

Our Long-Term Vision and the 7th Medium-Term Management Plan

- 1 Roadmap to the centennial anniversary of our founding 16
- 2 Environmental awareness (opportunities and risks) and materiality 17
- 3 Materialities and the 7th Medium-Term Management Plan 18
- 4 Processes for specifying materialities 19
- 5 Results of past medium-term management plans and progress of the 7th Medium-Term Management Plan 20

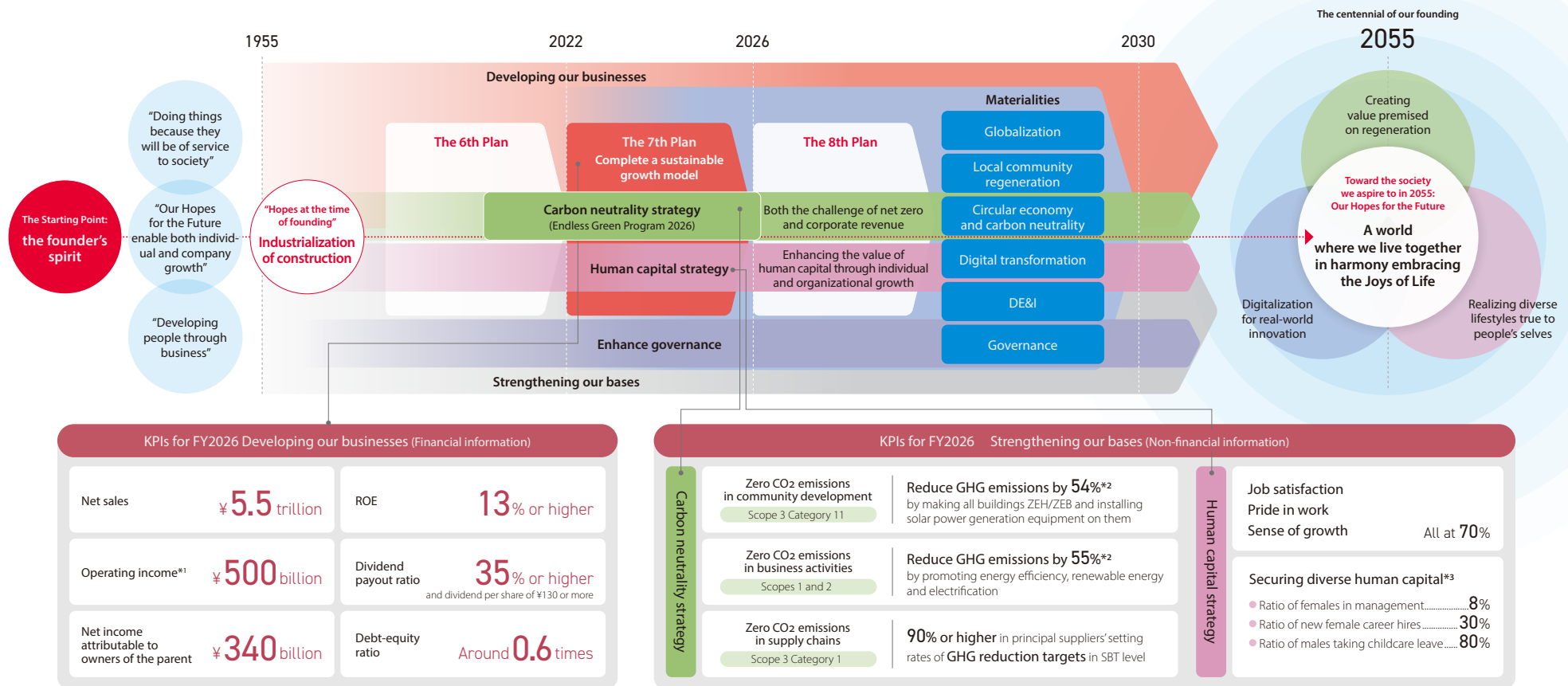
Chapter 2



Chapter 2 Our Long-Term Vision and the 7th Medium-Term Management Plan

1 Roadmap to the Centennial Anniversary of Our Founding—Road to 2055

With our founder's spirit as a starting point, we have achieved sustainable growth by always looking to what lies ahead and believing in Our Hopes for the Future. We will work to implement the 7th Medium-Term Management Plan with an awareness of materiality over the medium- to long-term, and aim to realize Our Hopes for the Future by expanding the areas where the three actions overlap.



*1 Exclusive of amortization of actuarial differences of retirement benefits *2 vs FY2015 *3 Target for April 1, 2027

2 Environmental Awareness (Opportunities and Risks) and Materiality

In every corner of the world, a major transformation in the structure of industry is taking place in order to discover solutions to social issues confronting the globe. At Daiwa House Group, we recognize the opportunities and risks that will arrive with the megatrends of around 2030, and to realize Our Hopes for the Future, we have formulated the materiality (priority issues) for which we should endeavor.

Megatrends	Impact on Daiwa House Group		Materiality and Measures
	Opportunities	Risks	
<ul style="list-style-type: none"> Acceleration of globalization Overseas population growth Lack of resources 	<ul style="list-style-type: none"> Realizing the stable supply of quality housing to the world Rising demand for industrialization in logistics, as well as in fisheries and agriculture Cost reductions through group purchasing 	<ul style="list-style-type: none"> Geopolitical risks, political and economic uncertainty Increased procurement costs 	<p>Globalization</p> <p>Develop community-based businesses aimed at solving social issues overseas</p>
<ul style="list-style-type: none"> Respect for the human rights 	<ul style="list-style-type: none"> Development of products and services with consideration to human rights A company chosen by those in the supply chain and workers 	<ul style="list-style-type: none"> Cost increases associated with human rights risks 	
<ul style="list-style-type: none"> Japan's shrinking population and household numbers Regional depopulation, declining local communities Deterioration of social infrastructure 	<ul style="list-style-type: none"> Expansion of investments into the revitalization of community and social infrastructure Reinvigorating local communities, need for migration to rural areas 	<ul style="list-style-type: none"> Declining number of new housing starts Waning interest of tenants to open new stores Diminished labor productivity 	<p>Local community regeneration</p> <p>Revitalizing local communities: Businesses for solving social issues in Japan</p>
<ul style="list-style-type: none"> Inflation, and rising interest rates 	<ul style="list-style-type: none"> Increased rental revenues from prime stock assets 	<ul style="list-style-type: none"> Waning investment appetite Decline in real estate prices 	
<ul style="list-style-type: none"> Shift to a carbon-free society Manifestation of climate change Shift to a circular economy 	<ul style="list-style-type: none"> Rising demand for renewable energy, environmentally conscious products Rising demand for greater durability and energy-conscious products 	<ul style="list-style-type: none"> Increased costs to comply with stricter legal regulations Increased frequency and scale of meteorological disasters that cause damage 	<p>Circular economy and carbon neutrality</p> <p>Environmental management geared toward circularity and regeneration</p>
<ul style="list-style-type: none"> Development of a digital society Shrinking workforce in Japan 	<ul style="list-style-type: none"> Pioneering new markets by utilizing digital technology Labor-saving and automation through digital technology Reconfirming the value of real experiences 	<ul style="list-style-type: none"> Obsolescence of existing business model Lack of highly skilled (IT, overseas) human resources and difficulty in securing them Growing needs for increased sophistication of information security 	<p>Digital transformation</p> <p>Maximize use of digital technologies for lifestyle innovation</p>
<ul style="list-style-type: none"> Diversifying ways of working and lifestyles Leveraging the talents of diverse human resources 	<ul style="list-style-type: none"> Creating new markets that arise from diverse values Building motivation Strategic decision making through diverse perspectives 	<ul style="list-style-type: none"> Changing employment management practices Rising costs to strengthen information security 	<p>DE&I</p> <p>Foster organizational culture that welcomes diverse values and uses them in value creation</p>
			<p>Governance</p> <p>Governance to create the future</p>

3 Materialities and the 7th Medium-Term Management Plan

Taking materialities into account, under the 7th Medium-Term Management Plan, we uphold three management policies: Evolve revenue model, Optimize management efficiency, and Strengthen management base. These policies are the foundation upon which we tackle eight focal themes toward maximizing corporate value with a view to growth beyond the 8th Plan.

Materialities	The 7th Medium-Term Management Plan: Eight focal themes		Principal KGI and KPI (FY2026 targets)	
			Investment (input)	Result (output or outcome)
Globalization	1 Accelerate growth of community-based overseas business		<ul style="list-style-type: none"> Real estate development investments ¥2.2 trillion (five-year plan) 	Delivering quality housing with stability <ul style="list-style-type: none"> US: Supply of houses 10,000 units Enhance factory conversion rate China: Supply of condominiums 4,000 units Units under management 20 thousand-unit level
				<ul style="list-style-type: none"> Strategic investments (Overseas, renewable energy, M&A, etc.)
Local community regeneration	2 Expand a circular value chain from the perspective of local communities/customers		<ul style="list-style-type: none"> Capital investment (Factories, offices, construction-sector DX, etc.) ¥370 billion (five-year plan) 	Contribution to carbon neutrality (FY2030 targets) <ul style="list-style-type: none"> Reduction rate of GHG emissions across the entire value chain (vs FY2015) Down 40% Renewable energy adoption Renewable energy generation equipment construction results (EPC) 5,000 MW Renewable energy power plants development and operating results (IPP) 2,500 MW
Circular economy and carbon neutrality	3 Realize carbon neutrality by making all buildings carbon-free	Carbon neutrality strategy		
Digital transformation	4 Strengthen cost competitiveness and build a system for stable supply	Strengthening the customer base	<ul style="list-style-type: none"> Evolve supply chain 	<ul style="list-style-type: none"> Group cost pool amount ¥1 trillion Cost reduction rate (10% reduction against soared costs ¥100 billion)
	5 Digital transformation	Strengthening the technology base		
DE&I	6 Increase the value of our human capital	Human capital strategy	<ul style="list-style-type: none"> Investments associated with human resource development, educational facilities, etc. 	Creating a workplace environment that employees find easy to work in <ul style="list-style-type: none"> Increased engagement
Governance	7 Achieve growth of profits coexisting with capital efficiency through portfolio optimization		<ul style="list-style-type: none"> Curbing investment into businesses of concern Sale of cross-shareholdings ¥100 billion Review of investment hurdle rates 	Securing and utilizing human capital <ul style="list-style-type: none"> Diversity indicators Retention rate of young employees Senior-related indicators
	8 Enhance governance			<ul style="list-style-type: none"> Maintain and enhance capital efficiency

* Final year of KPI/KGI: FY2025

4 Processes for Specifying Materialities

In order to bolster the value creation process cycle, when we formulated Our Hopes for the Future, we identified materialities, or priority issues, in consideration of their degree of importance to our business (opportunities and risks) and their social significance and impact based on the needs and expectations of society, while also taking into account the opinions offered by experts. We continued to consider KGI/KPI for materialities in fiscal 2022 in light of the level of action to be taken under the 7th Medium-Term Management Plan.

STEP 1 Understanding and organization of issues, clarification of key issues

In light of changes in society (megatrends), members led by division heads discussed the elements necessary to realize Our Hopes for the future, and compared them with various international norms, trends in major evaluation organizations, and the policies of industry associations. Keeping in mind three actions to be taken to realize Our Hopes for the Future, we clarified a total of 112 issues as a result of having considered their relevance to business (opportunities and risks), as well as social significance and impact in light of society's demands and expectations. From these, we have consolidated and organized them into 18 key issues, targeting around 2030. These 18 key issues were separately confirmed with young employees and others who will bear responsibilities in the future. The final decision was confirmed at management meetings and other meetings led by senior management.

STEP 2 Confirmation of validity

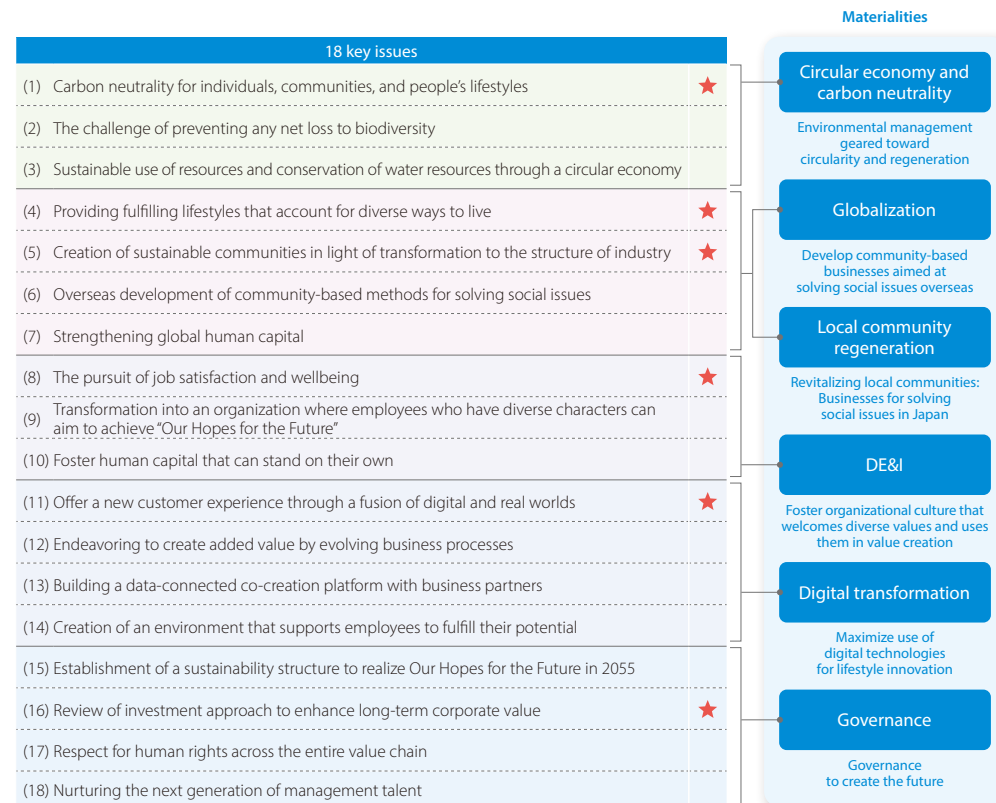
All 112 issues clarified in STEP 1 were evaluated for validity, which also covered specific processes for materialities, through dialogue with external experts, including investors and sustainability management specialists. In addition, we have reinforced the issues by receiving opinions that take a long-term and global perspective considering the latest insights.

STEP 3 Specification of materialities

The Company categorized and organized the study's results, which were approved by the Board of Directors in May 2022 as materialities that the Group should prioritize.

STEP 4 Reflecting to the Basic Policy

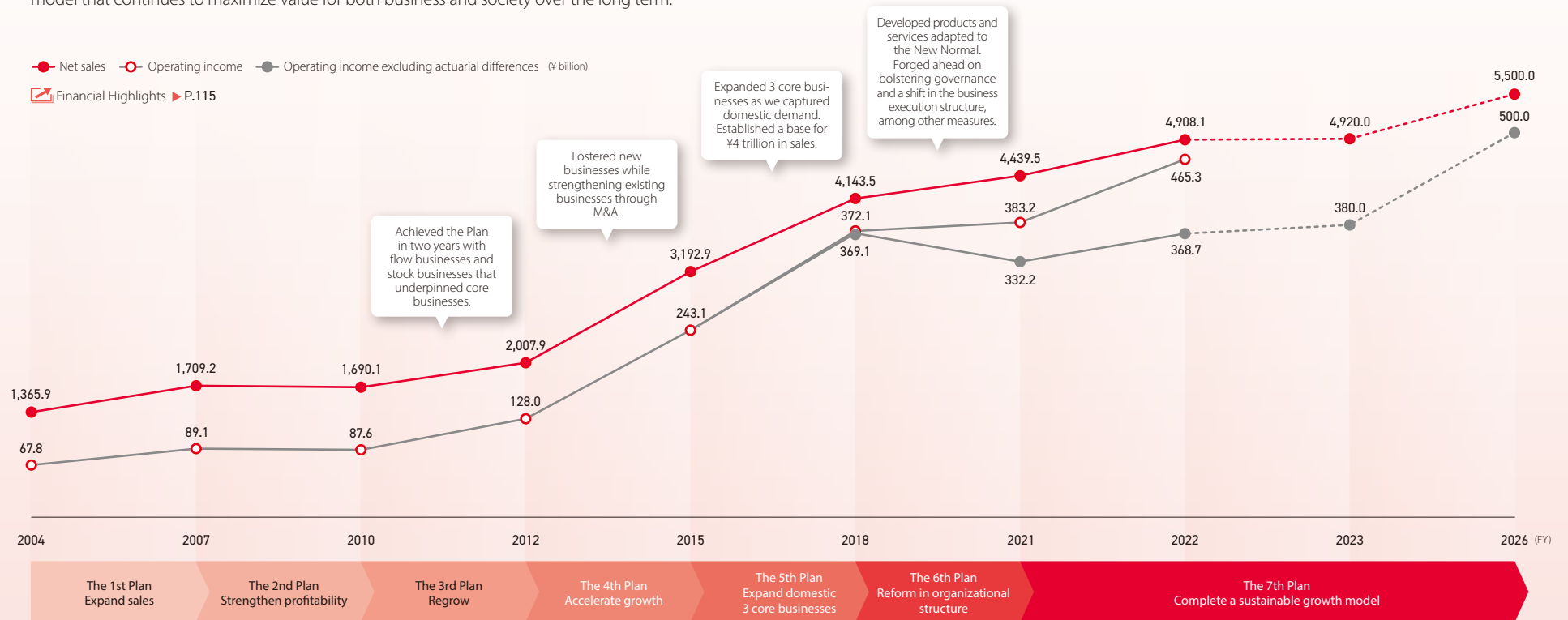
KGI/KPI (P18) for materialities were formulated based on the basic policy of the 7th Medium-Term Management Plan, and the corresponding policy for each theme was decided and formulated at a Board of Directors meeting held in April 2023, taking into consideration the level of Company efforts. These indicators are also being used as targets for the 7th Medium-Term Management Plan to promote initiatives.



Note: Issues included in the key themes of the 7th Medium-Term Management Plan are marked with an asterisk (★)

5 Results of past medium-term management plans and progress of the 7th Medium-Term Management Plan

While keeping a constant eye on upcoming changes in the environment, we have steadily achieved the performance targets of our medium-term management plans. In the first year of the 7th Medium-Term Management Plan, we achieved increases to both sales and income, with improved profit in the hotel management business, which had been severely buffeted by COVID-19, and the overseas business, mainly the Single-Family Houses Business in the U.S., contributing to results. Looking forward to achieving carbon neutrality, we are working to reduce CO₂ emissions and to create renewable energy, as well as to foster an organizational climate and culture in which new value is created and the value of human capital is enhanced as Our Hopes for the Future become widespread. We will strive to complete a sustainable growth model that continues to maximize value for both business and society over the long term.



Management policy 1: Evolve revenue model

To complete a sustainable growth model that maximizes both business value and social value, we tackle three focal themes toward evolving our revenue model for developing our businesses.

1 Accelerate growth of community-based overseas business

With STAY & EXPAND as a watchword, we develop community-based businesses in 25 countries and regions. We aim for overseas sales of ¥1 trillion and operating income of ¥100 billion as the first company operating in the housing and construction sector.

Focal Area 1

The US: Housing business

Steadily supply quality housing with values

Single-Family Houses Business ▶ P.43

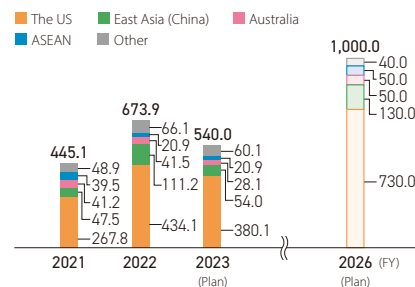
Focal Area 2

China: Condominiums business

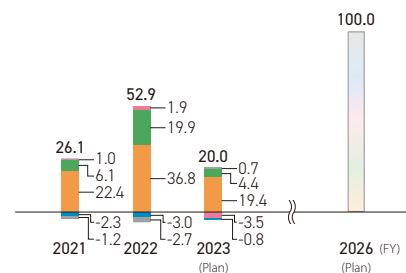
Development investment in tune with real demand in the Yangtze delta area, aiming to widely offer Japanese quality especially in terms of services

Condominiums Business ▶ P.48

Sales (¥ billion)



Operating income (¥ billion)



Note: Exchange rate (US\$/JPY): FY2021: ¥115.02; FY2022: ¥132.70; FY2023 (plan): ¥122.00

2 Expand a circular value chain from the perspective of local communities/customers

In Japan, through a circular value chain, a business model that increases the value of living infrastructure on an ongoing basis, we will contribute to developing and revitalizing local communities by expanding development that gives residents the JOYS OF LIFE from three perspectives: developing next-generation infrastructure and creating jobs, redeveloping and raising the value of aged facilities, and promoting complex redevelopment centering on regional mid-tier cities. Real estate investment of ¥2.2 trillion brings out the potential of regions and contributes to job creation and prosperity. This is positioned as a long-term investment also leading to further development beyond the 8th Plan and stable growth in stock businesses.

Creating Social Impact ▶ P.56 Real estate investment ▶ P.58

Investments and visions

Investment results in FY2022: ¥408 billion
5-year plan for real estate development: ¥2.2 trillion



Data center



Public wholesale market redevelopment



Urban redevelopment

3 Realize carbon neutrality by making all buildings carbon-free

We continue efforts to reduce CO₂ emissions in each of the stages of business activities, the usage of buildings sold, and supply chains. Our aim is to establish a system where the more buildings the Group builds, the more renewable energy is generated. This will accelerate decarbonization of a society and contribute to the realization of carbon neutrality.

Environmental Vision ▶ P.61

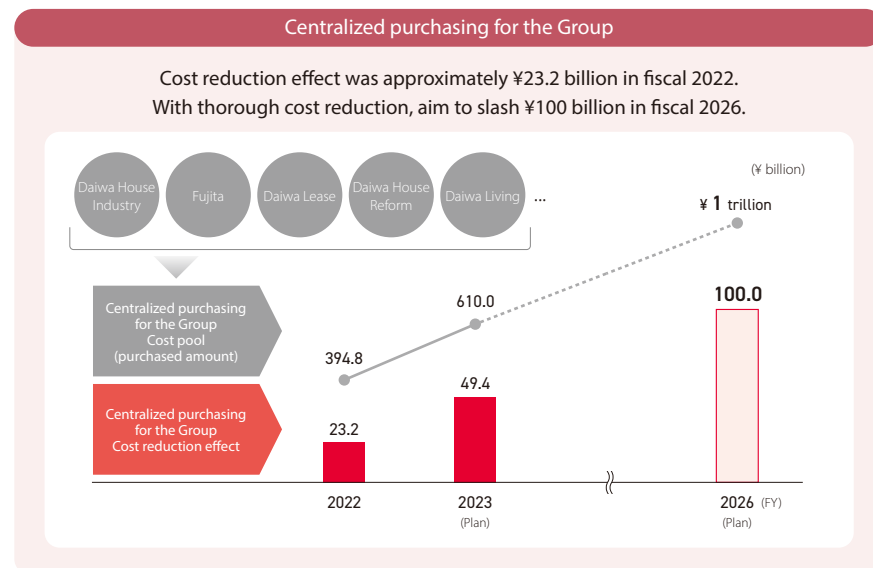
Management policy 2: Optimize management efficiency

We will actively invest in growing fields and pursue growth of profits coexisting with capital efficiency toward maximizing corporate value by completing a sustainable growth model.

4 Strengthen cost competitiveness and build a system for stable supply

The Daiwa House Group consolidates and integrates the functions of its purchasing organizations and business processes and systems, and reforms the entire purchasing workflow, in order to achieve cost competitiveness fully leveraging the industry-leading economies of scale. We reinforce in-house production systems and build a more robust system for stable supply.

 Technology and Manufacturing Base ▶ P.81



7 Achieve growth of profits coexisting with capital efficiency through portfolio optimization

To optimize business portfolios, we intensively invest in Logistics, Business and Corporate Facilities, Commercial Facilities, and Single-Family Houses (overseas), while boosting cash-generating ability of Rental Housing and Environment and Energy Business. Businesses of concern with growth potential and capital efficiency are positioned as reconstruction businesses subject to restructuring or reorganization. In addition, as investment real estate are being accumulated, we work to enhance asset management and reduce inefficient assets.

 Message from the CFO ▶ P.32  Policy on cross-shareholdings ▶ P.100

Practicing portfolio management for optimal allocation of the Group resources

- Quickly addressing businesses of concern**
 - Improving profitability with reform in structure of condominiums business
 - Transfer of resort hotels business
 - Commencing reform of Single-Family Houses Business in Japan
- Proactive investment in growing sectors and future growing sectors**
 - Promoting next-generation infrastructure, overseas business, and renewable energy investment
 - Investing in new businesses, such as open innovation and venture capital

Creating new businesses/ improving profitability of capital


Resolved to transfer all shares of our consolidated subsidiary Daiwa Resort, all loan receivables against it, and our hotel Royton Sapporo operated by it, in December 2022

Our resort hotel business operated by Daiwa Resort Co., Ltd. ("Daiwa Resort") has been expanding throughout Japan since 1973 with the aim of developing regional economies and creating abundance in life. In light of the post-pandemic situation, however, we reached the decision that transferring Daiwa Resort to a third-party that would maximize its potential would contribute to the sustainable growth of Daiwa Resort and revitalization of the regions in which it operates. The transfer was completed on July 19, 2023.

Management policy 3: Strengthen management base

In order to strengthen our management base, which supports development of our businesses, we tackle focal themes of digital transformation, increasing the value of our human capital, and enhancing governance. This will lead to the generation of future cash flows.


6 Increase the value of our human capital

Our human capital strategy promotes human resource development and organizational capacity enhancement to advance growth and diversity of individuals. With the employee motivation rate as a key performance indicator (KPI), we will maximize motivation of entire workforce and strive to further increase the value of our human capital.  Human Resources Base ▶ P.73



Training at MIRAI KACHI KYOSO Center (Kotokurie)

8 Enhance governance

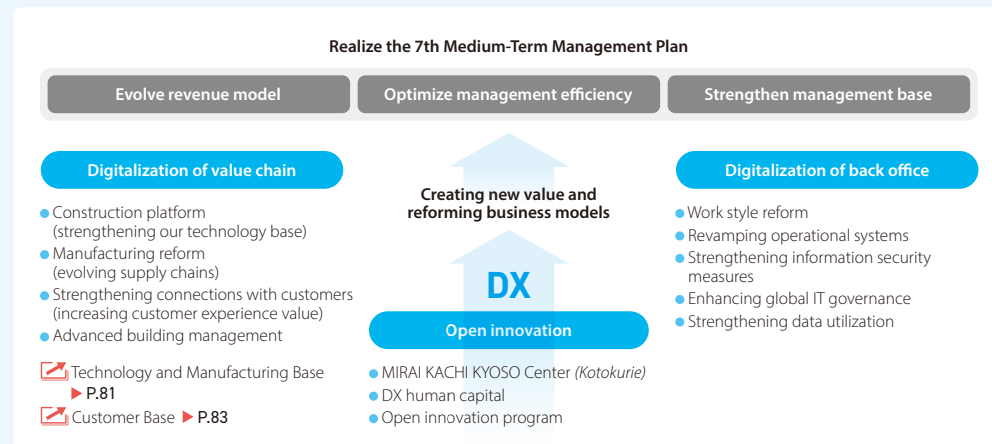
For further enhancing the governance system restructured under the 6th Plan, we establish a strategic governance system primarily designed to underpin our overseas growth and real estate development, thereby supporting corporate sustainable growth.  Governance ▶ P.86

5 Digital transformation

Digital transformation (DX) is positioned as a backbone of all management policies. Based on this concept, we digitalize our value chain and back office and catalyze open innovation to foster new value creation businesses and reform business models. Specific initiatives include strengthening our technology base, evolving supply chains, and increasing customer experience value. To promote these initiatives, we are also working to build a data integration platform, further evolve DX in construction, and resolve industry-wide issues through industrialization of construction powered by DX. In fiscal 2022, we launched a company-wide DX task force and in collaboration with each business division, began DX promotion directly linked to construction sites.

DX can lead to improvement in employee motivation, comfort, and well-being, and ultimately, to corporate value enhancement. DX promotion is therefore one of our priority strategies to innovate the future. To increase the value of our human capital, we actively utilize DX literacy programs and produce DX human capital who are capable of creating new value by connecting people and technologies. Our intention is to foster innovation through co-creation with an open mind, and drive DX for the entire industry.

Under the 7th Plan, we accelerate industrialization of construction with DX, build a next-generation supply chain that realizes labor-saving at worksites, shorter construction period and lower costs, and support sustainable growth of the industry as a whole.



▶ For details, please see DX Annual Report 2023 (Japanese text only) to be issued at the end of October 2023.