Daiwa House Group

Integrated Report 2017

Creating Dreams, Building Hearts

Our founder, Nobuo Ishibashi (1921-2003)

Don't do things because they will make a profit,
but because they will be of service to society.

Everything started with this

**"Don't start off from the thought: 'What can I do that will make a profit?'
A company is a public organ of society, and we must ask ourselves what kind of product –
or what kind of business – will be of use to the world around us and make people happy."**

The above is what Nobuo Ishibashi, the founder of Daiwa House Industry,
often used to say to the Company's employees.
This is the concept from which the Daiwa House Group started.

As a group that co-creates value for individuals, communities and people's lifestyles,
we aim to think outside the box and always to create new value in each successive generation.
We will continue to pass on the ideals on which the Company was founded,
and work to help realize a sustainable society.

Material Issues relating to Creating Sustainable Corporate Value

(Figures shown in the following text correspond to the figures in the diagram below.)

At the Daiwa House Group, in order to apply the right level of financial leverage to the funds we receive from our shareholders 1, we aim to maximize corporate value from a medium- and long-term viewpoint. For this purpose, we invest those funds into growth investments such as real estate development, overseas businesses, and other business operations 2, as well as in strengthening the Group's management base through human resources development, M&As, research and development, or production facilities 3. Our business investments form a portfolio of businesses with differing life cycles, by promoting core businesses, diversifying and creating new businesses 5, based on decision-making criteria founded on capital efficiency and risk verification 4.

By providing products and services with a high level of compatibility with the need to preserve the natural environment, as well as the interests of local communities 6 and of a high value needed by society 7, we hope to help realize a society in which people can live fulfilling lives (Contributing to Society through Business) 8.

As a result of these business activities, we are able to secure profits exceeding the capital costs needed to realize corporate value 9, to build even better relationships with our stakeholders 10, to work toward higher shareholder value (Shareholder Value Creation) 11, and to reallocate resources so as to provide new value 12.

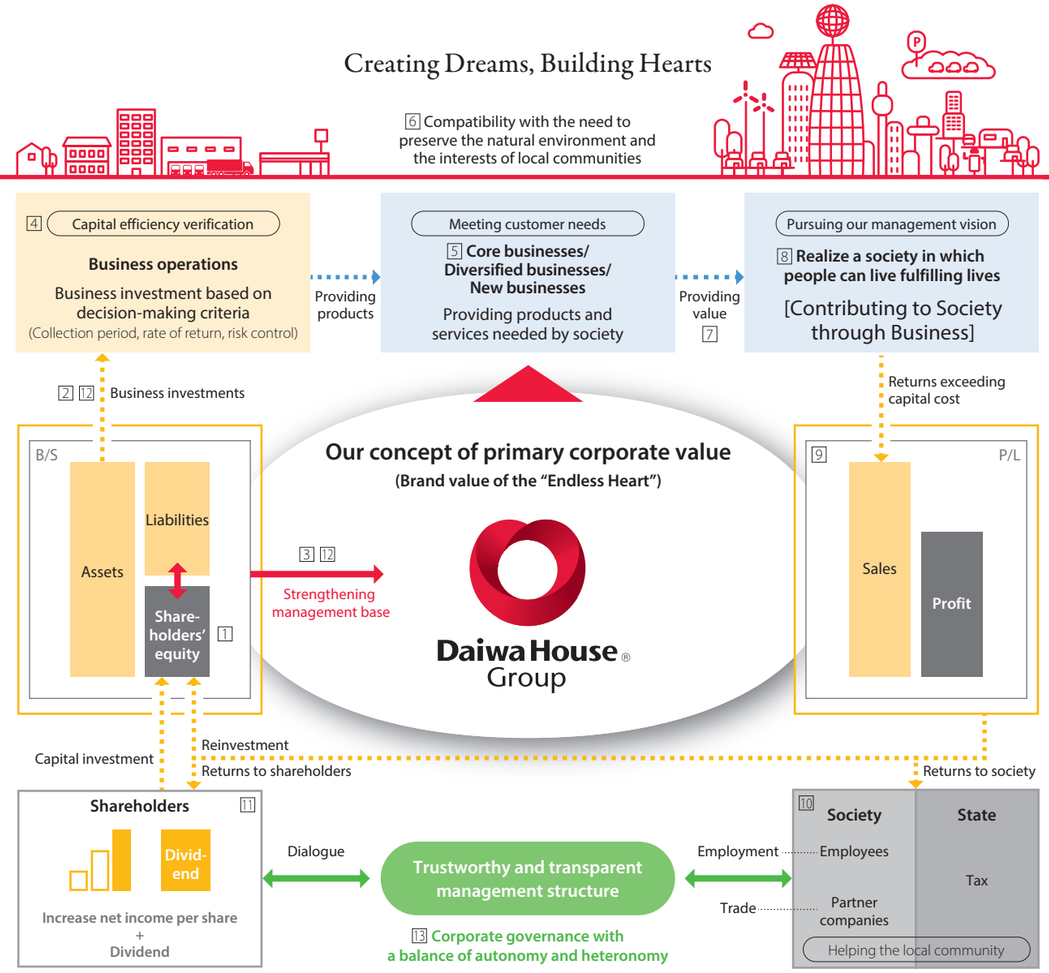
To ensure the sustainability and correctness of these business cycles, we have created a corporate governance system with a balance of autonomy and heteronomy while engaging in initiatives with our assets to stimulate innovation from a medium- and long-term point of view, and are working to strengthen our management base (human resources base, customer base, and technology and manufacturing base) 13.

Additionally, in the spirit of "Creating Dreams, Building Hearts," we seek to understand what it is we can best do to help find solutions to environmental and social issues, and we use the advice we receive from society, and the hopes that are invested in us by our stakeholders, as a motive force to impel the Group to achieve new and greater things.

Through these activities, we strive to improve our concept of primary corporate value (the brand value of the "Endless Heart") to generate cash flow. Through the ever-changing business environment, our aim is the sustained improvement of our corporate value, through the correct allocation of resources to meet each situation.

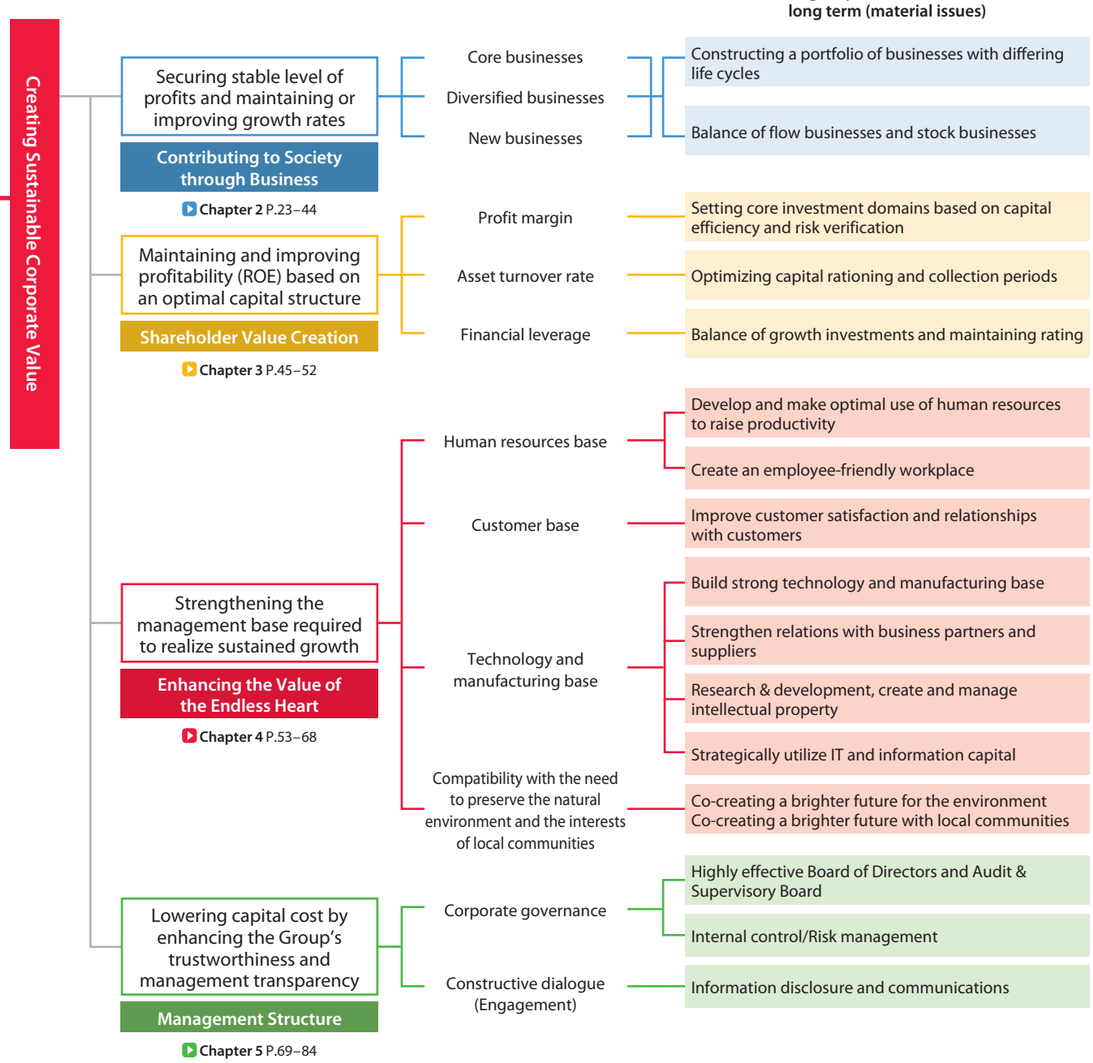
The materiality determination process
The materiality determination process took place in line with the Group's Corporate Governance Guidelines (announced in May 2015) and during the drafting of our Fifth Medium-Term Management Plan (announced in May 2016). The following material issues were identified.

Resource allocation and flow



[Shareholder Value Creation]

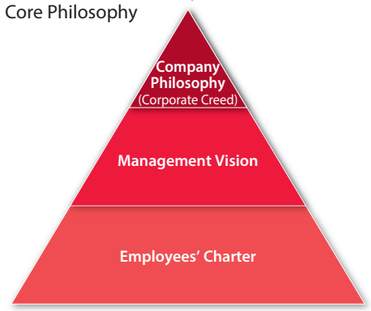
Principal management items



Creating Dreams, Building Hearts

The Daiwa House Group symbol—the Endless Heart—
represents our vision of building endless emotional connections
with each and every one of our customers,
as well as the solidarity of the Daiwa House Group.
As a group that co-creates value for individuals, communities,
and people's lifestyles, we are working to create new value for society.

The Daiwa House Group's
Core Philosophy



Company Philosophy (Corporate Creed)

- Develop people through business.
- A company's progress depends directly on ensuring a good working environment for its employees.
- Products created in good faith by honest labor through modern facilities will contribute to society in general.
- Our Company will develop thanks to the complete solidarity and tireless efforts of all executives and employees.
- Through mutual trust and cooperation, by always reflecting deeply on past mistakes, valuing responsibility, and actively engaging in mutual criticism, we will advance along the road to growth and success.

Management Vision

Connecting Hearts

The Daiwa House Group aims to create, use and enhance new values together with its customers as a group that co-creates value for individuals, communities and people's lifestyles. In doing so, we hope to realize a society in which people can live fulfilled lives. In addition, we cherish our ties with each and every customer, and continue to strive to build life-long trust as a partner in experiencing the joys of a lifetime.

Employees' Charter

As employees of a group that co-creates value for individuals, communities, and people's lifestyles, we pledge the following:

- Strive to improve quality, skill and communications to provide safe, reliable products that are in harmony with the environment, and help create comfortable, relaxing living spaces for our customers.
- Serve our customers in good faith, and share their excitement and joy.
- Work to improve society's evaluation of our company and increase its corporate value by conducting ourselves fairly according to society's expectations and rules.
- Aim to grow and develop with our business partners by never forgetting our gratitude to them and dealing with them fairly.
- Pursue our own growth and happiness through our work.
- Help people gain fulfillment in their lives and build a better society, with co-creation of a brighter future as our basic aim.

Scope of this report

The report provides information on the Daiwa House Group overall (162 consolidated subsidiaries and 28 equity method affiliated companies as of March 31, 2017), with a focus on Daiwa House Industry Co., Ltd.

Notice regarding financial data (numerical data in graph form or otherwise)

Amounts less than one unit are omitted in this report.

Forward-looking statements

This Integrated Report contains future estimates, targets, plans and strategies of the Daiwa House Group. These are based on judgments employing information available at the time of writing. For various reasons, actual results may differ substantially from these estimates.

CONTENTS

1 The Story of Value Creation

We introduce our future vision of the Daiwa House Group, centered on the "dream" handed down to us by our founder, and the management base that makes possible our efforts to turn that dream into reality.

07 Message from the CEO
09 The Story of the Daiwa House Group's Value Creation

The Story of Value Creation

2 Contributing to Society through Business

We provide an overview of the Group's operations, which are constantly expanding as we address social issues and continue meeting user needs.

23 Message from the COO
29 Changes in the Operating Environment—Opportunities and Risks
31 Basic Policies of the Fifth Medium-Term Management Plan, and Issues to be Addressed
33 Business Overview

Contributing to Society through Business

3 Shareholder Value Creation

We explain our capital policy, under which we aim to create economic value that reliably exceeds capital costs over the medium and long term, in order to fulfill the fiduciary responsibilities that we bear as a listed company.

45 Message from the CFO
47 Basic Strategy for Capital Policy
48 Management's Discussion and Analysis of Financial Position and Results of Operations

Shareholder Value Creation

4 Enhancing the Value of the Endless Heart

We explain our measures to strengthen the Group's management base in ways that will positively impact cash flow over the medium and long term, with the goal of achieving a continuous increase in the Group's corporate value.

53 Brand Value of the Endless Heart (primary corporate value)
55 For Enhancement of Our Human Resources Base
58 Leverage Human Resources Base to Branch Management
59 For Enhancement of Our Customer Base
61 For Enhancement of Our Technology and Manufacturing Base
65 Co-creating a Brighter Future for the Environment
68 Co-creating a Brighter Future with the Communities

Enhancing the Value of the Endless Heart

5 Management Structure

We explain our corporate governance system, which plays a vital part in ensuring that the Group's management enjoys still greater trust among its stakeholders and society as a whole.

69 Corporate Governance System
73 Remuneration and Incentive Plan
75 Board of Directors Evaluation
77 Investments in Real Estate Development and Risk Management
78 Internal Control
79 Auditors' Dialogue
84 Dialogue with Shareholders and Investors

Management Structure

6 Data Section

85 Financial Highlights
87 Non-Financial Highlights (CSR Self-Assessment Indices)
89 Principal Subsidiaries and Associated Companies
91 Share Information
92 Corporate Data
93 Editorial Postscript

Data Section

Message from the CEO

We aim to pass on the spirit of our founder and become a corporate group whose development continues from one generation to the next

Daiwa House Industry was founded in 1955 as a small company of eighteen employees, capitalized at ¥3 million, and since then has provided a broad spectrum of society with a wide variety of products and services relating to everyday life. In fiscal 2015 we celebrated the Company's 60th anniversary, and in that year recorded consolidated net sales of more than ¥3 trillion. Today, the Daiwa House Group—which operates under the motto of being a group that co-creates value for individuals, communities, and people's lifestyles—comprises 196*1 companies with a total workforce of around 62,000*2 employees. This has been possible thanks principally to the constant support provided by our stakeholders, and I would like to express my sincere gratitude on behalf of the Group.

Our goal is to be a sustainable corporate group whose business operations will continue to develop from one generation to the next. To remain the kind of business enterprise that society requires, I believe it is vital that all members of a corporate group have certain core values that they share on a permanent basis. In the case of the Daiwa House Group, these core values can be none other than the company philosophy and spirit handed down to us by the founder of Daiwa House Industry—Nobuo Ishibashi.

Nobuo Ishibashi, who built Daiwa House Industry from nothing, was always motivated by his belief that we should think not about what will be profitable, but about what will be of service to society – what will make people happy. And because of this, he employed his finely-honed sensibility to examine the social environment and obtain an accurate grasp of latent needs.

For example, just after the end of WWII, and amid a severe shortage of timber, Mr. Ishibashi was confronted by the sight of large numbers of wooden houses and other structures that had been severely damaged by a major typhoon, and he realized that a structural framework made of steel pipes would be able to withstand such strong winds. Thus was born the Pipe House, the Company's first product. Similarly, in response to the shortage of housing caused by the Baby Boom, which had led to many people living in extremely cramped conditions, Mr. Ishibashi heard children complain that there was nowhere at home where they could study properly. After thinking about this problem, he hit on the concept of the Midget House—a stand-alone study room for children that could be erected in only three hours—and this product became an instant success.

Today, the Daiwa House Group works to expand the scale of its operations in the three broad fields of Housing (single-family houses, rental housing, condominiums, and more), Business (commercial facilities, business and corporate facilities, logistics facilities, medical and nursing care facilities, and others), and Life (the operation of home centers, resort hotels, fitness clubs, etc.).

Nobuo Ishibashi handed down to us the ambitious goal—what he called his "dream"—of achieving annual net sales of ¥10 trillion by the year 2055, the 100th anniversary of the Company's founding. To reach this grand target, we must continually expand our business operations by accurately ascertaining society's changing needs from one generation to the next, and meet these needs by realizing a wide range of products, services, and business models. Moreover, we intend to supply these products and services not only to our customers in Japan, but to overseas consumers as well, in the hope of improving people's lifestyles all around the globe.

To make this ambitious dream a reality, it is essential that we properly train our human resources—the employees and future managers who will undertake this task—and ensure that they are able to fulfill their potential. Since the very start, the Daiwa House Group has positioned the development of human resources as its top-priority management issue. The words "Develop people through business" are found at the beginning of our Company Philosophy (Corporate Creed), and demonstrate the immutable stance of the Daiwa House Group.

Nobuo Ishibashi was a man who rejected narrow self-interest and worked with unflagging determination in the interests of the Company's customers and society as a whole. Today, more and more of the Daiwa House Group's staff have never personally been exposed to Mr. Ishibashi's spirit. I believe it is my highest duty as CEO to instill in all our employees and executives alike the mindset that Mr. Ishibashi continually espoused—imagination, sincerity, enthusiasm, and a positive attitude—and that these qualities will serve as mental signposts that will guide our staff in the right direction.

It is our mission to ensure that the Daiwa House Group not only remains in existence into the far future, but that it also continues to be regarded as necessary by society. To make this possible, every member of staff must follow the precept of "getting the little things right"—of doing the obvious tasks correctly and carefully—so that the Group will enjoy a high reputation as a responsible and valuable corporate member of society. And finally, all the Group's executives and other employees must be firmly united in the determination to act in the spirit of our founder, to anticipate social changes so as to let us offer society new value in each succeeding generation, and to mold a corporate group that can and will prosper together with our subcontractors and business partners.

I hope that our stakeholders—most notably our shareholders and investors—will look forward confidently to seeing the Group achieve the dream that I have described above, and that you will continue to give us your support and encouragement.

Takeo Higuchi

Takeo Higuchi
Chairman and CEO

*1 As of March 31, 2017
*2 Including non-regular employees

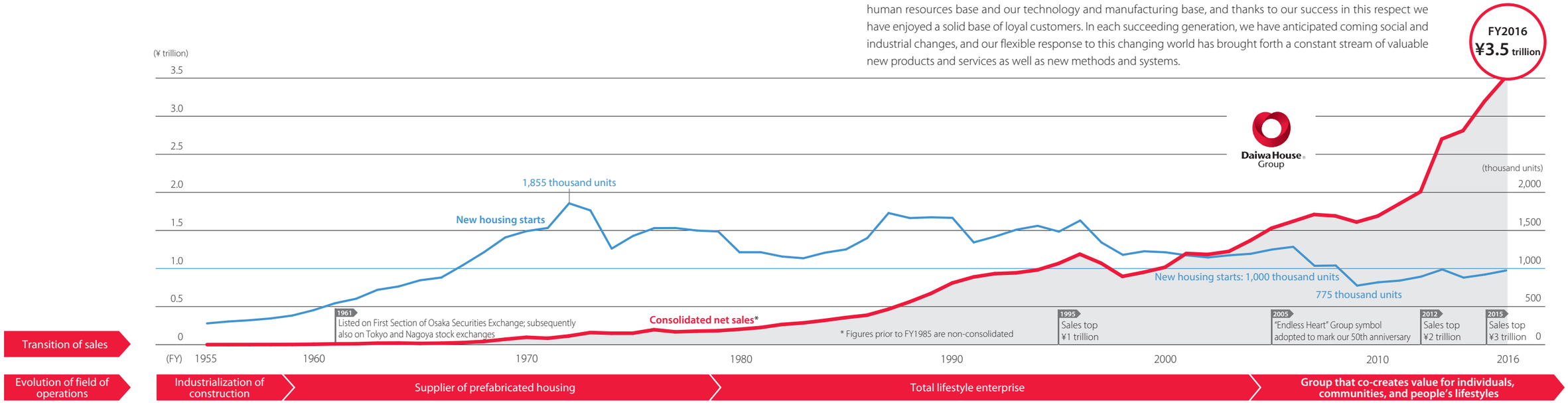
❶ The history of the Daiwa House Group

"Doing things because they will be of service to society"—this is our guiding motto, and with these words always in our minds, we have responded to changing social issues by launching a constant stream of new products and services onto the market.

Firmly believing in the words of our founder, Nobuo Ishibashi, who told us: "Don't do things because they will make a profit, but because they will be of service to society," we have constantly sought to overturn conventional wisdom and create a "new normal."

Just after the end of WWII, having been confronted by the sight of large numbers of wooden structures severely damaged by a major typhoon, Mr. Ishibashi noticed that the groves of bamboo, and the fields of rice plants, had not been felled by the strong winds. He realized that a house whose structural framework consisted of light but strong steel pipes would similarly be able to remain standing. Thus was born the Pipe House—the first product to be launched on the market by Daiwa House Industry. Another motive leading to this concept was his desire to preserve Japan's forestry resources rather than rely on its depleted timber resources. The pipes could be pre-processed at a factory and then simply assembled on site. This began the "industrialization of construction" and caused a revolution in the construction industry.

Throughout the history of Daiwa House Industry and its corporate group, we have created and sustained our human resources base and our technology and manufacturing base, and thanks to our success in this respect we have enjoyed a solid base of loyal customers. In each succeeding generation, we have anticipated coming social and industrial changes, and our flexible response to this changing world has brought forth a constant stream of valuable new products and services as well as new methods and systems.



Postwar period of housing and materials shortage

1955—the Pipe House, our first product:
Solving the building materials shortage and creating a revolution in Japan's construction industry

Following a major typhoon that destroyed and damaged large numbers of wooden structures, Nobuo Ishibashi noticed how both bamboo and rice, which have hollow stems, were able to bend flexibly and gracefully despite the fury of the wind, without breaking. This gave him the idea of a steel-pipe structure, and the Pipe House pioneered the subsequent industrialization of construction in Japan, by which the country's building industry was revolutionized.

1959—the Midget House:
The starting point for the construction of the prefabricated houses needed to meet the housing shortage caused by the Baby Boom

Nobuo Ishibashi realized that the average house was too small for the large families resulting from the Baby Boom, and he heard children complain that there was nowhere at home where they could study properly. In response, he conceived the Midget House, which could be erected in only three hours. This proved immensely popular, and laid the groundwork for today's prefabricated housing industry.

1962—foreshadowing today's housing mortgage loans:
Solving the problem of buying one's own home through a tie-up with a private financial institution

At that time, to purchase one's own home generally required being able to pay the full price in cash. Daiwa House constructed Habikino Neopolis—Japan's first private-sector large-scale housing development—and to facilitate the sale of these homes it was able to offer the country's first mortgages through a tie-up with a private financial institution. In addition, mortgages linked with a life insurance policy were devised—the first such system ever proposed.

On the eve of motorization of Japanese society

1976—startup of retail and wholesale facilities business:
Opening up of new market made possible by increased motorization

With the growth of motorization in Japan, we at Daiwa House saw possibilities opening up for a promising new market—retail outlets located along major roads leading into and out of major urban areas, known as "roadside shops" in Japan. Since then, we have been growing this new market by deploying our proprietary LOC System, which lets us match landowners seeking effective ways to utilize their idle land holdings with prospective corporate tenants looking to open new outlets.

▶P.39 Commercial Facilities

Preparing for advent of aging population

1989—Silver Age Research Center established:
Unique research institution dedicated to market surveys and analysis of problems relating to medical and nursing care facilities

シルバーエイジ研究所
大和ハウスの医療・介護施設ソリューション

We set up the Silver Age Research Center in anticipation of the fully-fledged arrival of an aging population, and as part of our dedication to creating a social environment in which people can be sure of spending their post-retirement years in comfort and without worries. The staff at the center study the design of nursing care facilities and certain aspects of the care services provided there, and thus far we have put this know-how to use in the planning and design of more than five thousand medical and nursing care facilities.

Retailing revolution with advent of Internet-dominated society

2003—development of large-scale logistics facilities:
The logistics revolution—playing a core role in the infrastructure revolution, for consumers and for industry

The logistics industry is a vital part of today's Japanese economy, and the Daiwa House Group has developed a large number of logistics facilities, centered on built-to-suit facilities, which are closely tailored to meet each individual tenant company's requirements. Our start-to-finish comprehensive services, from site proposal through facility design and construction to day-to-day operation, are now relied on by a large number of corporations.

▶P.40 Logistics, Business and Corporate Facilities

❷ The Daiwa House Group today

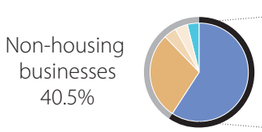
Today, we are no longer merely house builders—in line with our motto of being a group that co-creates value for individuals, communities, and people's lifestyles, we create new value for the whole of society.

The year 2017 marks the passage of sixty-two years since the establishment of Daiwa House Industry. Having started out solely as a builder of single-family houses, the Daiwa House Group today engages in a very wide range of businesses.

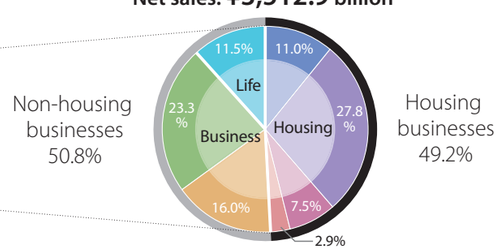
In line with its motto of being a group that co-creates value for individuals, communities, and people's lifestyles, Daiwa House brings new value to many aspects of society through its operations in a wide variety of business areas. These include the three broad fields of Housing (single-family houses, rental housing, condominiums, renovation, and more), Business (commercial facilities, business and corporate facilities, logistics facilities, medical and nursing care facilities, real estate development, environment and energy, and others), and Life (the operation of home centers, resort hotels, fitness clubs, etc.).

Net sales by segment

FY2005 (50th anniversary)
Net sales: ¥1,528.9 billion



FY2016
Net sales: ¥3,512.9 billion



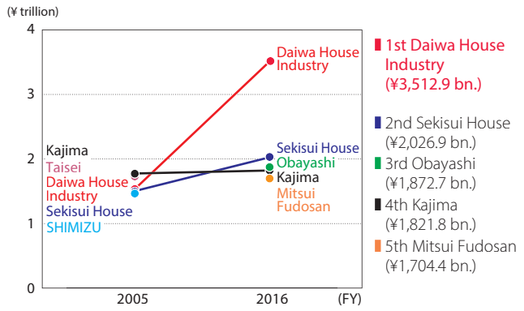
■ Residential ■ Commercial Construction
■ Resort Hotel and Sports Life Business
■ Home Center Business ■ Other Businesses

■ Single-Family Houses ■ Rental Housing ■ Condominiums
■ Existing Home Business ■ Commercial Facilities
■ Logistics, Business and Corporate Facilities ■ Other Businesses

* Segment classifications were changed with effect from FY2009.

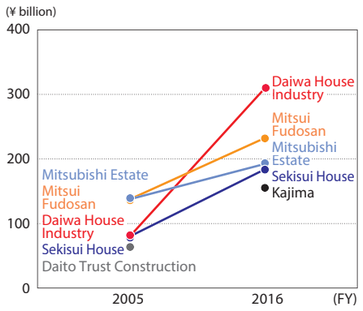
Group's ranking in net sales and operating income in the housing, construction, and real estate industries

▶Top 5 in net sales (FY2005→FY2016)



■ 1st Daiwa House Industry (¥3,512.9 bn.)
■ 2nd Sekisui House (¥2,026.9 bn.)
■ 3rd Obayashi (¥1,872.7 bn.)
■ 4th Kajima (¥1,821.8 bn.)
■ 5th Mitsui Fudosan (¥1,704.4 bn.)

▶Top 5 in operating income (FY2005→FY2016)



■ 1st Daiwa House Industry (¥310.0 bn.)
■ 2nd Mitsui Fudosan (¥232.6 bn.)
■ 3rd Mitsubishi Estate (¥192.4 bn.)
■ 4th Sekisui House (¥184.1 bn.)
■ 5th Kajima (¥155.3 bn.)

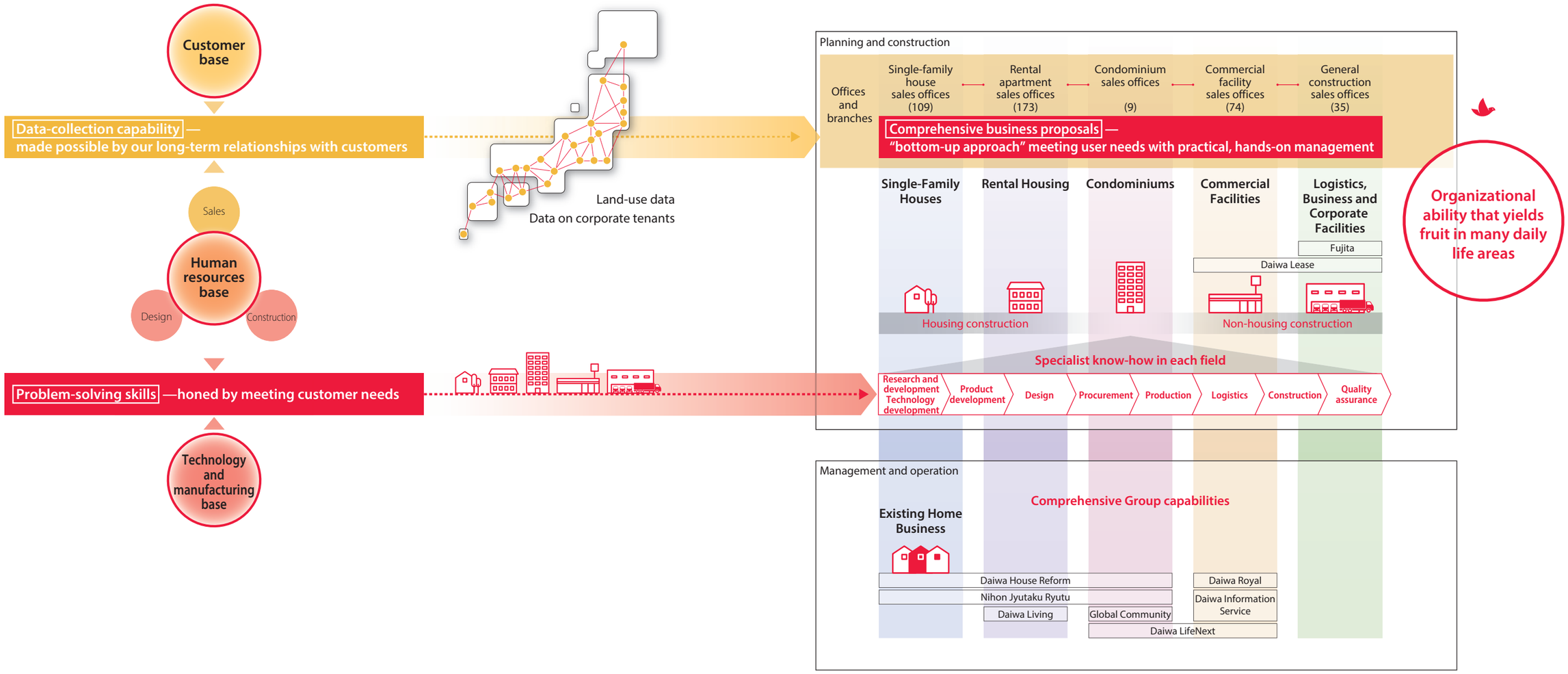
❸ The source of our value creation lies in the Group's three "bases," plus our organizational ability

Company philosophy (corporate creed)	・Our Company will develop thanks to the complete solidarity and tireless efforts of all executives and employees.

The source of our value creation consists of the three "bases" that we have built up through our business activities, in addition to the organizational ability we have developed through pursuit of our goal of being a group that co-creates value for individuals, communities, and people's lifestyles.

The Daiwa House Group has evolved in line with the core beliefs handed down to us by our founder, Nobuo Ishibashi. Our three bases are: (1) our strong human resources base, which has supported the Group throughout the process of evolution; (2) our customer base, consisting of the large number of loyal customers whose support we enjoy, thanks to the close and long-term relationships we have cultivated with them; and (3) our reliable technology and manufacturing base, which has made it possible for us to offer customers the value they were seeking. The source of the Group's value-creation, in addition to these three bases, lies in the organizational ability that enables it to respond swiftly to changes in the social environment and make a contribution across a broad range of areas involved with everyday life, in line with our motto of being a group that co-creates value for individuals, communities, and people's lifestyles.

The Daiwa House Group has built a firm position for itself in all the industries in which it participates, and continues to grow. It has been able to do so thanks to the three bases described above and its organizational ability, because these have given it competitive strengths—an extensive database of information on land use and corporate tenants, an unrivalled problem-solving capability, and the ability to make comprehensive business proposals.



❹ Human resources base

▶P.55-58

Company philosophy (corporate creed)	・Develop people through business. ・A company's progress depends directly on ensuring a good working environment for its employees.

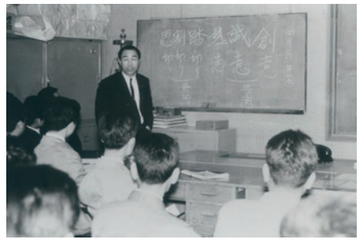
Speed of execution based on thorough implementation of a bottom-up approach, combined with a positive attitude; ability to get work done is based on imagination, sincerity, and enthusiasm; and a willingness to make efforts to achieve personal growth … these are the strong points of our workforce, which combine to support the Group's growth.

Daiwa House has grown thanks to the imagination, sincerity, and enthusiasm constantly shown by its employees. And Daiwa House employees have based their business activities on the philosophy of our founder, Nobuo Ishibashi, who constantly advocated a bottom-up approach and a positive attitude.

To realize sustained growth, we must always seek to anticipate future social and industrial developments, and must change along with them. But change is dependent on our staff. With regard to our human resources development, everything begins with our corporate DNA, which reaches back to the spirit that our founder, Nobuo Ishibashi, bequeathed to us. Going forward, we will continue to practice the concepts that he has passed on to us, so as to be the No.1 Japanese company in terms of job satisfaction. We will maintain our growth and progress into the future world, as a corporate group to which all its employees are proud to belong.

The spirit of our founder

The Future of the Daiwa House Group
Author: Nobuo Ishibashi



Daiwa House founder Nobuo Ishibashi talking about mental preparedness in the workplace

Our leadership

Passing on the Spirit of Our Founder
Author: Takeo Higuchi

The Daiwa House Juku, a training course aimed at discovering and nurturing future senior management staff

Develop people through business + **An open-minded corporate culture where employees are encouraged to take on new challenges**

Bottom-up approach | Positive attitude | Imagination | Sincerity | Enthusiasm

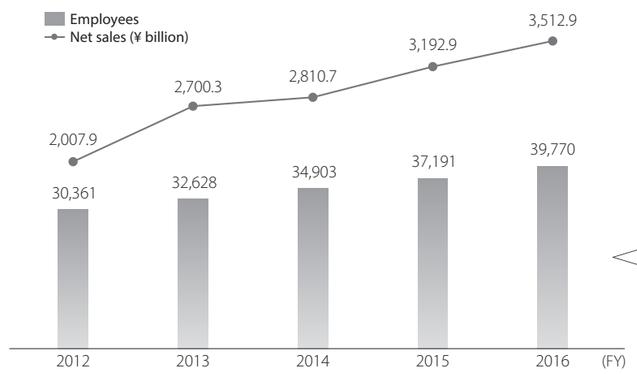
Getting the little things right — Takeo Higuchi, CEO
Take up the challenge! — Naotake Ono, COO

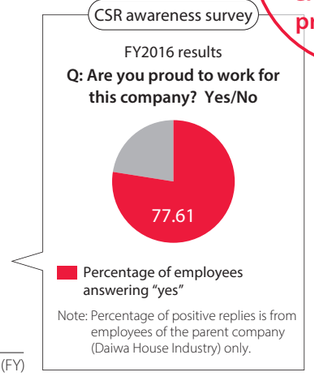
The spirit of our founder
[Our founding DNA]

Our leadership
[Our leadership DNA—passing on our founding DNA and continuing to evolve]

Personnel system | **Developing human resources**
[To create a corporate culture and organizational system marked by a diverse and motivated workforce who can take on any challenge]

Our future vision
The No.1 Japanese company for job satisfaction, for which employees are proud to work





Imagination..... Imagination doesn't mean creating fantastic inventions and making great discoveries: it means applying a little imagination and innovation to your work. We must constantly strive to use our imagination, then decisively implement corrective action, and master the process, not in our heads, but by making it automatic through practice.

Sincerity..... As I have said many times, you must handle various issues at work as though they were your own problems. If you are sincere about your work, you should be able to solve these problems objectively, without any personal feelings or emotions.

Enthusiasm..... In managing a company, if 70 or 80 percent of your projections have been achieved, then take action. The 20 or 30 percent remaining after taking action should be compensated for with enthusiasm. Be enthusiastic, take the initiative and then get through it so that your decisions are not delayed, and so that you can prevent difficult problems from arising.

(Our founder, Nobuo Ishibashi)

Getting the little things right..... Doing the things one must do as a matter of course; keeping one's word

▶ I believe that, among my successors, there will be those who will achieve the goal of growing the Group to annual net sales of ten trillion yen by the 100th anniversary of the founding of Daiwa House. It was to find and train the human resources who can do this that I established the Daiwa House Juku. (Takeo Higuchi)

Take up the challenge!..... Approach your work with a positive attitude, summed up in the exhortation: "Carve out a path where there was none before!"

▶ A company becomes what it is because of the way its employees think. I believe that the more positively each employee thinks, the closer will the company's reality approach the dream. (Naotake Ono)

❺ Customer base

▶P.59-60

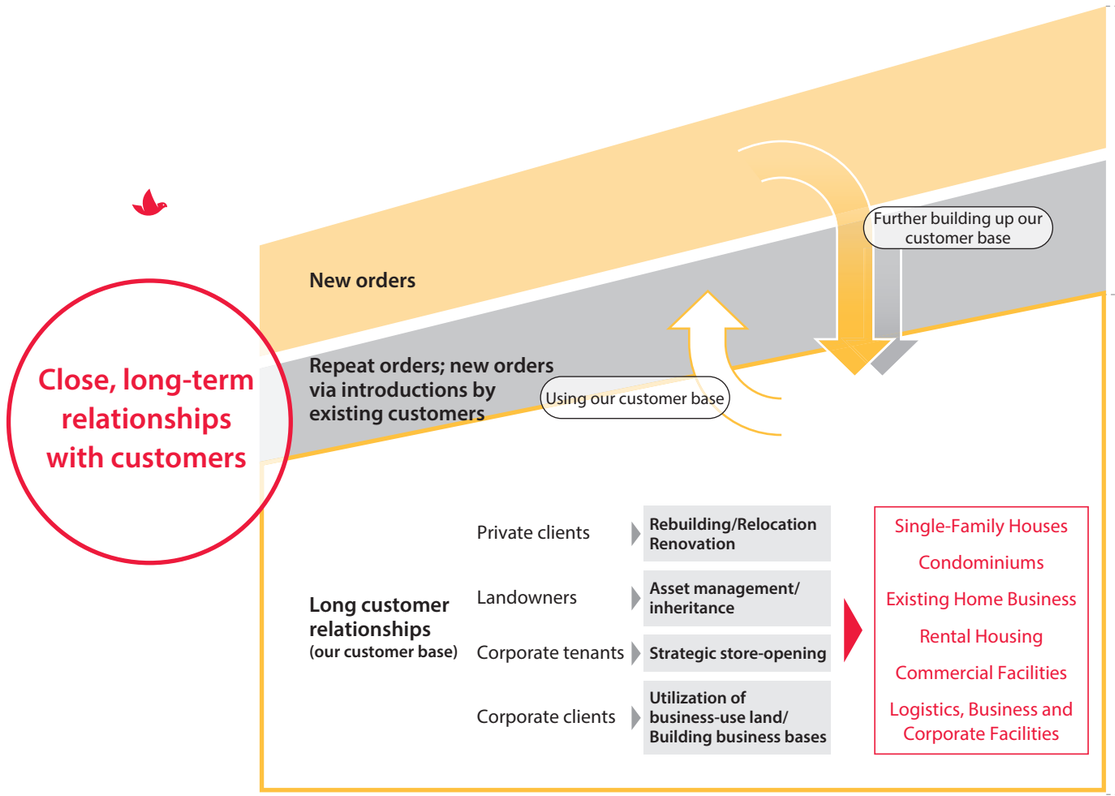
Management Vision	At the Daiwa House Group, we aim to create, use and enhance new values together with our customers in line with our motto of being a group that co-creates value for individuals, communities and people's lifestyles. In doing so, we hope to realize a society in which people can live fulfilled lives. In addition, we cherish our ties with each and every customer, and continue to strive to build life-long trust as a partner in experiencing the joys of a lifetime.

All our businesses are rooted in a strong relationship of trust with our customers, made possible by the close, long-term relationships we have with them. This leads to a virtuous cycle consisting of an expanding customer base and growth in the Group's business scale.

No matter how widely the Group's sphere of business activities may expand, our fundamental business stance—which we have employed in our Single-Family Houses Business—will continue to be building close relationships with our customers and providing them with lifelong support.

To enhance the quality of our products and services, our Code of Conduct specifies that we must "think from the perspective of each customer," and apply this to all our businesses.

We listen carefully to all our customers' requirements and form close and sincere relationships with them, and this leads to further enhancement of our technological know-how and to the development of fully capable employees. In turn, this serves to strengthen the bonds of trust between us and our customers, which produces the virtuous cycle of an expanding customer base and the growth of the Group's business scale.



	FY2005 (50th anniversary)		FY2016 (comparison with FY2005[times])
Net sales	¥1,528.9 billion	2.3 times →	Net sales ¥3,512.9 billion

(cumulative figures as of March 31, 2017)

Results

Number of housing units sold*1	1,695,773
Retail and wholesale facilities constructed	41,084
Development site area of logistics projects	Approx. 7,011,000 m²
Orders received for contract-based medical and nursing care facilities	5,360

Diverse & loyal customer base	Rental housing units under management	115,936	510,208 [4.4]
	Condominium units under management	42,388	341,705 [8.1]
	Members of Daiwa Family Club*2	35,715	220,754 [6.2]
	Members of Owners Clubs*3	5,001	6,713 [1.3]
	Rental housing owners*4	52,165	81,347 [1.6]
Bonds of trust with business partners	Corporate tenants	Approx. 4,000	Approx. 4,000 [1]

*1 Number of housing units (single-family houses, rental housing units, condominiums) sold by Daiwa House Industry (non-consolidated)
*2 Owners associations for owners of housing units (single-family houses and condominiums) sold by Daiwa House Industry
*3 Clubs for landowners with whom our commercial facilities business has done business
*4 Number of landowners on whose land we have built rental housing

❻ Technology and manufacturing base

▶P.61-64

Company philosophy (corporate creed)	・Products created in good faith by honest labor through modern facilities will contribute to society as a whole.

Utilizing the high-level technology we have developed over our many years of involvement in the industrialization of construction, we meet customer needs speedily and with fully reliable quality at all stages of our supply chain, from design to construction.

Daiwa House Industry was established to realize the ideal of the "industrialization of construction," and as a pioneer in this field, the company subsequently made use of its highly reliable technology and manufacturing skills to provide society with vital new value.

Beginning with the start of operation in 1965 of Japan's first dedicated factory for the production of prefabricated housing, we subsequently introduced advanced production systems into our factories across the length and breadth of the country. These manufacturing plants give us a controlled environment that allows the production of construction materials and parts of uniform quality and uniform measurement, and our advanced logistics and construction management systems enable us to offer high-quality products with very short construction times.

Our insistence on a bottom-up approach to business makes it possible for us to consistently and faithfully address each of our customers' requirements. Thus, we have built up the necessary know-how to create a manufacturing platform that lets us meet our customers' need across the total spectrum of their requirements, from design to construction. To sum up: we leverage our strong technology and manufacturing base to make the industrialization of construction a reality in many business fields, from housing to general construction.

Manufacturing Platform

Thinking from the perspective of each customer to determine their individual needs

Proposals ↑ ↓ Orders

Research and development / Technology development (Core skills) → Product development → Design → Procurement → Production → Logistics → Construction

Aiming for still higher productivity through use of cutting-edge IT

High-quality manufacturing with short construction times

The Central Research Laboratory

Conducts research and development to find solutions to a wide range of issues that confront society

The Fujita Technology Center

Engages in technological development in construction, civil engineering, environment-related fields, and production

Our supply chain network

Materials suppliers/Plant subcontractors/
Logistics subcontractors/Construction subcontractors

(The Trillion Club: 239 companies/The Setsuwa Club: 146 companies/
The Confederation of Partner Companies: 4,653 companies)

(as of March 31, 2017)

Building up a large fund of know-how

Prefabricated housing
We offer high-quality housing thanks to the production and processing of materials and components in our factories, followed by assembly at site.

Pre-engineered buildings
Our pre-engineered buildings system—which involves the high-precision standardization of structural components—has proved very popular with customers wishing to open convenience stores, restaurants, and other outlets alongside major suburban roads.

Our methods for the industrialization of construction meet all user needs from housing to general construction. This makes possible a vast array of construction variations.

General construction
We apply the technology we have acquired and perfected in our prefabricated housing business to the construction of warehouses, offices, factories, shopping centers, and other large structures for a variety of business uses.

Civil engineering
Centered on Fujita, we combine the Group's comprehensive strengths to engage in civil engineering projects such as railways, roads, bridges, tunnels, airports, dams, and others.

❼ A vision of the Daiwa House Group's future (the value-creation process)

Company philosophy (corporate creed)	・Through mutual trust and cooperation, by always reflecting deeply on past mistakes, valuing responsibility, and actively engaging in mutual criticism, we will advance along the road to growth and success.

"Net sales of ¥10 trillion by our 100th anniversary" This is our dream. To be worthy of realizing this dream, we will continue to be a corporate group that listens to and responds to the voices of the world around us, so as to fulfill our mission of contributing to society through our business operations.

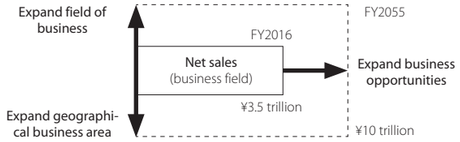
The founder of Daiwa House Industry, Nobuo Ishibashi, handed down to us his dream of achieving annual net sales of ten trillion yen by the year 2055, which will be the 100th anniversary of the Company's establishment. This goal reflects Mr. Ishibashi's strong desire that Daiwa House be permanently regarded by society as a necessary entity because of the major contribution it makes to solving social problems.

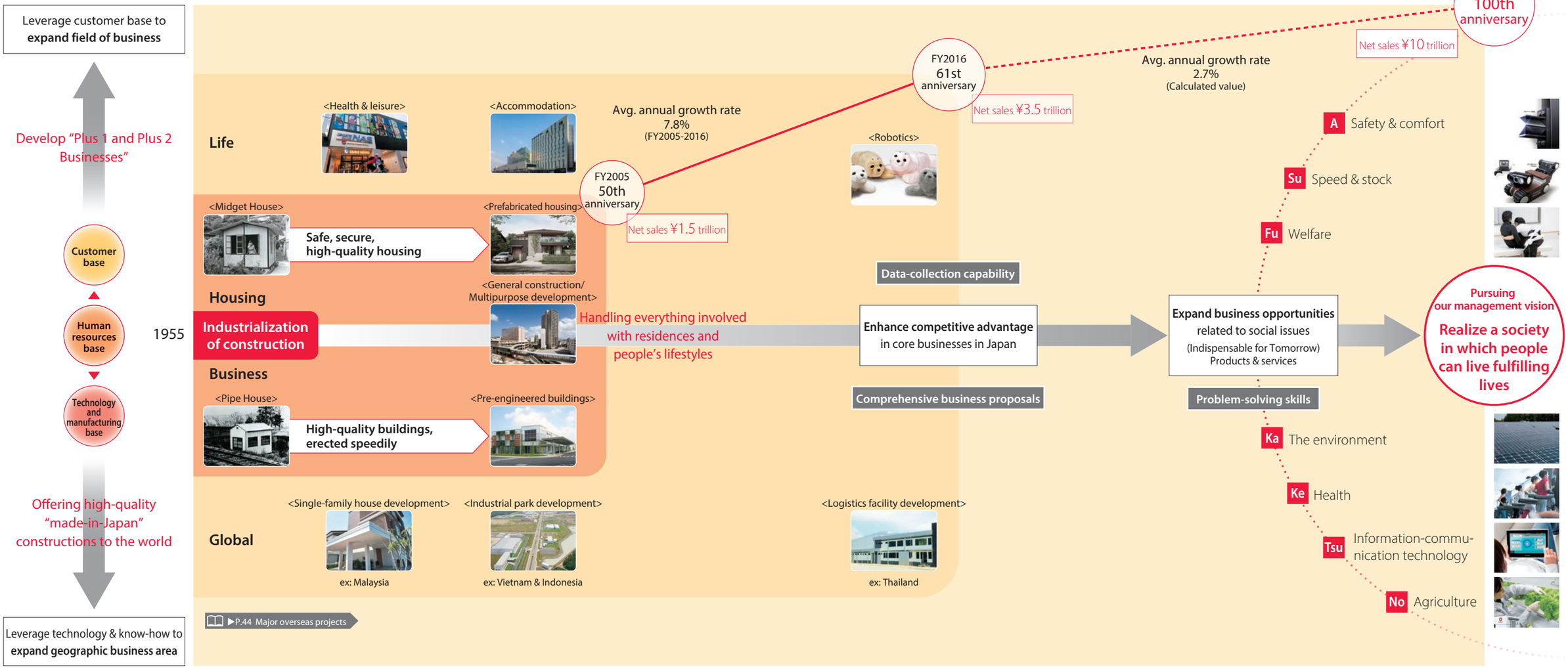
The factors operating within our business environment are certainly not all positive. Nonetheless, we will work to further enhance our competitive advantage in our core business areas in the Japanese market, where we can fully leverage our particular strengths. At the same time, we will expand both our field of business and our geographic business area by leveraging our human resources base, customer base, and technology and manufacturing base, all three of which we have built up over many years of business operation.

Finally, we will be constantly thinking of what we can do to help solve social problems. The Group's catchphrase is *Asu Fukaketsuno* (Indispensable for Tomorrow). This is composed of the initial syllables of the Japanese words for safety & comfort, speed & stock (in the sense of the stock of existing housing), welfare (in the sense of nursing care), the environment, health, information-communication technology, and agriculture. Faithful to this catchphrase, we will tackle new businesses that we believe will be essential for society in the future, and in pursuit of our management vision of "realizing a society in which people can live fulfilling lives," we will continue to take on every challenge.

<Definition of diagram>

* In the large diagram underneath, the area of the rectangles graphically illustrates the relationship between the sales target for FY2055 and actual sales for and growth of sales in FY2005 and FY2016.





▶P.44 Major overseas projects

Message from the COO

Working together with individuals and society — our never-ending mission

Ensuring that the Group becomes a truly sustainable corporate entity

The Daiwa House Group takes up the challenge of continued sustainability

Daiwa House Industry was founded in 1955 under the concept of the "industrialization of construction." By tackling a wide variety of social issues involving residences and lifestyles, the company subsequently grew into the corporate group we see today, whose motto is to be a group that co-creates value for individuals, communities, and people's lifestyles. We aim to be valued partners both of society as a whole and of the individuals in that society. No matter how much the Group's business operations may diversify, our conviction that we must do the things that are of service to the world will remain unshakable. The stance that is at the core of our housing business—of forming close relationships with customers and providing them with lifelong support—lies also at the root of all our other businesses.

The world is now on the threshold of a turning point, and structural change is being seen in all economic and industrial fields. Amid this situation, we aim to achieve further growth by responding swiftly and effectively to these changes in the operating environment, and by providing new products and services that will contribute to the development of society. Going forward, we will continue to provide new value to society in keeping with our motto of being a group that co-creates value for individuals, communities, and people's lifestyles. And the wellspring of the Group's energy will be the strong ties that bind us permanently to our customers, as symbolized by our Group symbol, the Endless Heart.

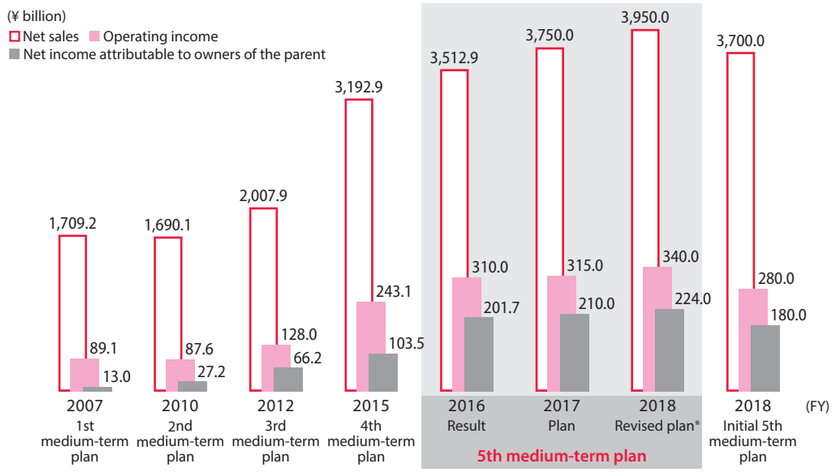
Performance targets under the Fifth Medium-Term Management Plan

During fiscal 2016, the initial year of the Group's Fifth Medium-Term Management Plan (fiscal 2016-2018), the Japanese economy followed a gradual recovery trend overall, including a continued improvement in employment and income figures. In the housing market, new construction starts turned upward over the previous year in the Owned, Rented, and Built for Sale categories. The general construction market held firm, with an increase in private works orders and public works orders also moving into the plus column. Amid these circumstances, the Group posted record-high figures in net sales, operating income, ordinary income, and net income attributable to owners of the parent. Operating income and net income attributable to owners of the parent reached the figures set for fiscal 2018 (the final year of the Group's Fifth Medium-Term Management Plan)—two years ahead of target. As a result, we have revised upward our targets for the final year of the Fifth Medium-Term Management Plan to net sales of ¥3,950 billion, operating income of ¥340 billion, and net income attributable to owners of the parent of ¥224 billion. Despite this encouraging development, however, the outlook for the near future remains unclear, owing to a number of negative factors. These include the ongoing decline in the Japanese population as well as population aging, a shortage of labor in the runup to the 2020 Tokyo Olympics and Paralympics, and uncertainty regarding when the planned consumption tax raise will be implemented. In the face of this changing operating environment, we will work to create and market new products and services—always aiming to look at things from our customers' viewpoint—as we recognize that this is a vital condition to achieving sustainable growth.

In fiscal 2017, the second year of our current medium-term plan, we are continuing to push forward with reform of both our operating methods and our management system, to ensure that the Group becomes a truly sustainable corporate entity and that shareholder value increases.

Naotake Ono, President and COO

5th Medium-Term Management Plan (revised)



* Business performance targets for operating income and net income attributable to owners of the parent were revised upward as the initial targets were reached in fiscal 2016.

Net sales by segment

(¥ billion)

	FY2018 Initial plan	FY2018 Revised plan	Change
Single-Family Houses	388.0	400.0	12.0
Rental Housing	1,060.0	1,100.0	40.0
Condominiums	300.0	300.0	0
Existing Home Business	111.0	115.0	4.0
Commercial Facilities	613.0	620.0	7.0
Logistics, Business and Corporate Facilities	918.0	960.0	42.0
Other Businesses	566.0	660.0	94.0
Total	3,700.0	3,950.0	250.0

Operating income by segment

(¥ billion)

	FY2018 Initial plan	FY2018 Revised plan	Change
Single-Family Houses	18.0	21.0	3.0
Rental Housing	90.0	97.0	7.0
Condominiums	17.0	16.0	-1.0
Existing Home Business	13.0	14.0	1.0
Commercial Facilities	96.0	110.0	14.0
Logistics, Business and Corporate Facilities	81.0	90.0	9.0
Other Businesses	33.0	37.0	4.0
Total	280.0	340.0	60.0

Progress under the Fifth Medium-Term Management Plan

Expansion of core businesses

Business performance held firm in fiscal 2016 in our three main growth-driver segments—Rental Housing; Commercial Facilities; and Logistics, Business and Corporate Facilities—thanks to our efforts to further exploit these markets by deepening relationships with our customers.

During the fiscal 2017-2018 two-year period, we will continue taking steps to further expand our core businesses—particularly Rental Housing; Commercial Facilities; and Logistics, Business and Corporate Facilities. One of our particular strengths, which enables us to maintain our competitive advantage in these core businesses, is our comprehensive capabilities, thanks to which we can offer customers of our real estate and construction-related businesses an integrated full-package service from start to finish. Leveraging our extensive database on land ownership and usage, which covers the whole of Japan, as well as our ability to make attractive proposals for complex and composite projects encompassing a variety of businesses and services, we aim to focus on further enhancing the Group's earning capacity.

Pressing ahead with real estate development

Regarding the progress being made in implementing our real estate investment development plan, we plan a total investment of ¥900 billion over the three-year period of the current medium-term plan, of which ¥359 billion was implemented in the plan's first year. Particularly notable is that out of the total of ¥700 billion budgeted for real estate development under the plan, roughly 40 percent, or ¥280.6 billion (broken down into ¥235.5 billion in Japan and ¥45.1 billion overseas) was invested, of which ¥165.9 billion was invested in the Logistics, Business and Corporate Facilities segment, ¥48.3 billion in Commercial Facilities, and ¥21.1 billion in Rental Housing. The investment real estate balance, which is expected to make a contribution to the Group's earnings in the future, reached ¥900 billion at the end of fiscal 2016. Over the near future, we will be investing actively in real estate development in the areas of Logistics, Business and Corporate Facilities; Commercial Facilities, and Rental Housing while making effective use of a wide variety of business solutions. At the same time, we will make further progress in the development of multi-purpose facilities so as to lay the groundwork for sustainable growth in the future.

Speeding up the pace of our global development

The Group's overseas business has been undergoing rapid growth in recent years. Under our Fifth Medium-Term Management Plan we have been laying the groundwork for future growth in a number of ways. One of these is to focus efforts on stepping up the pace of our overseas expansion, to which end we have positioned the countries of ASEAN, whose economies are growing rapidly, as well as countries such as the United States and Australia, where stable growth is anticipated, as our priority business markets. In fiscal 2016, the Group's overseas net sales surpassed the ¥100 billion mark for the first time ever, and solid business development is expected to continue. In February 2017, Stanley-Martin Communities LLC—a company operating in the United States in the single-family homes business—was made into a subsidiary via acquisition of membership interests. This move was part of our policy of strengthening our business base in the United States. Going forward, we will continue to expand our sphere of operations, centered on priority geographic regions, with the goal of reaching the target of ¥250 billion in net sales by overseas businesses for the final term of the Fifth Medium-Term Management Plan in fiscal 2018.

Strengthening the Group's management base (human resources base, customer base, and technology and manufacturing base)

At the Daiwa House Group, we aim to realize sustained growth, and for this reason the strengthening of our management base is a vitally important issue. To make this possible, we place great emphasis on passing on the spirit of our founder—Nobuo Ishibashi—to succeeding generations of Group executives and employees. All business enterprises are in constant need of transformation, but the spirit of our founder will always be an abiding inspiration to us. We believe that it is precisely because we recognize the importance both of changing in response to the changing times around us and of passing on the unchanging spirit of our founder, that we have been able to achieve sustained growth, and that this will remain so into the future.

The Group's greatest asset is its human resources, and to enhance still further our ability to hire promising employees and train them to our requirements, we will maintain our current policy of active hiring—employing a wide variety of channels—and will focus employee development efforts on producing staff capable of effectively pursuing our global development ambitions. We also intend to pursue greater workforce diversity, including introducing reforms of employment conditions to make more effective use of hitherto-underutilized human resources such as female employees and senior employees. We shall also address social issues in overseas markets, in areas where the Group can make a contribution, making use of the power of our human resources and of our corporate culture, in which exploring new ideas and tackling difficulties head-on are valued.

We also aim to further expand our customer base by leveraging our marketing style that emphasizes the forming of close and long-term relationships with our customers, including landowners. At the same time, we will raise the productivity of the whole Group—including all its offices, factories, and other places of business—through improving our business operations and our manufacturing know-how. Specifically, we will promote production leveling throughout all our business processes while raising productivity through the development of technologies enabling effective labor saving. We also envisage reductions in procurement and logistics costs through innovative changes to our logistics systems.

<Looking back at FY2016>

Strengthen short- to medium-term growth potential

- The Group's business results benefited from strong performances by its main growth drivers—Rental Housing; Commercial Facilities; and Logistics, Business & Corporate Facilities—with net sales, operating income, and net income attributable to owners of the parent all exceeding the initial targets.
- ¥359 billion invested during first year of three-year plan (total investment of ¥900 billion planned)

Laying the groundwork for future growth

- In addition to our existing resort hotel and business hotel chains, we commenced operation of a new brand targeted at families, as well as long-stay apartment hotels.
- New Group member Daiwa Cosmos Construction commenced operations as a specialist company undertaking large-scale condominium repair & renovation work.
- Stanley-Martin Communities, LLC (a US company engaged in the single-family homes business) became a subsidiary of Daiwa House USA Inc.

Adapting our management base to changes in the operating environment

- Group selected for inclusion in Nadeshiko Brand list of enterprises promoting workforce diversity
- In recognition of improvements to the Group's working environment from a variety of angles, Daiwa House's stock was included in the Health & Productivity Stock Selection, and Competitive IT Strategy Company Stock Selection lists.

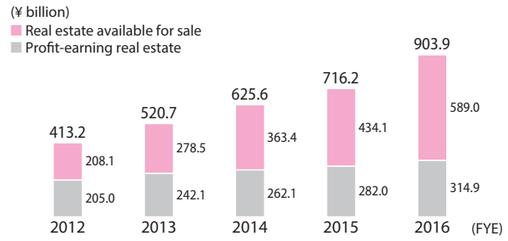
<Looking back at FY2016>

Progress of real estate investment development plan

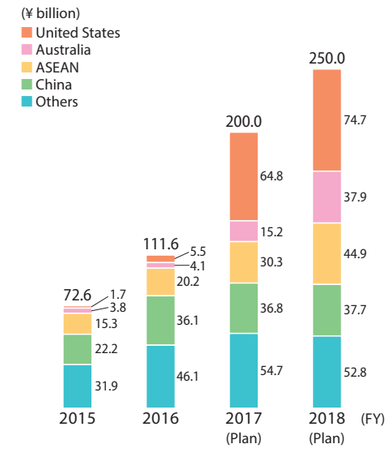
(¥ billion)

	3-year plan	FY2016 Results	Progress (%)
Rental Housing	100.0	21.1	21.2
Commercial Facilities	140.0	48.3	34.5
Logistics, Business and Corporate Facilities	360.0	165.9	46.1
Overseas	100.0	45.1	45.2
Total	700.0	280.6	40.1

Investment real estate balance



Net sales by overseas businesses



Note: Totals include consolidation adjustments

Developing "Plus 1 and Plus 2 Businesses" by leveraging and expanding our customer base

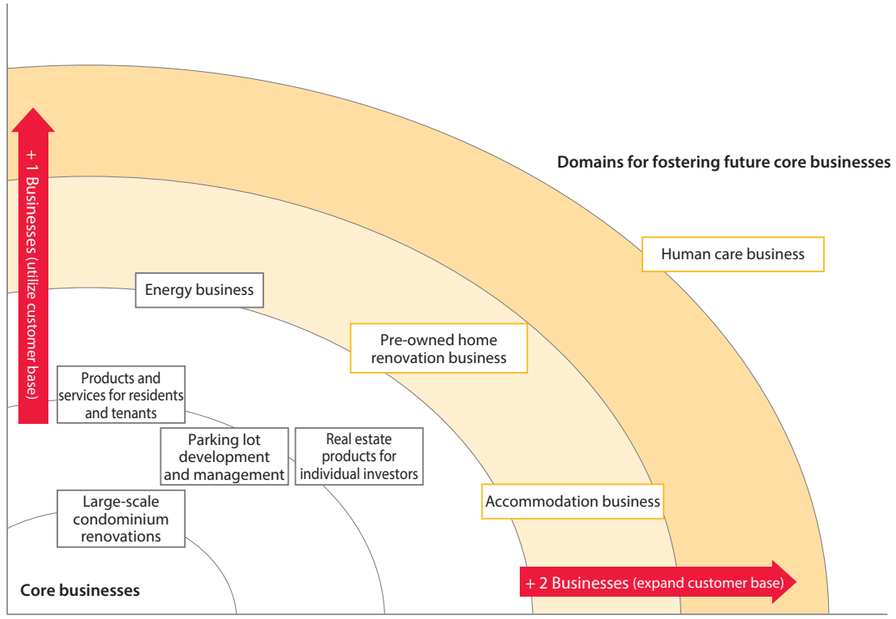
Up to the present, the Daiwa House Group has achieved continuous growth thanks to its provision of solutions to a wide range of social issues. By efficiently utilizing the wealth of management resources and the customer base we have accumulated through the operation of our core businesses, in addition to the wide-ranging expertise and know-how possessed by our staff, we continue to create new businesses that answer the needs of the times. To this end, we follow three basic policies: (1) we work to develop what we call "Plus 1 and Plus 2 Businesses" via the effective utilization and expansion of our customer base; (Plus 1 businesses are new businesses that we expect to create by leveraging our existing customer base, while Plus 2 businesses are those that we expect to arise through expansion of that base); (2) we work to foster future core businesses; and (3) we attempt to expand business opportunities.

Firstly, regarding the development of Plus 1 and Plus 2 businesses, promising areas that have opened up in recent years include the field of environmental protection, where there are rising social demands for businesses and technologies that help reduce environmental impact and enable the stable, reliable utilization of natural resources and sources of energy. Our aim is to offer users a "one stop shop" for environment-related and energy solutions, such as new energy sources, energy conservation solutions, batteries and other power-storing solutions, power retailing, power generation systems, and others. By responding effectively to social needs in these ways, we are achieving steady growth in our energy business.

Secondly, we turn to the policy of fostering future core businesses. Here, in our accommodation facilities and services business, in which field demand is forecast to rise significantly over the short term, we have been actively developing new businesses that meet society's needs for diversification in the area of leisure activities. These include apartment (long-stay) hotels in urban locations, as well as hotels targeted at parents with children planning to visit nearby theme parks and other tourist attractions in urban areas. We are also investing management resources into the pre-owned home renovation business, as well as the human care business, in which we provide day-to-day living support for elderly people through such means as medical and nursing care services. We plan to develop such businesses into additional core businesses that will become earnings drivers for the coming generation.

Finally, regarding the expansion of business opportunities, our guidelines are provided by our catchphrase *Asu Fukaketsuno* (Indispensable for Tomorrow). This catchphrase is composed of the initial syllables of the Japanese words for safety & comfort, speed & stock (in the sense of the stock of existing housing), welfare (in the sense of nursing care), the environment, health, information-communication technology, and agriculture. In line with this, our aim is to create the businesses that society will need in tomorrow's world. By developing and marketing new products and services in these fields, whose social importance is on the rise, we can be assured of guiding the Group along the growth path.

Develop "Plus 1 and Plus 2 Businesses"



What we must do to remain a corporate group enjoying sustained growth

More than sixty years have passed since the founding of Daiwa House Industry, the Group's parent, since when we have displayed the pioneer spirit embodied by our founder to open up numerous new business fields. Currently, the Group's business performance is being led by three segments—Rental Housing; Commercial Facilities; and Logistics, Business and Corporate Facilities, but the housing business will always remain the bedrock of the Daiwa House Group. We place great importance on the basic business stance of forming close, long-term relationships with our customers, and our conduct of the housing business is permeated with the themes of close customer relationships, insistence on high quality in the construction of homes and other buildings, and doing things because they are of service to society. Today, for example, our development of combined homes and retail outlets—for which there is growing demand—grew out of our housing business but also straddles the barrier between different business domains, and was born out of our desire to meet the needs of landowners and corporate tenants. In this way, it is my belief that none of our business activities should be rigidly locked into traditional business categories, and that we can and should take advantage of every new business opportunity that arises.

Throughout his life, our founder, Nobuo Ishibashi, always turned his thoughts to what he could do for Japanese society, and constantly preached the message that training staff via the conduct of business was at the core of corporate management. Looking back on the history of the Company, right from the launching of our first product—the Pipe House—we have always opened up and explored new, hitherto-untraveled avenues.

This will remain our fundamental business stance, no matter what changes occur in society or the Group's operating environment.

Going forward, at the Daiwa House Group we will continue to pass on the spirit of our founder to succeeding generations of executives and employees. While keeping a close eye on short-term monetary and economic policies in each country around the world, we will also adopt a long-term viewpoint, and to ensure the Group's growth will work to successfully implement our various measures and strategies with the aim of enhancing enterprise value. And finally, by facing and solving social issues, we will continue seeking our goal of making a contribution to the creation and maintenance of a sustainable society.

On behalf of the Daiwa House Group, I hope that we will continue to receive the support and encouragement of all our shareholders and investors.

Naotake Ono
President and COO

Changes in the Operating Environment—Opportunities and Risks

Understanding the operating environment

Japanese market

Megatrends: Demographic trends

- Overall population decline
- Fall in number of households
- Population concentration in urban areas

Changes in the operating environment

Firm demand in construction and real estate fields in Tokyo area and major regional cities Opportunity
- Concentration of population in Japan's three major metropolises and major regional cities
- Demand is growing for urban redevelopment projects in Japan's three major metropolises, and the government's promotion of the "compact city" concept is leading to growth in construction and development demand in the major regional cities.

Contraction in housing demand over long term Risk
- Population decline in non-metropolitan regions, and overall decline in number of households
- Decline in desire to own one's own house among younger people (30s and 40s) in urban areas
- Construction starts are on long-term declining trend due to longer service life of houses and population decrease

Megatrends: Economic & industry factors

- Holding of 2020 Tokyo Olympics and Paralympics
- Planned further increase in consumption tax

Changes in the operating environment

Firm demand in construction and real estate fields over short term Opportunity
- Construction demand in Japan is on the rise ahead of the 2020 Tokyo Olympics and Paralympics
- Growing number of people subject to payment of inheritance tax
- Demand for logistics facilities growing rapidly in response to sharp expansion of E-commerce business

Economic fluctuations in the short and medium term Risk
- Demand for housing in a slump ahead of scheduled 2019 raise in consumption tax rate
- Consumption propensity expected to decline in wake of tax raise
- Japanese construction market to contract after 2020 Tokyo Olympics and Paralympics

Megatrends: Changes in business environment

- Depletion of resources
- Moves to alleviate impact on natural environment
- Growing concern with disaster mitigation
- Extreme aging of population

Changes in the operating environment

Emergence of new markets thanks to deregulation Opportunity
- Growth of inbound tourism demand
- Liberalization of electricity/gas retailing

Changes in real estate owner needs and the market Opportunity
- Growing consumer concern with security, business continuity, and environmental performance
- Growth of pre-owned home market due to rise in number of untenanted houses

Average age of population set to rise further Opportunity
- Before long, the earliest of the baby boomer generation will be aged 75 or older
- The need is growing stronger for a society in which elderly people and those requiring nursing care will be able to live in comfort.

Overseas markets

Megatrends: Increasing globalization

- Preference for high-quality goods & services in developed nations
- Rapid economic growth in emergent nations

Changes in the operating environment

Stable economic growth in developed nations Opportunity
- Population growth and stable economic growth in developed nations such as the United States and Australia

Strong economic growth in ASEAN Opportunity
- ASEAN economies growing vigorously thanks to an increasing population and rising GDP per capita

Management factors in Japan's housing & construction industries

Increasingly severe labor shortage Risk
- Working-age population to shrink by at least 10 million over the next 20 years
- Shortage of technicians and skilled workers in construction industry as a whole
- Industry needs to make use of female and elderly workers to offset labor shortage

Japan's Corporate Governance Code formulated
- Growing calls for more capital-efficient management

Measures being taken by the Daiwa House Group

Strengthen short- to medium-term growth potential

Direction of business growth: Enhance competitive advantage in core businesses in Japan

Specific policies followed under Fifth Medium-Term Management Plan

Basic policy ❶ Further expand core businesses by capturing domestic demand

<Single-Family Houses/Condominiums/Existing Home Business>
- Strengthen lineup of homes for small plots in urban areas; expand marketing of dual-use (residence & commercial premises) homes
- Relocate staff from regions to Tokyo area to enhance efficiency of marketing system
- Promote home purchase and resale business through expanded marketing of renovated homes

<Rental Housing/Commercial Facilities/Logistics, Business and Corporate Facilities>
- Strengthen development and sale of rental condominiums for existing rental property owner customers and other individual investors
- Expand commercial facilities for sale business through development and sale of investment properties and tax-strategy properties
- Establish position as the No. 1 logistic developer and strengthen our stock business model by achieving national expansion of logistics facilities

Basic policy ❷ Aggressively invest in real estate development
- Invest ¥700 billion in Japan and overseas, mainly in Rental Housing, Commercial Facilities, and Logistics, Business and Corporate Facilities
- Leverage wide-ranging business resources to push ahead with multipurpose development projects in Japan's three major metropolises as well as major regional cities

Lay groundwork for future growth

Direction of business growth: Leverage customer base to expand field of business

Direction of business growth: Expand business opportunities related to social issues

Direction of business growth: Leverage technology & know-how to expand geographic business area

Specific policies followed under Fifth Medium-Term Management Plan

Basic policy ❸ Develop "Plus 1 and Plus 2 Businesses"
- Large-scale condominium renovations
- Products and services for residents and tenants
- Parking development and management
- Energy business

Basic policy ❹ Foster future core businesses
- Pre-owned home renovation business
- Human care business
- Accommodation business

Basic policy ❺ Stepping up the pace of overseas expansion

United States:	Single-family house and rental housing businesses
Australia:	Condominium development, commercial facilities, and town houses
ASEAN:	Single-family house development; rental housing business; condominiums; development of logistics facilities, industrial parks, hotels, and infrastructure such as airports

Direction of business growth: Adapt management base to changes in the operating environment

Basic policy ❻ Strengthening human resource development to support business expansion
- Secure and develop human resources
- Promote diversity

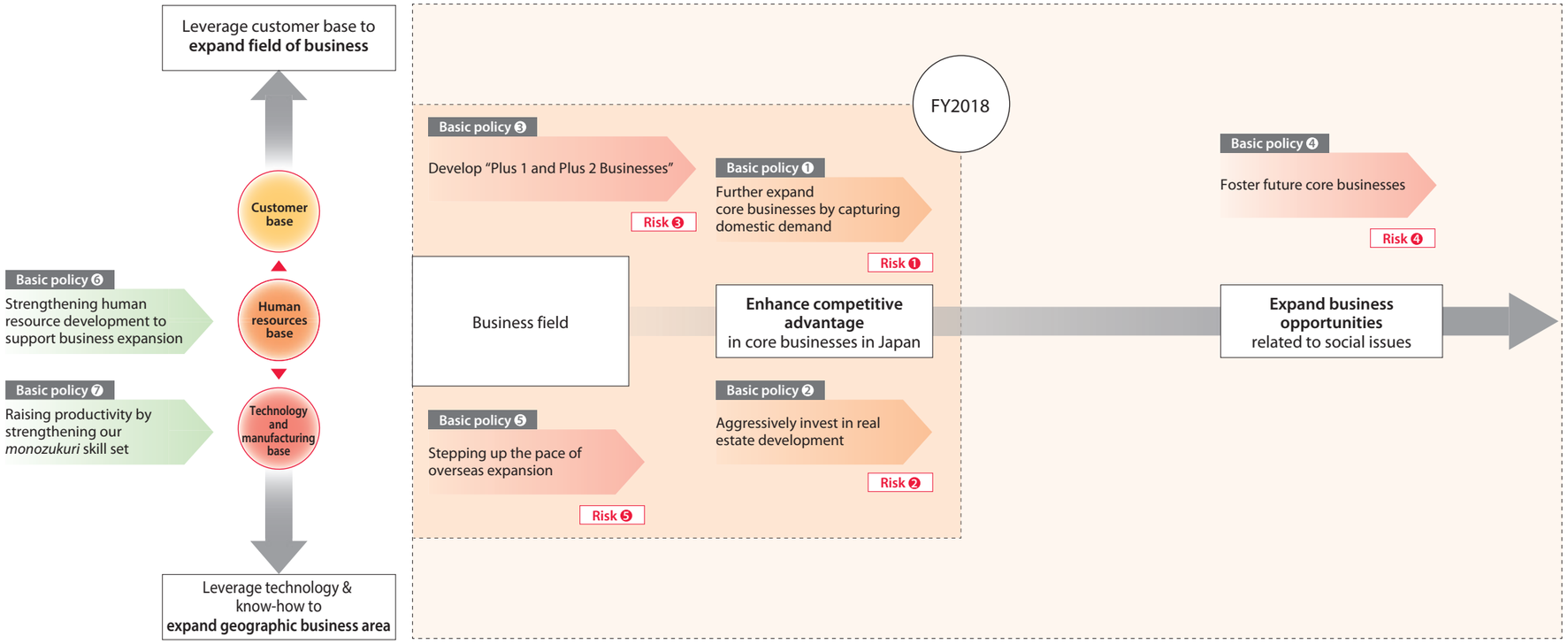
Basic policy ❼ Raising productivity by strengthening our *monozukuri* skill set
- Build strong technology and manufacturing foundation

Basic policy ❽ Maintain management efficiency and financial stability
- Maintain financial health
- Ensure sustainable growth of shareholder value

Basic Policies of the Fifth Medium-Term Management Plan, and Issues to be Addressed

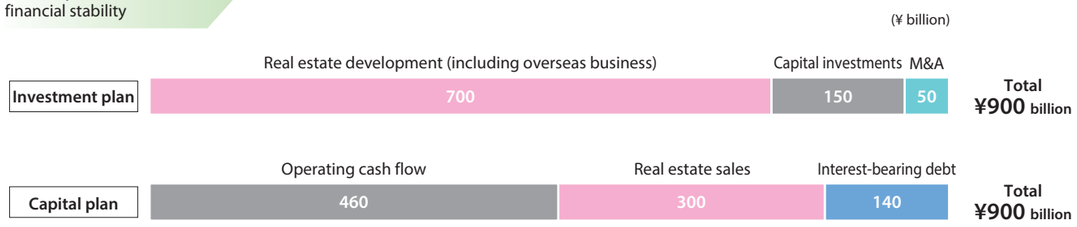
To get the Group where we want it to be in the near future, we are working to expand the business fields in which we operate, in line with the basic policies being followed under our Fifth Medium-Term Management Plan. Regarding the principal risks (issues to be addressed) that may materialize during or after the implementation of these basic policies, those believed likely to exert a significant impact on the Group's business performance are outlined below. Future risks mentioned herein are those that had been identified as of August 31, 2017.

Basic policies of the Fifth Medium-Term Management Plan, and risk map



Investment plan & capital plan

Basic policy ❽
Maintain management efficiency and financial stability



▶P.48-52 Management's Discussion and Analysis of Financial Position and Results of Operations

Issues to be addressed

Risk ❶ Risks associated with competitive activities

▶The risk that the Group may fail to demonstrate an advantage over competitors in one or more of its business areas in respect of product quality or price, the nature of its services, or the effectiveness of its marketing activities

Countermeasure Maintain and if possible enhance the Group's competitiveness by building long-term relationships of trust with our customers, based on the stance which has been successful in our single-family housing business

▶P.35-40 Strategy and strengths of core businesses

Risk ❷ Risks associated with real estate

▶A deterioration in the real estate market, leading to a fall in land prices and lower rent values, could cause a decrease in the appraisal value of real estate owned by the Group.

▶The Group engages in real estate development operations that involve considerable expense and require long time-frames for completion of individual projects. There is, consequently, a risk that unforeseen expenses may arise during the course of a project, resulting in delays to the project or forcing its abandonment.

Countermeasure We take measures to control risks involved in real estate investment via the deliberations of a Real Estate Investment Committee, which is charged with the duty of appraising the feasibility of each project and its associated risks.

▶P.77 Investments in Real Estate Development and Risk Management

Risk ❸ Risk ❹ Risks associated with business diversification

▶In pursuit of its business strategies, the Daiwa House Group engages when deemed necessary in the acquisition of other companies or the purchase of specific business operations from other companies, and carries out reorganizations of its own internal business structure. There is, however, the possibility that the synergy between Group companies may not lead to the business results hoped for, causing the level of profits to fall short of that envisaged in its business strategy.

Countermeasure Despite the fact that the Group's business operations range over a wide field, our basic policy is to expand into new business fields where we can put to use the competitive superiority that we have built up and the know-how that we have acquired in business fields peripheral to our existing businesses relating to daily life.

In cases in which the Group intends to move into a business field in which it has comparatively little experience, it is our policy firstly to form joint ventures with other companies, to invest in venture companies, and/or to engage in joint research, so as to build up sufficient knowledge relating to the new field in question, and to examine the feasibility of the proposed project.

▶P.41-42 Other Businesses

Risk ❺ Risks associated with overseas business operations

▶Risks arising from sharp fluctuations in exchange rates; the occurrence of riots or civil insurrections accompanying economic and political uncertainty; the risk of litigation; deteriorations in international relations; and legal restraints

▶The Group may be unable to demonstrate its competitiveness in overseas markets, owing to a lack of knowledge of or experience in local business practices, culture, and so on.

Countermeasure When we embark on business expansion into a new geographical area, we form joint ventures with local business partners whom we trust and who share our business philosophy, in order that we may make mutually effective use of one another's know-how to develop a business model that suits the country in question.

▶P.43-44 Overseas Operations

Business Overview

	Single-Family Houses	Rental Housing	Condominiums	Existing Home Business	Commercial Facilities	Logistics, Business and Corporate Facilities	Other Businesses
Summary of business	We are engaged in the housing contracting business, in which we build homes to meet the needs of each individual owner, and the housing subdivision business, in which we develop entire neighborhoods, including their immediate natural environment.	We provide tenants with comfortable homes and offer the owners a multifaceted support service that ensures stable management.	We help protect asset values through the development and sale of safe condominiums that offer a pleasant living environment, plus the provision of comprehensive management and maintenance services.	We maintain home values through renovation work and provide agency services support for owners looking to sell their homes, passing on a stock of superior homes to the next generation.	We bring landowners and corporate tenants together, developing commercial facilities that invigorate the local communities.	We utilize a wealth of data on land usage to design and construct a wide variety of facilities that meet user needs.	We make proposals in a wide range of fields, including comprehensive energy-usage solutions and the robotics business.
Annual performance	▶ Number of houses sold Single-family houses (contracting) 7,106 Single-family houses (subdivision) 2,180	▶ Number of rental housing units sold Rental housing (low-rise) 40,985 Rental housing (medium- to high-rise) 2,443 ▶ Units under management 510,208	▶ Condominium units sold 2,955 ▶ Units under management 341,705	▶ Number of renovations 48,130*4 ▶ Number of staff in sales 963*4	▶ Number of constructions 41,084 (cumulative figures as of March 31, 2017) ▶ Leasing floorspace of sublease areas within commercial facilities 5,736,312 m²	▶ Development site area of logistics projects Approx. 7,011,000 m² (cumulative figures as of March 31, 2017) ▶ Orders received for contract-based medical and nursing care facilities 467	▶ Customer visits to our home centers Approx. 28,678,000 ▶ Guest stays at our resort hotels 3,293,950 ▶ Members of our fitness clubs 179,151

Single-family houses (contracting)

Rental housing (low-rise)

Condominiums (for sale)

Renovated home interior

Roadside stores

Logistics facilities

Environment and energy

Single-family houses (subdivision)

Rental housing (medium- to high-rise)

Condominiums (for sale)

A "Reform Salon" renovation showroom

Multipurpose commercial facilities

Medical facilities

Robots

Breakdown of principal figures for our businesses in FY2016 (YoY change)

	Single-Family Houses	Rental Housing	Condominiums	Existing Home Business	Commercial Facilities	Logistics, Business and Corporate Facilities	Other Businesses
Net sales*1 (¥ billion)	390.3 (3.2% ↗)	977.2 (11.0% ↗)	262.8 (5.9% ↘)	105.5 (10.6% ↗)	569.7 (15.0% ↗)	828.4 (12.5% ↗)	513.5 (11.9% ↗)
Operating income*1 (¥ billion)	19.2 (16.8% ↗)	94.2 (15.1% ↗)	13.4 (15.0% ↘)	13.0 (15.8% ↗)	100.7 (25.4% ↗)	78.9 (16.1% ↗)	16.8 (76.1% ↗)
Operating income margin*1 (%)	4.9 (0.5pt ↗)	9.6 (0.3pt ↗)	5.1 (0.6pt ↘)	12.4 (0.6pt ↗)	17.7 (1.5pt ↗)	9.5 (0.3pt ↗)	3.3 (1.2pt ↗)
Number of employees*2	4,644 (0.2% ↘)	6,188 (3.6% ↗)	5,074 (15.2% ↗)	2,357 (6.2% ↗)	4,947 (23.2% ↗)	6,221 (1.7% ↗)	9,573 (5.8% ↗)
Capital investments*1 (¥ million)	8,509 (36.9% ↗)	37,554 (88.6% ↗)	6,184 (85.7% ↗)	146 (108.6% ↗)	61,701 (95.0% ↗)	164,137 (63.7% ↗)	62,985 (122.5% ↗)
Contribution to CO_2 reduction*3 (10,000 t-CO_2)	34.7 (8.7% ↘)	46.7 (9.5% ↗)	18.0 (41.5% ↗)	21.1 (18.8% ↗)	100.2 (18.0% ↗)	108.2 (84.9% ↗)	167.0 (8.7% ↘)

*1 Figures include intersegment transactions.
*2 Regular employees only
*3 These figures indicate the degree of contribution to reduction in CO_2 emissions made by the Group through its construction of housing and other structures and its solutions to issues involving energy conservation and renewable energy.
(For details concerning the basis on which these figures have been calculated, see the Group's Sustainability Report 2017, P168. Note that while figures for FY2016 onward are calculated according to new standards, figures for the previous year have also been recalculated on the basis of these new standards.)
*4 Figures for Daiwa House Reform only. Number of staff in sales as of April 1, 2017.

Business Overview

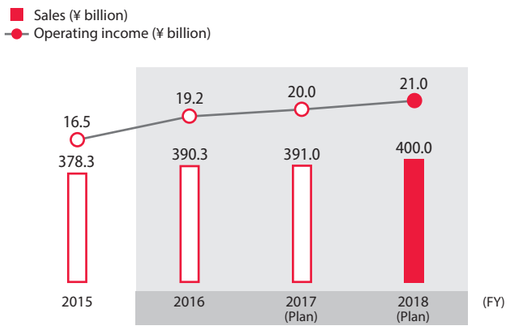
Single-Family Houses

Domestic share of single-family housing starts (FY2016) **2.43%**
(Contracting business only)

Targets and Strategy under the Group's Fifth Medium-Term Management Plan

Building a platform that will enable us to capture the top market share in each region

Sales/Operating income



Strategy

- Further expand sales of the single-family housing product xevoΣ, which is strong against repeated earthquakes and boasts high ceilings with a height of 2.72 m
- Expand sales of skye, our series of multistory residences that enable to build owners' residence with rental units, stores, and hospitals
- Reduce number of parts and manufacturing steps, and shorten construction period to reduce costs and operating expenses
- Enhance efficiency of the sales system, including dealing with the population shift to the Tokyo area, and concurrent sales of steel structure and wood structure housing

Features and strengths of our business operations

Expanding market share with products that anticipate future needs

Daiwa House began its corporate life in the field of single-family houses as a pioneer in the industrialization of housing. Since then, we have pursued the constant evolution of leading-edge technologies, and have now constructed and sold over 600,000 single-family houses. We design our products and marketing to meet the needs of each particular region of Japan – what we call "community-based business operations." Currently, we are working to expand our market shares in the twin fields of single-family house contracting and lot-subdivision, leveraging an extensive lineup of single-family home products centered on our xevo series. This home model series embodies the cream of our proprietary technological solutions in the fields of earthquake resistance, durability, and energy conservation. The members of our Team-xevo group—composed of marketing staff, architects, and construction technology specialists—handle all stages of the entire process from planning through to construction, and help build close relationships with our customers.

xevoΣ

skye

Qual-D

Eco Housing Brand
For Nature
Daiwa House Symbiotic Housing

Our strategy yields fruit

▶ Overview of fiscal 2016 performance

New single-family house construction starts in fiscal 2016 posted an increase for the second year in a row, thanks to low mortgage rates. In the Group's single-family home operations, during the term we expanded the lineup of models in our top-of-the-line xevoΣ series. These homes boast the ability to withstand repeated massive earthquakes, with no deterioration in seismic resistance capabilities from the initial level. They also meet customer needs for spacious living interiors with their 2.72-meter-high ceilings. Moreover, we strengthened our sales lineup in the field of dual-purpose houses, centered on our "skye" series, which comes in 3-, 4-, and 5-story models. Our dual-use models are designed to combine home units for the owners with rental units, or to combine a home with a retail outlet.

With the growth of online retailing in recent years, Japanese home delivery companies have faced rising costs owing to the growing need to re-deliver parcels to homes whose occupants are out when the first delivery is attempted. To lighten this burden and also provide improved convenience for home owners who use Internet shopping services, the Group has collaborated in the commercial development of the Qual-D, a new type of secure locker enabling door-to-door deliveries to be made even when the owners are out. We have begun incorporating this product in our single-family houses, in both the contracting and lot-subdivision categories.

▶ Business developments in fiscal 2017

In our single-family houses business, we have been working to widely market the appeal of our new For Nature brand of single-family houses, which we put on sale in January as part of broader efforts to popularize homes with zero environmental impact. Also, in addition to cost-cutting and an expansion of our product lineup, our Team-xevo group has been focusing on meeting a wide range of customer needs. The services they provide in overall planning and in support for owners wishing to rent out or sell their homes has helped raise customer satisfaction levels, and has put us well on the way to meeting our goal of gaining the top market share in each region.

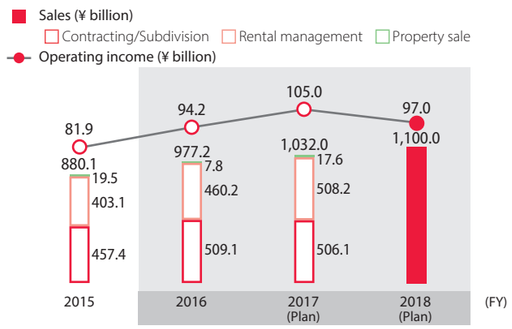
Rental Housing

Domestic share of rental housing starts (FY2016) **10.16%**
(Houses for rent only)

Targets and Strategy under the Group's Fifth Medium-Term Management Plan

Expanding orders through community-based marketing from network of 173 offices nationwide

Sales/Operating income



Strategy

- Strengthen CRE*1/PRE*2 strategies for promoting proposals for the utilization of dormant real estate held by companies and local municipalities
- Strengthen development and sales of rental condominiums for existing rental property owner customers and other individual investors
- Promote development of serviced apartments and hotels in areas expected to see inbound demand
- Expand business with an infrastructure and added-value for residents when they move in and while renting

*1 CRE: Corporate real estate, including all real estate properties owned or rented by a company
*2 PRE: Public real estate: real estate properties owned or rented by local governments or educational institutions

Features and strengths of our business operations

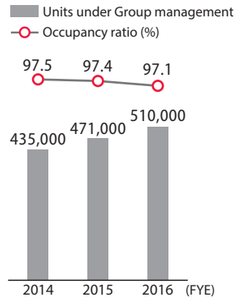
Aiming to expand market share by leveraging relationships with property owners

In the rental housing business, we are successfully expanding our market share thanks to our twin strengths in comprehensive services—ranging from site assessment through planning, design, and construction to management support—and in long-term relationships of trust with property owners. In our contracting business, we have an extensive lineup of rental housing products to meet all user needs, starting with properties boasting advanced security features—of which we have already built and sold over 220,000 home units—housing facilities for senior citizens, shared houses for singles, and medium- to high-rise rental apartment buildings constructed using real estate securitization schemes. In our rental housing management business, we enable property owners to enjoy stable management and rental income, while making comfortable lifestyles possible for tenants. The total number of rental housing units under management by the Daiwa House Group topped 510,000 as of March 31, 2017, and these properties enjoyed a high occupancy ratio of 97.1%.

Séjour New Lupina

La'gent Stay Sapporo Odori

Rental Housing units under Group management/Occupancy ratio



Our strategy yields fruit

▶ Overview of fiscal 2016 performance

In 2015, an amendment to Japan's inheritance tax law sparked an increase in demand for construction of rental housing properties, and this trend persisted in fiscal 2016, with new rental housing starts registering the second straight year of growth. Our rental housing business established eleven new operational bases during the term, bringing the total nationwide to 173. This network of business bases allows the Group to supply marketing services even more closely tailored to the unique needs of each local community. In addition, responding to the need to ensure tenants' safety in the event of natural disasters, we further enhanced our product lineup with the launch of the Séjour New Lupina, a rental housing model noted for its various anti-disaster features, such as lithium-ion storage batteries (fitted as standard to all home units). In our rental housing management business, too, we opened eleven new operational bases with the goal of enlarging the menu of services we offer to tenants so as to improve the average occupancy rate. This is just one of the ways in which we are differentiating ourselves from rival companies.

▶ Business developments in fiscal 2017

In the rental housing market there are worrying signs of a rising vacancy rate, owing to an increase in the supply of housing units. Nonetheless, the Group will aim to secure growth in orders and an improved occupancy rate, principally through continued product development, an insistence on high standards in our site assessment services, and an expanded menu of tenant services. On top of that, we plan to further diversify the range of property applications we handle, including such new fields as medium- to high-rise rental apartment buildings, serviced apartments, and serviced apartment hotels*3.

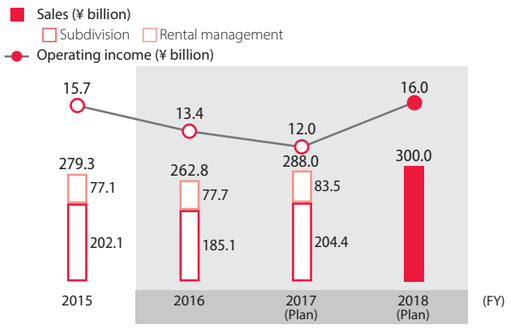
*3 Serviced apartment hotels offer furnished rental living units with the same level and range of services provided by hotels, which can be rented by the month or even for a period of a year.

Condominiums

Targets and Strategy under the Group's Fifth Medium-Term Management Plan

Leveraging high value-added products and total Group strength to increase our market share

Sales/Operating income



Strategy

- Further strengthen our sales and purchasing systems in the Tokyo area
- Promote multi-use developments such as large-scale condominiums with single-family home complexes or commercial facilities
- Promote redevelopment and rebuilding projects that take advantage of our nationwide network of business offices
- Strengthen sales system in Tokyo area for selling regional properties to customers looking to relocate

Features and strengths of our business operations

High value-added products tailored to suit unique characteristics of each region

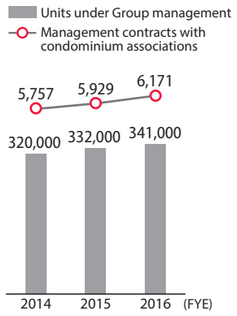
We develop high value-added condominiums throughout Japan, sell the home units, and manage the properties. In this way, we offer home owners a pleasant and safe living environment, and help maintain their asset values over the long term. We leverage the capabilities of the whole Group in developing high value-added condominium projects that make optimal use of each region's particular characteristics, including multi-use development projects, town and neighborhood planning aimed at urban regeneration, and condominiums targeted at active seniors. Thanks to these initiatives, the number of condominium home units sold by the Group passed 196,000.

In our condominium management business, during the term under review we implemented various initiatives to enhance our long-term maintenance and repair support, as well as other services provided to condominium owners. As a result, the number of home units under management as of March 31, 2017 topped 340,000 for the entire Group, putting us in the No.5 position among condominium management companies in Japan.

PREMIST Takao SAKULa City

GRAND COSMOS Musashiurawa

Condominium units under management/Management contracts with condominium associations



Our strategy yields fruit

▶ Overview of fiscal 2016 performance

Condominiums recorded a year-on-year decline of 5.1 percent in the fiscal 2016 government statistics for new housing construction starts. The Daiwa House Group was no exception, posting year-on-year minus figures for both revenues and profits, owing to a decrease in the number of construction project completions. On the positive side, however, we recorded robust sales of high value-added condominiums.

All units were sold out in all seven marketing stages of the PREMIST Takao SAKULa City (Tokyo) condominium project. This project has proved very popular thanks to its twin advantages of convenient location and the beauty of its natural surroundings. All units were also sold out immediately at the GRAND COSMOS Musashiurawa (Saitama Pref.), a condominium project targeted at active seniors. This property is based on the concept of offering a safe and comfortable living environment for older customers, and its attractions include a full range of common-use facilities such as restaurants and large-scale *onsen*-style bathing facilities. To lay the groundwork for new growth in the field of large-scale condominium repair and renovation services we established a new Group company – Daiwa Cosmos Construction – which commenced operations during the term. This is just one of the ways in which we are applying the Group's technological expertise and marketing know-how to improve quality control in large-scale repair and renovation work.

▶ Business developments in fiscal 2017

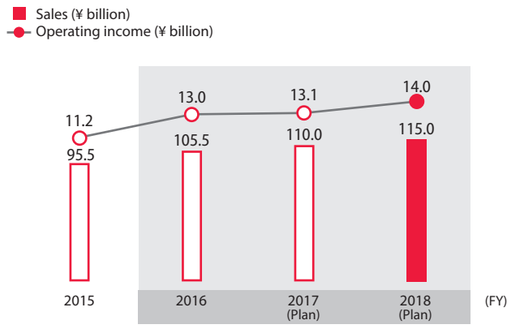
Amid rising construction costs and the growing difficulty of securing appropriate sites for new properties in the Tokyo area, to expand sales we are focusing on offering unique kinds of value-added products so as to differentiate the Group's condominium business from those of our rivals. In other parts of Japan, we are seeking to strengthen our brand power through careful selection of sites that meet our exacting location criteria, focusing particularly on major urban areas. In our redevelopment business, we are working to expand orders by leveraging the Group's comprehensive capabilities in multi-use project development.

Existing Home Business

Targets and Strategy under the Group's Fifth Medium-Term Management Plan

Utilizing our customer base to capture increased orders through strengthened relationship

Sales/Operating income



Strategy

- Expand single-family housing renovation business based on regular inspection and examination services to respond to market need for "continued habitation"
- Expand orders received for the renovation by strengthening relationships with rental housing owners
- Promote property purchase and resale business by expanding business involving purchasing existing homes and selling them as renovated homes with improved their performance
- Promote renovation of corporate real estate such as offices and warehouses

Features and strengths of our business operations

Aiming at operational growth by utilizing our main strengths—extensive customer base and cutting-edge technology

In our existing home business, we make maximal use of the Group's extensive customer base—as well as the proprietary technology and experience we have built up over the years—to provide renovation services centered on regular inspection at appropriate intervals. Our renovation operations are targeted principally at single-family houses, condominiums, and rental housing, and we offer a one-stop service covering everything from initial design to construction. Additionally, we have set up renovation service showrooms within the grounds of large-scale public housing developments in the outskirts of Japan's three major metropolises. At these showrooms, called Reform Salons, we make renovation proposals to reinvigorate the superannuated housing developments as well as their surrounding communities. In another initiative to expand our existing home business, we have also started up a business in which we purchase existing housing, which we then renovate—including the addition of up-to-date equipment to add value—and sell on the general market.

A "Reform Salon" renovation showroom

Roof inspection

Underfloor space inspection

Underfloor inspection robot "moogle"

Our strategy yields fruit

▶ Overview of fiscal 2016 performances

The government of Japan has laid out a goal of reinvigorating and expanding the markets for existing home resale and renovation, but with the falloff in demand from baby boomers—who had hitherto led this sector—slack demand was seen in fiscal 2016. In the Group's existing home business during the term, we endeavored to strengthen relationships with owners of single-family houses and rental housing properties through regular inspections, as well as special marketing campaigns. We also focused efforts on expanding this business by strengthening our lineup of proposals for renovation services that improve a home's performance, making effective use of the government's project to build a stock of lasting high-quality housing through the promotion of renovation work, for which financial subsidies are available.

▶ Business developments in fiscal 2017

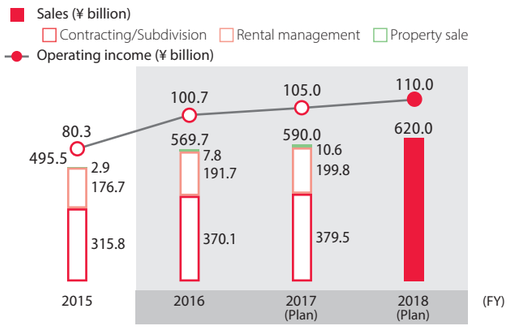
Hopes are being pinned on new initiatives by the government to stimulate demand in this market, including subsidy programs, and we expect to see a gradual growth in market scale in the near future. In our existing home business, we plan to win a growing volume of orders by making optimal use of the Group's extensive customer base. In the field of single-family houses, we will be strengthening relationships with owners of homes built twenty or more years ago, and will be making proposals to owners of rental housing properties for regular inspection services and renovation work. We also hope to capture increased orders for the renovation of corporate real estate such as offices and warehouses.

Commercial Facilities

Targets and Strategy under the Group's Fifth Medium-Term Management Plan

Wide range of planning proposals helps boost orders

Sales/Operating income



Strategy

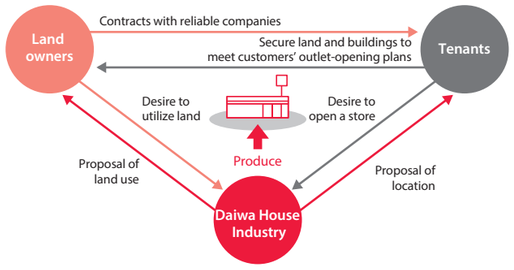
- Expand variation in planning proposals corresponding to market and area characteristics (business expansion in hotels, showrooms, industrial facilities, educational and nursery facilities, etc.)
- Expand commercial facilities for sale business through development and sale of investment properties and tax-strategy properties
- Strengthen development and management of commercial facilities that meet community needs by utilizing network of national tenant businesses

Features and strengths of our business operations

Expanding lineup of proposals based on proprietary system

In our commercial facilities business, based on our unique LOC System, we bring landowners seeking an effective means of utilizing idle land holdings together with prospective corporate tenants seeking sites for new wholesale or retail outlets. Additionally, thanks to the deployment of our extensive land-use database and detailed market surveys, we are winning an increased volume of orders for the construction of a wide variety of facilities that make the most of the particular features of each geographical area. The actual development of commercial facilities is undertaken on a Groupwide basis, and development projects are marketed as a complete package covering everything from planning through construction to leasing, management, and day-to-day operations. While optimally leveraging the wide-ranging capabilities of the Group's member companies, we are also focusing on the development of large-scale multipurpose facilities.

LOC System



Our strategy yields fruit

▶ Overview of fiscal 2016 performance

Statistics for fiscal 2016 on construction starts, broken down by purpose of structure, show that although wholesale and retail stores as a whole declined for the third consecutive year, the downward trend in construction starts for wholesale and retail trade buildings flattened out, while starts in the categories of accommodation as well as eating and drinking outlets posted an increase. Amid this situation, the Group's commercial facilities business enjoyed a steady inflow of orders for multi-tenant facilities—centering on drug stores and grocery supermarkets—in addition to automobile showrooms. Orders for business hotels rose, thanks to our strengthened efforts in of urban development.

During the term under review, the Daiwa House Group commenced work on the Hiroshima Futaba-no-Sato Project, entailing the construction of multipurpose facilities including a hotel and a shopping mall, among others, in an area being redeveloped to the north of the JR Hiroshima station. In the Tokyo area, the Group engaged in preparatory work for the development of "iias Takao," a large-scale commercial facility to be constructed within Takao SakuLa City, (Tokyo) a development complex that will comprise single-family houses, condominiums and a variety of commercial outlets. This venture is in line with our policy of seeking out large-scale multipurpose projects that take full advantage of the Group's unique strengths.

Drug stores

Business hotels

Hiroshima Futaba-no-Sato Project

▶ Business developments in fiscal 2017

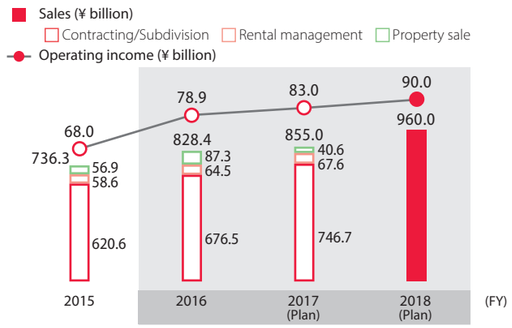
We will continue to put effort into widening our range of proposals in all our marketing areas, making maximum use of the knowhow we have acquired in our retail outlet development business. We also plan to rethink our staffing system in the marketing sphere, while creating a stronger and more effective system for the design and construction of large-scale and medium- to high-rise properties. We aim to realize an expanded commercial facilities business that helps to reinforce intra-Group collaboration and coordination.

Logistics, Business and Corporate Facilities

Targets and Strategy under the Group's Fifth Medium-Term Management Plan

Growing orders by strengthening ability to design solutions in all specialized fields

Sales/Operating income



Strategy

- Establish position as the No. 1 logistic developer and strengthen our stock business model by achieving national expansion of logistics facilities
- Expand development of medical and nursing care facilities with a focus on hospital rebuilding and construction of housing for the elderly with medical services
- Strengthen ability to capture private capital investment demand through development of industrial complexes that are linked to regional revitalization
- Strengthen ability to meet food processing sector's demand for rebuilding by providing total operational support services that leverage comprehensive capabilities in both facility construction and consulting

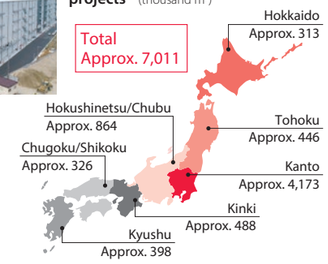
Features and strengths of our business operations

Proposal-based solutions leveraging customer relationships

In the logistics, business and corporate facilities business, we are expanding our operations by making use of our extensive database on land usage to meet the needs of corporate clients through the design and construction of a wide variety of built-to-suit facilities. In the field of logistics facilities, we are deploying our proprietary D-Project business format, our aim being always to create the "logistics facility of choice" by drawing on sophisticated proposals based on knowledge acquired in the operational front line. We also make optimal use of the synergy generated with Group member Fujita to enable flexible responses to customer needs, and are actively engaged in the proposal and construction of facilities in the fields of medical and nursing care facilities, welfare and housing for the elderly facilities, food-processing facilities, offices, factories, urban redevelopment, and railway construction projects. In all cases, our business is driven by proposal-based solutions that optimally leverage our long-term relationships with customers.

DPL Kawasaki Yakou Logistics Center

Development site area of logistics projects[*1] (thousand m²)



*1 Daiwa House Industry, non-consolidated
Figures are aggregates as of March 31, 2017
(incl. projects under construction and scheduled)

Our strategy yields fruit

▶ Overview of fiscal 2016 performance

Amid recent rising demand for state-of-the-art logistics facilities, the Group's logistics facilities business has commenced construction on the outskirts of Tokyo of one of the largest facilities in Japan, and has been recovering initial investments through the sale of a logistics facility at Ariake in Tokyo.

Demand for medical treatment and nursing care facilities is growing nationwide, and in our medical and nursing care facility business we have been making proposals to the managements of facilities constructed in accordance with now-superseded earthquake resistance standards, for rebuilding on the same site or at a relocated site. We have also expanded proposals involving nursing-care facilities focused on enabling patients to return to their own homes.

In our food-processing facilities business, we have responded to the growing mandatory application of HACCP*[2] systems and standards by holding seminars for managements of food-processing companies. We have also strengthened our capabilities in proposals for facilities able to obtain safety certification.

Fujita won a number of large-scale orders during the term under review. Within Japan, these included high-rise condominium buildings, logistics facilities, and railway facilities, and overseas, included airport-related work and preparatory work for an automotive factory.

▶ Business developments in fiscal 2017

Competition in the logistics facilities market continues to grow. Not only are customers becoming increasingly selective with regard to site location, but demand for large-scale and multipurpose facilities is also on the rise. We are working to expand orders for the development of built-to-suit logistics facilities, and have also begun development of multi-tenant facilities at sites with easy transportation access and located conveniently close to both areas with a high density of consumers and areas where manufacturing plants or other primary producers are situated. In our medical and nursing care facilities business, we are pursuing the construction of housing for senior citizens at the Groupwide level in line with recent changes to government policy, including the revision of the law on the reliable provision of residences for the elderly.

*2 Hazard analysis and critical control points (HACCP) is a systematic preventive approach to food safety in production and preparation processes, in which the dangers posed by contamination by microorganisms at each stage of the process are analyzed and managed.

Other Businesses

Environment and Energy

Working together, the Group offers comprehensive solutions

At the Daiwa House Group, we leverage know-how in the fields of energy conservation, renewable energy, electric energy storage systems, power generation, and power retailing – combined with the Group's construction technology and its unrivaled customer base – to offer corporate customers comprehensive solutions to their energy issues. These include the construction of photovoltaic power generation systems such as large-scale solar farms, wind farms and hydroelectric power generation systems.

Among these, our "DREAM Solar" photovoltaic power generation business – in which we provide a one-stop service covering installation, operation, maintenance, and administration for solar power facilities erected on publicly- and privately-owned land – leverages the Group's wide range of business schemes and installation technologies. This is a unique service that makes full use of the Group's ability to handle everything from construction to operation and management.

Generating capacity of solar power, wind power, and hydroelectric power generation facilities (currently in operation)*1

196.3 MW/195 sites

(as of March 31, 2017)

*1 Total for 15 Group companies

Photovoltaic power generation business

Construction Support Business

Providing invaluable services and a wide range of products to the construction market

In our logistics business, we offer high-quality services in construction and construction materials logistics to companies nationwide via our network of 77 business bases. We employ information technology to cut costs and shorten lead times, enabling us to offer logistics services that make construction at site easier and impose less environmental load.

In our interior design business, we optimally leverage our staff of roughly 450 qualified interior coordinators to create interior living spaces that meet our customers' needs and move with the trends of the times. We design and produce a wide variety of interior design marketing sets at industry events, and offer services that anticipate an expanding home renovation market.

In our home center business, the outlets operated by Royal Home Center offer a huge lineup of products catering to the needs of general customers in areas like DIY, interiors, gardening, pets, and home renovation, as well as construction materials for professionals. All stores and their lineups are designed to serve the specific needs of the region where they are located. We are also actively tackling the conversion of large retail outlets into net zero energy buildings (ZEB*2), and are opening eco-friendly stores to serve the needs of the next generation.

*2 ZEBs: Buildings in which net consumption of energy is zero or approximately zero.

Logistics business

Interior business

Home center business

Home center outlets

57 home centers

(as of March 31, 2017)

Robotics Business

Robotics provides daily living support, for more fulfilling lives

The aging of Japan's population is becoming increasingly marked, and society is facing a severe shortage of workers in the medical and nursing care fields. At Daiwa House, we have formed collaborative relationships with companies engaged in the development and manufacture of robotics, with the goal of developing robotic equipment that can help elderly or physically disabled people become more independent while alleviating the burden on caregivers.

We are also currently engaged in the full-scale practical introduction of the Robot Suit HAL® for labor support (lumbar) developed by the robotics company CYBERDYNE Inc., primarily as a promising answer to the increasing workforce aging and shortage of labor in Japan's construction and logistics industries. This is one of the ways in which we are pursing our mission of realizing a "harmonious coexistence between humans and robots" in areas other than medical, nursing care and welfare.

ROBOT SUIT HAL® for care support (lumbar type)

Mentally committing robot PARO

Communication support device (desktop type) COMUOON®

Robot Suit HAL® is a registered trademark of CYBERDYNE Inc.
COMUOON® is a registered trademark of UNIVERSAL SOUND DESIGN Inc.
Mentally committing robot is a registered trademark of the National Institute of Advanced Industrial Science and Technology.
PARO is a registered trademark of Intelligent System Co., Ltd.

Business and City Hotels

Developing a new hotel brand targeted at a wide range of guests

In our Business and City Hotels business, Daiwa Roynet Hotels operates a nationwide network of hotels, mainly conveniently located near railway stations in Japan's major cities, in addition to the Osaka Dai-ichi Hotel and the Royton Sapporo. To meet the leisure and business needs of our guests—both Japanese guests and those from overseas—we offer a wide range of room types and a large menu of original services, and great care is taken to provide all the assistance required by elderly guests or guests with physical disabilities. Our aim is to offer unstinting hospitality, to give our guests a comfortable stay in safe and clean hotel accommodations.

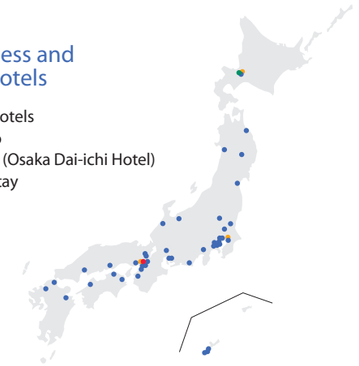
We have also begun opening the La'gent chain of hotels targeting overseas tourists—principally those traveling as a family group—and located in areas popular with tourists. The two hotels opened thus far are the La'gent Hotel Tokyo Bay (in Urayasu, Chiba Pref.) and the La'gent Hotel Osaka Bay (Konohana-ku, Osaka)

Going forward, we will continue to open new hotels all around Japan and will work to build a higher market profile for our hotel chain and further enhance its brand image by raising customer satisfaction levels.

50 business and city hotels

- Daiwa Roynet Hotels
- Royton Sapporo
- Osaka Marubiru (Osaka Dai-ichi Hotel)
- La'gent Hotel/Stay

(as of March 31, 2017)



Daiwa Roynet Hotels (45 hotels)

Royton Sapporo

Osaka Marubiru

La'gent Hotel/Stay (3 hotels)

Parking Systems

We offer parking lot development services as a way for landowners to make effective use of their real estate. In this way, we make a social contribution by developing parking lots that are convenient for users and offer high earning capacity for their owners.

Number of parking lots

42,051

(as of March 31, 2017)

Car parking business

Health and Leisure Business

Pursuing business opportunities and offering leisure activities

In our resort hotel business, Daiwa Royal Hotels operates a network of hotels all across Japan, while Nishiwaki Royal Hotel Co., Ltd. operates a hotel in Hyogo Prefecture. At all these hotels, guests can enjoy the unique natural scenery of each part of Japan, which offer distinct attractions with the changing seasons. Our hotels also highlight each region's unique cuisine, history, culture, traditions, and local industries. As well as giving guests a fulfilling resort experience, our hotels serve as a driving force for regional economic development by providing additional employment, among other benefits.

In our fitness club business, Sports Club NAS operates facilities all over Japan, offering activity menus that go beyond conventional fitness clubs, including courses for children, "community clubs" for members aged sixty or over, aesthetic salons, hot yoga studios, and others. These facilities work to create varied "communities" that enable members of all ages to enjoy themselves while keeping fit.

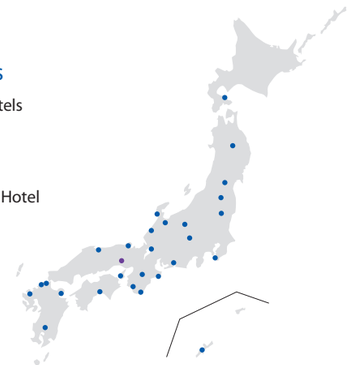
27 hotels

- Daiwa Royal Hotels

1 hotel

- Nishiwaki Royal Hotel

(as of March 31, 2017)



Daiwa Royal Hotels

Daiwa Royal Golf

Sports Club NAS

Fitness clubs & other facilities

71 fitness clubs

Aesthetic salons

28 aesthetic salons

(as of March 31, 2017)

Business Overview

Overseas Operations

Aiming to expand operations through aggressive investment in the US, Australia, and ASEAN

The Daiwa House Group's overseas operations commenced in the 1960s, and we have now expanded our activities to 17 countries around the world, making optimum use of business resources built up over the years.

Under our Fifth Medium-Term Management Plan, one of our basic policies is to speed up the pace of overseas development. As a result, we have been expanding our overseas operations, particularly in the United States, Australia, and ASEAN.

In the United States, we are principally involved in the rental housing business, and in February 2017 we acquired and made into a subsidiary Stanley-Martin Communities, LLC*1, a company engaged in the housing business. This is part of a drive to increase our know-how in the US single-family houses business and expand our sphere of operations. In Australia, we have been investing actively in the development of condominiums, among other business formats, while in the ASEAN region we have been involved in developing hotels as well as industrial parks to support Japanese companies seeking to enter the regional market, among other projects. Going forward, we will continue to make optimum use of the Group's strengths to expand the scale of our activities, aiming to achieve net sales of ¥250 billion*2 in fiscal 2018.

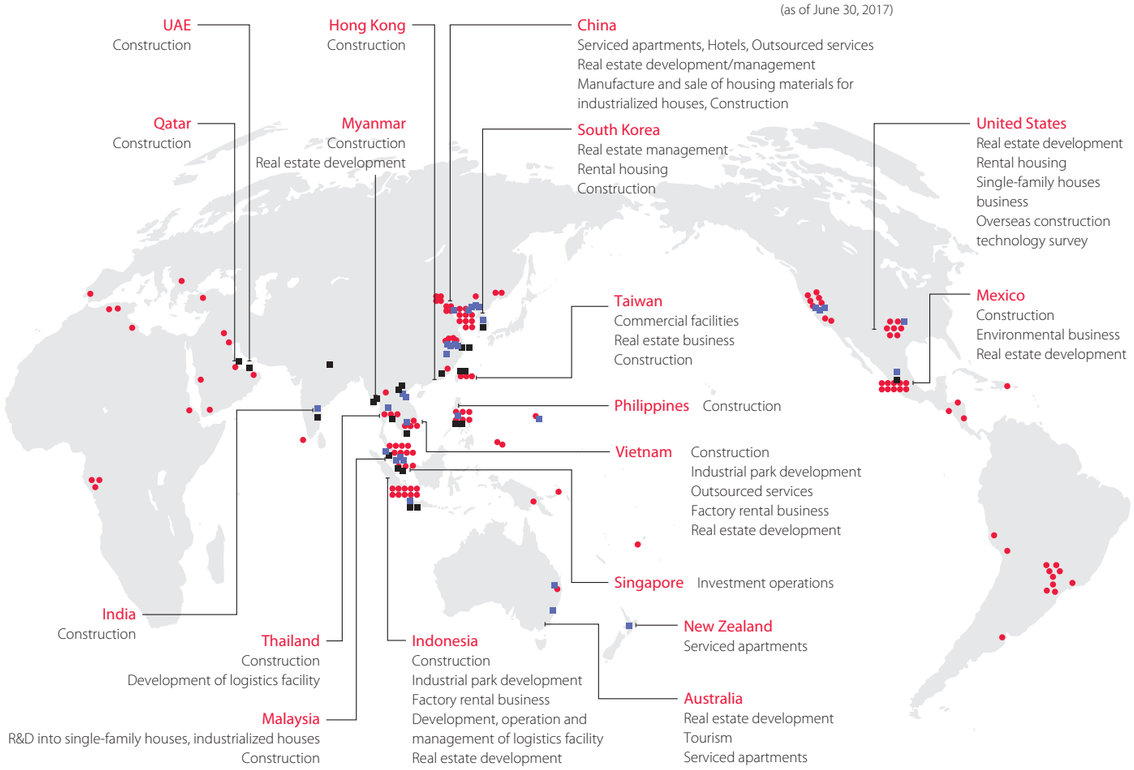
*2 For a detailed breakdown of this figure, see P.26

Our overseas business areas

17 countries

- Group companies overseas
- Overseas businesses and representative offices
- Projects completed

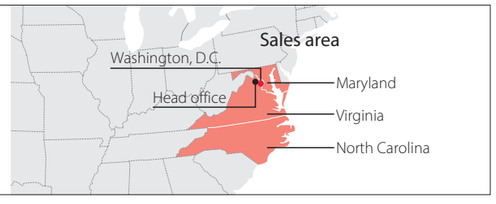
(as of June 30, 2017)



*1 Stanley-Martin Communities, LLC Profile

Company name	Stanley-Martin Communities, LLC
Head office	Reston, Virginia, USA
Business performance (Fiscal year ended December, 2016)	Consolidated net sales: $503 million Consolidated operating income: $32 million

- Has sold over 16,500 homes since its founding in 1966
- Ranked No. 4 in home sales in the Washington D.C. area.
- Annual home sales - 862 units (FY2016)



Major overseas projects

United States

■Rental housing business
Berkeley
(Fort Worth, Texas)
Total units: 716
Total area: 104,991 m²

■Rental housing business
Waters Edge
(Dallas, Texas)
Total units: 582
Total area: 115,899 m²

■Rental housing business
North Clark
(Chicago, Illinois)
Total units: 373
Total area: 3,723 m²

■Single-family houses business
Built-for-sale houses developed by Stanley-Martin Communities, LLC

Australia

■Condominiums development
Flour Mill of Summer Hill
(Suburbs of Sydney)
Total units: 356
Total area: 24,789 m²

■Condominiums development
Tempo Project
(Suburbs of Sydney)
Total units: 164
Total area: 5,287 m²

China

■Condominiums, retailers
The Grace Residence
(Changzhou)
Sales units: 1,178
(condominiums only)
Total area: 74,480 m²

■Condominiums, town houses
Moonlit Garden
(Wuxi)
Sales units: condominiums 295, town houses 141
Total area: 81,751 m²

ASEAN

Vietnam

■Industrial park development
Long Duc Industrial Park
(Suburbs of Ho Chi Minh)
Total development area: 270 ha

■Rental housing business
VINATA TOWERS Project (provisional)
(Hanoi)
Total units: 256
Total area: 3,254 m²

■Condominiums
Mid-Town Project
(Ho Chi Minh)
Total units (Plan): 2,320
Total area: 15,051 m² (1st term)

■Hotel development
Water Front City Project (provisional)
(Hai Phong)
Rooms: 182, 269
Total area: 10,304 m²

Indonesia

■Industrial park development
Daiwa Manungal Industrial Parks
(Suburbs of Jakarta)
Total development area: 1,350 ha

Malaysia

■Single-family houses business
Sakura Residence Project
(Johor)
Total units: 100

Thailand

■Logistics development
Laem Chabang Project
Total area: Approx. 78,400 m²

Other area

■Infrastructure business
Hong Kong Airport expansion work

Note: The thumbnails above include actual photographs and artists' impressions.

Message from the CFO

Aiming at sustained growth through effective use of shareholders' equity while maintaining financial health

Corporate Governance—making possible our contribution to society and value creation for our shareholders

By providing products and services essential to society, Daiwa House aims to enhance its enterprise value through value creation for shareholders, customers, employees, business partners and society.

To achieve this objective, we strive to meet society's needs as a group that co-creates value for individuals, communities, and people's lifestyles through business developments in a wide range of areas, proactive innovation and the cultivation of new fields (Contributing to Society); to generate economic value that stably exceeds the medium- to long-term cost of capital (Shareholder Value Creation); to pursue excellent corporate governance that maintains or enhances the high level of both aspects; and contributes to their ongoing fulfillment.

Aiming to achieve both active growth investment and financial stability

Achieving sustained growth is essential to raising shareholder value over the medium to long term, and to realize sustained growth, we must make vigorous growth investments. At the same time, we must continue to ensure that our financial base is sound, so as to enable the procurement of the funds required for stable growth investment. It is thus vital for us to maintain a balanced approach that secures both these business aspects.

From this perspective, we have positioned ROE as a high-priority management indicator, and we are working to ensure effective utilization of shareholders' equity. Simultaneously, we will aim to maintain shareholders' equity at a level within our risk tolerance by holding the debt-equity ratio—an important indicator of financial soundness—to around 0.5.

Under the Group's Fifth Medium-Term Management Plan (fiscal 2016-2018), we have set the benchmark for ROE at a minimum of 10%, but in fiscal 2016, the first term of this plan, ROE easily cleared this bar, reaching 16.3%. Going forward, we will continue working toward the effective utilization of shareholders' equity, so as to raise capital efficiency and achieve Shareholder Value Creation.

We target total growth investment of ¥900 billion over the three years of the current plan, of which ¥700 billion will be invested in real estate development, ¥150 billion will consist of capital investments, and ¥50 billion will be invested in M&As. Of the total investment in real estate development, ¥600 billion will be invested in the Japanese market in three businesses—Rental Housing; Commercial Facilities; and Logistics, Business and Corporate Facilities. The remaining ¥100 billion will be invested overseas, mainly in the US, Australian, and ASEAN markets. One of the purposes of these investments will be to expand and improve our marketing system, including our ability to attract new orders.

During fiscal 2016, the initial year of the current three-year medium-term management plan, investments were made in the amount of ¥359 billion, or 40% of the total planned investment of ¥900 billion. The pace of investment turned out to be somewhat faster than we had anticipated.

On the other hand, the balance of interest-bearing debt as of the end of fiscal 2016 (March 31, 2017) amounted to ¥640.6 billion, for an increase of ¥148.7 billion over the previous year-end, while the debt-equity ratio stood at 0.49 times.

The role of the Group's Administrative Division

Nobuo Ishibashi, the founder of Daiwa House, always used to say that the accounting and finance departments were the linchpin of a company's management. He also used to say that the top officers of a company's administrative division were second in importance only to the heads of the company's branches, and that the main responsibility for the success or failure of the business operations undertaken by a company's branches rested on the shoulders of the top officers at its administrative division. This attitude to corporate management is still very much alive and well at the Daiwa House Group today, and as a result, the administrative officers stationed at our domestic and overseas branches, as well as the officers in charge of the administrative divisions of Group-member companies, play a crucial role in ensuring correct corporate governance at each organization to which they belong.

A particularly important responsibility of ours in the Finance Department is to make the funds needed for business activities available to the business divisions. For this, it is vital to have a sound financial base that is able to raise the amount of funds needed, at the right time, and to ensure that we do not have to scramble to procure funding at times of emergency.

The Group was able to swiftly and flexibly handle the late-2000s global financial crisis sparked by the bankruptcy of Lehman Brothers in 2008, thanks to our high AA* credit rating.

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). We link shareholder return to business performance and maintain a stable level of dividend payments, maintaining a dividend payout ratio of 30% or higher of net income attributable to owners of the parent. Cash dividends per share for fiscal 2016 were initially planned at ¥80, but as EPS exceeded the original target, this was increased to ¥92 per share, for the seventh consecutive business term of increase.

Going forward, in order for the Group to achieve continued growth and allow us to meet the expectations of our shareholders and investors, I will fulfill my responsibility as CFO by working to further raise shareholder value.

I hope that our shareholders and investors will continue to support and encourage the growth of the Daiwa House Group.

* (Long-term) Issuer Ratings: Rating and Investment Information, Inc. (R&I) AA-
Japan Credit Rating Agency, Ltd. (JCR) AA

Takeshi Kosokabe

Takeshi Kosokabe
Representative Director and
Senior Managing Executive Officer and CFO

<Our responsibility>

"What I want to say here is that we have responsibilities.

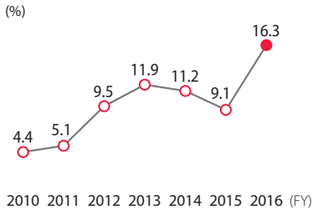
Our first responsibility is to our shareholders. Our second responsibility is to our creditors. Our third responsibility is to ensure the livelihoods of our employees and their families and to provide them with stable lives. Our fourth responsibility is to society. Accordingly, we are obligated to further grow and develop the company, raise profits and return those profits to society.

To develop, we must cultivate various qualities within ourselves, such as a positive attitude, the ability to take swift action and cost-consciousness. Therefore, sloppy management cannot be tolerated in any way."

The Future of the Daiwa House Group: Nobuo Ishibashi (October 29, 1963)

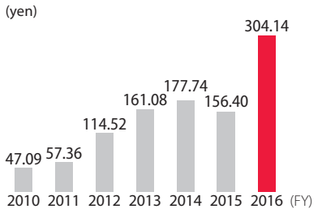
("The Future of the Daiwa House Group") ▶P.15

Return on equity (ROE)

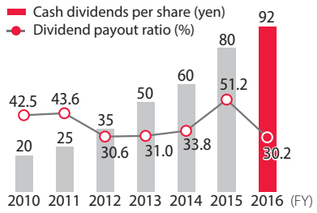


Note: By changing the discount rate used to calculate retirement benefit obligations from 1.7% to 0.8% in fiscal 2015, the Company posted extraordinary losses of ¥84.9 billion. As a result, the ROE dropped to approximately five points.

Net income per share (EPS)



Cash dividends per share and Dividend payout ratio



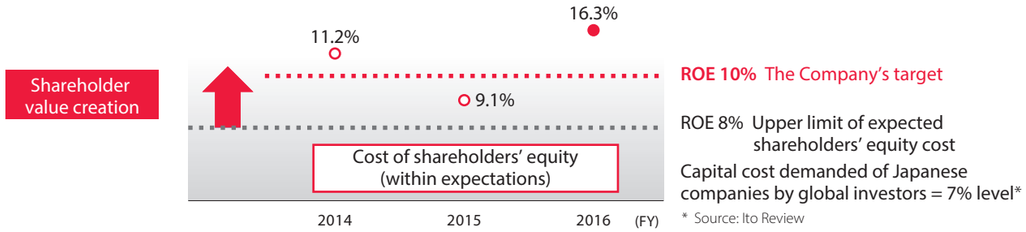
Basic Strategy for Capital Policy

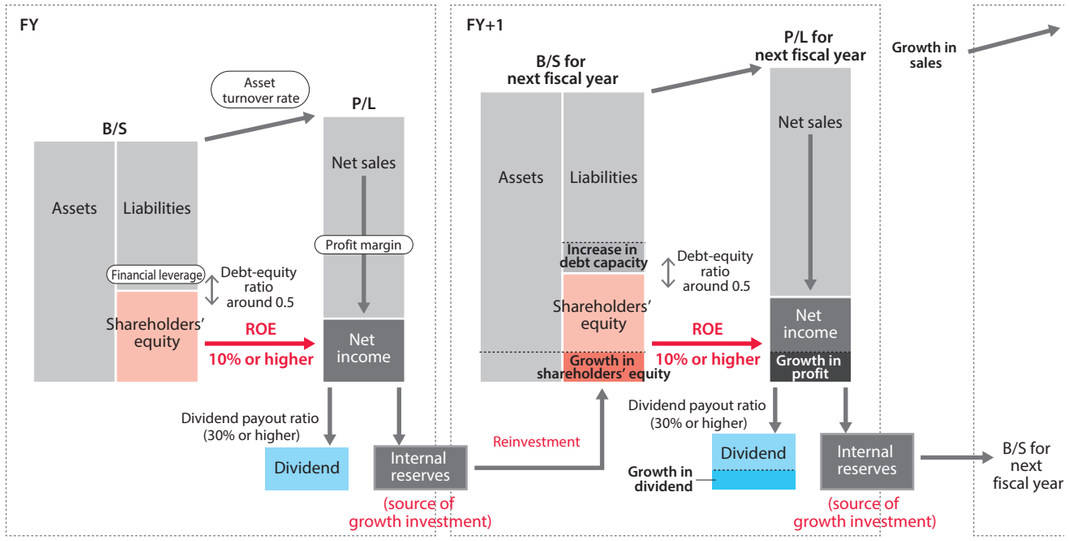
Basic strategy for capital policy

Considering sustained growth necessary to achieving increases in shareholder value over the medium to long term, the Company recognizes the need to maintain a level of shareholders' equity that allows for investment in growth and a tolerance for risk.

Considering return on equity (ROE) to be one of its topmost management priorities, the Company discloses its targets. To effectively deploy shareholders' equity and ensure a robust financial base that allows for the raising of funds for investment in stable growth, the Company discloses its target debt-equity ratio and other measures for financial soundness and works to create the optimal capital structure for reaching these targets.

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

Management's Discussion and Analysis of Financial Position and Results of Operations

[MD&A summary]

I. The financial health for sustaining growth remained at the target level. ..... <Financial position> ▶P.48

II. The ability to generate cash steadily improved although free cash flows turned negative due to strong investment opportunities. ..... <Cash flows> ▶P.49

III. Ensuring the effective utilization of capital led to improvement of the turnover rate and profit margin, which enhanced the ROE. ..... <Profits and losses> ▶P.50

IV. From the perspective of growth potential and profitability, we are building an optimal portfolio. ..... <Business results by segment> ▶P.51

V. We are actively engaged in investment to expand our revenue opportunities and to strengthen the business foundation. ..... <Investments> ▶P.52

Note: This section analyzes the financial position and results of operations during the seven fiscal years from fiscal 2010 to fiscal 2016. For the list of financial data for these seven fiscal years, see "Financial Highlights" on pages 85 and 86.

I. Financial position

Financial condition Figure 1

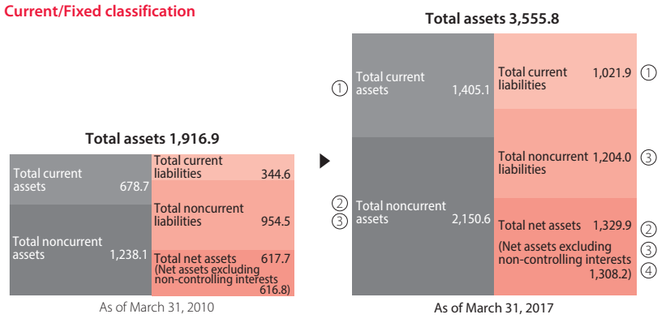
Total assets as of the end of fiscal 2016 increased by ¥298.0 billion from the end of the previous fiscal year to ¥3,555.8 billion. This was mainly due to the increase of property, plant and equipment through the acquisition of investment real estate. Total liabilities increased by ¥150.1 billion from the end of the previous fiscal year to ¥2,225.9 billion. This was mainly due to financing obtained by the Company through the issuance of corporate bonds and loans.

Total net assets increased by ¥147.9 billion from the end of the previous fiscal year to ¥1,329.9 billion. This was mainly because a net income attributable to owners of the parent of ¥201.7 billion was recorded.

The balance of interest-bearing debt increased by ¥148.7 billion from the end of the previous fiscal year to ¥640.6 billion and the debt-equity ratio was 0.49, which fell within the rough standard of approximately 0.5. The net assets ratio was 36.8% and remained at a favorable level in comparison with the balance sheets at the end of fiscal 2009 and the starting point of fiscal 2010. In terms of the breakdown of assets, the balance of real estate for rent was ¥924.8 billion and accounted for a large share in recent years. As assets are expected to grow in the future due to the acquisition of real estate for development and other factors, we will seek to maintain financial health by verifying the optimal capital structure.

Figure 1 Comparison of balance sheets (¥ billion)

Current/Fixed classification



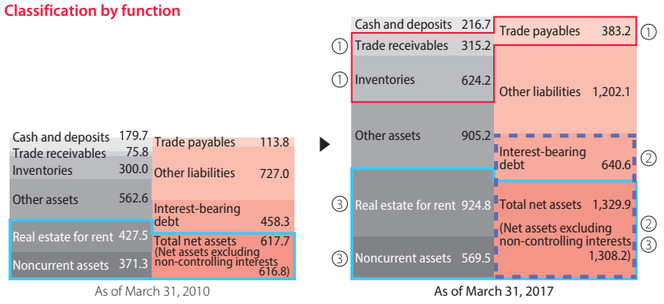
①The current ratio dropped from 197% to 137%.

②The fixed ratio dropped from 200% to 164%.

③The ratio of fixed assets to long-term capital rose from 78% to 85%.

④Net assets excluding non-controlling interests grew from ¥616.8 billion to ¥1,308.2 billion.

Classification by function



①Working capital (Trade receivables + Inventories - Trade payables) increased from ¥262.0 billion to ¥556.3 billion.

②Interest-bearing debt increased from¥458.3 billion to ¥640.6 billion, but the debt-equity ratio fell from 0.74 to 0.49.

③The ratio of real estate for rent and noncurrent assets to net assets excluding non-controlling interests fell from 1.29 to 1.14 while real estate for rent increased.

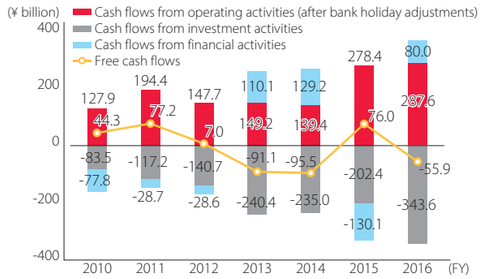
Management's Discussion and Analysis of Financial Position and Results of Operations

II. Cash flows

Basic approach

Our basic approach to cash management is to set investment limitations based on the amount of cash generated from business activities. However, for any favorable investment opportunities that are spotted, we quickly raise funds from external sources to make aggressive investments. As a rule, when implementing this policy, we seek to maintain a balance between growth investments and financial health by setting a debt-equity ratio at around 0.5 to control the level of interest-bearing debt.

Figure 2 Cash flows



Cash flow condition Figures 2 & 3

Cash flows from operating activities during fiscal 2016 increased by ¥9.1 billion from the previous fiscal year to ¥287.6 billion. The ratio of cash flows from operating activities to net assets excluding non-controlling interests remained at a relatively high level compared to that of several years ago, although it decreased by 2 points from 24% of the previous fiscal year to 22%.

In terms of cash flows from investment activities, outflows increased by ¥141.1 billion from the previous fiscal year due to the acquisition of real estate for rent, etc. and the implementation of the ¥280.6 billion investment into the real estate development business based on the investment plan under the Fifth Medium-Term Management Plan. As a result, free cash flows (cash flows from operating activities + cash flows from investment activities) were - ¥55.9 billion while cash flows from financial activities were ¥80.0 billion because of the response to demands for funds through bond issuance, loans, etc.

As a result of the above, the balance of cash and cash equivalents at the end of fiscal 2016 was ¥213.3 billion, an increase of ¥24.3 billion from the end of the previous fiscal year. This is equivalent to 16% of net assets excluding non-controlling interests . We believe that this is within an appropriate range as a level of cash on hand although the ratio itself is on a downward trend.

Figure 3 Indices to net assets excluding non-controlling interests (as a ratio where net assets excluding non-controlling interests is equal to 1)

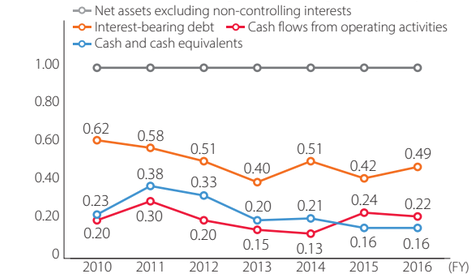
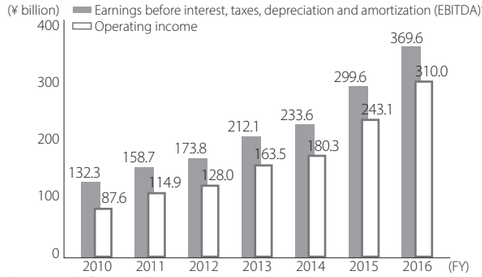
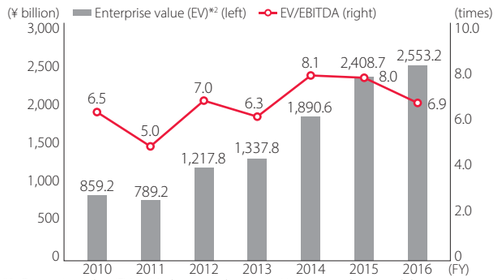


Figure 4 Earnings before interest, taxes, depreciation and amortization (EBITDA)/Operating income



*1 Earnings before interest, taxes, depreciation and amortization (EBITDA) = Operating income + Depreciation

Figure 5 Enterprise value (EV)/EV/ EBITDA



*2 Enterprise value (EV) = Market capitalization + Net interest-bearing debt

Enterprise value/Ability to generate cash Figures 4 & 5

Our ability to generate cash steadily grew as earnings before interest, taxes, depreciation and amortization (EBITDA)*1 as an indicator of ability to generate cash were ¥369.6 billion. We will further enhance the ability to generate cash and improve enterprise value by continuing the policy of maintaining interest-bearing debt at a certain level and aggressively investing in favorable investment projects, as well as by developing new revenue streams.

The enterprise value (EV)*2 at the end of fiscal 2016 was ¥2,553.2 billion, a sum of the market capitalization of ¥2,129.2 billion and the net interest-bearing debt of ¥423.9 billion.

The EV/EBITDA ratio, as an indicator of enterprise value to the ability to generate cash, was 6.9 as of the end of fiscal 2016.

III. Profits and losses

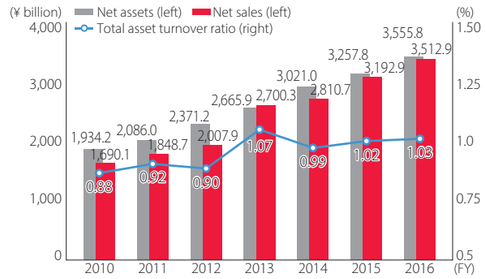
Net sales/Total asset turnover ratio Figure 6

Net sales amounted to ¥3,512.9 billion and the average growth rate for the period of seven years starting from fiscal 2010 was 12.2%.

In terms of the total asset turnover ratio, the period of four years from fiscal 2013 to fiscal 2016 shows a tendency of slight improvement in comparison to the performance in the period of three years from fiscal 2010 to fiscal 2012.

To further improve the turnover ratio, we will continuously seek to ensure the effective utilization of assets, such as the sale of some strategically held shares through a review of such shares.

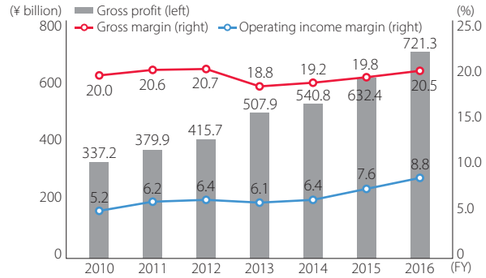
Figure 6 Net sales/Total asset turnover ratio



Gross profit/Operating income margin Figure 7

Gross profit amounted to ¥721.3 billion and the average growth rate for the period of seven years starting from fiscal 2010 was 13.1%. The gross margin increased by 0.7 points from the previous fiscal year to 20.5%. Operating income was ¥310.0 billion and the average annual growth rate for the period from fiscal 2010 was 26.1%. The operating income margin was 8.8%, an increase of 1.2 points from the previous fiscal year. This is because we successfully maintained the cost-of-sales ratio at a certain level through investments in production facilities and rationalization of production to deal with soaring construction materials and labor costs, and because the SG&A ratio was reduced.

Figure 7 Gross profit/Operating income margin



Return on invested capital (ROIC)/Return on equity (ROE) Figures 8 & 9

Net operating profit after tax (NOPAT)*1 was ¥214.5 billion and return on invested capital (ROIC), a ratio of NOPAT to the invested capital (= Net assets excluding non-controlling interests + Interest-bearing debt) of ¥1,805.6 billion*2, was 11.9%. One of the Company's business objectives is to earn an ROE of 10% or more. Since we are expanding our businesses by means of loans and the like where the debt-equity ratio of 0.5 is used as a guide, we make a conscious effort in our business investments to ensure that the return on the total invested capital will exceed the weighted average cost of capital (WACC), which is the weighted average of the cost of shareholders' equity and cost of liabilities. We will seek to maintain and improve the return on equity (ROE), a ratio of net income to shareholders' equity by maintaining and improving the ROIC.

*1 Net operating profit after tax (NOPAT) = Operating income × (1 - Effective corporate income tax rate)
*2 Average during the fiscal year.

(Details of the criteria for adoption of investments in real estate development) ▶P.77

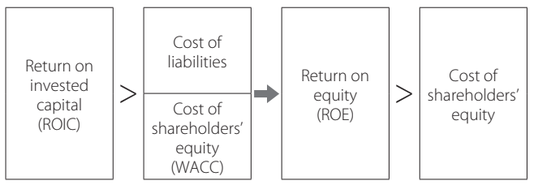


Figure 8 Return on invested capital (ROIC)

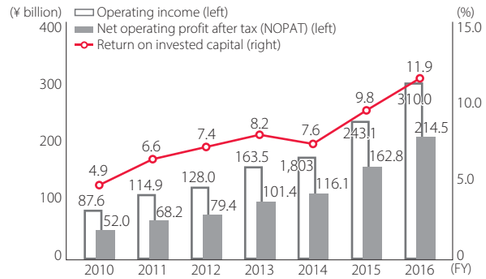
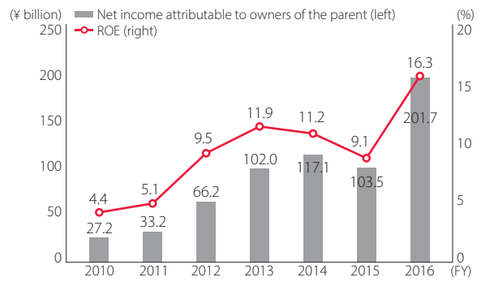


Figure 9 Net income attributable to owners of the parent/ROE



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.

Management's Discussion and Analysis of Financial Position and Results of Operations

[Business segments]
Single-Family Houses, Rental Housing, Condominiums, Existing Home Business, Commercial Facilities, Logistics, Business and Corporate Facilities, Other Businesses

Ⅳ. Business results by segment

Growth potential analysis Figure 10

The profit growth rate for fiscal 2016 over fiscal 2010 showed an over six-fold increase in the Logistics, Business and Corporate Facilities, and Other Businesses segments, and an over three-fold increase in the Existing Home Business and Commercial Facilities segments. Since the Rental Housing segment had been already at a high level of profit seven years ago, its profit growth rate over fiscal 2010 was relatively low, but remained at a high profit rate.

One of the Company's strengths is its ability to make business proposals with no gap between business segments. As society changes at an accelerated pace, we anticipate that multiple products and services held by individual business segments will be combined in order to cope with diversified construction needs and that there will be a further increase of new business opportunities through business development in peripheral areas. In order to ensure that these new markets will lead the company-wide growth rate, we will make an effort to grow in view of a balance with overall profitability.

Profitability analysis Figure 11

In terms of operating income, three segments, Rental Housing, Commercial Facilities, and Logistics, Business & Corporate Facilities, accounted for 81% of the total. The Existing Home Business segment constituted 2.9% of net sales, but its profit rate and capital efficiency were high (Figure 12) and its market is expected to grow. Therefore, we will aggressively work on this business in conjunction with the efforts of the pre-owned home renovation business. In terms of the Single-Family Houses and Condominiums segments, we will seek to improve their profit rates by selecting areas and clarifying targets as new housing starts are decreasing in number due to falling population.

Operating income margin to segment assets Figure 12

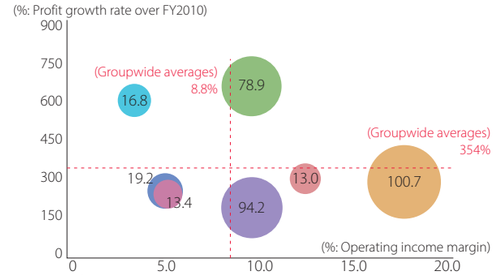
The Existing Home Business, Rental Housing, and Commercial Facilities segments showed higher operating income margins to segment-specific assets. The current return on assets in the Logistics, Business & Corporate Facilities segment is at a low level because we are making aggressive investments to address the rapidly growing market for logistics facilities. However, this segment is expected to significantly contribute to cash flows at the time of payback in the future.

Investments in businesses Figure 13

With regard to investments in businesses, we are aggressively investing in the Logistics, Business & Corporate Facilities segment, which is highly profitable and shows a high growth rate. We are also investing in the Commercial Facilities and Rental Housing segments, both of which are the second-most profitable. In addition, investments in the Other Businesses segment (overseas) are being made to develop new revenue streams through the use of funds generated by the above-mentioned core segments.

(For the progress of investments in real estate development and the balance of investment real estate for the period of the Fifth Medium-Term Management Plan, see the charts on Page 26.)

Figure 10 [Business segments] Operating income*1/Operating income margin/Profit growth rate over FY2010



*1 The size of the circle depends on the relevant amount of operating income for FY2016.

Figure 11 [Business segments] Operating income margin/Net sales ratio by segment (FY2016)

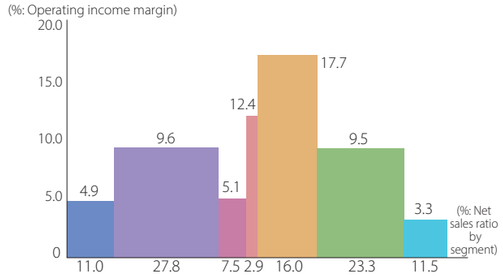
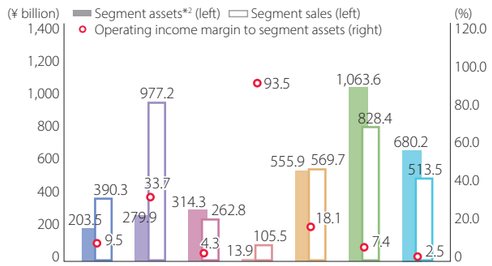
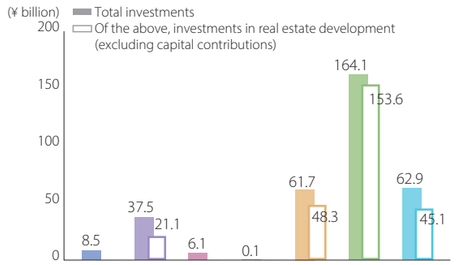


Figure 12 Operating income margin to segment assets (FY2016)



*2 Segment assets are averages during the fiscal year.

Figure 13 [Business segments] Total investments (FY2016)



Ⅴ. Investments

Investments and returns for employees Figures 14 & 15

One of the essential elements for sustaining growth is to invest in the development of human resources and to maintain and improve the living environment of employees. The human resources development costs*1 for fiscal 2016 were ¥440 million (on a non-consolidated basis), 76% up from fiscal 2010 (Figure 15). Employee salaries on a non-consolidated basis increased by ¥37.3 billion from fiscal 2010 (an average increase of 23% or ¥1,642,000 per employee).

Meanwhile, the ratio of employee salaries to operating income*2 decreased from 62% in fiscal 2010 to 40% in fiscal 2016, and the growth rate of profits significantly exceeded the rate of increase in personnel costs. As a result, we have successfully secured funds for growth investments and increased returns to shareholders, and will actively promote investments in human resources, which are the most important source for growth.

*1 Personnel costs on training, etc. + Transportation costs on training
*2 Employee salaries/(Operating income + Employee salaries)

(Details of our human resources development) ▶P.56

Investments in research and development (R&D) Figure 15

R&D expenditures in fiscal 2016 were ¥8.3 billion, of which ¥4.3 billion was for the housing business, ¥2.6 billion for the general construction business, and ¥1.3 billion for other businesses. Our research and development activities range from basic and applied research to the development of new technologies and new products, and further to utilization and verification of these new technologies in architectural structures and urban development.

(Details of our research and development) ▶P.62

Capital investments Figure 16

Capital investments of ¥77.1 billion (excluding investments in real estate development) were mainly for replacing production lines in plants to increase production efficiency and for renovating plant facilities. Well-planned investments in production lines are carried out based on market trends, order trends, and other factors. With regard to major assembly processes in particular, which are a significant element affecting the cost-of-sales ratio and quality improvement, we will work on further increasing the rate of automation.

(Details of our technology and manufacturing base) ▶P.61

IT-related investments Figure 17

IT-related investments involve significant elements that may lead to revenue increases and cost reductions in the future, such as through the enhancement of added value in products and services, through utilization in marketing, and through the achievement of higher efficiency in production processes and operations. Therefore, we will actively work on such investments by combining the injection of more funds with the improvement of the organizational structure.

(Major efforts for strategically utilizing IT) ▶P.64

Figure 14 Ratio of employee salaries to operating income (non-consolidated)

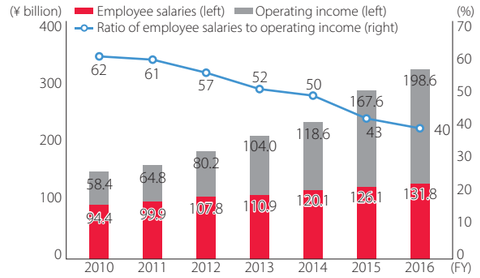


Figure 15 Research and development expenditures/Human resources development costs

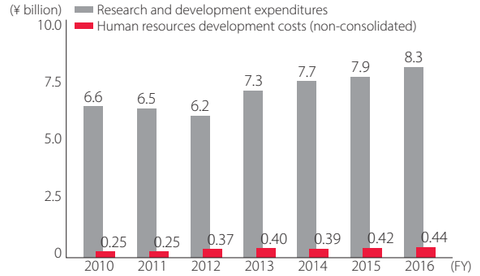
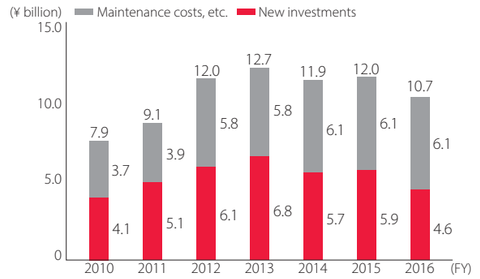


Figure 16 Capital investments (excluding investments in real estate development)

Figure 17 IT-related investments



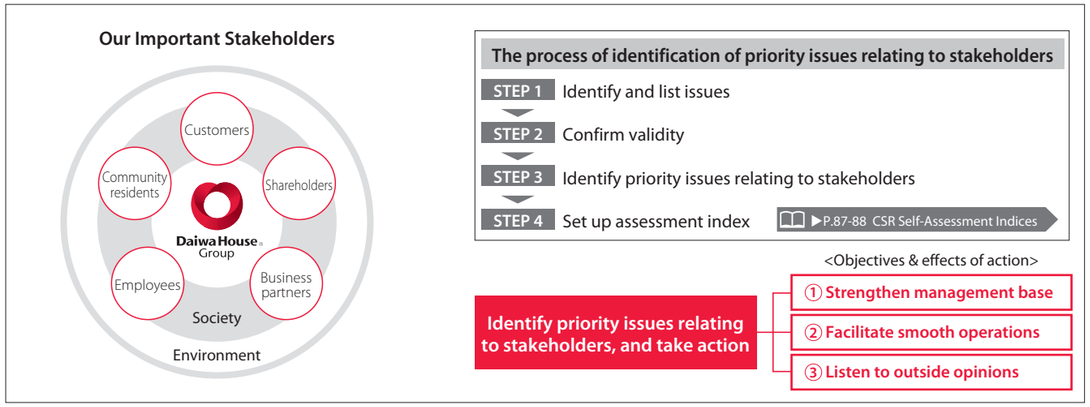
Enhancing the Value of the Endless Heart

Brand Value of the Endless Heart (primary corporate value)

The Daiwa House Group engages in business operations that are underpinned by three "bases"—our human resources base, our customer base, and our technology and manufacturing base. Going forward, to strengthen these three bases, we will pursue activities that optimize those matters that affect corporate value over the medium and long term (material issues). Through this, we will strive to enhance primary corporate value—the brand value of our Endless Heart symbol and of the concept that lies behind it—which we believe to be the force that generates cash flows.

The Group's core business fields are conducted in the home-building, general construction, and real estate industries, and thus it is important for the expansion of our business fields that we ensure compatibility between our business operations, products, and services on the one hand, and the local communities where we do business (including our stakeholders) and the natural environment on the other. This is what we call "co-creating a brighter future with all our stakeholders." Additionally, ensuring compatibility in this way is essential if we are to identify the social issues that we must recognize in order to determine our business strategy over the medium and long term.

Our aim is to achieve a sustained growth in the Group's corporate value, and we have therefore identified priority issues relating to our stakeholders, particularly the Group's contribution to society and the preservation of the natural environment (including efforts to reduce negative environmental impact). By steadily tackling these issues, we hope to strengthen our management base over the medium to long term, and to facilitate the smooth conduct of our business operations. At the same time, we will listen closely to advice and opinions from all quarters of society, and will work to expand business opportunities that involve addressing social issues.

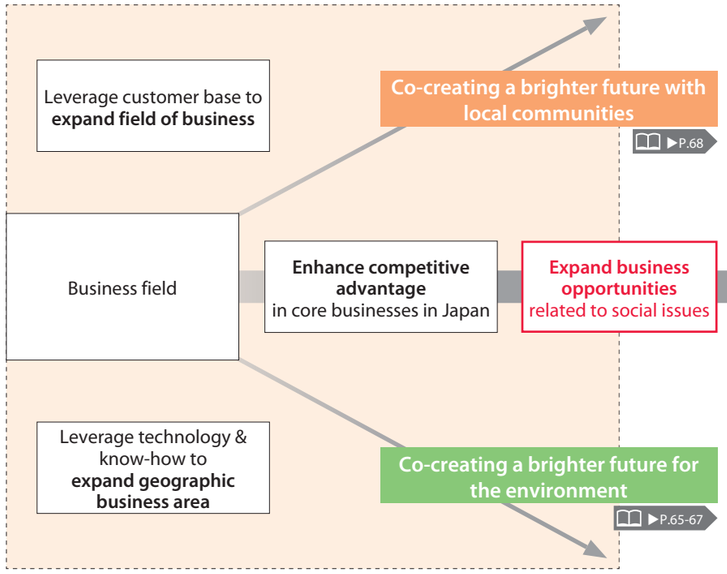


Our primary corporate value, defined as the ability to generate cash flow

① Strengthen management base → ② Leverage base for business development → ③ Contribute to solving social issues

Management base	Matters affecting corporate value over the medium and long term (material issues)	
Customer base	Improve customer satisfaction and relationships with customers	▶P.59-60
Human resources base	Develop and make optimal use of human resources to raise productivity	▶P.55-56
	Create an employee-friendly workplace	▶P.57
Technology and manufacturing base	Build strong technology and manufacturing base	▶P.61
	Strengthen relations with business partners and suppliers	▶P.63
	Research & development, create and manage intellectual property	▶P.62
	Strategically utilize IT and information capital	▶P.64

(* The material issues shown below that apply to the present chapter (Chapter 4) have been taken from the list on Page 4.)



SUSTAINABLE DEVELOPMENT GOALS
17 GOALS TO TRANSFORM OUR WORLD

Pursuing our management vision

Realize a society in which people can live fulfilling lives

[Contributing to Society through Business]

In line with our motto of being a group that co-creates value for individuals, communities and people's lifestyles, we will work together with all our stakeholders—through our pursuit of business operations involving everyday life—to contribute to the achievement of the Sustainable Development Goals (SDGs) promoted by the United Nations.

Enhancing the Value of the Endless Heart

For Enhancement of Our Human Resources Base

Basic concept

Develop human resources that contribute to society, and create a motivational workplace that employees are proud of, through a thorough "bottom-up approach" and "positive attitude."

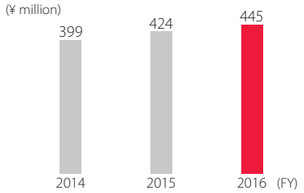
The first two items of the Company Philosophy (Corporate Creed) of the Group are "Develop people through business," and "A company's progress depends directly on ensuring a good working environment for its employees." Our founder believed that a company is built upon the energy of those who make things happen at ground level.

To this end, our mission is to create a culture of developing people through business and to prepare an environment in which people can grow. Specifically, we seek to establish working and living environments that bring out the best in everyone by building a personnel system that maintains and improves employees' pride and job satisfaction.

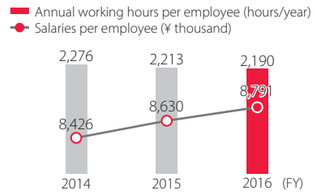
Note: This section contains information about Daiwa House Industry (non-consolidated).

Key data on human resources base

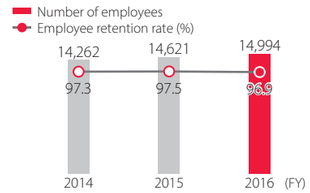
❶ Human resources development costs (non-consolidated)*1



❷ Annual working hours per employee/ Salaries per employee (non-consolidated)



❸ Number of employees/Employee retention rate (non-consolidated)*2



Under its philosophy of "Developing people through business," the Group is proactively investing in human resources development. With its efforts on health management, annual working hours are showing an improving trend. Meanwhile, as enhanced productivity has allowed profits to keep growing, the returns to employees (remuneration) are increasing. We will seek to increase the level of employee satisfaction through various personnel measures and to further improve productivity by maintaining and improving the retention rate of employees who share the Company Philosophy.

*1 Labor and transportation costs for training, etc. *2 Employee retention rate = 1 - Rate of turnover due to voluntary resignation

Matters affecting corporate value over the medium and long term (material issues)

Develop and make optimal use of human resources to raise productivity

Diversity
Establish a system that allows diverse employees to fully display their capabilities.
- Promoting women
- Promoting elderly employees
- Accommodate diverse working styles

Developing human resources
Retaining and developing next-generation employees, and discovering and developing talented individuals to become managers.
- Improved recruiting capabilities
- Discovering and developing talented individuals to become managers in the Group
- Retaining and developing global human resources

Create an employee-friendly workplace

Improving the work environment
Improving labor productivity by alleviating long working hours and promoting health management.
- Alleviating long working hours
- Promoting health management
- Improving productivity by enhancing connections between employees

Diversity: Establish a system that allows diverse employees to fully display their capabilities.

● Promoting women

The Group aim to achieve our goal of 500 female managers by fiscal 2020, and support career development for female workers. As of April 1, 2017, the number and ratio of female managers in the Group overall was 261 (3.6%).

Nadeshiko Brand*

● Promoting elderly employees

In fiscal 2015, the Company launched the Active Aging Program for re-hiring personnel past the retirement age of 65. As of April 1, 2017, 100 people were actively working as post-retirement specially-commissioned employees.

● Commitment to establishing diverse working styles

With the introduction of the Hello-Dad-and-Mom program for involving men in childcare, where the first five days of childcare leave have become paid time off, 32.9% of male employees took childcare leave in fiscal 2016. To spread awareness of the program, the Group issued a booklet titled "Diversity Report" in July 2016 to introduce employees who were successfully managing to work and raise children at the same time through the "Hello-Dad" program and the staggered work shift system for childcare or nursing care, which was introduced in the previous fiscal year. In addition, the Company aims to enable more diverse working styles by expanding the number of job types subject to teleworking trials.

● Rate of employees with disabilities

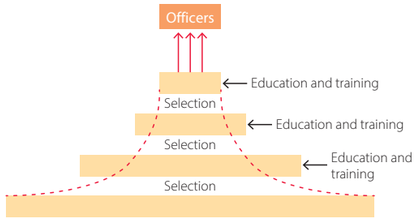
As of April 1, 2017, the percentage of employees with disabilities accounted for 2.19%. The Company is striving to realize a workplace environment in which employees with disabilities can work in a truly rewarding manner while enjoying the understanding of their healthier colleagues, by assigning them in consideration of their aptitudes.

* Nadeshiko Brand: A system, where the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange select listed companies that excel in the promotion of women's advancement by developing work environments that enable them to further their careers.

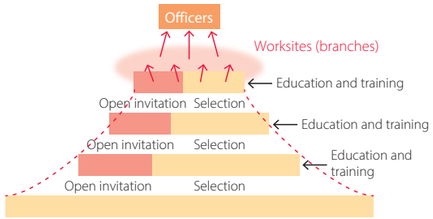
Developing human resources: Retaining and developing next-generation employees, and discovering and developing talented individuals to become managers.

The bottom-up approach, which trains personnel through hands-on experience, serves as a basis for human resource development while OJT and Off-JT are effectively combined in our education and training systems. OJT is aimed at helping employees acquire practical skills through work at individual workplaces and is linked with evaluation systems, thereby enhancing the effect of development of employees in all ranks. As Off-JT, grade-specific training is implemented in order to develop the spirit of autonomy in employees. To this end, participants in the specific courses are openly invited. All education and training has a curriculum to allow employees to utilize what they have learned in the workplace in order to gain something beyond book learning.

General human resources development processes



Daiwa House's human resources development processes



Training curriculums for their positions

Junior staff training

"The spirit of the founder" and "Being complete in small things"
We educate human resources that can act on the basis of "being complete in small things" and "a positive attitude".

- New employee training
- Training for mid-career recruits

Manager and leader training

Practical education for improving specialized knowledge and skills and fostering leadership
We provide education to reinforce the attitude, specialized knowledge and skills of a responsible person required in a leader.

- Training for newly appointed managers
- Training for reinforcing the ability to anticipate problems
- Training for team leaders
- Training for OJT Elders

Senior executive and executive candidate training

Company executive candidates, cultivating their qualities as leaders
The Company has opened the Daiwa House Juku and commenced a special training program for branch office manager candidates with a view to training future leaders.

- Daiwa House Juku
- Training for branch office manager candidates
- Training for newly appointed branch office managers and general managers

Enhancing the Value of the Endless Heart

For Enhancement of Our Human Resources Base

Improving the work environment: Improving labor productivity by alleviating long working hours and promoting health management.

● Alleviation of long working hours

The Company has made various efforts as it believes that it is important to promote health management and improve labor productivity by reducing long working hours and providing steady healthcare.

Year of introduction	Description
April 2004	• Lockout system To eliminate excessively long workdays, branch offices were closed at 22:00 (the closing time was changed to 21:00 in February 2009).
April 2007	• Home Holidays system To encourage the taking of paid holidays, employees were obliged to take one paid holiday every quarter (three months) in a planned manner.
April 2009	• Abolition of the deemed work hour system To ensure the proper counting of working hours, the deemed work hour system that was applied to work outside the office was abolished, and management based on net working hours was applied to all job types.
April 2012	• Introduction of a PC lockout system A system was introduced to disable the use of PCs before check-in at the office or after check-out from the office, or without application for overtime work.
November 2013	• Visualization of infringement upon the Article 36 Agreement A system was introduced to enable timely confirmation on PCs by employees, superiors and administrators, concerning infringement upon overtime work hours stipulated in the Article 36 Agreement.
April 2014	• Review of branch office business performance assessment Earnings per hour, leveling of workload, and the rate of acquisition of paid holidays (Home Holidays) were incorporated into the criteria for bonus assessment for each branch office.
September 2015	• Introduction of a shady branch office listing system In-house criteria have been established against excessively long workdays, based on which advice for rectification is issued. Branch offices that fail to rectify the situation are listed as "shady branch offices," and a lower standard of bonuses is applied throughout the branch office.
February 2017	• Introduction of the "Premium Friday" The final Friday of each even-numbered month is regarded as "Premium Friday," on which employees are encouraged to take a half-day paid holiday in the afternoon.

● Promoting health management

In fiscal 2015, "planned annual leaves" were introduced on a company-wide basis to encourage employees to take paid leaves. In addition, the rate of Home Holidays taken is incorporated in the evaluation items. As a result, the rate of paid leave taken in fiscal 2016 significantly increased to 53.5%. These efforts led to steady improvement in the annual working hours per employee (2,190 hours) and annual overtime hours (365 hours) in fiscal 2016. We were selected in the 2017 Health and Productivity Stock Selection.

*1

2017 健康経営銘柄 Health and Productivity

	Annual total work hours per employee	Annual overtime*2 per employee	Rate of obtainment of paid holidays
Fiscal 2012	2,276 hours	449 hours	32.8%
Fiscal 2016	2,190 hours	365 hours	53.5%
Improvement over four years	86 hours	84 hours	Up 20.7 pts

*1 Health and Productivity Stock Selection: A system, where the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange select business enterprises that excel in examining and strategically practicing health management for employees, etc., from a managerial viewpoint.

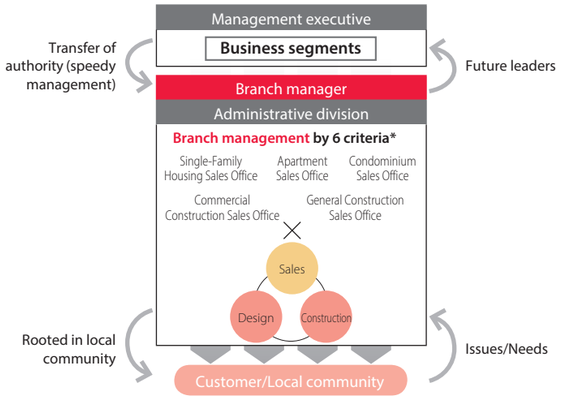
*2 The number of annual overtime hours in excess of the prescribed working hours includes that of employees whose work hours are managed by the company and excludes that of managers and supervisors.

Leverage Human Resources Base to Branch Management

Speedy management by transferring authority to branch managers (heads of our branches)

The Company clarifies in the organization that the branch manager is a representative of the president and transfers authority in the management of worksites to 83 branch managers across Japan. Branch managers grasp new issues and social needs by working hand in hand with customers and local communities with a community-based approach in carrying out speedy management by giving the greatest importance to the branch.

In addition, we realize sound management by sharing the criteria for branch management and introducing a branch evaluation system, while each employee supports the brand value of the Endless Heart through a thorough compliance with the Principles of Corporate Ethics and the Code of Conduct.



* 6 criteria: Engage in business activities that would make a good contribution to customers, the Company, employees, shareholders and society into the future

<Training for branch office manager candidates>

This training has been given since fiscal 2005, with the aim of developing candidates for branch office managers, plant managers, and others for upper-level management posts. An inhouse open call is put out to motivate people to rise to leadership positions and to discover talented individuals. At the end of fiscal 2016, a total of 451 people have completed this program.

Scene of training

Branch evaluation system

The management soundness assessment system, which is aimed at firmly establishing "improvement in management efficiency" and "reinforcement of the management foundation" at worksites, has a wide range of items to be assessed for the "level of management soundness" in addition to a performance evaluation for the purpose of ensuring that the Group will grow in a sustainable way. The results of the assessment are calculated for each of the worksites and affect amounts of bonuses to be given to the general managers thereof and employees belonging thereto.

Performance evaluation

- Branch profit per person/month
- Branch profit per person/hour
- Year-on-year growth rate
- Leveling ratio of number of completed units
- Leveling ratio of number of construction starts of main unit
- Special extra profit recorded for all business divisions

Evaluation of Business Management Soundness

- Cash flow
- CS activities
- Quality activities and results
- Safety activities
- Environmental activities
- Appropriate order placement to factories
- Risk compliance
- Community Co-Creation activities
- Compliance with accounting standards for orders
- Work environment, labor management, human resource development

Award programs

The Best Branch Management Prize (Ishibashi Nobuo Award) is awarded to the branch that demonstrates management excellence following review of both performance based on management indicators and soundness of management. The branch that receives this award is recognized at the Nationwide Branch Managers' Meeting held every March.

Moreover, the Company has other award programs, such as the President's Award for Community Co-Creation Activities, which recognizes a branch that has made excellent efforts to deepen the relationship and establish trust with the community, and the "President's Award for Best Environmental Practices," which recognizes outstanding practices in construction and urban development for zero environmental impact in a branch or plant. With these programs, we have been promoting company-wide efforts to develop a sustainable society together with members of local communities.

Customer base

Enhancing the Value of the Endless Heart

For Enhancement of Our Customer Base

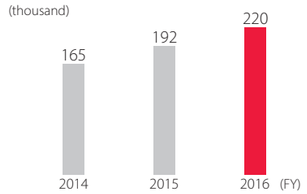
Basic concept

We are sincere in our communication with customers, and put our full efforts into offering high-quality products and services. We do our best to satisfy our customers and win their trust.

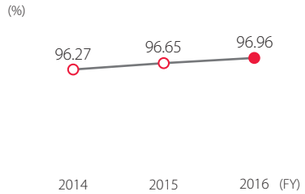
Our mission is to ensure that a building is maintained in excellent condition for a long period of time to sustain its value as an asset and enable people to use it across generations. To this end, we have established a system of maintenance and after-sales service that we continue to improve to ensure that good asset value is handed down to the next generation. We wish to offer support over the long term not only to the customers living in the single-family houses or condominiums that we build, but also to the owners of rental housing, commercial facilities, or business facilities we build to develop a relationship of trust, so that everyone can use their buildings safely and worry-free for years to come.

Key data on customer base

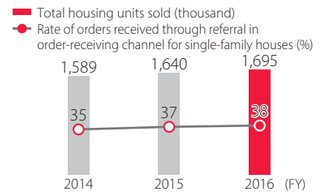
❶ Number of Daiwa Family Club members*1



❷ Single-family house owner satisfaction*2



❸ Total housing units sold*3/Rate of orders received through referral in order-receiving channel for single-family houses



We have made an effort to refine our activities in quality assurance and after-sales services to improve customer satisfaction. As a result, Daiwa Family Club membership has increased to approximately 220,000 and the questionnaire survey targeted at single-family house owners shows a prominent level of customer satisfaction. Moreover, with our established long-term relationship of trust with customers, around 40% of the orders were received through referrals from existing owners or other stakeholders in the order-receiving channel for single-family houses.

*1 Membership organization for the owners of housing units (single-family houses and condominiums) built or sold by the Company.
*2 Percentage of owners of single-family houses (contracting and lot-subdivision), who chose "Very Good" or "Good" in the questionnaire survey conducted one month after their move-in.
*3 Total housing units (single-family houses, rental housing, and condominiums) sold by Daiwa House Industry (non-consolidated).

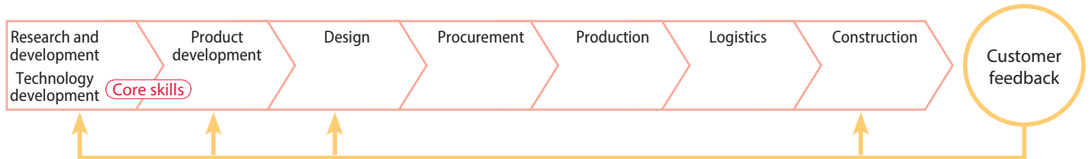
Matters affecting corporate value over the medium and long term (material issues)

Improve customer satisfaction	▶ Establishing a system for long-term quality assurance/Operating membership organizations for owners
Improve relationships with customers	▶ Promoting CS activities/Improving the quality of customer service

Developing a relationship of trust with customers over the long term

● Establishing a system for long-term quality assurance

We have established a system for long-term guarantees and after-sales service tailored to the structure of buildings and needs of the customer. We offer initial guarantee periods of up to 20 years for exterior walls, structure, and other parts of buildings, and also provide a periodic building diagnosis service. We conduct maintenance work to repair areas requiring improvement identified in the building diagnosis, thereby maintaining and improving the value of housing as an asset. Information collected through these after-sales services is summarized by the CS(Customer Satisfaction) department and fed back to the relevant manufacturing department, leading to improvement in product development and quality assurance.



● Operating membership organizations for owners

We operate a membership organization for owners that serves as a forum for information exchange and the promotion of friendship among building owners throughout Japan. Seminars and consultations are held by experts in asset utilization; members gain access to the latest information; and they receive assistance with the maintenance of buildings they own or with asset utilization of rental housing they manage.

Main membership organizations for owners

	Single-family houses, condominiums	Rental housing	Commercial facilities
Name	Daiwa Family Club	Daiwa House Owners Clubs	Owners Clubs
Total membership	220,754	93 clubs in Japan 34,189 (As of April 30, 2017)	65 clubs in Japan 6,713 (As of March 31, 2017)
Major activities	· An Internet service exclusively for members · Information and advice given to resolve concerns and to answer owners' questions about future housing	· Latest information provided on managing rental housing · Information exchange among members, study tours to deepen friendship, etc.	· Seminars on the effective use of real estate · Study tours to promote friendship among members, etc. Note: Business consultations on opening commercial establishments for tenant companies held (leading to over 4,000 business deals as of March 31, 2017)

"Putting each individual-first" code of conduct for improving customer satisfaction and building a relationship of trust with each customer

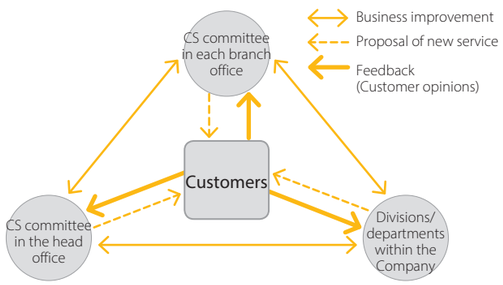
Reflecting customer feedback in all operations through our CS activities, we go one step beyond "putting the customer first" to "putting each individual first," a code of conduct to ensure that we look at things from the perspective of each customer.

In the three quality aspects (quality of products, employees, and operations), we pursue improvement through all business activities, aiming to continue satisfying customers' expectations and to develop a long-term relationship of trust with them to promote customer satisfaction.

● Promoting CS activities

To ensure that customer feedback drives improvement in products and services, customer satisfaction committees have been set up at the head office and all worksites, tasked with sharing examples of customer feedback (objective statistics and "direct feedback") and implementing the PDCA cycle for initiatives through monthly meetings. Proposals for improvements based on customer feedback, as well as confirmations of progress, are carried out by a liaison council for the Product Development Department and liaison council for the construction segment. We have thus established a system that allows each worksite to share measures, while a rapid response is possible when groupwide decisions need to be made.

Promoting improvement activities through CS committees



● Improving the quality of customer service

We hold training seminars on a regular basis for all of our employees who communicate directly with customers to make sure they know what it means to put "each individual first" and see things from the customer's perspective. Role-playing competitions are one way in which our employees can share their knowledge or pick up more practical skills to help deal with customers in the field. We also use and share questionnaires to ascertain how customers view our customer service, the results of which we use in developing human resources who can put "each individual first" into practice.

The National CS Role-Playing Competition

Enhancing the Value of the Endless Heart

For Enhancement of Our Technology and Manufacturing Base

Basic concept

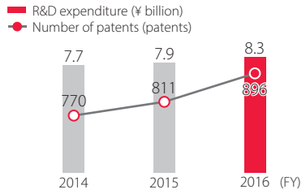
Foresee changes in social needs, develop unique technology through the "put each individual first" concept, and co-create individual value and social value.

The Company as a pioneer of prefabricated building promotes automation and streamlining of production and has established a safe and high-quality production system.

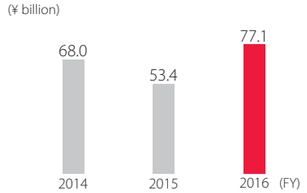
A highly value-added building system for customers, society, and the environment will be sought through the development and improvement of the "manufacturing functions (*monozukuri* platform)" centering on product development, design, procurement, production, logistics and construction. Furthermore, we will proactively engage in research and development for better lives to create social value.

Key data on technology and manufacturing base

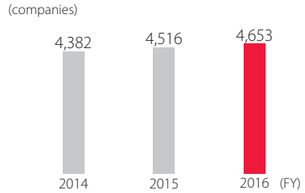
❶ R&D expenditure/Number of patents in possession



❷ Capital investments (excluding investments in real estate development)



❸ Number of partner companies



Planned capital investments have been made in research and development as well as in production equipment to further strengthen our technology and manufacturing foundation. This allows us to continuously produce highly-competitive products and maintain and enhance our competitive edge in core businesses. Moreover, a safe construction site system has been established as we promote energy saving in onsite construction not only by pursuing high-quality prefabricated housing and system building, but also by co-existing and co-prospering with our business partners.

Matters affecting corporate value over the medium and long term (material issues)

Build strong technology and manufacturing foundation	▶ Establish a manufacturing structure that gives priority to safety and quality ▶ Enhance productivity by developing and improving manufacturing functions
Research & development, create and manage intellectual property	▶ R&D activities related to technologies that benefit society ▶ Strengthen intellectual property with priority on securing competitive advantage, maintaining competitive order and utilizing intellectual property ▶ Determine and manage the establishment, maintenance and licensing of intellectual property rights
Strengthen relations with business partners and suppliers	▶ Further promote "co-existence and co-prosperity" with business partners ▶ Maintain or improve work environments for employees of business partners
Strategically utilize IT and information capital	▶ Optimize and streamline all manufacturing processes ▶ Initiatives for smart communities leveraging IoT ▶ Analyze and utilize information database accumulated through business activities

Build strong technology and manufacturing foundation

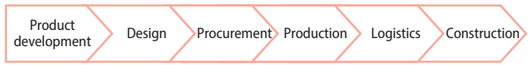
● Establish a manufacturing structure that gives priority to safety and quality

For the purpose of building a strong technology and manufacturing foundation giving priority to safety and quality, improvement activities are ongoing in five working groups to strengthen our manufacturing functions (product development, design, procurement, production, logistics and construction).

①Promote leveling
②Reduce site construction burden
③Review the logistics system
④Cooperation with development functions (production)
⑤Cooperation with development functions (purchasing work)

● Enhance productivity by developing and improving manufacturing functions

By adopting building information modeling (BIM) to centralize building information and fully integrate our supply chains from sales to design, production, construction and repairs and maintenance, we will seek to thoroughly reduce excesses, waste and inconsistencies, review our procurement practices by rebuilding our supply chain management, and automate and enhance the efficiency of manufacturing. Moreover, by sharing information with our business partners, such as suppliers, construction subcontractors and maintenance providers, we can further level workload.



Research & development, create and manage intellectual property

● Research & development

· The Central Research Laboratory advancing R&D activities to solve society's problems

Established in 1994 to deal with environmental symbiosis as its basic theme, the Central Research Laboratory has been engaged in research to search for solutions to the many issues faced by Japanese society, including global warming, shortages of energy and other resources, natural disasters and population aging. Looking to build a better future for people, communities and lifestyles, we will use the keywords of *Asu Fukaketsuno*. This phrase means "Indispensable for Tomorrow," and is composed of the initial syllables of the Japanese words for safety & comfort, stock (in the sense of the stock of existing housing), welfare (in the sense of nursing care), the environment, health, information-communication technology and agriculture — all of which are aspects that must be considered for the future in confronting the challenge of creating new value for our customers and for society as a whole.

· The Fujita Technology Center — Building the future with "Creative Technologies"

This center has been conducting research and development activities in four fields: 1) construction technology, including reinforced concrete structures for super-high-rise buildings, as well as vibration control and seismic isolation technologies; 2) civil engineering technology, including forward probe technology for use in tunneling work, and automated building-erection technologies; 3) environment-related technology, including methods of decontaminating air, water, and soil, as well as environmental assessment and simulation technologies; and 4) production technology, including IT and labor-saving technology. Additionally, our joint development with Daiwa House Industry leverages the strengths of both companies — this is illustrated by the development of the STARS Footing Beam Method, which offers advantages in streamlining construction and improving productivity.

The Central Research Laboratory (Nara Pref.) established in 1994
(Its predecessor was the Central Laboratory established in 1973.)

Strengths
· Prefabricated housing
· Pre-engineered buildings

Creating new value for people, communities and lifestyles

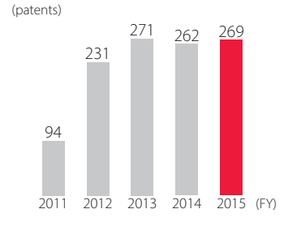
Strengths
· General construction
· Civil engineering

The Fujita Technology Center (Kanagawa Pref.) established in 1999
(Its predecessor was the Fujita-gumi Technical Laboratory established in 1960.)

● Creation and management of intellectual property

With the Intellectual Property Office established in the Legal Department of the Management Administration Headquarters, our intellectual property activities are directed toward identifying three priority items: ensuring competitive superiority, maintaining competitive order and making full use of intellectual property rights. The fruits of such efforts must be secured immediately as legal rights to maintain our position of competitive dominance, and by developing investigative structures for patents and trademarks, and respecting the intellectual property of other companies, we can maintain competitive order. The use of intellectual property is promoted through active licensing of our patent rights as the fruits of our technology development. The Invention Committee, chaired by the head of the Technology Headquarters and served on by the heads of Technology/R&D, Product Development and Production departments, makes decisions on filing, maintaining, licensing and invention incentives concerning intellectual property.

Number of patents applied for in Japan

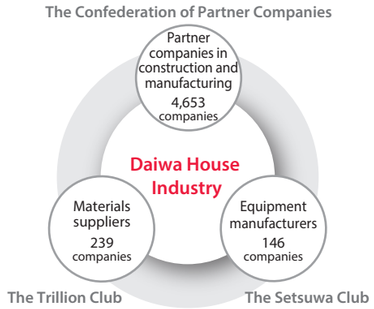


For Enhancement of Our Technology and Manufacturing Base

Strengthen relations with business partners and suppliers

●Further promote "co-existence and co-prosperity" with business partners

Business partners are indispensable and valuable partners, for the Group with an expansive value chain. The Company has set up a robust supply chain comprising three membership organizations: the Trillion Club, the Confederation of Partner Companies, and the Setsuwa Club. These organizations have been making efforts to identify priority issues and targets, and striving to further gain the trust of customers by securing superior quality and supply systems in accord with the spirit of co-existence and co-prosperity.



(as of March 31, 2017)

[Questionnaire survey for business partners]

As a tool for solving problems between us and our business partners, we survey members of the Confederation of Partner Companies once a year and look for paths to improvement on an ongoing basis. The table below shows the results of the survey for business partners for fiscal 2014 to 2016. We analyze the results and report them to the management team and the executive officers in charge of the relevant departments. The worksites serving as direct liaisons to business partners are given feedback while improvement plans are drawn up and implemented.

	Fiscal 2014	Fiscal 2015	Fiscal 2016
Rate of response	54%	60%	68%
Percentage of responses citing "no problems" in the way our employees conduct themselves	72%	75%	72%

Note: Data for FY2014 and FY2015 was taken from the old self-assessment index, but the same indicators were used.

CSR-related policy and management for business partners

Date of implementation	Contents
Fiscal 2005	Started the annual questionnaire survey toward business partners
Fiscal 2006	Business Partner Code of Conduct took effect (Collected letters of agreement from partners)
Fiscal 2009	Started the operation of a Partners Hotline
Fiscal 2010	Chemical Substance Management Guidelines took effect Started chemical substance survey for centralized procurement (at the time of contract)
Fiscal 2010	Biodiversity Guidelines took effect (Collected letters of consent from partners)
Fiscal 2010	Started annual wood procurement survey
Fiscal 2015	CSR Procurement Guidelines took effect (Daiwa House Industry only) (Collected letters of consent from partners)
Fiscal 2016	CSR Procurement Guidelines used across the Daiwa House Group
Fiscal 2017	Self-assessments based on our "CSR Procurement Guidelines"

●Maintain or improve work environments for employees of business partners

We are continually making improvements to construction site working conditions as a collaborative effort of the Safety Management, Engineering, Design and Construction, and Production departments. Guiding these improvements are our regulations on safety and health management. We also are providing guidance, training and supporting to our employees and our subcontractors' personnel through periodic and surprise patrols of job sites and meetings to promote occupational safety and health.

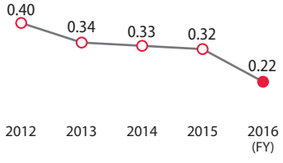
Safety targets for fiscal 2017

Items	Targets
Incidents resulting in death	0
Incidents caused by a third party	0
Heavy machinery related incidents	0
Slip/fall incidents resulting in an absence of at least four workdays	0
Heat stroke incidents resulting in an absence of at least four workdays	0

Number of labor accidents (on-site)

FY2016 targets	Rate of decrease from previous FY -20.0%
FY2016 results	Rate of decrease from previous FY -20.6%

Frequency rate* (industrial accidents requiring 4 days or more off from work)



* "Frequency rate" represents the number of industrial accidents that have occurred involving worker injury or death per one million hours worked.

Strategically utilize IT and information capital

●Smart Communities utilizing the IoT

As the housing market is anticipated to keep dwindling, we are seeking to expand our businesses by developing Smart Communities with enhanced community value through visualization of communities' energy in our core business called "building houses and developing communities." As a mechanism for the visualization of communities' energy, the SMA×ECO Cloud has been established to aggregate, on the cloud server, energy data of individual households and the relevant community's common-use spaces including meeting places, which are measured by the HEMS*1. This enables not only the visualization of energy levels in households using the HEMS, but also the checking of the energy level of the entire community and helps each community member be eco-conscious. Users can, on their smart phones, view past energy performance as well as the ZEH ratio*2 and the rate of reduction of energy consumption, which can be displayed in ranking format.

Furthermore, we engage in improving the usability by ensuring that the SMA×ECO Cloud has a function through which users can sign up for services provided in the community.

*1 HEMS: Stands for home energy management system. This system allows users to check their household energy consumption and generation in real time and to control air conditioners, storage batteries and others.

*2 ZEH ratio: Proportion of household energy generation to household energy consumption.

Visualization of energy of each household (D-HEMS3)

Visualization of energy of entire community (SMA×ECO Cloud)

SMA×ECO Cloud's service sign-up screen (SMA×ECO Town Hidamari-no -Oka)

External recognition

- The Smart Community initiative earned The 10th Eco-Products Awards: Minister's Prize, the Ministry of Land, Infrastructure, Transport and Tourism Award, and The 26th Global Environment Awards: Minister's Prize, the Ministry of Land, Infrastructure, Transport and Tourism Award.
- SMA×ECO Town Harumidai earned The Association of Urban Housing Sciences 2013 Performance Award, The Japan Resilience Awards 2016: Best Resilience Award, Residential Community Award at the 12th Townscape Competition, and The 1st Advanced Urban Development City Competition: Minister's Prize, the Ministry of Land, Infrastructure, Transport and Tourism Award.

●D's Smart Factory, an environment-conscious factory using the IoT

The Company has introduced, in its own factories, a factory energy management system (D's FEMS) that was developed jointly with Fujitsu Limited using IT including the IoT and big data, and is ready for energy minimization and business continuity planning (BCP) in factories. As an effort of a model factory, we made improvements in energy saving based on the findings through the D's FEMS. In fiscal 2016, CO_2 emissions were reduced by 17% in the original unit compared to fiscal 2013.

Moreover, as D's Smart Factory, an environment-conscious factory combining the know-how developed in our factories and building technology is commercially available, and we have been facilitating dissemination by making proposals.

D's FEMS: Monitors not only energy data, but also data on accident prevention, labor environment and production.

*3

2017 攻めのIT経営銘柄 Competitive IT Strategy Company

*3 Competitive IT Strategy Company Stock Selection: A system, under which the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE) select companies that have made proactive efforts for IT utilization, which will bring about creation of new value, management innovation, and improvement in the revenue level and productivity. The Company was selected for two years in a row (2016 and 2017).

External recognition

- Earned the Minister's Prize by the Ministry of Economy, Trade and Industry in the CGO category at the FY2013 Energy Conservation Awards (Practical Application Section).

Co-creating a Brighter Future for the Environment (For details, see the Group's Sustainability Report 2017)

We have formulated the Long-Term Environmental Vision "Challenge ZERO 2055" with an eye to our 100th anniversary in 2055, and has set long-term goals in four environmental themes associated with its business that hold a high degree of interest for stakeholders to achieve "zero environmental impacts" throughout the product life cycle.

Long-Term Environmental Vision "Challenge ZERO 2055"

As a group that co-creates value for individuals, communities, and people's lifestyles, the Daiwa House Group contributes to the emergence of a sustainable society and is addressing the challenge of zero environmental impacts.

Environmental themes

Challenge 1 ▶P.66

Prevention of global warming (Energy/Climate change)

To contribute to the emergence of a carbon-free society, we are targeting zero CO_2 emissions throughout the product life cycle*1 by promoting thorough energy-efficiency measures and utilizing renewable energy.

*1 All the phases for the relevant product, ranging from procurement (e.g.,extraction of resources) to production, transportation, construction, occupancy, renovation and demolition.

Challenge 2

Harmony with the natural environment (Preservation of biodiversity)

In order to preserve and improve our natural capital, our Group shall achieve no net loss*2 of green space by ensuring zero deforestation through material procurement and by developing communities filled with greenery.

*2 The concept of offsetting a loss of biodiversity in one location by increasing biodiversity in another location, resulting in no net impact.

Challenge 3 ▶P.67

Conservation of natural resources (Longer durability/Waste reduction/Water resource conservation)

To contribute to the emergence of a resource-recycling society, we shall pursue the sustainable use of resources by constructing houses and buildings that are more durable and by pursuing the goal of zero waste emissions.

Challenge 4

Prevention of chemical pollution

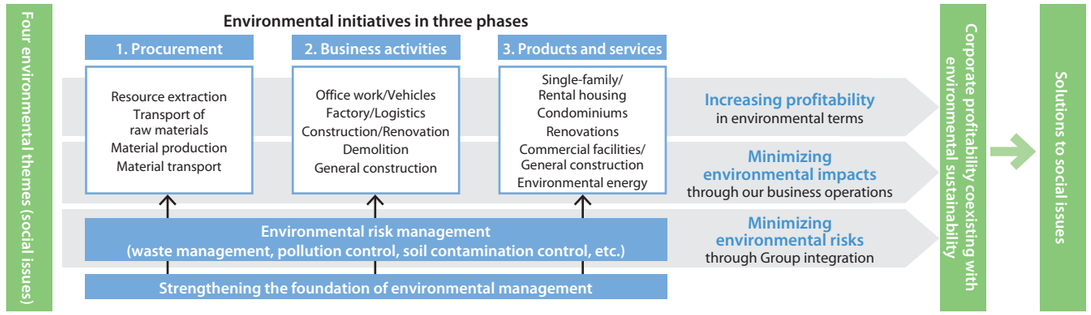
We shall institute appropriate management of chemical substances throughout the life cycle of houses and buildings in addition to minimizing the risk (ultimately to zero) of adverse impacts on the health of people and ecosystems.

Action Plan for the Environment (Endless Green Program 2018)

Every three years, the Daiwa House Group formulates a program with concrete targets and plans. Known as the Endless Green Program, it is actively implemented on a schedule under the Medium-Term Management Plan toward achieving the goals of the Long-Term Environmental Vision. In the Endless Green Program 2018 (for fiscal 2016 to 2018), we are accelerating our environmental initiatives, targeted at all the Group companies, under the concept of promoting integrated environmental management within the Group and globally based on the life cycle approach to ensure that corporate profitability can coexist with environmental sustainability. Proactive information disclosure will be continued in environmental fields.

*3

Overall action plan for the Endless Green Program



*3 The "Daiwa House Group Environmental Report 2016" was given the "Minister of the Environment Award" at the "20th Environmental Communication Awards" hosted by the Ministry of the Environment and the Global Environmental Forum. This was the highest award in the Environmental Report Category.

Challenge 1 Prevention of global warming — Our response to the risks and opportunities facing our Group

Japan has advocated the goal of a 26% reduction in greenhouse gas emissions by 2030, relative to fiscal 2013 levels. The government introduced the Energy Efficiency Act for buildings in Japan, which strengthens the energy-efficiency regulations applicable to houses and buildings; moreover, an incentive program has been adopted for advanced energy-efficient structures such as net Zero Energy Houses (ZEHs) and net Zero Energy Buildings (ZEBs).

We will continue to strengthen the existing energy-efficiency initiatives targeting our own facilities while reducing the cost of adapting and making use of the expertise we have gained through these efforts. Thus, we are strengthening our offerings by promoting the construction of zero-energy houses, buildings and towns, which is leading to a growth in orders while increasing the unit price of each building. We are also involved in the business of generating power from renewable energy sources.

In addition to taking advantage of our own idle land, we are expanding this business by submitting proposals for the use of idle land held in the public sector. We believe it is important that we voluntarily expand on these initiatives in the medium-to-long term without depending on subsidies and the like. In order to establish an environmental real estate market without delay, we will promote the use of various green building certifications as we remain engaged in dialogue with ESG investors and others.

Contribution to SDGs
Affordable and clean energy

We will contribute to the SDGs through "zero-energy homes, buildings and communities" and by "utilizing renewable energy."

Major efforts — SECUREA Toyota Kakimoto, a smart community in Aichi prefecture, introduces "Electric Power Interchange" between houses.

SECUREA Toyota Kakimoto, our smart community, has introduced a technology known as"electric power interchange" between houses. This is the first such example in the Chubu area. In addition, this initiative has introduced hybrid systems* that combine photovoltaic power generation and household lithium-ion batteries (6.2 kWh) with the HEMS (Home Energy Management System) in all households. Moreover, the "SMA×ECO Cloud" enables visualization of the entire community's energy usage. Combined with a photovoltaic power generation system on the regulating reservoir, these innovations will enable us to achieve our ZET (Net Zero Energy Town) objective.

Also, for one year we will open our Energy Self-sufficient Model House to the public. This innovative structure features a high-capacity photovoltaic power generation system, household lithium-ion batteries, an underfloor heat exchange system, and high thermal insulating values. We continue to evaluate the energy self-sufficiency of this house, its equipment specifications, and its performance as a residence.

SECUREA Toyota Kakimoto

* A system integrating a photovoltaic power generation system and a power conditioner for batteries in order to provide a stable supply of electric power under normal conditions or even in a power outage. The hybrid power conditioner and lithium-ion battery units are manufactured by ELIIY Power Co., Ltd.

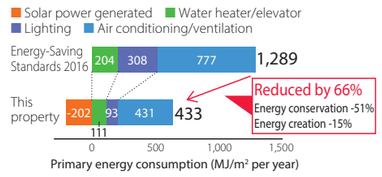
Major efforts — Our proprietary technology supports the first-ever ZEB office in Hamamatsu (Shizuoka Pref.)

Sansho Co., Ltd.'s new corporate building in Hamamatsu, Shizuoka prefecture, is a ZEB office that benefits from significant energy efficiency while maintaining a comfortable indoor environment. This structure, the first ZEB building in that city, incorporates more than 20 environmental innovations utilizing our advanced technologies. This building has been categorized as Rank S (self-assessed) under CASBEE Shizuoka, the Shizuoka Prefecture Comprehensive Assessment System for Built Environment Efficiency. A sunlight control device with a light-refracting glass screen and automatically rotating solar-tracking louvers has been installed in front of the building yet it retains its original appearance as an office building. The light-refracting glass screens mounted outside the window sashes represent our original patent-pending technology that transmits the required amount of natural lighting onto the ceiling surface in order to reduce artificial lighting requirements.

In anticipating that a Tonankai earthquake is highly likely to occur at some time in the future, we have added vibration-damping features to this earthquake-resistant structure while keeping costs down. Moreover, we are giving consideration to many best current practices for business continuity planning by incorporating lithium-ion batteries, a photovoltaic power generation system, and underground storm water reservoir provided for flood control and flood suppression in the event of torrential rains.

Sansho Co., Ltd.'s new corporate building

Energy-saving effect



Co-creating a Brighter Future for the Environment (For details, see the Group's Sustainability Report 2017)

Challenge 3 Conservation of natural resources — Our response to the risks and opportunities facing our Group

Improper handling of waste remains a risk if there is a lack of mechanisms for recycling resources and properly managing the construction by-products discharged from the tens of thousands of construction sites created every year. Concerns have also arisen about the potential for future increases in management costs due to stringent regulations on waste and water resources as well as increased processing costs due to the shortage of industrial waste disposal sites. In response, we at Daiwa House Industry have strengthened our management system by assigning waste management specialists to each district and conducting evaluations on all of waste disposal companies. We also have established a system for collecting and recycling construction by-products generated at housing construction sites within our own plants. We have reduced the risk of improper handling and improved the recycling rate at the same time.

Meanwhile, we recognize that while lengthening the service life of housing and buildings carries the risk of causing a decline in construction starts, it also constitutes a business opportunity. For example, in our proposals for new construction, we emphasize that customers can obtain tax benefits by acquiring a "long-life quality housing certification," and we expect to obtain higher unit prices reflecting the higher added value of such housing. Therefore, we are seeking to establish housing certified as compliant with long-life quality criteria as our standard specification, and thus far, we have obtained certifications for about 80 percent of our single-family houses. We have also established a long-term warranty system and are marketing our renovation and maintenance services through inspection opportunities and the like, leading to an increase in orders for home renovations. Moreover, working in collaboration with other companies in this industry, we have established a system for properly evaluating and marketing existing houses. We are focused on improving our rate of acquisition of brokerage contracts when people make plans to move.

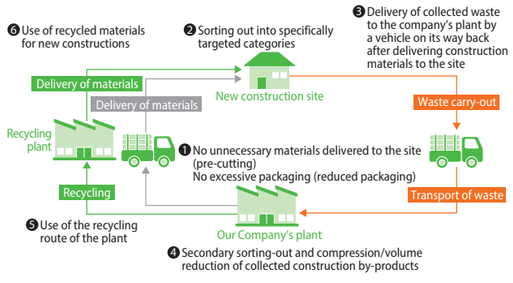
Contribution to SDGs
Responsible consumption and production
We will contribute to the SDGs through "zero waste emissions" and by "constructing houses and buildings that are more durable."

Major efforts — Achieving zero emission of waste with our Plant Depo

At our residential new construction sites, we have introduced a system we call Plant Depo that is intended to reduce the improper treatment of waste while promoting the recycling of construction waste.

Through this system, we collect construction waste at the construction site and truck it to the plant using the same truck used to transport materials to the construction site. There, it undergoes secondary sorting and is compressed to reduce its volume. By using this plant recycling route, we have achieved zero emission of waste.

Plant Depo System



Major efforts — Pre-engineered buildings lead to improved productivity in the use of resources

Pre-engineered buildings are products of the commercial facilities, and logistics, business and corporate facilities segment of Daiwa House Industry. In this business segment, we have reduced the use of steel frames, concrete, and other resources by incorporating our proprietary structural designs. In addition to improving our plant production rate, we have reduced the amount of waste generated at the construction site.

The 2020 Olympics and Paralympics to be held in Tokyo are driving demand for temporary ancillary facilities. In response to this demand, we are developing sustainable products that make full use of the advantages of pre-engineered buildings. Specifically, by developing floors and ceilings designed to be dismantled and relocated, we can accommodate the need for relocation (restore & rebuild system) of temporary structures. By adopting construction methods that reduce waste, we are taking steps to create a system that uses resources more efficiently.

Construction of roof panel

Co-creating a Brighter Future with the Communities (For details, see the Group's Sustainability Report 2017)

Community Development Vision

Our Community Development Vision is a compilation of the Group's attitudes and concepts toward community development. It is comprised of three elements, Vision (our intended community development), Mission (our role or mission to be fulfilled) and Value (our cherished value axes), which serve as guidelines for the "realizing a society in which people can live fulfilled lives."

Vision ..... Community value into the future
We do not consider completion of buildings to be the end but aim to develop communities in a way to bring their values into the future.

Mission ..... Working together for Design & Management
We will work together with people and communities to design a valuable community, and enhance the value of the community with those who live and work there based on our reliable management capacity to bring it into the future.

Value ..... 8HEARTS – Eight values for people and regions –
Our community development focuses on "for the benefit of people" and "for the benefit of regions," which are the two main objectives. We will create safety, health and comfort as the values for people, as well as environmental, economy and identity as values for regions. Then, we will create communication and sustainability as values for the future.

Contribution to SDGs
Sustainable cities and communities
We will contribute to the SDGs through the community development cherishing the eight values (8HEARTS) under the Community Development Vision.

Major efforts — Building good relations with local communities in community development projects

SMA-ECO Town Harumidai (Osaka) is Japan's first Net-Zero Energy community and a project of the Daiwa House Group. To manage and maintain the community, the residents who actually live there formed an administrative corporation that works with neighborhood associations and landscaping covenants committees to manage and maintain common infrastructure, organize community events that double as disaster preparation drills, maintain landscapes and more. The community also has a car-sharing service with a fleet of electric vehicles that are owned by the administrative corporation and charged by a common solar power system. Through these activities, residents interact more, plan events, and create clubs of all kinds, all of which have helped to form a warm and vibrant community.

A disaster preparation drill

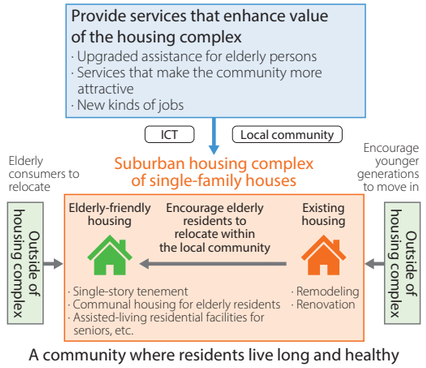
Major efforts — Undertaking housing complex restoration projects

Located in Miki City, Hyogo Prefecture, Midorigaoka Neopolis is one of many suburban housing complexes that Daiwa House Industry developed during Japan's years of strong economic growth. Needless to say, the half-century of time since the complex was built has brought a number of problems, so to fix them, we undertook a major restoration project.

As a first step, we launched the Suburban Housing Complex Lifestyle Study Group as a collaborative effort of industry, government, academia and consumers. After exchanging opinions with community residents, the study group established an "organization for promoting an ageless active community" in March 2017, which promptly began promoting activities for quickly developing a "multi-generation recycling-oriented community" that would comfortably accommodate the elderly and continually draw younger generations.

We got involved in community development in the Kamigo Neopolis housing complex in Sakae-ku, Yokohama City. Regular meetings with residents began in 2014 and eventually led to a Community Development Agreement with the neighborhood association in June 2016 to build a new community center that will serve as the core of community development activities.

Business model used in housing complex restoration



A community where residents live long and healthy

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.

* Representative Director

B N R G
Takeo Higuchi
Representative Director and Chairman

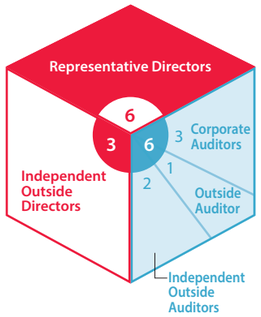
B N R G
Naotake Ono
Representative Director and President

B G
Tamio Ishibashi*
Executive Vice President

B G
Katsutomo Kawai*
Executive Vice President

B G
Takeshi Kosokabe*
Director and Senior Managing Executive Officer

B G
Kazuto Tsuchida*
Director and Senior Managing Executive Officer



B N R G
Kazuyoshi Kimura
Outside Director Independent Officer

B N R G
Yutaka Shigemori
Outside Director Independent Officer

B N R G
Yukiko Yabu
Outside Director Independent Officer

A G
Tatsushi Nishimura
Audit & Supervisory Board Member

A G
Kenji Hirata
Audit & Supervisory Board Member

A G
Kuniaki Matsumoto
Audit & Supervisory Board Member

A G
Kazuhiro Iida
Outside Audit & Supervisory Board Member

A G
Yukinori Kuwano
Outside Audit & Supervisory Board Member
Independent Officer

A G
Shonosuke Oda
Outside Audit & Supervisory Board Member
Independent Officer

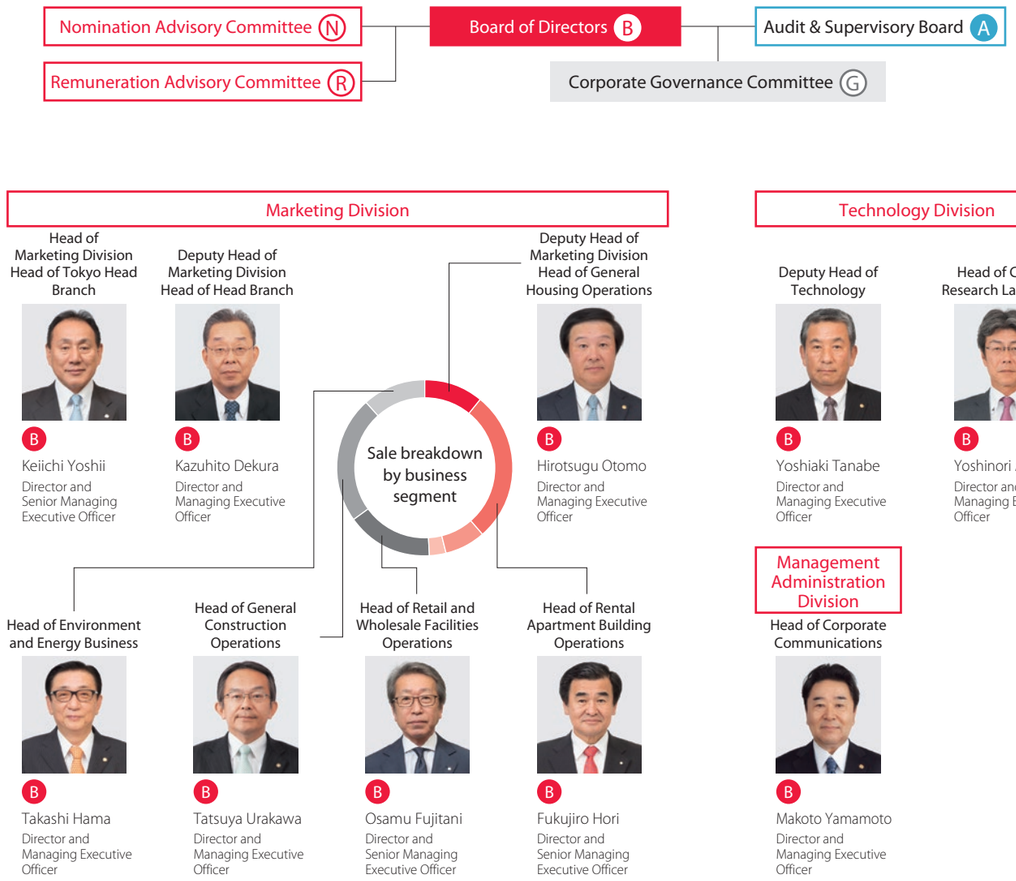
Views on establishment of Advisory Committees of Board of Directors (Board Committees)

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 steermanship 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

Joint Management Council	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)
Internal Control Committee	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)
Risk Management Committee	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)
Real Estate Investment Committee	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)

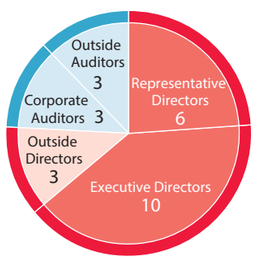
Corporate Governance System

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

* Representative Director

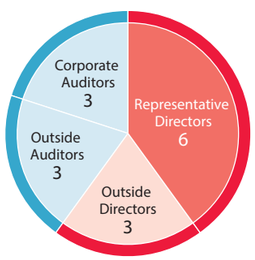
Name	Position	Primary responsibilities	Executive	Board of Directors	Audit & Supervisory Board	Nomination Advisory Committee	Remuneration Advisory Committee	Corporate Governance Committee
Takeo Higuchi	Representative Director and Chairman	CEO	○	Chairman		○	○	Chairman
Naotake Ono	Representative Director 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	○	○				
Kazuhito 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	Chairman			○
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	○			○

Composition of Directors and Audit & Supervisory Board Members



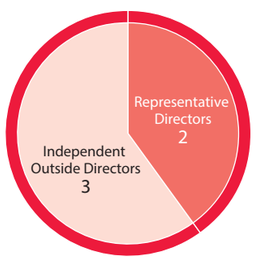
Percentage of Executives	64%
Percentage of Non-Executives	36%

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

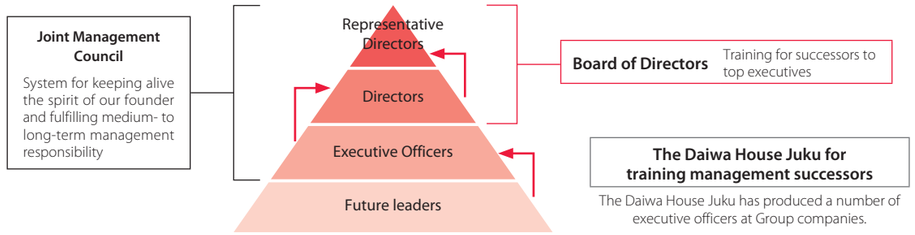


Percentage of Independent Outside Directors	60%

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.



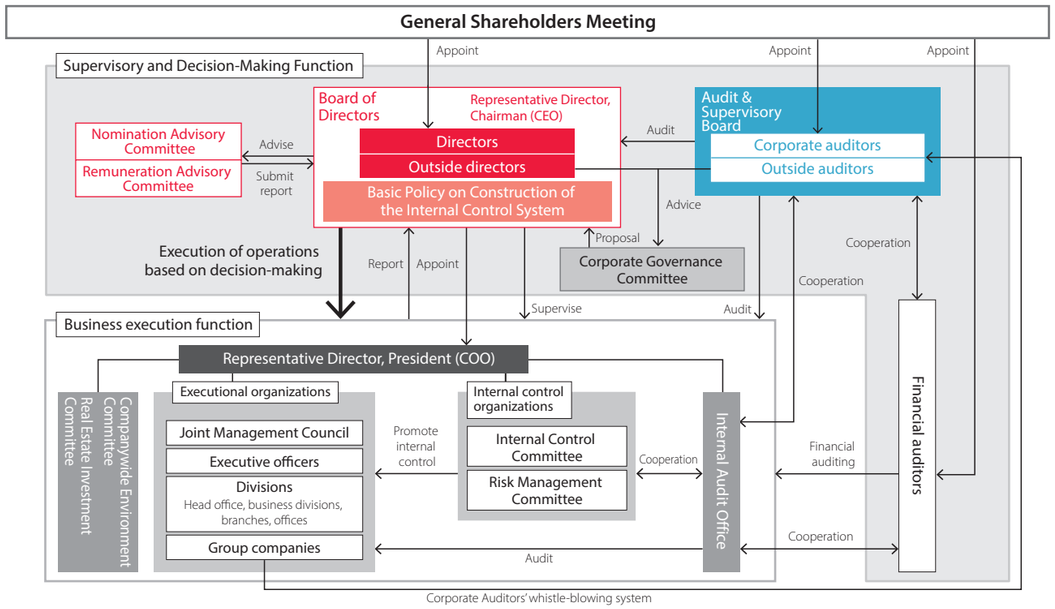
[Procedure for selection of director candidates]

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

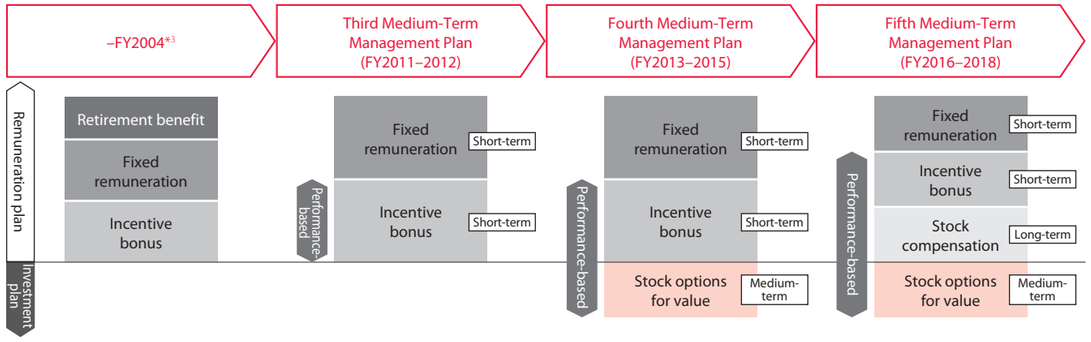
To ensure the transparency and objectivity of these decisions, the Company makes decisions in consultation with the Remuneration Advisory Committee with outside directors making up more than the half of its members.

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.

Securing operating cash flow

To continuously enhance shareholder value, we secure operating cash flow as a source of funds for investment in growth areas.

[Incentive]
(1) Annual incentive bonus (annual profit)
(2) Stock options for value (operating income for three years)

Maintaining and improving ROE, and working to enhance shareholder value over the medium and long term

While efficiently realizing return on investments, we must make management decisions that contribute to higher shareholder value in the medium and long term.

[Incentive]
(1) Stock-based remuneration (annual ROE and share price after the end of term of service)

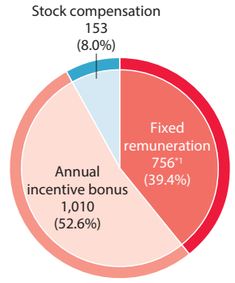
Remuneration paid

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)

(¥ million)

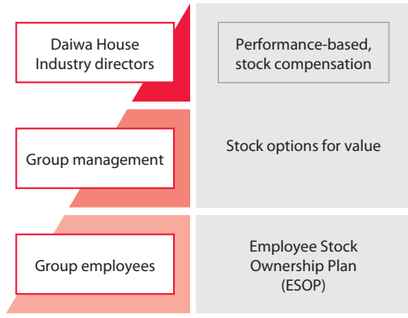


Incentives for next generation of managers and employees

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.

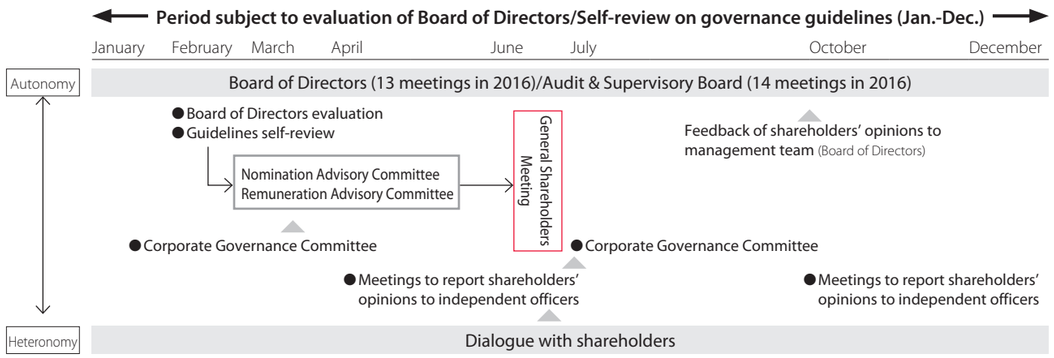


Board of Directors Evaluation

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.

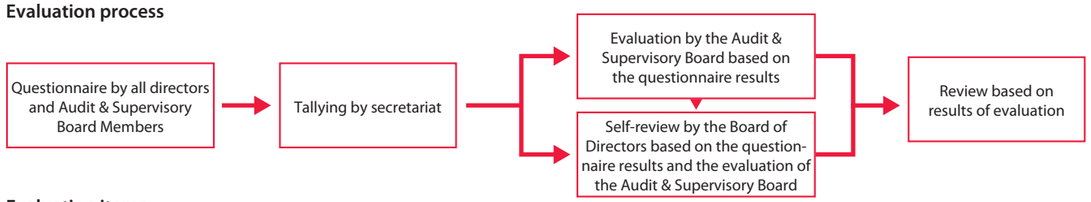
Since most of these efforts have been newly implemented in response to the application of the Corporate Governance Code, we will continue to examine whether they are optimal. While making these efforts, we will continue seeking to improve the effectiveness of individual functions.



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.

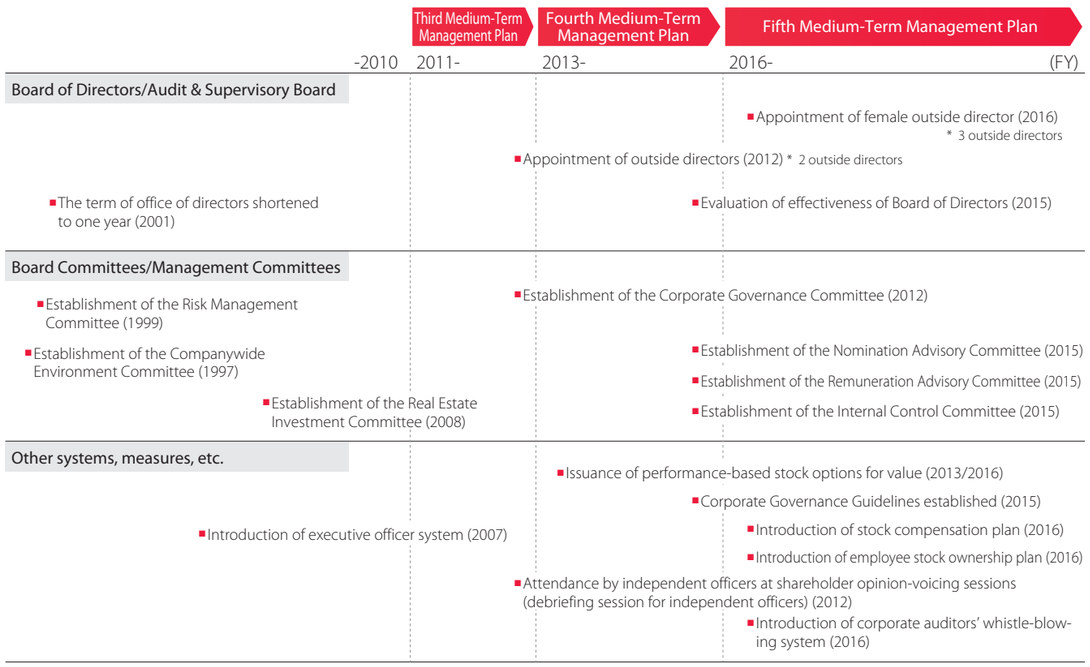
Summary of evaluation results for 2016

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.

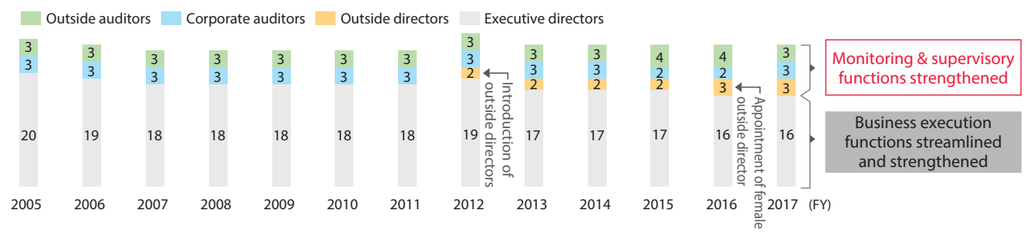
Status of meeting of the Board of Directors (Jan.-Dec. 2016)

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	19/19	18/19	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



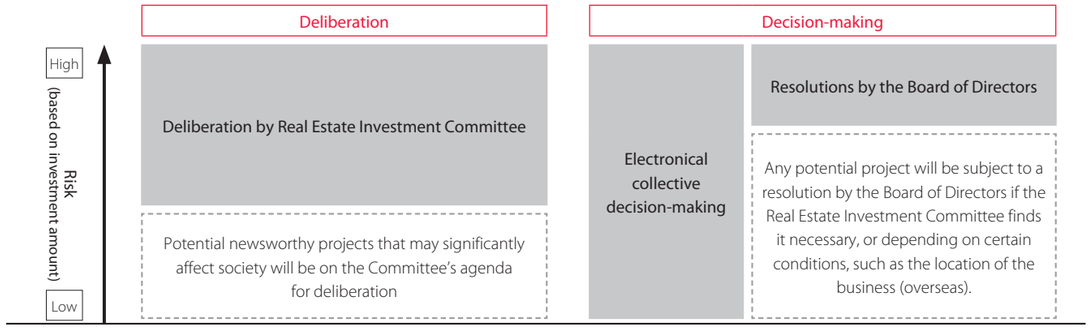
Investments in Real Estate Development and Risk Management

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.

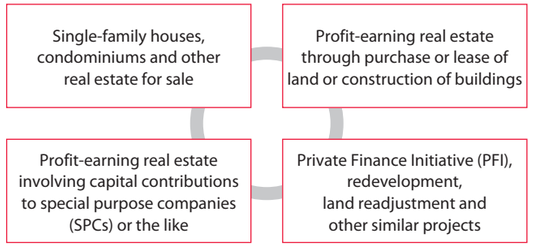
Deliberation and decision-making process according to impact of risk (based on investment amount)



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*

+

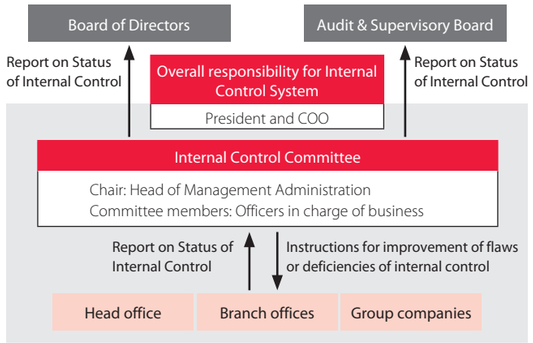
[Multilateral risk assessment (11 departments, 25 items)]
- Consistency with management philosophy, management strategies and brand image
- Legal risks
- Environmental impact, such as soil or groundwater pollution, ground condition risks
- Appropriateness of construction costs, etc.

* 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.

Auditors' Dialogue (May 11, 2017)

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.

Auditors' Dialogue

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 received 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?

Auditors' Dialogue

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

General meeting of shareholders (June 29, 2017)

- Shareholder attendance **743**
- Percentage of voting rights exercised **84.21%**

Communication with institutional investors and analysts

Total **750** companies

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	

Communication with individual shareholders and investors

Total **551** investors

Online explanatory sessions for individual investors	Once	366 investors
Tours of our facilities for individual shareholders (Tokyo and Nara)	5 times	185 shareholders

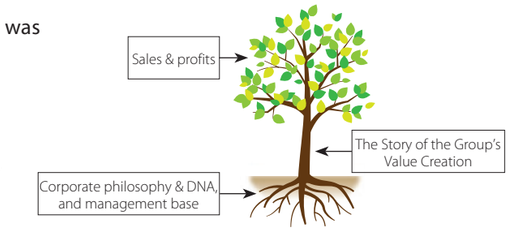
Feedback on shareholder and investor opinions and requests obtained through IR activities

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.

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



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.

Data Section

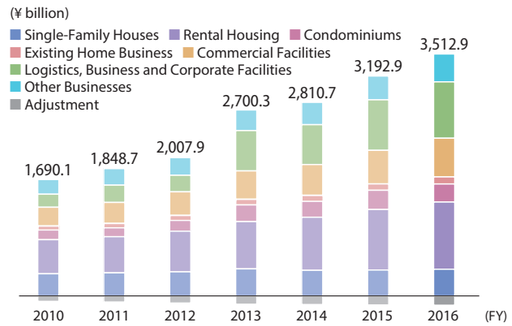
Financial Highlights

(¥ million)

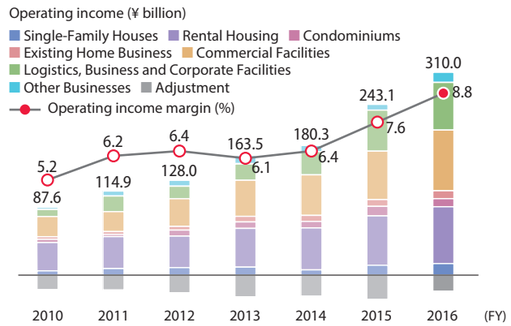
Fiscal Year	2010	2011	2012	2013	2014	2015	2016
Net sales	¥1,690,151	¥1,848,797	¥2,007,989	¥2,700,318	¥2,810,714	¥3,192,900	**¥3,512,909**
Gross profit	337,213	379,952	415,771	507,903	540,868	632,417	**721,312**
Gross margin (%)	20.0	20.6	20.7	18.8	19.2	19.8	**20.5**
Selling, general and administrative expenses	249,516	264,996	287,746	344,326	360,516	389,316	**411,220**
Operating income	87,697	114,955	128,024	163,576	180,352	243,100	**310,092**
Operating income margin (%)	5.2	6.2	6.4	6.1	6.4	7.6	**8.8**
Ordinary income	79,049	108,506	145,395	176,366	202,628	233,592	**300,529**
Net income attributable to owners of the parent	27,267	33,200	66,274	102,095	117,133	103,577	**201,700**
Return on equity (ROE) (%)	4.4	5.1	9.5	11.9	11.2	9.1	**16.3**
Return on total assets (ROA) (%)	1.4	1.7	3.0	4.1	4.1	3.3	**5.9**
Total assets	1,934,236	2,086,097	2,371,238	2,665,946	3,021,007	3,257,805	**3,555,885**
Net assets	635,186	657,891	734,883	992,686	1,112,817	1,181,986	**1,329,901**
Net assets excluding non-controlling interests	634,151	657,111	733,623	986,518	1,105,628	1,170,278	**1,308,290**
Net assets ratio (%)	32.8	31.5	30.9	37.0	36.6	35.9	**36.8**
Interest-bearing debt	395,556	383,625	374,788	393,568	563,530	491,964	**640,671**
Debt-equity ratio (times)	0.62	0.58	0.51	0.40	0.51	0.42	**0.49**
Net debt-equity ratio (times)	0.39	0.20	0.17	0.18	0.29	0.26	**0.32**
Current ratio (%)	174.8	133.7	136.8	127.2	138.7	136.5	**137.5**
Fixed ratio (%)	197.3	188.9	189.4	161.2	158.3	164.8	**164.4**
Net cash provided by operating activities	127,957	248,771	164,247	78,451	139,465	278,497	**287,691**
Net cash used in investing activities	(83,594)	(117,226)	(140,736)	(240,439)	(235,027)	(202,447)	**(343,643)**
Net cash provided by (used in) financing activities	(77,834)	(28,766)	(28,633)	110,131	129,202	(130,185)	**80,086**
Market capitalization	613,119	656,314	1,091,856	1,156,397	1,565,858	2,109,310	**2,129,297**
Stock prices (FYE) (yen)	1,022	1,094	1,820	1,751	2,371	3,166	**3,196**
Per share of common stock (yen):							
Earnings per share (EPS)	47.09	57.36	114.52	161.08	177.74	156.40	**304.14**
Book-value per share (BPS)	1,095	1,135	1,267	1,496	1,678	1,762	**1,971**
Cash dividends*1	20	25	35	50	60	80	**92**
Dividend payout ratio (%)	42.5	43.6	30.6	31.0	33.8	51.2	**30.2**
Price earnings ratio (PER) (times)	21.70	19.07	15.89	10.87	13.34	20.24	**10.51**
Price to book value ratio (PBR) (times)	0.93	0.96	1.44	1.17	1.41	1.80	**1.62**
Number of employees (FYE)*2	26,310	27,130	30,361	32,628	34,903	37,191	**39,770**
Number of group companies	77	89	113	129	145	172	**196**
Consolidated to non-consolidated net sales ratio (times)	1.60	1.66	1.62	1.89	1.91	1.94	**2.04**
Consolidated to non-consolidated net income ratio (times)	2.14	1.84	1.35	1.26	1.21	1.26	**1.37**

*1 Cash dividends for fiscal 2015 include a commemorative dividend of ¥10 to mark the 60th anniversary of the Company's foundation.
*2 Regular employees only.

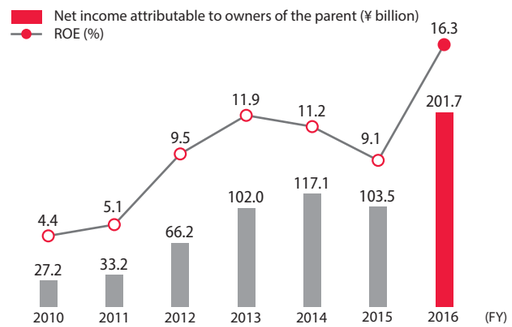
Net sales



Operating income and operating income margin

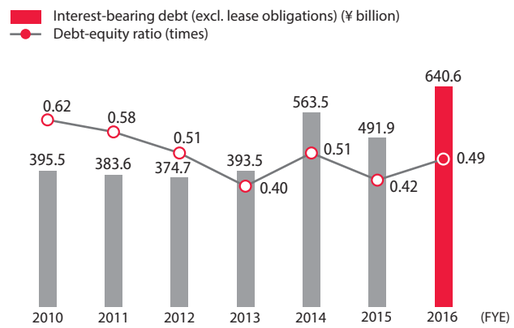


Net income attributable to owners of the parent and return on equity (ROE)

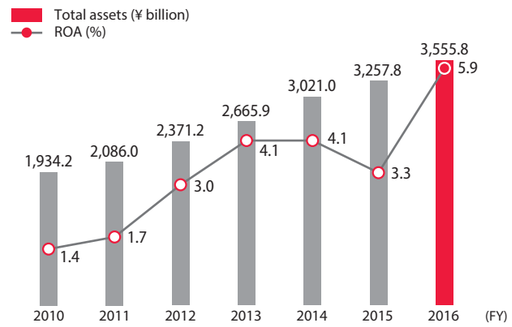


Note: By changing the discount rate used to calculate retirement benefit obligations from 1.7% to 0.8% in fiscal 2015, the Company posted extraordinary losses of ¥84.9 billion. As a result, the ROE dropped to approximately five points.

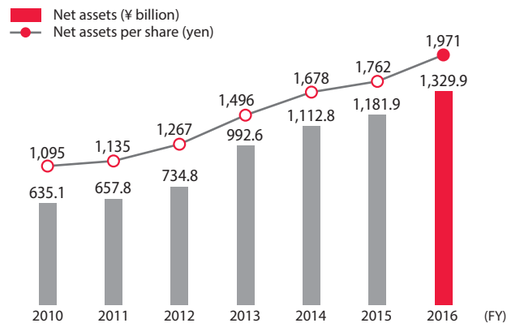
Interest-bearing debt and debt-equity ratio



Total assets and return on total assets (ROA)



Net assets and net assets per share



Non-Financial Highlights (CSR Self-Assessment Indices)

Stakeholders around the Daiwa House Group

As a Group that co-creates value for individuals, communities and people's lifestyles, the Daiwa House Group has, since the time of its founding, upheld the fundamental concept of "co-creating a brighter future" together with the stakeholders, who play important roles in its business operations, and has built good relations with many stakeholders based on this concept.

Expanding our stakeholders

Customers	Employees	Business partners	Community residents	Shareholders
Number of Daiwa Family Club members	Number of employees (Regular employees only)	Number of partner companies	Number of partner organizations for community co-creation activities	Number of shareholders
220,754	39,770	4,653	977	43,983

(as of March 31, 2017)

Setting of CSR Self-Assessment Indices

In fiscal 2006, the Group implemented a unique CSR Self-Assessment Index as a means of visualizing its efforts in the building its relationship with stakeholders, and since then, it has been proceeding with the PDCA cycle to achieve that goal.

In fiscal 2016, along with the start of the Fifth Medium-Term Management Plan, we aim to meet our performance targets for fiscal 2018 and reinforce our management foundation by managing progress annually using the 26 priority issues (of which seven are the most important priority issues) and 49 indices in six fields, which were revised according to the plan.

The most important priority issues are preceded by the double circle symbol (◎).

Building a trusting relationship with stakeholders (Society)

Customers	・Provide high quality products ◎Long-term efforts to earn trust ・Proper communication with customers
Employees	・Provide a safe and healthy work environment ◎Develop human resources ◎Create work environments and systems where a diverse range of employees can work flexibly ・Provide employment opportunities for exceptional human resources
Business partners	・Fair competition ◎Encourage business partners in CSR efforts ◎Improve labor conditions and ensure human resources for construction subcontractors
Community residents	◎Active involvement in, and collaboration with other parties for local community development ・Contribute to the community by sharing business knowledge gleaned through experience

Coexistence of environmental sustainability and corporate profitability

Environment	◎Prevention of global warming ・Harmony with the natural environment (Preservation of biodiversity) ・Conservation of natural resources ・Water resource conservation ・Prevention of chemical pollution ・Prevention of soil contamination

Creating a CSR mindset and strengthening our management system

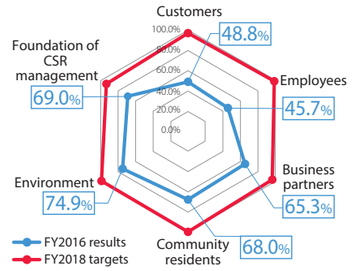
Foundation of CSR management	・Transparency ・Ethical conduct ・Stakeholder engagement ・Creation of a CSR mindset ・Risk management ・Safety ・Human rights awareness-raising ・Handle human rights issues

Fiscal 2016 results/CSR Self-Assessment Indices

Target stakeholder	Priority issues (The most important priority issues)	Indices	Full points	FY2018 targets	FY2016 results	Rate of progress
Customers	3 (1)	7	175	170	83	48.8%
Employees	4 (2)	10	250	247	113	45.7%
Business partners	3 (2)	8	200	193	126	65.3%
Community residents	2 (1)	5	125	125	85	68.0%
Environment	6 (1)	11	225	223	167	74.9%
Foundation of CSR management	8 (–)	8	200	187	129	69.0%
Total	26	49	1,175	1,147	703	61.3%

Progress rate graph by stakeholder

(fiscal 2016 results against fiscal 2018 targets)



Priority issues relating to stakeholders

Among the 26 priority issues, the following shows only the 20 indices of the seven top priority issues. For the other indices and method used to assess the CSR Self-Assessment Indices, please see the "Sustainability Report 2017."

Point allotment in the CSR Self-Assessment Indices

Customers

The most important priority issues	Indices	FY2018 targets	FY2016 results	FY2016 (results/targets)
Long-term efforts to earn trust	Customer (owner) satisfaction (single-family houses)*1	80% or above	68.3%	15 pts/25 pts
	Long-term viewpoint evaluations (single-family houses)*1	100%	96.4%	20 pts/25 pts
	Questionnaire evaluation after taking residence (single-family houses)*1	70% or above	62.3%	20 pts/25 pts

*1 Of the individual indices for the five business segments (single-family houses, rental apartment buildings, condominiums, commercial facilities and logistics, business and corporate facilities), it only shows the one for the single-family houses segment.

Employees

The most important priority issues	Indices	FY2018 targets	FY2016 results	FY2016 (results/targets)
Develop human resources	Degree of satisfaction of employees to overall human resources training	85pts	67 pts	10 pts/22 pts
	Evaluation of OJT	80%	85.9%	15 pts/15 pts
	Rate of acquisition of professional qualifications by young employees	20%	14.8%	5 pts/15 pts
Create work environments and systems where a diverse range of employees can work flexibly	Acquisition rate of male absence from work for child-rearing	50%	32.9%	5 pts/25 pts
	Number of female managers	160	108	0 pts/25 pts
	Rate of employees with disabilities	2.30%	2.19%	10 pts/25 pts

Business partners

The most important priority issues	Indices	FY2018 targets	FY2016 results	FY2016 (results/targets)
Encourage business partners in CSR efforts	Training of in-house employees (Purchasing Department)*2	95%	95%	17 pts/17 pts
	Evaluation of business partners and purchasing work based on in-house criteria	4.5 pts or above	4.2 pts	20 pts/25 pts
	Rate of response of self-checks based on the Business Partner Code of Conduct	70%	15.2%	0 pts/25 pts
Improve labor conditions and ensure human resources for construction subcontractors	Number of employees trained on-site	500	214	3 pts/25 pts
	Number of labor accidents	-20%	-20.6	25 pts/25 pts
	Number of partner company members	4,800	4,653	19 pts/25 pts

*2 Of the individual indices for Purchasing/Design and Construction Department, it only shows the one for Purchasing Department.

Community residents

The most important priority issues	Indices	FY2018 targets	FY2016 results	FY2016 (results/targets)
Active involvement in, and collaboration with other parties for local community development	Collaboration with NPOs and NGOs	50%	42.6%	15 pts/25 pts
	Participation rate in Endless Donations	25%	36.9%	25 pts/25 pts
	Amount conversion of community co-creation activities by branch offices	300 million yen	148 million yen	5 pts/25 pts

Environment

The most important priority issues	Indices		FY2018 targets	FY2016 results	FY2016 (results/targets)
Prevention of global warming	Business activities	Rate of decrease from the fiscal 2005 figure in CO_2 emissions per unit of sales	55% reduction	53.7% reduction	19 pts/25 pts
	Products and services	Contribution to CO_2 reduction (thousand t-CO_2)	4,700	4,960	25 pts/25 pts

Principal Subsidiaries and Associated Companies (as of July 1, 2017)

JAPAN

Daiwa House Industry Co., Ltd.
- Housing/ Commercial construction/ Urban development, etc.

Daiwa Lease Co., Ltd.
- Building & vehicle leasing/ Land utilization/ Development & operation of commercial facilities/ Environmental greening, etc.

DesignArc Co., Ltd.
- Interior items/ Housing materials/ Rental

Daiwa Logistics Co., Ltd.
- Transportation/ Warehouse & storage

Daiwa Living Management Co., Ltd.
- Businesses related to rental housing

Daiwa Living Co., Ltd.
- Management & operation of rental housing

Daiwa Estate Co., Ltd.
- Real estate agency

Daiwa Living Utilities Co., Ltd.
- Retail sale of electricity and gas

Daiwa LifeNext Co., Ltd.
- Management of condominiums & buildings/ Moving services

Global Community Co., Ltd.
- Management of condominiums & buildings

Daiwa Information Service Co., Ltd.
- Land utilization/ Development & operation of commercial facilities

Nihon Jyutaku Ryutu Co., Ltd.
- Real estate agency & property management services/ Appraisals/ Renovation work

Daiwa Royal Co., Ltd.
- Rental of commercial facilities/ Hotels

Royal Home Center Co., Ltd.
- DIY/ Gardening/ Interior items

Daiwa House Reform Co., Ltd.
- Renovation design & execution/ Property inspection

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

Daiwa Royal Golf Co., Ltd.
- Golf course operations

Daiwa Energy Co., Ltd.
- New power generation business & ESCO business

Eneserve Corporation
- Electrical equipment maintenance checks & Retail sale of electricity

Daiwa Lantec Co., Ltd.
- Ground survey & reinforcement/ Construction & exterior construction

Daiwa House Life Support Co., Ltd.
- Management & operation of fee-based nursing care facilities for the elderly

Osaka Marubiru Co., Ltd.
- Management of hotels/ Rental of commercial facilities

Nishiwaki Royal Hotel Co., Ltd.
- Hotels

Sports Club NAS Co., Ltd.
- Fitness clubs

Daiwa House Asset Management Co., Ltd.
- Asset management of an investment corporation

Daiwa House Real Estate Investment Management Co., Ltd.
- Asset management of an investment corporation/ Real estate investment advisory

Daiwa House Financial Co., Ltd.
- Credit card operations

Daiwa House Insurance Co., Ltd.
- Non-life insurance agency

Daiwa CoreFactory Co., Ltd.
- Manufacture of housing parts & materials

Shinwa Agency Co., Ltd.
- Advertising & travel agency

Media Tech Inc.
- Data systems/ Data services

Daiwa Homes Online Co., Ltd.
- Real estate agency

D.U-NET Co., Ltd.
- ISP business

Double-D Co., Ltd.
- Planning, development and operation of information technology

Frameworx, Inc.
- Development of logistics systems

Fujita Corporation
- General construction/ Real estate

Cosmos Initia Co., Ltd.
- Real estate sales/ Real estate rental & agency services

Cosmos More Co., Ltd.
- Office relocation/ Construction of showrooms for condominiums

Cosmos Life Support Co., Ltd.
- Total management of real estate

Daiwa House Parking Co., Ltd.
- Parking lot operation & management/ Real estate sales & rental

Daiwa Cosmos Construction Co., Ltd.
- Large-scale condominium renovation work

Daiwa House Property Management Co., Ltd.
- Maintenance management of buildings used for logistics facilities and healthcare facilities

HeartOne Trust Co., Ltd.
- Property management trust business

Daiwa Living Stay Co., Ltd.
- Hotels/ Serviced apartments

Fine Co., Ltd.
- Sale of commodities for daily use, household furnishings, others

Smart Clinic Inc.
- Planning and operation of medical malls

Overseas

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

Dalian Dahezhongsheng Estate Co., Ltd.
- Real estate development

Dalian Yihe Property Management Co., Ltd.
- Real estate management

Dalian Civil Aviation Hotel Co., Ltd.
- Management & operation of hotels

Tianjin Jiuhe International Villa Co., Ltd.
- Management of serviced apartments

Daiwa House (Wuxi) Real Estate Development Co., Ltd.
- Real estate development

Daiwa House (Changzhou) Real Estate Development Co., Ltd.
- Real estate development

Daiwa Baoye (Wuxi) Property Management Co., Ltd.
- Real estate management

Shanghai Hebao Property Service Co., Ltd.
- Real estate management

Baoye Daiwa Industrialized House Manufacturing Co., Ltd.
- Production & sale of industrialized house parts and materials

Daiwa House California Inc.
- Real estate development

Daiwa House Texas Inc.
- Real estate development

Daiwa House Guam Co., Ltd.
- Construction

Daiwa House Australia Pty Ltd
- Real estate development

Daiwa House Vietnam Co., Ltd.
- Industrial park development/ Outsourced services

Daiwa House Real Estate Development Co., Ltd.
- Rental factories

PT Daiwa House Indonesia
- Oversight of business operations in Indonesia

PT Daiwa Manunggal Logistik Properti
- Development, operation & management of logistics facilities

PT Daiwa Tetra Manunggal Konstruksi
- Construction

Daiwa House Malaysia Sdn. Bhd.
- Single-family house market research, R&D into production of housing by industrialized methods

KD Living, Inc.
- Rental housing

Daiwa Living California Inc.
- Rental housing

Daiwa Living Australia Pty Ltd
- Serviced apartments

Fujita (China) Construction Co., Ltd.
- Construction

Fujita Research
- Research into overseas construction technology

Fujita Corporation Vietnam
- Construction/ Real estate development

Fujita Philippines Construction and Development, Inc.
- Construction

Fujita Engineering India Pvt., Ltd.
- Construction

Fujita Corporation Singapore Pte. Ltd.
- Investment business

Fujita Corporation (M) Sdn. Bhd.
- Construction

Fujita Integral Mexico S.A. de C.V.
- Construction/ Environment-related business/ Real estate development

Fujita Corporation (Thailand) Ltd.
- Construction

Cosmos Australia Pty Ltd
- Real estate development/ Tourism services

Stanley-Martin Communities, LLC
- Single-family housing

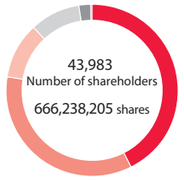
Share Information (as of March 31, 2017)

Authorized	1,900,000,000 shares
Issued	666,238,205 shares
Number of shareholders	43,983

Principal shareholders	Thousands of shares*1	Equity stake*2 (%)
The Master Trust Bank of Japan, Ltd. (trust account)	43,200	6.48
Japan Trustee Services Bank, Ltd. (trust account)	32,807	4.92
Sumitomo Mitsui Banking Corporation	16,117	2.42
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	15,470	2.32
Daiwa House Industry Employee Shareholders Association	12,528	1.88
STATE STREET BANK AND TRUST COMPANY 505001	12,464	1.87
Japan Trustee Services Bank, Ltd. (trust account 5)	12,160	1.83
Nippon Life Insurance Company	11,944	1.79
STATE STREET BANK AND TRUST COMPANY 505225	9,558	1.43
Japan Trustee Services Bank, Ltd. (trust account 1)	8,982	1.35

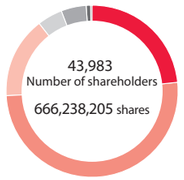
*1 Number of shares held is rounded down to the nearest thousand.
*2 Equity stake is calculated excluding 72 thousand shares of treasury stock.

Shareholdings by shareholders



	Number of shareholders	Shares	Equity stake (%)
Financial institutions	207	284,377,455	42.68
Foreign investors	820	232,873,314	34.95
Individuals and others	41,539	71,615,577	10.75
Other corporations	1,366	62,767,981	9.42
Securities companies	50	14,531,727	2.18
Treasury stock	1	72,151	0.01

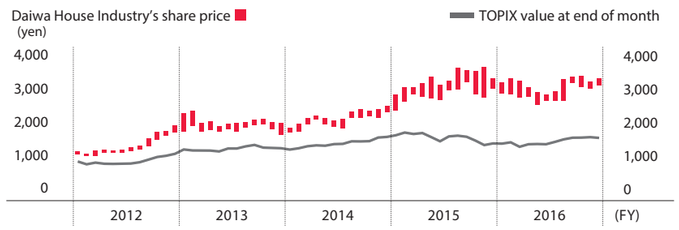
Shareholdings by scale



	Number of shareholders	Shares	Equity stake (%)
10 million or more	8	156,693,283	23.52
1 million or more	106	340,246,338	51.07
100 thousand or more	308	101,468,494	15.23
10 thousand or more	1,168	30,887,405	4.64
1 thousand or more	15,595	31,026,792	4.66
1 hundred or more	22,500	5,747,531	0.86
Less than 1 hundred	4,298	168,362	0.03

Note: Equity stake shows the percentages of the total outstanding shares.

Trends in share price of Daiwa House Industry and TOPIX



	2012	2013	2014	2015	2016
Market capitalization*3 (¥ million)	1,091,857	1,156,398	1,565,860	2,109,310	2,129,297
TSR*4 (%)	69.56	-1.04	38.83	36.90	3.85
Share price high (yen)	1,899.0	2,330.0	2,467.5	3,654.0	3,367.0
Share price low (yen)	967.0	1,592.0	1,673.0	2,326.0	2,500.5

*3 At the fiscal end of year
*4 Total shareholder return

Market capitalization ranking
(home-building/construction/real estate sectors)

	Securities code	Company name	Market capitalization*5 (¥ billion)
1	8802	Mitsubishi Estate Co., Ltd.	2,790.1
2	1925	Daiwa House Industry Co., Ltd.	2,571.0
3	8801	Mitsui Fudosan Co., Ltd.	2,512.7
4	8830	Sumitomo Realty & Development Co., Ltd.	1,591.5
5	1878	Daito Trust Construction Co., Ltd.	1,432.8

*5 Based on closing price on July 31, 2017

Inclusion of Daiwa House Industry in ESG indices

ESG indices adopted by the GPIF

FTSE Blossom Japan — FTSE: ESG rating 3.7 (out of 5.0)

MSCI 2017 Constituent MSCI Japan ESG Select Leaders Index — MSCI: ESG rating AA (seven levels from AAA to CCC)

Other major ESG indices

FTSE4Good

MSCI 2017 Constituent MSCI ESG Leaders Indexes

STOXX Member 2016/2017 ESG LEADERS INDICES

MSCI 2017 Constituent MSCI SRI Indexes

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

For details of what is included and a description about the logos used, please access the URL link on the right: http://www.daiwahouse.com/English/sustainable/csr/performance_data/evaluation/

Corporate Data (as of June 29, 2017)

Corporate name:	Daiwa House Industry Co., Ltd.
Founding:	April 5, 1955 (Established: March 4, 1947)
Paid-in capital:	¥161,699,201,496
Employees: (consolidated)	39,770 (as of March 31, 2017)
Securities traded:	Tokyo stock exchange
Securities code:	1925
Head office:	3-3-5 Umeda, Kita-ku, Osaka 530-8241, Japan Phone: +81-6-6346-2111
Tokyo Head office:	3-13-1 Iidabashi, Chiyoda-ku, Tokyo 102-8112, Japan Phone: +81-3-5214-2111
Offices (32):	Nagoya, Hokkaido, Sendai, Fukushima, Tsukuba, Ibaraki, Utsunomiya, Gunma, Saitama, Saitama-nishi, Saitama-higashi, Chiba, Kashiwa, Keiyo, Joto, Musashino, Yokohama, Yokohama-kita, Atsugi, Kanazawa, Niigata, Gifu, Okazaki, Yokkaichi, Shiga, Kyoto, Sakai, Kobe, Okayama, Hiroshima, Fukuoka, Kita-Kyushu

Branches:	48
Factories:	10
Research center:	Central Research Laboratory (Nara)
Training centers:	Nara, Osaka and Tokyo
Overseas offices/ Representative offices:	Shanghai (China) Taipei (Taiwan) Johor Bahru (Malaysia) Jakarta (Indonesia) Bangkok (Thailand) Manila (Philippines) Hanoi (Vietnam) Gurgaon (India) Yangon (Myanmar)
Contact:	Daiwa House Industry Co., Ltd. IR Department, Management Administration Headquarters Phone: +81-6-6342-1400 Fax: +81-6-6342-1419 e-mail: dh.ir.communications@daiwahouse.jp
Website:	http://www.daiwahouse.com/English

Board of Directors, Audit & Supervisory Board and Executive Officers (as of June 29, 2017)

Board of Directors

Chairman and CEO	Takeo Higuchi*
President and COO	Naotake Ono*
Executive Vice Presidents	Tamio Ishibashi* Katsutomo Kawai*
Director and Senior Managing Executive Officers	Takeshi Kosokabe* Kazuto Tsuchida* Osamu Fujitani Fukujiro Hori Keiichi Yoshii
Director and Managing Executive Officers	Takashi Hama Makoto Yamamoto Yoshiaki Tanabe Hirotsugu Otomo Tatsuya Urakawa Kazuhito Dekura Yoshinori Ariyoshi
Outside Directors	Kazuyoshi Kimura Yutaka Shigemori Yukiko Yabu

* Representative Director

Audit & Supervisory Board

Audit & Supervisory Board Members	Tatsushi Nishimura Kenji Hirata Kuniaki Matsumoto
Outside Audit & Supervisory Board Members	Kazuhiro Iida Yukinori Kuwano Shonosuke Oda

Managing Executive Officers

Keigo Okada, Kenji Kinoshita, Mikio Sasaki, Takaki Hiromori, Mototsugu Takai, Keisuke Shimonishi, Kohei Yamasaki

Senior Executive Officers

Shinichi Hirose, Kyoji Kato, Eiichi Shibata, Koji Harano, Masaharu Chiba, Hirofumi Hama, Tetsuya Tamura, Takashi Miyatake, Yasuo Nakamura, Kazuhiro Tada, Yuji Yamada, Nobuhito Ishibashi, Nobuya Ichiki

Executive Officers

Shoji Tanaka, Moritaka Noumura, Naoki Hayashi, Michikazu Sora, Naoki Nishioka, Toshiya Nagase, Yukikazu Kataoka, Yoshinori Hashimoto, Kazuhiro Kotaka, Tetsuro Wada, Shigeki Ochiai, Kazunori Nibe, Isao Mizutani, Shinji Fujita, Yoshin Minagawa, Hirotaka Najima, Hiroshi Kono, Hitoshi Fukushima, Yoshito Iki, Yuichi Sugiura, Takafumi Nakao, Hideharu Hashimoto

Editorial Postscript

Taking on all challenges, now and in the future

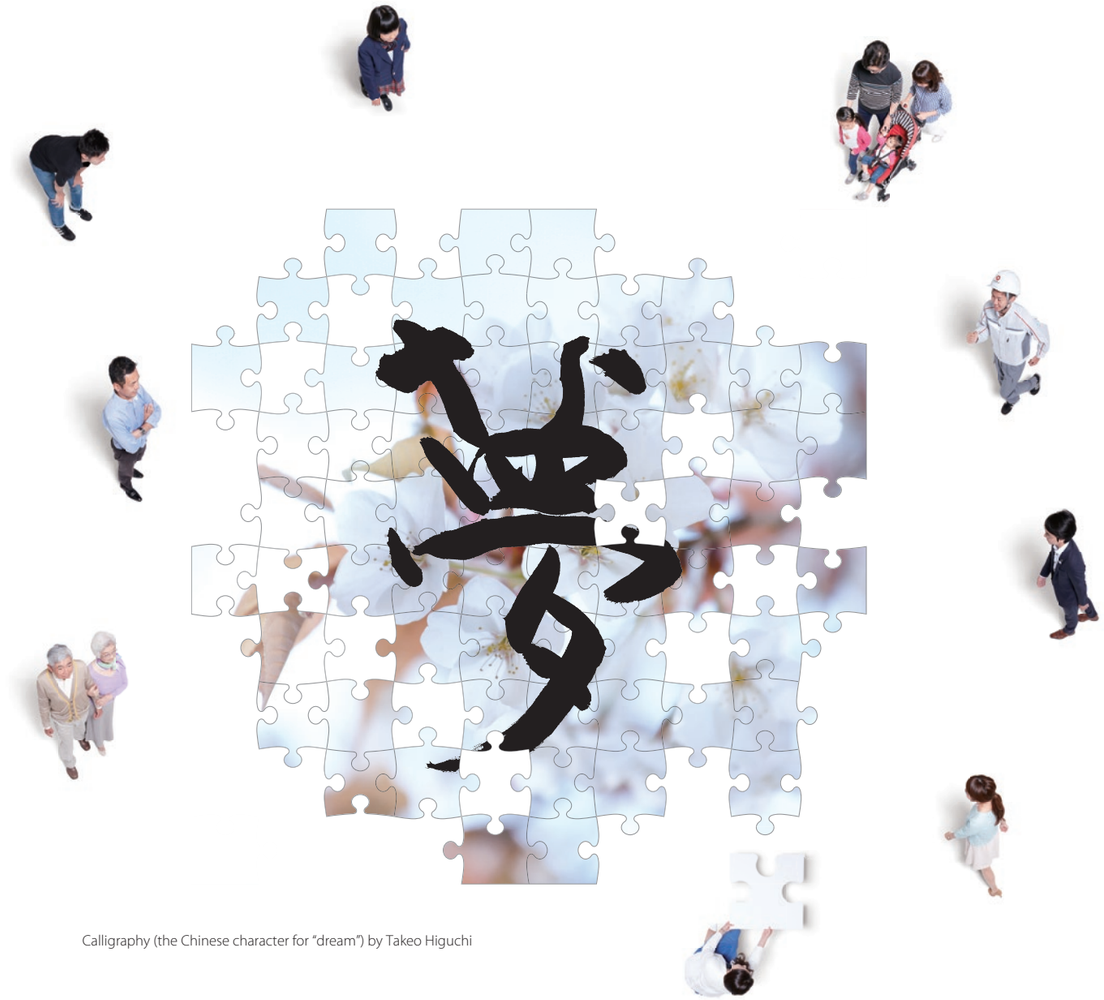
Thank you for reading the whole of our report.

It has been our wish that all our stakeholders—particularly our shareholders and investors—should understand the corporate philosophy and corporate DNA of the Daiwa House Group, which have been passed on from one generation of management to the next. It is a story that binds past, present, and future into one narrative of how we have continually addressed society's needs ever since the foundation of Daiwa House Industry. For this reason, we began publishing this Integrated Report in 2016. The present report—the second to be published—focuses on the three "bases" that are crucial to the Daiwa House Group's value creation with the aim of giving the reader a fully satisfactory explanation of our growth potential.

Our history is one of constantly taking on one new challenge after another. The founder of Daiwa House industry, Nobuo Ishibashi—motivated by the desire to help Japanese society develop in the period immediately following WWII—set up the Company in 1955 with a mere 18 employees, aiming to bring about the "industrialization of construction." Many years later, having reached the major milestone of ¥1 trillion in annual sales, and on the brink of our 50th anniversary, our founder, Nobuo Ishibashi, passed on to us the "dream" of becoming a corporate group with annual sales of ¥10 trillion by 2055—the 100th anniversary of the Company's founding. Having inherited our founder's inspiration, we will pursue this dream with unwavering determination, and we will continue to move forward with undiminished vigor.

In closing, on behalf of the Daiwa House Group, I would like to express my sincere appreciation for the support and encouragement we have received from our stakeholders. I hope that the present report proves effective in deepening understanding of our operations going forward, and leads to your continued support for our efforts into the future.

Yuji Yamada
Senior Executive Officer
General Manager, Finance Department and IR Department



Calligraphy (the Chinese character for "dream") by Takeo Higuchi

The word "dream" encompasses a wide range of meanings. When we go to sleep at night, we dream. We also often refer to the past as "seeming like a dream." But for us, these definitions of the word can be put to one side.

When we use the word "dream," which to us is very important, we are referring to hopes for the future.

Having a dream makes people work to realize it. Few people are talented by nature, and excellent staff must be sought out. To be good at seeing through surface appearances to understand another person's true nature and capabilities is the mark of a real business manager; without talent, nobody can successfully manage a company. As for the staff members, each of them, too, must nurture a dream in their breast. Companies grow by feeding off the dreams of their members. To live is to dream, and you must never give up on your pursuit of your dream.

Our founder, Nobuo Ishibashi

The photograph that forms the background to the calligraphy shown above is of the blossoms of the white mountain cherry trees that grow in the slopes of Mt. Yoshino near Nobuo Ishibashi's home town in Nara Prefecture. As well as protecting these trees, with which our founder had strong emotional ties, we also conducts cherry tree preservation activities all over Japan so as to pass them on to succeeding generations.

Information Disclosure at a Glance

	Financial information	Coordination	Non-financial information
WEB	Investor relations http://www.daiwahouse.com/English/ir/		Corporate social responsibility (CSR) measures with respect to the environment and the community http://www.daiwahouse.com/English/sustainable/
Reports	• Securities report • Business result report	Integrated Report Integrated report on selected financial and non-financial information judged to be material	• Corporate governance report • Sustainability Report Japanese-language edition English-language edition
Dialogue	• Release of financial results • Management information meeting • Guided tours of building sites, plants, etc. • Teleconferencing with securities analysts and institutional investors • General meeting of shareholders		• Experts' dialogue • Stakeholders' meeting

High → Volume of information

Daiwa House Industry Co., Ltd.

Head Office 3-3-5 Umeda, Kita-ku, Osaka 530-8241, Japan Phone +81-6-6346-2111 Fax +81-6-6342-1399
Tokyo Head Office 3-13-1 Iidabashi, Chiyoda-ku, Tokyo 102-8112, Japan Phone +81-3-5214-2111 Fax +81-3-5214-2109

www.daiwahouse.com

"Endless Heart" is a registered trademark or trademark of DAIWA HOUSE INDUSTRY CO., LTD. in JAPAN and other countries.
© Copyright 2017 DAIWA HOUSE INDUSTRY CO., LTD. All rights reserved.

We Build ECO | Supporting forest care — "green" papermaking