

## Community Residents

### Basic concept

The Company has strengths in civil engineering technologies for urban development that it deploys in its suburban housing complex and multi-purpose urban developments. We also focus on building relationships with community residents and manage our branches and offices around Japan as integral parts of their communities based on a bottom-up approach. We contribute to the progress of local communities through forward-looking urban developments and community co-creation activities by our branch offices. These activities intended to provide benefits to the community also enhance corporate value, helping ensure that our business in that region proceeds smoothly and also maintaining and improving our competitive advantage by building relationships of trust with local residents.

See the Group's Sustainability Report 2018 P.72-91 (Co-creating a Brighter Future with the Communities)



### Basic policy Matters affecting corporate value over the medium and long term

#### Co-creating a Brighter Future with Local Communities

- ▶ Supporting community development through our business
- ▶ Community co-creation activities

### Supporting community development through our business

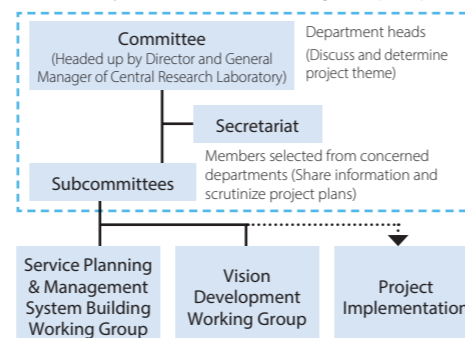
The Group has established a management structure that includes the "Sustainable Community Development Promotion Committee" made up of various corporate departments and eight Group companies, the purpose being to fulfil our mission of "working together for design & management" with local communities while also holding to our "community development vision".

As part of the 23 projects undertaken by the urban development business between fiscal 2015 and 2017 (developing a total land area of 804,369m<sup>2</sup>), we have pursued a variety of community engagement programs to meet such needs as the formulation of guidelines on town layout, the invigoration of residents' associations, facilitation of engagement with neighbors, and the establishment of management regimes that utilize the sale of electric power generated from natural sources.

See the Group's Sustainability Report 2018 P.185 (Community Development Policy)

#### Sustainable Community Development Promotion Committee

Participating departments and companies: Urban Development, Technology, Management Administration, business segments, Information Systems, Customer Satisfaction, eight Group companies

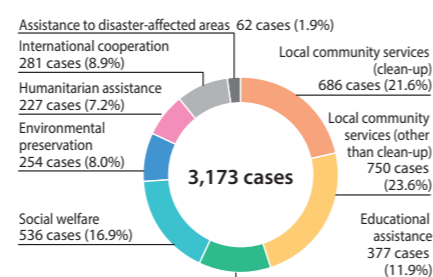


### Community co-creation activities

In its engagement in community co-creation activities, the Company develops its plans in consultation with those local government agencies that deal with residents' activities as well as NPOs and other local organizations so as to better appreciate the challenges facing communities. Moreover, to utilize community co-creation activities as a means of overcoming the challenges of branch management, branch managers play a central role in getting these activities up and running, with clearly defined aims (secondary effects) that include human resource development, workplace revitalization, and forging stronger links with the community.

Our active program of activities puts us in the top rank, not just within Japan but by the standards of global corporations. Since fiscal 2014, we have staged more than 2,000 of these community co-creation activities each year at our workplaces and Group companies around Japan.

#### The Group's community co-creation activities in fiscal 2017



**Yukiko Yabu**  
Outside Director

Joined Matsushita Electric Industrial Co., Ltd. (MEI) in 1981. Worked as trustee in charge of MEI's Consumer Research and Group Manager, Global Marketing Planning Center, Appliances Company. Appointed Outside Director of the Company in 2016.

**Kazuyoshi Kimura**  
Outside Director

Joined The Nikko Securities Inc. in 1967. After serving as Director and Chairman of Nikko Cordial Securities, Inc. among other posts, appointed to current posts as Representative Director and Chairman, President and Representative Executive Officer of Kojima Co., Ltd. and as Director of BIC CAMERA INC. Appointed Outside Director of the Company in 2012.

**Keiichi Yoshii**  
President and COO

**Yutaka Shigemori**  
Outside Director

Joined Yasuda Life Insurance Company in 1974. After serving as Representative Director and President of Meiji Yasuda General Insurance Co., Ltd., appointed to current posts as Representative Director and Chairman of Wise Total Support Co., Ltd. and Representative Director and President of Wise Networking Co., Ltd. Appointed Outside Director of the Company in 2012.

## Round-table with the Outside Directors of Daiwa House and President Keiichi Yoshii

### Round-table Outside Directors' insights on Daiwa House under the new management system

#### The outside directors give their thoughts on their individual roles

(Mr. Kazuyoshi Kimura and Mr. Yutaka Shigemori were appointed as outside directors of Daiwa House Industry Co., Ltd. in 2012. Ms. Yukiko Yabu was appointed in 2016, bringing the Company's current roster of outside directors to three.)

**Yoshii** Today, I propose to ask you to describe your views regarding your roles as outside directors of Daiwa House.

**Shigemori** I view my main role at meetings of the Company's Board of Directors as being to view issues from the perspective of regulatory compliance. Moreover, as I have been holding pan-industry social events since



1991—where I have exchanged opinions with many people from a wide range of differing backgrounds—I believe I have a valuable role to play at Daiwa House in developing a network of contacts with people from different industries.

**Yabu** In my previous post at a manufacturer of consumer electronics, I was responsible for product-related operations, including planning, development, and marketing. Here at the Daiwa House Group, I hope to put my experience in a different industry to good use—particularly my experience in viewing matters from the average consumer's standpoint—and, as the sole female member of the board, to voice opinions from that unique perspective.



**Kimura** I strongly hope that I can help the Daiwa House Group achieve sustainable growth and enhance its enterprise value. In my view, market capitalization is the most fair and equitable benchmark for a company's value. I will do my best to contribute to improved enterprise value on various fronts, including ESG (environmental, social and governance) factors, while being adequately aware of the criteria that those outside the Group use to evaluate its enterprise value, as reflected in the market.



**Yoshii** I think it is probably the same at all companies: a wide variety of proposals and projects emerge, and as each one comes under consideration, there is a strong tendency to view it from a perspective forged by one's experience at that particular company and to make decisions based on that perspective. The founder of Daiwa House, Nobuo Ishibashi, used to

say: "Don't look at things from one angle only." It is certainly true that you, as outside directors, often notice things because you look at them from a different angle.



#### The Group's management system as viewed by the outside directors

**Yoshii** All three of you are able to give us the benefits of your differing perspectives because of your experience in business environments outside Daiwa House, and for this reason I believe it is very important to create an atmosphere conducive to the free and frank exchange of views. I would first like to ask you for your opinions of our management system.

**Kimura** At meetings of the Board of Directors, there are ample opportunities for me to voice my opinion. In this and other ways, the corporate culture is one of great openness, and the environment conducive to fruitful debate. In these ways, I feel that Daiwa House is way ahead of other companies.

**Shigemori** At Daiwa House, I am always surprised by how quickly issues of major importance can be dealt with by the Board of Directors. Even allowing for differences between industries, at a company where I was formerly employed, an issue that would have taken one month's discussion is resolved here in a mere ten to twenty minutes. I believe that this is possible because each major issue undergoes adequate preliminary investigation by the Real Estate Investment Committee regarding business feasibility, and the attendant risks are evaluated, which means that the matters presented to the Board of Directors for debate are clearly defined.

In addition, Daiwa House Chairman Takeo Higuchi, who also acts as chairman of the board, creates an atmosphere that enables board members to speak their minds, and in this he is assisted by you, President Yoshii, and I expect things to improve still further from here onward.



**Yabu** It is now two years since I took up my post as an outside director, and I have to say that the meetings of the Board of Directors of Daiwa House allow one to express one's opinions candidly. It goes without saying that outside directors can frankly express their opinion because that is what they are supposed to do, but it would be difficult to find other companies where corporate directors so readily and frequently voice their opinions, offer advice, and ask questions as at meetings of the Daiwa House Board of Directors. Moreover, we are able to receive prior explanations of the issues that are tabled for discussion at the board meetings, and this allows us to arrive at the meetings more-or-less prepared, and for this, too, I am thankful. I also agree with Mr. Shigemori that—in spite of the large number of board members—decisions are made with remarkable speed.



**Yoshii** Yes, there is no doubt that the large number of board members does not delay decisions in any way, and that the corporate culture is very open and transparent.

**Kimura** A number of investors have expressed the opinion to me that the number of board members is rather on the high side. But if one examines the Group's business portfolio, one sees that the number of directors will inevitably be large, given the wide range of business fields in which the Group operates. Moreover, many people talk about the need to separate the powers of oversight and execution, but I believe that the position of executive officer should be assumed by a person who not only understands the details of business operations but also has the ability to see things from a director's perspective. Otherwise, I do not believe that proper discussion or debate at board meetings would be possible. In this sense, I feel that the Board of Directors of Daiwa House—in which many of the members



simultaneously hold responsibility for business execution—completely fulfills the role expected of a board of directors.

**Yabu** As you say, as the Group's sphere of operations expands, the knowledge required to manage it expands in parallel, and I believe that it is important for people who are fully familiar with the new operational fields to become members of the board, and consequently the board members can further increase the understanding of the customers, organizations, and businesses involved. It is not necessarily true that the larger the number of members, the more unwieldy the board becomes, and I think that the current scale of the Daiwa House Board of Directors is appropriate.

**Kimura** That's right. The Board of Directors does not focus its efforts on debates about abstract principles. In my view, the board combines the functions and views of specialists in particular business areas with the governance functions and stance normally expected of a board of directors.

**Yoshii** Thank you for that comment. The Board of Directors has held a wide variety of discussions on the Company's management system through the evaluation of the effectiveness of the board of directors and other means. One of the issues of which we are conscious is the lack of a sufficient number of female board members. We are currently taking steps to promote management diversity, and expect to appoint new female members to the board to join Ms. Yabu in the near future. This development is only a matter of time.

#### The Strengths of the Daiwa House Group as seen from the perspective of the outside directors

**Yoshii** You have given your opinions about the speed of decision-making, and about the Company's management system, including the Board of Directors. Next, I would like to ask what you feel are the strengths of Daiwa House Industry and its Group, as viewed from your perspective as outside directors.



**Shigemori** I think it is the very broad supporting base of industries and companies that the Group possesses. The Group is nurturing a number of startups in different industries. It invests in and otherwise supports a company that has developed an automatic laundry folding machine, and a company involved in the development and manufacture of robotic suits. Chairman Higuchi has often asked me to introduce top management members of new business ventures to the Group. Generally speaking, the management of startups are wary of approaching major companies for fear of being taken over, but as the Daiwa House Group is known for supporting such ventures while helping maintain their independence and autonomy, I think this is the reason that many such enterprises come to rely on the Group.



**Yoshii** Just before, you talked about your role in developing a network of contacts with people from different industries; isn't that right?

## Round-table with the Outside Directors of Daiwa House and President Keiichi Yoshii

**Shigemori** Yes, but even at the pan-industry social events we have held, managers from other companies have often bypassed me and spoken directly to Chairman Higuchi.

**Yabu** Personally, I have been impressed by how much the Daiwa House founder's business philosophy—of doing something not because it may be profitable but because it will be of service to society—has been absorbed by the Company's front-line staff. In a wide variety of situations, I have personally—on my visits to branches and offices of Daiwa House and to factories and Group companies—been impressed by the way that staff work with a sense of pride, energetically and with an understanding of the value of time. The Group also encompasses a wide range of companies that match its business portfolio, and the effort that is being made there to realize workforce diversity is another of the Group's strengths.

**Yoshii** So, you're saying that diversity is important?

**Yabu** Certainly. The word "diversity" is generally taken to mean providing equality of workplace opportunity for women, but in actuality it encompasses diversity in specialties and skills, age, nationality, and many other aspects. You mentioned just before the promotion of women to the Board of Directors, but in fact, diversity—including greater participation by female staff—is already being promoted by the Group in the front line of business, and not in response to any proposals by myself. I frequently say to myself: "What a wonderful example of workplace diversity I've found here!" So, I would like the Group to communicate its excellence more vigorously to society at large.



**Kimura** When all is said and done, I believe that human capabilities are the base upon which we have built. I meet all kinds of Daiwa House employees in the course of my work, but what they all have in common is an aggressive business stance. And the Group's business portfolio is so wide-ranging and solidly based that it can respond effectively to changes in the economic environment. This is a particularly noteworthy strength of the Group, in my view.



### Risks facing the Daiwa House Group and tasks to be addressed

**Yoshii** On the other side of the coin, what do you think are the risks facing the Group, and the tasks that need to be addressed?

**Shigemori** Taking into account the decline in the Japanese population due to the low birthrate, in addition to the rising average age of the population, one is concerned about how much the Group's overseas businesses will grow. The Group's operations are subject to many different risks, most notably country risk, and I believe that its future will very much depend on whether it can grow overseas operations while at the same time taking steps to hedge against such risks. If earnings from overseas operations grow to

account for around half of all earnings, I see no reason why the Group cannot achieve its major goal of ¥10 trillion in net annual sales by 2055.

**Yoshii** To plan our overseas market development successfully, we will have to take a close look at our global governance system, but as we have a solid set of Group management rules in place, we are first ensuring that our staff at local subsidiaries overseas study these rules thoroughly. Then, we are checking that their attitude to business and way of proceeding with operations is in accordance with the Daiwa House management philosophy. These two points are the most important. In particular, I believe that we must make sure that our overseas staff understand the Group's corporate DNA, and to do that I believe that we must keep on repeating the essential points and continue to educate them in our way of thinking. And with regard to business projects, plans drawn up by the department in charge are first analyzed and discussed by the Real Estate Investment Committee, the Board of Directors, and other bodies, during which process the project's various attendant risks, and its business feasibility, are carefully assessed.



**Kimura** With regard to the Group's overseas strategy, in my view it is desirable to pursue localization by forming business partnerships, including through acquisitions and capital participation. For this purpose, it is vital to determine which partners and which projects would be most fruitful. And I believe it is also important, when developing businesses overseas, to make more use of local staff by developing local human resources through promotion where appropriate.

**Yoshii** We are currently pursuing an active policy of recruitment of local staff. Regarding partnerships, in cases where the Company alone would have difficulty in implementing projects effectively, we link up with overseas companies as silent partners to hedge risks, and there is a large number of such cases.

**Yabu** It struck me during my previous post, when we opened a research facility overseas, that local staff also respond positively at work when introduced to a corporate philosophy. All the more because of this, we should leave things up to local staff once they have absorbed our philosophy.

Moreover, if a company becomes large through rapid growth, this is accompanied by a parallel rise in what society expects from the company in terms of legal compliance, standards, and so on. In these cases, we have a duty to respond to such social expectations. Issues which formerly used not to be major problems are now becoming the focus of concern, and

in this day and age such issues could be crucial to a company's continued existence. From here onward, I believe that individual employees will be increasingly required to be more and more sensitive to possible problems and to take appropriate action such as reporting them to their supervisors.

**Kimura** Yes, that's right. Public scrutiny and expectations have actually become so demanding as to constitute the very minimum standards for compliance and risk management. The English word "compliance" is often translated into Japanese in the narrow sense of "legal compliance," but that does not mean that there is nothing to worry about as long as one is not in violation of any particular law or regulation. The concept of compliance goes beyond that, and forces us to apply higher standards to everything.

**Shigemori** When things are going well for a company, it is said to be benefiting from a "virtuous circle," and problems in the area of compliance do not often occur, but once a company's growth has stopped, such problems are more liable to occur. Also—although this perhaps strays somewhat from the topic of risks and tasks to be addressed—in the case of other companies on the same scale as Daiwa House, one does not often hear about appointments such as yours, President Yoshii: cases where the president of a company has been recruited in mid-career. There are no cliques or factions within the management of Daiwa House—personnel are evaluated solely on the basis of the effort they put into their jobs, and their abilities. In a sense, this could be described as the ultimate form of "governance." This is also, I believe, an extremely important factor in the development of human resources. And from the presidents of Group companies, I hear things like: "Daiwa House made me the head of this company even though I have no particularly impressive educational qualifications. That motivates me to do my very best!" This kind of corporate culture is not often seen in other companies.



**Yoshii** At Daiwa House, we aim to provide our employees with job satisfaction, and to do this it is vital to create a workplace atmosphere that encourages face-to-face discussions between managers and the staff under them, at which they engage in lively and fruitful dialogue. If we continue to do this, the effects of training which we discussed before will come to the fore, and I believe that employees' job abilities will develop rapidly. Whether an employee takes his or her superior officer's attitude or advice as an inspiration, or sees it as bullying, or abuse of authority—even if expressed in the same words—depends on their perception of the psychological "distance" between the two. I feel that the degree to which we succeed in nurturing

employees and imbuing them with our corporate DNA depends on how well we can reduce this feeling of distance in interpersonal relationships.

**Yabu** As well as what you say about reducing the psychological distance between people in face-to-face meetings, I think that it will also be important to make use of IT infrastructure. As regards the Company's in-house information system, the effective utilization of artificial intelligence and the "Internet of things" will be at the core of our efforts to improve the IT infrastructure, and so I believe that we must secure personnel skilled in this field by any means available to us—including mergers and acquisitions—so as to build that infrastructure. Also, as the primary type of product that the Group provides to society is homes, which sit at the very center of people's daily lives, we will be able to add new value to our products by taking into account the preferences and meeting the requirements of people planning to purchase a house or rent a room. Looked at from this perspective, the Group's business operations have considerable future potential. For instance, I would like to see Daiwa House staff come up with new ideas to address social issues such as the lack of sufficient places for children at day-care centers and the shortage of trained nursing workers to care for elderly people, and turn these ideas into actual businesses. And I also believe that the Group is capable of living up to its motto of "being of service to society" by being an enterprise that works aggressively to realize the United Nations' Sustainable Development Goals, which are de facto international sustainability standards.



**Yoshii** You have already on previous occasions given us the benefit of your opinions on a wide range of issues at meetings of the Board of Directors and the Corporate Governance Committee, as well as on other occasions. This time, we have heard your opinions as outside directors on the Company's management system, as well as on the Group's strengths and the tasks facing it. I look forward to your continued active participation in the management of the Daiwa House Group. Thank you.

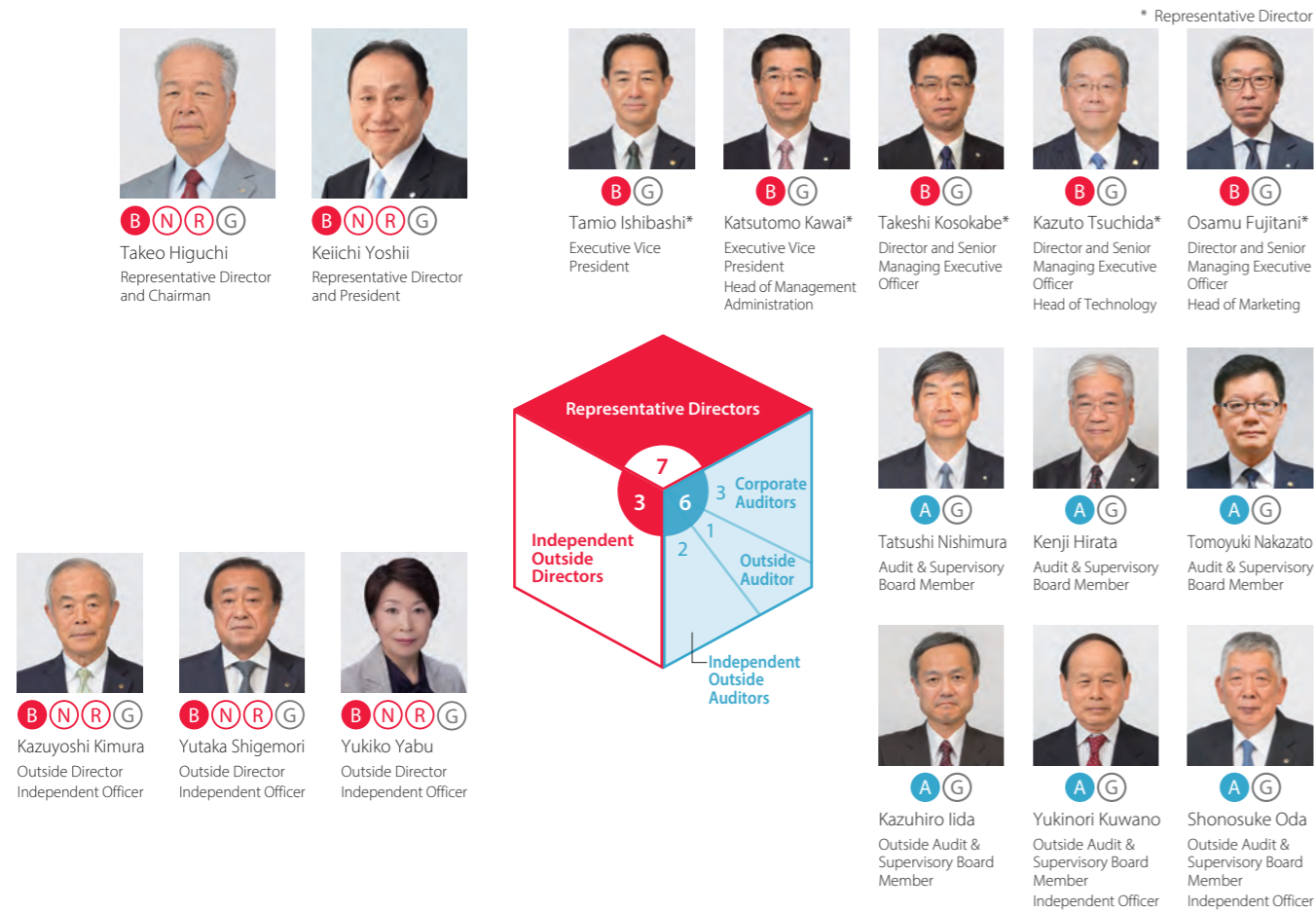


## Corporate Governance System

### Concept of Board of Directors structure

Based on a long-cherished concept from the day of founding to promote a business that “will be useful to people and that will make them happy,” the Company’s Board of Directors upholds this concept in its management vision of being a group that co-creates value for individuals, communities, and people’s lifestyles. The Board’s mission is to embody the statement and to develop human resources that will carry on this mission into the future.

To realize the management vision, executive management must always explore the needs of society based on the attitude of a bottom-up approach while the Board of Directors must deliberate and decide how to embody such needs as a business. In accordance with these views, the Company’s Board of Directors is mainly composed of executive directors who can implement the above in an accurate and swift manner.



### Views on establishment of Advisory Committees of Board of Directors (Board Committees)

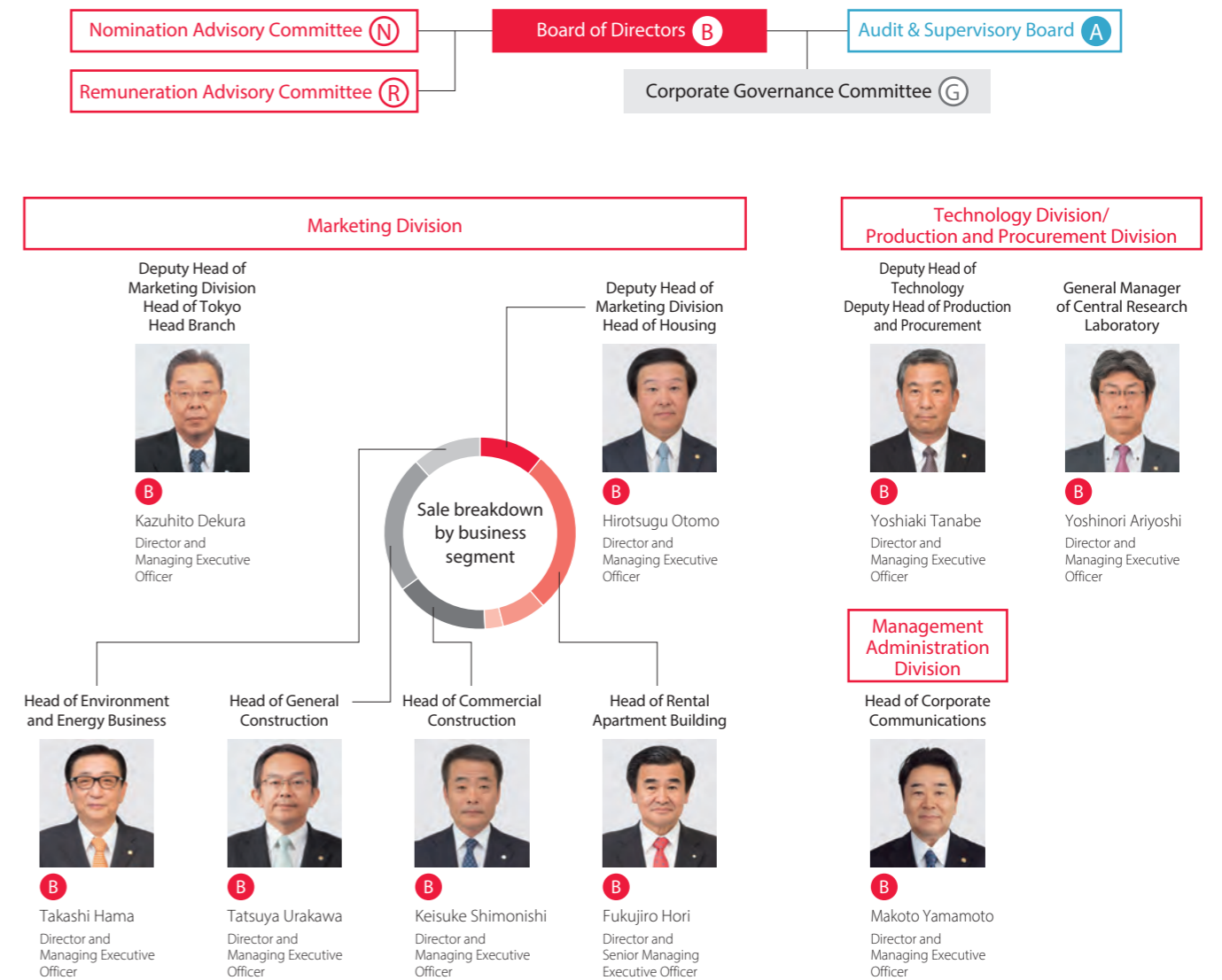
Governance at Daiwa House Industry strikes a balance between the management functions that are primarily the responsibility of executive directors and the monitoring functions (supervisory function) that are primarily the responsibility of several independent outside directors as well as the Audit & Supervisory Board members (who do not have voting rights for decisions made by the Board of Directors).

This also includes the appointment of advisory committees to strengthen the independence, objectivity, and accountability of the Board of Directors’ functions when dealing with nomination and remuneration matters. To ensure appropriate input and advice from independent outside directors, these advisory committees are chaired by an independent outside director and include a majority of independent outside directors as committee members.

Furthermore, to ensure a free exchange of views on a wide range of topics, including medium- and long-term management issues, the Company has also established a Corporate Governance Committee to draw on the knowledge of outside directors and outside Audit & Supervisory Board members.

<b>Nomination Advisory Committee</b>	Receives information from representative directors on individual director assessments and on matters for submission to the General Meeting of Shareholders relating to the appointment and removal of directors, discusses the appropriateness of these, and presents an opinion. (Chair: an independent outside director)
<b>Remuneration Advisory Committee</b>	Receives advice on policy for decisions concerning director remuneration and related matters, and on remuneration matters for submission to the General Meeting of Shareholders, and presents an opinion. (Chair: an independent outside director)
<b>Corporate Governance Committee</b>	Exchanges views on vision, strategies, and other items pertaining to corporate governance and overall management, considering diverse viewpoints and taking a long-term perspective. (Chair: Chief Executive Officer (chairman))

### Structure of Committee for strengthening monitoring function of Board of Directors



### Views on establishment of Committees concerning operational execution (Management Committees)

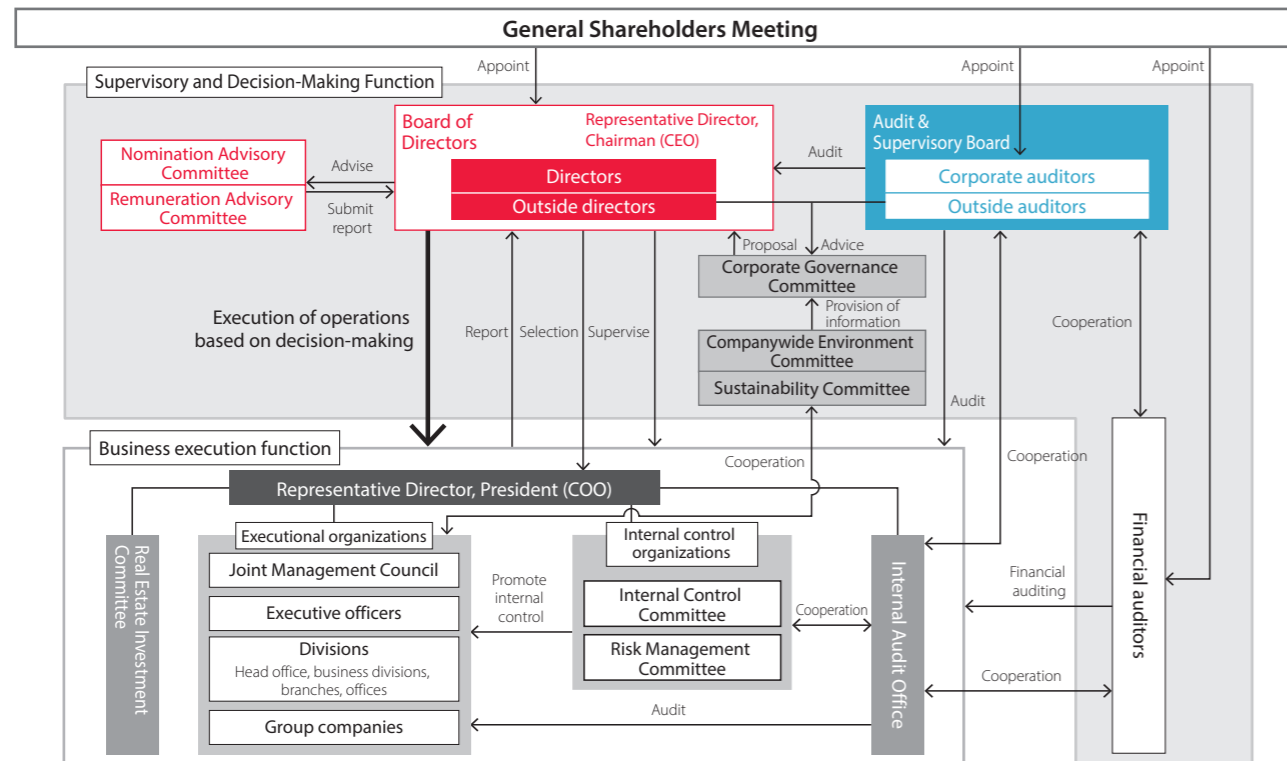
In conducting business development in a wide range of business fields, we have established committees concerning operational execution (Management Committees), including the Joint Management Council to swiftly and accurately put decision-making into practice by the Board of Directors, the Real Estate Investment Committee as bodies to deliberate on matters required for decision-making and steersmanship by the Board of Directors, the Internal Control Committee to ensure effective supervision and operation of the company-wide internal control system, and the Risk Management Committee, in an effort to conduct business development that balances an approach with a high level of certainty toward business opportunities and risk control.

<b>Joint Management Council</b>	The Joint Management Council is established as a joint panel for appropriately executing the decisions made by the Board of Directors through communication between the Board of Directors and executive officers. (Chair: President and COO)
<b>Internal Control Committee</b>	The Internal Control Committee requests reports on the operation status of internal control and provides supervision for the purpose of appropriately implementing internal controls pursuant to the provisions of the Basic Policy on Construction of the Internal Control System. (Overall responsibility: President and COO) (Chair: Head of Management Administration)
<b>Risk Management Committee</b>	The Company establishes a Risk Management Committee as the organization to construct and maintain a risk management system to prevent and curtail the manifestation of risks related to the management of the Daiwa House Group, as well as to reduce the amount of damage when risks materialize. (Chair: Head of Management Administration)
<b>Real Estate Investment Committee</b>	The Company establishes a Real Estate Investment Committee for the purpose of assessing the feasibility of investments and evaluating risks, to contribute to decision-making of the rational and effective investment of capital in real estate development and investment business. (Chair: President and COO)

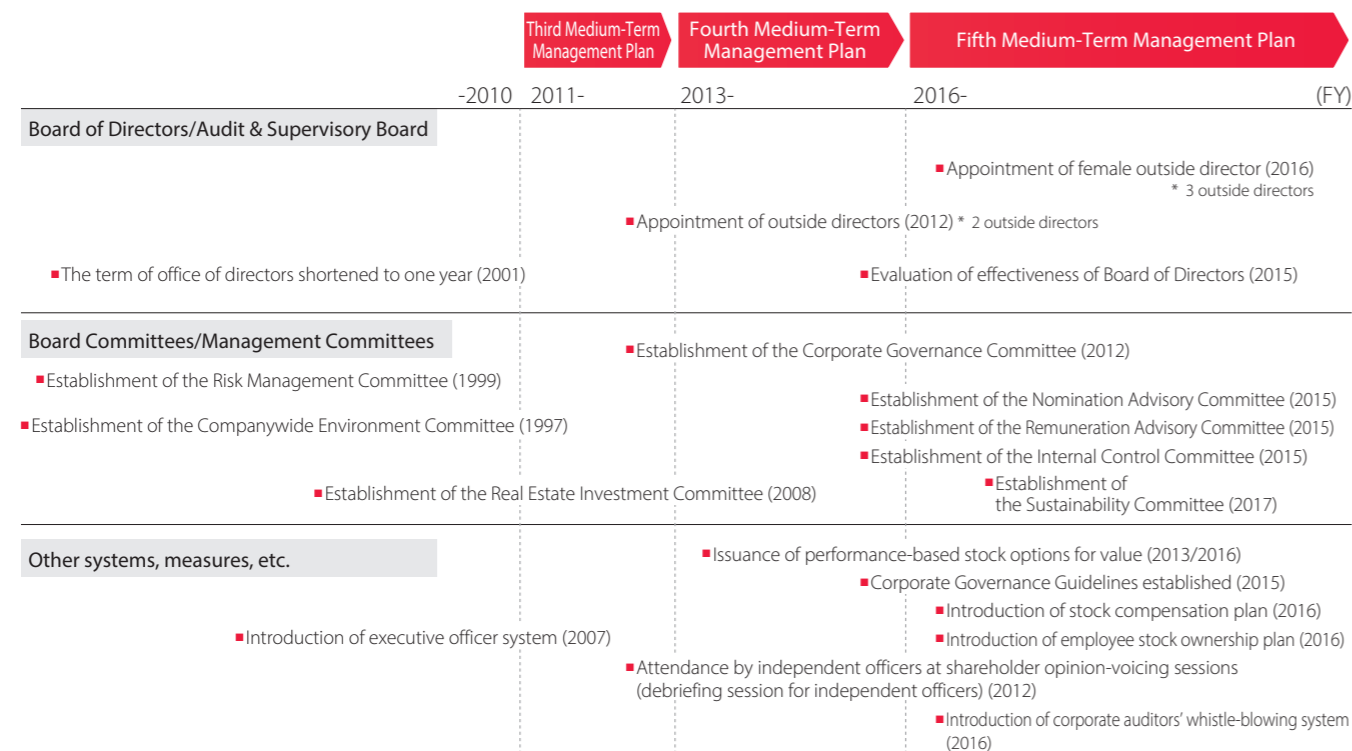
▶ P.87 (Details of the Real Estate Investment Committee)

## Corporate Governance System

### Corporate governance system



### Measures to enhance corporate governance

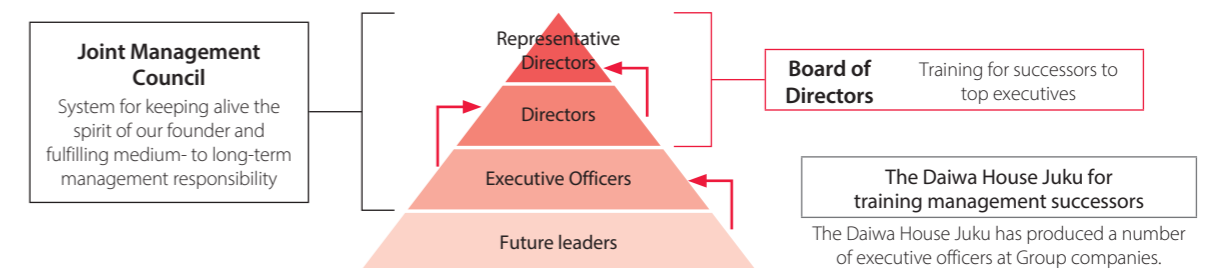


### Mechanism for training successors to realize sustainable development

Human resource development is of utmost importance for the Company's sustainable development. Based on our founder's teaching that "a company is only as good as its people," we channel our energies into building a mechanism for human resource development by employee grade. We believe that seamlessly passing down managerial experience and accumulated know-how is indispensable for sound and sustainable development. Based on this belief, we work to expand the pool of human resources by

intentionally creating opportunities for employees at each grade to interact with staff in higher positions, who are in this way constantly reminded of their responsibility to prepare their successors for promotion.

By doing so, we will strengthen the human resources base that can respond to challenges in new business fields and the expansion of business scale and business area, as well as build a system that immediately responds to emergencies and changes in the management environment.



### Procedures for director nominations and proposed dismissal

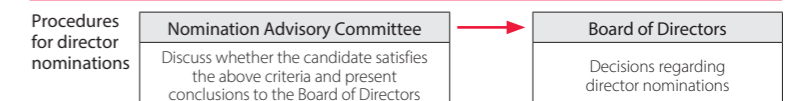
The procedures for director nominations and proposed dismissal are determined on the basis of Principle 3.1 of the Corporate Governance Code, which was revised in June 2018.

When a director nomination is made, the matter is discussed by a Nomination Advisory Committee made up of three outside directors and two inside directors to ensure independence and objectivity, and the decision is made by the Board of Directors with reference to the outcomes of this discussion.

When the dismissal of a director is proposed, the matter is decided by the Board of Directors.

- Criteria for candidate directors**
1. They should have excellent personality and wisdom, excel in management sense, and possess expertise in various management issues.
  2. They should excel in the ability to analyze and judge objectively from the perspective of the whole company.
  3. They should excel in foresight and insight.
  4. They should be capable of accurately grasping the trends of the time, business conditions, and changes in the market.
  5. They should be highly motivated to improve their own abilities.
  6. They should be capable of actively stating the opinion from the perspective of the whole company.
  7. They should not fall under the grounds for disqualification of Directors stipulated in Article 331, paragraph 1 of the Companies Act.

- Criteria for director dismissal**
1. In case the director has committed an act that violates public order and morality.
  2. In case the director is unable to continue the execution of duties in the cause of health problems.
  3. In case the director has caused tremendous corporate value damage by its laziness.
  4. In case the director has fallen under the grounds for disqualification of Directors stipulated in Article 331, paragraph 1 of the Companies Act.
  5. In case the director is considered to be lack of motivations and abilities stipulated in Selection criteria.



#### [Procedure for CEO dismissal]

The procedures for CEO dismissal are determined on the basis of Supplementary Principle 4.3.3 of the Corporate Governance Code, which was revised in June 2018. A Nomination Advisory Committee meets and deliberates, considering quantitative assessments of financial performance targets and other circumstances, and debates whether a proposal to dismiss should be put before the Board of Directors.

When the proposal is subsequently put before the Board of Directors, the CEO shall be dismissed if a majority vote to do so. The CEO shall not take part in any of these deliberations or decisions.

### 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 review of each cross-shareholding based on considerations that include whether it makes economic sense over the medium to long term. As a result, the number of cross-shareholdings has fallen from 98 at the end of fiscal 2014 to 75 at the end of fiscal 2017.

#### [Criteria for sale of cross-shareholdings]

The purposes for which the shares are held are categorized into "increasing sales", "relationship building (with suppliers, etc.)", "business collaborations", and "other reasons", and the reasons for continuing to hold cross-shareholdings are reviewed once a year with reference to current dealings with the company concerned. Shareholdings are sold if there are no longer good reasons for holding them.

#### Actual sales of cross-shareholdings over past three financial years

FY	Number of shareholdings sold
2015	10 companies (sale of entire holding), 6 companies (partial sale of holding)
2016	8 companies (sale of entire holding), 1 company (partial sale of holding)
2017	6 companies (sale of entire holding), 2 companies (partial sale of holding)

## Policy on Remuneration and Incentive Plan

### Remuneration policies

#### Objective

The Company's director remuneration is designed to cultivate and secure superior management personnel and contribute to its sustainable development as a listed company by including a portion linked to operating performance and an appropriate incentive plan in consideration for corporate value creation.

Furthermore, the Company's basic stance is to build an appropriate incentive plan so that management decisions are always made based on overall optimization to increase earnings per share by investing in growth areas as stated in the basic policy for returns to shareholders.

At times there are situations that require management decisions to sacrifice short-term profit for sustainable development.

A balanced incentive plan has been developed by introducing a framework (stock compensation) for rewarding enhanced medium- to long-term corporate value, along with incentives to achieve the short-term performance targets, to ensure that appropriate management decisions are made by managers of a listed company—in response to changes in the operating environment—to primarily enhance the medium- to long-term corporate value.

#### Details

The components consist of

- (1) Fixed remuneration that is paid as consideration for fulfilling job responsibilities of the Company's managers in consideration of the scale of business (short-term);
- (2) Annual incentive bonus that is paid within 0.5% of consolidated ordinary income as performance-based remuneration for "generating profits and fostering the Company's growth and development" (short-term);
- (3) Stock options for value that are established with the aim of enhancing the commitment to performance targets set in the Medium-Term Management Plan and to improving shareholder value (medium-term); and
- (4) Stock compensation that is paid with the aim of linking with shareholder value by using return on equity (ROE) as the performance-based indicator, in addition to increasing the number of shares held by directors. (long-term)

#### Determination process

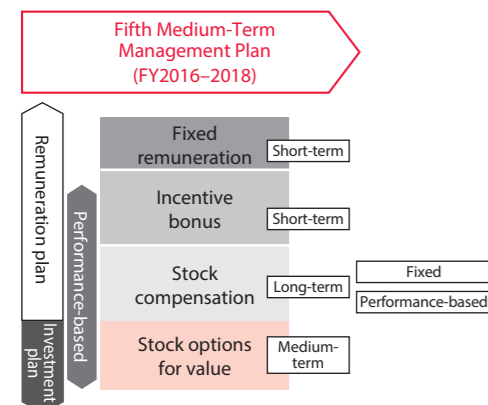
To ensure the transparency and objectivity of these decisions, decisions are made by the Board of Directors following deliberation by the Remuneration Advisory Committee, which is chaired by an outside director and has outside directors making up more than half of its members.

And also to ensure that the annual incentive bonus amount provided to Directors and Audit & Supervisory Board Members in relation to operating performance in the subject fiscal year is in accordance with the will of the shareholders, this amount is tabled as a proposal at the annual General Meeting of Shareholders.

Period	Type of remuneration	Indicator
Short-term (monetary)	Fixed remuneration	Not more than 70 million yen per month
Short-term (monetary)	Annual incentive bonus	Within 0.5% of consolidated ordinary income
Medium-term (share)	Stock options for value	Level of achievement of performance targets of Three-Year Medium-Term Management Plan (accumulated operating income of 800 billion yen)
Long-term (share)	Stock compensation	The number of shares awarded as performance-based compensation varies depending on ROE performance <Coefficient for performance-based compensation> 10% or higher*1 = 1 8% or higher*2 less than 10% = 0.5 Less than 8% = 0

\*1 Target set in the Fifth Medium-Term Management Plan. \*2 The minimum target as a listed company proposed in the Ito Review.

### Remuneration structure



### Remuneration paid\*3

	FY2017 Composition of remuneration			
Director remuneration	FY2015	FY2016	FY2017	(¥ million)
Directors' fixed remuneration (excluding outside directors)	758 (18 directors)	756 (18 directors)	735 (19 directors)	39.7%
Directors' annual incentive bonus	818 (17 directors)	1,010 (16 directors)	986 (15 directors)	53.3%
Stock compensation	—	153 (16 directors)	129 (15 directors)	7.0%

\*3 Excludes ¥100 million in special bonuses awarded to retiring directors through a resolution of the 79th General Meeting of Shareholders held on June 28, 2018.

## Evaluation on Effectiveness of Board of Directors

### Overview of evaluation on effectiveness of Board of Directors

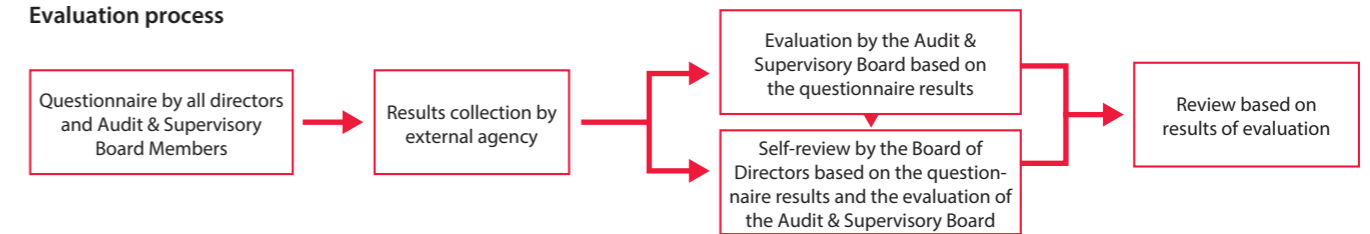
Based on the Corporate Governance Guidelines, the Company has, since 2015, conducted evaluations of the effectiveness of the Board of Directors with the aims of improving the functions and effectiveness of the Board of Directors.

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.

While question selection and results collation were undertaken by the Company in 2015 and 2016, an external agency was engaged to conduct the survey in 2017 with responses being provided directly to the external agency to ensure anonymity.

#### Evaluation process



#### Evaluation items

The survey was made up of 31 multiple-choice questions and nine questions requiring written answers about items on the right.

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, a low ranking was given to training (opportunities to acquire required knowledge).

Evaluation items	Average score
Composition of Board of Directors	4.5
Operation of Board of Directors	4.7
Support structures for directors and Audit & Supervisory Board members	4.2
Training	4.0
Dialogue with shareholders	4.5
Attitude of directors and Audit & Supervisory Board members to their duties	4.5
Evaluation of the Board of Directors as a whole	4.8

#### Summary of evaluation results for 2017

Based on the status of each evaluation item, the effectiveness of the Board of Directors was evaluated as being fully satisfactory. However, concerns were expressed regarding diversity in the composition of the Board of Directors and acquiring the knowledge required for a changing business environment.

#### Existing issues identified by evaluation and progress of associated improvements

Year	Issues	Progress of improvements
2015	Acquisition of additional human resources, such as by appointing outside directors with qualifications that include specialized knowledge and extensive experience to help achieve the Company's medium- to long-term and global strategies.	In fiscal 2016, we welcomed a new outside director (female) with a wealth of experience in product planning, development and marketing, and a new senior executive officer (male) with extensive experience in global business development at a general trading company.
2016	Early distribution of Board of Directors proposals and other documents, and the provision of adequate preparation time	The early distribution of proposals and other documents occurs as a matter of course (three working days prior to Board of Directors meetings).

## Investments in Real Estate Development and Risk Management

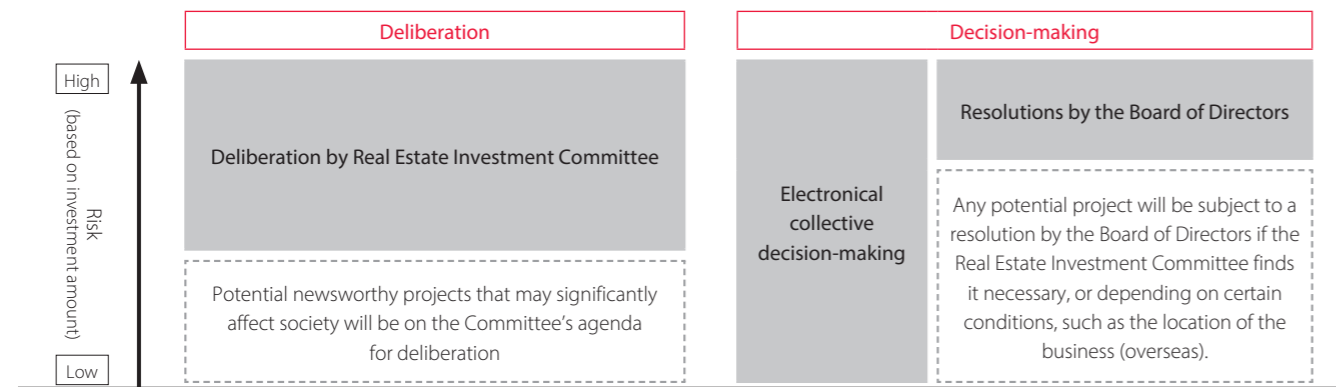
### Establishment of Real Estate Investment Committee

The Company's Real Estate Investment Committee is established to ensure that appropriate decisions will be made about potential investments in the real estate development business after sufficient deliberations and discussions through assessments of their feasibility and risks. As a rule, a meeting of the Committee will be held once in every 10 days or so and chaired by the president of the Company. The Company's decisions will be made through an electronic collective decision-making process, which will proceed in parallel with the Committee, and will be resolved by the Board of Directors.

The Committee will deliberate over potential domestic or overseas investment projects of a certain amount or more, according to the investment amount classifications, to facilitate the collective decision-making process and the Board of Directors' resolutions. However, regardless of the amounts,

any projects related to the 2020 Tokyo Olympics and Paralympic Games, projects involving the right to operate highly public facilities or the like (concessions pertaining to airports, parks, roads or other similar infrastructure), and other potential newsworthy projects, which may significantly affect society, will be on the Committee's agenda for deliberation, whether the land or facilities are owned publicly or privately. Furthermore, if a potential project poses a significant reputational risk to the Company, or if the Company may essentially take total responsibility for a potential project due to the structure of its business partners even though the Company's investment ratio is low, then the project will be deliberated, regardless of the investment amount requirement. The Committee has been sitting since 2008 and had considered a total of 251 projects as of the end of fiscal 2017.

### Deliberation and decision-making process according to impact of risk (based on investment amount)

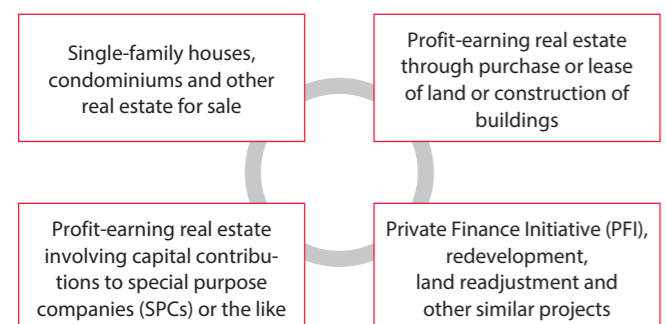


### Deliberation based on unique criteria

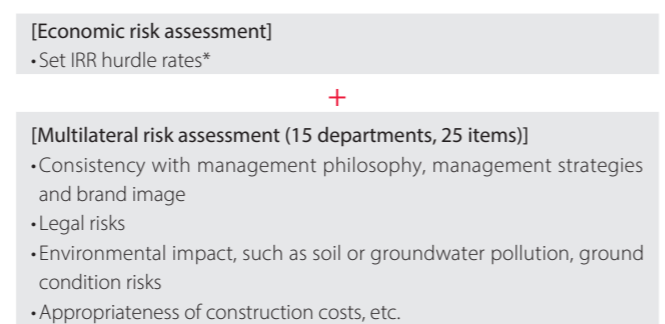
The Real Estate Investment Committee will fully deliberate a potential project based on explanations given by the drafting and related departments. The Company has set hurdle rates for the internal rate of return (IRR) as investment criteria. The implementation of a potential investment will be adopted if the relevant rate requirement is met. At the same time, the Committee's deliberations involve multilateral risk assessments (15 departments, 25 items) including whether the implementation of the investment is consistent with the Company's management philosophy, management

strategies and brand image, as well as other factors, such as legal risks, soil or groundwater pollution, ground condition risks, and appropriateness of construction costs. Thus, a potential investment project, which is acceptable from an economic perspective, will not be adopted if the implementation of the investment significantly conflicts with the Company's goals or vision, or has a considerable environmental impact. The Committee considered a total of 29 projects in fiscal 2017, including projects that were reconsidered after being put on hold.

### Major real estate development projects subject to deliberation



### Risk assessment for investment decisions

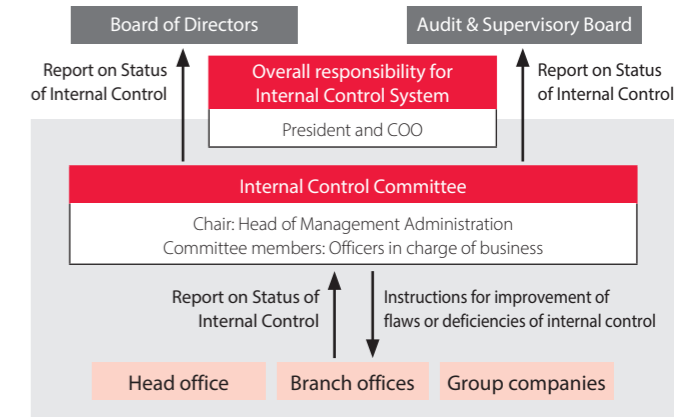


\* To be set based on the WACC (weighted average cost of shareholders' equity and liabilities) by taking into consideration additional factors such as risk premiums.

## Internal Control

### Structuring and operating the internal control system

To ensure that all officers and employees conduct efficient work performance in compliance with laws and regulations and that the Daiwa House Group can achieve sustainable growth, the Company has created and implements the Internal Control System as described as follows, under the authority of the Internal Control Committee, for which the president has overall responsibility.



### Systems for compliance with laws and regulations and risk management

#### (1) Risk Management Committee

We have a rule that requires any risk issues that arise at the head office, branch offices and Group companies (including overseas branches and companies) to be immediately reported to the secretariat of the Risk Management Committee of the head office. Risk-related information reported to the secretariat is promptly communicated to officers and managers of relevant departments, as well as reported to the Risk Management Committee of the head office which convenes once every month.

In addition, the Risk Management Committee convenes regularly at branch offices and Group companies. The proceedings of the Risk Management Committee of the head office are implemented throughout the Group, and functions such as structuring the risk management system within branch offices and Group companies and proposing operational improvements to the head office are handled. The risk management system of the Group has become ever more robust as a result of two types of Risk Management Committee, namely the Risk Management Committee of the head office and the Risk Management Committee of branch offices and Group companies, complementing each other.

#### (2) 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.

#### (3) Internal audits

The Internal Audit Office 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 office 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

Group Management Rules has been established as rules for the management of Group companies under which the Group companies is requested to report important matters to the Company while maintaining the basic policy calling for Group companies to achieve business development with a spirit of independence and autonomy. This system ensures the appropriateness of operations through adoption of control and discipline by the Company while respecting the flexible and efficient work performance of Group companies.

### Audit by Audit & Supervisory Board Members

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 Nationwide Branch Managers' Meetings, and exchange opinions with financial auditors four times a year. These initiatives systematically ensure that important information relating to the Company's execution of operations is reported in detail to Audit & Supervisory Board Members.

#### Being complete in small things based on the Principles of Corporate Ethics and Code of Conduct

In order to make sure that each employee practices the corporate philosophy and symbolic message "Creating Dreams, Building Hearts," we prepare CASE BOOK, an educational booklet that describes the Principles of Corporate Ethics and Code of Conduct, case studies, and the hotline for whistle-blower, once every two years and distribute it to all Group employees. We issued the 8th edition in April, 2018 and are working at being complete in small things by doing a read-through at the morning meeting in the workplace and other opportunities.



See the Group's Sustainability Report 2018 P.142-174 (Foundation of CSR Management)

Dialogue with Shareholders and Investors

To realize purposeful dialogue with our shareholders and investors, we constantly work to enhance mutual communication in the spirit of "co-creating a brighter future," which is embedded within our management vision. We strive to disclose information that will enable our shareholders and investors to assess our corporate value over the medium and long term.

In addition, our directors, executive officers, and outside officers receive timely and appropriate feedback in the form of the opinions and desires of shareholders and investors, as obtained through this dialogue. In this way, we facilitate a shared awareness of issues facing the Group, and work to realize sustained growth and improvement in corporate value.

### Our activities for FY2017

#### General meeting of shareholders (June 28, 2018)

- Shareholder attendance: **715**
- Percentage of voting rights exercised: **84.29%**

#### Communication with institutional investors and analysts

**Total 733 companies**

Face-to-face and telephone interviews with Japanese and overseas institutional investors	As needed	332 companies
Financial results briefing session via teleconferencing	4 times	199 companies
Briefing sessions from top management	2 times	84 companies
Business briefing sessions from the executive officers	2 times	70 companies
Tours of our facilities for institutional investor representatives	4 times	18 companies
Small meetings related to ESG and Integrated Report	2 times	30 companies
Overseas roadshows by top management		Britain, North America, Singapore, Hong Kong, Australia

#### Communication with individual shareholders and investors

**Total 656 investors**

Online explanatory sessions for individual investors	Once	469 investors
Tours of our facilities for individual shareholders (Tokyo and Nara)	4 times	187 shareholders

#### Feedback on shareholder and investor opinions and requests obtained through IR activities

Reports on IR activities at Board meetings	Once a year
Reports on IR activities to outside directors	Semi-annually
Opinions on business performance and market trends exchanged with business divisions	Quarterly

### Small meeting on Integrated Report

A small meeting on the Group's 2017 Integrated Report was utilized as a tool for communication with investors.

Date	Dec. 15, 2017
Attendees	19 institutional investors
Daiwa House departments represented	CFO, IR officer, IR, CSR, General Affairs, Environment, Corporate Strategy Planning, Accounting

The meeting presented details of the discussions about issues raised in the 2016 Integrated Report that took place at the Integrated Approach Project launched in July 2015. Using the image of a tree in which our "three bases" are expressed through our value creation story (the trunk of the tree) that links our sales and profits (the blossoms on the tree's branches) to our corporate philosophy and DNA and our management base (the roots that support the tree), these presentations explained things like our history (each chapter of which is imbued with what makes Daiwa House special), what we hope to become in the future, and our strategy for human resource development. Feedback from institutional investors who attended the meeting included comments that it clarified the human resource base, customer base, and technology and manufacturing base that generate value in our existing core businesses, that our founder's words about "doing things because they will be of service to society" lie at the base of the growth that the Company has achieved, and that the explanations of how risk management is undertaken in real estate development investment provided valuable information for making investment decisions. Investors also asked how we go about spreading the message of our corporate philosophy and the spirit of our founder down to the workplace level and how the current strength of the Company relates to "Asu Fukaketsuno" (Indispensable for Tomorrow), and commented that they would like to see us taking active steps to build up our human resources in order to speed the progress of our overseas businesses.

Share Information (as of March 31, 2018)

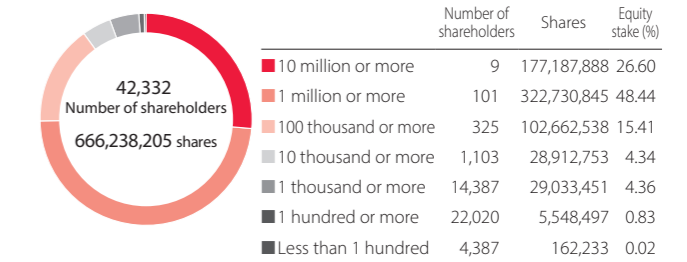
Authorized	1,900,000,000 shares	
Issued	666,238,205 shares	
Number of shareholders	42,332	
<b>Principal shareholders</b>		
	Thousands of shares*1	Equity stake*2(%)
The Master Trust Bank of Japan, Ltd. (trust account)	47,970	7.20
Japan Trustee Services Bank, Ltd. (trust account)	39,923	5.99
Sumitomo Mitsui Banking Corporation	16,117	2.41
MUFG Bank, Ltd.*3	15,470	2.32
Japan Trustee Services Bank, Ltd. (trust account 5)	12,647	1.89
Daiwa House Industry Employee Shareholders Association	12,398	1.86
Nippon Life Insurance Company	11,944	1.79
STATE STREET BANK WEST CLIENT-TREATY 505234	10,526	1.58
STATE STREET BANK AND TRUST COMPANY 505001	10,188	1.52
Japan Trustee Services Bank, Ltd. (trust account 1)	9,387	1.40

\*1 Number of shares held is rounded down to the nearest thousand.  
 \*2 Equity stake is calculated excluding treasury stock.  
 \*3 The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed name to MUFG Bank, Ltd. on April 1, 2018.

Shareholdings by shareholders

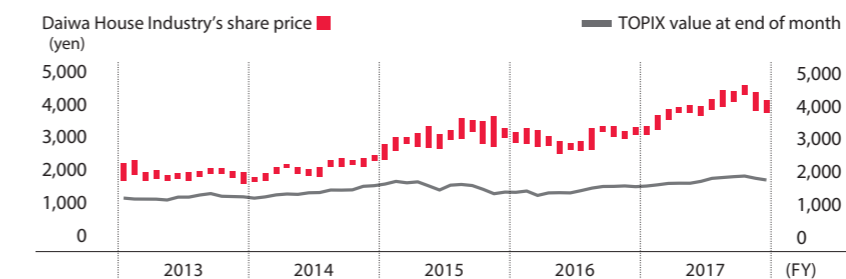


Shareholdings by scale



Note: Equity stake shows the percentages of the total outstanding shares.

Trends in share price of Daiwa House Industry and TOPIX



	2013	2014	2015	2016	2017
Market capitalization*4 (¥ million)	1,156,398	1,565,860	2,109,310	2,129,297	2,731,576
TSR*5 (%)	-1.04	38.83	36.90	3.85	31.63
Share price high (yen)	2,330.0	2,467.5	3,654.0	3,367.0	4,594.0
Share price low (yen)	1,592.0	1,673.0	2,326.0	2,500.5	3,096.0

\*4 At the fiscal end of year  
 \*5 Total shareholder return

Market capitalization ranking (home-building/construction/real estate sectors)

Securities code	Company name	Market capitalization*6 (¥ billion)
1 1925	Daiwa House Industry Co., Ltd.	2,710.2
2 8802	Mitsubishi Estate Co., Ltd.	2,698.3
3 8801	Mitsui Fudosan Co., Ltd.	2,643.1
4 1878	Daito Trust Construction Co., Ltd.	1,411.6
5 1801	Taisei Corporation	1,394.4

\*6 Based on closing price on July 31, 2018

Inclusion of Daiwa House Industry in ESG indices

ESG indices adopted by the GPIF

Other major ESG indices

For details of what is included and a description about the logos used, please access the URL link on the right: <https://www.daiwahouse.com/English/sustainable/csr/esp/evaluation/>

The Story of Value Creation  
Contributing to Society through Business  
Shareholder Value Creation  
Enhancing the Value of the Endless Heart  
Management Structure  
Data Section