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Chapter 8

Chapter 8 Governance

Management Structure

The Daiwa House Group positions enhancing its structure of governance as a priority issue for management so that we may continue to be a company that earns the trust of society. We take the basic stance of working to construct a system of accurate and timely decision making and business execution, as well as a framework of appropriate oversight and supervision. The 7th Plan includes provisions to promote reinforcement of the restructuring of governance that was completed as a priority issue in the 6th Plan. Along with transforming our vision in tune with expanding business operations and the management environment, we aim for sustainable improvements in corporate value to realize Our Hopes for the Future based on diverse viewpoints and long-term perspectives.

Concept of governance system enhancement



Initiatives in the 7th Medium-Term Management Plan	Approaches in fiscal 2022
<p>1 Optimization of management structure</p> <ul style="list-style-type: none"> • Raise the proportion of stock remuneration in director remuneration and introduce non-financial evaluation indicators • Strengthen monitoring function of the Board of Directors 	<ul style="list-style-type: none"> • Reviewed the agenda standard for meetings of the Board of Directors Revised the agenda standard for meetings of the Board of Directors to secure time for proposals related to "strengthening the monitoring function of the Board of Directors," including raising the amount of the agenda standard for decisions related to business execution to that in line with the scale of the business
<p>2 Foster next generation of business managers</p> <ul style="list-style-type: none"> • Build a succession process for Directors/Executive Officers 	<ul style="list-style-type: none"> • Expanded the succession planning system for the next generation of business managers Continued effort to pass on the spirit of our founder through qualitative improvements in the entire Group by integrating the D-Succeed system and the Daiwa House Juku for training management successors and expanding off-site training opportunities
<p>3 Improve system of business execution</p> <ul style="list-style-type: none"> • Prepare and strengthen regional corporate functions overseas • Strengthen asset management in line with asset increase • Continuous improvement of organizations and functions for overlapping businesses within the Group • Continual improvement of the Group's head office functions and optimal allocation of human resources 	<ul style="list-style-type: none"> • Newly established the Management Strategy Planning Headquarters In April 2023, established the Management Strategy Planning Headquarters, aiming at building an integrated strategy to enhance the Group's value. Transferred the Corporate Strategy Planning, Business Development, and Sustainability Planning Department under the Management Administration Headquarters, to the Management Strategy Planning Headquarters. Launched the Business Human Resources Planning Department to optimize human resources to achieve our business plan and design an organizational structure aligned with overall strategy. Further, started the DX Planning Department to promote DX strategies for the business divisions and Group companies. • Internal reorganization Regarding our operations within Japan, under the business division-based system, abolished the existing block system and instituted a new structure having the head office and offices tasked with administrative and supervisory functions, as well as branches thereunder in each area. Rearranged the region across the country into 11 areas where the head office and offices are allocated as the regional headquarters in each area, replacing the existing structure in which block managers in 15 blocks nationwide had supported the branches and branch offices' management. By reorganizing the business divisions as branch offices thereunder in each area, strengthen administrative and supervisory functions to provide management support and enhance governance. • Began work on formulating detailed management indicators for our overseas business Developed detailed management indicators, and plan to start on-site management using the detailed management indicators
<p>4 Entrench risk management structure</p> <ul style="list-style-type: none"> • Effectively operate and continuously improve risk management structure • Continuously strengthen the efficient business operating base to sustain risk management and compliance activities 	<ul style="list-style-type: none"> • Established an information security system Overhauled the structure of information security rules to reflect recent diversification of societal demands for information security and the Group's diversified business operations. Accordingly, revised the existing Information Security Statement in line with these activities.

1 Optimization of management structure

Create an optimal management structure for supervision of medium-to-long-term management strategies for enhancing corporate value

Based on the philosophy of “Don’t do things because they will make a profit, but because they will be of service to society” that the Daiwa House Group has valued since our founding, the Board of Directors sees its mission as being to put Our Hopes for the Future into practice and to foster the next generation who will take up the challenge in the future. To realize this, executive management must always explore the needs of society based on the attitude of a bottom-up approach while the Board of Directors, as a group that co-creates value for individuals, communities, and people’s lifestyles deliberates and decides how to embody such needs as a business, and quickly grasps reported risks regarding business execution to control and oversee these risks.

The Board of Directors has outside members who account for over one-third of the Board. By making greater use of diverse and external knowledge, experience and know-how possessed by outside directors, we aim for trustworthy and transparent management.

In fiscal 2022, the Board of Directors discussed and deliberated on the following matters.

Management strategies

- Formulation of the Seventh Medium-Term Management Plan
- Formulation of the Action Plan for the Environment “Endless Green Program 2026”
- Determination of the Digital Transformation initiative plan
- Decision on key themes for technological development at the Central Research Laboratory

Governance

- Enhancement of head office’s strategic functions (newly established the Management Strategy Planning Headquarters)
- Amendment to the Information Security Statement
- Report on self-review results and revision of the Corporate Governance Guidelines
- Evaluation of the effectiveness of the Board of Directors
- Revision of agenda standards for meetings of the Board of Directors (e.g., transfer of authority to executive divisions)

Investment projects

- Approval of Osaka Marubiru reconstruction plan and initiatives for Expo 2025 Osaka Kansai
- Approval of M&A projects (e.g., Kouyama UNYU Co., Ltd. becoming a wholly owned subsidiary)
- Approval of important potential investments in the real estate development business and other businesses in the US, Asia, and other regions

Other than the above, the Board of Directors deliberates and passes resolutions, as necessary, on matters stipulated by laws, regulations, and the Articles of Incorporation.

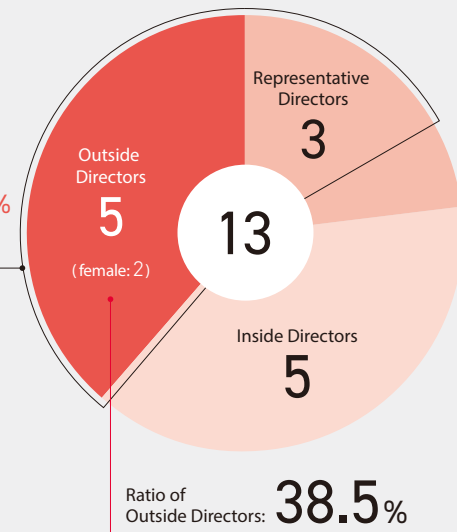
Board of Directors

Nomination Advisory Committee
Remuneration Advisory Committee






Ratio of outside members: **71.4%**

Outside: 5, Inside: 2 (CEO and CFO)

(Chair: an independent outside director)



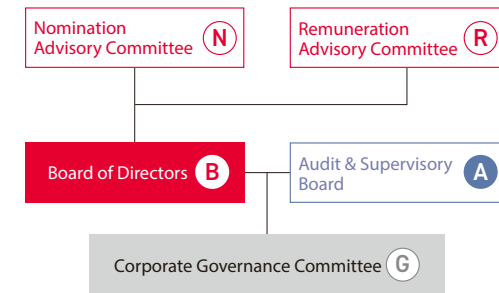
Improvements to management resilience based on a multi-faceted and long-term approach so as to better suit our operating environment and the expanding scope of our business

Non-Executives	Corporate Auditors  (A) (G) Tomoyuki Nakazato			Outside Auditors (Independent Officer)		
	 (A) (G) Tadatoshi Maeda			 (A) (G) Yoshinori Hashimoto		
Representative Directors	 (B) (N) (R) (G) Yukiko Yabu			 (B) (N) (R) (G) Yukinori Kuwano		
	 (B) (N) (R) (G) Miwa Seki			 (B) (N) (R) (G) Kazuhiro Yoshizawa		
Executive Directors	 (B) Keisuke Shimonishi (64)			 (B) Hirotsugu Otomo (63)		
	 (B) Kazuhiro Yoshizawa (61)			 (B) Yoshinori Ariyoshi (64)		
	 (B) Toshiya Nagase (60)			 (B) (G) Takeshi Kosokabe (65)		

Corporate Governance Committee (2 times/year)

Internal Control Committee (4 times/year)

Structure of Committee for strengthening monitoring function of Board of Directors



Reason for new appointments

Name	Reason for appointment
Takashi Maruyama	He has long-term experience in corporate management at corporate groups with diverse business operations. The Company expects that he will audit the overall management of the Company and provide useful advice from an independent standpoint by utilizing his abundant knowledge based on his career.

Note: Figures in parentheses are the ages as of April 2023

Messages from Representatives of the Outside Directors and Audit & Supervisory Board Members

—Contributing to improvement of corporate value in the medium to long term

Contributing to Daiwa House Group's sustainable growth amid the latest global trends

Yukinori Kuwano

Outside Director (Independent Officer) 



Amid major changes taking place globally, including trends such as SDGs, ESG, and digital and green transformation, we defined our Purpose as “Our future landscape—Celebrating the Joys of Life.” I am determined to do my best to make things happen in this new direction. In 2001—about 21 years ago, when I was in my previous position, Daiwa House Group’s consolidated net sales were approximately ¥1 trillion and operating income was ¥44.2 billion. I was later given the opportunity to become an outside director of Daiwa House, and in fiscal 2022, the Company posted consolidated net sales of ¥4.9 trillion and operating income of ¥465.3 billion—robust growth of roughly five times for net sales and 11 times for operating income. The Group has grown into the housing and construction industry leader thanks to the hard work of employees and close cooperation of other stakeholders. The objective of the 7th Plan is to complete a model for sustainable growth to maximize business value and social value over the long term. I too am determined to do my utmost to make this happen.

I am chairman of the Corporate Governance Committee, and unfortunately, two years ago, we received administrative measures including a business suspension order from the Ministry of Land, Infrastructure, and Transport, because some of our operation and management engineers were not properly qualified. I felt responsible for this serious breach as chairman of the Corporate Governance Committee and took steps to rectify it, such as investigating the cause and ensuring there will be no recurrence. These cases relating to corporate governance are an essential part of completing a sustainable growth model. Going forward we will be working to benefit shareholders, doing our best to help the company maintain vigorous growth with an uncompromising approach to strengthening governance.

■ Roles and functions fulfilled by outside directors

Our outside directors are tasked with helping to foster a corporate culture that contributes toward improving the Company’s corporate value from a highly independent position, making the most of their backgrounds such as specialist knowledge and experience.

Yukinori Kuwano became an Outside Audit & Supervisory Board Member in June 2008 and an Outside Director in June 2020. With highly specialized knowledge in photovoltaic power generation, he has provided useful advice regarding the operations and projections of the Environment and Energy Business. He has expressed many opinions and offered critiques over the years at meetings including those of the Board of Directors as a company executive, shareholder, and consumer. He chairs the Corporate Governance Committee, Nomination Advisory Committee, and Remuneration Advisory Committee, communicating with the management team from an independent position. At meetings where themes for discussion by the Corporate Governance Committee are selected, he also plays a coordination role among Outside Directors, such as having them discuss human capital performance and work environment provision that contribute to sustainable management among many management issues, reflecting the requests and opinions of shareholders and institutional investors fielded by the IR, General Affairs, and other departments. Currently, he also plays the important role of supervising progress in building information modeling (BIM) and digital transition as part of key digital transformation strategies that apply across all management policies of the Seventh Medium-Term Management Plan.

All the other outside directors help us strengthen governance (especially the supervisory function) by attending meetings of the Board of Directors, advisory committees of the Board of Directors (Board Committees), etc. They have also been active in providing feedback during Board of Directors meetings and related meetings on the Our Hopes for the Future Project, which looks ahead to 2055, our centennial year, taking the initiative so that we can implement the best corporate governance.

Assisting digital transformation and other reforms with the mission of continuing to deliver new value

Kazuhiro Yoshizawa

Outside Director (Independent Officer) 



I understand that the role of outside directors in corporate governance is to critique and supervise management performance from an objective and alternative viewpoint. Checking and monitoring management is a given; more important is whether we can contemplate the Company's future. As outside directors, the Company expects us to contribute to creating the value it envisions for achieving its Purpose: A world where we live together in harmony embracing the Joys of Life.

My background is management of mobile communication service businesses. I have always pushed ahead with a sense of urgency with the development and evolution of new communication standards every 10 or so years and business structural reforms (from building infrastructure to delivering platforms and service co-creation) through turbulent social change. Our mission is to deliver customer value and social value before the rest of the world, which is consistent with the aims of Daiwa House Group's Seventh Medium-Term Management Plan. We look forward to further discussions at Board of Directors meetings.

Driving digital transformation forward is now a priority that straddles all management policies. The Company is implementing digital-transformation projects, and we have advised management that digital transformation is essentially awareness reform, and it is greatest strategy for pioneering the future of Daiwa House Group. We are excited about creating new value by connecting people with technology and making a world where we can make sharing the Joys of Life into reality.

Improving economic, social, and environmental value is challenging, but we will play an active role in helping the Company achieve robust growth.

Helping achieve sustainable growth and increase corporate value of Daiwa House Group

Yujiro Ito

Outside Director (Independent Officer) 



In my previous position, my principal role was making governance more robust; that included risk management (crisis management and legal affairs) and handling compliance issues. My first year as an outside director of Daiwa House Group was also the first year of our Seventh Medium-Term Management Plan. I have consistently fulfilled my responsibilities with awareness of the positioning of the Plan as one that aims to complete a model for sustainable growth.

Members of Daiwa House Group's Board of Directors are from diverse backgrounds. They engage in vigorous debate, and I am not aware of any operational issues. However, I think that greater focus in selecting themes and producing reference materials would be more effective in projects for working out the Company's major policy direction, taking into consideration practical discussions within the Company.

Forward-thinking initiatives, a challenging spirit unafraid of failure, diverse businesses, and commitment to goals are Daiwa House Group strengths. We also believe the Company must remain true to the founding philosophy of not doing things because they will make a profit, but because they will be of service to society. That being said, we must respond appropriately to a fast-changing business landscape through business model reforms and make our governance structure and risk management more sophisticated. As an outside director, I will provide sound support for difficult management decisions, striking a balance between growth and stability, thereby contributing to sustained growth and enhancing the Group's corporate value.

Helping to improve sustained corporate value through auditing

Tomoyuki Nakazato
Corporate Auditor



The Company's Audit & Supervisory Board prioritizes *gembashugi* (hands-on management approach with focus on the worksite) in auditors' visits to construction sites, subsidiaries, and other workplaces. When performing audits, I focus on any discrepancy between the worksite and head office. We are strengthening governance in response to various improprieties that have occurred in recent years, such as strengthening the business division-based organizational structure and establishing a branch office structure. We evaluate whether branches and subsidiaries understand these measures correctly and are implementing them effectively by interviewing managers and other staff at worksites and advising management of any contradictions and discrepancies.

In my opinion, the Company's Board of Directors (including outside directors) performs effectively, engaging in a free and robust exchange of opinions. That said, I am concerned that the current business-execution framework may come under pressure, because the Company's business scale and the number of overseas subsidiaries are growing rapidly. In today's world of volatility, uncertainty, complexity, and ambiguity (VUCA), I strongly believe that the Company's governance needs to evolve into one with a more-robust business execution scheme and organizational design more mindful of separation of management oversight and business execution.

The current Audit & Supervisory Board actively forms opinions by reviewing Board of Directors meeting agendas and the statutory auditor's internal-audit status reports. Going forward, I believe the Board must also verify ESG- and human-capital-management measures and other non-financial information. We will work with outside auditors and directors with specialist knowledge to help evolve governance and improve corporate value.

Helping enhance corporate value firmly grounded in good governance

Akihisa Watanabe
Outside Auditors (Independent Officer)



Further improvement of corporate value is needed in a shifting post-pandemic world and its sharply altered business environment. As non-financial information increases in importance as a measure of corporate value, governance is its bedrock and foundation of its existence. In this context, I intend to contribute by harnessing my experience at major auditing firms as an accounting auditor of companies in diverse industries. Audit & Supervisory Board members supervise and audit directors, taking the stance of questioning whether risk management and management decisions are unreasonable. After the Company launched its business division-based organizational structure in 2021, the Audit & Supervisory Board's role of supervising and auditing the Board of Directors with a broad, independent perspective is more important than ever. Daiwa House Group's Audit & Supervisory Board has three full-time and three outside members. Full-time members have experience and responsibilities in technical, management and administration, and sales. Its outside members apply highly specialist knowledge to support the Audit & Supervisory Board's comprehensive and in-depth functions. The Company considers worksites to be our utmost priority and works with the Internal Audit Office to evaluate the whole Group's risk management in discussions with the accounting auditor and interviews with domestic Group companies. We also work with outside directors and the representative directors in the Corporate Governance Committee to discuss a range of themes to improve corporate value with a medium- to long-term perspective. We will continue to harness our specialized knowledge in performing audits, including checks on progress of the accounting auditor's audits and accompanying audits performed by the Internal Audit Office.

■ Skill Matrix

The chart below represents the knowledge possessed by directors and auditors that is particularly expected by the Company.

Name	Position	Corporate Management	Finance/Accounting	Legal/ Risk Management	Technology/ R&D	International Experience	DX/IT	ESG
Keiichi Yoshii	Representative Director and President	●		●		●		●
Takeshi Kosokabe	Representative Director and Executive Vice President	●	●	●				●
Yoshiyuki Murata	Representative Director and Executive Vice President	●		●	●		●	●
Keisuke Shimonishi	Director and Senior Managing Executive Officer	●		●				
Hirotsugu Otomo	Director and Managing Executive Officer	●		●				
Kazuhiro Dekura	Director and Managing Executive Officer	●		●				
Yoshinori Ariyoshi	Director and Managing Executive Officer			●	●			
Toshiya Nagase	Director and Managing Executive Officer	●		●				●
Yukiko Yabu	Outside Director				●			●
Yukinori Kuwano	Outside Director	●			●		●	●
Miwa Seki	Outside Director	●	●			●		●
Kazuhiro Yoshizawa	Outside Director	●			●		●	●
Yujiro Ito	Outside Director	●	●	●				●
Tomoyuki Nakazato	Corporate Auditor		●	●				
Tadatoshi Maeda	Corporate Auditor			●	●			
Yoshinori Hashimoto	Corporate Auditor	●		●				
Akihisa Watanabe	Outside Auditor		●	●				
Tatsuji Kishimoto	Outside Auditor			●				
Takashi Maruyama	Outside Auditor	●		●				

Skills	Our specific expectations
Corporate Management	To have essential insight into management gained through their managerial experience at the Company or other companies, and to exercise their managerial skills or supervise management to enhance corporate value
Finance/Accounting	To draw on their expertise in the field of financial accounting or their experience in accounting and finance departments to formulate, implement appropriate financial strategies, or provide valuable advice
Legal/ Risk Management	Internal directors, including the business division heads, are expected to all work together to strengthen risk management, rather than focusing only on sales and marketing activities but also aligning with the business division-based system. Outside directors are expected to strengthen risk management by utilizing their expertise in legal affairs or experience in legal affairs or legal compliance departments
Technology/ R&D	To have experience or expertise in the technology or R&D department of the Company or other companies, and to further enhance technological capabilities
International Experience	To be well-versed with ample experience in the global business management and overseas life culture and business environment, and to further promote or supervise our overseas business
DX/IT	To have extensive knowledge and experience in digital transformation (DX) and information technology (IT), and to accelerate the creation of new value using digital technology
ESG	To be knowledgeable about ESG through their experience at the Company or other companies, and to promote sustainable management

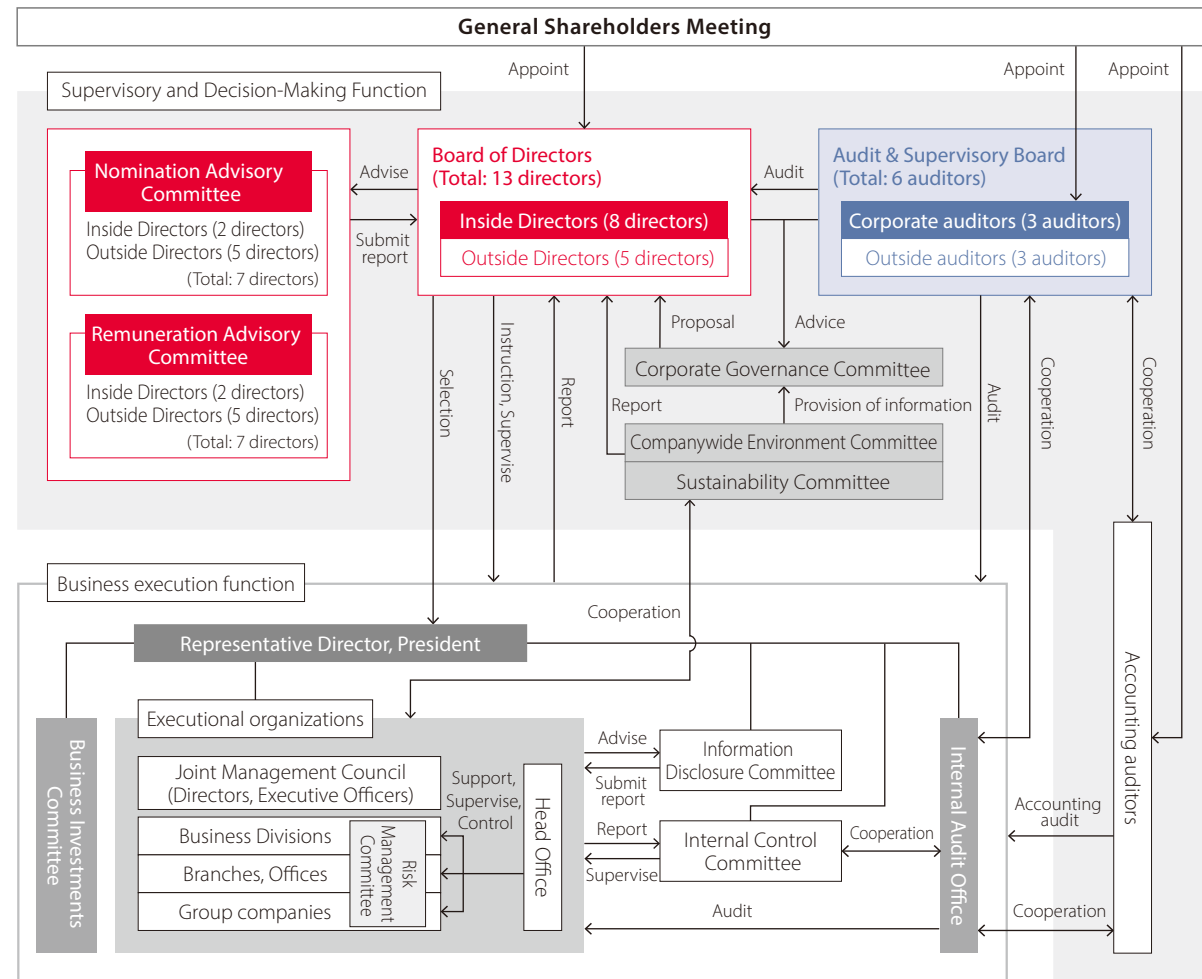
■ Corporate Governance System

The Company pursues corporate governance that better suits society and the global management environment, in order to enhance corporate value and continue to be a corporate group indispensable to society through fulfilling the Company Philosophy (Corporate Creed) and the Management Vision (Connecting Hearts).

In order to realize a group that co-creates value for individuals, communities, and people's lifestyles as stated in our management vision, our senior management in charge of business execution should always explore social needs based on a bottom-up approach, and the Board of Directors holds a significant responsibility to deliberate and determine how we concretize the social needs as a business. By appointing both executive directors to enable accurate and swift actions on how to respond to the society's needs through our business operations, and a multiple number of independent outside directors who account for over one third of the Board of Directors, we increase the level of transparency and soundness of our business management. Furthermore, the Board of Directors is further audited by Audit & Supervisory Board members and the Audit and Supervisory Board that are independent of the Board of Directors.

This organizational design allows directors concurrently serving as executive officers to facilitate the management function of the Board of Directors, while ensuring the monitoring function led by independent outside directors and Audit & Supervisory Board members and the Audit and Supervisory Board.

The Company has adopted this corporate governance system under the belief that enhancing corporate autonomy built on this base will lead to sustainable growth and medium- to long-term enhancement of corporate value. We continue to review our corporate governance structure in line with business conditions and other factors.



■ **Advisory Committees of Board of Directors (Board Committees)**

Nomination Advisory Committee

Receives information from directors or executive officers in charge of human resources on individual director assessments and on proposals at the General Meeting of Shareholders relating to the appointment of directors, discusses the appropriateness of these, and presents an opinion, in order to ensure objectivity in the nomination of directors.

When a director selection is made, the matter is decided by the Board of Directors with reference to the outcome of the discussion by a Nomination Advisory Committee. When the dismissal of a director is proposed, the matter is decided by the Board of Directors.

- Chair: an independent outside director
- Meeting frequency: once a year in principle
- Matters discussed and deliberated by the Board of Directors in fiscal 2022:
 - Appointment of directors
 - Appointment of Committee Chair

Remuneration Advisory Committee

Receives a briefing from officers in charge of human resources on policy for decisions concerning director remuneration and details of individual remuneration, etc., discuss validity and presents an opinion to ensure objectivity of director remuneration. In addition, deliberates appropriateness of the decision-making process of remuneration by actively using external investigation data, etc.

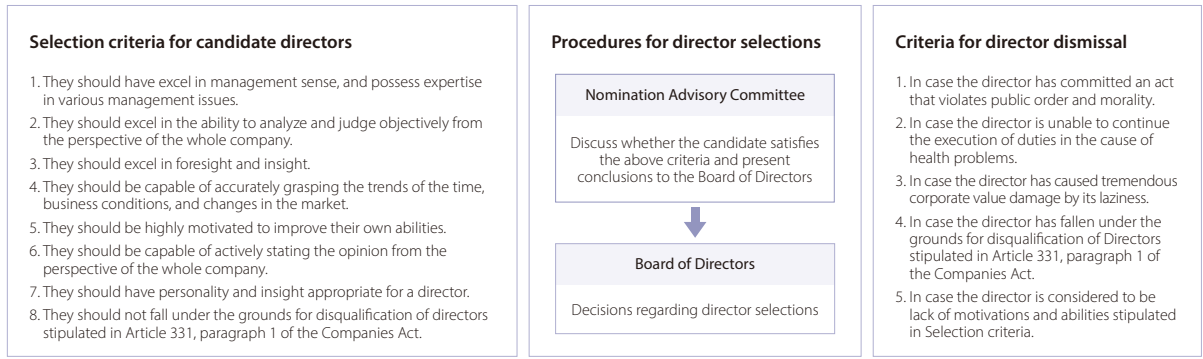
- Chair: an independent outside director
- Meeting frequency: once a year in principle
- Matters discussed and deliberated by the Board of Directors in fiscal 2022:
 - Total amount of bonuses paid to directors and amounts paid to individual directors for the 83rd fiscal year
 - Appointment of Committee Chair

Corporate Governance Committee

Meets for the primary goal of contributing to the medium- and long-term growth in corporate value. Exchanges views on vision, strategies, and other items pertaining to corporate governance and overall management, considering diverse viewpoints and taking a long-term perspective. Aims to make the company better by fully incorporating into management the knowledge and expertise possessed by Outside Directors and Outside Auditors.

In addition, the Committee exchanges views on the initiatives for SDGs and ESG upon having informed of important matters by the Companywide Environment Committee and Sustainability Committee.

- Chair: an independent outside director
- Meeting frequency: twice a year in principle
- Matters discussed and deliberated by the Board of Directors in fiscal 2022:
 - Evaluation of the Seventh Medium-Term Management Plan
 - Implementation status of the Corporate Governance Guidelines and proposed amendments
 - Our future management structure



■ Audit and Supervisory Board


The Audit and Supervisory Board operates independently of the Board of Directors. It consists of Standing Audit & Supervisory Board members well versed in the operations and management structure of the company, as well as outside Audit & Supervisory Board Members who are experts in particular fields such as accounting, law, or management of whom a majority are outside Audit & Supervisory Board Members in order to ensure the independence and neutrality of the audit system.

The Audit and Supervisory Board receives in a timely and appropriate manner reports from Directors, employees and accounting auditors on items necessary for auditing the execution of duties by directors and executive officers. It also shares necessary information with accounting auditors, the internal audit office, and outside directors, and hold regular meetings to improve the quality of audits and realize more efficient audits.

Audit system by Audit & Supervisory Board Members

The Audit & Supervisory Board, as an independent body entrusted by shareholders, audits the execution of duties by directors and executive officers, in order to ensure sound and sustainable growth of the company and establish a quality corporate governance system that meets the trust of society.

In addition, the 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 the Business Investments Committee, and exchange opinions with representative directors as well as accounting auditors five or more times a year. Furthermore, the implementation status of internal audits is reported from the Internal Audit Department to the Audit & Supervisory Board members. These initiatives systemically ensure that important information relating to the Company's execution of operations is reported in detail to Audit & Supervisory Board members.

 Sustainability Report 2023: Corporate Governance, Audit and Supervisory Board, Selection of auditors and accounting auditors ▶ P.117

■ Committees concerning operational execution (Management Committees)

Joint Management Council

The Joint Management Council, consisting of directors, executive officers and Audit & Supervisory Board Members, is established for appropriately executing the decisions made by the Board of Directors through having the Board of Directors and executive officers fulfill their respective duties and communicate each other. Deliberates and reports on important matters relating to business execution and evaluates internal control and risk management systems. Met four times in fiscal 2022.

- Chair: Representative Director, President
- Matters discussed and deliberated by the Board of Directors in fiscal 2022:
 - Carbon neutral strategy
 - Central Research Laboratory's initiatives
 - Initiatives of Group companies, etc.

Internal Control Committee

The Internal Control Committee is established as a body whose mission is to verify that the internal control system is properly established and operated, and to promote corrective actions if any flaws or deficiencies are found.

In fiscal 2022, the Committee met four times.

- Chair: Representative Director, President

Risk Management Committees

Under the supervision of the risk management officer (the Head of Management Administration), Risk Management Committees are established for each business division (Business Division Risk Management Committees) as bodies tasked with preventing potential risks in advance faced by each of the company's businesses and relevant Group companies, and addressing these risks if they materialize. These Business Division Risk Management Committees

are positioned as a function of the internal control system.

- Chair: Business division heads
- Committee members: Department managers of Business divisions

Business Investments Committee

The Company's Business Investments Committee is responsible for deliberating on and assessing the feasibility and risks of important potential investments in the real estate development business and other businesses to ensure that decision-making about the deployment of capital is reasonable and effective. In fiscal 2022, the Committee met 19 times.

- Chair: Representative Director, President

Information Disclosure Committee

To build long-term relations built on trust with all shareholders, investors, and other stakeholders, we establish the committee tasked with announcing information pursuant to the basic policy for information disclosure (disclosure policy). Information that is useful for investment decisions and matters that could significantly affect the company's performance and credibility outside of the timely disclosure standards are deliberated on by members across departments from different viewpoints for information to be disclosed.

- Chair: Head of Management Administration

■ Remuneration policy

Our remuneration system for directors is designed to compensate those who share the Daiwa House Group's Purpose and contribute to the creation of medium and long-term business and social value toward the realization of "a world where we live together in harmony, embracing the Joys of Life," according to their roles and contributions.

In the short term, in addition to achieving short-term financial targets to create business value, the system is designed to stimulate efforts to improve the value of human capital and strengthen organizational capabilities that should be promoted in the immediate future to achieve sustainable growth.

Over the medium to long term, in addition to sustainable enhancement of corporate value, the system is designed to motivate efforts aimed at creating social value toward "a world where we live together in harmony, embracing the Joys of Life."

The company's remuneration for directors consists of "fixed remuneration" and "Annual incentive bonus" as monetary remuneration, and "restricted stock compensation with post-issuance type transfer restrictions" and "performance-based remuneration of transfer-restricted stocks" as stock-based remuneration, and is designed to balance the responsibilities of directors toward the sustainable enhancement of the company's corporate value. Outside directors receive only "fixed remuneration" in the form of monetary remuneration.

Details

The remuneration shall be as follows.

(i) Fixed remuneration

In compensation for "fulfilling their duties" in supervision of management and execution of operations, monetary fixed remuneration (supervising remuneration and executive remuneration) is paid to all of our directors and Audit & Supervisory Board members, according to their roles and responsibilities. Based on the resolution at the General Meeting of Shareholders, the limitation of remuneration

for directors shall be 70 million yen per month and that for Audit & Supervisory Board members shall be 18 million yen per month. The company does not provide retirement benefits for directors and Audit & Supervisory Board members.

(ii) Annual incentive bonus

Directors (excluding outside directors) are eligible for payment of performance-linked monetary remuneration, based on the achievement of short-term financial and non-financial targets set by the company, as an incentive for achieving short-term financial targets (operating income and ROIC) and short term non-financial targets, such as improving the value of human capital and strengthening organizational capabilities. To seek our shareholders' judgement, the amount paid to directors in proportion to the company's performance in the relevant fiscal year is submitted as agenda to the General Meeting of Shareholders every year.

(iii) Stock compensation

The following two types of stock-based compensation will be paid to directors (excluding outside directors) in order to provide them with incentives for their efforts to create medium- to long-term social value with the aim of continuously improving the company's corporate value and realizing "a world where we live together in harmony, embracing the Joys of Life" and to further share the value with shareholders.

(1) Restricted stock compensation with post-issuance type transfer restrictions

We provide this payment to encourage commitment to management with an awareness of the stock price. Under this system, shares of the company's common stock are delivered to directors on the condition that they have held the position of director of the company continuously during each fiscal year of the Medium-Term Management Plan period.

(2) Performance-based remuneration of transfer-restricted stocks

We provide this payment to encourage commitment to ESG management. Under this system, shares of the company's stock

are delivered in accordance with the degree of achievement of environmental indices set forth by the company for each fiscal year during the period of the Medium-Term Management Plan. (KPI: environmental indices in the Seventh Medium-Term Management Plan)

We will endeavor to ensure that the stock-based compensation accounts for approximately 20% of the total compensation paid to directors (excluding outside directors).

Determination process

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

Directors' remuneration structure (excluding outside directors)

Fixed remuneration			
Basic remuneration Approx. 45% (not more than 70 million yen per month)	Annual incentive bonus Approx. 35%	Stock compensation Approx. 20%	Transfer-restricted stock remuneration
		Restricted stock compensa- tion with post-issuance type transfer restrictions	

Note: The percentage indicates the ratio of each type of remuneration to the whole remuneration for directors. (This is subject to change depending on business performance and other factors as directors' remuneration includes the performance-linked monetary remuneration.)

Total amount of directors' remuneration, etc. (excluding outside directors)

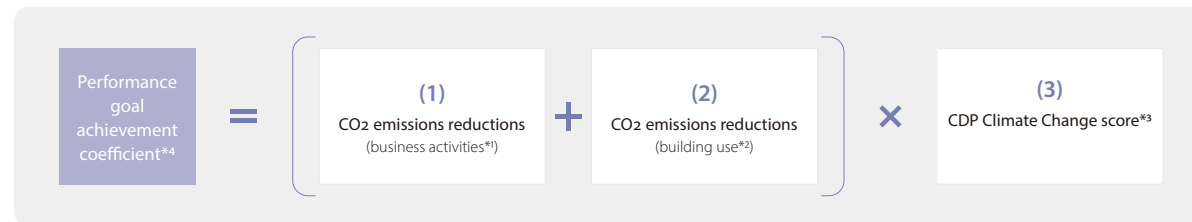
Remuneration	FY2022
Directors' fixed remuneration	520 million yen
Directors' annual incentive bonus	567 million yen
Stock compensation	220 million yen
Total amount of remuneration, etc.	1,308 million yen

Note: 1. Amounts are rounded down to the nearest million yen.
2. Total amount of stock compensation includes 94 million yen of restricted stock compensation with post-issuance type transfer restrictions and 125 million yen of performance-based remuneration of transfer-restricted stocks.

Environmental KPIs for performance-based remuneration of transfer-restricted stocks

The “CO2 emissions reductions (vs. 2015)” and “CDP Climate Change score” environmental indicators specified in the 7th Plan will be used as the performance targets. These are defined in (1) to (3) below and the degree of target achievement will be calculated using the following formula based on data obtained for the performance assessment period.

Calculation formula



*1 CO2 emissions at Group offices, plants, construction sites, and business facilities. (Scopes 1 and 2)

*2 CO2 emissions resulting from Group sales and the use of developed residential housing and buildings. (Scope 3, Category 11)

*3 CDP, an international NGO, surveys more than 14,000 companies and other organizations from around the world and rates them corporations on an eight-point scale according to their actions and strategies for climate change.

*4 The performance goal achievement coefficient is set to 1 if it exceeds 1.

Management Indicators		FY2022	FY2026
(1)	Reduction of greenhouse gas emissions in business activities (vs FY2015)	-25%	-55%
(2)	Reduction of greenhouse gas emissions in building use (vs FY2015)	-35%	-54%

Performance goal achievement	Performance goal achievement coefficient
100% or more	0.5
80% to less than 100%	0.4
60% to less than 80%	0.3
40% to less than 60%	0.2
20% to less than 40%	0.1
less than 20%	0

(3) CDP Climate Change score

CDP Climate Change score	Performance goal achievement coefficient
A	1.20
A-	1.10
B	1.00
B-	0.95
C	0.90
C-	0.85
D	0.80
D-	0.75

We were awarded an A grade (top score) for its 2022 CDP Climate Change score.

In fiscal 2022, both (1) and (2) showed the performance goal achievement coefficients of 100% or more, each of which was 0.5. Accordingly, the achievement coefficient for fiscal 2022 was 1.

Calculation method

Achievement of (1): -33.5% (FY2022 result) / -25% (FY2022 goal) = 134%.
 Achievement of (2): -39.3% (FY2022 result) / -35% (FY2022 goal) = 112%.
 2022 CDP Climate Change score of (3): A

FY2022 performance goal achievement coefficient: (0.5 + 0.5) × 1.2 = 1.2
 The coefficient exceeded 1, resulting in a performance goal achievement coefficient of 1.

Initiatives to further share value with our shareholders

The Company recommends to its executives and employees 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*1: 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

*1 Excluding outside directors *2 Only for Directors of 100% subsidiaries

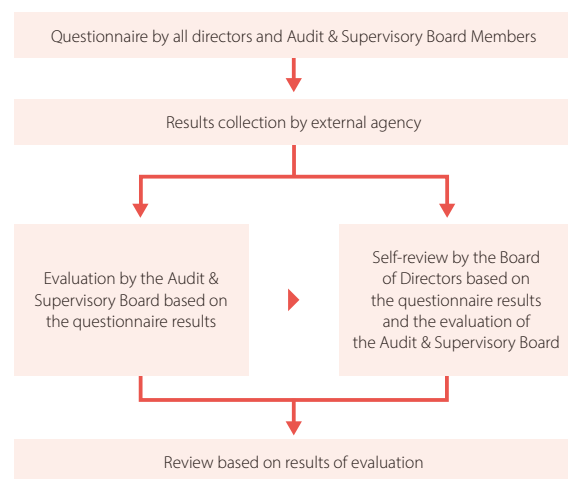
■ Overview of effectiveness evaluation of Board of Directors

Based on the Corporate Governance Guidelines, the Company has, since 2015, conducted evaluations of the effectiveness of the Board of Directors with the aim 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.

As in the past, an external agency was engaged to conduct the 2022 survey, with responses being provided directly to the external agency to ensure anonymity.

Evaluation process



Evaluation items

The survey was made up of 39 multiple-choice questions and 12 questions requiring written answers about items below. 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, training (opportunities to acquire the necessary knowledge) was rated low.

Evaluation items	Average score
Composition of Board of Directors	4.2
Operation of Board of Directors	4.3
Monitoring function of Board of Directors	4.3
Performance of inside directors	4.2
Performance of outside directors	4.3
Support structures for directors and Audit & Supervisory Board members	4.3
Training	4.1
Your own efforts	4.3
Summary	4.6

Evaluation results for FY 2022

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

However, the need to further enrich discussions on medium- and long-term management issues such as management strategy and human capital was highlighted as an issue to address.

The Company intend to continue increasing the effectiveness of the Board of Directors and to enhance its management system in order to achieve sustainable growth and increase corporate value over the medium to long term.

Training

For the training for which the average evaluation score was low, we regularly provide opportunities for directors to acquire the latest knowledge that they need.

For fiscal 2022, as described below, our efforts to acquire knowledge on ESG management, potential risks, and other topics included study sessions with outside lecturers.

Executive officers also participated in the sessions as part of a program for fostering the next generation through which they learned how to fulfill their managerial responsibilities.

Implementation period	Themes
September, 2022	Circular economy practices
December, 2022	Importance of purpose management
February, 2023	Evolving harassment risks – Increasingly sophisticated society's needs and litigation risks –

2 Foster next generation of business managers

A succession process for directors and executive officers was established to help develop a deeper pool of future business managers.

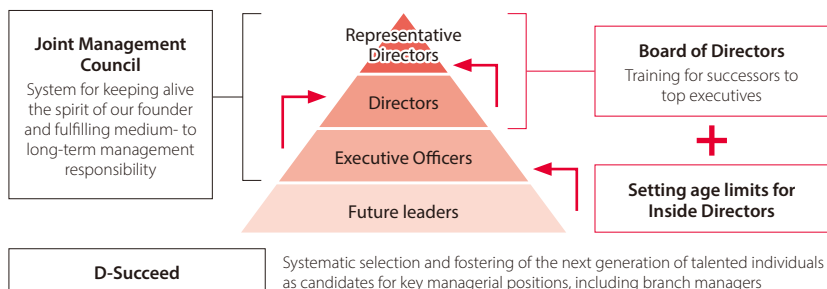
To ensure continuous business growth under a rapidly changing operating environment, the Company has set age limits for Inside Directors (Representative Directors: sixty-nine; Directors: sixty-seven). We are also fostering the next generation of excellent human resources, while smoothly promoting transition from one generation of top management to the next.

In nurturing management successors, the Joint Management Council brings together directors, Audit & Supervisory Board members, and executive officers together to share management information as necessary and discuss issues, functioning as a place to maintain the spirit of our founder and recognize roles to fulfill management responsibility.

The D-Succeed succession planning system for the next generation of managers (especially branch managers) was introduced in fiscal 2020, and is now integrated with the Daiwa House Juku implemented in 2008 into a group-wide system to foster the next generation of business managers, thereby expanding and qualitatively improving our pool of human resources. With a view to promoting future executives, we started to operate the D-Succeed as a mechanism to develop and gather a wide range of talented individuals as candidates for key managerial positions, including branch managers, regardless of job title or gender.

Furthermore, we offer selected personnel to off-site training programs where candidate managers from various companies gather, and develop a global management human resources program to support our overseas businesses.

A program to nurture the next generation



Policy on cross-shareholdings

Each year, the Board of Directors reviews the medium-to-long-term economic rationality of the company's various cross-shareholdings and presents the results. An effort is being made to reduce cross-shareholdings by selling those shareholdings that are deemed to be no longer necessary. While cross-shareholdings accounted for only 2.8% of consolidated net assets at the end of the 2022 fiscal year (excluding listed REIT of the Daiwa House Group), the intention is to further reduce such holdings in order to slim the balance sheet and boost efficiency. Moreover, in the event that one of our cross-shareholding partners expresses an intention to divest their Daiwa House Industry shares, we will not engage in any actions intended to impede such sales, such as threatening to reduce our business with the company concerned.

Criteria for 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 56 at the end of fiscal 2022.

Actual sales of cross-shareholdings over past three financial years

FYE	Number of shareholdings sold	Number of shareholdings held
FYE2020	2 companies (sale of entire holding), 4 companies (partial sale of holding)	64
FYE2021	4 companies (sale of entire holding), 3 companies (partial sale of holding), 1 newly listed company, 1 new shareholding	62
FYE2022	7 companies (sale of entire holding), 5 companies (partial sale of holding), 1 new shareholding	56

3 Improve system of business execution

Business division-based system and branch management

Under the business division-based system, the Group companies are highly related to each business under the business divisions. Business division heads implement management decisions in a timely and meticulous manner, and are comprehensively responsible for business growth and performance management while also pursuing synergies with the Group companies, as well as for controlling business-specific risks. Each business division is looking at how they can make ongoing improvements to teams or functions that duplicate activities elsewhere in the group.

Meanwhile, even in the business division-based system, there are block managers, office managers and branch managers that take charge of designated areas to maintain our strengths while promoting collaboration between businesses such as interorganizational complex developments. In April 2023, we reorganized our domestic business divisions into 11 branches under a new structure in which branches in each area are allocated under the business divisions. We intend to further solidify the governance of domestic businesses through area-oriented approach and the community-based marketing.

Status of initiatives to strengthen governance in our overseas business

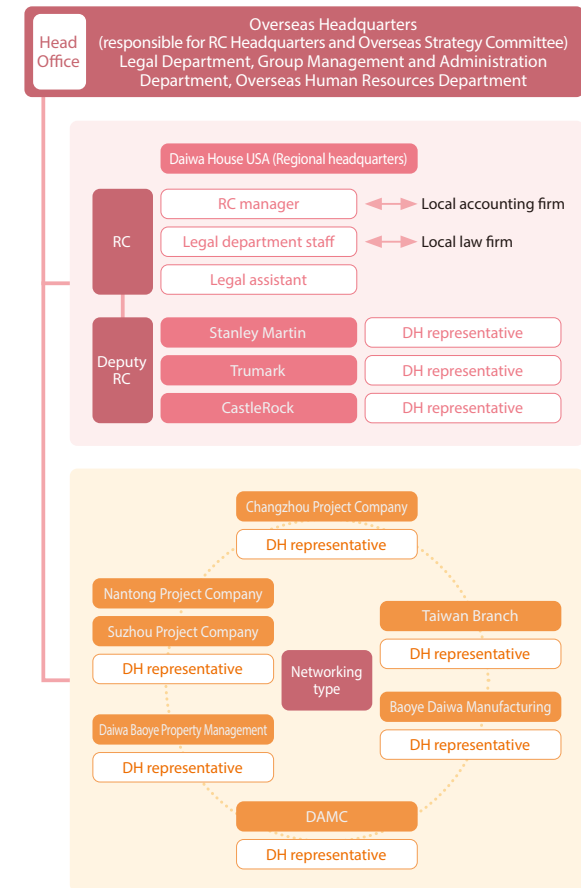
To strengthen the governance of overseas businesses, regional corporate functions (RC functions) have been established for each area in a form that takes account of area characteristics and their business circumstances, with the overseas headquarters in Japan playing a central role. The overseas headquarters and HQ corporate division oversee the RC functions in each area.

2019	Established the Overseas Strategy Committee
2020	Formulated the Investment Management Guidelines for the Group
2021	Began establishing regional corporate functions by area* Began operation of Risk Management Committee at overseas headquarters
2022	Began work on formulating detailed management indicators for overseas businesses

* Progress of upgrading regional corporate functions: To quickly understand the situation and issues faced in the frontlines and take timely measures, we are working to strengthen our functions by assigning specialized personnel to each overseas area.

Current Initiatives (examples)	Future Initiatives (examples)
<ul style="list-style-type: none"> Assign specialized personnel in charge of legal affairs, general affairs/human resources, and information systems Report each SPC's financial status to the headquarters Hold council meetings for administrative personnel in each area Share risk information and preventive measures at meetings of Risk Management Committees 	<ul style="list-style-type: none"> Start to manage frontline operations using detailed management indicators Further facilitate and strengthen personnel assignments Develop a management system aligned with the Group regulations

Overview of overseas regional corporate (RC) functions



4 Entrench risk management structure

Basic approach to risk management

Our risk management defines risks as “events that may cause damage to the Daiwa House Group” and identifies risks associated with the compliance, environments, quality, information security, human rights and others, then prevents and detects potential risks in advance, and mitigates losses caused by risks. In identifying risks, we do not take a limited view of risk, but rather consider risks to be subject to risk management whenever there is a realistic risk of loss, even if the risk of loss is not imminent. We believe that this approach also contributes to protecting the rights and interests of our stakeholders.

Regarding the risk management structure, we have a structure in place to respond to both normal and emergency situations. Information collected on risks and responses to those risks is reported to the Board of Directors periodically or as needed through the Business Division Risk Management Committees and Internal Control Committee. The Board of Directors supervises management of these matters.

Structure in normal times

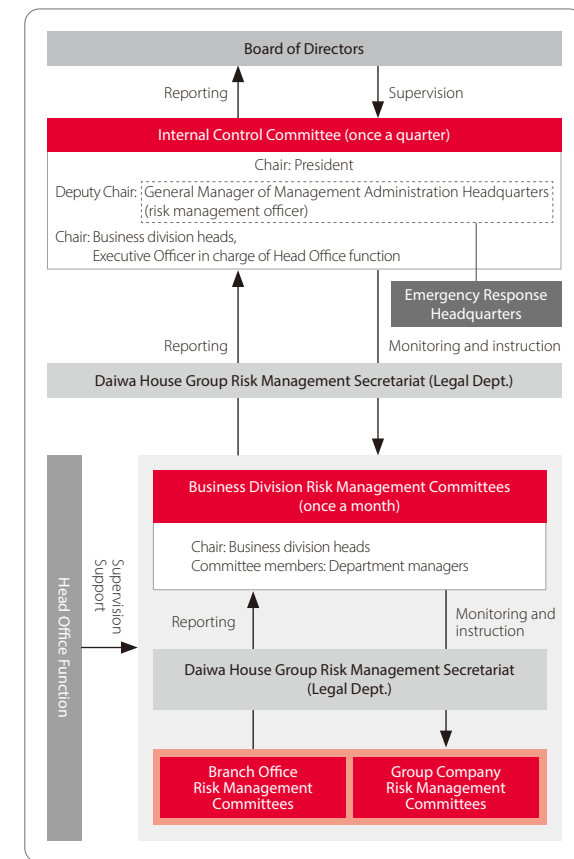
We have appointed the General Manager of Management Administration Headquarters as the risk management officer responsible for building, operating and supervising the risk management structure of the entire Group. Under his supervision, Risk Management Committees are established for each business division (Business Division Risk Management Committees) as bodies tasked with preventing risks in advance faced by each of the company's businesses, and addressing these risks if they materialize.

To supervise the overall internal control system of the entire Group, including those mentioned above, we have the Internal Control Committee chaired by President, with head of Management Administration (the risk management officer) serving as a vice-chairman.

Structure in emergencies

If a serious risk manifests, we set up Emergency Response Headquarters to address such risk and strive to minimize adverse effects on business performance.

Risk Management System



Operating the Internal Control Committee

We have established the Internal Control Committee as an organ that aims and functions to receive reports on the status of internal controls of the entire Daiwa House Group, and to assess and promote correction of flaws or deficiencies thereof. This Committee meets once a quarter. The operational status of the Committee is reported to the Board of Directors semiannually to ensure that it is operated properly under the supervision of the management team including outside directors.

Compliance and risk management structure system

1. Collecting and utilizing risk information

We have made it mandatory to report any risk information identified by the Head Office, branch offices, or Group companies (including overseas companies) immediately to risk management officer (the Head of Management Administration) and the members of the Business Division Risk Management Committees. Reported risk information is forwarded to the Business Division Risk Management Committees for discussion and instructions on measures to deal with the risks and prevent them occurring again. Particularly important risk information is forwarded to the Internal Control Committee and the Board of Directors.

Risk Management Committee also meet once a month in principle in the branch offices and Group companies to discuss and give instructions relating to measures to deal with and prevent the recurrence of the risks revealed based on deliberations by the Business Division Risk Management Committees.

2. Whistleblower system

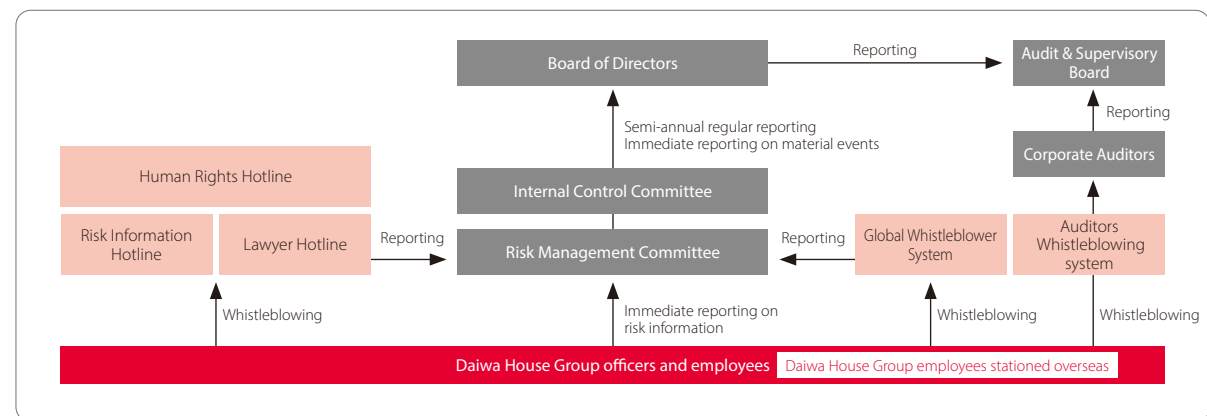
For the purpose of early detection and correction of events that may inhibit sustainable growth of the Group, we have established and operated various whistleblower systems both inside and outside the Company.

Not to discourage whistleblowers from reporting in fear of retaliation and detrimental treatment, we formulated rules to keep names of whistleblowers and the content of their reports strictly confidential, and to prohibit discriminatory treatment of them. In addition, a leniency system has also been introduced to facilitate the early detection and resolution of acts of dishonesty. The leniency system provides the discretion to waive or reduce disciplinary action when a person involved in an act of dishonesty self-reports the case or actively participates in the investigation.

3. Response in cases where a serious risk is manifested

In cases where a serious risk is manifested, Emergency Response Headquarters are established as a structure to minimize the adverse effect to our business operations. Specifically, among manifested risks, those that may have particularly serious impact on the Group or its stakeholders are addressed by the established headquarters that studies and promotes measures to deal with them or prevent their recurrence, as stipulated in the Risk Management Regulations. Criteria for setting up Emergency Response Headquarters, as well as constituent members, operation procedures and tasks of the headquarters, are set forth by Instructions for Establishing and Operating Emergency Response Headquarters, a subrule to the Risk Management Regulations, thereby ensuring quick establishment of the Emergency Response Headquarters and appropriate response to the risks.

Risk information communication flowchart



4. 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.

5. Internal audits

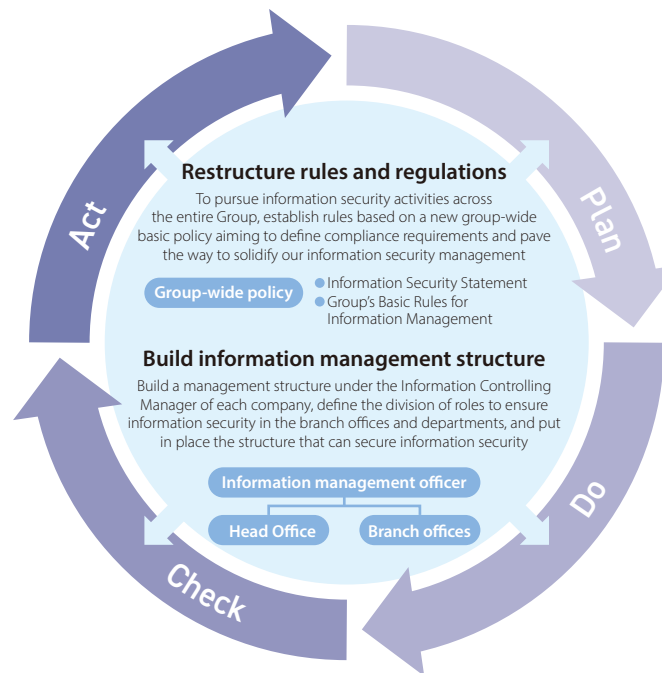
The Internal Audit Department is a department specializing in internal audit, and verifies and evaluates whether operations comply with laws and corporate rules by conducting hearings of officers and employees of branch offices and Group companies and confirming documents. If any problem is discovered as a result of the audit, the department 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

Since the institution of the Group Management Rules in 2007, the Company's business divisions have taken charge of performance management, business growth, and risk management of Group companies related to each business under the business divisions. Further, the Group's head office functions have been granted to the Company's Head Office to support the Group company's operations thereunder, thereby ensuring the appropriateness of Group companies' operations from both business and functional perspectives.

Information security

To continue to be a company that earns the trust of our customers, stakeholders, and society, we are working on various initiatives to appropriately handle, manage, protect, and maintain the information held by our group.



P	<p>Formulate annual plans</p> <p>Plan for the current year's information security activities based on the previous year's activity results and improvements</p>
D	<p>IT security measures</p> <p>To response to information leakage and other risks due to external attacks and internal fraud, continue taking measures, such as internal fraud prevention, IT asset management, monitoring and support for terminals, and security measures for cloud use, and expand these measures to the Group companies. At the same time, add IT security personnel and continue professional training to improve their skills</p>
C	<p>Employee training</p> <p>Training sessions for each position to familiarize employees with information security, and require all employees handling information assets to complete an e-learning program twice a year</p>
A	<p>Activities to secure information security (assessment, audits, and improvements)</p> <p>To secure and enhance information security, introduce a self-assessment system for employees to check their own compliance with rules and regulations, and conduct regular information security audits</p>
A	<p>Review and improve our activities</p> <p>Review information security activities every year, reexamine the rules, regulations and information management structures, and optimize them regularly to match our actual situation</p>