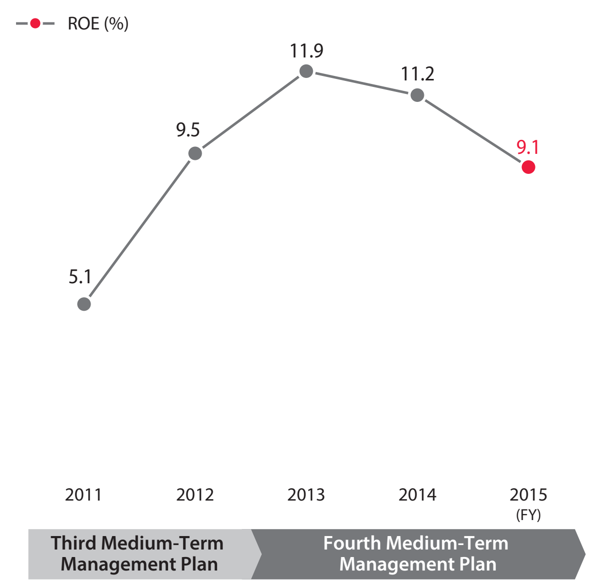
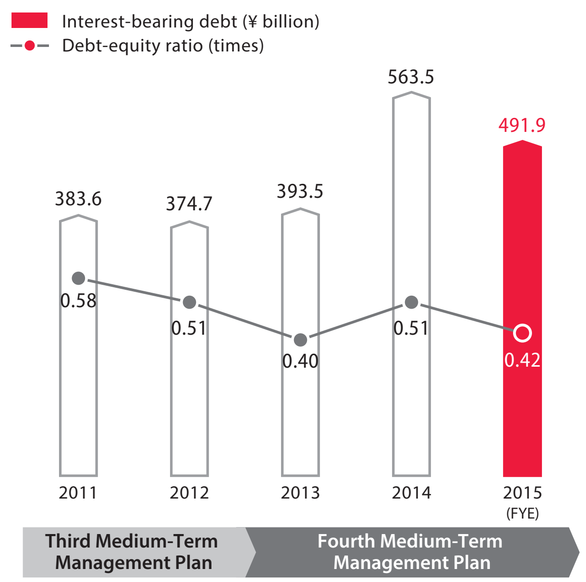
3

Shareholder Value Creation

ROE 10% and higher



Debt-equity ratio around 0.5



Note: By changing the discount rate used to calculate retirement benefit obligations from 1.7% to 0.8% in fiscal 2015, the Company posted extraordinary losses of ¥84.9 billion. As a result, the ROE dropped to approximately five points.

Financial Strategy

Creating a corporate governance system that helps boost corporate value

In order for Daiwa House to continue enjoying the trust of society as a whole, corporate governance must occupy an important position among our management priorities. In May 2015 we issued our Corporate Governance Guidelines to clarify the specific tasks that we are required to tackle and fulfill our duty of accountability to our shareholders. We will continue to strengthen our governance on the basis of the Daiwa House corporate philosophy and management vision, while at the same time keeping a close watch on our operating environment and wider social trends.

Basic strategy for capital policy

The Company considers sustained growth necessary to achieving increases in shareholder value over the medium to long term, and to realize such growth, we recognize the need to maintain a level of shareholders' equity that allows for investment in growth and a tolerance of risk. On this basis, the Company considers return on equity (ROE) to be one of its topmost management priorities, and aims to effectively utilize shareholders' equity to maintain an ROE level of 10% or higher. To ensure a robust financial base that allows funds for investment in growth to be raised in a stable manner, the Company has announced a target debt-equity ratio of approximately 0.5 to ensure financial soundness, and works to create the optimal capital structure for reaching this target. ROE exceeded its target level of 10% in fiscal 2013 (at 11.9%) and fiscal 2014 (at 11.2%), but in fiscal 2015 it was affected by trends on the interest rate market, and due to amortization of actuarial loss accompanying a change in the discount rate used to calculate retirement benefit obligations, the ROE was pushed down by five points, to 9.1%.

Maintaining financial health and sustaining business growth

Under the Group's Fourth Medium-Term Management Plan (fiscal 2013-2015), through a capital increase of ¥138.2 billion we secured financial flexibility while ensuring our ability to expand opportunities for investment in real estate development. Meanwhile, in addition to the funds provided by the increase in capitalization, we utilized operating cash flow and funds provided by the sale of real estate to firmly hold down any increase in interest-bearing debt. As a result, we were able to hold the debt-equity ratio to 0.42 (below our benchmark maximum of 0.5) as of the end of fiscal 2015. I believe this shows that we succeeded in maintaining financial health while realizing steady growth.

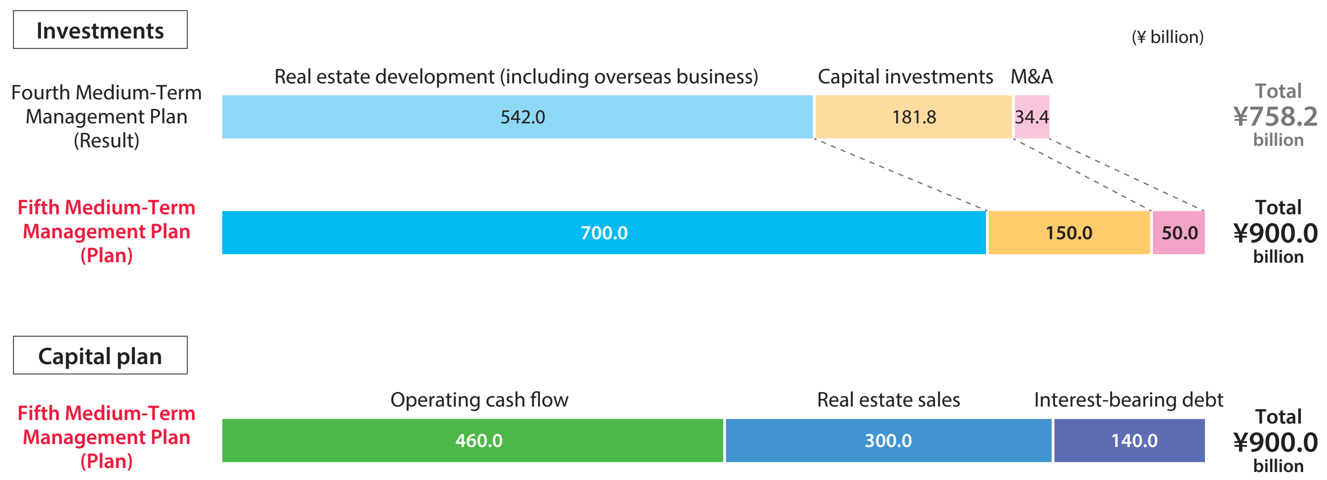
Under the Group's Fifth Medium-Term Management Plan, we aim to continue utilizing operating cash flow (¥460 billion) and income from the sale of real estate (¥300 billion) to provide the majority of the funds required for investment, which should enable us to restrain any undue increase in interest-bearing debt and thereby once again achieve our unchanging goal of maintaining financial health.

Having said that, to ensure we are prepared for changes in the Group's operating environment, and to build a platform for achieving ¥4 trillion in net sales, we reserve the possibility of taking flexible decisions on fund procurement – which may entail a temporary increase in interest-bearing debt – in the event that we are presented with good investment opportunities, promising M&A proposals, and so on.

Investing aggressively to facilitate faster growth and further enhance corporate value

Under the Fourth Medium-Term Management Plan (fiscal 2013-2015), we proclaimed that one of the major themes of our growth strategy was to strengthen and expand the value chains involved in our priority investment fields – Rental Housing, Commercial Facilities, and Logistics,

Planned investment



Financial Strategy

Business and Corporate Facilities. Accordingly, we implemented the largest-ever scale of investment in the Group's history, at ¥542 billion. Under the plan, we succeeded in boosting the Group's earning capacity. We did this by accurately discerning the trends of the times, and by leveraging the firm bonds of trust that we had built up with our customers and the landowners with whom we have done business to give us the ability to propose solutions that precisely match user needs. As a result, we enjoyed a steady inflow of orders. This led to an increase in the Group's total market capitalization as investors positively re-evaluated our stock.

Under the current Fifth Medium-Term Management Plan (fiscal 2016-2018), we plan a total investment of ¥900 billion, of which ¥700 billion will be allocated to real estate development, and we expect this to lead to a faster pace of business growth. In addition to real estate development in Japan, centered on the Rental Housing, Commercial Facilities, and Logistics, Business and Corporate Facilities businesses, we will also be investing aggressively in overseas businesses with the goal of realizing further growth outside Japan.

In deciding whether or not make any particular investment, we set a hurdle rate that takes the capital cost into consideration, to avoid a negative impact on shareholder value. Each investment proposal is strictly screened. The Real Estate Investment Committee, chaired by the Company's president, vigorously debates the business potential of each proposal and evaluates the level of risk, both from the medium- to long-term perspective. In particular, the Board of Directors has the final say on all proposals above a certain monetary value. In these ways, the Group's corporate governance system is effectively utilized.

Shareholder return

The Daiwa House Group follows a basic policy of investing the profits generated by its business operations into growth areas, thereby increasing its shareholder value by raising net income per share (EPS). The Company's EPS stood at ¥114.52 in fiscal 2012, and as a result of profit growth during the Fourth Medium-Term Management Plan, this rose to ¥156.40. During the period of the Fifth Medium-Term Management Plan, too, in accordance with our basic policy, we will continue to direct funds into investments required to support further growth. Through this, we aim to achieve continual growth in the Company's corporate value over the medium to long term and thereby satisfy the expectations of our shareholders and investors.

We maintain a dividend payout ratio of 30% and higher of net income attributable to owners of the parent, and cash dividends per share have been increased from ¥35 for fiscal 2012 to ¥80 for fiscal 2015 (including a commemorative dividend of ¥10 to mark the 60th anniversary of the Company's foundation). Going forward, we will continue to link shareholder return to business performance and maintain a stable level of dividend payments.

To our shareholders and investors

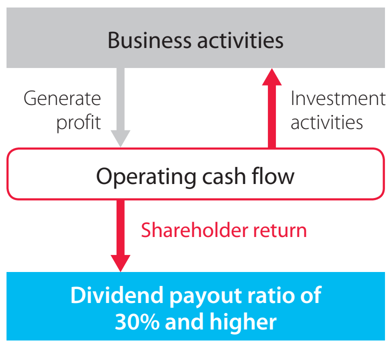
The Daiwa House Group aims to achieve growth over the medium to long term, and we are therefore putting our full efforts into reaching the targets set under our Fifth Medium-Term Management Plan, which we have positioned as the cornerstone of this future growth vision. My job as the Group's Chief Financial Officer is to support this growth strategy by taking steps to improve capital efficiency and effectively managing the risks involved. I aim to provide the necessary support for continued growth from the financial strategy side, while striking a good balance between investment for growth and financial discipline. I will also work to reinforce the Group's efforts to communicate our management strategy over the medium to long term to our shareholders and investors, without whose financial support it would not be possible, and will devote my efforts to building a management system capable of yielding high capital productivity.

It is my belief that our shareholders and investors can look forward with confidence to further growth by the Daiwa House Group.

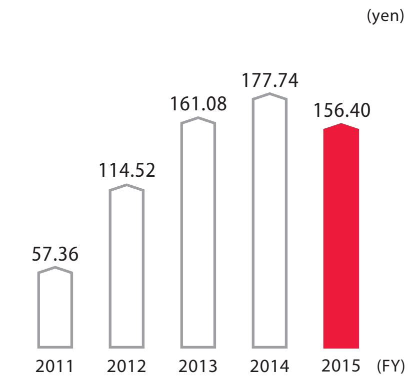
Takeshi Kosokabe

Representative Director and
Senior Managing Executive Officer and CFO

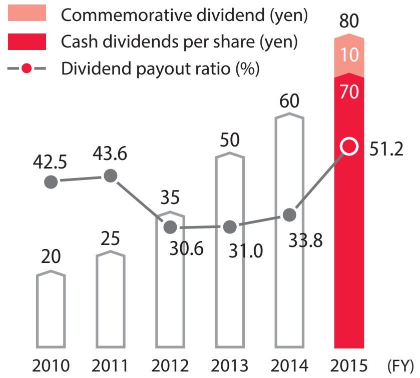
Profit allocation policy



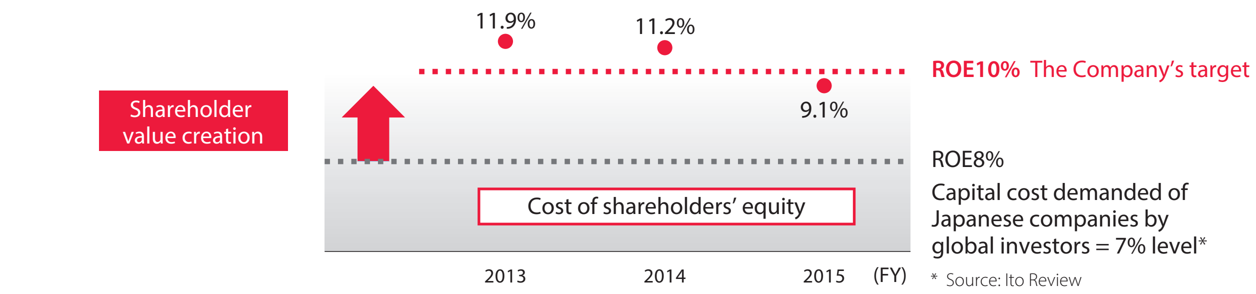
Net income per share (EPS)

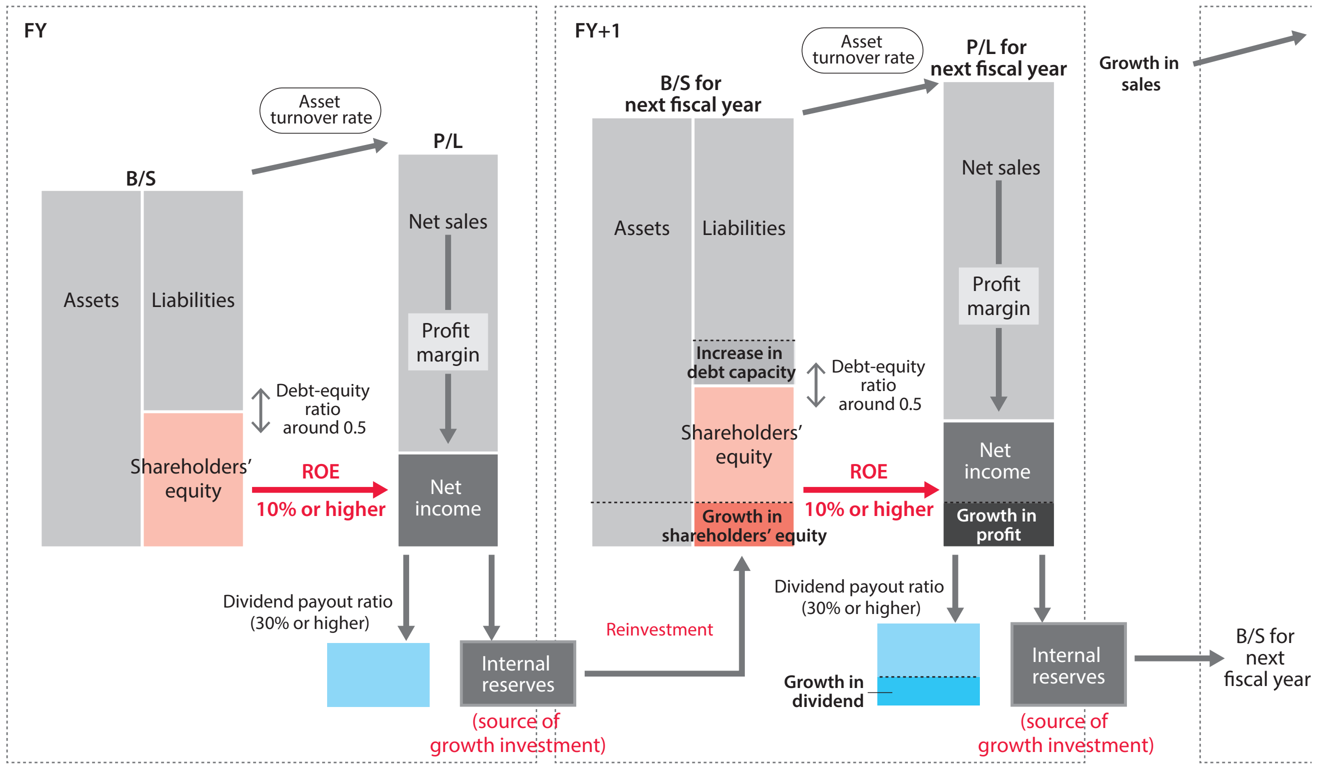


Cash dividends per share and Dividend payout ratio



Conceptual diagram of basic strategy for capital policy





FY

We are reinvesting capital in growth sectors while maintaining an appropriate level of financial leverage by securing operating cash flow, the source of funds required for growth investment, and increasing internal reserves after returning a portion to shareholders.

Secure stable operating cash flow

FY+1

The Company will realize return on reinvested capital with capital efficiency that exceeds the expected rate of return (cost of shareholders' equity) for shareholders in order to achieve growth in profits and dividends, as well as increase capital required for new growth investment.

Maintaining and improving ROE based on an optimal capital structure

Shares Performance Data

Dividends paid

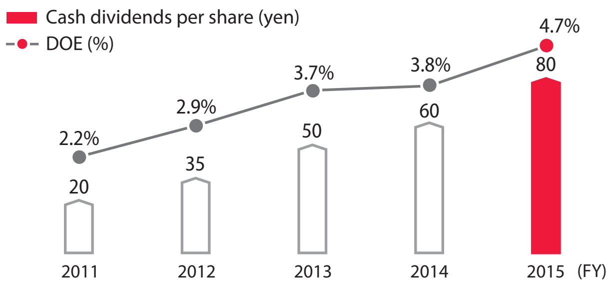
With respect to the dividend payout ratio (DPR), the Company is working to pay dividends in line with performance as 30% or more of the current net income attributable to owners of the parent company, and also to maintain a stable dividend.

The dividend on equity (DOE), which is the dividend ratio with respect to shareholder equity, is composed of two elements: the payout ratio, representing the allocation of profits to all shareholders, and the return on equity (ROE), representing the Company's capital efficiency.

By changing the discount rate used to calculate retirement benefit obligations following the decline in market interest rates in FY2015, the Company posted extraordinary losses of 84.9 billion yen and consolidated net income attributable to owners of the parent fell below the initial plan to 103.5 billion yen with ROE decreasing by 2.1 points year on year to 9.1%. However, the Company realized stable dividends and the initially planned dividend amount by setting a dividend payout ratio of 51.2%.

Dividend on equity (DOE) = Dividend payout ratio (DPR) × Return on equity (ROE) ÷ 100

Cash dividends per share and DOE



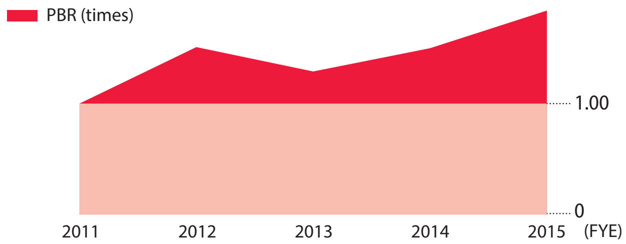
	2011	2012	2013	2014	2015	Average
DPR (%)	43.6	30.6	31.0	33.8	51.2	38.0
ROE (%)	5.1	9.5	11.9	11.2	9.1	9.4
DOE (%)	2.2	2.9	3.7	3.8	4.7	3.5

Trends in PBR and PER

The price to book value ratio (PBR) as an evaluation indicator of the stock market has been above the accounting net assets (book value). PBR is subdivided into price earnings ratio (PER) and return on equity (ROE). The Company strives to create medium- to long-term market added value by being properly evaluated for its sustainable growth potential through constructive dialogue with capital markets and proactive information disclosure.

Price to book value ratio (PBR) = Return on equity (ROE) × Price earnings ratio (PER) ÷ 100

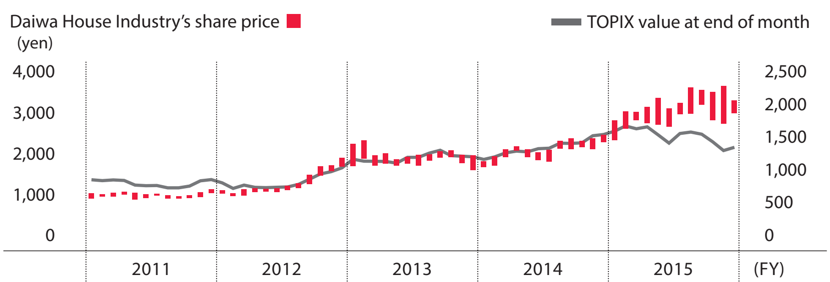
Trends in PBR



	2011	2012	2013	2014	2015	Average
PER (times)	19.07	15.89	10.87	13.34	20.24	15.88
ROE (%)	5.14	9.53	11.87	11.25	9.10	9.38
PBR (times)*1	0.98	1.51	1.29	1.50	1.84	1.43

*1 The figures above are calculated using the average number of shares outstanding during the period.

Trends in share price of Daiwa House Industry and TOPIX



	2011	2012	2013	2014	2015
Market capitalization (¥ million)	656,314	1,091,857	1,156,398	1,565,860	2,109,310
TSR (%)*2	9.49	69.56	-1.04	38.83	36.90
Share price high (yen)	1,130.0	1,899.0	2,330.0	2,467.5	3,654.0
Share price low (yen)	881.0	967.0	1,592.0	1,673.0	2,326.0

*2 Total shareholder return

Market capitalization ranking (construction/real estate sectors)

	Securities code	Company name	Market capitalization*3 (¥ billion)
1	8802	Mitsubishi Estate Co., Ltd.	2,974.8
2	8801	Mitsui Fudosan Co., Ltd.	2,698.2
3	1925	Daiwa House Industry Co., Ltd.	2,143.3
4	8830	Sumitomo Realty & Development Co., Ltd.	1,474.9
5	1928	Sekisui House, Ltd.	1,409.4

*3 Based on closing price on May 31, 2016