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Chapter 1 Message from the CEO



Keiichi Yoshii

Keiichi Yoshii
President, CEO

Co-creating value with our stakeholders: Moving toward a world where, living in harmony, we embrace the Joys of Life

Looking back on our Sixth Medium-Term Management Plan

**Organizational reform has led to
record-high sales and dividend increases
for 12 consecutive periods**

Under our Sixth Medium-Term Management Plan, we initially aimed to build the foundations for renewed growth in the Single-Family Houses and Rental Housing Businesses, and to continue developing our business in the Commercial Facilities and Logistics, Business & Corporate Facilities Businesses. However, since January 2020, we have made protecting the lives and health of our stakeholders our highest priority amid the continued spread of COVID-19 infections. We were among the first in the industry to respond, temporarily closing down our construction sites following the declaration of the state of emergency in Japan in April 2020. Due to decreased opportunities to meet with our customers face-to-face, decreased capital investment by companies, and a slowdown in the hotel and sports club operation business, we were unable to achieve the targets set for fiscal 2021, the final year of the Sixth Medium-Term Management Plan.

However, sales reached a record high thanks to new demand in response to the post-pandemic new normal, increased sales of development properties, and expansion of our single-family houses business overseas. Although we failed to achieve our ROE target of 13% due to a decline in profit levels, we were able to maintain a dividend payout ratio of more than 30% and we saw an increase in the dividend amount for 12 consecutive periods. However, following the discovery in fiscal 2019 of a problem related to inadequate work experience criteria for qualification tests for operation and management engineers, in December 2021 we were subject to a 22-day suspension of business operations, reminding us of the importance of obeying the law. A few incidents surfaced during the past three years, and these have caused great inconvenience and concern to you, our stakeholders. For that, we once again express our sincere apologies. Having learned from these lessons, we have thoroughly strengthened our Group's governance through organizational reform, but we remain committed to further strengthening and enhancing our governance and compliance.

Results of the past medium-term management plans and the positioning of the Seventh Medium-Term Management Plan ▶ P.29

Formulating our Seventh Medium-Term Management Plan

Back to our roots: Leveraging the joy we derive from our approach of putting each customer first to propel us forward

Our basic aim at Daiwa House Group is Creating Dreams, Building Hearts, and we have always worked with our stakeholders to achieve this through a wide variety of businesses that transcend the narrow boundaries of a home builder. These range from housing, including single-family houses and rental housing, to business used in business, including commercial facilities and logistics, business & corporate facilities business. In particular, our founder has always emphasized to our employees the importance of becoming a Daiwa House that is much-loved by our stakeholders and has worked with many customers towards that goal. The joy that we gain from working closely with our customers serves as the driving force behind our business.

We are currently aiming for even further growth not only by constructing buildings but also creating new value to support the lives of the people who live in those buildings and solving issues facing society across the entire lifestyle infrastructure. Our Group's greatest strength is its capacity to offer comprehensive business ideas on optimally leveraging a land property. However, we hope to further strengthen our capacity to offer comprehensive business ideas for the entire community, including lifestyle infrastructure and ways of living.

To respond to the needs of our customers not only in Japan but also across the globe, we will remain focused on the spirit of "together with our customers," which we have valued since our founding, and work with business partners and local communities. We will also leverage digital technologies to their full potential in order to create new value quickly.

Adopting Our Hopes for the Future, our compass for moving Daiwa House Group into a new era

Our Group has diversified its business interests to meet the diversifying needs of our customers in response to changes in time and society, based on our founder's spirit, *Don't do things because they will make a profit, but because they will be of service to society*. Owing to the rapidly advancing changes in values and other factors, however, it is unlikely that the success stories of the past will still hold in the future. We have therefore returned to our founder's conviction having hopes for the future enable both the individual and the company to grow: With our centennial year coming up in 2055, we launched Our Hopes for the Future project, which involved everyone who works for the Group from junior employees to the most experienced staff, to answer some key questions; namely, what kind of society do we want to build and what do we need to do to achieve it. Together with more than 70,000 employees of the Daiwa House Group, over the course of a year, we discussed these social issues and deliberated over the Group's purpose. We have defined Our Hopes for the Future,

elicited through this process, as the Group's Purpose, and this will serve as a new compass that will lead the way to future growth for the Group.

We learned two key things through the project: employees of all ages are incredibly passionate about contributing to society, and they are strongly focused on hard numbers. Looking back, we notice that these two points are what have supported our growth in the past.

Our Hopes for the Future, comprised of the society we want to build and our role in realizing it, are to create the fundamental societal infrastructure and lifestyle culture rooted in regeneration, ensuring a world where, all living in harmony, we can all embrace the Joys of Life. We believe that we can only be happy when everyone around us is happy. To that end, at the heart of this, first and foremost, are our customers, as well as our employees and business partners. By sharing Our Hopes for the Future—the Daiwa House Group's Purpose—with stakeholders and realizing the ideals it embodies, we intend to enhance our corporate value as we develop our future as a much-loved business.

The six priority issues (materialities) for achieving our Purpose

We have defined the actions that our Group needs to take to achieve Our Hopes for the Future: create value premised on regeneration, use technology for real-world innovation, and help achieve diverse lifestyles true to people's selves. To this ends we have identified six priority issues:

- (1) Circular economy and carbon neutrality
- (2) Local community regeneration
- (3) Globalization
- (4) DE&I*
- (5) Digital transformation
- (6) Governance

* Diversity, equity and inclusion

Seventh Medium-Term Management Plan

Establishing a sustainable growth model that plays to our strengths, thereby creating the fundamental societal infrastructure and lifestyle culture rooted in regeneration

Under our Seventh Medium-Term Management Plan (the 7th Plan), we will keep our priority issues at the forefront of our minds as we establish a sustainable growth model with a view to maximizing growth and corporate value in the Eighth Medium-Term Management Plan and beyond. We will tackle several focal themes based on three management policies: evolve our revenue model, optimize management efficiency, and strengthen management base.

Through these efforts, we aim to further accelerate a virtuous cycle of developing our businesses and strengthening our bases. In developing our businesses, we will maintain our contracting- and development-type businesses, expand our overseas businesses and stock businesses, and advance

businesses that feature regeneration and circularity as key concepts, thereby evolving our revenue model into one that enables us to achieve sustainable growth. To strengthen our bases, we will strive to increase the value of our human capital, leverage digital transformation to enhance the customer experience and strengthen technology and manufacturing base, and further strengthen corporate governance.

In fiscal 2026, the final year of the 7th Plan, we will work to achieve the following performance targets: sales of ¥5.5 trillion, operating income of ¥500 billion, net income attributable to owners of the parent company of ¥340 billion, and operating income of ¥100 billion or more in our four businesses (Single-Family Houses, Rental Housing, Commercial Facilities, and Logistics, Business & Corporate Facilities). We plan to achieve overall sales and operating income from our overseas businesses of ¥1 trillion and ¥100 billion, respectively. We believe that our housing business in the US will drive these earnings, but overall, these won't be difficult targets to achieve, with housing demand expected to outstrip concerns like rising interest rates and with plans to continue creating synergies with local Group companies to address the labor-shortage issue.

For shareholder returns, we have increased the dividend payout ratio from the previous 30% or more to 35% or more (the minimum dividend during the 7th Plan is 130 yen per share). Additionally, we plan to implement flexible share buybacks.

Since the D/E ratio has changed to approximately 0.6 times, under the 7th Plan, we will continue to strengthen shareholder returns and aim for an ROE—the most important indicator—



of 13% or higher while making effective use of leveraging.

Furthermore, we will maximize job satisfaction among employees while also achieving corporate profitability and reducing our environmental impact by advancing our environmentally conscious management with a new plan to achieve carbon neutrality by fiscal 2030.

The next five years: Evolving a revenue model that achieves sustainable growth

Our 7th Plan has been set for a period of five years. Although our Group's business has predominantly been in contracting,

which requires no investment, the proportion of our business requiring upfront investment, such as the real estate development, has been increasing. Development projects take some time to produce results. This is because they start with the purchase of land that must then be developed over an extended period. While a revenue model premised on quick turnaround from development to sale would improve capital efficiency, it would also place an even greater strain on employees. This model is therefore unlikely to be sustainable in light of a shrinking workforce, and that is why we would like to evolve our revenue model towards value creation over the mid- to long-term in order to realize stakeholder capitalism that considers the interests of all stakeholders from customers and local communities to our employees and business partners. In line with the tenets set forth in of Our Hopes for the Future, we want to build a sustainable growth model by taking the time needed to strengthen our relationships with all stakeholders while also giving ample thought to the value we must provide to best satisfy customers.

Our efforts on materialities

(1) Circular economy and carbon neutrality: Environmental management geared toward circularity and regeneration

We recognize that environmental initiatives and addressing climate change are ways that we can support the livelihoods of future generations of children. This in mind, we have been quick to address environmental issues, and in August 2021 we

announced our commitment to achieving carbon neutrality by 2050. Backcasting toward achieving this goal, we have set a target of reducing greenhouse gas emissions by 40% across our entire value chain by 2030 versus fiscal 2015 levels. In the 7th Plan, we will work on our carbon neutral strategy in all our businesses in order to achieve this target.

First, although we had initially aimed to achieve our RE100 initiative (100% renewable energy for electricity used in our business activities) by 2040, we have moved this forward by 17 years to fiscal 2023. The Daiwa House Group already generates 1.3 times more renewable energy than the energy we use, and we expect to gain value from these renewable energy supplies (purchasing non-fossil fuel energy certificates). We will work towards being self-sufficient in renewable energy by generating and using our own renewable energy, thereby both promoting renewable energy use and achieving RE100.

Meanwhile, in addition to our own newly constructed facilities, we will increase the uptake of ZEH and ZEB* across all our businesses, with the aim of making all new buildings we offer ZEH or ZEB by 2030. We will also advance the installation of photovoltaic panels on all buildings. We will provide customers with a thorough explanation of the environmental added value of these panels to win their understanding and make proposals on the premise that customers will install the panels themselves. If a customer's circumstances prevent them from installing their own panels, we will seek approval to install panels on the customer's roof on their behalf, aiming for installation of panels on all the buildings we build. By having

customers use the electricity generated from these panels, we will contribute to the decarbonization of our customers and, by extension, the world. By engaging in a wide range of initiatives that leverage our strengths, we will aim to tackle environmental issues while also generating corporate profits and achieve carbon neutrality by 2050.

* ZEH: Net Zero Energy Houses; ZEB: Net Zero Energy Buildings

(2) Revitalizing local communities: Businesses for solving social issues in Japan

A number of social issues in Japan are growing increasingly serious, including the declining birthrate and aging population, vacant houses, and the decrease in population in regional and suburban areas. The Daiwa House Group recognizes that these issues must be addressed and, to that end, is developing businesses designed to help solve them.

Livness Town Project: Building communities where all generations can partake of the Joys of Life

The suburban housing complexes originally developed by Daiwa House Group (such as Neopolis) are facing challenges, including aging buildings, declining birth rates, and aging populations. The Livness Town Project is based on the idea that we have no business developing new communities if we do not engage in responsible consumption and production. The project involves redevelopment communities with the aim of redefining the vitality and appeal these communities



once had. We are proceeding with these efforts through a number of proof-of-concept demonstrations.

To achieve this, it is important that the people who have supported these communities are happy to live there and that new generations of residents want to move in. We are working with local authorities and other bodies to consider how we can help the elderly stay healthy and help families raise their children. Last year, in an effort to create a place for communication, we renovated a house to turn it into a meeting place and established a mechanism for addressing the problems and needs of the local area. Recently, the rapid uptake of remote work has reduced the need for towns to be located along train lines. We will propose new ways of living and create new markets in response to changing values brought on by social changes. We already have projects underway in eight locations across Japan, and we intend to increase the number

of locations so that we can continue to build communities that will let all generations embrace the Joys of Life.

Leveraging strengths rooted in communities for multi-use developments and re-developments

We must work to revitalize local economies and create jobs congruent with redevelopment of regional cities and suburbs if we are to realize regeneration. We believe that maximizing the potential of the local communities through business will contribute to the revitalization of those localities. To date, we have been involved in the multi-use re-development of housing, commercial facilities, and hotels in Hiroshima, Sapporo, and other similar regional centers. In fiscal 2021, we also embarked on a project to reconstruct a public wholesale market in Toyama Prefecture as a way of contributing to development to ensure safe and secure distribution of food, leveraging our expertise from having provided many food processing plants and frozen and refrigerated warehouses since our founding. In the future, we will continue to aggressively advance multi-use developments and re-developments that leverage one of our Group's greatest strengths, our comprehensive resources.

Developing new townscapes that highlight local character

Daiwa House Group is currently pushing forward with building communities that make use of renewable energy. In 2021,

we completed development of a 100% renewables-powered community, Funabashi Grand Oasis. We started using renewable energy to power the development's construction and now use it to power occupants' lives.

Logistics facilities will be an important factor going forward in the development of new townscapes. The construction of large-scale logistics facilities will create jobs and contribute to revitalization of local economies. We will install photovoltaic power generation systems on the roofs of logistics facilities that we develop to supply renewable energy, thereby simultaneously expanding our environmental energy business and moving forward society's use of renewable energy. The logistics facilities will be capable of supplying electricity even during power outages, and we are pushing forward with initiatives to make these facilities available to their localities when disaster strikes.

We will also focus on developing facilities that support infrastructure for daily life, including data centers for 6G/7G and the industrialization of agriculture and fisheries through plant factories and land-based aquaculture facilities. We will not only build communities for living, but also push forward with building communities that contribute to solving social issues and developing new townscapes that highlight local character.

(3) Globalization: Develop community-based businesses aimed at solving social issues overseas

In our overseas business, we have always believed that it is

necessary to develop businesses rooted in local communities with a view to addressing social issues, such as providing higher value-added services tailored to the social issues, conditions, and phases prevalent in different countries and regions, and sharing expertise both domestically and overseas. As an example of our services meeting the needs of local customers, our Chinese condominium business, which we began developing in around 2008, has built a solid reputation for our ability to respond quickly and meticulously to customer complaints and problems by providing Japan-standard customer service.

We have positioned the US and East Asia as priority areas in the 7th Plan. In the US, we will develop our business, honoring the management policies of three companies (Stanley Martin, Trumark, and CastleRock) while also drawing on our knowledge and expertise from Japan. In particular, so that we can ensure a stable supply of high-quality products catering to local needs, we plan to introduce methods for industrialization in anticipation of labor shortages. These include looking into group purchasing and developing more efficient production systems. Through such efforts, we will improve our production systems as we work toward supplying over 10,000 houses.

(4) DE&I: Foster organizational culture that welcomes diverse values and uses them in value creation

The development and acquisition of human resources is currently one of the Group's most important challenges. To

that end, we will continue to strengthen our human resources base, including open innovation, by creating value through sharing our expertise and collaborating with other companies.

In October 2021, we opened the Daiwa House Group MIRAI KACHI KYOSO Center (*Kotokurie*) in Nara Prefecture as a space for human resources development. The center is intended to serve as a facility that embodies the first tenet of our company philosophy, develop people through business. As such it is open to not only Daiwa House Group employees but also the wider community. We have designed various courses and activities to provide a space for people of all ages to learn and reflect together and inspire each other to grow. We hope the center will help foster human resources capable of co-creating future values and, by extension, an even better society.

As a Group we wear many hats, including housing construction, real estate development, and general contracting. We have been able to develop an unparalleled portfolio because we have not packaged our offerings. Rather, we have solved each customer's problems in a meticulous yet flexible manner. It is also because we have developed human resources with varied perspectives while also emphasizing employment of people of many diverse backgrounds, including mid-career recruits. One of our greatest assets is that we have furthered the development of the company by creating a diverse workforce with different attributes and skillsets, allowing us to deliver solutions to customer needs and social issues that change with the times, while also valuing our connections with our stakeholders. It is imperative that we maintain and

continually improve this corporate culture in order to deliver unique products and services.

Going forward, it will be more vital than ever for future leaders in our Group to develop necessary skills that enable them to embrace diverse values (such as communication skills and the ability to formulate rules). We are also promoting diversity, equity & inclusion (DE&I) within the organization, ensuring that we have diversity in the managerial ranks, and proactively organizing exchanges of management personnel and interactions between our Group companies.

(5) Digital transformation: Maximize use of digital technologies for lifestyle innovation

Digital transformation (DX) at the Daiwa House Group focuses on maximizing value delivered to customers and ensuring safety, productivity, and quality in our manufacturing, with the overall goal of leveraging digital technologies to transform living and working styles. We are working to develop low-cost automated systems to accommodate the pressing challenges posed by the decline in the working population, the difficult challenges facing the construction industry, and regulations on working hours. We want to take a leading role in construction-sector DX, deploying labor-saving and automated systems while also ensuring the safety, productivity, and quality that are critical on construction sites.

We are also working to create new value by leveraging digital technologies to transform operational processes. We

are taking a big-data approach to the wealth of information the Group has on our many customers and buildings. This is designed to enhance the value of our information assets, one of our Group's strengths, and allow us to deliver products and services better tailored to individual customer needs and in ways that enrich the ways people work and live.

(6) Governance to create the future

Strengthening corporate governance is critical for developing people through business and creating a sustainable future. To expand our next generation of management human resources, we introduced D-Succeed, a strategic succession plan, in fiscal 2020. The plan takes diversity into consideration in order to flexibly allocate management-level human resources commensurate to changes in the business environment. This fiscal year, we appointed nine employees as branch managers and presidents of affiliated companies. Branch managers, in particular, have traditionally been predominantly selected from the sales division; but this year they were also selected from the technology and administrative divisions to strengthen business management from diverse perspectives. The experience gained in managing branches and presiding over Group companies will enhance their management skills and perspectives, which in turn will lead to the development of management-track human resources as candidates for future executive management positions.

We are also proactively organizing opportunities for management-level human resources to interact and exchange

with Group companies in order to accelerate growth of the entire Group through the creation of synergies. In April 2022, we appointed the president of a Group company as the Executive Officer in charge of Human Resources, which we expect will lead to changes in advancing diversity.

Under the business division-based system that we introduced in April 2021, we have developed an organizational structure under which certain authorities have been transferred to the heads of business divisions to facilitate faster decision-making. The system is functioning much quicker than we initially anticipated and is gradually yielding results.

To all our stakeholders

We will continue to be a company much-loved by all of our stakeholders

The spirit and corporate philosophy of our founder, Nobuo Ishibashi, will continue to withstand changes in the times and the Company. All our employees will work toward the future we envision in Our Hopes for the Future, and as an enterprise we will continue to support the lives of all people while growing into a corporation that meets the expectations of our customers and society as well as those of our shareholders. As a public organ of society, we are committed to fulfilling our social responsibilities and roles.



Adopting Our Hopes for the Future, sights firmly set on 2055

Aims of Our Hopes for the Future project

Working with all stakeholders to realize the goals embedded in Our Hopes for the Future, a marriage of employees' diverse perspectives and society's expectations

We launched Our Hopes for the Future project in May 2021. In an era when all stakeholders question a company's purpose, we wanted to formulate one that would embody Daiwa House's commitment to corporate management that starts with addressing societal issues and is geared for sustainability. The project culminated in the adoption of *Our Hopes for the Future*, the Group's Purpose.



Our highest priority in moving the project forward was ensuring that every single Daiwa House Group employee would have a say in formulating Our Hopes for the Future. It was therefore essential that employees take a personal interest in helping envision and define, in line with our corporate philosophy and the spirit of our founder, this new Purpose: It is to integrate our pursuit of both business and social value. We also believe it is important to enhance our employees' motivation and corporate value by collaborating with all stakeholders to transform our hopes into reality.

Today stakeholders of all kinds closely question a company's purpose



Customers, local communities

Corporate responsibility to society and the global environment is in sharp focus. Companies' attitude to societal issues is a factor in consumers' purchasing decisions.



Suppliers, partners

More companies are looking for compliance with and contributions to ESG in business transactions.



Employees

Contributing to society can motivate. Social and environmental initiatives can play a part in choice of employer.



Investors

Investors are keen on the growth prospects of businesses that address societal issues. In four years from 2016, the value of ESG investments under management in Japan has risen about sixfold.

Practicing sustainable management with businesses that address societal issues

Social value

Management structure geared to fulfilling social responsibility



Business value

Building sustainable earnings model



Human capital

Creating employees' motivation and innovation

How Our Hopes for the Future came about

Our Hopes for the Future incorporates input from the full diversity of our stakeholders and a total of 22 deliberative sessions

Stakeholder input

Co-creating social value



Suppliers, partners



Investors

Shouldering the future



Students

Employee input

Envisioning the society we aspire to



Diverse employees



Scenario planning by employees

Our Hopes for the Future summit



Final discussion among directors



Final discussion themes

- Strengths that give us a competitive edge
- Sources of value creation to be passed on to the future
- Value creation rooted in management built on integrated thinking

Discussions between employees and directors

- Joys of Life, motivation
- Society we aspire to
- Toward digital society

Adopting Our Hopes for the Future

Actions to realize Our Hopes for the Future

We will focus on three core actions as we realize Our Hopes for the Future

2055 Hopes for the Future

Creating the fundamental societal infrastructure and lifestyle culture rooted in regeneration, ensuring a world where we live together in harmony embracing the Joys of Life.



Creating value premised on regeneration

The Daiwa House Group spans a range of sectors and co-creates value for people, communities, and lifestyles. We will create new value so that people and the earth can coexist by evolving not only our products and services rooted in concepts of circularity and regeneration, but our very business.

Digitalization for real-world innovation

We will maximize the potential of data to make the lives of all more fulfilling. For example, we will leverage IT to enhance workplace safety and productivity and data we collect to improve customer service quality and create new lifestyle spaces that go beyond physical constraints.

Realizing diverse lifestyles true to people's selves

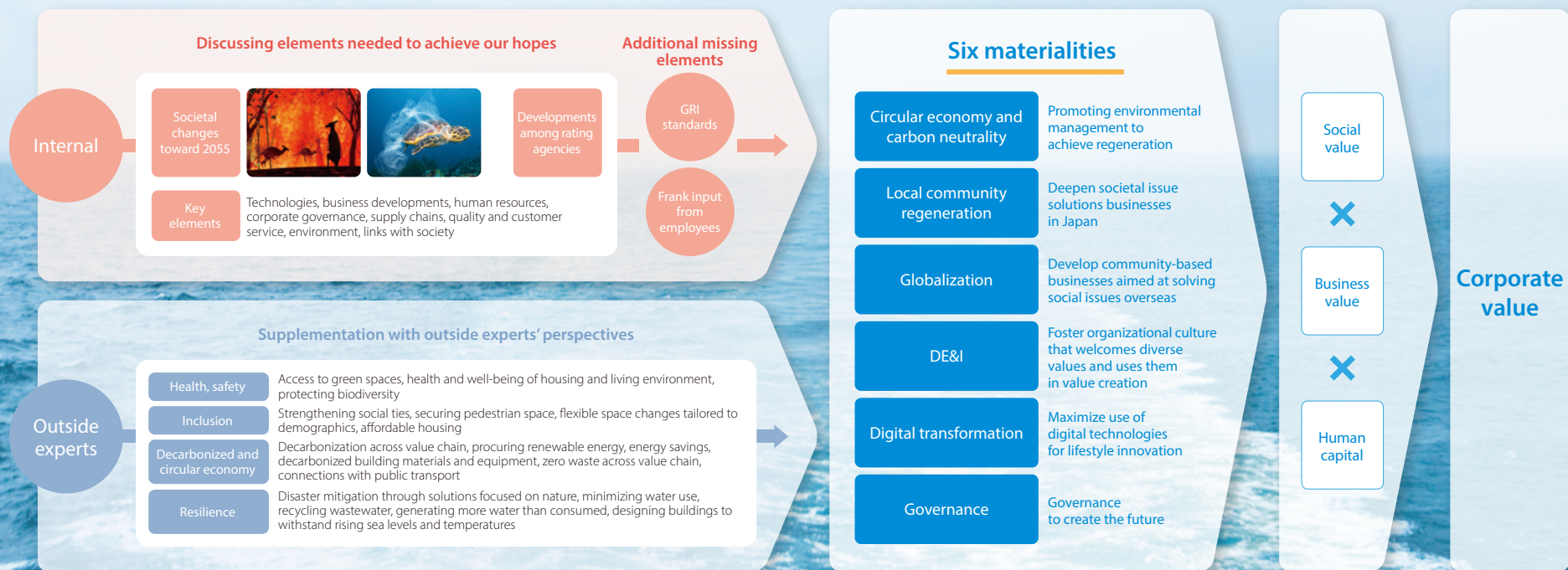
We will create new ways of living and working, products and services that enable them, and co-create a world where every person can live their own way.

Greatest value generated in region where the three overlap

Identifying materialities

We identified materialities after gathering opinions from inside and outside the company with a view to realizing Our Hopes for the Future

We thought the crucial element in identifying materialities was striking a balance between social and business value and the value of our human capital—that is, practicing sustainability-oriented management in businesses founded in addressing societal issues. First, we held discussions with a view to 2030, primarily among division heads, and prepared a draft in the context of two objective realities: future societal changes and developments among the rating agencies that assess companies. We then identified six materialities following intensive discussions among directors. This took account of global sustainability guidelines (GRI Standards) and feedback from external experts as well as feedback from employees solicited to check back with them on how they felt about the initial draft.



Positioning of Hopes for the Future and the Seventh Medium-Term Management Plan

Daiwa House Group's Hopes for the Future

Creating the fundamental societal infrastructure and lifestyle culture rooted in regeneration, ensuring a world where we live together in harmony embracing the Joys of Life.

