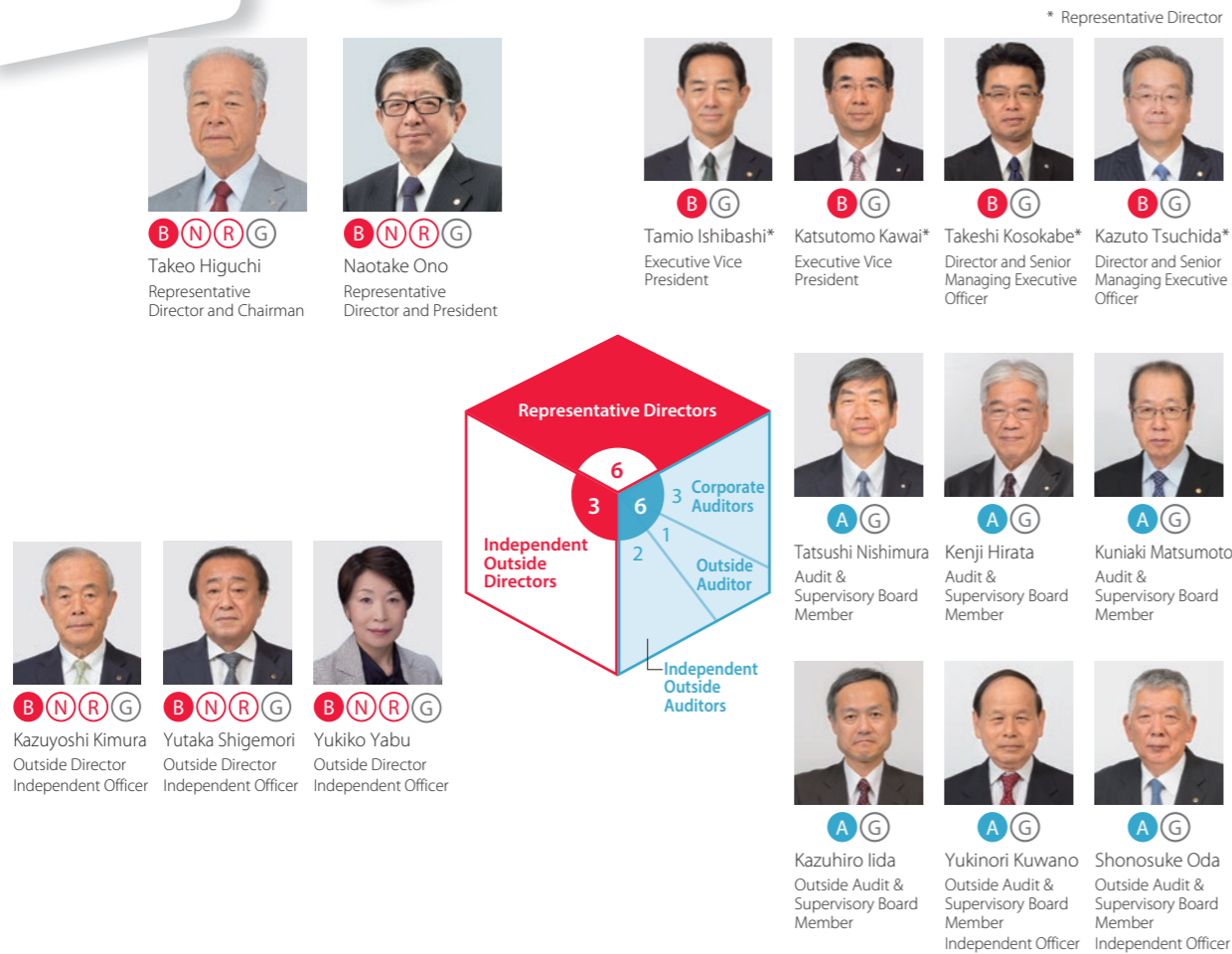


Management Structure  
Corporate Governance System

Concept of Board of Directors structure

Based on a long-cherished concept from the day of founding to promote a business that "will be useful to people and that will make them happy," the Company's Board of Directors upholds this concept in its management vision of being a group that co-creates value for individuals, communities, and people's lifestyles. The Board's mission is to embody the statement and to develop human resources that will carry on this mission into the future.

To realize the management vision, executive management must always explore the needs of society based on the attitude of a bottom-up approach while the Board of Directors must deliberate and decide how to embody such needs as a business. In accordance with these views, the Company's Board of Directors is mainly composed of executive directors who can implement the above in an accurate and swift manner.



Views on establishment of Advisory Committees of Board of Directors (Board Committees)

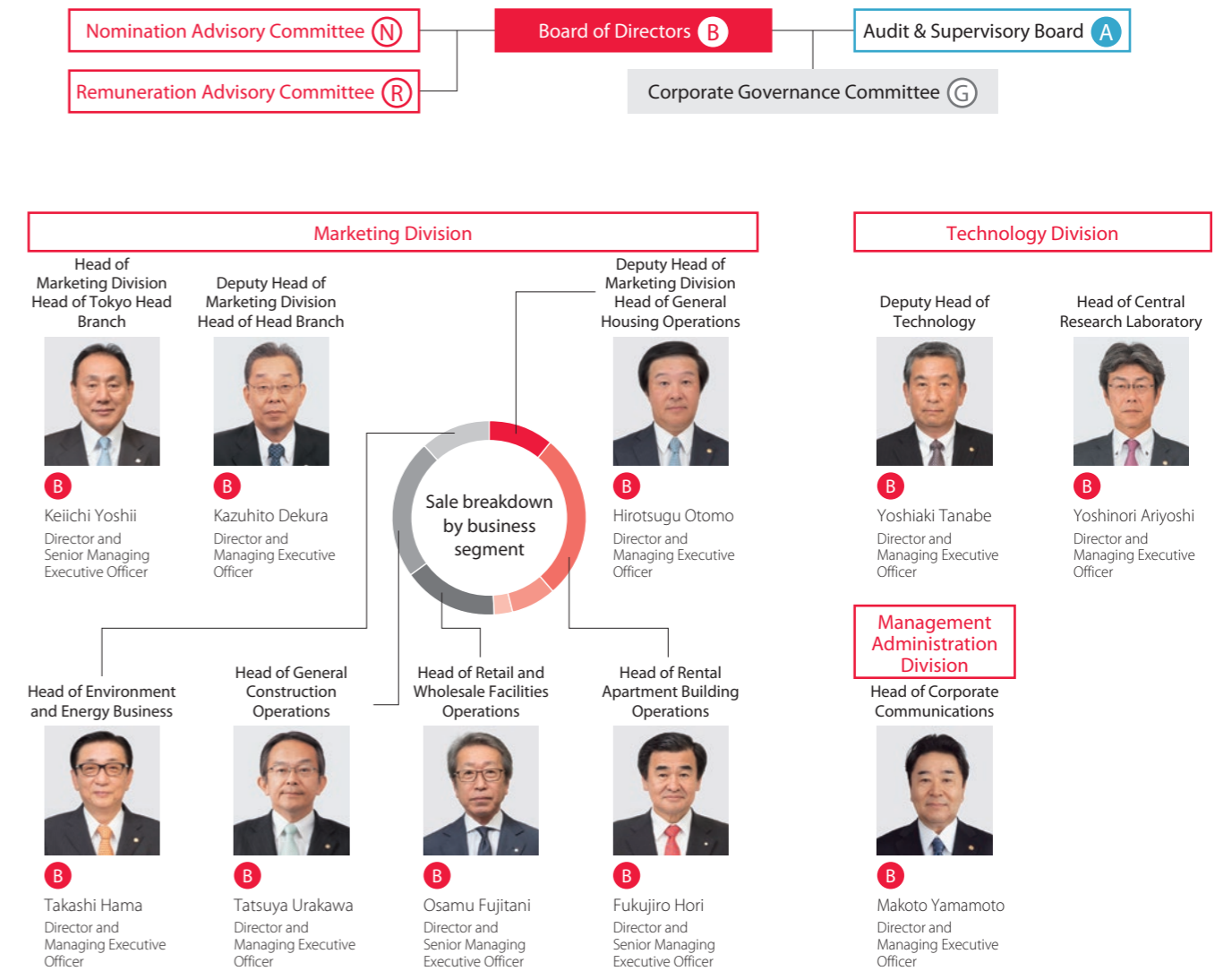
The Company's basic stance toward institutional design is to compose a so-called hybrid board that is well-balanced in two functions: (i) a management function centering on executive directors; and (ii) a monitoring function centering on multiple independent outside directors and corporate auditors/Audit & Supervisory Board that do not vote on decision-making at meetings of the Board of Directors.

Regarding items related to nomination and remuneration, we

have established voluntary advisory committees headed by an outside director to further increase transparency.

In addition, we have the Corporate Governance Committee to fully incorporate the knowledge of outside directors on medium- to long-term management issues for the Company's sustainable development.

Structure of Committee for strengthening monitoring function of Board of Directors



Views on establishment of Committees concerning operational execution (Management Committees)

In conducting business development in a wide range of business fields, we have established committees concerning operational execution (Management Committees), including the Joint Management Council to swiftly and accurately put decision-making into practice by the Board of Directors, the Real Estate Investment Committee as bodies to deliberate on matters required for decision-making and steersmanship by the Board of Directors, the Internal Control Committee to ensure effective supervision and operation of the company-wide internal control system, and the Risk Management Committee, in an effort to conduct business development that balances an approach with a high level of certainty toward business opportunities and risk control. (Details of the Real Estate Investment Committee) P.77

<b>Joint Management Council</b>	The Joint Management Council is established as a joint panel for appropriately executing the decisions made by the Board of Directors through communication between the Board of Directors and executive officers. (Chair: President and COO)
<b>Internal Control Committee</b>	The Internal Control Committee requests reports on the operation status of internal control and provides supervision for the purpose of appropriately implementing internal controls pursuant to the provisions of the Basic Policy on Construction of the Internal Control System. (Overall responsibility: President and COO) (Chair: Head of Management Administration)
<b>Risk Management Committee</b>	The Company establishes a Risk Management Committee as the organization to construct and maintain a risk management system to prevent and curtail the manifestation of risks related to the management of the Daiwa House Group, as well as to reduce the amount of damage when risks materialize. (Chair: Head of Management Administration)
<b>Real Estate Investment Committee</b>	The Company establishes a Real Estate Investment Committee for the purpose of assessing the feasibility of investments and evaluating risks, to contribute to decision-making of the rational and effective investment of capital in real estate development and investment business. (Chair: President and COO)

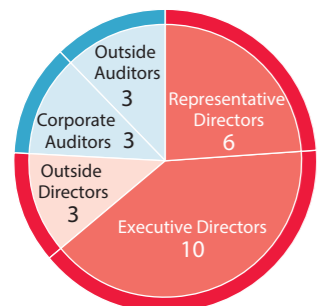
# Corporate Governance System

## Composition of Board of Directors/Audit & Supervisory Board/Board Committee

Name	Position	Primary responsibilities	Executive	Board of Directors	Audit & Supervisory Board	Nomination Advisory Committee	Remuneration Advisory Committee	Corporate Governance Committee
Takeo Higuchi	Representative Director and Chairman	CEO	○	Chairman	○	○	○	Chairman
Naotake Ono	Representative Director and President	COO	○	○	○	○	○	○
Tamio Ishibashi*	Executive Vice President	Information Systems/CSR	○	○	○	○	○	○
Katsutomo Kawai*	Executive Vice President	Head of Management Administration	○	○	○	○	○	○
Takeshi Kosokabe*	Director and Senior Managing Executive Officer	CFO	○	○	○	○	○	○
Kazuto Tsuchida*	Director and Senior Managing Executive Officer	Head of Technology/Head of Production and Procurement/Environment	○	○	○	○	○	○
Osamu Fujitani	Director and Senior Managing Executive Officer	Retail and Wholesale Facilities Operations	○	○	○	○	○	○
Fukujiro Hori	Director and Senior Managing Executive Officer	Rental Apartment Building Operations	○	○	○	○	○	○
Keiichi Yoshii	Director and Senior Managing Executive Officer	Head of Marketing Division/Head of Tokyo Head Branch	○	○	○	○	○	○
Takashi Hama	Director and Managing Executive Officer	Environment and Energy Business	○	○	○	○	○	○
Makoto Yamamoto	Director and Managing Executive Officer	Corporate Communications	○	○	○	○	○	○
Yoshiaki Tanabe	Director and Managing Executive Officer	Deputy Head of Technology	○	○	○	○	○	○
Hirotsugu Otomo	Director and Managing Executive Officer	Deputy Head of Marketing Division/Head of General Housing Operations	○	○	○	○	○	○
Tatsuya Urakawa	Director and Managing Executive Officer	General Construction Operations	○	○	○	○	○	○
Kazuhiro Dekura	Director and Managing Executive Officer	Deputy Head of Marketing Division/Head of Head Branch	○	○	○	○	○	○
Yoshinori Ariyoshi	Director and Managing Executive Officer	Head of Central Research Laboratory	○	○	○	○	○	○
Kazuyoshi Kimura	Outside Director	Independent Officer	○	○	○	Chairman	Chairman	○
Yutaka Shigemori	Outside Director	Independent Officer	○	○	○	○	○	○
Yukiko Yabu	Outside Director	Independent Officer	○	○	○	○	○	○
Tatsushi Nishimura	Audit & Supervisory Board Member	Attendance	○	○	○	○	○	○
Kenji Hirata	Audit & Supervisory Board Member	Attendance	○	○	○	○	○	○
Kuniaki Matsumoto	Audit & Supervisory Board Member	Attendance	○	○	○	○	○	○
Kazuhiro Iida	Outside Audit & Supervisory Board Member	Attendance	○	○	○	○	○	○
Yukinori Kuwano	Outside Audit & Supervisory Board Member	Head of Independent Officers	Attendance	○	○	○	○	○
Shonosuke Oda	Outside Audit & Supervisory Board Member	Independent Officer	Attendance	○	○	○	○	○

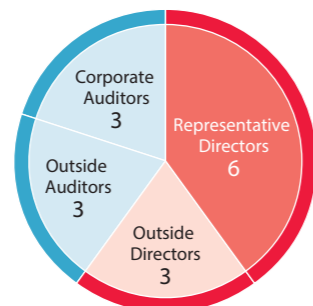
\* Representative Director

### Composition of Directors and Audit & Supervisory Board Members



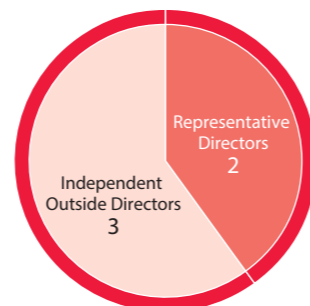
Percentage of Executives 64%  
Percentage of Non-Executives 36%

### Composition of Corporate Governance Committee



Percentage of Non-Executives 60%  
Percentage of Outside Officers 40%  
Percentage of Independent Officers 33%

### Composition of Nomination/Remuneration Advisory Committee



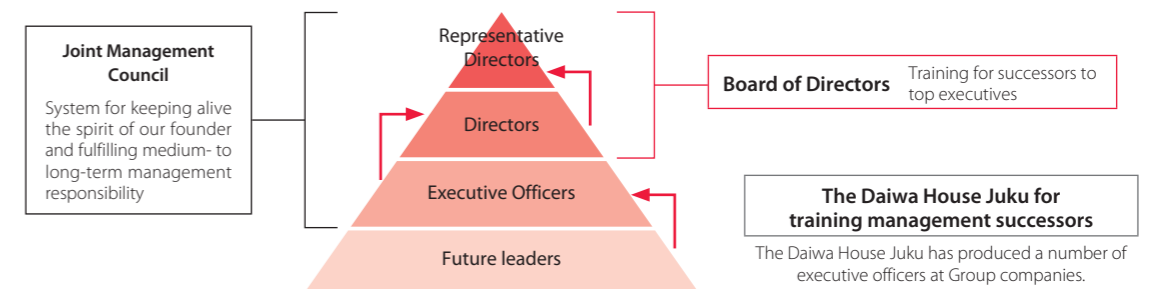
Percentage of Independent Outside Directors 60%

## Mechanism for training successors to realize sustainable development

Human resource development is of utmost importance for the Company's sustainable development. Based on our founder's teaching that "a company is only as good as its people," we channel our energies into building a mechanism for human resource development by employee grade. We believe that seamlessly passing down managerial experience and accumulated know-how is indispensable for sound and sustainable development. Based on this belief, we work to expand the pool of human resources by

intentionally creating opportunities for employees at each grade to interact with staff in higher positions, who are in this way constantly reminded of their responsibility to prepare their successors for promotion.

By doing so, we will strengthen the human resource base that can respond to challenges in new business fields and the expansion of business scale and business area, as well as build a system that immediately responds to emergencies and changes in the management environment.



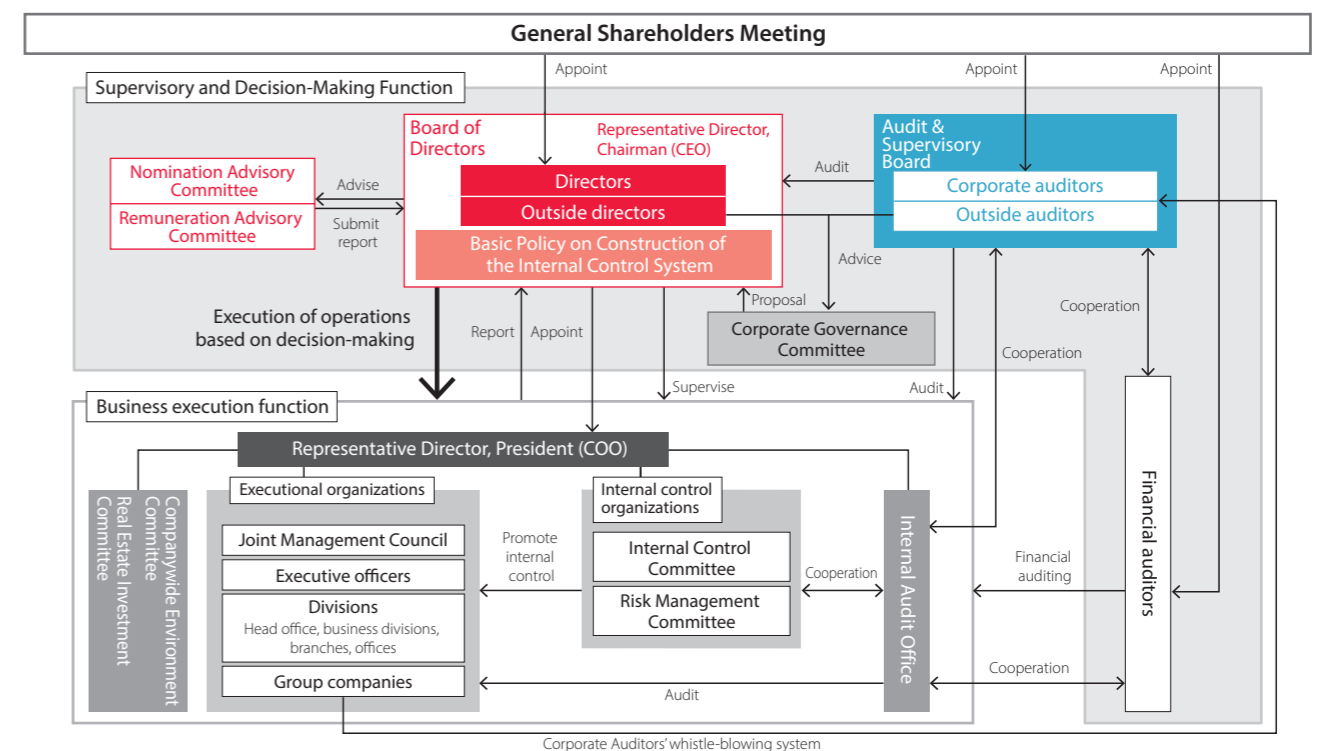
### [Procedure for selection of director candidates]

In selecting director candidates, the Board of Directors makes the decision based on the selection criteria and the views on the Board of Directors following discussion by the Nomination Advisory Committee and the candidates are proposed to the general meeting of shareholders each year. (The term of office of directors is one year)

### Selection criteria

1. They should have excellent personality and wisdom, excel in management sense, and possess expertise in various management issues.
2. They should excel in the ability to analyze and judge objectively from the perspective of the whole company.
3. They should excel in foresight and insight.
4. They should be capable of accurately grasping the trends of the time, business conditions, and changes in the market.
5. They should be highly motivated to improve their own abilities.
6. They should be capable of actively stating the opinion from the perspective of the whole company.

## Corporate governance system



## Remuneration and Incentive Plan

### Remuneration policies

#### Objective

The Company's director remuneration is designed to cultivate and secure superior management personnel and contribute to its sustainable development as a listed company by including a portion linked to operating performance and an appropriate incentive plan (remuneration and investment plan) in consideration for corporate value creation.

The incentive plan consists of fixed remuneration and annual bonuses as short-term monetary remuneration, and compensatory stock subscription rights (stock options for value) as an investment plan linked to medium-term performance and share prices, as well as performance-based, stock compensation tied to long-term shareholder values. This initiative is intended to build an incentive plan that balances management responsibilities of directors over the short-term, medium-term, and long-term.

#### Details

The components consist of

(1) Fixed remuneration that is paid as consideration for fulfilling job responsibilities of the Company's managers in consideration of the scale of business;

- (2) Annual incentive bonus that is paid within 0.5% of consolidated ordinary income as performance-based remuneration for "generating profits and fostering the Company's growth and development";
- (3) Stock options for value that are established with the aim of enhancing the commitment to performance targets set in the Medium-Term Management Plan and to improving shareholder value; and
- (4) Performance-based, stock compensation that is paid with the aim of linking with shareholder value by using return on equity (ROE) as the performance-based indicator, in addition to increasing the number of shares held by directors.

#### Determination process

To ensure the transparency and objectivity of these decisions, the Company makes decisions in consultation with the Remuneration Advisory Committee with outside directors making up more than the half of its members.

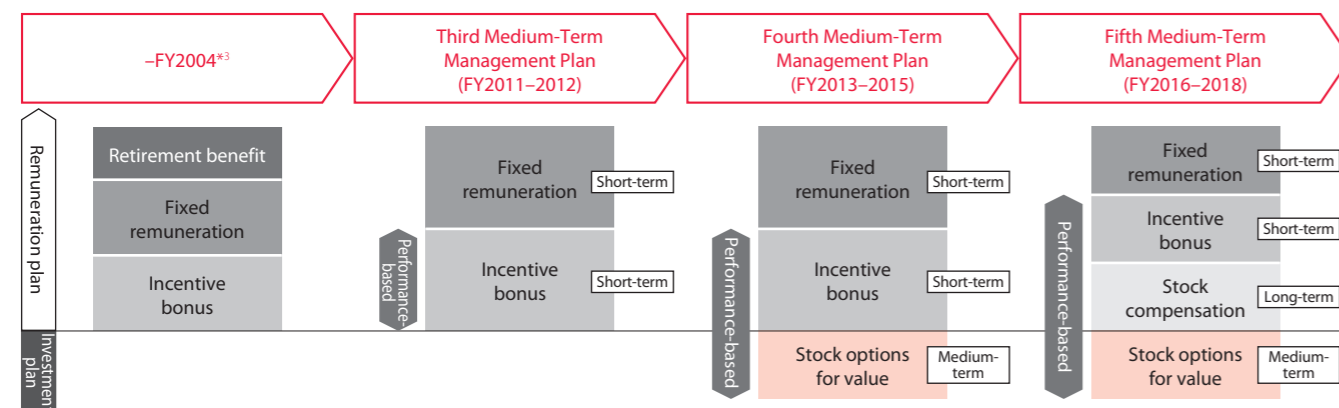
And also to ensure that the annual incentive bonus amount provided to Directors and Audit & Supervisory Board Members in relation to operating performance in the subject fiscal year is in accordance with the will of the shareholders, this amount is tabled as a proposal at the annual General Meeting of Shareholders.

Period	Type of remuneration	Indicator
Short-term (monetary)	Fixed remuneration	Not more than 70 million yen per month
Short-term (monetary)	Annual incentive bonus	Within 0.5% of consolidated ordinary income
Medium-term (share)	Stock options for value	Level of achievement of performance targets of Three-Year Medium-Term Management Plan (accumulated operating income of 800 billion yen)
Long-term (share)	Performance-based, stock compensation	Number of shares to be delivered annually changes depending on ROE performance 10% or higher*1 = 1 8% or higher*2 less than 10% = 0.5 Less than 8% = 0

\*1 Target set in the Fifth Medium-Term Management Plan.

\*2 The minimum target as a listed company proposed in the Ito Review.

### Changes in remuneration structure



\*3 Resolved to abolish the retirement benefit plan at the 2005 annual General Meeting of Shareholders.

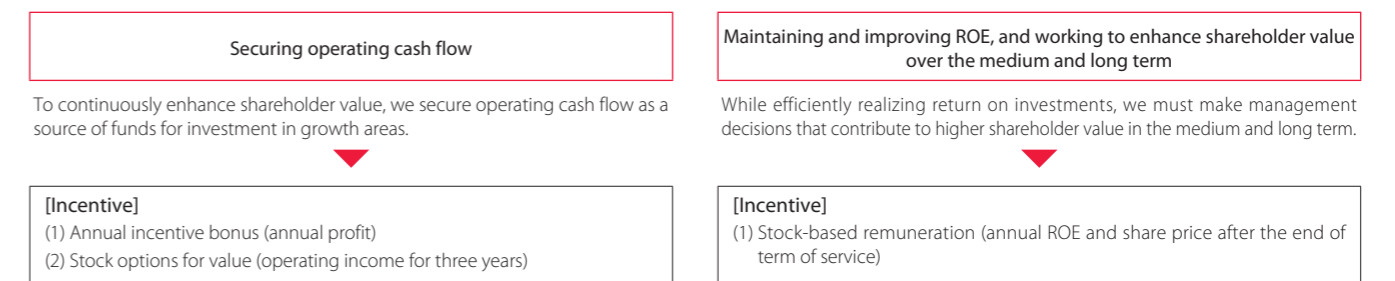
### Link between shareholder value and remuneration/incentive plan

The Company's basic stance toward remuneration of directors is to build an appropriate incentive plan so that management decisions are always made based on overall optimization to increase earnings per share (EPS) by investing in growth areas as stated in the basic policy for returns to shareholders.

At times there are situations that require management decisions to sacrifice short-term profit for sustainable development.

A balanced incentive plan has been developed by introducing a

framework (stock compensation) for rewarding enhanced medium- to long-term corporate value, along with incentives to achieve the short-term performance targets, to ensure that appropriate management decisions are made by managers of a listed company—in response to changes in the operating environment—to primarily enhance the medium- to long-term corporate value.



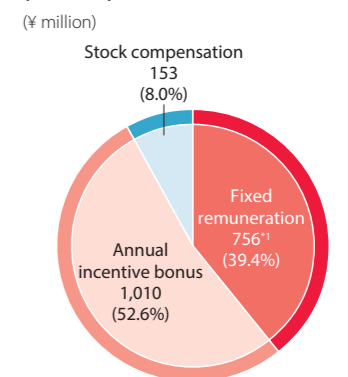
### Remuneration paid

	¥ million		
Director remuneration and shareholder value	FY2014	FY2015	FY2016
Operating income	180,352	243,100	310,092
Ordinary income	202,628	233,592	300,529
Net income attributable to owners of the parent	117,133	103,577	201,700
Directors' fixed remuneration*1	729	758	756
Directors' annual incentive bonus	648	818	1,010
Performance-based, stock compensation	—	—	153
Dividends in total	39,535	53,132	61,284
Cash dividends per share (yen)	60	80	92
TSR (Total shareholder return)*2 (%)	38.83	36.90	3.85

\*1 Excluding outside directors

\*2 TSR (Total Shareholders Return): Ratio derived by dividing the returns gained from equity investments (dividends and capital gains) by the share price.

### Composition of remuneration (FY2016)



### Incentives for next generation of managers and employees

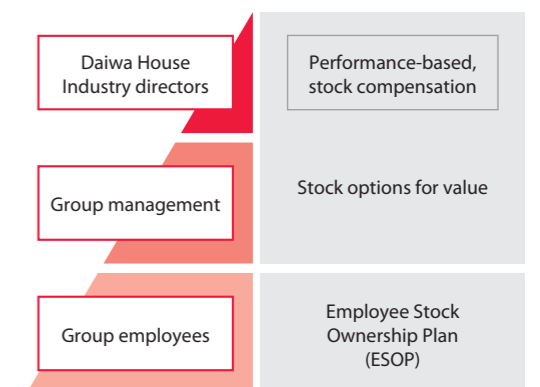
We have adopted a stock incentive plan applying to all Group officers and employees and adjusted to the different roles required of each employee level, to aid in the continuous development of managerial staff and to promote a greater understanding of the need to enhance shareholder value over the medium to long term.

#### [Stock options for value]

Stock options for value are introduced as an incentive plan linked to the Group's Medium-Term Management Plan for approximately 600 of the Group's executives, who account for about 2% of employees.

#### [Employee Stock Ownership Plan (ESOP)]

This plan is introduced as an investment in human resources with a view to contributing to the Group's sustainable development by raising awareness of participation in management and rewarding the results thereof, along with supporting employees' wealth building by promoting acquisition and holding of shares by employees through the Employee Shareholding Association.



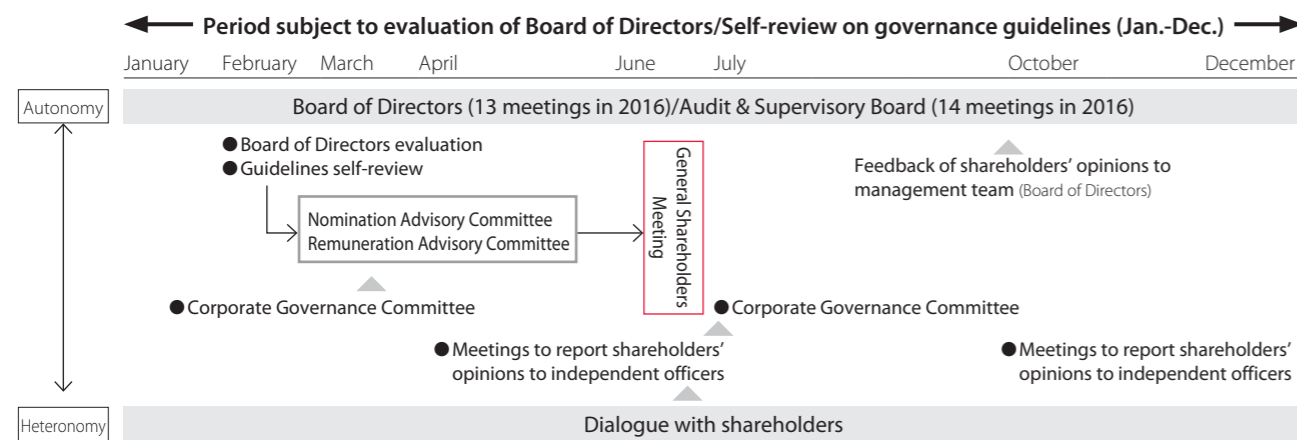
## Board of Directors Evaluation

### Mechanism for effective monitoring

As a mechanism to constantly verify and seek a modality of business management suitable for the business environment, the Company carries out an annual evaluation of the effectiveness of the Board of Directors and a self-review of the corporate governance guidelines. Moreover, in order to utilize, for business decisions, the results as well as opinions and requests received from shareholders through interactions, the Company has established a monitoring mechanism, where the roles of individual committees centering

on outside officers are clarified and information on general business issues are shared in a timely and appropriate manner.

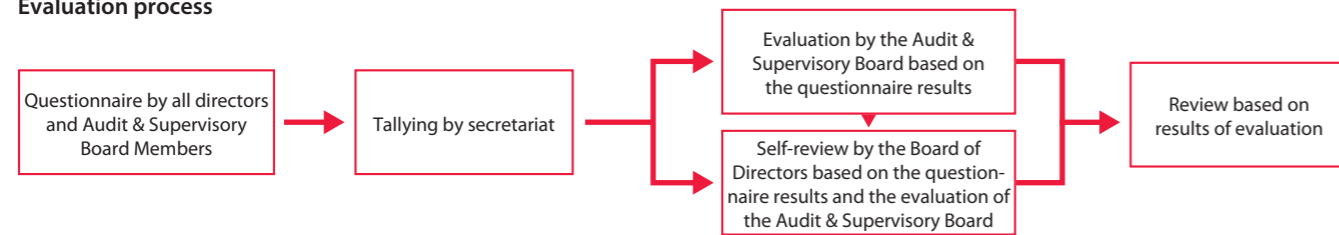
Since most of these efforts have been newly implemented in response to the application of the Corporate Governance Code, we will continue to examine whether they are optimal. While making these efforts, we will continue seeking to improve the effectiveness of individual functions.



### Overview of evaluation on effectiveness of Board of Directors

The Company carries out an evaluation of the effectiveness of the Board of Directors based on the results of questionnaire-based surveys by all the Directors and Audit & Supervisory Board Members and based on the Audit & Supervisory Board's evaluation of the Board of Directors.

#### Evaluation process



#### Evaluation items

- I. Composition of the Board of Directors
- II. Decision-making process
- III. Management of corporate performance
- IV. Level of support provided to outside directors
- V. Performance of duties by directors, etc

#### Efforts in response to evaluation results for 2015

Based on the status of each evaluation item, the effectiveness of the Board of Directors was evaluated as being fully satisfactory. However, with regard to Item I. Composition of the Board of Directors and officers, the Company considered securing additional human resources to assist in achieving the Daiwa House Group's medium-to long-term and global strategies, such as by appointing outside Directors with specialized knowledge, abundant expertise, or other attributes. As a result, in 2016, we newly brought in from outside the Company one human resource who has a wealth of experience in product planning, development and marketing, as a female independent outside director, and one human resource who has cultivated a wealth of experience in global business development in a general trading company as a male Senior Executive Officer.

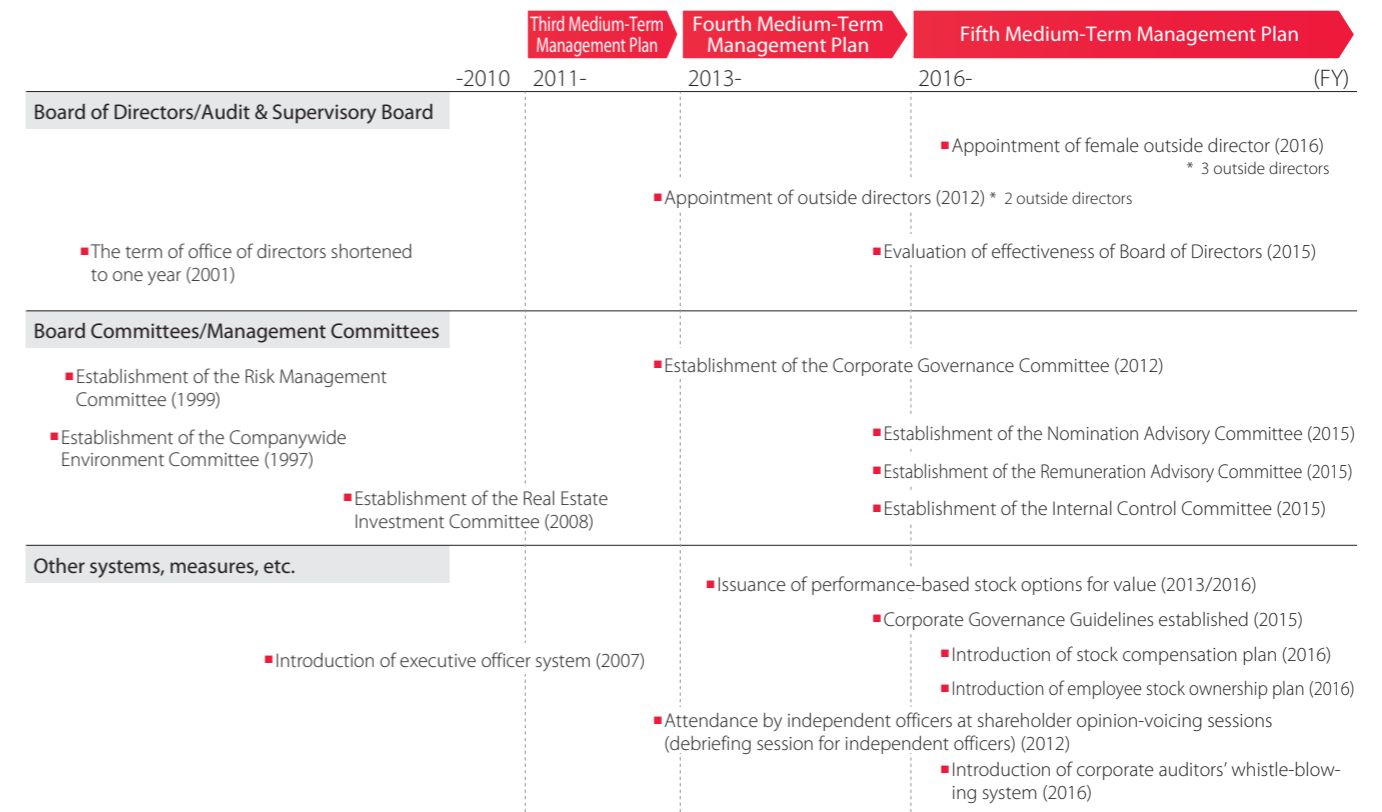
#### Summary of evaluation results for 2016

Based on the status of each evaluation item, the effectiveness of the Board of Directors was evaluated as being fully satisfactory. We also overhaul the management system every year by conducting a self-review of each item set in the Corporate Governance Guidelines. As for 2016, we assessed that our management system was being operated in line with the Guidelines in general. On the other hand, we confirmed again the importance of the Board of Directors to further deepen their involvement in certain items. Also, we resolved to add a new article (about a technology base) on priority items concerning medium- to long-term management.

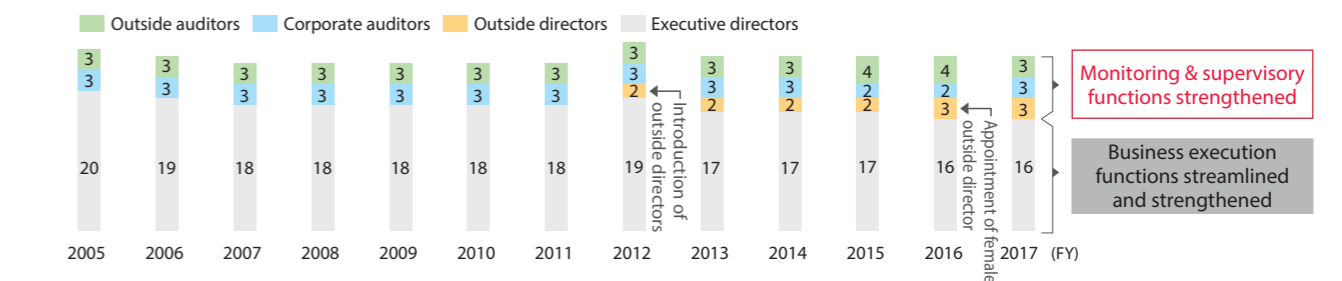
### Status of meeting of the Board of Directors (Jan.-Dec. 2016)

In 2016		1	2	3	4	5	6	7	8	9	10	11	12	13	Total (Average)
Attendance	Directors	19/19	19/19	19/19	18/19	17/19	18/19	19/19	18/19	19/19	19/19	18/19	19/19	19/19	—
	Audit & Supervisory Board Members	6/6	6/6	6/6	6/6	6/6	6/6	6/6	6/6	6/6	6/6	6/6	6/6	6/6	—
	Attendance rate	100%	100%	100%	96%	92%	96%	100%	96%	100%	100%	100%	96%	100%	98%
Number of proposals	Matters to be resolved	7	8	12	5	10	4	8	2	4	12	3	6	6	87 (6.7)
	Matters to be reported	—	—	1	3	3	—	2	1	3	—	3	2	2	20 (2.2)
Required time (minutes)		90	105	150	90	150	30	100	30	75	110	90	90	100	93

### Measures to enhance corporate governance



### Breakdown by membership of directors and auditors



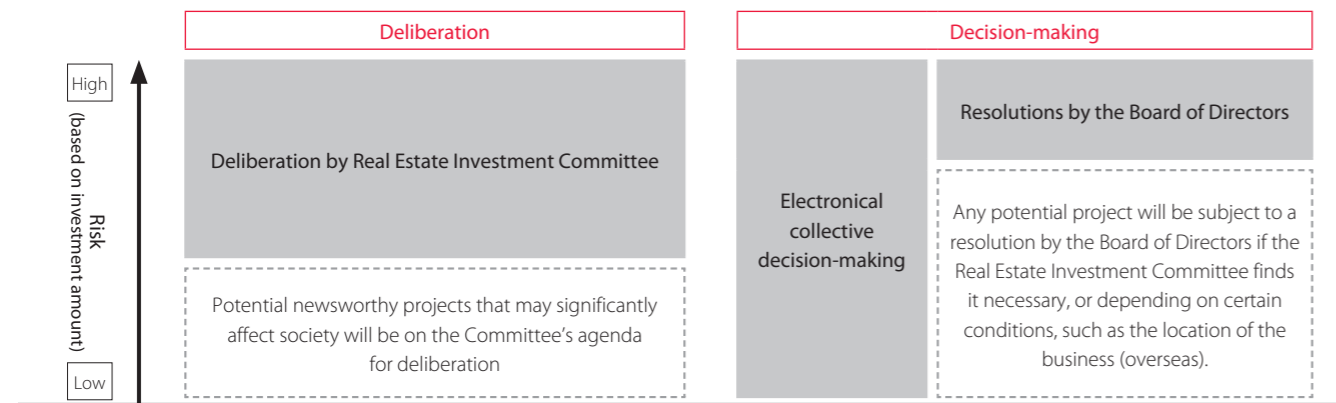
## Establishment of Real Estate Investment Committee

The Company's Real Estate Investment Committee is established to ensure that appropriate decisions will be made about potential investments in the real estate development business after sufficient deliberations and discussions through assessments of their feasibility and risks. As a rule, a meeting of the Committee will be held once in every 10 days or so and chaired by the president of the Company. The Company's decisions will be made through an electronic collective decision-making process, which will proceed in parallel with the Committee, and will be resolved by the Board of Directors.

The Committee will deliberate over potential domestic or overseas investment projects of a certain amount or more, according to the investment amount classifications, to facilitate the collective decision-making

process and the Board of Directors' resolutions. However, regardless of the amounts, any projects related to the 2020 Tokyo Olympics and Paralympic Games, projects involving the right to operate highly public facilities or the like (concessions pertaining to airports, parks, roads or other similar infrastructure), and other potential newsworthy projects, which may significantly affect society, will be on the Committee's agenda for deliberation, whether the land or facilities are owned publicly or privately. Furthermore, if a potential project poses a significant reputational risk to the Company, or if the Company may essentially take total responsibility for a potential project due to the structure of its business partners even though the Company's investment ratio is low, then the project will be deliberated, regardless of the investment amount requirement.

### Deliberation and decision-making process according to impact of risk (based on investment amount)

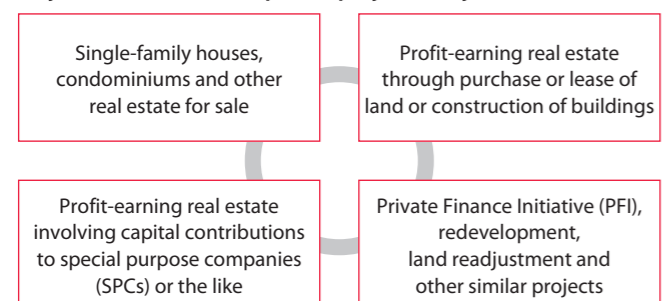


### Deliberation based on unique criteria

The Real Estate Investment Committee will fully deliberate a potential project based on explanations given by the drafting and related departments. The Company has set hurdle rates for the internal rate of return (IRR) as investment criteria. The implementation of a potential investment will be adopted if the relevant rate requirement is met. At the same time, the Committee's deliberations involve multilateral risk assessments (11 departments, 25 items) including whether the implementation of the investment

is consistent with the Company's management philosophy, management strategies and brand image, as well as other factors, such as legal risks, soil or groundwater pollution, ground condition risks, and appropriateness of construction costs. Thus, a potential investment project, which is acceptable from an economic perspective, will not be adopted if the implementation of the investment significantly conflicts with the Company's goals or vision, or has a considerable environmental impact.

### Major real estate development projects subject to deliberation



### Risk assessment for investment decisions

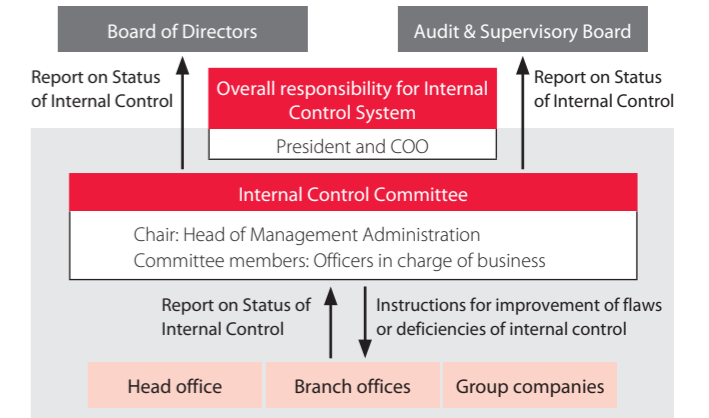
- [Economic risk assessment]**
  - Set IRR hurdle rates\*
- [Multilateral risk assessment (11 departments, 25 items)]**
  - Consistency with management philosophy, management strategies and brand image
  - Legal risks
  - Environmental impact, such as soil or groundwater pollution, ground condition risks
  - Appropriateness of construction costs, etc.

\* To be set based on the WACC (weighted average cost of shareholders' equity and liabilities) by taking into consideration additional factors such as risk premiums.

## Internal Control

### Structuring and operating the internal control system

To ensure that all officers and employees conduct efficient work performance in compliance with laws and regulations and that the Daiwa House Group can achieve sustainable growth, the Company has created and implements the Internal Control System as described below, under the authority of the Internal Control Committee, for which the president has overall responsibility.



### Systems for compliance with laws and regulations and risk management

#### (1) Risk Management Committee

We have a rule that requires any risk issues that arise at the head office, branch offices and Group companies (including overseas branches and companies) to be immediately reported to the secretariat of the Risk Management Committee of the head office. Risk-related information reported to the secretariat is promptly communicated to officers and managers of relevant departments, as well as reported to the Risk Management Committee of the head office which convenes once every month.

In addition, the Risk Management Committee convenes regularly at branch offices and Group companies. The proceedings of the Risk Management Committee of the head office are implemented throughout the Group, and functions such as structuring the risk management system within branch offices and Group companies and proposing operational improvements to the head office are handled. The risk management system of the Group has become ever more robust as a result of two types of Risk Management Committee, namely the Risk Management Committee of the head office and the Risk Management Committee of branch offices and Group companies, complementing each other.

#### (2) Compliance training

We proactively conduct compliance training with a view to enabling employees to improve their knowledge of relevant laws and regulations as well as their understanding of risk management. Specifically, we provide training programs for each employee grade to cultivate the knowledge and background needed for each employee grade, including new recruits, mid-career employees and those in supervisory and managerial positions, and training programs organized for departments to enable employees to gain knowledge of the laws and regulations concerning their respective department.

#### (3) Internal audits

The Internal Audit Office is a department specializing in internal audit, and verifies and evaluates whether operations comply with laws and corporate rules by conducting hearings of officers and employees of branch offices and Group companies and confirming documents. If any problem is discovered as a result of the audit, the office requests the submission of an improvement plan for such problem and a progress report on the improvement plan six months after submission.

### Group management system

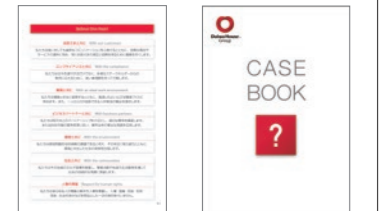
Group Management Rules has been established as rules for the management of Group companies under which the Company is requested to report important matters while maintaining the basic policy calling for Group companies to achieve business development with a spirit of independence and autonomy. This system ensures the appropriateness of operations through adoption of control and discipline by the Company while respecting the flexible and efficient work performance of Group companies.

### Audit by Audit & Supervisory Board Members

Audit & Supervisory Board Members attend not only meetings of the Board of Directors but also other meetings, including meetings of the Corporate Governance Committee and Nationwide Branch Managers' Meetings, and exchange opinions with financial auditors four times a year. These initiatives systemically ensure that important information relating to the Company's execution of operations is reported in detail to Audit & Supervisory Board Members.

#### Being complete in small things based on the Principles of Corporate Ethics and Code of Conduct

In order to make sure that each employee practices the corporate philosophy and symbolic message "Creating Dreams, Building Hearts," we prepare CASE BOOK, an educational booklet that describes the Principles of Corporate Ethics and Code of Conduct, case studies, and the hotline for whistle-blower, once every two years and distribute it to all Group employees. We issued the 7th edition in 2016 and are working at being complete in small things by doing a read-through at the morning meeting in the workplace and other opportunities.





**Kiichiro Iwasaki**  
Outside Auditor\*

**Kenji Hirata**  
Corporate Auditor

## Pursuing corporate governance for an even better company

\* Mr. Iwasaki stepped down from his position as Outside Auditor with effect from the 78th Ordinary General Meeting of Shareholders held on June 29, 2017 due to the expiration of his term of office (June 2005 to June 2017).

### The driving force behind our growth comes from our founding DNA and the business stance of our current management team

**Hirata** In your position as Outside Auditor, you have exerted your full efforts over the last twelve years in contributing to the development of the Daiwa House Group. How do you see the growth path followed by the Group during your tenure?

**Iwasaki** Takeo Higuchi took over the management of the Group after the death of Nobuo Ishibashi, the founder of Daiwa House Industry, in 2002. Under his leadership, over the fifteen years from that time to May 2017, the market capitalization of the Company rose from roughly ¥450 billion to ¥2,360 billion, a more than five-fold increase. I believe that the wellhead of this dramatic growth lies both in the Company's "founding DNA" and in the business stance adopted by Chairman Higuchi and President Naotake Ono.

**Hirata** You were able to observe from a close vantage point the way in which Chairman Higuchi and President Ono managed the Company and the Group. Because of this, I think I would be right in saying that you were able to sense the way in which they passed on the Company's "DNA" to their successors. And it seems to me that through striving to make the Company even better as a business enterprise, Nobuo Ishibashi's dream of reaching net annual sales of ¥10 trillion by the 100th anniversary of the Company's founding is coming into view.

**Iwasaki** The current management team have specified benchmarks for ROE and the D/E ratio within the Group's Corporate Governance Guidelines. They have thus drawn a definite line between their management course and a simple desire to expand for expansion's sake.

It has been clear to me that the management's sincere pursuit of this hard-to-achieve dream of ¥10 trillion in sales shows their strength of will and the firmness of their resolve. This phrase "ten trillion yen" embodies the Group's firm resolve, and will serve as the motivating power behind the initiatives that the management will have to take in order to achieve this goal—restructuring the Group's business portfolio to match the anticipated needs of society twenty years and thirty years down the road, and discovering and nurturing new businesses.

### Developing new businesses via the bottom-up approach, plus a wide and long-term perspective

**Iwasaki** Based on Nobuo Ishibashi's exhortation—"We should think not about what will be profitable, but about what will be of service to society – what will make people happy"—the Daiwa House Group has put its full efforts into developing new products and services. The business environment has been going through considerable changes in recent years due to such trends as the declining birthrate, the population aging phenomenon, and the information revolution. But over the past decade the Daiwa House Group has adequately foreseen these social developments and has made major corresponding adjustments to its business portfolio. Thanks to this, it has cultivated new customers and laid the groundwork for doing business with an even wider group of potential new customers.

**Hirata** The business philosophy and attitude of the founder of Daiwa House Industry has been passed down from one generation of management to the next as the core of the Group's corporate culture. To take one example from the area of our approach to human resources, we always look warmly on diverse ways of thinking, and are open-minded with respect to ways of doing things that have no precedent.

This business stance, characterized by this sort of positive attitude—a willingness to tackle new things that have no precedent—and accompanied by the bottom-up approach, is very much alive and well in the hearts of all the employees of the Daiwa House Group.

**Iwasaki** The organization employed by the Group consists of a sort of matrix linking the business divisions with all the offices and branches, and in which the bottom-up approach is fundamental to day-to-day operations, and I believe this functions very well. The Group's superior business competitiveness is best seen in the way it makes effective use of land holdings. In this, the staff at the various offices and branches are constantly aware of the particular land needs and characteristics in their own region or area, and work to cultivate and discover new needs. This constitutes the bottom-up approach, and at the same time specialist staff at the business divisions exercise the necessary supervision and checking functions from a wide and long-term perspective, ensuring that business profitability is maintained and, if possible, improved. The bottom-up approach as well as the supervision from a wide and long-term perspective that is performed by the business divisions both stem from the business approach put forward by the Company's founder Nobuo Ishibashi, but I feel that this approach also serves as a major strength of the Group in developing new business fields. We can look forward to the Group making good use of its organizational strengths in the domestic market to develop new businesses that meet needs peripheral to its existing core businesses. In overseas markets, on the other hand, it would be difficult to mobilize the same sort of organizational setups that the Group deploys in Japan, and thus it will probably require new trial and error attempts before it becomes clear what operational strengths the Group can base its overseas businesses on.

### Supervision and monitoring of the Board of Directors

**Hirata** In considering probable developments in the near future, the role of the Board of Directors in directing the Group's management seems likely to become even more important. However, we must also ask ourselves the question: What sort of mindset are we, as auditors, required to have in order that the Audit & Supervisory Board may properly exercise its role as a supervisory and monitoring body for the Board of Directors?

**Iwasaki** If we look at some of the scandals in which other companies have been involved, one suspects that the activities of these companies' boards of directors were not subject to adequate scrutiny, and one is made keenly aware of the serious responsibility that we bear as auditors for warning the Board of Directors to avoid taking certain courses of action. At the start of each general meeting of shareholders, which is held every year, in accordance both with the law of the land and with the Company's articles of incorporation, the auditors are obliged to report to the shareholders on whether or not the business reports published by the Company accurately detail the actual state of the Company, and on whether or not the Company's directors have committed any wrongful acts or otherwise infringed the law in the performance of their duties. I view this obligation as extremely important. How do you view your duties as an auditor?

### The "bottom-up approach" is also important in the fulfillment of an auditor's duties

**Hirata** An auditor's mission is to work to strengthen corporate governance and internal control, but within these objectives, I believe that the responsibility for overseeing the activities of the company's board of directors is of the utmost importance. By attending meetings of all important committees—from the board of directors on downward—and by scrutinizing proposals to be put before the board and confirming that the issues have been adequately dealt with subsequently, the auditors in a well-run company are able to check that the board is performing its functions properly. Another function of an auditor, in my opinion, is to be fully aware of the situation at all the branches of the company. At the Daiwa House Group, the corporate auditors pay regular visits to the various branches to personally examine the problems being encountered there as well as to confirm that improvements have been made in response to problems previously encountered. In this way, we are able to gain an insight into what is going on under the surface. The position of corporate auditor gives us very good access to inside information on the Company. And armed with this inside information obtained via the bottom-up approach, we are able to share with the outside auditors and outside directors our understanding of the problems faced by the Group, and are able to form a monitoring team whose members can discuss and debate ways of further improving the management and business execution of the Group. I have been made fully aware of the important role that the corporate auditors play in raising the effectiveness of the outside officers.

**Iwasaki** I, too, have visited the front line of business at suitable opportunities, and one thing that particularly impressed me was that the resolve of the Group's management team had penetrated to every corner of the business. When the scale of a business enterprise increases, to a greater or lesser extent a divergence will appear between the views and intentions of top management and those of the business front line. But the bottom-up approach adopted by the Daiwa House Group enables the management team and the front-line officers to share the same philosophy and goals. The principal role of the outside auditors is to review—from an external perspective—matters already investigated by the corporate auditors. After examining the realities on the ground at the front line of business, if rules are found to have been violated, the root cause is isolated, and an important role of the auditors is to discover ways of ensuring that the same violation of the rules is not repeated. Additionally, as business operations expand, with the consequent increase in workload, any company inevitably faces the problem of long working hours. In response to these various problems, I remember from my personal experience as an outside auditor many cases in which—at the urging of the outside auditors—the Audit & Supervisory Board addressed itself to finding solutions by conducting investigations, including interviews with staff members directly involved.

**Hirata** As auditors, our role is not simply to point out the occurrence of problems, but to discover the root causes and propose effective solutions. This is something of which I have become very much aware through my experience of tackling auditing work alongside you.

In order to address problems inherent in the concentration of work volumes toward the end of each business term, the Group's adoption of the percentage-of-completion method has helped to promote production leveling. In addition, to address the problem of long working hours, as you know, we have discussed with the Company's executive officers ways of raising productivity through investment in information technology, as well as reforming employment modes to more accurately reflect the front-line realities.

### The top management's business stance

**Iwasaki** One of the strengths of Daiwa House Industry is the way in which its top management listen seriously to the opinions of the auditors. Whenever auditors make a proposal, they are listened to seriously by the chairman and the president of the Company, and I believe I'm right in saying that you, Mr. Hirata, have had the experience of having your proposals taken up immediately for discussion as extremely important issues. I think it would be correct to say that the general atmosphere that has been established within the management of the Group is one where the directors, independent outside directors, executive officers, and corporate and outside auditors all collaborate in the common cause of moving the Group's management forward in a positive manner. At the meetings of the Corporate Governance Committee, which are held twice annually with the attendance of the president, the independent outside directors, and the independent outside auditors, the attendees debate various issues on the basis of conclusions already reached at meetings of the Board of Directors and the Joint Management Council. They also take into account the opinions of major shareholders, on which they have received reports submitted by the General Affairs Department and the IR Department. Many such meetings have turned out to be very rewarding, as they have resulted in many issues being taken up by the top management of the Group.



**Hirata** Yes, there is no doubt that within the relationship between the auditors and the Group's top management, both sides approach the issues at hand with great seriousness, and there is a mutual respect that recognizes that both sides are endeavoring to make the Company and the Group even better business enterprises. The auditors receive a mandate from the shareholders to monitor the actions of the Company's directors. It goes without saying that they must fulfill the responsibilities

of their own positions, and at the same time, in response to proposals that we make after having investigated the situation at the actual operational front line, the management are obligated to receive and examine our proposals seriously. When we see that they do so, it reinforces our feeling of bearing a heavy responsibility. Speaking personally, I have no experience of any other company's board of directors, but from your viewpoint as an outside officer, do you believe that the Board of Directors of Daiwa House Industry functions effectively? And does it present any unique features?

### The effectiveness of the Board of Directors

**Iwasaki** At the meetings of the board of directors of another company with which I worked, almost all proposals submitted to the board had previously been explained to a number of the directors and had received an unofficial seal of approval. In other words, almost everything had been agreed on behind the scenes, and a dissenting voice was hardly ever heard at the board meetings. In other words, almost everything had been agreed on behind the scenes, and a dissenting voice was hardly ever heard at the board meetings. At Daiwa House, in contrast, there is no prior consensus-building: instead, explanations are provided to all the directors, each of whom arrives at the board meeting having already given adequate thought to the proposal. Because of this, the meetings are able to devote time to lively debate. Occasionally, proposals that appeared on the surface to be fully in order were examined, with opinions and misgivings being simultaneously voiced from all management perspectives. As a result, the true problems and risks involved were clarified, and the board was able to amend the proposals appropriately or to reject them in their entirety. I feel that board meetings that take place amid such a free atmosphere are almost unique.

**Hirata** Yes, I, too, feel that the ambience of the Board is extremely free and open, and that individual members are encouraged to speak their minds. The Company provides an environment where the unfettered exchange of opinions can take place. If there is ambiguity about a certain issue, Board members can put one question after another and voice a wide variety of opinions, enabling the Board as a whole to gain a fuller understanding of each proposal presented.

**Iwasaki** Yes, and moreover, in addition to the discussion of matters to be resolved by the Board of Directors, to ensure appropriate implementation of resolutions by the Board, the Joint Management Council has been established for the purpose of reaching a consensus between the directors and the executive officers relating to issues arising at each business division or Group company, as well as on future policy. Because the directors, the executive officers, and the heads of business divisions and presidents of Group companies take part in the discussions, other heads of business divisions and presidents of Group companies are able to gain a fuller understanding of each issue. These meetings thus act as a starting point for seeking new possibilities for collaboration, and give rise to synergy. And then, into this mix, the addition of a different viewpoint—from the outside directors and auditors—makes it possible for even more effective proposals to be made and adopted. In addition, an evaluation is carried out every year on the effectiveness of the Board

of Directors, and this has led to a number of proposals being immediately adopted, resulting in further improved performance by the Board. This seems to me to be a wonderful system. However, from my standpoint as an auditor, I feel that an evaluation needs to be conducted by an outside institution once every few years. I also think that the Company should not only address the question of reforming its board of directors but also its whole corporate governance system, and that this would be very valuable in enhancing the Group's enterprise value over the medium and long term.

**Hirata** Regarding the effectiveness of boards of directors within the context of recent reforms to the corporate governance system, managements of many companies discussed such matters as the creation of a more effective corporate governance structure and the separation of overall management from operational execution. These are some examples of the wide range of issues that we at Daiwa House continuously debate so as to discover an even better system of management. Could you give an opinion about this?

### Creation of a more effective corporate governance structure

**Iwasaki** While the idea of separating the roles of overall management and operational execution certainly has its proponents, I believe that a board of directors composed, on the one hand, of executive directors who have a deep understanding of the work of the company, of its organization, and of its customers, and on the other hand of an appropriate number of independent outside directors, would function the most efficiently. Through the participation in the board of directors of officers directly responsible for the execution of business operations, I believe that the board's debates would always reflect an awareness of the management of the company in its entirety based on the realities of the front line of business. And in my opinion this serves to heighten the board's effectiveness. If, on the other hand, a board is composed solely of such executive directors, a number of causes for concern may arise. To give just two examples, executive directors have "grown up together" in the same organization, and there is inevitably a fear that they may not take sufficiently seriously their duty of mutual supervision. There is also the danger that they may take too much for granted the "common sense" ideas prevalent in the particular industry where the company operates, and their decision-making may thus be based on ideas that diverge from those current in society at large. This, let us face it, is why a company needs independent outside auditors. It is through the medium of serious debate between such independent outside auditors and executive directors that both sides can come to a more profound understanding of the issues at stake, and constructive measures can emerge from this interplay. Moreover, I believe that this system serves as an excellent school where the board of directors—including candidates for the very top positions in the company in the following generation—can become more fully aware of their own positions and the roles expected of them going forward. In this way, the board of directors can pass on to the next cadre of top managers the essential spirit of the company's management, and can nurture top-quality leaders.

### The role of the auditors

**Hirata** In recent years, in Japan an increasing number of corporations have been reorganizing themselves into what is known as "companies with an audit & supervisory committee." Do you think it is preferable, from the perspective of corporate governance, to appoint supervisory auditors in this way to a company's board of directors, or—as is the case currently with Daiwa House—to have an audit & supervisory board independent of the board of directors?

**Iwasaki** In my opinion, it is preferable to have an independent audit & supervisory board. While some fear that the lack of a vote on the board of directors may weaken the supervisory function of a company's auditors, I do not agree. As the auditors are selected directly by the company's shareholders, and hold their position for a guaranteed period of four years, they are able to adopt the shareholders' standpoint in monitoring the company and voicing their concerns if a problem arises. Thus, their position certainly cannot be described as weak. This is because, in the event that a decision of the company's management infringes on the rights of the shareholders, the auditors have the ultimate option of declaring resolutions passed at the general meeting of shareholders invalid. In fact, the inability of the auditors to affect the result of voting on proposals put before the board of directors enables them to take an objective standpoint in viewing the subsequent effects of proposals that have been approved by the board. This, surely, is a source of strength.

**Hirata** Yes, there seems little doubt that if an auditor takes part in decision-making, he or she will inevitably tend to evaluate issues in a positive light, and it is here that the monitoring function made possible by the auditors' objective standpoint is so important. In the nature of management, one cannot avoid the risk of coming up against problems—or of existing problems being brought to light—after a decision has been made. What sort of countermeasure do you think that the Company should take against such risks?



**A Group management and organizational structure capable of dealing with uncertainties**

**Iwasaki** The Company will face a large number of risks in pursuing its business objectives, including the effects of a low birthrate, unknown factors relating to the information revolution, the future impact of the government's ultra-low interest rate policy, worldwide political instability, and so on. However, such uncertainties have always been inherent in doing business. The point is whether or not the Group's management will be able to react swiftly when such problems manifest themselves, and whether the Group possesses human resources and an organizational structure that will be up to the challenge. For the auditors, with the scope of business activities expanding rapidly, I believe that the most important problem to be tackled will be how to construct an effective risk management system encompassing all the Group companies, and how to ensure that the Groupwide internal control system functions with adequate efficiency.



**Hirata** When you took up your position as an outside auditor with the Company twelve years ago, the number of companies in the Group was only 40, but this has now grown to more than 190. I agree that improving and expanding the Group's risk management system, as well as enhancing the efficiency of its internal control system, will be very important issues going forward. An increasing number of Group companies' managements have ceased to be in close contact with the management of Daiwa House Industry—the parent company—owing to the growing number of subsidiaries and indirectly-owned subsidiaries, which in some cases even possess subsidiaries of their own. One of the measures we have put in place to enable the auditors to deal with issues arising from this situation is the holding of interviews with Group-company managements as well as workshops for their full-time statutory auditors, and other such forums for the exchange of information and opinions. We have also increased collaboration with the Group's accounting auditor, and have extended the scope of our oversight of the regulatory compliance situation. I believe that one of the most important duties of auditors is to use such means to gather risk-related information from a broad range of sources, enabling us to devise preventive measures and promptly take steps to prevent the recurrence of problems.

**Leveraging two strands of corporate DNA in aiming for the goal of ¥10 trillion sales**

**Iwasaki** The Daiwa House Group has achieved remarkable growth during my twelve-year tenure as outside auditor, and I believe it will continue to grow steadily. This is because, as I mentioned before, the organizational structure of the Group is one that makes swift and flexible response to change possible. The Group's top management team—led by Chairman Higuchi and President Ono—are extremely open to new ideas and are always willing to listen to the opinions of others. And they are always quick to put good proposals into practice. In addition to the corporate DNA handed down to him by the Company's founder Nobuo Ishibashi, Chairman Higuchi has himself been responsible for creating a new strand of corporate DNA—a corporate culture that values openness and constant willingness to take on new challenges. These two strands of corporate DNA have prevented the Daiwa House Group from falling prey to a “disease” that afflicts many large companies and causes their growth to stagnate. This disease is characterized by organizational rigidity, corporate sectionalism, and an authoritarian attitude. Instead, Daiwa House exhibits a creative corporate culture that facilitates prompt and flexible decision-making. To make it possible for the Group to achieve its ambitious target of ¥10 trillion in annual sales, what is needed is for all members of management and other employees to keep this goal in mind at all times and to translate it into specific measures in the form of medium- and long-term plans. Although I have retired from my position as outside auditor with Daiwa House, I hope that, going forward, the Group's executives and employees will be infused with even greater enthusiasm.



**Hirata** The Daiwa House Group will work toward the goal of ¥10 trillion in annual sales through the pursuit of an aggressive management style, but that does not mean that the Group can neglect the need for protective measures, and we will be putting more efforts into that area as well. Speaking personally, I hope to contribute to the Group's further development by finding new and better ways to apply rigorous corporate governance to the Group as a whole, including our overseas subsidiaries. I have had the benefit of your valuable opinions on a whole host of issues during the twelve years you have served the Group. In the future, too, I look forward to receiving even more astute opinions and useful advice from you in your position as a stakeholder of the Group. Thank you very much for taking part in this discussion today.



**Dialogue with Shareholders and Investors**

To realize purposeful dialogue with our shareholders and investors, we constantly work to enhance mutual communication in the spirit of “co-creating a brighter future,” which is embedded within our management vision. We strive to disclose information that will enable our shareholders and investors to assess our corporate value over the medium and long term.

In addition, our directors, executive officers, and outside officers receive timely and appropriate feedback in the form of the opinions and desires of shareholders and investors, as obtained through this dialogue. In this way, we facilitate a shared awareness of issues facing the Group, and contribute to continuous growth and improvement in corporate value.

**Our activities for FY2016**

<b>General meeting of shareholders (June 29, 2017)</b>		
• Shareholder attendance	<b>743</b>	
• Percentage of voting rights exercised	<b>84.21%</b>	
<b>Communication with institutional investors and analysts Total 750 companies</b>		
Face-to-face and telephone interviews with Japanese and overseas institutional investors	As needed	408 companies
Financial results briefing session via teleconferencing	4 times	224 companies
Briefing sessions from top management	Once	56 companies
Tours of our facilities for institutional investor representatives	8 times	49 companies
ESG-related discussions	6 times	13 companies
Overseas roadshows by top management	Britain, North America, Singapore, Hong Kong	
<b>Communication with individual shareholders and investors Total 551 investors</b>		
Online explanatory sessions for individual investors	Once	366 investors
Tours of our facilities for individual shareholders (Tokyo and Nara)	5 times	185 shareholders
<b>Feedback on shareholder and investor opinions and requests obtained through IR activities</b>		
Reports on IR activities at Board meetings		Once a year
Reports on IR activities to outside directors		Semi-annually
Opinions on business performance and market trends exchanged with business divisions		Quarterly

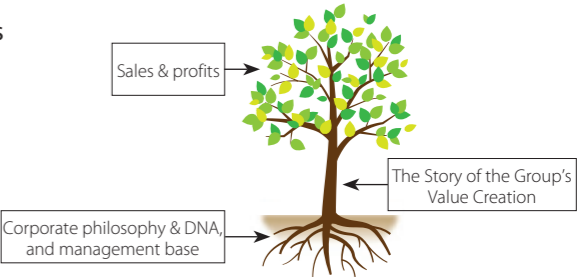
**Small meeting on Integrated Report**

**A small meeting on the Group's 2016 Integrated Report was utilized as a tool for communication with investors.**

<b>Date</b>	Dec. 21, 2016
<b>Attendees</b>	Nine institutional investors
<b>Daiwa House departments represented</b>	IR, CSR, Finance, Corporate Strategy Planning, General Affairs, Environment, Advertising

Sales & profits

Corporate philosophy & DNA, and management base



With the aim of raising the corporate value of the Daiwa House Group—predicated on the concept of producing continuous growth and profits over the long term so as to make the Group into a truly sustainable business corporation—the Integrated Approach Project\* was launched in July 2015. During the project, representatives of various departments engaged in discussions aimed at helping enhance enterprise value over the medium and long terms. These background facts were explained at the meeting.

Following this, we explained how the 2016 Integrated Report is represented in graphic form by the image of a tree shown at right. The blossoms represent sales and profits; the roots that support the tree represent our corporate philosophy and DNA, as well as its management base; and the trunk represents the story of our value creation, which joins them together.

Some of the institutional investors who attended the meeting said that they were focused on the elements that set the Daiwa House Group apart from other enterprises. In addition to basic indicators like ROE, they wanted to find out the core “purpose” of the Group, and also said they were interested in our medium- to long-term vision, including our *Asu Fukaketsuno* (Indispensable for Tomorrow) catchphrase, and what it will translate into in concrete terms. The participants said that while they understood that the spirit of our founder has led to our expansion, they also wanted to know more about our human resources—which will be vital as the base on which further expansion will be built—as well as our staff training strategy, on which will depend our ability to continue creating new value into the future. These were a few of the many opinions and requests we received during the meeting.

\* Integrated Approach Project: This project entails the reflection in the management of Daiwa House Industry of an “integrated approach” combining both financial and non-financial information, with the goal of raising the Company's enterprise value over the medium and long terms.