



May 13, 2022

News Release (Translation)

Company: Daiwa House Industry Co., Ltd.
(Code number: 1925,
Prime Section of the Tokyo Stock Exchange)
Representative: Keiichi Yoshii, President and CEO
Contact: Yuji Yamada, Managing Executive Officer and
General Manager, IR Department
E-mail to: dh.ir.communications@daiwahouse.jp

Notice Concerning the Adoption of a Service-based Restricted Stock Compensation System and a Performance-linked Restricted Stock Compensation System

Pursuant a review our executive compensation system, at the Board of Directors' meeting convened today, our Board voted to adopt a service-based restricted stock compensation system (hereinafter, "System I") and a performance-linked restricted stock compensation system (hereinafter, "System II", with these systems hereinafter collectively referred to as "System") for Company directors (hereinafter, "Applicable Directors" (excludes outside directors)). Furthermore, the Board voted to present this matter as a formal agenda item to the 83rd Ordinary General Meeting of Shareholders scheduled to be convened on June 29, 2022. Details of this matter are as outlined below.

1. Purpose of System adoption

The purpose of this System is to provide incentives for Applicable Directors to pursue sustainable improvements in our corporate value and to ensure shared value with shareholders. Through System I, the Company will allocate an amount of Company common stock (hereinafter, Company Stock) to Applicable Directors based on the period calculated as being from the date of the Ordinary General Meeting of Shareholders during which Applicable Directors began executing their duties through the date of the Ordinary General Meeting of Shareholders convened the following fiscal year (hereinafter, "Period of Service"). Through System II, the Company will allocate an amount of Company Stock based on performance during each individual fiscal year (hereinafter, "Performance Evaluation Period").

This compensation is separate from the directors' compensation determined via a resolution by the 57th Ordinary General Meeting of Shareholders convened on June 27, 1996 (up to 70 million yen per month), the compensation provision allocated to the stock option trusts established via a resolution by the 77th Ordinary General Meeting of Shareholders convened on June 28, 2016 (no more than 600 million yen over a three-year period), and the compensation provision for the performance-linked restricted stock compensation established via a resolution by the 80th Ordinary General Meeting of Shareholders convened on June 25 2019 (no more than 180 million yen and no more than 40,000 shares over the three-year period between the 81st fiscal year and the 83rd fiscal year (FY2019 through FY2021), the period of our Sixth Medium-Term Management Plan. Furthermore, the adoption of this System shall require an affirmative vote by our shareholders at the Ordinary General Meeting of Shareholders as this System involves paying monetary claims (hereinafter, Monetary Compensation Claims) to enable the allocation of Company Stock to Applicable Directors as compensation.

Pursuant to an affirmative vote by the Ordinary General Meeting of Shareholders, the Company shall establish no additional trusts for conventional stock option trusts. Furthermore, following the Ordinary General Meeting of Shareholders,

the Performance Evaluation Period for the performance-linked restricted stock compensation system applied to the Sixth Medium-Term Management Plan will expire and we will conduct no further reviews or continuations of said Performance Evaluation Period. However, this shall exclude the payment of amounts for vested rights or the issuance of vested stock options.

2. System overview

The maximum stock compensation amount the Company shall pay to Applicable Directors for a Period of Service or a Performance Evaluation Period shall be no more than 900 million yen per year each for System I and System II. This compensation shall be no more than a combined 1,800 million yen in combined compensation (does not include employee wages paid to directors with employee duties). The maximum number of Company Stock to be issued shall be no more than 290,000 shares per year each for System I and System II. This stock compensation shall be no more than a combined 580,000 shares (no more than 0.1% of the 655,729,423 shares representing the Company's total shares issued (excluding 10,508,782 shares of treasury shares as of March 31, 2022)). However, in the event a stock split or merger (including bonus shares of Company Stock) is conducted on a day following a resolution by the Ordinary General Meeting of Shareholders and circumstances require adjustments to the total number of Company Stock to be issued or disposed of based on this System, then the total number of shares shall be adjusted within a reasonable range.

Furthermore, the per share payment amount shall be determined by the Board of Directors within a range that does not provide undue monetary advantage to Applicable Directors receiving said Company Stock. This determination shall be made based on the final transaction price for Company Stock on the Tokyo Stock Exchange on the last business day prior to the resolution passed by the Board of Directors concerning stock allocation (hereinafter, Board Stock Option Resolution). If no transactions were completed on the date in question, then the final price from the most recent business day shall be applied.

1. System I summary

System I is a stock compensation system that pays Monetary Compensation Claims to Applicable Directors based on the condition that Applicable Directors hold the position of director (hereinafter, "Position of Director") continuously during the Period of Service. Applicable Directors pay all of those Monetary Compensation Claims in the form of in-kind contributions to receive the issuance or disposal of Company Stock.

The issuance or disposal of Company Stock shall be subject to a restricted stock allocation agreement concluded between the Company and the Applicable Director. Provisions set forth in said agreement shall include the following: 1) Restriction on the transfer of Company Stock to any third party, the establishment of collateral rights against Company Stock, or any other disposal of Company Stock during the period between the Company Stock payment period and the retirement or resignation from the position of Company or subsidiary director, executive officer, executive officer not serving as a director, corporate auditor, employee, consultant, or equivalent position (hereinafter, Executive Position). 2) The restricted stock allocation agreement shall include provisions allowing the Company to acquire Company Stock free of charge when certain conditions are fulfilled. Furthermore, to prevent transfer, the establishment of collateral rights, or any other form of disposal during the restriction period, the Company Stock of Applicable Directors shall be managed in a dedicated account opened with Nomura Securities Co., Ltd.

(1) Method of calculating the Monetary Compensation Claim amount and final number of allocated shares for System I

1) Method of calculating the Monetary Compensation Claim amount

The amount of the Monetary Compensation Claim to be paid to Applicable Directors shall be the amount calculated by multiplying the final number of shares allocated to Applicable Directors in accordance with System I (for System I, this shall be referred to as "Final Share Allocation") by the per share payment amount.

2) Final Share Allocation and final payment amount calculation methods

The Final Share Allocation shall be the number of shares calculated by multiplying the base number of shares (in System I, this shall be referred to as “Base Share Allocation”) by a coefficient that is determined based on the period of service (hereinafter, “Period of Service Coefficient”).

However, when 1) a director resigns from the Position of Director prior to the vesting date due to the expiration of term or other just reason (excluding when due to death), or when 2) a director resigns from the Position of Director after the vesting date but prior to the date of issuance or disposal of Company Stock due to the expiration of term or other just reason (including when due to death), the amount calculated by multiplying the Final Share Allocation by the final transaction price for common shares of Company Stock on the Tokyo Stock Exchange for said date of retirement (if no transactions were conducted on that date, then the final price for the most recent date of transactions, for System I hereinafter referred to as “Final Payment Amount”) shall be paid within a specified period of time after resignation. However, when said date of retirement falls on or after the date of the Board Stock Option Resolution, then the payment amount shall be an amount based on the Board Stock Option Resolution.

(System I Final Share Allocation and Final Payment Amount calculation formulas)

Final Share Allocation = A) Base Share Allocation x B) Period of Service coefficient
Final Payment Amount = Final Share Allocation x final price for Company Stock on date of retirement from the Position of Director (if no transactions were conducted on that date, then the final price for the most recent date of transactions (However, when said date of retirement is date after the date of the Board Stock Option Resolution, then the payment amount shall be an amount based on the Board Stock Option Resolution.))

A) Base Share Allocation

The Company Board of Directors shall determine in advance Base Share Allocation issued to each Applicable Director. However, in light of the maximum amount of stock compensation allowed for System I, this amount shall be adjusted within a reasonable range when necessary to reduce the Base Share Allocation issued to Applicable Directors.

B) Period of Service Coefficient

Period of Service Coefficient = $\frac{\text{Period of Service (months)}}{\text{Months related to Period of Service (12)}}$

(*1) The Period of Service (months) is calculated as beginning from the month after the month of the date of the Ordinary General Meeting of Shareholders, which is the Period of Service start date, until the month of the date on which the Applicable Director resigns from the Position of Director.

(*2) If the Period of Service Coefficient exceeds 1, then the coefficient is set as 1.

(2) Conditions for payments to Applicable Directors

If the Applicable Director resigns due to death prior to the vesting date, then no payment of stock or monetary amounts in accordance with System I is made. Furthermore, directors who assume their position after the adjournment of the Ordinary General Meeting of Shareholders, which is the position start date, are ineligible for payment.

Also, Applicable Directors applicable to the circumstances for loss of rights as set forth in Company regulations, including directors who resign from the Position of Director without just cause, or who commit certain acts of misconduct, prior to the vesting date shall not receive payment of stock or monetary amounts.

(3) Handling in the event of organizational restructuring

If, prior to the vesting date, a merger agreement resulting in the dissolution of the Company, a stock swap agreement or stock transfer plan resulting in the Company becoming a wholly-owned subsidiary, or any other agenda related to organization restructuring is approved by the Company's General Meeting of Shareholders (or Board of Directors for organizational restructuring agenda not requiring approval by the General Meeting of Shareholders), after approval of said organizational restructuring, in exchange for Company Stock, the Company shall pay an amount calculated by multiplying the Base Share Allocation, which shall be adjusted within a reasonable range based on factors such as the period between the position start date and the organizational restructuring approval date, by the final transaction price for Company Stock on the Tokyo Stock Exchange on the business date prior to the organizational restructuring approval date. (However, this shall be limited to when the organizational restructuring date of enforcement is expected to occur on a date prior to the Company Stock issuance or disposal date prescribed for System I.)

2. System II summary

System II is a stock compensation system that pays Monetary Compensation Claims to Applicable Directors based on the level of achievement for performance goals during the Performance Evaluation Period. Applicable Directors pay all of those Monetary Compensation Claims in the form of in-kind contributions to receive the issuance or disposal of Company Stock. The issuance or disposal of Company Stock shall be subject to a restricted stock allocation agreement concluded between the Company and the Applicable Director. Provisions set forth in said agreement shall include the following: 1) Restriction on the transfer of Company Stock to any third party, the establishment of collateral rights against Company Stock, or any other disposal of Company Stock during the period between the Company Stock payment period and the retirement or resignation from an Executive Position. 2) The restricted stock allocation agreement shall include provisions allowing the Company to acquire Company Stock free of charge when certain conditions are fulfilled. Furthermore, to prevent transfer, the establishment of collateral rights, or any other form of disposal during the restriction period, the Company Stock of Applicable Directors shall be managed in a dedicated account opened with Nomura Securities Co., Ltd.

(1) Method of calculating the Monetary Compensation Claim amount and final number of allocated shares for System II

1) Method of calculating the Monetary Compensation Claim amount

The amount of Monetary Compensation Claims paid to Applicable Directors shall be the amount calculated by multiplying the final number of shares allocated to Applicable Directors in accordance with System (for System II, this shall be referred to as "Final Share Allocation") by the per share payment amount.

2) Final Share Allocation and final payment amount calculation methods

The Final Share Allocation shall be the number of shares calculated by multiplying the base number of shares (in System II, this shall be referred to as "Base Share Allocation") by a coefficient that is determined based on the level of performance goal achievement (hereinafter, "Performance Goal Achievement Coefficient").

However, when a director resigns from the Position of Director after the vesting date but prior to the date of issuance or disposal of Company Stock due to the expiration of term or other just reason (including when due to death), the amount calculated by multiplying the Final Share Allocation by the final transaction price for common shares of Company Stock on the Tokyo Stock Exchange for said date of retirement (if no transactions were conducted on that date, then the final price for the most recent date of transactions, for System II hereinafter referred to as "Final Payment Amount") shall be paid. However, when said date of retirement is on or after the date of the Board Stock Option Resolution, then the payment amount shall be an amount based on the Board Stock Option Resolution.

(System II Final Share Allocation and Final Payment Amount calculation formulas)

Final Share Allocation = A) Base Share Allocation x B) Performance Goal Achievement Coefficient
 Final Payment Amount = Final Share Allocation x final price for Company Stock on date of retirement from the Position of Director (if no transactions were conducted on that date, then the final price for the most recent date of transactions (However, when said date of retirement is date on or after the date of the Board Stock Option Resolution, then the payment amount shall be an amount based on the Board Stock Option Resolution.))

A) Base Share Allocation

The Company Board of Directors shall determine in advance the Base Share Allocation issued to each Applicable Director. However, in light of the maximum amount of stock compensation allowed for System II, this amount shall be adjusted within a reasonable range when necessary to reduce the Base Share Allocation issued to Applicable Directors.

B) The Performance Goal Achievement Coefficient

The Performance Goal Achievement Coefficient shall be the environmental metrics outlined in the Company's Seventh Medium-Term Management Plan (CO2 emissions reductions (business activities), CO2 emissions reductions (building use), and CDP climate change score). Using the figures finalized for the Performance Evaluation Period (initial period to be the 84th fiscal year (FY2022)), the Performance Goal Achievement Coefficient calculated based on (1) through (3) in the tables below shall be calculated based on the following formula.

(Calculation formula for Performance Goal Achievement Coefficient)

Performance Goal Achievement Coefficient = {(1) CO2 emissions reductions (business activities *1) + (2) CO2 emissions reductions (building use *2)} x (3) CDP climate change *3 score

*1: CO2 emissions at Group offices, plants, construction sites, and business facilities

*2: CO2 emissions resulting from Group sales and the use of developed residential housing and buildings

*3: An 8-tier evaluation of climate change response and strategy conducted by the International NPO CDP, which surveys over 14,000 companies worldwide and shares evaluation results with institutional investors.

(1) CO2 emissions reductions (business activities) + (2) CO2 emissions reductions (building use)

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 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

(2) Conditions for payments to Applicable Directors

If the Applicable Director resigns from the Position of Director prior to the vesting date, then no payment of stock or monetary amounts in accordance with System II shall be made, regardless of the reason. Furthermore, directors who assume their position after the adjournment of the first Ordinary General Meeting of Shareholders convened after the Performance Evaluation Period start date are ineligible for payment.

Also, Applicable Directors applicable to the circumstances for loss of rights as set forth in Company regulations, including directors who commit certain acts of misconduct, prior to the vesting date shall not receive payment of stock or monetary amounts.

(3) Handling in the event of organizational restructuring

If, prior to the vesting date, a merger agreement resulting in the dissolution of the Company, a stock swap agreement or stock transfer plan resulting in the Company becoming a wholly-owned subsidiary, or any other agenda related to organization restructuring is approved by the Company's General Meeting of Shareholders (or Board of Directors for organizational restructuring agenda not requiring approval by the General Meeting of Shareholders), then no stock or monetary amount shall be paid. However, this shall be limited to when the date of enforcement for said Organizational Restructuring is expected to fall occur prior to the date of allocation or disposal of Company Stock in accordance with System II.).

Furthermore, if after the vesting date but prior to the date of allocation or disposal of Company Stock in accordance with System II, a merger agreement resulting in the dissolution of the Company, a stock swap agreement or stock transfer plan resulting in the Company becoming a wholly-owned subsidiary, or any other agenda related to organization restructuring is approved by the Company's General Meeting of Shareholders (or Board of Directors for organizational restructuring agenda not requiring approval by the General Meeting of Shareholders), as a replacement for Company Stock, the Company shall pay the monetary amount derived by multiplying the Final Share Allocation by the final transaction price for Company Stock on the Tokyo Stock Exchange on the date of business prior to the date of approval of said Organizational Restructuring (however, if said date of approval is after the date of Board Stock Option Resolution, then the payment price based on the Board Stock Option Resolution shall be used.). This payment shall be made within a certain period of time after approval for said Organizational Restructuring. However, this shall be limited to when the date of enforcement for said Organizational Restructuring is expected to fall occur prior to the date of issuance or disposal of Company Stock in accordance with System II.

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, 2022.