



News Release (translation only)

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Company: Daiwa House Industry Co., Ltd.
(Code number: 1925,
First Section of the Tokyo Stock Exchange)
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Notice Regarding Issuance of Share Options for Subscription (Stock Options for Value) for Daiwa House Industry and Subsidiary Company Management

At a meeting held May 13, 2016, the Daiwa House Industry Board of Directors resolved to issue a second issuance of share options to its directors, executive officers and employees and directors of its subsidiaries pursuant to the provisions of Articles 236, 238 and 240 of the Companies Act of Japan.

This grant of share options is not remuneration to grantees, but rather an opportunity for grantees to accept the offer according to their individual investment decisions. The share options will be issued without obtaining approval at a general meeting of the shareholders of the Company because they will be issued to subscribers for value at a fair price and on conditions not particularly favorable to subscribers.

I. Background

The Daiwa House Group has formulated the Daiwa House Group 5th Medium-Term Management Plan covering the three years from FY2016 through FY2018. The issuance of share options is one component of a stock incentive plan adopted for directors at Daiwa House Industry to achieve the earnings targets outlined in the 5th Medium-Term Management Plan and sustained corporate value improvements.

II. Purpose and reason for issuing share options

The Company issued the first installment of share options as an incentive plan related to the 4th

Medium-Term Management Plan covering the three fiscal years from FY2013 to FY2015. Group management and employees undertook the task of improving corporate value through a shared commitment to generating profit returns through performance improvements and improving shareholder value. As a result, the Group achieved the performance targets outlined in the 4th Medium-Term Management Plan (actual operating income of 587 billion yen compared to a target of 480 billion yen for the cumulative three years of the plan).

The Group will strive for even higher targets under the new 5th Medium-Term Management Plan. As provided in section III.3.(6) Terms and Conditions of the exercise of the share options, below, new share options will be issued for a fee, the exercise of which is conditioned on the achievement of new performance targets (800 billion yen in operating income for the cumulative three years of the plan).

The share options to be issued will be less than 0.4% of the outstanding shares of the Company, and we consider that the impact of the share dilution will be within a reasonable range.

III. Summary of terms and conditions of the share options to be issued

1. Number of share options

24,500 units

The total number of shares to be granted upon the exercise of the share options shall be 2,450,000 shares of common stock of the Company. If the number of shares to be granted in relation to the share options is adjusted pursuant to 3 (1) below, the total number of shares to be granted shall be the adjusted number of shares to be granted multiplied by the number of the share options.

2. Cash payment in exchange for the share options

The issuance price of the share options shall be 5,700 yen for each unit of the share options. This amount was determined in reference to the result of a calculation undertaken by Plutus Consulting Co., Ltd, a third party evaluation organ, based on Monte Carlo Simulation, a general option price calculation model, after taking into consideration such information as the share price of the Company.

3. Details of the share options

(1) Class and number of shares to which the share options apply

The number of shares to be acquired upon the exercise of each unit of share options (hereafter, the “Number of Granted Shares”) shall be 100 shares of common stock of the Company.

If the Company executes a share split (including the allotment of its common stock without contribution; hereafter the same shall apply) or a share consolidation after the day of the allotment of the share options, the Number of Granted Shares upon the exercise of each unit of such share options shall be adjusted according to the following formula, provided that such

adjustment shall be made only to the number of shares to which the share options remaining unexercised applies at the time of such adjustment, and further provided that if any fraction of less than one share arises as a result of such adjustment, such fraction shall be discarded.

Number of Granted Shares after adjustment =

Number of Granted Shares before adjustment x Ratio of share split (or consolidation)

If the Company implements a merger, a company split, or a reduction in the amount of its capital stock, or engages in any other similar matters where the adjustment of the Number of Granted Shares becomes necessary, after the day of the allotment of the share options, the number of Granted Shares shall be adjusted in a reasonable manner.

- (2) Value of the assets to be contributed upon the exercise of the share options or the method of calculation of such value

The amount of assets to be contributed upon the exercise of each unit of the share options shall be the amount obtained by multiplying the amount to be paid per share (hereafter, the “Exercise Price”) by the Number of Granted Shares.

The Exercise Price shall be 3,017 yen.

The amount shall be 3,017 yen, representing 100 percent the closing price of the Company’s stock in regular trading on the Tokyo Stock Exchange on May 12, 2016, the day immediately prior to the determination of the issuance price.

If the Company executes a share split or a share consolidation after the day of the allotment of the share options, the Exercise Price shall be adjusted according to the following formula, and any resulting fraction of less than one yen shall be rounded up.

Exercise Price after adjustment =

$$\text{Exercise Price before adjustment} \times \frac{1}{\text{Ratio of split (or consolidation)}}$$

If the Company implements the issuance of new shares of its common stock or the retirement of treasury shares, after the day of the allotment of the share options, at a price below the market price of its shares (excluding the case of the issuance of new shares and the retirement of treasury shares upon the exercise of share options and the transfer of treasury shares through the exchange of shares), the Exercise Price shall be adjusted according to the following formula, and any resulting fraction of less than one yen shall be rounded up.

$$\text{Adjusted Exercise Price} = \text{Pre-adjusted Exercise Price} \times \frac{\text{Number of outstanding shares} + \frac{\text{Number of newly issued shares} \times \text{Payment per share}}{\text{Market price per share}}}{\text{Number of outstanding shares} + \text{Number of newly issued shares}}$$

In the above formula, the “number of outstanding shares” shall be the total number of issued shares of common stock of the Company after subtracting the number of treasury shares consisting of its common stock. If the Company undertakes the retirement of treasury shares consisting of its common stock, the “number of newly issued shares” shall be read as the “number of treasury shares to be disposed of.”

In addition to the above, if the Company implements a merger with another company, a company split, or any other similar matter where the adjustment of the Exercise Price becomes necessary, after the day of the allotment of the share options for subscription, the Exercise Price shall be adjusted in a reasonable manner.

(3) Period during which the share options for subscription may be exercised

The share options for subscription may be exercised from May 1, 2019 up to and including March 31, 2022 (hereafter, the “Exercise Period”).

The start of the said Exercise Period shall be the business day following the date of the announcement of the summary of financial results for the fiscal year ending March 31, 2019.

(4) Matters concerning the amount of capital stock and capital reserve

- ① The amount of capital stock increased by the issuance of shares upon the exercise of the share options for subscription shall be the amount obtained by multiplying the maximum limit of the capital stock increase, as calculated in accordance with the provisions of Paragraph 1, Article 17 of the Company Accounting Ordinance of Japan, by 0.5, and any fraction of less than one yen arising as a result of such calculation shall be rounded up to the nearest one yen.
- ② The amount of the capital reserve increased by the issuance of shares upon the exercise of share options for subscription shall be the amount obtained by deducting the capital stock to be increased, as provided in ① above, from the maximum limit of the capital stock increase, as also provided in ① above.

(5) Restrictions on the acquisition of share options for subscription through transfer

The acquisition of share options for subscription through transfer shall require the approval of the Board of Directors of the Company.

(6) Terms and Conditions of the exercise of the share options

- ① A holder of share options may exercise the predetermined number of units of share options for subscription from those allotted to him or her during the period stipulated in 3 (3) above only when the conditions described in B. below apply, which were established by the Company in accordance with the performance goals (refer to A. below) in the 5th Medium-Term Management Plan.

In measuring operating income, reference shall be made to the consolidated statements of income included in the summary of the financial results for the same period. In the event that there has been a significant change in the concept of the operating income to be referred to as a result of the change, etc. of the applicable accounting standards, the Company shall determine another appropriate indicator to be referred to at a meeting of its Board of Directors in a reasonable manner.

A. Projected figures for operating income stipulated in the Company's 5th Medium-Term Management Plan

- 1) Fiscal year ending March 31, 2017: Operating income: 255 billion yen
- 2) Fiscal year ending March 31, 2018: Operating income: 265 billion yen
- 3) Fiscal year ending March 31, 2019: Operating income: 280 billion yen
- * Operating income for the three cumulative years: 800 billion yen

B. Conditions to be established at the time of the exercise of the share options and ratio of exercisable share options

- (a) If the cumulative amount of the operating income from the fiscal year ending March 31, 2017 up to and including the fiscal year ending March 31, 2019 exceeds 760 billion yen:

Ratio of exercisable share options: 30%

- (b) If the cumulative amount of the operating income from the fiscal year ending March 31, 2017 up to and including the fiscal year ending March 31, 2019 exceeds 780 billion yen:

Ratio of exercisable share options: 60%

- (c) If the cumulative amount of the operating income from the fiscal year ending March 31, 2017 up to and including the fiscal year ending March 31, 2019 exceeds 800 billion yen:

Ratio of exercisable share options: 100%

In any of the above cases (a), (b), and (c), no share option shall be permitted to be exercised in the event that the operating income in any single fiscal year of the three fiscal years, from the fiscal year ending March 31, 2017 up to and including the fiscal year ending March 31, 2019, falls below 243.1 billion yen, which is the actual result of the operating income in the previous fiscal year (fiscal year ended March 31, 2016).

- ② Holders of share options are not required to be executives or employees of the Company or Company affiliates at the time of the exercise of share options. However, certain individuals holding share options may not exercise share options in circumstances judged by the Board of Directors to be inappropriate, including cases in which the individual in question was the subject of disciplinary dismissal from the Company.
- ③ In the event of the death of a holder of the share options, only one of the lawful heirs of the deceased (hereafter, the “Lawful Successor”) may inherit the rights of the deceased holder of the share options. If the Lawful Successor dies, no heir of the Lawful Successor may inherit the share options.
- ④ If the total number of issued shares of the Company exceeds the number of issuable shares upon the exercise of the share options, the exercise of the share options may not be executed.
- ⑤ Other conditions for the exercise of the share options shall be subject to the restrictions provided for in the share option allocation agreement to be concluded between the Company and the recipient of the share options.

4. Allotment date of the share options

July 5, 2016

5. Matters concerning the acquisition of the share options

- (1) In the event of a resolution being passed at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not necessary, at a meeting of the

Board of Directors of the Company) for an agreement for any merger in which the Company is to become the extinct company, for an agreement or plan for any company split pursuant to which the Company is to become the splitting company, or for an agreement for any share exchange or a plan for any share transfer pursuant to which the Company is to become a wholly-owned subsidiary of another company, the Company may acquire all the share options on the date to be separately determined by the Board of Directors of the Company without any contribution.

- (2) In the case where holders of the share options become unable to exercise the share options because of the conditions prescribed in 3 (6) above before exercising such share options, the Company may acquire such share options without any contribution.

6. Treatment of share options at the time of conducting organizational restructuring

In the event that the Company is to engage in a merger (limited to cases where the Company is to be dissolved as a result of the merger), performs an absorption-type company split or an incorporation-type company split, or conducts a share exchange or a share transfer (hereafter collectively referred to as the “Organizational Restructuring Activities”), the share options described in Article 236, Paragraph 1, Items 8 (a) through (e) of the Companies Act (hereafter the “Restructured Company”) shall be issued to each holder of the share options under the following conditions at the time when the Organizational Restructuring Activities take effect. The foregoing shall apply only to cases where it is indicated in the absorption-type merger agreement, incorporation-type merger agreement, absorption-type company separation agreement, incorporation-type company separation plan, share exchange agreement or share transfer plan that the share options of the Restructured Company are to be issued in accordance with the following conditions.

- (1) Number of share options of the Restructured Company to be issued

The number of share options to be issued in relation to the Restructured Company shall be the same as the number of share options held by the holders of the share options of the Company.

- (2) Class of shares of the Restructured Company to be issued upon the exercise of the share options

Shares of common stock of the Restructured Company

- (3) Number of shares of the Restructured Company to be issued upon the exercise of the share options

To be decided according to 3 (1) above after taking into consideration the conditions etc. of the Organizational Restructuring Activities.

(4) Value of the assets to be contributed upon the exercise of the share options

The value of the assets to be contributed upon the exercise of each unit of the share options shall be the value equal to the Exercise Price after the Organizational Restructuring obtained by adjusting the Exercise Price stipulated in 3 (2) above, multiplied by the number of shares of the Restructured Company to be issued upon the exercise of the said share options to be determined pursuant to 6 (3) above, after taking into consideration the conditions, etc. of the Organizational Restructuring Activities.

(5) Exercise period of the share options

Starting from the later of either the first date of the Exercise Period of the share options as stipulated in 3 (3) above or the date on which the Organizational Restructuring Activities become effective, and ending on the expiration date of the Exercise Period as stipulated in 3 (3) above.

(6) Matters concerning any increase in capital stock and capital reserve to be increased by the issuance of shares upon the exercise of the share options

To be determined in accordance with 3 (4) above

(7) Restriction on acquisition of the share options by transfer

The acquisition of the share options by transfer shall be subject to approval by way of a resolution of the Board of Directors of the Restructured Company.

(8) Other conditions for acquisition of the share options

To be determined in accordance with 3 (6) above

(9) Reason and conditions for acquisition of the share options

To be determined in accordance with 5 above

(10) Other conditions shall be determined in accordance with the conditions of the Restructured Company.

7. Matters concerning share option certificates for the share options

The Company shall not issue any share option certificates for the share options.

8. Date of cash payment in exchange for the share options

July 29, 2016

9. Date of subscription

June 10, 2016

10. Persons to whom the share options shall be allocated, and the number of share options to be allocated

Directors of the Company	17 persons	3,050 units
Executive officers of the Company	43 persons	4,300 units
Employees of the Company	532 persons	11,460 units
Directors of the Company's subsidiaries	122 persons	5,690 units

End.

Disclaimer:

This English translation has been prepared for general reference purposes only. The Company shall not be responsible for any consequence resulting from the use of the English translation in place of the original Japanese text. In any legal matter, readers should refer to and rely upon the original Japanese text of the press release dated May 13, 2016.