Daiwa House Group

OUR FUTURE LANDSCAPE–
CELEBRATING THE JOYS OF LIFE.

Daiwa House Group Integrated Report 2023

Our Hopes for the Future—Our Guide to Daiwa House's Centennial

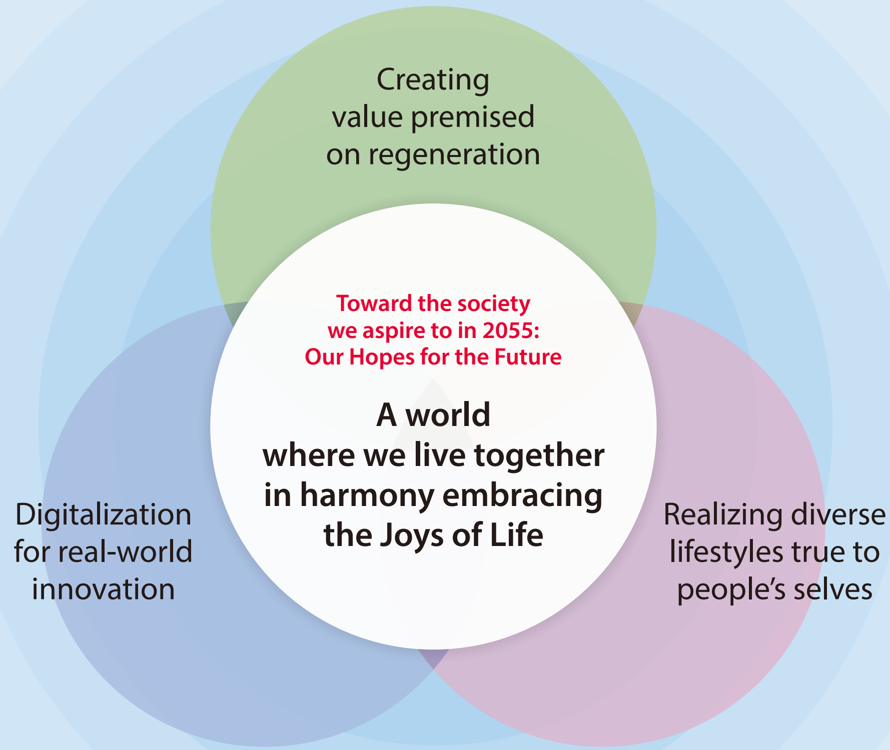
Creating the fundamental societal infrastructure and lifestyle culture rooted in regeneration, ensuring a world where we live together in harmony embracing the Joys of Life.

From our founding,
Daiwa House Group has remained true to our founder's vision to
"Don't do things because they will make a profit, but because they will be of service to society"
and ensure that *"Our Hopes for the Future Enable both Individual and Company Growth".*

Today, what we mean by Our Hopes for the Future,
a world where we are our truest selves, respecting, and inspiring each other.
Living together in harmony with our planet–in harmony with People and Nature.

Daiwa House Group commits to co-create value
for individuals, communities and people's lifestyles.
Together with you, connecting hearts to enable our future landscape,
nurturing communities that live together
in vivid and vibrant harmony with People and Nature.

We are **Daiwa House Group.**



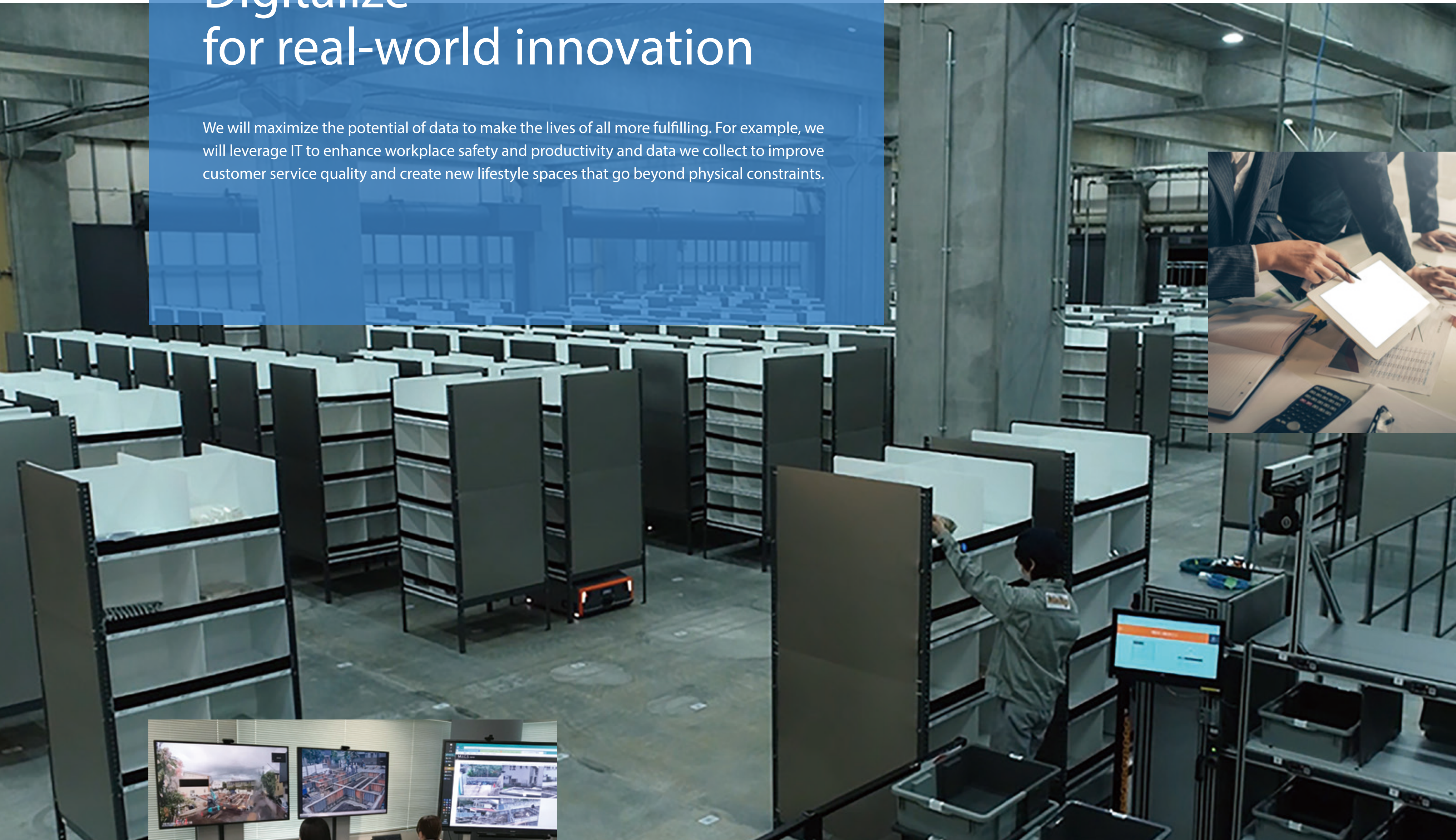
Three Priority Actions
for Achieving Our Hopes for the Future

Create value premised on regeneration

Create a virtuous cycle between Society and Earth by fully utilizing less of her limited resources. Make the world a richer, better place by bringing out the best out in people and the potential of buildings.
The Daiwa House Group will create new value so that people and the Earth can coexist by evolving not only our products and services rooted in concepts of circularity and regeneration, but our very business.

Digitalize
for real-world innovation

We will maximize the potential of data to make the lives of all more fulfilling. For example, we will leverage IT to enhance workplace safety and productivity and data we collect to improve customer service quality and create new lifestyle spaces that go beyond physical constraints.



Realize diverse lifestyles true to people's selves

By creating new ways of living and working, as well as products and services that make these possible, and by being the starting point for change and bringing together people of all kinds heart-to-heart, we will co-create a world where everyone can live in their own way.

Highlights of the Integrated Report 2023

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Editorial policy: This report has been produced for our shareholders, investors and other stakeholders. In the Story of the Daiwa House Group's Value Creation, we integrate financial information on our business and financial strategies and non-financial information about what we see as our primary corporate value. We also introduce the three management bases essential for such processes (our human resources, customer, and technology and manufacturing) and our strengths (comprehensive business proposals), summarizing how we pursue Our Hopes for the Future that embodies the spirit of our founder. **Referential guidelines:** In the production of this document, we have referenced the International Integrated Reporting Framework (Value Reporting Foundation), as well as the Guidance for Collaborative Value Creation issued by the Japanese Ministry of Economy, Trade and Industry. This year, we clarified the relationship between the business environment, materiality, and the Seventh Medium-Term Management Plan, which we had not been able to present in the previous year, and formulated the KGI/KPI of materiality through internal discussion. This clearly shows the path toward realizing Our Hopes for the Future. **Scope of this report:** This report provides information on the Daiwa House Group overall (432 consolidated subsidiaries, 54 equity method affiliated companies, and 1 affiliated company not accounted for by equity method as of March 31, 2023), with a focus on Daiwa House Industry Co., Ltd. **Forward-looking statements:** This Integrated Report contains future estimates, targets, plans and strategies of the Daiwa House Group. These are based on judgments employing information available at the time of writing. For various reasons, actual results may differ substantially from these estimates.

Message from the CEO

Chapter 1

Chapter 1 Message from the CEO

Moving steadily toward Our Hopes for the Future

Awareness and understanding of Our Hopes for the Future

My mission:
Passing on our founder's philosophy

Creating the fundamental societal infrastructure and lifestyle culture rooted in regeneration, ensuring a world where we live together in harmony embracing the Joys of Life.

Announced in May 2022, this is Our Hopes for the Future (Purpose), which set out the direction we should travel.

The opening pages of *The Future of the Daiwa House Group** by our founder state that "our hopes for the future enable both individual and company growth." We thought it important to delineate Our Hopes for the Future to steer us toward sustainable growth, which we defined as our Group Purpose as we proceed toward our 2055 centennial.

In drafting it, we gathered the thoughts of young people such as students and a variety of stakeholders on what to change to suit the times and what to keep. The outcome, Our Hopes for the Future, encapsulates our ongoing gratitude to our stakeholders, the hopes and expectations they have for us, and our desire to get closer to them. We think the Our Hopes for the Future project will drive change in the company's culture heading for the next generation and speed up our Seventh Medium-Term Management Plan(the 7th Plan). I will continue visiting our offices around Japan to deepen communication with employees and get them all on board with the shift in management direction toward Our Hopes for the Future and translate word into deed as they take ownership of it. I am also keen to continue dialogue with younger employees who will be running the company in 2055.

* A book aimed at passing on the founder's spirit containing his thoughts and corporate philosophy.

Keiichi Yoshii
President, CEO

Looking back on the first years of our 7th Plan

A year when we were keenly aware of improving capital efficiency

The business environment changed beyond any expectations in the first year of the 7th Plan. China's zero-COVID policy, the war in Ukraine, spikes in materials prices, significant yen depreciation, and rapid rate hikes swamped our assumptions. Fiscal 2022 started with a smaller order backlog than the previous year following a 22-day suspension of business in December 2021. However, as our founder said, tough times are opportunities, and the tougher they are, the more Daiwa House grows. I believe that we again demonstrated our strengths—speed, creativity, sincerity, and passion—in the face of anticipatable circumstances.

We are investing aggressively in real estate development to establish a sustainable growth model under the 7th Plan (five-year plan). However, with an eye on future interest rate rises, we wasted no time in raising the internal rate of return (IRR)—our investment benchmark. We have always assessed capital efficiency and risks when investing in real estate developments, overseas businesses, and acquisitions. We also consider social impact; that is, making sure what we are doing is useful for society and preserves harmony with the Earth and local communities. When lifting our required rate of return, we wanted to strengthen sustainability as well as profitability, so adopted investment criteria using internal carbon pricing (ICP)*.

We are reviewing our business portfolio to establish a good balance between profit growth and better capital efficiency. In December 2022 we decided to sell our resort hotel business. While the facilities were aging and earnings continued to slump, for us key point was whether we were the best owner. After considering what was needed to turn the business around, the option we chose from a range was to sell it to a counterparty that operates numerous resort hotels and is well set to derive business synergies from it.

Our net sales reached a new record high, as did operating income, partly on a ¥96.6 billion reduction in operating expenses due to actuarial differences in retirement-benefit accounting. Underlying operating

* A scheme in which corporations set an internal (or shadow) carbon price to help them move decarbonization forward.

Seventh Medium-Term Management Plan:
Three management policies and eight focal themes

Complete a sustainable growth model

Evolve revenue model	Optimize management efficiency	Strengthen management base
1 Accelerate growth of overseas business	7 Achieve growth of profits coexisting with capital efficiency	6 Increase the value of our human capital
2 Expand a circular value chain		8 Enhance governance
3 Realize carbon neutrality	4 Strengthen cost competitiveness and build a system for stable supply	
5 Digital transformation		

income also grew more than the announced forecast. The operating environment is improving. Conditions in the hotel and sports club business, which was heavily impacted by COVID-19, returned to near pre-pandemic levels in the past year. However, the gross margin recovered more slowly than hoped due to sharply higher materials and energy prices. Still, we have passed on the past year's increases in raw materials and labor costs to selling prices and expect a recovery in fiscal 2023 and beyond. ROE was 14.3%, and we increased the dividend for the 13th consecutive year in line with our stable shareholder-returns policy. However, I am not proud to report that the price-to-book ratio was below 1 time at end-March 2023. I feel we need to better inform the market of how our investments will contribute to future earnings. We will continue working to recoup investments and operating with a view to capital efficiency, and hope that dialogue with shareholders and other investors boosts our market rating.

Fiscal 2023 challenges and growth drivers

Carrying on businesses to solve current societal issues, cognizant of risks and challenges

We expect fiscal 2023 to be a tough year for the overseas business. We forecast lower sales and profit following a slowdown in the US housing business in late 2022 after a series of sharp interest rate hikes and a drop-off in the number of condominium units delivered in China. However, the construction business in the Commercial Facilities Business and Logistics, Business and Corporate Facilities Business are showing signs of recovery, and we continue to make progress in sales of development properties, primarily logistics facilities. We are also active in contracted construction and development of data centers and other new asset types. In recent years we have been bolstering our subdivision business, using land data gained through close local ties, and have been able to acquire and sell prime properties more quickly than previously anticipated.

Interest rate movements remain a cause for concern, and geopolitical risks such as the Ukraine conflict and US–China relations bear watching. As we continue to expand our overseas business, we are working to mitigate risks—materials shortages due to global supply-chain disruptions and spikes in energy costs among them—with all means at our disposal.

In businesses that address current social issues, we established Japan's largest onshore salmon aquaculture facility at our industrial park in the face of worsening food-supply situation amid global population growth. To respond to earthquakes and climate change-related disasters, we have entered local agreements making these facilities available to their localities when disaster strikes. We will respond to changing times and keep working to create value for our customers to remain the corporate Group society turns to.

Beginning in fiscal 2024, the revised Labor Standards Act will limit overtime in the construction industry, exacerbating the labor shortage. This is a priority issue for us. To rectify a shortage of engineers, we have been hiring students from technical high schools since fiscal 2018 and sending them to study at vocational schools—at our expense—to become construction site supervisors.

Six materialities: Our efforts

1. Circular economy and carbon neutrality

Sharing concern for the global environment with all employees; pushing on with community development to support the society of tomorrow

Decarbonization is one of our efforts to make our children's future better, and we aim to be carbon neutral by 2050. Regarding environmental issues, our founder stated the need for wind, sun, and water businesses in the 21st century. We are proud of our early initiatives in these areas, but are aware that the uptake of net-Zero Energy Houses (ZEHs) could be quicker. To redress the situation, we aim for all of the new builds we deliver to, as a matter of principle, be ZEHs or net-Zero Energy Buildings (ZEB), and for all new building to be equipped with solar generation systems, by fiscal 2030.

Specifically, in October 2022, we launched our TORISIA rental housing product that offers ZEH-M Oriented specification as standard. We also decided to make ZEH-M specifications standard for PREMIST condominiums we build from fiscal 2024 forward. All our own newly built facilities are also ZEB-specifications, and we are stepping up our ZEB proposals for customers. We also think that the Environment and Energy Business will play an important role due to its synergies with other businesses in terms of responsible production and consumption. In addition to using rooftops and vacant land, we are working to promote uptake of renewable power and, as a supplier of numerous types of buildings, creating fully renewables-powered communities.

We are also working toward an RE100 target (using renewable energy in all of our business activities). In fiscal 2022, all power purchased by Daiwa House Industry (non-consolidated) in Japan came from renewable energy sources. We aim to reach RE100 across the entire Group in fiscal 2025, partly due to the inclusion of the Hibikinada Thermal Power Station. Transforming Hibikinada into a biomass-fired plant will be a major challenge, but we see this as an opportunity to further expand our renewable energy supply, extend our efforts in in-house supply and consumption of renewable energy, spread renewables in the wider community, and achieve RE100.

Looking back at fiscal 2022, we adopted ICP investment benchmarks to promote business that protects Earth's environment, and I believe concern for the environment has spread further among our workforce. Further, we've got a positive feedback loop flowing: As the people who have developed our "works" (the towns we build), employees grow attached to them as they follow up with the people who live in them and put smiles on their faces. I think they feel closer to Daiwa House as we provide the place they live and the electricity that they use. Going forward, we want to go beyond decarbonization and design circular economy-oriented towns.

2. Revitalizing local communities

Roll out a circular value chain that creates, fosters, and revitalizes across all businesses nationwide

All our businesses are involved in the creation, fostering, and revitalization that form a circular value chain. We foster and refresh long-term relationships of trust, starting with creation, through customer service, management operations, and renovation to create rich lives hand-in-hand with our customers. We strive to fulfil our responsibilities to customers and buildings so as time goes by and the building's role is over, customers will approach us with a view to the next role.

Our Livness brand is the heart of our revitalization business. The brand was set up to engage in brokerage, renovation, and purchase/resale, initially in single-family and rental housing. It is rolling out initiatives for large buildings and commercial facilities, and earnings are steadily expanding. Under the Livness Town Project (redevelopment of existing housing complexes), offices took unique initiatives to suit housing complex needs. Beginning in fiscal 2022, we introduced program that lets employees "live" in our housing complexes so they can develop a feeling of what it's like to be a resident and share residents' awareness of associated problems.

In terms of revitalizing local communities, major results are emerging from our project to rebuild public wholesale markets. The first instalment was a ¥10 billion redevelopment project in Toyama Prefecture. We can see the social value of the business scheme are aiming to help revitalize the local area. Municipalities across Japan are asking to inspect the project, so our plans are for proactive rollout in the future.

3. Globalization

Operate with bottom-up approach suited to local characteristics overseas

Overseas, we consider what sort of business model can contribute to the region and run businesses deeply rooted in local communities. The US is a priority the 7th Plan area. In the first half of fiscal 2022, our three US companies (Stanley Martin, Trumark, and CastleRock) performed strongly, but as mortgage rates rose from 3% to over 7% in the second half, customers put off or cancelled purchases, and we ended up supplying 6,010 homes. Still, we believe population growth will support firm demand for housing in the US. We view current conditions as an opportunity and will secure promising sites for the future while keeping an eye on risk.

In April 2023, I was at long last able to convene a meeting of top management of the three US companies in New York. We discussed issues and initiatives in the US housing business as part of our efforts to achieve sales of ¥1 trillion and operating income of ¥100 billion overseas, and shared our mission: stable supplies of quality housing. We think that industrialized manufacturing is crucial to developing the US business in the face of the country's tight labor market. To supply housing in a quick and stable manner while maintaining quality, we are gradually increasing the share of off-site panel manufacture. Because these are not one-off projects but community-based businesses, we hope that proactive initiatives will yield significant results.

Meanwhile, in view of geopolitical risks, recouping investments is now a bigger priority than aggressive investment in China and Southeast Asia, and we are proceeding cautiously while managing our risks.

In Europe we sell and rent modular structures, a kind of industrialized building, mainly through Daiwa House Modular Europe, which joined the Group in 2020. Our expertise in building units on-site should prove useful when conflict or disaster creates a need for temporary housing. Europe is contiguous, making land transport feasible over a wide area. We also believe that the restoration and town planning capabilities we have developed in Japan, mainly through Daiwa Lease, can be applied to Europe. Since our founding in 1955, the Daiwa House Group has operated in line with on our founder Nobuo Ishibashi's spirit, *Don't do things because they will make a profit, but because they will be of service to society*. We want to create social value as we demonstrate our raison d'être to the wider world.

In fiscal 2022, Daiwa House, Fujita, and Daiwa Lease formed a procurement group, sharing expertise and verifying purchase prices. In 2023 we will integrate procurement departments and expand group level purchases. If the three US subsidiaries also take advantage of the scale economies from group procurement, they should be able to boost margins.

4. DE&I

Look at strengths and create environment where individuals can thrive

We are working to create an environment where our employees can extend their potential and grow, as part of human capital focused management. As the Daiwa House Corporate Creed, "developing people through business" highlights, human resources are the source of corporate value. To date, our Group has employed people of many backgrounds, letting them display their strengths and develop by embracing their individuality and skill sets to create new value. I always stress to our managers the importance of focusing on their subordinates' strong qualities. This attitude is unwavering. We will continue to build a workplace of mutual respect and support, where employees can be their best, as set out in Our Hopes for the Future. We identified KPIs in fiscal 2022 to benchmark DE&I progress.

5. Digital transformation

Use digital technologies to strengthen customer base and technological and manufacturing platforms

We are using digital transformation to create new value proposals. For example, in our domestic Single-Family Houses Business, as part of reforms to selling methods, we analyzed our massive database of past contracts, and launched our 3D fast plan using Big Data in January 2023. This enables us to shift from model-house exhibits (which entail hefty operating expenses) to a more efficient selling style, and improves customer satisfaction, and should help solidify our client base by instantly showing customers 3D plans that suit their needs.

We are also working to streamline and automate on-site workflows in collaboration with the MLIT in response to the aging workforce and lack of human resources. We are tackling this issue on behalf of the entire industry, not just our company, and are taking steps to strengthen technological and manufacturing platforms.

6. Governance

Training the next generation to inherit Daiwa House DNA

Instilling corporate culture is important for risk management. The more of our employees that have the sense of mission and ethics to meet society's expectations and exercise self-discipline, the lower our risks. I thus place great importance on our management ranks. The D-Succeed succession planning system introduced in July 2020 is a selective training system for branch managers who are potential future leaders of the Company. They are assigned to positions that use their talents and suit their abilities. We develop our talent by drawing out their latent capabilities through experience. We must of course pass on the Daiwa House DNA.

To enhance the value of human capital, we aim to further streamline processes and implement our HR strategy for some 70,000 Group employees in the right place at the right time in line with our overall business strategy. Since April 2023, the Corporate Strategy Planning Department reports directly to the CEO, so it can tackle management issues separate from functional strategy. We revamped our branch office evaluation criteria, lowering the share of earnings-based figures and raising those relating to HR development, legal compliance, and customer satisfaction so we can see whether the organization can produce results in the future. These moves have reinforced the foundation for further growth by our Group.

To our stakeholders

Co-creating Our Hopes for the Future with our stakeholders, we will continue working to enhance corporate value

At the start of every year I choose one *kanji* (Chinese character) to symbolize the year. For 2023 I chose *jun,* which encapsulates the idea of sticking to the path and continuing to grow while maintaining what is necessary. Our employees do have a law-abiding spirit, but I want them all to come together, strengthen our defenses, and follow the right path.

Since its founding, the Daiwa House Group has squarely faced societal issues and provided many buildings and services, constantly opening up new horizons. I believe that a strength that our founder built, and we must leave for future generations, is the ability to reach our goals in a ceaseless quest no matter what difficulties. As CEO, I am working to convey the essence of the Daiwa House Group to have its strengths properly evaluated.

Carrying out our responsibilities and fulfilling our roles, we will work together with our stakeholders to realize Our Hopes for the Future, carrying our founder's words about Daiwa House becoming a much-loved company in our hearts and minds.

Jun, the kanji CEO Yoshii has "engraved in his heart" as the Group byword for 2023

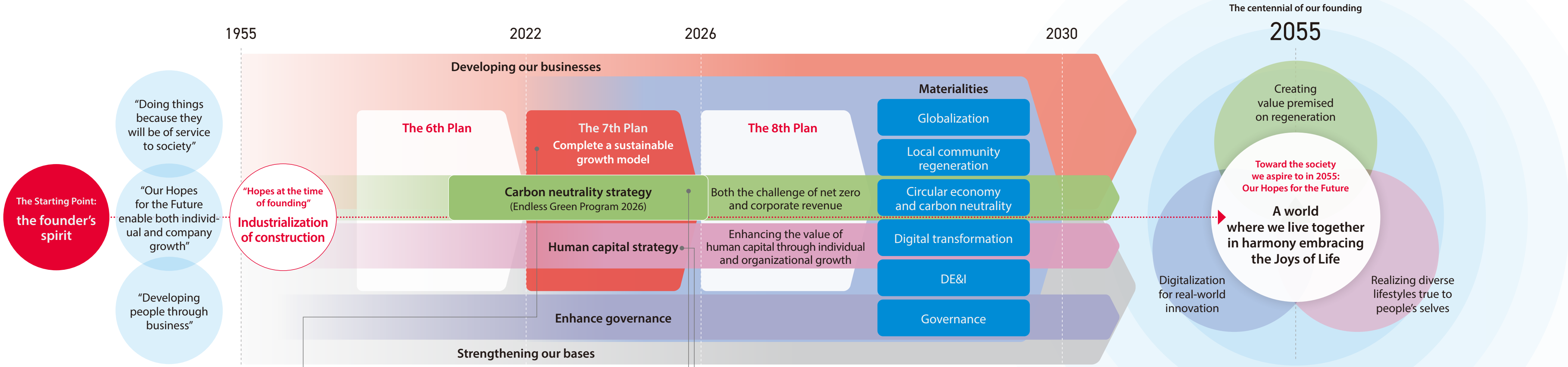
Our Long-Term Vision and the 7th Medium-Term Management Plan

Chapter 2

Chapter 2 Our Long-Term Vision and the 7th Medium-Term Management Plan

1 Roadmap to the Centennial Anniversary of Our Founding—Road to 2055

With our founder's spirit as a starting point, we have achieved sustainable growth by always looking to what lies ahead and believing in Our Hopes for the Future. We will work to implement the 7th Medium-Term Management Plan with an awareness of materiality over the medium- to long-term, and aim to realize Our Hopes for the Future by expanding the areas where the three actions overlap.



KPIs for FY2026 Developing our businesses (Financial information)

Net sales	¥5.5 trillion	ROE	13% or higher
Operating income*1	¥500 billion	Dividend payout ratio	35% or higher and dividend per share of ¥130 or more
Net income attributable to owners of the parent	¥340 billion	Debt-equity ratio	Around 0.6 times

KPIs for FY2026 Strengthening our bases (Non-financial information)

Carbon neutrality strategy

Zero CO2 emissions in community development Scope 3 Category 11	Reduce GHG emissions by 54%*2 by making all buildings ZEH/ZEB and installing solar power generation equipment on them
Zero CO2 emissions in business activities Scopes 1 and 2	Reduce GHG emissions by 55%*2 by promoting energy efficiency, renewable energy and electrification
Zero CO2 emissions in supply chains Scope 3 Category 1	90% or higher in principal suppliers' setting rates of GHG reduction targets in SBT level

Human capital strategy

Job satisfaction
Pride in work
Sense of growth
All at 70%

Securing diverse human capital*3
- Ratio of females in management.................8%
- Ratio of new female career hires...............30%
- Ratio of males taking childcare leave......80%

*1 Exclusive of amortization of actuarial differences of retirement benefits *2 vs FY2015 *3 Target for April 1, 2027

2 Environmental Awareness (Opportunities and Risks) and Materiality

In every corner of the world, a major transformation in the structure of industry is taking place in order to discover solutions to social issues confronting the globe. At Daiwa House Group, we recognize the opportunities and risks that will arrive with the megatrends of around 2030, and to realize Our Hopes for the Future, we have formulated the materiality (priority issues) for which we should endeavor.

Megatrends	Impact on Daiwa House Group		Materiality and Measures	
	Opportunities	Risks		
• Acceleration of globalization • Overseas population growth • Lack of resources	• Realizing the stable supply of quality housing to the world • Rising demand for industrialization in logistics, as well as in fisheries and agriculture • Cost reductions through group purchasing	• Geopolitical risks, political and economic uncertainty • Increased procurement costs	Globalization	Develop community-based businesses aimed at solving social issues overseas
• Respect for the human rights	• Development of products and services with consideration to human rights • A company chosen by those in the supply chain and workers	• Cost increases associated with human rights risks		
• Japan's shrinking population and household numbers • Regional depopulation, declining local communities • Deterioration of social infrastructure	• Expansion of investments into the revitalization of community and social infrastructure • Reinvigorating local communities, need for migration to rural areas	• Declining number of new housing starts • Waning interest of tenants to open new stores • Diminished labor productivity	Local community regeneration	Revitalizing local communities: Businesses for solving social issues in Japan
• Inflation, and rising interest rates	• Increased rental revenues from prime stock assets	• Waning investment appetite • Decline in real estate prices		
• Shift to a carbon-free society • Manifestation of climate change • Shift to a circular economy	• Rising demand for renewable energy, environmentally conscious products • Rising demand for greater durability and energy-conscious products	• Increased costs to comply with stricter legal regulations • Increased frequency and scale of meteorological disasters that cause damage	Circular economy and carbon neutrality	Environmental management geared toward circularity and regeneration
• Development of a digital society • Shrinking workforce in Japan	• Pioneering new markets by utilizing digital technology • Labor-saving and automation through digital technology • Reconfirming the value of real experiences	• Obsolescence of existing business model • Lack of highly skilled (IT, overseas) human resources and difficulty in securing them • Growing needs for increased sophistication of information security	Digital transformation	Maximize use of digital technologies for lifestyle innovation
• Diversifying ways of working and lifestyles • Leveraging the talents of diverse human resources	• Creating new markets that arise from diverse values • Building motivation • Strategic decision making through diverse perspectives	• Changing employment management practices • Rising costs to strengthen information security	DE&I	Foster organizational culture that welcomes diverse values and uses them in value creation
			Governance	Governance to create the future

3 Materialities and the 7th Medium-Term Management Plan

Taking materialities into account, under the 7th Medium-Term Management Plan, we uphold three management policies: Evolve revenue model, Optimize management efficiency, and Strengthen management base. These policies are the foundation upon which we tackle eight focal themes toward maximizing corporate value with a view to growth beyond the 8th Plan.

Materialities	The 7th Medium-Term Management Plan: Eight focal themes		Principal KGI and KPI (FY2026 targets): Investment (input)	Principal KGI and KPI (FY2026 targets): Result (output or outcome)
Globalization	❶ Accelerate growth of community-based overseas business		● Real estate development investments ¥2.2 trillion (five-year plan)	Delivering quality housing with stability ● US: Supply of houses 10,000 units; Enhance factory conversion rate ● China: Supply of condominiums 4,000 units; Units under management 20 thousand-unit level
Local community regeneration	❷ Expand a circular value chain from the perspective of local communities/customers		● Strategic investments (Overseas, renewable energy, M&A, etc.)	Response to social issues, expand business opportunities* ● Promotion of Livness Town Project (Increase number of dialogues and participants, reduce rate of unoccupied homes, maintain population) ● Expand sales for Livness business (renovation, brokering, purchase and resale) ● Increase number of building purchases
Circular economy and carbon neutrality	❸ Realize carbon neutrality by making all buildings carbon-free	Carbon neutrality strategy	● Capital investment (Factories, offices, construction-sector DX, etc.) (¥370 billion (five-year plan)	Contribution to carbon neutrality (FY2030 targets) ● Reduction rate of GHG emissions across the entire value chain (vs FY2015) Down 40% ● Renewable energy adoption Renewable energy generation equipment construction results (EPC) 5,000 MW Renewable energy power plants development and operating results (IPP) 2,500 MW
Digital transformation	❹ Strengthen cost competitiveness and build a system for stable supply	Strengthening the customer base		Evolve supply chain ● Group cost pool amount ¥1 trillion ● Cost reduction rate (10% reduction against soared costs ¥100 billion)
	❺ Digital transformation	Strengthening the technology base		
DE&I	❻ Increase the value of our human capital	Human capital strategy	Investments associated with human resource development, educational facilities, etc.	Creating a workplace environment that employees find easy to work in ● Increased engagement Securing and utilizing human capital ● Diversity indicators ● Retention rate of young employees ● Senior-related indicators
Governance	❼ Achieve growth of profits coexisting with capital efficiency through portfolio optimization ❽ Enhance governance		Curbing investment into businesses of concern Sale of cross-shareholdings ¥100 billion Review of investment hurdle rates	Maintain and enhance capital efficiency ● ROE of 13% or higher ● Stable shareholder returns (payout ratio of 35% or more) Optimize funds procurement ● Financial benchmark D/E ratio of around 0.6 Realize a highly effective Board of Directors and Audit & Supervisory Board ● Performance-based remuneration

Evolve revenue model | Optimize management efficiency | Strengthen management base | Complete a sustainable growth model

* Final year of KPI/KGI: FY2025

4 Processes for Specifying Materialities

In order to bolster the value creation process cycle, when we formulated Our Hopes for the Future, we identified materialities, or priority issues, in consideration of their degree of importance to our business (opportunities and risks) and their social significance and impact based on the needs and expectations of society, while also taking into account the opinions offered by experts.
We continued to consider KGI/KPI for materialities in fiscal 2022 in light of the level of action to be taken under the 7th Medium-Term Management Plan.

STEP 1 Understanding and organization of issues, clarification of key issues

In light of changes in society (megatrends), members led by division heads discussed the elements necessary to realize Our Hopes for the future, and compared them with various international norms, trends in major evaluation organizations, and the policies of industry associations. Keeping in mind three actions to be taken to realize Our Hopes for the Future, we clarified a total of 112 issues as a result of having considered their relevance to business (opportunities and risks), as well as social significance and impact in light of society's demands and expectations. From these, we have consolidated and organized them into 18 key issues, targeting around 2030. These 18 key issues were separately confirmed with young employees and others who will bear responsibilities in the future. The final decision was confirmed at management meetings and other meetings led by senior management.

STEP 2 Confirmation of validity

All 112 issues clarified in STEP 1 were evaluated for validity, which also covered specific processes for materialities, through dialogue with external experts, including investors and sustainability management specialists. In addition, we have reinforced the issues by receiving opinions that take a long-term and global perspective considering the latest insights.

STEP 3 Specification of materialities

The Company categorized and organized the study's results, which were approved by the Board of Directors in May 2022 as materialities that the Group should prioritize.

STEP 4 Reflecting to the Basic Policy

KGI/KPI (P18) for materialities were formulated based on the basic policy of the 7th Medium-Term Management Plan, and the corresponding policy for each theme was decided and formulated at a Board of Directors meeting held in April 2023, taking into consideration the level of Company efforts. These indicators are also being used as targets for the 7th Medium-Term Management Plan to promote initiatives.

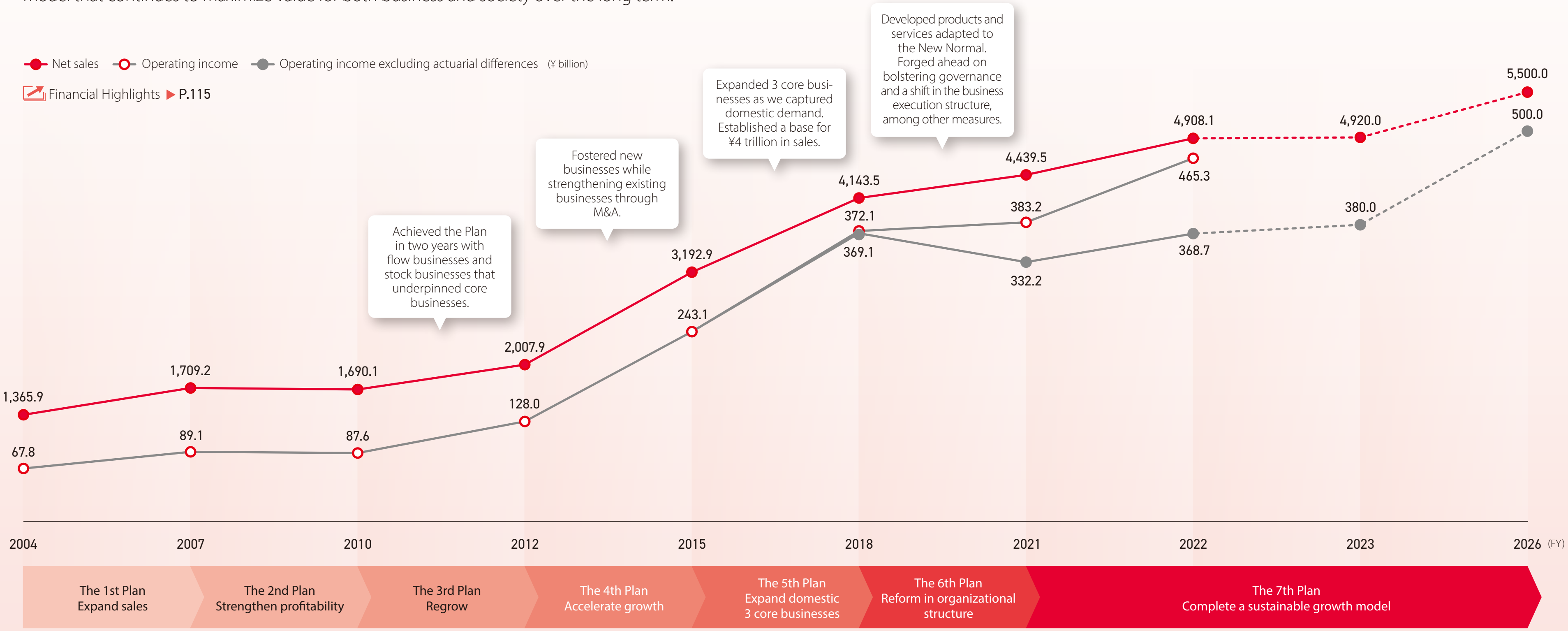
18 key issues		Materialities
(1) Carbon neutrality for individuals, communities, and people's lifestyles	★	Circular economy and carbon neutrality: Environmental management geared toward circularity and regeneration
(2) The challenge of preventing any net loss to biodiversity		
(3) Sustainable use of resources and conservation of water resources through a circular economy		
(4) Providing fulfilling lifestyles that account for diverse ways to live	★	Globalization: Develop community-based businesses aimed at solving social issues overseas / Local community regeneration: Revitalizing local communities: Businesses for solving social issues in Japan
(5) Creation of sustainable communities in light of transformation to the structure of industry	★	
(6) Overseas development of community-based methods for solving social issues		
(7) Strengthening global human capital		
(8) The pursuit of job satisfaction and wellbeing	★	DE&I: Foster organizational culture that welcomes diverse values and uses them in value creation
(9) Transformation into an organization where employees who have diverse characters can aim to achieve "Our Hopes for the Future"		
(10) Foster human capital that can stand on their own		
(11) Offer a new customer experience through a fusion of digital and real worlds	★	Digital transformation: Maximize use of digital technologies for lifestyle innovation
(12) Endeavoring to create added value by evolving business processes		
(13) Building a data-connected co-creation platform with business partners		
(14) Creation of an environment that supports employees to fulfill their potential		
(15) Establishment of a sustainability structure to realize Our Hopes for the Future in 2055		Governance: Governance to create the future
(16) Review of investment approach to enhance long-term corporate value	★	
(17) Respect for human rights across the entire value chain		
(18) Nurturing the next generation of management talent		

Note: Issues included in the key themes of the 7th Medium-Term Management Plan are marked with an asterisk (★)

5 Results of past medium-term management plans and progress of the 7th Medium-Term Management Plan

While keeping a constant eye on upcoming changes in the environment, we have steadily achieved the performance targets of our medium-term management plans. In the first year of the 7th Medium-Term Management Plan, we achieved increases to both sales and income, with improved profit in the hotel management business, which had been severely buffeted by COVID-19, and the overseas business, mainly the Single-Family Houses Business in the U.S., contributing to results. Looking forward to achieving carbon neutrality, we are working to reduce CO_2 emissions and to create renewable energy, as well as to foster an organizational climate and culture in which new value is created and the value of human capital is enhanced as Our Hopes for the Future become widespread. We will strive to complete a sustainable growth model that continues to maximize value for both business and society over the long term.

Financial Highlights ▶ P.115



Management policy 1: Evolve revenue model

To complete a sustainable growth model that maximizes both business value and social value, we tackle three focal themes toward evolving our revenue model for developing our businesses.

1 Accelerate growth of community-based overseas business

With STAY & EXPAND as a watchword, we develop community-based businesses in 25 countries and regions. We aim for overseas sales of ¥1 trillion and operating income of ¥100 billion as the first company operating in the housing and construction sector.

Focal Area 1 The US: Housing business

Steadily supply quality housing with values

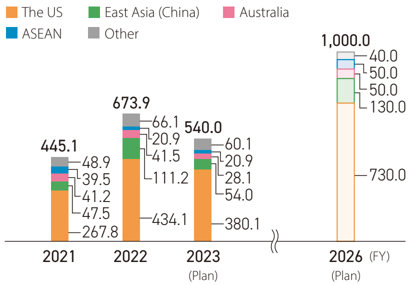
Single-Family Houses Business ▶ P.43

Focal Area 2 China: Condominiums business

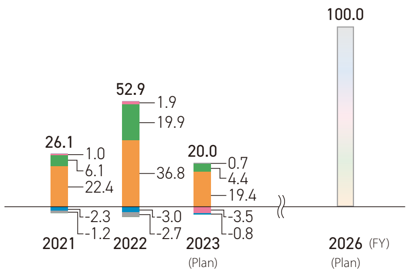
Development investment in tune with real demand in the Yangtze delta area, aiming to widely offer Japanese quality especially in terms of services

Condominiums Business ▶ P.48

Sales (¥ billion)



Operating income (¥ billion)



Note: Exchange rate (US$/JPY): FY2021: ¥115.02; FY2022: ¥132.70; FY2023 (plan): ¥122.00

2 Expand a circular value chain from the perspective of local communities/customers

In Japan, through a circular value chain, a business model that increases the value of living infrastructure on an ongoing basis, we will contribute to developing and revitalizing local communities by expanding development that gives residents the JOYS OF LIFE from three perspectives: developing next-generation infrastructure and creating jobs, redeveloping and raising the value of aged facilities, and promoting complex redevelopment centering on regional mid-tier cities. Real estate investment of ¥2.2 trillion brings out the potential of regions and contributes to job creation and prosperity. This is positioned as a long-term investment also leading to further development beyond the 8th Plan and stable growth in stock businesses.

Creating Social Impact ▶ P.56 Real estate investment ▶ P.58

Investments and visions

Investment results in FY2022: ¥408 billion

5-year plan for real estate development: ¥2.2 trillion

Data center

Public wholesale market redevelopment

Urban redevelopment

3 Realize carbon neutrality by making all buildings carbon-free

We continue efforts to reduce CO_2 emissions in each of the stages of business activities, the usage of buildings sold, and supply chains. Our aim is to establish a system where the more buildings the Group builds, the more renewable energy is generated. This will accelerate decarbonization of a society and contribute to the realization of carbon neutrality.

Environmental Vision ▶ P.61

Management policy 2: Optimize management efficiency

We will actively invest in growing fields and pursue growth of profits coexisting with capital efficiency toward maximizing corporate value by completing a sustainable growth model.

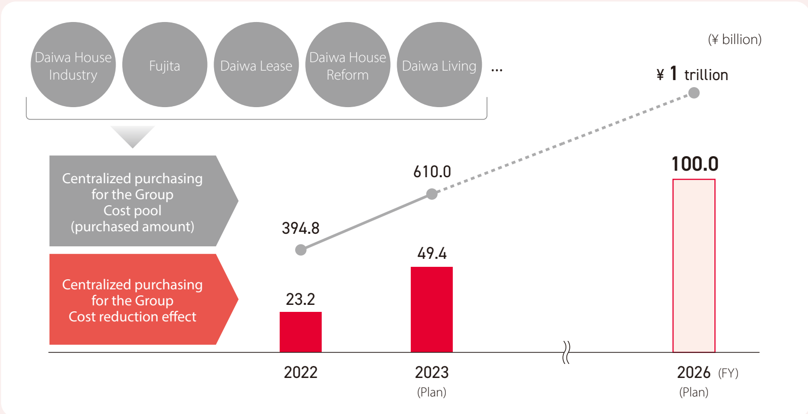
4 Strengthen cost competitiveness and build a system for stable supply

The Daiwa House Group consolidates and integrates the functions of its purchasing organizations and business processes and systems, and reforms the entire purchasing workflow, in order to achieve cost competitiveness fully leveraging the industry-leading economies of scale. We reinforce in-house production systems and build a more robust system for stable supply.

Technology and Manufacturing Base ▶ P.81

Centralized purchasing for the Group

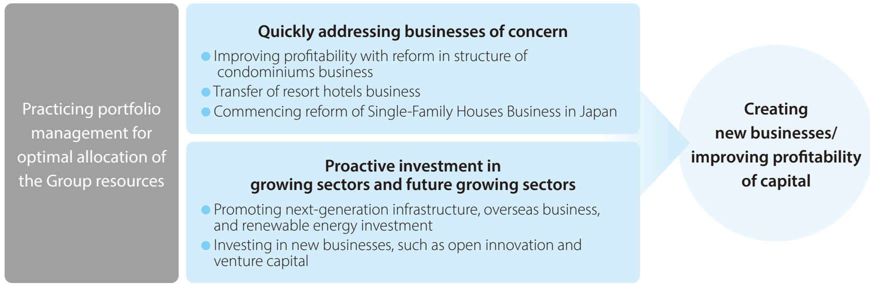
Cost reduction effect was approximately ¥23.2 billion in fiscal 2022.
With thorough cost reduction, aim to slash ¥100 billion in fiscal 2026.



7 Achieve growth of profits coexisting with capital efficiency through portfolio optimization

To optimize business portfolios, we intensively invest in Logistics, Business and Corporate Facilities, Commercial Facilities, and Single-Family Houses (overseas), while boosting cash-generating ability of Rental Housing and Environment and Energy Business. Businesses of concern with growth potential and capital efficiency are positioned as reconstruction businesses subject to restructuring or reorganization. In addition, as investment real estate are being accumulated, we work to enhance asset management and reduce inefficient assets.

Message from the CFO ▶ P.32 Policy on cross-shareholdings ▶ P.100



Resolved to transfer all shares of our consolidated subsidiary Daiwa Resort, all loan receivables against it, and our hotel Royton Sapporo operated by it, in December 2022

Our resort hotel business operated by Daiwa Resort Co., Ltd. ("Daiwa Resort") has been expanding throughout Japan since 1973 with the aim of developing regional economies and creating abundance in life. In light of the post-pandemic situation, however, we reached the decision that transferring Daiwa Resort to a third-party that would maximize its potential would contribute to the sustainable growth of Daiwa Resort and revitalization of the regions in which it operates. The transfer was completed on July 19, 2023.

Management policy 3: Strengthen management base

In order to strengthen our management base, which supports development of our businesses, we tackle focal themes of digital transformation, increasing the value of our human capital, and enhancing governance. This will lead to the generation of future cash flows.

6 Increase the value of our human capital

Our human capital strategy promotes human resource development and organizational capacity enhancement to advance growth and diversity of individuals. With the employee motivation rate as a key performance indicator (KPI), we will maximize motivation of entire workforce and strive to further increase the value of our human capital. Human Resources Base ▶ P.73

Training at MIRAI KACHI KYOSO Center *(Kotokurie)*

8 Enhance governance

For further enhancing the governance system restructured under the 6th Plan, we establish a strategic governance system primarily designed to underpin our overseas growth and real estate development, thereby supporting corporate sustainable growth. Governance ▶ P.86

5 Digital transformation

Digital transformation (DX) is positioned as a backbone of all management policies. Based on this concept, we digitalize our value chain and back office and catalyze open innovation to foster new value creation businesses and reform business models. Specific initiatives include strengthening our technology base, evolving supply chains, and increasing customer experience value. To promote these initiatives, we are also working to build a data integration platform, further evolve DX in construction, and resolve industry-wide issues through industrialization of construction powered by DX. In fiscal 2022, we launched a company-wide DX task force and in collaboration with each business division, began DX promotion directly linked to construction sites.

DX can lead to improvement in employee motivation, comfort, and well-being, and ultimately, to corporate value enhancement. DX promotion is therefore one of our priority strategies to innovate the future. To increase the value of our human capital, we actively utilize DX literacy programs and produce DX human capital who are capable of creating new value by connecting people and technologies. Our intention is to foster innovation through co-creation with an open mind, and drive DX for the entire industry.

Under the 7th Plan, we accelerate industrialization of construction with DX, build a next-generation supply chain that realizes labor-saving at worksites, shorter construction period and lower costs, and support sustainable growth of the industry as a whole.

Realize the 7th Medium-Term Management Plan

Evolve revenue model | Optimize management efficiency | Strengthen management base

Digitalization of value chain

- Construction platform (strengthening our technology base)
- Manufacturing reform (evolving supply chains)
- Strengthening connections with customers (increasing customer experience value)
- Advanced building management

Technology and Manufacturing Base ▶ P.81
Customer Base ▶ P.83

Creating new value and reforming business models

DX

Open innovation

- MIRAI KACHI KYOSO Center *(Kotokurie)*
- DX human capital
- Open innovation program

Digitalization of back office

- Work style reform
- Revamping operational systems
- Strengthening information security measures
- Enhancing global IT governance
- Strengthening data utilization

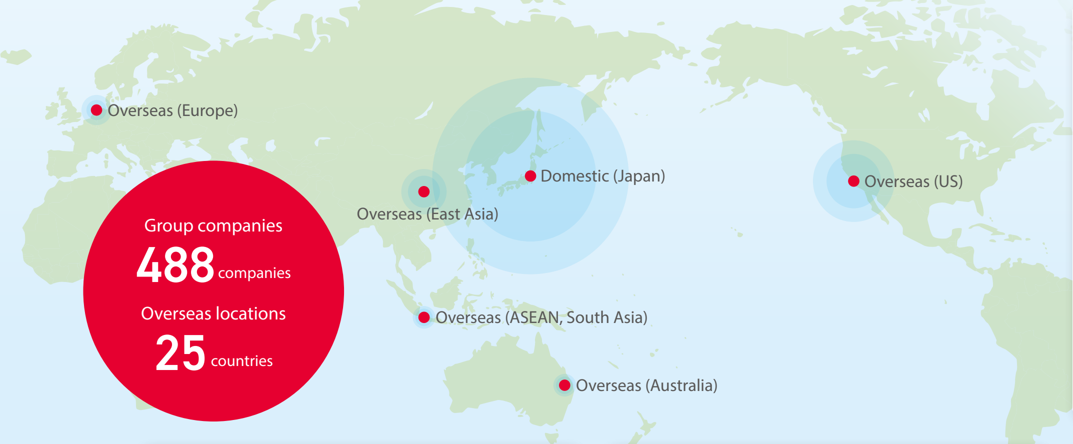
▶ For details, please see DX Annual Report 2023 (Japanese text only) to be issued at the end of October 2023.

The Story of the Group's Value Creation

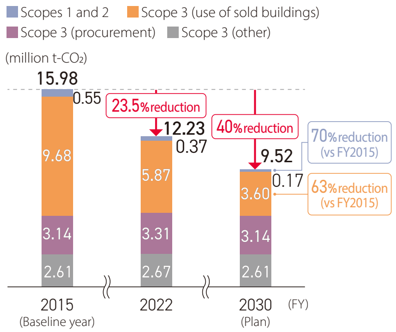
Chapter 3

1 Daiwa House Group at a glance

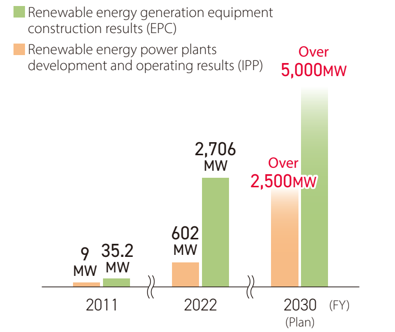
The Daiwa House Group operates six core segments and generates stable cash flow while developing its businesses both within Japan and overseas. In our business activities, we aim to balance the dual challenges of becoming carbon neutral and achieving corporate profitability in order to contribute to a sustainable society, and we are also actively working to heighten employee engagement by facilitating employee motivation.



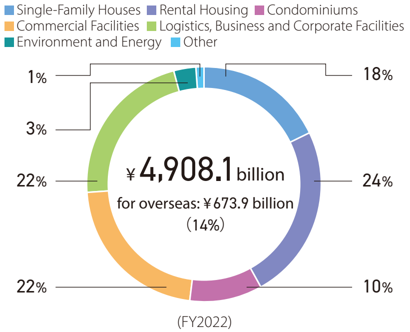
Greenhouse gas emissions throughout the value chain



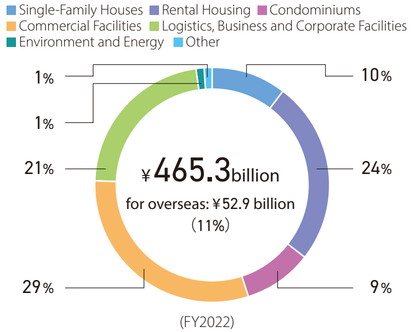
Renewable energy adoption (cumulative)



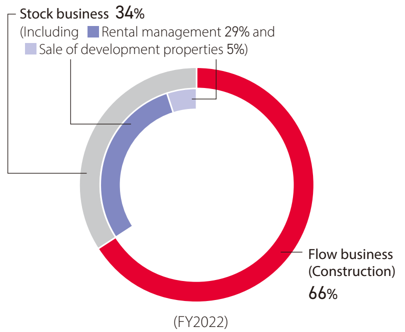
Net sales by segment*



Operating income by segment*



Flow business and stock business (Breakdown of sales)



Society

Employee Motivation Level of approx. 49,000 Group Employees

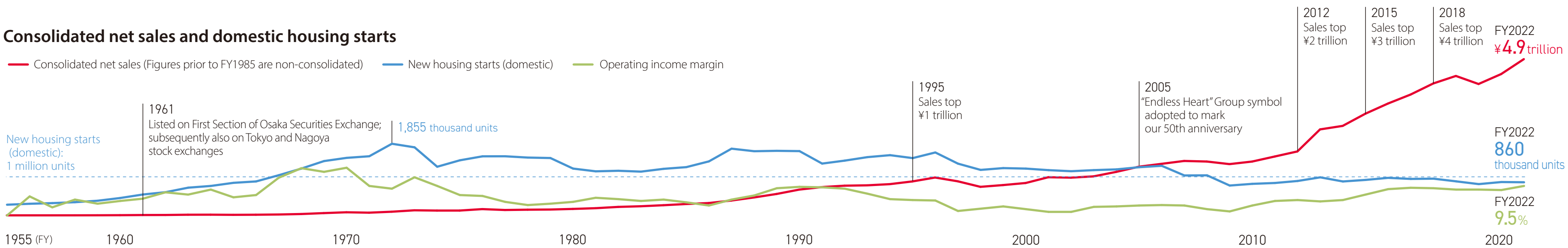
82%

* Daiwa House Modular Europe has been changed from the Single-Family Houses segment to the Rental Housing segment from FY2023, and the results for FY2022 have therefore been restated based on the new reporting segment classification. In addition, the totals include adjustments, which are not shown on the graphs, so the sum of the percentages of each segment composition may not equal 100%.

2 Daiwa House Group's centennial anniversary and the history of our "Dream" of ¥10 trillion

With "Don't do things because they will make a profit, but because they will be of service to society" as our byword, we have consistently delivered products and services that anticipate the needs of societal change.

Consolidated net sales and domestic housing starts



Our founding philosophy: Industrialization of construction / Supplier of prefabricated housing / Total lifestyle enterprise / Group that co-creates value for individuals, communities, and people's lifestyles

1955 Pipe House

Mr. Ishibashi conceived the idea of a steel-pipe structure, which contributed to resolving the problem of a lack of lumber during the postwar reconstruction period.

We aim to "develop people through business" as stated in the Company Philosophy (Corporate Creed).

1959 Midget House

The product was developed as a study room that could be erected in only three hours. It also served as a solution to the housing space shortage caused by a rising birthrate.

1962 Introduced a corporate pension system that aims for a "prosperous retirement for employees."

1962 Habikino Neopolis

With the sale of a large-scale housing complex as Japan's first in the private sector, we devised the nation's first residential mortgage loan system in cooperation with a private financial institution.

Development of steel-pipe structured construction

1965 Published the first edition of The Future of the Daiwa House Group as a textbook that serves as a guidepost for all employees.

1976 Development of the LOC System

We launched the Commercial Facilities Business to propose effective use of land alongside major roads.

2003 Start-up of D Project

Embarked on development of large-scale logistics facilities, offering a one-stop service encompassing everything from site proposals, through design, construction and management.

Diversification of tenants
Development of large-scale commercial facilities

1994 Central Research Laboratory

With the central theme of coexisting with the environment, the laboratory is engaged in research to make a better future for individuals, communities, and people's lifestyles.

2008 Condominium development in China

Introduced Japanese-style condominium sales techniques.

2007 Sadamisaki wind power generation business

The Company entered the wind power electricity business based on the belief that businesses related to wind, solar, and hydro would be vital in the 21st century.

2007 Start of Work Life Balance Support System (time off related to nursing care and childcare)

2012 Daiwa House REIT Investment Corporation listed on market

Anticipating an acceleration in real estate investment, we devised stronger exit strategies. By developing high-quality properties that generate a stable cash flow, we also contributed to the growth of the market.

2012 Start of solar power generation business

Commenced first stage of mega solar business, DREAM Solar Kitakyushu HIbikinada

2011 Development of D's SMART series

Launched D's SMART offices and factories as next-generation facilities aiming to eliminate impact on the environment.

2008 Opened The Daiwa House Juku, our training program for the next generation of management

As a group that co-creates value for individuals, communities, and people's lifestyles, we are expanding our interests into new localities and business domains, which will lead to the further strengthening of our three fundamental business resources (our human resources base, customer base and technology and manufacturing base). This is the source of our value creation. While playing our part in creating the fundamental societal infrastructure and lifestyle culture rooted in regeneration, which we set forth in Our Hopes for the Future, we are forging ahead with the goal of making Daiwa House Group into a ¥10 trillion enterprise by 2055, our centennial year.

2018
Sales top ¥4 trillion

2022
Sales top ¥4.9 trillion

Expanding geographic business area/fields of business

2017 The birth of Livness, our housing stock brand

We launched this new Groupwide brand to establish a quality existing housing market. We offer comprehensive solutions based on the know-how possessed by Group companies.

2019 Livness Town Project

To fulfill our responsibility as a builder, we are promoting the redevelopment of Neopolis, originally developed by Daiwa House, into a town that is attractive and livable.

2020 DPDC Inzai Park

Entered into data center development as a new kind of social infrastructure that will support the internet-dominated society

2021 Launched Telework Style as a solution that offers a new way of living

2017 Stanley Martin joined the Daiwa House Group.

Start of single-family housing business in the United States.

2020 Trumark Companies joined the Daiwa House Group

2021 Established Daiwa House Logistics Trust

Listed on the Singapore Stock Exchange

2022 Redevelopment of Toyama Public Wholesale Market

Contribution to building the social infrastructure that supports regional "food" and employment

2021 CastleRock Communities joined the Daiwa House Group

2020 Funabashi Grand Oasis

Developed a 100% renewable-powered Community, from construction through to habitation.

2016 Multi-tenant logistics facilities developed overseas

Logistics warehouse development started in the ASEAN region, beginning with Indonesia.

2020 DREAM Solar Isewan II

The Daiwa House Group constructed and operates its largest mega solar installation.

2022

We maximize utilization of "rooftop value" and are accelerating the installation of photovoltaic power generation.

2018 Disaster-ready homes

As a response to more frequent natural disasters, the homes were developed as Japan's first housing line engineered to better cope with disasters, and are capable of providing power for about 10 days, even in rainy weather.

2021 Introduction of Parallel Work System

Customer Base

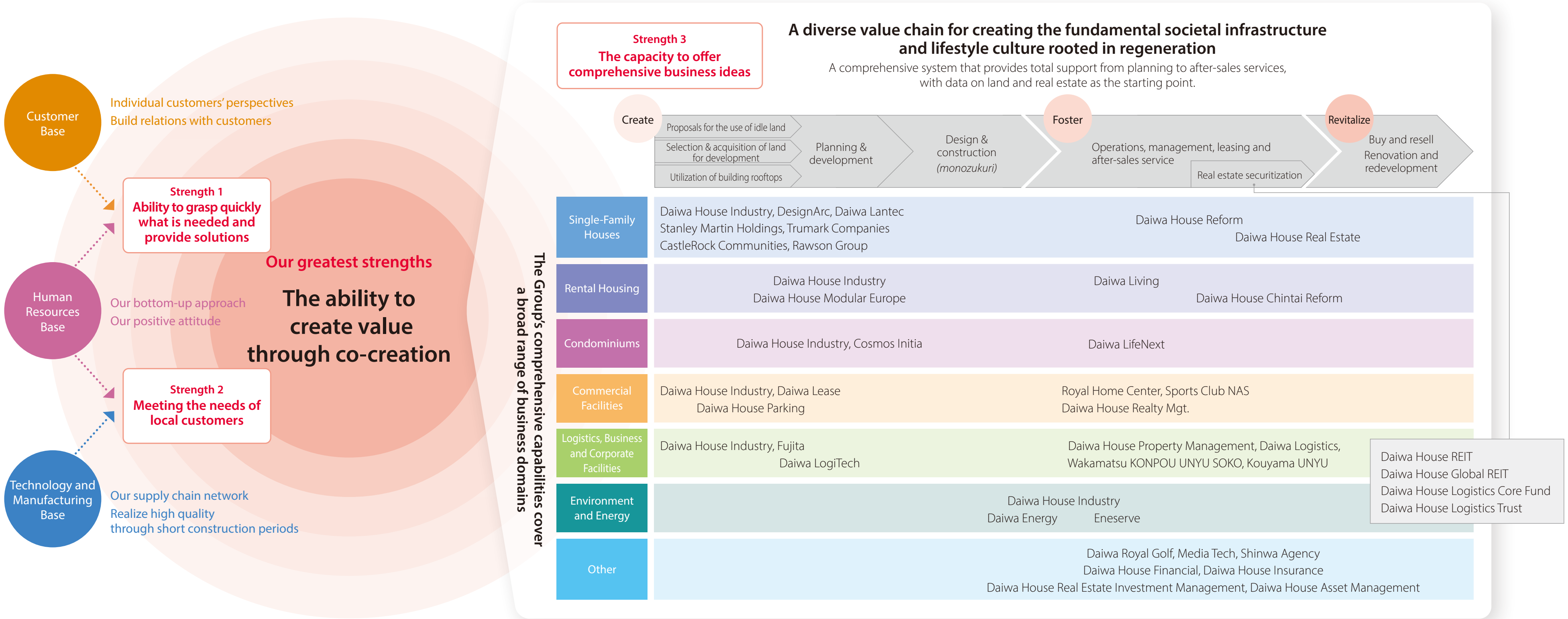
Human Resources Base

Technology and Manufacturing Base

3 Strengths generated from the source of value creation

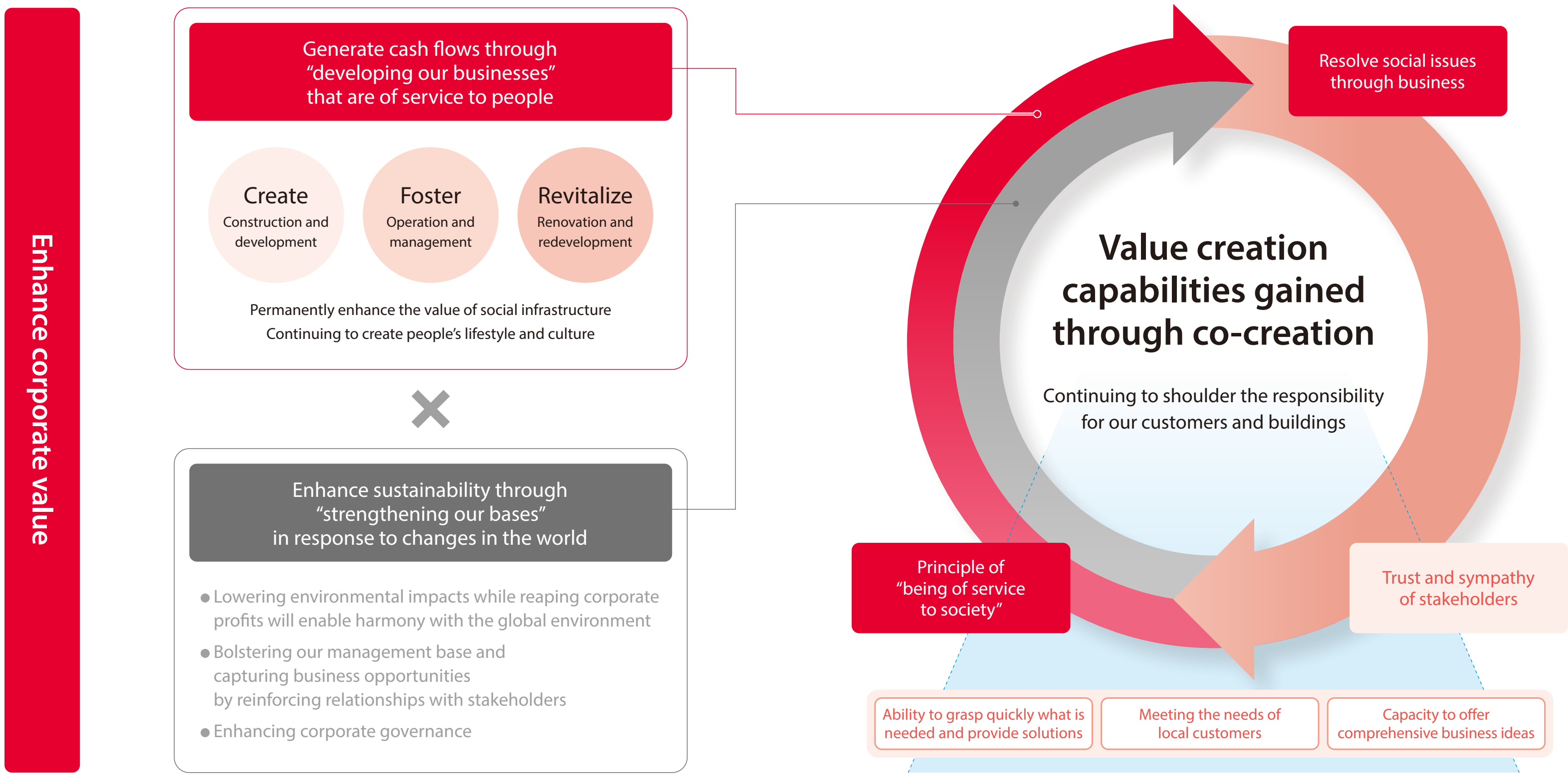
A diverse value chain to "Create," "Foster," and "Revitalize" in a wide range of business areas

The Group's strengths, which spring forth from its human resources, customer, and technological and manufacturing bases, which are at the heart of its value creation, are its ability to find solutions quickly based on the customer relationships it has built over the years, as well as its strength of close on-site relations critical to addressing customer needs in the field. Given this, we will make the most of our ability to create value through co-creation generated by the addition of our expertise in making comprehensive business ideas through our wide range of business areas and our one-stop-shop system, while creating the fundamental societal infrastructure and lifestyle culture rooted in regeneration.



4 Business model embodying the founder's spirit – Circular Value Chain Model –

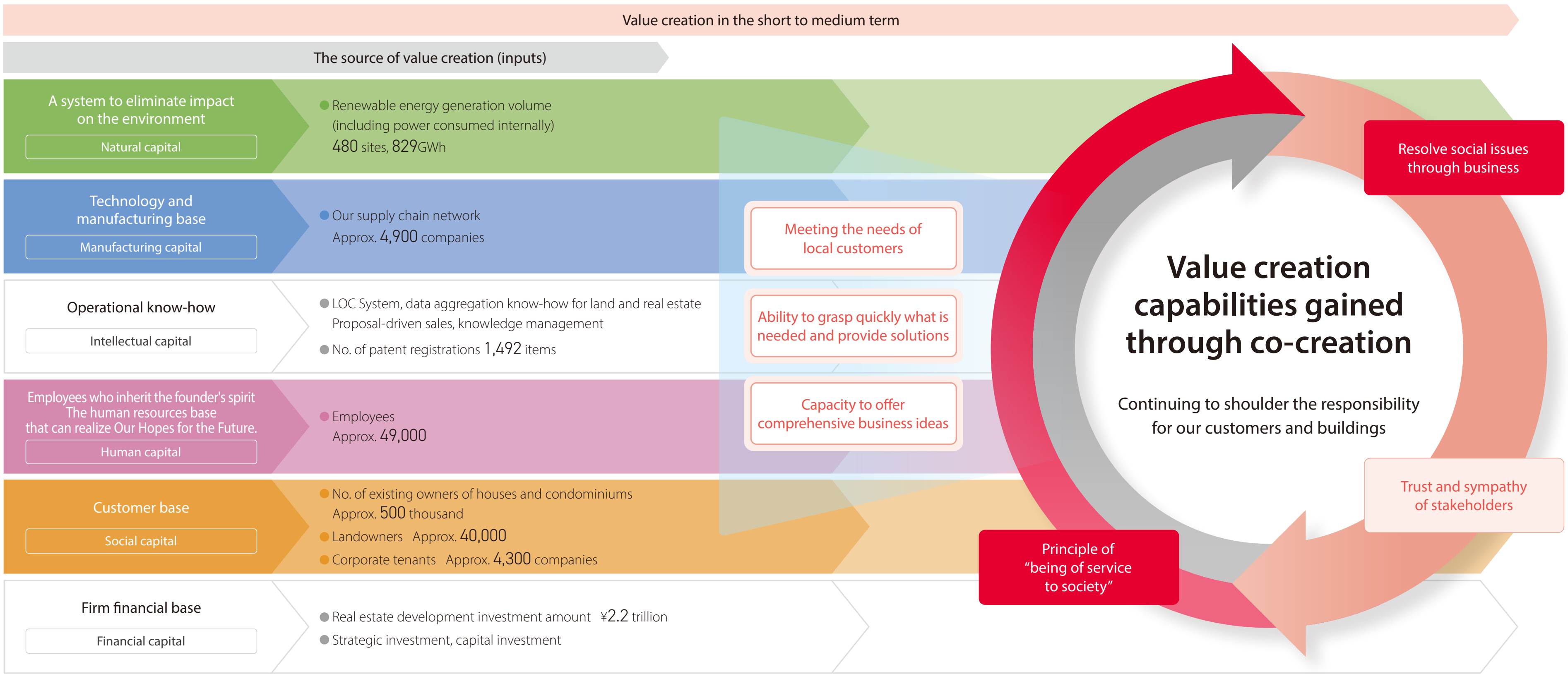
We are committed to maximizing customer LTV* and building LTV by earning the long-term trust and cooperation of customers, local communities, and other stakeholders by both developing our business based on the points of our circular value chain, namely, "Create" (construction and development), "Foster" (operation and management), and "Revitalize" (renovation and redevelopment), as well as by strengthening our bases which we will work to achieve through environmental, social, and governance initiatives. Through the virtuous cycle of our value creation process, we seek to solve issues facing society, and to realize the Group's improved corporate value and Our Hopes for the Future.



*Lifetime value (LTV): The revenue (value) generated from customers and buildings over the lifespan of the relationship.

5 The Daiwa House value creation process

We create value by optimally allocating our six business resources, including our three management bases, and leveraging our unique strengths.



Through the value we create we are making new investments and capital allocations while strengthening our six categories of capital. The accumulation of value generated in the short to medium term will have an impact on society and help us to realize Our Hopes for the Future. While contributing to the creation of the fundamental societal infrastructure and lifestyle culture rooted in regeneration, and to achieving the SDGs, we are pioneering fresh horizons toward sustainable growth and enhanced corporate value.

Value creation in the short to medium term		Long-term value creation
	Generated value (outputs) FY2022 results	Impact on society
Natural capital	● GHG emissions reduction rate throughout the value chain (vs FY2015) -23.5% ● Renewable energy generation facilities construction (EPC) 2,706MW	Circular-oriented society Contributing to the decarbonization of society
Manufacturing capital	● Business streamlining through BIM system Disaster frequency rate 0.31%	Safety and security at construction sites Retain skilled workers
Intellectual capital	● No. of data items obtained from digital channels (exclusively housing in Japan) 45,518 items	Expanding business opportunities Enhancing brand value
Human capital	● Diversity indicators ● Retention rate of young employees ● Senior-related indicators	A human resources pool that continues to provide great value to society Enhancing motivation
Social capital	● Livness Town Project 8 locations ● Repeat order rate 37.8% (Rental Housing Business: Based on number of buildings) 33.7% (Commercial Facilities Business: Based on monetary amount)	Raising customer satisfaction (Satisfaction index after 1 month of occupancy is roughly equivalent to NPS)
Financial capital	● Net income ¥308.3 billion ● Interest-bearing debt ¥1,849.4 billion ● D/E ratio 0.72 times (results)	Realizing stable returns to shareholders

Customers
Harmony with the global environment
Realizing diverse lifestyles and housing styles
Optimize lifetime value

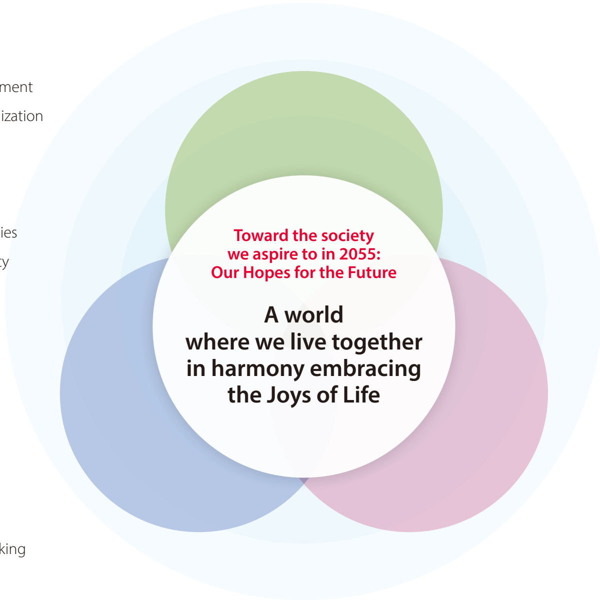
Business partners
Stable corporate management
Contributing to decarbonization

Community residents
Revitalize local communities
Preservation of biodiversity

Shareholders
Realizing stable shareholder returns
External assessments

Employees
Transformation of lifestyles and ways of working

2030 SUSTAINABLE DEVELOPMENT GOALS



Message from the CFO

Chapter 4

Takeshi Kosokabe

Executive Vice President and CFO

Continue proactive growth-oriented investment to maximize corporate value, aiming for an optimum balance between profit growth and capital efficiency

Building portfolio of quality assets to underpin solid business growth

We are evolving our revenue model to optimize management efficiency, a policy in our Seventh Medium-Term Management Plan. We aim at steady growth by building a portfolio of quality assets by investing heavily in areas with prospects of expanding scale and steady profit expansion. We will return resulting proceeds to shareholders and reinvest in further growth. Our growth investments center on developing real estate for logistics and commercial facilities, and new areas such as data centers and public wholesale markets. In fiscal 2022, after spending ¥408.0 billion on real estate development, our investment real estate portfolio was ¥1.6 trillion, as we build a suite of quality assets to generate future capital gains. We are also investing in the housing sector for overseas growth, and making strategic carbon neutrality initiatives.

Our digital transformation initiatives include capex in our IT platform and digital construction, as well as robot technologies and drones for laborsaving and workflow automation. We are also investing in the human and intellectual capital that will sustain our businesses in the future.

Debt-equity ratio above 0.6 times, but higher investment hurdle rates prepare us for rate rises

Maintaining a sound financial position is a key to improving management efficiency. We target a debt-equity ratio around 0.6 times for financial discipline. At end-March 2023, interest-bearing debt stood at ¥1,849.4 billion, for a debt-equity ratio 0.72 times (taking into account hybrid finance).

This is partly because we are making upfront investments in overseas growth. With the US Single-Family Houses Business performing well, we upped our activities, but year-end inventories increased on a temporary downturn in orders following sharp rate hikes, with the balance sheet inflated by yen weakness. In Japan, inventories rose in the Rental Housing and Commercial Facilities Businesses on our aggressive rollout of subdivisions using our extensive local knowledge, in addition to contracted work. This boosted interest-bearing debt. However, sales in the subdivision business are solid and we maintained high asset turnover rates.

When we drafted our medium-term plan we expected the D/E ratio to exceed 0.6 times in the first half, due to frontloaded investments. However, in light of interest rate movements and the outlook we need to be prepared for future eventualities. We lifted our IRR hurdle rate for real estate development investment to 10% in February 2023.

When we set up the Real Estate Investment (now Business Investments) Committee in 2008, most of our profit came from contract work, and we adopted an IRR investment benchmark to raise awareness of capital costs inside the company. Lifting the rate recently reflected the importance of managing risks yet to emerge, and we hope it will instill awareness of our target ROE of at least 13% in our workforce. A review showed that many previous projects achieved an IRR of 10% or more, so the new benchmark will not significantly curtail our investments. We manage overseas investment projects with country-specific risk premiums. We also adopted internal carbon pricing (ICP) to help us prioritize eco-friendly investments, which we added to our investment evaluation criteria. We are promoting environmental investment as a result.

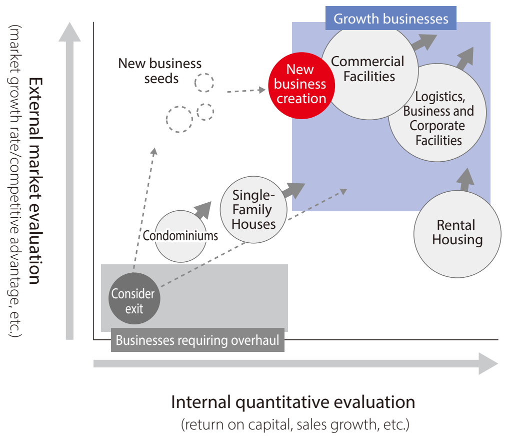
In fiscal 2022 we raised ¥200 billion via two bond issues. With prospects of higher interest rates, it is gradually becoming more difficult to raise long-term funds at low rates. In addition to raising funds from outside parties, we are recouping funds from sales of for-sale and investment real estate more quickly than before. Some investors have voiced concerns about changes in the property market with rates on the rise, but to date we see no signs of concerning developments in the domestic Japanese market. We have developed a rich variety of assets in a range of locations, attracted clients to suitable sites using our relationships with tenants, and exited real estate investments through a variety of means, generating significant and stable profits. We will continue leveraging our strengths to keep generating substantial profits and cash flows in the real estate development business.

Boosting market value of company through ROE of at least 13%

IIn March 2023, the Tokyo Stock Exchange asked companies with a PBR of below 1.0 times to take remedial action. Unfortunately, at end-March 2023, our PBR was in the 0.9 times range, so there is room for improvement. In fiscal 2022, our ROE was 14.3%, but amortization of actuarial differences of retirement benefits inflated ROE by about 3 percentage points. Looking back, our highest PBR was 1.85 times in fiscal 2017, when we achieved ROE of 17%, more than double our cost of equity. This reflected high margins and profit growth in our three key drivers at the time (the Rental Housing, Commercial Facilities, and Logistics, Business and Corporate Facilities Business). I believe a favorable market rating requires an ROE of at least 13%.

To this end, we are optimizing our business portfolio as set out in our Seventh Medium-Term Plan. We plan to expand the scale of our growth-driver businesses through focused investment. Meanwhile, we are rethinking growth scenarios, and rebuilding and restructuring businesses that have issues with growth and capital efficiency. In December 2022, we decided to sell our resort hotels business. Considerations in optimizing our business portfolio include potential for synergies within the Group and whether we are the best owner. We will concentrate our business resources in areas where unique Daiwa House attributes can maximize value—businesses that will drive profit growth in the future. We believe these initiatives put the target of 13% ROE in the last year of the plan within reach. At end-March 2023, our PER was 6 times, which we consider low in terms of the overall market, despite industry-specific circumstances. We plan to streamline operations by reviewing business processes and using IT to strengthen cost competitiveness with Group purchasing.

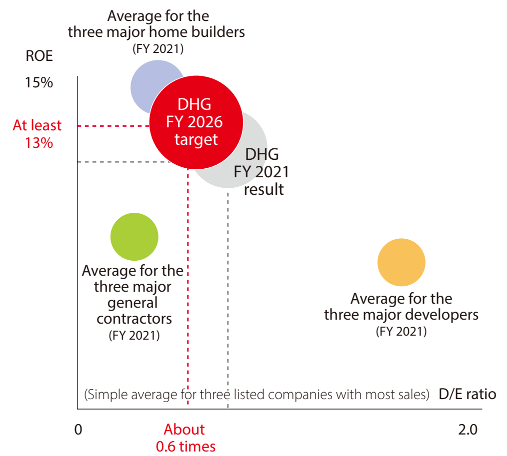
Business portfolio (conceptual)*1



Creation of new businesses and improved capital efficiency through swift action on businesses requiring overhaul and aggressive investment in growth sectors.

*1 Desired direction for each business shown, with flow of funds shown by dotted arrows
*2 Bubble sizes proportionate to sales

Daiwa House Group (DHG) position (conceptual)*2



Current position built using our unique business model leveraging strength as home builder, general contractor, and developer.

Boosting internal awareness of ROIC for capital efficient operations

We adopted ROIC as a KPI when we moved to a business division-based structure in April 2021. I feel that awareness of ROIC is taking hold under independent management by the business divisions. The aim is for division heads to be responsible for balance sheets (including at Group companies), striking a balance between our "stock businesses" and "flow businesses" (business lines that generate recurring profit or once-off profits) depending on their respective business characteristics. We do not expect a single-minded focus on profit, but decisions appropriate for focusing on investment efficiency as awareness of return on capital takes hold. We also expect intra-divisional cooperation to boost business margins overall.

We need to boost margins and improve our total asset turnover ratio to enhance capital efficiency. We are aggressively rolling out our subdivision business, which entails land purchases, and are keenly aware of how investment quality affects the total asset turnover ratio. Our turnover ratio has been about 0.8 times recently. It was trending at around 1.0 times from fiscal

2012 to fiscal 2019, and we will continue to sell inventories and investment real estate to improve it. When evaluating branch offices' performance, in addition to looking at their earnings we assess them from a cash-flow perspective, looking at details like whether they avoid long-term land holdings, whether and how early they collect receivables, and whether early payment collection rates have improved. We think that this kind of "being complete in small things" at our frontline business locations helps improve capital efficiency.

Our efforts to cull inefficient assets include ongoing reductions of cross-shareholdings. Each year the Board of Directors examines the holdings to test economic rationality from a longer term perspective. In fiscal 2022, we sold shares in 11 companies, including partial divestments. Since beginning the process at end-fiscal 2014, we have reduced the number of holdings from 98 companies to 56 at end-fiscal 2022.

Overseas business investments and moves to strengthen management and supervisory functions

As CFO, I will continue to monitor our overseas businesses, keeping an eye on interest rates and global developments. As touched upon earlier, in the land-based US housing business, real estate for sale increased by ¥108.6 billion versus end-March 2022 (including forex effects). The business slowed down from late 2022 on a downturn in demand following rises in mortgage rates and elevated house prices. Still, we do not think the circumstances will cause unrealized losses. We view this as an opportunity to buy land amid prospects of long-term US population growth and ongoing growth in demand for housing, and we are preparing to meet underlying housing demand by acquiring quality sites after careful scrutiny.

In the China condominuims business, we are working on two projects for delivery in fiscal 2025 and 2026. Real estate for sale will increase as construction progresses. Recently sales have been sluggish as property prices are in a downtrend, and with some time remaining until completion, we are not cutting prices and are pushing ahead with community-based sales, with an eye on conditions.

Strengthening risk management overseas has been an ongoing priority since the incidents of 2019, and we have put in place and enhanced regional corporate functions. In our Japanese operations, in February 2023 we announced an organizational restructure to strengthen management and supervisory functions. Now, head offices and local offices coordinate with branches to take responsibility for legal compliance and governance in areas under their purview. We aim to continue organizational reform for sound branch office operations with business workflow streamlining and thorough legal compliance.

Stable returns to shareholders

Our shareholder-returns policy entails returning profit generated through our businesses to shareholders, in tandem with growth investments in real estate development, overseas businesses, M&A, and R&D and production facilities, to maximize longer-term corporate value while growing earnings per share and working to improve shareholder value. In fiscal 2022, we paid an annual dividend per share of ¥130, for the 13th consecutive dividend increase.

Due to actuarial differences on retirement benefits, the dividend payout ratio was 27.7%, below our 35% target. We book the entirety of actuarial differences in the year they occur. In fiscal 2022, we changed the discount rate used to calculate retirement benefit obligations under our company pension plan and retirement lump sum schemes from 0.8% to 1.5% for the most part, reflecting market interest rates at year-end, following changes to monetary policy. An accompanying decline in retirement benefit obligations generated operating income (lower operating expenses) of ¥81.2 billion, combined with actuarial differences on pension fund asset management and other items of ¥15.9 billion, for a total of ¥96.6 billion. Because this did not entail cash flow, we set the dividend excluding the impact. The payout ratio was 35.6% excluding actuarial differences. As part of our moves to provide shareholder returns through flexible capital management in a changing operating environment, we have announced the cancellation of 7 million treasury shares and the share buyback of up to 10 million shares (acquisition cost up to ¥35 billion).

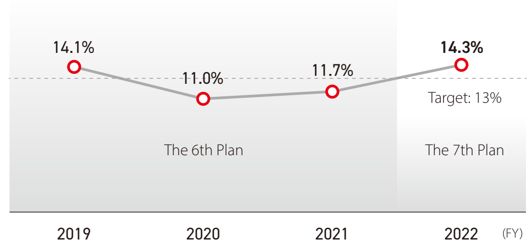
We will maintain the shareholder-returns policy outlined in our Seventh plan. We set a minimum dividend of ¥130, as our Group's diverse business portfolio proved its resilience during the temporary changes to the business environment during the pandemic. We aim to maintain stable shareholder returns with a payout ratio of at least 35% and flexible share buybacks as we generate steady profit growth.

We continue to aim at improved corporate value as we work toward Our Hopes for the Future

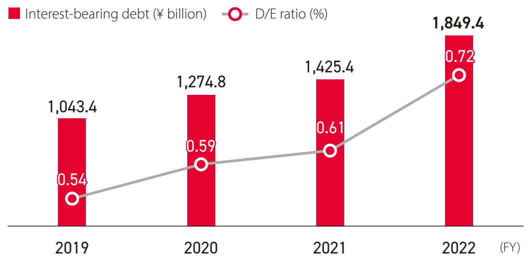
To realize Our Hopes for the Future (Purpose) heading toward 2055, in fiscal 2022 we held deep discussions through workshops at our branch offices nationwide. Each drafted a *Miraimachi Sengen* (Futuretown Declaration) to lay out how they planned to realize the aspirations set forth in our *Future Landscape*. In fiscal 2023 we will work to instill our hopes throughout the organization and individuals so that our employees take action with an eye on changing conditions and stakeholders such as customers. We hope the mindset and mentality cultivated through these activities help foster a fresh corporate culture.

I think that enhancing the corporate value of the Daiwa House Group requires both business value—that generates profit—and social value—derived from our approach of service to society. We also need to improve the skills of our human capital responsible for such actions. Our aim is resolutely on maintaining Daiwa House's status as a group people can depend on, while improving corporate value as we work to fulfil Our Hopes for the Future.

ROE Operate with eye on ROE above shareholders' expected returns

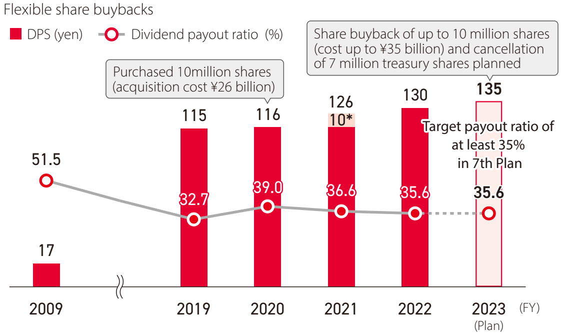


D/E ratio Target: about 0.6 times



Dividend, dividend payout ratio

Forecasting 14th consecutive year of dividend increase
Dividend payout ratio: at least 35%, minimum DPS of ¥130
Flexible share buybacks



* Commemorative dividend to mark the 100th birthday of founder Nobuo Ishibashi

Basic Strategy for Capital Policy

❶ Secure cash flow required for growth investment

- Generate operating cash flow via steady profit growth
- Secure investment cash flow by reducing strategic shareholdings and inefficient assets

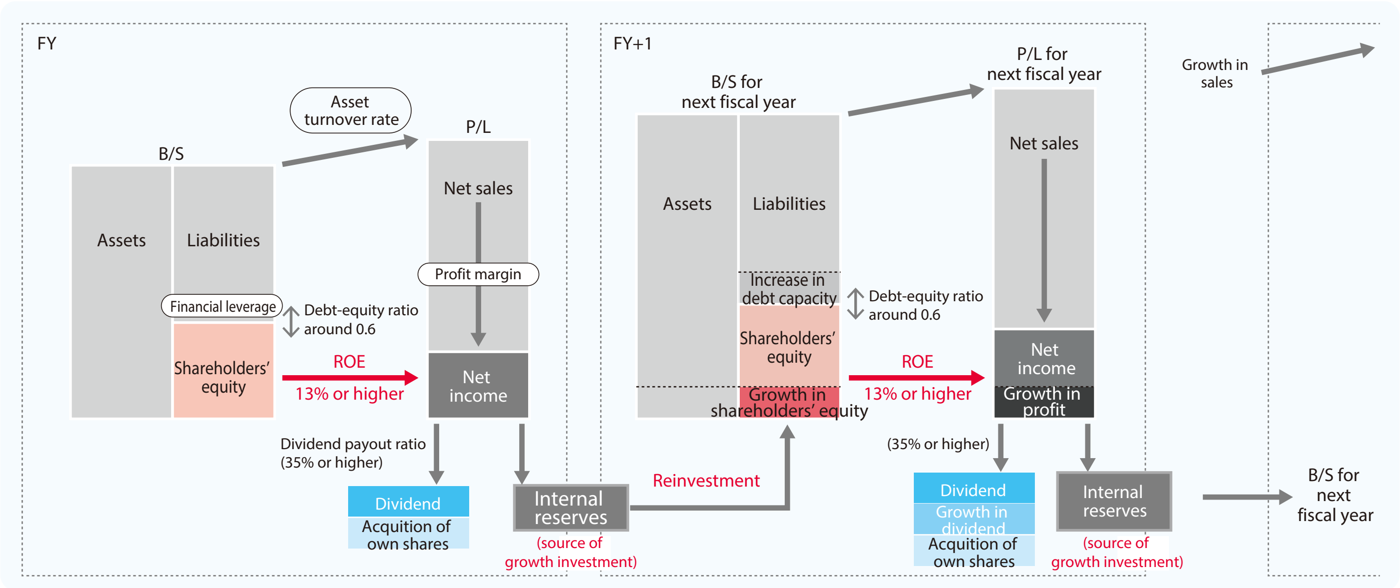
❷ Reinvest in growth areas while maintaining a D/E ratio of about 0.6 times

- Draw on internal reserves to reinvest in growth areas while vigilantly maintaining appropriate level of financial leverage

❸ Achieve ROE of at least 13%, profit growth and dividend payout ratio of 35% or higher

- Realize return on reinvested capital with capital efficiency that exceeds the expected rate of shareholders in order to achieve growth in profits and dividends, as well as increased capital required for new growth investment.

Basic Strategy for Capital policy (conceptual diagram)



In addition to securing operating cash flow, the source of funds required for growth investment, we generate investment cash flow by reducing cross-shareholdings and inefficient assets. While increasing internal reserves after returning a portion to shareholders, we reinvest capital in growth sectors, factoring in an appropriate level of financial leverage.

Secure operating cash flow through steady growth of profits

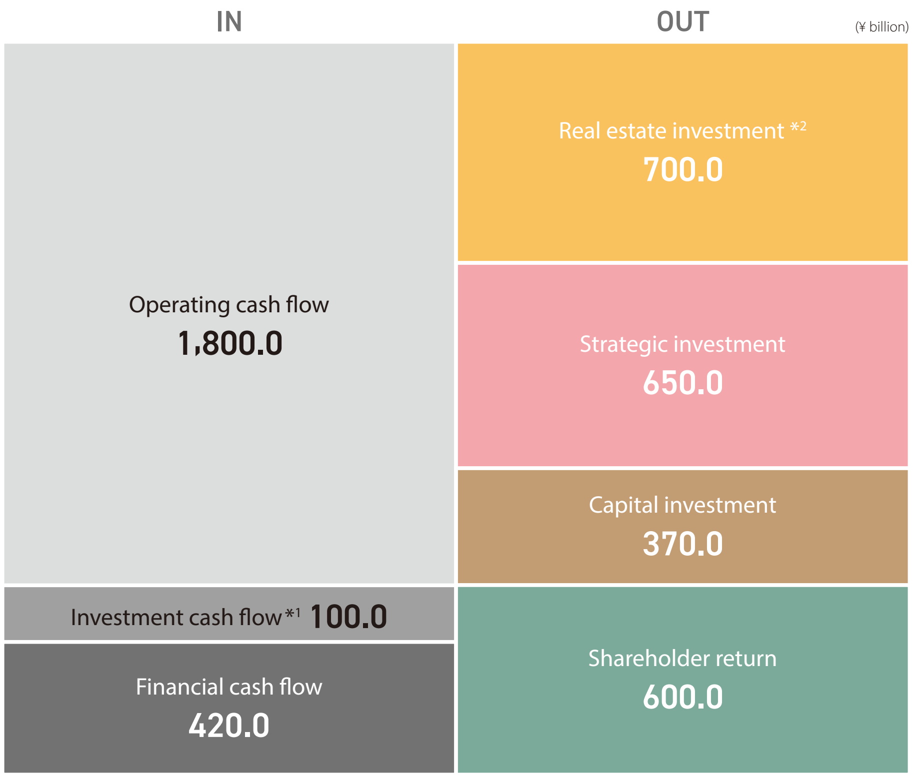
The Company will realize return on reinvested capital with capital efficiency that exceeds the expected rate of return (cost of shareholders' equity) for shareholders in order to achieve growth in profits and dividends, as well as increased capital required for new growth investment.

Achieving ROE target based on an optimal capital structure

Capital Allocation and Shareholder Return

We engage in real estate development and strategic investments necessary for sustainable growth.
We also increase operating cash flows based on stable growth of profits and steadily return profit to shareholders.

Capital allocation in five years



*1 Reduction in cross-shareholdings and inefficient assets, etc. *2 Real estate properties for rent held for sale or holding purpose

Real estate investment

- **Development investment** in logistics facilities and commercial facilities, which are profit drivers
- **Investment in new fields,** such as data centers and public wholesale markets
- Investments to increase in steps **profit-earning real estate (stock assets)**

Strategic investment

- Upfront investment for **overseas growth**
- **Investment for realizing carbon neutrality,** such as solar power generation

Capital investment

- Strengthen production sites for the business field
- Invest in IT platform to promote DX and invest in digital construction

Shareholder return

- **Dividend payout ratio of 35% or higher** and **dividend per share of ¥130 or more**
- Flexible acquisition of own shares

Developing our Businesses

Chapter 5

Performance targets by business segment

In the 7th Medium-Term Management Plan, we aim to expand our business by positioning the Single-Family Houses Business, Commercial Facilities Business, and Logistics, Business and Corporate Facilities Business as the fields for intensive investment. In addition, we enhance our ability to generate cash in the Rental Housing Business and Environment and Energy Business to ensure stable profit growth.

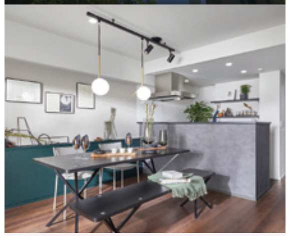
(¥ billion)

	Sales			Operating income (operating margin)		
	FY2022 Results	FY2023 Plan	FY2026	FY2022 Results	FY2023 Plan	FY2026
Single-Family Houses	876.3	840.0	**1,250.0**	46.5(5.3%)	34.0(4.0%)	**100.0(8%)**
for overseas	430.1	366.2	730.0	36.8(8.6%)	17.6(4.8%)	75.0(10%)
Rental Housing	1,183.1	1,220.0	**1,250.0**	109.7(9.3%)	117.0(9.6%)	**120.0(10%)**
for overseas	63.8	67.8	60.0	2.7(4.3%)	6.1(9.0%)	10.0(17%)
Condominiums	484.3	430.0	**400.0**	40.8(8.4%)	21.0(4.9%)	**25.0(6%)**
for overseas	97.5	34.9	150.0	18.9(19.4%)	0.2(0.7%)	18.0(12%)
Commercial Facilities	1,092.1	1,150.0	**1,250.0**	132.9(12.2%)	143.0(12.4%)	**160.0(13%)**
for overseas	1.5	2.0	25.0	-1.0(–%)	-1.0(–%)	5.0(20%)
Logistics, Business and Corporate Facilities	1,130.2	1,190.0	**1,300.0**	99.6(8.8%)	124.0(10.4%)	**160.0(12%)**
for overseas	76.1	67.7	90.0	-2.4(–%)	0.5(0.8%)	9.0(10%)
Environment and Energy	188.6	140.0	**170.0**	6.2(3.3%)	6.3(4.5%)	**10.0(6%)**
for overseas	–	–	2.0	–(–%)	–(–%)	0.2(10%)
Other Businesses	81.8	60.0	**70.0**	5.4(6.7%)	2.0(3.3%)	**5.0(7%)**
for overseas	4.6	4.4	8.0	-0(–%)	-0.3(–%)	-2.9(–%)
Total	4,908.1	4,920.0	**5,500.0**	368.7(7.5%)	380.0(7.7%)	**500.0(9%)**
for overseas	673.9	540.0	1,000.0	52.9(7.8%)	20.0(3.7%)	100.0(10%)
for sale of development properties	222.2	301.3	450.0	74.6(33.6%)	81.7(27.1%)	
for Livness business	320.7	Approx. 300	Approx. 400			

Note: Effective from fiscal 2023, Daiwa House Modular Europe was reclassified from the Single-Family Houses segment to the Rental Housing segment. Accordingly, figures for fiscal 2022 have been restated based on this new classification.
Total operating income excludes the effect of actuarial differences.

Business Overview

The Daiwa House Group has built a portfolio of businesses for continually enhancing the value of fundamental societal infrastructure for a long time to come and creating lifestyle culture rooted in regeneration by leveraging our distinctive strengths to generate cashflow with a circular value chain that creates, fosters, and repeats across time to create once again.

	Single-Family Houses	Rental Housing	Condominiums	Commercial Facilities	Logistics, Business and Corporate Facilities	Environment and Energy
	 	 	 	 	 	 
Create	● Houses sold In Japan 5,762 units Overseas 6,332 units	● Rental housing units sold (in Japan) 32,224 ● Overseas development properties 13	● Condominium units sold*1 In Japan 3,003 units Overseas 1,333 units	● Construction projects 812*3	● Development site area of logistics projects (accumulated) 319 projects 12,202,977m²	● Renewable energy generation equipment construction results (EPC) 2,706MW
Foster	● Customers with whom we have existing relationships (in Japan) Approx. 440,000	● Units under management 649,000 ● Occupancy ratio 98%	● Units under management 379,849	● Leasing floorspace of sublease areas within commercial facilities 6,795,700 m² ● Hotels under management 144	● Facilities under management (accumulated) (Daiwa House Property Management) 238	● Renewable energy power plants: development and operating results (IPP) 385 sites 602MW
Revitalize	● Number of Renovations 53,369	● Number of Renovations 25,420	● Number of redevelopment projects and other projects 46*2	● Main redevelopment projects ALPARK Hiroshima iias Kasugai	● Main redevelopment projects Toyama public wholesale market redevelopment project	

Note: Figures shown above are the results for FY2022.
*1 Total in Japan is for Daiwa House Industry and Cosmos Initia *2 Including projects for which a rights conversion plan has been approved *3 Number of facilities constructed by Daiwa House Industry (non-consolidated)

Financial Highlights (business segments) ▶ P.115

Single-Family Houses Business

▶ **Strengths** Technical capabilities for ensuring safety and security

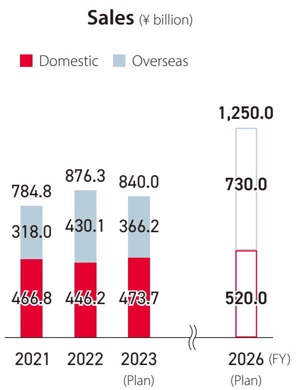
▶ **Principal companies** Daiwa House Industry, Daiwa House Reform, Daiwa House Real Estate, DesignArc, Stanley Martin Holdings, Trumark Companies, CastleRock Communities, Rawson Group

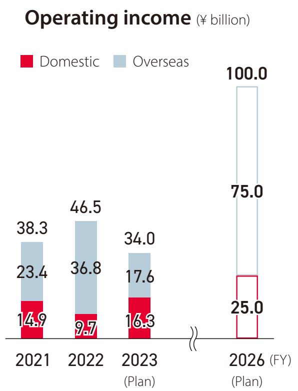
Delivering without delay products and services that customers truly need by grasping changes in society and lifestyles

Summary of business

As a pioneer of industrialized construction, we offer living environment based on our evolving, leading-edge technologies. Our flexible and tailored home building is named LiveStyle Design, under which we cater to various needs of residents and fulfill their unique requirements. A place to live in is where they truly live their lives. Staying in close to the life of customers, we work to offer housing as a stage for them to achieve abundance in life.

Seventh Medium-Term Management Plan Results and plan





Note: Effective from fiscal 2023, Daiwa House Modular Europe was reclassified from the Single-Family Houses segment to the Rental Housing segment. Accordingly, figures for fiscal 2022 have been restated based on this new classification.

Recognition of circumstances

Domestic
- Changes in lifestyles caused by COVID-19
- Progress in initiatives aimed at achieving carbon neutrality
- Long-term decrease in new housing starts due to declining the number of households

Overseas (the US)
- Continued demand backed by population increase and stable economic growth
- Concerns for rising interest rates
- Labor shortage, soaring material costs

Business strategies

- Strengthen ZEH proposals and expand wooden products
- Leverage digital tools to expand proposed plans and enhance operational efficiency
- Strengthen the built-for-sale housing business

- Expansion of overseas business centering on the US

Looking back at the first year of the 7th Plan and future outlook

In the first year of the 7th Plan, both sales and earnings increased due to the expansion of the US housing business.

In Japan, despite efforts in community-based business developments, both sales and earnings decreased amid harsh market conditions, reflecting 16 consecutive months of year-on-year declines in the number of owner-occupied housing starts from December 2021 to March 2023.

From January 2023, the Company worked to leverage digital technologies to strengthen its proposal-making capabilities, and it launched new initiatives, such as 3D plans when making initial proposals and the introduction of "LiveStyle Diagnosis" communication tool online. It also developed the industry's first single-family house-specific delivery box equipped with an intercom with 24-hour security camera functionality. We also offer custom-built houses and built-for-sale houses that solve customer issues and address changes in society, thereby expanding our renovation business.

Overseas, we operate the housing business in the smile zone which encompasses the eastern, southern, and western US states, where housing demand is expected to grow due to a rise in employment. During the second half of fiscal 2022, orders received slowed down due to repeated policy rate hikes. Nevertheless, given solid demand, we continued our sales activities and contributed significantly to our business performance, despite partial price adjustments.

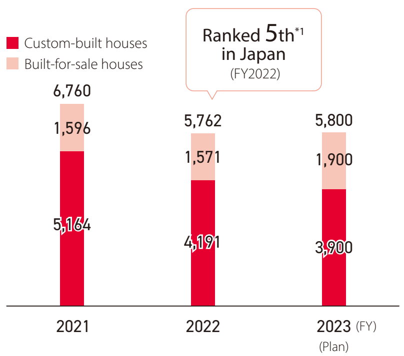
In fiscal 2023, despite our forecast for an increase in both sales and earnings in Japan, we expect overall sales and earnings to decline reflecting the impact of a rise in the number of cancellations and a weakening of orders in the US housing business due to mortgage rate hikes in the second half of fiscal 2022. Nevertheless, we see orders in the US housing business in 2023 are on a recovery trend.

Despite the tough market environment in Japan, we endeavoring to strengthen the built-for-sale housing business, expand our lineup of wooden products, and step up our marketing efforts in order to expand future performance.

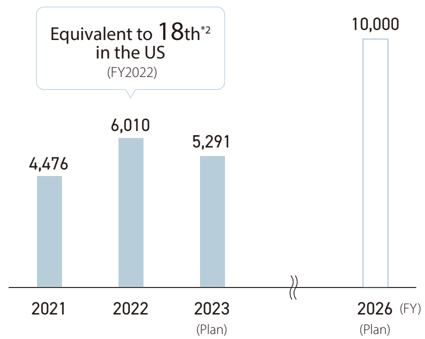
Our aims in strengthening the built-for-sale housing business are to increase profitability by improving operational efficiency and to further expand our customer base and gain market share through providing high-quality housing products to non-landowners at affordable prices.

In regard to expanding wooden products and stepping up our marketing efforts, we see a growing need for wooden houses as customers become more environmentally awareness. We will expand our wooden housing product lineup to meet various needs of customers and offer a greater range of solutions tailored to their values.

Houses sold in Japan (units)



Houses sold in the US (units)



*1 FY2022 Major house-builder ranking by Housing Industry News
*2 When the figures for the 3 companies (Stanley Martin, Trumark and CastleRock) in the 2022 total closings on 2023 Builder 100 are combined.

Overseas Single-Family Houses business

We plan sales of ¥730 billion (¥463.8 billion in fiscal 2022) and operating income of ¥75 billion (¥36.9 billion in fiscal 2022) in the overseas Single-Family Houses business centering on the US in fiscal 2026, the final year of the 7th Plan.

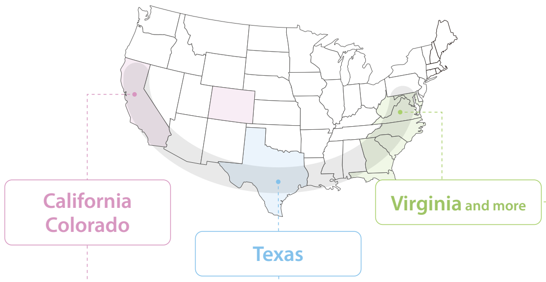
In the US, we operate our business with three Group companies as the core, namely, Stanley Martin, CastleRock and Trumark in the eastern, southern, and western parts of the nation ("smile zone") where stable market growth is expected due to demographics and industrial hubs in these areas.

Fiscal 2022 saw a sharp rise in housing prices and mortgage rates, causing customers to hold off on buying, but despite nationwide supply chain problems our companies responded to the situation and proceeded with deliveries, resulting in an increase of performance.

In 2023, despite a new risk factor of bank instability in addition to persistently high mortgage rates, orders received continue to be strong, exceeding the plans, reflecting appropriate and timely pricing based on company-specific market analysis, among other factors.

We continue to pursue business growth while utilizing our wealth of land information and business strategy planning and development, led by highly experienced management teams at each company.

Our business areas in the US



Expand business based on three companies

Stanley Martin Holdings

Operates in the eastern US states of Virginia, Maryland, West Virginia, North Carolina, Georgia, South Carolina, and Florida.


Founded in 1966. Awarded National Builder of the Year in 2021. Offers a broad range of products that include detached houses, townhomes, and townhome condominiums tailored to the location and market of the property. Seeks to expand their share of the existing market and increase investment in affordable locations, while also improving efficiency through off-site development.

Trumark Companies

Operates in the western US states of California and Colorado.


Founded in 1988. Holds extensive community development achievements as a developer with strengths in value-added housing and complex development, and is a winner of many awards including the Builder of the Year and the Developer of the Year for their creative design skills. Supports the construction of a water well for every 50 units sold as a partner of charity organizations providing clean and safe drinking water to people in developing countries.

CastleRock Communities

Operates in the southern US state of Texas. Established a fifth location in Phoenix, Arizona, and currently working to enter the Arizona market.


Founded in 2004. Developed more than 200 communities and delivered more than 15,000 houses in the past 18 years, and is a winner of many awards including the Top 50 National Builder Award. Seeks to improve customer service focused on Creating Raving Fans, while also promoting management focused on revenue quality and margins through flexible pricing and the control of construction schedules and procurement.

Rental Housing Business

▶ Strengths Vertically integrated management leveraging Group strengths, full range of peripheral services conducive to high occupancy

▶ Principal companies Daiwa House Industry, Daiwa Living, Daiwa House Chintai Reform, Daiwa House Modular Europe

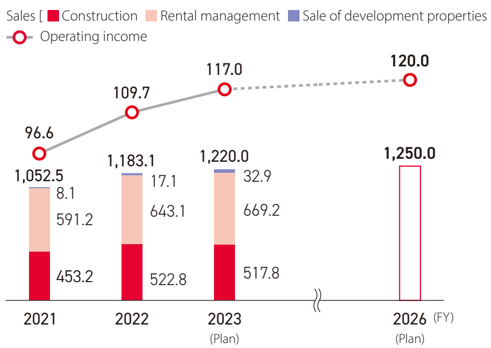
Offering the quality rental housing "D-ROOM" satisfying both marketability and customer needs, while supporting owners' stable, long-term rental income

Summary of business

To provide living spaces of choice for residents where they wish to reside for a long period, we propose to landowners' quality rental housings satisfying both marketability and customer needs, thus supporting both residents' comfortable and safe living spaces and landowners' stable, long-term rental income. We also develop rental housing in the US and conduct the contracting and rental business for houses and apartments utilizing modular construction system in Europe.

Seventh Medium-Term Management Plan Results and plan

Sales/Operating income (¥ billion)



Note: Effective from fiscal 2023, Daiwa House Modular Europe was reclassified from the Single-Family Houses segment to the Rental Housing segment. Accordingly, figures for fiscal 2022 have been restated based on this new classification.

Recognition of circumstances

Domestic
- Continued demand for rental housing in urban areas
- Progress in initiatives aimed at achieving carbon neutrality
- Long-term decrease in housing starts due to declining the number of households

Overseas (the US)
- Continued demand backed by population increase and stable economic growth
- Changes in investor trends due to rising interest rates

Business strategies

Construction
- Strengthen ZEH-M and expand market share

Rental management
- Expand the number of properties under management, build up the renovation business

- Stabilize operations of existing rental housing in the US and develop exit strategies

Looking back at the first year of the 7th Plan and future outlook

In the first year of the 7th Plan, the environment for orders in the contracting business remained firm on the back of strong demand from landowners, which led to an expansion of the built-for-sale housing business. Further, the number of units under management rose and occupancy rates remained high in our rental management businesses. As a result, overall sales and earnings in the Rental Housing segment increased. For fiscal 2023, we continue to plan an increase in sales and earnings.

In Japan, in an effort to promote eco-friendly rental housings that support energy saving and energy generation, the Company sought to popularize and promote ZEH-M properties by launching the "TORISIA" rental housing product that offers higher thermal insulation performance in October 2022. Daiwa Living maintains a high occupancy rate by providing specifications that meet the needs of tenants, such as standardizing the Internet service and delivery boxes in managed properties in responding to changing lifestyles. Daiwa House Chintai Reform worked to strengthen relationships with the owners of rental housings constructed by the Company by conducting building inspections and diagnoses periodically, while also continuing to promote work to extend warranty periods and submit renovation proposals.

Expansion of built-for-sale business

The built-for-sale business, in which we purchase land, build the rental housing, and then sell it to investors and existing owners, is expanding steadily. We are able to develop our business with high asset turnover ratios, which lead to the expansion of sales channels and the acquisition of new customers, including referrals of wealthy customers through financial institutions among others.

Growth of rental management businesses

In the Rental Housing business, the number of properties under management exceeded 649,000 units* (as of March 31, 2023), reflecting the strengthening of management contracts for the properties we built. We continue to achieve stable growth in rental management businesses.

We continue stepping up our efforts to strengthen intra Group collaboration in the areas of construction, management, and renovation and to pursue market-competitive products and services, as a partner for owners to ensure stable, long-term management.

* Total number of units managed by Daiwa Living and Daiwa House Real Estate

Rental housing sales rankings (FY2022) (units)

Ranking	Company name	Number of sales units	Share
1	Daito Trust Construction	35,840	Approx. 11%
2	Daiwa House Industry	32,224	Approx. 9%
3	Sekisui House	27,203	Approx. 8%

* Compiled from data published by the companies concerned

Overseas business development

In fiscal 2022, Rockville Town Center, our rental housing development in the US state of Maryland, was sold early with a favorable evaluation of its profitability. Although the market for revenue-generating properties continues to require close monitoring due to intermittent rises in interest rates affecting the funding of institutional investors and other buyers, we will focus on improving the occupancy rates and profitability of leasing while determining the timing to sell our development properties at a high profit.

Atelier (Texas, US)

Condominiums Business

▶ Strengths Roll out of local business locations in major cities nationwide, ability to take on redevelopment and rebuilding projects levering specialized business units and intra-Group collaboration

▶ Principal companies Daiwa House Industry, Cosmos Initia, Daiwa LifeNext

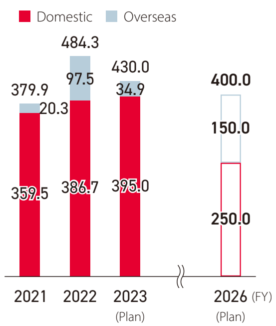
Offering safe, secure, and comfortable residential experience to condominium customers with our highly value-added condominiums considered for reduction of environmental impact

Summary of business

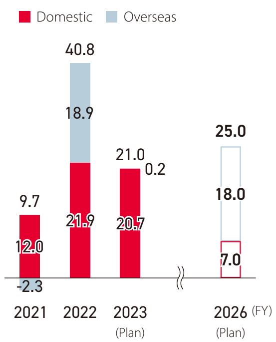
To meet the diverse lifestyles of our residents, we draw on our expertise as a house builder to seek to offer the basic housing performance, comfort, safety, and management systems that are essential for a long housing life. We also strive to create highly value-added condominiums that are environmentally and socially friendly and contribute to local communities, in addition to delivering asset value to our customers.

Seventh Medium-Term Management Plan Results and plan

Sales (¥ billion)



Operating income (¥ billion)



Recognition of circumstances

Domestic
- Land prices remaining high mainly in urban areas
- Progress in initiatives aimed at achieving carbon neutrality
- Changes in lifestyles caused by COVID-19

Overseas (China)
- Concerns over uncertainties in the real estate market
- Steady market conditions against real demand

Business strategies

Sales of condominiums
- Add value focused on environmental considerations and develop large-scale, highly profitable complexes

Management and operation
- Strengthen the condominium management business

Overseas
- Promote sales in Changzhou Project III and expand properties under management in China

Looking back at the first year of the 7th Plan and future outlook

Sales in the first year of the 7th Plan progressed steadily on the back of a favorable order environment, mainly in the Tokyo metropolitan area. Overseas, the delivery of the Nangtong Project and Changzhou Project II in China also proceeded smoothly, resulting in an increase in both sales and earnings.

In the PREMIST condominium, a series of condominiums developed by the Company, the ZEH-M specification will be adopted for all buildings to be constructed in fiscal 2024 or later. Now that a nationwide development and sales system is in place as a result of starting condominium development with ZEH-M specifications in fiscal 2018, we have decided to move forward our efforts two years ahead of the initial target. In addition, sales of Cosmos Initia progressed steadily thanks to favorable evaluations of our properties sold for residents' convenient transportation and living environment. Daiwa LifeNext, a condominium management company, offers the L-Place Series, a series of quality corporate dormitory residences in 61 locations nationwide, as a corporate wellness program designed for employees' physical and mental well-being.

Our fiscal 2023 forecast assumes a decline in both sales and earnings due to a reactionary decline from the delivery of the Nantong Project and the Changzhou Project II in China.

Under the 7th Plan, we will step up our efforts in highly value-added projects focused on environmental considerations, while actively pursuing profitable large-scale complex development and redevelopment that revitalize local communities. We are also further expanding not only new construction projects but also revitalization and resale for revenue-generating properties which still have potential despite their declining profitability due to aging and other factors.

Going forward, we seek not only to reduce completed inventories but also increase asset turnover rates and tighten procurement standards. Also, by optimally assigning personnel to key areas of business, we intend to establish a structure that will further enhance profitability.

PREMIST Funabashi Tsukada

China: Condominiums business

We provide a one-stop business covering from land selection through development to management and after-sale service mainly in the Yangtze delta area in China, aiming to offer Japanese quality widely. Going forward, while working to develop Changzhou Project III and Suzhou Project II, we also intend to expand the number of condominium units under management, thereby increasing the brand value of the Group in the region.

Ongoing condominium development projects in China

Project name	Number of residential units	Status of sale	Scheduled completion
Nantong Project	1,480	Sold out	August 2022
Changzhou Project II	636	Sold out	August 2022
Changzhou Project III	967	Sales started in October 2022	December 2024 (planned)
Suzhou Project II	912	To be offered for sale	January 2026 (planned)

Commercial Facilities Business

▶ Strengths LOC System, organization for expanding possibilities with greater ability to gather intelligence and offer innovative solutions

▶ Principal companies Daiwa House Industry, Daiwa Lease,Daiwa House Realty Mgt., Royal Home Center, Sports Club NAS, Daiwa House Parking

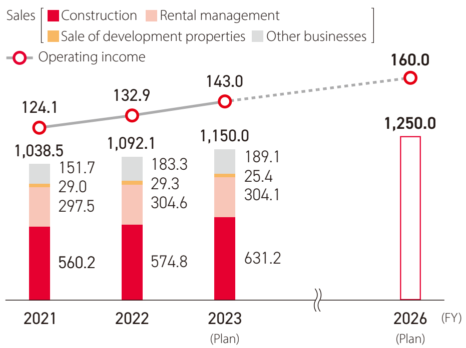
Helping invigorate communities and accommodate diversifying work- and life-styles with intelligence-gathering and solution-formulation capabilities cultivated with our distinctive LOC system

Summary of business

We match landowners and corporate tenants to one another to develop commercial facilities meeting their respective expectations. We marshal our wealth of data on land usage and survey the market to accurately gauge the local attributes so we can provide facilities fine-tuned to local residents' needs and help townships facilitate the flow of people. We also undertake commercial facility development, offering a one-stop service from planning and construction to leasing, management, and operation, as well as urban hotel management.

Seventh Medium-Term Management Plan Results and plan

Sales/Operating income (¥ billion)



Recognition of circumstances

Domestic

- Increasing needs for rebuilding and relocation of aged commercial facilities
- Changes in consumer behavior caused by COVID-19
- Recovery in demand for tourism and hotels following the rebound of inbound tourism
- Progress in initiatives aimed at achieving carbon neutrality

Overseas

- Recovery of Japanese companies' appetite for opening stores overseas, etc.

Business strategies

- Development to revitalize commercial and public facilities
- Expansion of initiatives to meet local office demand
- Profit growth of stock business such as hotels and sports clubs
- Business development in Taiwan, the US and ASEAN

Looking back at the first year of the 7th Plan and future outlook

In the first year of the 7th Plan, both sales and earnings increased due to a pickup in the hotel and sports club operation business, which was largely affected by COVID-19, and an improvement in the environment for orders as tenants' appetite for opening stores regained momentum that had waned during the COVID-19 pandemic.

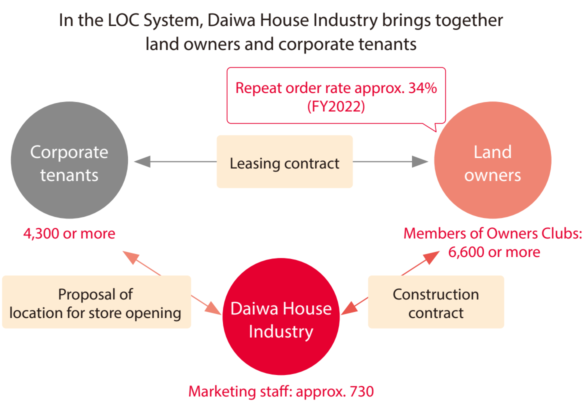
In the contracting business, the cost of sales ratio worsened as we were less successful than expected in passing on higher material prices to customers. Nevertheless, we focused our efforts on large-scale properties and the built-for-sale business, in which we sell properties to investors for which we have acquired the land, planned the development, designed the construction, and conducted tenant leasing.

The Urban hotels operation at Daiwa House Realty Mgt. is improving the occupancy rates, driven by the lifting of immigration restrictions on foreign tourists effective in October 2022 and the yen's historic depreciation, amid the strong pent-up demand and need for foreigners to travel Japan.

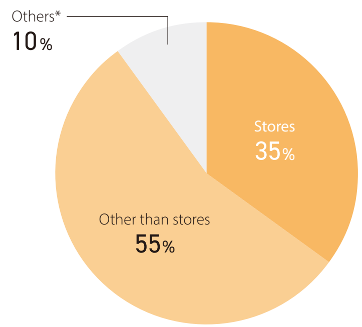
In fiscal 2023, we aim to increase sales and earnings by offering a range of plans that meet the needs of tenant companies, taking advantage of their business strategies and the characteristics of each region.

Going forward, we will also actively work to revitalize commercial and public facilities. Given a rise in the number of over 20-year-old commercial facilities and the growing demand to raise their value, we intend to continue revitalizing lifestyle infrastructure while leveraging our strength rooted in communities to offer property proposals suited to the needs of the times. We will increase its ability to appeal to customers by attracting tenants suited to the community's needs and create lively spaces in the community while responding society's focus to circularity by utilizing existing buildings. In the area of public facilities, we will also expand public-private sector businesses by utilizing its knowledge and expertise in public-private partnerships (PPP) and private finance initiatives (PFI).

LOC System (Land Owner and Company)

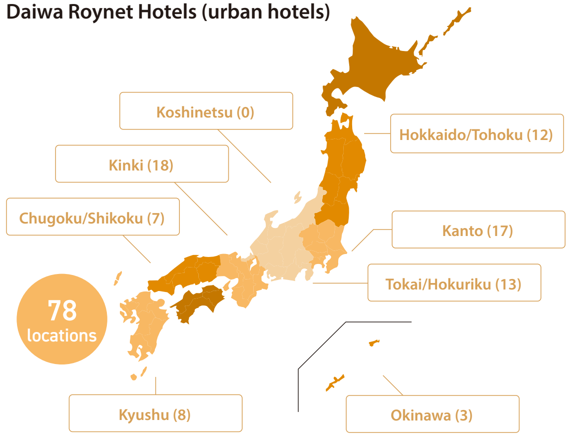


Orders received, by asset type (FY2022)



* Others includes projects with small amounts of work and shopping center, stock, overseas, and other businesses.

Daiwa Roynet Hotels (urban hotels)



Logistics, Business and Corporate Facilities Business

▶ **Strengths** D Project, Ability to identify optimal land for each business, Track record building logistics facilities and accumulated know-how

▶ **Principal companies** Daiwa House Industry, Fujita, Daiwa Logistics, Daiwa House Property Management, Daiwa LogiTech

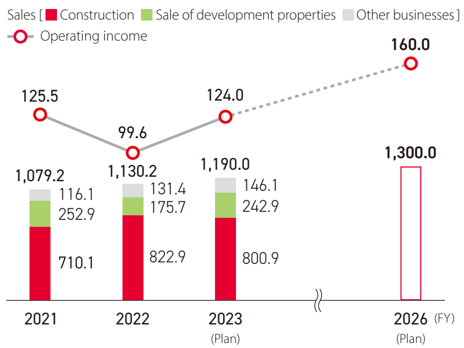
Pursuing products and quality that will be appreciated and needed by people around the world by quickly grasping the values that will become indispensable to international society with an eye on BCP and SDGs and by creating new business models and solutions

Summary of business

We leverage diverse plans to produce facilities to accommodate corporate customers' needs. We are proactive in developing logistics facilities in response to the expansion of the e-commerce market, and we also provide medical, care, social welfare, and nursing care facilities, food-industry facilities, offices, and plants. We are also actively developing data centers and revitalizing public markets.

Seventh Medium-Term Management Plan Results and plan

Sales/Operating income (¥ billion)



Recognition of circumstances

Domestic
- Continued expansion in e-commerce demand, labor shortages in the logistics industry
- Expanding demand for data centers in step with digitalization
- Revitalizing needs of public wholesale markets

Overseas (ASEAN)
- Increasing needs for accommodating cold chain logistics
- Japanese companies' needs for overseas business expansion

Business strategies

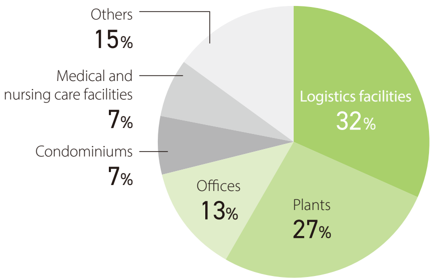
- Develop social infrastructure, such as logistics facilities and data centers
- Lead the industry with logistics DX
- Industrialization of agriculture and fisheries
- Develop businesses in ASEAN and the US

Looking back at the first year of the 7th Plan and future outlook

Sales for the first year of the 7th Plan increased due to a recovery of orders in the contracting business and aggressive development of an industrial park for sale by optimally utilizing the land property. However, sales of development properties progressed steadily and exceeded projections, but there was a reactionary decline from the previous fiscal year, and the price pass-through to customers was slower than expected due to soaring material prices, resulting in a decrease in earnings. Our plan for fiscal 2023 assumes a rise in the sale of properties and an improvement in the gross margin, thereby increasing both sales and earnings.

Specifically, in the area of logistics facilities, we leverage our extensive experience and expertise to support customers' logistics strategies. Utilizing its operation bases in regional area, one of our strengths, we are rapidly developing logistics facilities in regional areas targeting manufacturing industry, productions of which are returning to the domestic locations. In other businesses, the number of buildings managed by Daiwa House Property Management, which manages and operates logistics facilities developed by Daiwa House Group, amounted to cumulative 238, covering an area of approximately 9.38 million square meters. Fujita received orders for large-scale construction projects such as cleaning plants for reconstruction, logistics facilities and university facilities, as well as complex facilities and production facilities in an urban area redevelopment project, and orders in our civil engineering business including an order related to energy business. Reflecting these orders, the amount of orders received remained solid. In addition, sales significantly increased year on year, in line with steady progress in construction on hand at the beginning of the fiscal year and an increase in the sales of development properties.

Orders received, by facility type (FY2022)



* Total for Daiwa House Industry and Fujita (Fujita only works on construction)

In ASEAN, despite progress in easing COVID-19 regulations, Japanese companies' appetite for capital investment remains low level due to the weak yen in our logistics warehousing business currently underway in Indonesia, Vietnam, Malaysia, and Thailand. However, we will continue our marketing activities to foreign companies while closely monitoring Japanese companies' entry to the ASEAN market or resuming their business expansion going forward.

Logistics facilities

We believe the need for new logistics facilities will continue to increase given the further expansion of the e-commerce market in Japan. In addition, the logistics industry is facing a major challenge of long working hours due to labor shortages, making it essential to further improve logistics efficiency. To support our tenants in improving their logistics efficiency, we are pushing forward with the automation and mechanization of logistics facilities, centering on our subsidiary, Daiwa LogiTech, leveraging our track record as the No. 1 developer of logistics facilities in Japan. We also work on proposals for a vehicle dispatch system to eliminate extended waiting times for trucks at the facility. Further, we provide childcare facilities within the logistics facilities developed by Daiwa House Group as a way to support securing employment.

Industrial park development

The Company develops industrial parks and sell land subject to building conditions across the nation. We will continue to drive forward as a leading developer of industrial parks, drawing on our wealth of land information that enables us to purchase favorable land as well as our technical capabilities to meet the needs of a broad range of companies.

Approach to new assets

Currently, orders are also expanding to meet new demand for data centers, semiconductor plants, and other areas where market growth is expected in the future.

Environment and Energy Business

▶ **Strengths** Technical and planning capabilities, and synergies with each business

▶ **Principal companies** Daiwa House Industry, Daiwa Energy, Eneserve

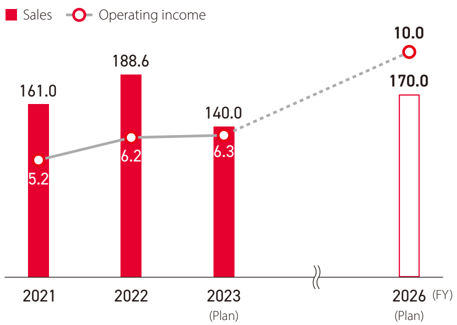
Contributing to the spread of renewable energy to realize a carbon-free society

Summary of business

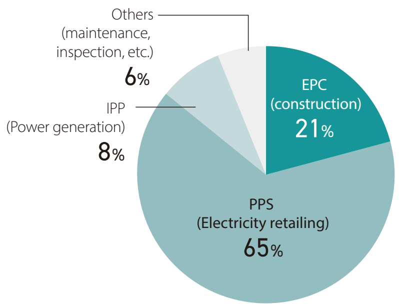
We leverage our technology, planning, and the Group's comprehensive capabilities to offer three pillars of EPC, which is engineering, procurement, and construction of renewable energy power plants centering on the construction of solar power plants; PPS, which is an electric power retail business targeted at corporate and individual customers; and IPP, which is a power generation business primarily for solar and wind power generation. With the world rapidly going carbon-free and growing need for renewable energy, we will actively contribute to the spread of renewable energy.

Seventh Medium-Term Management Plan Results and plan

Sales/Operating income (¥ billion)



Sales by business model



Note: Rough breakdown for FY2022

Recognition of circumstances

Domestic
- Progress in initiatives aimed at achieving carbon neutrality
- Slowdown in EPC business with the termination of Japan's feed-in tariff (FIT) program

Business strategies

EPC
- Strengthen efforts for offsite PPA to prepare for the end of FIT
- Manage land for off-site PPA for early monetization and cultivate buyers, etc.
- Expand onsite PPA by strengthening collaboration inside the Group

PPS
- Set unit prices and introduce new rate plans to improve profitability

Looking back at the first year of the 7th Plan and future outlook

In the first year of the 7th Plan, sales of construction decreased due to a decline in FIT projects in EPC, the engineering, procurement, and construction of power plants for renewable energy business. Meanwhile, sales increased in PPS, the electric power retail business, due to measures taken to revise sales prices and introduce new rate plans. In IPP, a stock business for the electric power generation, we saw an expansion in the number of projects. As a result, both sales and earnings increased overall.

In the EPC business with the termination of Japan's feed-in tariff (FIT) program, we focused our efforts to expand two PPA businesses, off-site PPA*, which supplies power to buyers away from solar power plants, and on-site PPA, which supplies power directly from solar power plants installed on rooftops or on adjacent land. This led to a rise in the number of projects. In the PPS business, the wholesale electricity market is stabilizing even though electricity purchase prices have soared due to the rise in resource prices caused by the prolonged situation in Ukraine and by the depreciation of the yen. Further, profitability is improving as a result of measures taken not only to launch new rate plans for both low and high voltage, but also supply power in proportion to the number of power sources procured and cut back the ratio of power procured from the wholesale market. In the IPP business, we operate 385 power plants nationwide (excluding those for private consumption) primarily for solar power generation, as well as wind and hydroelectric power generation.

Our forecast for fiscal 2023 plans a decrease in sales due to a decline in PPS business, but we will aim to expand "off-site PPA" and "on-site PPA" in an effort to meet the growing need for renewable energy. Further, we will pursue efforts in each business to "install rooftop solar power generation equipment on newly constructed buildings in principle" and work together with customers to achieve carbon neutrality.

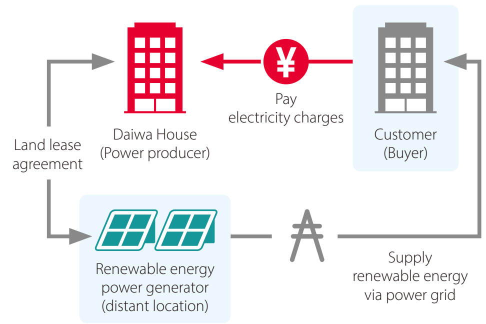
* Power Purchase Agreement.

Value chain

EPC (Construction business)	PPS (Electricity retailing business)	IPP (Power generation business)	Maintenance/Inspection
Engineering, procurement, and construction of solar generation stations and mega solar farms	Electric power retail business targeted at corporate and individual customers	Power generation and sales business of solar, wind, and hydroelectric energies	
Daiwa House Industry			Eneserve
Daiwa Energy	Eneserve	Daiwa Energy	

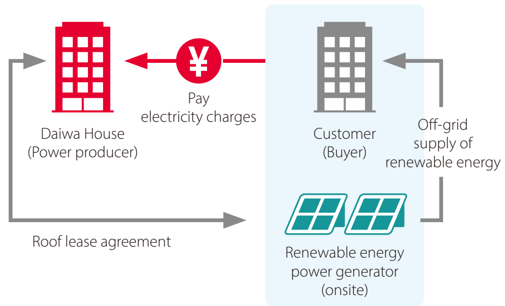
Business scheme of offsite PPA

- Install renewable energy power generation facilities off the premises of facilities
- Actively search for a land by taking advantage of our nationwide business operation



Business scheme of onsite PPA

- Install renewable energy power generation facilities onsite (e.g. on the rooftop)
- Install at new buildings constructed by the Company in cooperation with Commercial Facilities and Logistics, Business and Corporate Facilities businesses



Creating Social Impact

Revitalization business in every corner of the nation – Livness business initiatives –

Since our founding, we have been developing "businesses that will be of service to society" to solve social and environmental issues. The result is our creation of social value (impact). We are working nationwide to revitalize housing, social infrastructure, and community development which only Daiwa House can provide, with the aim of "ensuring a world where we live together in harmony embracing the Joys of Life" which is "Our Hopes for the Future" for 2055. We are committed to contributing to creating an impact through the Livness business*.

* Livness business is the collective name for renovation, reconstruction, brokerage, purchase and resale, and other businesses.

Creating value by leveraging Daiwa House's strengths

Value creation capabilities gained through co-creation

- Meeting the needs of local customers
- Ability to grasp quickly what is needed and provide solutions
- Capacity to offer comprehensive business ideas

Resolve social issues through business

Value creation capabilities gained through co-creation

Continuing to shoulder the responsibility for our customers and buildings

Principle of "being of service to society"

Trust and sympathy of stakeholders

Circular value chain expansion

Output

FY2022 results
Livness business sales ¥320.7 billion

Housing
- No. of renovations Approx. 79 thousand
- Management of vacant houses
- Brokerage of existing houses
- Purchase and resale, etc.

Social infrastructure
- Revitalization of commercial facilities (Shopping centers, etc.)
- Redeveloping of public facilities (markets, etc.)
- Reconstruction of aging hospitals, facilities

Community development
- Livness Town Project Projects currently underway: 8 locations

Outcomes

Creation of the fundamental societal infrastructure and lifestyle culture rooted in regeneration

- Creation of affluent living spaces —Raising customer satisfaction
- Creation of safety and security —housing, facilities
- Environmentally conscious response— energy saving/energy generation equipment, spreading development of buildings with high thermal insulation specifications, creation of green spaces
- Job creation and increased numbers of facilities users
- Enhanced lifestyle convenience
- Support for tenant companies to open new stores, area expansion
- Growth of business domains
- Accumulation of new business know-how
- Development of motivated employees

Impact

Social value

- Carbon-free society
- Offer a variety of living styles
- Infrastructure development to meet corporate needs
- Revitalization of local communities
- Preservation of biodiversity
- Contributions to SDGs
- Effective use of resources
- Increased value of our human capital

Toward the society we aspire to in 2055: Our Hopes for the Future

A world where we live together in harmony embracing the Joys of Life

Social issues

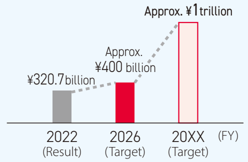
- Revitalization of local economies
- Aging houses and facilities
- Countermeasures to vacant houses
- Diversification of values
- Effective use of resources
- Increased frequency and scale of meteorological disasters

5-year plan for real estate development investments: ¥2.2 trillion
Balance of real estate for sale (actual as of March 31, 2023): Approx. ¥2 trillion

Of the real estate development investments, ¥500 billion is planned for commercial facilities, including investments related to revitalization projects. Within real estate for sale are included properties obtained through purchase and resale and land acquired from the Urban Renaissance Agency with fixed-term leasehold rights for residential use.

Revitalization of commercial facilities iias Kasugai

Sales of Livness business



Creating Social Impact

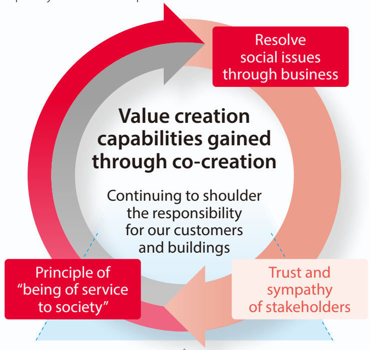
Social Infrastructure Development – Data center business initiatives –

Data centers are increasingly becoming a critical element of social infrastructure, with higher communication volumes anticipated going forward due to increases in video streaming services, automated driving, the spread of IoT and 5G, greater efforts to utilize DX by corporations, and auto-generated AI, among other applications. On the other hand, data center development in Japan is faced with any number of challenges, such as avoiding earthquake risk, ensuring transmission speed, and securing power supply networks. We will create an impact on society through our business by leveraging the ability to secure and commercialize land for projects, and to propose comprehensive projects such as the installation of photovoltaic power generation systems and the supply of renewable energy electricity.

Creating value by leveraging Daiwa House's strengths

Value creation capabilities gained through co-creation

- Meeting the needs of local customers
- Ability to grasp quickly what is needed and provide solutions
- Capacity to offer comprehensive business ideas



Entering the data center business

Output (results)

Made-to-order case study:
DPDC Inzai Park (conceptual image)

Development case study:
DPDC Shinagawa Konan Site (conceptual image)

Outcomes (results)

Creation of the fundamental societal infrastructure and lifestyle culture rooted in regeneration

- Ensuring data transmission speeds (Construction in areas with stable supply)
- Providing safety and security by avoiding earthquake risks to the maximum extent possible (Construction on stable ground with no active faults)
- Solutions to energy issues (Installation of photovoltaic power generation systems, supply renewable energy)
- Realization of aggregation benefits such as intercommunication and inter-facility collaboration (Leveraging relationship strength to attract extra-high-voltage substations)

Impact (long-term results)

Social value

Realizing Society 5.0*

- A completely different way of living using a digital twin
- Co-existence with humans and AI
- Development of automation for industry and services, and real-world innovation

* A human-centric society that balances economic development and the resolution of social issues through a system that highly integrates cyber and physical spaces

Toward the society we aspire to in 2055: Our Hopes for the Future

A world where we live together in harmony embracing the Joys of Life

Social issues

- Growing demand for large-scale data centers due to increasing data and transmission volumes
- Energy management (reduction of greenhouse gas emissions)
- Securing transmission speeds
- Securing expansive land for data centers
- Ensuring special high-voltage power

Total project cost of ¥200 billion by 2030 (planned)

In October 2020, we embarked upon a project to develop one of Japan's largest data centers in Inzai City, Chiba Prefecture. The project was originally planned to be developed as an industrial park, but as it is well suited to be a data center, among other factors, it is a project that demonstrates our ability to make complex business proposals. In April 2022, we launched our data center brand, DPDC (DProject Data Center). At DPDC Inzai Park, we predominantly engage in construction business from AirTrunk, an Australian data center operator, and moving forward as DPDC Inzai Park, we intend to develop up to 14 data center buildings with a total floor area of approximately 330,000m². In addition, DPDC Shinagawa Konan Site is our first building-type data center development project in Tokyo with seven stories above ground, and we are developing these facilities to take full advantage of the convenience of the city center. Since the data center business is highly specialized in terms of technology, in addition to building a business base that can handle this, we are working to strengthen our technical base by accelerating the acquisition of know-how through the establishment of construction committees for each project.

Real estate investment

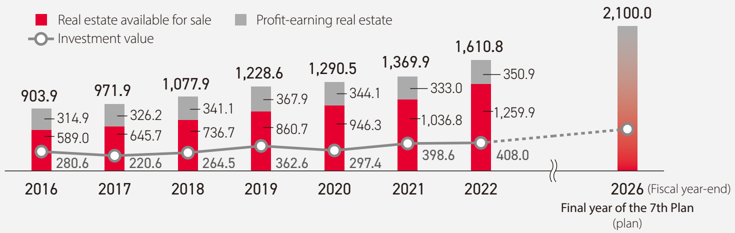
We continue to actively invest in real estate development, focused on the key concepts of developing next-generation infrastructure and creating jobs, revitalizing and enhancing the value of aging facilities, and promoting complex redevelopment centering on regional core cities.

Investments in real estate development Results and plan

Investments in real estate development Seventh Medium-Term Management Plan (¥ billion)

* Overseas investments are included in each business segment from the 7th Plan.

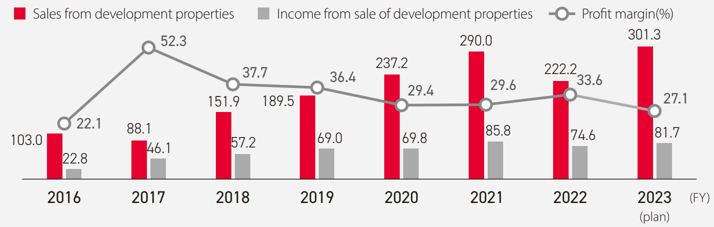
Trends in real estate development investment amount and investment real estate balance (book value) (¥ billion)



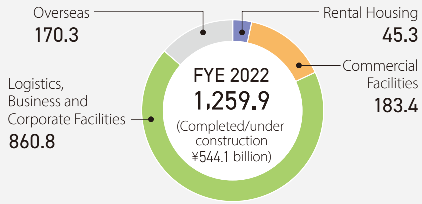
In fiscal 2022, the first year of the 7th Plan, we achieved investment results of ¥408 billion. The results were somewhat low compared to the annual average of ¥440 billion in the 5-year plan, but since there are strong investment opportunities, we will continue to focus on further development expansion after the 8th plan, and will make investments from a long-term perspective that will contribute to stable stock growth. The investment real estate balance is ¥1.6 trillion, and prime real estate is being accumulated toward the planned figure for the final year of ¥2.1 trillion.

Sale of development properties Results and plan

Sale of development properties (¥ billion)



Breakdown of real estate available for sale (¥ billion)



FYE 2022	Being rented, book value (¥ billion)	NOI yield
Real estate available for sale	474.5	5.0%
Profit-earning real estate	318.1	13.1%

The Group positions real estate available for sale as real estate that can be sold immediately after investment for the purpose of obtaining capital gains, and profit-earning real estate as real estate invested and developed for the purpose of obtaining income gains. The positioning of real estate is determined at the development consideration stage.

In the 7th Plan, we aim to gradually increase stock for profit and sell when the timing is right to maximize profit. In fiscal 2022, we were able to earn a profit on sales against the backdrop of a strong trading market.

Risk management in real estate development investments

Establishment of Business Investments Committee

The Company's Business Investments Committee has been established to ensure that appropriate decisions are made about important potential investments in the real estate development business and other businesses after sufficient deliberations and discussions through assessment of feasibility and risks. A meeting of the Committee, chaired by the president of the Company, is held once every 10 days or so in principle. The Company's decisions will be made through an electronic collective decision-making process, which will proceed in parallel with Committee meetings, and by the Board of Directors.

The Committee will deliberate on potential domestic or overseas investment projects of a certain amount or more as laid down in the Company's investment amount classifications, to facilitate the collective decision-making process and the resolutions of the Board of Directors. However, regardless of the amounts, any projects involving operation of highly public facilities or the like (concessions pertaining to airports, parks, roads or other similar infrastructure), and other potential newsworthy projects, which may have significant social impact, will be on the Committee's agenda for deliberation, regardless of whether the land or facilities are owned publicly or privately. Furthermore, if a potential project may pose 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 discussed, regardless of the investment amount requirement. The Committee has been sitting since 2008, and had considered a total of 477 projects as of the end of fiscal 2022.

Note: The Real Estate Investment Committee was renamed the Business Investments Committee in October 2020. All types of potential investments including real estate projects are subject to deliberations by this committee, so as to ensure careful risk assessment and strengthen our monitoring system.

Deliberations based on unique criteria

The Business Investments Committee firmly deliberates on potential projects 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 for investments in real estate development. 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 risk assessments (16 departments, 26 items) from multiple perspectives, including the standpoints of ESG (legal risks and risks associated with soil and groundwater contamination, soil conditions, susceptibility to flooding and other disasters, and environmental impacts), appropriateness of construction costs, as well as whether going ahead with the investment is consistent with the Company's management philosophy, management strategies, and brand image. Thus, a project that is economically viable as an investment might not go ahead if other aspects significantly conflict with the Company's overall goals or vision, or if the project poses the risk of a significant environmental impact. The risk assessment items are subject to periodic review. The criteria for other business investments are according to those for real estate development. In fiscal 2022, the Committee considered 41 projects, of which two were put on hold after thorough deliberation.

In addition, in light of the recent unstable financial environment, in February 2023 we raised the IRR hurdle rate, which is set as a criterion for real estate development investment, in preparation for possible future interest rate rises. In addition, in April 2023, we introduced an environmental IRR*1 using ICP*2 as a new evaluation index to promote investments that match the carbon neutral strategy (investments that contribute to CO_2 reduction) to which we are committed.

*1 IRR (internal rate of return) calculated by converting the environmental value of the investment property's CO_2 reduction into monetary value and adding it to the profit.
*2 ICP (internal carbon pricing) is a system in which companies set their own carbon prices for the purpose of promoting decarbonization.

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

Risk (based on investment amount)	Deliberation	Decision-making	
High	Deliberation by Business Investments Committee	Electronical collective decision-making	Resolutions by the Board of Directors
↑	Potential newsworthy projects that may significantly affect society will be on the Committee's agenda for deliberation		Any potential project will be subject to a resolution by the Board of Directors if the Business Investments Committee finds it necessary, or depending on certain conditions, such as the location of the business (overseas).
Low			

Major real estate development projects subject to deliberation

Real estate for sale in Single-Family Houses, Condominiums, etc.	Profit-earning real estate through purchase or lease of land or construction of buildings
Profit-earning real estate involving capital contributions to special purpose companies (SPCs) or the like	Private Finance Initiative (PFI), redevelopment, land readjustment and other similar projects

Risk assessment for investment decisions

Economic risk assessment
- Set IRR hurdle rates*3

+

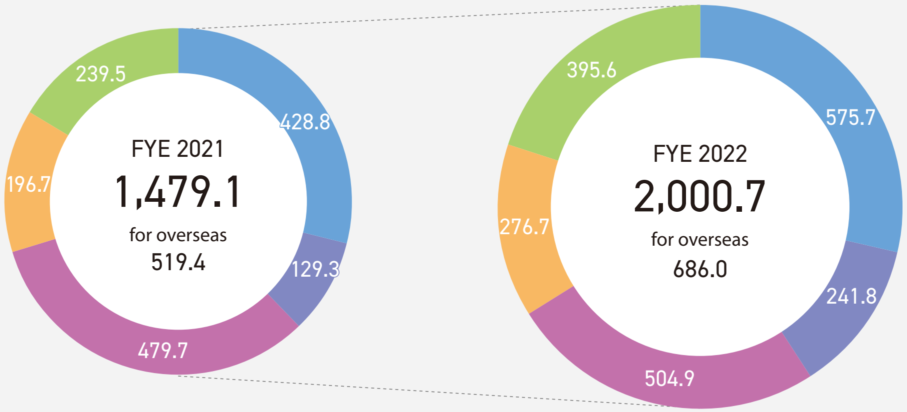
Multilateral risk assessment (16 departments, 26 items)
- Consistency with management philosophy, management strategies and brand image
- Legal risks
- Environmental impact, such as soil or groundwater pollution, ground condition risks
- Consideration for the environment such as climate change
- Appropriateness of construction costs, etc.

*3 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.

The expanding built-for-sale business

The balance of real estate for sale was approximately ¥2 trillion at the end of fiscal 2022, an increase of approximately ¥500 billion from the end of the previous fiscal year. We are expanding our built-for-sale business in each segment by leveraging our wealth of information on land and leasing capabilities, as well as the technological capabilities that enable us to meet the needs of diverse tenants and society as a whole.

Balance of real estate for sale at term-end (¥ billion)



Abundant information on land

Group collective strengths that enable large-scale and complex development projects, and the financial base to support such projects

At our sales offices across Japan, we obtain a wide range of information on land through close relationships with landowners. This enables us to secure land with superior business development prospects.

Technical capabilities that meet the needs of diverse tenants and society as a whole

Leveraging our strength in developing a variety of assets, we are steadily expanding our business while promptly and flexibly meeting the ever-changing needs of tenants and society as a whole.

Single-Family Houses Business

In Japan, we are strengthening our built-for-sale business with the aim of improving business efficiency. We plan aggressive business expansion in the United States in markets where growth is expected.

Rental Housing Business

We are steadily expanding our built-for-sale business for investors and existing owners. This also leads to the expansion of our total customer base through the introduction to us of wealthy customers by financial institutions.

Condominiums Business

In Japan, we are actively promoting high value-added condominiums. Overseas, mainly in China, we are expanding the business that we have cultivated in Japan.

Commercial Facilities Business

We develop a variety of assets that meet tenant needs, mainly in city center. We are also actively developing initiatives to increase the value of commercial facilities.

Logistics, Business and Corporate Facilities Business

We are developing industrial parks throughout Japan. Involving land-use proposals, these projects lead to sole-source construction orders and result in highly profitable business.

Environmental Vision

Chapter 6

Renewable energy utilization rate
41% ➡
100%

ZEH rate
86% ➡
100% in principle

Introduction rate of clean energy cars (company-owned cars)
1.5% ➡
100%

ZEH-M rate (rental housing)
14% ➡
100% in principle

Doing everything we can by 2030

If the current level of CO_2 emissions continues,
it should take only a decade or less before reaching the 1.5°C emission limit.
We have decided to do everything we can to accelerate our decarbonization efforts.

Note: For each indicator: Upper row: FY2022 results; Lower row: FY2030 targets

Renewable energy generation equipment construction (EPC)
2,706MW ➡
5,000MW or more

ZEB rate
66% ➡
100% in principle

ZEH-M rate (condominiums)
68% ➡
100% in principle

Overall picture of environmental strategy and main KPIs

Aiming to achieve Our Hopes for the Future, the Group announced an ultimate goal for 2055 and specific milestones for 2030 in our environmental initiatives. Through the Endless Green Program (EGP) 2026, we will steadily pursue circular economy and carbon neutrality, which are one of the materiality.

Materiality

Seventh Medium-Term Management Plan (Carbon-neutral strategy)

Strike a balance between decarbonization (impacts on society) and corporate profits (impacts on economy)

Endless Green Program 2026

	KPI	2026 Targets	2030 Milestones	2055 Ultimate goals (2050 for climate change)
decarbonization (Mitigating and adapting to climate change)	Community development GHG emissions from building use (vs FY2015) — Seven Challenge 1	-54%	-63%	Carbon neutrality
	Business activities Reduction rate of GHG emissions from business activities (vs FY2015) — 2	-55%	-70%	
	Supply chains Setting rate of principal suppliers' SBT-level GHG emissions reduction targets — 3	90%	Achievement of GHG reduction targets by principal suppliers	
Closed-loop resource sourcing and conservation of aquatic environments (Circular economy)	Number of assets subject to effective use — 6	4,500	(To be formulated in FY2026)	Minimize the volume of resources used and waste emissions
	Reduction rate of water consumption per unit of sales (vs FY2012) — 7	-40%	-45%	Use water sustainably
Harmony with the natural environment (Preservation of biodiversity)	Ratio of C-ranked timber — 4	0%	0%	Zero deforestation arising from materials procurement at all segments
	Eco-friendly surface area of green spaces (cumulative, vs FY2021) — 5	+1 million m^2	+2 million m^2	Prevent any net loss of biodiversity
	Prevention of chemical pollution			Minimize chemical pollution risk and soil contamination risk

* Prevention of chemical pollution is not defined as Challenge ZERO because it is already at the maintenance and management level.

Management Message: Environment and Energy Business Division

Doing everything we can by 2030: Continuing our exciting challenge to make the world a better place

We made the environment a part of our business early on, moving into the wind power generation business in 2007, because we believed that businesses harnessing wind, sun, and water are essential in the 21st century. Although there was no guarantee that these businesses would succeed, we continued our challenge with the positive attitude ingrained in our corporate culture. As its says in the founder's spirit, "if you fall, fall forwards," and "there is no mountain we cannot scale, nor river we cannot cross." Our business grew as renewable energy became more widespread.

At a time when we must urgently respond to climate change, we are committed to doing everything we can by 2030. Realizing carbon neutrality by making all our buildings carbon-free is a focal theme of our Seventh Medium-Term Management Plan as a step toward the goal of a circular economy and carbon neutrality (a materiality). Moving forward with this carbon-neutral strategy, we aim to grow one-time revenue businesses by raising the unit price of environment-friendly buildings and expanding the renewable energy power plant construction contract business. At the same time, we seek to generate synergies with recurring revenue businesses such as renewable power generation and electricity retail to evolve our revenue model. I believe that my mission is to create this virtuous cycle to make a substantial contribution to improving social value by decarbonization as well as improving the value of these businesses. To this end, we have set two KPIs—one for the reducing greenhouse gas (GHG) emissions and one for increasing uptake of renewable energy.

Reduction of GHG emissions

Set goal of reducing emissions to 1.5°C set by SBTi

Daiwa House Group has set a materiality KPI of reducing by 2030, the GHG emissions of its entire value chain by 40% vs fiscal 2015. By scope, it targets a 70% reduction from business activities (Scopes 1 and 2) and a 63% reduction from community development (Scope 3, Category 11). This ambitious target has been validated by SBTi, and we will achieve it by using renewable energy generated

Toshiya Nagase
Director and Managing Executive Officer
Head of Single Family Housing Business Division
Head of Environment and Energy Business Division

in-house to reach RE100, making all new buildings we offer net-Zero Energy Houses (ZEHs) or net-Zero Energy Buildings (ZEBs), and installing solar panels on all buildings.

Attaining our goal of making all new buildings we offer ZEHs/ZEBs and installing solar panels on all buildings

With the first year of the Seventh Medium-Term Management Plan behind us, we have noticed a change in environmental awareness among our customers, both individual and corporate. In fiscal 2022, the share of our buildings complying with ZEH specifications increased sharply from 53% in the previous fiscal year to 86%. Contributing factors are progress in sales of ZEH-standard products and the growing share of ZEHs built for sale. Installing solar panels (with the exception of very small sites in downtown areas and areas with heavy snowfall) is now the obvious choice amid heightened environmental awareness among customers and sharply increasing power bills. However, we still see room for improvement, and society demands even more from us. We will continue to advance the uptake of solar panels as an urgent priority.

In the past few years, the number of companies opting for renewable energy as an environmental solution has been trending up, and the value of renewable energy has been re-affirmed amid the recent sharp increase in electricity prices. As a result, more customers are investing their own funds to install solar panels. At the time we formulated the Seventh Medium-Term Management Plan, we assumed roughly 10% of customers would invest in their own solar panels, with the Group installing solar panels on the customers' roof on their behalf for the other 90% to reach the 100% target. Recent trends show these numbers reversing: 80% of customers are now investing in their own solar panels.

That said, different customers have different preferences depending on the purpose and size of their building. For example, high-capacity solar panels can be installed on a large logistics facility, whose power consumption is relatively low. This makes solar panels a solution offering major advantages, and consequently, customers are generally receptive to installing them. However, they are unlikely to have major benefits for small, retail stores on a per-building basis, which makes owners reluctant to install them. We therefore pitch a comprehensive renewable energy solution to nationwide drugstore and other chains.

We must also reduce GHG emissions at the manufacturing stage of inputs like structural steel and concrete to lower the emissions of our whole value chain. We are working with suppliers on initiatives as well as raising the share of wooden buildings, whose inputs produce less emissions at the manufacturing stage.

Increasing uptake of renewable energy

Securing an overwhelming share in offsite power plant developments

Our second materiality KPI is to increase uptake of renewable generating capacity to at least 5,000MW by fiscal 2030. We are making steady progress toward this goal. At the end of fiscal 2022, we had installed renewable energy power plants with total capacity of 2,706 MW, with 602MW of capacity developed and operated by the Group. The construction of mega-solar facilities is trending downward as the end of feed-in tariffs (FITs) approaches. Looking ahead, we will focus our efforts on onsite and offsite power purchase agreements (PPAs).

We will continue to work with our business divisions for onsite PPAs with focus on installing solar panels. Meanwhile, our promotion of offsite PPAs has recently started to bear fruit. An offsite PPA takes almost a year of preparation (for such tasks as finding a suitable site and completing procedures for connecting to the grid) before construction can start, because the power plant is built some distance away from the user's site. Only a few companies offer offsite PPAs, and their generating stations are mostly small-scale. However, the Group spent decades amassing information on land availability, and this places us well to find suitable sites for large developments. We therefore want to make offsite PPA development a stand-out strength so people will automatically associate Daiwa House with offsite PPAs. We have set up a new unit dedicated to building relationships with customers, because offsite PPAs require electricity users (buyers). This has resulted number of users growing from one company a year ago to several dozen now.

An advantage of onsite PPAs is that they obviate the need to connect to the grid, which reduces wheeling charges and other costs. However, users need to purchase power from the market if their facilities use a lot of electricity and photovoltaic power generation cannot supply 100% of their needs. This means that the company is not using 100% renewable energy. The use of offsite PPAs to supply renewable energy solves this. Thus our Environmental and Energy Business pitches onsite and offsite PPA solutions best suited to customers' needs as a means of increasing uptake of PPAs.

To be the first in the housing and construction industry to attain RE100

At the end of fiscal 2022, Daiwa House Group operated renewable energy power plants with total capacity of 612.3 MW (including power for our own consumption), which equals 1.57 times the Group's total power consumption. This means that we can supply 100% of the power we consume, even if usage increases as our business expands. In this way, we are switching to renewable energy by utilizing renewable energy generated by our own facilities in our business. As well as generating our own electricity, we are switching to purchasing power from renewable sources and encouraging electricity buyers to purchase non-fossil fuel certificates. Daiwa House Industry (nonconsolidated, domestic) achieved 100% renewable energy of its purchased electricity in fiscal 2022. In fiscal 2023, Daiwa House Group aims to achieve the same result for the whole group (including overseas subsidiaries) and targets RE100 in fiscal 2025 for the whole Group including our own power plants.

Continue to harness Daiwa House's unique strengths in our environmental strategy

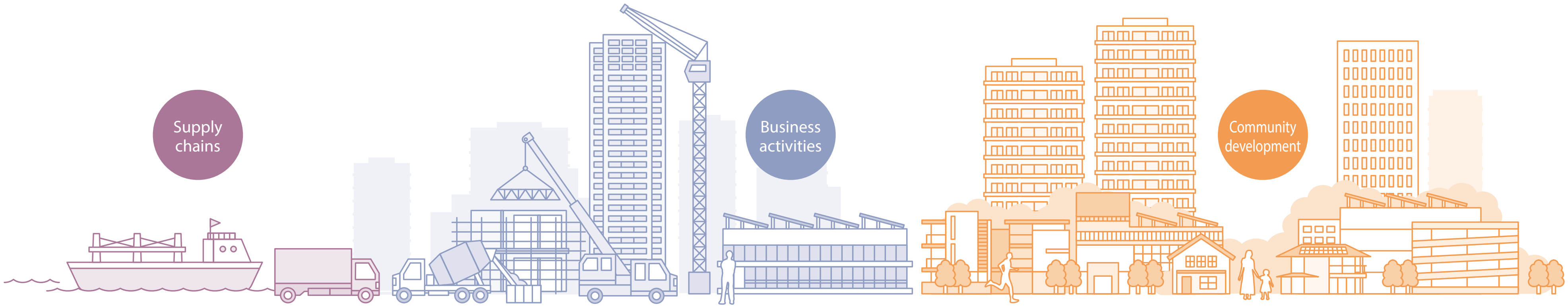
Organically making use of our strengths

We saw business opportunities in the environment early on and took action in various ways, a course that is working to our advantage today. Daiwa House Group's annual renewable energy output totals 829 GWh, which is significant for a company that is not a power utility. The Group stands out for its environmental energy business, something none of its competitors have. Renewable power generation accounts for a large share of Japan's power generation relative to its land area, offering limited locations for building power plants without compromising nature conservation and scenic views. For this reason, we believe that the key to the future supply of renewable energy lies in how to secure land to build power plants on and utilizing rooftops. As a large-scale supplier of buildings armed with nationwide land information, we can maximize our strengths in addressing these issues.

We believe we still have much to contribute to the world and will continue with these exciting challenges.

Key actions for achieving carbon neutrality

The Group aims to be carbon neutral in 2050, and has set a goal of reducing greenhouse gas emissions across its entire value chain by 40% by 2030 (compared to fiscal 2015 levels).
To achieve this goal, we have set specific action plans in each phase of the supply chain, business activities, and community development that make up the value chain, and are promoting initiatives.



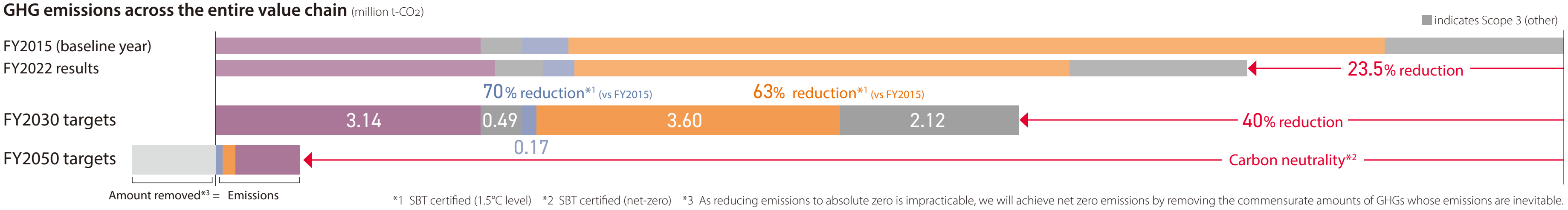
Key actions for achieving 2030 targets

Scope 3 (procurement)
- Setting SBT-level GHG reduction targets for principal suppliers
- Helping principal suppliers reduce GHG emissions by offering ideas for saving and generating energy

Scopes 1 and 2
- Upgrading to energy-saving equipment in our existing facilities
- Achieving RE100 through renewable energy generated by us (FY2025)
- Building all new owned facilities to be ZEB in principle, and equipping them all with solar panels for self-consumption
- Electrify vehicles and heavy machinery

Scope 3 (use of sold buildings)
- All buildings to be made ZEH/ZEB in principle
- All buildings to have solar panels installed in principle

GHG emissions across the entire value chain (million t-CO_2)



*1 SBT certified (1.5°C level) *2 SBT certified (net-zero) *3 As reducing emissions to absolute zero is impracticable, we will achieve net zero emissions by removing the commensurate amounts of GHGs whose emissions are inevitable.

Response to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations

Supporting the TCFD Recommendations and enhancing disclosure

The impact of climate change is becoming more severe every year, and the frequent occurrence of extreme weather, meteorological disasters, and other events, for which climate change is thought to be a cause, threatens the safety and security of homes and living, which form the foundation for the value that the Daiwa House Group offers. Meanwhile, since the adoption of the Paris Agreement, nations and governments around the world have taken a sharp turn toward "decarbonization," and expectations of the role that the private sector should play are changing significantly. Nevertheless, because the changes in the external environment accompanying climate change are highly uncertain, it is important to hypothesize multiple scenarios and respond to the risks appropriately while recognizing the business opportunities at the same time. Therefore, in addition to utilizing the "Governance," "Strategy," "Risk Management," and "Metrics and Targets" framework recommended for disclosures by TCFD as a tool for verifying the rationality of our initiatives on climate change, the Daiwa House Group intends to actively disclose information in line with the TCFD recommendations, paving the way to constructive dialogue with investors and others.

Transition plan to achieve carbon neutrality

The Daiwa House Group has positioned mitigating and adapting to climate change as one of its key management issues and has continued efforts toward achieving carbon neutrality by 2050 as declared in the Long-Term Environmental Vision. In the carbon-neutral strategy under the Seventh Medium-Term Management Plan that started in fiscal 2022, we set as a milestone a 40% reduction in GHG emissions by 2030 compared to 2015 throughout our value chain (scopes 1, 2 and 3). Toward this target, we accelerate our initiatives in all businesses and aspects.

Strategy

The risks and opportunities associated with climate change can be considered as those caused by "transitions," such as the tightening of regulations, advance in technology, and changes in the market that will occur with the move toward a decarbonized economy, and those caused by "physical changes," such as acute extreme weather and chronic temperature increases that will result from global warming. In addition, the impact could manifest not only in the short term, but also over the medium-to-long term. Therefore, the Daiwa House Group has classified the factors involved in the various changes in the external environment associated with climate change into "transitions" and "physical changes," estimated the period that will be impacted, and assessed the financial impact at three levels—large, medium, and small—to identify the significant risks and opportunities.

Steps for strategy formulation

STEP	
1	Assess the priorities of climate change risks
2	Identify scenarios
3	Evaluate the impacts on business
4	Consider countermeasures and reflect them in policy and strategy
5	Disclose information

Main risks and opportunities related to climate change

Period of impact: Short: less than 1 year; Medium: over 1 year but less than 5 years; Long: over 5 years
Level of financial impact: Small: less than ¥10 billion; Medium: over ¥10 billion but less than ¥100 billion; Large: over ¥100 billion

<table>
<tr><th colspan="3">Type</th><th>Details</th><th>Period of impact</th><th>Level of financial impact</th></tr>
<tr><td rowspan="6">Risks</td><td rowspan="3">Transitions</td><td rowspan="2">Policy, laws and regulations</td><td>Cost price increase due to change in specifications owing to tougher regulations of the Building Energy Efficiency Act</td><td>Short</td><td>Medium</td></tr>
<tr><td>Increase in operational costs due to expansion of carbon tax and emissions trading system</td><td>Medium</td><td>Small</td></tr>
<tr><td>Reputation</td><td>Accrual of costs to decarbonize a coal-fired power plant</td><td>Medium</td><td>Medium</td></tr>
<tr><td rowspan="3">Physical changes</td><td>Chronic</td><td>Increase in risk of heat stroke at construction sites due to rise in summer maximum temperatures</td><td>Short</td><td>Small</td></tr>
<tr><td rowspan="2">Acute</td><td>Damage to our facilities due to meteorological disasters and increase in insurance premiums</td><td>Short</td><td>Small</td></tr>
<tr><td>Impact of material procurement difficulty and construction delay in supply chains due to meteorological disasters</td><td>Short</td><td>Small</td></tr>
<tr><td rowspan="3">Opportunities</td><td rowspan="2">Transitions</td><td rowspan="2">Products and services</td><td>Increase in demand for houses and building with low GHG emissions</td><td>Short</td><td>Medium</td></tr>
<tr><td>Expansion of Environment and Energy Business due to rising demand for renewable energy</td><td>Short</td><td>Medium</td></tr>
<tr><td>Physical changes</td><td>Products and services</td><td>Rising demand for houses and buildings equipped for meteorological disasters</td><td>Medium</td><td>Medium</td></tr>
</table>

Sustainability Report 2023: Response to the Task Force on Climate-related Financial Disclosures (TCFD) ▶ P.41

Summarized results of scenario analysis

1.5°C scenario

A scenario under sustainable development
to limit global warming to 1.5°C above pre-industrial levels

Reason for selection	The scenario is aligned with Net Zero by 2050 (1.5°C goal) declared by Japan, in which we mainly operate, and involves relatively high transition risks.
Result of analysis	An increase in operational costs due to tightening of regulations is expected, which can be covered by revenue growth due to increased sales of ZEHs, ZEH-Ms, ZEBs, and the Environment and Energy Business.
Reflection in policies and strategies	With "Realize carbon neutrality by making all buildings carbon-free" positioned as one the focal themes under the Seventh Medium-Term Management Plan, we have decided on policies of making all new buildings into ZEH and ZEB in principle, and installing solar power generation systems on all buildings. We monitor progress using the rates of ZEH, ZEH-M and ZEB as key management indicators and reflect the results in our business strategies.

Main approach

We provide sales and design staff with education and seminars on ZEH and ZEB to improve their knowledge and marketing capabilities. To customers, we developed tools to convey the advantages and costs of eco-friendly buildings in an easy-to-understand way, as well as energy calculation tools, thereby expanding our initiatives in the area. The targets set at the beginning of each fiscal year are reviewed quarterly to confirm progress. The achievement level of targets is reflected in the performance evaluation.

4°C scenario

A scenario with maximum GHG emissions
with no climate policies implemented under fossil fuel-dependent development

Reason for selection	The scenario with the biggest physical impact was selected to hypothesize the most extreme situation.
Result of analysis	Additional costs could arise due to supply chain disruptions and asset impairment due to damage to our facilities caused by heavy rain and heavy snow, and construction delay damages as extremely hot days will increase, which can be covered by sales growth of products to mitigate and adapt to climate change.
Reflection in policies and strategies	We have decided on policies of thoroughgoing measures against heatstroke at construction sites and development and popularization of products with low GHG emissions and products adapted to physical changes. We monitor progress using the number of heatstroke cases, GHG emissions per unit of floor space through provision of products, and sales rates for ZEHs, etc. as key management indicators and reflect the results in our business strategies.

Main approach

We deployed environmental sensor at our construction sites in an effort to act promptly to prevent heatstroke or prepare for strong winds. We also formulated a business continuity plan for our supply chain, based on which we promoted measures, such as procuring materials from multiple suppliers and manufacturing sites. In the Single-Family Houses Business, we released the "Anti-Disaster House" equipped with the All-Weather Three Battery Linking System which can secure power, heating, and hot-water for some ten days in case of power outages even when it is raining. We have sold a total of over 500 such houses by the end of fiscal 2022. In fiscal 2022, 90% of single-family houses we built had solar power generation systems and 56% had storage batteries.

Endless Green Program 2026 (Seven Challenge)

Carbon neutrality for individuals, communities, and people's lifestyles

Challenge 1
Challenge ZERO for CO_2 in community development

Targets/Results for FY2022, Targets for FY2026

Management indicators		FY2022 Targets	FY2022 Results	FY2026 Targets
GHG emissions from building use (vs FY2015)		-35%	-39.3%	-54%
ZEH rate	Single-Family Houses	80%	86%	90%
ZEH-M rate	Rental Housing	10%	14.2%	50%
	Condominiums	15%	67.5%	100%, in principle (FY2024)
ZEB rate	Commercial Facilities/ Logistics, Business and Corporate Facilities	40%	65.7%	80%

Main approach in FY2022

We achieved the targets for the ZEH, ZEH-M, and ZEB rates by improving proposal capabilities thorough implementation of education and seminars on ZEH and ZEB to sales and design staff, developing tools for them and others. In the Rental Housing Business, we launched TORISIA, a ZEH-M compliant rental housing product. As to the Condominiums Business, we decided to bring forward the target year to achieve 100% ZEH-M rate in principle to fiscal 2024. Going forward, we will also accelerate expanding ZEH-M in the Rental Housing Business and ZEH, ZEH-M, and ZEB by utilizing internal carbon pricing introduced in April 2023 in real estate development.

Sustainability Report 2023: Mitigating and adapting to climate change ▶ P.32

Challenge 2
Challenge ZERO for CO_2 in business activities

Targets/Results for FY2022, Targets for FY2026

Management indicators		FY2022 Targets	FY2022 Results	FY2026 Targets
GHG emissions from business activities (vs FY2015)		-25%	-33.5%	-55%
Energy efficiency	Energy efficiency (vs FY2015)	1.54 times	1.5 times	1.9 times
Renewable energy	Renewable energy utilization rate	30%	41.5%	100% (FY2025)
Electrification	Introduction rate of clean energy cars (CEVs)	1%	1.5%	30% (company vehicles) 10% (private vehicles used for work or commuting)

Main approach in FY2022

We switched electricity rate plans to renewable energy ones and purchased non-fossil certificates as an electricity buyer, thereby achieved the electricity purchased by Daiwa House Industry (non-consolidated, domestic) 100% renewable. This helped us dramatically reduce GHG emissions in Scope 2 and achieve the target. Going forward, we aim to achieve 100% renewable energy for power purchased across the Group, including overseas subsidiaries, in fiscal 2023, and to achieve RE100 in fiscal 2025. Furthermore, we promote energy efficiency activities for new and existing facilities to attain EP100 (double the energy efficiency), introduce CEVs as company vehicles, and establish charging stations.

Challenge 3
Challenge ZERO for CO_2 in the supply chain

Targets/Results for FY2022, Targets for FY2026

Management indicators	FY2022 Targets	FY2022 Results	FY2026 Targets
Setting rate of principal suppliers' SBT-level GHG reduction targets	40%	65.9%	90% (FY2025)
The number of contracts for energy-efficiency and energy-generation solutions (cumulative)	5	9	50

Main approach in FY2022

We maintained our decarbonization working groups and decarbonization dialogues with principal suppliers, and through such dialogues with them, stepped up efforts to encourage them to set SBT-level targets. This resulted in a significant rise in the setting rate of GHG reduction targets. Going forward, we will continue to help them set and raise targets, and aim to achieve carbon neutrality in the supply chain by offering ideas for saving and generating energy to our principal suppliers.

Initiatives for Biodiversity

Challenge 4
Challenge ZERO Deforestation

Targets/Results for FY2022, Targets for FY2026

Management indicators	FY2022 Targets	FY2022 Results	FY2026 Targets
Ratio of C-ranked timber*	3%	3.1%	0%
Setting rate of zero deforestation policy (Primary suppliers)	30%	6.1%	90%

* Timber in procurement is categorized into one of four ranks—SSS, SS, S, or C—pursuant to our company's assessment procedure.

Main approach in FY2022

The volume of timber procured from Sarawak, Malaysia increased due to the disruption in timber procurement caused by the global lumber shortage. As a result, our use of C-ranked timber missed the target. Going forward, we will increase suppliers' awareness of our zero deforestation policy and aim to eliminate the use of C-ranked timber by switching sources to low-risk areas.

Our zero deforestation policy

1. Purchase timber (lumber) and wood products only from suppliers with declared Zero Deforestation policies
2. Purchase timber and wood products only from suppliers that handle products harvested or manufactured with due consideration for the safety and rights of labor and indigenous peoples in the country of origin
3. Purchase only timber and wood products whose traceability is certain
4. Extend the scope of timber covered by the survey (added plywood concrete form; wood used in fixtures, wooden fittings such as doors and windows; and wallpaper)

Sustainability Report 2023: Harmony with the natural environment ▶ P.45

Challenge 5
Challenge ZERO Harm to Biodiversity

Targets/Results for FY2022, Targets for FY2026

Management indicators	FY2022 Targets	FY2022 Results	FY2026 Targets
Eco-friendly surface area of green spaces (cumulative, vs FY2021)	+ 200,000 m²	+ 257,000 m²	+1,000,000 m²
Rate of formulation and implementation of protection and management plans of the company's facilities and significant sites	Assessing priority levels	Primary screening completed Assessment of priority levels in progress	100%

Main approach in FY2022

We have promoted greening with indigenous species under the slogan "Let's keep green" to achieve nature positive. In fiscal 2022, we created green spaces of 257,000 m², of which 50% or more is accounted for by indigenous species, mainly in our Rental Housing Business, Condominiums Business, Commercial Facilities Business, and Logistics Business & Corporate Facilities Business. We conducted the first screening of our own facilities to specify significant sites. Such initiatives will be promoted on an ongoing basis.

What is an eco-friendly surface area of green spaces?

The sum of surface area of green spaces in the exterior greening for properties, where indigenous species suitable to nature of each region account for 50% or more*

* The number of tall trees and shrubs

Initiatives for resource use and water-associated risks

Challenge 6
Challenge ZERO Waste and Reuse

Targets/Results for FY2022, Targets for FY2026

Sector	Management indicators	FY2022 Targets	FY2022 Results	FY2026 Targets
Livness business	Number of assets subject to effective use	4,000	4,276	4,500
	Number of assets subject to durability extension	4,500	8,984	9,150
Factories	Recycling rate of waste plastics material	10%	16.8%	30%
Hotels	Reduction rate of amenities that are plastic-containing products specified in law (vs FY2021)	-10%	+2.9%	-50%
	Material recycling rate of amenities made from plastics specified in law	3%	0%	50%
Supply chains	Setting rate of zero waste emissions targets by principal suppliers	50%	34.6%	90%

Challenge 7
Challenge ZERO Water-Associated Risks

Targets/Results for FY2022, Targets for FY2026

Management indicators	FY2022 Targets	FY2022 Results	FY2026 Targets
Water-saving device adoption rate at housing and hotels	93%	96.8%	98%
Water consumption per unit of sales (vs FY2012)	-36%	-42.7%	-40%
Implementation rate of water risk surveys by principal suppliers	60%	85.5%	100%

Sustainability Report 2023:
Closed-loop resource sourcing and conservation of aquatic environments ▶ P.52

Strengthening our Bases

Chapter 7

Chapter 7 Strengthening our Bases

1 Strengthening the human resources base – Views on human capital management –

In line with the Group's policy of "developing people through business," we believe that increasing the value of human resources (human capital) is the engine that drives enhancement of corporate value. Therefore, since our founding we have prioritized the growth of human resources. Under the Seventh Medium-Term Management Plan, by proactively investing in human capital and creating opportunities for employees to grow, we are maximizing the value of individual employees and the Group's organization as a whole, and building a foundation for innovation.

Our current workforce

Employees
Approx. 49,000

Our future vision (targeted human resources base)

Develop into a corporate entity that creates new value for society by bringing together a diverse range of individual employees and enabling them to fulfill their potential, based on Our Hopes for the Future (purpose)

Toward further strengthening of our human resources base

Centered on DE&I that respects each person's individuality, we will secure and develop human resources and ensure employee job satisfaction and well-being, responding to ongoing social change. In these ways, we will enhance employee engagement and increase the Group's enterprise value in a sustainable manner.

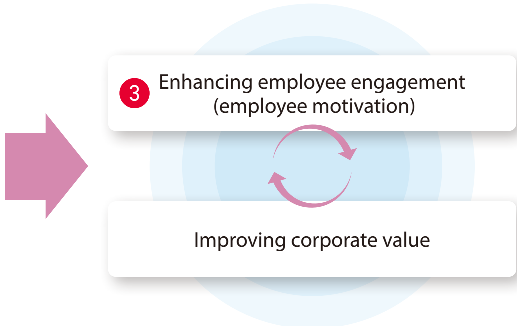
Principal measures relating to human capital and diversity

1 Securing and developing human resources

By securing diverse human resources in line with our business strategies and providing multi-track growth opportunities that closely match the individuality and values of each employee, we will support autonomous and sustainable career development.

2 Job satisfaction and well-being

We will foster an organizational climate and culture in which a wide diversity of employees can express their individuality in a healthy and psychologically safe work environment, and can come together through dialogue to create new value as an organization.



Key indicators and targets relating to human capital ▶ P.117

1 Securing and developing human resources

Strengthen our recruitment of diverse human resources who share our purpose, and support their autonomous career development by providing multi-track growth opportunities.

We will reinforce our recruitment of new graduates with an eye to the Group's future in 2055. We will also focus on securing the kind of employees that we believe will be of value in realizing our business strategies, particularly those with a high level of technical expertise, those versed in digital technologies, and talented recruits from overseas. We will support employees' personal growth and help them fulfill their ambitions by providing multi-track growth opportunities conducive to their autonomous career development. We will also facilitate exchange of personnel across organizational boundaries, both within the Group and with external companies, aiming to increase the value of our human capital.

Achieving optimal assignments for new graduate recruits Introduction of "To Do Course" and "To Be Course"

To be able to assign new recruits to businesses and occupations that match each person's aptitudes and career aspirations, starting with new graduate recruitment in 2024, we will be dividing recruitment screening into two courses – the To Do Course (recruitment by the applicant's preferred business & job type) and the To Be Course (in which all business and job type options are still on the table).

Training program for high school graduates

As part of an educational program for high school graduates, the Company offers a two-year study abroad program at an architectural vocational school (full-time). For the first two years after joining the Company, students do no actual work other than practical training at construction sites during the long vacations, and will be able to focus on acquiring specialized knowledge and skills as an architectural engineer. We have a system in place that maintains contact between the Company and the students during their study program. In this way, we support high school graduates in improving their specialized knowledge and quickly acquiring qualifications, while also cultivating their interpersonal skills and becoming fully rounded adult members of society.

Multi-Experiential Career Support Program

In fiscal 2022, the Company introduced a career support program for employees wishing to work across industry boundaries. This centers on side jobs to help employees grow and develop independent careers. We support autonomous career development by expanding systems that allow employees to voluntarily find opportunities to excel beyond organizational boundaries.

System menu

(As of April 1, 2023)

Company-arranged secondary employment Work at another employer is arranged by the Company through an open call for each project	**Self-arranged secondary employment** The employees themselves arrange to work at another employer (a corporation or NPO, etc.)
In-house secondary employment The employees spend some of their working hours on other work at a different department while remaining a member of their current department	**Secondment to a different company** The employees can experience work that is different from their current employment by spending a fixed period working at a different company

Self-Discovery system

In fiscal 2022, we changed the name of the previous self-assessment system to the Self-Discovery system, and revised the content to focus more on improving employees' understanding of their autonomous career development. We have made the questions more specific, so that employees may gain a more accurate and realistic understanding of their career prospects.

Developing Global Human Resources

In fiscal 2022, we introduced the Global Human Resource Development Program in order to systematically develop and strengthen human resources for successful overseas business development. Through this program, we are working to develop global human resources – staff who have the mindset and skills to lead value creation at any worksite, regardless of where or with whom they work.

2 Job satisfaction and well-being

Create a healthy and fair work environment where employees can fully demonstrate their individuality while enjoying job satisfaction.

Empowering female employees

In our Seventh Medium-Term Management Plan (FY2022-2026), we have established a goal of appointing 500 female managers (8% of entire managers), approximately twice as many as in the first year (April 1, 2022). We hope to change the mindset of not only our female employees but also their superiors and male colleagues. By so doing, we aim to create an environment in which capable and motivated women can build their careers and work over the long term, and offer them opportunities for growth.

Childbirth and childcare support

In 2015, we established a new childcare support system (a support system for balancing childcare/childrearing with career building), which marked a major shift in our policy from allowing time off work to helping to promote career building.

Major support systems related to childcare (our own support systems that exceed the statutory level)

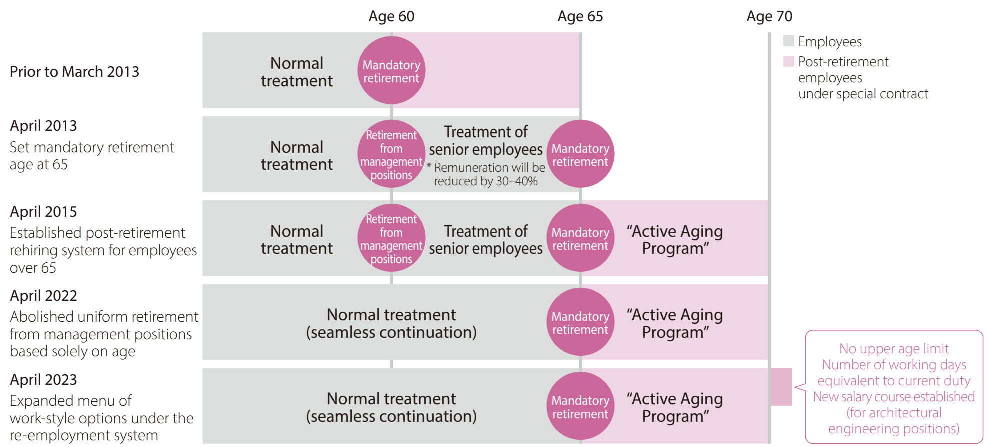
System name	Overview
Lump-sum payment program for fostering the next generation	A program that employees receive a one-time payment of ¥1 million for each child born (started in 2005) (As of the end of March 2023, we had provided total benefits exceeding ¥10 billion to 11,861 employees)
Childcare leave system	A system that allows employees to take leave of absence until their children become three years old; paid leave for the first five days
Shorter working hours system for childbirth & childcare	A system that allows employees to work shorter hours until their children reach the third grade of elementary school
Family nursing care leave	A system that allows an employee to take up to five days leave per year to care for their children, spouse, parents, or grandparents, as well as the parents or grandparents of their spouse
Support system for balancing childcare/childrearing with career building	Providing information for early return from childcare leave and staggered working hours to ensure more working hours after return, and assistance in using childcare and school facilities, babysitters, etc.
Reemployment opportunity priority system	A system in which employees who have retired due to life events are given priority in the selection process when filling vacancies based on their wishes

Flexible work styles

To increase the flexibility of working hours, in fiscal 2015 we introduced a staggered work shift system as a support measure for employees facing the need for childcare, nursing care for family members, and so on. We then followed this with the introduction in fiscal 2021 of a flextime system with no core time for employees in most job categories. In fiscal 2023, this system will be expanded to all job categories.

Promoting senior employees' active participation

Anticipating an aging and decreasing population, in 2013 the Company set its mandatory retirement age at 65, ahead of industry peers. Since then, we have regularly reviewed our treatment system for senior employees. In mid-career recruitment, we actively hire new entrants over the age of 50, and have established a system to secure human resources with advanced experience and skills and ensure that they can continue contributing to the Company for a long time.



3 Enhancing employee engagement (employee motivation)

The Group's concept of "employee engagement"

To realize Our Hopes for the Future, we have positioned improving employee engagement and fostering a healthy organizational culture as one of our most important key goal indicators.

Starting in fiscal 2022, we have revamped the employee engagement survey that we had conducted up to and including our Sixth Medium-Term Management Plan, and have re-specified new KPIs (key performance indicators) in line with our Seventh Medium-Term Management Plan.

Over the next five years, we will focus on whether employees feel that their work is meaningful while empathizing with their hopes for the future. In order to increase the number of employees who can share the joy of living with those around them through work, from 2023 we will shift our focus from instilling Our Hopes for the Future to empathy and practical action. In addition, we will set targets that employees can use to estimate the degree of growth they feel by taking pride in their work.

Going forward, to enhance employee engagement, the Corporate Strategy Planning Department will plan and formulate specific measures in collaboration with each business division, and the business divisions will take the lead in implementing initiatives to promote company-wide improvement.

Main KPIs	FY2022 Results	FY2026 Targets
Job satisfaction	43%	All at 70%
Pride in work	53%	
Sense of growth	52%	

Note: The figures for fiscal 2022 are based on the percentage of respondents who answered "Definitely" or "Yes" to the top two categories shown in the pie chart on the right.

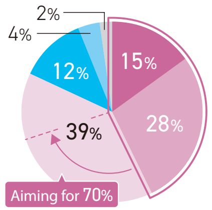
Analysis of current situation

The level of employee motivation is at a high 82% when we aggregate positive opinions, but we focused on the 43% who answered "Definitely" or "Yes" and will raise this to the high goal of 70% by FY2026. At the same time, we will take measures to enhance pride in work and a sense of growth. Surveys will be conducted annually to check on the state of progress.

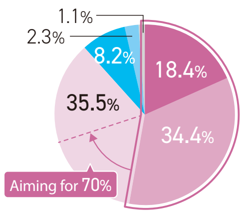
Employee motivation Details of 2022 results

- Definitely
- Yes
- Probably
- Probably not
- No
- Definitely not

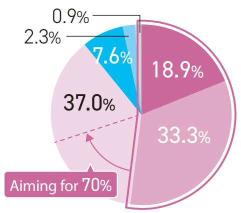
Q Are you able to work with a sense of purpose at your current company/job/workplace?



Q Do you feel pride in what you are trying to accomplish in your current job?



Q Looking back on the past year, do you feel that you have learned and grown on the job?



Miraimachi Sengen (Futuretown Declarations) A society where we live together in harmony embracing the Joys of Life

In fiscal 2022, as one of our efforts to realize Our Hopes for the Future (purpose), we promulgated the Miraimachi Sengen nationwide. At each business branch and factory, we worked with stakeholders to envision the community we would like to create by 2055. This initiative gave employees an opportunity to discuss the future of the region, understand the significance of the Group's existence, and reconsider the importance of the social value we create through our business operations. Going forward, we will cooperate with local citizens and other stakeholders to realize the Miraimachi Sengen, while also working to enhance employee engagement.

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Photos show staff drawing up the Miraimachi Sengen at two of our branches (Left: Kyoto Branch, right: Niigata Branch)

Roundtable

Preservation of Mount Yoshino's Cherry Trees and Our Hopes for the Future

Maho Miyakawa
Chief, Sustainability Planning Department
×
Junko Ishizaki
Managing Executive Officer
×
Shuhei Kurumada
President, Yoshinoyama Hoshoukai
×
Shinsuke Tatsumi
Director, Business Division, Yoshinoyama Hoshoukai

The Daiwa House Group endorses and supports the cherry tree conservation activities of Yoshinoyama Hoshoukai in Mount Yoshino, Nara Prefecture, the birthplace of our founder. We invited Yoshinoyama Hoshoukai's President Shuhei Kurumada and Director Shinsuke Tatsumi to talk about the organization's activities, and the commonalities between cultivating and conserving cherry trees and fostering human capital and developing organizational culture.

Our Hopes for the Future moving from the awareness-and-understanding phase to the shared-purpose phase. Initiatives to make it happen have begun

Daiwa House Industry Managing Executive Officer Junko Ishizaki: The Daiwa House Group formulated Our Hopes for the Future (our Purpose) and have taken the first steps to achieving it in 2055, the year of our centennial. In the first year, we toured our offices around Japan to explain the thinking behind Our Hopes for the

Future to ensure that employees accurately understand and are aware of our Purpose. We broke it down into three levels (business division, offices, and individual) around October 2022 and have since been inviting employees to join us in exploring what we can do at each level to take action based on our shared Purpose.

We think our employees are also beginning to notice gradual changes. Although some were skeptical at first, after discussions with people of different generations and positions in the company as part of various activities, they are beginning to realize that we are not talking about some utopia, but a mission that we must accomplish.

For activities at offices, we asked each one to formulate a *Miraimachi Sengen* (Futuretown Declaration)—a vision for the future of the local community—through dialogue among all its employees. Exploring the future landscape of your own neighborhood leads directly to sharing the Joys of Life. Feedback after these discussions is typified by such sentiments as: "I realized how important it was to take a medium- to long-term view" and "I noticed that I hadn't visualized how I wanted things to be."

Simply reciting our Purpose does not enhance corporate value. We need to incorporate it into our medium- to long-term strategy, which we must ensure is action that steadily brings us closer to our Purpose. We aim to connect our vision for neighborhoods reflected in *Miraimachi Sengen* (Futuretown Declarations) to initiatives that we put into action.

I feel that your cherry tree conservation activities, we believe, have much in common with fostering human capital and developing our organizational culture.

Daiwa House Meets Yoshinoyama Hoshoukai: Nurturing the Soil to Grow Cherry Trees

Yoshinoyama Hoshoukai President Shuhei Kurumada: Yoshinoyama Hoshoukai was established in 1916 to safeguard the cherry trees and preserve the cultural

landscape of Mount Yoshino. Two hundred species of cherry, mainly *yamazakura (Prunus jamasakura)*—30,000 trees in total—grow in the Mount Yoshino area. It is a rare natural asset designated a Word Heritage Site and a National Park. Yoshinoyama Hoshoukai has 29 members, including 10 directors, 14 councilors, three "cherry tree caretakers" *(sakuramori)*, and two office staff.

In 2008, I was desperately seeking an answer to the question of how to restore the cherry trees of Mount Yoshino. I went to consult Daiwa House, because the company's founder, Nobuo Ishibashi, was born in Yoshino District, Nara Prefecture. At the time, we were mainly doing planting work as we tried to find our way forward. Although some cherry saplings grew into trees, others failed to thrive. Daiwa House referred us to a specialist, who taught us the concept of growing the soil. Although some were skeptical about the idea, after numerous discussions with the doubters we came to incorporate soil-improvement into our approach.

Yoshinoyama Hoshoukai Director Shunsuke Tatsumi: Eight years have passed since we started nurturing the soil, and the areas where we kept it up are clearly changing. A healthy mountain forest is one with a diversity of grasses, trees, and animal inhabitants. Cherry trees that grow in this environment have larger trunks than those in other areas, reaffirming the

importance of the soil. We believe that nurturing the soil so that we can plant healthy saplings anytime is the way to conserve the cherry trees of Mount Yoshino. Throughout the year, we pick cherry stones, germinate them, grow the seedlings into saplings, and plant them in the forest when they reach a certain size. This process is repeated every year. Today, three *sakuramori* maintain some 30,000 trees.

Daiwa House Industry Sustainability Planning Department Chief Maho Miyakawa: Daiwa House Group employees take part in conservation activities six times a year as volunteers. Some former employees and family members of current employees also participate, making the sessions enjoyable community-building occasions. As one of my responsibilities, I have joined in the activities for many years. I find it a truly worthwhile experience.

Kurumada: We are most focused on putting proper care into growing the roots. We take good care of the saplings to minimize the risk of disease before returning them to the forest. For a tiny cherry stone to grow into a robust tree, it is essential that it has healthy roots. Differences in the soil are reflected in the way the trees grow.

It makes me realize how taking action in 2008 resulted in what we have achieved today.

Ishizaki: In this respect, cherry trees are like people.

People can't thrive without good soil to grow in: a positive work environment. Cherry trees take 50 years to attain full size and their lifespan is around 70 years, similar to people. I was impressed by your efforts to strengthen the roots by not applying fertilizer and collecting stones (seeds) from stock trees* to pass on healthy DNA to the next generation.

Companies are no different in terms of always having to try something new. Our Hopes for the Future passes on to future generations the founder's spirit that we have cherished for decades, as well clarifying the company's role in a way that makes sense today. We learned from an engagement survey we carried

* Trees whose seeds and shoots are well suited for producing quality seedlings for propagation

Mount Yoshino and its cherry trees in full bloom

out last year that over half of employees wanted to contribute to society, which was a revelation to us. We think we can take a big step forward toward achieving Our Hopes for the Future by merging the intentions of the Company and employees. To make this happen, we have to "improve the soil"—the work environment, a notion we put into action with the aforementioned *Miraimachi Sengen* (Futuretown Declarations). We anticipate new businesses and innovations that address local issues as a result of harnessing the power to co-create and coexist by working closely with and helping the communities we operate in to grow the circle of like-minded people who support our goals.

We conduct regular questionnaire surveys and are keen to utilize the results more. Instead of reacting to each favorable or unfavorable result, we need to look at the results as data for assessing the current situation objectively and apply it to devising ways to improve the working environment and make work more worthwhile for our employees. We must try various ideas to respond to this challenge. There are no right answers. The company will not be placed well unless diverse people bring different values to the table. To me, it feels like a meeting with members of Hoshoukai to exchange knowledge and ideas and put them into practice, is a typical Daiwa House activity.

Painstakingly nurtured soil and working environments both bring buds magnificent in full bloom

Tatsumi: The mountain is all about renewal and circulation. We must take on its challenges, facing them squarely. Likewise, when fostering people to carry on our work, which is an urgent priority—new members to ensure Hoshoukai's continuity and to train more *sakuramori*. Not many young people live in this area. Of our three *sakuramori*, one was born in Yoshino, but the other two are young people who love cherry trees and want to keep them healthy and thriving. We are discussing when to hire and train the next intake of caregivers. The timing is tricky because of the cost of employing people.

Kurumada: Our dream is to make the cherry trees of Mount Yoshino a world-renowned treasure of Japan. We want to continue propagating our cherry trees, one tree at a time. We believe that continuity of effort is meaningful in itself and will continue to work with Daiwa House to grow the world's best blooming cherry trees.

Ishizaki: Nobuo Ishibashi, the founder of Daiwa House Group, always said that we must foster people through our business, because he firmly believed that people mattered the most. Human capital is more valuable than ever in current times of turbulent change. We are building an environment and organization where each individual (our human capital) can flourish while making sure that we maintain the unique character of Daiwa House Group. Each of us harnesses our individual qualities to make many different flowers bloom. Our Hopes for the Future initiatives have only just started and must keep going for many years. We will patiently take one step at a time with all our stakeholders sharing our Purpose. I will do my utmost so that we can create a world where people share the Joys of Life as envisioned in Our Hopes for the Future, like the magnificent flowering cherry blossoms of Mount Yoshino.

Business partners
Employees

2 Strengthening our technology and manufacturing base

The Daiwa House Group has pioneered manufacturing based on the "industrialization of construction" as its corporate philosophy. The construction industry is confronted with a variety of issues, such as a looming future shortage of workers and soaring resource prices. Given this situation, the Group is taking measures to evolve supply chains with digital technology. In particular, by making the entire construction industry "smarter" we will be able to increase its attractiveness to current and prospective employees, while at the same time strengthening our technology and manufacturing base.

Current situation

Our supply chain network	Our factories	R&D sites
Approx. 4,900 companies	9	2

Our future vision (targeted technology and manufacturing base)

Transforming the construction industry as a whole into a smarter sector, to make it more attractive to current and prospective employees

Safer construction sites
Retaining skilled construction workers

To further strengthen our technology and manufacturing base

The Japanese construction industry is concerned about the impact of the introduction of a cap on overtime work from April 2024. According to a 2020 survey by the Japan Federation of Construction Contractors, approximately 40 percent of construction engineers take fewer than four days off every four weeks, and only about 20 percent of the total take eight days off every four weeks. In fiscal 2021, we realized a schedule of eight days off in each four-week period. We hope to make optimal use of digital technology to help change the work-life balance of current and prospective employees. We are also working on various initiatives to address issues caused by Japan's declining birthrate and aging population, such as the shortage of construction engineers and high job turnover rates.

Upcoming problems and solutions in the construction industry in 2024

Problems	Solutions
Workforce shortage due to declining birthrate and aging population	1. Supplement the accumulation of technical skills and their passing down to younger employees with data accumulation and the use of digital technology 2. Boost recruitment of senior employees 3. Increase support for foreign workers
High job turnover rate among young employees	1. Recruitment of technical high school graduates (educational support) 2. Career advancement support (adoption of construction career advancement system, adopting employment conditions and salary levels matching employees' skills and experience) 3. Improving safety (reducing accident frequency rate)
Normalization of long working hours	1. Realization of 8 days off per 4 weeks (achieved in 2021) 2. Productivity improvement – Improve work efficiency with the construction DX platform system, Reduce work burden by use of "smart" control centers and ICT-compatible construction equipment

Digital transformation

Maximum use of digital technology to deliver innovations in work-life balance of construction industry personnel

Strengthening cost competitiveness and building a stable supply system

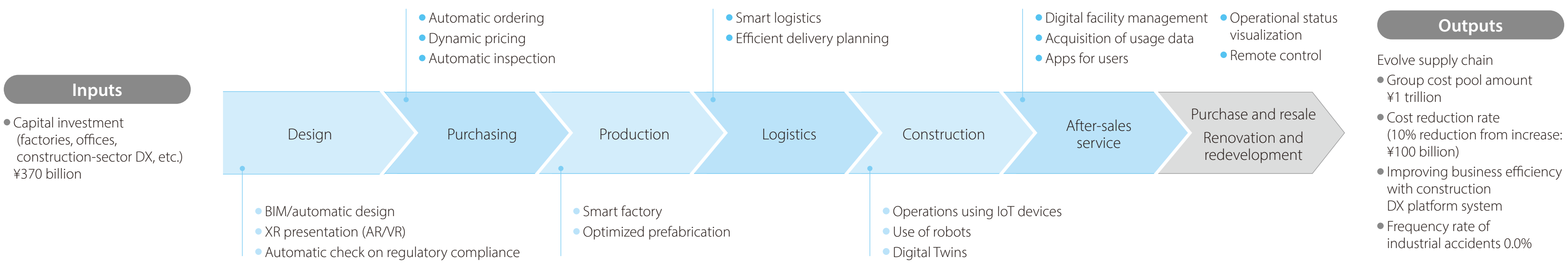
Evolve supply chain
- Group cost pool amount ¥1 trillion
- Cost reduction rate (10% reduction from increase: ¥100 billion)

Digital transformation

Strengthening our technology base with DX
- Labor-saving/efficiency
- Technical sophistication
- Quality/compliance
- Capital investment (factories, offices, construction-sector DX, etc.) ¥370 billion

Digital transformation (Using DX to strengthen technology and manufacturing base)

We are working to maximize the use of digital technology to innovate the work-life balance of construction industry personnel. By promoting digital transformation that supplements the personal accumulation and passing on of technical skills with the use of databases and digital technology, we can save labor and improve efficiency on-site, achieve technological advances, improve quality and compliance, and realize greater on-site safety. This will lead to improved retention of skilled construction-worker employees.



Increased sophistication of technology

Realizing business DX with BIM

By making extensive use of BIM (building information modeling) data, we aim to achieve reform of the construction process in the form of "Construction DX," and build a technological foundation that will enable Group sales of 10 trillion yen by 2055. As a first step, we are currently building a digital infrastructure called D's BIM, which uses BIM as a platform to centralize information across product development, sales, design, construction, and maintenance.

In addition, in the construction of the MIRAI KACHI KYOSO Center (*Kotokurie*), BIM was actively utilized from the initial design stage to help many on-site personnel understand the highly difficult spatial configuration and enable them to share information. We also verified the benefits of maintenance management information using digital twin technology to business parties conducting ordering. We believe that these will greatly contribute not only to operational efficiency but also to service improvement.

Safety & security at construction sites

Digitalization of construction management and construction work

We are promoting remote management and the accumulation and utilization of on-site information in a smart control environment, with the aim of sharing construction information among those involved in on-site operations, and improving work efficiency. By aggregating and visualizing data on multiple construction sites, it is now possible to perform data-based analysis and predictions, enabling speedy decision making in response to environmental changes. We are seeing results not only in terms of heatstroke prevention and crime prevention, but also in terms of safety education that uses easily-visualized disaster statistics. Ultimately, we aim to create a system that can visualize manufacturing sites and management in real time by linking not only construction site information but also building data and management data. This will support management decision-making based on data.


Customers


Employees

3 Strengthening our customer base

We are building strong customer relationships by promoting proposal-based sales that solve problems from the customer's perspective and by maintaining a close relationship with our customers long after construction has been completed. In particular, under the 7th Medium-Term Management Plan, we are working to establish a circular value chain (create, foster, and revitalize) business model in order to maximize customer life-time value (LTV) as well as the LTV of buildings, accumulate intellectual capital, and build strong and permanent customer relationships.

Current Situation

Existing owners of houses/condominiums	Landowners	Corporate tenants
Approx. **500,000**	Approx. **40,000**	Approx. **4,300**

Our future vision (targeted customer base)

By maintaining close, long-term relationships with our customers, we will build trust and acquire a strong customer base.

To further strengthen our customer base

By combining the "information power" that we have cultivated with new business opportunities through the value of new markets and real experiences that will emerge from future digital utilization, and by working on priority themes, we will increase customer LTV and the LTV of buildings. We aim to maximize this and achieve a sustainable improvement in corporate value.

"Information power" cultivated through long-term relationships with customers

×

Future business opportunities
- Creation of new markets born from diverse values and use of digital technology
- Rebuilding the value of real experiences

Priority themes
- Expand a circular value chain from the perspective of local communities/customers
- Strengthen cost competitiveness and build a stable supply system

Increase customer experience value by DX
- Increase UX of employees
- Increase value provided to customers
- Data integration platform

Expand repeat orders and business opportunities

Improve brand value

- Address social issues
- Utilize existing buildings
- Evolution of our supply chain

- Contribute to building long-term relationships with customers that were previously unreachable
- Good-quality products at a reasonable price

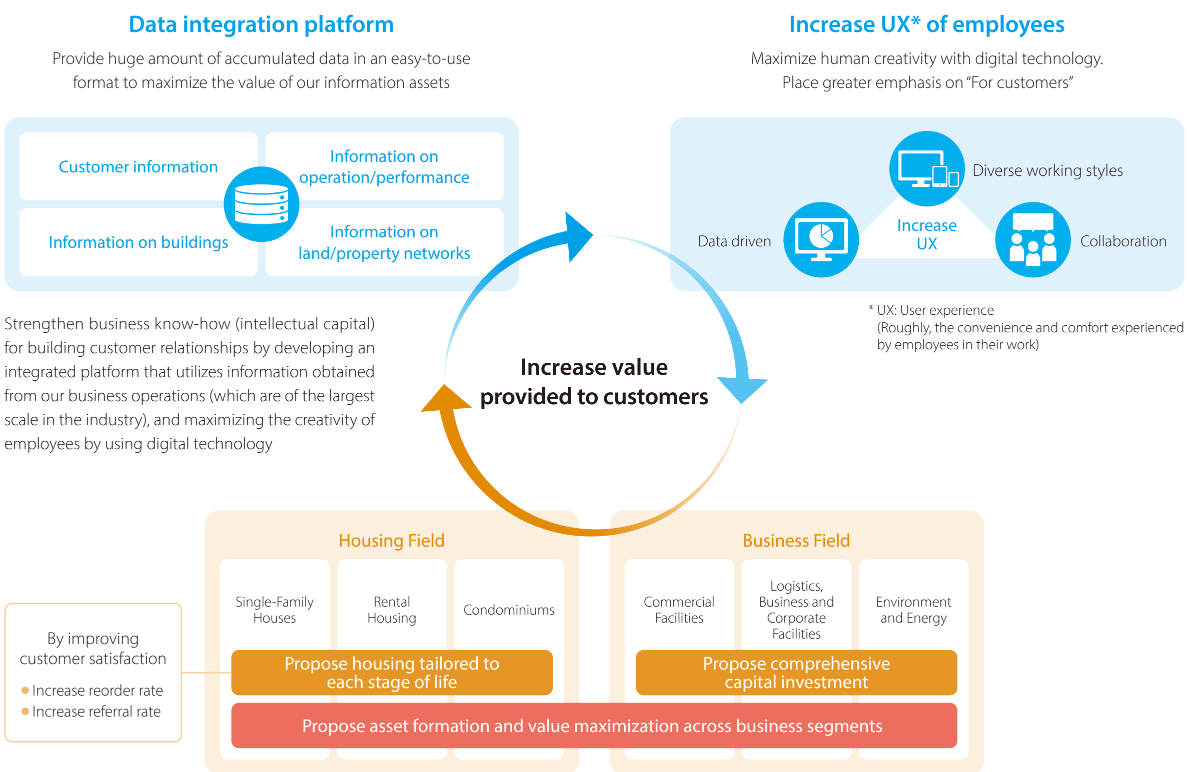
Maximize customer LTV and the LTV of buildings

||

Circular value chain
(Create, Foster, Revitalize)
Establish a business model

Digital transformation (Strengthening our customer base through DX)

We aim to establish an integrated platform that utilizes information obtained through business operations at the largest scale in the industry, and are maximizing the creativity of our employees through digital utilization. Through a circular feedback mechanism created by these initiatives, we will further strengthen our customer base, which is to say our social capital.



Strengthening ties with customers

Introduction of "3D Fast Plan" in single-family housing business

We create a base plan by analyzing plan data that customers have actually subscribed to in the past. We propose a first plan to customers using a base plan carefully selected from a huge amount of data. From the early stages of negotiations, you can imagine what the completed house will look like, and you can also experience the exterior, interior, and floor plan in virtual reality, which helps foster a level of understanding and satisfaction. The biggest attraction for our customers is that they can enjoy the significant life event of building a home. At Daiwa House, we are able to differentiate our proposals from those of other companies at the initial stage, and are able to shorten the time required to reach agreement on a plan.


Utilizing VR content as a sales tool


3D fast plan

4 Human rights management

"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).

Stakeholder engagement in the application of due diligence to human rights issues

The Daiwa House Group conducts human rights due diligence while utilizing initiatives based on existing policies and guidelines regarding business activities, and protects the human rights of stakeholders (principally customers, employees, business partners, and members of local communities).

We monitor the impact of our business activities on stakeholders through various questionnaires and awareness surveys, and use the results to conduct engagement with our stakeholders.

Human rights with regard to employees

Based on the belief that companies have a responsibility to respect human rights, we conduct ongoing education programs for our employees concerning human rights. The Human Rights Awareness Promotion Committee, chaired by the President, regularly checks the implementation status of human rights awareness programs across the Group and supervises the implementation of policies, while also promptly addressing individual human rights issues through such measures as establishing a reporting and consultation desk.

We have been conducting employee human rights risk assessments continuously since fiscal 2004, but from fiscal 2022 we have revamped these assessments to the level of an "Engagement Survey." This has enabled us to assess the degree of understanding and acceptance among our employees of the Daiwa House Group Corporate Ethics Code, which includes an injunction to respect human rights.

We ensure that all managers are fully aware that proper management of working hours is the minimum requirement in terms of labor compliance. In addition, for issues related to harassment, we have set up consultation desks at all of our offices nationwide, with two staff members on duty at each, and regularly conduct training focused on prevention of harassment. In fiscal 2022, legal advisors conducted training and awareness-raising for business site managers. Regarding training for executives, we received analysis and proposals based on case studies on the Group's legal obligations to respond to various types of harassment.

Human rights involved in operations by our business partners

Having established the Supply Chain Sustainability 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 people is alleged to take place.

Additionally, the Company annually requires its subcontractors to fill out questionnaires that enable us 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.

Regarding the human rights of customers and local community members

We believe that business activities that respect human rights and are not complicit in human rights violations are only possible if each and every employee performs his or her work without favor or prejudice. We are therefore fully aware that providing training to our employees is the most important element in human rights management.

Based on the customer satisfaction (CS) philosophy that has been laid down 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.

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Governance

Chapter 8

Management Structure

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

Concept of governance system enhancement

Initiatives in the 7th Medium-Term Management Plan	Approaches in fiscal 2022
1 Optimization of management structure • Raise the proportion of stock remuneration in director remuneration and introduce non-financial evaluation indicators • Strengthen monitoring function of the Board of Directors	**● Reviewed the agenda standard for meetings of the Board of Directors** Revised the agenda standard for meetings of the Board of Directors to secure time for proposals related to "strengthening the monitoring function of the Board of Directors," including raising the amount of the agenda standard for decisions related to business execution to that in line with the scale of the business
2 Foster next generation of business managers • Build a succession process for Directors/Executive Officers	**● Expanded the succession planning system for the next generation of business managers** Continued effort to pass on the spirit of our founder through qualitative improvements in the entire Group by integrating the D-Succeed system and the Daiwa House Juku for training management successors and expanding off-site training opportunities
3 Improve system of business execution • Prepare and strengthen regional corporate functions overseas • Strengthen asset management in line with asset increase • Continuous improvement of organizations and functions for overlapping businesses within the Group • Continual improvement of the Group's head office functions and optimal allocation of human resources	**● Newly established the Management Strategy Planning Headquarters** In April 2023, established the Management Strategy Planning Headquarters, aiming at building an integrated strategy to enhance the Group's value. Transferred the Corporate Strategy Planning, Business Development, and Sustainability Planning Department under the Management Administration Headquarters, to the Management Strategy Planning Headquarters. Launched the Business Human Resources Planning Department to optimize human resources to achieve our business plan and design an organizational structure aligned with overall strategy. Further, started the DX Planning Department to promote DX strategies for the business divisions and Group companies. **● Internal reorganization** Regarding our operations within Japan, under the business division-based system, abolished the existing block system and instituted a new structure having the head office and offices tasked with administrative and supervisory functions, as well as branches thereunder in each area. Rearranged the region across the country into 11 areas where the head office and offices are allocated as the regional headquarters in each area, replacing the existing structure in which block managers in 15 blocks nationwide had supported the branches and branch offices' management. By reorganizing the business divisions as branch offices thereunder in each area, strengthen administrative and supervisory functions to provide management support and enhance governance. **● Began work on formulating detailed management indicators for our overseas business** Developed detailed management indicators, and plan to start on-site management using the detailed management indicators
4 Entrench risk management structure • Effectively operate and continuously improve risk management structure • Continuously strengthen the efficient business operating base to sustain risk management and compliance activities	**● Established an information security system** Overhauled the structure of information security rules to reflect recent diversification of societal demands for information security and the Group's diversified business operations. Accordingly, revised the existing Information Security Statement in line with these activities.

1 Optimization of management structure

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

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

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

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

Management strategies

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

Governance

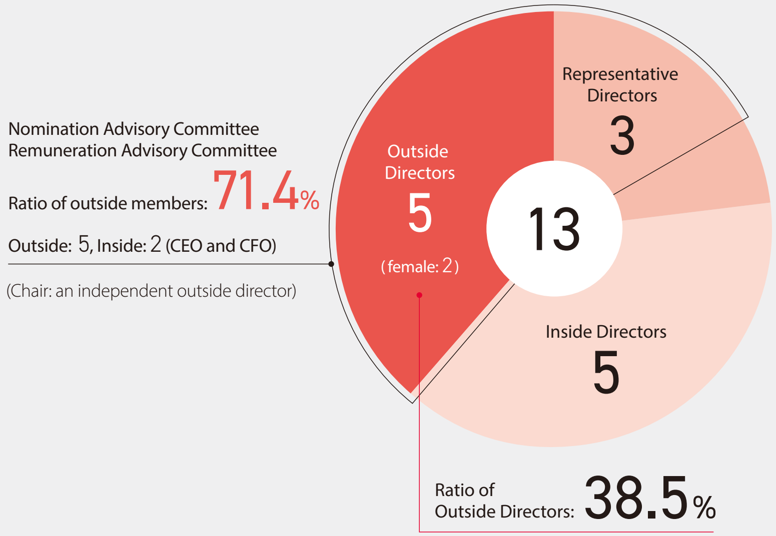
- Enhancement of head office's strategic functions (newly established the Management Strategy Planning Headquarters)
- Amendment to the Information Security Statement
- Report on self-review results and revision of the Corporate Governance Guidelines
- Evaluation of the effectiveness of the Board of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

Investment projects

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

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

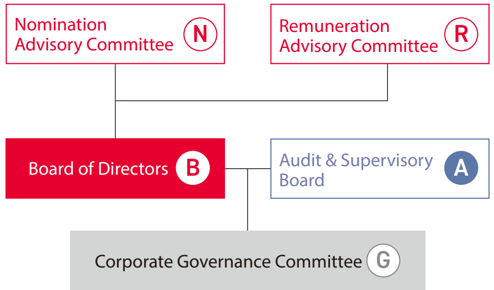
Board of Directors



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

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

Structure of Committee for strengthening monitoring function of Board of Directors



Reason for new appointments

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

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

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

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

Yukinori Kuwano
Outside Director (Independent Officer) B N R G

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

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

Roles and functions fulfilled by outside directors

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

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

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

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

Kazuhiro Yoshizawa
Outside Director (Independent Officer) B N R G

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

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

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

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

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

Yujiro Ito
Outside Director (Independent Officer) B N R G

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

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

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

Helping to improve sustained corporate value through auditing

Tomoyuki Nakazato
Corporate Auditor A G

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

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

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

Helping enhance corporate value firmly grounded in good governance

Akihisa Watanabe
Outside Auditors (Independent Officer) A G

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

Skill Matrix

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

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

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

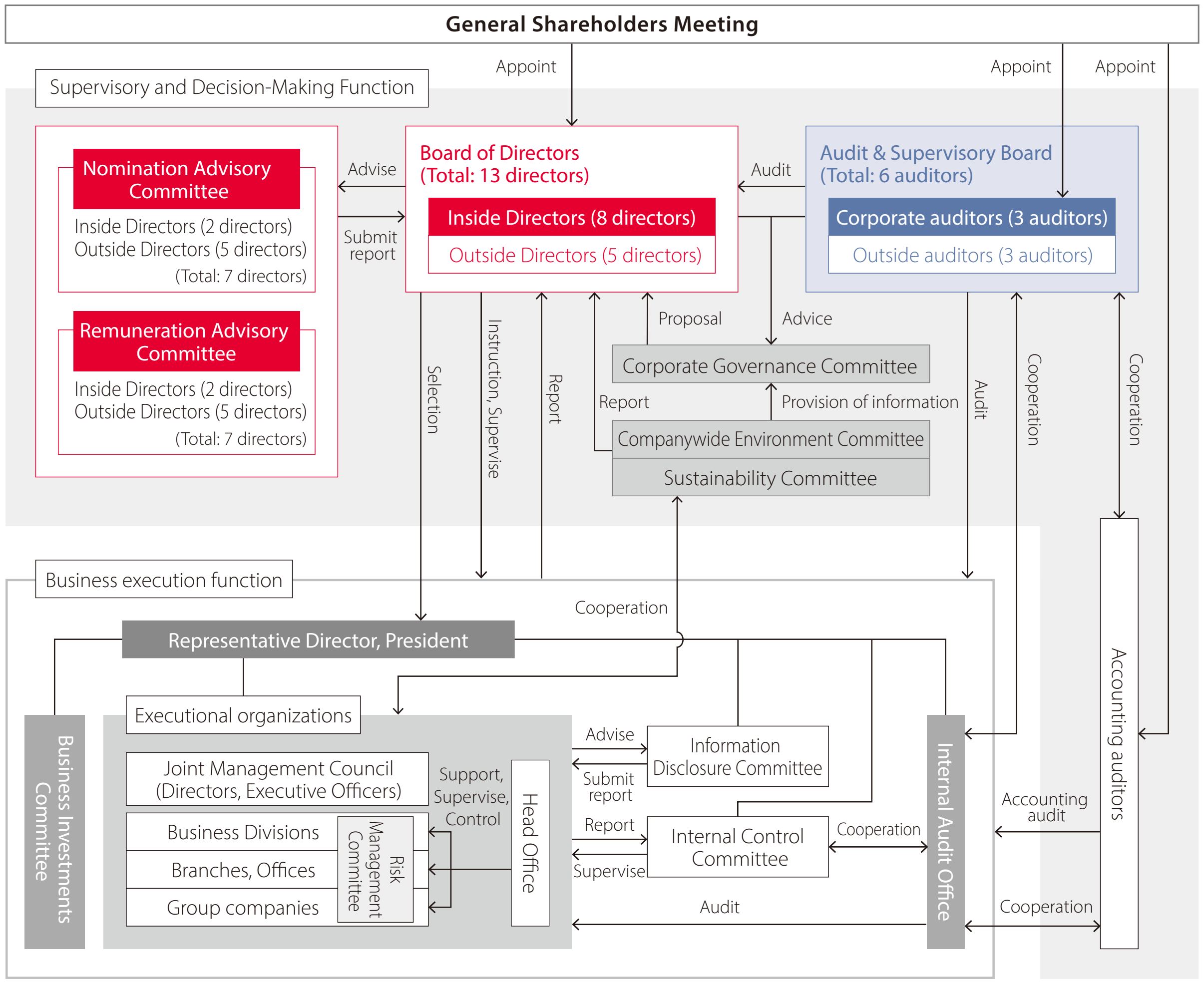
Corporate Governance System

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

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

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

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



Advisory Committees of Board of Directors (Board Committees)

Nomination Advisory Committee

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

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

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

Remuneration Advisory Committee

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

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

Corporate Governance Committee

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

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

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

Selection criteria for candidate directors

1. They should have 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.

Procedures for director selections

Nomination Advisory Committee

Discuss whether the candidate satisfies the above criteria and present conclusions to the Board of Directors

↓

Board of Directors

Decisions regarding director selections

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.

Audit and Supervisory Board

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

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

Audit system by Audit & Supervisory Board Members

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

In addition, the Audit & Supervisory Board members attend not only meetings of the Board of Directors but also other meetings, including meetings of the Corporate Governance Committee and the Business Investments Committee, and exchange opinions with representative directors as well as accounting auditors five or more times a year. Furthermore, the implementation status of internal audits is reported from the Internal Audit Department to the Audit & Supervisory Board members. These initiatives systemically ensure that important information relating to the Company's execution of operations is reported in detail to Audit & Supervisory Board members.

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Committees concerning operational execution (Management Committees)

Joint Management Council

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

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

Internal Control Committee

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

In fiscal 2022, the Committee met four times.

- Chair: Representative Director, President

Risk Management Committees

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

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

Business Investments Committee

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

- Chair: Representative Director, President

Information Disclosure Committee

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

- Chair: Head of Management Administration

Remuneration policy

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

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

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

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

Details

The remuneration shall be as follows.

(i) Fixed remuneration

In compensation for "fulfilling their duties" in supervision of management and execution of operations, monetary fixed remuneration (supervising remuneration and executive remuneration) is paid to all of our directors and Audit & Supervisory Board members, according to their roles and responsibilities. Based on the resolution at the General Meeting of Shareholders, the limitation of remuneration for directors shall be 70 million yen per month and that for Audit & Supervisory Board members shall be 18 million yen per month. The company does not provide retirement benefits for directors and Audit & Supervisory Board members.

(ii) Annual incentive bonus

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

(iii) Stock compensation

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

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

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

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

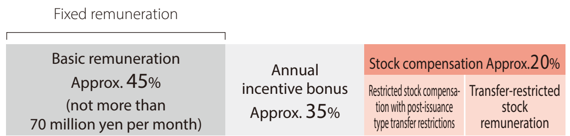
We provide this payment to encourage commitment to ESG management. Under this system, shares of the company's stock are delivered in accordance with the degree of achievement of environmental indices set forth by the company for each fiscal year during the period of the Medium-Term Management Plan. (KPI: environmental indices in the Seventh Medium-Term Management Plan)

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

Determination process

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

Directors' remuneration structure (excluding outside directors)



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

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

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

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

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

The "CO_2 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

Performance goal achievement coefficient*4 = [(1) CO_2 emissions reductions (business activities*1) + (2) CO_2 emissions reductions (building use*2)] × (3) CDP Climate Change score*3

*1 CO_2 emissions at Group offices, plants, construction sites, and business facilities. (Scopes 1 and 2)
*2 CO_2 emissions resulting from Group sales and the use of developed residential housing and buildings. (Scope 3, Category 11)
*3 CDP, an international NGO, surveys more than 14,000 companies and other organizations from around the world and rates them corporations on an eight-point scale according to their actions and strategies for climate change.
*4 The performance goal achievement coefficient is set to 1 if it exceeds 1.

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

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

(3) CDP Climate Change score

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

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

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

Calculation method

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

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

Initiatives to further share value with our shareholders

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

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

Shareholding Guidelines

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

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

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

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

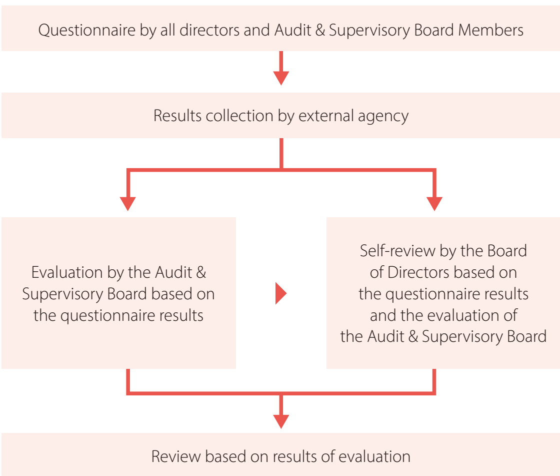
Overview of effectiveness evaluation of Board of Directors

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

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

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

Evaluation process



Evaluation items

The survey was made up of 39 multiple-choice questions and 12 questions requiring written answers about items below. The multiple-choice questions asked for rankings on a one-to-five scale (where 5 = highest ranking, 1 = lowest ranking).

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

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

Evaluation results for FY 2022

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

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

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

Training

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

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

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

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

2 Foster next generation of business managers

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

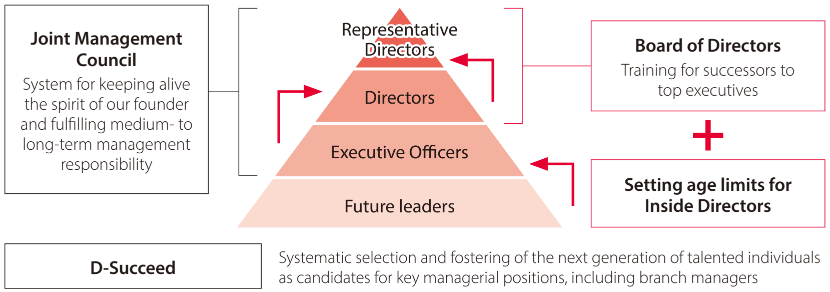
To ensure continuous business growth under a rapidly changing operating environment, the Company has set age limits for Inside Directors (Representative Directors: sixty-nine; Directors: sixty-seven). We are also fostering the next generation of excellent human resources, while smoothly promoting transition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

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

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

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

A program to nurture the next generation



Policy on cross-shareholdings

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

Criteria for sale of cross-shareholdings

The Company owns cross-shareholdings to strengthen its relationships and collaboration with partner companies. The Board of Directors conducts an annual comprehensive review of each cross-shareholding in terms of the risks and benefits of maintaining it, based on conditions of trade, financial statements, external ratings and the required profit figure for cross-shareholding calculated from the WACC (weighted average cost of capital). As a result, the number of cross-shareholdings has fallen from 98 at the end of fiscal 2014 to 56 at the end of fiscal 2022.

Actual sales of cross-shareholdings over past three financial years

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

3 Improve system of business execution

Business division-based system and branch management

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

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

Status of initiatives to strengthen governance in our overseas business

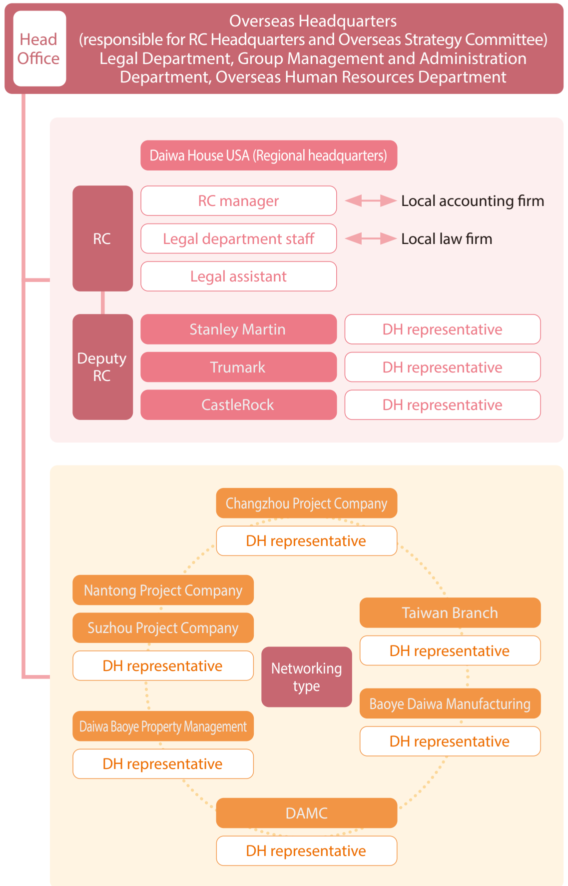
To strengthen the governance of overseas businesses, regional corporate functions (RC functions) have been established for each area in a form that takes account of area characteristics and their business circumstances, with the overseas headquarters in Japan playing a central role. The overseas headquarters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

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

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

Current Initiatives (examples)	Future Initiatives (examples)
• Assign specialized personnel in charge of legal affairs, general affairs/human resources, and information systems • Report each SPC's financial status to the headquarters • Hold council meetings for administrative personnel in each area • Share risk information and preventative measures at meetings of Risk Management Committees	• Start to manage frontline operations using detailed management indicators • Further facilitate and strengthen personnel assignments • Develop a management system aligned with the Group regulations

Overview of overseas regional corporate (RC) functions



4 Entrench risk management structure

Basic approach to risk management

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

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

Structure in normal times

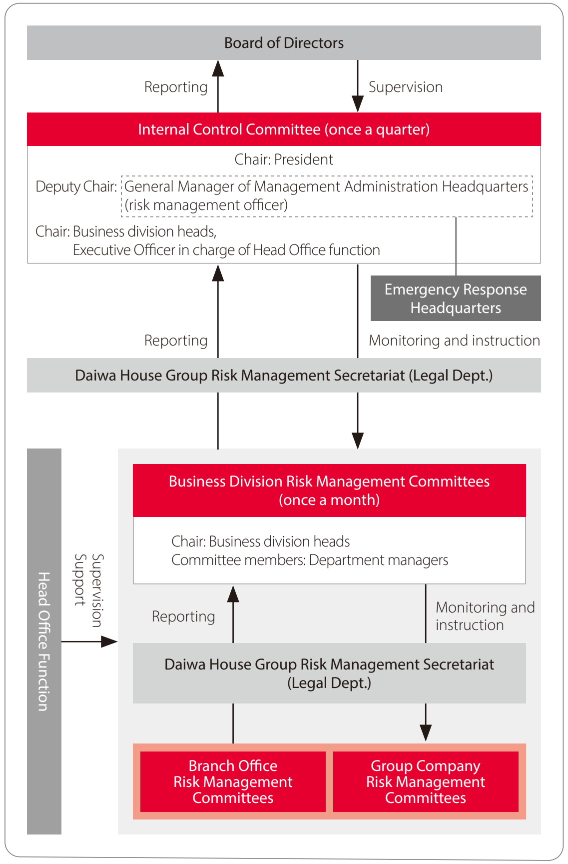
We have appointed the General Manager of Management Administration Headquarters as the risk management officer responsible for building, operating and supervising the risk management structure of the entire Group. Under his supervision, Risk Management Committees are established for each business division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

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

Structure in emergencies

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

Risk Management System



Operating the Internal Control Committee

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

Compliance and risk management structure system

1. Collecting and utilizing risk information

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

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

2. Whistleblower system

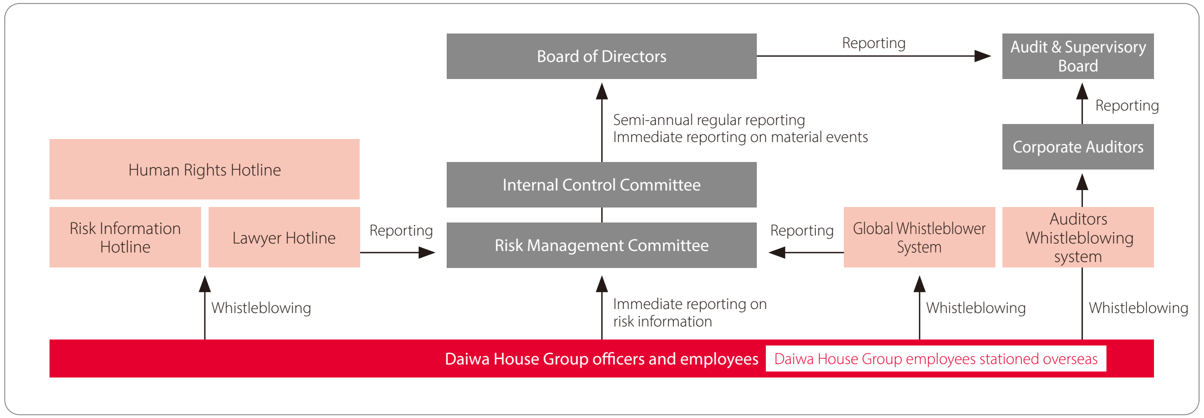
For the purpose of early detection and correction of events that may inhibit sustainable growth of the Group, we have established and operated various whistleblower systems both inside and outside the Company.

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

3. Response in cases where a serious risk is manifested

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

Risk information communication flowchart



Sustainability Report 2023: Scope and operation of whistleblowing systems ▶ P.70

4. Compliance training

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

5. Internal audits

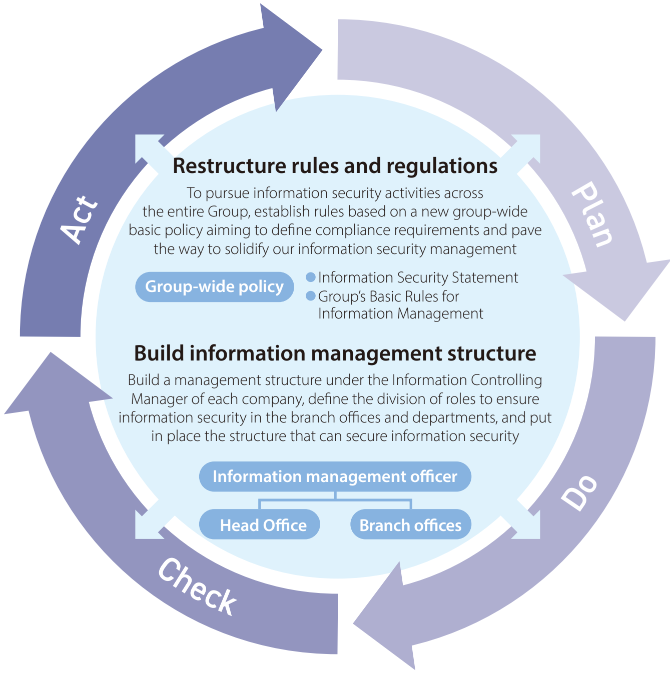
The Internal Audit Department is a department specializing in internal audit, and verifies and evaluates whether operations comply with laws and corporate rules by conducting hearings of officers and employees of branch offices and Group companies and confirming documents. If any problem is discovered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

Group management system

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

Information security

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



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

Financial Results, Corporate Information

Chapter 9

Chapter 9 Financial Results, Corporate Information

Management's Discussion and Analysis of Financial Position and Results of Operations

[MD&A summary]

Note: This section analyzes the financial position and results of operations during the five fiscal years from fiscal 2018 to fiscal 2022. For the list of financial data, see "Financial Highlights" on pages 115 and 116.

I. Financial position

Financial condition

Total assets as of the end of fiscal 2022 increased by ¥620.4 billion from the end of fiscal 2021 to ¥6,142.0 billion. This was mainly due to the increase in inventories following the purchase of real estate for sale, and the increase in property, plant and equipment resulting from the acquisition of investment properties in the Single-Family Houses segment.

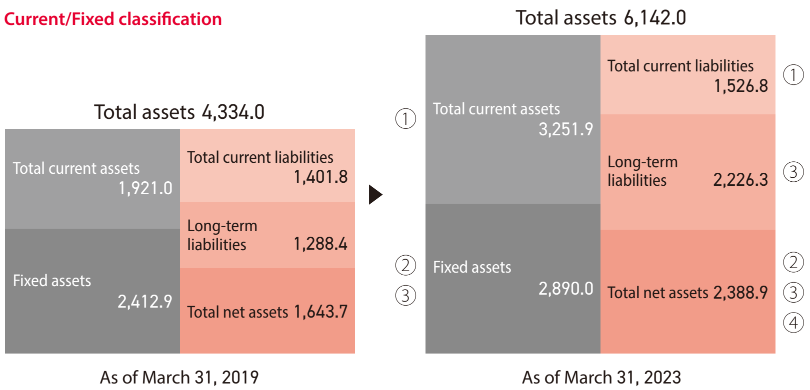
Total liabilities increased by ¥342.8 billion from the end of fiscal 2021 to ¥3,753.1 billion. This was mainly due to fund raising through borrowing and bond issuance for the purpose of acquiring real estate for sale and investment properties.

Total net assets increased by ¥277.5 billion from the end of fiscal 2021 to ¥2,388.9 billion. This was mainly because a net income attributable to owners of the parent of ¥308.3 billion was recorded and foreign currency translation adjustments increased due to a weaker yen, which offset the ¥86.0 billion in dividends paid to shareholders.

The balance of interest-bearing debt (excluding lease obligations) increased by ¥424.0 billion from the end of fiscal 2021 to ¥1,849.4 billion. The debt-equity (D/E) ratio came to 0.72*[1], which exceeded our financial benchmark of about 0.6, due to aggressive upfront investments for growth. At ¥2,091.6 billion, inventories account for the largest proportion of assets. As assets are expected to grow in the future due to the acquisition of inventories and investment properties, we will seek to maintain financial health by verifying the optimal capital structure.

Figure 1 **Comparison of balance sheets** (¥ billion)

Current/Fixed classification



Figures are compared with the final year of our Fifth Medium-Term Management Plan (fiscal 2018).

① The current ratio increased from 137% to 213%.

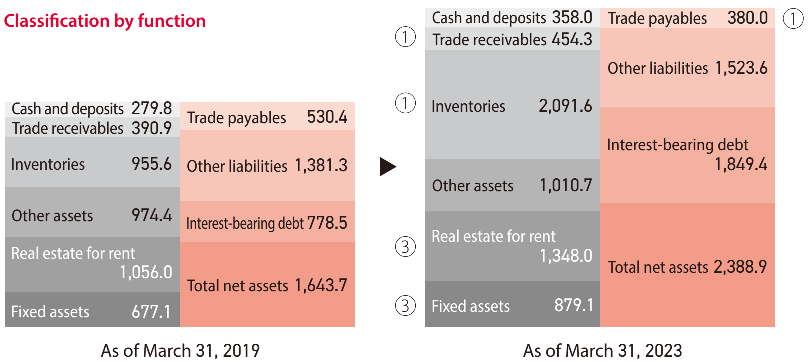
② The fixed ratio dropped from 151% to 127%.

③ The ratio of fixed assets to long-term capital dropped from 84% to 64%.

④ Net assets excluding non-controlling interests grew from ¥1,595.9 billion to ¥2,284.2 billion.

Figure 2

Classification by function



① Inventories increased from ¥955.6 billion to ¥2,091.6 billion (see **Figure 3**).

② Real estate for rent increased from ¥1,056.0 billion to ¥1,348.0 billion (see **Figure 4**).

③ Interest-bearing debt (excluding lease obligations) increased from ¥778.5 billion to ¥1,849.4 billion. As a result, the debt-equity ratio increased from 0.49 to 0.72 (after taking the hybrid financing into account).

*1 Calculated by taking into account the 50% equity credit in the hybrid financing (¥150 billion in hybrid bonds (subordinated bonds) issued in September 2019 and ¥100 billion in hybrid loans (subordinated loans) taken out in October 2020).

I. Financial position

Analysis of asset increases

Inventories as of the end of fiscal 2022 amounted to ¥2,091.6 billion, an increase of 119% compared to fiscal 2018. Major contributing factors include an increase in purchases of real estate for sale for customers considering buying investment properties. The purchases increased as we strengthened "capacity to offer comprehensive business ideas on optimally leveraging a land property," one of our strengths, and promoted built-for-sale business, especially in the Rental Housing and Commercial Facilities Businesses. The increase in inventories was also due to our business expansion in the U.S. housing market and the development of condominiums for sale in China. Looking by segment, the Single-Family Houses and Condominiums Businesses, which operate built-for-sale business overseas, and the Logistics, Business and Corporate Facilities Business, which is selling off logistics facilities and other assets developed in Japan, accounted for a large proportion of inventories.

Investment properties totaled ¥1,610.8 billion, an increase of 49% over fiscal 2018. This includes ¥1,259.9 billion in real estate available for sale*[2], up 71%, and ¥350.9 billion in profit-earning real estate*[3], up 2.9%, indicating that the increase in real estate available for sale led to a rise in investment properties. This increase was chiefly due to our expanded investment in the development of logistics facilities, which is a profit driver.

The increase in assets is largely attributable to an increase in inventories and investment properties, which is a result of our aggressive investment for growth. Investment decisions are made based on the internal rate of return (IRR) as an important indicator, thus we believe these properties should help us recoup funds and yield profits when sold. In an effort to improve capital efficiency, we intend to continue selling properties at optimal times based on market conditions and other factors.

*2 Real estate available for sale refers to real estate that becomes readily salable after investment to earn profit from price rise.
*3 Profit-earning real estate means real estate that we developed to earn rental income.

Figure 3 Inventories

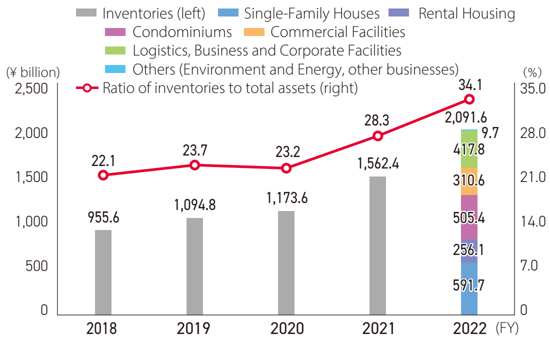
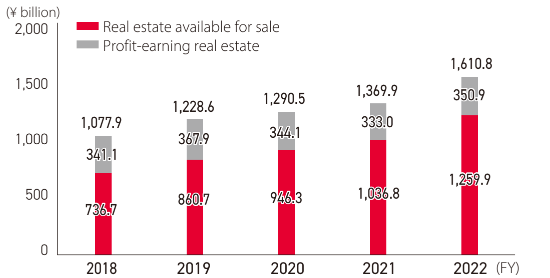


Figure 4 Balance of real estate development



II. Cash flows

Basic approach

The basic approach to cash management is to invest in line with the amount of cash generated by business operations. While our Seventh Medium-Term Management Plan sets a D/E ratio of about 0.6 as a criterion for financial discipline, we may exceed it temporarily due to frontloaded investment in growth as we must actively invest in attractive opportunities. To control the level of interest-bearing debt at around 0.6 In the medium to long term, we raised the hurdle rates for the internal rate of return (IRR), which we use as investment criteria, from 8.5% to 10%, thereby balancing investment in growth with financial soundness.

Cash flow condition

Cash flows from operating activities during fiscal 2022 decreased by ¥106.1 billion from fiscal 2021 to ¥230.2 billion. The ratio of cash flows from operating activities to net assets excluding non-controlling interests, assuming equity capital to be 1.0, was 0.10, down 0.07 points from 0.17 in fiscal 2021. This was mainly due to the purchase of real estate for sale and the payment of corporate income tax, which offset the ¥440.4 billion recorded in income before income taxes.

Cash flows from investment activities were - ¥505.1 billion, due to the acquisition of real estate for rent, etc. and the implementation of the ¥429.4 billion investment into the real estate development business based on the investment plan under the Seventh Medium-Term Management Plan. As a result, free cash flows (cash flows from operating activities + cash flows from investment activities) were - ¥274.8 billion, while cash flows from financial activities were ¥287.4 billion due to fund raising through borrowing and bond issuance for the purpose of acquiring inventories and investment properties.

II. Cash flows

As a result of the above, the balance of cash and cash equivalents at the end of fiscal 2022 was ¥346.1 billion, an increase of ¥19.9 billion from the end of the previous fiscal year.

Figure 5 **Cash flows**

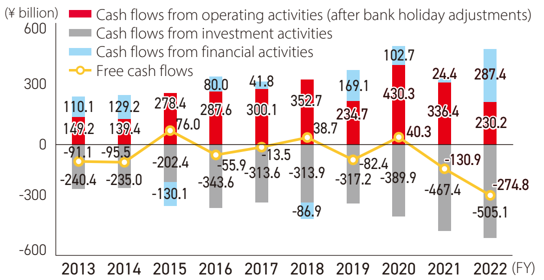
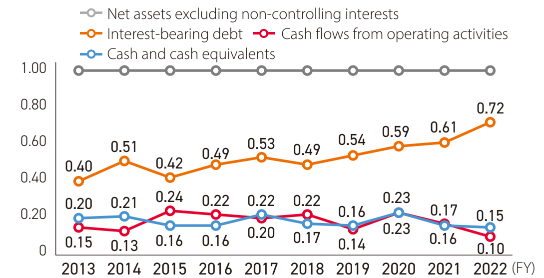


Figure 6 **Indices to net assets excluding non-controlling interests (as a ratio where net assets excluding non-controlling interests is equal to 1)**



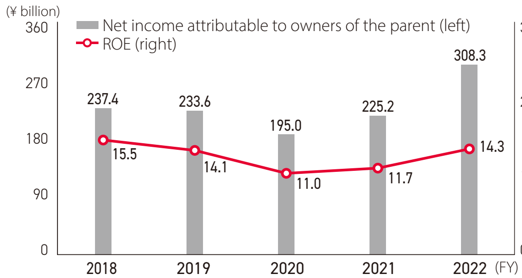
Note: Since FY 2019, interest-bearing debt has been shown as an index after taking the equity of hybrid financing into account.

III. Profits and losses

Return on equity (ROE)

Return on equity (ROE) was 14.3%, approximately 3 percentage points of which were attributable to a gain of ¥96.6 billion from amortization of actuarial differences in retirement benefits recorded as operating income. Under the Company's Seventh Medium-Term Management Plan, our business objective is to earn an ROE of 13% or more. We will seek to improve capital efficiency through various means, such as optimizing business portfolios and reducing inefficient assets.

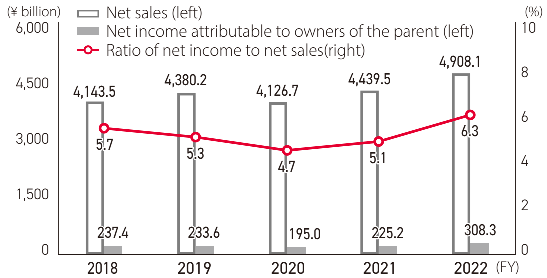
Figure 7 **ROE**



(Breakdown of ROE) Ratio of net income to net sales

Net income attributable to owners of the parent amounted to ¥308.3 billion and the average annual growth rate for the period of five years starting from fiscal 2018 was 6.8%. Net income margin was 6.3% and trending toward recovery, even excluding the impact from amortization of actuarial differences in retirement benefits. Despite a rise in material prices and fuel costs, the recovery from the impact of COVID-19 led to an improvement in profit margins.

Figure 8 **Ratio of net income to net sales**



Cost of shareholders' equity < Return on equity (ROE) = Ratio of net income to net sales × Total asset turnover ratio × Financial leverage

(Our shareholders' equity cost: 5.3%)

III. Profits and losses

(Breakdown of ROE) Total asset turnover ratio

Net sales amounted to ¥4,908.1 billion and the average annual growth rate for the period of five years starting from fiscal 2018 was 4.3%. Total asset turnover ratio*4 was 0.84, unchanged from the previous fiscal year. The Group's business used to be primarily construction contracting, which did not entail investment, but areas that require upfront investment such as real estate development are increasing their share of the overall total. In line with this, the proportion of sales from investment properties in net sales is rising (see Figure 10). To improve the turnover ratio, which may fall due to this change in our business model, we will continuously seek to ensure the effective utilization of assets through measures that may include encouraging the sale of inventories and also selling investment properties and cross-shareholdings while maintaining a balance between the stock business and the flow business.

*4 Average during the fiscal year.

Figure 9 Total asset turnover ratio

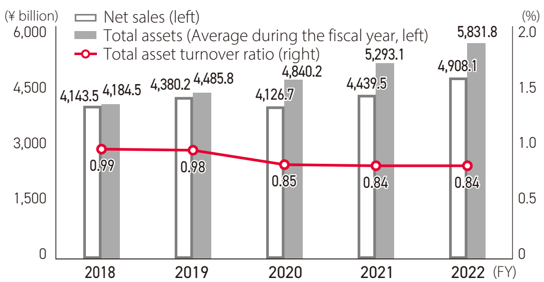
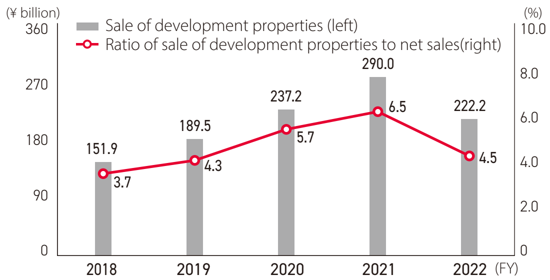


Figure 10 Sale of development properties

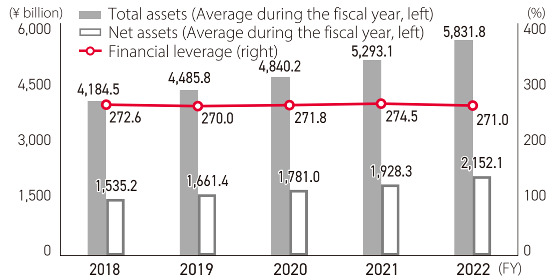


(Breakdown of ROE) Financial leverage

Net assets excluding non-controlling interests amounted to ¥2,284.2 billion and the average annual growth rate for the period of five years starting from fiscal 2018 was 9.4%. Our financial leverage*5 was 271.0%, down 3.5 percentage points from the previous fiscal year. By setting a D/E ratio as a financial benchmark, we strive to secure funds for growth investments and solidify our financial base while controlling the financial leverage.

*5 Total assets and net assets excluding non-controlling interests are calculated as averages during the fiscal year.

Figure 11 Financial leverage



III. Profits and losses

Return on invested capital (ROIC)

Net operating profit after tax (NOPAT)*6 was ¥323.0 billion and return on invested capital (ROIC), a ratio of NOPAT to the invested capital (= Net assets excluding non-controlling interests + Interest-bearing debt)*7 of ¥4,133.6 billion, was 8.5%.

To realize return on invested capital with capital efficiency that exceeds the cost of shareholders' equity, we strive to improve ROIC at the frontline of business, with an attitude of "being complete in small things" as illustrated in **Figure 13**.

*6 Net operating profit after tax (NOPAT):
Operating income × (1 - Effective corporate income tax rate)
*7 Average during the fiscal year.

Figure 12 Return on invested capital (ROIC)

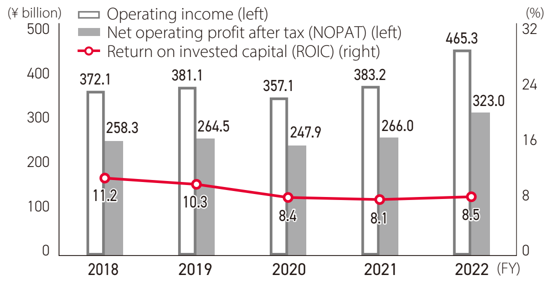
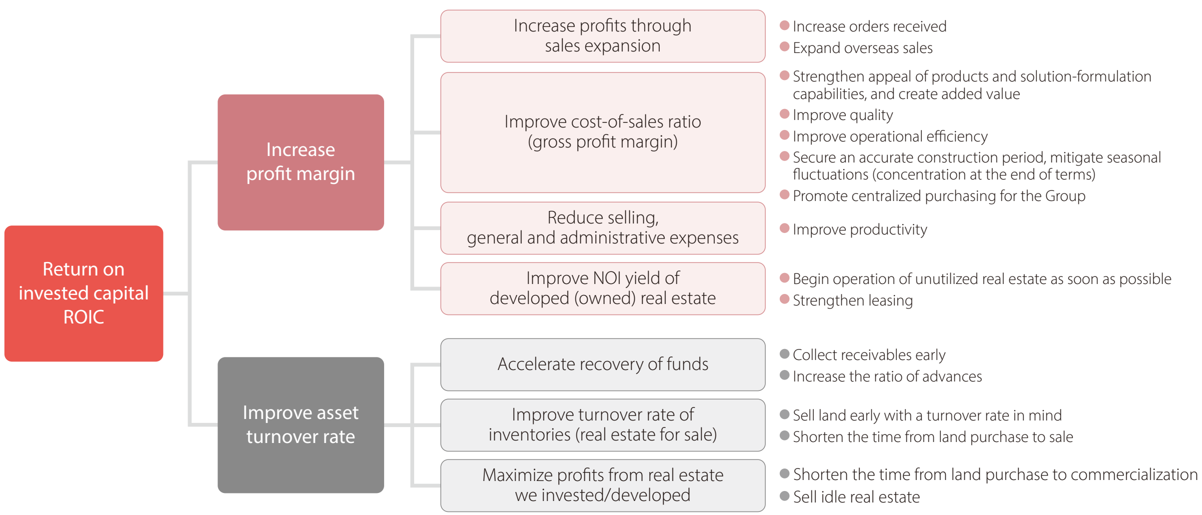


Figure 13 Efforts to Improve Return on Invested Capital (ROIC) at Sites



Overseas business performance

Sales and operating income from the overseas business amounted to ¥673.9 billion and ¥52.9 billion, respectively. The average annual growth rate for the period of five years starting from fiscal 2018 was 24.7% for sales and 42.3% for operating income, showing a greater proportion in our entire business. We aim for overseas sales of ¥1 trillion and operating income of ¥100 billion in the final year of the plan by accelerating growth of community-based overseas business.

Figure 14 Sales

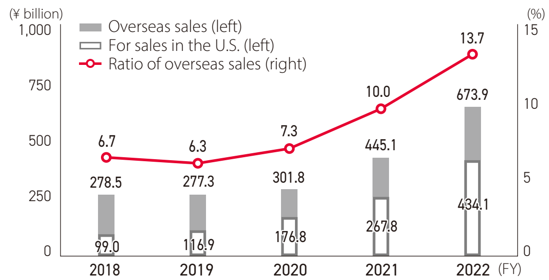
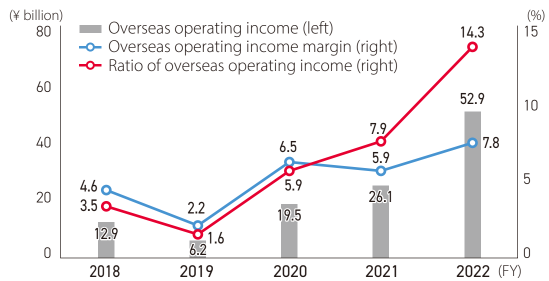


Figure 15 Operating income



IV. Business results by segment

Profitability analysis

More than 70% of operating income is accounted for by the three segments positioned as growth drivers, Rental Housing, Commercial Facilities, and Logistics, Business and Corporate Facilities. Looking by operating income margin, these three segments and the Condominiums Business exceed the 7.5% of operating income margin for the entire company, excluding actuarial differences.

Although the Environment and Energy Business constituted only 2.9% of net sales, the Company is working actively to contribute to the spread of renewable energy to realize a carbon-free society.

In terms of Single-Family Houses Business, we will seek to improve profit margin by selecting optimal areas and clarifying targets to cope with the decline in new housing starts due to falling population in Japan.

Operating income margin to segment assets

Inventory balance is increasing due to the promotion of built-for-sale business, but the Rental Housing Business showed higher operating income margins to segment-specific assets, thanks to contribution from the contracting business and rental management business.

In the Logistics, Business and Corporate Facilities Business, we are aggressively investing in long-term large-scale developments to address the growing markets of logistics facilities and data centers. The current return on assets is at a low level because construction investment is currently underway in the land we acquired, but is expected to significantly contribute to cash flows at the time of payback in the future.

Investments in businesses

With regard to investments in businesses, we are working to maintain aggressive investment with a view to sustainable growth. Our investment is expanding in the Logistics, Business and Corporate Facilities Business centered on logistics facilities as a profit driver, and in the Commercial Facilities Business which brings out the potential of regions and contribute to job creation and prosperity. In addition, investments in new businesses and overseas businesses, etc. will be made to develop new revenue streams through the use of funds generated by the above-mentioned segments.

[Business segments]
Single-Family Houses | Rental Housing | Condominiums | Commercial Facilities | Logistics, Business and Corporate Facilities | Environment and Energy | Other

Figure 16 [Business segments] Operating income margin/ Net sales ratio by segment (FY2022)

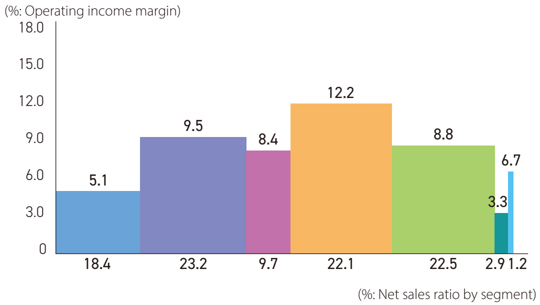
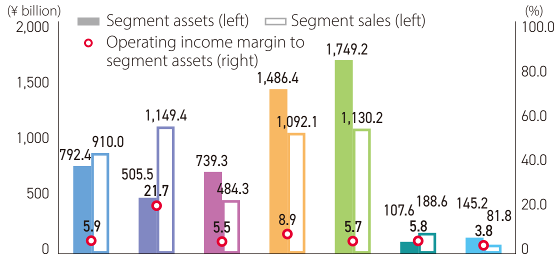
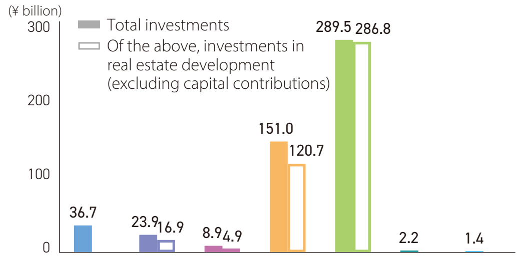


Figure 17 Operating income margin to segment assets (FY2022)



Note: Segment assets are averages during the fiscal year.

Figure 18 [Business segments] Total investments (FY2022)



V. Investments

Returns to employees

One of the essential elements for sustaining growth is to maintain and improve the living environment of employees. Employee salaries in fiscal 2022 on a non-consolidated basis increased by ¥5.1 billion from fiscal 2018 (an average increase of 2.3% or ¥209,000 per employee).

The ratio of employee salaries to operating income*8 was 39%, showing no significant change in fiscal 2022. We are also working to increase the base salary, including a ¥20,000 increase in the starting salary for new employees joining the Company in April 2023. We will actively promote investments in human resources, which are the important source for growth.

*8 Employee salaries/(Operating income + Employee salaries)

IT-related investments and research and development (R&D)

IT-related investments in fiscal 2022 were ¥31.7 billion, an increase of 162% over fiscal 2018. These investments involve significant elements that may lead to revenue increases and cost reductions in the future, such as through the enhancement of added value in products and services, through utilization in marketing, and through the achievement of higher efficiency in production processes and operations. Therefore, we will continue investing more funds in this area.

R&D expenditures in fiscal 2022 were ¥10.4 billion, of which ¥4.3 billion was for the housing field, and ¥6.0 billion for the business field and other businesses. Our research and development activities range from basic and applied research to the development of new technologies and new products, and further to utilization and verification of these new technologies in architectural structures and urban development.

Capital investments

Capital investments (excluding investments in real estate development) were ¥88.6 billion. We have worked on the renovation and opening of factories, upgrading of production lines and installation of new facilities at sites in Japan and Europe. Well-planned investments in production lines are carried out based on market trends, order trends, and other factors. With regard to major assembly processes in particular, which are a significant element affecting the cost-of-sales ratio and quality improvement, we will work to further increase the rate of automation. To tackle the construction industry's challenge of a decrease in the number of engineers and technicians, we are also aggressively investing in Digital transformation (DX) to advance the digitalization of the construction process.

Figure 19 Ratio of employee salaries to operating income (non-consolidated)

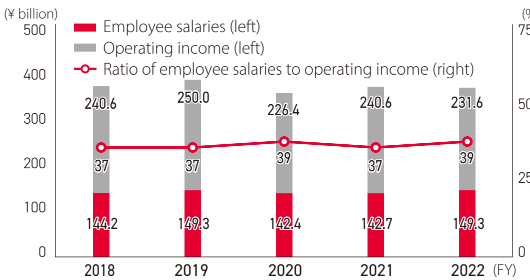


Figure 20 IT-related investments/ Research and development expenditures

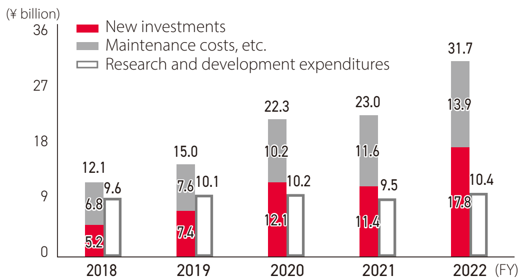
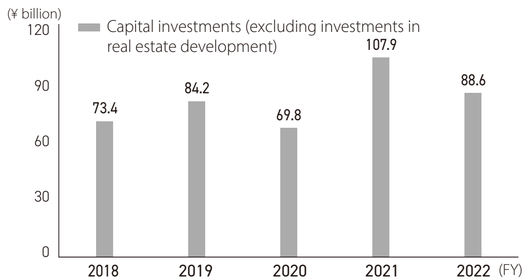


Figure 21 Capital investments (excluding investments in real estate development)



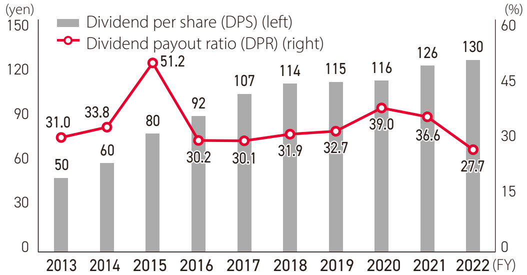
VI. Shareholder returns and stock prices

Shareholder returns

In fiscal 2022, our annual dividend was ¥130 per share, achieving dividend increases for 13 consecutive periods. The dividend payout ratio was 27.7%, which would be 35.6% when excluding amortization of actuarial differences in retirement benefits. Our Seventh Medium-Term Management Plan increased the target payout ratio to 35% or more, up 5 percentage points from the previous 30%. We aim to maintain stable dividends and return profits to shareholders in line with business performance with a minimum annual dividend of ¥130.

In addition, 7 million shares of the company's own stock were cancelled in May 2023, and a buyback of up to 10 million shares (at a total acquisition cost of ¥35.0 billion) will be carried out by March 2024.

Figure 22 Shareholder returns



Note: The changes in the dividend payout ratio for fiscal 2015 and fiscal 2022 are mainly due to the revision of discount rates used to calculate retirement benefit obligations.

Price to book-value ratio (PBR)

Book value per share (BPS) amounted to ¥3,466.86 and the average annual growth rate for the period of five years starting from fiscal 2018 was 9.6%. Price to book-value ratio (PBR) was 0.90 times, falling below 1.00 times. In order to gain recognition from the stock market, we believe it is necessary to improve capital efficiency by increasing ROE and optimizing the business portfolio. While advancing these efforts forward, we work to enhance our financial soundness and governance, and through dialogue with investors, we intend to continue maximizing our corporate value.

Figure 23 BPS/ PBR

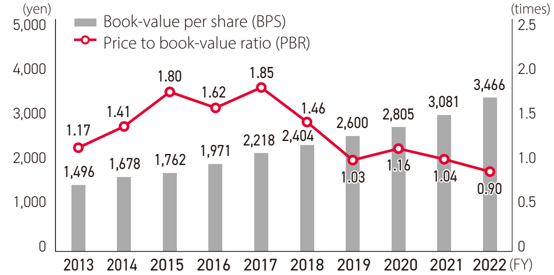
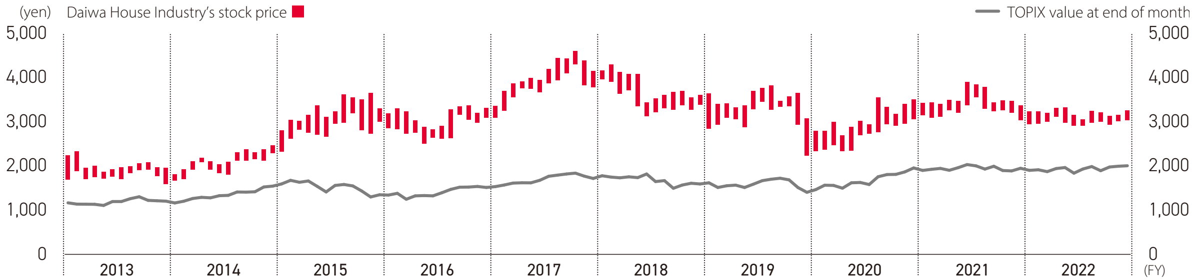


Figure 24 Trends in stock price of Daiwa House Industry and TOPIX



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Market capitalization (¥ billion)	1,156.3	1,565.8	2,109.3	2,129.2	2,731.5	2,344.4	1,783.8	2,159.2	2,132.6	2,074.8
Highest stock price (yen)	2,330.0	2,467.5	3,654	3,367	4,594	4,293	3,819	3,552	3,900	3,320
Lowest stock price (yen)	1,592.0	1,673.0	2,326.0	2,500.5	3,096	3,119	2,230.5	2,332.0	3,037	2,907.5

Note: The highest and lowest stock prices are those quoted on the First Section of the Tokyo Stock Exchange before April 3, 2022, and on the Prime Market of the Tokyo Stock Exchange after April 4, 2022.

Financial Highlights

(¥ million)

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net sales	2,810,714	3,192,900	3,512,909	3,795,992	4,143,505	4,380,209	4,126,769	4,439,536	4,908,199
Gross profit	540,868	632,417	721,312	793,832	842,767	870,206	826,883	864,682	955,194
Selling, general and administrative expenses	360,516	389,316	411,220	446,690	470,571	489,091	469,761	481,425	489,824
Operating income	180,352	243,100	310,092	347,141	372,195	381,114	357,121	383,256	465,370
Operating income excluded amortization of actuarial differences	—	—	293,573	336,264	369,178	378,245	329,472	332,267	368,714
Operating income margin (%)	6.4	7.6	8.8	9.1	9.0	8.7	8.7	8.6	9.5
Net income attributable to owners of the parent	117,133	103,577	201,700	236,357	237,439	233,603	195,076	225,272	308,399
Return on equity (ROE) (%)	11.2	9.1	16.3	17.0	15.5	14.1	11.0	11.7	14.3
Total assets	3,021,007	3,257,805	3,555,885	4,035,059	4,334,037	4,627,388	5,053,052	5,521,662	6,142,067
Net assets	1,112,817	1,181,986	1,329,901	1,513,585	1,643,717	1,773,388	1,893,504	2,111,385	2,388,914
Net assets ratio (%)	36.6	35.9	36.8	36.5	36.8	37.3	36.3	36.6	37.2
Interest-bearing debt	563,530	491,964	640,671	780,574	778,546	1,043,478	1,274,886	1,425,407	1,849,481
Debt-equity ratio (times)	0.51	0.42	0.49	0.53	0.49	0.60	0.69	0.71	0.81
Net cash provided by operating activities	139,465	278,497	287,691	382,365	355,599	149,651	430,314	336,436	230,298
Net cash used in investing activities	(235,027)	(202,447)	(343,643)	(313,664)	(313,989)	(317,273)	(389,980)	(467,423)	(505,181)
Net cash provided by (used in) financing activities	129,202	(130,185)	80,086	41,804	(86,979)	169,128	102,731	24,427	287,452
Market capitalization	1,565,858	2,109,310	2,129,297	2,731,576	2,344,492	1,783,852	2,159,278	2,132,628	2,074,830
Stock prices (FYE) (yen)	2,371	3,166	3,196	4,100	3,519	2,677	3,241	3,201	3,114
Per share of common stock (yen):									
Earnings per share (EPS)	177.74	156.40	304.14	355.87	357.29	351.84	297.18	343.82	469.12
Book-value per share (BPS)	1,678	1,762	1,971	2,218	2,404	2,600	2,805	3,081	3,466
Cash dividends*1	60	80	92	107	114	115	116	126	130
Dividend payout ratio (%)	33.8	51.2	30.2	30.1	31.9	32.7	39.0	36.6	27.7
Price earnings ratio (PER) (times)	13.34	20.24	10.51	11.52	9.85	7.61	10.91	9.31	6.64
Price to book-value ratio (PBR) (times)	1.41	1.80	1.62	1.85	1.46	1.03	1.16	1.04	0.90
Number of employees (FYE)*2	34,903	37,191	39,770	42,460	44,947	47,133	48,807	48,831	49,768
Number of group companies	145	172	196	317	387	360	444	480	488

*1 Cash dividends for fiscal 2015 include a commemorative dividend of ¥10 to mark the 60th anniversary of the Company's foundation. Cash dividends of ¥126 for fiscal 2021 include a commemorative dividend of ¥10 to mark the 100th birthday of founder Nobuo Ishibashi.
*2 Regular employees only.

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Sales by segments (consolidated)*3 (¥100 million)									
Single-Family Houses	3,753	3,783	3,903	3,853	3,838	4,978	5,161	7,848	9,100
Rental Housing	7,729	8,801	9,772	10,308	10,613	10,059	9,827	10,525	11,494
Condominiums	2,313	2,793	2,628	2,850	2,805	3,727	3,397	3,799	4,843
Existing Homes	916	955	1,055	1,121	1,145	1,456	1,247	—	—
Commercial Facilities	4,562	4,955	5,697	6,208	6,939	8,067	8,083	10,385	10,921
Logistics, Business and Corporate Facilities	5,815	7,363	8,284	8,502	10,223	11,523	9,899	10,792	11,302
Environment and Energy	—	—	—	—	—	—	—	1,610	1,886
Other Businesses	4,265	4,588	5,135	6,371	7,161	5,300	5,073	630	818
Adjustment	(1,248)	(1,311)	(1,349)	(1,256)	(1,293)	(1,311)	(1,423)	(1,197)	(1,285)
Total	28,107	31,929	35,129	37,959	41,435	43,802	41,267	44,395	49,081
Operating income by segments (consolidated)*3 (¥100 million)									
Single-Family Houses	88	165	192	215	199	180	218	383	466
Rental Housing	695	819	942	1,066	1,022	985	908	966	1,097
Condominiums	108	157	134	133	135	158	53	97	408
Existing Homes	99	112	130	132	159	167	104	—	—
Commercial Facilities	672	803	1,007	1,141	1,377	1,406	1,228	1,241	1,329
Logistics, Business and Corporate Facilities	384	680	789	889	989	1,206	1,159	1,255	996
Environment and Energy	—	—	—	—	—	—	—	52	62
Other Businesses	102	95	168	230	325	192	107	(59)	54
Adjustment	(348)	(403)	(265)	(337)	(486)	(487)	(209)	(105)	237
Total	1,803	2,431	3,100	3,471	3,721	3,811	3,571	3,832	4,653
Housing starts*4 (thousands of units)									
Housing starts	880	921	974	946	952	883	812	865	860
Number of houses sold in Japan (non-consolidated) (units)									
Number of houses sold	49,087	51,207	54,925	51,641	48,410	43,703	38,991	40,758	40,562
Custom-built houses	7,280	6,999	7,106	6,907	6,524	5,917	5,178	5,164	4,191
Built-for-sale houses	2,614	2,333	2,180	2,320	2,192	2,066	1,841	1,596	1,571
Reference: Sales of houses (overseas)	—	—	—	973	2,621	2,875	4,184	4,857	6,332
Rental housing	36,757	38,903	43,428	40,254	37,905	33,502	29,488	31,202	32,224
Condominiums	2,436	2,972	2,211	2,160	1,789	2,218	2,484	2,796	2,576
Average sales per unit (¥ million)									
Custom-built houses	32.7	33.7	34.3	35.9	37.3	39.6	39.6	41.0	45.1
Built-for-sale houses	24.0	24.5	25.3	24.0	24.3	22.4	23.1	24.2	24.6
Rental Housing Business									
Rental housing units managed	435,515	471,342	510,208	543,124	572,238	595,182	611,874	630,555	649,891
Occupancy rates (%)	97.5	97.4	97.1	97.3	96.9	97.6	98.2	98.2	97.8
Commercial Facilities Business									
Average orders received per building (¥ million)	160	222	281	324	381	466	512	513	563
Subleasing floor space of commercial facilities									
Total leasing floor space (m^2)	5,134,274	5,441,604	5,736,312	6,157,287	6,375,278	6,765,150	6,871,560	6,964,194	7,163,733
Occupancy rates*5 (%)	99.1	99.2	99.1	99.1	99.0	98.8	98.5	98.6	98.9

*3 Including intersegment transactions. *4 Statistics for housing starts are from Housing Starts Survey by Ministry of Land, Infrastructure, Transport and Tourism.
*5 Leasing floor space occupied/ Total leasing floor space.

Non-Financial Highlights

Carbon neutral indicators

Key indicators			Achievements (FY)		Targets (FY)	
			2021	2022	2026	2030
Achieving carbon neutrality	Entire value chain	GHG emissions reduction rate (%)*1	16.1	23.5	—	40
	Business Activities: Scope 1 + 2	GHG emissions reduction rate (%)*1	20.8	33.5	55	70
		Renewable energy utilization rate (non-consolidated) (%)*2	54	100	100	100
		Renewable energy utilization rate (consolidated) (%)	18.2	41.5	100	100
	Building use: Scope 3 (Category 11)*6	GHG emissions reduction rate (%)*1	29.4	39.3	54	63
		ZEH rate (%)*3	53	86	90	100
		Rental housing ZEH-M rate (%)*4	3	14.2	50	100
		Condominiums ZEH-M rate (%)*5	35	67.5	100	100
		ZEB rate (%)*6	38	65.7	80	100
	Renewable energy supply facilities constructed	Renewable energy generation equipment constructed (EPC) (MW)*7	2,526	2,706	4,200	5,000
		Renewable energy power plants developed and operated (IPP) (MW)*8	561	602	1,550	2,500
	Solar panel installation rate (non-residential)	Commercial Facilities Business (non-consolidated) (%)*9	—	32	Principles 100	
		Logistics, Business & Corporate Facilities Business (non-consolidated) (%)*9	—	62		

*1 vs FY2015
*2 Figures for FY2022 are for electric power purchased in Japan
*3 Contracting and subdivision development operated by Daiwa House Industry (non-consolidated; excluding Hokkaido). Figures for FY2021 are based on orders received, and figures for FY2022 are based on construction starts.
*4 Contracting and subdivision development operated by Daiwa House Industry (non-consolidated). (Construction start basis)
*5 Total of Daiwa House Industry (non-consolidated) and Cosmos Initia (excluding joint ventures managed by other companies, only in Japan; construction start basis)
*6 Total of Daiwa House Industry, Daiwa Lease, and Fujita. Only in Japan, construction start basis, percentage of land area.
*7 Cumulative total since FY2011
*8 In-house consumption is excluded
*9 Results for FY2022 are for Daiwa House Industry (non-consolidated). Target values are the total for the three companies: Daiwa House Industry, Daiwa Lease, and Fujita. Construction start basis, percentage of facilities.

Human Capital Indicators

Key indicators			Achievements (FY)			Targets
			2020	2021	2022	
Increase the value of our human capital	Recruitment	Ratio of new female career hires (%)	23.5 (April 1, 2021)	25.8 (April 1, 2022)	24.9 (April 1, 2023)	30
		Number of career hires	80	64	145	—
	Diversity	Ratio of female employees in management (%)	4.5 (April 1, 2021)	4.9 (April 1, 2022)	5.2 (April 1, 2023)	8 (April 1, 2027)
		Ratio of female section chiefs (%)	17.9 (April 1, 2021)	19.2 (April 1, 2022)	21.3 (April 1, 2023)	25 (April 1, 2027)
		Ratio of employment of persons with disabilities (%)	2.50 (April 1, 2021)	2.46 (April 1, 2022)	2.50 (April 1, 2023)	2.70 (April 1, 2026)
		Ratio of retention of young employees (three years after joining the Company) (%)*1	78.6 (April 1, 2021)	76.6 (April 1, 2022)	76.6 (April 1, 2023)	85
		Ratio of seniors who continue to be employed at age 65 (%)	60.0 (April 1, 2021)	60.9 (April 1, 2022)	49.4 (April 1, 2023)	—
	Health management	Percentage of employees receiving periodic medical examinations (%)	100	100	100	—
		Percentage of follow-up testing of patients who were required to receive detailed tests or medical treatment (%)	99.0	91.0	95.3	—
	Childbirth and childcare	Ratio of male employees taking childcare leave (%)*2	42.4	41.9	62.2	80 (FY2026)
		Lump-sum payment program for fostering the next generation (number of recipients/ amounts: ¥ million.)*3	637/637	636/636	643/643	—
	Employment	Percentage of paid leave taken (%)	59.6	57.3	56.4	—
	Equity	Gender wage gap (ratio of average income of female to male employees) (%)*4	—	60.7	61.5	—
	Career support	Multi-Experiential Career support Program*5	—	—	23	—

*1 Retention rate of regular recruits three years after joining the Company in each fiscal year
*2 In an in-house questionnaire conducted in 2020, 80% of male employees said that they wanted to take child care leave. Therefore, the target for the end of the 7th Medium-Term Management Plan (FY 2026) was set at 80%.
*3 Cumulative total since the introduction of the system Payments: ¥11,862 million
*4 Percentage of full-time employees
*5 Career support program focusing on internal and external side jobs

Corporate Data (as of June 29, 2023)

Corporate name	Daiwa House Industry Co., Ltd.
Foundation	April 5, 1955 (Established: March 4, 1947)
Paid-in capital	¥161,845,184,151
Employees (consolidated)	49,768 (as of March 31, 2023)
Securities traded	Tokyo stock exchange
Securities code	1925
Head office	3-3-5 Umeda, Kita-ku, Osaka 530-8241, Japan Phone: +81-6-6346-2111
Tokyo Head office	3-13-1 Iidabashi, Chiyoda-ku, Tokyo 102-8112, Japan Phone: +81-3-5214-2111
Offices (9)	Kita-Nihon, Kita-Kanto, Higashi-Kanto, Minami-Kanto, Hokuriku, Chubu, Chugoku, Shikoku, Kyushu
Branches	45
Factories	9
Research center	Central Research Laboratory (Nara)
Training center	Daiwa House Group MIRAI KACHI KYOSO Center (Nara)
Countries and regions with overseas operations	25 countries, 50 cities
Contact	Daiwa House Industry Co., Ltd. IR Department, Management Administration Headquarters Phone: +81-6-6225-7804 e-mail: dh.ir.communications@daiwahouse.jp
Website	https://www.daiwahouse.com/English/

Board of Directors, Audit & Supervisory Board and Executive Officers (as of June 29, 2023)

Board of Directors (13)

Representative Director and President, CEO	Keiichi Yoshii
Representative Director and Executive Vice President, CFO	Takeshi Kosokabe
Representative Director and Executive Vice President	Yoshiyuki Murata
Director and Senior Managing Executive Officer	Keisuke Shimonishi
Director and Managing Executive Officers	Hirotsugu Otomo Kazuhito Dekura Yoshinori Ariyoshi Toshiya Nagase
Outside Directors	Yukiko Yabu Yukinori Kuwano Miwa Seki Kazuhiro Yoshizawa Yujiro Ito

Audit & Supervisory Board (6)

Audit & Supervisory Board Members	Tomoyuki Nakazato Tadatoshi Maeda Yoshinori Hashimoto
Outside Audit & Supervisory Board Members	Akihisa Watanabe Tatsuji Kishimoto Takashi Maruyama

Managing Executive Officers (8)

Tatsuya Urakawa, Koji Harano
Eiichi Shibata, Yukikazu Kataoka
Yuji Yamada, Moritaka Noumura
Tetsuya Tamura, Junko Ishizaki

Senior Executive Officers (10)

Nobuhito Ishibashi, Shigeki Ochiai
Tetsuro Wada, Yuichi Sugiura
Hiroshi Kono, Ryuichi Oyaide
Takafumi Nakao, Katsuyuki Murai
Hirotaka Najima, Masafumi Sugimoto

Executive Officers (34)

Taro Kawamura, Akira Matsuba
Norio Togashi, Tetsuo Hatta
Masataka Kanai, Akira Kitamura
Yoshinori Iwabuchi, Eiji Saito
Masatoshi Hatta, Katsuhiro Sugiyama
Keisuke Izumoto, Masao Noshi
Kenichi Yoshioka, Masatoshi Sarashina
Katsunori Nobe, Takehiro Uchiyama
Kazumi Suwa, Masaaki Kikuchi
Ryuzo Matsuyama, Shingo Suzuki
Masao Kita, Akihiko Wada
Keiichi Moteki, Toshiyuki Suminaga
Nobuhiko Watanabe, Toshiki Tanaka
Hideto Tamiya, Shinichi Yamazaki
Tadahiro Takayoshi, Naoya Honda
Kazuya Mukai, Noboru Higuchi
Yoshimune Morizumi, Yoshimitsu Kojima

Share Information (as of March 31, 2023)

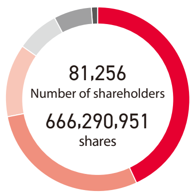
Authorized .... 1,900,000,000 shares
Issued .... 666,290,951 shares
Number of shareholders 81,256

Principal shareholders

Name of shareholders	Thousands of shares	Equity stake (%)
The Master Trust Bank of Japan, Ltd. (trust account)	110,324	16.74
Custody Bank of Japan, Ltd. (trust account)	49,193	7.46
JPMorgan Securities Japan Co., Ltd.	14,720	2.23
Sumitomo Mitsui Banking Corporation	14,505	2.20
Daiwa House Industry Employee Shareholders Association	14,366	2.18
Nippon Life Insurance Company	11,944	1.81
STATE STREET BANK WEST CLIENT - TREATY 505234	11,416	1.73
SSBTC CLIENT OMNIBUS ACCOUNT	9,381	1.42
JP MORGAN CHASE BANK 385781	8,582	1.30
MUFG Bank, Ltd.	8,531	1.29

Note: The ratio of the number of shares held to the total number of issued shares (excluding treasury shares) is rounded down to the three decimal places.

Shareholdings by shareholders



	Number of shareholders	Shares	Equity stake (%)
Financial institutions	196	287,282,966	43.1
Foreign investors	1,056	191,944,190	28.8
Individuals and others	78,375	86,771,361	13.0
Other corporations	1,587	50,033,776	7.5
Securities companies	41	42,839,008	6.4
Treasury stock	1	7,419,650	1.1

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

Editorial Postscript

Making solid progress on our Seventh Medium-Term Management Plan as we advance toward fulfilling our Purpose

Yuji Yamada
Managing Executive Officer
General Manager, Finance Department and IR Department

With our 2022 adoption of Our Hopes for the Future, Daiwa House Industry defined its role in the world as creating fundamental societal infrastructure and lifestyle culture rooted in regeneration . And to fulfill those hopes—our Purpose , we have been pursuing three management policies in line with our Seventh Medium-Term Management Plan, which got underway in fiscal 2022: evolving our revenue model, optimizing management efficiency, and strengthening our management base.

During the plan's initial year, management—with an eye on achieving its final-year targets—was focused on showing shareholders, investors, and other stakeholders that growth at our overseas businesses is real, that our business-portfolio overhaul is delivering, and that centralized Group purchasing has shored up our business foundations. Looking back over the year, we believe we have amply demonstrated that we are making progress. Further, mainly through the integrated report project this year we were able to make progress in identifying KGIs and KPIs for the materialities we defined last year; so I'm confident that readers will be able to see how much progress we've made on materialities as well as in achieving Seventh Medium-Term Management Plan goals.

Daiwa House's founder said, "Don't do things because they will make a profit, but because they will be of service to society"; and in this spirit that we have always addressed societal issues. Our history, I'm proud to say, is full of instances where we have had positive impact on society. A recent example is how our development of logistics centers has helped make life easier for countless consumers and created jobs by contributing to greater uptake of online shopping. Another one I find worthy of mention is how our Environment and Energy Businesses have prompted lifestyle changes by giving a boost to renewable-energy uptake. If one were to measure these impacts quantitatively, I think they would clearly show how important the Daiwa House Group is to society.

In closing , we would like to express our appreciation to all who have taken an interest in and the time to read this report, as well as to those without whose involvement it would not have seen the light of day. We hope stakeholders, deepening their understanding of the Group's business activities, will provide the Daiwa House Group with even greater support as we move forward.

Our Communications at a Glance

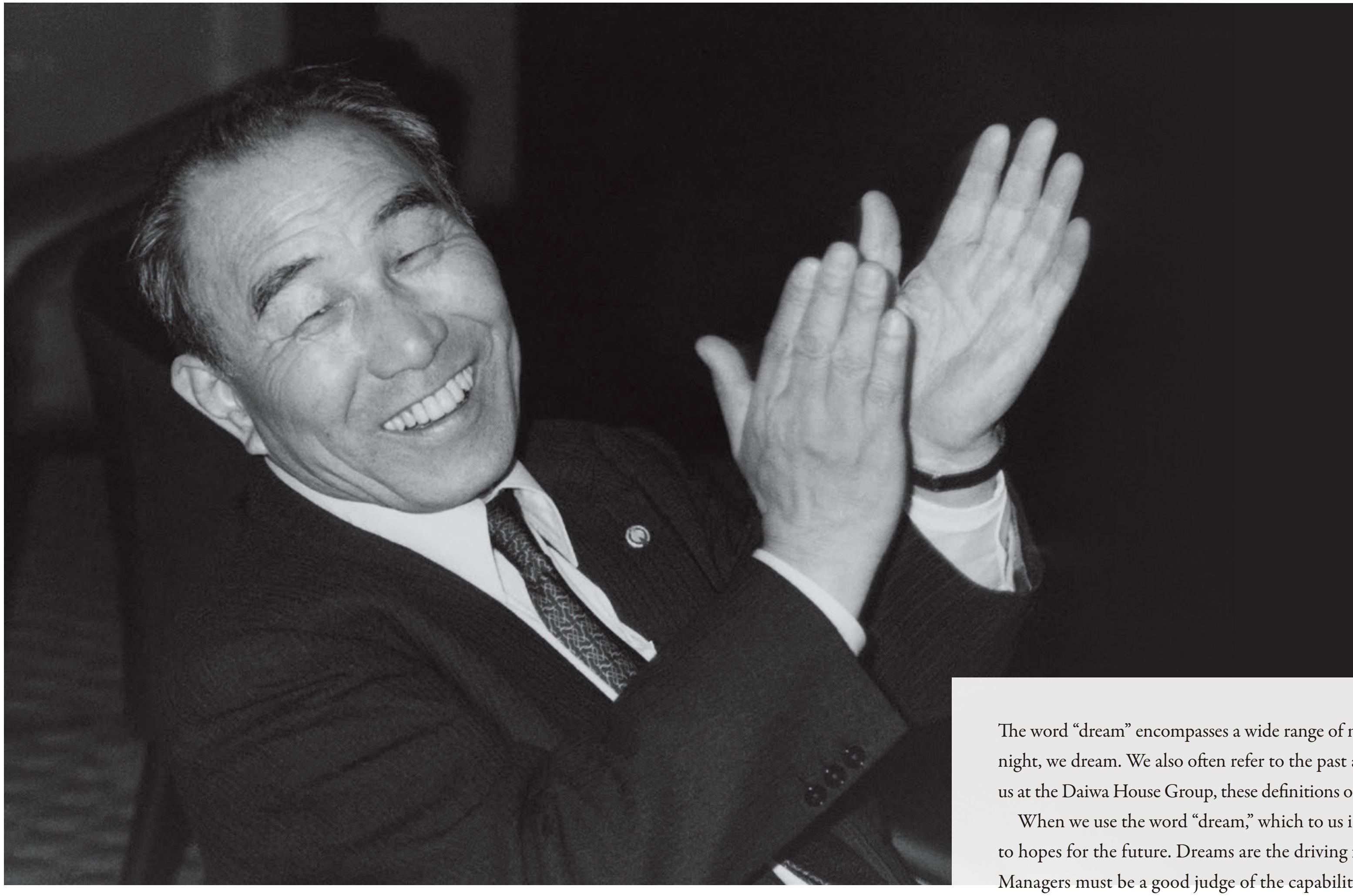
	Financial information	Coordination	Non-financial information
Dialogue	• Release of financial results • Presentation on Management Policy • Business briefing / Guided tours of building sites, plants, etc. • Teleconferencing with securities analysts and institutional investors • General Meeting of Shareholders		• Experts' dialogue • Stakeholders' meeting • ESG small meetings
Reports	• Securities report • Business result report		• Corporate governance report
WEB			

Integrated Report
Integrated report on selected financial and non-financial information judged to be material

Sustainability Report
(incl. Data Section / Third-Party Assurance)

Investor Relations
https://www.daiwahouse.com/English/ir/

Sustainability
https://www.daiwahouse.com/English/sustainable/



Our founder, Nobuo Ishibashi (1921-2003)

The word “dream” encompasses a wide range of meanings. When we go to sleep at night, we dream. We also often refer to the past as “seeming like a dream.” But for us at the Daiwa House Group, these definitions of the word can be put to one side.

When we use the word “dream,” which to us is very important, we are referring to hopes for the future. Dreams are the driving force behind great achievements. Managers must be a good judge of the capabilities of their staff. Employees, too, must have a dream in their hearts. Companies grow along with the realization of such dreams. A company’s management and staff must all keep on trying to make their dream reality, and must never give up.

Our founder, Nobuo Ishibashi

Daiwa House Industry Co., Ltd.

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