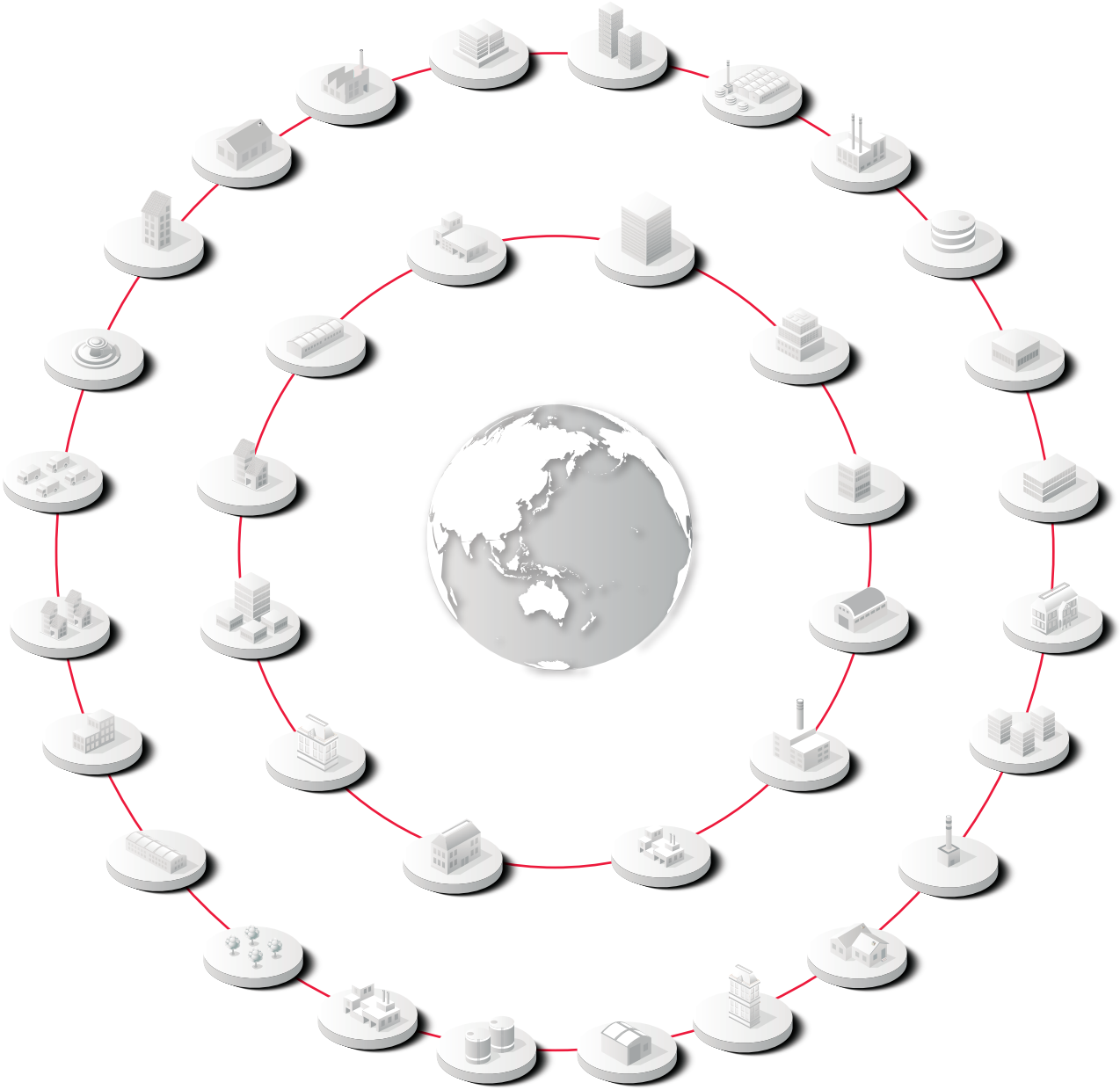
Daiwa House Group

Integrated Report 2019



Creating Dreams, Building Hearts

Our founder, Nobuo Ishibashi (1921-2003)

1955

Everything started with this

Our Founder's Spirit

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®

2005

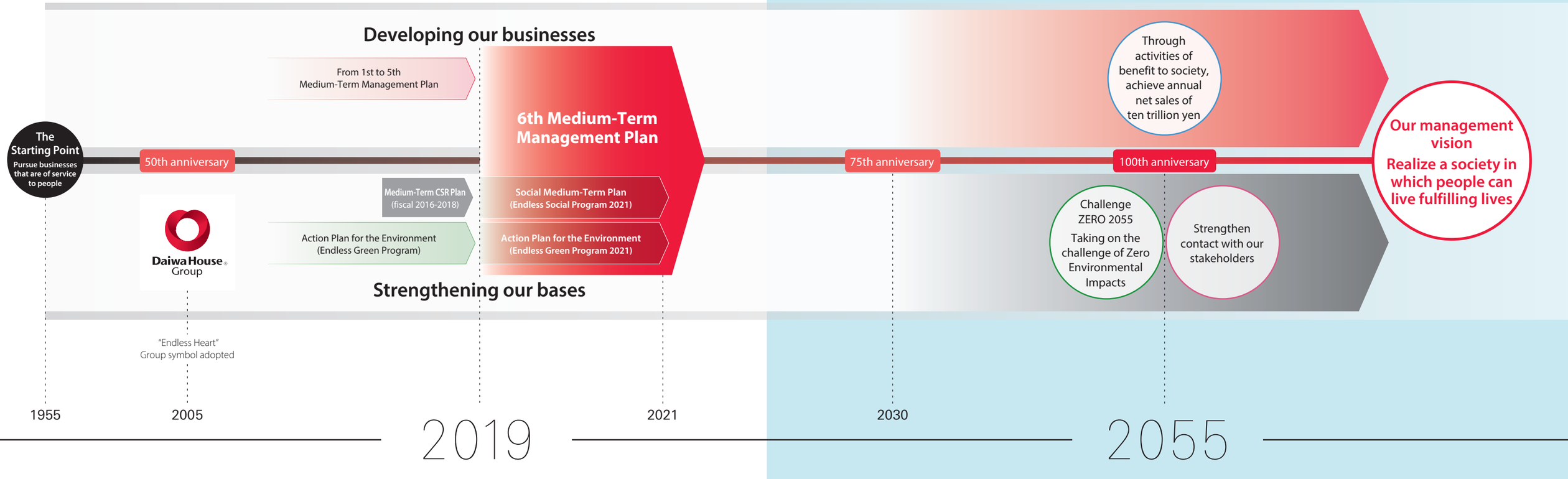
Guided by our founder's spirit

Group's Symbol Message

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.



Inspired by our founder's spirit

6th Medium-Term Management Plan Launched

At the Daiwa House Group, we are not only working to realize our long-cherished target—net annual group sales of ¥10 trillion by the 100th anniversary of the founding of Daiwa House Industry—we are also working to realize a society in which people can live fulfilling lives. This is both our dream and our management vision.

In pursuit of this management vision, we have identified a number of significant issues to be addressed from the viewpoints of our business operations, society, and the natural environment.

To address these important issues, we have drawn up our sixth medium-term management plan, which commences in fiscal 2019 and will run for three years. This plan incorporates our basic policies for the three-year period, and takes as its starting point the approach to business laid down by Nobuo Ishibashi, the founder of Daiwa House.

Passing on the spirit of our founder

Toward Realizing our Management Vision

We have drawn up a set of corporate governance guidelines as well as a medium-term management plan. Our goals are: to realize our management vision, to ensure that we do not lose sight of the universal mindset centered on the attitude to business espoused by our founder, and to pass on his spirit to future generations.

Going forward, we will reinforce the virtuous cycle created by developing businesses that are of service to the wider world, and strengthening our bases. By doing so, we aim to both steadily reach our performance targets and help solve medium- and long-term social problems—including the United Nations sustainable development goals—and realize sustained economic growth. In this way, we believe, we will continuously improve the Company's enterprise value.

Identifying materiality for a continuous increase in the corporate value

Based on our understanding of the business environment, Daiwa House has identified the materiality required to continuously increase the Group's corporate value, according to the four management items set in our Corporate Governance Guidelines. Our goal is to resolve materiality by working on the basic policy of our Sixth Medium-Term Management Plan.

Social issues/Megatrends

6th Medium-Term Management Plan Period (to FY2021) | Medium term (to FY2025) | 75th anniversary (FY2030)

Japanese market

Demographic trends

- ◆ Changes in the number of households in Japan
  Contracting demand for housing/
  Lower desire to own a house
- ◆ Increase in untenanted houses
  Expanding pre-owned market
- ◆ Labor shortage, decline in skilled construction workers
  Decreasing working-age population/
  Decline in skilled construction workers/
  Systematic human resources procurement (quality/quantity)/
  Raising productivity regardless of age, gender, nationality
- ◆ Regional depopulation, urban population concentration
  Compact cities in regions/Increasing demand for housing redevelopment
- ◆ Progressively aging society with fewer children
  Greater social acceptance of the elderly and people requiring nursing care/
  Increasing elderly participation in society/
  Increasing demand for health and care in work styles

Economic & industry factors

- ◆ Holding of 2020 Tokyo Olympics and Paralympics
  Expanding demand for construction in Japan
  Higher materials and labor costs
- ◆ Full-scale acceptance of foreign workers
- ◆ Consumption tax hikes depressing consumer confidence
- ◆ Fluctuations in interest rates due to financial deterioration
- ◆ Linear Chuo Shinkansen starts operation
  Enhanced competition between cities
- ◆ Holding of Expo 2025 Osaka/Kansai, attracting IR to Japan

Changes in business environment

- ◆ Intensifying social issues
  Increase in ethical consumption/
  Full-scale social impact evaluation of business and real estate investment
- ◆ Greater disclosure of management information
  Standardization of non-financial information disclosure by securities exchanges and Financial Services Agency/
  Progress in sustainable finance/
  Stronger leverage of ESG engagement by institutional investors
- ◆ Resource depletion
  Deregulation leading to the launch of new markets/
  Diversification of the sharing economy
- ◆ Changes in individual values
  Diversifying consumption styles, lifestyles, preferences/Diversifying work styles (employment, location, time, wages)
- ◆ Frequent and large-scale natural disasters
  Greater awareness for BCP/
  Intense heat become normalized

Overseas markets

- ◆ Slowdown of China's economy impacts on the global economy
- ◆ Advent of the AI/IoT/big data society
  Progressively more advanced and efficient business via digitalization/Cyber-attack threats/Progressive use of ICT in real estate/Spread of connected homes/Further expansion of i-Construction, 5G commercial services, and the e-commerce market
- ◆ Economic growth of the emerging nations
- ◆ Stronger international rules centered on Europe
  Increased business opportunities for solutions to deepening social issues typified by SDGs/Greater concern over preventing corruption in the value chain/
  Expanded influence of international codes of conduct concerning human rights, establishment in various countries/
  Expanded influence of institutional investors and UN institutions on markets
- ◆ Coping with environmental impacts
  Greater consumer awareness of environmental performance/Expanded percentage of renewable energy
- ◆ Increasing global population, China's population peaks
  Much greater demand for resources, energy, water, food
- ◆ Increased income in emerging countries
- ◆ Encouraging generational changeover
  Millennials taking central roles/
  Rise of Generation Z
- ◆ Progressive social divisions
  Full-scale acceptance of immigrants/
  Expanding poorer class
- ◆ Age deterioration of social infrastructure

SDGs Daiwa House Group can contribute to

11 Sustainable Cities and Communities
3 Good Health and Well-Being
7 Affordable and Clean Energy
8 Decent Work and Economic Growth
9 Industry, Innovation and Infrastructure
12 Responsible Consumption and Production
13 Climate Action
15 Life on Land
17 Partnerships for the Goals

Materiality

Developing our businesses

Business 1
Expanding business opportunities deriving from social issues including *Asu Fukaketsuno* (Indispensable for Tomorrow) and SDGs

Business 2
Balance of flow businesses and stock businesses

Business 3
Constructing a portfolio of businesses with differing life cycles

Business 4
Efficient management and financial soundness aware of capital costs

Strengthening our bases

Base 1
Lowering environmental impacts while reaping corporate profits

Base 2
Form management base, strengthen relations with stakeholders

Base 3
Strengthening corporate governance

Basic policy of the 6th Medium-Term Management Plan

Business

- Further growth in the three core businesses
- Acceleration of overseas deployment
- Greater added value for customer assets

Investment

- Continuing and strengthening real estate investments inside and outside Japan

Financial

- Setting core investment domains based on capital efficiency and risk verification
- Optimizing capital allocation and collection periods
- Balance of growth investments and maintaining financial soundness

Action Plan for the Environment (Endless Green Program 2021)

Pursuing energy conservation, new energy creation, and reduction of CO_2 emissions to meet the targets set by the SBT, EP100, and RE100

- Promoting "zero carbon" in the fields of products and manufacturing
- Reducing environmental risks in supply chains
- Promoting the development and dissemination of environmentally conscious products and services
- Advancing strategic environmental communication
- Enhancing integrated environmental management

Social Medium-Term Plan (Endless Social Program 2021)

Building a management base that anticipates social changes, and improving relations with our stakeholders

- Human resources base: Improving motivation and developing human resources
- Customer base: Strengthening long-term relations
- Technology and manufacturing base: Strengthening products, productivity, and relations with business partners
- Innovation base + Communication base + Risk countermeasures base (being complete in small things)
- Improving effectiveness of the Board of Directors
- Strengthening Group Governance

Management items for improving sustainable corporate value in the Corporate Governance Guidelines

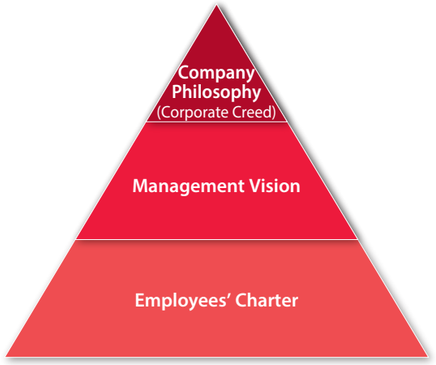
- Securing stable level of profits and maintaining or improving growth rates
- Maintaining and improving profitability (ROE) based on an optimal capital structure
- Strengthening the management base required to realize sustained growth
- Lowering capital cost by enhancing the Group's trustworthiness and management transparency

Creating Sustainable Corporate Value

* indicates medium to long-term social issues receiving special emphasis

P.28 (Related materiality and focal themes)

The Daiwa House Group's Core Philosophy



Company Philosophy (Corporate Creed)

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

Management Vision

Connecting Hearts

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

Employees' Charter

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

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

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.

The Daiwa House Group has built up its value so far through consistently "developing our businesses" to solve social issues, and "strengthening our bases" to create closer ties with our stakeholders. This document, in "The Story of the Daiwa House Group's Value Creation," seeks to give our shareholders, investors and other stakeholders a better understanding of our stance. It does so by integrating 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"), and introducing the three management bases essential for such processes (our human resources base, customer base, and technology and manufacturing base) and our strengths (comprehensive business proposals), summarizing how we pursue our management vision that embodies the spirit of our founder.

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.

Scope of this report

The report provides information on the Daiwa House Group overall (340 consolidated subsidiaries, 42 equity method affiliated companies, 2 unconsolidated subsidiaries and 2 affiliated companies not accounted for by equity method as of March 31, 2019), 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. With regards to overseas business included in Other Businesses segment, we will reclassify the segments from FY2019, altering how facts are indicated for the segments based on business operations.

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.

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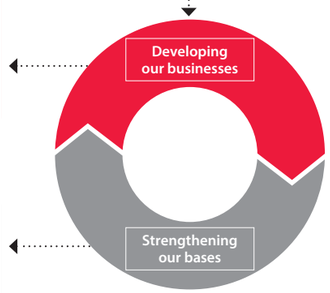

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Message from the Chairman

"Getting the little things right"—by keeping alive the spirit of our founder, we will help the further development of a sustainable society

Takeo Higuchi
Chairman

Since its founding in 1955, Daiwa House Industry 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 people's daily lives). We employ a bottom-up approach to business in which we always insist on seeing the site in question with our own eyes, personally confirm that each product is the required quality, and then take action on that basis. In addition, thanks to our business philosophy of always trying to foresee society's future needs, as well as our aggressive stance on innovation and the development of new business fields, we have built up a large and constantly evolving business portfolio, and the Daiwa House Group's annual net sales on a consolidated basis have reached ¥4,143.5 billion. The Group consists of 387 companies with approximately 67,000 staff, and in line with our motto, we have grown into "a group that co-creates value for individuals, communities, and people's lifestyles." This would not 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.

At Daiwa House, we practice an ethical, honest management style

Nobuo Ishibashi, the founder of Daiwa House Industry, advised the Company's staff to do things not because they will make a profit, but because they will be of service to society. This piece of wisdom that has been handed down to us serves as the Group's universal judgment criterion. We have maintained a form of organizational operation based on an understanding by every single staff member of Mr. Ishibashi's business philosophy, spirit, and teachings, which has led to inventiveness, sincerity, and enthusiasm. In my opinion, it is precisely because of this that we have been able to maintain our business health, and have continued to expand to the present day.

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. The Group will be able to achieve this by "getting the little things right"—by doing the obvious tasks correctly and carefully—and by pursuing the mission of being an enterprise that provides solutions to social issues. The social responsibility of a company, which is a public organ of society, is proportional to the scale of the company. It is important for us to continue being a corporate group that always acts with modesty and exercises self-control.

I would like at this point to apologize unreservedly to all our stakeholders, and in particular to our customers, for the considerable concern caused by two recent issues—financial irregularities at an affiliate in the People's Republic of China and the use of off-specification components in some of our single-family houses and rental housing properties. To prevent the recurrence of such incidents, we are currently implementing preventive measures, and are also taking steps to ensure that we practice an ethical and honest management style. The Corporate Creed of Daiwa House contains the words: "By always reflecting deeply on past mistakes, valuing responsibility, and actively engaging in mutual criticism, we will advance along the road to growth and success." In line with this sentiment, a core element in the attitude to business handed down to us by Nobuo Ishibashi is the importance of facing facts fairly and squarely. In the wake of these recent events, I have once again been made acutely aware that if the Group forgets the lessons passed on to us by our founder, it will be unable to achieve continuous growth. We must not be satisfied with a mere sticking-plaster solution, but must be open and transparent, and fully committed to ethical business practices. In this way, we will regain the trust of our stakeholders.

Passing on our founder's wisdom to the next generation

It is said that a company is only as good as its employees. Thus, to enable a company to survive into the future, adequate effort must be given to the training of human resources. Moreover, from here onward, the Group will be run by employees who have had no personal acquaintance with our founder. To ensure that they, too, will be fully committed to ethical business practices in the management of the Group, it will be more important even than hitherto to communicate to them—carefully and in an easy-to-understand manner—the spirit of Nobuo Ishibashi, which is the very foundation of Daiwa House. This spirit is exemplified in such precepts as "getting the little things right" and "exercising self-control." Managerial-level staff, in particular, must take responsibility for their own words and actions so as to serve as a role model for their subordinates. It is important to place emphasis on the training of subordinates principally through communication, including dialog. In my personal case, when I was in my thirties and serving as head of the Company's Yamaguchi Branch, I threw myself into my job with full-bloodied energy. As a result, however, I found myself isolated among a group of subordinates who simply feared me. When Nobuo Ishibashi, the founder of the Company, paid an inspection visit to the Yamaguchi Branch, I expressed my concerns to him, and he replied: "Decision-making is the most important task of a leader." With the intention of fully understanding the meaning of these words, I sat down with my subordinates for a series of one-on-one discussions. Thanks to this, we were able to reach a firm basis of mutual understanding and trust, and my staff gained increased motivation to tackle their duties. We must create a working environment that motivates the younger generation and allows them to fully display their abilities, and that is also fair and equitable. Needless to say, as Japan faces an increasingly aging population with a low birthrate, leading to a decline in the total population, the promotion of workforce diversity will become very important. I hope that all the Group's human resources—including not only younger generation but also female employees as well as members of the older generation—will hone their skills in their workplaces and continue to apply a positive frame of mind and draw up a vision for the future.

Fostering highly motivated employees through mentoring that resonates in the heart, enabling us to offer new value that is truly of service to the society

On reaching the age of eighty-one, I recently relinquished my posts as CEO of the Company and as representative director. I served as president of Daiwa Danchi Co., Ltd. for eight years, followed by three years as president and fifteen years as chairman and CEO of Daiwa House Industry Co., Ltd. During those years, I received the support of a variety of stakeholders, most notably our many customers but also our shareholders as well as investors, thanks to which the Group succeeded in growing its annual net sales to more than ¥4 trillion. However, this figure does not represent even half of the target set by our founder Nobuo Ishibashi of becoming a corporate group with annual net sales of ¥10 trillion by the 100th anniversary of the founding of Daiwa House Industry, which will be in the year 2055. To make this ambitious dream come true, it is vital that a wide diversity of human resources all move forward in the same direction. I believe that the passing on of the spirit of our founder will play a major role in achieving this.

Going forward, as chairman of the board of Daiwa House Industry, I hope to contribute to the training of the human resources that the Group needs, by passing on the spirit of our founder, and thereby to play a part in the further development of society. The mission of top management staff is to enable a company to offer new value that is truly of service to the society. Nobuo Ishibashi created many new businesses, and this achievement shows how important it is to have ambitious dreams in one's heart. I will do my best to pass on the spirit of Nobuo Ishibashi to the next generation through mentoring that resonates in the heart, so that the Company will be blessed with as many highly motivated employees as possible.

At the Daiwa House Group, we will not rest content with the status quo, but will constantly work with ambition and a positive attitude to realize continuous improvement in the Group's enterprise value and 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.

❶ The history of the Daiwa House Group

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

During the postwar reconstruction period, it was expected that Japan would need large amounts of timber for use as buildings materials. At that time, Nobuo Ishibashi—who would become the founder of Daiwa House Industry—strongly desired to protect Japan's forestry resources. A major typhoon had recently devastated parts of the country, 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 timber, 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 made possible 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 employed a flexible mindset to invent and launch a stream of new products, services, and approaches. Amid a long-term decline in new housing construction starts in Japan, the Group's business scale has continued to grow steadily because we have remained faithful to our corporate philosophy and have continually worked to create economic value.

Solutions from the Daiwa House Group

Solving the postwar materials shortage problem

1955—the Pipe House, our first product
Mr. Ishibashi conceived the idea of a steel-pipe structure, and this led to Daiwa House becoming a pioneer in the industrialization of construction, which revolutionized Japan's construction industry.

Solving the funding problem for home-buying

1962—Pioneering home mortgages
At that time, to purchase one's own home required paying the full price in cash. We constructed Habikino Neopolis—Japan's first large private-sector housing development—and were able to offer Japan's first mortgages through a tie-up with a private financial institution.

Providing new value along major roads

1976—The birth of the LOC System
In our retail & wholesale facilities business, we began matching landowners who wished to generate revenue from hitherto idle plots with prospective corporate tenants in the wholesale and retail sectors, and a whole new market was born.

Solution to housing space shortage caused by rising birthrate

1959—the Midget House
The sounds of children at play gave Mr. Ishibashi the idea for the Midget House, which became a precursor of prefabricated housing. It could be erected in only three hours, and proved immensely popular, laying the groundwork for Japan's prefabricated housing industry.

Offering homes built in a short time to standard specifications

1965—Japan's first dedicated plant for manufacture of prefabricated houses
This plant efficiently manufactured uniform components in a controlled environment.

Providing a safe and secure housing environment for senior citizens

1989—Silver Age Research Center
This was a unique research institution dedicated to market surveys and analysis of problems relating to medical and nursing care facilities.

Adapting to the start of the Internet and the logistics revolution

2003—Development of large-scale logistics facilities
Our logistics facilities development business offered everything from selection, purchase and preparation of site, through design and construction of facilities, to management support. We thus became an indispensable part of the logistics sector, which supports the industrial infrastructure and the public's standard of living.

Support for increased female participation in the workforce

2010—Rental housing with advanced security features
Ahead of the rest of the home-building industry, we developed rental housing products featuring security-focused design as standard, offering safe and comfortable dwelling units.

Helping Japanese firms set up in business overseas

2016—Completed logistics/warehousing facilities in Indonesia
Helping Japanese companies set up operations overseas through development of conveniently located industrial parks.

Addressing global environmental issues

2007—Group commenced wind-generated electric power business
In the belief that, in the 21st century, it will be vital to commercialize electricity power generation from wind, solar radiation, and water power, we entered the wind-power field.

Popularizing natural disaster-resistant, long-lasting, high-quality housing

2014—Launched the xevoΣ
We helped popularize long-lasting, high-quality homes that can resist damage from natural disasters such as repeated massive earthquakes and that offer high ceilings and spacious rooms.

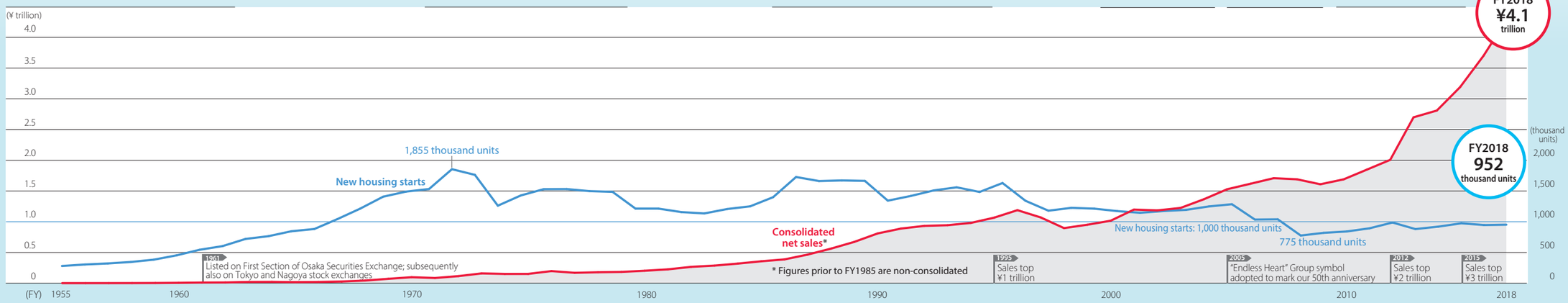
Solving shortage of accommodation for growing number of foreign visitors

Construction of city hotels offering wider variety of unique local attractions
Offering accommodation and services targeted at growing number of tourists coming to Japan.

Social issues

Postwar housing and materials shortage | On the eve of motorization of Japanese society | Preparing for advent of aging population | Retailing revolution with advent of Internet-dominated society | Countermeasures against global warming and natural disasters | Progress of globalization

Consolidated net sales and new housing starts



Evolution of field of operations

Industrialization of construction → Supplier of prefabricated housing → Total lifestyle enterprise → Group that co-creates value for individuals, communities, and people's lifestyles

❷ The Daiwa House Group today

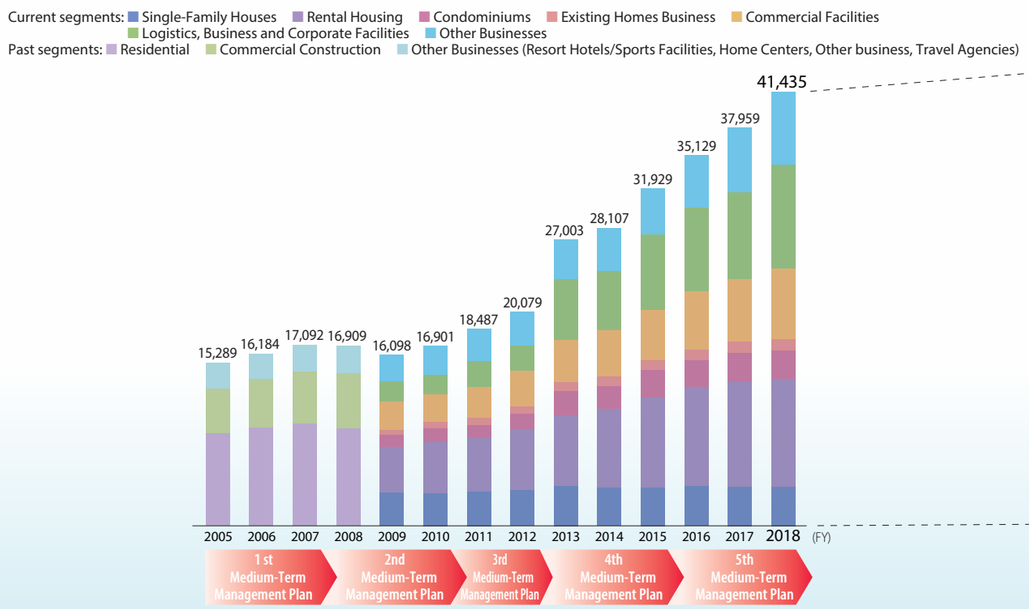
In line with our motto—"a group that co-creates value for individuals, communities, and people's lifestyles"—we have gone beyond being simply house builders. Avoiding being pigeonholed in conventional business categories, we continue to create new value.

(1) Our operations encompass a wide range of activities connected with individuals, communities, and people's lifestyles. We have created a unique business portfolio—a fusion of new-build operations centered on the construction of buildings and housing developments with operation and management of existing properties.

In 2005 (our 50th anniversary) 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.

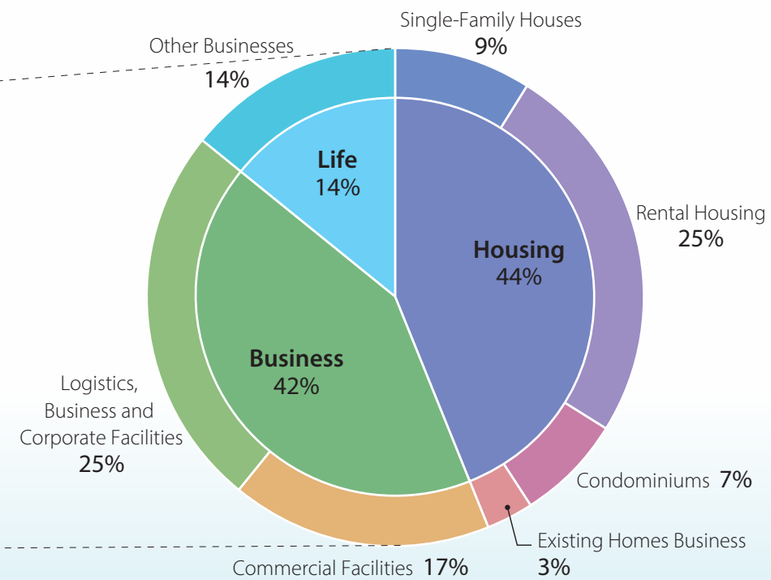
We divide the Group's business operations into three broad areas that we call Housing (construction of single-family houses, rental housing, and condominiums, and operation of home renovation services), Business (construction and operation of commercial and business facilities, logistics facilities as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

Sales by segments (¥100 million)

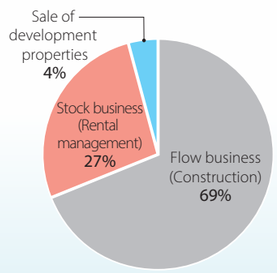


Note: Segment classifications were changed with effect from FY2009

FY2018 Net sales



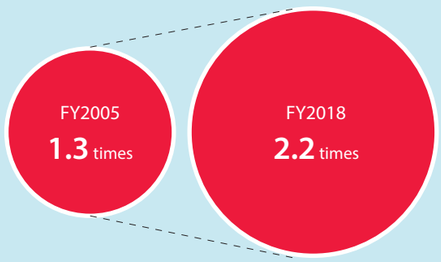
FY2018 Sales breakdown by business*



* excluding other businesses

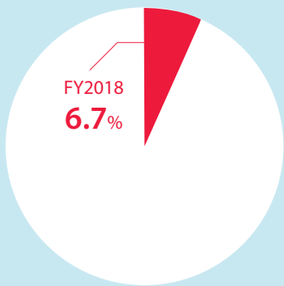
(2) We have been expanding our capacity to make proposals for multi-use projects by leveraging collaboration between Group companies, leading to a consolidated to non-consolidated sales ratio of 2.2.

Ratio of consolidated to non-consolidated sales



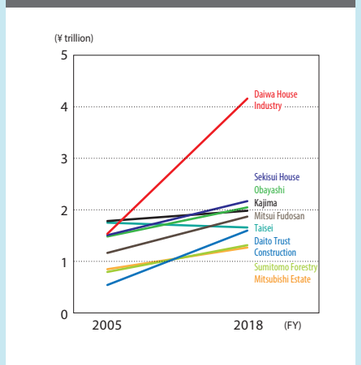
(3) Aiming at further growth, we are deploying on the global stage the technology and know-how we have developed in the Japanese market.

Ratio of overseas sales

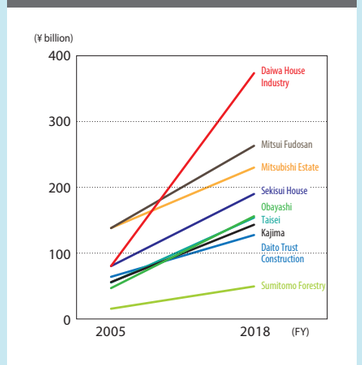


(4) Going forward, we aim to continue growing, to become one of the leading companies in the housing, general construction, and real estate industries.

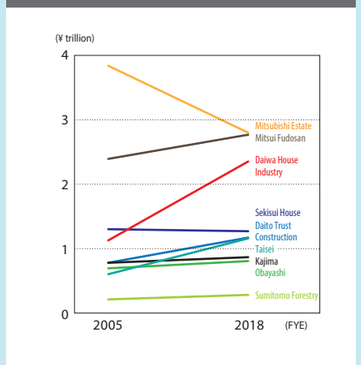
Net sales (FY2005 → FY2018)



Operating income (FY2005 → FY2018)



Market capitalization (FYE2005 → FYE2018)



❸ The source of our value creation

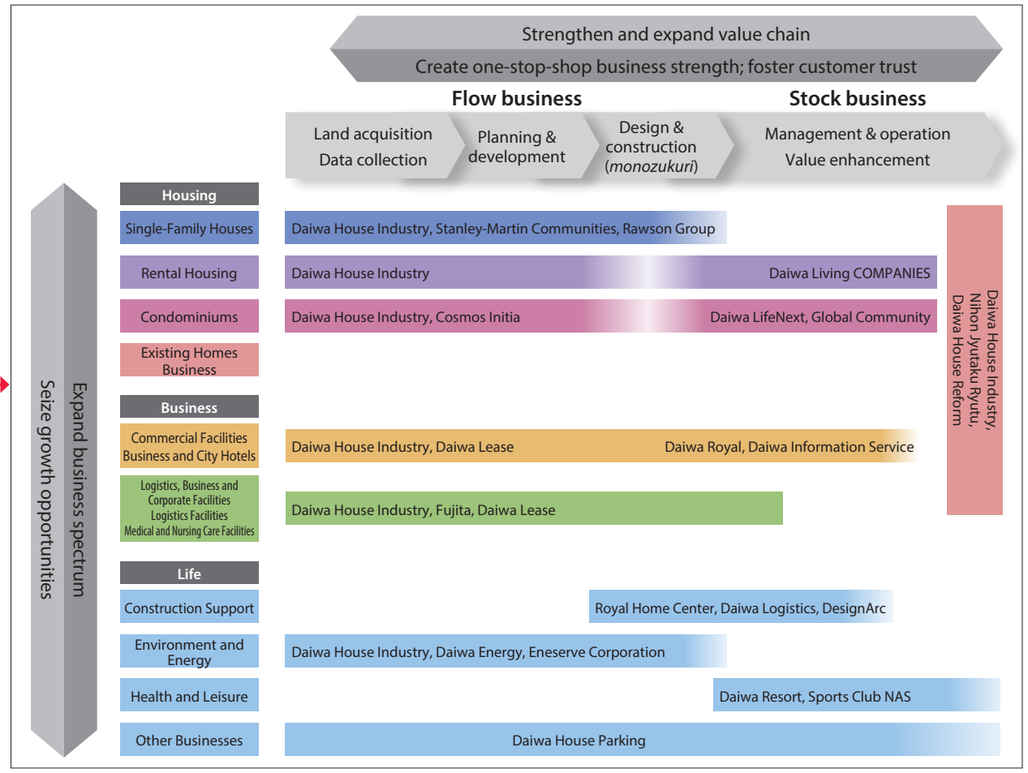
The source and origin of our value creation consists of our "two strengths"—data-collection capability, and problem-solving skills—as well as the organizational ability that we derive from the three-in-one matrix formed by our offices and branches, our business divisions, and our Group-member subsidiaries and affiliates.

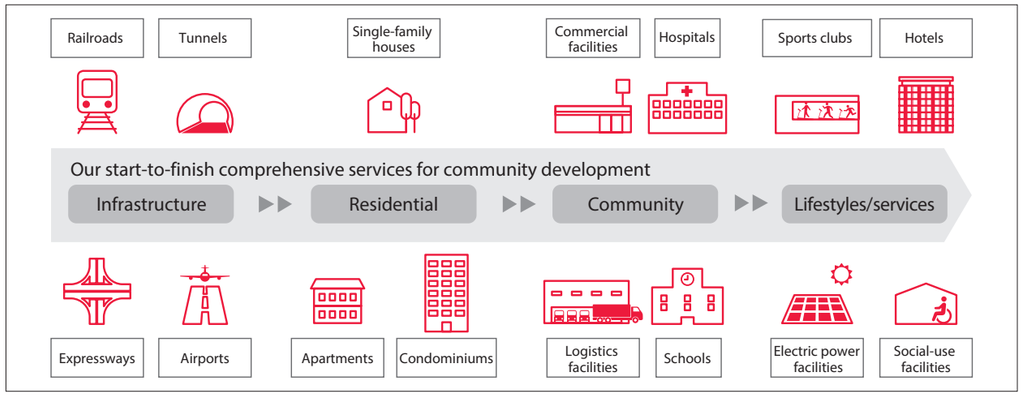
And, when we amalgamate these two strengths, we generate our comprehensive business proposal capability, which is our greatest strength of all.

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

Our three "bases" consist of: human resources base, which represents the continuation of our founder's business philosophy; solid customer base, which has been built up over long years of close relationships with our customers; and thoroughly reliable technology and manufacturing base, which enable us to embody the value our customers seek in the products and services we provide. These three bases, plus the data-collection capability and problem-solving skills that these bases have made possible, constitute the Group's vital intangible assets.

At the same time, there is the three-in-one matrix formed by our offices and branches (which constitute a network of close relations with our customers in each region where we do business), our business divisions (which optimally leverage our unique set of specialist skills), and Group-member subsidiaries and affiliates (which deploy the unique characteristics of their business fields, and work in close collaboration). This matrix produces a comprehensive strength that further reinforces the Group's organizational ability. This is the source of our value creation, and we employ the resultant comprehensive business proposal capability to contribute to society.





❹ The Daiwa House Group's value-creation process

We solve social problems by operating a cyclic relationship between "developing our businesses," which are of service to the public, and "strengthening our bases."
By reinforcing this virtuous cycle, we aim to realize both a sustainable society and continuous growth for the Daiwa House Group.

By "developing our businesses," we mean employing the technologies and know-how that we have developed to address needs and problems at the frontline of our business, as well as new concepts, to draw up complex plans and make proposals, and to generate valuable, high-quality products with short construction periods. By developing our businesses in this way, we will strengthen our three core bases—our long-term relationships with our customers; our manufacturing expertise (monozukuri), through which we pursue safe, high-quality products; and the nurturing of qualified human resources.

By creating a virtuous cycle in which we leverage our strong bases to continually generate value by seizing new business opportunities, we will build a unique business portfolio of a kind not possessed by other home builders or developers.

To strengthen this virtuous cycle still more, we will carefully study the changes in our operating environment to identify both risks and opportunities, and will effectively employ corporate governance to allow us to minimize risk while maximizing opportunities. Through the continued operation of these systems, we aim to simultaneously help realize a sustainable society and bring about continuous growth for the Daiwa House Group.

Business resources that help us generate value
(Inputs)

Social and Relationship Capital

[Base]
Long-term relationships of trust with our stakeholders
- Customers*.....approx. 330 thousand
- Corporate tenants.....approx. 4,200
- Business partners.....approx. 5,000
- Community residents, cooperative business partners

Corporate brand

* Total number of Daiwa Family Club members, rental housing owners and members of clubs for landowners in our commercial facilities business

Human Capital

[Base]
The human resources that support our continued evolution along the lines laid down by our founder
- Number of employees (consolidated) .... approx. 45,000

Financial Capital

[Business]
Firm financial base
- Debt-equity ratio.....approx. 0.5 times

Intellectual Capital

[Base]
Operational know-how built up over many years
- Knowledge management/ Proposal-based marketing/ LOC System/ Patents/ Intellectual property rights

Manufactured Capital

[Base]
A wide variety of construction methods and styles, born of the "industrialization of construction"
- Factories.....9 nationwide

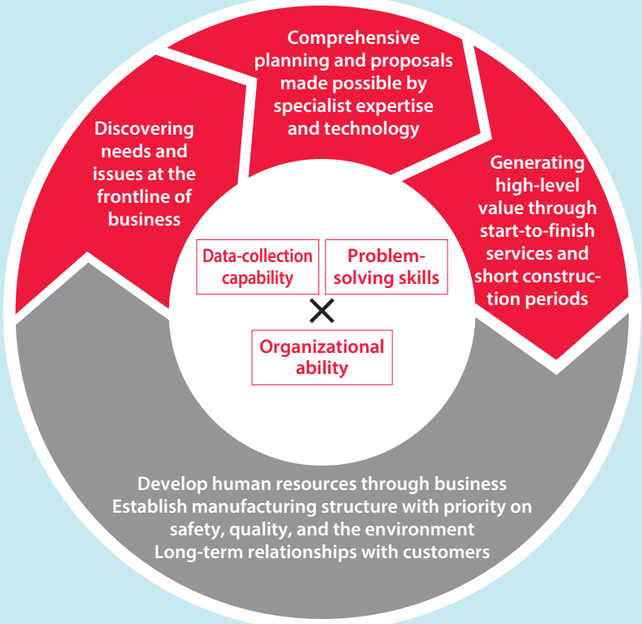
Natural Capital

[Business/Base]
Zero environmental impact products, manufacturing, and procurement systems

(as of March 31, 2019)

The Starting Point
Pursue businesses that are of service to people

Developing our businesses



Strengthening our bases

Corporate governance
Trustworthy and transparent management structure

Contributing to society through business
(Outputs)

Developing our businesses

<Creating economic value/Generating cash flows>
(FY2018 Results)

Net sales..... ¥4,143.5 billion
Operating income....¥372.1 billion
ROE 15.5%

Flow business
- Number of housing units sold (domestic).....48,824
- Retail and wholesale facilities constructed.....43,662
- Development site area of logistics facilities (cumulative figures) .....approx. 6,700,000 m²

Stock business
- Housing units under management..... 932,857
- Number of renovations.....approx. 52,000
- Leasing floorspace of sublease areas within commercial facilities .....6,370,000 m²

Strengthening our bases

<Enhancing enterprise value/ Strengthening our bases>
(FY2018 Results)

E
Providing businesses that help the environment
- ZEH sales rate..... 29%
- ZEB sales rate..... 22%

Strengthening our environmental management foundation

S

Human resources base
- Steps to improve job satisfaction
- Training female managers
- Reducing overtime hours .....Overtime hours 29.7 hours (5.5 fewer hours per month on average compared to FY2014)
- Improving rate of obtainment of paid holidays.....56.5%

Customer base
- Steps to enhance branding
- Strengthening customer satisfaction system

Technology and manufacturing base
- Using IT and BIM at building sites for higher productivity
- Strengthening safety management system

Positive effects on society, and sustained enhancement of our enterprise value
(Outcomes)

Social and Relationship Capital

[Business]
- Communities where people can reside for a long period
- Safe & secure daily life
  - Long-lasting quality housing ratio.....84%
- Diverse lifestyles to suit different stages of life
- Better health and leisure
- Establishment of urban infrastructure for changing industrial structures
- Greater convenience in daily life

[Base]
- Solid relationships of trust with our customers
  - Repeat order rate
    - (rental housing).....44.5%
    - (commercial facilities).....29.6%
  - Ratio of housing sales by referral.....37.8%
- Solid relationships of trust with our business partners
  - Survey of business partners (overall satisfaction rate).....68.4%
- Solid corporate brand
  - Corporate brand value ....$668 million

Human Capital **[Base]**
- Motivating our employees
  - Self-reported motivation rate.....65%
- System for training and retaining young staff
  - Retention rate of employees (all age groups).....96.8%
- System for translating diversity into results
  - Number/percentage of female staff promoted to managerial grade (percentage of all employees in same grade).....137 (3.6%)

Financial Capital **[Base]**
Generating shareholder value
- EPS growth rate
- Market capitalization.....¥2,344.4 billion

Intellectual Capital **[Base]**
- Real estate development system for realizing social inclusion
- Solid system for generating innovation
- Technology revolution through new products and new technology development
  - Number of patents.....1,083

Manufactured Capital **[Base]**
- High-productivity factories and building sites
  - Number of days off per annum for building-site workers.....77 (5 days-off for every 4 weeks)
- Ensuring effective safety management system
  - Frequency of accidents at building sites.....0.23

Natural Capital

[Business]
Slowing and adapting to climate change
- Contribution to CO_2 reduction .....4.13 million t

Harmony with the natural environment
- Urban greening.....839,000 m²

[Base]
- Minimizing environmental impact and risk resulting from business operations

(FY2018 results)

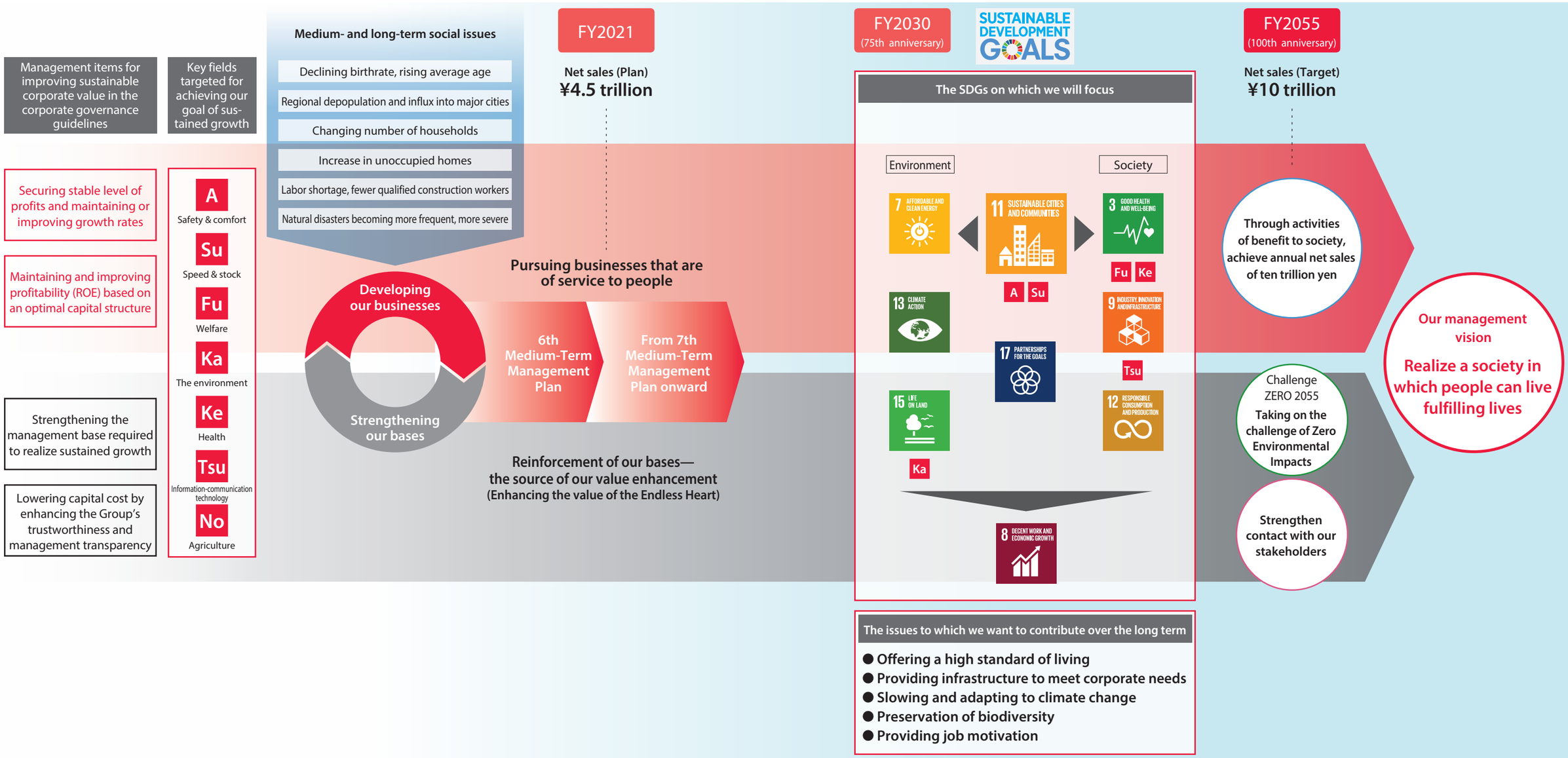
❺ A vision of the Daiwa House Group's future

We will continue flexibly adapting to social changes and addressing social issues.

We will expand our sphere of business to pursue further continuous growth, will co-create value "for individuals, communities, and people's lifestyles" so as to lead the way to a brighter future, and will work to realize our management vision.

Our founder, Nobuo Ishibashi, believed that we should become an enterprise that is essential to a sustainable society, and expressed a strong desire to make a major contribution to solving society's problems. As part of this, he passed down to us the dream of achieving ¥10 trillion in net annual sales by the Company's 100th anniversary in 2055.

While listening to people's opinions and desires, to continuously enhance our enterprise value, as laid out in our management vision, we aim to bring about a society where people can live fulfilling lives. To do this, based on our four management items, and centered around the fields that we believe to be necessary for sustained growth, we will continuously operate a virtuous cycle between "developing our businesses" and "strengthening our bases." At the same time, we will take into account the United Nations' sustainable development goals (SDGs).



Message from the President, CEO and COO

Our Sixth Medium-Term Management Plan Commences
Realizing our management vision by developing our businesses and strengthening our bases

I would like to begin this message by apologizing sincerely to all our stakeholders, and in particular to our shareholders and investors, for the considerable concern caused by two recent issues—financial irregularities discovered in March of this year at an affiliate in the People's Republic of China, and the use of off-specification components in some of our single-family houses and rental housing apartment buildings, which came to light in April.

In the coming November, we are scheduled to announce a radical preventive strategy and measures to reinforce governance, based on the recommendations of a third-party committee and an external investigation committee, which have been examining these incidents. To prevent the recurrence of such incidents, we will ensure that all employees, from top management downward, are fully acquainted with our rules governing such issues. In this and other ways, we will exert our utmost efforts to regain the trust of our stakeholders.

Working to regain trust by facing issues squarely

I personally place great emphasis on facing issues squarely. A person's understanding of things—including speech and one's position—can differ greatly depending on his or her response to a problem, and I believe that facing an issue squarely is the most important step toward finding a solution. When I was a student at university, I became devoted to playing rugby. In rugby, tackling head-on is very scary, but it is also the shortest route to victory.

The same thing can be said about the experience I have accumulated in the marketing field. Rather than a passive approach, exemplified by "Call me if you need anything," one should visit the customer frequently and ask if there is anything they require, or if anything is wrong. If a person doesn't face an issue squarely, this will be interpreted as shying away from the challenge. People who don't give up easily, no matter what difficulties they face, and who doggedly pursue their goals, will ultimately be rewarded with trust and acknowledgement of their abilities.

Since I was appointed joint CEO and COO of Daiwa House Industry, I have felt under considerable pressure. However, when I take a look at the Company's current situation—both the good and the bad—I feel that everything is my personal problem, and thus I work to implement improvements—to make the Company even better than it is—so as not to leave burdens for the Company's management in the future. In order for the Daiwa House Group to continue growing, while organizational factors and rules are of course important, the most vital task is to achieve psychological and emotional growth among our employees. As in my analogy with rugby, if all Group employees—from top management down—can come together as one, this growth can definitely be achieved.

Amid an age of rapid change, it is all the more vital to pass on the spirit of our founder

Since its foundation, Daiwa House Industry has produced a constant stream of new products and services that meet people's needs, while always looking ahead to anticipate future trends. One of the contributory factors behind this is the advice given by Nobuo Ishibashi, the founder of the Company, who said: "After three years, all products should be consigned to the dustbin." His view was that being overly obsessed with outmoded things would lead to the Company itself becoming a relic of the past. Today, we are in an age of rapid change, and all the more because of this, we must constantly pursue technological progress and seek to offer our customers the most advanced products and services. More than that, we must not simply produce physical products, we must put our very heart and soul into our work. This will lead to being what we term "service-minded," and will ensure the personal growth of every member of the Company.

Every spring, the cherry trees put forth their blossoms, gladdening people's hearts. Daiwa House engages in cherry tree preservation activities on the slopes of Mount Yoshino in Nara Prefecture, the region where our founder Nobuo Ishibashi was born and raised. Building on this start in Yoshino, we have expanded our activities to many regions around Japan in the hope of passing on Japanese traditions and culture to the next generation. This stems from the Company's commitment to sustainable growth, and is also closely linked to another commitment handed down to us by Nobuo Ishibashi—that we should pursue businesses that are of service to people—which we regard as very important. It is my hope that the sustained growth of the Group will lead to our further contribution to society.

Training the human resources, we need to reach our 100th-anniversary target of ¥10 trillion in annual net sales

It will be another thirty-five years before Daiwa House celebrates the 100th anniversary of its founding, and the development of capable human resources holds the key to ensuring that the Company reaches that milestone in good shape. When I was younger, my dream was to become an elementary school teacher. Because I wanted to be an educator, the Daiwa House Company Philosophy—"Develop people through business"—overlaps in many ways with my personal views. To motivate each employee and enable him or her to achieve personal growth, I regard it as my duty as a member of management to show our employees that the Company has a firm future. I will also devote my energies to fostering the next generation of management-level staff.

Contributing to SDGs by reaching our targets under the Sixth Medium-Term Management Plan

The concepts that underpin the Group's strength are "getting the little things right," "passing on the spirit of our founder," and "pursuing businesses that are of service to people." We have already passed the milestone of ¥4 trillion in net annual sales, but from here onward, as we seek to expand our operational scale beyond the ¥5 trillion, ¥6 trillion, and ¥7 trillion marks, it will be extremely important to manage the Group from a medium- to long-term perspective that incorporates concern for the natural environment and society as a whole. Under our Sixth Medium-Term Management Plan, in addition to our existing business strategy, we have set out focal themes (priority issues) relating to the environment and society, to be pursued over the three-year period of the plan, and have clarified indicators to be used as targets.

The Daiwa House Group operates a start-to-finish service across a wide range of business areas, and we believe that the Group has a duty as a corporate citizen to contribute to achieving No.11 of the United Nations' Sustainable Development Goals (out of 17 goals in total), which is the creation of "Sustainable Cities and Communities." The Livness Town Project, which is one of the priority themes of our Sixth Medium-Term Management Plan, is a project for redeveloping suburban housing developments as a way of fulfilling our duty toward future generations. We hope that people will once again be able to reside in these communities on a long-term basis.

The Daiwa House Group will work to achieve the targets of its Sixth Medium-Term Management Plan while simultaneously helping to realize the United Nations' Sustainable Development Goals for the year 2030, and we will also continue generating social value through our business operations.

Keiichi Yoshii

Keiichi Yoshii
President, CEO and COO

❶ Looking back on our medium-term management plans Nos. 1 to 5

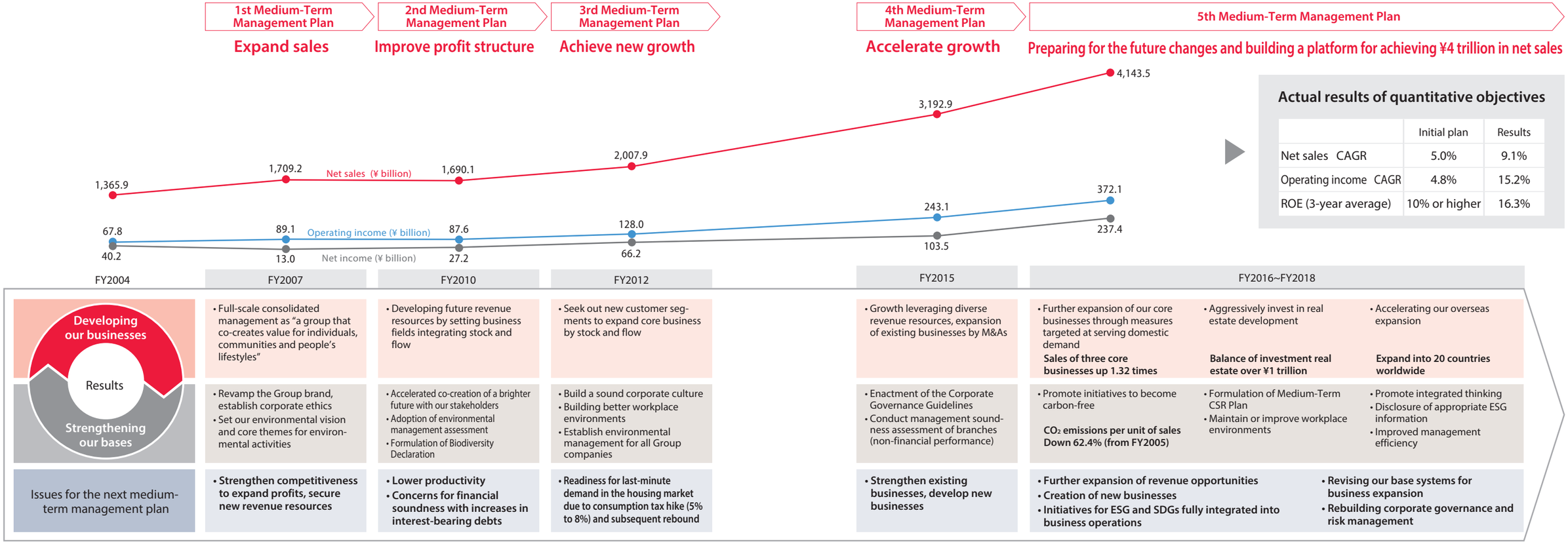
Consistently achieving performance goals, constantly anticipating changes in the operating environment

To mark the 50th anniversary of the founding of Daiwa House Industry, we commenced our first three-year medium-term management plan in 2005 and launched our first fully fledged Groupwide management focused on the central theme of expanding sales. During the second medium-term plan, which was affected by sharp swings in the global economy, including the aftermath of the Lehman Brothers bankruptcy in 2008, we sought to foster new revenue sources under an overarching theme of improving our profit structure. Since the start of the third plan, we have been focusing on expanding our core businesses under the theme of achieving new growth. Additionally, during the third and fourth plan periods, we have expanded our total operational scale through M&As, and have succeeded in growing our annual sales by ¥1 trillion with each three-year plan. We took the opportunity afforded by the rise of real estate securitization, always anticipating changes in the business environment, and have consistently reached our performance targets.

Our fifth medium-term management plan, which commenced in FY2016, was positioned as a three-year period during which we would prepare for future changes in the environment and build a platform to achieve ¥4 trillion in net sales. We invested aggressively in real estate development and stepped up the pace of our overseas business expansion. As the government had already scheduled an increase in the consumption tax rate from eight percent to ten percent at the time we drew up the plan, we were wary of rush demand in the housing market ahead of the tax hike as well as the subsequent fallback in demand after the hike. We also took into account the demographic changes occurring in Japan, including fewer children and a rising average age, as well as an anticipated economic slowdown in China.

On the positive side, we took advantage of the expected growth in construction demand ahead of the holding of the 2020 Olympics and Paralympics in Tokyo. We positioned the three business fields of Rental Housing, Commercial Facilities, and Logistics, Business and Corporate Facilities as our growth drivers, and actively invested in real estate. At the same time, we made full use of our multifaceted business resources to push ahead with development projects in Japan's three major metropolitan areas as well as major regional cities. These projects included multi-use developments incorporating commercial facilities, offices, and business hotels. As a result, we were able to revise upward our initial targets three times. For fiscal 2018, the final year of the medium-term plan, we recorded net sales of ¥4,143.5 billion, operating income of ¥372.1 billion, ordinary income of ¥359.4 billion, and net income attributable to owners of the parent of ¥237.4 billion. These business performance figures were all-time highs.

Looking back at previous medium-term management plans, I believe that this performance was possible because the plans were visionary. Despite a temporary impact from the consumption tax hike in 2014, among other factors, the Group was able to leverage its greatest strength—its comprehensive business proposal capability—to make proposals by a single team for the construction of single-family houses, rental apartments, condominiums, retail outlets and others. And our good business performance seems largely due to our advantage of engaging in both real estate development and construction.



Actual results of quantitative objectives

	Initial plan	Results
Net sales CAGR	5.0%	9.1%
Operating income CAGR	4.8%	15.2%
ROE (3-year average)	10% or higher	16.3%

❷ Our views on the Group's operating environment, and the basic policy of our Sixth Medium-Term Management Plan

Amid an unclear business environment, our management skills will be tested over the next three years
Top priority on reestablishing effective governance and reaching our new targets

Over the following few years, in the Japanese economy we expect to see the fruits of a number of measures, as employment and wage figures continue to improve, and the economy as a whole is forecast to continue recovering. Meanwhile, the outlook for the global economy will be uncertain against the backdrop of US-China trade friction and an unstable political situation in the Middle East, and the Japanese economy is likely to continue suffering the negative impact of a number of recent natural disasters.

In the housing industry, a number of government schemes to assist potential home purchasers have been prepared ahead of the raising of the consumption tax rate, but even so, the outlook is unclear. Over the medium-to-long term, the declining number of households is liable to lead to a decreasing number of new housing construction starts. In the general construction market, too, although the holding of the Expo 2025 in Osaka is expected to stimulate new construction demand, investment in new construction is likely to enter a correction phase once the Olympic and Paralympic games are over.

Currently, we are enjoying a firm pace of incoming orders for Logistics, Business and Corporate Facilities and Commercial Facilities, which are the Group's core businesses, but in the field of housing, the large number of unoccupied houses is proving to be a major problem. Over the medium-to-long term, the trend toward the concentration of population in the country's three major metropolitan areas—Tokyo, Osaka, and Nagoya—is expected to further accelerate, leading to an even wider gap in economic vitality and wealth between these major urban areas and other parts of the country. Meanwhile, in non-metropolitan regions of Japan, there is likely to be a trend toward being concentrated in the central areas of cities. As prospects for the global economy remain unclear, it is becoming even more vital for us to anticipate future trends and move in the right direction before others become aware of the changes that are occurring. Thus, in these unpredictable circumstances, where what we thought was good can turn out to have been bad and vice versa, the three-year period of our Sixth medium-term plan will severely test our management skills.

Our view of the operating environment

Japan

- Continued favorable business conditions seen up to holding of Tokyo Olympics and Paralympics, but prospects thereafter are unclear
- Consumption tax increase in 2019 may impact economy adversely
- Fears of decline in capital investment in Japan due to slowdown in the Chinese economy
- Nation's total population will decline, but population inflow into urban areas to continue
- Increases seen in both visitors to Japan and foreign residents in Japan
- Individual lifestyles will become more diverse, including consumption behavior and work style
- Both environment-consciousness and employee diversity will become even more important
- Business will become still more sophisticated and efficient through application of electronic technologies

Overseas

- Populations will continue to grow in China, India, and the ASEAN nations
- Japanese corporations likely to expand overseas operations, with focus on USA and ASEAN
- Fears of a negative impact on the global economy from US-Chinese economic trade friction and a downturn in the Chinese economy
- Impact of climate change to become more noticeable

Environmental changes that will affect the Group

Medium- and long-term social issues

- Declining birthrate, rising average age
- Regional depopulation and influx into major cities
- Changing number of households
- Increase in unoccupied homes
- Labor shortage, fewer qualified construction workers
- Natural disasters becoming more frequent, more severe

Amid this economic situation, to realize the management vision of the Daiwa House Group, we have identified the focal themes (priority issues) that we must tackle over the next three years, and have commenced our Sixth Medium-Term Management Plan (starting from fiscal 2019). To successfully pursue this plan, it is essential that we overhaul the corporate governance of the entire Group. Consequently, we have recently been focusing on rigorous risk management and on overhauling our governance system. On that basis, we will fully leverage our comprehensive capabilities across a wide range of business fields, and further accelerate the pace of the virtuous cycle created by developing our businesses and strengthening our bases. With regard to the development of our businesses, we have laid down the targets for the final year of the plan (FY2021) of ¥4,550 billion in net annual sales, ¥405 billion in operating income, ¥267 billion in net income attributable to owners of the parent, and an ROE of 13 percent or higher. As regards the strengthening of our bases, we have set numerical goals with respect to both environmental and social issues, and will be working to reach them.

KPI for FY2021

Developing our businesses

Net sales	¥4,550 billion (CAGR: 3.2%)
Operating income	¥405 billion (CAGR: 2.9%)
Net income	¥267 billion (CAGR: 4.0%)
ROE	13% or higher
Overseas sales	¥400 billion
Real estate investment	¥700 billion
Debt-equity ratio	around 0.5 times

Strengthening our bases

Employees who report being motivated	80%
Orders received from our customer base	70%
Annual holidays for employees at worksites (8 days off per 4 weeks 100%)	112 days
Greenhouse gas emissions per sales unit	35% fewer than FY2015

Basic policy of the 6th Medium-Term Management Plan

Developing our businesses

- (1) Business — Further growth in the three core businesses
  - Accelerating our overseas expansion
  - Expanding operations by leveraging our customer base and stock of existing properties
- (2) Investment — Continuing and strengthening real estate investments inside and outside Japan
- (3) Financial — Efficient management and financial soundness aware of capital costs

Strengthening our bases

- (4) E (Environment) — Endless Green Program 2021: Pursuing energy conservation, new energy creation, and reduction of CO_2 emissions to meet the targets set by the SBT, EP100, and RE100
- (5) S (Social) — Endless Social Program 2021: Building a management base that anticipates social changes, and improving relations with our stakeholders
- (6) G (Governance) — Strengthening corporate governance

Materiality and focal themes related to basic policy

Business 1
Expanding business opportunities deriving from social issues including *Asu Fukaketsuno* (Indispensable for Tomorrow) and SDGs

Business 2
Balance of flow businesses and stock businesses

Business 3
Constructing a portfolio of businesses with differing life cycles

Business 4
Efficient management and financial soundness aware of capital costs

1. Grow share in core businesses
2. Expanding field of business Develop "Plus 1 and Plus 2 Businesses"
3. Expanding geographic business area Providing high-quality buildings to people all around the world
4. Redevelopment of communities and home
5. Leveraging our customer base and stock of existing properties

Base 1
Lowering environmental impacts while reaping corporate profits

Base 2
Form management base, strengthen relations with stakeholders

Base 3
Strengthening corporate governance

1. Slowing and adapting to climate change
2. Harmony with the natural environment
3. Conservation of natural resources/ Water resource conservation
4. Prevention of chemical pollution
5. (Human resources base) Improve motivation and diversity
6. (Customer base) Improve CS and corporate brand
7. (Technology and manufacturing base) Enforce safety and quality
8. Upgrade innovation and corporate communications
9. Strengthen risk management

❸ Basic policy regarding the development of our businesses

Aiming at further growth in our three core business fields as well as in overseas markets, while expanding operations by leveraging our customer base and stock of existing properties

Basic policy (1) Business activities

Further growth in 3 core businesses fields

Continuing on from our Fifth medium-term plan, we aim to achieve growth in overall profits, using the three business fields of Rental Housing, Commercial Facilities, and Logistics, Business and Corporate Facilities as growth drivers.

● Boosting marketing efforts in urban areas

In the field of Housing, our strategy will be to firstly reorganize our supply chain, including an effective system for ensuring product quality. We will also beef up our marketing workforce in Japan's three metropolitan regions and in core cities in provincial regions, with the goal of strengthening marketing efforts in multi-function rental housing and in medium- to high-rise rental housing properties. One particular goal is to raise the average price per single property.

● Strengthening multi-use and large-scale project development

In the field of Business (construction for business use), our strategy is to aggressively develop large-scale and multi-use projects to ensure the continued expansion of our operations. In our Commercial Facilities Business, demand for multi-use facilities is strong, with the number of projects with a single average price per single building of ¥1 billion or more having risen above 20, and orders for high-priced projects of ¥500 million or more showing a steady trend. Going forward, we will not waste any business opportunities, and will actively work to expand orders. In the Logistics, Business and Corporate Facilities Business, in the Japanese market there is a growing demand for multi-tenant logistics facilities that enable new tenants to move in right away, and we will put more effort into speeding up our development processes.

Accelerating our overseas expansion

Overseas operations have been positioned as our fourth growth driver. Considering the situation within Japan, we believe that growth in our overseas operations is essential. While strengthening our management system, we aim to offer Japanese-style high-quality construction and services to the people of many countries around the world, and we are making steady progress toward reaching our target of net annual sales of ¥400 billion by fiscal 2021.

Turning to investment, with a view to realizing a good investment balance between market with high risk and those with low risk, we plan to invest 50 percent in the United States and Australia, where steady economic growth is expected, 30 percent in ASEAN, and 20 percent in East Asia, notably China. Particularly in Asian countries, notably those of ASEAN, we will be speeding up the pace of our logistics facility development, which we have been pursuing since the Fifth medium-term plan. From here onward, we will continue to invest in business expansion aiming for further growth while recovering our earlier investments.

Expanding our operations by leveraging our large customer base and stock of existing properties

To strengthen our existing homes business—which involves real estate agency intermediary services, the purchase and resale of homes, renovation work, and so on—we have established the group-wide brand "Livness", and are currently working to increase the brand's public recognition. We are also strengthening our relationships with home owners and working to improve the value of the nation's stock of existing housing, which is an important form of social infrastructure, and developing this business into a new growth driver.

● Enhancing added value of customers' assets

The number of single-family houses, rental housing, and condominium dwelling units previously built by Daiwa House amounts to 1.35 million, and many of the present owners of these residences find it necessary to move house due to age or changing lifestyle. Currently, in a high percentage of cases, such owners do not make use of our services when selling their homes. We plan to increase the rate at which our services are used through active deployment of our real estate agency services and our home repurchase service.

In addition, the market for renovation work in the Business field is said to be worth ¥8.6 trillion. The assets of the Company's customers amount to more than 40,000 commercial facilities, and tenant companies with which we have relations number more than 4,200. The total floorspace of logistics facilities that we have developed amounts to approximately 6.7 million m², and we believe that there is considerable room for further growth. We will construct a system for marketing and carrying out renovation work, and will pursue a business that involves improving the value of existing properties and reselling them.

● Livness Town Project

The Daiwa House Group has planned and constructed approximately 60 suburban housing developments in Japan and the residents of these projects are now on average very elderly. To address the serious social issue of the rising average age of the population, we have launched the Livness Town Project, in which we seek to develop new communities where people of all generations can live comfortably and for many years to come. The project revolves around four key concepts: safety, human relationships, something to live for, and health. Model projects are already underway in Sakae-ku, Yokohama in Kanagawa Prefecture and Miki City in Hyogo Prefecture. We see this as a chance for the Group to fulfill its duty to the future by being of service to a large number of people through the redevelopment of entire communities as well as individual homes via collaboration among private-sector companies, government, and academia.

6th Medium-Term Management Plan (Performance targets by business segment)

(¥ billion)

Segments	6th Medium-Term Management Plan				
	FY2021				
	Sales		Operating income		
	Plan	FY2019-2021 CAGR (%)	Plan	FY2019-2021 CAGR (%)	Operating income margin (%)
Single-Family Houses	540.0	2.4	22.0	(2.6)	4.1
Rental Housing	1,160.0	3.2	115.0	3.2	9.9
Condominiums	380.0	3.4	20.0	(1.1)	5.3
Existing Homes	160.0	6.7	16.0	5.3	10.0
Commercial Facilities	840.0	4.8	160.0	3.9	19.0
Logistics, Business & Corporate Facilities	1,140.0	3.6	110.0	3.1	9.6
Other Businesses	520.0	2.5	20.0	14.0	3.8
Total	4,550.0	3.2	405.0	2.9	8.9

Basic policy (1) Business

Further growth in Rental Housing, Commercial Facilities, Logistics, Business and Corporate Facilities

Boosting marketing efforts in urban areas

Increase sales staff in Japan's three metropolitan regions as well as major regional cities, aim to increase the average price for multi-function rental housing and medium- to high-rise rental housing.

Strengthening multi-use and large-scale project development

Aggressively develop multi-use/large-scale projects leveraging the width of our business domain.

Medium- to high-rise rental housing building

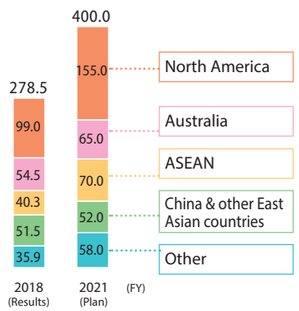
Multi-use building including a hotel, a hospital, retail outlets, and a fitness club, among others (Toyosu, Koto-ku, Tokyo)

Accelerating our overseas expansion

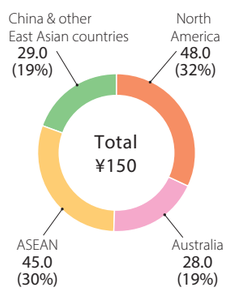
We will strengthen our system for supervision of overseas business while making continuous investments in business operations, targeting net annual sales of ¥400 billion in FY2021.

P.65 (Overseas Business)

Overseas sales (¥ billion)



Investment plan (¥ billion)



Note: Totals include consolidation adjustments

Business expansion leveraging our customers and stock of existing properties

Enhancing added value of customers' assets

Leverage the Livness brand in the housing field to increase our involvement ratio in brokerage, purchase, and resale targeted at the existing customer base, to strengthen our purchase and resale business. The business field covers activities such as building a renovation system, raising the value of existing properties and expand, and reselling those properties.

Promote the Livness Town Projects

Solve social issues by promoting our Livness Town Projects to redevelop suburban housing complexes Daiwa House developed in the past.

P.66-69 (Dialogue)

Kamigo Neopolis (Sakae-ku, Yokohama, Kanagawa Pref.)

Basic policy (2) Investment/ (3) Financial
P.39-42 (Message from the CFO)

❹ Basic policy with respect to strengthening our bases

Aiming to strengthen our management base through anticipation of future social change and pursuit of a low-carbon economy

Basic Policy (4) Environmental measures

We see environmental preservation as a business opportunity, and have set a target of ¥1.5 trillion in net annual sales in our environment-related businesses under our Sixth medium-term plan. By reducing the Group's carbon footprint, we hope to simultaneously lower our environmental impact and expand our earnings. For this purpose, we have signed up to the EP100 and RE100 international initiatives, and are working to raise the energy efficiency at factories and other facilities, and to speed up the transition to the use of renewable forms of energy. Specifically, we are promoting energy conservation and the generation of renewable energy in our business activities, and have set ourselves a number of challenging targets to be reached by fiscal 2021. These are a 40 percent improvement in energy efficiency (compared with FY2015 figures), a renewable energy ratio of 85 percent (for a 3 percent renewables energy utilization ratio), and a 35 percent reduction in greenhouse gas emissions stemming from the Group's facilities and its business operations (per unit of sales; compared with 2015).

We will work to expand our corporate earnings by pursuing reductions in carbon emissions via our products, such as through the increased use of net zero energy houses (ZEH) and net zero energy buildings (ZEB) as well as of our Environment and Energy business, among others.

Basic Policy (5) Social matters

● Human Resources Base

We see the reinforcement of our human resources base as the most important element in achieving sustained growth. To cope with the anticipated labor shortfall resulting from the decline in Japan's population over the coming years, we will push forward with specific countermeasures such as the adoption of artificial intelligence and robotic process automation (RPA), and will implement a work-style reform by giving workers eight days off for every four weeks on a construction site.

In addition, we will give employees greater motivation. Currently, roughly 65 percent of Group employees report being motivated in the workplace. By making full use of the existing system, we aim to give employees adequate workplace motivation and raise this reporting rate to 80 percent.

● Customer Base

Because we form and maintain close relationships with our customers over many years, these relationships are deeply rooted in trust, and we are able to enjoy a virtuous cycle of customer base expansion and business growth. Going forward, we aim to strengthen our customer satisfaction system to adapt to the changing business environment, in which the weight of our house sales is shifting from new-build to previously-owned homes, while the weight of new customer relationships is shifting from customers we acquire through our own marketing efforts to those introduced to us by intermediaries (sales through referral). In this way, we hope to expand our customer base and then leverage this base to account for up to 70 percent of total single-family house sales (percentage of sales through referral). We also intend to focus increased efforts on corporate communications and to establish a corporate brand that is fully integrated with our management vision, so as to enhance our corporate image.

● Technology and manufacturing base

Safety at the construction site should be the top priority with respect to our manufacturing technology. Against the background of declining births and a rising average age of the population in Japan, the supply of skilled workers is dwindling, and a growing number of workers from abroad are being hired. This, among other factors, tends to lead to lower levels of safety management in the factory and at construction sites. At Daiwa House, we are drawing up plans to cope with these changes, in addition to rising workplace risks related to Japan's recent severely hot summers and a growing number of natural disasters.

Through the use of the Internet of Things (IoT), we are working to help pass on workplace skills and realize labor saving by improving productivity through greater collaboration with our partner companies. Use of the IoT will also help us tackle the issue of excessively long working hours to create a better working environment and to train and secure a qualified workforce of construction workers.

In addition to our traditional three business bases, we have recently specified three new bases—innovation, communication, and risk countermeasures—and are working to strengthen a system in which our development of new businesses and our real estate development activities will contribute to finding solutions to social issues. We will also engage in establishing high levels of corporate ethics, human rights, and compliance, including at our overseas businesses.

Basic Policy (6) Corporate Governance

In response to the two recent scandals, we have assigned top priority to ensuring the greater effectiveness of the Company's board of directors and to reorganizing the governance system of the entire Daiwa House Group. In June 2019 we received reports on the causes of the incidents and recommendations for the prevention of recurrence from a third-party committee and an external investigation committee, and we will draw up new prevention measures and consistently implement them. Under the system we have followed up to now, because issues or projects involving risk have been handled by individual directors within their respective areas of responsibility, to ensure that issues involving risk will be tabled at the board of directors, we will rewrite our criteria for submission to board meetings. We will also rethink our reporting lines so that items involving risk will more easily be tabled and so that board members have equal access to the necessary information, enabling the issues to be debated effectively. We will also re-examine our whistleblower system and our executive organization.

Basic policy (4) E (Environment)

Pursuing energy conservation, new energy creation, and reduction of CO_2 emissions to meet the targets set by the SBT, EP100, and RE100

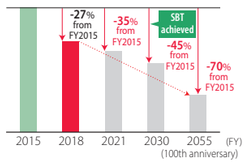
Promote "carbon-free" in the fields of products and manufacturing

(Products)
Promoting sales of ZEH and ZEB, acquiring Green Building certification. Aim for ZEH sales percentage of 60% and ZEB 30% by FY2021, with a Green Building certification ratio of 70% for development projects.

ZEH-compatible "xevo Σ" single-family housing

(Manufacturing)
Adopting renewable energy and lower energy consumption in own facilities. Aim to reduce greenhouse gas emissions per sales unit by 35% vs. FY2015 by FY2021.

Greenhouse gas emissions per sales unit



P.71, P.81-84 (The Environmental Activities)

Basic policy (5) S (Social)

Building a management base that anticipates social changes, and improving relations with our stakeholders

Human Resources Base

Boost the motivation to work of women and other diverse employees, focus particularly on creating organizations to foster younger staff to achieve a retention rate of 90% or more. Improve motivation in the entire workforce by 15% (compare to FY2018), create workplace environments that both maximize results and ensure health and safety.

P.75-76 (Strengthening the Human Resources Base)

Customer Base

Build long-term relations of trust with customers by strengthening the CS system, establish a corporate brand leading to encounters with new customers, for single-family housing sales by referral of 70% and brand monetary value of USD 1 billion.

P.77-78 (Strengthening the Customer Base)

Technology and Manufacturing Base

Improve productivity conditional on ensuring safety and quality on construction sites together with our partners, to achieve a frequency rate of accidents of 0.21 and 8 days off over a 4-week period, promote responsible procurement for a compliance rate with our CSR Procurement Guidelines of 70% or more.

P.79-80 (Strengthening the Technology and Manufacturing Base)

Other bases

Innovation base	Strengthen systems to promote business and real estate development that helps solve social issues.
+	
Communication base	Upgrade both financial and non-financial corporate communications and train the workforce for the information age.
+	
Risk countermeasures base (being complete in small things)	Hone business continuity plans for natural disasters, etc., and establish corporate ethics, human rights and compliance rules, including for overseas bases.

P.78, P.80 (Other bases)

Basic policy (6) G (Corporate Governance)

Prioritize the reestablishment of governance for the entire Group

Further enhance the effectiveness of the Board of Directors

We are steadily implementing measures to prevent recurrence based on research into the causes and suggestions from the third-party committee and external investigation committee, while reestablishing systems to rapidly bring risk information before the Board of Directors.

P.90 (Overview of evaluation on effectiveness of Board of Directors)

Further strengthen Group governance

Reestablish the whistleblower system, strengthen management systems in overseas subsidiaries. Conduct thorough training in compliance for executives.

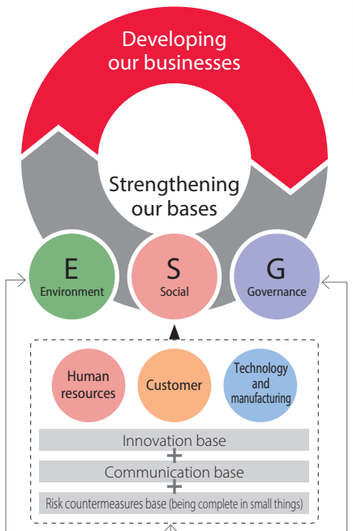
P.92 (Compliance training)

❺ The Daiwa House Group's value-creation process, and our risk map

By developing our businesses and strengthening our bases, we will enable effective risk management

To realize its management vision, the Daiwa House Group is identifying materiality and conducting business operations in accordance with the basic policy and focal themes of the Group's Sixth medium-term plan. Issues that may possibly impact our business as a whole and our management base involve a variety of risks. Below, we lay out the main risks (issues to be addressed) that may have the greatest negative impact on our basic policy.

The Group's value-creation process and materiality



Business 1
Expanding business opportunities deriving from social issues including *Asu Fukaketsuno* (Indispensable for Tomorrow) and SDGs

Business 2 Opportunity Risk
Balance of flow businesses and stock businesses

Business 3
Constructing a portfolio of businesses with differing life cycles

Business 4 Risk ⑤ Risk ⑥
Efficient management and financial soundness aware of capital costs

Base 1
Lowering environmental impacts while reaping corporate profits

Base 2
Form management base, strengthen relations with stakeholders

Base 3 Risk
Strengthening corporate governance

Focal themes on the 6th Medium-Term Management Plan

❶ Opportunity Risk ① Risk ② Risk ⑦
Grow share in core businesses

❷ Opportunity Risk ③
Expanding field of business
Develop "Plus 1 and Plus 2 Businesses"

❸ Opportunity Risk ④
Expanding geographic business area
Providing high-quality buildings to people all around the world

❹ Opportunity
Redevelopment of communities and home

❺ Opportunity
Leveraging our customers and stock of existing properties

❶ Opportunity Risk ⑦
Slowing and adapting to climate change

❷ Opportunity Risk
Harmony with the natural environment (Preservation of biodiversity)

❸ Opportunity Risk
Conservation of natural resources/ Water resource conservation

❹ Opportunity Risk
Prevention of chemical pollution

❺ (Human resources base) Opportunity Risk
Improve motivation and diversity

❻ (Customer base) Opportunity
Improve CS and corporate brand

❼ (Technology and manufacturing base) Opportunity Risk
Enforce safety and quality

❽ Opportunity Risk
Upgrade innovation and corporate communications

❾ Risk
Strengthen risk management

Risks and Countermeasures

Risk ① Risks associated with legal regulations

- The risk of a violation of an applicable law, or a legal violation in our past business activities.
- The risk of penalties, punishment, or other sanctions, or defamation of social credibility or image.
- The risk of revision or abolition of existing laws and regulations, or the creation of new laws.

[Countermeasures] Focal theme (base) ❾

Diverse laws and regulations pertain to the widespread business operations of the Daiwa House Group. As such, we strive to improve our legal knowledge and consciousness of risk management, actively conducting compliance training. Training programs are set for each grade or division, and independently for each office.

In regard to the recent violations concerning off-specification components, we believe one reason to have been the failure of information to properly flow between head office and business offices (insufficient communication), and as such will conduct education in legal compliance for the entire company, while rebuilding our legal compliance system.

Risk ② 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.

[Countermeasures] Focal theme (base) ❺❻❼❽

In order to maintain and develop the business model of the Daiwa House Group, we engage in policies and investment to strengthen our three bases, while enhancing our comprehensive business proposal capability as our prime forte to heighten our superiority over rivals.

We also enhance our systems to enable business and real estate development to keep pace with the times, while creating new added value in our business.

Risk ③ Risks associated with business and Group strategies

- Acquisition of companies or businesses, reorganization and other plans fail to go as expected, leading to the synergy between Group companies failing to gain the anticipated business result.

[Countermeasures] Focal theme (base) ❽

The Daiwa House Group's 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. Our first step is to consider what we have to offer and what sort of partner would best help us achieve that. Our priority is to respect the other company's history and human resources while enabling the sharing of our mindset and corporate philosophy.

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.

Risk ④ Risks associated with overseas business operations

- Sudden inflation, exchange rate fluctuations, conflict caused by political and economic uncertainties, disturbances, the risk of litigation, deteriorating diplomatic relations, legal restrictions, etc.
- The possibility of a violation of local laws or wrongful business practices occurring, or inability to prevent a risk or delayed discovery of a risk because controls such as we have in Japan fail to operate due to geographical remoteness.

[Countermeasures] Focal theme (base) ❾

Steps are taken to share know-how and information between group companies and divisions, including legal information and understanding of local institutions, laws, and commercial practices. The entire Group undertakes sound business operations overseas, and we have set up an Overseas Strategy Committee to reduce risks.

P.65 (Establishment of an Overseas Strategy Committee)

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.

The wrongdoings that occurred in China recently were due to the system to manage joint ventures overseas, and ambiguities in the allocation of responsibility. We have revised our head office system to manage local corporations and joint ventures, as well as conducting case studies containing scenarios for contingencies occurring in overseas Group companies.

Risk ⑤ Risks associated with a rise in interest rates

- A rise in interest rates, either as a result of an across-the-board rise in market interest rates or of the downgrading of the Group's credit rating, would lead to higher material procurement costs.
- The risk of lower demand due to higher total payment amounts for customers seeking to acquire land and buildings using financing.

[Countermeasures]

In order to retain our current AA ranking, we maintain the competitiveness of our business operations and diversify our revenue base. While actively making investments, we are constantly aware of the soundness of our fiscal standing.

Risk ⑥ 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.

[Countermeasures] Focal theme (base) ❽

We take measures to control risks involved in real estate investment via the deliberations of the Real Estate Investment Committee, which is charged with the duty of appraising the feasibility of each project and its associated risks. Our real estate development is based on our Community Development Guidelines and endeavors to be resistant to future falls in economic or social value.

P.91 (Establishment of Real Estate Investment Committee)

Risk ⑦ Risks associated with climate change

- The risk of greater workloads and costs for the houses and buildings we offer due to stronger regulations of the Building Energy Efficiency Act or carbon tax hikes and expansion of emissions trading affecting more business operations and properties.
- The risk of higher maximum temperatures in summer causing lower quality and efficiency on construction worksites or increased worksite accidents.

[Countermeasures] Focal theme (base) ❶

In expectation of higher operating costs due to tougher regulations, we are taking the policy of "maximizing sales increase and minimizing profit decrease with early development of ZEH and ZEB, and cost reduction pushed forward." Work on construction sites will be minimized by increasing the proportion of prefabricated components, while thoroughgoing measures against heatstroke will be taken.

❻ What you need to know—the Sixth Medium-Term Management Plan

Achieving our goals under the Sixth medium-term plan, becoming the enterprise we need to be

Q In pursuit of further growth, what ideas do you have in mind for your three core businesses?

A Regarding the three core businesses—which will be our main growth drivers under the Sixth medium-term plan—it goes without saying that we cannot survive in the long run unless we aim for the No.1 spot in each market. And if we take the top position, a whole new world of possibilities will open up.

In our rental housing business, we plan to focus on areas where we are confident of realizing a 97 percent occupancy rate, such as in major urban areas like Tokyo and Osaka, or in areas near railway stations in core provincial cities. Assuming we were satisfied with a lower occupancy rate, such as 92 percent, we would then be able to expand our area of operations, but in areas where we cannot be confident that owners will choose us over a rival company, we would end up having to compete for a slice of the market pie with those rivals. We prefer to maintain a high occupancy rate and acquire a dominant No.1 position.

In our commercial facilities business, the Company's unique business model has proven to be very much its strong point. In our logistics facility business, our record is probably No.1 in Japan in terms of the number of facilities built. The aggregate floorspace of facilities developed has reached 6.7 million m^2, and our operations are continuing to expand, particularly in core regional cities, thanks to the leverage provided by our nationwide network of offices and branches, which is one of the Group's strengths.

One of the main reasons why the Group occupies the No.1 position is its comprehensive capability, meaning that the entire process of constructing such facilities can be completed by Group-member companies alone, without calling on outside assistance. If the Daiwa House Group is recognized by customers as an enterprise on which they can rely to do the whole job—from start to finish—the number of business opportunities that come our way will undoubtedly increase.

In response to the expansion of e-commerce and the rising demand for quick delivery of goods within urban areas, there has recently been a growing number of cases of logistics facilities relocating to locations closer to city centers. Against this background, we believe that there is a strong chance in the near future of commercial facilities being combined with logistics centers. In such a case, if companies offer not merely to transport goods but to provide wider support for the growth of their customers' businesses, many new possibilities will become available.

Q Please share your views about the future of your Single-Family Houses Business, and about the plans you have.

A We have no intention of changing the positioning of single-family houses within our business. This business is the main engine of our growth, and without it we would have no hopes of growth. Having said that, it is undeniable that we will face a serious obstacle in the form of the declining birthrate and rising average age of the population.

Our Single-Family Houses Business accounts for nine percent of total sales, and if overseas sales are included, annual sales reach ¥500 billion. Going forward, overseas developments hold the key to expanding our total business scale, in my view. We are already engaged in the home-building business in the United States and Australia, but in the future we hope to report growth on a more fully global scale.

Q Could you tell us something about the prospects for your Livness business and your plans for the near future?

A I aim to aggressively push forward with new business development not only in the field of housing but also in the construction business in general, and I believe that prospects are quite good.

The Livness concept covers a wide variety of business segments, and currently the scale has grown to almost ¥200 billion in net annual sales. Our target for the final year of the Sixth medium-term plan is ¥270 billion, but in the longer perspective we aim to expand to ¥500 billion, making this business into one of our main sources of earnings.

Q Could you explain the meaning behind the phrase "redevelopment communities and houses," as used in the section on the Livness Town Project, which is a major part of the whole Livness business?

A If developments up to now can be likened to the first chapter of the story, the redevelopment of communities originally developed by Daiwa House will constitute the second chapter. We see this as a way of addressing serious social issues.

Looking back at projects in which Daiwa House Industry has engaged in housing developments, I think we can say that these were successful in addressing what was a major social problem in those days—lack of adequate housing—and that we helped people to realize their life dreams. At that time, however, no one foresaw the present phenomenon of a simultaneous decline in the birthrate and a rising average population age as people live longer. These changes have led to a steady increase in the number of unoccupied houses, a decline in the number of young people, a growing lack of purpose for community centers, as a result of the decrease in population, and the closure of supermarkets here and there. For these reasons, we are forced to go back to the drawing board to find solutions to current social problems.

If we can re-inject vitality into communities that have become run down, more people will be happy to live in such communities that have been redeveloped by Daiwa House. As it was Daiwa House that built these housing developments in the first place, we know them better than anyone else, and feel a sense of responsibility. Needless to say, rather than going it alone, it would be better to collaborate with other companies, so as to create new communities that will be a major social asset.

Rather than simply addressing individual issues such as the growing number of unoccupied houses and the need to provide more high-quality retail outlets, we aim to seriously tackle the redevelopment of entire communities. We will construct for the long haul and fulfill our responsibilities, so that people will feel that the Daiwa House Group is always there for them, and that our designs take their needs into account.

Q Are you planning to engage in Livness businesses overseas?

A There is every possibility of Livness being launched on overseas markets.

Livness will take many different forms depending on which companies or organizations participate in the planning. The countries of Scandinavia, as well as the United States, are known for their cultural practice of cherishing their buildings. Daiwa House hopes to purchase such buildings that have been kept in good shape, and where possible renovate them. This is the Livness Project, and it may also include the conversion of office buildings into hotels.

Q Could you describe your overall concept of the Group's overseas operations?

A Total net sales in our overseas operations for fiscal 2018 (ended March 2019) came to ¥278.5 billion. We will take steps to further speed up sales growth, and aim to raise the figure to ¥400 billion under the Sixth medium-term plan.

We are expanding our operations in the United States into new business areas, with housing as the linchpin. Stanley-Martin Communities LLC, a specialist single-family home builder in the United States, is making good use of our know-how, and will soon be entering the rental housing business. The population of the United States is growing, and there is plenty of room for expansion in the home-building field. The Group is already engaged in business in a large zone of the country where the population is growing, from Washington D.C. to California, and focusing on these regions is likely to be very important going forward. We expect our sales in the U.S. to surpass ¥100 billion before long. Additionally, we have acquired Waldorf Australia Group Pty Ltd (now Nesuto), which operates in Australia and New Zealand, and are working to strengthen our business base with a view to future expansion.

In the countries of ASEAN, where we are operating a logistics center development business, facilities already in operation are almost completely full up, and business is going well. We anticipate engaging in this business in the US and Australia in the near future, and are now conducting preparatory market surveys. In Taiwan, we have finally become able to receive orders for construction of commercial facilities. If we succeed in entering the market in other countries apart from Taiwan, this will undoubtedly contribute strongly to our growth strategy.

I hope to enter the European market as a way of spreading the Group's businesses under our Sixth medium-term plan. Europe is known for cherishing its buildings—something that is lacking in Japan. In Japan, a building's value is said to have fallen to zero twenty years after construction, but in Scandinavia and the United States, after purchasing a newly-built property, regular maintenance is carried out. There are many instances of buildings being sold for a higher price than when new, even 30 years after construction. In Japan, too, the Ministry of Land, Infrastructure, Transport and Tourism appears to be leading a movement to reexamine the system whereby a building's value falls to zero. At Daiwa House, too, we hope to apply the excellent usage pattern we have learned overseas to our own buildings, including houses.

Q In what way will your domestic business portfolio be changing in the near future?

A To realize sustained growth for the Group, I aim to promote the Construction segment as our main driver of expansion.

Regarding the Daiwa House Group's business portfolio—Construction, Rental Management, and Sale of Development Properties—while many observers may believe that the Rental Management segment, which offers a steady revenue flow, is our main business, the Group is strongly committed to the concept of manufacturing, and we feel that the existence of our Construction business leads to technological growth.

The Company's official name is "Daiwa House Industry Co., Ltd." and we take the word "Industry" seriously. Therefore, we will continue to place priority on our manufacturing base, while always being on the lookout for future trends.

Q Could you tell us something about your plans for business expansion, including the nurturing of new businesses?

A Our three core businesses still have plenty of room for growth. As an extra positive, our overseas operations—which have grown to the point where we have found the need to post their business performance as a separate segment—as well as our Livness business, are expected to play a major role in growing our business performance.

Despite all these developments, they are not enough to guarantee us reaching our 100th anniversary target of ¥10 trillion, and we shall have to address this issue going forward. But we will not suddenly plunge into businesses unrelated to our existing business sphere simply in order to boost sales. We will remain true to our mission as a "total lifestyle enterprise," and I hope to continue along this path, including the development of infrastructure businesses. Within this sphere, we will develop new businesses that can help us fulfill our central role as an enterprise that is of service to people.

Q How does the Daiwa House Group position sustainable development goals (SDGs) within its management strategy?

A We look on SDGs as being the same idea as our founder's often-repeated advice to us to "do things because they will be of service to people," but from a global perspective.

For Daiwa House, SDGs are something that we should naturally aim at. We believe the Group is particularly suited to helping achieve goal No.11—Sustainable Cities and Communities—and goal No.12—Responsible Consumption and Production—but looked at from the aspect of future business expansion overseas, we will also aim to address urgent social issues faced by societies throughout the world, particularly in developing nations. For example, with regard to goal No.1—No Poverty—and goal No.2—Zero Hunger—which must be solved as quickly as possible, the Group is giving thought to what it can do to help.

For example, we are thinking of the possibility of building logistics centers in parts of the world where many children lack adequate food and shelter. Our logistics centers could serve the additional purpose of being places of refuge and nutritional help for such children. Reports indicate that in many developing countries, large amounts of foodstuffs go to waste because of a lack of temperature-controlled warehouses. Japan received assistance from other countries during its rebuilding phase after the end of WWII, and we believe it is only right that the country should repay its debt to the world in this way. I believe strongly that, just as we have received kindnesses in the past, we should "return the favor" by making a better world for the next generation of children, and that the Company should imbue its buildings and communities with that spirit.

Q What do you plan to do in regards to strengthening your management bases and improving your ESG figures?

A In response to the two recent cases of misconduct in the Group's operations, we must go back to the teachings of Nobuo Ishibashi, the founder of Daiwa House, and reaffirm our unshakeable conviction that our duty as a company is to do as much as we can for society as a whole.

In keeping with the teachings of our founder, we have up to now provided the world with products and services that are of service to people, in line with our motto *Asu Fukaketsuno* (Indispensable for Tomorrow). We have also taken a positive stance with respect to strengthening our management bases, which are essential for the forward progress of our business operations.

The outlook for the Group's operating environment during our Sixth medium-term plan is unclear. Because we have set out conservative targets, it seems that our growth rate has slowed down by comparison with previous medium-term plans, but these targets will definitely be achieved. As I am sure you will see after examining our previous medium-term plans, we have always achieved our initial goals ahead of schedule, and our final figures have been higher than our targets. Going forward, too, during this coming three-year period we aim for consistent growth in pursuit of our management vision, to pave the way for reaching our 100th anniversary target of ¥10 trillion in net annual sales.

Message from the CFO

Materiality Business 4 **Efficient management and financial soundness aware of capital costs**

Pursuing excellent corporate governance to generate economic value that reliably exceeds capital costs over the medium and long term

Takeshi Kosokabe

Takeshi Kosokabe
Executive Vice President and CFO

The Daiwa House Group operates businesses that meet social needs across a wide range of fields as "a group that co-creates value for individuals, communities, and people's lifestyles." The Group provides products and services that society needs to create value for shareholders, customers, employees, business partners, and local communities, and in so doing seeks to raise its enterprise value.

In order to maintain and improve the Group's ability to address social issues and create shareholder value at the very highest level, we are determined to pursue excellent corporate governance while aggressively innovating, developing new businesses, and generating economic value that reliably exceeds capital costs over the medium and long term. As the chief financial officer, I will continue to play two main roles—the traditional role (overseeing accounting, end-of-term settlement of accounts and tax declarations), and a proactive role (establishing and implementing business and financial strategies), while maintaining quality in both areas and improving efficiency.

In April 2019, I became General Manager of Management Administration Headquarters, assuming a role with significant responsibility. Under our basic commitment to being an enterprise that is rewarding to work for and maintaining an ethical, highly productive work environment rooted in our philosophy of "getting the little things right," I will fulfill my responsibilities by ensuring thorough risk management and compliance, raising productivity through creativity and ingenuity, and promoting cash flow management. Applying my understanding of the future of the Group and its businesses, I will contribute to management decision-making by ensuring consistency with management strategies and financial policies, making sure we take into account the characteristics and risks of each business, and presenting a number of future scenarios. At the same time, I will help create a stronger management foundation by reorganizing the governance system and other measures.

Continuing to invest aggressively to sustain growth

The plan for sales and profit growth in the Sixth Medium-Term Management Plan (hereafter, "Sixth Plan") is more conservative than the previous one. The housing market is expected to shrink over the long term due to a decline in the population and number of households. Taking into account a decrease in orders after the consumption tax increase and an economic slowdown after the 2020 Tokyo Olympics and Paralympics, it is difficult to envision growth exceeding ¥1 trillion as it did under each medium-term plan in the past.

As for growth investments, we plan to spend ¥1,050 billion during the three years of the Sixth Plan in contrast to the ¥1,075.7 billion spent during the three years of the Fifth Plan. Of this amount, ¥550 billion will be invested in domestic real estate. Although the real estate market has been strong over the long term, for these three years, we plan to slightly reduce the amount we invest, assuming that the tide will change. Notably, in the Logistics, Business & Corporate Facilities segment, considering that our investments have been overly concentrated in logistics facilities, we will need to carefully control this. First, we will prioritize investment in developing land that we have already acquired. The balance of investment real estate exceeded ¥1 trillion. In the Fifth Plan, although sale of property were ¥331 billion, we secured a 37% profit margin thanks to timely land acquisitions. In the Sixth Plan, we will accelerate sales, anticipating reaching ¥400 billion, and we will secure return on investment while ensuring that profits are equivalent to those of the Fifth Plan.

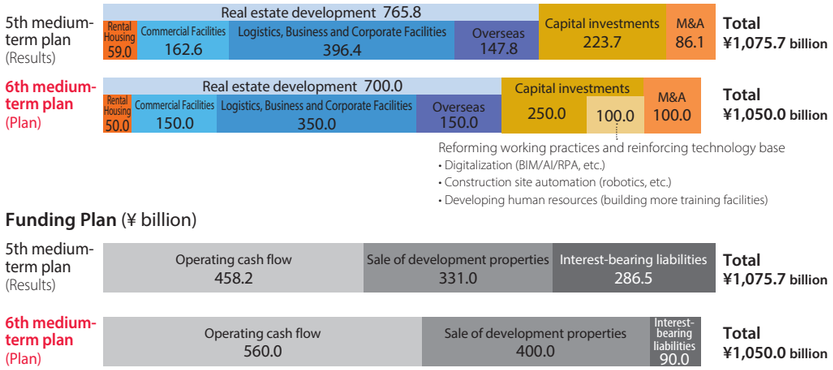
We will invest ¥150 billion in overseas real estate development, largely in line with what we did under the Fifth Plan. In accelerating overseas development, our first priorities will be to lay a solid foundation and strengthen our overseas business support capabilities.

We will increase investment in mergers and acquisitions (M&A) to ¥100 billion, focusing on new fields for us in Japan—construction and contracting—and that will help strengthen our integrated business solution capabilities. Overseas, above all, I want to aggressively target homebuilders in developed countries if the projects are good. M&A performed thus far have generally gone smoothly in Japan and overseas, except Australia, where market conditions rapidly deteriorated last year. While there will be some synergies down the road, we have gained know-how while pursuing M&A as a growth investment.

Basic policy (2) Investment

In addition to investment in growth, including in real estate development, we are also investing in the reinforcement of our technology base.

Investment Plan (¥ billion)



Status on sale of development properties

5th medium-term plan results (FY2016-2018)

(¥ billion)

	Sales	Gross profit
Rental Housing	66.3	30.6
Commercial Facilities	42.8	17.2
Logistics, Business and Corporate Facilities	221.8	75.6
Total	331.0	123.5

In the more conservative Sixth Plan, we still remain committed to continuing with aggressive investment for sustainable growth. When we see good investment opportunities, we will take action while maintaining financial discipline.

Investing not only in growth, but also infrastructure development

In the Sixth Plan, of the ¥250 billion in capital investment, ¥100 billion will be invested in reforming work practices and reinforcing technology infrastructure—in other words, in technological innovation, namely, "work-style reforms" and "productivity improvement in manufacturing."

Until now, we had not invested a great deal in technological innovation in fields such as digitization and automation. However, as part of the response to incidents of business misconduct, we have been required to manually perform everything including the tracking of relevant properties and checking of blueprints, which meant that we spent more time for the investigation than expected. Reflecting on the mistakes of the past, I am determined to establish infrastructure for technological innovation in order to make the most of the lessons learned. In particular, the automation of blueprints, the 3D modeling technology Building Information Modeling (BIM), developed three years ago, will be partially up and running in fiscal 2020. Coupled with that, we will continue to provide start-to-finish comprehensive services by linking technology, manufacturing skills in factories, and onsite construction from the proposal stage. Although we can compensate for labor shortages in the Japanese market to a certain extent with mechanization, we still face a number of challenges. Labor shortages are expected to be even more severe during the Seventh and Eighth plans, and we will prepare in advance to be able to present scenarios for growth during those time periods.

Maintaining a solid financial position and achieving efficient management and financial soundness with an awareness of capital costs

To further increase shareholder value, we will strive to create an environment that enables us to invest funds aggressively for growth while maintaining a solid financial position. We believe that we can retain the same AA* rating as before by balancing these two factors.

From this perspective, we consider ROE to be an important management indicator. The current shareholders' equity cost of the Company is approximately 6.5%, but in the Sixth Plan, we have set a target of 13% or more. This may seem a rather modest goal since we already achieved more than 13% in the Fifth Plan. As previously mentioned, however, I believe that the 13% level is not at all modest, given that we expect both sales and profits to face downward pressure, and I am confident we will deliver on the plan.

Simultaneously, we will aim to maintain shareholders' equity at a level within our risk tolerance by holding the debt-equity ratio—an important indicator of financial soundness—to around 0.5. It could be argued that a slight increase in leverage would also increase ROE, but since our main business is contract construction and building management, the proportion of the real estate development business that requires investment is small. Under these circumstances, we have been ensuring adequate cash flow, so maintaining a debt-equity ratio of about 0.5 is the minimum level required.

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

Maintaining stable dividends for shareholder returns

To achieve sustainable growth for the Group, our basic policy of investing profits generated through business activities in growth areas to raise shareholder value while increasing earnings per share remains unchanged. We aim to meet shareholder expectations by returning profits linked to business performance within the range of a dividend payout ratio of 30% or more of net income attributable to owners of the parent and maintaining stable dividends. In fiscal 2018, our dividend rose to ¥114 per share, representing the ninth consecutive term of increase. In fiscal 2019, we hope to achieve our 10th consecutive year of dividend increase.

Stock price is an evaluation of the market itself. By increasing dividends and growing our business to foster a higher stock price, we aim to meet investor expectations.

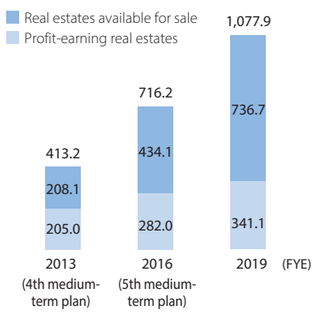
In the Sixth Plan, interest-bearing debt will increase by about ¥90 billion if the planned investment of ¥1,050 billion and real estate sales of ¥400 billion progress as planned. We believe we can secure sufficient operating cash flow, which is the source of funds we require for growth investment. Therefore, in the Sixth Plan, we also will examine options such as the flexible purchase of treasury stocks, while taking into account growth investment opportunities, stock price, and other factors.

Going forward, I will do my utmost to meet the expectations of our shareholders and investors by fulfilling my duties as the CFO of Daiwa House while working to further enhance shareholder value while effectively leveraging shareholders' equity and improving capital efficiency. I hope we can count on your continued support as we strive to keep growing our business.

Basic policy (2) Investment

Investment real estate, our future source of revenue, has exceeded ¥1 trillion.

Balance of real estate investment as of start of medium-term management plans
(Book value/¥ billion)



Breakdown of investment real estates (Book value/¥ billion as of March 31, 2019)

Breakdown of real estates available for sale

	Book value	Not being rented	Being rented	
	Total	Book value	Book value	NOI yield (%)
Rental Housing	44.0	35.9	8.0	10.5
Commercial Facilities	96.3	43.2	53.1	7.4
Logistics, Business and Corporate Facilities	529.1	308.8	220.3	5.2
Overseas	67.2	54.3	12.8	5.3
Total	736.7	442.4	294.3	5.7

Breakdown of profit-earning real estates

	Being rented	
	Book value	NOI yield (%)
Rental Housing	38.1	14.2
Commercial Facilities	201.0	13.5
Logistics, Business and Corporate Facilities	29.2	8.2
Total	278.5	12.8

Basic policy (3) Financial

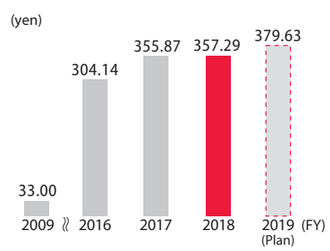
While maintaining our financial soundness, we plan to realize an ROE in excess of capital cost and achieve an equity spread adequate to enhance shareholder value.

I **ROE target:**
13% or higher
(The current shareholders' equity cost of the Company is approx. 6.5%)

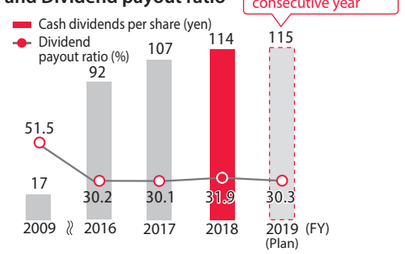
II **Appropriate financial leverage**
Debt-equity ratio: around **0.5**

III **Shareholder return:**
Dividend payout ratio of
30% or higher
and flexible acquisition of own shares

Net income per share (EPS)

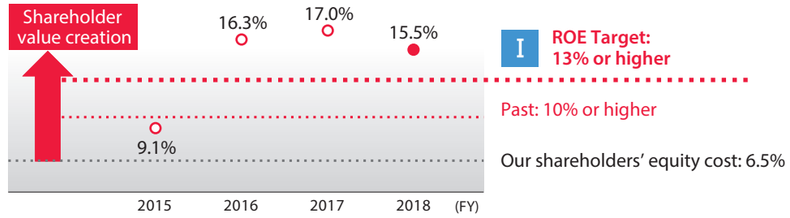


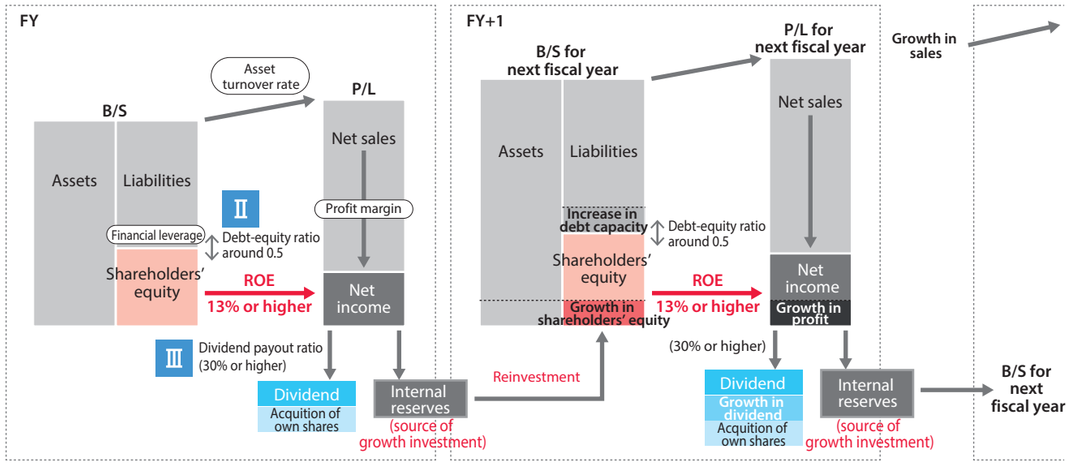
Cash dividends per share and Dividend payout ratio



Basic Strategy for Capital Policy

Conceptual diagram of basic strategy for capital policy





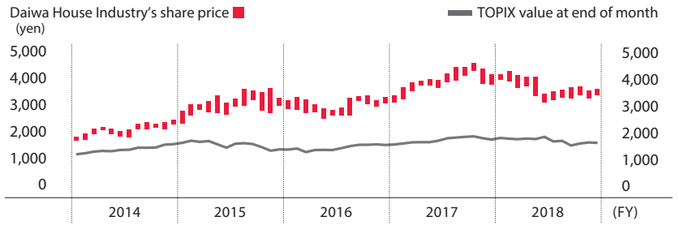
We are reinvesting capital in growth sectors while maintaining an appropriate level of financial leverage by securing operating cash flow, the source of funds required for growth investment, and increasing internal reserves after returning a portion to shareholders.

Secure stable operating cash flow

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 increased capital required for new growth investment.

Achieving ROE target based on an optimal capital structure

Trends in share price of Daiwa House Industry and TOPIX



	2014	2015	2016	2017	2018
Market capitalization* (¥ million)	1,565,858	2,109,310	2,129,297	2,731,576	2,344,492
Total shareholder return (%)	138.8	188.8	195.8	253.5	226.8
Share price high (yen)	2,467.5	3,654.0	3,367.0	4,594.0	4,293.0
Share price low (yen)	1,673.0	2,326.0	2,500.5	3,096.0	3,119.0

* At the fiscal end of year

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.44
II. The ability to generate cash steadily improved as free cash flows turned positive despite strong investment opportunities. ..... <Cash flows> P.45
III. Ensuring the effective utilization of capital led to improvement of the turnover rate and profit margin, and the ROE was at a high level. ..... <Profits and losses> P.46
IV. From the perspective of growth potential and profitability, we are building an optimal portfolio. ..... <Business results by segment> P.47
V. We are actively engaged in investment to expand our revenue opportunities and to strengthen the business foundation. ..... <Investments> P.48

Note: This section analyzes the financial position and results of operations during the nine fiscal years from fiscal 2010 to fiscal 2018. For the list of financial data, see "Financial Highlights" on pages 95 and 96.

I. Financial position

Financial condition Figure 1

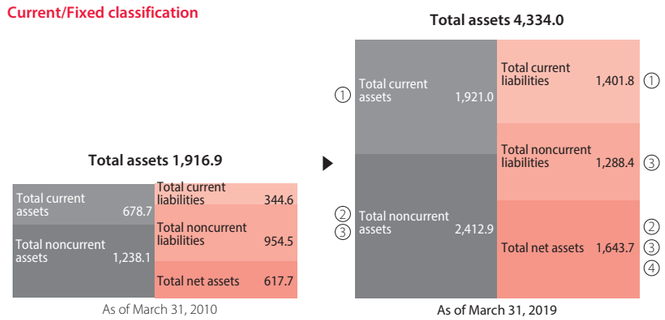
Total assets as of the end of fiscal 2018 increased by ¥298.9 billion from the end of the previous fiscal year to ¥4,334.0 billion. This was mainly due to the increase in inventories resulting from the large number of business opportunities obtained. Total liabilities increased by ¥168.8 billion from the end of the previous fiscal year to ¥2,690.3 billion. This was mainly due to increases in trade payables and costs received on uncompleted construction contracts.

Total net assets increased by ¥130.1 billion from the end of the previous fiscal year to ¥1,643.7 billion. This was mainly because a net income attributable to owners of the parent of ¥237.4 billion was recorded.

The balance of interest-bearing debt decreased by ¥2 billion from the end of the previous fiscal year to ¥778.5 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 0.49, close to the indicative target of 0.5. In terms of the breakdown of assets, the balance of real estate for rent was ¥1,056.0 billion and accounted for a large share in recent years. As assets are expected to grow in the future due to the acquisition of real estate for development and other factors, we will seek to maintain financial health by verifying the optimal capital structure.

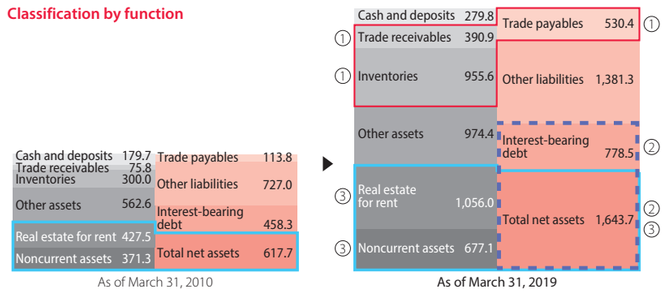
Figure 1 Comparison of balance sheets (¥ billion)

Current/Fixed classification



①The current ratio dropped from 197% to 137%.
②The fixed ratio dropped from 200% to 151%.
③The ratio of fixed assets to long-term capital rose from 78% to 83%.
④Net assets excluding non-controlling interests grew from ¥616.8 billion to ¥1,595.9 billion.

Classification by function



①Working capital (Trade receivables + Inventories - Trade payables) increased from ¥262.0 billion to ¥816.1 billion.
②Interest-bearing debt increased from ¥458.3 billion to ¥778.5 billion, but the debt-equity ratio fell from 0.74 to 0.49.
③The ratio of real estate for rent and noncurrent assets to net assets excluding non-controlling interests fell from 1.29 to 1.09 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 2018 increased by ¥52.6 billion from the previous fiscal year to ¥352.7 billion. The ratio of cash flows from operating activities to net assets excluding non-controlling interests remained at a relatively high level, increasing by 2 points from 20% of the previous fiscal year to 22%.

Cash flows from investment activities were - ¥313.9 billion, due to the acquisition of real estate for rent, etc. and the implementation of the ¥264.5 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 ¥38.7 billion, while cash flows from financial activities were - ¥86.9 billion due to the payment of dividends and redemption of bonds.

As a result of the above, the balance of cash and cash equivalents at the end of fiscal 2018 (after bank holiday adjustments) was ¥191.1 billion, a decrease of ¥52.7 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 ¥443.2 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 2018 was ¥2,344.4 billion, the sum of the market capitalization of ¥2,843.1 billion and the net interest-bearing debt of ¥498.6 billion.

The EV/EBITDA ratio, as an indicator of enterprise value to the ability to generate cash, was 6.4 as of the end of fiscal 2018.

Figure 2 Cash flows

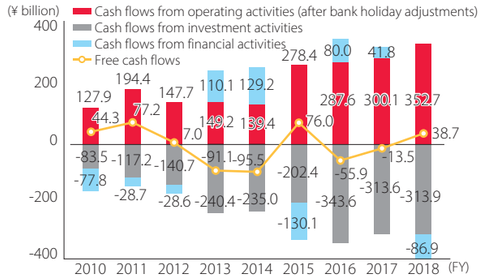


Figure 3 Indices to net assets excluding non-controlling interests (as a ratio where net assets excluding non-controlling interests is equal to 1)

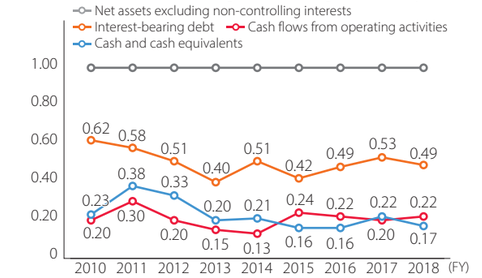
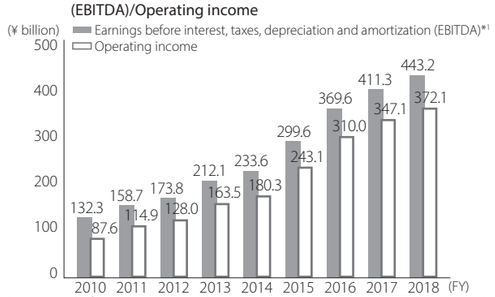
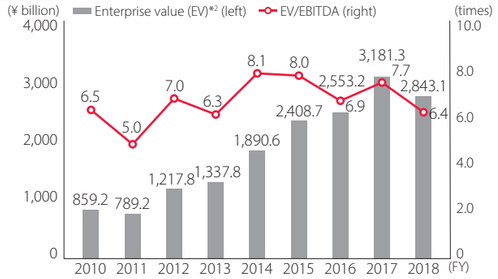


Figure 4 Earnings before interest, taxes, depreciation and amortization (EBITDA)/Operating income



*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

Ⅲ. Profits and losses

Net sales/Total asset turnover ratio Figure 6

Net sales amounted to ¥4,143.5 billion and the average growth rate for the period of nine years starting from fiscal 2010 was 11.9%.

In terms of the total asset turnover ratio*1, the period of six years from fiscal 2013 to fiscal 2018 shows a tendency of slight improvement in comparison to the performance in the period of three years from fiscal 2010 to fiscal 2012.

*1 Average during the fiscal year.

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.

P.88 (Details of decision-making criteria for the sale of strategically held shares)

Gross profit/Operating income margin Figure 7

Gross profit amounted to ¥842.7 billion and the average growth rate for the period of nine years starting from fiscal 2010 was 12.1%. The gross margin decreased by 0.6 points from the previous fiscal year to 20.3%. Operating income was ¥372.1 billion and the average annual growth rate for the period from fiscal 2010 was 19.8%. The operating income margin was 9.0%, a decrease of 0.1 points from the previous fiscal year.

This is because, although the cost-of-sales ratio declined by 0.6 points due to soaring construction material and labor costs, we were able to raise sales per employee through improved productivity, among other means and thereby push down the SG&A ratio. As a result, we succeeded in holding the operating income margin to roughly the same level as the previous fiscal year.

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

Net operating profit after tax (NOPAT)*2 was ¥258.3 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 ¥2,314.8 billion*3, was 11.2%. Under the Company's Fifth Medium-Term Management Plan, one of our business objectives was 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.91 (Details of the criteria for adoption of investments in real estate development)

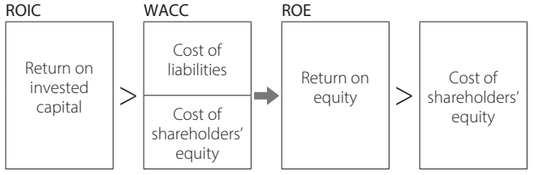


Figure 6 Net sales/Total asset turnover ratio

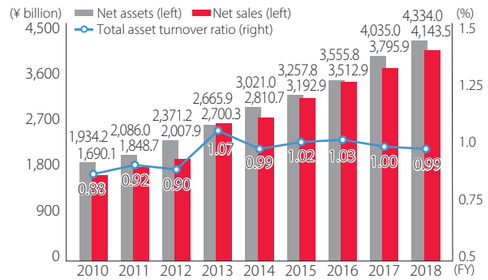


Figure 7 Gross profit/Operating income margin

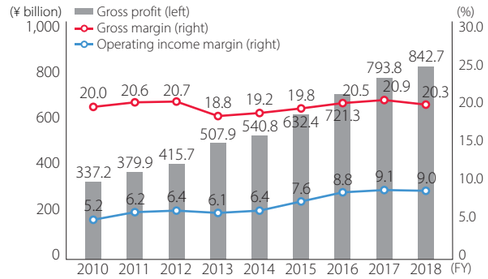


Figure 8 Return on invested capital (ROIC)

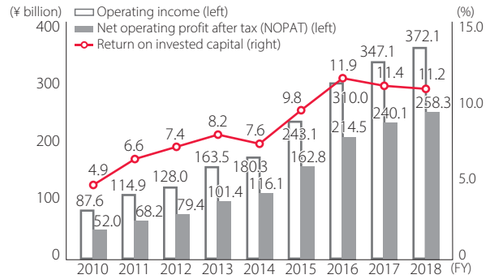
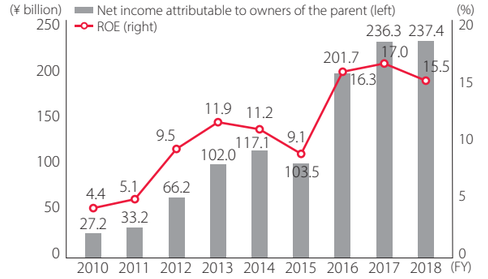


Figure 9 Net income attributable to owners of the parent/ROE



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.

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

Ⅳ. Business results by segment

Growth potential analysis Figure 10

The profit growth rate for fiscal 2018 over fiscal 2010 showed an over twelve-fold increase in the Other Businesses segment, an over eight-fold increase in the Logistics, Business and Corporate Facilities segments, an over four-fold increase in the Commercial Facilities segment, and an over three-fold increase in the Existing Homes segment. Since the Rental Housing segment had been already at a high level of profit nine 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 complex business proposals. 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 80% of the total. The Existing Homes Business segment constituted 2.7% of net sales, but its profit rate and capital efficiency were high (Figure 12). We are making active use of "Livness", the group-wide brand that we launched primarily for the existing homes market, 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.

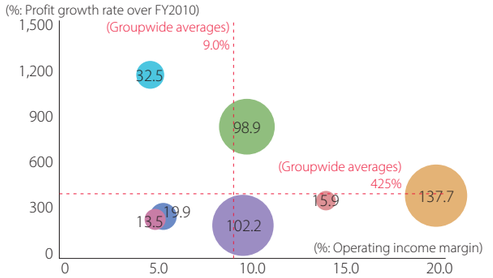
Operating income margin to segment assets Figure 12

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 new businesses and overseas businesses, etc. are being made to develop new revenue streams through the use of funds generated by the above-mentioned core segments.

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



*1 The size of the circle depends on the relevant amount of operating income (¥ billion) for FY2018.

Figure 11 [Business segments] Operating income margin/Net sales ratio by segment (FY2018)

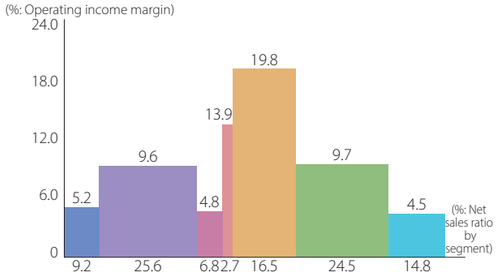
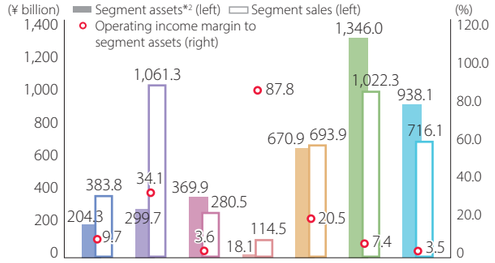
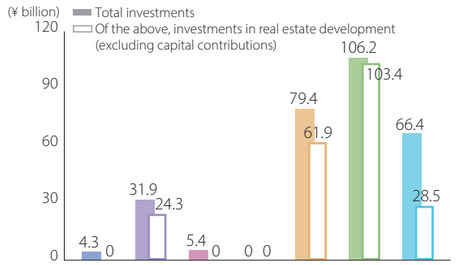


Figure 12 Operating income margin to segment assets (FY2018)



*2 Segment assets are averages during the fiscal year.

Figure 13 [Business segments] Total investments (FY2018)



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 2018 were ¥560 million (on a non-consolidated basis), 123% up from fiscal 2010 (Figure 15). Employee salaries on a non-consolidated basis increased by ¥49.7 billion from fiscal 2010 (an average increase of 27% or ¥1,924,000 per employee).

Meanwhile, the ratio of employee salaries to operating income*2 decreased from 62% in fiscal 2010 to 37% in fiscal 2018, 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.75-76 (Details of our human resources base)

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

R&D expenditures in fiscal 2018 were ¥9.6 billion, of which ¥4.5 billion was for the housing business, ¥3.4 billion for the construction business, and ¥1.6 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.

Capital investments Figure 16

Capital investments of ¥73.4 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.79-80 (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.

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

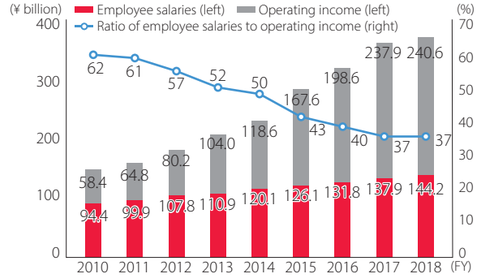


Figure 15 Research and development expenditures/Human resources development costs

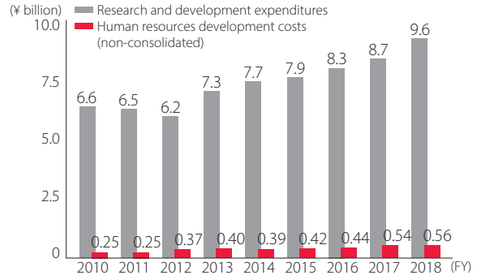


Figure 16 Capital investments (excluding investments in real estate development)

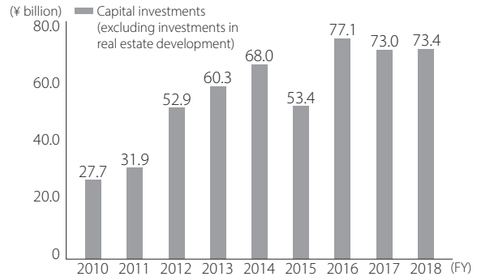
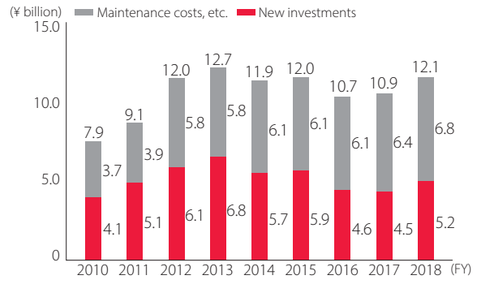


Figure 17 IT-related investments



Business Overview

Materiality Business 1 Expand business opportunities based on social issues

Single-Family Houses

Single-family houses (contracting)

Rental Housing

Rental housing (low-rise)

Condominiums

Condominiums (for sale)

Existing Homes Business

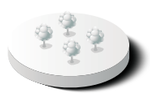
Renovated home interior

Commercial Facilities

Commercial facilities

Logistics, Business and Corporate Facilities

Logistics facilities



Other Businesses

Environment and energy

Summary of business

We are engaged in the housing contracting business, in which we build homes to meet the needs of each individual owner, and the housing subdivision business, in which we develop entire neighborhoods, including their immediate natural environment.

We provide tenants with comfortable homes and offer the owners a multifaceted support service to ensure long-term 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 are developing our business in a wide range of lifestyle-related fields, including comprehensive energy-usage solutions.

Annual performance

- Number of houses sold (Domestic)
  - Single-family houses (contracting) 6,524
  - Single-family houses (subdivision) 2,192

- Number of rental housing units sold (Domestic)
  - Rental housing (low-rise) 34,481
  - Rental housing (medium- to high-rise) 3,424
- Units under management 572,238

- Condominium units sold (Domestic) (including Cosmos Initia) 2,203
- Units under management 360,619

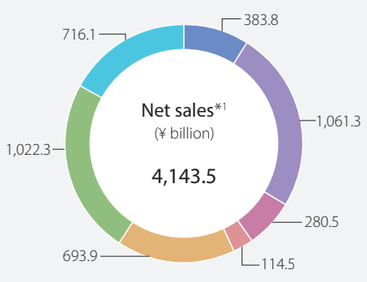
- Number of renovations Approx. 52,000*2
- Number of staff in sales 973*2

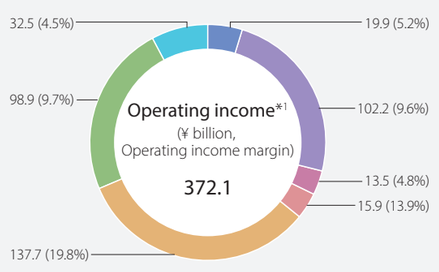
- Number of constructions 43,662*3 (cumulative figures as of March 31, 2019)
- Leasing floorspace of sublease areas within commercial facilities 6,375,278 m²

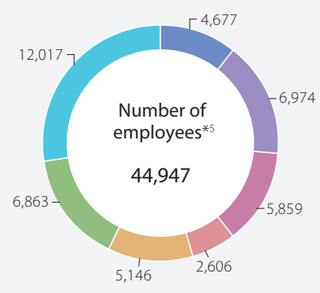
- Development site area of logistics projects 6,697,496 m² (cumulative figures as of March 31, 2019)
- Orders received for contract-based medical and nursing care facilities 621*4

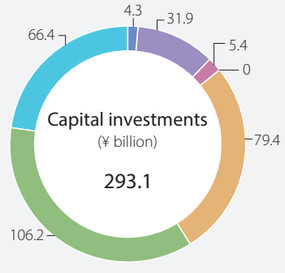
- Customer visits to our home centers Approx. 28,660,000
- Guest stays at our resort hotels Approx. 3,321,000
- Members of our sport clubs 191,092

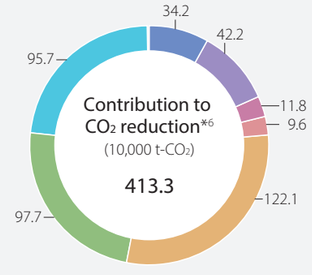
Breakdown of principal figures for our businesses in FY2018











*1 Figures include intersegment transactions. *2 Figures for Daiwa House Reform only (as of March 31, 2019)
*3 Number of facilities constructed by the commercial facilities of Daiwa House Industry. *4 Total for Daiwa House Industry, Daiwa Lease, and Fujita

*5 Regular employees only, total figures include all personnel in the Company (joint).
*6 These figures indicate the degree of contribution to reduction in CO_2 emissions made by the Group through its construction of housing and other structures and its solutions to issues involving energy conservation and renewable energy. (For details concerning the basis on which these figures have been calculated, see the Group's Sustainability Report 2019, P216).

Business Overview Single-Family Houses

Building systems to ensure consistent quality while reorganizing our supply chain for greater competitiveness

Deputy Head of Marketing Division
Head of Housing
Head of Livness Business

Hirotsugu Otomo
Director and Managing Executive Officer

xevoΣ (xevo sigma)

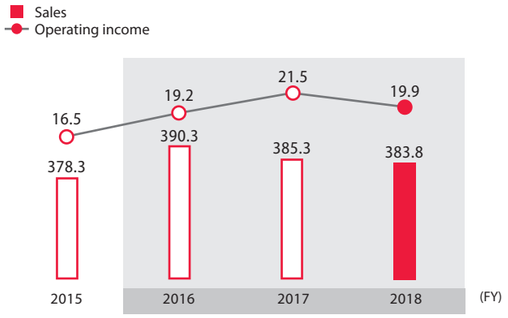
Features and strengths of our business operations

Providing a wide-ranging product lineup that anticipates future needs

Having honed its advanced technology as a pioneer of industrialized housing, Daiwa House's single-family houses supply infrastructure essential to people's wellbeing, namely the shelter that, along with food and clothing, forms one of the three necessities of life. To date, we have sold over 630,000 such houses. 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. Daiwa House is committed to expanding its share through our product lineup always at the forefront of the needs of the times and our expert teams of sales, architects, and construction engineers that stay close to our customers in every single process. We intend to continue working through our business to maintain the infrastructure of society.

Looking back at the Fifth Medium-Term Management Plan

Fifth Medium-Term Management Plan performance
(¥ billion)

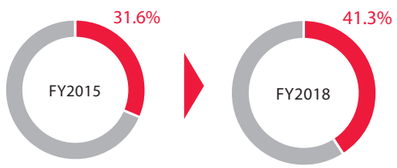


In our Fifth Medium-Term Management Plan, a shift in focus to our xevoΣ (xevo sigma) single-family houses led to a per-unit price of ¥37.3 million, an increase by ¥3.6 million from fiscal 2015. We also focused on sales of our "skye" houses available in 3-, 4-, and 5-story models in which a portion of the home can be rented out to a tenant or used as retail premises by the owner. In addition, the xevoΣ PREMIUM went on sale in October 2018 with a long-term 30-year guarantee, further expanding the solutions that we can offer.

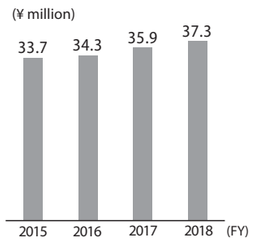
Daiwa House is also progressively helping to solve social issues with the release of our single-family "Kaji Share House" (chore-sharing house) that aims to reduce the time and psychological burden of housework for double-income households, and utilization of the Google Home that brings the IoT to single-family houses.

In fiscal 2018, the final year of the medium-term plan, sales were ¥383.8 billion, operating income was ¥19.9 billion, and the average growth rates for the three-year period were +0.5% and +6.4%, respectively.

xevoΣ ratio growth (based on units ordered)



Sales for single-family houses per unit



Single-family houses sales rankings (FY2018)[*1]

Ranking	Company name	Number of sales units
1	Sekisui House	11,636
2	SEKISUI CHEMICAL	10,200
3	Asahi Kasei Homes	9,848
4	Daiwa House Industry	8,716
5	Sumitomo Forestry	7,900

*1 Compiled from data published by the companies concerned

Business developments for the Sixth Medium-Term Management Plan

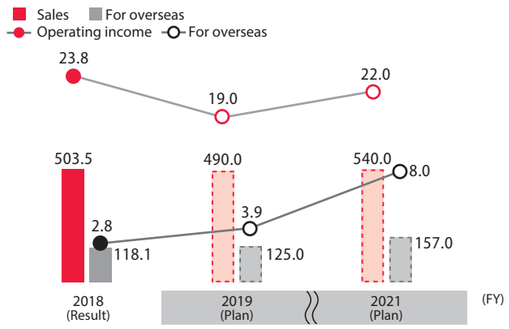
The business environment

The impact of the increase in consumption tax scheduled for October 2019 is a major point of focus for our business. The effects of a last-minute rise in demand could be seen in the consistent rise in the number of visitors to our showrooms increased for eight consecutive months from August 2018 to March 2019, and increased orders and contracts over the previous year. Yet overall there was not so much a surge as the previous time, due to more substantial supportive measures from the government than in the past. At the same time, consumers may be less willing to spend money after the increase in tax.

The housing market is expected to undergo structural changes accompanying long-term population decline, while the number of new housing starts will fall to approximately 600,000 by fiscal 2030[*2]. Demand for homes and communities that can be safely lived in long term is growing with the spate of major typhoons, earthquakes, and other natural disasters in recent years. The construction industry is beset by an increasingly serious labor shortage. We must aim to improve our competitiveness with greater operational efficiency via labor-saving and automation while adopting tougher standards in our supply chain.

*2. The Housing Market and its Challenges in FY2030, Nomura Research Institute

Performance targets of the Sixth Medium-Term Management Plan
(¥ billion)



Note: Figures and plan are adapted to the reorganization of segments from FY2019.

Basic policies of the Sixth Medium-Term Management Plan

1. Center on xevoΣ, raise the unit price by expanding sales such as of xevoΣ PREMIUM for the wealthy and high value-added products
2. Strengthen initiatives for combination housing (housing combined with rentals, stores, clinics, etc.)
3. Emphasize marketing of environment-conscious houses (e.g. ZEH) and disaster-resilient houses, promote IoT-integrated single-family houses, help solve social issues through business
4. Expand business outside Japan in areas with stable growth anticipated, via Stanley-Martin Communities in the United States and Rawson Group in Australia

Principal companies

Daiwa House Industry
Stanley-Martin Communities
Rawson Group

xevoΣ PREMIUM

Combined home and medical clinic

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

Business Overview Rental Housing

Provide high-quality homes in select locations with an accurate grasp of area needs

Head of
Rental Apartment Building

Kazuhito Dekura
Director and
Managing Executive Officer

Multi-function rental housing

Staff dormitories, company housing, official residence

Features and strengths of our business operations

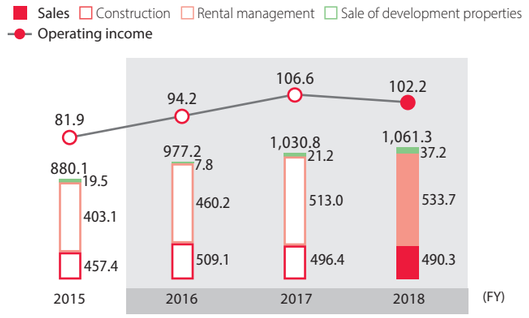
Expand share via product development from a tenant's perspective and stronger relations with property owners

Our rental housing business combines the twin strengths of developing high-quality housing from a tenant's perspective while also offering comprehensive support for managing rental housing for land owners, from site assessment, design, construction, up to delivery. The social contributions achieved through this have led to a high occupancy rate of around 97% for the 570,000 properties managed by the Group.

Our extensive product lineup satisfies the diversifying needs of rental housing, such as rental housing with security features, elderly-friendly housing, and medium- to high-rise rental housing that utilizes real estate securitization schemes. Our ability to provide such high value-added rental housing is driving expansion of our business.

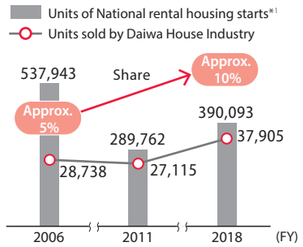
Looking back at the Fifth Medium-Term Management Plan

Fifth Medium-Term Management Plan performance
(¥ billion)



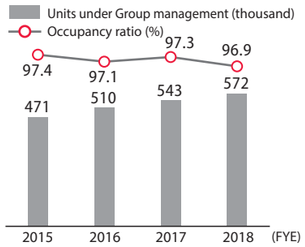
In our Fifth Medium-Term Management Plan, we emphasized three-story and medium- to high-rise rental housing, expanding orders for large-scale properties. We also released the Séjour Cube-II and Séjour Ott's Cube-III to make the most efficient use of the property layout, as well as offering the Du-Smica with a novel layout and facilities to minimize time required for chores for double-income families. Our three rental housing products are equipped with homes lithium-ion storage batteries as standard equipment for greater safety and security in case of disaster. These efforts to enhance our lineup and specifications resulted in sales of ¥1,061.3 billion and operating income of ¥102.2 billion in fiscal 2018, the final year of the plan, the average growth rates for the three-year period were +6.4% and +7.7%, respectively.

National rental housing starts and Daiwa House Industry sales



*1 Source: National housing starts (MLIT)

Rental Housing units under Group management/ Occupancy ratio



Rental housing sales rankings (FY2018)*2

Ranking	Company name	Number of sales units
1	Daito Trust Construction	60,343
2	Daiwa House Industry	37,905
3	Sekisui House	30,078

*2 Compiled from data published by the companies concerned

Business developments for the Sixth Medium-Term Management Plan

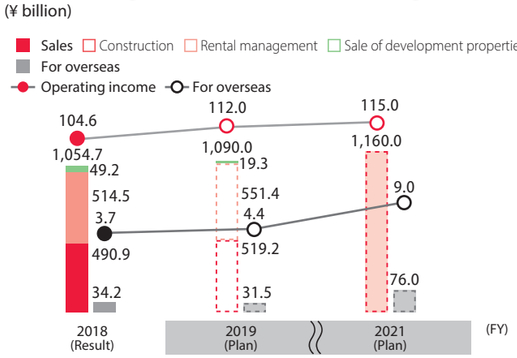
The business environment

Following the revision of the Inheritance Tax Act in January 2015, construction of rental housing increased as more companies entered the market, rising to 427,000 new starts in fiscal 2016. However, financial institutions have adopted a much stricter attitude to financing due to press reports of vacancy rates and the failure of companies managing share houses, making it harder to gain orders in recent times.

While Japan's population continues to decline, the number of households is expected to increase up to fiscal 2025 with greater numbers of single or small households. Cabinet Office estimates project potential demand for rental housing at around 350,000 households per annum*3. In line with such expectations, Daiwa House will continue to expand its share by maintaining a high occupancy rate through providing high-quality housing backed by precise selection of locations to match area needs. We must also meet the needs of a wider range of tenants as numbers of elderly and non-Japanese increase.

*3 Source: A Discussion Paper on Economic Policy Analysis (January 2017), Director General for Economic and Fiscal Management

Performance targets of the Sixth Medium-Term Management Plan
(¥ billion)



Note: Figures and plan are adapted to the reorganization of segments from FY2019.

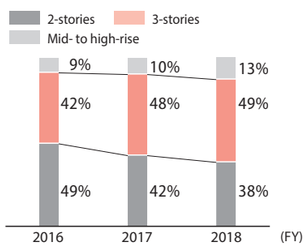
Basic policies of the Sixth Medium-Term Management Plan

1. Step up engagement in urban areas, gain more orders for three-stories and medium- to high-rise properties
2. Shift to larger properties, e.g. rental housing jointly used with tenants, nursing care facilities, dormitories and company housing
3. Capture demand for rebuilding of existing properties
4. Progressively greater efficiency in management operations leveraging IT, IoT, and AI-based labor-saving
5. Develop rental housing with excellent local partners in the United States

Principal companies

Daiwa House Industry
Daiwa Living COMPANIES

Building type trends (Based on number of buildings ordered)



Medium- to high-rise rental housing

North Clark (Chicago)
Rental housing business

Business Overview Condominiums

Utilize Group synergy to expand large-scale, multi-use development projects

Head of Condominiums

Norio Togashi
Executive Officer

PREMIST Ariake Gardens

The Grace Residence (Changzhou, China)

Features and strengths of our business operations

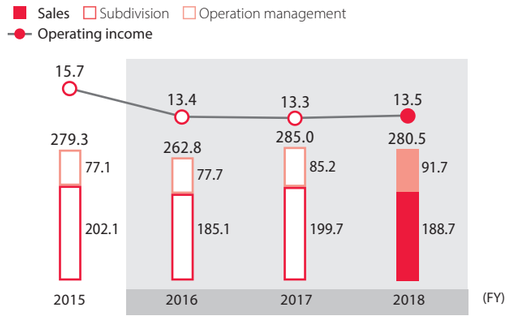
High value-added products tailored to suit unique characteristics of each region

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 199,000.

In our condominium management business, during the term under review we implemented various initiatives to enhance our long-term maintenance and repair support to condominium residents.

Looking back at the Fifth Medium-Term Management Plan

Fifth Medium-Term Management Plan performance
(¥ billion)

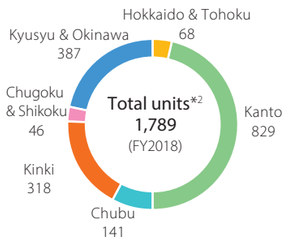


We have built condominiums with high added value for both society and its customers, as well as providing management services for comfortable and secure lifestyles.

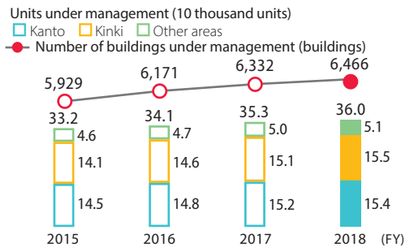
In fiscal 2018, sales proceeded steadily for PREMIST Tokyo Oji in the Tokyo metropolitan area and Cosmos Initia's Initia Kohoku New Town (Kanagawa Pref.) thanks to the excellent access to central Tokyo and the number of major commercial facilities easily accessible by residents.

As our management business grows, we now manage over 360,000 condominium units. In fiscal 2018, the final year of the medium-term plan, sales were ¥280.5 billion, operating income was ¥13.5 billion, and the average growth rates for the three-year period were +0.1% and -4.9%, respectively.

Condominium units for sales by area[*1]



Condominiums under management by area



Condominiums supply units ranking[*3]
(Jan. 2018~Dec. 2018)

Ranking	Company name	Number of supply units
1	Sumitomo Realty & Development	7,377
2	Pressance Corporation	5,267
3	Nomura Real Estate Development	5,224
9	Daiwa House Industry	1,627
—	Cosmos Initia	330

*3 Source: "National condominium market trends" from Real Estate Economic Institute Co., Ltd. Supply Units Ranking (Top 20 companies 2014~2018)

*1 Daiwa House Industry *2 Units of joint development are divided based on equities invested.

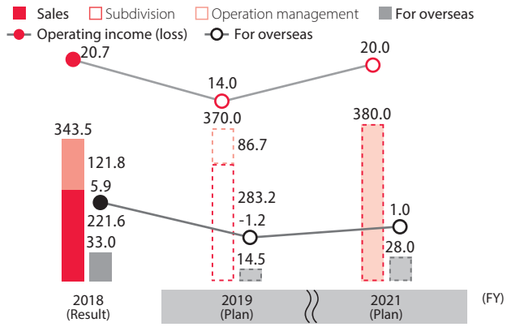
Business developments for the Sixth Medium-Term Management Plan

The business environment

Since the launch of Abenomics in 2013, the price of new condominiums in the Tokyo metropolitan area has markedly risen, remaining at high levels over the last three years. Factors in this include better incomes with business expansion, large-scale monetary easing for low interest levels, and higher construction work costs since the Great East Japan Earthquake.

Construction projects relating to the 2020 Olympic and Paralympic Games have also increased since the decision was taken to hold them in Tokyo. Inbound tourism demand driving the construction of more hotels has led to competition over suitable sites for them, making it more difficult to gain sites for building condominiums and placing strain on the supply of construction sites. Daiwa House will make use of its strengths in streamlined residential and commercial community development to adapt to these circumstances.

Performance targets of the Sixth Medium-Term Management Plan
(¥ billion)



Note: Figures and plan are adapted to the reorganization of segments from FY2019.

Basic policies of the Sixth Medium-Term Management Plan

1. Expand large-scale, multi-use development projects highlighting Group synergy
2. Redeveloping terminal station areas in main provincial cities
3. Development of condominiums for small households or for the elderly
4. Raising the value of existing properties, expanding their purchase and resale
5. Adapting Japanese high-quality condominiums in Australia, China, and elsewhere

Principal companies

Daiwa House Industry
Cosmos Initia
Daiwa LifeNext
Global Community

PREMIST Funabashi Tsukada
(Artist's impression)

Cosmos Initia GRAND COSMOS Musashiurawa

Flour Mill of Summer Hill
Condominiums development (Australia)

Business Overview Existing Homes Business

Expansion by active rollout of the Livness business

Daiwa House Reform Co., Ltd.

Katsuyuki Murai
Representative Director and President

Example renovation Before After

Features and strengths of our business operations

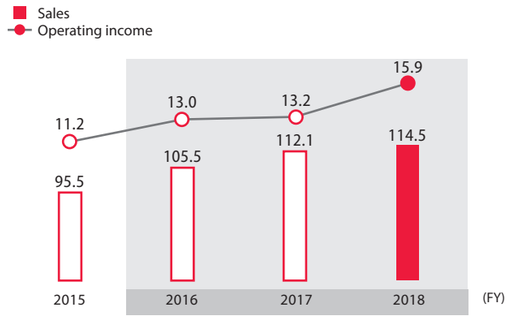
One-stop solutions to raise the value of customer assets using our customer base

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 equipment with improved functions to add value—and sell on the general market.

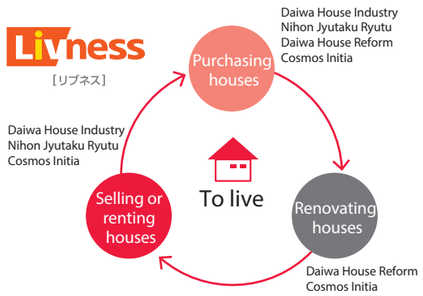
Looking back at the Fifth Medium-Term Management Plan

Fifth Medium-Term Management Plan performance
(¥ billion)



As part of the Fifth Medium-Term Management Plan, we launched Livness as our new group-wide brand to rejuvenate distribution of superior quality existing housing. 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. Broadly attending to customer needs through purchase, sale, or renovation of existing housing, in fiscal 2018, the final year of the medium-term plan, sales were ¥114.5 billion, operating income was ¥15.9 billion, and the average growth rates for the three-year period were +6.2% and +12.4%, respectively.

Livness—the Daiwa House Group's business activities in solving social issues



Providing information
Daiwa LifeNext
(Managing condominiums)

Utilizing bases
Daiwa Living Management
(Managing rental housing)

Reform/design/support
DesignArc
(Interior business)

Housing renovation sales ranking*
(FY2017)

Ranking	Company name	Sales (¥ billion)
1	Sekisui House Group	136.8
2	Sumitomo Realty & Development Group	122.2
3	Daiwa House Group	112.1
4	Sekisui Chemical Group	95.1
5	Sumitomo Forestry Group	67.3

* Compiled from data of Reform Sangyo Shimbun

Business developments for the Sixth Medium-Term Management Plan

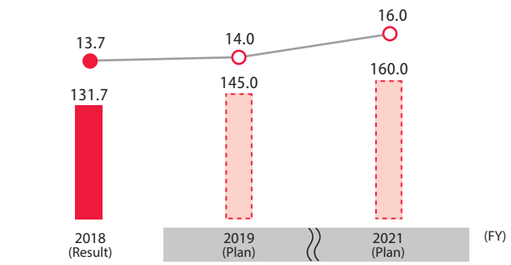
The business environment

Based on a government plan for residential living embracing national policies, distribution of existing housing and utilization of vacant housing will be promoted to accelerate the shift to a market to actively put housing stock to work. Policies in place are working to double the size of the existing housing distribution and renovation market, to the level of ¥20 trillion.

In quantitative terms, existing housing stock meets the total number of households, but with the decrease in new housing starts, increased urbanization and graying population, the problem of vacant houses in rural areas may attain even greater significance. Consumer needs are also diversifying, with expectations toward security and safety to cope with earthquakes and conserve energy, different types of homes, and a shift to preferring to purchase previously owned homes.

The entire Daiwa House Group believes in the necessity to solve social issues while working to rejuvenate the market for housing stock.

Performance targets of the Sixth Medium-Term Management Plan
(¥ billion)



Note: Figures and plan are adapted to the reorganization of segments from FY2019.

Basic policies of the Sixth Medium-Term Management Plan

1. Raise the profile of the Livness brand to raise our involvement in brokerage, purchase, or resale of our own properties
2. Actively expand our purchasing and resale business utilizing our customer stock and new construction sales networks
3. Increase our renovation workforce via active recruiting activities
4. Construct marketing and construction systems in business fields to engage in maintenance and renovation of commercial properties
5. Raise the value of existing properties and expand resales
6. Promote the Livness town projects

Principal companies

Daiwa House Reform
Nihon Jyutaku Ryutu
Daiwa House Industry

Number of customers and business properties (FY2018)

Housing

Single-family houses Number of households	Rental housing Units under management	Condominiums Units under management
420 thousand	**570** thousand	**360** thousand

Percentage of involvement in resale of existing single-family houses originally built by the Company (Daiwa House estimate)

18% Raise our involvement in brokerage, purchase, or resale of our own properties

Business

Commercial facilities Number of constructions	Corporate tenants	Logistics facilities developed area
43 thousand	**4,200** and more	**6.697** million m²

Market for renovation of non-residential properties

¥8.6 trillion

Taken from FY2017 Ministry of Land, Infrastructure, Transport and Tourism survey of building renovation work

Business Overview Commercial Facilities

Expanding business by leveraging expertise in proposal design incorporating regional characteristics

Head of Commercial Construction

Keisuke Shimonishi
Director and Managing Executive Officer

Roadside stores

Large-scale commercial facilities "iias Takao"

Features and strengths of our business operations

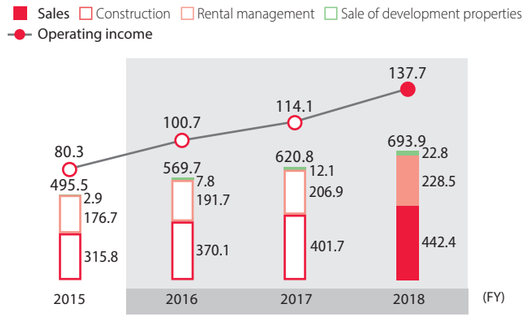
Business closely coordinated with the needs of the times

Our Commercial Facilities Business was launched in 1976, when use of automobiles was growing at a rapid pace. It sought to invigorate communities by constructing stores and facilities people need, to encourage more movement.

In this 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. Group companies undertake the development of commercial facilities as a complete package covering everything from planning through construction to leasing, management, and day-to-day operations. We are also involved in the management of business and city hotels.

Looking back at the Fifth Medium-Term Management Plan

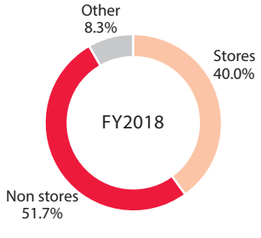
Fifth Medium-Term Management Plan performance
(¥ billion)



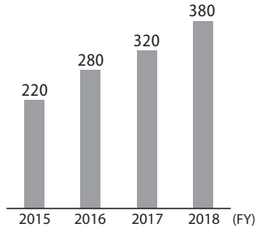
Working with changing needs, we make facility-opening proposals that match the business strategies of corporate tenants, as well as a wide variety of proposals that make optimal use of the unique characteristics. Currently the proportion of non-retail contracts exceeds 50%. As we actively engage in development projects for a variety of uses in the non-retail sector, in the period of the Fifth Medium-Term Management Plan our per-unit price increased 1.7 times from ¥220 million to ¥380 million. We also stepped up our engagement in major projects such as hotels and commercial buildings, while widening the scale of our business for customers considering the purchase of investment properties, such as by involving ourselves in acquiring land, constructing buildings, and tenant leasing as part of property sales.

In fiscal 2018, the final year of the medium-term plan, sales were ¥693.9 billion, operating income was ¥137.7 billion, and the average growth rates for the three-year period were +11.9% and +19.7%, respectively.

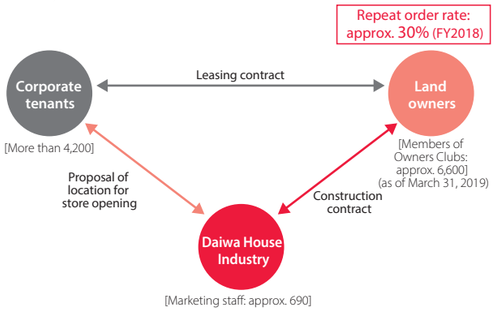
Ratio of contracts by facilities (based on contract amount)



Price per building trend
(¥ million)



LOC System



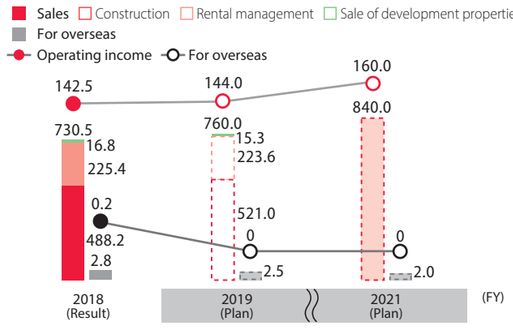
Business developments for the Sixth Medium-Term Management Plan

The business environment

This business seeks to provide the best possible construction proposals based on constantly accurate reading contemporary needs and taking into account the nature of the area or social circumstances. Accommodation facilities and services must be provided to meet the increased inbound tourism demand driven by the Tokyo Olympic and Paralympic Games scheduled for 2020, Expo 2025 Osaka, Kansai, Japan, integrated resorts and so forth. The construction of business and city hotels is increasing, with active demand forecast in the future. The aging of Japan's society brings with it the demand for elderly care facilities, while there is also an increasing need for daycare and educational facilities to solve the problem of long waiting lists for admission to childcare, especially in the Tokyo metropolitan area.

Growth in drugstores in particular remains robust. We also expect increasingly high demand for stores and facilities able to meet diverse needs as consumer lifestyles change.

Performance targets of the Sixth Medium-Term Management Plan
(¥ billion)



Note: Figures and plan are adapted to the reorganization of segments from FY2019.

Basic policies of the Sixth Medium-Term Management Plan

1. Leverage area characteristics to expand commissions for large projects, e.g. logistics facilities, offices, medical and nursing care facilities, and hotels
2. Expand the profit-earning real estate business by purchasing existing properties
3. Expand the development and sale of investment properties
4. Strengthen our overseas business by entering the ASEAN and North American markets

Principal companies

Daiwa House Industry
Daiwa Lease
Daiwa Royal
Daiwa Information Service

Multi-use facilities "GRANODO Hiroshima"

Daiwa Roynet Hotel Tokyo Ariake

Business and City Hotels

66 business and city hotels

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

(as of March 31, 2019)

Business Overview Logistics, Business and Corporate Facilities

Promote mixed use development centering on high value-addded logistics facilities via adoption of the IoT/AI

Head of General Construction

Tatsuya Urakawa
Director and
Managing Executive Officer

Logistics facilities

Medical and nursing care facilities

Features and strengths of our business operations

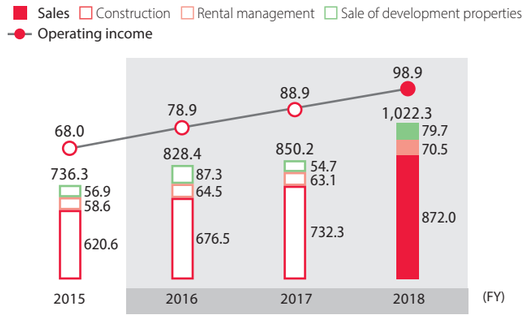
Proposal-based solutions leveraging customer relationships

In the field of Logistics, Business and Corporate Facilities, we are expanding our business both inside and outside Japan by making use of our extensive database on land usage to construct facilities meeting the needs of corporate clients. The business is also contributing to regional employment creation by building logistics facilities utilizing land where special procedures are needed for repurposing.

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.

Looking back at the Fifth Medium-Term Management Plan

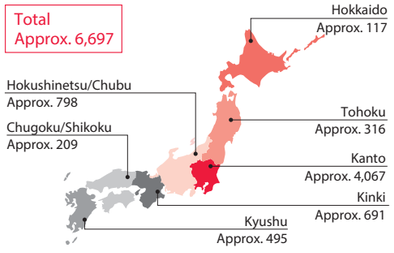
Fifth Medium-Term Management Plan performance
(¥ billion)



During the period of the Fifth Medium-Term Management Plan, we actively engaged in development of logistics facilities with the rise in e-commerce facilities, providing backup to the logistics strategies of our tenants through our wide-ranging experience and know-how.

As we develop next-generation logistics facilities with high added value to alleviate the industry's labor shortages, we are also working on the construction of an Intelligent Logistics Center as a next-generation logistics platform utilizing AI and the IoT. We also opened a cutting edge showroom in DPL Ichikawa in April 2018. For hospitals that are age deteriorated or fail to meet earthquake standards, we propose reconstruction or relocation, as well as offering solutions to management issues facing medical corporations running elderly or mixed care facilities. In fiscal 2018, the final year of the medium-term plan, sales were ¥1,022.3 billion, operating income was ¥98.9 billion, and the average growth rates for the three-year period were +11.6% and +13.3%, respectively.

Development site area of logistics projects*
(thousand m²)



DPL Nagareyama

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

* Daiwa House Industry Figures are aggregates as of March 31, 2019 (including projects under construction and scheduled)

Business developments for the Sixth Medium-Term Management Plan

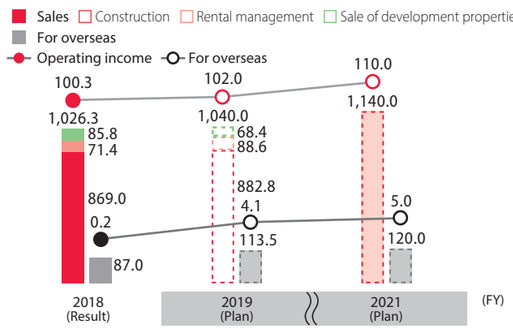
The business environment

In this business, demand for advanced logistics facilities will remain high with the continued expansion of e-commerce. 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, we believe it giving active support to Japanese companies operating both locally and overseas is a vital matter.

In the construction business, though there is a lull in orders for the Tokyo Olympic and Paralympic Games in 2020, we expect construction investment to remain firm as the Japanese economy follows a positive cycle with events such as Expo 2025 Osaka, Kansai, Japan.

Even so, the problem of labor shortages is anticipated to become increasingly serious as Japan's birthrate declines and its population ages. We believe it is essential to achieve greater operational efficiency and labor saving through the use of the IoT and robotics, while also reforming work styles and accepting foreign workers.

Performance targets of the Sixth Medium-Term Management Plan
(¥ billion)



Note: Figures and plan are adapted to the reorganization of segments from FY2019.

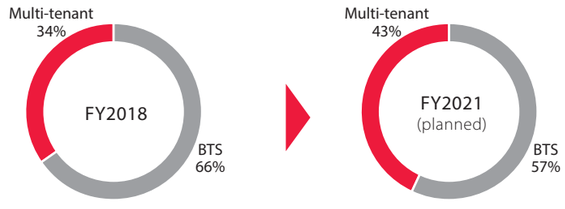
Basic policies of the Sixth Medium-Term Management Plan

1. Developing logistics facilities incorporating multiple functions like offices, R&D, etc., or high value-added logistics facilities adopting the IoT/AI
2. Maintaining current build-to-suit (BTS) logistics facilities accurately meeting tenant needs while focusing on multi-tenant development
3. Promoting mixed use development for large medical, care, or social welfare facilities
4. Widen destination countries overseas by developing logistics real estate and industrial parks

Principal companies

Daiwa House Industry
Fujita
Daiwa Lease
Daiwa Royal
Daiwa Information Service

Developed area of logistics facilities by type



Note: As of March 31, 2019, including under construction

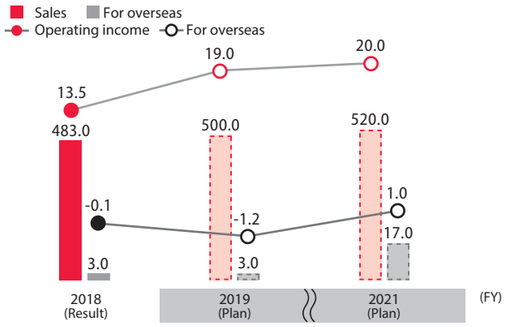
Note: Reflects only projects for which acquisition of the necessary land has already been completed

Daiwa Manungal Industrial Parks (Indonesia)

Business Overview Other Businesses

Provide value through lifestyle-related businesses over a wide range of fields, including construction support, the environment and energy, as well as health and leisure facilities

Performance targets of the Sixth Medium-Term Management Plan
(¥ billion)



Note: Figures and plan are adapted to the reorganization of segments from FY2019.

Construction Support

Home centers

Provide original services designed to serve specific local needs

Royal Home Center offers a range of products and services to enhance comfort and convenience, including DIY, interiors, gardening, pets, and home renovation, as well as construction materials for professionals. The value-added services it provides include delivery and construction support for products purchased by individual customers, and discount services for the elderly. As well as construction materials and tools for professionals in the construction industry, it also has a full range of work clothes. The online store also provides a full range, serving as a home improvement center for local customers.

Home center business

Home center outlets

58 home centers

(as of March 31, 2019)

Logistics services

Providing optimized logistics services matched to our customers' business models

Daiwa Logistics provides comprehensive logistics solutions for greater efficiency. It meets all the needs of customers operating in a wide range of industrial sectors, from construction materials through retailing to online clothing sales, offering services that are precisely tailored to each user's business model.

Logistics business

Interiors business

Creating spaces meeting the needs of customers and the changing times

Our interior design business has a nationwide network of coordinators who design spaces matching our customers' needs and current trends. Proposals utilize a wide range of products, including ready-made, built-in, and order-made furnishings, for spaces in single-family houses, condominiums, home showrooms, and model rooms. Interiors for commercial spaces such as hotels and offices are also covered, meeting customer demands for diverse types of spaces.

Interior business

Number of interior coordinators

490

(as of March 31, 2019)

Environment and Energy

Leveraging technological know-how, expertise in proposal design, and comprehensive capabilities to address energy issues

Daiwa House Industry, Daiwa Energy, and Eneserve are building an environment and energy solutions business centered on energy creation, energy saving, power storage, electric power supply, and power producing. The comprehensive capabilities of the entire Group are harnessed to actively promote the spread of renewable energy, including photovoltaic power generation and wind power. We also direct efforts toward expanding the electric power supply business. The role of this business is becoming increasingly important with the trend toward zero-carbon societies worldwide.

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

298 MW/**217** sites

(as of March 31, 2019) * Total for 16 Group companies

Photovoltaic power generation business

Health and Leisure

Fitness clubs

Places where people of all ages can enjoy themselves

Sports Club NAS operates various clubs and other facilities that go beyond the conventional concept of fitness clubs – places where a wide range of people, from children up to seniors, can enjoyably spend their free time and realize interpersonal communication. With the opening of Sports Club NAS Nishikasai (Tokyo), the Company's first club to include a women-only floor called the Beauty Area, these clubs are addressing the growing public interest in sports, health, and beauty.

Fitness clubs & other facilities

69 fitness clubs

(as of March 31, 2019)

Aesthetic salons

26 aesthetic salons

Resort hotels

Offering resort experiences that make the most of each region's unique features

Daiwa Resort operates a network of Daiwa Royal Hotels covering the whole of Japan, from Okinawa in the south to Hokkaido in the north. Against the backdrop of the beautiful natural scenery for which Japan is renowned, the staff of each hotel play their part in supporting the economic development of the local region, by introducing their guests to unique natural features, local history, traditions, cuisine, and industries, and by incorporating the attractions of the changing seasons into their menu of services. New style hotels designed for ease of use by women and tourists such as Daiwa Royal Hotel D-CITY and Daiwa Royal Hotel Grande Kyoto are being opened that take into account the local and topographical features of their locations.

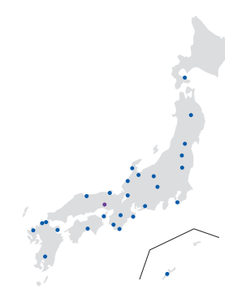
27 hotels

● DAIWA ROYAL HOTEL

1 hotel

● Nishiwaki Royal Hotel

(as of March 31, 2019)



Other Businesses

Daiwa House is also involved in the parking business, which contributes to regional development through high-convenience parking areas. We also manage private homes for the elderly and assisted-living residential facilities for seniors. These provide residential and other facilities where elderly people can live in comfort, thus contributing to the overall welfare of regional communities. Our range of financial services is also developing, including credit cards and insurance agencies. The Company is also working on creating model work style reforms utilizing robotics technologies, for use in hospitals, care facilities, factories, and construction sites.

Car parking business

Credit card business

Robot Suit HAL® Application at construction sites

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Robot Suit HAL® is a registered trademark of CYBERDYNE Inc.

Business Overview　Overseas Business

Enhancing groupwide accuracy while minimizing risk to provide people worldwide with high-quality Japanese construction and services

The Daiwa House Group's overseas businesses that began in the 1960s have now expanded to 20 countries worldwide, leveraging to the maximum the management resources built up over our many years in business. Stepping up the pace of overseas expansion was a basic policy of the Fifth Medium-Term Management Plan, and under this policy we made inroads primarily into the United States, Australia, and ASEAN.

Under the Sixth Medium-Term Management Plan, we will strengthen our management structure while leveraging Group advantages to bring our high-quality construction and services to people worldwide. With ongoing business investments through the plan, we aim to achieve sales of ¥400 billion by the final year of fiscal 2021.

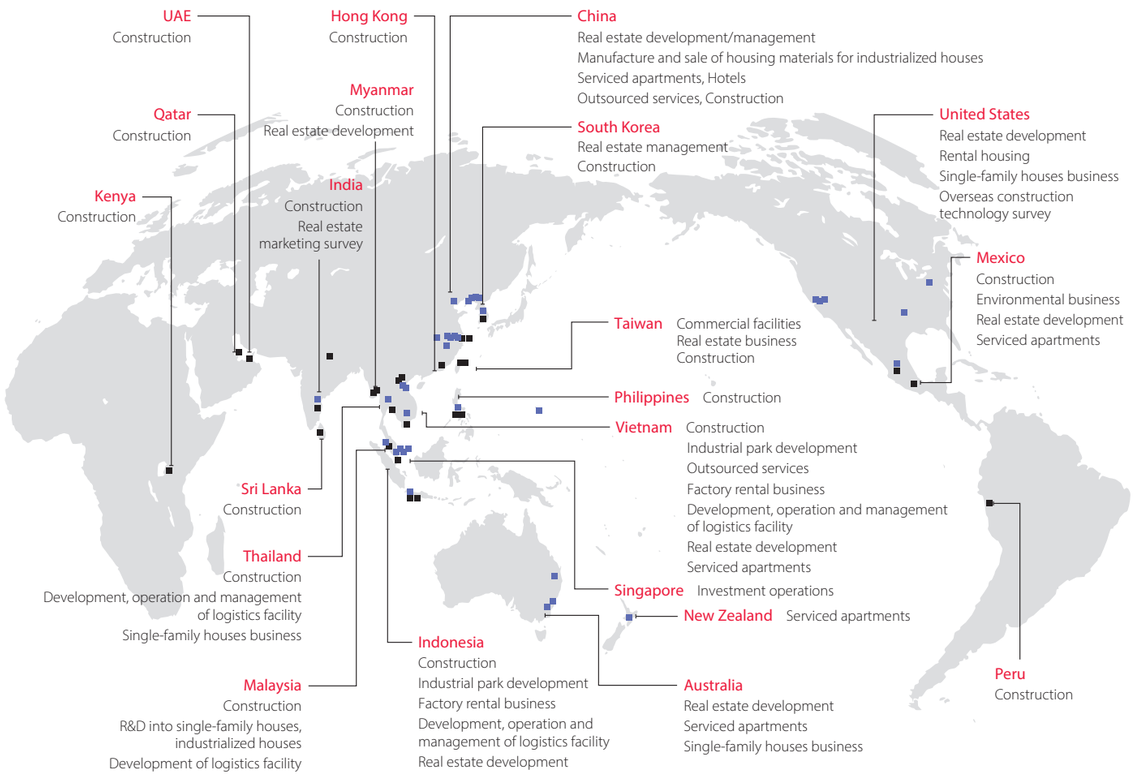
Establishment of an Overseas Strategy Committee

The Overseas Strategy Committee was established in February 2019 to strengthen governance and risk management for our overall business, and also to promote information sharing among Group companies and business divisions. The committee will deliberate on all overseas projects, then implement decision making based on the standard process. By concentrating and sharing throughout the organization experience from overseas, business procedures and know-how, the accuracy of the entire group will be improved while risks are minimized.

Our overseas business areas

20 countries

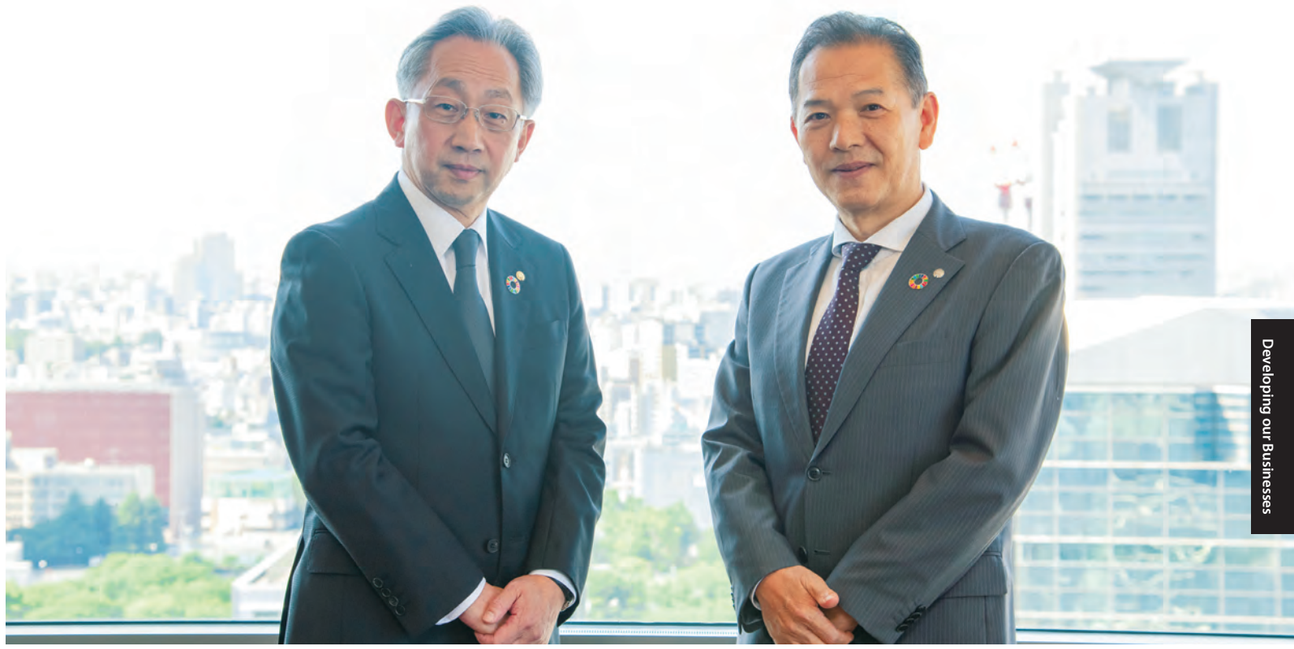
■ Group companies overseas
■ Overseas businesses and representative offices
(as of June 1, 2019)



Dialogue **Redeveloping Communities and Houses with the Future**

Materiality Business 1 (Focal theme ④) Expanding business opportunities based on social issues (Redeveloping Communities and Houses)

Commitment to "Community Development with the Future" to address local needs as they change with the times



Koji Harano
Senior Executive Officer
General Manager, Urban Development Department

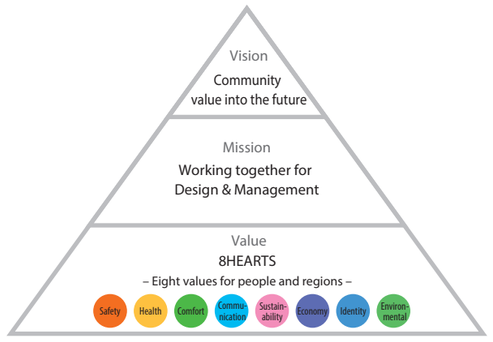
Yukio Takamatsu
Executive Officer
General Manager, Business Supervisory Department

Daiwa House formulated its Community Development Vision centered on sustainability on the occasion of its 60th anniversary, in 2015. Our Sixth Medium-term Management Plan incorporates the concepts of promoting the Livness Town Projects in terms of our business, while promoting social inclusion in development (applying the Community Development Guidelines to large projects and to all the divisions) in terms of our base. Through this, we intend to make our contributions to community development take a more concrete shape.

Senior Executive Officer Harano, Head of Urban Development Department, and Executive Officer Takamatsu, Head of the Business Supervisory Department, discuss together here the value to be generated both in terms of promoting our business and strengthening our base, through Daiwa House's concept of Community Development for the Future.

Community Development Vision centered on sustainability

—Formulated in 2015 for our 60th founding anniversary



See the Group's Sustainability Report 2019 ▶ P.197 (Community Development Vision of the Daiwa House Group)

Basic policy (5)　S (Social) Innovation base

Promote social inclusion in real estate development

Improve our housing planning and management abilities and promote inclusive and sustainable development based on long-term design and area management so that community and property values rise rather than fall in 2030 and 2050.

Introduce broad "inclusive design" concepts into all processes of urban development and large-scale construction handled by the Group.

KGI (Targets for FY2021)

Percentage development of large projects and large-scale construction by our divisions based on Community Development Guidelines.* **70%**

* Calculated by number of projects/extended floor space
* Imaginable projects are community development projects under the Real Estate Investment Committee.

Daiwa House Group urban development to address changing local needs

Harano Daiwa House's urban development business began with the development and subdivision of Habikino Neopolis—Japan's first private-sector large-scale housing development—in 1962. Seeking town development in harmony with nature, the creation of pleasant living environments, and always ensuring the optimal use of land for the future for the sake of the local people, we provide one-stop solutions tailored to local needs as they change with the times, from development planning to site preparation, hydraulic engineering, design and construction, and maintenance management.

Takamatsu In order to make the best possible use of our know-how accumulated over many long years, not just in urban development but in a wide range of business fields, the Business Supervisory Department engages in management from a long-term perspective for real estate development, and efforts to promote inclusive and sustainable communities.

Sharing our vision for communities living on far into the future

Harano As a group that co-creates for individuals, communities, and people's lifestyles, we continue to strive to create new value. The value we have supplied in town development comes from practicing our founder's spirit and the values of safety and comfort, speed and stock, welfare, the environment, health, information communication technology, and agriculture. Our business divisions are interlocked together into a scrum to forge ahead, but as our business territory has widened out, differences in our community development concept have appeared. To counter this trend, we set up a task force-style committee to compose shared expressions within the Company along the lines of the SDGs. Our Community Development Vision was formulated based on the values we supply of comfort and economy, incorporating safety and security.

Takamatsu The eight values created by the community development committee, centered on sustainability, are the 8 Hearts: Safety, Health, Comfort, Communication, Sustainability, Environment, Economy, Identity. Like the targets of the SDGs, we decided on specifics in line with these values and have assessed them. To what extent can we provide people with a safe, comfortable, and healthy life? How far can we enhance the economy, environment, and identity of a community? We will soon see a time when properties themselves will be judged by the ESG perspective. So we should take firm action now in readiness for that.

Takao SakuLa City (Hachioji City, Tokyo)

Harano If you turn "8" on its side, it becomes "∞", the infinity symbol. The basic stance of co-creation contains within it the links between people and people, between people and communities, and the significance of aiming at community development carrying on into the future.

Takamatsu It was right around the time the SDGs were chosen, so the timing was good.

Harano After all, the 17 SDGs were really a reaffirmation of our founder's spirit. Town development at that time aimed at building infrastructure and buildings, without much attention to any services after completion. This was when we first began to talk about changing to start providing various services. It was certainly a little early to begin engaging in doing so, but the timing was extremely well chosen.

Later, I think it was this view of social values that inspired Miki City come to us with the issue of the increase in vacant houses and lots in Midorigaoka Town as the population aged. In response to that call, we started a project using public and private sector collaboration. A town cannot grow if people don't live there, so we transformed the old housing estate development in order to bring in new residents, including places where elderly people could be active, redeveloping it so that people could live in the community in safety and security over the long term. "Livness" means continuing to live somewhere over a long time, so together we're creating the Second Chapter of housing. We will make several new developments as we spread Livness towns like these.

Takamatsu Daiwa House is involved in community development from scratch, and redeveloping old communities into new ones. Since becoming involved in business supervision from last year, I'm constantly considering the social value we provide through business—questioning whether the development is good for society or whether the communities we make will be good for the residents to live in. That is why the three bases of human resources, customers, and technology and manufacturing are

absolutely vital. The Takao Project is something we've worked on since my appointment, though it doesn't involve redeveloping of a housing estate. It started by acquiring a former factory site, incorporating the nature of Mount Takao into people's lifestyles, and putting forward the idea of a new community development model with the three businesses of building condominiums and single-family houses centered on commercial facilities. We went beyond simply constructing the buildings to incorporate long-term perspectives on how all the people who reside there will live their lives.

Harano The bigger the company, the harder it is to make governance work sometimes, but I believe Daiwa House is the sort of company that can show its true power when its people put their strength together. The 11th SDG is "Sustainable cities and communities." The key point here is to build communities, not just cities. Your efforts seek to integrate business and reconnect bases in order to provide the best solutions for the members of the community. This vision of community development should be shared widely with more people to make it become a reality.

Livness town projects connecting the story of a community to the future

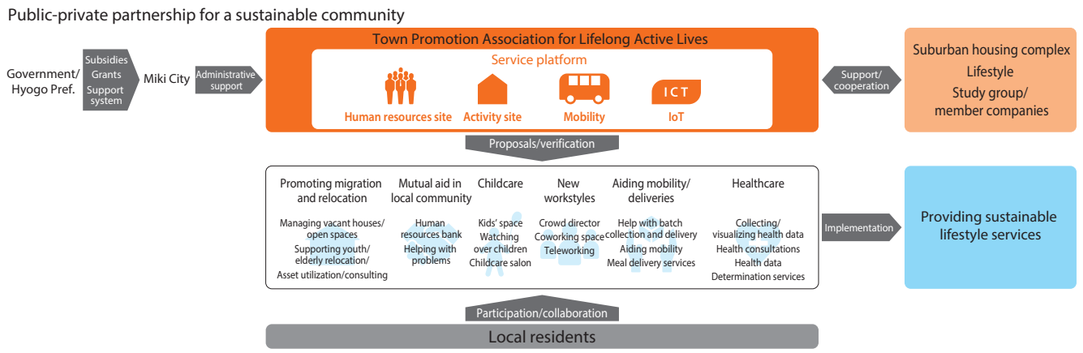
Harano The idea of Livness towns is to link the story of a community to its future. While we construct platforms with open innovation, we also want to incorporate ideas from people in various industries.

Takamatsu And at the same time we ask the people actually living in the community what they think.

Harano That's the most important thing. From my long experience of working in development, I know that a key factor preventing smooth progress is a lack of communication with the land owners and local residents. If you have staff able to fully engage the local people in dialogue, then the community development will go well.

Takamatsu Two examples of Livness town projects underway right now are Kamigo Neopolis (Yokohama City, Kanagawa Pref.) and Midorigaoka Neopolis (Miki City, Hyogo Pref.).

Overall picture of redeveloping in Midorigaoka Neopolis (Miki City, Hyogo Pref.)



Harano In Kamigo we're building a community store with partial government funding. Work has begun on it to achieve both convenience and community revitalization. Once the facility is completed and senior people begin to actually work there, we're sure to get new ideas.

At Midorigaoka, we became involved after meeting with the mayor five years ago and hearing his fervent plea to do something for the town. In response to that we quickly set up the Suburban Housing Complex Lifestyle Study Group and began demonstration testing with academic, industry, and government cooperation. As the town's residents are aging, aiding mobility is necessary, so we are starting mobility support services including experiments with self-driving systems. We're also building houses for farming businesses. Miki City has set up a community base called the Midorigaoka Division, which is engaged in various projects such as healthcare, self-driving systems, satellites to utilize vacant houses, and crowdsourcing. Future plans include building single-family rental housing and serviced homes for the elderly.

Takamatsu We can look forward to these two projects becoming established as business models and growing through leveraging our strengths. To ensure this the design and management must have a far-sighted perspective to raise the value of the town and its properties over the long term. Residential planning and management functions need to be strengthened to ensure the town is both inclusive and sustainable. Use of planning aid sheets in the formulated Community Development Guidelines should be made mandatory for real estate investments or large projects in order to encourage greater adoption of the guidelines. The development rate of large projects and large-scale construction by our divisions based on the Community Development Guidelines is expected to reach 70% by fiscal 2021. The projects the Real Estate Investment Committee is looking at tend to be major investment proposals. We want to get involved in these as they will have a major impact on society. If we succeed in raising the value of communities, this will lead to a positive cycle calling for further real estate investments.

Harano The declining population makes it inevitable that the nature of communities will change. Without a long-term, and even a super-long-term perspective, we cannot keep up with the aging and diminishing population, with climate change, or with the fourth industrial revolution. Eventually, the Livness town projects will be put into action overseas.

The Daiwa House Group is able to provide a full range of services from upstream to downstream, allowing us to provide our management resources as a combined package.

Dig up hidden community issues, implement a cycle of action

Takamatsu In creating sustainable communities, new developments need business feasibility and to match conditions in the wider world. For redeveloping projects, we have to think of how to use what is already there, and how long we will be involved in it as a business. Work tends not to continue if motivation is lacking, so we see our role as giving that motivation to employees engaged in the work that needs to be done.

After actually visiting the Kamigo and Midorigaoka sites to see the level of motivation the workers there have, I strongly saw the need for backup from the head office. We need to have medium-term goals in terms of the balance of revenue and expenditure in order to persevere long term despite the difficulty of the task.

Harano Coordination inside the Group and between divisions of the Company is also becoming more important in order to achieve that. The first task is to bring the Community Development Vision to the front lines of our business operations.

Takamatsu I agree, we have to make sure the concept is fully spread throughout the Company first.

Harano Regarding risks and issues, community development needs the understanding of the government and the residents, and it must be resilient to disaster. We also have to comply with ESG evaluations while coordinating with the local government, but the key here is a customized approach fully configured to the regional community. That is why I personally think that ensuring the understanding of the people rooted in the local community is even more important than dealing with the government. Taking too long about it may not be so good, but we should spend a certain amount of effort and time from as early as possible to ensure sufficient understanding. The housing and systems must also be affordable and within people's reach.

Redeveloping means digging up various issues again, then planting new seeds and helping them to grow. Many issues won't be visible on the surface, so our basic approach must be to properly search out the issues facing each Neopolis and then implement a cycle of action to solve them.

Strengthening our Bases

Concurrent with our Sixth Medium-term Management Plan, the Daiwa House Group formulated the Endless Social Program 2021 (to enhance our social involvement) and the Endless Green Program 2021 (action plan for the environment) both with FY2021 set as their final year, in order to strengthen its management base essential to the value creation process.

We use the following steps to identify particularly important issues in steering our Group toward our management vision and long-term vision. The value chains of our Group provide us with a basis for identifying materiality (priority issues) with a focus on megatrends and social issues and setting targets in regard thereto.

We aim to clarify target indices for each issue, and by trying to achieve them, we expect to strengthen the processes we use to conduct business and help enhance our social value through the business we do.

See the Group's Sustainability Report 2019 ▶ P.19-35 (Materiality of the Daiwa House Group)

Environmental and social materiality (priority issues) identification steps

STEP1	STEP2	STEP3	STEP4
Identify and organize themes	Discuss candidate priority issues	Identify priority issues	Set targets
We identified domestic and international social issues as well as social issues recognized by the Group, then took into account medium- to long-term risks and opportunities relating to our management base and future business to select candidate materialities (priority issues) from a comprehensive perspective.	The candidate priority issues were submitted to the Corporate Governance Committee for discussion and approval by the Companywide Environment Committee and the Sustainability Committee. Then the priority issues from each area and the medium-term plans were reported to the Board of Directors.	The priority issues of each focal theme from both the environmental and social areas were identified and compiled into a 3-year plan for fiscal 2019–2021.	Targets for fiscal 2021 were set by backcasting from the long-term perspective of where we want to be as a Group in fiscal 2030 and 2055.

Where governance fits into the Social Medium-Term Plan

Regarding the formulation of plans, corporate governance is governance in the narrow sense. However, when taken more broadly, the social connotations of governing a business are visible in things like risk management, corporate ethics and compliance.

S Social — Governance in the broad sense [Strengthening management structure and being complete in small things]

- Human rights management
- Risk management (internal controls)
- Corporate ethics, compliance, anticorruption
- Communication with stakeholders
- Cooperation with outside partners and other matters related to execution

G Governance — Governance in the narrow sense [Corporate governance]

- Evaluation of the Board of Directors
- Diversity of directors
- Appointment of auditors and accountants
- Nomination Advisory Committee
- Remuneration Advisory Committee and other matters related to the supervisory and decision-making functions

Focal theme (priority issues) around strengthening management bases, and basic policies under the Sixth Medium-Term Management Plan

Strengthening our bases

Long-Term Vision (Year 2055)

Long-Term Environmental Vision (Challenge ZERO 2055)

At the Daiwa House Group, we are contributing to the development of a sustainable society and addressing the challenge of zero environmental impact by the Group, including in our global supply chain.

1. Slowing and adapting to climate change
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 of adverse impacts on the health of people and ecosystems.

Long-Term Social Vision

At the Daiwa House Group, we are strengthening relationships with our five key stakeholder categories, and are contributing to society through our business activities.

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

2. Employees
In addition to caring for the health and safety of our employees, we also strive to create an open and fair work environment, and to give every member of staff the opportunity for personal development.

3. Business partners
We value our collaboration and cooperation with our business partners, and work to create appropriate mutual relationships. In line with the principle of free market competition, we work to realize the healthy development of the whole industry.

4. Community residents
We respect the culture and customs of each region, and support the sustainable development of society through our business activities and social contributions.

5. Shareholders
In the spirit of the company's Management Vision, "Co-creating a Brighter Future," we work to optimize two-way communication with our shareholders to have purposeful dialogues with them.

Strengthening Corporate Governance

(FY2019-2021)

Focal theme (bases)

E

❶ Slowing and adapting to climate change

❷ Harmony with the natural environment (Preservation of biodiversity)

❸ Conservation of natural resources/ Water resource conservation

❹ Prevention of chemical pollution

Action Plan for the Environment (Endless Green Program 2021)

Pursuing energy conservation, new energy creation, and reduction of CO_2 emissions to meet the targets set by the SBT, EP100, and RE100

Promoting "zero-carbon" in the fields of products and manufacturing

Promoting win-win cooperation for reducing environmental risks in supply chains

Promoting the development and dissemination of environmentally conscious products and services for boosting business competitiveness

Advancing strategic environmental communication to improve environmental brand and ESG assessment

Enhancing integrated environmental management within the Group and globally for advancing environmental management

Focal theme (bases)

S

❺ Human resources (motivation and diversity)

❻ Customers (CS and corporate brand)

❼ Technologies (safety and quality)

❽ Innovation and communication

❾ Strengthening risk management

Social Medium-Term Plan (Endless Social Program 2021)

Building a management base that anticipates social changes, and improving relations with our stakeholders

Human resources base
Improving motivation and developing human resources
- Build an organization with a diversified motivated workforce that retains the young people it develops.

Customer base
Strengthening long-term relations
- Build long-term relations with customers and establish corporate brands that bring in new customers.

Technology and manufacturing base
Strengthening products, productivity, and relations with business partners
- Enhance productivity and promote responsible procurement together with business partners, on the premise of ensuring construction site safety and quality.

Innovation base + Communication base + Risk countermeasures base (being complete in small things)

G

Improving effectiveness of the Board of Directors

Strengthening Group Governance

Interview **Developing the Group's Human Resources**

Materiality Base2 (Focal theme ⑤) Building management base and strengthening relations with stakeholders (improve motivation and diversity)

Human resources

Building a solid human resources base as a company with highly motivated staff to lead an inclusive society

Moritaka Noumura
Senior Executive Officer
General Manager, Human Resources Department

In order to build the solid human resources base to support sustainable growth of the Daiwa House Group while anticipating social changes, we must ensure workplaces where people are motivated to work and human resources able to solve social issues. Work style reforms, upgrading human resources development and recruitment, and diversity and inclusion are priority issues with specific indicators under the Endless Social Program 2021 (Social Medium-Term Plan), formulated together with our Sixth Medium-Term Management Plan. We talked with Senior Executive Officer Noumura, the General Manager of the Human Resources Department, on the background to setting these initiatives and the issues and approaches involved.

True work style reforms to achieve workplaces with diverse and highly motivated employees

In a society with a declining working population due to Japan's demographic changes, we face a multitude of issues, such as human resources mobility, diversification of work styles, and inclusion of diverse human resources including LGBT. Our Fifth Medium-Term Management Plan emphasized the health and safety of employees while striving to create open and fair workplaces, giving every member the opportunity for personal development.

While much success was gained, several issues still remain at the stage of having only sown seeds for the future. This is why our basic approach will remain mostly the same under our Sixth Medium-term Management Plan starting from this fiscal

year. These three years will make solid progress in building an organization of diverse yet highly motivated employees that retains the young people it develops, with particular emphasis on developing our younger workers. The priority issues are work style reforms, upgrading human resources development and recruitment and diversity, and inclusion. As a company that seeks to "develop people through business," we are striving to realize work styles, hiring, and development practices to allow diverse human resources, including women and both younger and older workers, to stay active for longer in workplaces, inspiring even greater motivation.

Work style reforms tend to veer off track if the reason for making reforms is not clearly defined. Employees will not appreciate reforms forcing them to work in certain ways. True work style reforms allow each individual to enjoy their work as part of their self-development with the help of the Company. We need to adapt our systems in order to make this possible.

Correcting the tendency to spend long hours at work is an urgent issue. We are working on systems to heighten efficiency by leveraging AI and IT, as well as introducing flexible work styles (e.g. working from home, teleworking). The Sixth Medium-term Management Plan adds the approach of "achieving true work style reforms by sharing with employees the concept that time equals life." The results of work generated by employees spending their time—or in other words, their lives—at the company, should directly connect to giving them meaning and happiness. Our evaluation system needs to be overhauled to achieve this. A company that engages in work style reforms that do not give employees motivation has no future. This is why we are committed to reforms that are significant both to employees and the Company.

Create a culture based on a "corporate personality" to enhance recruiting capabilities

Our concept of being a company with highly motivated staff means letting our employees see their own growth through striving for targets. This requires enhanced recruiting capabilities and an evaluation system that fairly recognizes such targets.

I believe that recruiting depends on whether the Company is good enough for its employees to recommend it to people they know. That is why we must build up the corporate personality and encourage individual employees to heighten their own character and qualities. Retaining and developing talented people to become motivated and fully engaged workers with pride in their company sets up a positive cycle that enhances our corporate personality. The improprieties that occurred tarnished our brand value, but at the same time were opportunities for us go back to our original starting point. By practicing "being complete in small things" each day, each employee can be aware of their own role in supporting the Company, while the corporate personality of Daiwa House steadily takes shape.

Viewed in this way, we can see how human resources development directly affects the management of the Company. The Human Resources and Organization Development Department takes the central role in education and training, striving to raise the level younger employees, veterans, and the management team throughout the Company through the four functions of (1) making the founder's spirit and the corporate philosophy understood by all employees, (2) developing professional human resources capable of providing their visions along with quality products and services, (3) creating an environment and culture where employees can develop themselves through their day-today work, and (4) training business leaders contributing to the domestic and global business.

Recent years have seen a large influx of new recruits to the Company, making it an urgent priority to realize a corporate culture fostering the development of younger employees. The entire workplace makes sure to take part in the development of its younger members, primarily through the "OJT Elder" system (reliable middle-level employees who take on the role of training others). At the same time, we also need to ensure workplaces where older employees can show themselves working in active roles. This goes beyond the need to pass on their knowledge and experience while gaining sources of labor. Showing younger personnel that older people can still be active can inform their own career design, and is important as part of handing on Daiwa House's DNA (the founder's spirit) to new employees.

Identify and develop global human resources to lead the next generation

As the number of Group companies increases and a new generation of workers who do not know our founder takes over, it is no easy thing to make the founder's spirit and philosophy known to all our members. Managers and staff need to engage in face-to-face discussions and dialog in order to mutually understand each other.

In the same way, listening to what local employees have to say in our overseas subsidiaries gives them a greater sense of belonging as a member of the Daiwa House Group. Our aim is to enhance their motivation to expand their business by appreciating the history of the Company and the thinking of our founder.

We are at the stage of laying firm foundations for the recruitment and development of global human resources such as non-Japanese employees able to be active internationally. Our human resources capabilities and organizational capabilities must both be strengthened still more in order for us to be successful globally. We are actively seeking out and fostering human resources capable of opening up new markets for us overseas, while at the same time taking a bottom-up approach inside Japan to ensure an organization able to continue to be competitive even without such key personnel. Specific measures include the D's Global Leaders Summits which draw manager class employees recruited from various nations together, and a wide variety of training programs to build a solid foundation.

The human resources base is the source of all the value we create

It is vital for our future that we strive for diversity and inclusion, to allow each individual to use their abilities to the full, while also forming highly productive workplace environments where employees can engage with their jobs in safety and health. From this April, to heighten awareness inside and outside the Company regarding sustainability management, we changed the name of our CSR Department to form the Sustainability Planning Department, comprising four groups: CSR Management, Social Communication, Human Rights, and Diversity Promotion. Regarding the promotion of women in particular, the Diversity Promotion Office is taking the central role in ensuring the ability to return to work after significant life events while also improving awareness and skills. Female employees are encouraged to develop their careers, and are actively being promoted to management positions.

For the Daiwa House Group, people are important assets that create corporate value, and the source of everything that we do. Goto Shinpei, a politician from the Meiji to early Showa era, said that "To leave behind a fortune is good, to leave behind a business better, to leave behind people is the best." He also further expanded this by saying "It is hard to build a business without money, and it is hard to develop people without a business." I believe this perfectly embodies the importance of nurturing and developing people through business.

The key assets of a company are said to be "people, goods, and money," plus also "information and time." The significant reshaping of how we use information and time in the age we live in makes the concept of inclusion essential to keep pace with change.

As a manufacturing company, it is our task to continue building a solid human resources base wherein all our employees feel trust in the Company, solidarity with each other, and pride in their work, so that they can fully utilize their abilities in their jobs with a high sense of motivation.

How Daiwa House Group heightens motivation

Improve motivation in employees

- **Trust in the Company**
  - Enhancing a real sense of employees
    - Comprehensive programs for people to work with reassurance
    - Hard-won achievements are fairly recognized
    - Making your voice heard within the Company
  - Building personnel programs for flexible work styles
  - Comprehensive support system to make the most of people's abilities
- **Solidarity among employees**
  - Introduction of an evaluation system focusing on the degree of contributions to organizational targets
  - Establishing places where employees can interact openly
  - Underpinning workplaces for organizational development, enhancing the workplace environment and corporate culture
- **Pride in one's work**
  - Creating opportunities for employees to see their own growth
  - Enhancing our recruiting brand

Social Medium-Term Plan Strengthening the Human Resources Base

Materiality Base2 (Focal theme ⑤) Building management base and strengthening relations with stakeholders (improve motivation and diversity)

Human resources

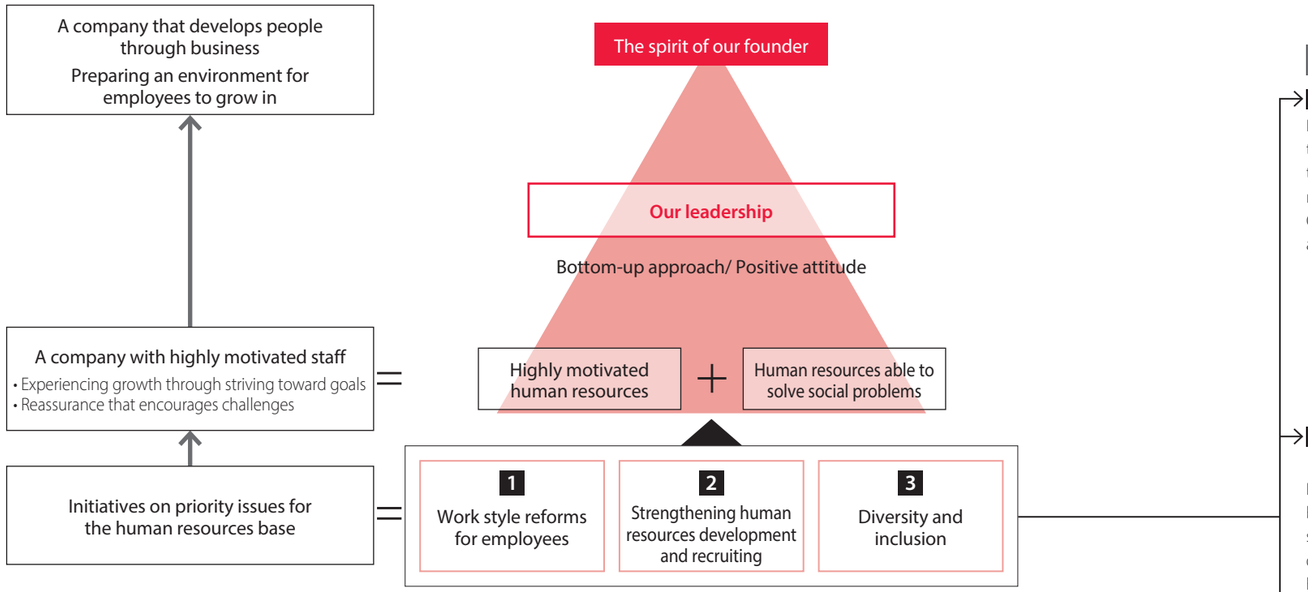
Develop human resources that contribute to society, and create a motivational workplace that employees are proud of, through a thorough "bottom-up approach" and "positive attitude."

Basic concept

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.

Our human resources base is an important foundation that steers our sustainable development in directions that carry on our founder's spirit. 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. 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.

See the Group's Sustainability Report 2019 ▶ P.84-99 (Co-creating a Brighter Future with Our Employees)



Looking back at Social Medium-Term Plan (FY2016-2018)

The most important priority issues for the human resources base

• Creating work environments and systems where a diverse range of employees can work flexibly

Number of female managers (Percentage out of the total employees in the same grade)	2016.4 (Results)	2019.4 (Targets)	2019.4 (Results)
Daiwa House Industry	86 (2.5%)	160	137 (3.6%)
Daiwa House Group overall	240 (3.4%)	—	352 (4.5%)

To promote female employees, the Daiwa House Group aims to achieve our goal of 500 female managers by April 2021, and support career development for female workers. As of April 1, 2019, the number and ratio of female managers in the Group overall was 352 (4.5%), an increase of 0.5 points from the previous year.

• Developing human resources

<Junior staff training>

Evaluation of OJT	FY2016 (Results)	FY2018 (Targets)	FY2018 (Results)
Degree of new employee satisfaction	85.9%	80%	85.4%
Rate of self-assessment of midlevel staff	73.5%	80%	76.5%

<Training management successors>

Through training for branch office manager candidates and the Daiwa House Juku from 2008, we are fostering the next generation of leaders through our business philosophy. As of the end of FY2018, 494 people have completed the training for branch office manager candidates, and 360 have completed the Daiwa House Juku. Of these, 130 have been promoted to become executive officers or higher.

Human resources base policy of the Endless Social Program 2021 (New Social Medium-Term Plan)

Achieve solid progress in building on organization of diverse yet highly motivated employees, with particular emphasis on developing our younger workers

Major megatrends affecting the human resources base

• Declining birthrate and aging in Japan
• Rise of the millennials/Generation Z
• 100-year lifespans becoming a reality
• Rise of AI/IoT/automation

Purpose for formulating the policy

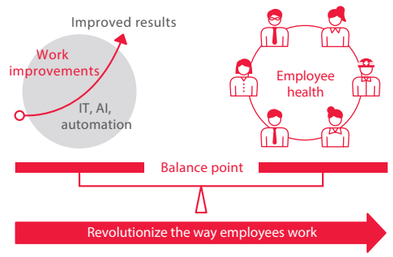
• To establish a business model on our human resources base to cope with the need to design and operate work styles and human resources development adapted to the changing labor markets and human resources
• For diversity and inclusion of human resources, including gender and different generations, to create organizations able to adapt to our rapidly changing society

Priority issues and KGI (key goal indicators) for the human resources base

Priority issues	KGI for FY2021

1 Work style reform for employees

Promote changes to workplace environments that allow all our employees to both "maximize the results of their work" and "maintain their mental/physical health and safety," in line Corporate Creed and SDGs No. 8 "Decent Wok and Economic Growth."



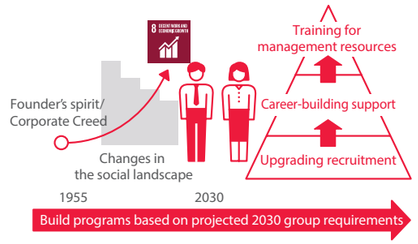
Improvement in "motivation" of entire workforce

80%

(Results are calculated from question about "motivation" on a CSR awareness survey.)

2 Strengthening human resources development and recruiting

Looking toward medium- and long-term growth, and based on the fact that millennials will hold midlevel staff and managerial positions, and that the bulk of new recruits will be of Generation Z age, design human resource development and recruitment programs with the founder's spirit, the values espoused in our Corporate Creed and our business models as an underlying basis, and prepare training, hiring and work environments. Moreover, build systems that allow older employees, which represent a growing share of the workforce, to continue to exhibit their skills.



Retention rate of young employees (three years after joining the Company)

90% or higher

3 Diversity and inclusion

Respect the diversity of our employees and build workplace environments where diverse employees are motivated and can demonstrate their abilities. Apply diversity and inclusion concepts to managing operations, decision-making processes and all functions in order to conceive new ideas for products, services and other processes, and foresee risks from diverse angles.

General indices for diversity and inclusion

Targets are set for the below five indices.

(1) Female manager rate 5%
(2) Female manager (line leaders) rate 40%
(3) Female construction worker rate 6%
(4) Female sales representative rate 13%
(5) Female new graduate recruit rate 30%

(as of April 1, 2022)

Social Medium-Term Plan Strengthening the Customer Base

Materiality Base2 (Focal theme ⑥⑧) Building management base and strengthening relations with stakeholders (improve CS and corporate brand/ innovation and upgrade communications)

Customer

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.

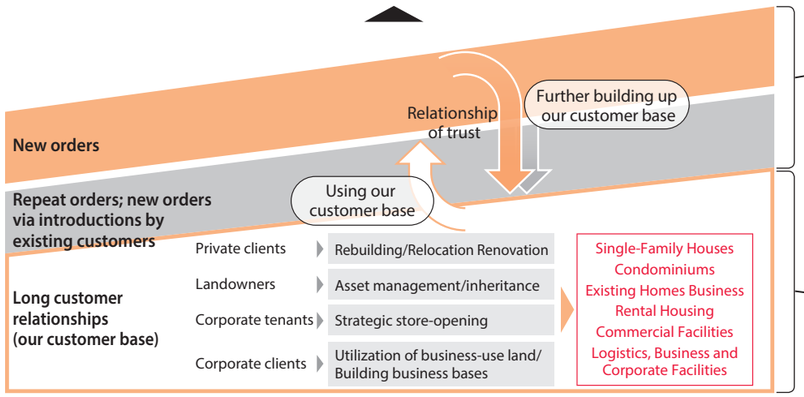
Basic concept

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.

Solid long-lasting relations with our customers is an essential foundation for our sustainable growth. 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.

See the Group's Sustainability Report 2019 ▶ P.66-83 (Co-creating a Brighter Future with Our Customers)

Strengthening data-collection capability through our long-term relationships with customers



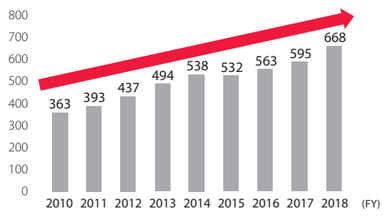
Looking back at Social Medium-Term Plan (FY2016-2018)

The status of our corporate brand

Corporate brand value:

USD 363 million in 2010 ⇒ USD 668 million in 2018 (up 84%)

Japan's Best Global Brands (survey by Interbrand)



Japan's Best Global Brands (USD million)

Building a relationship of trust with our customers

The most important priority issue for "co-creating a brighter future with our customers" in our Social Medium-Term Plan (FY2016-2018)

The results of the main management indicators for "long-term efforts to earn trust" are given below.

Results of the main management indicators for "long-term efforts to earn trust"

	Indices	FY2016	FY2018
Single-family houses	Rate of highest evaluation concerning referral intention in one-month questionnaire	62.2%	60.6%
Apartments	Repeat orders rate by existing owners	36.1%	44.5%
Commercial construction	Repeat orders rate by existing owners	26.4%	29.5%
General construction	Degree of satisfaction in handover questionnaire	95.0%	93.1%
Condominiums	Degree of satisfaction right before taking residence until three months afterward (Calculated from 7 items including post-agreement support, handling of 3-month inspection, and degree of purchasing satisfaction)	1.18pt	1.26pt

Customer base policy of the Endless Social Program 2021 (New Social Medium-Term Plan)

Build long-term relations of trust with customers, establish a corporate brand leading to encounters with new customers

Major megatrends affecting the customer base	Purpose for formulating the policy
• Increase in unoccupied houses in Japan and decrease in new housing starts • Changes in household composition in Japan (rise of nuclear family/single-person households) • Increase in ethical consumption, importance of social branding	• Can expect demand for business from existing customers, e.g. Livness • Daiwa House Group's main business model is providing solutions to customers supported by our compound business proposal capability, in which the corporate brand is as important as the product brand • Customers and consumers do not have a clear enough brand image to see what sort of company Daiwa House is

Priority issues and KGI (key goal indicators) for the customer base

Priority issues

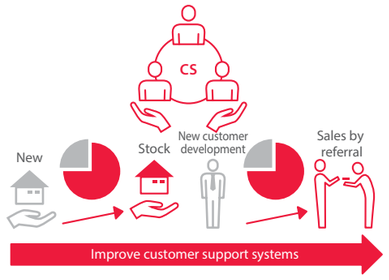
1 Upgrade corporate communications (Eligible consumers "future customers")

Establish, maintain and enhance a corporate brand that goes beyond "name recognition" to send a consistent unified message that is tightly coordinated with our founder's spirit, the values espoused in our Corporate Creed and our management vision.

2 Promote customer support to maintain long-term relationships

Improve customer satisfaction services in order to prepare for the growing shift in the business environment from new construction to housing stock business and from new customer development to sales by referral.

Build an information system in addition to training and deploying appropriate human resources in order to make proposals that are appropriate to the lifecycle stage and household changes of owners.



KGI for FY2021

Interbrand
Japan's Best Domestic Brand
Brand monetary value

FY2017		FY2021
595 million USD	→	1 billion USD

Nikkei Corporate Perception Survey

(1) Favorability (individuals)

FY2017		FY2021
45.1%	→	70%

(2) First-class evaluation (business people)

FY2017		FY2021
63.4%	→	90%

Order rate using our customer base*

FY2017		FY2021
39.6%	→	70% or higher

* Housing percentage of sales by referral

Other base policies

Base	Policy	Priority issues	KGI for FY2021
Continuously comes up with innovative solutions to social issues **Innovation base**	Strengthen systems to promote business and real estate development that helps solve social issues.	(1) Build platforms for innovating solutions to social issues	Cooperative innovation creation for new business ventures or joint research projects.
		(2) Promote social inclusion in real estate development	Percentage developed of large projects based on Community Development Guidelines and large-scale construction by our divisions. 70%
Multi-channel communications with stakeholders **Communication base**	As a company, upgrade both financial and non-financial corporate communications and train the workforce for the information age.	(1) Integrate and upgrade financial and non-financial communications	Establish a system and practices for financial and non-financial communications, and promote understanding that these are fully integrated.
		(2) Keep pace with rapidly evolving communication environments	Establish a base for system construction and employee literacy regarding rapidly evolving ICT.

See the Group's Sustainability Report 2019 ▶ P.29-35 (Social Medium-Term Plan)

Social Medium-Term Plan Strengthening the Technology and Manufacturing Base

Technology and manufacturing

Materiality Base2 (Focal theme⑦⑨) Building management base and strengthening relations with stakeholders (enforce safety and quality /strengthen risk management)

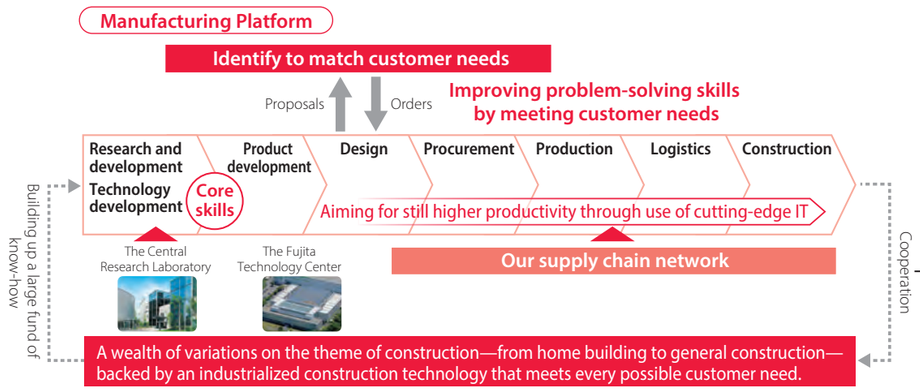
We foster distinctive technologies that match customer needs to create both value for customers and value for society.

Basic concept

As a pioneer of industrial construction, the Company has succeeded in generating the value needed by society and by our customers through reflecting sound technology and manufacturing practices in our products and services.

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 the 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 can live fulfilling lives, we have actively pursued research and development work aimed at generating value.

See the Group's Sustainability Report 2019 ▶ P.100-111 (Co-creating a Brighter Future with Our Business Partners)



Looking back at Social Medium-Term Plan (FY2016-2018)

The most important priority issues for the technology and manufacturing base

- Encourage business partners in CSR efforts

	FY2016 (Result)	**FY2018 (Result)**
Evaluation of business partners and purchasing work based on in-house criteria	4.2 pts	**4.6 pts**

- Improve labor conditions and ensure human resources for construction subcontractor

	FY2016 (Result)	**FY2018 (Result)**
Number of employees trained on-site (Housing Construction)	214	**481**

Other base policies

Base	Policy	Priority issues	KGI for FY2021
Effective internal control and executives/all employee leadership in corporate ethics **Risk countermeasures base (being complete in small things)**	Hone business continuity plans for natural disasters, etc., and establish corporate ethics, human rights and compliance rules for overseas bases.	(1) Prepare business continuity plans on the premise of natural disasters/extreme weather	Business Continuity System score 100 pts/100 pts (Score based on initiatives for employee safety, backup for information systems and securing power, customer support systems, production purchasing system, maintaining overall group functioning, development systems, etc.)
		(2) Establish human rights due diligence	Establish a process of due diligence for human rights at plants
		(3) Establish corporate ethics and compliance rules	Internal control system attainment score 15% improvement
		(4) Build management base for global business development from a long -term perspective	Improved score on CSR awareness surveys at overseas bases

See the Group's Sustainability Report 2019 ▶ P.29-35 (Social Medium-Term Plan)

Technology and manufacturing base policy of the Endless Social Program 2021 (New Social Medium-Term Plan)

Enhance productivity and promote responsible procurement together with business partners, on the premise of ensuring construction site safety and quality

Major megatrends affecting the technology and manufacturing base

- Declining birthrate and aging in Japan
- Full-scale acceptance of immigrants in society (expanding acceptance of foreign workers)
- Rise of AI/IoT/automation
- Severe temperatures become normalized
- Increased demands/expectations from society for responsible procurement

Purpose for formulating the policy

- To eliminate the negative image of the construction industry (as tough, dirty, dangerous work), create onsite environments adapted to future front-line staff: women, elderly workers, foreign workers, and future generations
- Productivity improvements are essential for worker-friendly onsite environments and ensuring days off
- Responsible procurement leads to risk avoidance, stronger supply chains, and differentiation

Priority issues and KGI (key goal indicators) for the technology and manufacturing base

Priority issues | **KGI for FY2021**

1 Enforce safety/security at construction sites

Address the declining capacity to manage safety (increasing unsafe acts) at construction sites resulting from a decrease in skilled labor and an increase in foreign skilled labor amongst subcontractors (due to labor shortages stemming from declining birthrate and aging in Japan). Also, address rising work accidents/risks on job sites due to longer hours under blazing sun.

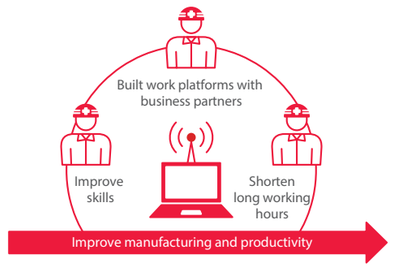
Frequency of worksite accidents*1

FY2018 0.23 → FY2021 0.21

*1 Number of work-related fatalities/injuries per 1 million hours of work (injuries requiring 4 or more days-off)

2 Improve productivity in manufacturing operations with the cooperation of business partners

Counter labor shortages and shorten long working hours by using IoT to impact skills and improve productivity. Create workplace environments and practices that retain skilled builders.



Annual holidays on a worksite

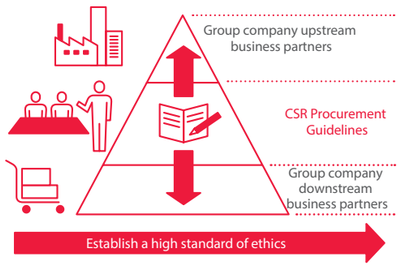
FY2018 77 (5 days-off for every 4 weeks) → FY2021 112 (8 days-off for every 4 weeks 100%)

Annual factory holidays

FY2017 105 → FY2021 117

3 Promote and improve the efficiency of CSR procurement across the Group

Build a PDCA-based management system with use of new ICT, etc., to promote CSR procurement amongst Group company business partners both upstream and downstream.



(1) Percentage of important suppliers*2 that comply with our CSR procurement guidelines

70%

(Scores of 80 or higher are judged as compliant)

*2 Important supplier: suppliers with 300 or more employees

(2) Reply rate to CSR Procurement Guidelines self-check sent to all suppliers

70%

Note CSR Procurement Guidelines are promoted at 7 Group companies. This KGI targets only suppliers of Daiwa House Industry, Fujita and Daiwa Lease.

Dialogue **The Daiwa House Group's Environmental Activities**

Materiality Base 1 **Pursue both minimization of environmental impacts and corporate earnings**

E Environment

The Daiwa House Group tries to make zero environmental impacts within our Group, globally, and through supply chains, with the aim of realizing a sustainable society

Keisuke Takegahara
Executive Officer
Deputy Chief Research Officer,
Chief Manager of Sustainability Management Office,
Corporate Planning & Coordination Department
Development Bank of Japan Inc.

Katsuhiro Koyama
Manager, Environment Department
Daiwa House Industry Co., Ltd.

As investment in ESGs expands, we held a dialog between the Development Bank of Japan, as a representative investor, and Daiwa House, a company engaged in terms of both risks and opportunities for solutions of environmental issues.

Promoting environmental action as a business opportunity based on our founding philosophy

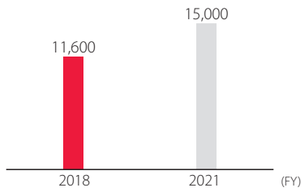
Takegahara Please tell me the background to your implementing advanced environmental management as an industry top-runner, despite the changes in business areas.

Koyama I think a large part of this is down to the fact that the founding philosophy is accepted by each of our employees. All of us share our founder's words to "Think about what sort of business will benefit the society." Now that environmental problems have reached this level, it's only natural that we try to do something about them.

Takegahara A lot of companies try to uphold their founding philosophies, but it's not an easy thing to consistently do so.

Koyama Our management team's shared sense of there quite definitely being a crisis is also a key factor. In point of fact, the safety and security of houses and homes that are the core of the value that we provide are being threatened, as indicated by the July 2018 Japan heavy rainfall. At the same time, the world is starting to move at an unprecedented speed toward becoming carbon-free. As we expand our business globally, we cannot afford to fall behind global trends.

Sales of environmental contribution business
(¥100 million)



Takegahara With climate change comes physical risks and transition risks. But the impression in the case of your company is that you are skillfully engaging with these as business opportunities rather than risks.

Koyama In our Endless Green Program 2021 (EGP 2021) action plan for the environment, we have set "sales of environmental contribution business" as a new key management indicator. This program intends to spread the concept of turning environmental action into a business opportunity among our group companies, and to detail in comprehensible terms our progress to stakeholders.

In our business field of housing, buildings and communities there is a vast potential for reduction of greenhouse gas emissions. Our products and services can easily be linked to business opportunities. On top of that, we own and operate various factories, logistics facilities, stores, hotels, and so on. The energy conservation, CO_2 reduction, and other business continuity plan (BCP) know-how that we gain from these facilities can be directly fed into our construction business and environmental energy business, boosting our competitiveness.

Takegahara That's certainly a major advantage that other housing manufacturers or general contractors would not have. I can see how you have grasped business opportunities in terms of mitigating climate change by reducing CO_2. What measures are you taking in the field of adapting to the impacts of climate change that are already occurring?

Koyama We're also very much interested in the area of adapting to climate change. Our business being what it is, in some cases our clients have to temporarily discontinue their business due to damage from natural disasters accompanying abnormal weather phenomena, while our housing customers can no longer continue their everyday lives. The Daiwa House Saga Building that we completed in 2018 incorporates a 100% renewable energy independent power system with storage batteries. During everyday operation it contributes to being carbon-free through renewable energy, and in case a power outage following a disaster occurs, it supports the BCP by supplying electricity. The Anti-Disaster House single-family housing product we released in March 2019 is another item that adapts by supporting life continuity plans (LCP).

Takegahara Developing and supplying solutions involving BCP and LCP to your customers is both a business opportunity and serious mission for your company.

Leadership expected with information disclosure based on TCFD*1

Takegahara I can see how you carefully evaluate risks first, then change these risks into opportunities. But in recent years there is a demand for logically described explanations of such strategies. The Financial Stability Board's final recommendations on the Task Force on Climate-related Financial Disclosure (TCFD) establishes various scenarios where companies must show their resilience. How is Daiwa House responding to the TCFD recommendations?

Koyama In fact, we indicated our agreement with them quite early, in September 2018. The disclosure items required under the TCFD recommendations are governance, strategy, risk management, and metrics and targets. We have already been active with all of these, and have disclosed an overview of them in our Sustainability Report 2019.

Takegahara I have heard that disclosure of financial impacts and scenario analysis are quite difficult.

Koyama Those two points can certainly be problematic. But the financial impacts are described in terms of low, medium, or high, while the scenario analysis was organized by referring to several external scenarios based on our past materiality analyses. We acknowledge that these efforts might still be inadequate at the present time, but we intend to lift their accuracy while gaining advice from our investors.

Takegahara In the TCFD recommendations both the disclosing side and the user side have problems. In the end, the key is how persuasive each company is in describing its strategies and resilience. The way Daiwa House qualitatively discloses the degree of financial impacts and describes the reasoning behind its strategies is definitely the first step to take.

I'm looking forward to seeing Daiwa House exercise leadership in regard to complying with the TCFD.

See the Group's Sustainability Report 2019 ▶ P.163-164 (Cooperation with TCFD)

Participating in international initiatives and speeding up efforts toward becoming zero-carbon

Takegahara Daiwa House's formulation of a Long-Term Environmental Vision as early as 2016 is certainly a pioneering move. Rolling out your Environmental Action Plan by backcasting from that indicates the expectation of ESG investing.

Koyama The Challenge ZERO 2055 Long-term Environmental Vision describes where we want to get to based on the Paris Agreement, like an ultimate goal. This is an area where we're looking forward to discontinuous innovation both inside and outside our company. Or put another way, there's a gap between it and our current position, so we acknowledge that it can be hard to link it to specific actions in real time. So as a more concrete goal we will acquire SBT*2 as a milestone on the way to 2030. This will give us an international guarantee of approval, and in working toward it we have taken part in EP100,*3 which aims as a policy goal to double energy productivity, and in RE100,*4 which

commits us to achieving 100% renewable energy.

Takegahara Daiwa House has achieved a world first in both the housing and the construction industries by simultaneously joining both EP100 and RE100. Taken with the SBT certification as well, Daiwa House is without a doubt extremely active in engaging with climate change measures. What are your aims in taking part in these initiatives?

Koyama We see SBT as a passport for continuing to do business both in Japan and abroad in the future. In order to attain it, we're taking a comprehensive view toward conserving energy as far as is possible, and using renewable energy to supply the remaining necessary energy requirements. That's why it made perfect sense for us to participate in all three of these initiatives.

Takegahara It certainly stands to reason that simply maintaining the same level of usage while trying to switch to renewable energy is lacking in reason. Your reasoning in focusing first on conserving energy and then converting the remaining usage to renewable sources is quite persuasive.

Koyama EP100 and RE100 are both ways of achieving targets for reducing greenhouse gas emissions, but they also open up opportunities as well. At COP 23 (Framework Convention on Climate Change) held in Germany we saw directly how there is a real surge of interest in such initiatives, as major US and European companies put forward one after another. We decided that in Japan we should lead such energy conservation and renewable energy initiatives together with other similarly committed members, to promote them with a sense of urgency and the leverage we have. It's quite inspiring to see that more companies are starting to participate in our wake. We intend to accelerate these trends even more to expand the markets for energy conservation, renewable energy, and energy storage, to lead to business opportunities for zero energy facilities, mega solar and storage batteries.

Takegahara This is also consistent with your approach to take environmental action as a business opportunity. But EP100 and RE100 are quite ambitious targets. How are you going to

Solar power plant using a reservoir (Sennan City, Osaka)

achieve them?

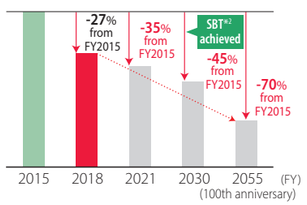
Koyama For EP100 we're thoroughly improving energy conservation in our existing facilities. We're planning for new facilities to be in principle zero energy, with a view to using them as showrooms. People say that EP100 will be hardest for Japanese companies, as they already have a long history of reducing energy usage, but we believe we can achieve it. In fact, productivity is the indicator, not energy conservation. It would be very hard to reduce energy usage by 10% in an office building, but if we cut overtime by two hours, that's a 20% improvement in energy productivity. Lifting the unit price for contracting properties with proposals for zero energy housing and facilities is also contributing to raising energy productivity in terms of increasing sales for the same level of workload.

Takegahara That's an interesting way of thinking. There may be limits to energy conservation, but if you think in terms of lifting productivity, there's still a lot of room to act, such as by adopting artificial intelligence (AI) or RPA,*5 or using automation on construction sites. It links to work style reforms and to solving the social problem of the labor shortage in the construction industry.

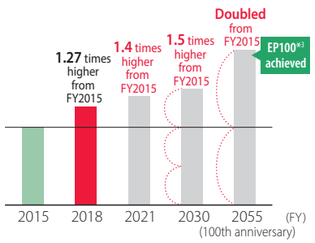
What about RE100? I would think this is also quite a difficult task in Japan.

Koyama On the one hand we're users of electricity, on the other we construct and operate renewable energy power plants, as a renewable electricity provider. Instead of thinking about how to procure the renewable energy that exists now, we're focusing on how to create more renewable energy. In actual fact we operate

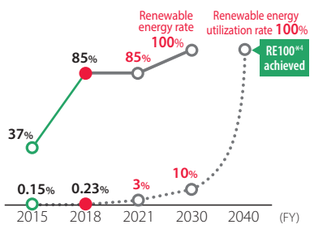
Greenhouse gas emissions per sales unit



Energy efficiency
(sales/energy consumption)



Renewable energy rate
(Renewable energy-based power generation/electricity use)
Renewable energy utilization rate
(Renewable energy utilization/electricity use)



a total of 217 renewable energy power plants nationwide, producing approximately 300 megawatts, which covers around 85% of our needs. We want to increase this to 100% by 2030. After that, we'll gradually shift to self-consumption, so that by 2040 we can cover all our electricity needs with renewable energy, achieving RE100.

Takegahara So you're on track to achieve RE100 too. I'm amazed to hear that you're already producing the equivalent to 85% of your electricity usage from your own renewable energy. I'm fully in agreement with the idea of working to increase that amount in the future under your own efforts. Considering that thought is being given to adopting carbon pricing in the future, your efforts are minimizing transition risks while also being valuable in terms of company resilience.

Human resources development for better sales capabilities and higher environmental awareness

Takegahara Putting this long-term vision into practice requires a personal commitment by every level of employee to understand it and act on it. Please tell me about your human resources development to achieve both powerful sales capabilities and a higher environmental awareness.

Koyama Our basic concept of sticking to a bottom-up approach and positive attitude for the environment remains unchanged. The point is to take action and to get a real sense of being involved in something, whether the customers or residents say thanks or point out what they think should be done.

Our unique ECO supporters system is one part of this. We support independence for our worksites while accomplishing company-wide strategies by promoting environmental plans unique to worksites that they have come up with themselves, centered on ECO supporters active in each worksite. In order to encourage more active creation of innovation, we make public every quarter a worksite ECO diagnosis scorecard using ten management indicators to reflect company-wide strategies, as a

Training for ECO supporters

way to incorporate annual results in performance evaluations of individual worksites.

Takegahara So the ECO supporters play the role of breaking down the company-wide strategy to incorporate it into their own plans. You have a powerful philosophy and grand vision, plus ambition objectives, but also a detailed means of implementing these on the ground level, resulting altogether in a solid environmental management system.

The future issue is global and supply chain rollout

Takegahara Daiwa House's environmental management is comprehensive and advanced, centered on climate change. What issues await you in the future?

Koyama Global and supply chain issues, I believe. Outside Japan there are different legal systems and cultures, the degree of environmental awareness and concern also varies. As our business expansion overseas picks up its pace, we intend to expand over these three years the scope of our environmental management to all our consolidated subsidiaries outside Japan, as well as monitoring environmental performance targets and environmental businesses in some overseas sites.

Through cooperation with our supply chain we have responded to risks that have become apparent, such as managing chemical substances in construction materials and monitoring the country of origin of timber. Over these three years we will incorporate management of climate change risks, to build promotional systems within the organizations of our suppliers and directly support reduction of greenhouse gas emissions.

Takegahara I look forward very much to seeing your pioneering efforts in the new frontier of the global supply chain.

See the Group's Sustainability Report 2019 ▶ P.140-181 (Co-creating a Brighter Future with the Environment)

*1 TCFD = Task Force on Climate-related Financial Disclosures. The TCFD announced recommendations to encourage companies to disclose financial information relating to the climate with consistency, comparability, and reliability, to allow investors to make appropriate investment decisions. *2 SBT = Science Based Targets. This international initiative encourages companies to set targets for eliminating greenhouse gas emissions that are science-based and compatible with achieving the objective of the Paris Agreement to limit temperature rise to within 2 degrees. *3 EP100 is a group of companies with the goal of doubling energy productivity in business. *4 RE100 is a group of companies with the goal of achieving 100% renewable energy in the power they use in their business operations. *5 RPA = Robotic Process Automation, utilizing robots for automation of work to lift productivity with even smaller numbers of workers.

Management Structure

Materiality Base 3 Strengthening our corporate governance

G Governance

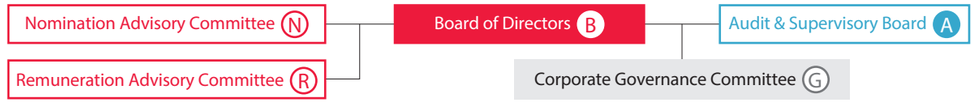
Corporate Governance System

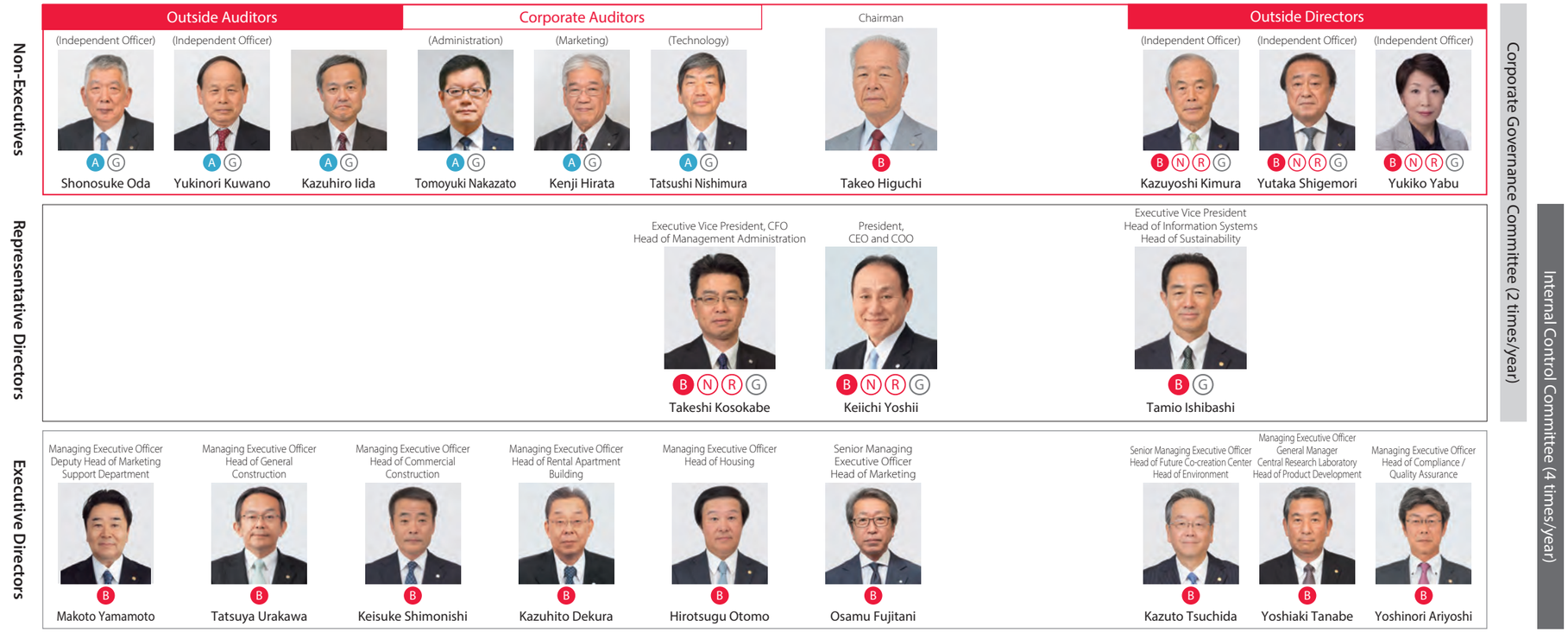
Concept of Board of Directors structure

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.

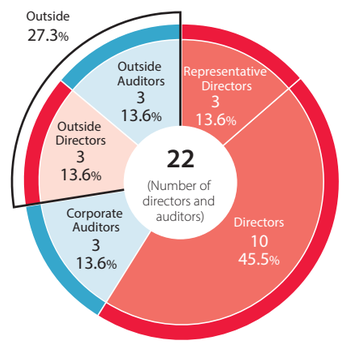
To realize the management vision, executive management must always explore the needs of society based on the attitude of a bottom-up approach while the Board of Directors must deliberate and decide how to embody such needs as a business. In accordance with these views, the Company's Board of Directors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

Structure of Committee for strengthening monitoring function of Board of Directors





Board of Directors + Audit & Supervisory Board



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

Governance at the Company 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 directors or executive officers in charge of human resources on individual director assessments and on matters for submission to the General Meeting of Shareholders relating to the appointment or dismissal 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)

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

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

P.91 (Details of the Real Estate Investment Committee)

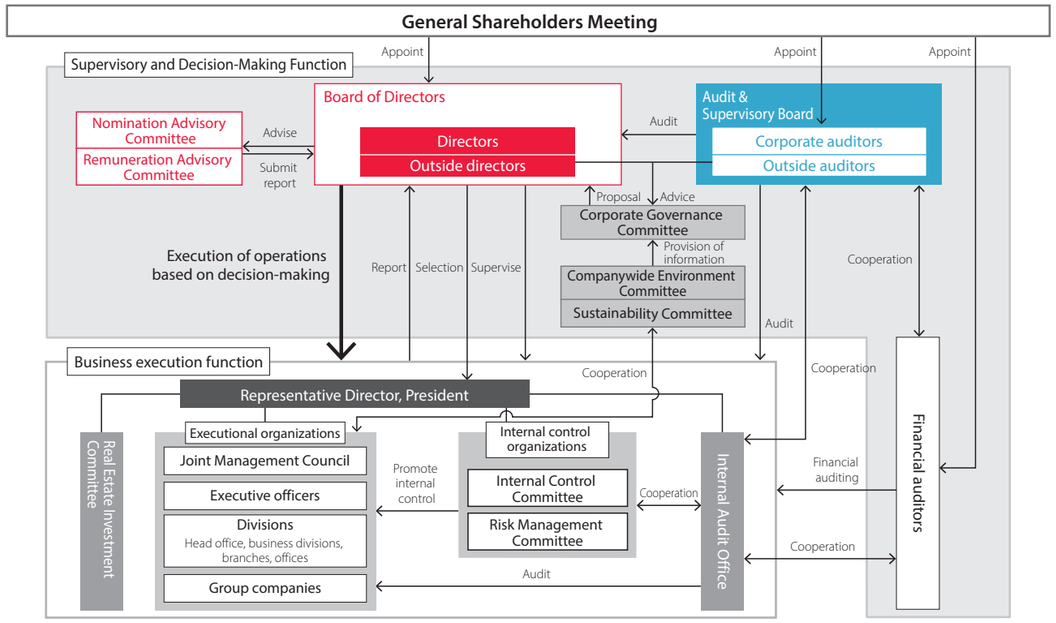
Joint Management Council	The Joint Management Council is established as a joint panel for appropriately executing the decisions made by the Board of Directors through communication between the Board of Directors and executive officers. (Chair: President and COO)
Internal Control Committee	The Internal 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)

Management Structure

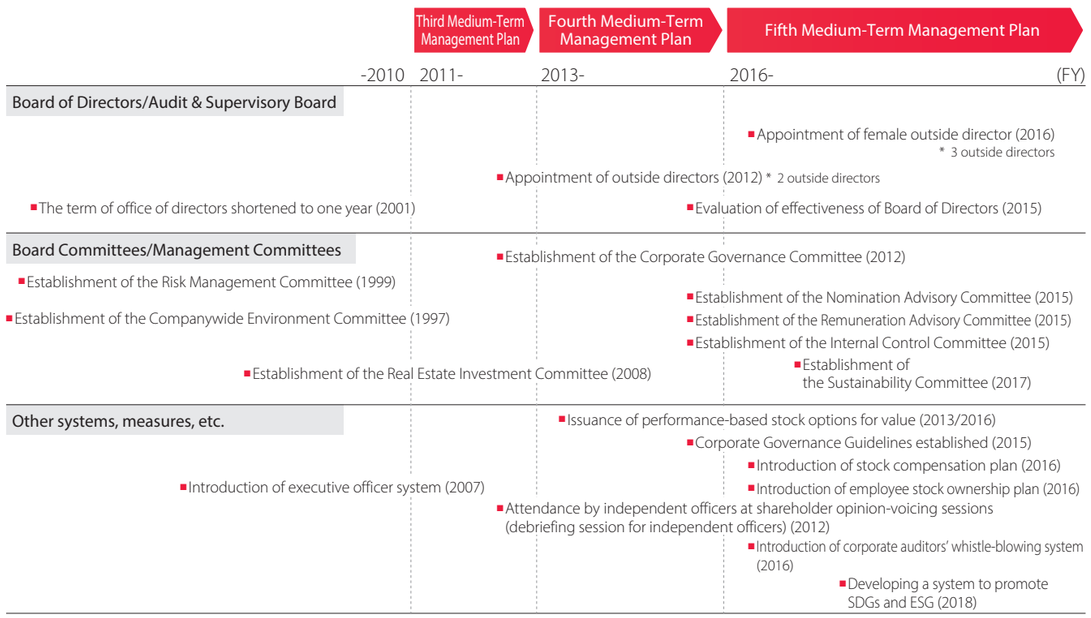
G Governance

Corporate Governance System

Corporate governance system



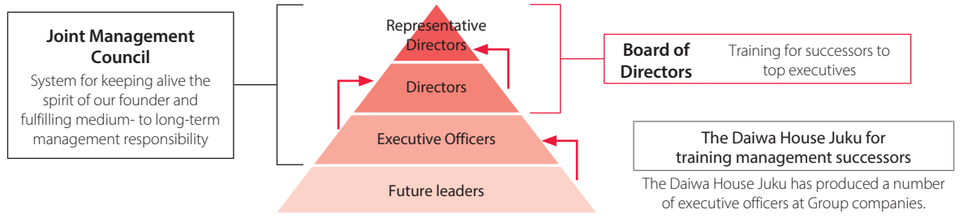
Measures to enhance corporate governance



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	→	Board of Directors
Discuss whether the candidate satisfies the above criteria and present conclusions to the 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.

The 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 comprehensive review of each cross-shareholding in terms of the risks and benefits of maintaining it, based on conditions of trade, financial statements, external ratings and the required profit figure for cross-shareholding calculated from the WACC (weighted average cost of capital). As a result, the number of cross-shareholdings has fallen from 98 at the end of fiscal 2014 to 69 at the end of fiscal 2018.

[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
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)
2018	6 companies (sale of entire holding), 1 company (partial sale of holding)

Management Structure

G Governance

Policy on Remuneration and Evaluation on Effectiveness of Board of Directors

Remuneration policies

Objective

The Company's director remuneration*1 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 remuneration system in consideration for corporate value creation.

A balanced remuneration system has been developed 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.

*1 Excluding Outside Directors.

Details

The remuneration shall be as follows.

(i) Fixed remuneration

Fixed remuneration shall be paid in cash as compensation for fulfilling job responsibilities, to all Directors and Audit & Supervisory Board Members. By resolution of the General Meeting of Shareholders, the limit on remuneration for Directors is 70 million yen per month, and for Audit & Supervisory Board Members 18 million yen per month.

(ii) Annual incentive bonus

Directors (excluding Outside Directors) will be paid in cash as performance-based remuneration within 0.5% of consolidated ordinary income for "generating profits and fostering the Company's growth and development." (KPI: consolidated ordinary income)

(iii) Stock compensation

Directors (excluding Outside Directors) will be paid two types of stock compensation as follows as performance-based remuneration in shares. The aim of this is to increase still further the connection to shareholders' profits, and to heighten incentives to raise corporate value over the medium to long term.

(1) Performance-based remuneration of transfer-restricted stocks (hereinafter "Transfer-restricted stock remuneration")

This is paid to encourage commitment to achieving medium-term performance targets and raising shareholder value. This is a system to grant company shares with restrictions on transfer up to retirement from the said position, at the start of the Medium-Term Management Plan, and according to attainment of consolidated operating income each fiscal year in the Medium-Term Management Plan. (KPI: consolidated operating income in the Medium-term Management Plan period)

(2) Stock issuance trust

This is paid as compensation for long-term shareholder value creation.

This system puts cash in trust and acquires company shares to the limit decided at the General Meeting of Shareholders, to grant shares to Directors, according to attainment of ROE (return on equity). (KPI: ROE for each fiscal year)

Regarding the amount to be paid, in principle efforts will be made to secure approximately 10% as stock remuneration to act as an incentive to raise corporate value in the medium and 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 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.

Initiatives to further share value with our shareholders

The Company recommends to its executives to own company shares through shareholders associations and so forth, to encourage a sense of shared profit awareness with shareholders and behavior respecting shareholder value.

The Shareholding Guidelines below in principle require the holding of a certain number of company shares at the minimum by members (or future members) of management, in recognition of the important role they play in sustainable growth and greater corporate value over the medium and long term for the Company.

<Shareholding Guidelines>

Directors: In principle to own 6,000 or more company shares within 3 years of appointment

Executive Officers: In principle to own 3,000 or more company shares within 3 years of appointment

Directors of Group companies*2: In principle to own 2,000 or more company shares within 3 years of appointment

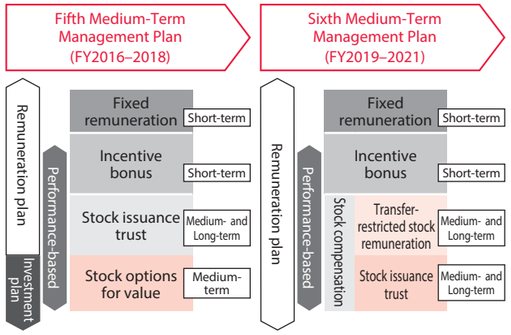
*2 Only for Directors of 100% subsidiaries.

Period	Type of remuneration	KPI
Short-term	Fixed remuneration	— (not more than 70 million yen per month)
	Annual incentive bonus	Consolidated ordinary income (paid within 0.5%)
Medium- and long-term	Transfer-restricted stock remuneration (shares)	Consolidated operating income in the Medium-term Management Plan period (FY2019: 378.0 billion yen FY2020: 390.0 billion yen FY2021: 405.0 billion yen)
	Stock issuance trust (shares)	ROE (the performance-based number of shares issued changes according to actual ROE figures) 13% or higher*3 = 1 (full amount paid) 8% or higher*4 but less than 13% = 0.5 Less than 8% = 0

*3 Target values in our Sixth Medium-term Management Plan.

*4 The minimum target values for a listed company suggested in the Ito Review (Final Report of the Ito Review "Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors" Project issued in August 2014).

Remuneration structure



Remuneration paid

(¥ million)

Director remuneration	FY2016	FY2017*5	FY2018	FY2018 Composition of remuneration
Directors' fixed remuneration (excluding outside directors)	756 (18 directors)	735 (19 directors)	742 (16 directors)	43.1%
Directors' annual incentive bonus	1,010 (16 directors)	986 (15 directors)	836 (16 directors)	48.5%
Stock compensation	153 (16 directors)	129 (15 directors)	145 (16 directors)	8.4%

*5 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.

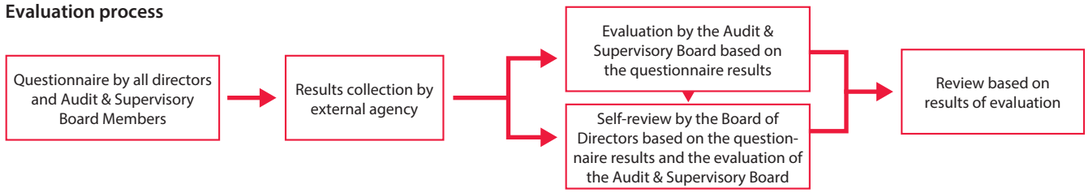
Overview of evaluation on effectiveness of Board of Directors

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 and 2018, 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	4.2
Operation of Board of Directors	4.5
Support structures for directors and Audit & Supervisory Board members	4.3
Training	3.9
Dialogue with shareholders	4.4
Attitude of directors and Audit & Supervisory Board members to their duties	4.5
Evaluation of the Board of Directors as a whole	4.6

Summary of evaluation results for 2018

Based on the status of each evaluation item, the effectiveness of the Board of Directors was evaluated as being fully satisfactory.

The Company recognizes the need to ensure a balance of knowledge, experience, expertise, genders, internationalism and other factors in the composition of the Board of Directors, for the sake of greater business expansion. In order to obtain the knowledge that is required as the business environment continues to change, we have implemented training sessions featuring outside lecturers for our directors and executive officers on the topics of expanding business overseas and strengthening management.

Management Structure

G Governance

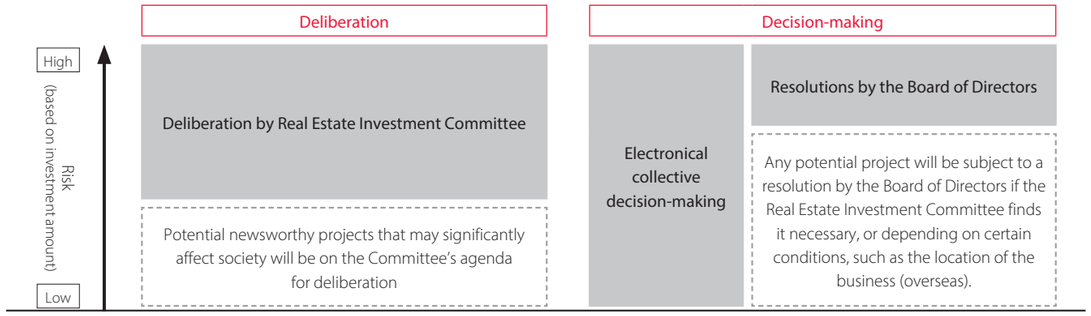
Investments in Real Estate Development and Risk Management

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 Paralympics 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 291 projects as of the end of fiscal 2018.

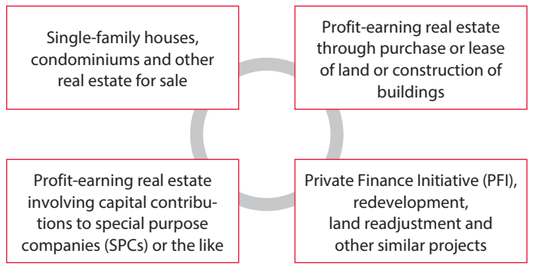
Deliberation and decision-making process according to impact of risk (based on investment amount)



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 and other environmental risks, 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 40 projects in fiscal 2018.

Major real estate development projects subject to deliberation



Risk assessment for investment decisions

[Economic risk assessment]
- Set IRR hurdle rates*

+

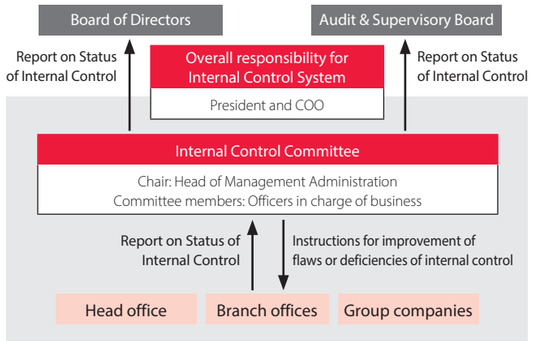
[Multilateral risk assessment (15 departments, 25 items)]
- Consistency with management philosophy, management strategies and brand image
- Legal risks
- Environmental impact, such as soil or groundwater pollution, ground condition risks
- Appropriateness of construction costs, etc.

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

Internal Control

Structuring and operating the internal control system

To ensure that all officers and employees conduct efficient work performance in compliance with laws and regulations and that the Daiwa House Group can achieve sustainable growth, the Company has created and implements the Internal Control System as described 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.

(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 are 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 2019 ▶ P.36-65 (Foundation of CSR Management)

Management Structure

G Governance

Regarding accounting irregularities in a Daiwa House Affiliate in the People's Republic of China, and off-specification components in single-family houses and rental housing and remedial work

On June 18, 2019, the Company received the final report of the third-party committee and external investigation committee, and suggestions for recurrence prevention measures. Currently we are engaged in formulating and steadily implementing such measures, while also overhauling the entire Group's governance system. Details of this will be made public in November 2019.

Accounting irregularities in a Daiwa House affiliate in the People's Republic of China (report from the third-party committee)	
Overview	**1. Fraudulent withdrawal of deposit** • RMB 1.4 billion (approximately USD 200 million) was misappropriated from the affiliate Dalian Daiwa Zhongsheng Real Estate Co., Ltd. (hereinafter the "Dalian JV") by two members of the board of directors and one staff member in charge of receipts and disbursements (three persons in total). All three persons had been assigned to the Dalian JV from Dalian Zhongsheng Group Co., Ltd. (hereinafter the "Zhongsheng Group"), the company which was the partner in this joint venture. **2. Disposal by sale without permission of real estate properties for sale** • In order to supply payment in substitution for debts of the Zhongsheng Group, 167 real estate properties for sale of the Dalian JV were sold without permission.
Cause/ background	1. The Company was unable to sufficiently control the Dalian JV as the percentage of voting rights was maintained at 50:50 despite owning over 80% of the shares due to the lack of funds by the Zhongsheng Group, and the problematic behavior by the Zhongsheng Group. 2. Insufficient support by head office for forming an internal control system in the Dalian JV. 3. Unable to effectively solve the problem when it occurred due to lack of clarity regarding the division of roles at head office. 4. Insufficient action at the Board of Directors in response to results of monitoring such as the audits by Audit & Supervisory Board Members.
Amount of financial impact	12.5 billion yen*1 *1 Treated in ordinary loss as an equity method loss for the period ended March 31, 2019.
Recurrence prevention measures suggested by the committee	**1. Establishment and management of the joint venture** (1) Formulate a basic policy on management of the joint venture, incorporate it into the joint venture agreement and articles of incorporation. (2) Carefully examine the joint venture scheme (3) Investigate joint venture partners, etc. **2. Administration of the joint venture in ordinary times** (1) Revise the property administration method (2) Develop/revise the articles of incorporation and other company regulations (3) Appropriate assignment of temporary resident employees (4) Examine how to secure quality in audits by local audit corporations, etc. **3. Raise understanding of local institutions, laws, and business practices** **4. Form a head office system to support the local company/joint venture** **5. Form systems to deal with emergencies** Clarify administration, responsibilities, and authority between the local organization and head office and between business divisions for business in other countries **6. Enlarge governance and internal control functions** (1) Revise the internal audits and financial inspections (2) Make the global internal reporting system well known (3) Follow up on instructions by important meetings, e.g. the Board of Directors **7. Make it an objective to improve the executives' understanding of fraud risks Training**
Current status	Construction on the Dalian project (Yihe Xinghai) is stopped, various measures are being considered for continuity of the business (as of August 2019)

News Release: Notice of Receipt of Third-Party Committee Report Concerning Irregularities in the Accounts of a Daiwa House Affiliate in the People's Republic of China
https://www.daiwahouse.com/English/ir/ir_news/pdf/dh_irnewsE190618_1.pdf

Off-specification Components (Report from the external investigative committee)	
Overview	Off-specification components in Daiwa House's single-family houses and rental housing revealed by internal reporting 1. Possibility of insufficient fire safety by (77 rental housing properties) 2. Nonconforming type-certified specifications (inverted-L columns in 192 properties, pad footings in 3,763 properties)
Cause/ background	**1. Problems with implementation of the legal compliance system** All the designers failed to accurately understand the acquired specifications based on the system of type-certified specifications. **2. Insufficient communication between business offices and the head office (Product Development Division and Technology Division)** The Technology Division, a company-wide control division, failed to make thoroughly known the application procedures and other matters of legal compliance in line with the Building Standards Act and other laws under the system of type-certified specifications, leaving the handling up to individual designers. **3. Problems with the process of drawing up plans** The Technology Division failed to sufficiently communicate or explain to the business offices and production-related operations centers the significance and gravity of the specification restrictions into the CAD system.
Amount of financial impact	1.5 billion yen*2 *2 Treated in operating loss as the cost of sales for the period ended March 31, 2019.
Basic policies announced following suggestions from the committee	**1. Rebuilding the legal compliance system related to building laws and regulations including the system of type-certified specifications** **2. Introduction of an internal qualification system related to the system of type-certified specification** **3. Strengthening of functions for internal communication of information on risks related to building laws and regulations including the system of type-certified specifications** **4. Strengthening of the internal auditing system related to building laws and regulations including the system of type-certified specifications** **5. Appropriate evaluation of the state of legal compliance of business offices** • Add the state of compliance with building laws and regulations including the system of type-certified specifications in the performance evaluations of business offices, in order to promote their compliance system. **6. Strengthening the sharing of information between the head office and business offices, and reiteration of training** **7. Reestablishment of type -certified specifications compliance rules** • Reestablishment of internal standard design rules (design guidelines) / standard specifications • Improvement of design processes for strengthening systems for checking type-certified specifications • Strengthening of functions for checking conformity to laws and regulations by development and rapid adoption of housing BIMCAD • Strengthening internal recording management (rebuilding of mechanism enabling long-term storage of plans)
Current status	• All 77 properties that possibly had insufficient fire safety have been repaired. • All the off-specification properties are being inspected for structural safety by a third-party institution, to be certified as having the required structural safety performance by the Building Standards Act. Once properties have their structural safety verified, we explain the situation to the owner and hand over the structural assessment reports (as of July 2019).

See the Group's Sustainability Report 2019 ▶ P.73-74 (Off-specification Components)

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 FY2018

General meeting of shareholders (June 25, 2019)

- Shareholder attendance **835**
- Percentage of voting rights exercised **84.78%**

Communication with institutional investors and analysts

Total **751** companies

Face-to-face and telephone interviews with Japanese and overseas institutional investors	As needed	334 companies
Financial results briefing session via teleconferencing	4 times	201 companies
Briefing sessions from top management	2 times	109 companies
Tours of our facilities for institutional investor representatives	7 times	63 companies
Business briefing sessions from the executive officers	1 time	10 companies
Dialogue on ESG	As needed	34 companies
Overseas roadshows by top management	Britain, North America, Singapore, Hong Kong	

Communication with individual shareholders and investors

Total **509** investors

Online explanatory sessions for individual investors	Once	509 investors

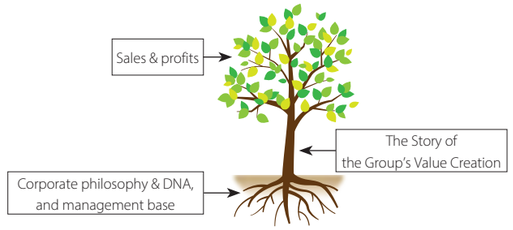
Feedback on shareholder and investor opinions and requests obtained through IR activities

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 ESG

ESG small meeting held as a tool for communication with investors on the 2018 Integrated Report.

Date	Dec. 19, 2018
Attendees	28 institutional investors
Daiwa House departments represented	CFO, IR officer, General Affairs, Environment, Sustainability Planning Department (former CSR Department), IR



In the meeting we explained the action taken in the 2018 Integrated Report in response to the issues that were apparent in the previous year's report. The newly added social contributions and value creation process to achieve sustainable growth for the Company have brought environmental and social issues into the spotlight, making visible the process of incorporation into our business (financial aspects) and bases (non-financial aspects). Our future vision is to maintain and improve our competitive dominance while expanding our field of business centered on social challenges. The Company also explained our initiatives and future issues on the themes of the environment, society, and governance.

The participating institutional investors left many valuable comments and opinions for us, a selection of which we reprint here: "How will the vision to 'Realize a society in which people can live fulfilling lives' link to achieving sales of 10 trillion yen for the Group?"; "What impact on your capital costs will engaging in ESG have?"; "Please make progress on specifying material issues"; "It's impossible to know the benefits of governance from outside the company."; "How will you raise the effectiveness of governance?"; "For society the outcomes are more important. If you have achieved your planned output but this has no impact on outcomes, you need to review why this happened."

We intend to continue this dialogue in order to further increase mutual understanding.

Financial Highlights

(¥ million)

Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net sales	1,690,151	1,848,797	2,007,989	2,700,318	2,810,714	3,192,900	3,512,909	3,795,992	**4,143,505**
Gross profit	337,213	379,952	415,771	507,903	540,868	632,417	721,312	793,832	**842,767**
Gross margin (%)	20.0	20.6	20.7	18.8	19.2	19.8	20.5	20.9	**20.3**
Selling, general and administrative expenses	249,516	264,996	287,746	344,326	360,516	389,316	411,220	446,690	**470,571**
Operating income	87,697	114,955	128,024	163,576	180,352	243,100	310,092	347,141	**372,195**
Operating income margin (%)	5.2	6.2	6.4	6.1	6.4	7.6	8.8	9.1	**9.0**
Ordinary income	79,049	108,506	145,395	176,366	202,628	233,592	300,529	344,593	**359,462**
Net income attributable to owners of the parent	27,267	33,200	66,274	102,095	117,133	103,577	201,700	236,357	**237,439**
Return on equity (ROE) (%)	4.4	5.1	9.5	11.9	11.2	9.1	16.3	17.0	**15.5**
Return on total assets (ROA) (%)	1.4	1.7	3.0	4.1	4.1	3.3	5.9	6.2	**5.7**
Total assets	1,934,236	2,086,097	2,371,238	2,665,946	3,021,007	3,257,805	3,555,885	4,035,059	**4,334,037**
Net assets	635,186	657,891	734,883	992,686	1,112,817	1,181,986	1,329,901	1,513,585	**1,643,717**
Net assets excluding non-controlling interests	634,151	657,111	733,623	986,518	1,105,628	1,170,278	1,308,290	1,474,539	**1,595,991**
Net assets ratio (%)	32.8	31.5	30.9	37.0	36.6	35.9	36.8	36.5	**36.8**
Interest-bearing debt	395,556	383,625	374,788	393,568	563,530	491,964	640,671	780,574	**778,546**
Debt-equity ratio (times)	0.62	0.58	0.51	0.40	0.51	0.42	0.49	0.53	**0.49**
Net debt-equity ratio (times)	0.39	0.20	0.17	0.18	0.29	0.26	0.32	0.31	**0.31**
Current ratio (%)	174.8	133.7	136.8	127.2	138.7	136.5	137.5	144.4	**137.0**
Fixed ratio (%)	197.3	188.9	189.4	161.2	158.3	164.8	164.4	156.3	**151.2**
Net cash provided by operating activities	127,957	248,771	164,247	78,451	139,465	278,497	287,691	382,365	**355,599**
Net cash used in investing activities	(83,594)	(117,226)	(140,736)	(240,439)	(235,027)	(202,447)	(343,643)	(313,664)	**(313,989)**
Net cash provided by (used in) financing activities	(77,834)	(28,766)	(28,633)	110,131	129,202	(130,185)	80,086	41,804	**(86,979)**
Market capitalization	613,119	656,313	1,091,856	1,156,397	1,565,858	2,109,310	2,129,297	2,731,576	**2,344,492**
Stock prices (FYE) (yen)	1,022	1,094	1,820	1,751	2,371	3,166	3,196	4,100	**3,519**
Per share of common stock (yen):									
Earnings per share (EPS)	47.09	57.36	114.52	161.08	177.74	156.40	304.14	355.87	**357.29**
Book-value per share (BPS)	1,095	1,135	1,267	1,496	1,678	1,762	1,971	2,218	**2,404**
Cash dividends*1	20	25	35	50	60	80	92	107	**114**
Dividend payout ratio (%)	42.5	43.6	30.6	31.0	33.8	51.2	30.2	30.1	**31.9**
Price earnings ratio (PER) (times)	21.70	19.07	15.89	10.87	13.34	20.24	10.51	11.52	**9.85**
Price to book value ratio (PBR) (times)	0.93	0.96	1.44	1.17	1.41	1.80	1.62	1.85	**1.46**
Number of employees (FYE)*2	26,310	27,130	30,361	32,628	34,903	37,191	39,770	42,460	**44,947**
Number of group companies	77	89	113	129	145	172	196	317	**387**
Consolidated to non-consolidated net sales ratio (times)	1.60	1.66	1.62	1.89	1.91	1.94	2.04	2.09	**2.15**
Consolidated to non-consolidated net income ratio (times)	2.14	1.84	1.35	1.26	1.21	1.26	1.37	1.19	**1.30**

*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.

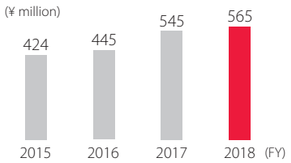
Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
Sales by segments (consolidated)*1 (¥100 million)									
Single-Family Houses	3,224	3,363	3,511	3,944	3,753	3,783	3,903	3,853	**3,838**
Rental Housing	4,961	5,267	5,925	6,887	7,729	8,801	9,772	10,308	**10,613**
Condominiums	1,409	1,288	1,567	2,427	2,313	2,793	2,628	2,850	**2,805**
Existing Homes Business	607	681	764	867	916	955	1,055	1,121	**1,145**
Commercial Facilities	2,740	3,069	3,472	4,219	4,562	4,955	5,697	6,208	**6,939**
Logistics, Business and Corporate Facilities	1,943	2,570	2,514	5,921	5,815	7,363	8,284	8,502	**10,223**
Other Businesses	2,800	3,129	3,353	3,939	4,265	4,588	5,135	6,371	**7,161**
Adjustment	(786)	(881)	(1,030)	(1,205)	(1,248)	(1,311)	(1,349)	(1,256)	**(1,293)**
Total	16,901	18,487	20,079	27,003	28,107	31,929	35,129	37,959	**41,435**
Operating income by segments (consolidated)*1 (¥100 million)									
Single-Family Houses	72	110	125	133	88	165	192	215	**199**
Rental Housing	469	529	522	642	695	819	942	1,066	**1,022**
Condominiums	53	37	99	107	108	157	134	133	**135**
Existing Homes Business	42	45	61	93	99	112	130	132	**159**
Commercial Facilities	335	331	459	607	672	803	1,007	1,141	**1,377**
Logistics, Business and Corporate Facilities	115	258	206	269	384	680	789	889	**989**
Other Businesses	27	82	96	140	102	95	168	230	**325**
Adjustment	(239)	(246)	(291)	(358)	(348)	(403)	(265)	(337)	**(486)**
Total	876	1,149	1,280	1,635	1,803	2,431	3,100	3,471	**3,721**
Housing starts*2 (thousands of units)									
Housing starts	819	841	893	987	880	921	974	946	**952**
Custom-built houses	309	305	317	353	278	284	292	282	**288**
Houses in housing development projects	113	118	125	134	124	126	135	138	**145**
Rental housing	292	290	321	370	358	384	427	410	**390**
Condominiums	98	120	124	124	110	118	112	108	**120**
Sales of houses in Japan (non-consolidated) (units)									
Sales of houses	37,414	39,486	43,203	46,018	49,087	51,207	54,925	51,641	**48,410**
Custom-built houses	8,133	8,323	7,965	8,088	7,280	6,999	7,106	6,907	**6,524**
Houses in housing development projects	1,370	1,676	1,916	2,433	2,614	2,333	2,180	2,320	**2,192**
Rental housing	25,224	27,115	30,514	32,424	36,757	38,903	43,428	40,254	**37,905**
Condominiums	2,687	2,372	2,808	3,073	2,436	2,972	2,211	2,160	**1,789**
Reference : Cosmos Initia Co., Ltd.*3 Condominiums for sale	—	—	—	799	772	896	744	558	**414**
Single-Family Houses Business									
Average sales per unit (¥ million)									
Custom-built houses	28.8	29.7	30.1	31.1	32.7	33.7	34.3	35.9	**37.3**
Houses in housing development projects	24.0	24.0	23.8	23.5	24.0	24.5	25.3	24.0	**24.3**
Rental Housing Business									
Average sales per unit (¥ million)									
Rental housing	10.9	11.3	10.7	11.2	11.4	11.6	11.4	12.0	**12.4**
Steel-frame (low-rise)	9.9	10.1	10.3	10.9	11.1	11.3	11.1	11.6	**12.0**
Steel-frame (high- and mid-rise)	14.6	12.2	14.0	14.4	14.9	15.2	16.6	17.8	**18.1**
Number of rental housing units managed									
Rental housing units managed	281,642	306,586	346,068	391,778	435,515	471,342	510,208	543,124	**572,238**
Lump-sum contracted units (occupancy guarantee)	237,934	265,219	305,808	352,341	397,282	433,628	471,845	505,313	**531,356**
Occupancy rates (%)	96.6	97.4	97.6	97.2	97.5	97.4	97.1	97.3	**96.9**
Condominiums Business									
Sales (non-consolidated) (¥ million)									
Average sales per unit	36.7	35.8	34.4	41.1	37.9	44.2	48.4	53.2	**55.8**
Number of condominium units managed									
Condominium units managed	204,132	283,457	295,002	309,330	320,488	332,299	341,705	353,026	**360,619**
Commercial Facilities Business									
Subleasing areas of commercial facilities									
Total leasing floor space (m^2)	4,405,250	4,453,785	4,701,563	4,829,902	5,134,274	5,441,604	5,736,312	6,157,287	**6,375,278**
Leasing floor space occupied (m^2)	4,313,949	4,387,426	4,656,848	4,791,228	5,087,813	5,399,137	5,684,372	6,099,232	**6,311,331**
Tenants	7,230	7,593	7,936	8,524	8,989	9,532	10,038	10,843	**11,220**
Occupancy rates*4 (%)	97.9	98.5	99.0	99.2	99.1	99.2	99.1	99.1	**99.0**

*1 Including intersegment transactions. *2 Statistics for housing starts are from Housing Starts Survey by Ministry of Land, Infrastructure, Transport and Tourism.
*3 Cosmos Initia became a consolidated subsidiary in June 2013. *4 Leasing floor space occupied/ Total leasing floor space.

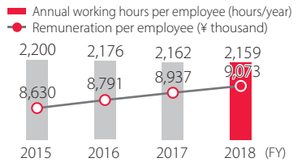
Non-Financial Highlights

Key data on human resources base

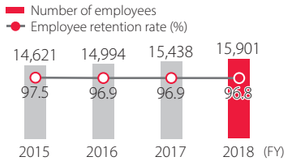
❶ Human resources development costs (non-consolidated)*1



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



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

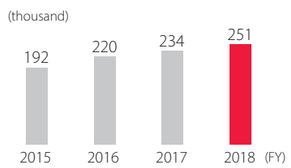


Under its philosophy of "Developing people through business," the Group is proactively investing in human resources development. With its efforts on health management, annual working hours are showing an improving trend. Meanwhile, as enhanced productivity has allowed profits to keep growing, the returns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

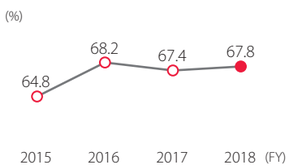
*1 Labor and transportation costs for training, etc. *2 Employee retention rate = 1 - Rate of turnover due to voluntary resignation

Key data on customer base

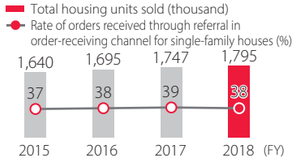
❶ Number of Daiwa Family Club members*1



❷ Single-family house owner satisfaction*2



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

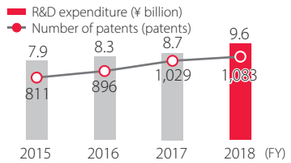


We have made an effort to refine our activities in quality assurance and after-sales services to improve customer satisfaction. As a result, Daiwa Family Club membership has increased to approximately 250,000 and the questionnaire survey targeted at single-family house owners shows a level of customer satisfaction at approximately 68 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.

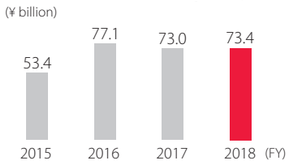
*1 Membership organization for the owners of housing units (single-family houses and condominiums) built or sold by the Company.
*2 Percentage of owners of single-family houses (contracting and lot-subdivision), who chose "Very Good" in the questionnaire survey conducted one month after their move-in.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

Key data on technology and manufacturing base

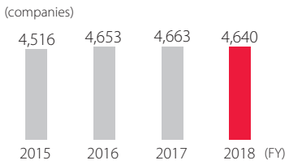
❶ R&D expenditure/Number of patents in possession



❷ Capital investments (excluding investments in real estate development)



❸ Number of partner companies*



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

* For FY2018 the number of members is as of May 1, 2019.

Inclusion of Daiwa House Industry in ESG indices

ESG indices adopted by the GPIF

FTSE Blossom Japan — FTSE: ESG rating 4.1 (out of 5.0)

MSCI — 2018 Constituent MSCI Japan ESG Select Leaders Index — MSCI: ESG rating AA (seven levels from AAA to CCC)

Other major ESG indices

FTSE4Good — MSCI — 2018 Constituent MSCI ESG Leaders Indexes

STOXX ESG LEADERS INDICES — Member 2016/2017

MEMBER OF Dow Jones Sustainability Indices in Collaboration with RobecoSAM

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

The Daiwa House Group introduced the CSR Self-Assessment Indices in FY2006 to measure and visualize the outcomes of our social and environmental activities, in order to improve them. The figures for the Self-Assessment Indices in FY2018, the final fiscal year, were 765 points versus the FY2018 target of 1,145 points, achievement rate of 66.8%. Out of the 26 priority issues in the Medium-Term CSR Plan (FY2016-2018), only 20 indicators for the seven most important priority issues are given in this report. For further details see the "Sustainability Report 2019."

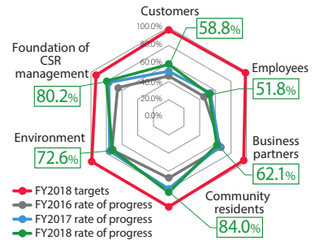
See the Group's Sustainability Report 2019 ▶ P.201-206 (CSR Self-Assessment Indices)

Fiscal 2018 results/CSR Self-Assessment Indices

Target stakeholder	Priority issues (The most important priority issues)	Indices	Full points	FY2018 targets	FY2018 results	Rate of progress
Customers	3 (1)	7	175	170	100	58.8
Employees	4 (2)	10	250	247	128	51.8
Business partners	3 (2)	8	200	193	120	62.1
Community residents	2 (1)	5	125	125	105	84.0
Environment	6 (–)	11	225	223	162	72.6
Foundation of CSR management	8 (–)	8	200	187	150	80.2
Total	26	49	1,175	1,145	765	66.8

Progress rate graph by stakeholder

(fiscal 2018 results against fiscal 2018 targets)



Priority issues relating to stakeholders

Customers

Point allotment in the CSR Self-Assessment Indices

The most important priority issues	Indices	FY2018 targets	FY2018 results	FY2018 (results/targets)
Long-term efforts to earn trust	Customer (owner) satisfaction (Single-Family Houses)*1	80% or above	67.8%	15 pts/25 pts
	Long-term viewpoint evaluations (Single-Family Houses)*1	100%	96.4%	20 pts/25 pts
	Questionnaire evaluation after taking residence (Single-Family Houses)*1	70% or above	60.6%	20 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	FY2018 results	FY2018 (results/targets)
Develop human resources	Degree of satisfaction of employees to overall human resources training	85 pts	56 pts	5 pts/22 pts
	Evaluation of OJT*2	80%	85.4%	15 pts/15 pts
	Rate of acquisition of professional qualifications by young employees*3	20%	15.2%	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%	32.9%	5 pts/25 pts
	Number of female managers	160	137	10 pts/25 pts
	Rate of employees with disabilities	2.30%	2.39%	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	FY2018 results	FY2018 (results/targets)
Encourage business partners in CSR efforts	Education of in-house employees (Purchasing Department)*4	95%	78.1%	5 pts/25 pts
	Evaluation of business partners and purchasing work based on in-house criteria	4.5 pts or above	4.6 pts	25 pts/25 pts
	Rate of response of self-checks based on the Business Partner Code of Conduct	70%	—	0 pts/25 pts
Improve labor conditions and ensure human resources for construction subcontractors	Number of employees trained on-site*5	500	481	22 pts/25 pts
	Number of labor accidents	-20%	+27.7%	0 pts/25 pts
	Number of partner company members	4,800	4,670*6	19 pts/25 pts

*4 Index shown only for Purchasing Department *5 Figures shown only for Housing Construction *6 As of April 1, 2019

Community residents

The most important priority issues	Indices	FY2018 targets	FY2018 results	FY2018 (results/targets)
Active involvement in, and collaboration with other parties for local community development	Collaboration with NPOs and NGOs	50%	44.2%	15 pts/25 pts
	Participation rate in Endless Donations	25%	30.9%	25 pts/25 pts
	Amount conversion of community co-creation activities by branch offices	300 million yen	219 million yen	15 pts/25 pts

Environment

The most important priority issues	Indices		FY2018 targets	FY2018 results	FY2018 (results/targets)
Prevention of global warming	Business activities	Rate of decrease from the fiscal 2005 figure in CO_2 emissions per unit of sales	60% reduction	62.4% reduction	25 pts/25 pts
	Products and services	Contribution to CO_2 reduction (thousand t-CO_2)	5,150	4,130	0 pts/25 pts

Corporate Data

Corporate Data (as of June 25, 2019)

Corporate name:	Daiwa House Industry Co., Ltd.
Founding:	April 5, 1955 (Established: March 4, 1947)
Paid-in capital:	¥161,699,201,496
Employees: (consolidated)	44,947 (as of March 31, 2019)
Securities traded:	Tokyo stock exchange
Securities code:	1925
Head office:	3-3-5 Umeda, Kita-ku, Osaka 530-8241, Japan Phone: +81-6-6346-2111
Tokyo Head office:	3-13-1 Iidabashi, Chiyoda-ku, Tokyo 102-8112, Japan Phone: +81-3-5214-2111
Offices (37):	Hokkaido, Iwate, Sendai, Fukushima, Tsukuba, Ibaraki, Utsunomiya, Gunma, Saitama, Saitama-nishi, Saitama-higashi, Chiba, Kashiwa, Chiba-chuo, Joto, Musashino, Yokohama, Kawasaki, Atsugi, Kanazawa, Niigata, Gifu, Nagoya, Okazaki, Aichi-kita, Yokkaichi, Shiga, Kyoto, Sakai, Hokusetsu, Kobe, Nara, Okayama, Hiroshima, Fukuoka, Kita-Kyushu, Kumamoto
Branches:	41
Factories:	9
Research center:	Central Research Laboratory (Nara)
Training centers:	Nara, Osaka and Tokyo
Overseas offices/ Representative offices:	Shanghai (China), Taipei (Taiwan), Jakarta (Indonesia), Manila (Philippines), Hanoi (Vietnam), Ho chi minh (Vietnam), Yangon (Myanmar), Mexico city (Mexico)
Contact:	Daiwa House Industry Co., Ltd. IR Department, Management Administration Headquarters Phone: +81-6-6225-7804 Fax: +81-6-6342-1419 e-mail: dh.ir.communications@daiwahouse.jp
Website:	https://www.daiwahouse.com/English

Board of Directors, Audit & Supervisory Board and Executive Officers (as of June 25, 2019)

Board of Directors

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

Audit & Supervisory Board

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

* Representative Director

Managing Executive Officers

Keigo Okada, Shinichi Hirose, Mikio Sasaki, Eiichi Shibata, Kohei Yamasaki, Yuji Yamada, Kenji Kinoshita, Takashi Miyatake, Takaki Hiromori

Senior Executive Officers

Tetsuya Tamura, Naoki Nishioka, Yasuo Nakamura, Yukikazu Kataoka, Nobuya Ichiki, Isao Mizutani, Kyoji Kato, Yoshin Minagawa, Koji Harano, Tetsuro Wada, Hirofumi Hama, Moritaka Noumura, Kazuhiro Tada, Toshiya Nagase, Nobuhito Ishibashi, Yoshinori Hashimoto, Naoki Hayashi, Hitoshi Fukushima

Executive Officers

Kazuhiro Kotaka, Norio Togashi, Shigeki Ochiai, Yukio Takamatsu, Hiroshi Kono, Masataka Kanai, Takafumi Nakao, Mitsuhiro Ito, Kazunori Nibe, Keitaro Takebayashi, Hirotaka Najima, Yoshinori Iwabuchi, Yuichi Sugiura, Masatoshi Hatta, Hideharu Hashimoto, Keisuke Izumoto, Ryuichi Oyaide, Masafumi Sugimoto, Taro Kawamura

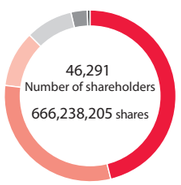
Share Information (as of March 31, 2019)

Authorized	1,900,000,000 shares
Issued	666,238,205 shares
Number of shareholders	46,291

Principal shareholders	Thousands of shares*1	Equity stake*2 (%)
The Master Trust Bank of Japan, Ltd. (trust account)	57,030	8.58
Japan Trustee Services Bank, Ltd. (trust account)	42,483	6.39
Sumitomo Mitsui Banking Corporation	16,117	2.42
MUFG Bank, Ltd.	15,470	2.33
Japan Trustee Services Bank, Ltd. (trust account 5)	12,183	1.83
Daiwa House Industry Employee Shareholders Association	12,176	1.83
JP MORGAN CHASE BANK 385151	12,043	1.81
Nippon Life Insurance Company	11,944	1.79
SSBTC CLIENT OMNIBUS ACCOUNT	9,918	1.49
Japan Trustee Services Bank, Ltd. (trust account 7)	9,521	1.43

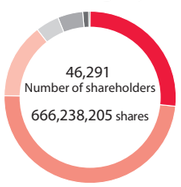
*1 Number of shares held is rounded down to the nearest thousand.
*2 Equity stake is calculated excluding treasury stock.
Equity stake is rounded down to three decimal places.

Shareholdings by shareholders



	Number of shareholders	Shares	Equity stake (%)
Financial institutions	207	308,672,177	46.33
Foreign investors	904	204,475,543	30.69
Individuals and others	43,765	70,707,296	10.61
Other corporations	1,374	58,491,731	8.78
Securities companies	40	21,567,465	3.24
Treasury stock	1	2,323,993	0.35

Shareholdings by scale



	Number of shareholders	Shares	Equity stake (%)
10 million or more	8	179,449,847	26.93
1 million or more	99	324,378,830	48.69
100 thousand or more	289	94,824,285	14.23
10 thousand or more	1,120	30,303,663	4.55
1 thousand or more	14,903	30,730,655	4.61
1 hundred or more	25,296	6,387,193	0.96
Less than 1 hundred	4,576	163,732	0.02

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

Editorial Postscript

Returning to our roots

Thank you for reading our report.

The recent discovery of financial irregularities at an affiliate in the People's Republic of China, and the discovery that off-specification components had been used by the Company in the construction of certain single-family houses as well as rental apartment buildings, have damaged our reputation for reliability among our shareholders and investors, as well as many other stakeholders. I would like to take this opportunity to express my sincerest apologies for the concern caused by these incidents. To reach our goal of ¥10 trillion in net annual sales by 2055, the 100th anniversary of the Company's founding, we have made progress in strengthening the Group's management in the direction of sustainability by integrating our business operations with environmental, social, and governance (ESG) aspects. Going forward, we will work to regain the trust of our stakeholders through rigorous risk management and measures to reestablish Group governance on a firm footing, enabling us to make a substantial contribution to society.

Viewing the social and environmental circumstances in which the Group operates, including the occurrence of various natural disasters on an unprecedented scale, as well as the necessity to be prepared for all sorts of contingencies amid a global situation that is extremely difficult to predict, what we need is the ability to respond promptly to the changing business scene. To further enhance that ability, we must return to the roots of our corporate philosophy and the attitude to business espoused by Nobuo Ishibashi, the founder of Daiwa House. We must deeply reflect on the true meaning of Mr. Ishibashi's central tenet, which is "being of service to people." A number of our stakeholders have suggested that we need to reexamine our business fundamentals, and in response, we have been refocusing on the importance of continuing to contribute to society. We intend to firstly achieve our targets under the 6th Medium-Term Management Plan so as to address identified priority issues in pursuit of continuous growth by the Group and help to realize a sustainable society. In this way, we hope to regain the full trust of our stakeholders. Through the release of the present report, we aim to make progress in pursuing dialog with our stakeholders, and by so doing to effect the improvements necessary to our management.

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
Managing Executive Officer
General Manager, Finance Department and IR Department

Our Communications at a Glance

	Dialogue	Reports	WEB
Financial information	• 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	• Securities report • Business result report • Integrated Report Integrated report on selected financial and non-financial information judged to be material	 Investor relations https://www.daiwahouse.com/English/ir/
Coordination			
Non-financial information	• Experts' dialogue • Stakeholders' meeting	 • Sustainability Report (incl. Data Section / Third-Party Assurance) Japanese-language edition English-language edition • Corporate governance report	 CSR management foundation measures with respect to the environment and the community https://www.daiwahouse.com/English/sustainable/csr/ Addressing environmental issues https://www.daiwahouse.com/English/sustainable/eco/ Addressing social issues https://www.daiwahouse.com/English/sustainable/social/

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www.daiwahouse.com

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