

Dialogue President Yoshii talks to a long-term institutional investor

A letter was received from the asset management company BlackRock in February 2018 asking for information about our role in society. This led to a dialogue with BlackRock about Daiwa House Group's aspirations for the future and how we intend to achieve sustainable growth over the medium to long term.

**Akitsugu Era**

Director and Head of Investment Stewardship
BlackRock Japan Co., Ltd.

Joined BlackRock Japan in 2011. As Head of Investment Stewardship in the operating division, he is responsible for exercising voting rights at Japanese companies and formulated voting policies and guidelines. Prior to joining BlackRock, he was a corporate governance manager and fundamental equity analyst at Nikko Asset Management Co., Ltd.

Progress of the Fifth Medium-Term Management Plan

Era Thank you for your time today. Could you start by telling me about the progress of the Fifth Medium-Term Management Plan?

Yoshii The Fifth Medium-Term Management Plan (fiscal 2016-2018) that commenced in April 2016 set an objective for its three-year term of preparing for the future by doing what we need to do to achieve ¥4 trillion in annual sales while still satisfying domestic demand. We have been working to achieve that goal. Our performance in fiscal 2017 (year 2 of the plan) surpassed previous records, with the three businesses of Rental Housing; Commercial Facilities; and Logistics, Business and Corporate Facilities that serve as our growth drivers, together with our overseas operations that continue to achieve incremental growth, contributing to sales of ¥3,795.9 billion and an operating income of ¥347.1 billion, and ¥236.3 billion in net income attributable to owners of the parent. The operating income and net income targets for the final year of our Fifth Medium-Term Management Plan, which were revised upward in May 2017, were achieved in only two years.

Era Fiscal 2018 was the final year of your Fifth Medium-Term Management Plan. What are your targets for the current period?

Yoshii Based on our performance in fiscal 2017, the targets for fiscal 2018 have again been revised upwards to sales of ¥4 trillion, an operating income of ¥354 billion, and a net income of ¥237 billion. These are based on our Group philosophy of maintaining a sound footing, achieving future sales on a basis of solid growth.

On the basis of this progress, we have also increased the planned

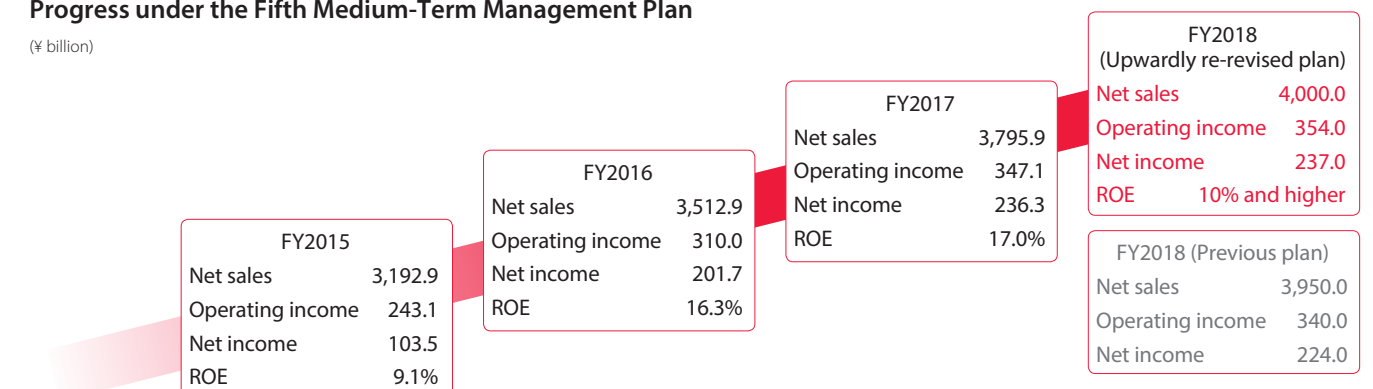
investment for our growth strategy over the three-year period from ¥900 billion to ¥1 trillion. We plan to invest a record high of ¥720 billion in real estate development, with actual cumulative investment over two years reaching ¥501.3 billion, about 70% of that total (of which ¥416.8 billion was in Japan and ¥84.4 billion overseas). With our Logistics, Business and Corporate Facilities Business playing a central role, and utilizing a variety of business solutions, we intend to lay the groundwork for sustainable growth in the future while also actively pursuing real estate developments in Japan and overseas. We are continuing with the further expansion of our core businesses through measures targeted at serving domestic demand, and also working to foster the core businesses of the future by leveraging our customer base and other resources to develop "Plus 1 and Plus 2 Businesses" as well as picking up the pace in our overseas operations. Maintaining financial soundness is another focus. With regard to our management base, we are making further progress on improving working conditions through working style reform, while also seeking to improve productivity and management efficiency and to strengthen our human resources base, and technology and manufacturing base to keep pace with our expansion.

Rationale behind Daiwa House Group**Relationship between ESG and resolving social issues, and passing on our corporate philosophy**

Era Looking at the people working for Daiwa House Group, I am conscious of how they have taken on the corporate philosophy of "getting the little things right". While I believe that business practices

Progress under the Fifth Medium-Term Management Plan

(¥ billion)



Preparing for the future changes and building a platform for achieving ¥4 trillion in net sales

4th Medium-Term Management Plan
Total investments (result) ¥758.2 billion

5th Medium-Term Management Plan
Total investments (plan) ¥1 trillion

President Yoshii talks to a long-term institutional investor

are important, even more so is the culture of a company. As an investor, I'm interested to learn how you impart this philosophy to all corners of your business?

Yoshii At the management presentation held in May, our Chairman, Takeo Higuchi, was asked by an investor how we go about carrying on the spirit of our founder. It seems that investors in recent times have come to value not only financial results but also such non-financial information as corporate philosophy.

Era I believe it is an extremely important factor for investors. What we look for in a company is whether they can maintain their competitiveness and whether the management can express in their own words where their company's strengths lie. We also look at whether they can explain the corporate philosophy that provides the basis for the role their company plays in society, a clear management vision, and corporate activity. The ability of management publicly to explain their corporate philosophy indicates that the philosophy will also be well embedded within the company. I believe that companies that are securely founded on a corporate philosophy are



able to formulate, and also to implement, achievable management plans, and will be found to have transparent and well-established governance in place, with ongoing monitoring and the ability to respond with agility to the risk of changes in society or other circumstances. The pursuit of short-term profit, in contrast, can put those foundations at risk.

Yoshii Certainly, there are cases where being expected to lift short-term profits can make judgement difficult. At Daiwa House Group, we want to be able to express a long-term vision for sustainable growth.

Era Please tell me about this long-term vision.

Yoshii We need capital to expand the scope of our business, and we cannot increase dividends without also increasing profit. Thinking in terms of a growth strategy is also essential, without losing sight of the D/E ratio. Nevertheless, because a growth strategy requires investment to come first, we are also conscious of the dilemma this poses.

Era Daiwa House Group is utilizing its operating cash flow in an active program of investment. As a long-term investor, I understand that investing in growth, even if somewhat detrimental to immediate dividends, will result in better medium- and long-term returns. While it is appropriate for a company to keep increasing dividends if it is able to deliver a certain level of profit and has limited investment needs for the future, senior management at growth companies should actively prioritize investment in growth. The question for investors like myself, however, is how to incorporate non-financial

information such as corporate philosophy into our assessment of a company. While environmental, social and governance (ESG) indicators have attracted interest in recent times as a measure of corporate sustainability, it is difficult to express the relationship between action on ESG and a company's competitiveness in quantitative terms. The variety of information published is also wide, and together these things make such assessments difficult. That is why we look at how much influence the corporate philosophy and governance that provide the basis of sustainability have on business decisions. In your integrated report for last year, for example, quantitative risk assessments relating to investment in your real estate development business were also accompanied by details of how your business activities fit in with your corporate philosophy. Because it provides a clear indication of how your company is aware of and pays close attention to its corporate philosophy, such information is very valuable to us.

Yoshii Thank you for reading our integrated report so carefully. Although we publish as much ESG information as we can on individual activities, I hope we are also recognized for our more underlying qualities.

Era We think the same way. We want to recognize those companies that clearly identify what it is they value most highly in corporate activity and are serious about taking actions to resolve challenges that will result in long-term value creation.

Yoshii We believe that we should be diligent about providing shareholders and other investors with information on things like financial performance and business plans. We also want to clearly convey our corporate philosophy. Regarding your earlier question about passing on the spirit of our founder, the answer that our Chairman, Takeo Higuchi, gave was that all we can do is to continue to tell staff about the spirit of our founder. I think the same, and I am always telling staff how important it is that we keep explaining our "corporate DNA" to our staff to pass it on to the next generation. If our corporate philosophy is reaching all of our staff, it means that the message our current management are trying to convey is getting through. In other words, the corporate culture of Daiwa House is to keep on telling important matters until the point is made. It is thanks to this corporate culture that all staff are able to direct their efforts in a common direction and make progress toward our goal of ¥10 trillion in annual sales. I believe this is one of the major strengths of the Daiwa House Group. Nevertheless, that achieving our goals through our current businesses alone will be difficult is something that not just myself but all staff should understand. To fulfil the grand objective entrusted to us by the Company's founder, we will need to keep changing and growing.



Era The Medium-Term Management Plan is progressing well and your market capitalization is rising. It seems to me that if your growth continues at its current rate, you should achieve your 2055 goal of ¥10 trillion in sales ahead of time.

Yoshii We anticipate that our rate of growth will flatten in time. Over the long term, however, by taking advantage of our diverse business portfolio, we are confident of being able to reach our ambitious goal of annual net sales of ¥10 trillion by the 100th anniversary of the Company's establishment.

Contributing through business to society and the environment

Ongoing change to sustain growth

Era Looking at your history, you have continually been transforming the nature of your business to respond quickly to changes in society. Would it be fair to say that the basis for decisions about the direction for change lies in your stance of seeking to resolve social issues by taking a long-term view of the changing times? I believe that you have clarity in your thought processes regarding what is important and what you require as a company to overcome the many different problems that are likely to afflict society in the future.

Yoshii That's right. One of the important criteria for decision-making when embarking on a new business is to clarify what problems will need to be resolved in the future and to ask how Daiwa House Group can help to bring this about. Underpinning this is our founder's belief that you "don't do things because they will make a profit, but because they will be of service to society." In terms of the E (environment) in ESG, one of our first steps was to start environmental businesses with the aim of achieving harmonious coexistence with the natural environment, while our energy businesses contribute to more than ¥100 billion in sales across the Group. Staff understand our corporate philosophy and strive to translate new businesses

Looking back at fiscal 2017

Strengthen short- to medium-term growth potential

- ▶ Performance was underpinned by the rental housing, commercial facilities, and logistics, business and corporate facilities business that serve as our growth drivers, with the profit target for the final year of the plan being achieved despite being revised upward in May 2017.
- ▶ Of the ¥900 billion in investment planned for the three-year period, ¥688.1 billion was deployed in the first two years. Planned investment for the three-year period has been increased to ¥1 trillion.

Laying the groundwork for future growth

- ▶ Stanley-Martin Communities (USA) and Rawson Group (Australia) have become part of the Group.
- ▶ New "Livness" brand launched in anticipation of expansion in the renovation business to strengthen group-wide business structure.
- ▶ The accommodation business increased hotel openings in response to rising inbound tourism demand.

Adapting our management base to changes in the operating environment

- ▶ As working style reform, further promote labor environment improvements by increasing days off at construction sites and adopting "robot suits" at plants.
- ▶ Company recognized by the Nadeshiko Brand and Certified Health & Productivity Management Outstanding Organizations Recognition Program for its various human resource promotional activities and initiatives for better workplace environments.
- ▶ First company in the world from the construction and housing industry to join both the EP100 and RE100.

President Yoshii talks to a long-term institutional investor



into corporate performance through an ongoing process of trial and error and by being flexible in their thinking. I believe this approach is a strength of our Group that others are unable to replicate.

M&A decision-making criteria

Era I found myself in strong agreement when I saw you quoted on the subject of M&A decision-making, saying you place a high value on how well-matched an acquisition is in terms of its corporate philosophy and culture, including for overseas companies.

Yoshii The risk when seeking acquisitions overseas is that the amount of information available to each side is less than it is in Japan. Accordingly, we begin by looking closely at whether the target company can understand and relate to things like Daiwa House Group’s history of resolving social issues and our product portfolio, production infrastructure, and relationship with our owners. In the next place, whether the target company set a high value on customers. Having compatible corporate philosophies and valuing one’s customers: these are two truly crucial criteria when it comes to making M&A decisions. Beyond that, looking at the products they produce, houses for example, tells a story about that company’s attitudes. These are things that are not reflected in the numbers but show themselves in what they produce.

Management base

Technology and manufacturing base and streamlined comprehensive group capabilities

Era As your sales increase outside Japan, I imagine your overseas brand presence is also growing apace.

Yoshii While this remains something for the future, one market where I believe our brand and our capabilities are showing their worth is in China. The high quality made possible by our strong

technology and manufacturing base has received a positive response in China. We are also diligent in how we go about after-sales service. I believe the reputation for quality that our Group has achieved in that market is because, if a problem does arise, we stand by our guarantee and persevere until it is fully resolved.

Era So your technology and manufacturing base is proving a strength overseas as well as in Japan?

Yoshii That’s right. If we can convince customers that our strength lies in our high quality, further business growth should follow. We already operate overseas businesses in Southeast Asia, America, and Australia, and we intend to use our manufacturing capabilities as a selling point in these countries also. Another crucial strength is our comprehensive business proposal capability. This ability to make start-to-finish proposals that extend from infrastructure to urban development represents a major advantage for us, overseas as well as in Japan. Drawing on experience from our work Japan, we intend to continue offering this extensive range of solutions to customer requirements.

Era Are you taking steps to establish the capabilities needed to win more orders?

Yoshii We are. This means each group company fulfilling its appropriate role. Daiwa House itself, after all, is only one part of the wider group. We need to maintain a spirit of friendly rivalry within the Group. I believe it is important that we keep the pressure on and compete on the basis of flat and fair interrelationships.

Era Taken too far, that could result in a state of “friends becoming enemies”.

Yoshii Because we have established internal systems that allow us to look at our organization from vertical, horizontal, and diagonal perspectives, I believe the risk of that happening is low. In terms of the exchange of personnel between groups, while this does happen when the need arises, in general staff rise within the company where they got their start.

Human resources base and Daiwa House Juku

Era You have your own “Daiwa House Juku” program to train staff with a managerial outlook, and I understand you have also recently added a training facility for technology management?

Yoshii That’s right. The Daiwa House Juku was established in fiscal

2008 to train the Group’s next generation of managers, and this was followed in 2011 by the establishment of a facility for training staff in technology management. This has succeeded in attracting people with a high level of individuality.

Era I understand they all possess great fortitude.

Yoshii They do. That is because most of the staff who attend Daiwa House Juku see themselves as going on to become branch office managers. More than anything else, the training facility provides them with a great impetus, equipping them with new perspectives by showing them ideas and ways of thinking that they previously lacked.

Era So you intend to persevere with Daiwa House Juku?

Yoshii While the curriculum will need to change with the times, we certainly intend to keep the program operating. We are also sticking with initiatives aimed at building links across the Company, such as branch offices running small study groups that draw on resources from the Daiwa House Juku. Forging links between staff and between different branch offices may open up new possibilities. There have been an increasing number of instances in recent times where company-wide capabilities like these have been the deciding factor in business success.

Era Does Daiwa House Juku also teach the Company’s philosophy and history?

Yoshii Students at the Daiwa House Juku start by paying a visit to the grave of our founder and to the Nobuo Ishibashi Memorial Museum. In other words, it all starts from a thorough study of company history.

Era Rejuvenation is an issue common to many companies, and I expect an increasing number of your staff never had the opportunity to speak to your founder in person?

Yoshii That’s true. While we still have some staff who have met our founder and heard him speak, there are few left who have spoken with him directly and received the benefit of his advice.

Era In which case, your chairman, Takeo Higuchi, would be the one who has taken over that spokesman role?

Yoshii Yes. He presents our founder’s thinking in practical terms through case studies and examples.



What is meant by sowing seeds for the future?

Era Can you tell me the background to the expression, *Asu Fukaketsuno* (Indispensable for Tomorrow)?

Yoshii This was a word devised by our chairman. It expresses the idea of using our business to take on those things that will be vital to the society of tomorrow. He wanted to use manufacturing for the benefit of the world by considering what it is that the people in particular nations or communities are seeking. I believe this is the idea that the expression embodies.

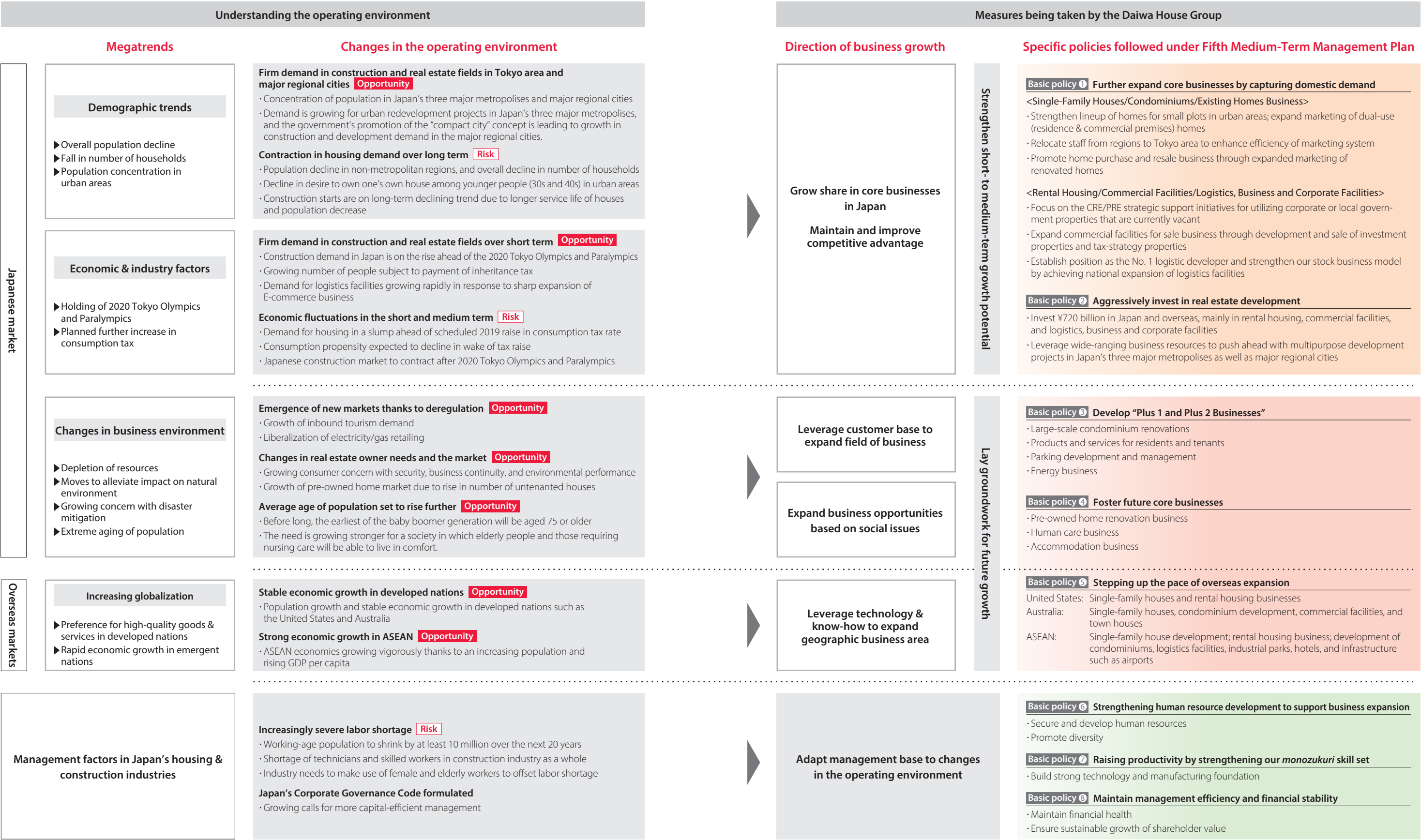
Era Finally, can you please tell me where you are looking to sow the seeds for the future and the reaction to this.

Yoshii Daiwa House Group as a whole aims to offer start-to-finish services and we are also laying the foundations for ongoing expansion. While keeping to our current path, we are also continuing to sow seeds in related areas. By drawing on the comprehensive capabilities of our Group companies, business partners, and subcontractors, we intend to continue growing with a view to the long term.

Era Thank you very much for sharing your valuable words with me today.

Changes in the Operating Environment—Opportunities and Risks

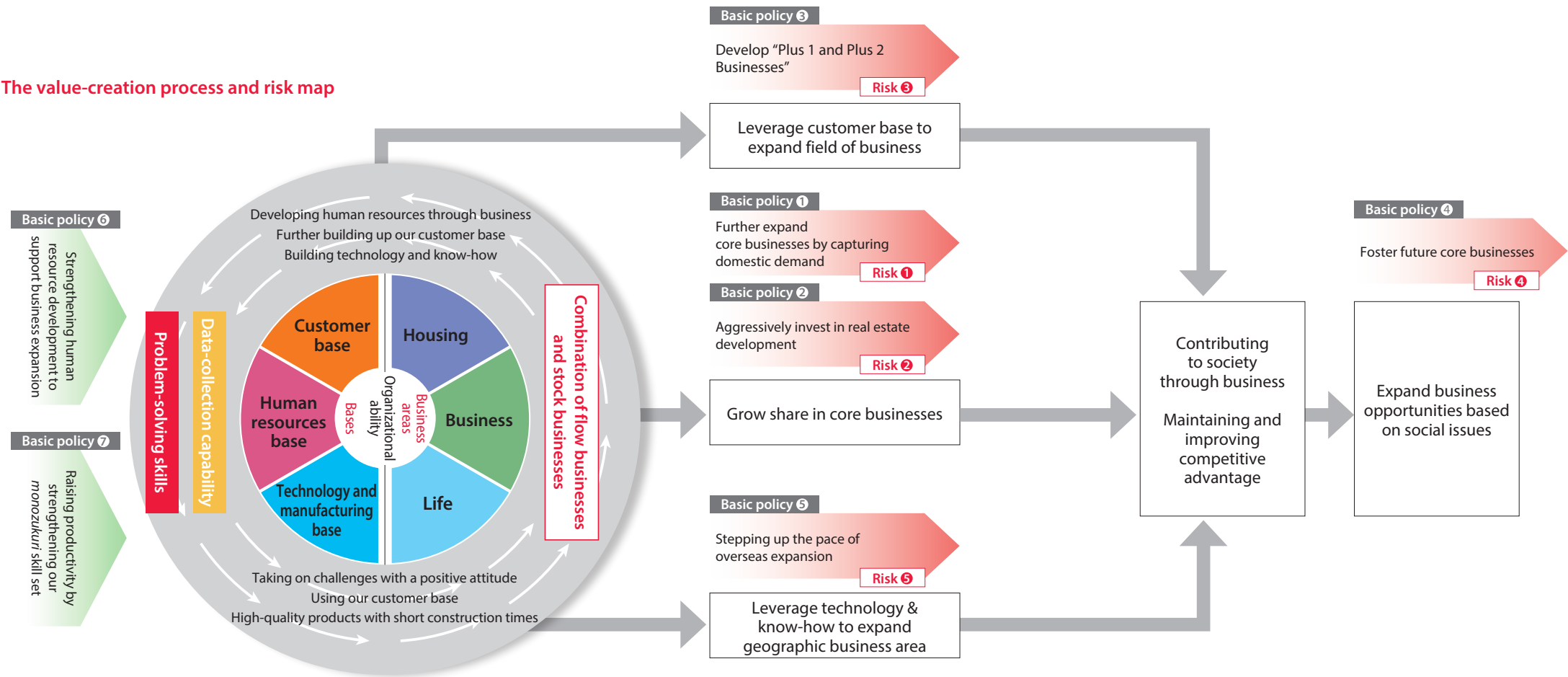
In the drafting of our Fifth Medium-Term Management Plan, we have recognized the existence of a number of external factors that may affect the Group's business performance (as shown in the table below) and have drawn up various specific measures to facilitate business growth. Additionally, on the following page (P. 34) we list the issues that need to be dealt with in relation to the eight basic policies shown.



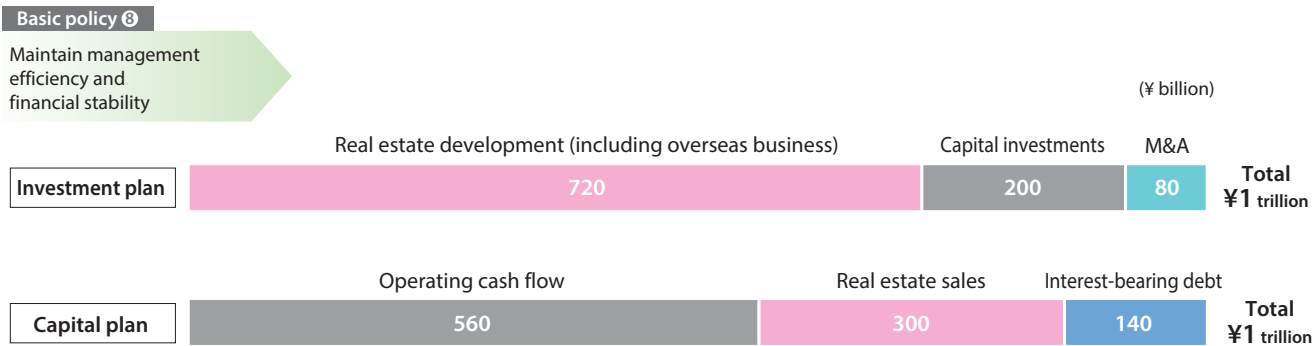
Basic Policies of the Fifth Medium-Term Management Plan, and Issues to be Addressed

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. The principal risks (issues to be addressed) that may materialize during or after the implementation of these basic policies, are outlined below. While matters relating to the future are included in this page, they are limited to those for which decisions had been taken as of July 31, 2018. Additionally, matters that may possibly affect the Group's business operations as a whole and its management base include risks stemming from natural disasters, statutory regulations, and increases in the costs and/or prices of raw or processed materials, as well as increases in payroll costs, among other factors.

The value-creation process and risk map



Investment plan & capital plan



P.54 (Progress of investment plan)

Issues to be addressed

Risk 1 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 houses business

P.39-48 (Features and strengths of core businesses)

Risk 2 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.87 (Investments in Real Estate Development and Risk Management)

Risk 3 **Risk 4** 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 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.

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.49-50 (Other Businesses)

Risk 5 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 or mergers with local business partners whom we trust and who share our business philosophy, or we acquire such companies, 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.51-52 (Overseas Business)

Business Overview



	Single-Family Houses	Rental Housing	Condominiums	Existing Homes 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 multi-faceted 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	<div>▶ Number of houses sold</div> <div>Single-family houses (contracting) 6,907</div> <div>Single-family houses (subdivision) 2,320</div>	<div>▶ Number of rental housing units sold</div> <div>Rental housing (low-rise) 37,355</div> <div>Rental housing (medium- to high-rise) 2,899</div> <div>▶ Units under management 543,124</div>	<div>▶ Condominium units sold (including Cosmos Initia) 2,718</div> <div>▶ Units under management 353,026</div>	<div>▶ Number of renovations 49,721^{*4}</div> <div>▶ Number of staff in sales 936^{*4}</div>	<div>▶ Number of constructions 42,441^{*5}</div> <div>(cumulative figures as of March 31, 2018)</div> <div>▶ Leasing floorspace of sublease areas within commercial facilities 6,157,287 m²</div>	<div>▶ Development site area of logistics projects 8,207,537 m²</div> <div>(cumulative figures as of March 31, 2018)</div> <div>▶ Orders received for contract-based medical and nursing care facilities 574^{*6}</div>	<div>▶ Number of customers Approx. 28,526,000</div> <div>▶ Guest stays at our hotels Approx. 8,337,000</div> <div>▶ Number of guests at our sport clubs 188,696</div>
	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	Business and city hotels

Breakdown of principal figures for our businesses in FY2017 (YoY change)

Net sales ^{*1} (¥ billion)	385.3 (1.3% ↘)	1,030.8 (5.5% ↗)	285.0 (8.4% ↗)	112.1 (6.2% ↗)	620.8 (9.0% ↗)	850.2 (2.6% ↗)	637.1 (24.1% ↗)
Operating income ^{*1} (¥ billion)	21.5 (11.8% ↗)	106.6 (13.1% ↗)	13.3 (0.8% ↘)	13.2 (1.1% ↗)	114.1 (13.3% ↗)	88.9 (12.6% ↗)	23.0 (36.5% ↗)
Operating income margin ^{*1} (%)	5.6 (0.7pt ↗)	10.3 (0.7pt ↗)	4.7 (0.4pt ↘)	11.8 (0.6pt ↘)	18.4 (0.7pt ↗)	10.5 (1.0pt ↗)	3.6 (0.3pt ↗)
Number of employees ^{*2}	4,650 (0.1% ↗)	6,812 (10.1% ↗)	5,632 (11.0% ↗)	2,427 (3.0% ↗)	4,917 (0.6% ↘)	6,525 (4.9% ↗)	10,716 (11.9% ↗)
Capital investments ^{*1} (¥ million)	7,594 (10.8% ↗)	30,025 (20.0% ↘)	5,091 (17.7% ↘)	143 (2.3% ↘)	58,455 (5.3% ↘)	131,180 (20.1% ↘)	52,299 (17.0% ↘)
Contribution to CO ₂ reduction ^{*3} (10,000 t-CO ₂)	33.5 (3.5% ↘)	45.9 (1.7% ↘)	9.2 (48.9% ↘)	18.4 (12.8% ↘)	126.9 (26.6% ↗)	107.2 (0.9% ↘)	173.2 (3.7% ↗)

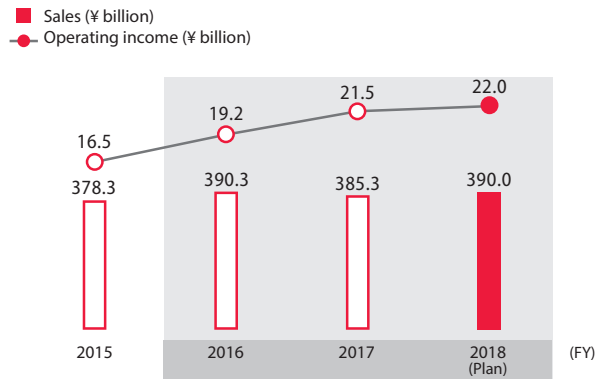
^{*1} Figures include intersegment transactions.
^{*2} Regular employees only
^{*3} These figures indicate the degree of contribution to reduction in CO₂ emissions made by the Group through its construction of housing and other structures and its solutions to issues involving energy conservation and renewable energy. (For details concerning the basis on which these figures have been calculated, see the Group's Sustainability Report 2018, P198).
^{*4} Figures for Daiwa House Reform only (as of April 1, 2018)
^{*5} Number of facilities constructed by the commercial facilities of Daiwa House Industry (non-consolidated).
^{*6} Total for Daiwa House Industry (non-consolidated), Daiwa Lease, and Fujita



Single-Family Houses

Domestic share of single-family housing starts (FY2017) **2.45%**
(Contracting business only)

Sales/Operating income



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 610,000 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 houses 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. Furthermore, sales, architects, construction engineers, and other specialist staff provide customers with close support through all steps until the work is complete.

Strategy progress

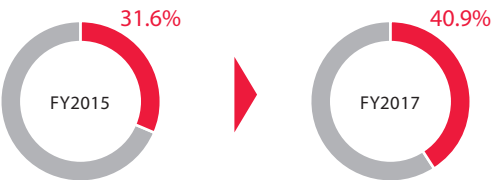
Business developments in fiscal 2017

Although sales for fiscal 2017 were slightly lower, higher margins meant that profit increased, driven by factors that included a shift in focus to our xevoΣ (xevo sigma) single-family houses that increased the per-house price and progress on cost reduction through production efficiencies and other gains. We also focused on sales of our “skye” houses available in 3-, 4-, and 5-story models in which a portion of the home can be rented out to a tenant or used as retail premises by the owner. To meet the needs of customers who place a high value on design and specifications, we also started our PREMIUM GranWood project for top-quality, fully customized wooden construction houses.



xevoΣ (xevo sigma)

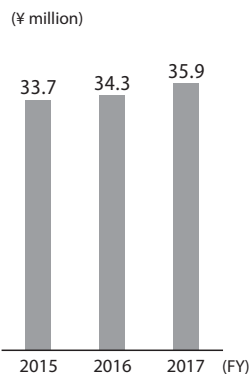
xevoΣ ratio growth (based on units ordered)



Two initiatives aimed at addressing social issues were the “Kaji Share House” (chore-sharing house) for households where both partners work and the sale of the new D’s box delivery boxes that cut down on deliveries not being completed due to nobody being home.

Looking to overcome the challenges of future living spaces, the “Daiwa Connect Project” that aims to provide people with high levels of convenience and enrichment by linking various electrical and other household appliances has been making progress on bringing the IoT to single-family houses, with a first step being the exhibition of show homes equipped with products such as Google Home smart speakers.

Sales for single-family houses per unit



Delivery boxes (reduces missed deliveries due to nobody home)



Daiwa Connect (featuring AI and IoT)

Business developments in fiscal 2018

Along with sales of our xevoΣ and skye houses, we are also focusing on improving the marketing of homes able to be partly rented out. We are also pursuing cost reductions and strengthening our product range, while also seeking to improve customer satisfaction and increase market share by offering lifestyle options to our customers that address social issues.



Deputy Head of Marketing Division
Head of Housing

Hirotosugu Otomo
Director and Managing Executive Officer

Solving social problems through business and value creation

Preserving social infrastructure

Having honed its advanced technology as a pioneer of industrialized housing, Daiwa House’s single-family houses business supplies infrastructure essential to people’s wellbeing, namely the shelter that, along with food and clothing, forms one of the three necessities of life. Despite the shrinking population and falling number of new housing starts in Japan, ways of living that are safe, secure, comfortable, and enriching are still in strong demand. This means that Daiwa House, with its accumulated technology, still has a job to do and we intend to continue working through our business to maintain the infrastructure of society.

Feedback leads to innovative product development

The issues confronting society change over time. The problems we face now may well be resolved in a decade’s time, with new ones arising in their place. Our founder used to tell staff that products go to their grave after three years. The attitude of not being held back by existing products and instead seeking to take on the challenge of delivering new value remains well embedded in the Company.

Daiwa House Industry generates value through coordination between head office and our branches and offices. One of the roles of the head office, for example, is to respond to national or ministerial initiatives such as net Zero Energy Houses (ZEHs)*1. Branches and offices, meanwhile, have the role of paying careful attention to needs specific to their communities and feeding this through to new product development. One example is the “Kaji Share House” (chore-sharing house) from the Toyama office. For historical and other reasons, Fukui and Toyama prefectures have long had a high participation rate for women in paid employment. This led to some of the female staff at the office getting together on a project for creating houses that resolve housework concerns. The result was the “Kaji Share House” concept whereby the members of the household share the housework. The idea drew an immediate response from around the country, leading to the head office making some enhancements to the product and then launching it nationwide. By paying attention to what people are saying and picking up on broader trends, we intend to continue looking for ways to address social issues through products that deliver value in new ways.

*1 The Ministry of Economy, Trade and Industry; Ministry of Land, Infrastructure, Transport and Tourism; and Ministry of the Environment are jointly working on creating houses that aim to achieve net zero use of primary energy sources over the course of a year by adopting renewable energy while also making large energy savings without compromising the indoor environment. This is to be achieved through the use of efficient appliance systems as well as significant improvements in areas like the insulation performance of exterior cladding.

Strengths that underpin value creation

Three bases

Human resources base:

Bottom-up approach to human resources development

It is human resources who create value. As it is the time put in by the people in the workplace, together with customers, that gets houses built, the growth of individual employees leads to more satisfied customers. While specialist knowledge is important, a key feature of human resource development is that it happens from the bottom up. The aim is to grow by expressly addressing the workplace and talking to the people who work there to identify the challenges and then overcome them.

Customer base:

Strengthening purchase and resale business

Daiwa House Industry has established the capabilities to meet diverse needs without losing contact with owners after their house is handed over. This includes AQ ASSET, which supports owners from construction through to maintenance and resale, and Fureai no Kai, a club that aims to maintain friendships between owners and our staff.

We have also launched “Livness” as a new group-wide brand and are strengthening our purchase and resale business that purchases homes and renovates them before resale in ways that suit customer circumstances. Japan has a problem of empty houses that is a consequence of the aging population and low birth rate. The intention is to treat this as a means to create business opportunities.

Technology and manufacturing base:

Zero-energy houses

Government policy is driving higher the standard of environmental performance demanded from houses, with the requirement being for houses that can be lived in for 50 to 100 years. Along with seismic performance, we can also expect rising demand for self-sustaining houses capable of energy self-sufficiency. By using photovoltaic power generation and lithium-ion storage batteries in houses with excellent thermal insulation, houses are now being developed that do not depend on external energy supplies and have zero CO₂ emissions. Progress is also being made on labor-saving and efficiency measures to deal with workforce shortages, with greater use being made of PC*2 foundations. We also intend to keep pushing ahead with technical innovations for addressing the issues facing society, having offered houses that utilize AI and the IoT since January 2017.

*2 This is a construction technique in which key structural elements of the house are fabricated at a factory as precast concrete (PC) and transported to the site for installation.

Kaji Share House



Personal locker



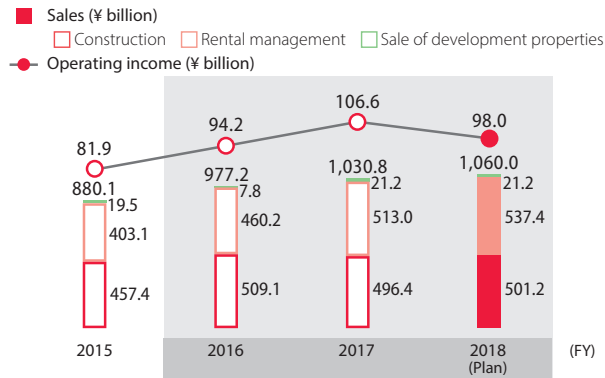
Convenient book shelving



Rental Housing

Domestic share of rental housing starts (FY2017) **9.80%**
(Houses for rent only)

Sales/Operating income



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 construction business, we have an extensive range of products for the increasingly diverse rental housing sector, including rental housing with advanced security features, elderly-friendly housing, and medium- to high-rise rental housing that utilize real estate securitization scheme. Likewise, the rental housing management business provides owners with reliable property management and helps residents live in comfort. The number of properties under management by the Group at the end of fiscal 2017 was more than 540,000, with a high occupancy rate of 97.3%.



Head of Rental Apartment Building

Fukujiro Hori
Director and Senior Managing Executive Officer

Customer base:
Maintaining relationships with landowners

As close relationships with landowners are vital to this business, 93 owner clubs around the country are attempting to improve day-to-day interaction. About 40% of new orders come from existing owners. To ensure that nothing interferes with our relationships with owners, we are expanding the scope of our activities aimed at strengthening these, including “Junior Club” for families inheriting property and national club for female owners.

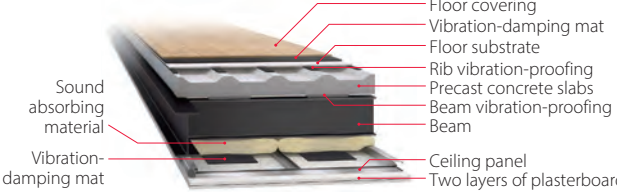
Technology and manufacturing base:
Building technical skills through trial and error

The problem of noise from neighboring properties, especially impulse noise from the floor above or below, has been identified in questionnaires and other feedback as being an important concern for many rental housing tenants. To deal with this, we developed Silent Hybrid Slab 50*, a product that combines lightweight steel-beam structure with precast concrete floor panels, and have been using it in rental housing since October 2012 with positive feedback from tenants.

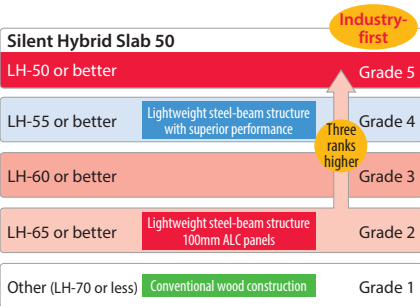
In March 2018, Daiwa House Industry became the first housing manufacturer to obtain Grade 5 special evaluation method accreditation** from the Minister of Land, Infrastructure, Transport and Tourism (the highest possible grade, equivalent to LH-50 grade) in relation to countermeasures against “heavy-weight floor impact sound” based on Japan’s Housing Quality Assurance Act.

We will continue developing technology to supply high-quality rental housing to our customers.

Silent Hybrid Slab 50



Soundproofing against heavy-weight floor impact sound based on Quality Assurance Act
Three ranks higher means only one-third as much sound is audible.



*1 Jointly developed and joint certification acquired with M-Tec Co., Ltd. Further improved and certified following initial launch.

*2 Under the Japanese housing performance indication system, evaluation of indicated performance is carried out according to the official Evaluation Method Standards, but for the evaluation of housing employing special structures, which are not covered by the Evaluation Method Standards, certification is conducted by MLIT on a case-by-case basis as an exception to the normal evaluation procedure. Regarding countermeasures against “heavy-weight floor impact sound,” the Evaluation Method Standards assume a ferroconcrete structure, and as there are no performance evaluation standards for the boundary floor separating the housing units above and below used in our lightweight steel-frame structures, we were issued with certification under a special evaluation method.

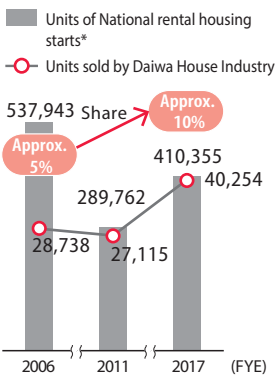
Strategy progress

Business developments in fiscal 2017

Although new housing starts for rental properties in fiscal 2017 declined for the first time in three years, the Company took steps to acquire an expanded volume of orders for large-scale projects, including strengthening our efforts in three-story as well as medium- to high-rise rental housing properties, while also focusing on the CRE/PRE strategic support initiatives for utilizing corporate or local government properties that are currently vacant. Meanwhile, in another initiative intended to address social issues, we are undertaking hotel developments to provide accommodation facilities and services in response to growing inbound tourism demand.

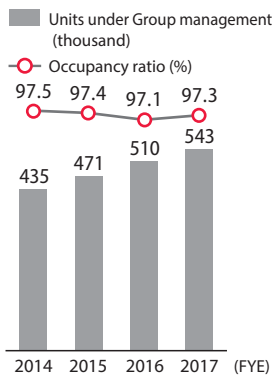
By offering a wide variety of services to meet tenants’ diverse lifestyle preferences, we were able once again to maintain high occupancy rates. These included the addition of three new forms of content to the D-room+ Optional Services package that Daiwa Living supplies to rental housing tenants and which includes an e-book service and movie choice service. We also developed a number of new products for tenants, including the launch of SEJOUR DD-1, a built-for-sale house that is designed to allow subletting and that comes with an attached dog house.

National rental housing starts and Daiwa House Industry sales



* Source: National housing starts (MLIT)

Rental Housing units under Group management/ Occupancy ratio



Medium- to high-rise rental housing



Multi-function rental housing



Staff dormitories, company housing, official residence

Business developments in fiscal 2018

While concerns about oversupply are increasing in the rental housing market, we aim at increasing orders and maintaining and improving occupancy rates through ongoing new product development and by offering a comprehensive range of services to tenants in this business. We are also working to expand the business through extensive product variations that include medium- to high-rise rental housing and hotel developments.

Solving social problems through business and value creation

Product development from a tenant’s perspective

The Group’s Rental Housing Business operates at a high level, with 540,000 properties under management and an occupancy rate of 97.3%.

Behind this consistently high occupancy rate is our ability to develop satisfying products and services by always looking at things from a tenant’s perspective. For example, both owners and tenants have expressed satisfaction with our rental housing that led the industry by providing advanced security features as standard, a product developed with women in mind and for which we have achieved a total of 250,000 contracts to date. Despite the fall in the number of households due to an aging population and low birthrate, we are seeking to expand our business by keeping up with changing times and building rental housing with high added value that delights tenants.

Passing on “corporate DNA” to reach ¥10 trillion in annual sales

Even as relationships with customers, the nature of our business, and our staff all change with the passage of time, the philosophies of Nobuo Ishibashi, our founder, remain as the “corporate DNA” of Daiwa House and we are conscious of their living on in us. While this business achieved its target of ¥1 trillion in sales for fiscal 2017, this remains just another step on the road to our goal of ¥10 trillion in Group sales by the 100th anniversary of our establishment. In the future, we intend to continue taking a customer’s perspective to our work in the Rental Housing Business, always keeping in mind our founder’s motto of, “Don’t do things because they will make a profit, but because they will be of service to society.”

Strengths that underpin value creation

Three bases

Human resources base:

Using award programs to boost motivation and workforce capabilities

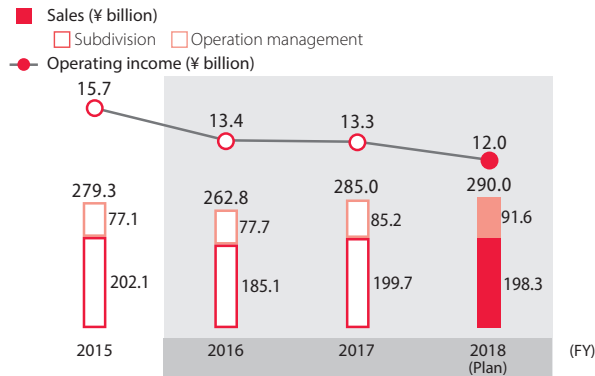
The Rental Housing Business operates award programs for sales staff. One of these is the Meister awards that recognize sales staff who make more than a certain level of sales. It helps keep staff motivated, with recipients being indicated by a star on their business card. The business takes an active approach to human resource development that draws on a wide variety of ideas, such as training for managers who provide support for sales that takes hints from “Moshidora”, a best-selling novel about a Japanese baseball girl who reads Peter Drucker’s classic text, Management.

Business Overview



Condominiums

Sales/Operating income



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 197,000.

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, 2018 topped 350,000 for the entire Group, putting us in the No.5 position among condominium management companies in Japan.

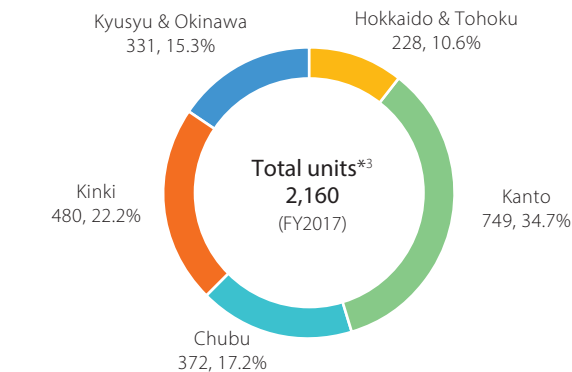
Strategy progress

Business developments in fiscal 2017

Although new housing starts for condominiums declined for the second year running in fiscal 2017, the Company has focused on supplying condominiums with high added value in the metropolitan area and regional cities. The PREMIST Shonan Tsujido condominium project (Kanagawa Pref.)*1 was well-received for its convenient location and its smart wellness service that uses IoT technology and AI, with all 120 units put up for sale in Phase 1 being snapped up on the first day. New ventures by Cosmos Initia included the launch of VALUE AI, a first property future-value estimation service employing AI targeted at owners

*1 A joint project among Daiwa House Industry Co., Ltd., Kanagawa Chuo Kotsu Co., Ltd., and Haseko Corporation

Condominium units for sales by area*2



*2 Daiwa House Industry (non-consolidated)

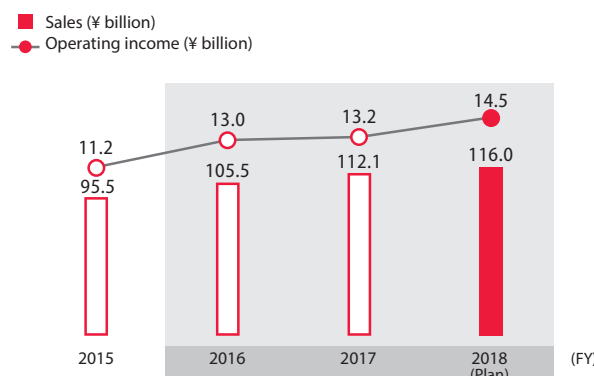
*3 Units of joint development are divided based on equities invested.

Business developments in fiscal 2018

Along with our past focus on metropolitan areas, we are also looking to better serve the Kinki area. We are also seeking to expand our business by supplying products and services for diverse market needs, such as condominiums for active seniors, and by drawing on the capabilities of the Group to better equip ourselves to engage in projects such as multi-use developments.

Existing Homes Business

Sales/Operating income



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 Homes 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. We are also working to expand our business lines, including starting to offer proposals for the renovation and maintenance of corporate-owned properties.

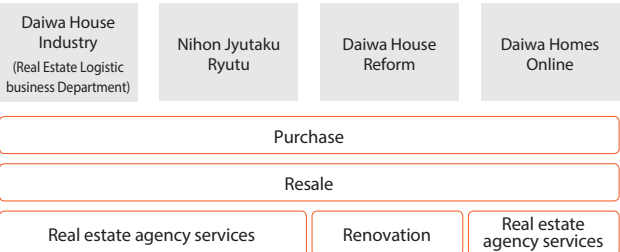
In another initiative to expand our Existing Homes Business, we have also started up a business in which we purchase existing housing, which we then renovate—including the addition of up-to-date equipment to add value—and sell on the general market.

Strategy progress

Business developments in fiscal 2017

Based on a government plan for residential living and with the aim of rejuvenating the market for housing stock, we have introduced "Livness" as a new group-wide brand. This involves consolidating information about the housing stock businesses operated by different group companies and taking full advantage of the resources of the Group, which include a nationwide network of sales offices, expertise as a real estate intermediary, and inspection and renovation skills, to supply a comprehensive one-stop service that suits customers' circumstances. We are also marketing lifestyle options specifically for Livness-branded houses, including a guarantee of up to 10 years based on a review of building foundation and structure, and the "Kaji Share House" and "Shimaigokochi Easy Cloak" for households where both partners work that utilize know-how drawn from new-build houses.

Daiwa House Group brand "Livness" offers home relocation services



Example renovation



Before



After

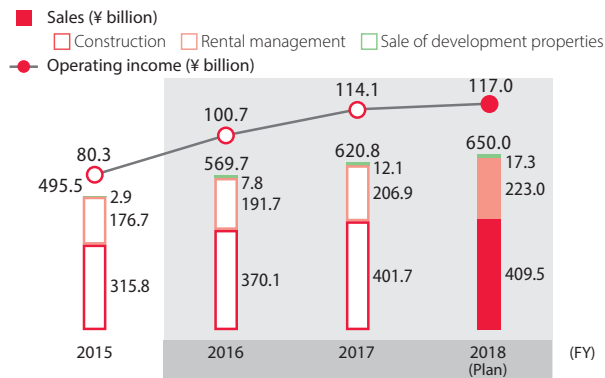
Business developments in fiscal 2018

Along with strengthening marketing of our renovation and house purchase and resale operations to increase awareness of the new "Livness" brand, we are also seeking to win more orders through better marketing of inspection and renovation for corporate properties such as offices and warehouses.



Commercial Facilities

Sales/Operating income



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.

Strategy progress

Business developments in fiscal 2017

We improved our financial results by making facility-opening proposals that match the business strategies of corporate tenants, as well as a wide variety of proposals that made optimal use of the unique characteristics of each region, while also actively engaging in development projects for a variety of uses in the non-retail sector. The proportion of non-retail contracts exceeded 60% in fiscal 2017, with the average contract value per building exceeding ¥300 million.

We also sought to expand the scope of our business by focusing on development in urban areas as well as large-scale projects.

We also operate large shopping centers and other commercial facilities around Japan as a complete package covering everything from planning through development and construction to leasing, management and day-to-day operation. The total leasing floor space of sublease areas within commercial facilities was 6.15 million m² with an occupancy of 99% as of the end of fiscal 2017.

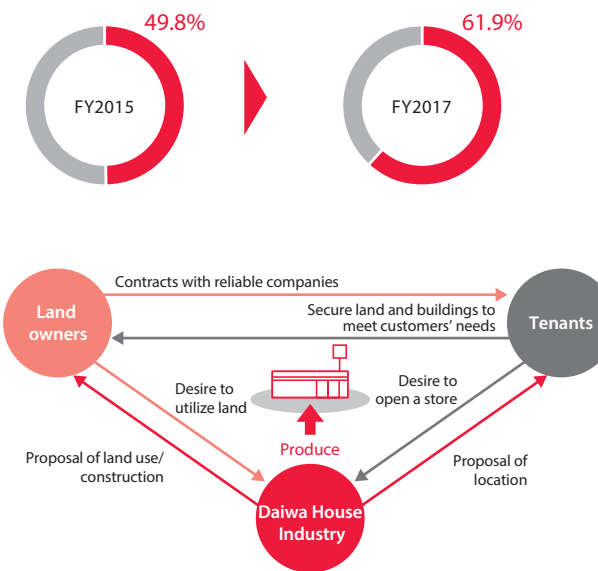
LOC System

LOC System involves approximately 700 sales staff at 73 offices around Japan who understand the need of around 48,000 landowners and more than 4,000 corporate tenants. The operational division includes an owner support group that helps deal with owners and a LOC promotion group and large promotion group that respond to tenant needs with consideration for nationwide operations. The operational division and the offices and branches work together in an organizational structure that can respond appropriately to their respective needs.

Business developments in fiscal 2018

In the future, we intend to expand our business through involvement in non-retail development projects for a variety of different uses while also continuing our work aimed at larger buildings and offering a wider range of variations to corporate tenants that take advantage of the unique characteristics of each region.

Ratio of contracts in the non-retail sector (based on contract amount)



Head of Commercial Construction

Keisuke Shimonishi
Director and
Managing Executive Officer

Solving social problems through business and value creation

Businesses attuned to the needs of their time

The Commercial Facilities Business was launched in 1977 at a time when use of automobiles was growing at a rapid pace. The business included involvement in family restaurants as well as car parts and other retail projects along major suburban thoroughfares, and sought to bring towns to life by building the retail outlets that customers require on major intercity highways to encourage more people to travel. In keeping with the needs of our time, retail construction represents about 40% of the business, with expansion in the construction of buildings such as hotel or residential facilities that include retail stores, nursing care facilities to cope with the aging population, child care facilities to reduce waiting lists, and logistics centers to cope with growth in e-commerce. The ability to offer land and building options that are appropriate to satisfy the business plans of corporate tenants is becoming increasingly important. To meet the needs of society, we hope to continue matching landowners with corporate tenants based on the timely recognition of what makes each community different.



DOMEAL CITY Monzen-Nakacho
Rental housing with store



DAIWA ROYAL HOTEL GRANDE KYOTO

Strengths that underpin value creation

Three bases

Human resources base:

Self-improvement and extensive delegation

Our strong relationships with customers have been fostered by assessing land for ourselves and by taking a bottom-up approach to training that focuses on the workplace. While this may seem inefficient at first glance, opportunities to come into contact with customers translate into major advantages. The commercial facilities business makes a point of sending new recruits out into the field at the earliest opportunity to experience the environment for themselves with support from supervisors and other more senior colleagues. Moreover, we believe that what matters more than anything else in staff development is to create an atmosphere in which staff are motivated to learn for themselves. To achieve this, it is also important that supervisors and other more senior colleagues try to be good role models and actively delegate responsibilities. Training people in the workplace is a strength of Daiwa House Group and we intend that it should remain part of our corporate DNA.

Customer base:

Maintaining sound relationships

Among our strengths are the experience and the depth of relationships with customers that we have built up through 42 years of using the LOC System. We have dealt with more than 4,000 corporate tenants to date, all of whom have their own speed and scale for the opening of new stores. A distinctive feature of the Daiwa House Group is how our nationwide network allows us to work with the speed and scale that the customer requires.

Another key strength is our local sales staff spread across 47 prefectures in Japan who meet with landowners in person to get a feel for their needs. Our work does not end with the construction of a store. Rather it extends on to include rent reviews during the period of the lease and consultation on what to do with the land after the lease expires. The longstanding relationships built up though this work are a key strength for the Group and serve as a wellspring for value creation.

As the nature of the business means that much time elapses between first meeting a customer and the signing of the lease, staff are regularly meeting new customers. We intend to continue anticipating customer needs and participating in the growth of the Group with a focus on times ahead.

Technology and manufacturing base:

Using technical capabilities as a base to engage in a wider variety of projects

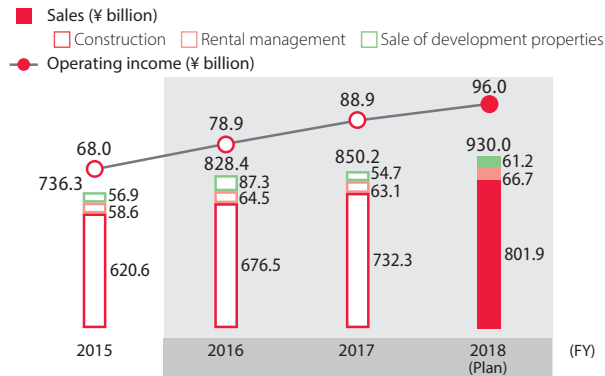
In this time of major advances in technology, safety remains the top priority at the workplace. While our activities extend beyond retail stores to also include hotels, rental housing, nursing care facilities, hospitals and other such projects, it is only because of our underlying technical capabilities that we are able to involve ourselves in such diverse construction work. These technical capabilities built up over many years are a key strength of the Group. Likewise, our longstanding relationships with partner companies, some of which date back more than 50 years, provide advantages that are difficult to replicate. We believe this ability to maintain partnerships over such a long period to be a sign of the trust people have in the company, and that maintaining these relationships will be essential to our future growth.

Business Overview



Logistics, Business and Corporate Facilities

Sales/Operating income



Features and strengths of our business operations

Proposal-based solutions leveraging customer relationships

In the field of Logistics, Business and Corporate Facilities, we are expanding our business by making use of our extensive database on land usage to meet the needs of corporate clients by providing total support for managing construction projects and making full use of assets. 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, and factories. In all cases, our business is driven by proposal-based solutions that optimally leverage our long-term relationships with customers.



Solving social problems through business and value creation
Support for international supply chain development

We are expanding our business both in Japan and overseas, making use of our extensive database on land usage to meet the needs of corporate clients by managing the construction of a variety of different facilities. Manufacturing has undergone structural changes in recent years, with a rising proportion of production occurring overseas. We intend to support the globalization of domestic and international supply chains to enable the further development of Japanese companies.

The food self-sufficiency rate of Japan is on a downward trend, with shrinking workforces in the agriculture, forestry, and fisheries sectors. This means that maintaining the “cold chain” for the transportation of chilled and frozen food, mainly from Asia, is a pressing issue for modern-day Japan where much food is imported. Through a focus on the international cold chain and management of food quality and freshness, the business is actively supporting Japanese companies operating both locally and overseas, working on the development of both room-temperature and chilled distribution facilities in four different countries, including Thailand and Malaysia as well as the industrial park developments in Vietnam and Indonesia.

Employment creation through land utilization

The fall in population from Japan’s aging demographics and low birthrate is being accompanied by an increasing amount of agricultural land that is no longer producing. The business is contributing to regional employment creation by building logistics facilities utilizing land where special procedures are needed for repurposing. We are also creating value by helping to resolve many of the problems facing Japan, including the development of multipurpose facilities that combine R&D with offices as well as research facilities for regenerative and cellular medicine in National Strategic Special Zones, and also through “compact city” initiatives in the regions.

Putting group-wide resources to good use

One of the strengths of Daiwa House Industry is its ability to operate diverse businesses in collaboration with Group companies. Joint developments with Fujita have been on the rise lately and it is our intention to achieve synergies by making even better use of the strengths of each Group company.

Strengths that underpin value creation

Three bases

- Human resources base:
Spreading a bottom-up approach and positive attitude

Human resources are the key to corporate growth. We need to be of benefit to society and to deliver value to the world around us by staff using the Company as a pathway for realizing their dream of becoming the person they want to be and the Company growing through the growth of its staff. Just as the Company has set a goal of ¥10 trillion in sales by the 100th anniversary of its establishment, we also want staff to set high goals for themselves. Our corporate DNA is based on a bottom-up approach and positive attitude. We want our staff to share our corporate value of believing we have more to fear from not striving to achieve our goals.

- Customer base:
Rapid identification of customer needs

Relationships with business partners and personal relationships in and out of the Company are vital. There are times when working with partners is the only way to satisfy the needs of customers. Our relationships with customers have been built up over the many years since the Company was established, and the longer these relationship go on the better we understand what those customers need. Just as our business grew as a result of the pipe house that was our first ever product uncovering the latent needs of Japan Rail, our aim for the future is to go on cultivating relationships that will allow us to offer products that anticipate customer needs.

- Technology and manufacturing base:
Relentless improvement in quality, technology, and information capabilities

Technology and manufacturing are the most important underlying factors in supplying the best possible products. As expressed in our Employees’ Charter of striving to improve quality, technology, and information capabilities, we need to strive every day for improvement, not only manufacturing quality and service, but also extending to how we go about our work and the capabilities of our staff.

We are taking active steps to take account of the environment in construction work, and the YKK80 Building we worked on received a prize at the fiscal 2017 BCS Awards hosted by the Japan Federation of Construction Contractors. We have also received platinum certification under the LEED for Core & Shell building system developed and administered by the U.S. Green Building Council. Both awards were firsts for the Company. We were also early adopters of our own seismic isolators (DKB elastic sliding supports) and helped customers with business continuity after the Great East Japan Earthquake by getting distribution systems back up and running quickly.

In the future we intend to continue fulfilling this role of assisting with manufacturing and technical continuity by keeping up with the ever-changing needs of our time and the latest technologies.

Strategy progress

Business developments in fiscal 2017

In the field of logistics facilities, we commenced construction of new facilities at 19 sites around Japan. Daiwa LogiTech Inc. was established to oversee the other logistics-related companies within the Group with the aim of working on the development of next-generation logistics facilities with high added value to alleviate the industry’s labor shortages. The Company is working on implementing Intelligent Logistics Center, a next-generation logistics platform incorporating AI and the IoT, that integrating the solution with Frameworx Inc., which provides warehouse management systems; acca International Co., Ltd., a company with expertise in fulfillment support operations in the apparel industry; GROUND Inc., which has exclusive rights to distribute the Butler® Robotic Logistics System*; Hacobu Co., Ltd., which has vehicle management system; and others. The Company is also working with Mama Square Inc. on a new initiative to provide child care facilities in workplaces.

In our food-processing facilities business, in addition to running seminars for food manufacturers, we are also making ongoing improvements in our ability to make proposals for the construction of facilities

compliant with HACCP*2 standards, ahead of the mandatory introduction of the HACCP system.

Fujita enjoyed a steady inflow of orders in both the construction and civil engineering fields thanks to orders for large-scale projects. In the Japanese market, Fujita won orders for logistics facilities and infrastructure, among others. Overseas, it won orders for accommodations and automotive-related factories, among others.

*1 Butler® is a registered trademark of GROUND Inc.
*2 Hazard analysis and critical control points (HACCP) is an approach to hygiene management that seeks to ensure product safety by having food manufacturers identify the potential food contamination hazards (toxins or other foreign material) and use this as a basis for managing processes of particular importance for eliminating or minimizing these hazards across all steps from delivery of raw materials to product dispatch.

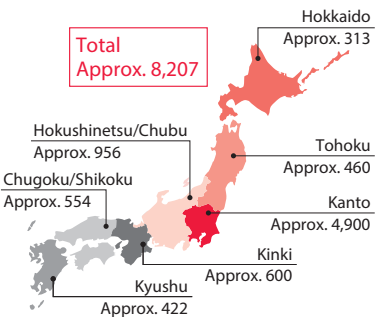


DPL Nagareyama (Chiba Pref.)
Multi-tenant type logistics facility



Child care facility for employees working
at logistics facility (Capital partnerships
with Mama Square Inc.)

Development site area of logistics projects*3
(thousand m²)



*3 Daiwa House Industry, non-consolidated
Figures are aggregates as of March 31, 2018
(incl. projects under construction and scheduled)

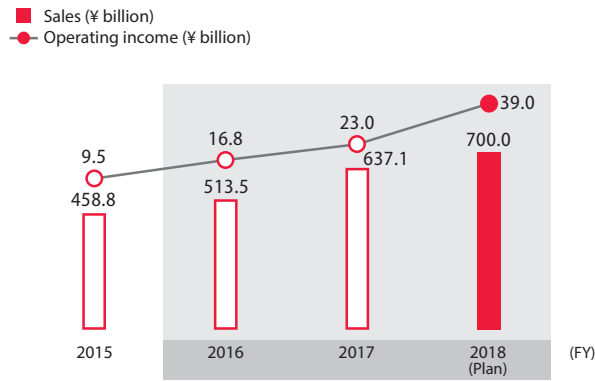
Business developments in fiscal 2018

In the field of logistics facilities, along with accelerating the development of both build-to-suit (BTS) and multi-tenant facilities, we are also working on the Intelligent Logistics Center that utilizes advanced technologies such as AI and the IoT to gain a competitive advantage by providing more advanced functions and efficiencies. We are also seeking to expand our business in the medical and nursing care facilities sector by improving our ability to supply large general hospitals as well as the nursing care facilities we have built in the past.



Other Businesses

Sales/Operating income



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 82 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 571 qualified interior coordinators—the largest such personnel roster in the industry—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 opened eco-friendly stores to serve the needs of the next generation.



Logistics business



Interior business



Home center business

Home center outlets

59 home centers

(as of March 31, 2018)

Environment and Energy

Working together, the Group offers comprehensive solutions

Daiwa House utilizes expertise in production, energy efficiency and storage and in the generation and retailing of electric power as well as the Group's construction technology and customer base to operate a solutions business for tackling the energy challenges faced by utilities, including the construction of small and large photovoltaic power plants. One of these is DREAM Solar, a one-stop service for photovoltaic power generation that draws on the comprehensive capabilities of the Group to cover construction, operation, and maintenance. Daiwa House is also taking advantage of the extensive liberalization of the electricity market to get involved in the sale of electric power as one of the new breed of power companies.

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

255.1 MW/**227** sites

(as of March 31, 2018)

* Total for 16 Group companies



Photovoltaic power generation business

Robotics Business

Targeting work style reform

With Japan's aging population and low birthrate set to continue shrinking the workforce, high hopes are being placed on "work style reforms" in the workplace. We are working on models for work style reform that use robotics, targeting both the medical and nursing care sector and the industrial and construction sector.

We are also using AI and IoT technologies to build urban safety nets with the aim of making our society one in which everyone can go about their lives with confidence.



Robot Suit HAL in use at medical and nursing care and industrial workplaces
©Prof. Sankai, University of Tsukuba / CYBERDYNE Inc.
HAL® is developed and manufactured by CYBERDYNE Inc.



Underfloor inspection robot "mooglee evo"

Business and City Hotels

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

The 46 Daiwa Roynet Hotels around Japan have high occupancy rates and high levels of repeat custom thanks to our striving to provide a high level of hospitality and to locate the hotels mainly at sites chosen for their proximity to major urban railway stations. We have also introduced new brands, among them La'gent Hotel and MIMARU, to suit a diverse variety of customers, including families and other groups as well as overseas travelers. In addition to developing new sites around Japan, our plans for the future include improving guest satisfaction and raising awareness of the hotel chain and the power of its brands.



Daiwa Roynet Hotels
(46 hotels)



Roynet
Sapporo



Osaka
Marubiru



La'gent Hotel/Stay
(3 hotels)

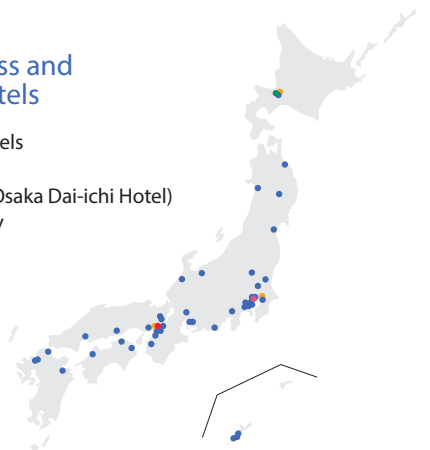


MIMARU

52 business and city hotels

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

(as of March 31, 2018)



Resort Hotels

Pursuing business opportunities and offering leisure activities

In our resort hotel business, we operate hotels in the DAIWA ROYAL HOTEL chain all across Japan, and Nishiwaki Royal Hotel (Hyogo Pref.). 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.



DAIWA ROYAL HOTEL



Daiwa Royal Golf



Nishiwaki Royal Hotel

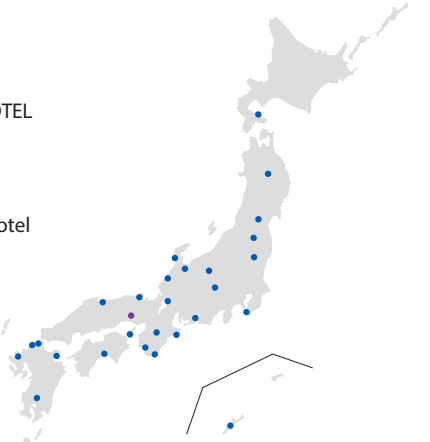
27 hotels

- DAIWA ROYAL HOTEL

1 hotel

- Nishiwaki Royal Hotel

(as of March 31, 2018)



Sports clubs

In response to the growing interest in sport, health, and beauty, we provide facilities that are enjoyed by people of many different age groups

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.

Fitness clubs & other facilities

68 fitness clubs

(as of March 31, 2018)

Aesthetic salons

27 aesthetic salons

Parking Systems

Contributing to regional communities through parking developments that combine convenience and high revenues

In addition to our work on D-Parking, a parking lot development that provides a good way to make use of real estate, we also operate the D-Share car sharing scheme that aims to provide convenient, trouble-free, and environmentally friendly access to vehicles.

Number of parking lots

53,375

(as of March 31, 2018)



Car parking business

Business Overview



Overseas Business

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

The Daiwa House Group's overseas business commenced in the 1960s, and we have now expanded our activities to 20 countries around the world, making optimum use of business resources built up over the years.

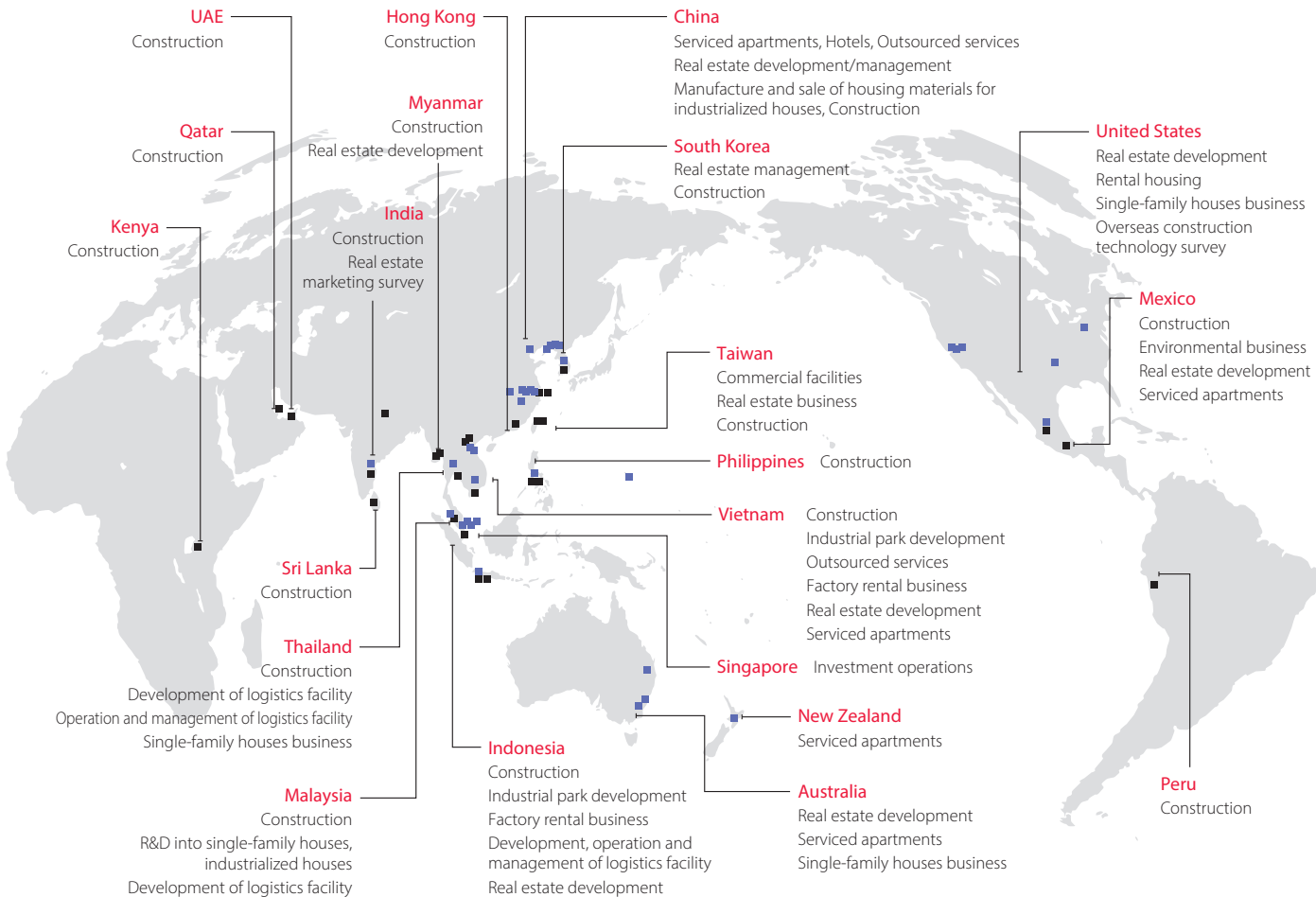
Under our Fifth Medium-Term Management Plan, one of our basic policies is to speed up the pace of overseas development. As a result, we have been expanding our overseas operations, particularly in the United States, Australia, and ASEAN. In the United States, we are principally involved in the rental housing business, while operating a single-family houses business as well. In Australia, we are developing condominiums, and we acquired Rawson Group in February 2018, a company engaged in single-family houses construction and other businesses. In rapidly growing ASEAN nations, we are supporting Japanese companies through projects that include industrial park, hotel, and condominium developments.

Going forward, we will continue to make optimum use of the Group's strengths to expand the scale of our activities so that we can bring our high construction quality to people all over the world, aiming to achieve net sales of ¥270 billion in fiscal 2018.

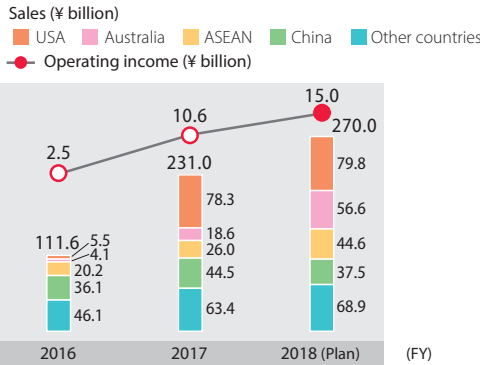
Our overseas business areas

20 countries

■ Group companies overseas
■ Overseas businesses and representative offices
(as of June 30, 2018)



Sales/Operating income



Note: Adjustments included in total net sales

The United States

Establishing a solid track record in rental housing projects, aiming to expand our operations across the entire United States

The rental housing business has teamed up with major American real estate firm Lincoln Property Company, and is currently involved in rental housing development projects in Texas. The locations of other rental housing development projects include Dallas, Chicago, and Boston.

A single-family houses business was launched in 2017 with the addition to the group of Stanley-Martin Communities, LLC. The business area was further expanded in February 2018 with the acquisition of the single-family houses business of FD Communities, LLC (FrontDoor), a US housing company.

Stanley-Martin Communities, LLC Profile

Company name	Stanley-Martin Communities, LLC
Head office	Reston, Virginia, USA
Business performance (Fiscal year ended March, 2018)	Consolidated net sales: ¥62.5 billion Consolidated operating income: ¥4.9 billion



North Clark (Chicago)
Rental housing business



Single-family houses developed by Stanley-Martin Communities (Artists' impression)

Australia

Developing condominiums with corporate partners, with plans to expand single-family houses business

We are moving ahead with real estate development operations in Australia, where the population continues to increase and economic growth is forecast to surpass other developed countries. In work that began in the suburbs of Sydney in 2015, we are involved in two projects in a four-way partnership with local real estate investment and management company EG Funds Management Pty Ltd, Sumitomo Forestry Co., Ltd., and Cosmos Initia. This involves the development and sale of condominiums, commercial facilities, offices, and retail space.

In fiscal 2017 Waldorf Australia Group Pty Ltd joined the Daiwa House Group. Waldorf have been engaged in the management of serviced apartments for the past 35 years in Australia and New Zealand.

In February 2018 we further expanded the scope of our operations by acquiring Rawson Group Pty Ltd., a company that has been engaged in single-family houses construction and land development in Australia for about 40 years.

Rawson Group Pty Ltd. Profile

Company name	Rawson Group Pty Ltd.
Head office	New South Wales, Australia
Business performance (Fiscal year ended June, 2017)	Consolidated net sales: ¥49.0 billion Consolidated operating income: ¥5.8 billion



Flour Mill of Summer Hill
Condominiums development



Single-family houses developed by Rawson Group (Artists' impression)

ASEAN & China

Contributing to economic growth in ASEAN through condominium and industrial park developments and hotel projects

In ASEAN, we are providing business planning advice and operational support, primarily to Japanese companies, to help companies setting up in the region to put their businesses on a secure footing. In a first for a Japanese company, we have responded to strong house sale demand in Vietnam, where economic growth continues, by commencing sale of approximately 2,300 houses at a high-end housing estate in the Phu My Hung New Urban Area of Ho Chi Minh City. We also commenced construction of a hotel at Haiphong, Vietnam in 2017 that is intended to meet the accommodation needs of Japanese businesses operating in the region, including expatriates and visitors.

We are engaged in condominium projects in China, leveraging the know-how and technological expertise we have accumulated during our operations in Japan to offer customers guaranteed safety and reliability. We are establishing a growing reputation for excellence, not only for high-quality housing, but also for the superior environment provided by communities

developed by Japanese companies. Fujita has been doing business in China for over 30 years, and has been involved in the construction of manufacturing plants for Japanese-owned companies in the automotive and electronic appliance industries, among others. It has built a reputation as one of the top Japanese companies in the construction field. Against the backdrop of increasingly severe pollution problems in China, Fujita is also exploring possibilities for utilizing its technology in the environmental business market.



Mid-Town Project
(Ho Chi Minh, Vietnam)
(Artists' impression)



The Grace Residence
(Changzhou, China)