(473)	31,495	101,458
Other	56	27		675
Net periodic benefit costs	¥30,989	¥21,185	¥51,804	\$373,361

Gain on amortization of prior service cost for the year ended March 31, 2010 represents a decrease in the benefit obligation of ¥205 million from the adoption of the revised benefit plan concerning the lump-sum severance payments of certain subsidiaries.

Assumptions used for the years ended March 31, 2011 and 2010 are set forth as follows:

	2011	2010
Discount rate	Principally 2.5%	Principally 2.5%
Expected rate of return on plan assets	Principally 2.5%	Principally 2.5%
Recognition period of actuarial gain/loss	1 year	1 year

10 Asset retirement obligations

The changes in asset retirement obligations for the year ended March 31, 2011 were as follows.

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥22,583	\$272,084
Additional provisions associated with the acquisition of property, plant and equipment	1,611	19,410
Reconciliation associated with passage of time	453	5,458
Reduction associated with meeting asset retirement obligations	(1,194)	(14,385)
Balance at end of year	¥23,453	\$282,567

11 Equity

Japanese companies are subject to the Companies Act. The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) having the term of service of the directors prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The parent company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

12 Segment information

For the years ended March 31, 2011 and 2010

In March 2008, the ASBJ revised ASBJ Statement No.17, "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No.20, "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available, and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

The segment information for the year ended March 31, 2010 under the revised accounting standard is also disclosed hereunder as required.

Pursuant to Article 36 of ASBJ Statement No.17, the segment information for the year ended March 31, 2009 under the revised accounting standard is not disclosed. Instead of the segment information under the revised accounting, the segment information under the previous accounting standard for the year ended March 31, 2009 is disclosed hereunder.

1. Description of reportable segments

The Company's reportable segments are those for which separate financial information is available and regular evaluation by the parent company's management is being performed in order to decide how resources are allocated among the Company. Therefore, the Company consists of the segments Single-Family Houses Business, Rental Housing Business, Condominiums Business, Existing Home Business, Commercial Facilities Business, Business and Corporate Facilities Business, Health and Leisure Business and Other Businesses. The Single-Family Houses Business consists of order of single-family houses and sale of a package of a new house with land. The Rental Housing Business consists of the Company operations in rental housing development, construction, management, operation, and real estate agency services. The Condominiums Business consists of development, sale, and management of condominiums. The

Existing Home Business consists of renovation and real estate agency services. The Commercial Facilities Business consists of development, construction, management, and operation of commercial facilities. The Business and Corporate Facilities Business consists of development and construction of logistics and manufacturing facilities and medical and nursing-care facilities, and building, management and operation of temporary facilities. The Health and Leisure Business consists of the management and operation of resort hotels, golf courses, fitness clubs and nursing-care facilities.

2. Methods of measurement for the amounts of sales, profit (loss), assets and other items for each reportable segment

The accounting policies for each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

3. Information about sales, profit (loss), assets and other items is as follows.

Millions of Yen								
2011								
Reportable Segment								
	Single-Family Houses	Rental Housing	Condominiums	Existing Home Business	Commercial Facilities	Business & Corporate Facilities	Health & Leisure	Total
Sales:								
Sales to external customers	¥321,635	¥494,848	¥140,932	¥60,692	¥269,560	¥189,246	¥58,019	¥1,534,932
Intersegment sales or transfers	845	1,311	1	90	4,506	5,060	29	11,842
Total	322,480	496,159	140,933	60,782	274,066	194,306	58,048	1,546,774
Segment profit (loss)	7,210	47,000	5,370	4,237	33,564	11,517	(828)	108,070
Segment assets	176,762	192,794	171,098	20,674	432,726	301,558	89,407	1,385,019
Other:								
Depreciation	2,485	6,475	1,297	414	12,756	4,328	2,619	30,374
Increase in property, plant and equipment and other assets	6,185	15,938	2,931	965	30,054	18,403	3,968	78,444

Millions of Yen				
2011				
	Other	Total	Reconciliations	Consolidated
Sales:				
Sales to external customers	¥155,219	¥1,690,151		¥1,690,151
Intersegment sales or transfers	68,446	80,288	¥ (80,288)	
Total	223,665	1,770,439	(80,288)	1,690,151
Segment profit (loss)	3,644	111,714	(24,016)	87,698
Segment assets	325,647	1,710,666	223,570	1,934,236
Other:				
Depreciation	13,510	43,884	730	44,614
Increase in property, plant and equipment and other assets	17,428	95,872	(1,997)	93,875

Millions of Yen

2010								
Reportable Segment								
	Single-Family Houses	Rental Housing	Condominiums	Existing Home Business	Commercial Facilities	Business & Corporate Facilities	Health & Leisure	Total
Sales:								
Sales to external customers	¥324,730	¥448,065	¥119,309	¥46,864	¥280,533	¥190,754	¥57,096	¥1,467,351
Intersegment sales or transfers	1,179	942		110	5,146	5,516	35	12,928
Total	325,909	449,007	119,309	46,974	285,679	196,270	57,131	1,480,279
Segment profit (loss)	6,204	38,656	(18,323)	1,739	34,431	21,769	(506)	83,970
Segment assets	173,487	192,941	170,419	16,077	425,883	287,596	92,463	1,358,866
Other:								
Depreciation	2,593	5,792	1,044	358	12,519	4,198	2,641	29,145
Increase in property, plant and equipment and other assets	4,338	26,344	2,416	635	19,634	26,528	2,585	82,480

Millions of Yen

2010				
	Other	Total	Reconciliations	Consolidated
Sales:				
Sales to external customers	¥142,533	¥1,609,884		¥1,609,884
Intersegment sales or transfers	68,369	81,297	¥ (81,297)	
Total	210,902	1,691,181	(81,297)	1,609,884
Segment profit (loss)	1,039	85,009	(22,295)	62,714
Segment assets	284,158	1,643,024	273,904	1,916,928
Other:				
Depreciation	13,863	43,008	909	43,917
Increase in property, plant and equipment and other assets	17,866	100,346	(560)	99,786

Thousands of U.S. Dollars

2011								
Reportable Segment								
	Single-Family Houses	Rental Housing	Condominiums	Existing Home Business	Commercial Facilities	Business & Corporate Facilities	Health & Leisure	Total
Sales:								
Sales to external customers	\$3,875,121	\$5,962,024	\$1,697,976	\$731,229	\$3,247,711	\$2,280,072	\$ 699,024	\$18,493,157
Intersegment sales or transfers	10,181	15,795	12	1,084	54,289	60,964	349	142,674
Total	3,885,302	5,977,819	1,697,988	732,313	3,302,000	2,341,036	699,373	18,635,831
Segment profit (loss)	86,868	566,265	64,699	51,048	404,385	138,759	(9,976)	1,302,048
Segment assets	2,129,663	2,322,819	2,061,422	249,084	5,213,566	3,633,229	1,077,193	16,686,976
Other:								
Depreciation	29,940	78,012	15,626	4,988	153,687	52,145	31,554	365,952
Increase in property, plant and equipment and other assets	74,518	192,024	35,313	11,627	362,096	221,723	47,807	945,108

Thousands of U.S. Dollars

2011				
	Other	Total	Reconciliations	Consolidated
Sales:				
Sales to external customers	\$1,870,108	\$20,363,265		\$20,363,265
Intersegment sales or transfers	824,651	967,325	\$ (967,325)	
Total	2,694,759	21,330,590	(967,325)	20,363,265
Segment profit (loss)	43,903	1,345,951	(289,349)	1,056,602
Segment assets	3,923,458	20,610,434	2,693,614	23,304,048
Other:				
Depreciation	162,771	528,723	8,795	537,518
Increase in property, plant and equipment and other assets	209,976	1,155,084	(24,060)	1,131,024

Notes:

- 1) Other Businesses include construction support, city hotels, overseas businesses and others.
- 2) Reconciliations to segment profit (loss) of ¥24,016 million (\$289,349 thousand) and ¥22,295 million include intersegment eliminations of ¥1,668 million (\$20,096 thousand) and ¥884 million, the amortization of goodwill of ¥720 million (\$8,675 thousand) and ¥963 million, and the corporate expenses not allocated to each business segment of ¥23,068 million (\$277,928 thousand) and ¥22,374 million for the years ended March 31, 2011 and 2010, respectively. Corporate expenses mainly consist of general and administrative expenses and experiment and research expenses not attributable to any reportable business segments.

Reconciliations to segment assets of ¥223,570 million (\$2,693,614 thousand) and ¥273,904 million include intersegment eliminations of ¥125,168 million (\$1,508,048 thousand) and ¥101,874 million, and the corporate assets of ¥348,737 million (\$4,201,662 thousand) and ¥375,778 million for the years ended March 31, 2011 and 2010, respectively. Corporate assets mainly consist of the Company's

surplus funds (cash and cash equivalents), the Company's long-term investment funds (investment securities), and the assets associated with Administration Headquarters of the Company.

Reconciliations to depreciation of ¥730 million (\$8,795 thousand) and ¥909 million include intersegment eliminations of ¥506 million (\$6,096 thousand) and ¥491 million, and the depreciation attributable to corporate assets of ¥1,236 million (\$14,891 thousand) and ¥1,400 million for the years ended March 31, 2011 and 2010, respectively.

Reconciliations to increase in property, plant and equipment and other assets of ¥1,997 million (\$24,060 thousand) and ¥560 million include intersegment eliminations of ¥3,993 million (\$48,108 thousand) and ¥1,159 million, and the Headquarter's capital investments in properties and equipment of ¥1,996 million (\$24,048 thousand) and ¥599 million for the years ended March 31, 2011 and 2010, respectively.

- 3) Consolidated amounts of segment profit (loss) above correspond to the amounts of operating income in the consolidated statements of income.

Impairment losses of assets

Millions of Yen										
2011										
	Single-Family Houses	Rental Housing	Condominiums	Existing Home Business	Commercial Facilities	Business & Corporate Facilities	Health & Leisure	Other	Elimination/Corporate	Consolidated
Impairment losses of assets		¥1,385	¥1	¥1	¥12,794	¥919	¥3,422	¥243	¥4	¥18,769

Thousands of U.S. Dollars										
2011										
	Single-Family Houses	Rental Housing	Condominiums	Existing Home Business	Commercial Facilities	Business & Corporate Facilities	Health & Leisure	Other	Elimination/Corporate	Consolidated
Impairment losses of assets		\$16,687	\$12	\$12	\$154,145	\$11,072	\$41,229	\$2,928	\$48	\$226,133

Amortization of goodwill

Millions of Yen										
2011										
	Single-Family Houses	Rental Housing	Condominiums	Existing Home Business	Commercial Facilities	Business & Corporate Facilities	Health & Leisure	Other	Elimination/Corporate	Consolidated
Amortization of goodwill		¥ (8)	¥ 562		¥ 406	¥(4)	¥6	¥ (641)		¥ 321
Goodwill at March 31, 2011		(137)	10,401		6,170	(9)		(10,273)		6,152

Thousands of U.S. Dollars										
2011										
	Single-Family Houses	Rental Housing	Condominiums	Existing Home Business	Commercial Facilities	Business & Corporate Facilities	Health & Leisure	Other	Elimination/Corporate	Consolidated
Amortization of goodwill		\$ (96)	\$ 6,771		\$ 4,891	\$ (48)	\$72	\$ (7,723)		\$ 3,867
Goodwill at March 31, 2011		(1,651)	125,313		74,337	(108)		(123,771)		74,120

For the years ended March 31, 2010 and 2009 under the previous accounting standard

The Company operates in the following industries:

Residential: consists of construction of single/multi-family houses and condominiums, sales of real estate for residential use, real estate commissions, rental of residential complexes and management of condominiums.

Commercial: consists of construction of commercial buildings, sales and rental of real estate for commercial use and management of commercial buildings.

Resort and Sports: consists of operation of resort type hotels, golf courses and fitness clubs.

Home Center: consists of operation of "do-it-yourself" hardware centers.

Other: consists of manufacture and sales of building materials, logistics and operation of city type hotels.

Information about industry segments of the Company for the years ended March 31, 2010 and 2009 is as follows:

a. Sales and operating income

Millions of Yen							
2010							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥939,771	¥471,288	¥56,044	¥59,910	¥ 82,871		¥1,609,884
Intersegment sales	1,757	9,232	35	1,301	55,127	¥(67,452)	
Total sales	941,528	480,520	56,079	61,211	137,998	(67,452)	1,609,884
Operating expenses	912,417	425,229	56,611	60,431	138,260	(45,778)	1,547,170
Operating income (loss)	¥ 29,111	¥ 55,291	¥ (532)	¥ 780	¥ (262)	¥(21,674)	¥ 62,714

Millions of Yen							
2009							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥957,188	¥530,108	¥60,078	¥61,745	¥ 81,837		¥1,690,956
Intersegment sales	1,838	15,033	29	1,761	62,141	¥(80,802)	
Total sales	959,026	545,141	60,107	63,506	143,978	(80,802)	1,690,956
Operating expenses	930,493	478,959	61,223	62,352	141,474	(57,125)	1,617,376
Operating income (loss)	¥ 28,533	¥ 66,182	¥ (1,116)	¥ 1,154	¥ 2,504	¥(23,677)	¥ 73,580

b. Total assets, depreciation, impairment loss and capital investments

Millions of Yen							
2010							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Total assets	¥585,291	¥713,175	¥87,781	¥42,581	¥212,473	¥275,627	¥1,916,928
Depreciation	9,917	16,716	2,524	1,010	12,827	923	43,917
Impairment loss	556	5,003	3,749	982	615		10,905
Capital investments	33,784	46,159	2,565	524	17,311	(557)	99,786

Millions of Yen							
2009							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Total assets	¥607,233	¥705,606	¥91,825	¥44,896	¥201,082	¥159,931	¥1,810,573
Depreciation	7,249	13,980	2,859	981	13,190	1,059	39,318
Impairment loss	199	5,507	8,986	83	10	107	14,892
Capital investments	50,113	89,259	2,379	1,074	19,425	(1,649)	160,601

Notes:

As discussed in Note 2-m, effective April 1, 2009, the Company applied ASBJ Statement No.15, "Accounting Standard for Construction Contracts" and ASBJ Guidance No.18 "Guidance on Accounting Standard for Construction Contracts." The effect of this change was to increase net sales of Residential by ¥14,444 million, net sales of Commercial by ¥23,940 million, net sales of Other by ¥190 million, and operating income of Residential by ¥3,467 million, operating income of Commercial by ¥4,146 million, and operating income of Other by ¥20 million for the year ended March 31, 2010.

Eliminations/Corporate include unallocated operating expenses, principally consisting of general corporate expenses incurred by the administration headquarters of the Company.

Corporate assets are principally cash and cash equivalents, marketable securities and investment securities.

13 Reversal of liability for loss on disaster

The estimated remediation cost for damages caused by the heavy oil leakage incident that occurred on the site of our

former Sapporo Factory in December 2009 was ¥2,000 million. It was recognized as loss on disaster in the other expenses in the income statement and the same amount was also included and recognized in other long-term liabilities in the balance sheet as of and for the year ended March 31, 2010. Since the construction for the recovery was completed in December 2010, the difference between the estimated cost and the actual cost of ¥1,303 million (\$15,699 thousand) was recognized as other income in the income statement for the year ended March 31, 2011.

14 Losses from a natural disaster

The reconstruction expenses for the damage to inventories and noncurrent assets caused by the Great East Japan Earthquake of March 2011 were recognized as losses from a natural disaster in other expenses.

15 Other income (expenses): Other — net

"Other income (expenses): Other — net" for the years ended March 31, 2011, 2010 and 2009 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2011	2010	2009	2011
Real estate acquisition tax and other taxes	¥ (416)	¥(1,859)	¥(1,161)	\$ (5,012)
Reversal of accounts payable for retirement benefits for directors of subsidiaries			473	
Gain on sales of investment securities	1,640		4	19,759
Gain on sales of investments in unconsolidated subsidiaries and associated companies	170			2,048
Allowance for doubtful accounts	(432)	(949)	(414)	(5,205)
Equity in earnings of associated companies	992	1,242	542	11,952
Gain on transfer of business	280			3,374
Write-down of golf club membership	(61)	(17)	(97)	(735)
Loss on sales of golf club membership	0	(1)		0
Interest on commercial paper	(11)	(86)	(662)	(133)
Loss on adjustment for changes of accounting standard for asset retirement obligations	(2,805)			(33,795)
Loss on prior period adjustment	(1,416)			(17,060)
Provision of allowance for investment loss	(3,672)			(44,241)
Salaries and allowance for prior periods	(2,027)		(248)	(24,422)
Gain on settlement of derivatives		501	856	
Loss on settlement of derivatives			(355)	
Loss on liquidation of subsidiaries and affiliates			(22)	
Bad debt expenses	(12)		(312)	(145)
Amortization of negative goodwill		181		
Other — net	2,396	2,085	1,787	28,868
Total	¥(5,374)	¥ 596	¥ (110)	\$(64,747)

Notes:

Loss on prior period adjustment

Auto & Leasing Division of Daiwa Lease Co., Ltd., ("Daiwa Lease"), a wholly-owned subsidiary, found incorrect accounting records relating to the allocation of prepaid expenses in the previous fiscal year. As a result of investigations by the parent company and Daiwa Lease, the amount of ¥1,416 million (\$17,060 thousand) was overstated in other assets of current assets and recognized as loss on prior period adjustment in other expenses in the income statement for the year ended March 31, 2011.

Salaries and allowance for prior periods

The parent company received a written Advisory Notice from the Labor Standards Inspection Office relating to employees' overtime work. As a result of the Company's investigation, the discrepancy between the actual working hours and the registered one was found and unpaid overtime salaries were recognized in the other expenses in the income statement for the year ended March 31, 2011.

16 Income taxes

The parent company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.6% for the years ended March 31, 2011, 2010 and 2009.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010 are as follows:

	Millions of Yen		Thousands of
	2011	2010	U.S. Dollars
Current:			2011
Deferred tax assets:			
Write-down of land held for resale	¥ 23,573	¥ 24,629	\$ 284,012
Accrued bonuses	8,794	8,360	105,952
Accrued enterprise tax	561	2,025	6,759
Other	13,361	11,855	160,976
Less valuation allowance	(116)	(188)	(1,398)
Deferred tax assets	¥ 46,173	¥ 46,681	\$ 556,301
Deferred tax liabilities — other	¥ (0)	¥ (1)	\$ (0)
Net deferred tax assets	¥ 46,173	¥ 46,680	\$ 556,301
Non-current:			
Deferred tax assets:			
Employees' retirement benefits	¥ 71,299	¥ 66,494	\$ 859,024
Unrealized gains on sales of property, plant and equipment	9,048	9,177	109,012
Excess of depreciation of property, plant and equipment	23,973	21,289	288,831
Loss carryforwards	6,952	7,546	83,759
Other	38,754	23,774	466,916
Less valuation allowance	(19,787)	(12,765)	(238,398)
Deferred tax assets	¥130,239	¥115,515	\$1,569,144
Deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	¥ (1,924)	¥ (1,974)	\$ (23,181)
Net unrealized gain on available-for-sale securities	(5,004)	(3,977)	(60,289)
Other	(5,877)	(267)	(70,807)
Deferred tax liabilities	¥ (12,805)	¥ (6,218)	\$ (154,277)
Net deferred tax assets	¥117,434	¥109,297	\$1,414,867

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2011, 2010 and 2009 is as follows:

	2011	2010	2009
Normal effective statutory tax rates	40.6%	40.6%	40.6%
Increase (decrease) in tax rates due to:			
Permanently non-deductible expenses	3.2	3.3	9.3
Non-taxable dividend income	(0.6)	(0.5)	(0.3)
Per capita levy	2.5	2.7	7.4
Equity in earnings of associated companies	(1.0)	(1.3)	(1.6)
Increase in valuation allowance	17.1	3.9	23.1
Tax credit for corporate tax	(0.6)	(0.5)	(1.5)
Reversal of land revaluation difference	(29.0)	(0.4)	(3.8)
Other — net	0.6	1.9	(0.1)
Actual effective tax rates	32.8%	49.7%	73.1%

At March 31, 2011, certain subsidiaries have tax loss carryforwards aggregating approximately ¥18,441 million (\$222,181 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2013	¥ 188	\$ 2,265
2014	110	1,325
2015	13,777	165,988
2016	2,897	34,904
2017 and thereafter	1,469	17,699
Total	¥18,441	\$222,181

17 Research and development costs

Research and development costs charged to income were ¥6,637 million (\$79,964 thousand), ¥7,219 million and ¥7,753 million for the years ended March 31, 2011, 2010 and 2009, respectively.

18 Supplemental cash flow information

In the year ended March 31, 2011, Daiwa Service Co., Ltd. (a wholly-owned subsidiary) transferred the business of temporary staffing to a third party. No related assets and liabilities were transferred in this transaction.

	Millions of Yen	Thousands of U.S. Dollars
	2011	2011
Gain on transfer of business	¥280	\$3,373
Proceeds from transfer of business	¥280	\$3,373

In the year ended March 31, 2011, DH Leasing consolidated company (a wholly-owned subsidiary) acquired a business. The acquired assets and liabilities and proceeds from acquisition of business were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2011	2011
Assets	¥4,641	\$55,916
Liabilities	(4,641)	(55,916)
Goodwill	0	0
Cash paid for the capital	0	0
Cash and cash equivalents	3,194	38,482
Proceeds from acquisition of business	¥3,194	\$38,482

In the year ended March 31, 2010, DAIWA LIFENEXT CO., LTD. (formerly COSMOS LIFE CO., LTD.) and LIFE CLEAN SERVICE CO., LTD. were acquired. Assets and liabilities of these companies at the time of consolidation, cash paid for the capital and cash paid in conjunction with the purchases of consolidated subsidiaries were as follows:

	Millions of Yen
	2010
Assets	¥12,352
Goodwill	11,175
Liabilities	(7,506)
Cash paid for the capital	16,021
Cash and cash equivalents of consolidated subsidiaries	2,698
Payments for purchases of shares of the newly consolidated subsidiaries	¥13,323

19 Leases**Finance leases:****(Lessee)**

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥27,627 million (\$332,855 thousand), ¥28,872 million, and ¥29,330 million for the years ended March 31, 2011, 2010 and 2009, respectively.

The amount of imputed interest expense included in the above lease payments, which is computed using the interest method, was ¥11,547 million (\$139,120 thousand), ¥12,416 million and ¥12,438 million for the years ended March 31, 2011, 2010 and 2009, respectively.

Pro forma information of leased property whose lease inception was before March 31, 2008

ASBJ Statement No.13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No.13 permits leases without ownership transfer of the leased property to any lessee whose lease inception was before March 31, 2008 to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the financial statements. The Company applied ASBJ Statement No.13 effective April 1, 2008 and accounted for such leases as operating lease transactions. Pro forma information regarding leased property whose lease inception was before March 31, 2008 was as follows:

	Millions of Yen			
	2011			
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥318,063	¥2,319	¥2,174	¥322,556
Accumulated depreciation	121,729	1,180	1,483	124,392
Accumulated impairment loss	4,767	8	17	4,792
Net leased property	¥191,567	¥1,131	¥ 674	¥193,372

Millions of Yen				
2010				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥334,422	¥2,425	¥3,680	¥340,527
Accumulated depreciation	117,203	1,024	2,374	120,601
Accumulated impairment loss	3,564	8	33	3,605
Net leased property	¥213,655	¥1,393	¥1,273	¥216,321

Thousands of U.S. Dollars				
2011				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	\$3,832,084	\$27,940	\$26,193	\$3,886,217
Accumulated depreciation	1,466,614	14,217	17,868	1,498,699
Accumulated impairment loss	57,434	96	205	57,735
Net leased property	\$2,308,036	\$13,627	\$ 8,120	\$2,329,783

Obligations under finance leases as of March 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Due within one year	¥ 25,422	¥ 22,210	\$ 306,289
Due after one year	195,865	220,955	2,359,819
Total	¥221,287	¥243,165	\$2,666,108

Allowance for impairment loss on leased property of ¥3,812 million (\$45,928 thousand) and ¥3,261 million as of March 31, 2011 and 2010, respectively, is not included in obligation under finance leases.

Reversals of allowance for impairment loss on leased properties were ¥683 million (\$8,229 thousand), ¥454 million and ¥4 million for the years ended March 31, 2011, 2010 and 2009, respectively.

Depreciation expense relating to the leased assets under finance lease arrangements mentioned above was ¥16,623 million (\$200,277 thousand), ¥17,995 million and ¥18,787 million for the years ended March 31, 2011, 2010 and 2009, respectively.

The Company recorded an impairment loss of ¥1,234 million (\$14,867 thousand), ¥856 million and ¥430 million on certain leased property held under finance leases for the years ended March 31, 2011, 2010 and 2009, respectively.

The amount of acquisition cost and obligations under finance leases includes the imputed interest expense portion.

Depreciation expense, which is not reflected in the accompanying statements of income, is computed by the straight-line method.

(Lessor)

The net investments in lease is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Gross lease receivables	¥19,818	¥11,551	\$238,771
Unguaranteed residual values	1,301	689	15,675
Unearned interest income	(4,160)	(2,499)	(50,121)
Investments in lease, current	¥16,959	¥ 9,741	\$204,325

Maturities of investments in lease for finance leases that are deemed not to transfer ownership of the leased property to the lessee are as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥ 3,071	\$ 37,000
2013	2,964	35,711
2014	2,472	29,783
2015	1,756	21,156
2016	1,221	14,711
2017 and thereafter	8,334	100,410
Total	¥19,818	\$238,771

Total rental income under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥2,284 million (\$27,518 thousand), ¥2,993 million and ¥3,950 million for the years ended March 31, 2011, 2010 and 2009, respectively.

The amounts of imputed interest income included in the above rental income, which is computed using the interest method, were ¥195 million (\$2,349 thousand), ¥360 million and ¥585 million for the years ended March 31, 2011, 2010 and 2009, respectively.

Property and equipment leased to customers under finance lease arrangements mentioned above consisted of the following at March 31, 2011 and 2010.

Machinery and Equipment			
	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Acquisition cost	¥8,251	¥11,593	\$99,409
Accumulated depreciation	5,961	7,268	71,819
Net leased property	¥2,290	¥ 4,325	\$27,590

Future rental income under finance leases at March 31, 2011 and 2010 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Due within one year	¥1,448	¥2,119	\$17,446
Due after one year	1,018	2,517	12,265
Total	¥2,466	¥4,636	\$29,711

Imputed interest income is excluded from the amount of rental income under finance leases.

Depreciation expense relating to the leased assets under finance lease arrangements mentioned above was ¥1,808 million (\$21,783 thousand), ¥2,397 million and ¥2,626 million for the years ended March 31, 2011, 2010 and 2009, respectively.

Operating leases:

Obligations and future rental income under non-cancellable operating leases as of March 31, 2011 and 2010 were as follows:

(Lessee)

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Due within one year	¥ 39,930	¥ 39,874	\$ 481,084
Due after one year	432,204	455,377	5,207,277
Total	¥472,134	¥495,251	\$5,688,361

(Lessor)

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Due within one year	¥ 2,235	¥ 2,237	\$ 26,928
Due after one year	168,800	168,984	2,033,735
Total	¥171,035	¥171,221	\$2,060,663

20 Financial instruments and related disclosures

In March 2008, the ASBJ revised ASBJ Statement No.10, "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No.19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance were applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Company applied the revised accounting standard and the guidance effective March 31, 2010.

(1) Company policy for financial instruments

The Company uses financial instruments, mainly long-term debt, bonds and commercial paper based on its capital financing plan. Cash surpluses, if any, are invested in low risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and extent of risks arising from financial instruments, and risk management for financial instruments

Receivables such as trade notes and trade accounts and lease deposits are exposed to customer credit risk. The Company manages its credit risk by monitoring of payment terms and balances of customers to identify the default risk of customers in an early stage.

Marketable and investment securities such as stock, certificates of deposit, debt securities, investment trusts and investments in capital of partnership are exposed to issuers' credit risk, and price fluctuation risk. The Company manages its credit risk and price fluctuation risk by monitoring market values and the financial position of issuers on a regular basis.

Payment terms of payables, such as trade notes and trade accounts, are mainly less than one year. Lease deposits consist mainly of the deposits of a real estate business. The long-term debt and bonds are used mainly for investment in plant, equipment and lease property. Maturities of bank loans and bonds are mainly less than five years after the balance sheet date. A part of such bank loans and payables are exposed to liquidity risk. The Company manages its liquidity risk by holding adequate volumes of liquid assets, along with adequate financial planning by the financial department.

With respect to floating-rate long-term debt, the Company enters into interest rate swap contracts to hedge interest rate fluctuations.

Based on the internal guidelines, the Company enters into interest rate and commodity swaps to hedge fluctuation risks of interest rate or fuel price. It is the Company's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities. Because the counterparties to those derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

(3) Fair values of financial instruments

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. Also please see Note 21 for the detail of fair value for derivatives. Also please see Note 21 for more detail about derivatives risk.

(a) Fair value of financial instruments

	Millions of Yen		
	2011		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥146,243	¥146,243	
Investments in lease	16,959		
Allowance for doubtful receivables	(35)		
	16,924	16,924	
Short-term investments	3,137	3,137	
Receivables	95,687		
Allowance for doubtful receivables	(841)		
	94,846	93,897	¥ (949)
Marketable and investment securities:			
Held-to-maturity	1,539	1,552	13
Investments in unconsolidated subsidiaries and associated companies	2,906	1,785	(1,121)
Available-for-sale	54,241	54,241	
Lease deposits	189,608		
Allowance for doubtful accounts	(437)		
	189,171	173,310	(15,861)
Total	¥509,007	¥491,089	¥(17,918)
Short-term bank loans	¥ 9,136	¥ 9,136	
Payables	206,218	206,218	
Income taxes payable	6,675	6,675	
Bonds	105,800	106,313	¥ 513
Long-term debt	280,620	284,752	4,132
Lease deposits received	226,316	208,198	(18,118)
Total	¥834,765	¥821,292	¥(13,473)
Derivatives	¥ 1,485	¥ 1,485	

	Millions of Yen		
	2010		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥179,744	¥179,744	
Investments in lease	9,741		
Allowance for doubtful receivables	(11)		
	9,730	9,730	
Short-term investments	49	49	
Receivables	75,815		
Allowance for doubtful receivables	(1,275)		
	74,540	73,697	¥ (843)
Marketable and investment securities:			
Held-to-maturity	797	792	(5)
Investments in unconsolidated subsidiaries and associated companies	2,396	1,986	(410)
Available-for-sale	51,994	51,994	
Lease deposits	190,024		
Allowance for doubtful accounts	(325)		
	189,699	174,071	(15,628)
Total	¥508,949	¥492,063	¥(16,886)
Short-term bank loans	¥ 14,771	¥ 14,771	
Payables	185,657	185,657	
Income taxes payable	24,037	24,037	
Bonds	105,300	105,354	¥ 54
Long-term debt	338,290	344,417	6,127
Lease deposits received	226,322	206,827	(19,495)
Total	¥894,377	¥881,063	¥(13,314)
Derivatives	¥ 1,963	¥ 1,963	

Thousands of U.S. Dollars			
	2011		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$ 1,761,964	\$1,761,964	
Investments in lease	204,325		
Allowance for doubtful receivables	(421)		
	203,904	203,904	
Short-term investments	37,795	37,795	
Receivables	1,152,856		
Allowance for doubtful receivables	(10,133)		
	1,142,723	1,131,289	\$ (11,434)
Marketable and investment securities:			
Held-to-maturity	18,542	18,699	157
Investments in unconsolidated subsidiaries and associated companies	35,012	21,506	(13,506)
Available-for-sale	653,506	653,506	
Lease deposits	2,284,434		
Allowance for doubtful accounts	(5,265)		
	2,279,169	2,088,072	(191,097)
Total	\$ 6,132,615	\$5,916,735	\$(215,880)
Short-term bank loans	\$110,072	\$ 110,072	
Payables	2,484,554	2,484,554	
Income taxes payable	80,422	80,422	
Bonds	1,274,699	1,280,880	\$6,181
Long-term debt	3,380,964	3,430,747	49,783
Lease deposits received	2,726,699	2,508,410	(218,289)
Total	\$10,057,410	\$9,895,085	\$(162,325)
Derivatives	\$ 17,892	\$ 17,892	

Cash and cash equivalents and short-term investments

The carrying values of cash and cash equivalents and short-term investments approximate fair value because of their short maturities.

Investments in lease

The carrying amounts of investments in lease approximate fair value because the carrying amounts are discounted at the Company's assumed corporate discount rate.

Receivables

The fair values of receivables are measured at the amount to be received at maturity discounted at the Company's assumed corporate discount rate.

Marketable and investment securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for the marketable and investment securities by classification is included in Note 3.

Lease deposits

The fair values of lease deposits are measured at the amount to be received at maturity discounted at the Company's assumed corporate discount rate.

Short-term bank loans, payables and income taxes payable

The carrying values of short-term bank loans, payables and income taxes payable approximate fair value because of their short maturities.

Bonds

The fair values of financial instruments are based on quoted price in active markets.

Long-term debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Company's assumed corporate discount rate.

Lease deposits received

The fair values of lease deposits received are measured at the amount to be paid at maturity discounted at the Company's assumed corporate discount rate.

Derivatives

The information regarding the fair value for derivatives is included in Note 21.

(b) Financial instruments whose fair value cannot be reliably determined

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Equity securities	¥55,090	¥45,212	\$663,735
Preferred fund certificates	27,839	17,737	335,410
Investments in limited liability partnership and other	8,605	7,428	103,674

(4) Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen			
	2011			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥146,243			
Investments in lease	3,071	¥ 8,413	¥ 3,819	¥ 4,515
Short-term investments	3,137			
Receivables	84,323	3,636	4,087	3,641
Marketable and investment securities:				
Held-to-maturity			1,720	10
Available-for-sale securities with contractual maturities	6	25	13	500
Lease deposits	15,282	52,949	54,660	76,986
Total	¥252,062	¥65,023	¥64,299	¥85,652

	Millions of Yen			
	2010			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥179,744			
Investments in lease	2,262	¥ 6,962	¥ 2,327	
Short-term investments	49			
Receivables	65,688	3,238	3,185	¥ 3,704
Marketable and investment securities:				
Held-to-maturity			900	10
Available-for-sale securities with contractual maturities	6	25	19	500
Lease deposits	13,321	53,676	56,422	72,967
Total	¥261,070	¥63,901	¥62,853	¥77,181

	Thousands of U.S. Dollars			
	2011			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	\$1,761,964			
Investments in lease	37,000	\$101,361	\$ 46,012	\$ 54,398
Short-term investments	37,795			
Receivables	1,015,940	43,808	49,241	43,867
Marketable and investment securities:				
Held-to-maturity			20,723	121
Available-for-sale securities with contractual maturities	72	301	157	6,024
Lease deposits	184,121	637,940	658,554	927,542
Total	\$3,036,892	\$783,410	\$774,687	\$1,031,952

Please see Note 8 for annual maturities of bonds and long-term debt.

21 Derivatives

The Company enters into interest rate and commodity swaps to hedge fluctuation risks of interest rate or fuel price.

It is the Company's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities.

Derivatives are subject to market risk and credit risk. Because the counterparties to those derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

The Company implemented a risk control system for derivatives primarily to control the purpose, limitation and selection of counterparties. The system's primary function is to avoid excess risks associated with derivatives. Each derivative transaction, which is based on these internal policies, is reported to the Director of the Financing Department, and the execution and control of derivatives are managed by the Finance Section of the Company.

Derivative transactions to which hedge accounting was not applied at March 31, 2011 and 2010 were as follows:

Type of Transaction	Thousands of Barrels				Millions of Yen				Thousands of U.S. Dollars	
	2011		2010		2011		2010		2011	
	Contract Amount	Due over One Year	Contract Amount	Due over One Year	Fair Value	Unrealized Gain (Loss)	Fair Value	Unrealized Gain (Loss)	Fair Value	Unrealized Gain (Loss)
Commodity swap:										
Receive floating pay fixed	360	240	480	360	¥2,056	¥2,056	¥2,359	¥2,359	\$24,771	\$24,771
Receive fixed pay floating	360	240	480	360	(571)	(571)	(396)	(396)	(6,879)	(6,879)
Total	720	480	960	720	¥1,485	¥1,485	¥1,963	¥1,963	\$17,892	\$17,892

Derivative transactions to which hedge accounting was applied at March 31, 2011 and 2010 were as follows:

	Hedged Item	Millions of Yen				Millions of Yen				Thousands of U.S. Dollars	
		2011		2010		2010		2011		2011	
		Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value	Fair Value
Interest rate swaps:											
(fixed rate payment, floating rate receipt)	Long-term debt	¥189,153	¥179,738	—	¥190,065	¥189,153	—	\$2,278,952	\$2,165,518	—	

The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differentials paid or received under the swap agreements are recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps in Note 20 is included in that of hedged items (i.e. long-term debt).

22 Contingencies

At March 31, 2011, contingent liabilities for notes endorsed with recourse and loans guaranteed in the ordinary course of business amounted to ¥1,140 million (\$13,735 thousand) and ¥36,600 million (\$440,964 thousand), respectively. Included in loans guaranteed were customers' housing loans from banks in the amount of ¥22,269 million (\$268,301 thousand).

23 Comprehensive income

Other comprehensive income for the year ended March 31, 2010 consists of the following:

	Millions of Yen
Other comprehensive income:	
Unrealized gain on available-for-sale securities	¥4,317
Foreign currency translation adjustments	103
Share of other comprehensive income in associates	582
Total other comprehensive income	¥5,002

Total comprehensive income for the year ended March 31, 2010 comprises the following:

	Millions of Yen
Total comprehensive income attributable to:	
Owners of the parent	¥24,115
Minority interests	23
Total comprehensive income	¥24,138

24 Subsequent event

Appropriations of retained earnings

The following appropriation of retained earnings at March 31, 2011 was approved at the parent company's shareholders' meeting held on June 29, 2011:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥20.00 (\$0.24) per share	¥11,576	\$139,470

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Daiwa House Industry Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Daiwa House Industry Co., Ltd. and consolidated subsidiaries (the "Company") as of March 31, 2011 and 2010, and related consolidated statements of income for each of the three years in the period ended March 31, 2011, consolidated statement of comprehensive income for the year ended March 31, 2011, and related consolidated statements of changes in equity, and cash flows for each of the three years in the period ended March 31, 2011, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daiwa House Industry Co., Ltd. and consolidated subsidiaries as of March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2011, in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 29, 2011



Daiwa House
大和ハウスグループ

ダイワハウス

Living Salon
リビングサロン

大和ハウス工業株式会社
久留米支店



大和リビング株式会社



Daiwa House