

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 2017 were ¥540 million (on a non-consolidated basis), 115% up from fiscal 2010 (Figure 15). Employee salaries on a non-consolidated basis increased by ¥43.4 billion from fiscal 2010 (an average increase of 25% or ¥1,788,000 per employee).

Meanwhile, the ratio of employee salaries to operating income*2 decreased from 62% in fiscal 2010 to 37% in fiscal 2017, 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)

[▶ P.67-68](#) (Details of our human resources development)

Investments in research and development (R&D)

Figure 15

R&D expenditures in fiscal 2017 were ¥8.7 billion, of which ¥5.0 billion was for the housing business, ¥2.8 billion for the business construction business, and ¥0.8 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.

[▶ P.72](#) (Details of our research and development)

Capital investments Figure 16

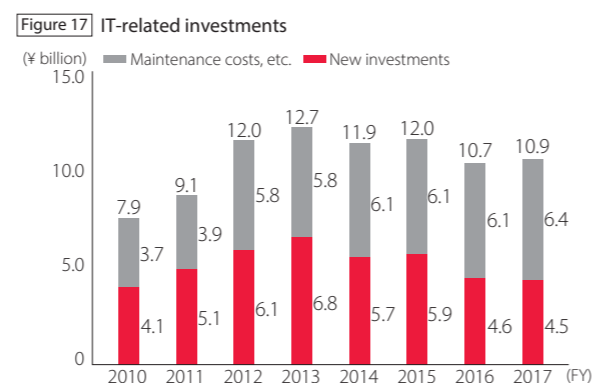
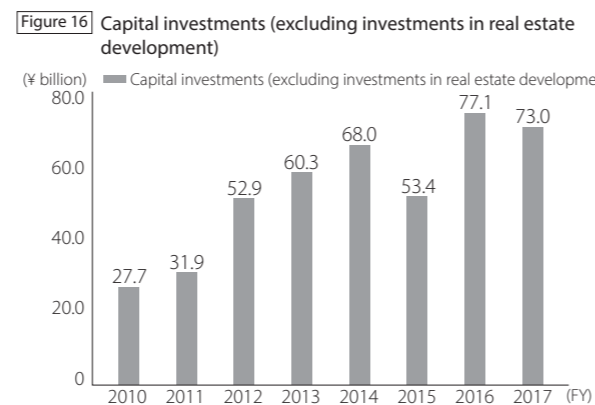
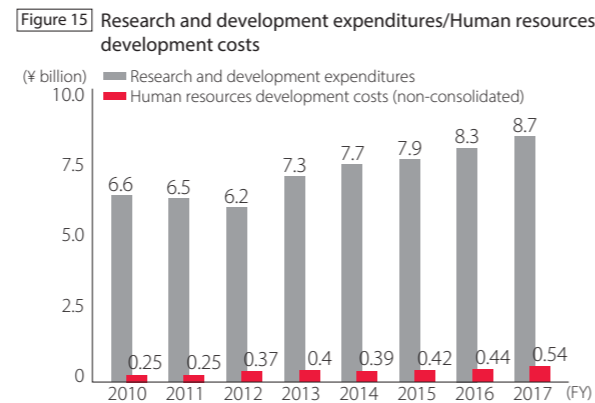
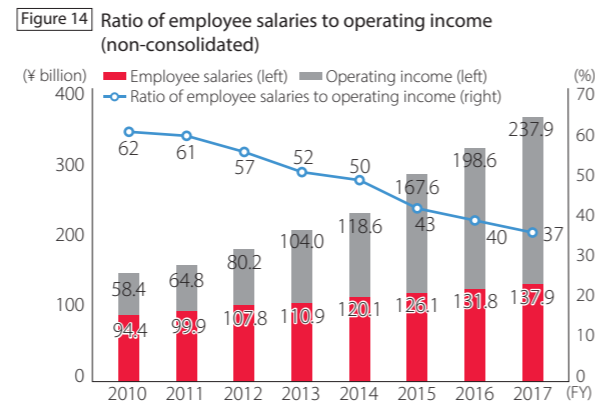
Capital investments of ¥73.0 billion (excluding investments in real estate development) were mainly for replacing production lines in plants to increase production efficiency and for renovating plant facilities. Well-planned investments in production lines are carried out based on market trends, order 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.

[▶ P.71](#) (Details of our technology and manufacturing base)

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.

[▶ P.72](#) (Details of strategically utilizing IT and information capital)



Toshinari Kawasaki,
Group Manager of
Human Resources

Hideki Saito,
Branch Office Manager
of Fukuyama Branch

Masahide Kageyama,
Administration and
Accounting Manager of
Fukuyama Branch

Round-table Branch management for sustained growth

Daiwa House has 81 branch managers around Japan who have been delegated the task of managing their respective workplaces based on an understanding within the organization that they act on behalf of the Company president. These managers achieve timely management through a bottom-up approach, becoming part of the local community and staying in close touch with the public and customers in the regions they serve so that they can identify new challenges and the needs of society.

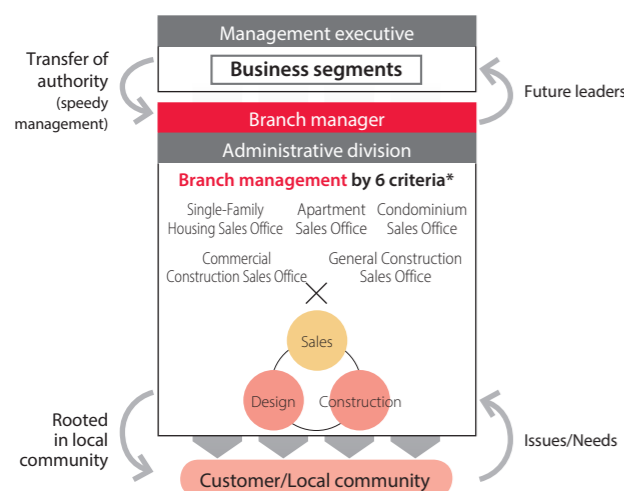
Along with seeking to ensure firmly based and process-focused management that takes a long-term view by providing transparency about the criteria for workplace decision-making and adopting measures for assessing the soundness of management practice, each and every employee supports the value of "Endless Heart" through strict adherence to the principles of corporate ethics and the code of conduct.

Assessment, meanwhile, covers both corporate performance and the soundness of management practice, with the workplace that demonstrates the best such management being awarded the "Best Branch Management Prize" (Ishibashi Nobuo Award) at the Nationwide Branch Office Managers' Meeting held each March. Here, we talk about the practice of branch management with Hideki Saito, Branch Office Manager, and Masahide Kageyama, Administration and Accounting Manager of the Fukuyama Branch, the fiscal 2017 award winner.

Putting a bottom-up approach and positive attitude into practice

Kawasaki Congratulations on winning the Ishibashi Nobuo Award. I would like to hear more about the practice of branch management.

Speedy management by transferring authority to branch (branch office managers)



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

Our Company sees itself as "being made up of the people who get things done on the ground". In keeping with the spirit of our founder, we also adhere strictly to a policy of acting on the basis of "a bottom-up approach" and with "a positive attitude". As you go about the actual practice of branch management, has this spirit of our founder taken firm root? If so, how does this manifest in practice?

Saito While I do not see any special significance in the "bottom-up approach" in practice, the job of the branch is to delight customers by delivering a product in the form of completed buildings. I don't believe we can achieve anything unless we deliberately get out of the office to communicate with customers on the ground, hear what they have to say, and collect and consider information so we can work out what they will be looking for now and in the future.

At the branch, I talk about "leading by example". Regardless of the topic, rather than just talking it over in the office, you have to look at what is happening in the marketplace. I believe I have succeeded in drumming into staff that listening to what people are saying and collecting information are fundamental to their job.

Kawasaki Rather than Fukuyama Branch, I expect this is something that you have learned since joining the Company.

Saito That's right. I expect all staff think the same way about adopting "a bottom-up approach" and "a positive attitude".

Kageyama It sometimes seems to be that case that directions from headquarters have been developed with the metropolitan areas in mind. When that happens, we act in ways that suit the particular branch while also paying heed to what headquarters has instructed. I believe this is an example of adopting "a bottom-up approach".

Saito Likewise when dealing with customers, each region has different needs, with Fukuyama being completely different to other parts of Japan. Although we have managed to satisfy customers in the past by supplying products and services that are deployed in the same way throughout Japan, it is now becoming vital that we consider methods that draw on the unique characteristics of each region and act accordingly. In this respect, ever since becoming a manager, I have always acted in accordance with our founder's advice to "find things out by looking at what is happening on the ground". That is because I believe that the "answers" can be found in the "marketplace".

Kawasaki What about having "a positive attitude"?

Saito This, too, I believe is well-established at Daiwa House. Although there are different ways of going about it depending on your personality and career, acting on your own initiative is genuinely part of our corporate DNA.

Strength derived from office and branch, business division, and block systems

Kawasaki Branches have their particular policies, and there is also the business division system whereby instructions and policies are issued from headquarters. These are also successfully overlaid on the block system, allowing us to take advantage of strengths that are unique to the Company. From the perspective of someone working in the field, are these matrix-derived synergies evident in practice?

Saito That's right. Headquarters and the business divisions seek to achieve greater heights by bringing all our Japanese operations into a single whole. At the branch level, I believe we need to consider how to translate these headquarter policies into something that makes sense in the context of our own region before passing them on to staff.

Of particular importance is that customers see only one "Endless Heart". Something I have been aware of happening in the past has been where customers are left confused by all sorts of people from the business divisions bringing in their own changes. The greatest advantage of introducing the branch system is that it allows the best possible information to be brought together by diverse means and provided to customers in the marketplace without causing confusion.

As for the block system, I belong to the Chugoku block that extends from Okayama to Yamaguchi prefecture. We are able to act with speed by sharing things with those around us, including how things are done and information about customers and land. I believe this is well-suited to our current environment where it is essential to closely tailor what we do to individual customers.

Kawasaki Are steps being taken to strengthen the block system?

Saito Yes. Along with block conferences being held every six

months, each business division meets in Hiroshima to review management numbers and exchange information about specific initiatives in ways that take account of the reality on the ground.

Human Resource Development

Kawasaki Mr. Kageyama, can you please explain the role you fulfill as an administration and accounting manager?

Kageyama My job is to look after the branch while the branch office manager is out on sales calls and also to train managerial-level staff. As many people in managerial positions have little experience, I ensure they are fully informed about our standards and rules.

Kawasaki What is your attitude to human resource development at Fukuyama Branch?

Saito My personal view is that a good outcome is when people are able to do those things they were not able to do in the past, and I tend to use the expression "personnel growth" rather than human resource development. While I do not go about it in a particularly systematic way, I use the time working alongside inexperienced managerial staff to talk face-to-face about attitudes to things like customers, the job, and working as a team, including mental management.

Kawasaki Having won the Ishibashi Nobuo Award, do you believe that this policy of steadily encouraging "personnel growth" played a part in your success?

Saito It may well be a result of aiming high, getting together with other people to consider what we need to do to overcome the obstacles, and then putting this into practice through a process of trial and error.

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 branch 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
 - Customer satisfaction (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

See the Group's Sustainability Report 2018 P.169-170 (CSR Management)



Daiwa House is engaged in company-wide measures aimed at building a sustainable society in partnership with local communities. Along with the "Best Branch Management Prize" (Ishibashi Nobuo Award), this includes presentation of the "President's Award for Community Co-Creation Activities" that recognizes workplaces that undertake activities for deepening relationships and building trust with the community, and the "President's Award for Best Environmental Practices" that recognizes excellent construction or urban development initiatives at factories or other workplaces aimed at eliminating any load on the environment.

Round-table with Hideki Saito, Branch Office Manager and Masahide Kageyama, Administration and Accounting Manager of Fukuyama Branch and Toshinari Kawasaki, Group Manager of Human Resources

Kageyama "Preparation and progress" could be one way of describing the branch office manager's approach. This means dealing with things by making thorough preparations in advance, with the amount of work per person having increased about three-fold since just a few years ago, as have sales. The cumulative result of this is evident in our financial performance and I also believe it played a part in winning this award.

Branch assessment

Saito What were the judging criteria for the Ishibashi Nobuo Award?

Kawasaki The prize is awarded on the basis of a review of each branch's management numbers to evaluate its performance and also an assessment of the soundness of management practices. As a result, you were awarded the prize for the first time not only for your improvements in financial performance, but also for your successful incorporation of measures aimed at sound management practices, including productivity improvement to enable progress on the issue of long working hours, work on customer satisfaction (CS), quality management, safety, consideration for the environment, and relationships with local residents. In this respect, while there remain many things that still need to be done, the award is an acknowledgement of your having achieved an overall high level of performance.



Saito Three-and-a-half years ago there was a branch instruction meeting that ended with one of the executives commenting on "how the branch should be capable of reaching around ¥1 billion". As there were considerable obstacles to this relating to our area, I did a lot of preparation to come to terms with this for myself before passing it on to staff.

Kawasaki And you still managed to triple sales over three years.

Saito In terms of the result, that's right. However, as we weren't

able to take on three times the volume all at once nor suddenly find three times the work, we moved forward in tandem with various discussions held with site managers. One of the things I always tell the people at the branch is about "not losing interest, not fretting, not giving up, and not compromising". I see our achievement as one that was built up steadily by everyone at the branch together.

Kageyama As finance performance improves, it is also essential to address work style reform. Use of AI and robots and strengthening the technology and manufacturing base that has the potential to facilitate future work style reforms are things that we will have to think seriously about.

Kawasaki With regard to our customer base, what do you do to build relationships with customers that extend over long periods of time?

Saito By thinking of ourselves not as a large company but as one of about 90 employees, I believe we can reduce our separation from customers and get a better view of what they are looking for. We must never forget to consider what do we need to do to delight customers. If we fail in this, we will never establish long-term relationships.



Kawasaki As Fukuyama Branch has received a very good CS survey result, I suspect this attitude is well entrenched at your branch.

What are your priorities when it comes to your technology and manufacturing base?

Saito For us, the construction site is where manufacturing takes place. I am always talking about "entry and exit", and I believe that all staff need to get involved in a wider variety of work at the entry level in order to build up skills and knowledge. This is because repeated involvement in such work improves knowledge and technical capabilities. We recently had a hospital construction project at Fukuyama Branch. Although the large size of the project prompted suggestions that we should get help from business partners from outside our

region, we ultimately decided to proceed with construction using Fukuyama Branch staff and partner companies. The people involved made adequate preparations and succeeded in delivering a single outcome. You might say that this strengthened the technology and manufacturing base of our staff and business partners. In terms of the "exit" from continuing to take on challenges like this, I believe it will lead to our winning orders from all sorts of large projects.

Relationships with stakeholders

Kawasaki While it is the same for all companies, our Company would not have a business were it not for the existence of stakeholders. How do you treat relationships with stakeholders at your branch?

Kageyama At the moment, we are engaging in "community co-creation activities" that address matters of concern to the local community (residents of the region). One past example is a number of staff who, as part of a country life group, learned how to use chainsaws and lawnmowers, using them to tidy up an area alongside the Fukuyama Green Line scenic route in Hiroshima while they planted cherry saplings. We also regularly donate blood to the Red Cross. Although the numbers of participants are still low, our aim for each of these is to get everyone involved.



Kawasaki For these community co-creation activities, we need to develop recognition programs for staff who participate in their role as members of the local community.

Saito While things like beautification and country life activities are obviously worthwhile, I hope that people will participate in these not so much out of "a sense of generating value" but rather to feel they are "acting for the benefit of the wider community". It is a good outcome when individuals gain new insights from an awareness that something they are doing is helping people, such as making an endowment. That is because this, too, results in "an increase in corporate value". Personally, I believe that Daiwa House Group being

able to undertake urban developments in a streamlined manner creates value in ways that are not visible, and in this we are making a contribution to the community.

Coordination between branches and headquarters

Kawasaki Our corporate mission is to ask "what we can do for customers to be of help to the public". Moreover, based on this mission, our promise to shareholders and other investors is our financial performance and business plans. What I believe matters more than anything else in fulfilling this promise is to foster the motivation and pride of staff. This in turn makes it important to correctly understand the needs of employees so that we can succeed in "being the company in Japan with the most highly motivated staff". For this reason also, I believe we should be coordinating closely with the branches.

Saito The people at the workplace feel the same way. After all, it is human resource that matters most. However, in a company as big as this one, it takes time for word to get around. I suspect that coordination would be easier if we were able to act a little more flexibly.

Kawasaki The human resources department has introduced all sorts of programs aimed at lifting employee motivation. How are these being received in the branch?

Saito That is a difficult question. Given the need to improve our financial performance, there are arguments for and against being forced to reduce working hours, for example. From an employee's perspective, on the other hand, I believe they feel looked after by the Company and that human resources will help them out should something happen. If improvements in the workplace environment lead to higher labor productivity, then I expect that things will change gradually.

Kawasaki That's right. I hope you will be able to continue using a bottom-up approach to achieve timely management while also strengthening coordination between branches and headquarters. Thank you for your time today.



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 Company 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’ motivation and pride.

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



Basic policy Matters affecting corporate value over the medium and long term

Develop and make optimal use of human resources to raise productivity	Diversity Establish a system that allows diverse employees to fully display their capabilities.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> Improved recruiting capabilities Discovering and developing talented individuals to become managers in the Group Retaining and developing global human resources
Improve motivation and pride in employees	Improving the work environment Improving labor productivity by alleviating long working hours and promoting health management.	<ul style="list-style-type: none"> 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, 2018, the number and ratio of female managers in the Group overall was 302 (4.0%), an increase of 0.4 point from the previous year.



● **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, 2018, 123 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, 34.2% of male employees took childcare leave in fiscal 2017, an increase of 1.3 points from the previous year. 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, 2018, the percentage of employees with disabilities accounted for 2.3%. 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.

Company philosophy (corporate creed)

- Develop people through business.
- A company’s progress depends directly on ensuring a good working environment for its employees.

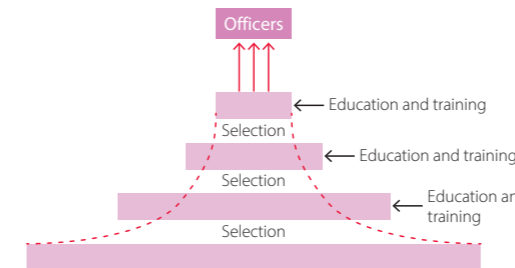
Developing human resources: Retaining and developing next-generation employees, and discovering and developing talented individuals to become managers.

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

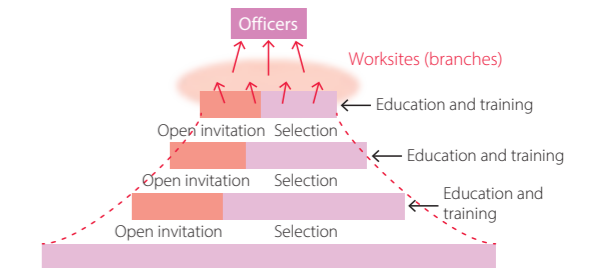
and training has a curriculum to allow employees to utilize what they have learned in the workplace in order to gain something beyond book learning.

Since fiscal 2005 the Company has commenced a special training program for branch office manager candidates with a view to training future leaders, at the end of fiscal 2017 a total of 475 employees have completed this program. The Company has opened Daiwa House Juku since 2008, at the end of fiscal 2017 a total of 337 employees have completed the program, among whom 114 have become company executives.

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

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

The Company has put a lot of effort into improving the work environment through measures for alleviating long working hours, promoting health management, and strengthening links between staff to improve productivity. While continuing to persevere with these initiatives, the Company will also look at measures for further improving employee motivation in terms of their ability to rely on the Company, take pride in their work, and feel a sense of solidarity with their fellow workers, utilizing staff input for this purpose obtained from a variety of employee surveys (including surveys of staff attitudes and CSR awareness).

CSR awareness survey FY2016 → FY2017

Q. I feel a sense of attachment to the Company	70.85%	→	71.19% (0.34pt) ↗
Q. I want to keep working at this Company for a long time	73.90%	→	74.22% (0.32pt) ↗

▶ P.93 (Key data on human resources base)

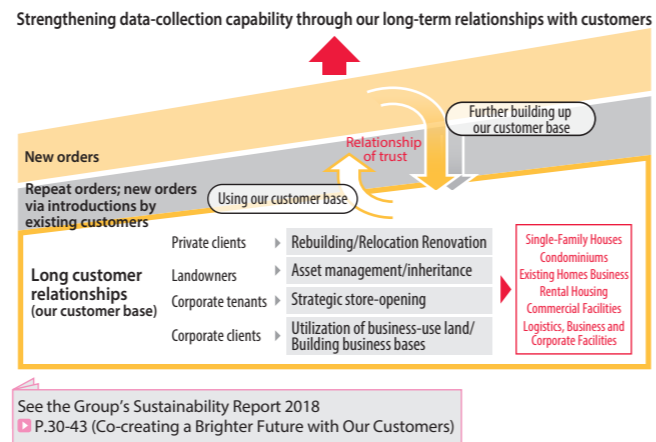
Our Customer Base

Basic concept

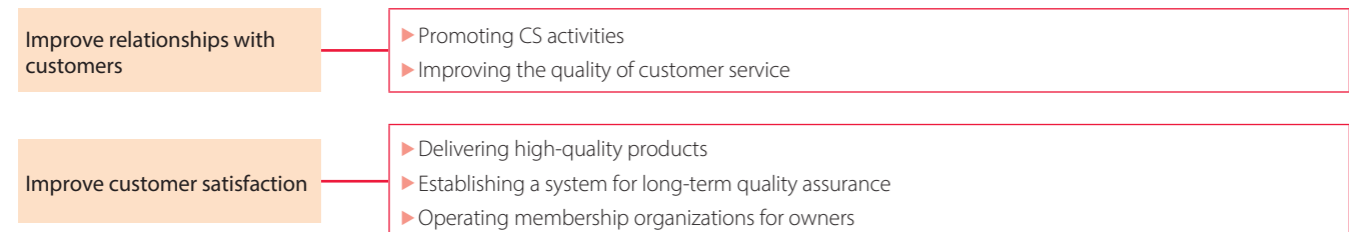
We are sincere in our communication with customers, and put our full efforts into offering high-quality products and services. We do our best to satisfy our customers and win their trust.

To improve product and service quality, the Company adopts a policy of “thinking from the perspective of each customer”. We seek to adopt throughout all of our businesses the attitudes built up through our housing business, which works closely with its customers and continues to support them throughout their lives, with the intention of providing buildings of long-lasting quality that retain their capital value and that people can continue to use across generations.

We have created a virtuous circle in which adopting a stance of dealing earnestly with customers by providing high levels of quality in ways that are closely tailored to what they want leads to improvements in our technical capabilities and the development of our human resources, thereby deepening customer trust to expand our customer base and grow our business.



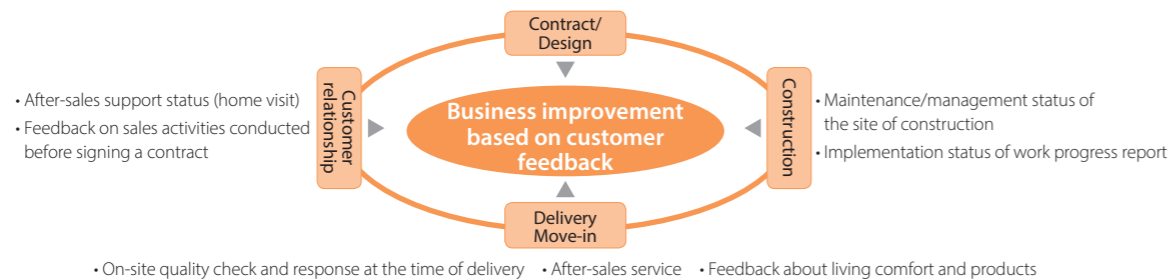
Basic policy Matters affecting corporate value over the medium and long term



Improve relationships with customers

We value what customers have to say at the various points of contact we have with them, including at the contract, design, and delivery stages, and take onboard their desired improvements. Our aim is to improve our relationships with customers by sharing this feedback across different internal departments and using it to prompt business improvements.

• Planning/proposal details and method • Customer service by sales representative



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.



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.

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 “thinking from the perspective of each customer” into practice and to see things from the customer’s perspective.

The National CS Role-Playing Competition is 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 “thinking from the perspective of each customer” into practice.



The National CS Role-Playing Competition

Improve customer satisfaction

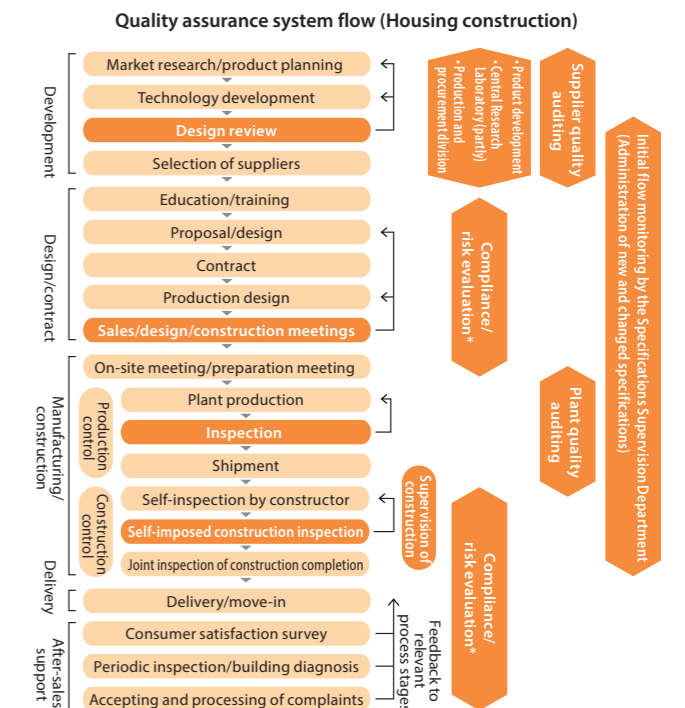
Delivering high-quality products

We pursue quality improvement throughout the production process, from development to design and contract, production and construction, to after-sale services. As shown in the diagram right, we conduct inspections and take measures to improve development, production and construction, and other individual processes.

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 circumstances of the owner (single-family houses and rental housing). We offer initial guarantee for exterior walls, structure and other parts of buildings, and also provide a periodic building diagnosis service.

* Compliance risk assessment refers to efforts to strengthen the technology platform at worksites (safety, waste, quality, design and construction).



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	234 thousand	93 clubs in Japan 35,754	65 clubs in Japan 6,728
Major activities	<ul style="list-style-type: none"> • An Internet service exclusively for members • Information and advice given to resolve concerns and to answer owners’ questions about future housing 	<ul style="list-style-type: none"> • Latest information provided on managing rental housing • Information exchange among members, study tours to deepen friendship, etc. 	<ul style="list-style-type: none"> • Seminars on the effective use of real estate • Study tours to promote friendship among members, etc. <p>Note: Business consultations on opening commercial establishments for tenant companies held (leading to over 4,000 business deals as of March 31, 2018)</p>

P.93 (Key data on customer base)

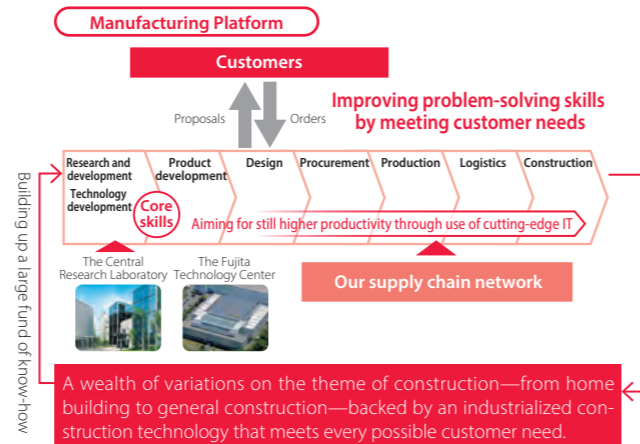
Our Technology and Manufacturing Base

Basic concept

We anticipate the changing times and foster distinctive technologies that match customer needs to create both value for customers and value for society.

As a pioneer of industrial construction, the Company has succeeded in generating the value needed by society through sound technology and manufacturing practice. Through a supply chain network based on relationships of trust with suppliers and other business partners that extends from product development to design and construction, we have sought to boost productivity by establishing a manufacturing platform utilizing advanced industrial and information technologies that we have pursued over many years. Through a rigorously adopted bottom-up approach, we have also worked hard to improve our ability to overcome challenges in response to customer needs. Meanwhile, to realize a society in which people live fulfilling lives, we have actively pursued research and development work aimed at generating value.

See the Group's Sustainability Report 2018
P.60-71 (Co-creating a Brighter Future with Our Business Partners)



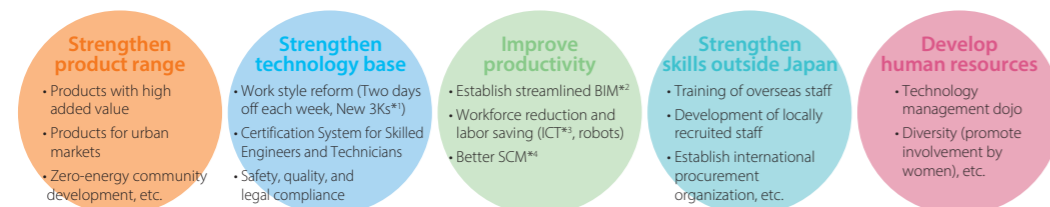
Basic policy Matters affecting corporate value over the medium and long term

Build strong technology and manufacturing foundation	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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: We enhance productivity by putting the platforms and practices in place that underpin business growth.

Five pillars of technology and manufacturing for achieving business growth

Fiscal 2018 saw the formulation by our technology department and production and procurement department of key strategies that look ahead to the 100th anniversary of the Company's establishment. These "five pillars" are to strengthen product range, strengthen technology base, improve productivity, strengthen skills outside Japan, and develop human resources.



*1: The "New 3Ks" refer to three issues for the construction industry, namely high remuneration, more time off work, and having hopes for the future. The aim is to eliminate the 3Ks of "kitsu" (tough), "kitanai" (dirty), and "kiken" (dangerous) work.
*2: Building information modeling (BIM) is a solution for generating three-dimensional building data and utilizing it in the processes from design through to construction and maintenance.
*3: Information and communication technology (ICT)
*4: Supply chain management (SCM) is about optimizing and improving the efficiency of dealings with business partners (inward and outward ordering).

Company philosophy (corporate creed)

Products created in good faith by honest labor through modern facilities will contribute to society as a whole.

Research & development, create and manage intellectual property

Research & development

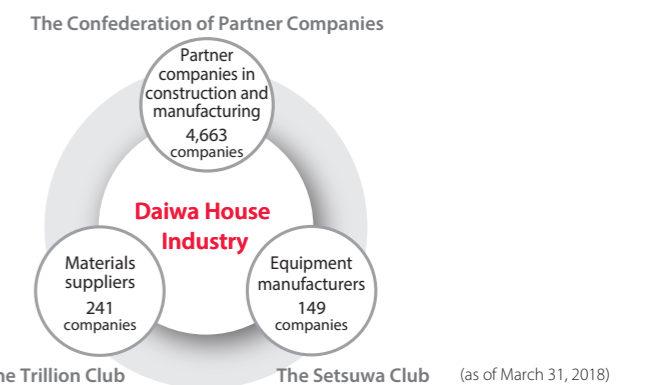
The Central Research Laboratory advancing R&D activities to solve society's problems. Established in 1994 to engage in research and development primarily aimed at achieving harmony with the environment, the Central Research Laboratory draws on proprietary technologies for housing and construction built up over many years to work in a wide range of fields, including agriculture, welfare, and the environment, based on the key idea of *Asu Fukaketsuno* (indispensable for tomorrow). The laboratory actively pursues open innovation, whereby it also works with universities or companies from other industries, to undertake research into the creation of new value in forms that have never existed before.

The Fujita Technology Center — Building the future with "Creative Technologies". This center has been conducting research and development in four fields. Along with ICT and robotics for improving productivity and reducing labor requirements, these include the core areas of construction technologies for the safe, rapid, and low-cost completion of high-quality buildings that include reinforced concrete structures for super-high-rise buildings as well as vibration control and seismic isolation; civil engineering technologies, where the center is working on fundamental research to support safe and trustworthy urban development; and environmental technologies for harmony between people, cities, and nature. The center also participates in joint research and development with Daiwa House Industry that draws on the respective strengths of the two organizations.

Strengthen relations with business partners and suppliers: We are building a robust supply chain.

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.

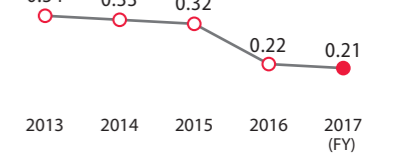


Maintain or improve work environments for employees of business partners

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. We have also established rules to govern our provision of financial assistance to young technical staff at housing builders as way to help train young engineers who work for our business partners. Similarly, we are recognizing employee skills and increasing daily remuneration, having set up the Certification System for Skilled Engineers and Technicians that aims to enhance work practices in the construction industry, improve quality, and boost motivation.

Individual indices (examples)	FY2017 results	FY2018 targets
Number of employees trained on-site	① Housing construction: 484 ② Business construction: 309	① 500 ② 330

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: Use of the IoT and AI to maintain and improve competitive advantage

Application of IoT to housing and urban development

Amid predictions of a shrinking housing market in Japan, the achievement of zero-energy houses and other buildings features strongly in the growth strategy for our core business. The Company is seeking to enhance the value of housing and other urban areas by developing smart communities based on their "energy visualization". We are also utilizing the latest IT to take on the challenges facing society, including IoT in the home and supplying a new generation of logistics platforms that use robotics and AI.

Use of software robots to automate tasks (RPA)

We are utilizing the latest IT to automate routine tasks that would have been performed manually in the past, thereby allowing staff to focus on work that adds more value. A robotic process automation (RPA) management team has been established in the information systems department, implementing 13 "robots" that perform work in management departments during fiscal 2017. With a view to deploying the technology across the group, guidelines on the use of RPA tool have also been formulated that incorporate security considerations such as the handling of confidential information.

Example applications for robotics

- Checking advertising and issuing replies
- Work attendance checking
- Land acquisition date recording, etc.

▶ P.93 (Key data on technology and manufacturing base)

The Environment

Basic concept

The Daiwa House Group aims to realize a sustainable society as a group that co-creates value for individuals, communities, and lifestyles and tries to make zero environmental impacts within our Group, globally, and through supply chains.

Our Group formulated the long-term environmental vision "Challenge ZERO 2055" focusing on 2055, which marks the 100th anniversary of the foundation of Daiwa House Industry. As a "group that co-creates value for individuals, communities, and lifestyles," the Group management vision, we aim to realize a sustainable society and try to create zero environmental impacts through three stages (procurement, business activities, and products and services) with four environmental priority themes in mind (slowing and adapting to climate change, harmony with the natural environment, conservation of natural and water resources, and prevention of chemical pollution).



See the Group's Sustainability Report 2018 P.104-141 (Co-creating a Brighter Future for the Environment)

Basic policy Matters affecting corporate value over the medium and long term

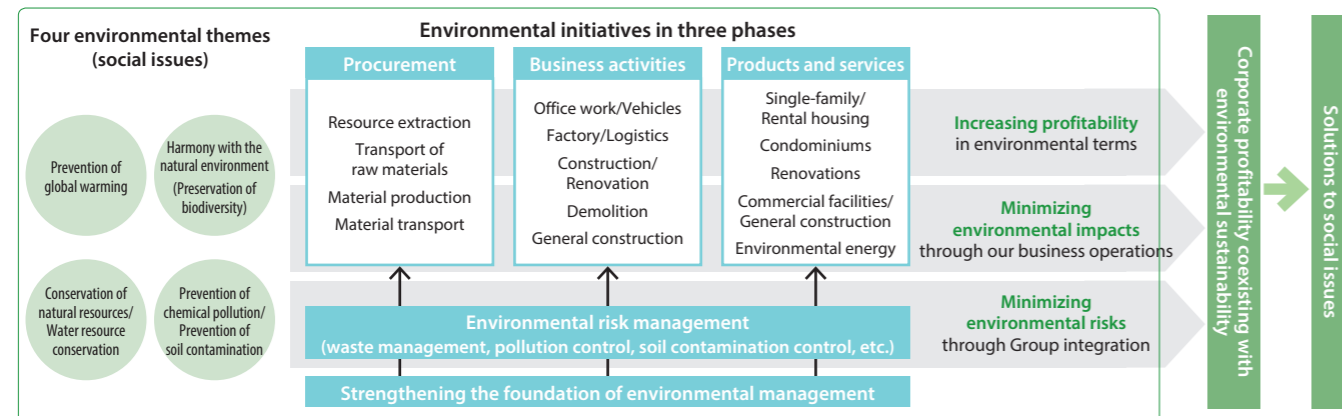
- 1 Slowing and adapting to climate change (Prevention of global warming/Energy)**
We aim for zero CO₂ emissions throughout the product life cycle through uncompromising pursuit of energy saving and utilization of renewable energy in order to achieve a carbon-free society.
- 2 Harmony with the natural environment (Preservation of biodiversity)**
In order to preserve and improve our natural capital, our Group shall achieve no net loss of green space by ensuring zero deforestation through material procurement and by developing communities filled with greenery.
- 3 Conservation of natural resources/ Water resource conservation**
In a bid to realize a resource-recycling society, we aim for sustainable utilization of resources through an increase in durability of houses and buildings, zero waste emissions, and a sound water cycle.
- 4 Prevention of chemical pollution**
We shall institute appropriate management of chemical substances throughout the life cycle of houses and buildings to minimize 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, we formulate 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

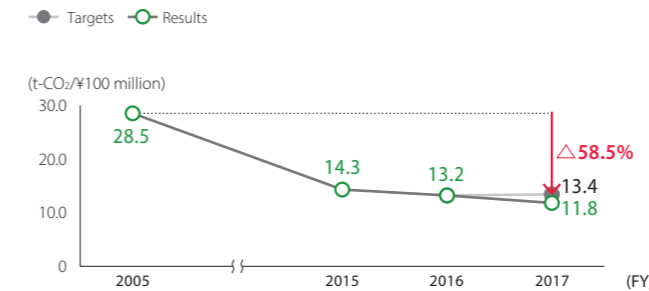
accelerating our environmental initiatives, targeted at all the Group companies, under the concept of promoting integrated environmental management within the Group and globally based on the life cycle approach to ensure that corporate profitability can coexist with environmental sustainability.

Overall action plan for the Endless Green Program



Key data

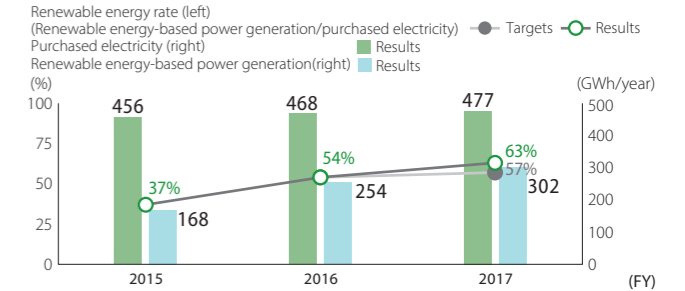
1 Greenhouse gas emissions per unit of sales



58.5% reduction in greenhouse gas emissions per unit of sales relative to fiscal 2005

The Company achieved its targets for fiscal 2017 thanks to energy efficiencies and greater use of renewable energy. Along with an active policy when constructing our new facilities of trying to make them net-zero-energy buildings (ZEBs), we are also investing in energy savings and operational improvements to improve energy efficiency at existing facilities, taking energy efficiency measures from "Top Runner" workplaces and deploying them across the Group. Looking ahead, we have set targets for the reduction of greenhouse gas emissions per unit of sales across all of our facilities and business processes (relative to fiscal 2015) of 45% by 2030 and 70% by 2055.

2 Ratio of power generation using renewable energy sources to purchased power



Ratio of renewable electric power generation relative to purchased electricity improved to more than 60%

Group-wide annual electricity purchases in fiscal 2017 totaled 477GWh/year (1.9% higher than in fiscal 2016) and electric power generation from renewable sources totaled 302GWh/year (19% higher than in fiscal 2016). As this equates to the amount of renewable electric power generation being 63% that of purchased electricity, it means that our target of 57% has been achieved. Although electricity purchases are expected to increase in the future as our business expands, we are aiming to increase levels of renewable power generation even more to achieve a percentage of 100% by 2030.

Certification achieved for science-based targets

The Paris Agreement of the 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change was reached in 2015. In response, the Daiwa House Group committed itself in February 2018 to achieving "science-based targets", with our greenhouse gas emission reduction targets having been deemed to be ambitious targets that are science-based and compatible with achieving the objectives of the Paris Agreement.

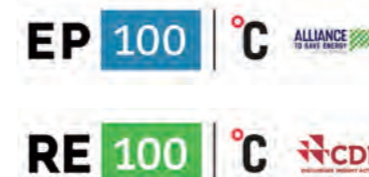


Specific actions

First company from construction and housing industries to join both EP100 and RE100

In March 2018, the Company became a member of both the EP100 and RE100*, two international initiatives for energy efficiency and renewable energy that are run by The Climate Group, an international non-profit organization. We are the first company in the construction or housing industries to do this. The target set for EP100 is to improve energy efficiency in business activities (relative to fiscal 2015) by 1.5 times by 2030 and by 2.0 times by 2040. Similarly, the RE100 targets are to supply more electric power from renewable sources (including electricity sales) than our total electric power consumption by 2030, and subsequently to switch to in-house consumption and to source 100% of the Group electric power use from renewable energy by 2040. Through these initiatives, we are contributing to decarbonization.

*1: EP100 and RE100 are international initiatives with aims that include improving energy efficiency and making use of renewable energy in order to achieve the objectives of the Paris Agreement of the 21st Session of the Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change.



Achievement of electricity self-sufficiency at new-build company offices

Completed in February 2018, the Daiwa House Saga Building was built for the Company's own use and uses renewable energy to supply all of the energy used in its offices. Its facilities include a hybrid air conditioning system that combines groundwater drawn from under the building and solar water heaters on its roof (the Well Water & Solar Heat Hybrid Air-Conditioning System). Together with use of natural ventilation, this reduces electric power consumption for air conditioning by about 70% compared to conventional construction practices for buildings of this size**. The Company has also developed and installed an energy self-sufficient system that combines a solar power generation system with storage batteries and means that the building does not rely on electricity purchases from a utility.

**2: A standard building as defined in the law on improving building energy use performance issued by the Ministry of Land, Infrastructure and Transport



Daiwa House Saga Building

Community Residents

Basic concept

The Company has strengths in civil engineering technologies for urban development that it deploys in its suburban housing complex and multi-purpose urban developments. We also focus on building relationships with community residents and manage our branches and offices around Japan as integral parts of their communities based on a bottom-up approach. We contribute to the progress of local communities through forward-looking urban developments and community co-creation activities by our branch offices. These activities intended to provide benefits to the community also enhance corporate value, helping ensure that our business in that region proceeds smoothly and also maintaining and improving our competitive advantage by building relationships of trust with local residents.

See the Group's Sustainability Report 2018 P.72-91 (Co-creating a Brighter Future with the Communities)



Basic policy Matters affecting corporate value over the medium and long term

Co-creating a Brighter Future with Local Communities

- ▶ Supporting community development through our business
- ▶ Community co-creation activities

Supporting community development through our business

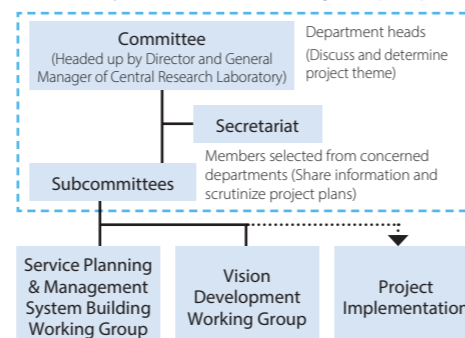
The Group has established a management structure that includes the "Sustainable Community Development Promotion Committee" made up of various corporate departments and eight Group companies, the purpose being to fulfil our mission of "working together for design & management" with local communities while also holding to our "community development vision".

As part of the 23 projects undertaken by the urban development business between fiscal 2015 and 2017 (developing a total land area of 804,369m²), we have pursued a variety of community engagement programs to meet such needs as the formulation of guidelines on town layout, the invigoration of residents' associations, facilitation of engagement with neighbors, and the establishment of management regimes that utilize the sale of electric power generated from natural sources.

See the Group's Sustainability Report 2018 P.185 (Community Development Policy)

Sustainable Community Development Promotion Committee

Participating departments and companies: Urban Development, Technology, Management Administration, business segments, Information Systems, Customer Satisfaction, eight Group companies

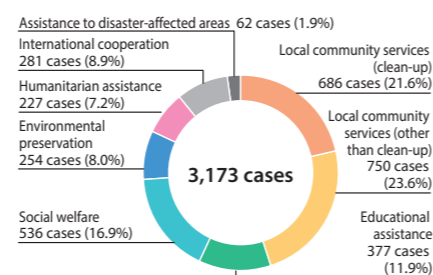


Community co-creation activities

In its engagement in community co-creation activities, the Company develops its plans in consultation with those local government agencies that deal with residents' activities as well as NPOs and other local organizations so as to better appreciate the challenges facing communities. Moreover, to utilize community co-creation activities as a means of overcoming the challenges of branch management, branch managers play a central role in getting these activities up and running, with clearly defined aims (secondary effects) that include human resource development, workplace revitalization, and forging stronger links with the community.

Our active program of activities puts us in the top rank, not just within Japan but by the standards of global corporations. Since fiscal 2014, we have staged more than 2,000 of these community co-creation activities each year at our workplaces and Group companies around Japan.

The Group's community co-creation activities in fiscal 2017



Yukiko Yabu
Outside Director

Joined Matsushita Electric Industrial Co., Ltd. (MEI) in 1981. Worked as trustee in charge of MEI's Consumer Research and Group Manager, Global Marketing Planning Center, Appliances Company. Appointed Outside Director of the Company in 2016.

Kazuyoshi Kimura
Outside Director

Joined The Nikko Securities Inc. in 1967. After serving as Director and Chairman of Nikko Cordial Securities, Inc. among other posts, appointed to current posts as Representative Director and Chairman, President and Representative Executive Officer of Kojima Co., Ltd. and as Director of BIC CAMERA INC. Appointed Outside Director of the Company in 2012.

Keiichi Yoshii
President and COO

Yutaka Shigemori
Outside Director

Joined Yasuda Life Insurance Company in 1974. After serving as Representative Director and President of Meiji Yasuda General Insurance Co., Ltd., appointed to current posts as Representative Director and Chairman of Wise Total Support Co., Ltd. and Representative Director and President of Wise Networking Co., Ltd. Appointed Outside Director of the Company in 2012.