

# Governance

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## Chapter



## Chapter 7 Governance

Roundtable

### Adopting our Purpose with eyes firmly set on our goals for 2055

Daiwa House Group after making OUR FUTURE LANDSCAPE—Celebrating the Joys of Life its Purpose

We invited two of our outside directors to talk about what we of the Daiwa House Group have in mind as we move toward achieving the society we aspire to bring about



Takeshi Kosokabe  
Executive Vice President



Yukiko Yabu  
Outside Director



Miwa Seki  
Outside Director

### The Motivations Embodied in Our Hopes for the Future Project

**Executive Vice President Takeshi Kosokabe:** After consulting the Board of Directors, we used backcasting to identify the materialities we need to address to develop a new long-term vision for 2055. The current cohort of young people will be the people shouldering the future when, according to our previous corporate visions, we were to achieve ¥10 trillion in net sales by Daiwa House Industry's centennial in 2055. To serve as a compass guiding the Daiwa House Group forward, we adopted Our Hopes for the Future as our Purpose. We involved all employees in the process, with focus on the human assets who will shoulder that future but also our outside directors, of which you are two. The intent was to have everyone provide input for hammering out a Purpose that could serve as a guidepost for how the Group ought to be. Could you relate your impressions of the process up to the Purpose's adoption?

**Outside Director Yukiko Yabu:** Corporate purposes are usually statements based on a company's management philosophy or ideals; but I think what makes the Daiwa House Group's Purpose innovative is the process we followed to formulate and adopt it. Rather than imposing it from above, we took time to produce it in consultation with employees who will shoulder the future, college students who are

potential employees, business partners, investors, and other stakeholders. Takashi Nawa, a visiting professor at Hitotsubashi University's School of International Corporate Strategy who is an expert on management based on corporate purpose, says three elements are essential to make a corporate purpose successful: something exciting, something unique, and something the company can do. In other words, it has to inspire employees to want to serve society through their company's business activities by making it their own personal purpose. I think Our Hopes for the Future does that all very well.

**Outside Director Miwa Seki:** I concur. Our Hopes for the Future's embodying the values that employees can make their guide as they go about doing their jobs, makes it vital. It also gives other stakeholders material to make decisions about the company: Customers, for why they should want to seek out the company's products and services; investors, for why they should want to own shares in the company; and suppliers, for why they should want to work with the company. And the project was impressive for how it let the younger-generation team do some straight-talking to management. I see its significance in the whole bottom-up process of taking the time needed to hash out details of Our Hopes for the Future. I was greatly impressed by how deeply the founder's spirit is imbued in the Daiwa House Group DNA: a surprisingly large number of survey respondents said that they wanted to help others or be of service to society. I think that's a strength other companies don't have and that Daiwa House employees have the mettle to carry through as a team.

**Yabu:** Something that surprised me when I was appointed

outside director is one of the things the founder said: "Speed is the greatest service you can provide." I noticed that front-line employees involved in the company's business actually take personal initiative to speedily turn opportunities into a profit-generating businesses. I think their ability to gather relevant information and then move to make things happen, are a Group strength. Further, the content of Daiwa House Industry's businesses has acute social and customer relevance. The work we do is of palpable utility to society.

**Seki:** Indeed. It's clear that the things Daiwa House Industry has built have value, whether we're talking about single-family houses and condominiums or logistics facilities, data centers, and other pieces of social infrastructure so indispensable for maintaining people's affluent lifestyles. I feel a certain excitement at Daiwa House Industry's declaring its intent to accelerate their regeneration so they will become public utilities of service to everyone on a global scale.

**Kosokabe:** The Daiwa House Group's founder and its leaders since have left behind a lot of great words of wisdom. They're all great, but some need to be reinterpreted for today's world—like Ms. Yabu's "Speed is the greatest service you can provide." When the founder said that, Japan's rapidly rising urban population was facing a housing shortage and the times demanded affordable, quality housing that was quick to build and occupy. But today, though we still value speed, it is less urgent and our primary emphasis is on quality and services. Our Hopes for the Future carries on the dreams and aspirations of the founder, and the possibilities of making them happen are inherent in it. Nonetheless, sometimes you



will have to adjust such maxims to keep them relevant to new circumstances as the times change.

**Yabu:** Yes, we understand that. We in management need to watch carefully to be sure that what they're doing actually enhances corporate value and, when not, be ready to change tack.

**Kosokabe:** We're just getting started on ensuring that our new Purpose takes hold. As a member of management, I have to be vigilant that the running of the company remains true to our aspirational principles, and I think our Purpose has to be translated into practice at the frontlines of our businesses as well. I'm hoping that achieving ¥10 trillion in sales will be not just a number but a gift from our customers for having fulfilled the tenets of our Purpose.

**Yabu:** It would be really disappointing if the public, on seeing the Japanese title, were to think Our Hopes for the Future was just another slogan about simple dreams, because it is actually quite profound. We need to continue communicating its significance to us so the public will gain a deeper



understanding and come to appreciate that Our Hopes for the Future embodies the responsibility and resolve we at the Group share: We want to contribute to society through our businesses as we fulfill Daiwa House Group's raison d'être, as we have redefined it to fit current needs.

**Seki:** I think getting involved in societal issues that need solving globally will be key to enhancing Daiwa House Group's corporate value. We adopted a Purpose because there are business opportunities to be had. Further, by strengthening the foundations it has already built, I think the Group will be able to look for new opportunities to greatly expand business.

**Kosokabe:** Up till now we always went into businesses that involved pursuing material abundance; but from now on, I think we should aim for spiritually fulfilling—cultural, if you please—abundance. This, I think, is Daiwa House Group's ultimate mission. Together with defining specific key performance indicators (KPIs) for our materialities, as a business strategy we need to start defining KPIs for Our Hopes for the Future as well. And then our *real* work will begin!

### The expectations on the Daiwa House Group apparent in our materialities

**Yabu:** Globalization counts among our materialities, and our overseas businesses feature large in the Seventh Medium-Term Management Plan.

**Seki:** Most companies in sectors catering to domestic markets chant the globalization mantra, have yet to make much progress. In contrast, Daiwa House Group proactively invests in overseas businesses, particularly in places like North America, China, and Asia, and has set ambitious globalization goals in its Seventh Medium-Term Management Plan. The Group's past achievements impress me as substantiating the potential and persuasiveness of those goals.

**Kosokabe:** In our domestic market-facing businesses, emphasis on regional revitalization—revitalization of localities outside the major urban areas. This, too, is very important. In fact, I think we ought to emphasize it more, given the rather high proportion (in comparison to other players in our sector) of the Group's sales coming from regional localities. As far as our overseas ventures are concerned, I think we need to further clarify the significance of what we want to do overseas and doing business abroad.

**Seki:** I think Daiwa House Group needs to train and nurture human assets overseas in the same way it has in Japan if it's to do business in the same way, and that of course includes building on the foundation it has built to date, sharing its DNA (the founder's spirit), and inculcating Our Hopes for the Future.

**Yabu:** I get the impression that Daiwa House Group has no shortage of human assets brimming with drive and the spirit of

challenge! Meanwhile, it also has many personality-dependent business tasks—ones that can only be performed by specific individuals. The Group needs to rework these tasks so that they can be done by anyone with 70 to 80 percent success rates. To do that, it will have to first visualize what they do, then break down the tasks into elements, and finally systemize them. I think the Group also needs to advance digital transformation further and to look into assigning employees to jobs with specific descriptions requiring higher degrees of specialization.

**Seki:** I like how our materialities, as we've re-identified them, are not focused solely on the *E* of *ESG*. Of course we have strengths in the environmental area; but I think we can better display our advantages in the *S* (societal) domain. Given our commitment to extending the Group's global reach, I think we will be diving into a world of diversity like none we've known before. That makes diversity, equity, and inclusion (DE&I)—which is an enumerated materiality—a crucial challenge; do you think the Daiwa House Group is making progress in DE&I?

**Yabu:** As a member of the construction industry, which in comparison to other sectors employs few women and is low on national diversity because of its internal-market bias, I think Daiwa House Group is doing a wonderful job in setting and pursuing ambitious diversity targets. And I believe that in fact the Group's engagement in giving women opportunities to let their abilities unfold is accelerating across the board, as evidenced by women's becoming officers and heads of business units and assuming other positions of authority, and this comes on top of the huge increase of recent years in female tradespeople and engineers it employs.

**Kosokabe:** I sense that we've made a lot of progress in DE&I itself. What I'm hoping we can do is move in ways premised on DE&I that will maximize employees' sense that their work is rewarding and spark exciting and interesting new innovations.

**Yabu:** I think the Daiwa House Group's traditional diversity mindset tended to emphasize individuals' specializations and the multiplicity of skills and experiences people brought with them. Although that remains important, moving forward I hope consideration for diversity in demographic measures, such as the ration of women to men among employees and officers, and equity in providing opportunities, and fair evaluation of abilities will count for more. To drive DE&I forward, I think fostering a company culture and an in-house atmosphere conducive to frank communication, regardless of gender or race, is crucial.

**Seki:** A book I recently read said that every organization comes to resemble the person who leads it. What this means is that organizations come to resemble their leaders not only in mentality and behavioral patterns, but also in terms of demographic attributes as well—a team led by an American of Indian descent will tend to draw other Americans with subcontinental origins, and a team with a woman at the top will tend to gain female members. The book also said that, to ensure team diversity, you have to remain vigilant about hiring people who are different from yourself—a point that I think is interesting. The implication is that minorities still have it hard, and I think bearing that in mind will lead to fairness in the true sense of the word: Enterprises that establish solid assessment criteria taking this into account are becoming the majority among globally active firms.

**Kosokabe:** Now that you mention assessment criteria—we also revisited our human resources management. We changed the weighting of performance benchmarks from about 80 percent to 20 percent so that personnel assessments would be based more on management integrity than pure business results. It seems that some business-location heads were somewhat flummoxed by the reduced weighting of results benchmarks, but we believe this is just a manifestation of the Group's being in the midst of reforms.

### Governance up to the task of creating Our Future

**Yabu:** In 2021 Daiwa House Industry transitioned to a business division-based organizational structure. Our company has numerous Group companies, and I think they were all doing well with the high degree of autonomy they had. But that organizational model, though it also had its good side, also entailed a lot of wasteful reduplication of businesses and encumbered the proper and consistent running of the whole; so the move to strengthen governance by organizing Group companies by business segment is a good idea. And we want to monitor the situation at the Board level to ensure we have things firmly in grip overseas as well. And with the entire enterprise as big as it is, we hope to formulate and adopt succession plans at each level of management from the C Suite on down to department and section chiefs and for women in managerial positions—an area where I intend to provide full backing going forward.

**Seki:** Another thing I notice every time I attend a meeting of the Board or the Compliance committee is that compliance gets serious attention at Daiwa House Industry. The company has

an upright corporate culture of discussing issues honestly and frankly, and it's palpable. I thought the recent incorporation of environmental indices into the remuneration scheme for directors was wonderful, also for how it demonstrates the Group's commitment to shifting society's focus to circularity. The company could improve compliance and governance even further if were to incorporate more S and G elements—and moreover a global perspective—into its personnel assessment mechanism.

**Kosokabe:** What is expected of you external directors changes with the times. Right now they demand that you keep a sharp eye on whether compliance and governance are working properly at the Daiwa House Group, which is itself a huge job. The number of outside directors has been expanded from the initial two to the current five among whom you two count. In preparation for the day when having outside directors occupy a majority of seats on corporate boards is the norm, I believe we have to clearly communicate to the rest of society what they expect of outside directors, and that at the same time we need to reform the Board of Directors.



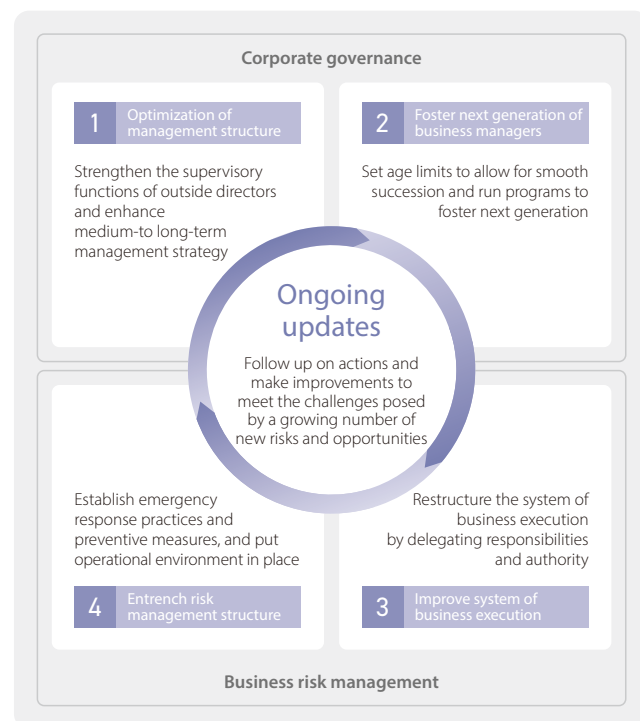
## Governance

Governance

# S Management Structure

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

## Concept of governance system enhancement



Approaches in the Sixth Medium-Term Management Plan	Initiatives in the Seventh Medium-Term Management Plan
<b>(1) Optimization of management structure</b> <ul style="list-style-type: none"> <li>Revise the ratio of outside directors to one-third or more</li> <li>Restructure standards for risk reporting to Board of Directors</li> </ul>	<ul style="list-style-type: none"> <li>Raise the proportion of stock remuneration in director remuneration and introduce non-financial evaluation indicators</li> <li>Strengthen monitoring function of the Board of Directors</li> </ul>
<b>(2) Foster next generation of business managers</b> <ul style="list-style-type: none"> <li>Establish upper age limits on inside directors</li> <li>Introduced the Daiwa House succession planning</li> </ul>	<ul style="list-style-type: none"> <li>Build a succession process for Directors/Executive Officers</li> </ul>
<b>(3) Improve system of business execution</b> <ul style="list-style-type: none"> <li>Adopt a business division-based system</li> </ul>	<ul style="list-style-type: none"> <li>Prepare and strengthen regional corporate functions overseas</li> <li>Strengthen asset management in line with asset increase</li> <li>Continuous improvement of organizations and functions for overlapping businesses within the Group</li> <li>Continual improvement of the Group's head office functions and optimal allocation of human resources</li> </ul>
<b>(4) Entrench risk management structure</b> <ul style="list-style-type: none"> <li>Clarify risk reporting standards</li> <li>Establish new external whistleblowing hotline</li> <li>Reorganize incident response management flow</li> <li>Establish the Compliance Promotion Department</li> <li>Establish a business division risk management committee</li> <li>Strengthen the Group's internal audit system and risk approach, implement audits based on them</li> </ul>	<ul style="list-style-type: none"> <li>Effectively operate and continuously improve risk management structure</li> <li>Continuously strengthening the efficient business operating base to sustain risk management and compliance activities</li> </ul>

## 1 Optimization of management structure

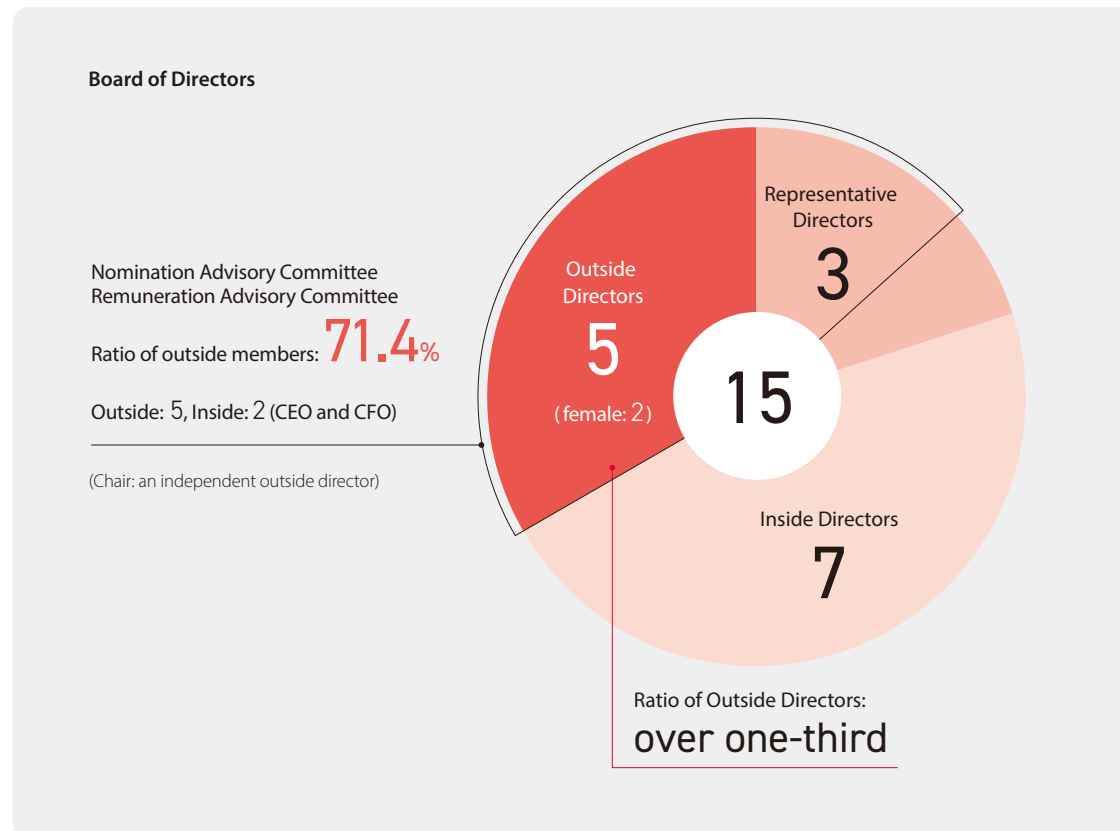
Create an optimal management structure for supervision of medium-to-long-term management strategies for enhancing corporate value

### ■ Concept of Board of Directors structure

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





















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

In addition to matters for resolution and reporting, we have set matters for deliberation and discuss medium-to long-term issues such as the Medium-Term Management Plan. Moreover, we have developed network and paperless environments to allow board meetings to be held anywhere.





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

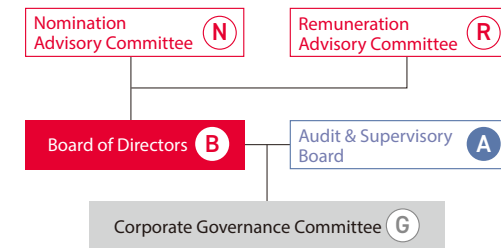
Non-Executives	Corporate Auditors			Outside Auditors		
	 (A) (G) Tomoyuki Nakazato	 (A) (G) Tadatoshi Maeda	 (A) (G) Yoshinori Hashimoto	 (Independent Officer) (A) (G) Shonosuke Oda	 (Independent Officer) (A) (G) Akihisa Watanabe	 (Independent Officer) (A) (G) Tatsuji Kishimoto
Representative Directors	Outside Directors					
	 (Independent Officer) (B) (N) (R) (G) Yukiko Yabu	 (Independent Officer) (B) (N) (R) (G) Yukinori Kuwano	 (Independent Officer) (B) (N) (R) (G) Miwa Seki	 (Independent Officer) (B) (N) (R) (G) Kazuhiro Yoshizawa	 (Independent Officer) (B) (N) (R) (G) Yujiro Ito	
Executive Directors	 President, CEO (B) (N) (R) (G) Keiichi Yoshii (63)	 Executive Vice President, CFO Head of Management Administration (B) (N) (R) (G) Takeshi Kosokabe (64)	 Executive Vice President Head of Technology (B) (G) Yoshiyuki Murata (67)			
	 Managing Executive Officer Head of Housing (B) Hirotosugu Otomo (62)	 Managing Executive Officer Head of Rental Apartment Building (B) Kazuhiro Dekura (60)	 Managing Executive Officer Head of Commercial Construction (B) Keisuke Shimonishi (63)	 Managing Executive Officer Head of General Construction (B) Tatsuya Urakawa (61)	 Managing Executive Officer Head of Environment Energy (B) Toshiya Nagase (59)	 Managing Executive Officer Head of Overseas Business (B) Nobuya Ichiki (65)
	 Managing Executive Officer Head of Compliance / Quality Assurance (B) Yoshinori Ariyoshi (63)					

Note: Figures in parentheses are the ages as of April 2022

Corporate Governance Committee (2 times/year)

Internal Control Committee (4 times/year)

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



#### Reason for new appointments

Name	Reason for appointment
Toshiya Nagase	Environmental strategy is an important area of activity for the Daiwa House Group and the appointment of Mr. Nagase will allow us to benefit from his managerial abilities in the oversight of this area, drawing on the extensive knowledge and experience that he has acquired from working in the environmental energy business.
Kazuhiro Yoshizawa	Mr. Yoshizawa has served as a representative director at a major telecommunications company and was chosen for the extensive knowledge he has acquired during his career in the expectation that he will be able to provide oversight and advice for managing sustainable growth and the development of our information technology.
Yujiro Ito	Mr. Ito has served as a representative director at a major financial institution and was chosen for the extensive knowledge he has acquired during his career and the oversight he will be able to provide over measures for strengthening corporate governance.



## ■ Skill Matrix

Recategorize skills based on a management strategy that was devised with reference to the three actions for achieving Our Hopes for the Future

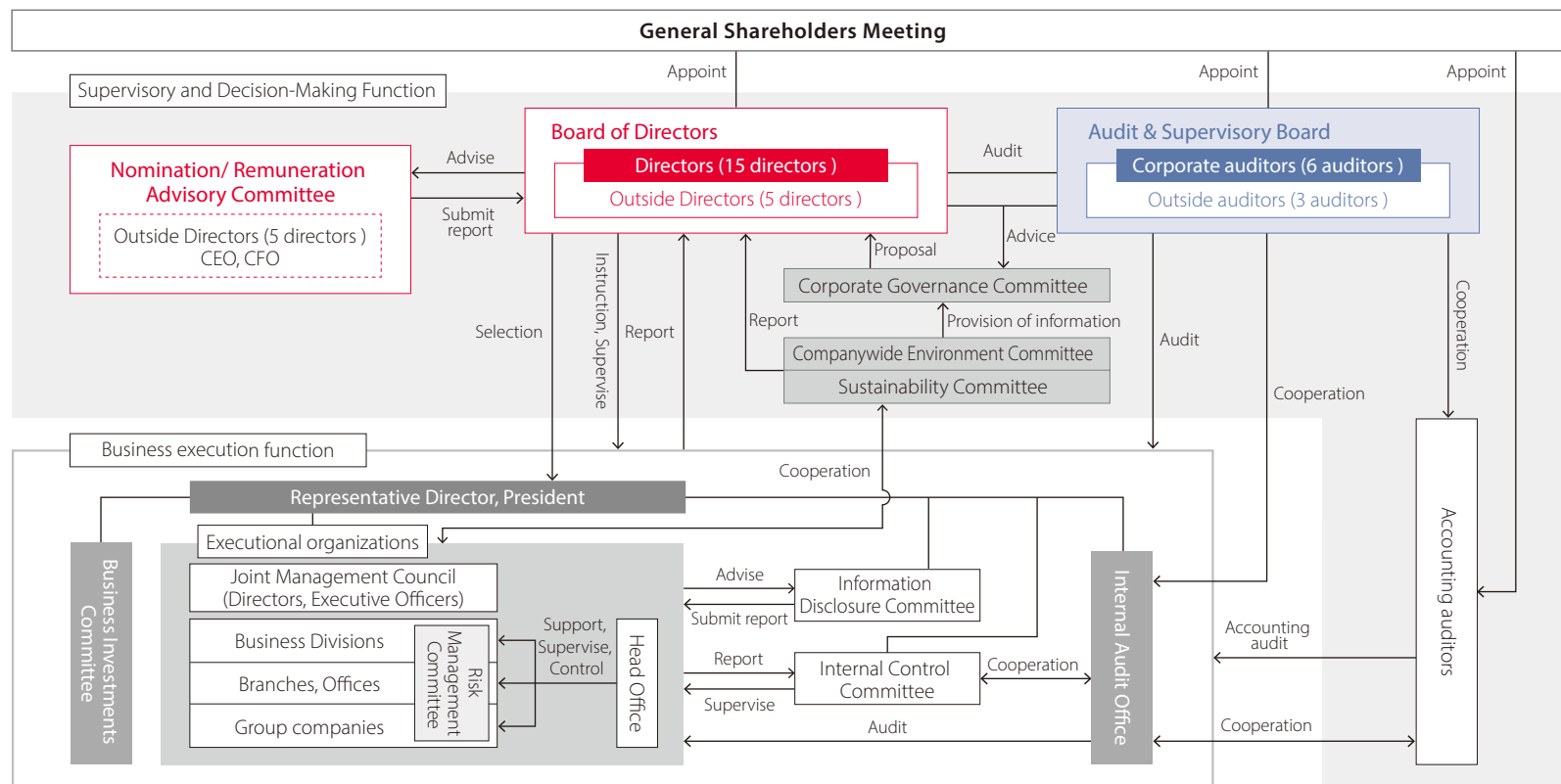
New skills have been added in recognition of how having extensive knowledge and experience in digital transformation (DX) and information technology (IT) is crucial if digital technology is to be used to accelerate the creation of new value. We also recognize that one of our upcoming challenges is to deepen our pool of managerial employees who have overseas business management experience and a depth of knowledge and experience of lifestyles and business environments outside Japan so that we will be better placed to formulate and administer growth strategies for our expanding overseas business.

Name	Position	Role	Corporate Management	Finance/Accounting	Legal/ Risk Management	Technology/ R&D	Overseas Business	DX/IT	ESG
Keiichi Yoshii	Representative Director and President	CEO	●		●		●		●
Takeshi Kosokabe	Representative Director and Executive Vice President	CFO/Head of Management Administration	●	●	●				●
Yoshiyuki Murata	Representative Director and Executive Vice President	Head of Technology	●		●	●		●	●
Hirotsugu Otomo	Director and Managing Executive Officer	Head of Housing	●		●				
Tatsuya Urakawa	Director and Managing Executive Officer	Head of General Construction	●		●				
Kazuhito Dekura	Director and Managing Executive Officer	Head of Rental Apartment Building	●		●				
Yoshinori Ariyoshi	Director and Managing Executive Officer	Head of Compliance/ Quality Assurance			●	●			
Keisuke Shimonishi	Director and Managing Executive Officer	Head of Commercial Construction	●		●				
Nobuya Ichiki	Director and Managing Executive Officer	Head of Overseas Business	●		●		●		
Toshiya Nagase	Director and Managing Executive Officer	Head of Environment Energy	●		●				●
Yukiko Yabu	Outside Director					●			●
Yukinori Kuwano	Outside Director		●			●		●	●
Miwa Seki	Outside Director		●	●			●		●
Kazuhiro Yoshizawa	Outside Director		●			●		●	●
Yujiro Ito	Outside Director		●	●	●				●

Note: The above displays those elements of knowledge held by directors for which we hold particular expectations.

## ■ Corporate Governance System

In managing for sustainability, the Companywide Environment Committee and Sustainability Committee keep the Corporate Governance Committee updated about any important matters regarding action on ESG and on the SDGs, and also report directly to the Board of Directors.



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

### Nomination Advisory Committee

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

- Chair: an independent outside director
- Meeting frequency: once a year in principle
- Major past agenda:  
Draft of candidates for directors to be proposed at the General Meeting of Shareholders, etc.

### Remuneration Advisory Committee

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

- Chair: an independent outside director
- Meeting frequency: once a year in principle
- Major past agenda: Officers' remuneration system, etc.

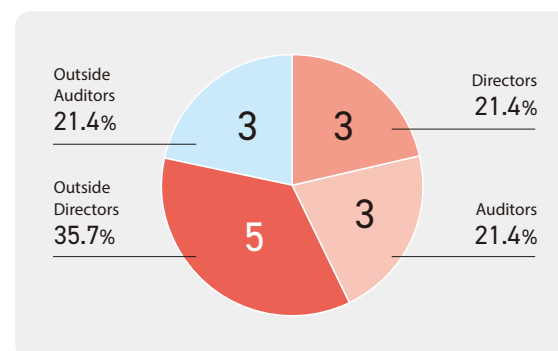
### Corporate Governance Committee

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

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

- Chair: an independent outside director
- Meeting frequency: twice a year in principle
- Major past agenda:  
Measures to enhance governance of the Daiwa House Group, etc.

### Members of Corporate Governance Committee



## ■ Committees concerning operational execution (Management Committees)

### Joint Management Council

The Joint Management Council is established for appropriately executing the decisions made by the Board of Directors through having the Board of Directors and executive officers fulfill their respective duties and communicate each other. Deliberates and reports on important matters relating to business execution and evaluates internal control and risk management systems.

- Chair: Representative Director, President
- Meeting frequency: four times a year in principle
- Major past agenda:  
Report on progress of each business, report on progress in product development and research divisions, etc.

### Business Investments Committee

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

- Chair: Representative Director, President

### Information Disclosure Committee

To build long-term relations built on trust with all shareholders, investors, and other stakeholders, we establish the committee tasked with announcing information pursuant to the basic policy for information disclosure (disclosure policy).

- Chair: Head of Management Administration Headquarters

## ■ Remuneration policy in Seventh Medium-Term Management Plan

Remuneration for directors is made up of monetary remuneration (fixed remuneration and annual incentive bonus) and stock compensation. In formulating the Seventh Medium-Term Management Plan, changes were made to the structure of the director remuneration system to raise the proportion of stock compensation in director remuneration. This was done to provide an incentive for sustainable improvements in corporate value and to encourage the further sharing of value with our shareholders.

### Details

The remuneration shall be as follows.

#### (i) Fixed remuneration

Fixed remuneration shall be paid in cash as compensation for fulfilling job responsibilities, to all Directors and Audit & Supervisory Board Members. By resolution of the General Meeting of Shareholders, the limit on remuneration for Directors is 70 million yen per month, and for Audit & Supervisory Board Members 18 million yen per month.

#### (ii) Annual incentive bonus

Directors (excluding Outside Directors) will be paid in cash as performance-based remuneration within 0.5% of consolidated ordinary income for "generating profits and fostering the Company's growth and development." (KPI: consolidated ordinary income)

#### (iii) Stock compensation

Directors (excluding Outside Directors) will be paid the following stock-based compensation with transfer restrictions until retirement in order to further link their compensation to shareholders' interests and increase incentives to enhance corporate value over the medium to long term.

The maximum amount of stock-based compensation shall be 900 million yen per year for each of (1) and (2), or 1,800 million yen per year in total. The maximum number of shares of common

stock to be delivered is 290,000 shares per year for each of (1) and (2), or 580,000 shares in total (equivalent to less than 0.1% of the 655,729,423 shares issued by the Company [excluding 10,508,782 shares of treasury stock; as of March 31, 2022]).

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

A system in which the number of shares of the Company's common stock is delivered in proportion to the period of service.

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

A system in which the Company's common stock is delivered in proportion to the achievement of environmental indices set forth in the Seventh Medium-Term Management Plan.

(KPI: environmental index)

Also, an effort will be made to ensure that stock compensation

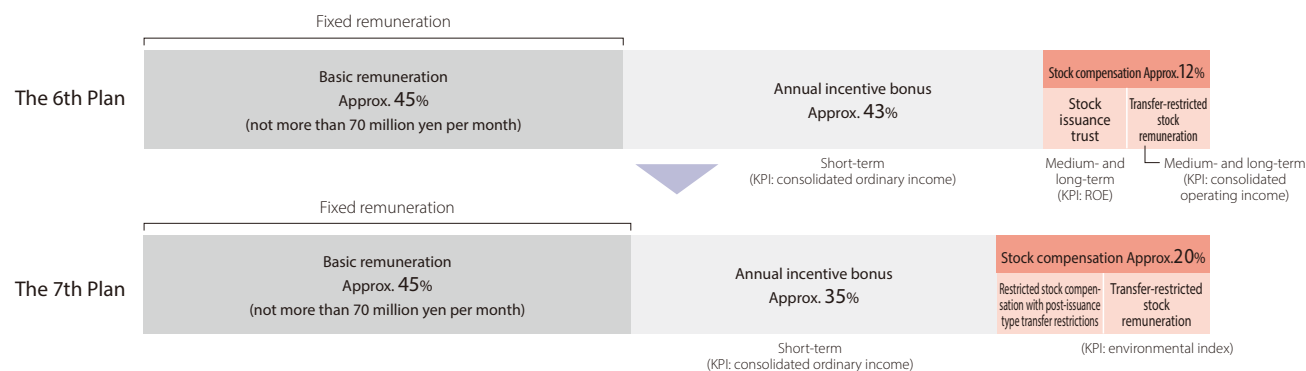
accounts for about 20% of total remuneration for directors (excluding outside directors).

### 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 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.

### Directors' remuneration structure (excluding outside directors)

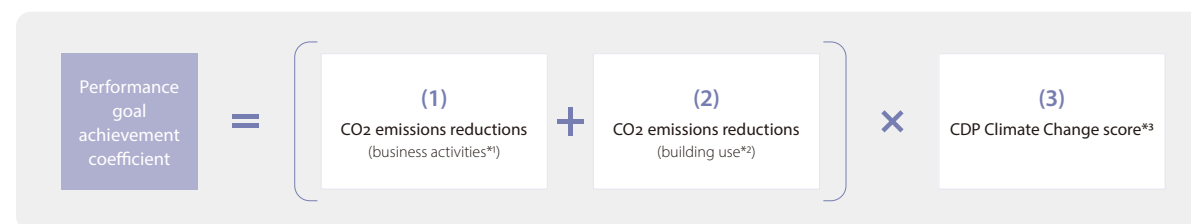


Note: 1. The percentage indicates the ratio of each type of remuneration to the whole remuneration for directors. (This is subject to change as it is calculated based on past performance.)  
2. Stock remuneration is conditional on meeting all the performance-based indicators relating to the said remuneration.

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

The “CO<sub>2</sub> emissions reductions (vs. 2015)” and “CDP Climate Change score” environmental indicators specified in the 7th Plan will be used as the performance targets. These are defined in (1) to (3) below and the degree of target achievement will be calculated using the following formula based on data obtained for the performance assessment period.

### Calculation formula



\*1 CO<sub>2</sub> emissions at Group offices, plants, construction sites, and business facilities. (Scopes 1 and 2)

\*2 CO<sub>2</sub> emissions resulting from Group sales and the use of developed residential housing and buildings. (Scope 3)

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

	Management Indicators	FY2021	FY2026
(1)	Reduction of greenhouse gas emissions in business activities (vs FY2015)	-20.8%	-55%
(2)	Reduction of greenhouse gas emissions in building use (vs FY2015)	-29.8%	-54%

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

### (3) CDP Climate Change score

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

We were awarded an A grade (top score) for its 2021 CDP Climate Change score.

Example for FY2026: 30% reduction for (1) and (2) and an A grade CDP Climate Change score: For (3), the result (30%) divided by the management indicator (55%) gives a score of 54.5% and an achievement coefficient of 0.2. Inserting the values into the overall formula gives an achievement coefficient of  $(0.2 + 0.2) \times 1.2 = 0.48$ .

## ■ Initiatives to further share value with our shareholders

The Company recommends to its executives to own company shares through shareholders associations and so forth, to encourage a sense of shared profit awareness with shareholders and behavior respecting shareholder value.

The Shareholding Guidelines below in principle require the holding of a certain number of company shares at the minimum by members (or future members) of management, in recognition of the important role they play in sustainable growth and greater corporate value over the medium and long term for the Company.

### Shareholding Guidelines

**Directors\*1:** In principle to own 6,000 or more company shares within 3 years of appointment

**Executive Officers:** In principle to own 3,000 or more company shares within 3 years of appointment

**Directors of Group companies\*2:**  
In principle to own 2,000 or more company shares within 3 years of appointment

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

## ■ Procedures for director selections and proposed dismissal

The procedures for director selections and proposed dismissal are determined on the basis of Principle 3.1 of the Corporate Governance Code.

When a director selection is made, the matter is discussed by a Nomination Advisory Committee made up of five 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 outcome of this discussion. When the dismissal of a director is proposed, the matter is decided by the Board of Directors.

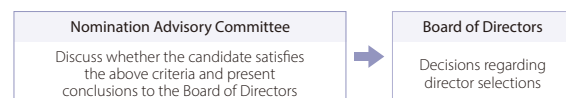
### Selection criteria for candidate directors

1. They should 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 have personality and insight appropriate for a director.
8. 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.

## Procedures for director selections



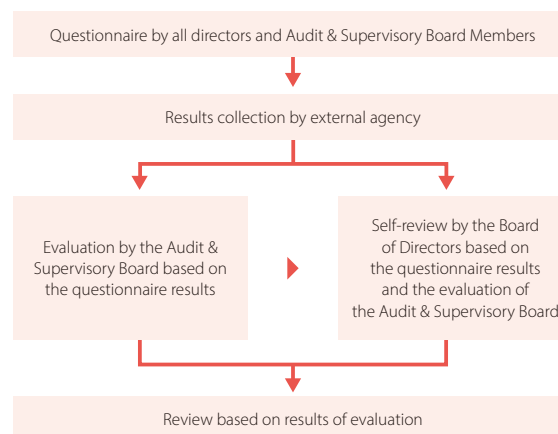
## ■ Overview of effectiveness evaluation of Board of Directors

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

Questionnaire-based surveys of directors and Audit & Supervisory Board members are conducted, and the effectiveness evaluations are made on the basis of the results of these together with the evaluation of the Board of Directors made by the Audit & Supervisory Board.

As in the past, an external agency was engaged to conduct the 2021 survey, with responses being provided directly to the external agency to ensure anonymity.

### Evaluation process



### Evaluation items

The survey was made up of 38 multiple-choice questions and 11 questions requiring written answers about items below. The multiple-choice questions asked for rankings on a one-to-five scale (where 5 = highest ranking, 1 = lowest ranking).

Although the evaluation of the Board of Directors as a whole was relatively high, training (opportunities to acquire the necessary knowledge) was rated low.

Evaluation items	Average score
Composition of Board of Directors	4.3
Operation of Board of Directors	4.2
Monitoring function of Board of Directors	4.1
Performance of inside directors	4.1
Performance of outside directors	4.3
Support structures for directors and Audit & Supervisory Board members	4.1
Training	3.7
Attitude of directors and Audit & Supervisory Board members to their duties	4.2
Evaluation of the Board of Directors as a whole	4.3

### Evaluation results for FY 2021

Based on the status of each evaluation item, the effectiveness of the Board of Directors was evaluated as being satisfactory. However, the further strengthening of monitoring functions associated with the adoption of a business division-based system was highlighted as an issue to address.

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



## 2 Foster next generation of business managers

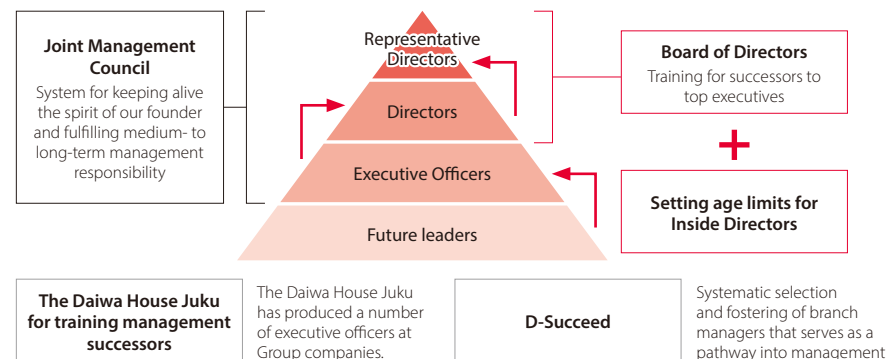
**A succession process for directors and executive officers was established to help develop a deeper pool of future business managers.**

To ensure further business growth under a rapidly changing operating environment, the Company has set age limits for Inside Directors (Representative Directors: sixty-nine; Directors: sixty-seven), thereby promoting smooth transition from one generation of top management to the next.

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

In addition to continuing the Daiwa House Juku established in 2008, the D-Succeed succession planning system for the next generation of managers (especially branch managers) was introduced in fiscal 2020. Along with putting in place an ecosystem for selecting, evaluating, nurturing, and promoting talented individuals as candidate managers, the system also facilitates ongoing fostering of the employees who will go on to become the next generation of managers through their secondment to off-site training opportunities that give them the chance to experience working in a different field. Furthermore, we are putting in place a global management human resources program and human resources training system to support our overseas businesses.

### A program to nurture the next generation



## Policy on cross-shareholdings

Each year, the Board of Directors reviews the medium-to-long-term economic rationality of the company's various cross-shareholdings and presents the results. An effort is being made to reduce cross-shareholdings by selling those shareholdings that are deemed to be no longer necessary. While cross-shareholdings accounted for only 3.4% of consolidated net assets at the end of the 2021 fiscal year (excluding listed REIT of the Daiwa House Group), the intention is to further reduce such holdings in order to slim the balance sheet and boost efficiency, as laid out in the Seventh Medium-Term Management Plan. Moreover, in the event that one of our cross-shareholding partners expresses an intention to divest their Daiwa House Industry shares, we will not engage in any actions intended to impede such sales, such as threatening to reduce our business with the company concerned.

### Criteria for sale of cross-shareholdings

The Company owns cross-shareholdings to strengthen its relationships and collaboration with partner companies. The Board of Directors conducts an annual comprehensive review of each cross-shareholding in terms of the risks and benefits of maintaining it, based on conditions of trade, financial statements, external ratings and the required profit figure for cross-shareholding calculated from the WACC (weighted average cost of capital). As a result, the number of cross-shareholdings has fallen from 98 at the end of fiscal 2014 to 62 at the end of fiscal 2021.

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

FYE	Number of shareholdings sold	Number of shareholdings held
FYE2019	4 companies (sale of entire holding), 4 companies (partial sale of holding), 1 newly listed company	66
FYE2020	2 companies (sale of entire holding), 4 companies (partial sale of holding)	64
FYE2021	4 companies (sale of entire holding), 3 companies (partial sale of holding), 1 newly listed company, 1 new shareholding	62

### 3 Improve system of business execution

#### ■ Introduction of a Business Division-based System

To enhance our agile business execution and risk management structure for further growth, we shifted to a full-scale business division-based system from April 2021.

This change to our organizational structure shifts responsibilities and authority that had been concentrated in top management to the business divisions, while placing group companies highly related to each business under the business divisions. The business division heads are comprehensively responsible for the performance and risk management of their businesses, including the group companies, both to promote growth by pursuing synergy and to deal with business-specific risks. This allows the business divisions to take rapid management decisions with finesse, and at the same time enables top management to concentrate on monitoring overall strategy and execution. Each business division is looking at how they can make ongoing improvements to teams or functions that duplicate activities elsewhere in the group.

The Compliance Promotion Department was established in 2019 to support compliance activities in the business divisions, undertaking precautionary measures throughout the group.

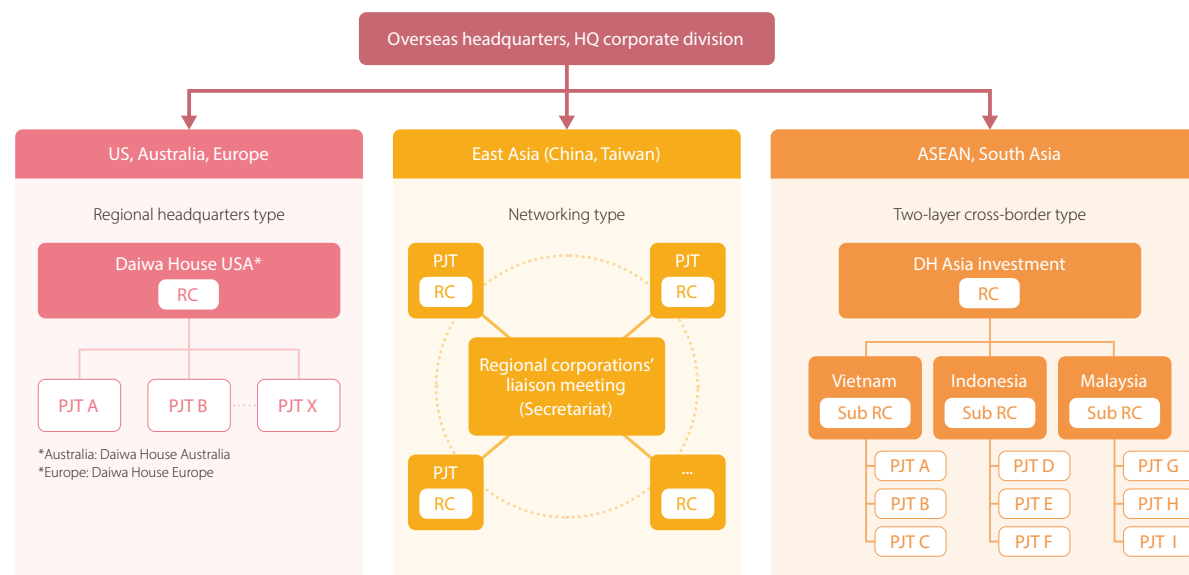
Even in the business division-based system, there are block managers, branch managers and branch office managers that take charge of designated areas to maintain our strengths while promoting collaboration between businesses such as interorganizational complex developments.

#### ■ Prepare and strengthen regional corporate functions overseas

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

In addition to strengthening legal compliance and risk management, we also believe that acquiring an understanding of the

culture and history of each region and the sensitivities of the people will enable our businesses to become more deeply rooted in their respective communities. While the COVID-19 pandemic has delayed implementation, we intend to continue strengthening our system of business execution with its high standard of governance so as to keep pace with the further acceleration of overseas business laid out in the 7th Plan.



## Policy on human rights

"Through our business, we strive to fulfill our commitment of contributing to the realization of a society where human rights are respected." To help put this commitment into practice, we established the Daiwa House Group Human Rights Policy in 2018 and we support international standards, including the Universal Declaration of Human Rights and the United Nations Global Compact (UNGC).

 Sustainability Report 2022: Human rights management system ► P.70

### ■ Respect for the human rights of customers

We recognize that a stance of operating its businesses in a way that respects human rights and is not complicit in violating human rights is one that enables each and every employee to go about their duties in a fair manner. Accordingly, to ensure respect for the human rights of customers, we also understand that awareness-raising and education activities for employees are among the most important tasks for human rights management.

Based on the CS philosophy that is set forth as our policy, we conduct surveys using CS relationship questionnaires and other means and seek to make improvements through the CS Committee if any issues are identified.

### ■ Respect for human rights with regard to employees

Based on a conviction that companies have a responsibility to respect human rights, we have undertaken an ongoing program of awareness-raising activities for employees. The Human Rights Awareness-Raising Committee headed by the President periodically checks the implementation status of human rights awareness-raising activities across the entire Group and supervises the operation

of the Daiwa House Group Human Rights Policy. Along with the thorough implementation of regular training, we have also put systems in place for timely reporting and action on individual human rights problems, including the establishment of a whistle-blowing system.

To assess employee human rights risks, we have since fiscal 2004 conducted an annual Sustainability Survey in an effort to confirm the level of employees' understanding and permeation of the Daiwa House Group Principles of Corporate Ethics, which include respect for human rights. Having received considerable feedback from this survey and through our Human Rights Hotline asking for improvements to our routine employment conditions, we have made improvements that include reviewing the way business should be conducted with the aim of respecting the basic employment-related rights of our employees.

### ■ Respect for human rights in our supply chain

Having established our own CSR Procurement Guidelines and highlighted respect for human rights in our Business Partner Code of Conduct, the Daiwa House Group strives to take responsible action on human rights problems in our supply chain. Specifically, this requires all primary suppliers to prohibit forced or compulsory labor, child labor, and harassment. In terms of procurement, this has included choosing not to use lumber from regions where illegal logging or violations of the human rights of indigenous inhabitants is alleged to take place.

Additionally, the Company carries out annual surveys by means of questionnaires toward subcontractors to check if there is any unfairness or inadequacy in the details of order placement to subcontractors or the attitude of our employees. In this way, we establish sound and good relationships, free from violations of human rights.

### ■ Human rights in our overseas businesses

We develop overseas business with the idea of using the technology and other expertise we have acquired in Japan to contribute to local development.

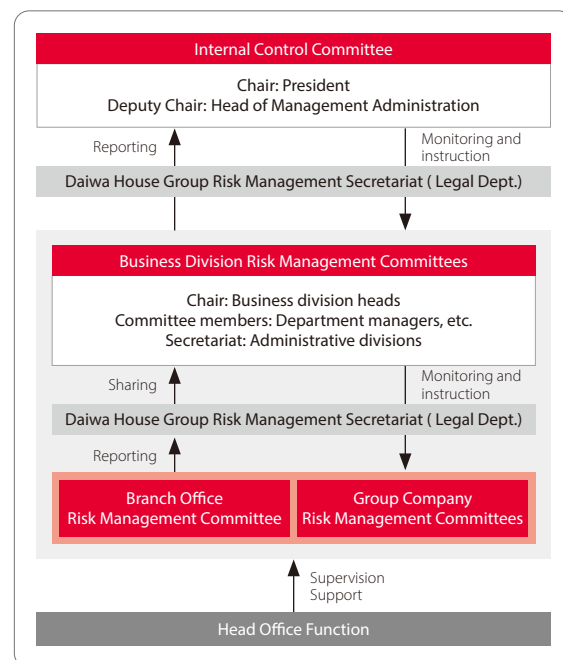
The Y Complex project is a large-scale mixed-purpose development in Myanmar that was the first such project to receive investment approval under the new Myanmar Investment Law. Our group company Fujita Corporation is part of a consortium of Japanese companies that undertook the project in partnership with a local project company. Located in central Yangon, the project commenced in 2017 with the aim of contributing to economic development in the region, including through local employment creation and infrastructure development. Since the declaration of a state of emergency in Myanmar on February 1, 2021, however, the project has been suspended with all work stopped to prioritize the safety of the people of Myanmar and everyone involved in the project and no further lease payments have been made to the land owner. With regard to restarting the project, the intention is to work with the relevant government agencies and project partners to consider what steps are necessary, including maintaining the suspension of this project until human rights in Myanmar reach a level that is acceptable to the international community.

## 4 Entrench risk management structure

### ■ 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 the system as described below, under the authority of the Internal Control Committee.

#### Internal control system



### Operating the Internal Control Committee

We have established the Internal Control Committee as an organ that aims and functions to receive reports on the status of internal controls of the entire Daiwa House Group, and to assess and promote correction of flaws or deficiencies thereof. This Committee meets once a quarter.

### Compliance and risk management structure system

#### 1. Collecting and utilizing risk information

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

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

#### 2. Whistleblower system

For the purpose of early detection and correction of events that may inhibit sustainable growth of the Group, we have established and operated various whistleblower systems both inside and outside the Company, which receive reporting not only from domestic sites but also from overseas offices in the languages of each region.

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

#### 3. Response in cases where a material risk is manifested

In cases where a material risk is manifested, emergency headquarters are established as a structure to minimize the adverse effect to our business operations. The Detailed Rules for Establishing and Operating Emergency Headquarters specify standards for establishing emergency headquarters, their members, operating procedures and tasks, as well as response and recurrence prevention measures for the material risks deliberated and implemented in an appropriate manner after the swift launch of the emergency headquarters.

#### 4. Compliance training

We proactively conduct compliance training with a view to enabling employees to improve their knowledge of relevant laws and regulations as well as their understanding of risk management. Specifically, we provide training programs for each employee grade to cultivate the knowledge and background needed for each employee grade, including new recruits, mid-career employees and those in supervisory and managerial positions, and training programs organized for departments to enable employees to gain knowledge of the laws and regulations concerning their respective department.

#### 5. Internal audits

The Internal Audit Department is a department specializing in internal audit, and verifies and evaluates whether operations comply with laws and corporate rules by conducting hearings of officers and employees of branch offices and Group companies and confirming documents. If any problem is discovered as a result of the audit, the department requests the submission of an improvement plan for such problem and a progress report on the improvement plan six months after submission.

#### Group management system

Since the institution of the Group Management Rules in 2007, we have adopted a rule under which the Group companies are requested to ask for the Company's approval of important matters or to report them to the Company while maintaining the basic policy calling for Group companies to achieve business development with a spirit of independence and autonomy.

Following the full-scale shift to the business division-based system, the management of group companies is centralized vertically under the leadership of the business divisions. Based on the Group

Management Rules, the departments of the Daiwa House Industry Head Office fulfill horizontal management functions within the purview of their respective operations.

For our overseas businesses, the overseas headquarters has regional corporate functions connecting head office departments and overseas offices in units of individual regions.

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

Risk information communication flowchart

