



Daiwa House®
Group



Creating Dreams, Building Hearts

Everything started with this



Our founder, Nobuo Ishibashi (1921-2003)

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

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

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



Daiwa House®
Group

Creating Dreams, Building Hearts

The Daiwa House Group symbol—the Endless Heart—
represents our vision of building endless emotional connections with each and every one of our customers,
as well as the solidarity of the Daiwa House Group.

As a group that co-creates value for individuals, communities and people's lifestyles,
we aim to think outside the box and always to create new value in each successive generation.

We will continue to pass on the ideals on which the Company was founded,
and work to help realize a sustainable society.

Editorial policy

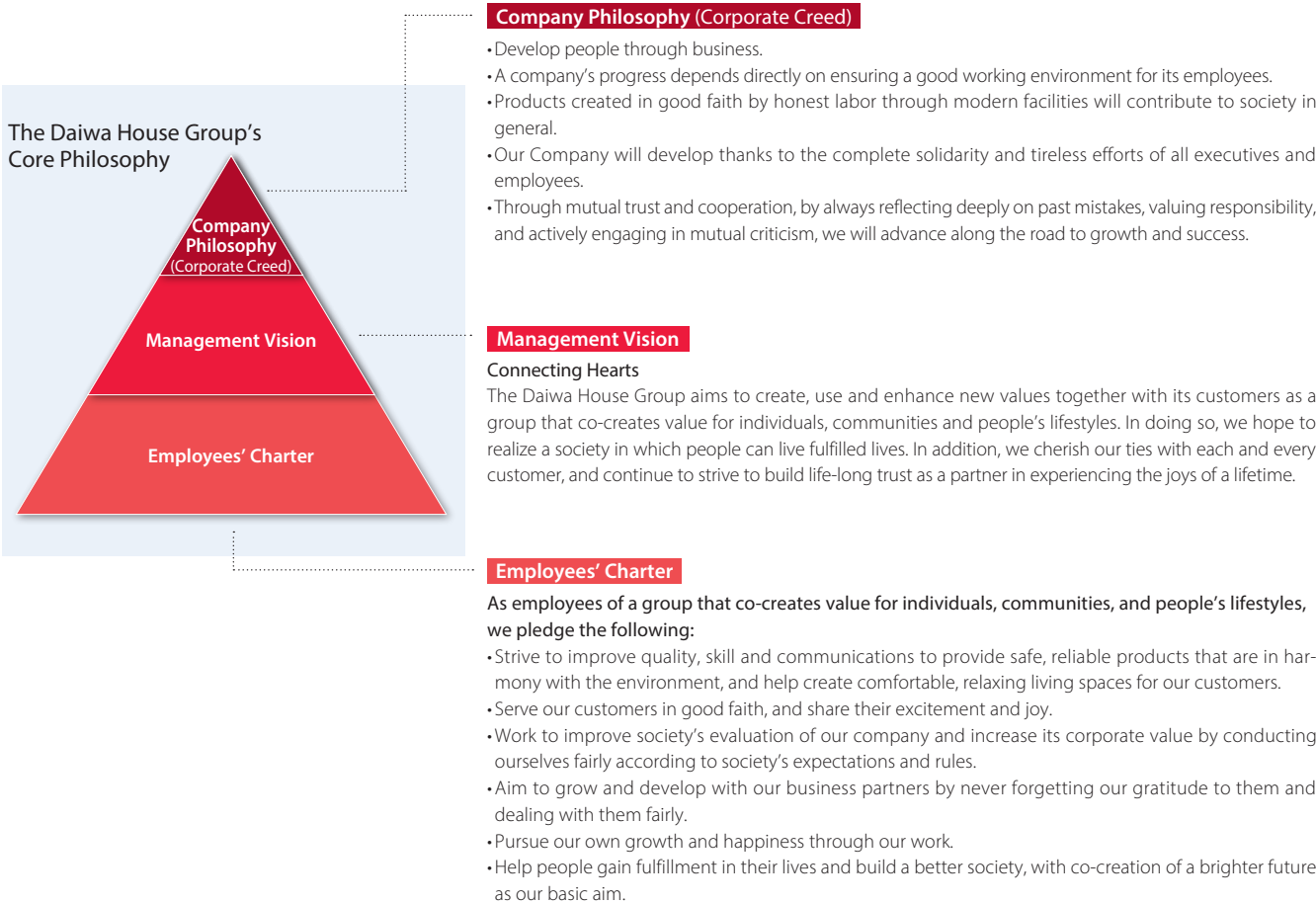
As a group that co-creates value of individuals, communities, and people's lifestyles, we have consistently stood beside our customers and society to go on delivering new value over many years.

The Endless Heart group symbol that expresses the solidarity of the Daiwa House Group and our ties with stakeholders also embodies our vision for achieving sustained growth and development.

To demonstrate this attitude to our shareholders, investors, and other stakeholders, this report explains how Daiwa House Group is going about pursuing our management vision that embodies the spirit of our founder, with reference to the three management bases essential to value creation at Daiwa House Group (our human resources base, customer base, and technology and manufacturing base), to our strengths (comprehensive business proposals), and to our value creation process, also providing financial information on our business and financial strategies and non-financial information about what we see as our primary corporate value (the brand value of the "Endless Heart").

As represented by those fields shown on the cover page that we see as social issues, namely *Asu Fukaketsuno* (Indispensable for Tomorrow), we hope that the information contained herein will help you understand the stances we have adopted at Daiwa House Group where our objectives are sustained growth and the long-term enhancement of corporate value, using social issues as launch pads for expanding business opportunities.

(The cover page displays these fields clockwise around the heart symbol, representing safety & comfort, speed & stock, welfare, the environment, health, information-communication technology, and agriculture respectively.)



Scope of this report
The report provides information on the Daiwa House Group overall (281 consolidated subsidiaries and 28 equity method affiliated companies as of March 31, 2018), with a focus on Daiwa House Industry Co., Ltd.

Notice regarding financial data (numerical data in graph form or otherwise)
Amounts less than one unit are omitted in this report.

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

C O N T E N T S



1 The Story of Value Creation

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

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2 Contributing to Society through Business

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The Story of Value Creation

Contributing to Society through Business

Shareholder Value Creation

Enhancing the Value of the Endless Heart

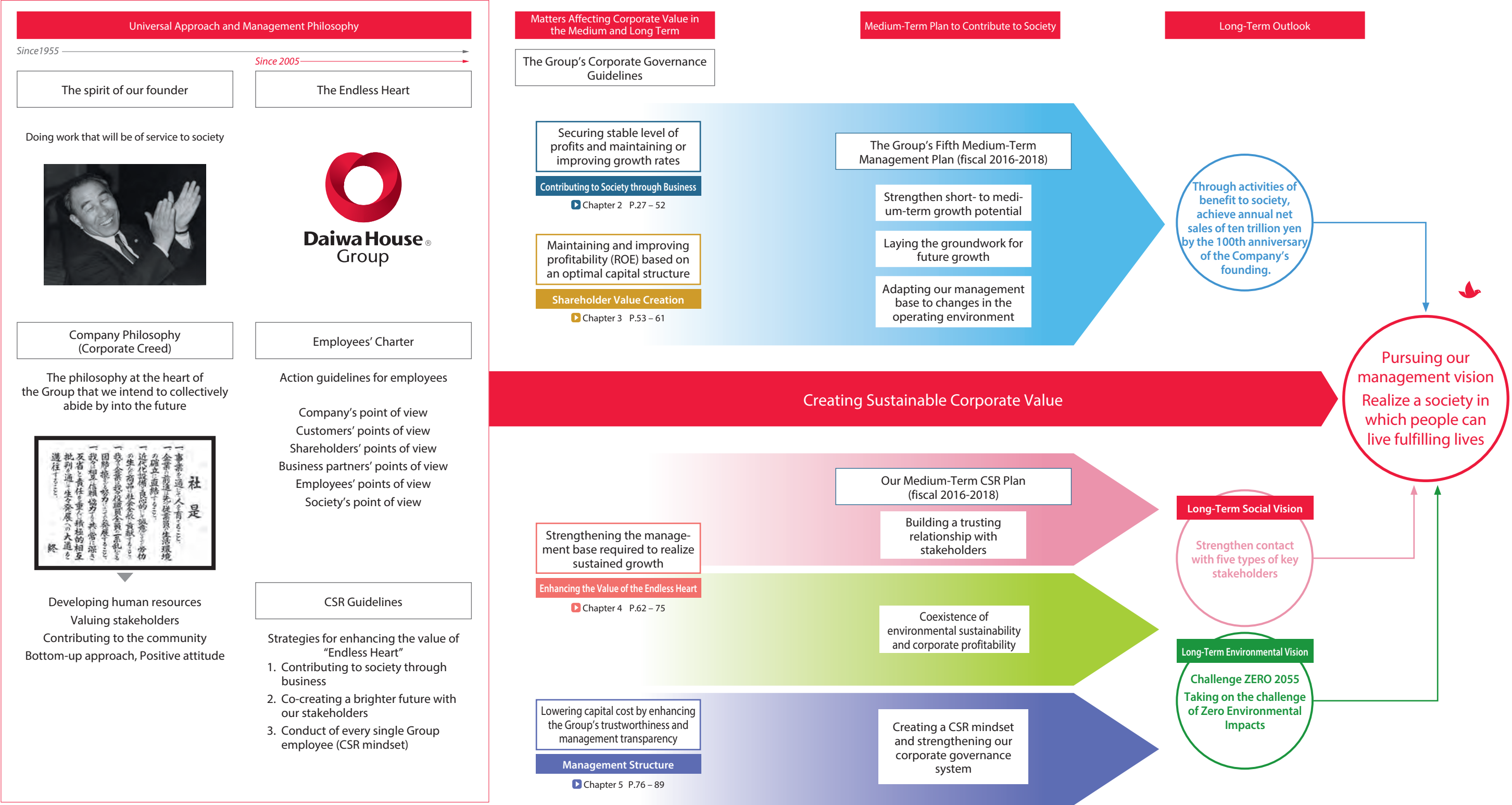
Management Structure

Data Section

Realizing Management Vision that Embodies Spirit of our Founder

In the half-century since its founding in 1955, the Company has grown through business activities that contribute to society while upholding our Company Philosophy (Corporate Creed) of our founder Nobuo Ishibashi who also spoke of “doing work that will be of service to society”. Moreover, reflecting the needs of the time, the Company marked its 50th anniversary in 2005 by choosing the “Endless Heart” symbol and formulating our Employees’ Charter and CSR Guidelines, also adopting the ambitious goal of “achieving annual net sales of ten trillion yen by

the year 2055, which will be the 100th anniversary of the Company’s establishment.” Without losing sight of the universal approach embodied in the spirit of our founder, we have formulated corporate governance guidelines and medium-term management plans as we work toward our long-term aim of “realizing a society in which people can live fulfilling lives,” with the intention of delivering a sustainable increase in corporate value by working steadfastly toward our goals.



Resource Allocation and Principal Management Items Required for Sustained Enhancement of Corporate Value

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

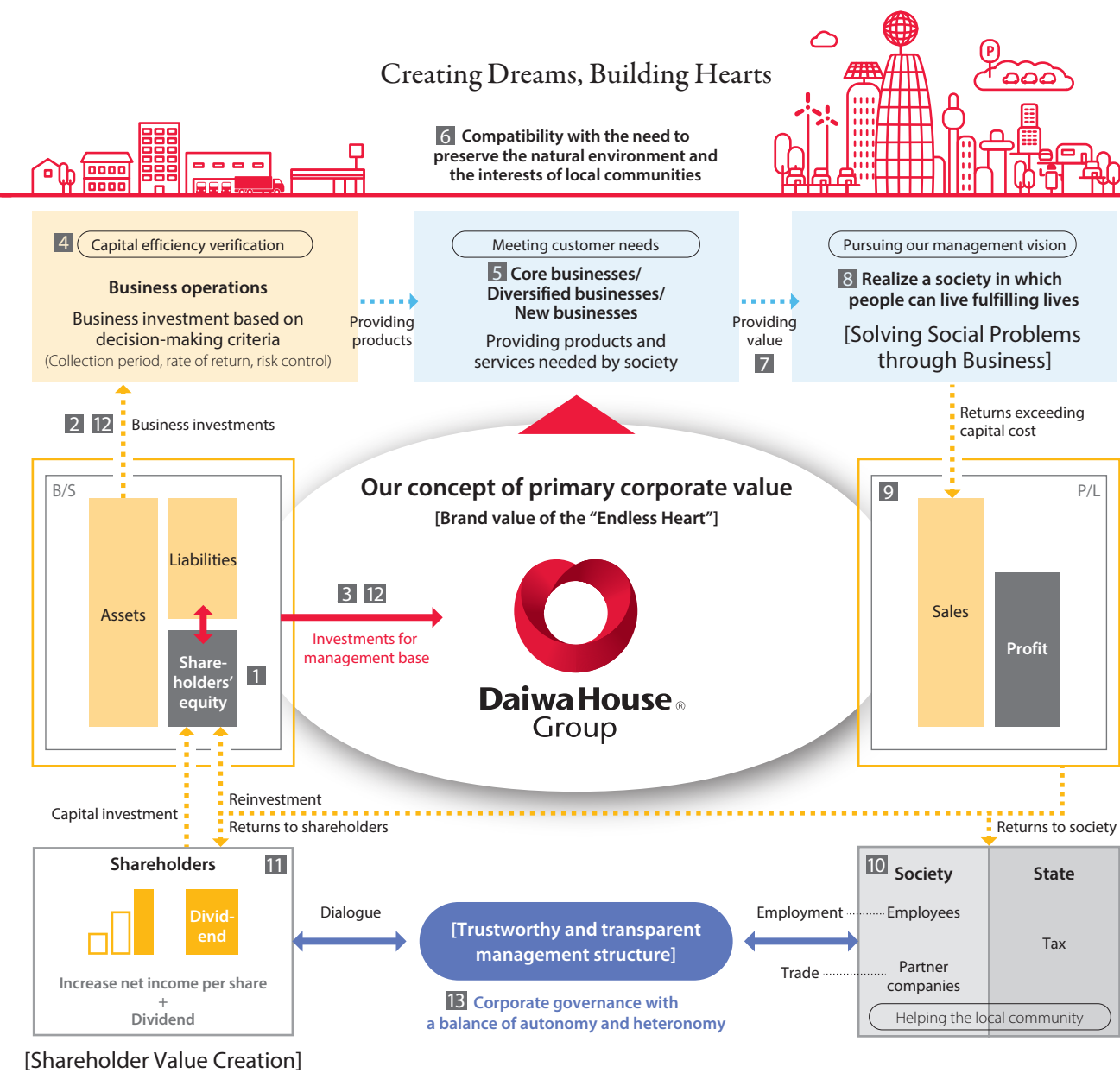
In order to maximize corporate value over the medium to long term, Daiwa House Group will utilize the capital supplied by our shareholders and acquired through appropriate leverage 1 to invest in businesses that include real estate development, overseas operations, M&A, and others 2, and also to deploy these funds in ways that will strengthen the Group's management base through human resources development, research and development, and production facilities 3. Utilizing investment criteria founded on capital efficiency and risk verification 4, our business investments will be used to build up a portfolio of businesses with differing life cycles through the allocation of resource to the promotion of our core businesses, business diversification, and new business

development 5. By providing products and services with a high level of compatibility with the need to preserve the natural environment, as well as the interests of local communities 6 and of a high added value needed by society 7, we hope to help realize a society in which people can live fulfilling lives [Solving Social Problems through Business] 8. As a result of these business activities, we are able to secure profits exceeding the capital costs 9, to build even better relationships with our stakeholders 10, and to increase shareholder value [Shareholder Value Creation] 11. We will also reallocate resources to achieve even higher levels of shareholder value 12.

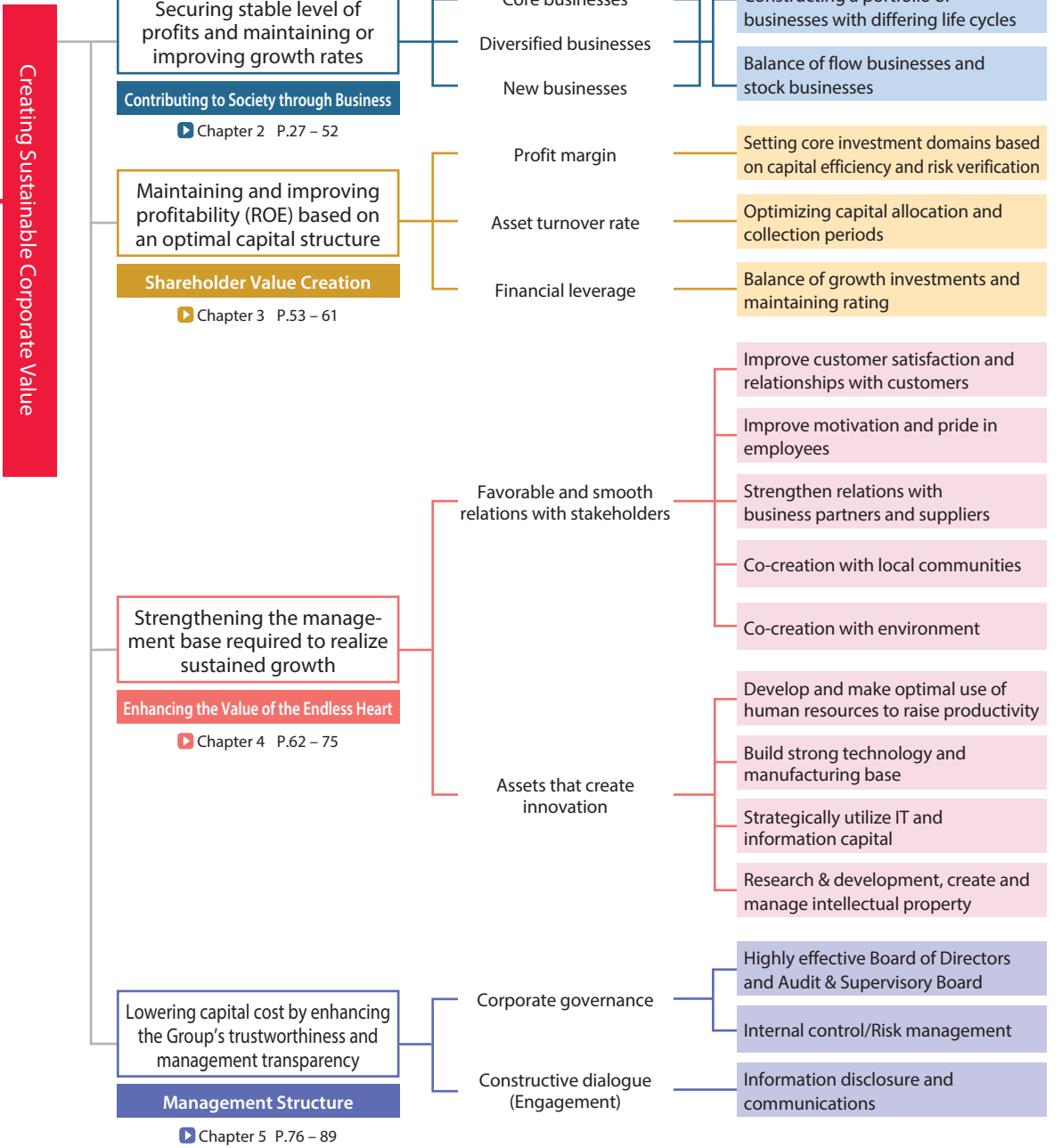
To ensure the sustainability and correctness of these business cycles, we have created a corporate governance system with a balance of autonomy and heteronomy while engaging in initiatives with our assets to stimulate innovation from a medium- and long-term point of view, and are working to strengthen our management base (human resources base, customer base, and technology and manufacturing base) 13. Additionally, in the spirit of "Creating Dreams, Building Hearts," we intend to operate our business in such a way that we give due consideration to how we can contribute to sustainable progress, including progress on those social issues represented by the sustainable development goals (SDGs), and to transform the feedback we receive

from society into a motive force behind our taking on new challenges. With regard to the principal management items that need to be addressed to enhance corporate value, the factors that affect medium and long-term corporate value have been identified in the corporate governance guidelines published in May 2015, and are also reflected in our medium-term management plans. Through these activities, we strive to improve our concept of primary corporate value [the brand value of the "Endless Heart"] to generate cash flow. Through the ever-changing business environment, our aim is the sustained improvement of our corporate value, through the correct allocation of resources to meet each situation.

Resource allocation and flow



Principal management items



Message from the CEO

Inheriting the spirit of our founder, we aim to be a corporate group that develops from one generation to the next



Takeo Higuchi

Takeo Higuchi
Chairman and CEO

Since its founding in 1955, Daiwa House Industry has succeeded in anticipating social and economic changes during a period of history marked by constant transformation, and has created and offered to the world products and services that meet people's needs in our three broad operational areas of Housing (residential-use construction), Business (commercial-use construction), and Life (products and services that support daily life). The Group's business portfolio has changed greatly as we have responded to social needs by developing our operations, actively innovating and opening up new business fields. As a result, the Group's annual net sales on a consolidated basis have reached ¥3,795.9 billion, with 317 companies employing a total of roughly 64,000 staff. In line with our motto, we have truly grown into a "group that co-creates value for individuals, communities, and people's lifestyles." None of this would have been possible without the constant support we have enjoyed from our stakeholders, and on behalf of the Group, I would like to express our heartfelt gratitude.

We have inherited the spirit of our founder, and this is the driving force behind our sustainable management

It is said that fewer than three percent of companies manage to maintain their existence for one hundred years or more. Perhaps one of the reasons why a company fails to continue in operation is that the management becomes overconfident about its ability to develop under its own steam. To be a sustainable enterprise, it is important that management avoids becoming overconfident—one might say "arrogant"—as the company's scale grows: they must constantly exercise humility so as to continue being a corporate group that exercises self-control.

For the Daiwa House Group, "self-control" translates into inheriting the spirit in which our founder Nobuo Ishibashi established Daiwa House Industry. The reason that the Company, and subsequently the Group, have succeeded in maintaining business operations right up to the present day is that every one of our executives and employees has been highly motivated by the corporate philosophy and attitude to business handed down to us by Nobuo Ishibashi. Because of this, we have created and maintained organizational operations characterized by imagination, sincerity, and enthusiasm.

I believe that it is the Daiwa House Group's predestined path to be a sustainable enterprise that continues—far into the future—to be regarded by the community as a whole as a necessary part of society,

and that the Group will be able to achieve this by pursuing the mission of being an enterprise that provides solutions to social issues. To realize this, we must abide by the spirit of our founder, must "get the little things right," and do the obvious tasks correctly and carefully.

Six criteria for self-control—the cornerstone of management

In 2001 I drew up six criteria to be used in making decisions relating both to the day-to-day conduct of business and to new issues. These criteria are:

- Does it benefit our company?
- Does it benefit our employees?
- Does it benefit our customers?
- Does it benefit our shareholders?
- Does it benefit society?
- Does it contribute to our future?

These criteria form the cornerstone of the Group management's self-control, which is essential if it is to be a sustainable enterprise.

Another of the important teachings that our founder Nobuo Ishibashi left us is: "Behind all our employees stand their families. And we have subcontractors, whose members also have families. In this way, a company has the duty to protect the livelihoods of many people. A company is a public organ of society." Because we look at our corporate existence in this way, we have always thought about our employees above all else, and have upheld a high level of ethics. Finally, in all its decisions, the Daiwa House Group bases its judgment criteria on the advice of Nobuo Ishibashi: "Do not do things because they will make a profit, but because they will be of service to society."

I believe that it is only by placing great importance on self-control by employees and top management alike, and by creating an environment in which each individual's character can become fully formed—thereby bringing out the total potential of everyone involved in the enterprise—that the Daiwa House Group's true worth and quality can be actualized. I hope that, amid a rapidly changing social and business environment, even though the reins of the Group's management pass on to a new generation, they will continue to exercise self-control while being ever-mindful of the corporate philosophy bequeathed to us by our founder, and the example of his spirit. And I further hope that the management of the Group will maintain the Daiwa House corporate culture of welcoming new challenges, without being afraid of failure.

Toward the target of ¥10 trillion in annual Group net sales by our 100th anniversary

Nobuo Ishibashi, the founder of Daiwa House Industry, was determined that the Company should provide solutions to social problems and thus become an enterprise that is permanently regarded as essential to society. In line with this, we have inherited his ambitious dream of growing the Group's annual net sales to ¥10 trillion by the 100th anniversary of the Company's founding.

The Group's operating environment certainly does not suggest that the picture for the Group's future is unrelievedly bright, considering such issues as Japan's population, which is simultaneously "super-aging" and declining in number. This means that reaching our goal will not be easy. Nevertheless, we are keeping our founder's spirit alive and applying the six decision-making criteria that I have described, and thus I am confident that our "in-Company entrepreneurs" will work to translate their ideas into new businesses that will be of service to society in the new age that will unfold henceforth. And if the products and services that they create are well-received by the market, there is every reason to believe that we will approach our goal of ¥10 trillion in net sales by the year 2055, when we celebrate the 100th anniversary of the founding of Daiwa House Industry.

The fact of the matter is that I, personally, constantly keep in mind Nobuo Ishibashi's advice to "do things because they will be of service to society." It was because I take seriously our commitment to addressing social issues that I conceived of the Group's catchphrase *Asu Fukaketsuno* (Indispensable for Tomorrow), which encapsulates our desire to develop and offer to society the products and services it will need in the coming years. *Asu Fukaketsuno* is composed of the initial

syllables of the Japanese words for safety & comfort, speed and stock (in the sense of the stock of existing housing), welfare (in the sense of nursing care), the environment, health, information-communication technology, and agriculture. In line with this catchphrase, the Group has already created numerous businesses addressed to finding solutions to social problems both within Japan and overseas, including in the areas of robotics, environment and energy, and agriculture, and we continue to create new businesses across a wide spectrum.

In November 2017, Daiwa House Industry saw a changing of the guard at the management level, with Keiichi Yoshii becoming the Company's new President and COO. Mr. Yoshii is a graduate from the first year of the Daiwa House Juku—a management skills school that we established to provide future successors to our top management staff—and as such, he has inherited the business spirit of our founder and has all the requisite qualities for leadership. I am confident that he will push the Company further forward along the path of providing new and truly needed value to society.

We at the Daiwa House Group will continue working toward the achievement of our founder's ambitious goal. We will not be satisfied with the status quo, but will always be ambitious and positive, working to raise the Group's enterprise value to still greater heights and further enhance shareholder value. It is my sincere hope that the shareholders of Daiwa House, as well as investors and all our other stakeholders, will continue to support our ongoing efforts.



Message from the COO

Contributing to the realization of a sustainable society through the “bottom-up approach”

I assumed the post of President and COO in November 2017, and as I take another look at the Group as a whole from my new viewpoint as a member of the top management, I am once again struck forcefully by the realization of what a great variety of talented personnel we have tackling their tasks every day with a positive spirit. I am acutely aware of my responsibility as the leader of these employees—who hold the future of the Group in their hands—to guide them toward still greater corporate growth.

The spirit of our founder will live forever in our hearts

Since I joined Daiwa House I have worked on the front line of marketing, and have always put great importance on the “bottom-up approach” to business. Even though the Group’s sphere of business operations has expanded greatly, the central importance of the “front line” (the building site or the factory shop-floor) remains unchanged. The bottom-up approach refers to the concepts of “determining needs and issues on site” and “identifying the realities on the ground”—both of which are aspects of business that cannot be ascertained through data alone. Not only our marketing staff, but all the employees of the Daiwa House Group, are fully trained in this approach. Moreover, as we can see in the words handed down to us by our founder Nobuo Ishibashi—“Marketing begins after your offer has been turned down”—the positive spirit that is born and nurtured at the front line of business is the driving power of our growth. This is the business spirit of Nobuo Ishibashi, and will also remain the Group’s corporate DNA for as long as it exists.

The bottom-up approach, just as other aspects of our founder’s spirit, is not something that can be taught to Group employees overnight and then acted on. Upon joining the Group, all new employees are issued with *The Future of the Daiwa House Group*, a book written by Nobuo Ishibashi, in which he describes his business philosophy. This book enables employees who are having difficulty making a decision to get back in touch with the Company’s roots, and helps show them the way forward. It is our intention that all executives and other employees of the Group should become so fully imbued with the spirit of our founder, as revealed in *The Future of the Daiwa House Group* and elsewhere, that they apply it to every aspect of their everyday work.

It is no exaggeration to say that the strength of the Daiwa House Group lies in the transmission of our founder’s spirit. As a manager, I believe it my duty to make certain that this tradition is passed on to the next generation, and to draw up a reliable course toward the achievement of continuous growth.

Leveraging the Group’s organizational strength to realize further growth

The Daiwa House Group is composed of an organizational structure encompassing a tripartite system of branches/offices, business divisions, and geographical blocs. Operations are handled by the staff of the branches/offices from a viewpoint originating from the requirements of the front line (building site or factory), while the staff of the business divisions view issues from the standpoint of their respective specialties, and the staff responsible for administering the blocs divide up the entire operational region into smaller areas so as to apportion resources most effectively to those particular areas that need them. This system enables us to review our operations from all possible angles, ensuring multifaceted and efficient business operation.

Thanks to the functioning of this multifaceted organizational structure, over the past two or three years we have achieved considerable progress in realizing synergy between different businesses. There have been cases in which a single business division has wished to undertake a project but found it difficult to do so. However, by collaborating with another division or with more than one division, or through collaboration with Group-member subsidiary companies, they have been able to bring to fruition projects with a greater level of value than would otherwise have been possible. The Group is now capable of handling a wide variety of projects from start to finish, ranging from the construction of infrastructure through urban development covering home building and construction of various facilities (as well as their maintenance and management), to the provision of services. This capability is the Group’s greatest strength, and we are proud to say that there are only a handful of other companies—either in Japan or overseas—that are similarly able to handle every aspect of a project involving real estate transactions and construction work.

In my opinion, it is precisely because the Group’s comprehensive capabilities have grown to the point where we can now make wide-ranging proposals, that we are also able to make our presence felt in overseas markets. With respect to this, we must remember our founder’s admonition: “Don’t get involved in a market just because you can make a profit” Rather, we will set the stage for further growth by demonstrating the sort of organizational strength that is needed to solve the problems faced by the people of each country in which we operate.



Drawing up a roadmap toward sustained growth

At the moment, the Daiwa House Group is on the verge of reaching ¥4 trillion per annum in net sales in the housing and construction industries. However, we cannot rely solely on our comprehensive strengths: I believe we must capture the No.1 market share in the fields of single-family houses, rental housing, and existing homes business, among others. This is because there are new growth strategies for each particular field that are visible only to the company that dominates that field.

Nobuo Ishibashi set us the ambitious goal of becoming a group with annual net sales of ¥10 trillion by the year 2055, our 100th anniversary, and to achieve this we cannot rely on tactical methods of solving localized problems: we need a thorough rethink of our medium- and long-term strategies that will set us on the path to new heights. I intend to draw up a roadmap to enable us to achieve sustained growth, based on my projections of the business environment twenty or thirty years down the road.

From an early stage, the Daiwa House Group has focused on issues such as environmental degradation as well as social problems including Japan’s aging population combined with a declining number of children. In the environmental field, our founder Nobuo Ishibashi was farsighted, saying that “the 21st century will be the age of wind power,

solar power, and hydro-electric power.” Today, the Group pursues businesses involving the generation of electric power from renewable power sources, and actively proposes environment-friendly construction projects. And in 1989, in anticipation of Japan’s increasingly aging population, Chairman and CEO Takeo Higuchi set up the Silver Age Research Center to handle the planning and design of medical and nursing care facilities. In these ways, the growth of the Group contributes to the sustained development of society through the creation of businesses aimed at solving social problems.

From here onward, too, in its role as an enterprise that develops in tandem with a sustainable society, the Daiwa House Group will realize further growth by operating businesses that people need. And for this purpose, too, we will focus our efforts on nurturing human resources who are the inheritors of the business spirit of Nobuo Ishibashi and who will display the required leadership qualities.

I hope that our shareholders and investors as well as other stakeholders will continue to support us in our future endeavors.

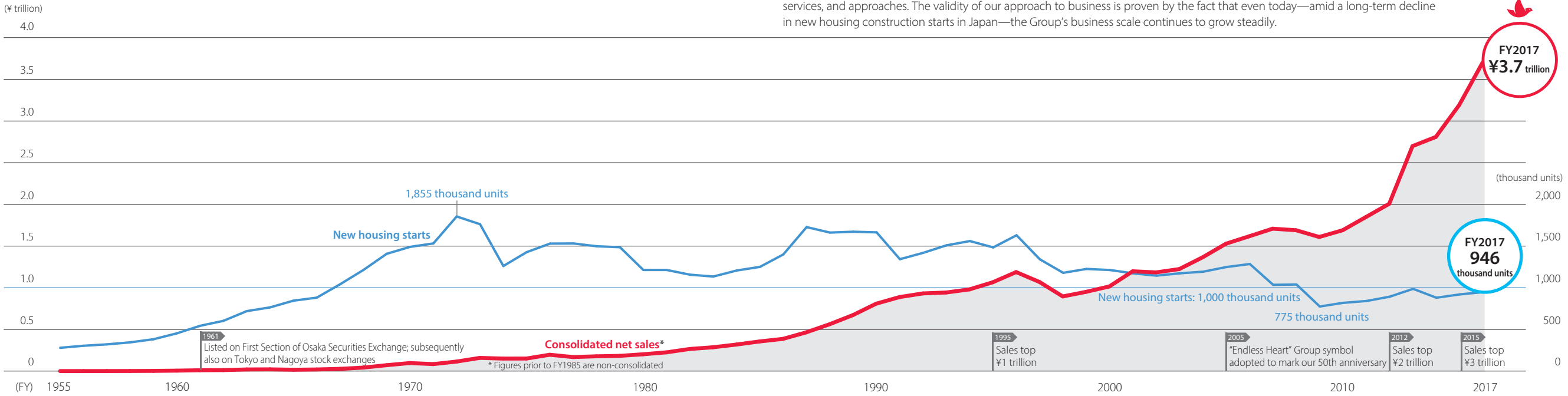
Keiichi Yoshii
President and COO

1 The history of the Daiwa House Group

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








Immediately after WWII, it was expected that Japan would need large amounts of timber for use as buildings materials in the reconstruction of the country. At that time, Nobuo Ishibashi—who would later become the founder of Daiwa House Industry—harbored a strong desire to protect Japan’s forestry resources. A major typhoon had recently devastated parts of the country, causing immense damage to timber-framed houses, and Mr. Ishibashi noticed that bamboo and rice plants in the fields had been largely unaffected by the typhoon. This was because their hollow-tube structure allowed them to bend with the wind without breaking. Seeing this, he was inspired to create the Company’s first product—the Pipe House. Rather than using Japan’s rapidly diminishing timber resources, Mr. Ishibashi came up with the concept of the “industrialization of construction,” in which the structural framework of a house consisted of factory-made steel pipes assembled on site. This enabled the erection of high-quality housing with a short construction period, constituting a revolution in the construction industry of Japan.

Since then, following our founder’s guiding principle of “doing things because they will be of service to society,” we at Daiwa House have been accurately evaluating social needs and employing a flexible mindset to invent and deploy a constant stream of new products, services, and approaches. The validity of our approach to business is proven by the fact that even today—amid a long-term decline in new housing construction starts in Japan—the Group’s business scale continues to grow steadily.



- Transition of sales
- Evolution of field of operations
- Social issues

Solutions from the Daiwa House Group

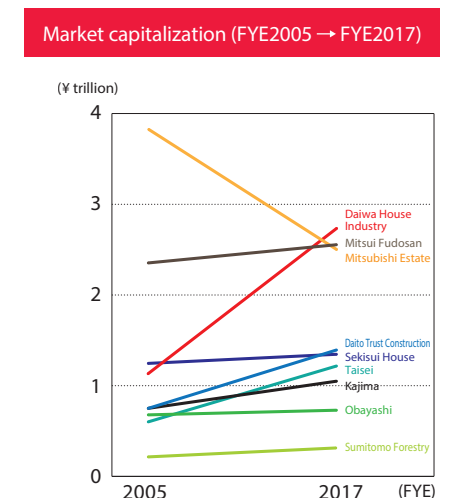
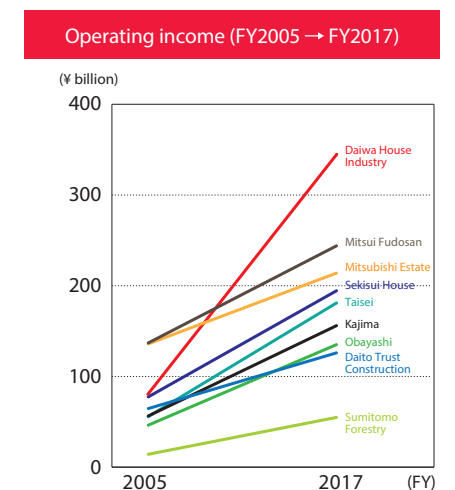
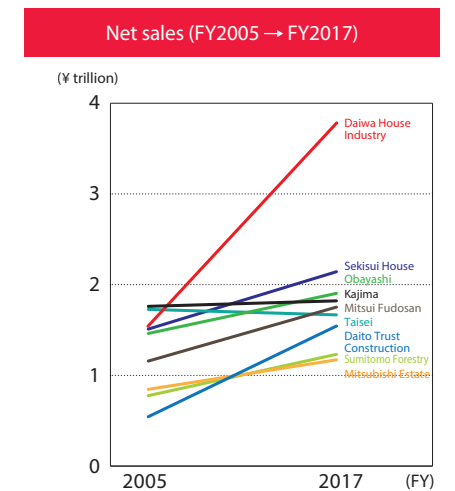
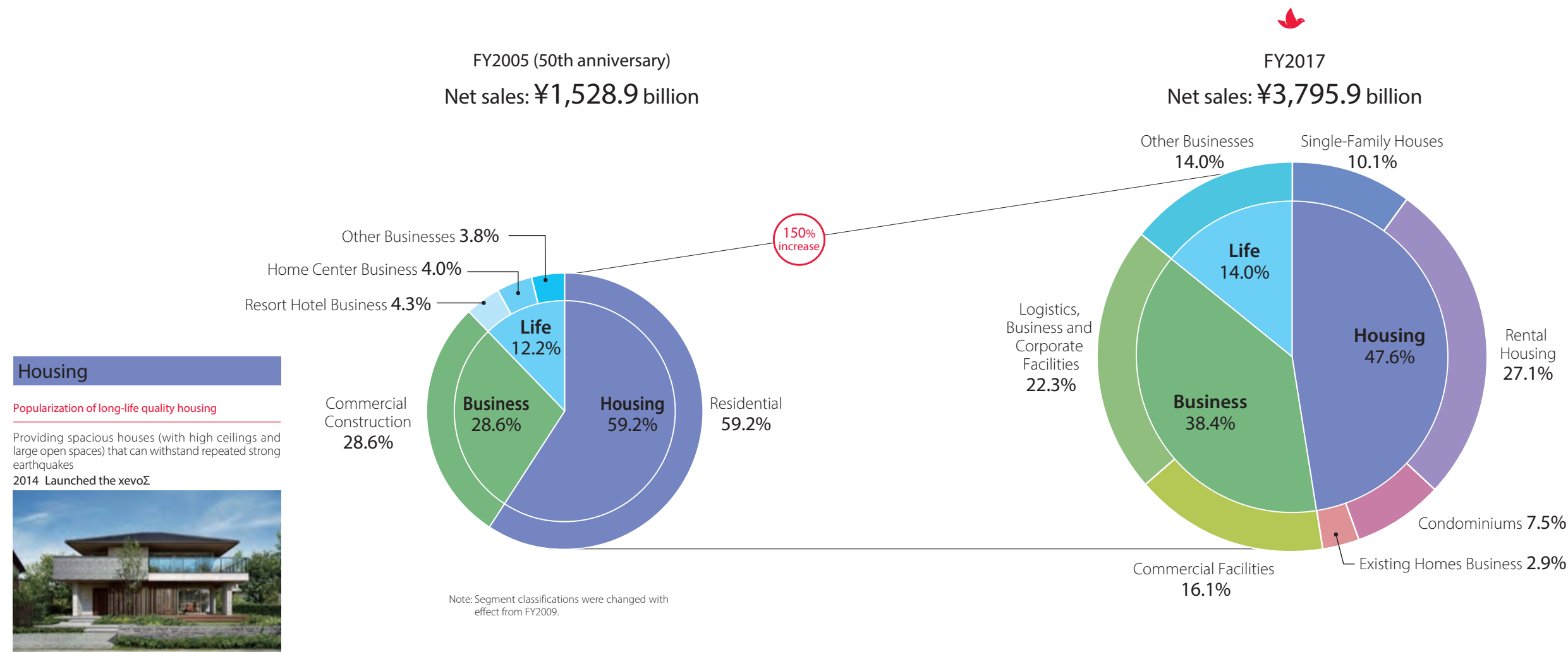
Industrialization of construction	Supplier of prefabricated housing	Total lifestyle enterprise	Group that co-creates value for individuals, communities, and people's lifestyles			
<p>Postwar housing and materials shortage</p> <div><p>1955—the Pipe House, our first product</p><p>Solving the timber resources shortage and creating a revolution in the construction industry of Japan</p></div> <div><p>1959—the Midget House</p><p>The starting point for the construction of the prefabricated houses needed to meet the lack of living space caused by the Baby Boom</p></div> <div><p>1962— foreshadowing today's housing mortgage loans</p><p>Solving the problem of buying one's own home through a tie-up with a private financial institution</p></div>	<p>On the eve of motorization of Japanese society</p> <div><p>1976— startup of retail and wholesale facilities business</p><p>Opening up of new market made possible by increased motorization</p></div>	<p>Preparing for advent of aging population</p> <div><p>1989— Silver Age Research Center established</p><p>Unique research institution dedicated to market surveys and analysis of problems relating to medical and nursing care facilities</p></div>	<p>Retailing revolution with advent of Internet-dominated society</p> <div><p>2003— development of large-scale logistics facilities</p><p>The logistics revolution—playing a core role in the infrastructure revolution, for consumers and for industry</p></div> <p>Ongoing global warming</p> <div><p>2007— Group commenced wind-generated electric power business</p><p>Helping solve global environmental issues through our Environment & Energy business</p></div>			
<p>Following a major typhoon that destroyed and damaged large numbers of wooden structures, Nobuo Ishibashi noticed how both bamboo and rice, which have hollow stems, were able to bend flexibly and gracefully despite the fury of the wind, without breaking. This gave him the idea of a steel-pipe structure, and the Pipe House pioneered the subsequent industrialization of construction in Japan, by which the country's construction industry was revolutionized.</p>	<p>Nobuo Ishibashi realized that the average house was too small for the large families resulting from the Baby Boom, and he heard children complain that there was nowhere at home where they could study properly. In response, he conceived the Midget House, which could be erected in only three hours. This proved immensely popular, and laid the groundwork for today's prefabricated housing industry.</p>	<p>At that time, to purchase one's own home generally required being able to pay the full price in cash. Daiwa House constructed Habikino Neopolis—Japan's first private-sector large-scale housing development— and to facilitate the sale of these homes it was able to offer the country's first mortgages through a tie-up with a private financial institution. In addition, mortgages linked with a life insurance policy were devised—the first such system ever proposed.</p>	<p>With the growth of motorization in Japan, we at Daiwa House saw possibilities opening up for a promising new market—retail outlets located along major roads leading into and out of major urban areas, known as “roadside shops” in Japan. Since then, we have been growing this new market by deploying our proprietary LOC System, which lets us match up landowners seeking effective ways to utilize their idle land holdings with prospective corporate tenants looking to open new outlets.</p>	<p>We set up the Silver Age Research Center in anticipation of the fully-fledged arrival of an aging population, and as part of our dedication to creating a social environment in which people can be sure of spending their post-retirement years in comfort and without worries. The staff at the center study the design of nursing care facilities and certain aspects of the care services provided there, and thus far we have put this know-how to use in the planning and design of more than five thousand medical and nursing care facilities.</p>	<p>The logistics industry is a vital part of today's Japanese economy, and the Daiwa House Group has developed a large number of logistics facilities, centered on build-to-suit facilities, which are closely tailored to meet each individual tenant company's requirements. Our start-to-finish comprehensive services, from site proposal through facility design and construction to day-to-day operation, are now relied on by a large number of corporations.</p>	<p>The Group has long focused its attention on the world's increasingly severe environmental issues. We believe that, in the 21st century, it is vital to commercialize electricity power generation from the renewable natural sources of wind, solar radiation, and water. As a first step, we entered the wind-power field, and subsequently expanded our use of photovoltaic power generation using solar panels on the roofs of our own facilities and others. As a result, the total amount of electricity generated by the Group from renewable energy sources have grown to approximately 302GWh/year*, sufficient to supply the needs of around 68,000 households.</p> <p>*As of March 31, 2018</p>

② The Daiwa House Group today

**We are no longer just house builders.
In line with our motto of being “a group that co-creates value
for individuals, communities, and people’s lifestyles,”
we create new value for the whole of society.**

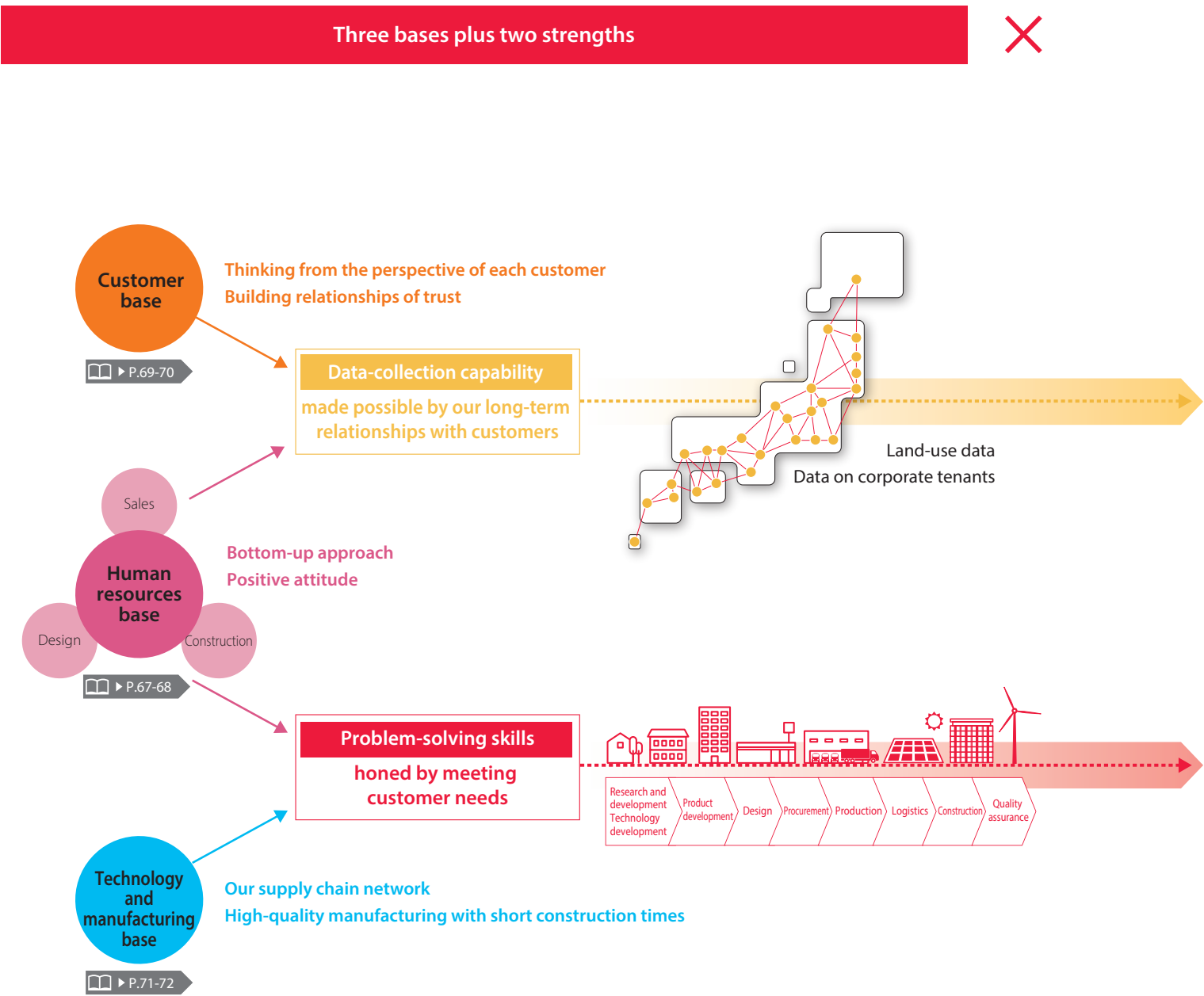
In 2005 (the 50th anniversary of the founding of Daiwa House Industry) the Daiwa House Group adopted a new group symbol—the “Endless Heart.” Since then, in line with our motto of being “a group that co-creates value for individuals, communities, and people’s lifestyles,” we have extended our operations beyond the confines of the category of “house builder” to establish a wide range of businesses needed by society. Our long-term goal is to help realize a sustainable society by the time we reach our 100th anniversary.

We divide the Group's business operations into three broad areas that we call Housing (construction of single-family houses, rental housing, and condominiums, and operation of home renovation services), Business (construction and operation of commercial and business facilities, logistics facilities as well as medical and nursing care facilities, among others), and Life (operation of home centers, hotels, and others). Through these operations, we aim to provide new value in all aspects of society.



③ The source of our value creation lies in the Group's three "bases" and two strengths, plus our organizational ability

The source of our value creation consists of the three "bases" that we possess—our human resources, customer, and technology & manufacturing skills—as well as our strengths in data collection and in the proposal of effective solutions to customer issues, in addition to the organizational ability that stems from the matrix formed by our offices and branches, business divisions, and Group-member subsidiaries and affiliates.



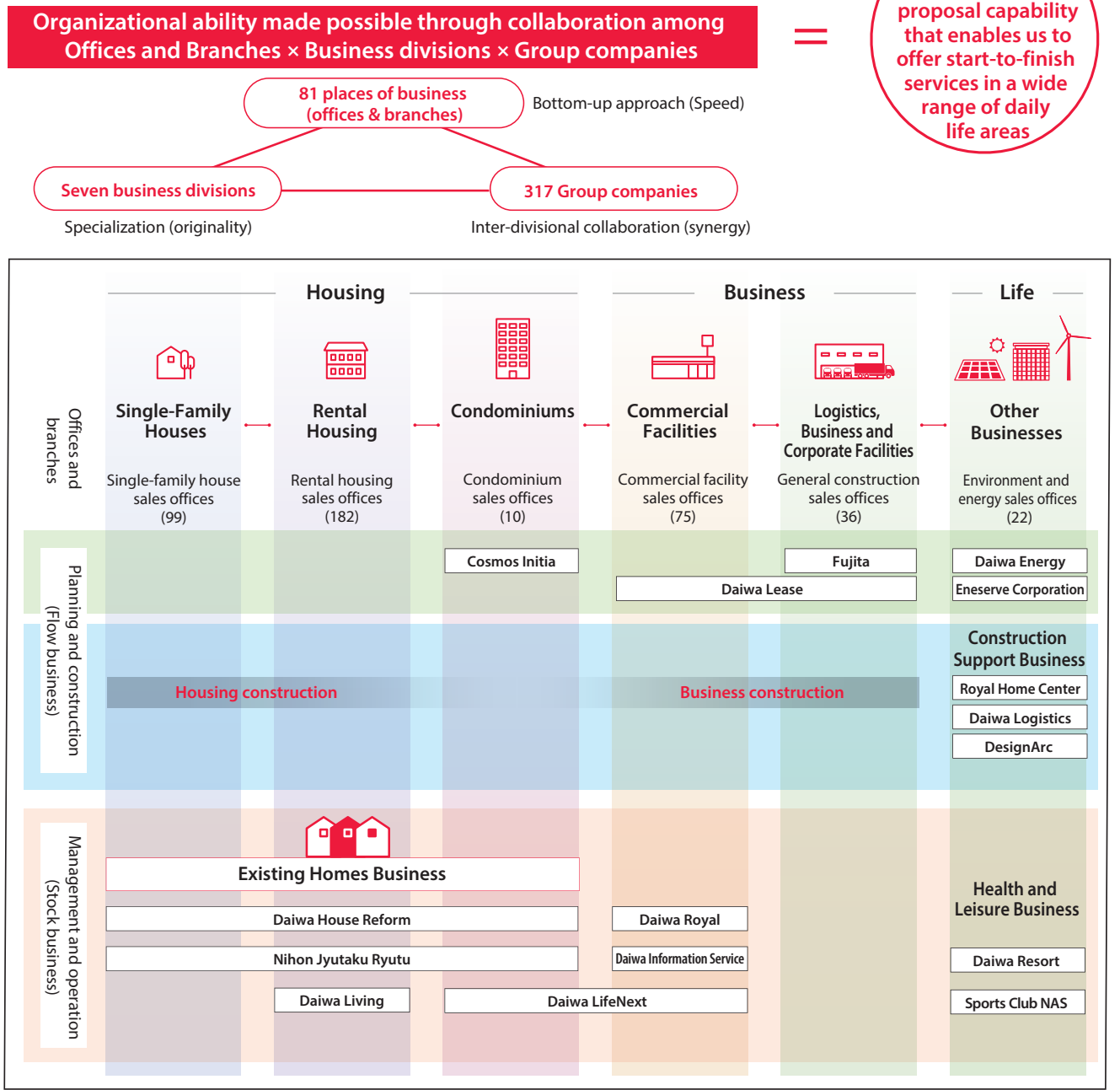
Company philosophy (corporate creed)

• Our Company will develop thanks to the complete solidarity and tireless efforts of all executives and employees.

Simultaneously with creating new businesses that address social issues, we have also worked to strengthen the Group's business foundations. These consist principally of three "bases"—our human resources, which support our ability to continuously evolve in line with our founder's business philosophy; our solid customer base, which has been built up over long years of close relationship with our corporate clients and individual customers; and our thoroughly reliable technological expertise and manufacturing skills, which enable us to embody the value our customers seek in the products and services we provide. Finally, the data collection capability and problem-solving skills that these three bases have made possible constitute the Group's vital intangible assets, built up over many years of operation.

At the same time, the Group's organizational ability has been greatly reinforced thanks to the comprehensive strength provided by the three-in-one matrix formed by our offices and branches, business divisions, and Group-member subsidiaries and affiliates. In line with our emphasis on the bottom-up approach and speedy execution, we have delegated considerable decision-making authority to our branches and offices; we have created business divisions designed to optimally leverage proprietary technology and specialist know-how; and the subsidiaries and affiliates who are members of the Daiwa House Group work efficiently to highlight the unique characteristics of each of their businesses and to reinforce intra-Group collaboration.

These important intangible assets and this strong organizational ability operate as the wellspring of our value creation. They are the Group's prime forte, which will enable us to continue contributing to society across a wide range of fields through the comprehensive business proposal capability that will come into being from here onward.



Note: This report shows Daiwa House Industry's seven business divisions, non-consolidated (Single-Family Houses, Rental Housing, Condominiums, Commercial Facilities, General construction, Environment and energy, Overseas).

4 The Daiwa House Group's value-creation process

Our business is built on a base that is in turn strengthened by the conduct of that business.

To this virtuous circle that underpins our sustainable growth, Daiwa House Industry brings a medium- to long-term perspective on both society and the environment to make social contributions through our business activities.

Changes in the operating environment



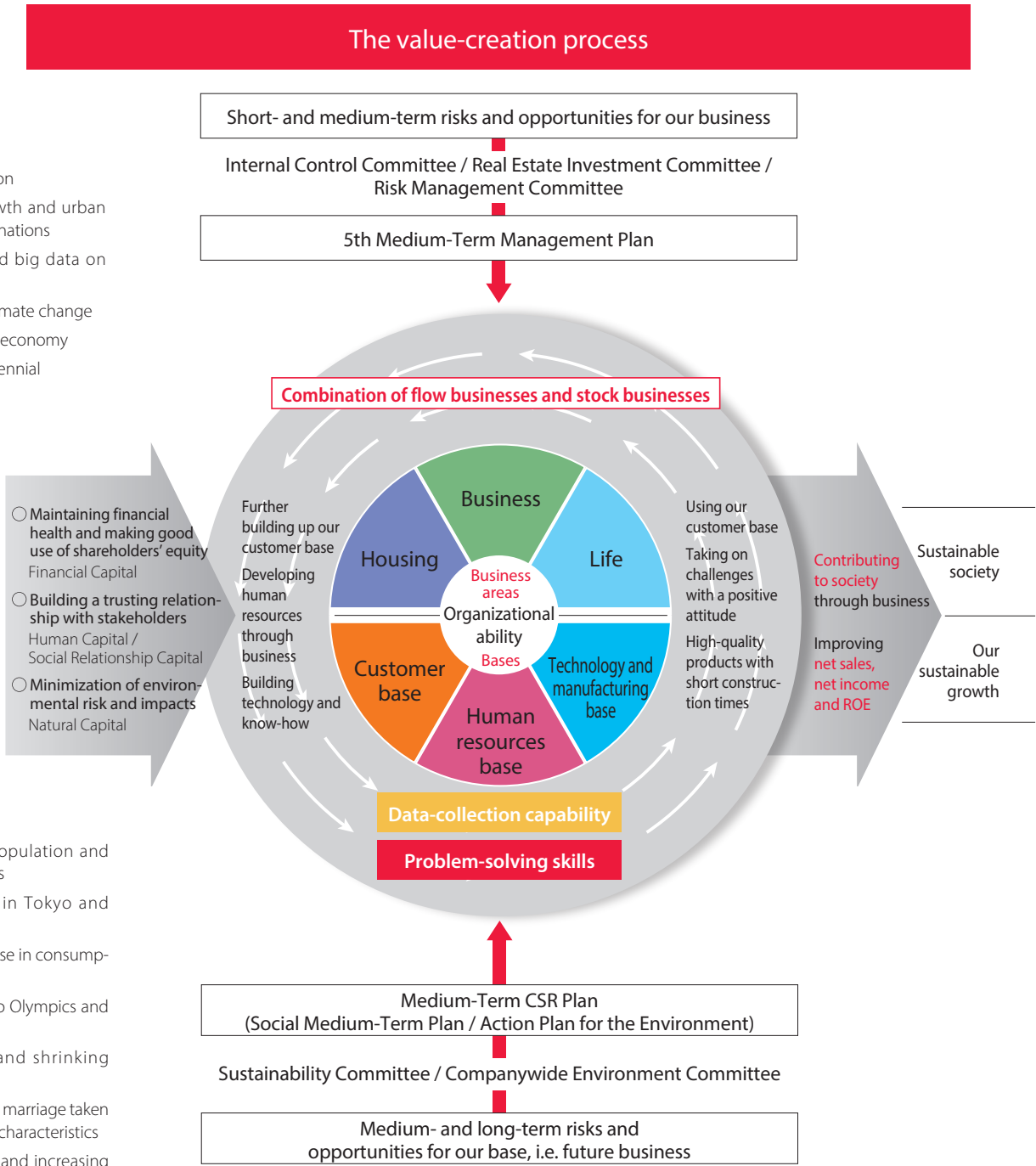
World

- ✓ Rising global population
- ✓ Rapid economic growth and urban progress in emergent nations
- ✓ Impact of AI, IoT, and big data on society
- ✓ Growing severity of climate change
- ✓ Growth of the sharing economy
- ✓ Emergence of the millennial generation



Japan

- ✓ Falls in both total population and number of households
- ✓ Overconcentration in Tokyo and decline of regions
- ✓ Planned further increase in consumption tax
- ✓ Holding of 2020 Tokyo Olympics and Paralympics
- ✓ Aging population and shrinking workforce
- ✓ Low birth rate and late marriage taken hold as demographic characteristics
- ✓ Working style reform and increasing public role of women
- ✓ Persistence of energy problems



Our business model is characterized by a virtuous circle in which, by strengthening our three bases—our human resources, our customer, and our technology and manufacturing—through our involvement in a diversity of business activities that cover individuals, communities, and people's lifestyles under the headings of Housing, Business (non-housing construction), and Life (daily life-related services), we in turn draw on these core capabilities to generate new business opportunities. This has given us a distinctive business activity portfolio that combines flow businesses and stock businesses, something not found among other home builders and developers.

To ensure that this virtuous circle retains its integrity into the future, we seek to minimize risks and maximize opportunities by considering our medium- and long-term risks and opportunities in terms of society and the environment with regard to changes in the operating environment, and to incorporate these into our Medium-Term CSR Plan (Social Medium-Term Plan and Action Plan for the Environment). As a result, we not only make a contribution to society and help preserve the natural environment, the very basis of our business is transformed into something that takes greater account of society and the environment. Through this two-fold approach, we will both help realize a sustainable society and achieve our own sustainable growth as a company.

FY2017

Business areas	Results (outputs)	Contribution to society and the environment (outcomes)	
Housing	<ul style="list-style-type: none">▶ Number of housing units sold: 52,199 (▲)▶ Units under management*: 896,150 (▲)▶ Number of renovations: 49,721 (▲)	<ul style="list-style-type: none">Establishment of quality housing stockLong-life quality housing 83.7%Purchase and resale of existing homes	<ul style="list-style-type: none">Different living to suit different stages of lifeHome with rental unitsRental housing boasting advanced security featuresServiced homes for elderly
Business	<ul style="list-style-type: none">▶ Retail and wholesale facilities constructed: 1,478 (▲)▶ Leasing floorspace of sublease areas within commercial facilities: 6,157,287m² (▲)▶ Development site area of logistics projects: 8,207,537m² (▲)▶ Orders received for contract-based medical and nursing care facilities: 574 (▲)	<ul style="list-style-type: none">Comprehensive diverse and sophisticated urban functionsCommunity-based commercial facilitiesCare-based medical facilities	<ul style="list-style-type: none">Establishment of urban infrastructure for changing industrial structuresAdvanced logistics facilitiesNext-generation industrial parksSmart cities
Life	<ul style="list-style-type: none">▶ Customer visits to our home centers: Approx. 28,526,000 (▲)▶ Guest stays at our resort hotels*: Approx. 8,337,000 (▲)▶ Number of sports club users: 188,696 (▲)▶ Number of parking lots under management: 53,375 (▲)	<ul style="list-style-type: none">Quality of life (QoL) improvementSlow livingGreater health and leisureConvenience of transportation	<ul style="list-style-type: none">Transition to lifestyles in tune with environmentContribution to CO₂ reduction: 5.14 million tUrban greening: 765,000m²

Bases	Results (outputs)	Contribution to society and the environment (outcomes)	
Customer	<ul style="list-style-type: none">▶ Number of Daiwa Family Club members*: 234 thousand (▲)▶ Rental housing owners*: 81,606 (▲)▶ Members of Owners Clubs*: 6,728 (▲)▶ Corporate tenants*: Approx. 4,000 (▲)	<ul style="list-style-type: none">Resolution of consumer issuesRate of satisfaction in ten-year inspection (Single family housing)Rate of reordering by existing owners (Rental housing)Rate of reordering by existing owners (Retail and wholesale facilities)	<ul style="list-style-type: none">95.9%39.5%33.3%
Human resources	<ul style="list-style-type: none">▶ Training hours per employee: 3.70 hours per year▶ Rate of satisfaction of employees: 82.7% (▲)▶ Number of female managers: 15.3 times compared to FY2005 (▲)▶ Overtime work hours: 5.6 fewer hours per month on average compared to FY2014	<ul style="list-style-type: none">Development of human resources with a variety of skillsSatisfaction of our employees with respect to general personnel development	<ul style="list-style-type: none">Achievement of employment diversity and job satisfactionProportion of employees with high work motivation
Technology and manufacturing	<ul style="list-style-type: none">▶ The Trillion Club (Materials suppliers): 241 companies▶ The Setsuwa Club (Equipment manufacturers): 149 companies▶ Partner companies in construction and manufacturing: 4,663 companies	<ul style="list-style-type: none">Adoption of CSR management by business partnersNumber of companies with whom we have CSR procurement agreements	<ul style="list-style-type: none">Improve working conditions and secure personnel for business partnersNumber of employees trained on-site: 793 (Housing: 484 Building construction: 309)

*1 Combined total for rental houses and condominiums under management

*2 Combined total for resort and city hotels

*3 Daiwa Family Club is the membership organization for the owners of Daiwa House Industry residences (houses or condominiums), non-consolidated

*4 Number of landowners on whose land we have built rental housing

*5 Clubs for landowners with whom our commercial facilities business has done business

*6 The number of companies dealt with our commercial facilities business

5 A vision of the Daiwa House Group's future
(co-creating a brighter future for society and environment)

We will make more active use in our business operations of the problem-solving skills we have built up together with stakeholders, as a way to expand new business opportunities.

Based on our Medium-Term CSR Plan, we are working from the perspectives of society and the environment to build relationships of trust with stakeholders and minimize environmental risks and impacts. By integrating this work into the value creation process and strengthening the three "bases" and the "organizational ability" that underpin these activities, these initiatives help us maintain and improve the competitiveness of our existing businesses and contribute to society through our operations.

Moreover, by ensuring that this work is put into practice and maintained, we are strengthening our ability to identify complex societal needs, to engage in dialogue and co-creation with a variety of other parties, and to respond to social issues.

We also intend to make maximum use of our ability to respond to social issues as a means of extending the scope of new business opportunities by devising business strategies that emerge from these social issues in order to expand our business fields in the future.



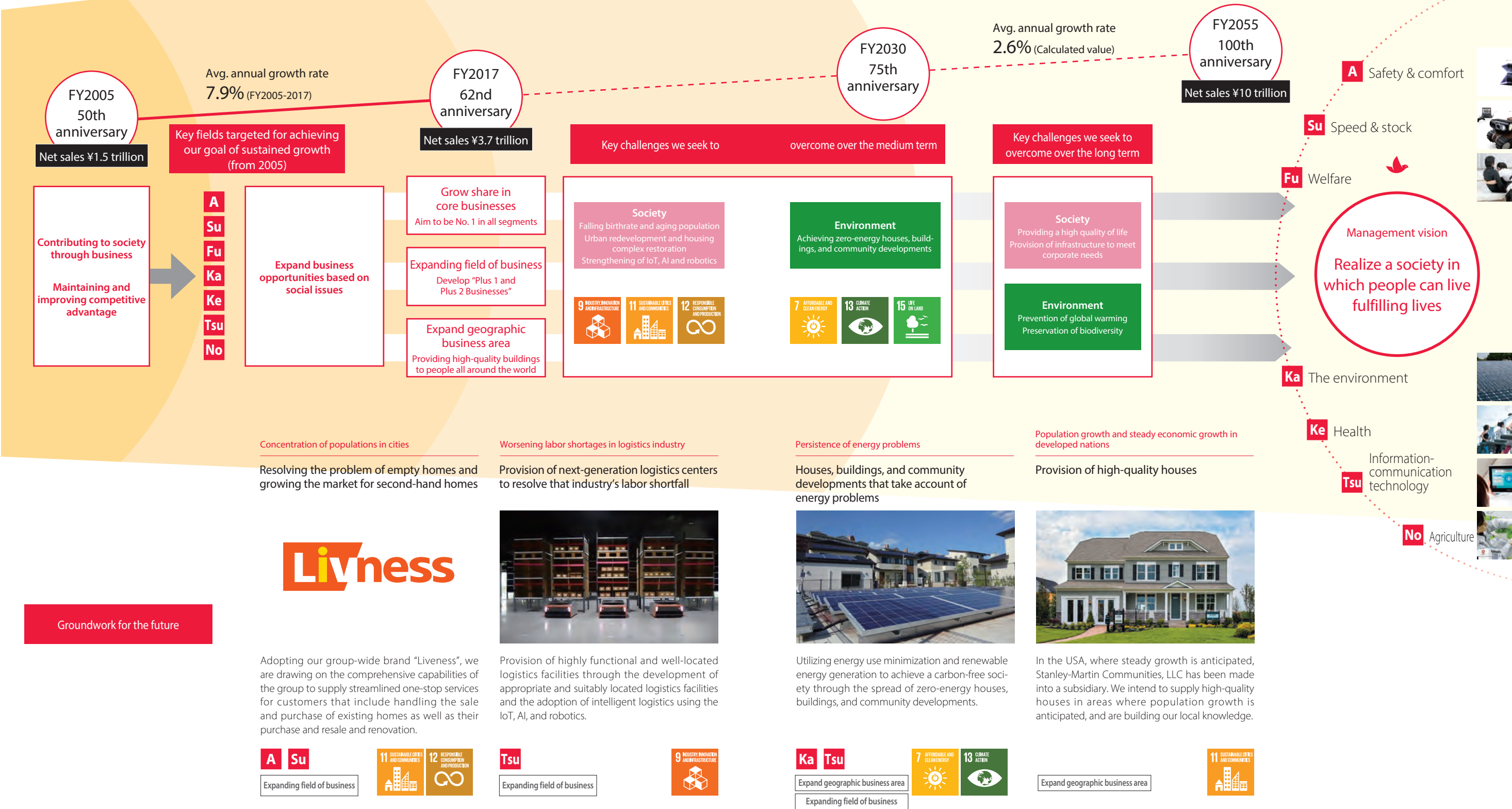
⑥ A vision of the Daiwa House Group's future (expanding our business fields)

To realize our management vision, Daiwa House Industry will continue to be a corporate group that listens to and responds to the voices of the world around us so as to achieve our ambitious dream of annual net sales of ten trillion yen by our 100th anniversary.

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

By expanding both our field of business and our geographic business area, as well as by listening to the voices of the world around us to improve the market share of the core businesses we have been involved in to date, Daiwa House Industry is taking up the challenge of achieving our dream. This dream is expressed in our management vision of "realizing a society in which people can live fulfilling lives".

To achieve this, we seek to lay the groundwork for new business and maintain ongoing growth while also considering contribution to the SDGs, based around concept of *Asu Fukaketsuno* (Indispensable for Tomorrow), which details the businesses we must engage in.



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

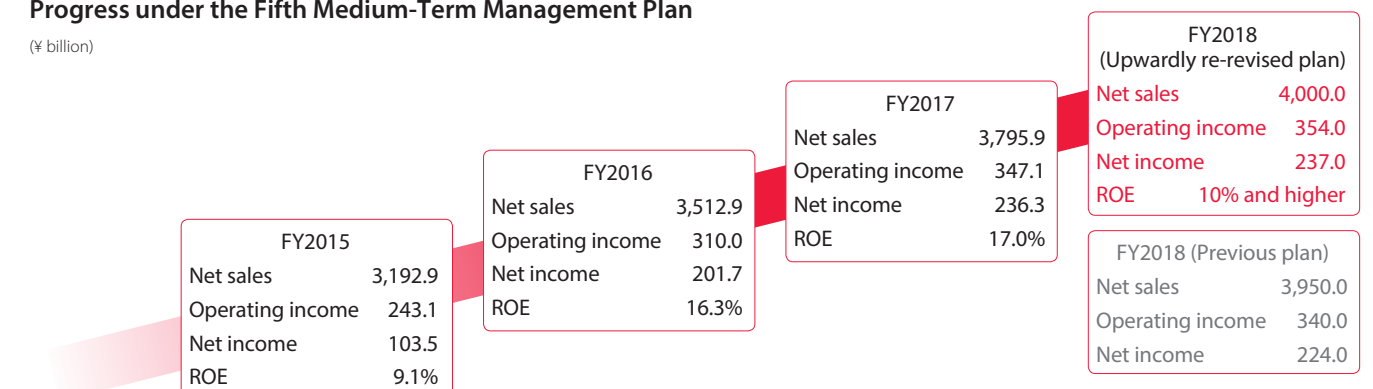
investment for our growth strategy over the three-year period from ¥900 billion to ¥1 trillion. We plan to invest a record high of ¥720 billion in real estate development, with actual cumulative investment over two years reaching ¥501.3 billion, about 70% of that total (of which ¥416.8 billion was in 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.

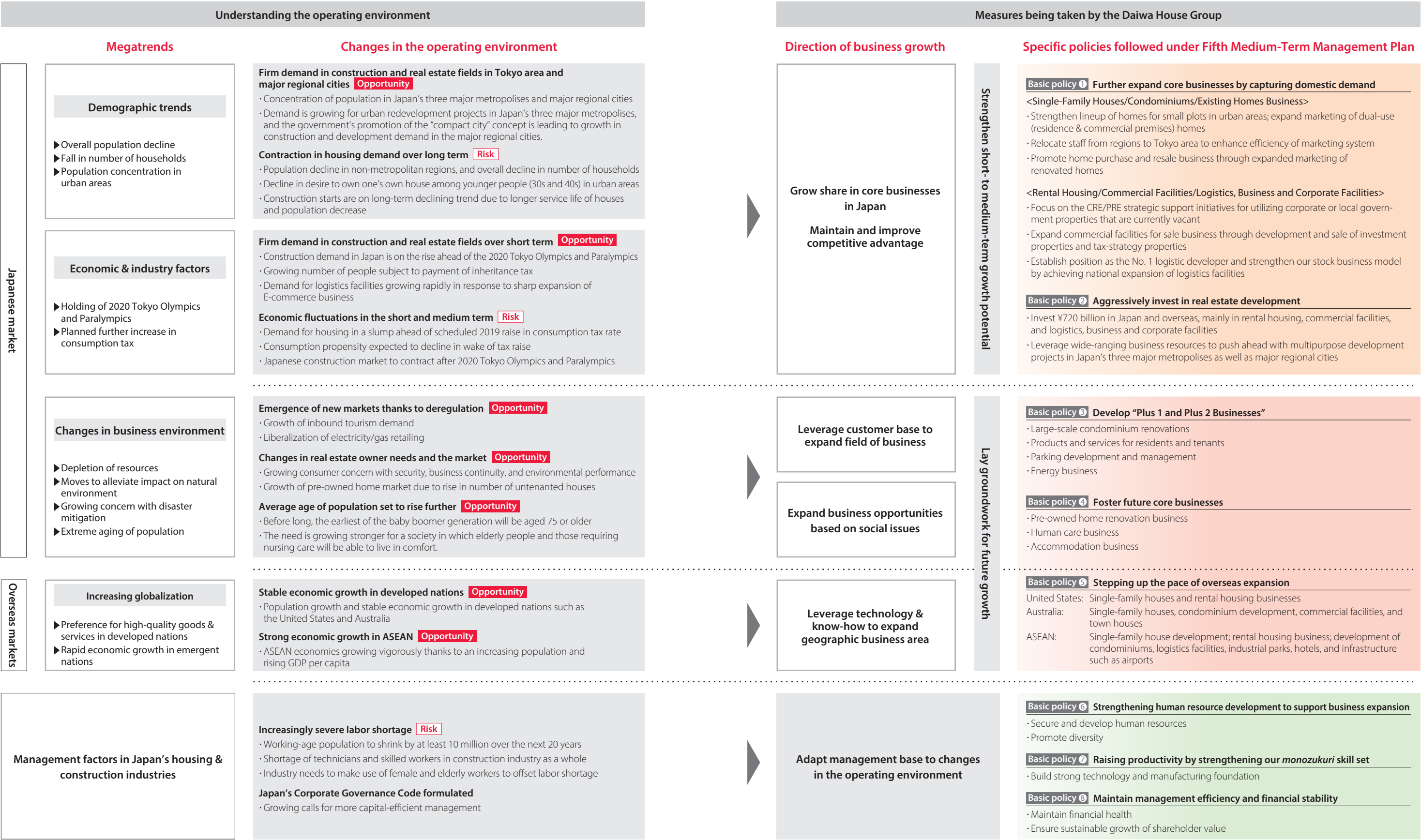
Era Finally, can you please tell me where you are looking to sow the seeds for the future and the reaction to this.

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

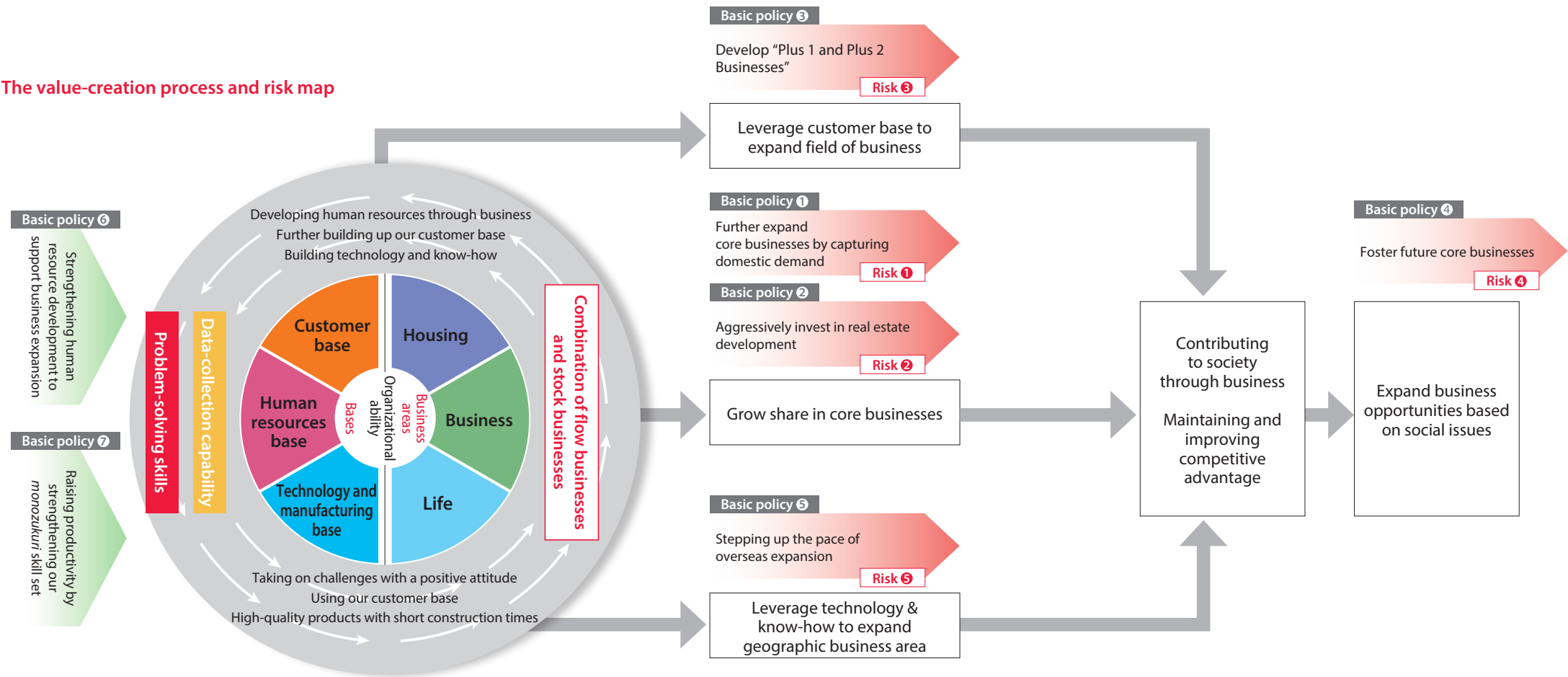
In the drafting of our Fifth Medium-Term Management Plan, we have recognized the existence of a number of external factors that may affect the Group's business performance (as shown in the table below) and have drawn up various specific measures to facilitate business growth. Additionally, on the following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



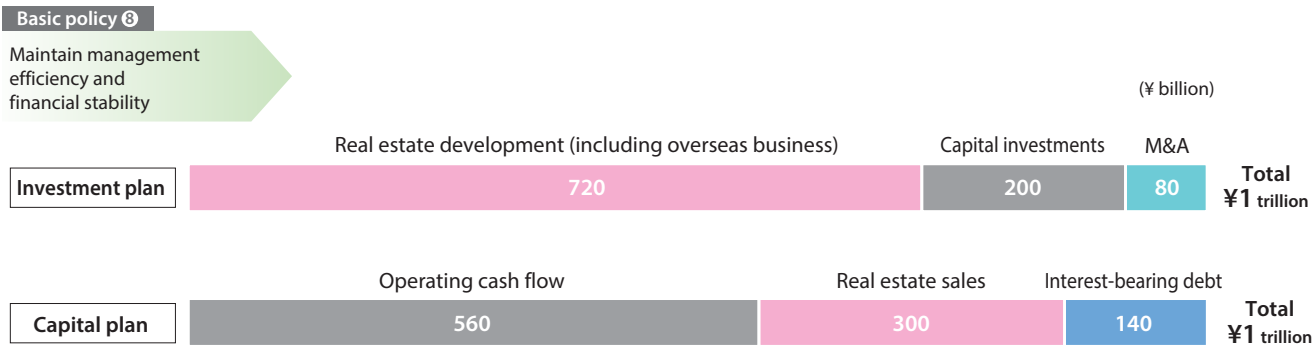
Basic Policies of the Fifth Medium-Term Management Plan, and Issues to be Addressed

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)



	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% ↗)

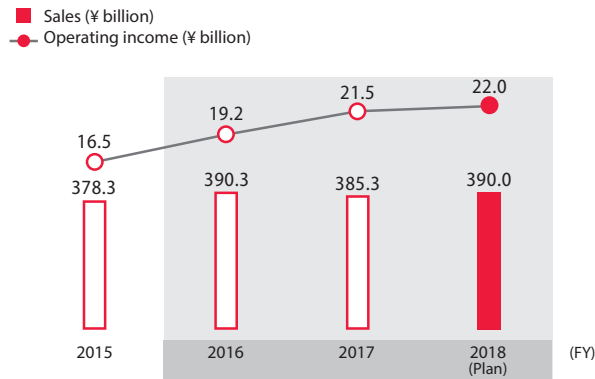
^{*1} Figures include intersegment transactions.
^{*2} Regular employees only
^{*3} These figures indicate the degree of contribution to reduction in CO₂ emissions made by the Group through its construction of housing and other structures and its solutions to issues involving energy conservation and 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

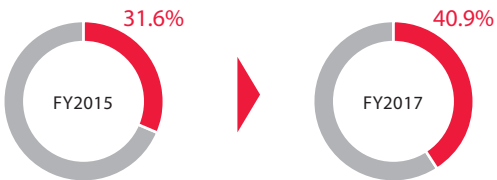
Business developments in fiscal 2017

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)

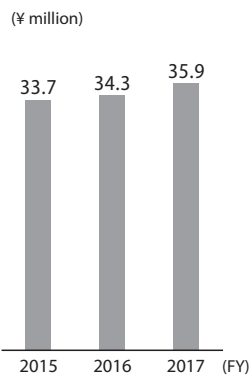
xevoΣ ratio growth (based on units ordered)



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

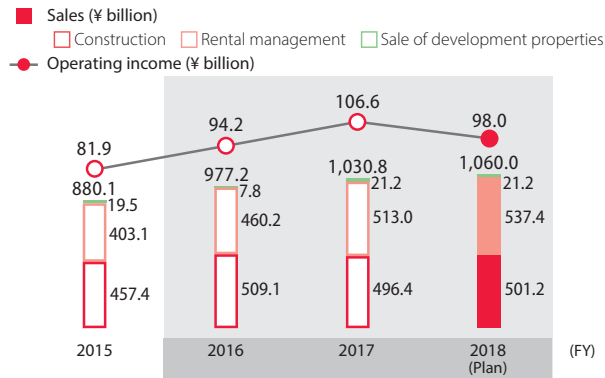


Convenient book shelving



Rental Housing

Sales/Operating income



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

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.

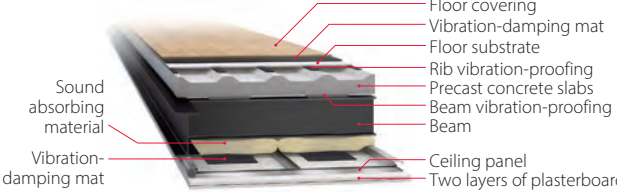
Technology and manufacturing base:
Building technical skills through trial and error

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.

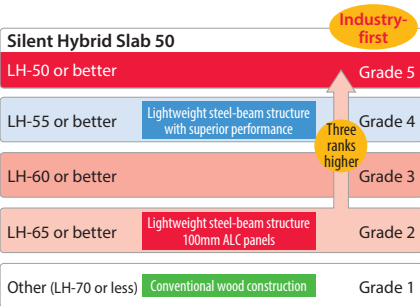
In March 2018, Daiwa House Industry became the first housing manufacturer to obtain Grade 5 special evaluation method accreditation** from the Minister of Land, Infrastructure, Transport and Tourism (the highest possible grade, equivalent to LH-50 grade) in relation to countermeasures against “heavy-weight 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.

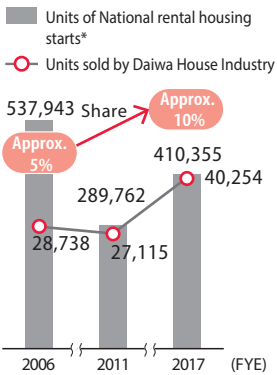
Strategy progress

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.

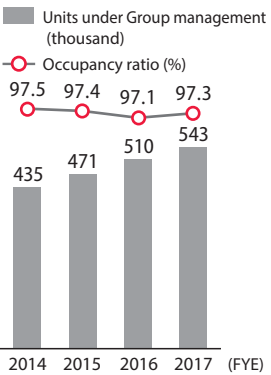
By offering a wide variety of services to meet tenants’ diverse lifestyle preferences, we were able once again to maintain high occupancy rates. These included the addition of three new forms of content to the D-room+ Optional Services package that Daiwa Living supplies to rental housing tenants and 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

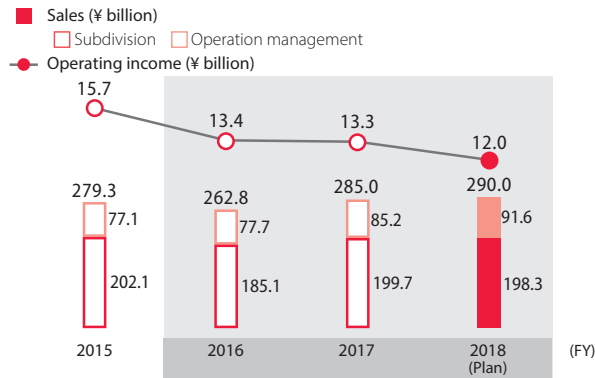
The Rental Housing Business operates award programs for sales staff. One of these is the Meister awards that recognize sales staff who make more than a certain level of sales. It helps keep staff motivated, with recipients being indicated by a star on their business card. The business takes an active 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.

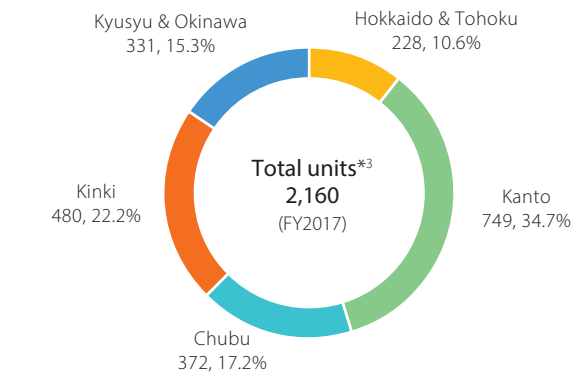
Strategy progress

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



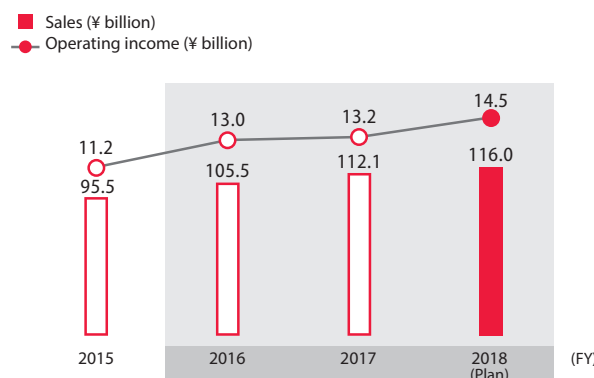
*2 Daiwa House Industry (non-consolidated)
*3 Units of joint development are divided based on equities invested.

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

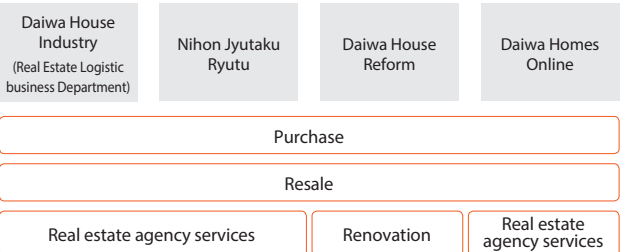
Aiming at operational growth by utilizing our main strengths—extensive customer base and cutting-edge technology
In our Existing Homes Business, we make maximal use of the Group's extensive customer base—as well as the proprietary technology and experience we have built up over the years—to provide renovation 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



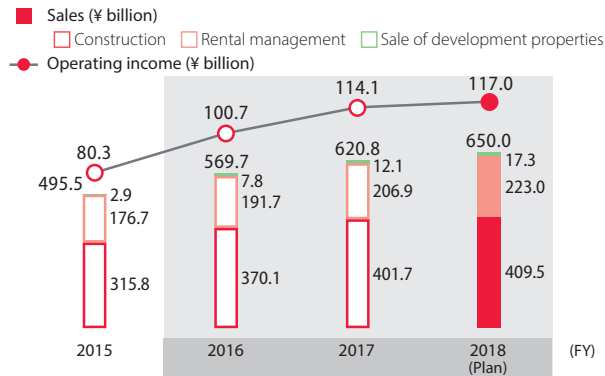
Business developments in fiscal 2018

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.

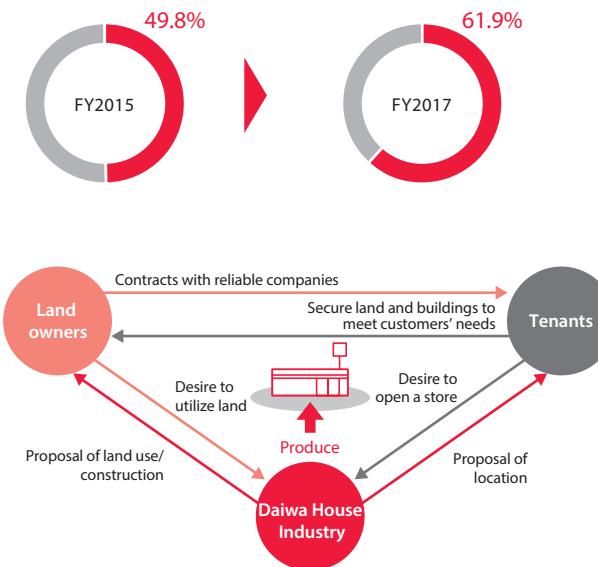
LOC System

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 through 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:

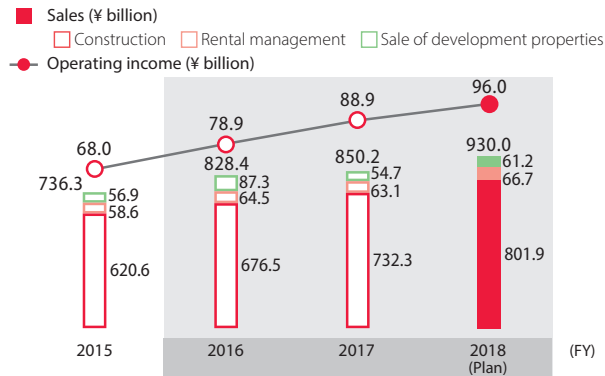
Using technical capabilities as a base to engage in a wider variety of projects

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.



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.

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*1; 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.

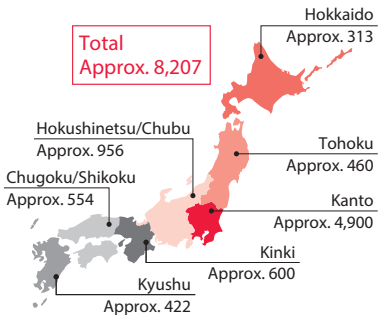


DPL Nagareyama (Chiba Pref.)
Multi-tenant type logistics facility



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.



Head of General Construction

Tatsuya Urakawa
Director and
Managing Executive Officer

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.

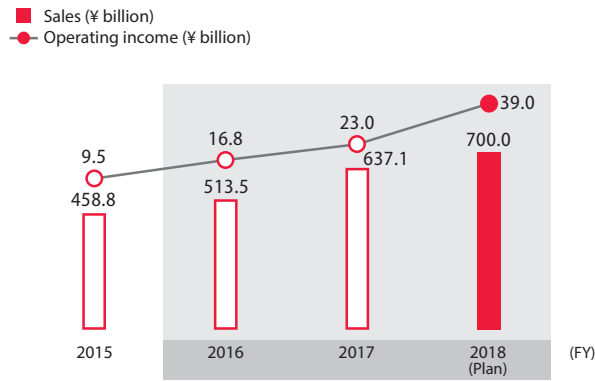
We are taking active steps to take account of the environment in construction work, and the YKK80 Building we worked on received a prize at the fiscal 2017 BCS Awards hosted by the Japan Federation of Construction Contractors. We have also received platinum certification under the LEED for Core & Shell 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.



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)

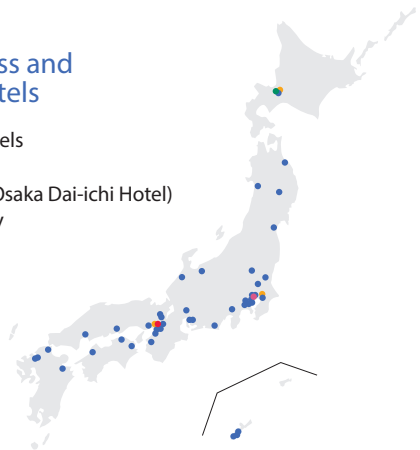


MIMARU

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

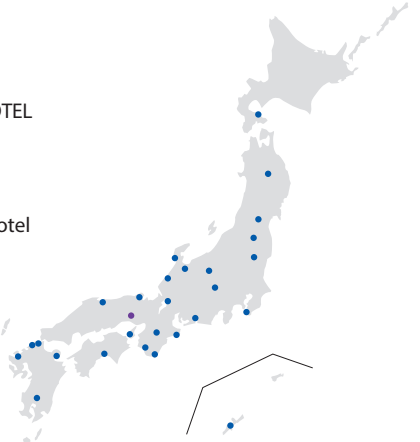
27 hotels

- 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



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.

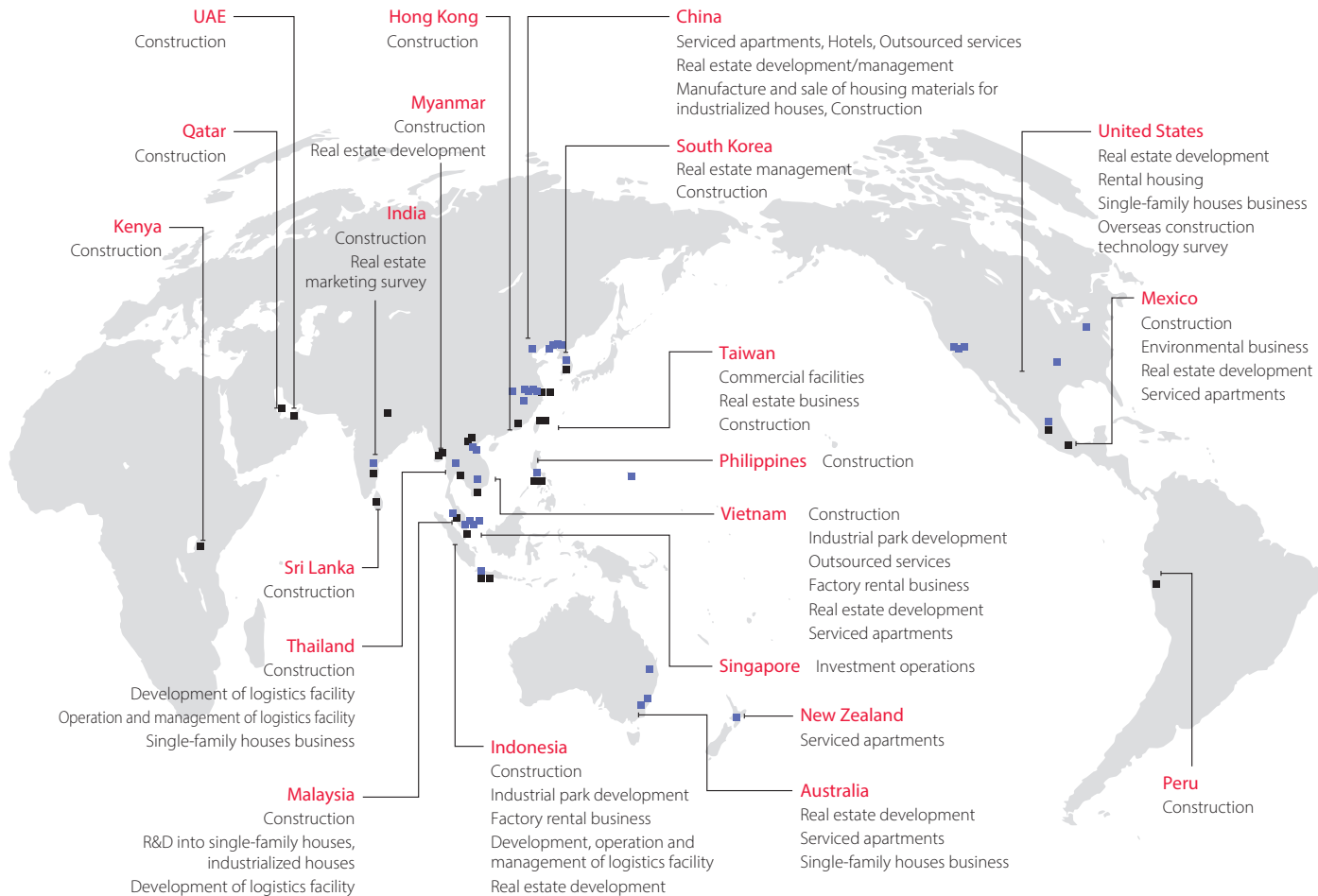
Under our Fifth Medium-Term Management Plan, one of our basic policies is to speed up the pace of overseas development. As a result, we have been expanding our overseas operations, particularly in the United States, Australia, and ASEAN. In the United States, we are principally involved in the rental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

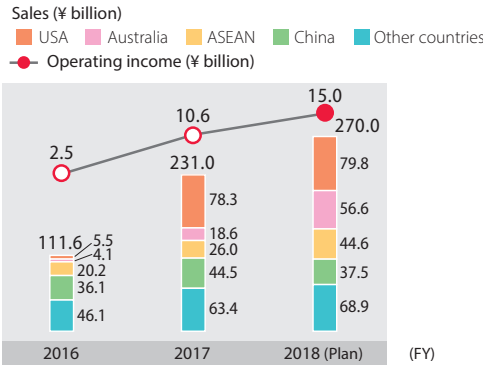
Our overseas business areas

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)

Message from the CFO

Working to enhance shareholder value by maintaining a good balance between growth and stability



<Our responsibility>

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

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

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

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

Takeshi Kosokabe

Takeshi Kosokabe
Representative Director and
Senior Managing Executive Officer and CFO

Through the provision of the goods and services that society needs, the management of the Daiwa House Group works to create value for its shareholders, customers, employees, business partners, and the community as a whole, and in this way to raise the Group's enterprise value.

To make this possible, in line with its motto of being "a group that co-creates value for individuals, communities, and people's lifestyles," we operate businesses that meet social needs across a wide range of fields. We therefore pursue excellent corporate governance so as to achieve and maintain the very highest level both in our contributions to society—through aggressive investment in innovation and the opening up of new businesses—and in our creation of shareholder value by generating economic value that reliably exceeds capital costs over the medium and long term.

The duties of a chief financial officer consist principally of the two aspects of protecting the company's existing assets and legal status—including operations such as overseeing the accounting and end-of-term settlement of accounts, and drawing up the company's tax declarations—and of making it possible for the company to grow its business operations and financial base through the drafting of business and financial strategies. While maintaining the level of quality of both these aspects and working toward greater efficiency, a CFO must also maintain a balance between the drafting and implementation of management strategies on the one hand and internal control on the other. From here onward, I intend to place greater emphasis on strategies to realize the Daiwa House Group's potential and grow its overall business. I will facilitate the Group management's decision-making by presenting a number of future scenarios that take into account my perception of the direction in which we wish to take the entire Group or particular businesses, the need to make our management strategies conform to financial realities, the unique characteristics of each business, and the likelihood of materialization of risks.

Aiming at a balance between active investment and financial stability

Achieving sustained growth is essential to raising shareholder value, and to realize this, it is vital for effective business management to balance active investment in growth on the one hand with ensuring that our financial base is solid on the other. To enable the stable procurement of the funds needed for investment in growth, we must secure and maintain a sound financial base. As the Company's credit rating is a high AA*, as long as we maintain this status, we should experience no problem with the procurement of funds even in the event of another emergency on the scale of the 2007-2008 financial crisis.

From this perspective, we have positioned ROE as a high-priority management indicator, and are working to ensure effective utilization of shareholders' equity. Simultaneously, we will aim to maintain an appropriate balance between shareholders' equity and interest-bearing debt, holding the debt-equity ratio—an important indicator of financial soundness—to around 0.5.

Under the Group's Fifth Medium-Term Management Plan (fiscal 2016-2018), we set the benchmark for ROE at a minimum of 10%, but in fiscal 2016 and fiscal 2017 we easily cleared this bar, reaching 16.3% and 17.0% respectively.

During the period of our Sixth Medium-Term Management Plan, starting from fiscal 2019, a number of changes are foreseen in the Group's operating environment, including the increase in the consumption tax rate planned for 2019 and a falloff in construction demand following the 2020 Tokyo Olympics and Paralympics. To be able to maintain the same high level of ROE that we have recorded hitherto, we will have to achieve further growth and increased earnings. Thus, we aim to

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

The Fifth Medium-Term Management Plan (2016.4-2019.3) Investment plan (¥ billion)

3-year plan (original plan)	700.0 Real estate development (including overseas business)				Capital investments		Total ¥900 billion
	Rental Housing 100.0	Commercial Facilities 140.0	Logistics, Business and Corporate Facilities 360.0	Overseas 100.0	M&A 150.0	50.0	
3-year plan (revised plan in May 2018)	50.0	150.0	400.0	120.0	200.0	80.0	Total ¥1 trillion
2-year cumulative results (2016.4-2018.3)	34.7	100.6	281.5	84.4	150.2	36.5	Total ¥688.1 billion

Progress of real estate investment development plan (¥ billion)

	3-year original plan	2-year cumulative results	Progress (%)	Revised investment plan
Rental Housing	100.0	34.7	34.7	50.0
Commercial Facilities	140.0	100.6	71.9	150.0
Logistics, Business and Corporate Facilities	360.0	281.5	78.2	400.0
Overseas	100.0	84.4	84.4	120.0
Total	700.0	501.3	71.6	720.0

Status on sales of development properties (¥ billion)

	FY2016 results	FY2017 results	FY2018 plan	3-year cumulative plan
Rental Housing	7.8	21.2	21.2	50.3
Commercial Facilities	7.8	12.1	17.3	37.3
Logistics, Business and Corporate Facilities	87.3	54.7	61.2	203.2
Total	103.0	88.1	99.8	290.9

continue the effective utilization of shareholders’ equity and raise capital efficiency, and will work to enhance shareholder value.

At the end of fiscal 2017, the aggregate total amount of investment in growth over the previous two years was ¥688.1 billion. Taking into account this investment record and current trends in the market, in May 2018 we took the decision to raise total investment over the three-year period of the Group’s Fifth Medium-Term Management Plan from ¥900 billion to ¥1 trillion. Investment in real estate development made a contribution to business performance, as a result of which investment opportunities multiplied and thus progress was faster than had been projected. Investment in this category is therefore scheduled to increase by ¥20 billion to ¥720 billion—an all-time record—but this does not mean that investment in all sectors will increase. While increases of ¥40 billion in logistics facilities and ¥20 billion in overseas investment are foreseen, investment in Rental Housing is decreasing. In this way, with respect to investment in growth, we will continue to assess market trends and new business opportunities, and to follow a policy of flexible and efficient investment.

Risk management is an important element of real estate investment. At the Daiwa House Group, proposals that do not meet the criteria for a positive resolution by the Board of Directors are referred to the Real Estate Investment Committee, which evaluates their business feasibility and the risks involved. As an investment criterion, each proposal must pass the hurdle of offering a predetermined IRR (internal rate of return), and before a final decision on whether or not to make an investment, the proposal must first be checked from a wide variety of perspectives—by President Yoshii, the Committee Chairman, by the executives responsible for the Group’s business divisions (who are qualified to assess the proposal’s business feasibility), by the executives responsible for our technological divisions (who are qualified to assess the appropriateness of the projected construction cost), and, finally, by myself. Going forward, we are working to realize a system that will enable risk assessment with a high degree of accuracy.

Regarding mergers and acquisitions (M&A), we have revised upward our planned investment total from ¥50 billion to ¥80 billion. M&A activity is essential if we are to continue expanding our business scale, but for such measures we insist that the target of a merger or acquisition meets the important criterion of being a business or corporation that is and will remain necessary for society, and that we have good hopes of creating a win-win relationship. And in relation to making a decision on an investment proposal, or in the practical handling of the negotiations involved, to ensure that the confidentiality of information or data is protected while negotiations proceed smoothly, we entrust such work mainly to an independent unit of experts—the Investment Planning Section—which we have established within our Business Development Department. The Section staff undertake the necessary due diligence with respect to negotiations with the counterparty, as well as all related legal, financial and taxation-related matters.

The Role of the Finance & Accounting Department

Nobuo Ishibashi, our founder, often used to say that the financial and accounting sections constituted the linchpin of any company, and in line with this, we always ensure that the staff of every one of our 81 branches throughout Japan includes an accounting and administration manager with experience working in the Finance & Accounting Department. For this reason, unlike the general run of companies, the working environment within the Finance & Accounting Department of Daiwa House gives its staff excellent motivation because they know that they can voice their opinions on risks likely to impact the Company, or on the Company’s strategies.

The accounting and administration managers are expected to play a difficult role. They must not only be fully acquainted with the attitude to business operations held by the branch office managers, and the policies in place there, and be ready to provide assistance, they must also be ready to explicitly make known their opinions in cases where these differ from the decisions of branch management, in order to provide a hedge against risks. For this reason, it is important for the accounting and administration managers to possess both knowledge of the Company’s business strategies around which decisions are being made and knowledge relating to the pursuit of operations on the front line. To foster personnel capable of performing these tasks within the Finance & Accounting Department, we implement job rotation programs that enable staff to gain experience both at the Company’s Head Office and at branch offices. I believe that it is one of my most important roles as CFO to maintain this form of finance- and accounting-related organization.

Shareholder Return

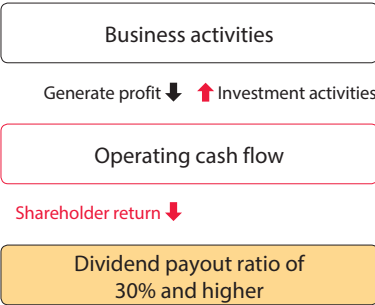
Daiwa House Industry follows a basic policy of working to raise shareholder value by increasing EPS through investment in growth funded by the profits we create by our business activities. Profit return to shareholders, in the form of the Company’s dividend payout ratio, is linked to business performance to the extent of 30% or more of net income attributable to owners of the parent, and we intend to maintain a steady level of dividends going forward. Through investment in growth in conformity with this policy, and by other means, we have been able to steadily grow profits and increase the EPS, and our dividend has risen to ¥107 per share for fiscal 2017, representing the eighth consecutive term of increase since fiscal 2009. In the event that opportunities for growth investment decrease henceforward as a result of changes in the investment environment, we will examine options including the purchase of own shares for retirement in treasury and reducing the dividend payout ratio, but as long as there are continued opportunities for growth we plan to keep the payout ratio above 30%.

Going forward, I intend to respond to the expectations of our shareholders and investors by fulfilling my duties as the CFO of Daiwa House and working to further enhance shareholder value. I hope you will continue to support our efforts to grow our business still further.

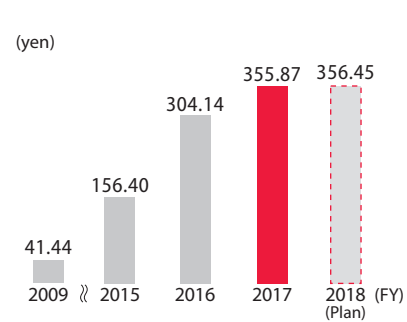
Basic Strategy for Capital Policy

Shareholder return policy

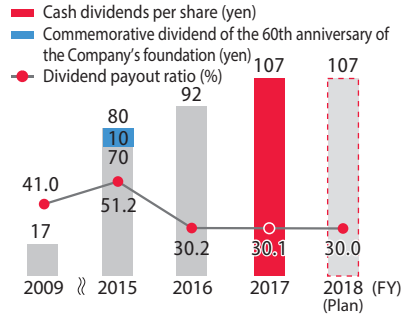
Profit allocation policy



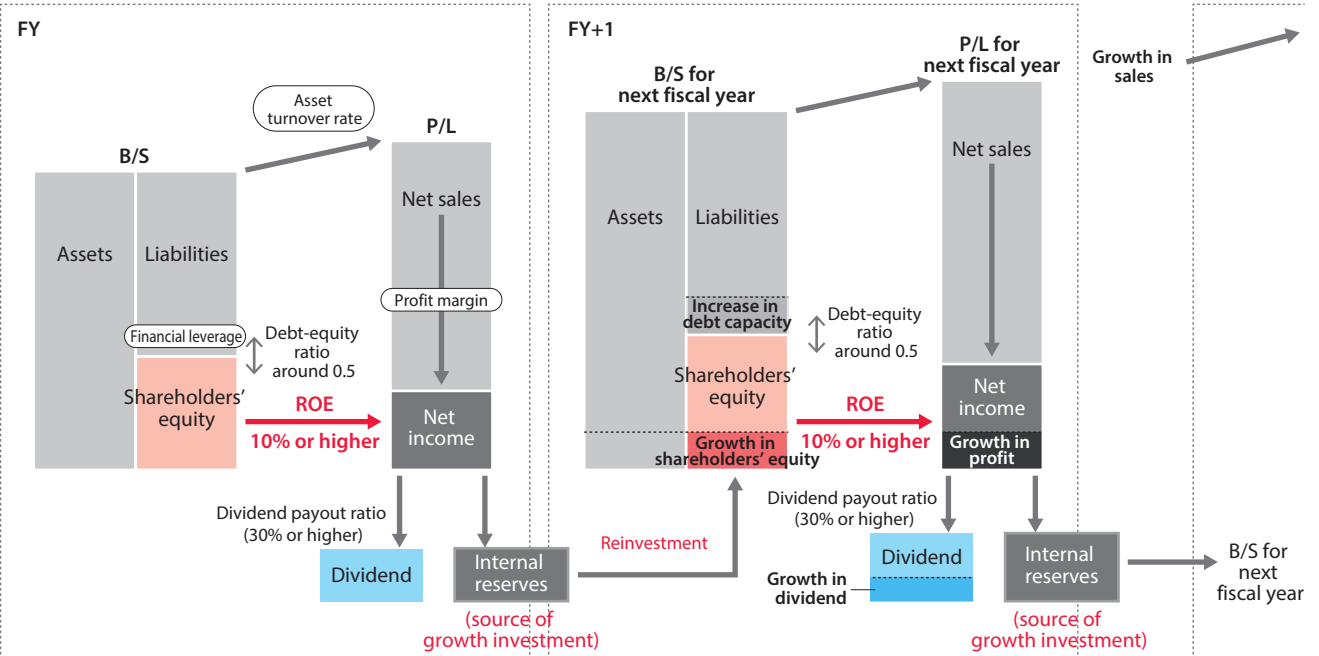
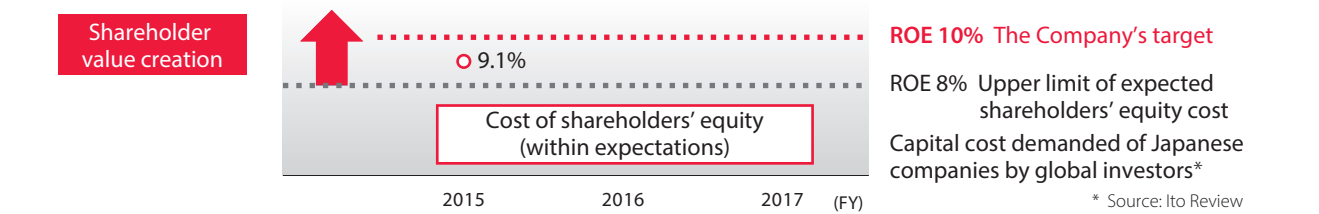
Net income per share (EPS)



Cash dividends per share and Dividend payout ratio



Conceptual diagram of basic strategy for capital policy



FY

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

FY+1

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

Secure stable operating cash flow

Maintaining and improving ROE based on an optimal capital structure

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

[MD&A summary]

I. The financial health for sustaining growth remained at the target level.<Financial position>	▶ P.57
II. The ability to generate cash steadily improved although free cash flows turned negative due to strong investment opportunities.<Cash flows>	▶ P.58
III. Ensuring the effective utilization of capital led to improvement of the turnover rate and profit margin, which enhanced the ROE.<Profits and losses>	▶ P.59
IV. From the perspective of growth potential and profitability, we are building an optimal portfolio.<Business results by segment>	▶ P.60
V. We are actively engaged in investment to expand our revenue opportunities and to strengthen the business foundation.<Investments>	▶ P.61

Note: This section analyzes the financial position and results of operations during the eight fiscal years from fiscal 2010 to fiscal 2017. For the list of financial data, see “Financial Highlights” on pages 91 and 92.

I. Financial position

Financial condition Figure 1

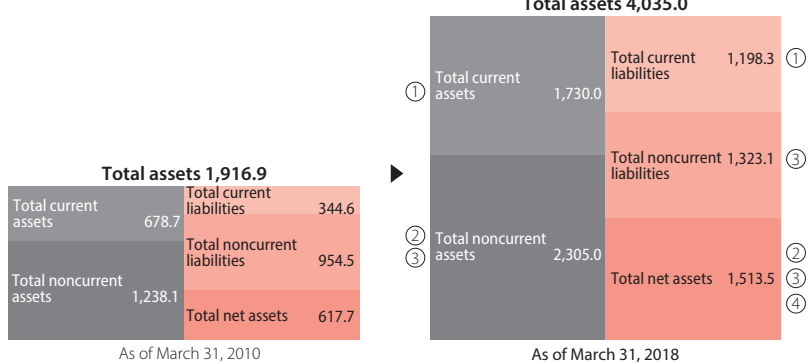
Total assets as of the end of fiscal 2017 increased by ¥479.1 billion from the end of the previous fiscal year to ¥4,035.0 billion. This was mainly due to the increase in inventories resulting from the large number of business opportunities obtained. Total liabilities increased by ¥295.4 billion from the end of the previous fiscal year to ¥2,521.4 billion. This was mainly due to financing obtained by the Company through the issuance of corporate bonds and loans.

Total net assets increased by ¥183.6 billion from the end of the previous fiscal year to ¥1,513.5 billion. This was mainly because a net income attributable to owners of the parent of ¥236.3 billion was recorded.

The balance of interest-bearing debt increased by ¥139.9 billion from the end of the previous fiscal year to ¥780.5 billion. Thanks to internal reserves and the fiscal 2013 capital increases, the debt-equity ratio improved from 0.74 at the start of fiscal 2010 to 0.53, close to the indicative target of 0.5. In terms of the breakdown of assets, the balance of real estate for rent was ¥978.3 billion and accounted for a large share in recent years. As assets are expected to grow in the future due to the acquisition of real estate for development and other factors, we will seek to maintain financial health by verifying the optimal capital structure.

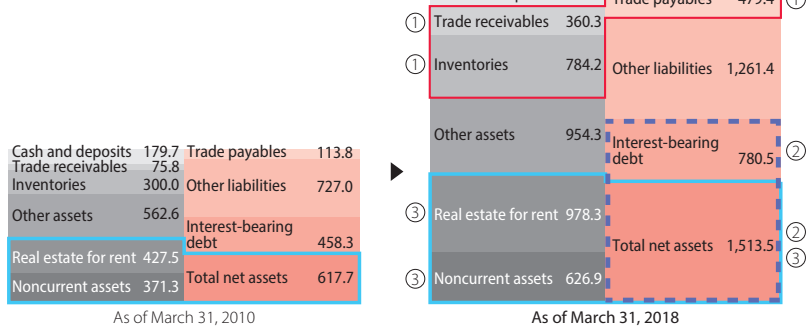
Figure 1 Comparison of balance sheets (¥ billion)

Current/Fixed classification



- ① The current ratio dropped from 197% to 144%.
- ② The fixed ratio dropped from 200% to 156%.
- ③ The ratio of fixed assets to long-term capital rose from 78% to 82%.
- ④ Net assets excluding non-controlling interests grew from ¥616.8 billion to ¥1,474.5 billion.

Classification by function



- ① Working capital (Trade receivables + Inventories - Trade payables) increased from ¥262.0 billion to ¥665.2 billion.
- ② Interest-bearing debt increased from ¥458.3 billion to ¥780.5 billion, but the debt-equity ratio fell from 0.74 to 0.53.
- ③ The ratio of real estate for rent and noncurrent assets to net assets excluding non-controlling interests fell from 1.29 to 1.09 while real estate for rent increased.

II. Cash flows

Basic approach

The basic approach to cash management is to invest in line with the amount of cash generated by business operations.

With regard to attractive investment opportunities, investment is structured to include externally raised capital because of the need to actively pursue such opportunities. While this will result in the debt-equity ratio sometimes exceeding 0.5, we seek to balance investment in growth with financial soundness by controlling the level of interest-bearing debt to maintain a ratio of about 0.5 over the medium to long term.

Cash flow condition Figures 2 & 3

Cash flows from operating activities during fiscal 2017 increased by ¥12.4 billion from the previous fiscal year to ¥300.1 billion. The ratio of cash flows from operating activities to net assets excluding non-controlling interests remained at a relatively high level, although it decreased by 2 points from 22% of the previous fiscal year to 20%.

Cash flows from investment activities were - ¥313.6 billion, due to the acquisition of real estate for rent, etc. and the implementation of the ¥220.6 billion investment into the real estate development business based on the investment plan under the Fifth Medium-Term Management Plan. As a result, free cash flows (cash flows from operating activities + cash flows from investment activities) were - ¥13.5 billion while cash flows from financial activities were ¥41.8 billion because of the response to demands for funds through bond issuance, loans, etc.

As a result of the above, the balance of cash and cash equivalents at the end of fiscal 2017 (after bank holiday adjustments) was ¥243.8 billion, an increase of ¥30.5 billion from the end of the previous fiscal year.

Enterprise value/Ability to generate cash Figures 4 & 5

Our ability to generate cash steadily grew as earnings before interest, taxes, depreciation and amortization (EBITDA)*1 as an indicator of ability to generate cash were ¥411.3 billion. We will further enhance the ability to generate cash and improve enterprise value by continuing the policy of maintaining interest-bearing debt at a certain level and aggressively investing in favorable investment projects, as well as by developing new revenue streams.

The enterprise value (EV)*2 at the end of fiscal 2017 was ¥3,181.3 billion, a sum of the market capitalization of ¥2,731.5 billion and the net interest-bearing debt of ¥449.7 billion.

The EV/EBITDA ratio, as an indicator of enterprise value to the ability to generate cash, was 7.7 as of the end of fiscal 2017.

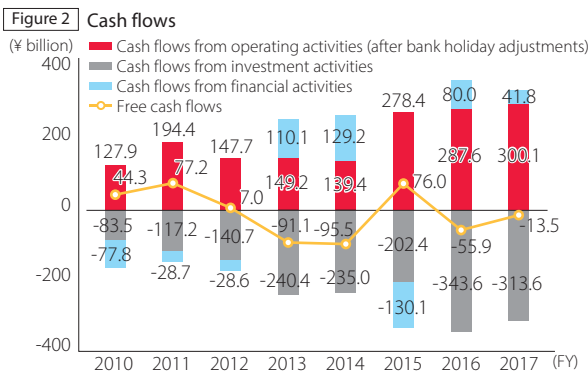


Figure 3 Indices to net assets excluding non-controlling interests (as a ratio where net assets excluding non-controlling interests is equal to 1)

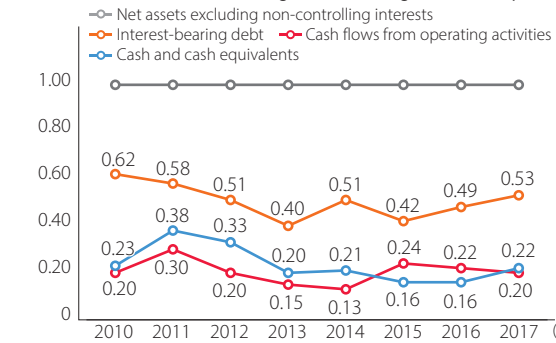
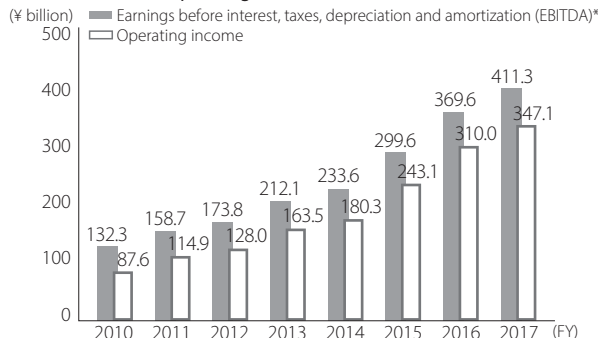
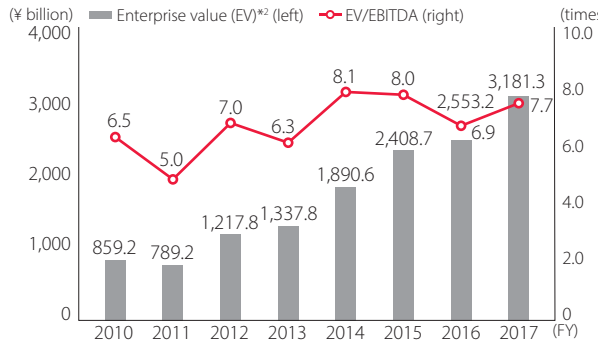


Figure 4 Earnings before interest, taxes, depreciation and amortization (EBITDA)/Operating income



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

Figure 5 Enterprise value (EV)/EV/ EBITDA



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

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

III. Profits and losses

Net sales/Total asset turnover ratio Figure 6

Net sales amounted to ¥3,795.9 billion and the average growth rate for the period of eight years starting from fiscal 2010 was 11.7%.

In terms of the total asset turnover ratio*1, the period of five years from fiscal 2013 to fiscal 2017 shows a tendency of slight improvement in comparison to the performance in the period of three years from fiscal 2010 to fiscal 2012.

To further improve the turnover ratio, we will continuously seek to ensure the effective utilization of assets through measures that may include encouraging the sale of inventories and also selling investment properties and strategically held shares.

*1 Average during the fiscal year.

▶ P.84 (Details of decision-making criteria for the sale of strategically held shares)

Gross profit/Operating income margin Figure 7

Gross profit amounted to ¥793.8 billion and the average growth rate for the period of eight years starting from fiscal 2010 was 12.7%. The gross margin increased by 0.4 points from the previous fiscal year to 20.9%. Operating income was ¥347.1 billion and the average annual growth rate for the period from fiscal 2010 was 24.3%. The operating income margin was 9.1%, an increase of 0.3 points from the previous fiscal year.

This is because we succeeded at maintaining a steady cost-of-sales ratio through investments in production facilities and rationalization of production to deal with soaring construction material and labor costs.

Return on invested capital (ROIC)/Return on equity (ROE)

Figures 8 & 9

Net operating profit after tax (NOPAT)*2 was ¥240.1 billion and return on invested capital (ROIC), a ratio of NOPAT to the invested capital (= Net assets excluding non-controlling interests + Interest-bearing debt) of ¥2,102.0 billion*3, was 11.4%. One of the Company's business objectives is to earn an ROE of 10% or more. Since we are expanding our businesses by means of loans and the like where the debt-equity ratio of 0.5 is used as a guide, we make a conscious effort in our business investments to ensure that the return on the total invested capital will exceed the weighted average cost of capital (WACC), which is the weighted average of the cost of shareholders' equity and cost of liabilities. We will seek to maintain and improve the return on equity (ROE), a ratio of net income to shareholders' equity by maintaining and improving the ROIC.

*2 Net operating profit after tax (NOPAT) = Operating income × (1 - Effective corporate income tax rate)

*3 Average during the fiscal year.

▶ P.87 (Details of the criteria for adoption of investments in real estate development)

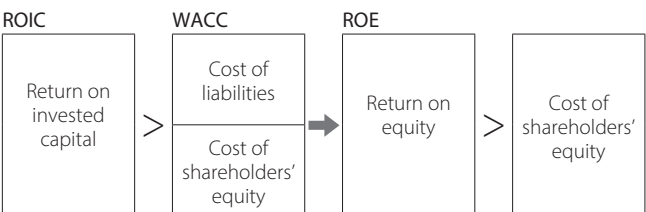


Figure 6 Net sales/Total asset turnover ratio

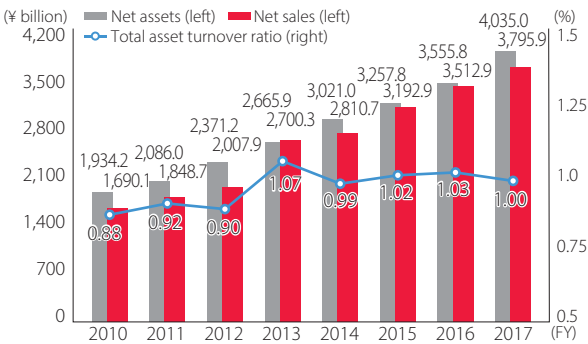


Figure 7 Gross profit/Operating income margin

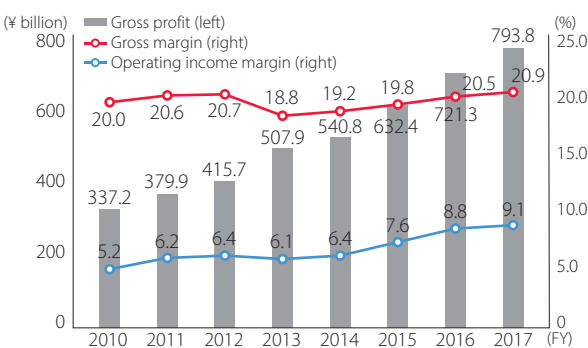


Figure 8 Return on invested capital (ROIC)

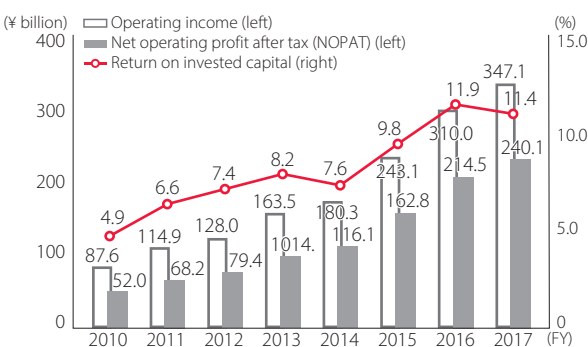
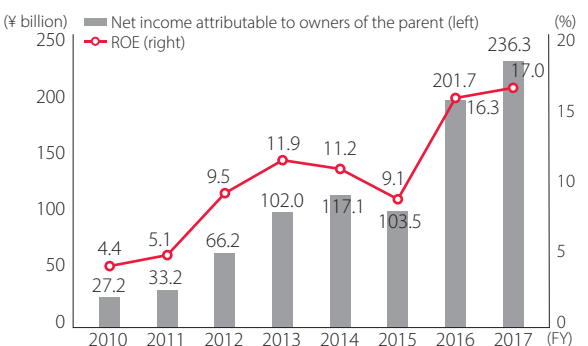


Figure 9 Net income attributable to owners of the parent/ROE



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

IV. Business results by segment

Growth potential analysis Figure 10

The profit growth rate for fiscal 2017 over fiscal 2010 showed an over eight-fold increase in the Other Businesses segments, and an over seven-fold increase in the Logistics, Business and Corporate Facilities segments, an over three-fold increase in the Existing Homes Business and Commercial Facilities segments. Since the Rental Housing segment had been already at a high level of profit eight years ago, its profit growth rate over fiscal 2010 was relatively low, but remained at a high profit rate.

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

Profitability analysis Figure 11

In terms of operating income, three segments, Rental Housing, Commercial Facilities, and Logistics, Business & Corporate Facilities, accounted for 81% of the total. The Existing Homes Business segment constituted 2.9% of net sales, but its profit rate and capital efficiency were high (Figure 12). We are making active use of "Livness", the new group-wide brand that we launched primarily for the Existing Homes Business, a sector where market growth is anticipated. In terms of the Single-Family Houses and Condominiums segments, we will seek to improve their profit rates by selecting areas and clarifying targets as new housing starts are decreasing in number due to falling population.

Operating income margin to segment assets Figure 12

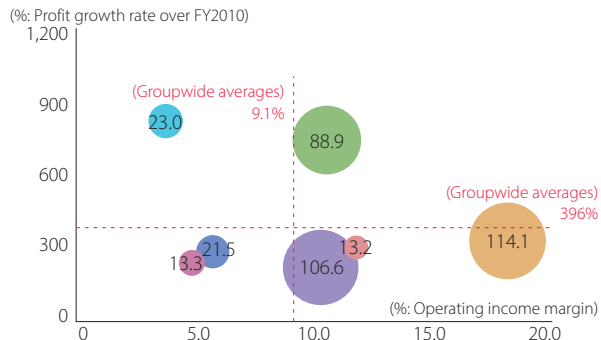
The Existing Homes Business, Rental Housing, and Commercial Facilities segments showed higher operating income margins to segment-specific assets. The current return on assets in the Logistics, Business and Corporate Facilities segment is at a low level because we are making aggressive investments to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

Investments in businesses Figure 13

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

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

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



*1 The size of the circle depends on the relevant amount of operating income (¥ billion) for FY2017.

Figure 11 [Business segments] Operating income margin/Net sales ratio by segment (FY2017)

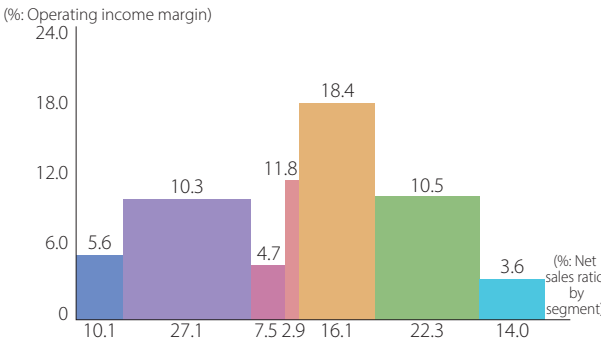
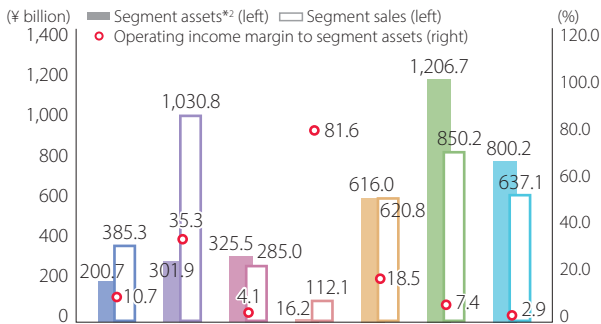
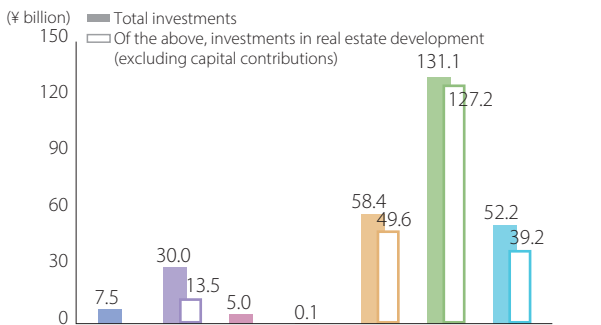


Figure 12 Operating income margin to segment assets (FY2017)



*2 Segment assets are averages during the fiscal year.

Figure 13 [Business segments] Total investments (FY2017)



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

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)

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

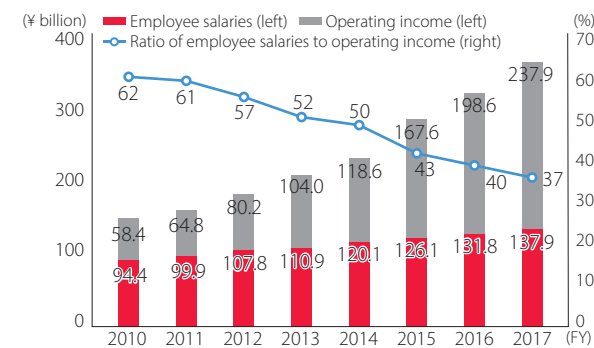


Figure 15 Research and development expenditures/Human resources development costs

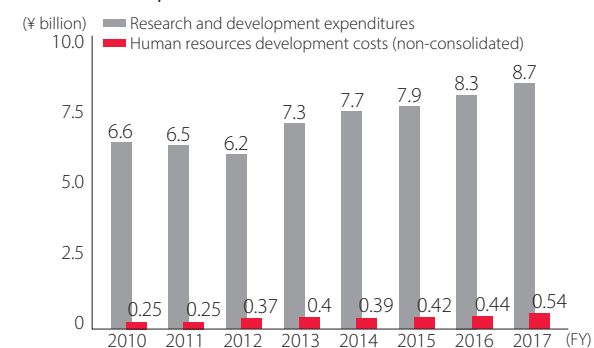


Figure 16 Capital investments (excluding investments in real estate development)

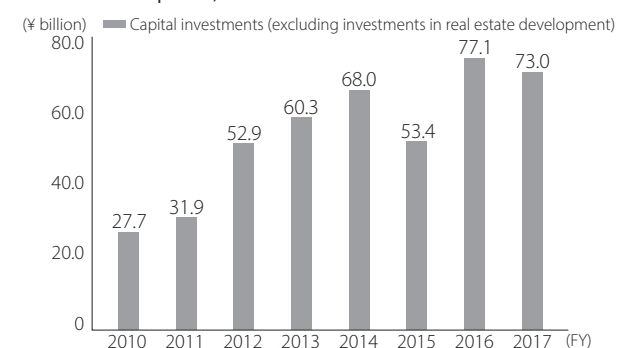
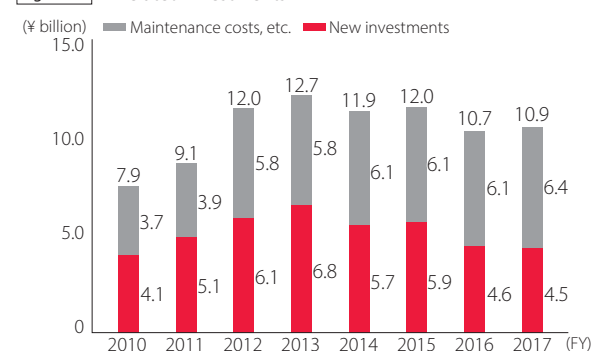


Figure 17 IT-related investments



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.

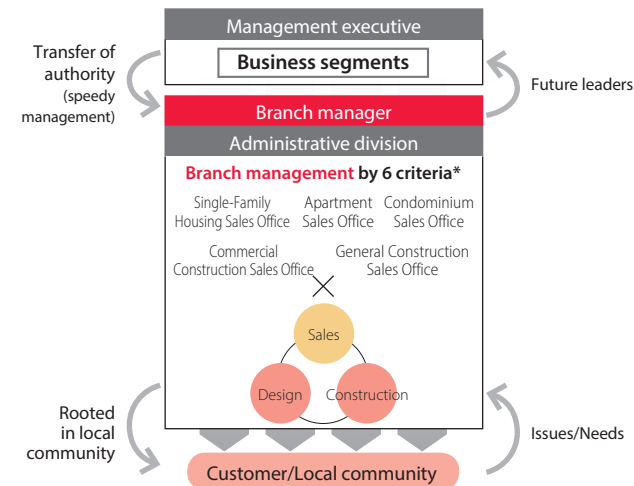
Along with seeking to ensure firmly based and process-focused management that takes a long-term view by providing transparency about the criteria for workplace decision-making and adopting measures for assessing the soundness of management practice, each and every employee supports the value of “Endless 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



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.

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

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.



Company philosophy (corporate creed)

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

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.

* 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.

● 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.

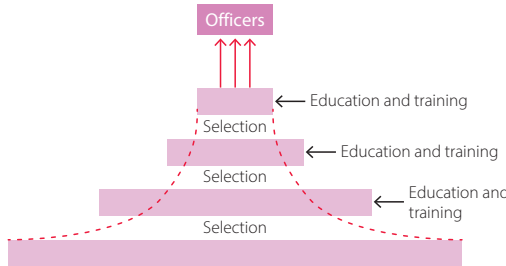
Developing human resources: Retaining and developing next-generation employees, and discovering and developing talented individuals to become managers.

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

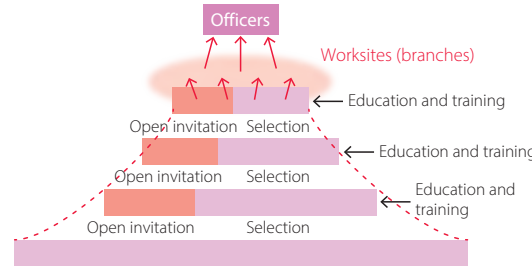
and training has a curriculum to allow employees to utilize what they have learned in the workplace in order to gain something beyond book learning.

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	Manager and leader training	Senior executive and executive candidate 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”.	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.	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.
<ul style="list-style-type: none">• New employee training• Training for mid-career recruits	<ul style="list-style-type: none">• Training for newly appointed managers• Training for reinforcing the ability to anticipate problems• Training for team leaders• Training for OJT Elders	<ul style="list-style-type: none">• 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 ↗)

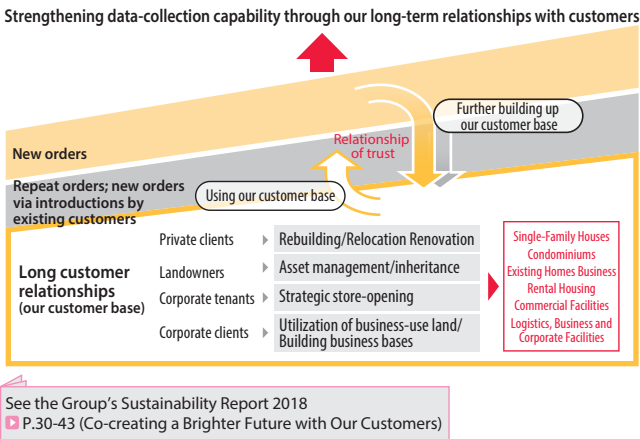
▶ P.93 (Key data on human resources base)

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

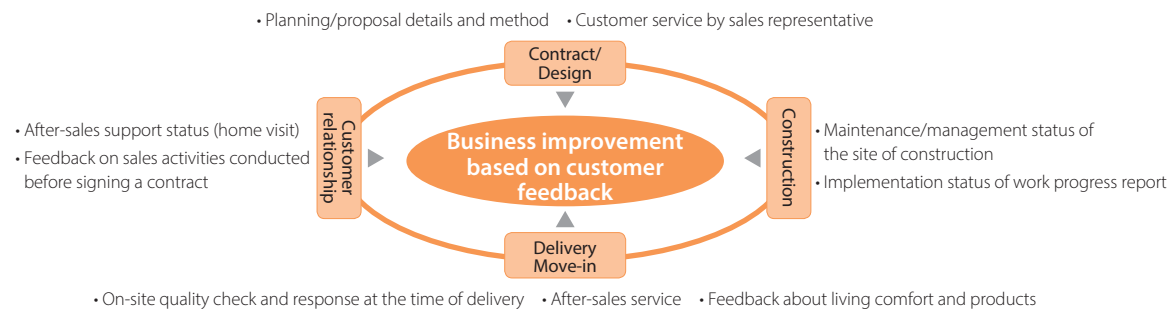
- Promoting CS activities
- Improving the quality of customer service

Improve customer satisfaction

- Delivering high-quality products
- Establishing a system for long-term quality assurance
- Operating membership organizations for owners

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.



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

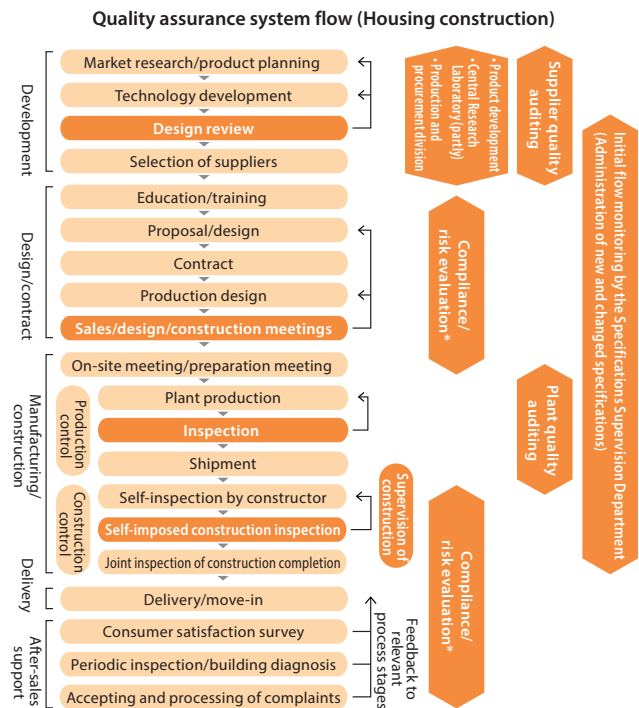
Delivering high-quality products

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 membersInformation 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 housingInformation exchange among members, study tours to deepen friendship, etc.	<ul style="list-style-type: none">Seminars on the effective use of real estateStudy 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>

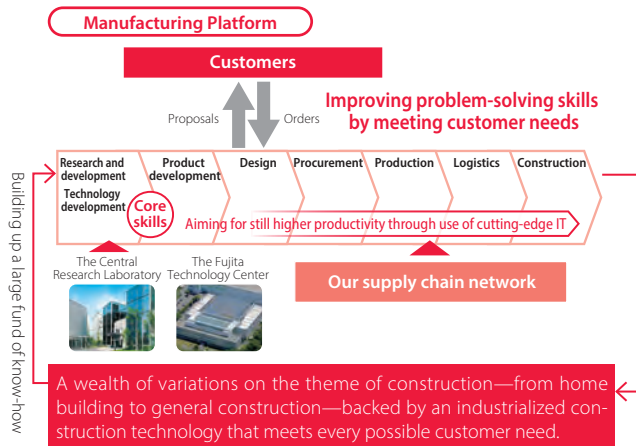
P.93 (Key data on customer base)

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)



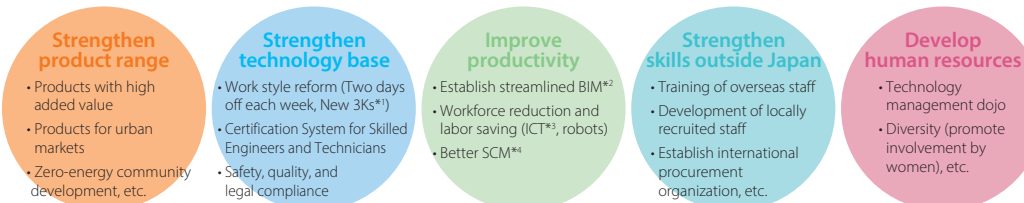
Basic policy Matters affecting corporate value over the medium and long term

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).

Research & development, create and manage intellectual property

Research & development

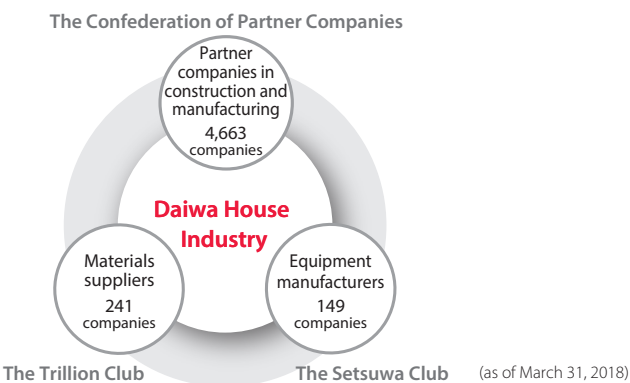
• The Central Research Laboratory advancing R&D activities to solve society's problems
Established in 1994 to engage in research and development primarily aimed at achieving harmony with the environment, the Central Research Laboratory draws on proprietary technologies for housing and construction built 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

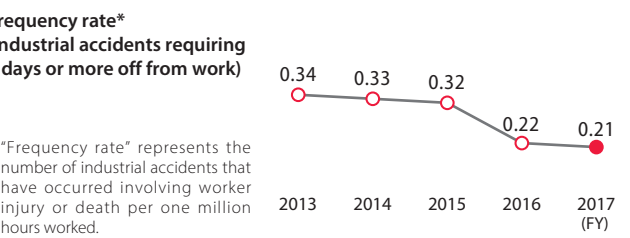
Business partners are indispensable and valuable partners, for the Group with an expansive value chain. The Company has set up a robust supply chain comprising three membership organizations: the Trillion Club, the Confederation of Partner Companies, and the Setsuwa Club. These organizations have been 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



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.

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).

Challenge ZERO 2055
Taking on the challenge of Zero Environmental Impacts

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

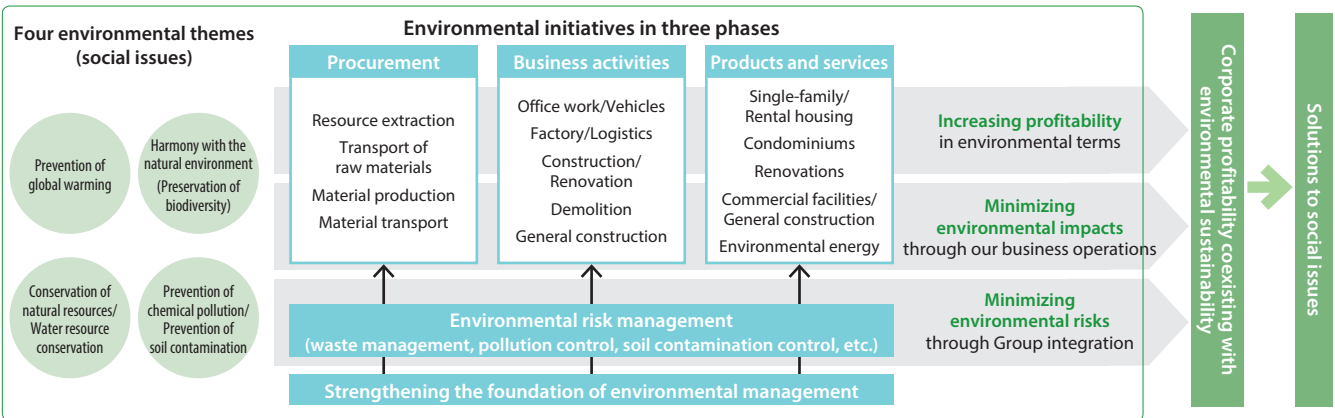
1	Slowing and adapting to climate change (Prevention of global warming/Energy)	We aim for zero CO ₂ emissions throughout the product life cycle through uncompromising pursuit of energy saving and utilization of renewable energy in order to achieve a carbon-free society.
2	Harmony with the natural environment (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

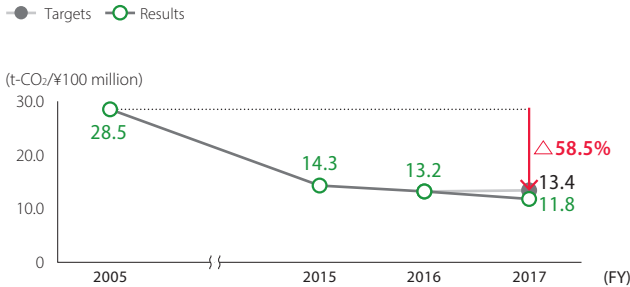
accelerating our environmental initiatives, targeted at all the Group companies, under the concept of promoting integrated environmental management within the Group and globally based on the life cycle approach to ensure that corporate profitability can coexist with environmental sustainability.

Overall action plan for the Endless Green Program



Key data

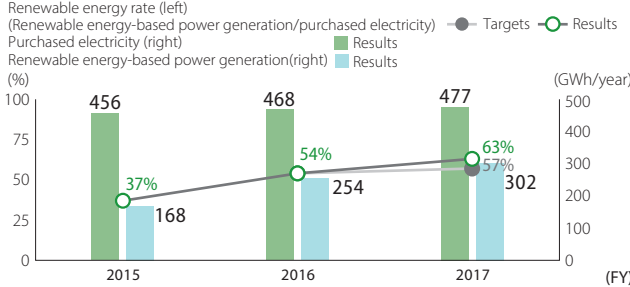
1 Greenhouse gas emissions per unit of sales



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

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

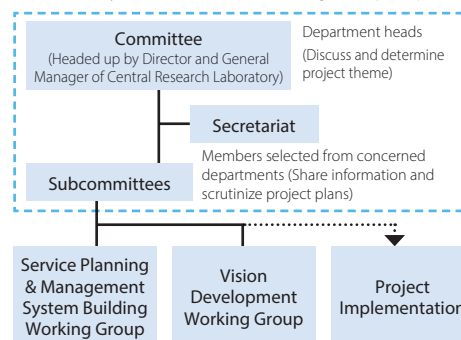
The Group has established a management structure that includes the "Sustainable Community Development Promotion Committee" made up of various corporate departments and eight Group companies, the purpose being to fulfil our mission of "working together for design & management" with local communities while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

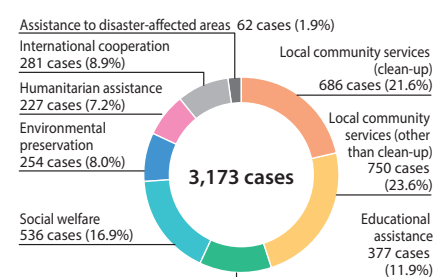


Community co-creation activities

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.

Round-table with the Outside Directors of Daiwa House and President Keiichi Yoshii

Round-table Outside Directors’ insights on Daiwa House under the new management system

The outside directors give their thoughts on their individual roles

(Mr. Kazuyoshi Kimura and Mr. Yutaka Shigemori were appointed as outside directors of Daiwa House Industry Co., Ltd. in 2012. Ms. Yukiko Yabu was appointed in 2016, bringing the Company’s current roster of outside directors to three.)

Yoshii Today, I propose to ask you to describe your views regarding your roles as outside directors of Daiwa House.

Shigemori I view my main role at meetings of the Company’s Board of Directors as being to view issues from the perspective of regulatory compliance. Moreover, as I have been holding pan-industry social events since 1991—where I have exchanged opinions with many people from a wide range of differing backgrounds—I believe I have a valuable role to play at Daiwa House in developing a network of contacts with people from different industries.

Yabu In my previous post at a manufacturer of consumer electronics, I was responsible for product-related operations, including planning, development, and marketing. Here at the Daiwa House Group, I hope to put my experience in a different industry to good use—particularly my experience in viewing matters from the average consumer’s standpoint—and, as the sole female member of the board, to voice opinions from that unique perspective.

Kimura I strongly hope that I can help the Daiwa House Group achieve sustainable growth and enhance its enterprise value. In my view, market capitalization is the most fair and equitable benchmark for a company’s value. I will do my best to contribute to improved enterprise value on various fronts, including ESG (environmental, social and governance) factors, while being adequately aware of the criteria that those outside the Group use to evaluate its enterprise value, as reflected in the market.

Yoshii I think it is probably the same at all companies: a wide variety of proposals and projects emerge, and as each one comes under consideration, there is a strong tendency to view it from a perspective forged by one’s experience at that particular company and to make decisions based on that perspective. The founder of Daiwa House, Nobuo Ishibashi, used to

say: “Don’t look at things from one angle only.” It is certainly true that you, as outside directors, often notice things because you look at them from a different angle.



The Group’s management system as viewed by the outside directors

Yoshii All three of you are able to give us the benefits of your differing perspectives because of your experience in business environments outside Daiwa House, and for this reason I believe it is very important to create an atmosphere conducive to the free and frank exchange of views. I would first like to ask you for your opinions of our management system.

Kimura At meetings of the Board of Directors, there are ample opportunities for me to voice my opinion. In this and other ways, the corporate culture is one of great openness, and the environment conducive to fruitful debate. In these ways, I feel that Daiwa House is way ahead of other companies.

Shigemori At Daiwa House, I am always surprised by how quickly issues of major importance can be dealt with by the Board of Directors. Even allowing for differences between industries, at a company where I was formerly employed, an issue that would have taken one month’s discussion is resolved here in a mere ten to twenty minutes. I believe that this is possible because each major issue undergoes adequate preliminary investigation by the Real Estate Investment Committee regarding business feasibility, and the attendant risks are evaluated, which means that the matters presented to the Board of Directors for debate are clearly defined.

In addition, Daiwa House Chairman Takeo Higuchi, who also acts as chairman of the board, creates an atmosphere that enables board members to speak their minds, and in this he is assisted by you, President Yoshii, and I expect things to improve still further from here onward.



Yabu It is now two years since I took up my post as an outside director, and I have to say that the meetings of the Board of Directors of Daiwa House allow one to express one’s opinions candidly. It goes without saying that outside directors can frankly express their opinion because that is what they are supposed to do, but it would be difficult to find other companies where corporate directors so readily and frequently voice their opinions, offer advice, and ask questions as at meetings of the Daiwa House Board of Directors. Moreover, we are able to receive prior explanations of the issues that are tabled for discussion at the board meetings, and this allows us to arrive at the meetings more-or-less prepared, and for this, too, I am thankful. I also agree with Mr. Shigemori that—in spite of the large number of board members—decisions are made with remarkable speed.



Yoshii Yes, there is no doubt that the large number of board members does not delay decisions in any way, and that the corporate culture is very open and transparent.

Kimura A number of investors have expressed the opinion to me that the number of board members is rather on the high side. But if one examines the Group’s business portfolio, one sees that the number of directors will inevitably be large, given the wide range of business fields in which the Group operates. Moreover, many people talk about the need to separate the powers of oversight and execution, but I believe that the position of executive officer should be assumed by a person who not only understands the details of business operations but also has the ability to see things from a director’s perspective. Otherwise, I do not believe that proper discussion or debate at board meetings would be possible. In this sense, I feel that the Board of Directors of Daiwa House—in which many of the members



simultaneously hold responsibility for business execution—completely fulfills the role expected of a board of directors.

Yabu As you say, as the Group’s sphere of operations expands, the knowledge required to manage it expands in parallel, and I believe that it is important for people who are fully familiar with the new operational fields to become members of the board, and consequently the board members can further increase the understanding of the customers, organizations, and businesses involved. It is not necessarily true that the larger the number of members, the more unwieldy the board becomes, and I think that the current scale of the Daiwa House Board of Directors is appropriate.

Kimura That’s right. The Board of Directors does not focus its efforts on debates about abstract principles. In my view, the board combines the functions and views of specialists in particular business areas with the governance functions and stance normally expected of a board of directors.

Yoshii Thank you for that comment. The Board of Directors has held a wide variety of discussions on the Company’s management system through the evaluation of the effectiveness of the board of directors and other means. One of the issues of which we are conscious is the lack of a sufficient number of female board members. We are currently taking steps to promote management diversity, and expect to appoint new female members to the board to join Ms. Yabu in the near future. This development is only a matter of time.

The Strengths of the Daiwa House Group as seen from the perspective of the outside directors

Yoshii You have given your opinions about the speed of decision-making, and about the Company’s management system, including the Board of Directors. Next, I would like to ask what you feel are the strengths of Daiwa House Industry and its Group, as viewed from your perspective as outside directors.

Shigemori I think it is the very broad supporting base of industries and companies that the Group possesses. The Group is nurturing a number of startups in different industries. It invests in and otherwise supports a company that has developed an automatic laundry folding machine, and a company involved in the development and manufacture of robotic suits. Chairman Higuchi has often asked me to introduce top management members of new business ventures to the Group. Generally speaking, the management of startups are wary of approaching major companies for fear of being taken over, but as the Daiwa House Group is known for supporting such ventures while helping maintain their independence and autonomy, I think this is the reason that many such enterprises come to rely on the Group.

Yoshii Just before, you talked about your role in developing a network of contacts with people from different industries; isn’t that right?

Round-table with the Outside Directors of Daiwa House and President Keiichi Yoshii

Shigemori Yes, but even at the pan-industry social events we have held, managers from other companies have often bypassed me and spoken directly to Chairman Higuchi.

Yabu Personally, I have been impressed by how much the Daiwa House founder's business philosophy—of doing something not because it may be profitable but because it will be of service to society—has been absorbed by the Company's front-line staff. In a wide variety of situations, I have personally—on my visits to branches and offices of Daiwa House and to factories and Group companies—been impressed by the way that staff work with a sense of pride, energetically and with an understanding of the value of time. The Group also encompasses a wide range of companies that match its business portfolio, and the effort that is being made there to realize workforce diversity is another of the Group's strengths.

Yoshii So, you're saying that diversity is important?

Yabu Certainly. The word "diversity" is generally taken to mean providing equality of workplace opportunity for women, but in actuality it encompasses diversity in specialties and skills, age, nationality, and many other aspects. You mentioned just before the promotion of women to the Board of Directors, but in fact, diversity—including greater participation by female staff—is already being promoted by the Group in the front line of business, and not in response to any proposals by myself. I frequently say to myself: "What a wonderful example of workplace diversity I've found here!" So, I would like the Group to communicate its excellence more vigorously to society at large.



Kimura When all is said and done, I believe that human capabilities are the base upon which we have built. I meet all kinds of Daiwa House employees in the course of my work, but what they all have in common is an aggressive business stance. And the Group's business portfolio is so wide-ranging and solidly based that it can respond effectively to changes in the economic environment. This is a particularly noteworthy strength of the Group, in my view.



Risks facing the Daiwa House Group and tasks to be addressed

Yoshii On the other side of the coin, what do you think are the risks facing the Group, and the tasks that need to be addressed?

Shigemori Taking into account the decline in the Japanese population due to the low birthrate, in addition to the rising average age of the population, one is concerned about how much the Group's overseas businesses will grow. The Group's operations are subject to many different risks, most notably country risk, and I believe that its future will very much depend on whether it can grow overseas operations while at the same time taking steps to hedge against such risks. If earnings from overseas operations grow to

account for around half of all earnings, I see no reason why the Group cannot achieve its major goal of ¥10 trillion in net annual sales by 2055.

Yoshii To plan our overseas market development successfully, we will have to take a close look at our global governance system, but as we have a solid set of Group management rules in place, we are first ensuring that our staff at local subsidiaries overseas study these rules thoroughly. Then, we are checking that their attitude to business and way of proceeding with operations is in accordance with the Daiwa House management philosophy. These two points are the most important. In particular, I believe that we must make sure that our overseas staff understand the Group's corporate DNA, and to do that I believe that we must keep on repeating the essential points and continue to educate them in our way of thinking. And with regard to business projects, plans drawn up by the department in charge are first analyzed and discussed by the Real Estate Investment Committee, the Board of Directors, and other bodies, during which process the project's various attendant risks, and its business feasibility, are carefully assessed.



Kimura With regard to the Group's overseas strategy, in my view it is desirable to pursue localization by forming business partnerships, including through acquisitions and capital participation. For this purpose, it is vital to determine which partners and which projects would be most fruitful. And I believe it is also important, when developing businesses overseas, to make more use of local staff by developing local human resources through promotion where appropriate.

Yoshii We are currently pursuing an active policy of recruitment of local staff. Regarding partnerships, in cases where the Company alone would have difficulty in implementing projects effectively, we link up with overseas companies as silent partners to hedge risks, and there is a large number of such cases.

Yabu It struck me during my previous post, when we opened a research facility overseas, that local staff also respond positively at work when introduced to a corporate philosophy. All the more because of this, we should leave things up to local staff once they have absorbed our philosophy.

Moreover, if a company becomes large through rapid growth, this is accompanied by a parallel rise in what society expects from the company in terms of legal compliance, standards, and so on. In these cases, we have a duty to respond to such social expectations. Issues which formerly used not to be major problems are now becoming the focus of concern, and

in this day and age such issues could be crucial to a company's continued existence. From here onward, I believe that individual employees will be increasingly required to be more and more sensitive to possible problems and to take appropriate action such as reporting them to their supervisors.

Kimura Yes, that's right. Public scrutiny and expectations have actually become so demanding as to constitute the very minimum standards for compliance and risk management. The English word "compliance" is often translated into Japanese in the narrow sense of "legal compliance," but that does not mean that there is nothing to worry about as long as one is not in violation of any particular law or regulation. The concept of compliance goes beyond that, and forces us to apply higher standards to everything.

Shigemori When things are going well for a company, it is said to be benefiting from a "virtuous circle," and problems in the area of compliance do not often occur, but once a company's growth has stopped, such problems are more liable to occur. Also—although this perhaps strays somewhat from the topic of risks and tasks to be addressed—in the case of other companies on the same scale as Daiwa House, one does not often hear about appointments such as yours, President Yoshii: cases where the president of a company has been recruited in mid-career. There are no cliques or factions within the management of Daiwa House—personnel are evaluated solely on the basis of the effort they put into their jobs, and their abilities. In a sense, this could be described as the ultimate form of "governance." This is also, I believe, an extremely important factor in the development of human resources. And from the presidents of Group companies, I hear things like: "Daiwa House made me the head of this company even though I have no particularly impressive educational qualifications. That motivates me to do my very best!" This kind of corporate culture is not often seen in other companies.



Yoshii At Daiwa House, we aim to provide our employees with job satisfaction, and to do this it is vital to create a workplace atmosphere that encourages face-to-face discussions between managers and the staff under them, at which they engage in lively and fruitful dialogue. If we continue to do this, the effects of training which we discussed before will come to the fore, and I believe that employees' job abilities will develop rapidly. Whether an employee takes his or her superior officer's attitude or advice as an inspiration, or sees it as bullying, or abuse of authority—even if expressed in the same words—depends on their perception of the psychological "distance" between the two. I feel that the degree to which we succeed in nurturing

employees and imbuing them with our corporate DNA depends on how well we can reduce this feeling of distance in interpersonal relationships.

Yabu As well as what you say about reducing the psychological distance between people in face-to-face meetings, I think that it will also be important to make use of IT infrastructure. As regards the Company's in-house information system, the effective utilization of artificial intelligence and the "Internet of things" will be at the core of our efforts to improve the IT infrastructure, and so I believe that we must secure personnel skilled in this field by any means available to us—including mergers and acquisitions—so as to build that infrastructure. Also, as the primary type of product that the Group provides to society is homes, which sit at the very center of people's daily lives, we will be able to add new value to our products by taking into account the preferences and meeting the requirements of people planning to purchase a house or rent a room. Looked at from this perspective, the Group's business operations have considerable future potential. For instance, I would like to see Daiwa House staff come up with new ideas to address social issues such as the lack of sufficient places for children at day-care centers and the shortage of trained nursing workers to care for elderly people, and turn these ideas into actual businesses. And I also believe that the Group is capable of living up to its motto of "being of service to society" by being an enterprise that works aggressively to realize the United Nations' Sustainable Development Goals, which are de facto international sustainability standards.



Yoshii You have already on previous occasions given us the benefit of your opinions on a wide range of issues at meetings of the Board of Directors and the Corporate Governance Committee, as well as on other occasions. This time, we have heard your opinions as outside directors on the Company's management system, as well as on the Group's strengths and the tasks facing it. I look forward to your continued active participation in the management of the Daiwa House Group. Thank you.

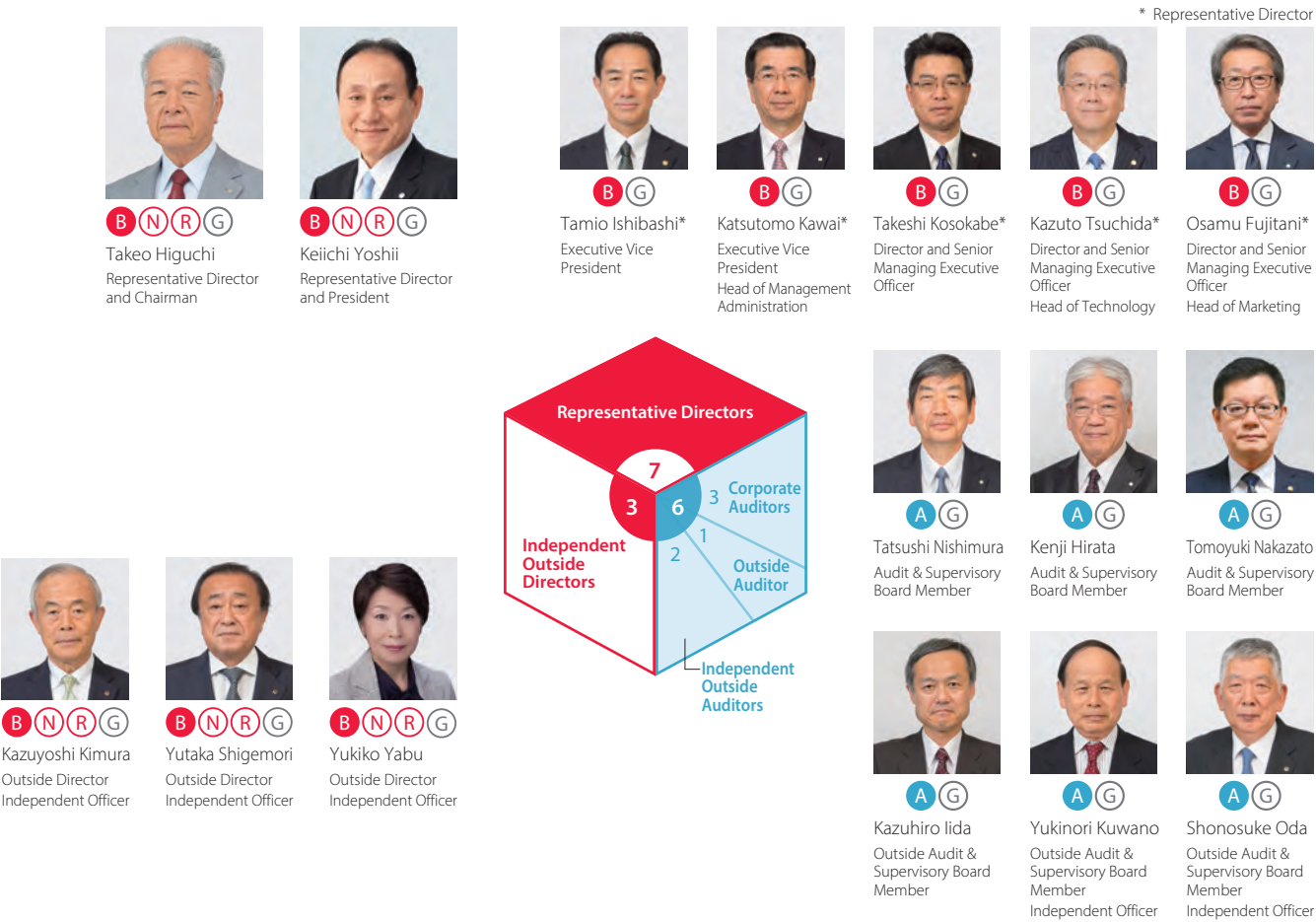


Corporate Governance System

Concept of Board of Directors structure

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

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



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

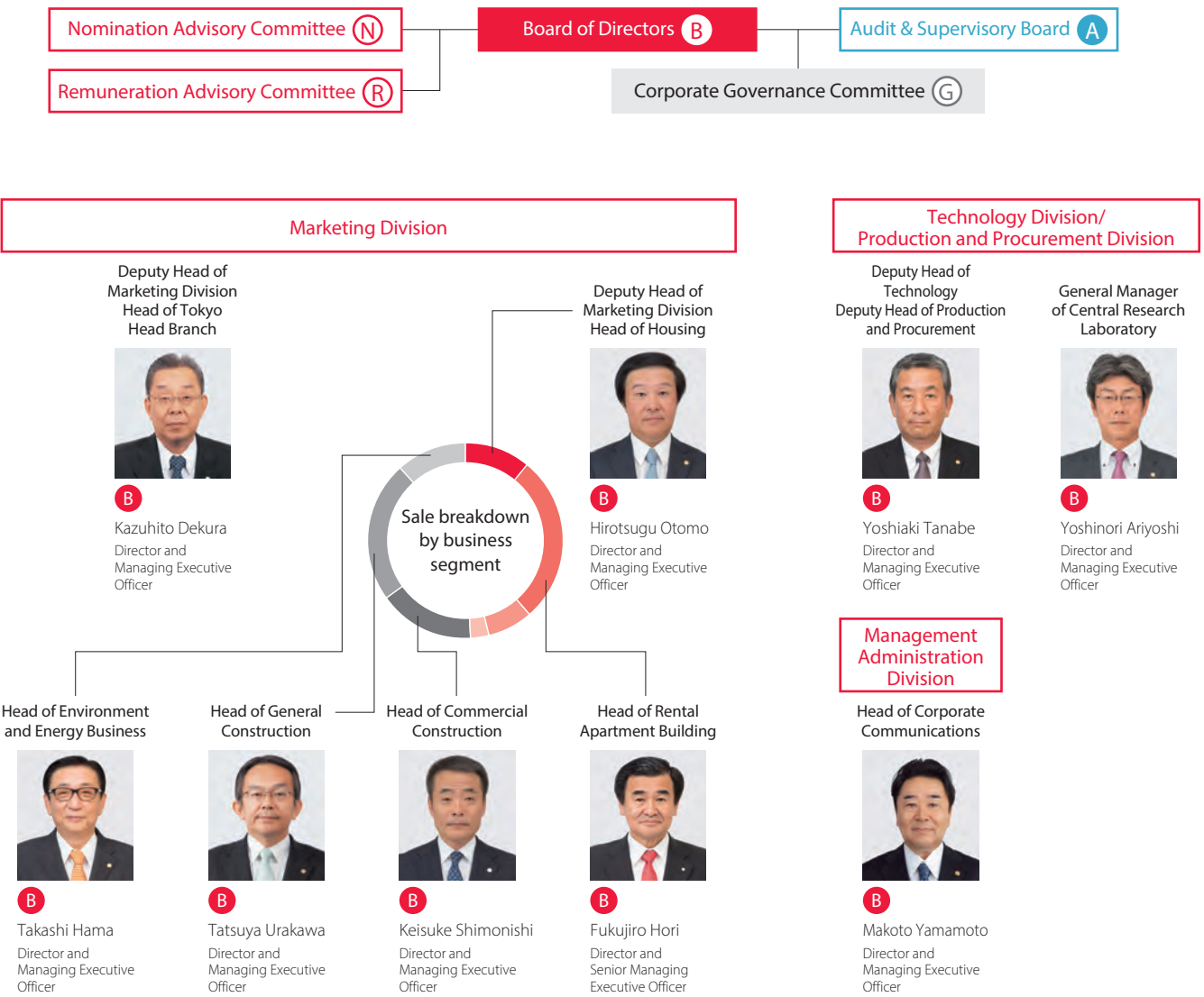
Governance at Daiwa House Industry strikes a balance between the management functions that are primarily the responsibility of executive directors and the monitoring functions (supervisory function) that are primarily the responsibility of several independent outside directors as well as the Audit & Supervisory Board members (who do not have voting rights for decisions made by the Board of Directors).

This also includes the appointment of advisory committees to strengthen the independence, objectivity, and accountability of the Board of Directors’ functions when dealing with nomination and remuneration matters. To ensure appropriate input and advice from independent outside directors, these advisory committees are chaired by an independent outside director and include a majority of independent outside directors as committee members.

Furthermore, to ensure a free exchange of views on a wide range of topics, including medium- and long-term management issues, the Company has also established a Corporate Governance Committee to draw on the knowledge of outside directors and outside Audit & Supervisory Board members.

Nomination Advisory Committee	Receives information from representative directors on individual director assessments and on matters for submission to the General Meeting of Shareholders relating to the appointment and removal of directors, discusses the appropriateness of these, and presents an opinion. (Chair: an independent outside director)
Remuneration Advisory Committee	Receives advice on policy for decisions concerning director remuneration and related matters, and on remuneration matters for submission to the General Meeting of Shareholders, and presents an opinion. (Chair: an independent outside director)
Corporate Governance Committee	Exchanges views on vision, strategies, and other items pertaining to corporate governance and overall management, considering diverse viewpoints and taking a long-term perspective. (Chair: Chief Executive Officer (chairman))

Structure of Committee for strengthening monitoring function of Board of Directors



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

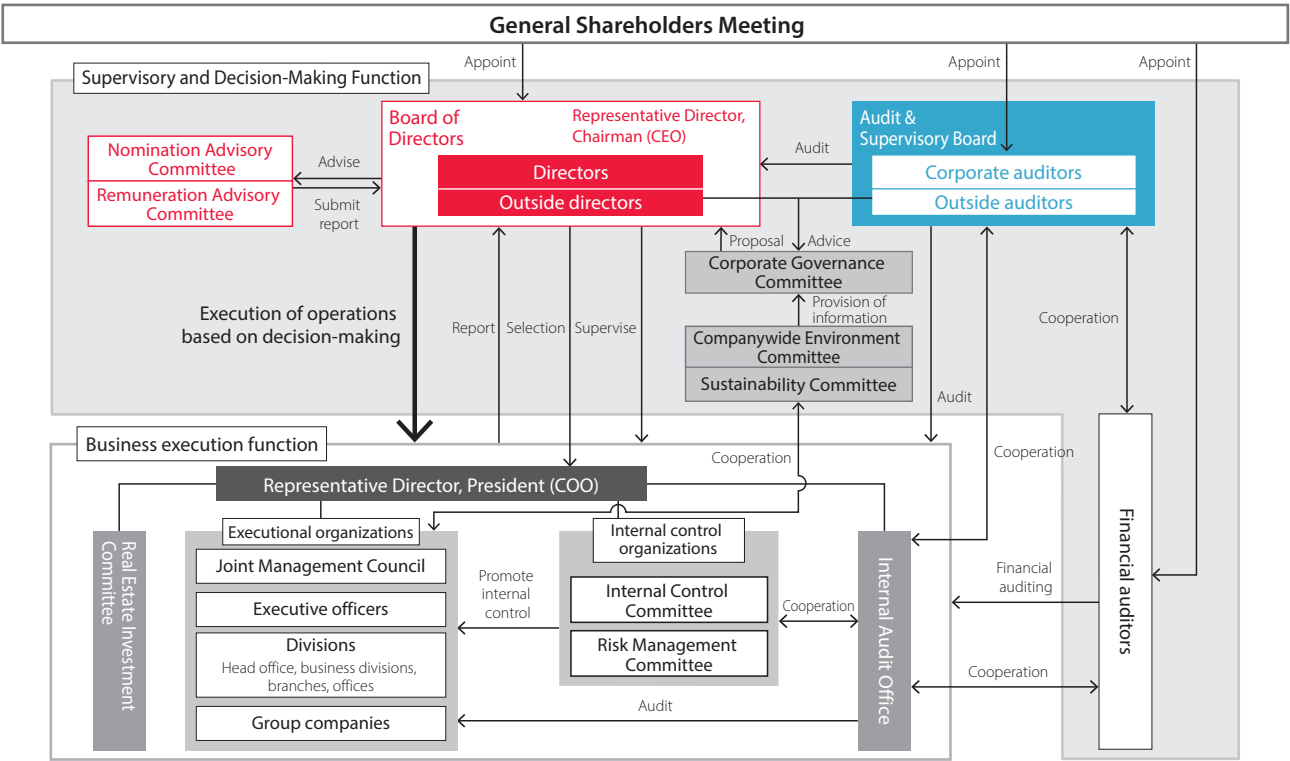
In conducting business development in a wide range of business fields, we have established committees concerning operational execution (Management Committees), including the Joint Management Council to swiftly and accurately put decision-making into practice by the Board of Directors, the Real Estate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

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

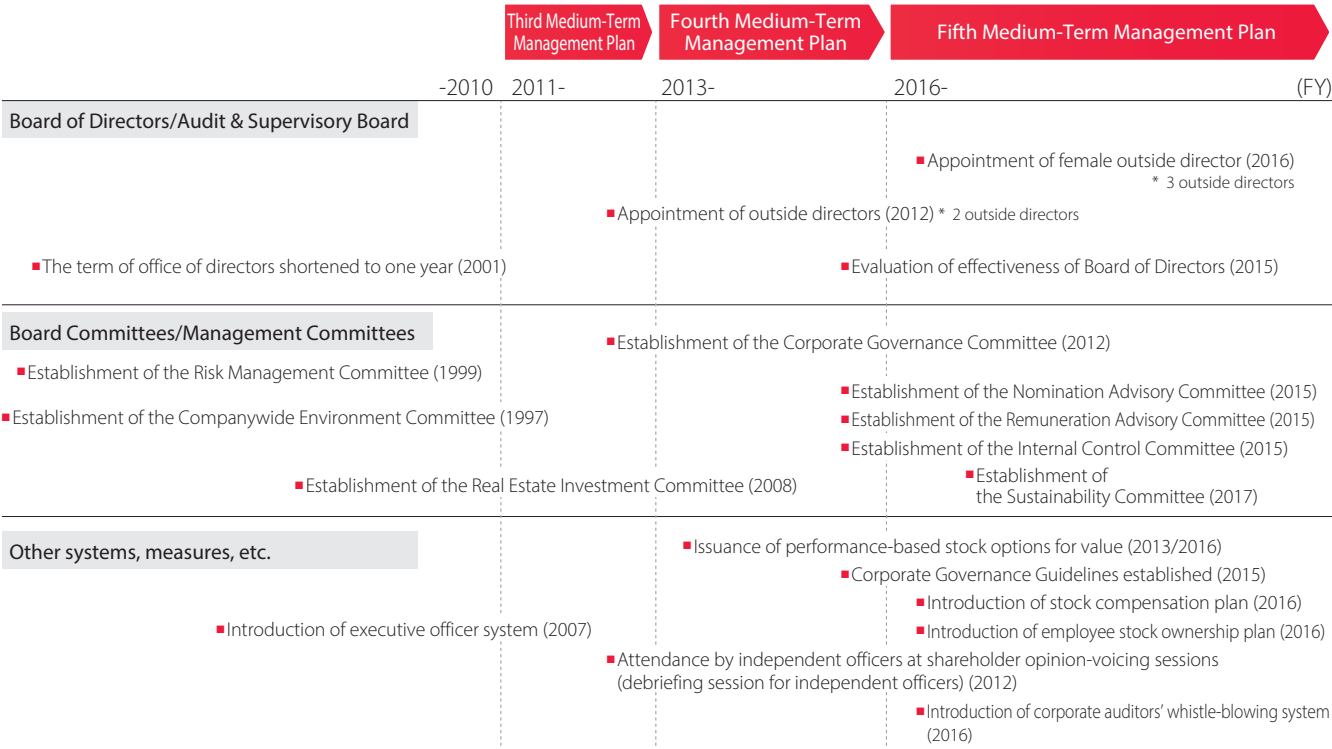
▶ P.87 (Details of the Real Estate Investment Committee)

Corporate Governance System

Corporate governance system



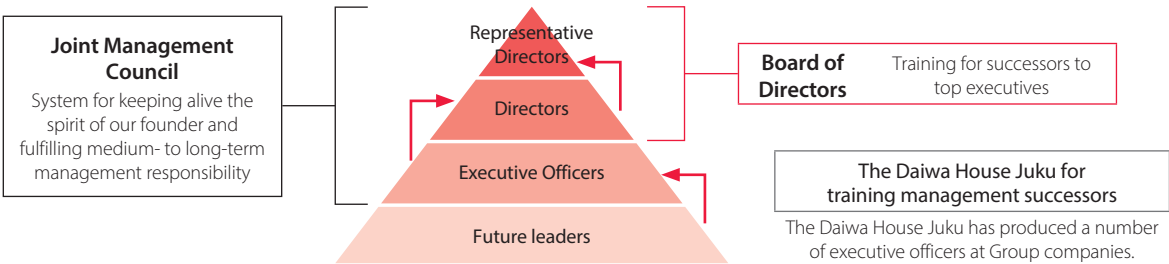
Measures to enhance corporate governance



Mechanism for training successors to realize sustainable development

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

intentionally creating opportunities for employees at each grade to interact with staff in higher positions, who are in this way constantly reminded of their responsibility to prepare their successors for promotion. By doing so, we will strengthen the human resources base that can respond to challenges in new business fields and the expansion of business scale and business area, as well as build a system that immediately responds to emergencies and changes in the management environment.



Procedures for director nominations and proposed dismissal

The procedures for director nominations and proposed dismissal are determined on the basis of Principle 3.1 of the Corporate Governance Code, which was revised in June 2018. When a director nomination is made, the matter is discussed by a Nomination Advisory Committee made up of three outside directors and two inside directors to ensure independence and objectivity, and the decision is made by the Board of Directors with reference to the outcomes of this discussion. When the dismissal of a director is proposed, the matter is decided by the Board of Directors.

Criteria for candidate directors

1. They should have excellent personality and wisdom, excel in management sense, and possess expertise in various management issues.
2. They should excel in the ability to analyze and judge objectively from the perspective of the whole company.
3. They should excel in foresight and insight.
4. They should be capable of accurately grasping the trends of the time, business conditions, and changes in the market.
5. They should be highly motivated to improve their own abilities.
6. They should be capable of actively stating the opinion from the perspective of the whole company.
7. They should not fall under the grounds for disqualification of Directors stipulated in Article 331, paragraph 1 of the Companies Act.

Criteria for director dismissal

1. In case the director has committed an act that violates public order and morality.
2. In case the director is unable to continue the execution of duties in the cause of health problems.
3. In case the director has caused tremendous corporate value damage by its laziness.
4. In case the director has fallen under the grounds for disqualification of Directors stipulated in Article 331, paragraph 1 of the Companies Act.
5. In case the director is considered to be lack of motivations and abilities stipulated in Selection criteria.

Procedures for director nominations

Nomination Advisory Committee
Discuss whether the candidate satisfies the above criteria and present conclusions to the Board of Directors

Board of Directors
Decisions regarding director nominations

[Procedure for CEO dismissal]

The procedures for CEO dismissal are determined on the basis of Supplementary Principle 4.3.3 of the Corporate Governance Code, which was revised in June 2018. A Nomination Advisory Committee meets and deliberates, considering quantitative assessments of financial performance targets and other circumstances, and debates whether a proposal to dismiss should be put before the Board of Directors. When the proposal is subsequently put before the Board of Directors, the CEO shall be dismissed if a majority vote to do so. The CEO shall not take part in any of these deliberations or decisions.

Sale of cross-shareholdings

The Company owns cross-shareholdings to strengthen its relationships and collaboration with partner companies. The Board of Directors conducts an annual review of each cross-shareholding based on considerations that include whether it makes economic sense over the medium to long term. As a result, the number of cross-shareholdings has fallen from 98 at the end of fiscal 2014 to 75 at the end of fiscal 2017.

[Criteria for sale of cross-shareholdings]

The purposes for which the shares are held are categorized into "increasing sales", "relationship building (with suppliers, etc.)", "business collaborations", and "other reasons", and the reasons for continuing to hold cross-shareholdings are reviewed once a year with reference to current dealings with the company concerned. Shareholdings are sold if there are no longer good reasons for holding them.

Actual sales of cross-shareholdings over past three financial years	
FY	Number of shareholdings sold
2015	10 companies (sale of entire holding), 6 companies (partial sale of holding)
2016	8 companies (sale of entire holding), 1 company (partial sale of holding)
2017	6 companies (sale of entire holding), 2 companies (partial sale of holding)

Policy on Remuneration and Incentive Plan

Remuneration policies

Objective

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

Furthermore, the Company’s basic stance is to build an appropriate incentive plan so that management decisions are always made based on overall optimization to increase earnings per share by investing in growth areas as stated in the basic policy for returns to shareholders.

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

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

Details

The components consist of

- (1) Fixed remuneration that is paid as consideration for fulfilling job responsibilities of the Company’s managers in consideration of the scale of business (short-term);
- (2) Annual incentive bonus that is paid within 0.5% of consolidated ordinary income as performance-based remuneration for “generating profits and fostering the Company’s growth and development” (short-term);
- (3) Stock options for value that are established with the aim of enhancing the commitment to performance targets set in the Medium-Term Management Plan and to improving shareholder value (medium-term); and
- (4) Stock compensation that is paid with the aim of linking with shareholder value by using return on equity (ROE) as the performance-based indicator, in addition to increasing the number of shares held by directors. (long-term)

Determination process

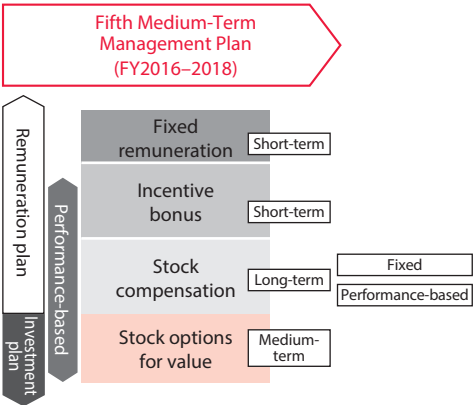
To ensure the transparency and objectivity of these decisions, decisions are made by the Board of Directors following deliberation by the Remuneration Advisory Committee, which is chaired by an outside director and has outside directors making up more than half of its members.

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

Period	Type of remuneration	Indicator
Short-term (monetary)	Fixed remuneration	Not more than 70 million yen per month
Short-term (monetary)	Annual incentive bonus	Within 0.5% of consolidated ordinary income
Medium-term (share)	Stock options for value	Level of achievement of performance targets of Three-Year Medium-Term Management Plan (accumulated operating income of 800 billion yen)
Long-term (share)	Stock compensation	The number of shares awarded as performance-based compensation varies depending on ROE performance <Coefficient for performance-based compensation> 10% or higher*1 = 1 8% or higher*2 less than 10% = 0.5 Less than 8% = 0

*1 Target set in the Fifth Medium-Term Management Plan. *2 The minimum target as a listed company proposed in the Ito Review.

Remuneration structure



Remuneration paid*3

	¥ million			
Director remuneration	FY2015	FY2016	FY2017	FY2017 Composition of remuneration
Directors’ fixed remuneration (excluding outside directors)	758 (18 directors)	756 (18 directors)	735 (19 directors)	39.7%
Directors’ annual incentive bonus	818 (17 directors)	1,010 (16 directors)	986 (15 directors)	53.3%
Stock compensation	—	153 (16 directors)	129 (15 directors)	7.0%

*3 Excludes ¥100 million in special bonuses awarded to retiring directors through a resolution of the 79th General Meeting of Shareholders held on June 28, 2018.

Evaluation on Effectiveness of Board of Directors

Overview of evaluation on effectiveness of Board of Directors

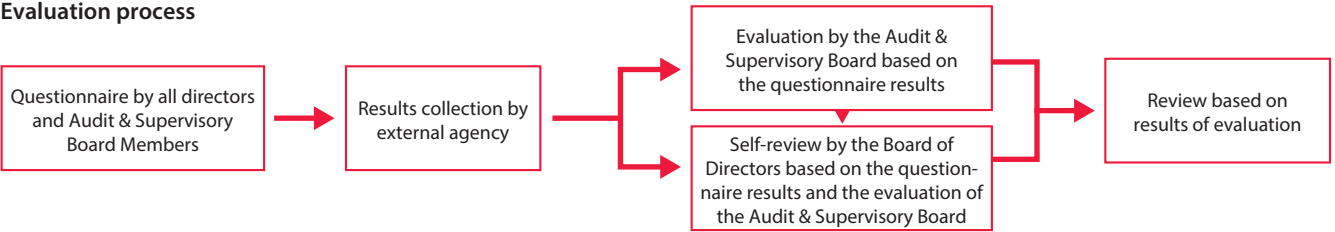
Based on the Corporate Governance Guidelines, the Company has, since 2015, conducted evaluations of the effectiveness of the Board of Directors with the aims of improving the functions and effectiveness of the Board of Directors.

Questionnaire-based surveys of directors and Audit & Supervisory Board members are conducted, and the effectiveness evaluations are made on the

basis of the results of these together with the evaluation of the Board of Directors made by the Audit & Supervisory Board.

While question selection and results collation were undertaken by the Company in 2015 and 2016, an external agency was engaged to conduct the survey in 2017 with responses being provided directly to the external agency to ensure anonymity.

Evaluation process



Evaluation items

The survey was made up of 31 multiple-choice questions and nine questions requiring written answers about items on the right.

The multiple-choice questions asked for rankings on a one-to-five scale (where 5 = highest ranking, 1 = lowest ranking).

Although the evaluation of the Board of Directors as a whole was relatively high, a low ranking was given to training (opportunities to acquire required knowledge).

Evaluation items	Average score
Composition of Board of Directors	4.5
Operation of Board of Directors	4.7
Support structures for directors and Audit & Supervisory Board members	4.2
Training	4.0
Dialogue with shareholders	4.5
Attitude of directors and Audit & Supervisory Board members to their duties	4.5
Evaluation of the Board of Directors as a whole	4.8

Summary of evaluation results for 2017

Based on the status of each evaluation item, the effectiveness of the Board of Directors was evaluated as being fully satisfactory. However, concerns were expressed regarding diversity in the composition of the Board of Directors and acquiring the knowledge required for a changing business environment.

Existing issues identified by evaluation and progress of associated improvements

Year	Issues	Progress of improvements
2015	Acquisition of additional human resources, such as by appointing outside directors with qualifications that include specialized knowledge and extensive experience to help achieve the Company’s medium- to long-term and global strategies.	In fiscal 2016, we welcomed a new outside director (female) with a wealth of experience in product planning, development and marketing, and a new senior executive officer (male) with extensive experience in global business development at a general trading company.
2016	Early distribution of Board of Directors proposals and other documents, and the provision of adequate preparation time	The early distribution of proposals and other documents occurs as a matter of course (three working days prior to Board of Directors meetings).

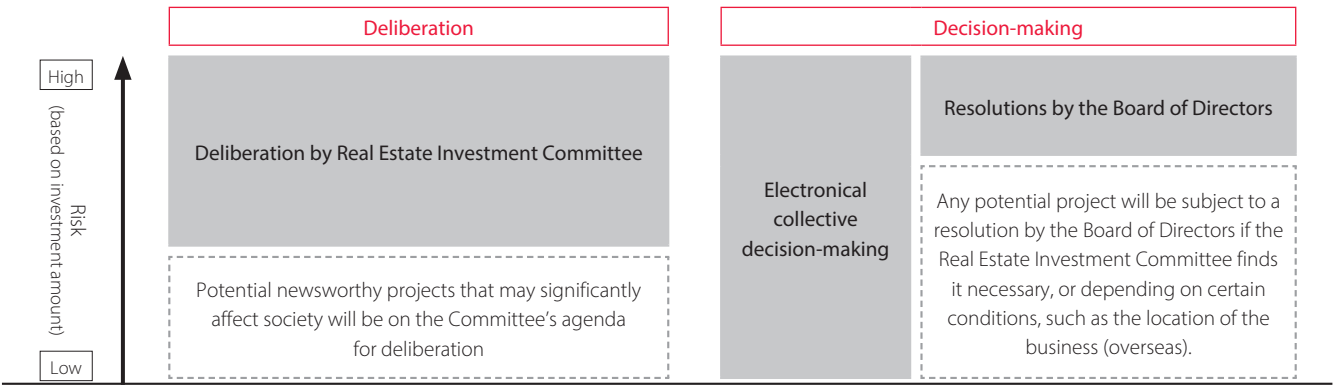
Investments in Real Estate Development and Risk Management

Establishment of Real Estate Investment Committee

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

any projects related to the 2020 Tokyo Olympics and Paralympic Games, projects involving the right to operate highly public facilities or the like (concessions pertaining to airports, parks, roads or other similar infrastructure), and other potential newsworthy projects, which may significantly affect society, will be on the Committee's agenda for deliberation, whether the land or facilities are owned publicly or privately. Furthermore, if a potential project poses a significant reputational risk to the Company, or if the Company may essentially take total responsibility for a potential project due to the structure of its business partners even though the Company's investment ratio is low, then the project will be deliberated, regardless of the investment amount requirement. The Committee has been sitting since 2008 and had considered a total of 251 projects as of the end of fiscal 2017.

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

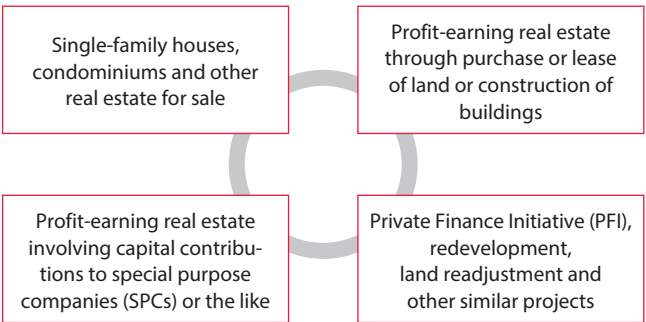


Deliberation based on unique criteria

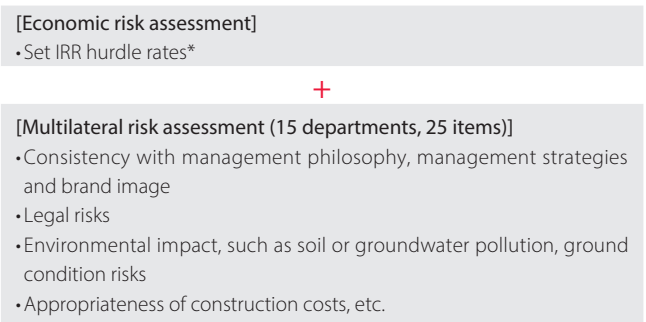
The Real Estate Investment Committee will fully deliberate a potential project based on explanations given by the drafting and related departments. The Company has set hurdle rates for the internal rate of return (IRR) as investment criteria. The implementation of a potential investment will be adopted if the relevant rate requirement is met. At the same time, the Committee's deliberations involve multilateral risk assessments (15 departments, 25 items) including whether the implementation of the investment is consistent with the Company's management philosophy, management

strategies and brand image, as well as other factors, such as legal risks, soil or groundwater pollution, ground condition risks, and appropriateness of construction costs. Thus, a potential investment project, which is acceptable from an economic perspective, will not be adopted if the implementation of the investment significantly conflicts with the Company's goals or vision, or has a considerable environmental impact. The Committee considered a total of 29 projects in fiscal 2017, including projects that were reconsidered after being put on hold.

Major real estate development projects subject to deliberation



Risk assessment for investment decisions

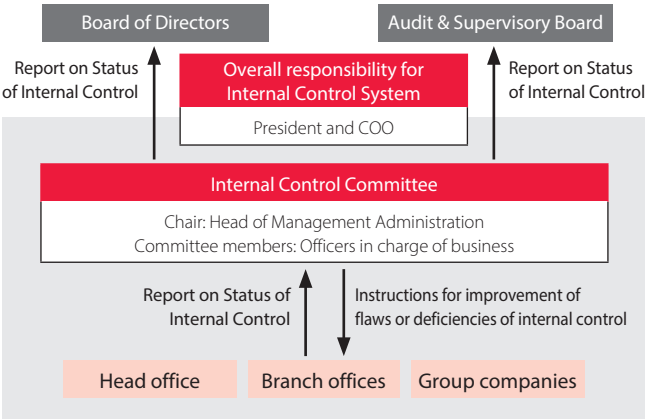


* To be set based on the WACC (weighted average cost of shareholders' equity and liabilities) by taking into consideration additional factors such as risk premiums.

Internal Control

Structuring and operating the internal control system

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



Systems for compliance with laws and regulations and risk management

(1) Risk Management Committee

We have a rule that requires any risk issues that arise at the head office, branch offices and Group companies (including overseas branches and companies) to be immediately reported to the secretariat of the Risk Management Committee of the head office. Risk-related information reported to the secretariat is promptly communicated to officers and managers of relevant departments, as well as reported to the Risk Management Committee of the head office which convenes once every month. In addition, the Risk Management Committee convenes regularly at branch offices and Group companies. The proceedings of the Risk Management Committee of the head office are implemented throughout the Group, and functions such as structuring the risk management system within branch offices and Group companies and proposing operational improvements to the head office are handled. The risk management system of the Group has become ever more robust as a result of two types of Risk Management Committee, namely the Risk Management Committee of the head office and the Risk Management Committee of branch offices and Group companies, complementing each other.

(2) Compliance training

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

(3) Internal audits

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

Group management system

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

Audit by Audit & Supervisory Board Members

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

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

In order to make sure that each employee practices the corporate philosophy and symbolic message "Creating Dreams, Building Hearts," we prepare CASE BOOK, an educational booklet that describes the Principles of Corporate Ethics and Code of Conduct, case studies, and the hotline for whistle-blower, once every two years and distribute it to all Group employees. We issued the 8th edition in April, 2018 and are working at being complete in small things by doing a read-through at the morning meeting in the workplace and other opportunities.



See the Group's Sustainability Report 2018 P.142-174 (Foundation of CSR Management)

Dialogue with Shareholders and Investors

To realize purposeful dialogue with our shareholders and investors, we constantly work to enhance mutual communication in the spirit of “co-creating a brighter future,” which is embedded within our management vision.

We strive to disclose information that will enable our shareholders and investors to assess our corporate value over the medium and long term.

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

Our activities for FY2017

General meeting of shareholders (June 28, 2018)

- Shareholder attendance **715**
- Percentage of voting rights exercised **84.29%**

Communication with institutional investors and analysts

Total **733** companies

Face-to-face and telephone interviews with Japanese and overseas institutional investors	As needed	332 companies
Financial results briefing session via teleconferencing	4 times	199 companies
Briefing sessions from top management	2 times	84 companies
Business briefing sessions from the executive officers	2 times	70 companies
Tours of our facilities for institutional investor representatives	4 times	18 companies
Small meetings related to ESG and Integrated Report	2 times	30 companies
Overseas roadshows by top management	Britain, North America, Singapore, Hong Kong, Australia	

Communication with individual shareholders and investors

Total **656** investors

Online explanatory sessions for individual investors	Once	469 investors
Tours of our facilities for individual shareholders (Tokyo and Nara)	4 times	187 shareholders

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

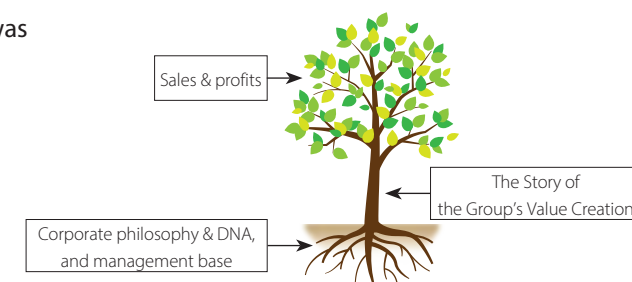
Reports on IR activities at Board meetings	Once a year
Reports on IR activities to outside directors	Semi-annually
Opinions on business performance and market trends exchanged with business divisions	Quarterly



Small meeting on Integrated Report

A small meeting on the Group's 2017 Integrated Report was utilized as a tool for communication with investors.

Date	Dec. 15, 2017
Attendees	19 institutional investors
Daiwa House departments represented	CFO, IR officer, IR, CSR, General Affairs, Environment, Corporate Strategy Planning, Accounting



The meeting presented details of the discussions about issues raised in the 2016 Integrated Report that took place at the Integrated Approach Project launched in July 2015.

Using the image of a tree in which our “three bases” are expressed through our value creation story (the trunk of the tree) that links our sales and profits (the blossoms on the tree's branches) to our corporate philosophy and DNA and our management base (the roots that support the tree), these presentations explained things like our history (each chapter of which is imbued with what makes Daiwa House special), what we hope to become in the future, and our strategy for human resource development.

Feedback from institutional investors who attended the meeting included comments that it clarified the human resource base, customer

base, and technology and manufacturing base that generate value in our existing core businesses, that our founder's words about “doing things because they will be of service to society” lie at the base of the growth that the Company has achieved, and that the explanations of how risk management is undertaken in real estate development investment provided valuable information for making investment decisions. Investors also asked how we go about spreading the message of our corporate philosophy and the spirit of our founder down to the workplace level and how the current strength of the Company relates to “*Asu Fukaketsuno*” (Indispensable for Tomorrow), and commented that they would like to see us taking active steps to build up our human resources in order to speed the progress of our overseas businesses.

Share Information (as of March 31, 2018)

Authorized 1,900,000,000 shares
 Issued 666,238,205 shares
 Number of shareholders 42,332

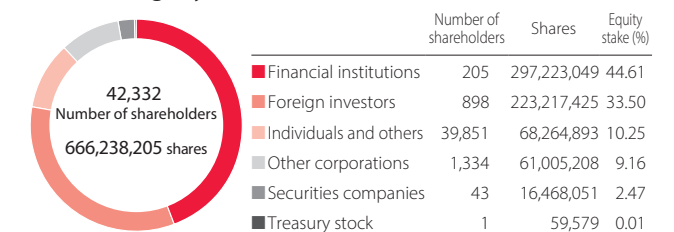
Principal shareholders	Thousands of shares*1	Equity stake*2(%)
The Master Trust Bank of Japan, Ltd. (trust account)	47,970	7.20
Japan Trustee Services Bank, Ltd. (trust account)	39,923	5.99
Sumitomo Mitsui Banking Corporation	16,117	2.41
MUFG Bank, Ltd.*3	15,470	2.32
Japan Trustee Services Bank, Ltd. (trust account 5)	12,647	1.89
Daiwa House Industry Employee Shareholders Association	12,398	1.86
Nippon Life Insurance Company	11,944	1.79
STATE STREET BANK WEST CLIENT-TREATY 505234	10,526	1.58
STATE STREET BANK AND TRUST COMPANY 505001	10,188	1.52
Japan Trustee Services Bank, Ltd. (trust account 1)	9,387	1.40

*1 Number of shares held is rounded down to the nearest thousand.

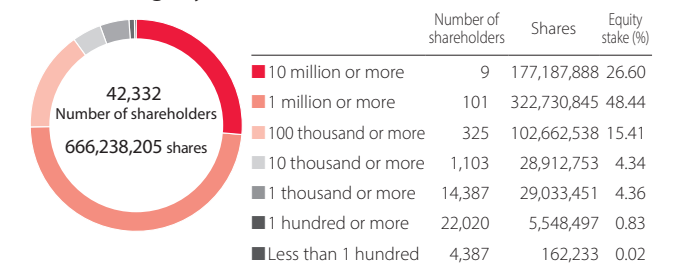
*2 Equity stake is calculated excluding treasury stock.

*3 The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed name to MUFG Bank, Ltd. on April 1, 2018.

Shareholdings by shareholders

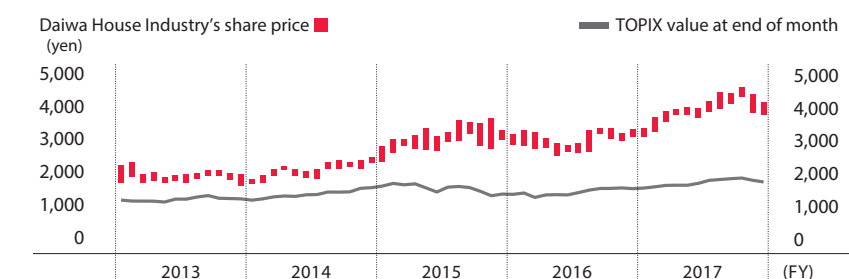


Shareholdings by scale



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

Trends in share price of Daiwa House Industry and TOPIX



	2013	2014	2015	2016	2017
Market capitalization*4 (¥ million)	1,156,398	1,565,860	2,109,310	2,129,297	2,731,576
TSR*5 (%)	-1.04	38.83	36.90	3.85	31.63
Share price high (yen)	2,330.0	2,467.5	3,654.0	3,367.0	4,594.0
Share price low (yen)	1,592.0	1,673.0	2,326.0	2,500.5	3,096.0

*4 At the fiscal end of year

*5 Total shareholder return

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

Securities code	Company name	Market capitalization*6 (¥ billion)
1 1925	Daiwa House Industry Co., Ltd.	2,710.2
2 8802	Mitsubishi Estate Co., Ltd.	2,698.3
3 8801	Mitsui Fudosan Co., Ltd.	2,643.1
4 1878	Daito Trust Construction Co., Ltd.	1,411.6
5 1801	Taisei Corporation	1,394.4

*6 Based on closing price on July 31, 2018

Inclusion of Daiwa House Industry in ESG indices



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

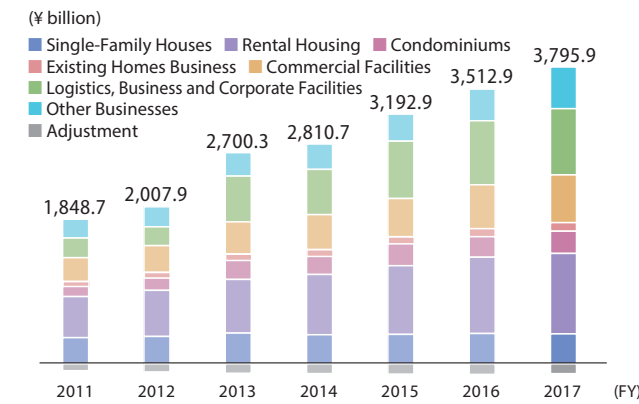
Financial Highlights

(¥ million)							
Fiscal Year	2011	2012	2013	2014	2015	2016	2017
Net sales	¥1,848,797	¥2,007,989	¥2,700,318	¥2,810,714	¥3,192,900	¥3,512,909	¥3,795,992
Gross profit	379,952	415,771	507,903	540,868	632,417	721,312	793,832
Gross margin (%)	20.6	20.7	18.8	19.2	19.8	20.5	20.9
Selling, general and administrative expenses	264,996	287,746	344,326	360,516	389,316	411,220	446,690
Operating income	114,955	128,024	163,576	180,352	243,100	310,092	347,141
Operating income margin (%)	6.2	6.4	6.1	6.4	7.6	8.8	9.1
Ordinary income	108,506	145,395	176,366	202,628	233,592	300,529	344,593
Net income attributable to owners of the parent	33,200	66,274	102,095	117,133	103,577	201,700	236,357
Return on equity (ROE) (%)	5.1	9.5	11.9	11.2	9.1	16.3	17.0
Return on total assets (ROA) (%)	1.7	3.0	4.1	4.1	3.3	5.9	6.2
Total assets	2,086,097	2,371,238	2,665,946	3,021,007	3,257,805	3,555,885	4,035,059
Net assets	657,891	734,883	992,686	1,112,817	1,181,986	1,329,901	1,513,585
Net assets excluding non-controlling interests	657,111	733,623	986,518	1,105,628	1,170,278	1,308,290	1,474,539
Net assets ratio (%)	31.5	30.9	37.0	36.6	35.9	36.8	36.5
Interest-bearing debt	383,625	374,788	393,568	563,530	491,964	640,671	780,574
Debt-equity ratio (times)	0.58	0.51	0.40	0.51	0.42	0.49	0.53
Net debt-equity ratio (times)	0.20	0.17	0.18	0.29	0.26	0.32	0.31
Current ratio (%)	133.7	136.8	127.2	138.7	136.5	137.5	144.4
Fixed ratio (%)	188.9	189.4	161.2	158.3	164.8	164.4	156.3
Net cash provided by operating activities	248,771	164,247	78,451	139,465	278,497	287,691	382,365
Net cash used in investing activities	(117,226)	(140,736)	(240,439)	(235,027)	(202,447)	(343,643)	(313,664)
Net cash provided by (used in) financing activities	(28,766)	(28,633)	110,131	129,202	(130,185)	80,086	41,804
Market capitalization	656,314	1,091,856	1,156,397	1,565,858	2,109,310	2,129,297	2,731,576
Stock prices (FYE) (yen)	1,094	1,820	1,751	2,371	3,166	3,196	4,100
Per share of common stock (yen):							
Earnings per share (EPS)	57.36	114.52	161.08	177.74	156.40	304.14	355.87
Book-value per share (BPS)	1,135	1,267	1,496	1,678	1,762	1,971	2,218
Cash dividends* ¹	25	35	50	60	80	92	107
Dividend payout ratio (%)	43.6	30.6	31.0	33.8	51.2	30.2	30.1
Price earnings ratio (PER) (times)	19.07	15.89	10.87	13.34	20.24	10.51	11.52
Price to book value ratio (PBR) (times)	0.96	1.44	1.17	1.41	1.80	1.62	1.85
Number of employees (FYE)* ²	27,130	30,361	32,628	34,903	37,191	39,770	42,460
Number of group companies	89	113	129	145	172	196	317
Consolidated to non-consolidated net sales ratio (times)	1.66	1.62	1.89	1.91	1.94	2.04	2.09
Consolidated to non-consolidated net income ratio (times)	1.84	1.35	1.26	1.21	1.26	1.37	1.19

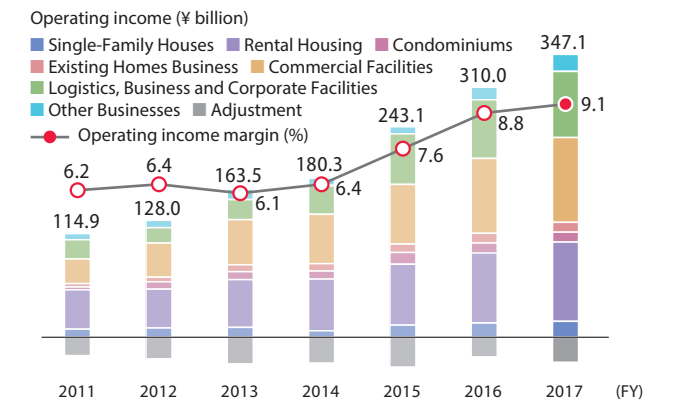
*1 Cash dividends for fiscal 2015 include a commemorative dividend of ¥10 to mark the 60th anniversary of the Company's foundation.

*2 Regular employees only.

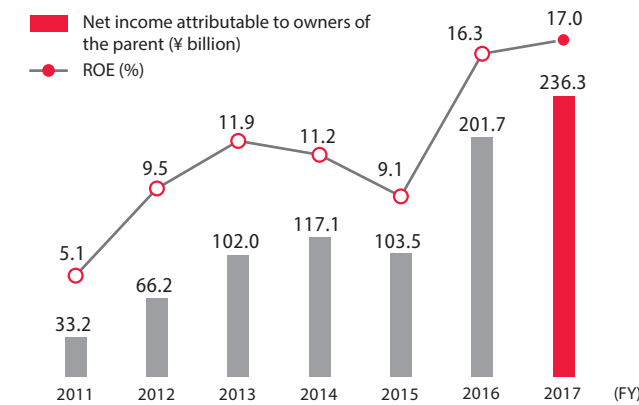
Net sales



Operating income and operating income margin

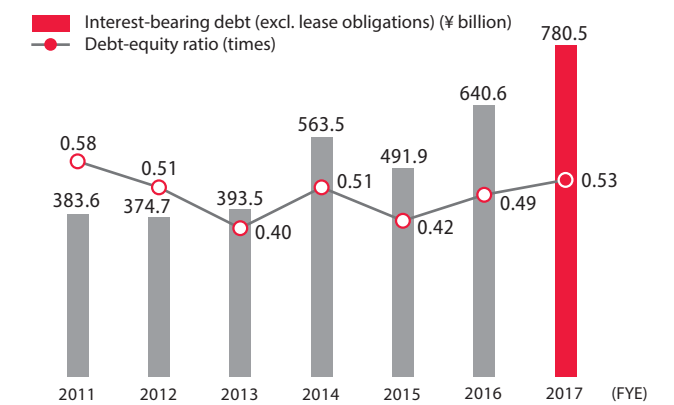


Net income attributable to owners of the parent and return on equity (ROE)

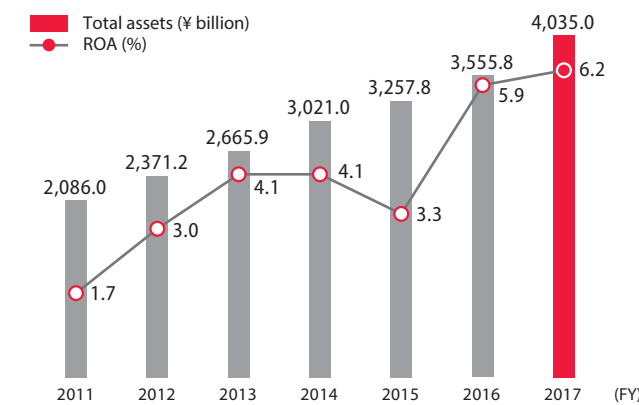


Note: By changing the discount rate used to calculate retirement benefit obligations from 1.7% to 0.8% in fiscal 2015, the Company posted extraordinary losses of ¥84.9 billion. As a result, the ROE dropped to approximately five points.

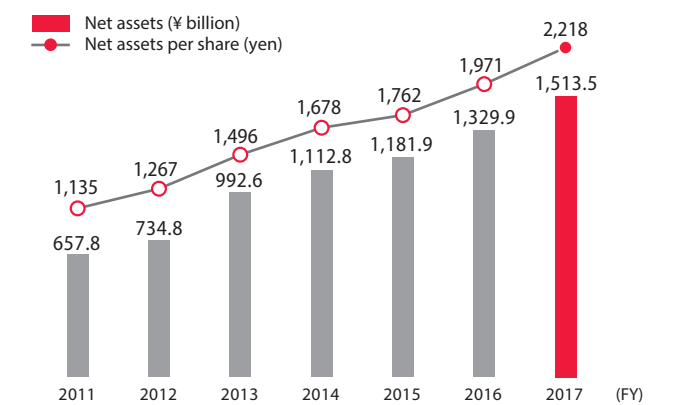
Interest-bearing debt and debt-equity ratio



Total assets and return on total assets (ROA)



Net assets and net assets per share



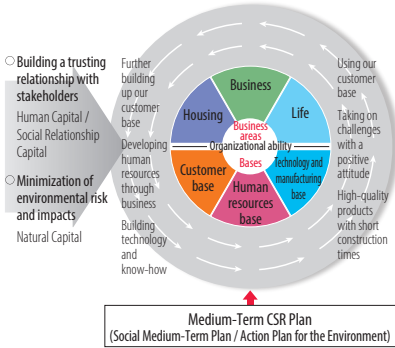
Non-Financial Highlights (Our three bases and CSR Self-Assessment Indices)

Strengthening our three bases and co-creating a brighter future with society and the environment

The Daiwa House Group is working to strengthen its three bases (which constitute the source of our value creation), i.e. our human resources base, our customer base, and our technology and manufacturing base, through a mutual reinforcement (virtuous cycle) between these bases and our business operations.

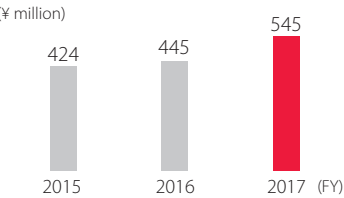
To strengthen this virtuous cycle into the future, we have drawn up a Medium-Term CSR Plan (Social Medium-Term Plan / Action Plan for the Environment) after carefully evaluating the changes taking place in our external operating environment from the twin perspectives of society (i.e. building a trusting relationship with stakeholders) and the natural environment, taking into account medium- and long-term risks and opportunities. Regarding the priority issues under this plan, we are proceeding with the PDCA cycle through the use of our CSR Self-Assessment Indices.

The graphs below show important non-financial data for fiscal 2017.

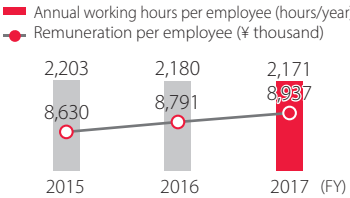


Key data on human resources base

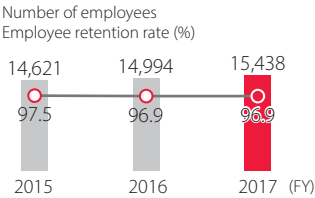
1 Human resources development costs (non-consolidated)*1



2 Annual working hours per employee/ Remuneration per employee (non-consolidated)



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

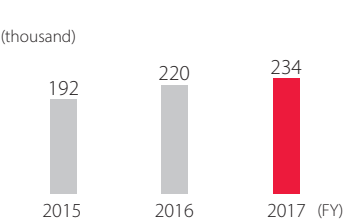


Under its philosophy of "Developing people through business," the Group is proactively investing in human resources development. With its efforts on health management, annual working hours are showing an improving trend. Meanwhile, as enhanced productivity has allowed profits to keep growing, the returns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

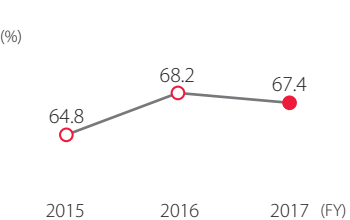
*1 Labor and transportation costs for training, etc. *2 Employee retention rate = 1 - Rate of turnover due to voluntary resignation

Key data on customer base

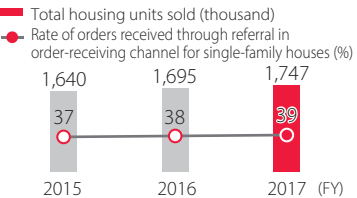
1 Number of Daiwa Family Club members*1



2 Single-family house owner satisfaction*2



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



We have made an effort to refine our activities in quality assurance and after-sales services to improve customer satisfaction. As a result, Daiwa Family Club membership has increased to approximately 230,000 and the questionnaire survey targeted at single-family house owners shows a level of customer satisfaction at 67 percent. Moreover, with our established long-term relationship of trust with customers, around 40% of the new orders were received through referrals from existing owners or other stakeholders in the order-receiving channel for single-family houses.

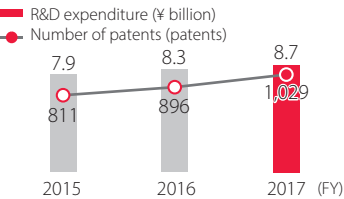
*1 Membership organization for the owners of housing units (single-family houses and condominiums) built or sold by the Company.

*2 Percentage of owners of single-family houses (contracting and lot-subdivision), who chose "Very Good" in the questionnaire survey conducted one month after their move-in.

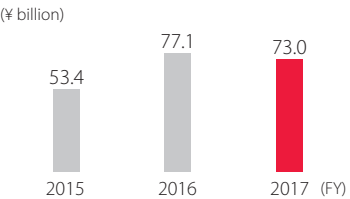
*3 Total housing units (single-family houses, rental housing, and condominiums) sold by Daiwa House Industry (non-consolidated).

Key data on technology and manufacturing base

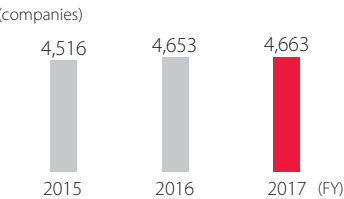
1 R&D expenditure/Number of patents in possession



2 Capital investments (excluding investments in real estate development)



3 Number of partner companies



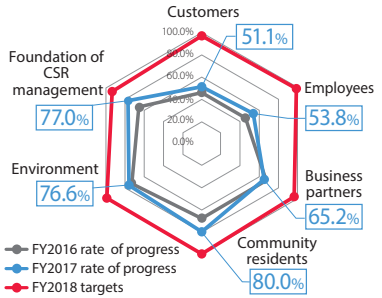
Planned capital investments have been made in research and development as well as in production equipment to further strengthen our technology and manufacturing foundation. This allows us to continuously produce highly-competitive products and maintain and enhance our competitive edge in core businesses.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

Fiscal 2017 results/CSR Self-Assessment Indices

Target stakeholder	Priority issues (The most important priority issues)	Indices	Full points	FY2018 targets	FY2017 results	Rate of progress
● Customers	3 (1)	7	175	170	87	51.1
● Employees	4 (2)	10	250	247	133	53.8
● Business partners	3 (2)	8	200	193	126	65.2
● Community residents	2 (1)	5	125	125	100	80.0
● Environment	6 (–)	11	225	223	171	76.6
● Foundation of CSR management	8 (–)	8	200	187	144	77.0
Total	26	49	1,175	1,145	761	66.4

Progress rate graph by stakeholder

(fiscal 2017 results against fiscal 2018 targets)



Priority issues relating to stakeholders

Customers

The most important priority issues	Indices	FY2018 targets	FY2017 results	FY2017 (results/targets)
Customer (owner) satisfaction (Single-Family Houses)*1		80% or above	67.4%	15 pts/25 pts
Long-term efforts to earn trust	Long-term viewpoint evaluations (Single-Family Houses)*1	100%	95.9%	20 pts/25 pts
	Questionnaire evaluation after taking residence (Single-Family Houses)*1	70% or above	59.2%	15 pts/25 pts

*1 Of the individual indices for the five business segments (Single-Family Houses, Rental Housing, Condominiums, Commercial Facilities and Logistics, Business and Corporate Facilities), it only shows the one for the Single-Family Houses segment.

Employees

The most important priority issues	Indices	FY2018 targets	FY2017 results	FY2017 (results/targets)
Develop human resources	Degree of satisfaction of employees to overall human resources training	85pts	67 pts	10 pts/22 pts
	Evaluation of OJT*2	80%	85.8%	15 pts/15 pts
	Rate of acquisition of professional qualifications by young employees*3	20%	15.4%	10 pts/15 pts
Create work environments and systems where a diverse range of employees can work flexibly	Acquisition rate of male absence from work for child-rearing	50%	34.1%	5 pts/25 pts
	Number of female managers	160	123	5 pts/25 pts
	Rate of employees with disabilities	2.30%	2.33%	25 pts/25 pts

*2 Degree of new employees satisfaction of OJT *3 Percentage of employees newly licensed as a real estate broker

Business partners

The most important priority issues	Indices	FY2018 targets	FY2017 results	FY2017 (results/targets)
Encourage business partners in CSR efforts	Education of in-house employees (Purchasing Department)*4	95%	96.5%	25 pts/25 pts
	Evaluation of business partners and purchasing work based on in-house criteria	4.5 pts or above	4.4 pts	20 pts/25 pts
	Rate of response of self-checks based on the Business Partner Code of Conduct	70%	—*6	0 pts/25 pts
Improve labor conditions and ensure human resources for construction subcontractors	Number of employees trained on-site*5	500	484	23 pts/25 pts
	Number of labor accidents	-20%	+5.67%	0 pts/25 pts
	Number of partner company members	4,800	4,654*7	19 pts/25 pts

*4 Index shown only for Purchasing Department *5 Figures shown only for Housing Construction *6 No figures available for FY2017 (alternate years only) *7 As of April 30, 2018

Community residents

The most important priority issues	Indices	FY2018 targets	FY2017 results	FY2017 (results/targets)
Active involvement in, and collaboration with other parties for local community development	Collaboration with NPOs and NGOs	50%	45.5%	20 pts/25 pts
	Participation rate in Endless Donations	25%	35.5%	25 pts/25 pts
	Amount conversion of community co-creation activities by branch offices	300 million yen	171 million yen	10 pts/25 pts

Environment

The most important priority issues	Indices	FY2018 targets	FY2017 results	FY2017 (results/targets)
Prevention of global warming	Business activities Rate of decrease from the fiscal 2005 figure in CO ₂ emissions per unit of sales	55% reduction	58.5% reduction	25 pts/25 pts
	Products and services Contribution to CO ₂ reduction (thousand t-CO ₂)	4,700	5,140	25 pts/25 pts

Among the 26 priority issues under our Medium-Term CSR Plan (FY2016-2018), the above shows only the 20 indices of the seven top priority issues. For the other indices and method used to assess the CSR Self-Assessment Indices for fiscal 2016, please see the "Sustainability Report 2018."

See the Group's Sustainability Report 2018 P.179-184

Corporate name:	Daiwa House Industry Co., Ltd.		Branches:	45
Founding:	April 5, 1955 (Established: March 4, 1947)		Factories:	9
Paid-in capital:	¥161,699,201,496		Research center:	Central Research Laboratory (Nara)
Employees: (consolidated)	42,460 (as of March 31, 2018)		Training centers:	Nara, Osaka and Tokyo
Securities traded:	Tokyo stock exchange		Overseas offices/ Representative offices:	Shanghai (China)
Securities code:	1925			Taipei (Taiwan)
Head office:	3-3-5 Umeda, Kita-ku, Osaka 530-8241, Japan Phone: +81-6-6346-2111			Jakarta (Indonesia)
Tokyo Head office:	3-13-1 Iidabashi, Chiyoda-ku, Tokyo 102-8112, Japan Phone: +81-3-5214-2111			Manila (Philippines)
Offices (34):	Nagoya	Yokohama-kita		Hanoi (Vietnam)
	Hokkaido	Atsugi		Ho chi minh (Vietnam)
	Sendai	Kanazawa	Contact:	Yangon (Myanmar)
	Fukushima	Niigata		Mexico city (Mexico)
	Tsukuba	Gifu		Daiwa House Industry Co., Ltd.
	Ibaraki	Okazaki		IR Department, Management
	Utsunomiya	Aichi-kita		Administration Headquarters
	Gunma	Yokkaichi		Phone: +81-6-6342-1400
	Saitama	Shiga		Fax: +81-6-6342-1419
	Saitama-nishi	Kyoto		e-mail:
	Saitama-higashi	Sakai		dh.ir.communications@daiwahouse.jp
	Chiba	Kobe	Website:	https://www.daiwahouse.com/English
	Kashiwa	Okayama		
	Keiyo	Hiroshima		
	Joto	Fukuoka		
	Musashino	Kita-Kyushu		
	Yokohama	Kumamoto		

Board of Directors, Audit & Supervisory Board and Executive Officers (as of June 28, 2018)

Board of Directors		Audit & Supervisory Board		Senior Executive Officers	
Chairman and CEO	Takeo Higuchi*	Audit & Supervisory Board Members	Tatsushi Nishimura	Shinichi Hirose	Takashi Miyatake
President and COO	Keiichi Yoshii*		Kenji Hirata	Eiichi Shibata	Kazuhiro Tada
Executive Vice Presidents	Tamio Ishibashi*		Tomoyuki Nakazato	Tetsuya Tamura	Nobuhito Ishibashi
	Katsutomo Kawai*	Outside Audit & Supervisory Board Members	Kazuhiro Iida	Yasuo Nakamura	Naoki Hayashi
Director and Senior Managing Executive Officers	Takeshi Kosokabe*		Yukinori Kuwano	Yuji Yamada	Naoki Nishioka
	Kazuto Tsuchida*		Shonosuke Oda	Nobuya Ichiki	Yukikazu Kataoka
	Osamu Fujitani*	Managing Executive Officers		Kyoji Kato	Isao Mizutani
Director and Managing Executive Officers	Fukujiro Hori			Koji Harano	Yoshin Minagawa
	Takashi Hama	Keigo Okada	Kenji Kinoshita	Hirofumi Hama	Tetsuro Wada
	Makoto Yamamoto	Mikio Sasaki	Takaki Hiromori		
	Yoshiaki Tanabe	Kohei Yamasaki			
	Hirotsugu Otomo				
	Tatsuya Urakawa				
	Kazuhiro Dekura				
Outside Directors	Yoshinori Ariyoshi				
	Keisuke Shimonishi				
	Kazuyoshi Kimura				
	Yutaka Shigemori				
	Yukiko Yabu				

* Representative Director

Study the Past to Know the Future

Thank you for reading our report.

In order to achieve our Group goal of ¥10 trillion in annual net sales by 2055—the 100th anniversary of the founding of Daiwa House Industry—we believe that we must reconfirm our commitment to the Group’s corporate philosophy and to the spirit of our founder, Nobuo Ishibashi. At the same time, we must reinforce the sustainability of our management system by fully integrating our business operations with the principles of environmental, social and corporate governance via the repeated implementation of integrated thinking. To this end, we formed a project team in July 2015, and through dialogue and information disclosure, including the release of this Integrated Report, we have worked to raise the Group’s enterprise value by imbuing all employees with our founder’s spirit and promoting an increased understanding of our management goals both inside and outside the Group.

The social and environmental factors with which a company must contend these days—including unforeseeable contingencies such as natural disasters—are changing at an unprecedented pace, and we must be able to respond swiftly to such changes. But it is precisely within such a dramatically changing business and social environment that the importance reasserts itself of never forgetting our origins—our corporate philosophy and the spirit of our founder. We must always be conscious of the necessity to pass on these essential elements to the next generation of managers and employees, and to continue making a contribution to society.

Through the issuance of the Group’s 2017 Integrated Report, we have benefited from the opinions of many investors and experts in various fields. We have thus been able to pinpoint the areas where countermeasures are needed, and are very grateful for the advice we have received. The present Integrated Report is the third edition of such a report we have released. We have rearranged the format of this edition to fully describe the source of the Group’s value creation as well as its strengths, which allow it to continuously contribute to society through integrated services from planning, production and logistics to marketing. Additionally, we have presented in easily visualized form our future vision of *Asu Fukaketsuno* (Indispensable for Tomorrow), which is based on the concept of co-creating a brighter future for society and with the environment, and the whole is described in the form of a story of how the Group creates value.

The Daiwa House Group can be likened to a tree. Going forward, I hope to steadily demonstrate that while continuing to put forth beautiful flowers and fruit (i.e. profits) amid an admirable network of branches and leaves (i.e. the scope and diversity of our business operations), our thick roots continue to grow stronger within the fertile soil of our corporate philosophy and culture.

At present, regarding the inclusion of the concept of integrated thinking (as explained above) in our medium-term management plans, which is one of the targets under our Integrated Thinking Project, we continue to hold intra-Group discussions aimed at solving problems relating to the drafting of our Sixth Medium-Term Management Plan, and I hope that you will all look forward to our upcoming conclusions.

In closing, I would like to thank all those who gave us their assistance in the making of this report, in addition to everyone who has taken the trouble to read it. I hope that it has succeeded in increasing your understanding of the Daiwa House Group’s business operations, and that we will continue to receive your support as we go forward.



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

Our Communications at a Glance

	Dialogue	Reports	WEB
Financial information	<ul style="list-style-type: none"> Release of financial results Management information meeting Guided tours of building sites, plants, etc. Teleconferencing with securities analysts and institutional investors General Meeting of Shareholders 	<ul style="list-style-type: none"> Securities report Business result report 	 <p>Investor relations https://www.daiwahouse.com/English/ir/</p>
Non-financial information	<ul style="list-style-type: none"> Experts' dialogue Stakeholders' meeting 	 <ul style="list-style-type: none"> Integrated Report Integrated report on selected financial and non-financial information judged to be material  <ul style="list-style-type: none"> Sustainability Report (incl. Data Section / Third-Party Assurance) Japanese-language edition English-language edition Corporate governance report 	 <p>Corporate social responsibility (CSR) measures with respect to the environment and the community https://www.daiwahouse.com/English/sustainable/</p>  <p>Addressing environmental issues https://www.daiwahouse.com/English/sustainable/eco/</p>  <p>Addressing social issues https://www.daiwahouse.com/English/sustainable/social/</p>

Daiwa House Industry Co., Ltd.

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www.daiwahouse.com

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