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Chapter 7

Chapter 7 Management Structure

Management Structure

The Daiwa House Group positions enhancing its governance structure as a priority issue for management so that we may continue to be a company trusted by 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. Along with transforming our vision in line with expanding business operations and the management environment, we work to construct a governance structure that will create the future based on diverse viewpoints and long-term perspectives in order to enhance our management resilience.

Concept of governance system enhancement



Initiatives in the 7th Plan	Approaches in fiscal 2022	Approaches in fiscal 2023
<p>1 Optimization of management structure</p> <ul style="list-style-type: none"> Raise the proportion of stock remuneration in director remuneration and introduce non-financial evaluation indicators Strengthen monitoring function of the Board of Directors 	<ul style="list-style-type: none"> Reviewed the agenda standard for meetings of the Board of Directors 	<ul style="list-style-type: none"> Introduced non-financial indicators for the calculation of annual incentive bonuses for directors With an eye toward achieving sustainable growth, we have added the achievement of non-financial targets, such as human resource development and the strengthening of organizational capabilities, to the achievement of financial targets as evaluation indicators.
<p>2 Foster next generation of business managers</p> <ul style="list-style-type: none"> Build a succession process for Directors/Executive Officers 	<ul style="list-style-type: none"> Renewal of the D-Succeed succession plan for the next generation of business managers 	<ul style="list-style-type: none"> Developing managerial talent Systematic training was conducted on two levels: "next generation leaders (mainly employees in their 40s)" and "NEXT (mainly employees in their 30s)" (cumulative total number of participants in fiscal 2022-2023: approx. 130).
<p>3 Improve system of business execution</p> <ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Newly established the Management Strategy Planning Headquarters Regarding our operations within Japan, under the business division-based system, we 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, thereby strengthening administrative and supervisory functions to provide management support and enhance governance. Began work on formulating detailed management indicators for our overseas business 	<ul style="list-style-type: none"> Consideration of a decision-making body to be formed on the executive side We are continuing to consider the formation of a decision-making body on the executive side in order to further delegate authority to the Board of Directors and separate management oversight from business execution. Strengthening regional corporate functions With a focus on increasing and training local management personnel, we have continued to strengthen relationships with local outside experts.
<p>4 Entrench risk management structure</p> <ul style="list-style-type: none"> Effectively operate and continuously improve risk management structure Continuously strengthen the efficient business operating base to sustain risk management and compliance activities 	<ul style="list-style-type: none"> Established an information security system and overhauled the structure of information security rules 	<ul style="list-style-type: none"> Organizational reform Strengthened administrative and supervisory functions for branch offices by changing to a new structure of organizing the head office and branches as well as branch offices thereunder.

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.

Board of Directors’ deliberations

Among the investment projects, regarding the conversion of the Hibikinada Thermal Power Station to a biomass-fired plant, there was a lively discussion on the efforts to achieve carbon neutrality and plans for the plant’s conversion. In fiscal 2023, the Board of Directors also discussed and deliberated on the following matters.

<Management strategies>

- Determination of the digital transformation initiative plan
- Decision on key themes for technological development at the Central Research Laboratory
- “Our Hopes for the Future”: Deployment of a new business philosophy
- 7th Medium-Term Management Personnel Plan and recruitment plan for the next fiscal year
- Issuance of euro-yen denominated convertible bonds with subscription rights to shares due 2029 and euro-yen denominated convertible bonds with subscription rights to shares due 2030

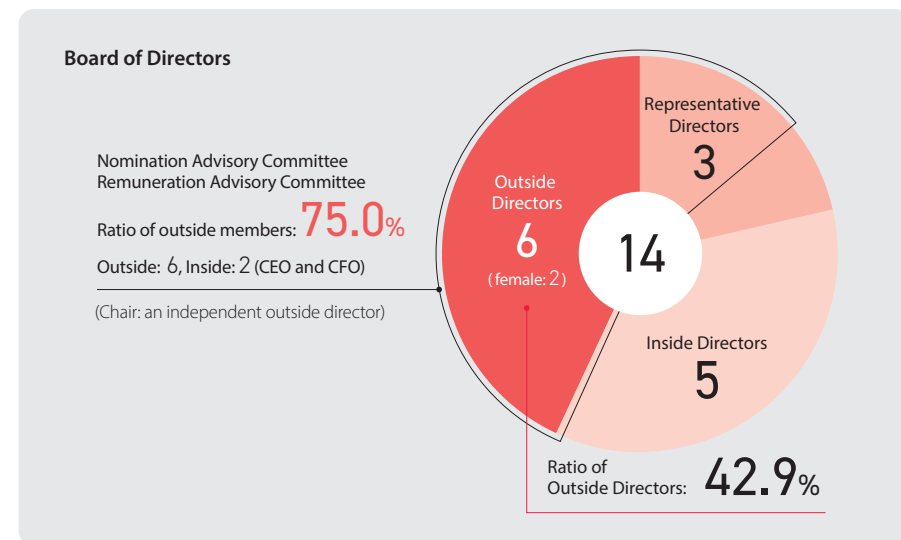
<Governance>

- Report on self-review results and revision of the Corporate Governance Guidelines
- Evaluation of the effectiveness of the Board of Directors
- Introduction of a stock compensation plan for executive officers
- Formulation of information disclosure rules





















<Investment projects>

- Conversion of Hibikinada Thermal Power Station to a biomass-fired power plant
- Establishment of a corporate venture capital fund and operating 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.



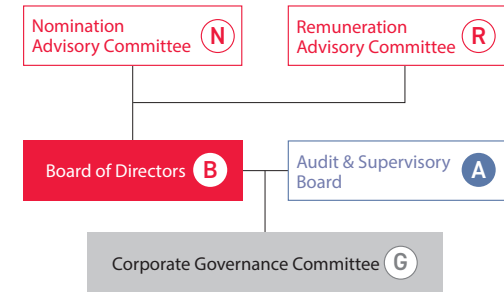
Improvements to management resilience based on a multi-faceted and long-term approach so as to better suit our operating environment and the expanding scope of our business

Non-Executives	Corporate Auditors			Outside Auditors		
	 Tomoyuki Nakazato (A G)	 Tadatoshi Maeda (A G)	 Yoshinori Hashimoto (A G)	 Akihisa Watanabe (A G)	 Tatsuji Kishimoto (A G)	 Takashi Maruyama (A G)
Representative Directors	Outside Directors					
	 Yukinori Kuwano (B N R G)	 Miwa Seki (B N R G)	 Kazuhiro Yoshizawa (B N R G)	 Yujiro Ito (B N R G)	 Tomokazu Nanbu (B N R G)	 Tomomi Fukumoto (B N R G)
Executive Directors	 Keiichi Yoshii (65) President, CEO (B N R G)	 Takeshi Kosokabe (66) Executive Vice President, CFO Head of Management Administration (B N R G)	 Yoshiyuki Murata (69) Executive Vice President Head of Technology (B G)			
	 Keisuke Shimonishi (65) Senior Managing Executive Officer Head of Commercial Construction Business (B)	 Hirotugu Otomo (64) Senior Managing Executive Officer Head of Management Strategy Planning Headquarters Head of Overseas (B)	 Kazuhiro Dekura (62) Managing Executive Officer Head of Rental Apartment Building (B)	 Yoshinori Ariyoshi (65) Managing Executive Officer Head of Compliance / Quality Assurance (B)	 Toshiya Nagase (61) Managing Executive Officer Head of Single-Family Housing Business (B)	

Corporate Governance Committee (2 times/year)

Internal Control Committee (4 times/year)

Structure of Committee for strengthening monitoring function of Board of Directors



Reason for new appointments

Name	Reason for appointment
Tomokazu Nanbu	In addition to working overseas, he has experience as a representative director of a major general trading company. The Company expects that he will supervise management of the Company and make proposals from an independent standpoint by utilizing his abundant knowledge based on his career in order to further promote the overseas business and digital transformation (DX) of the Group and enhance its corporate governance.
Tomomi Fukumoto	She has extensive experience in the sustainability division of a major beverage manufacturer and management experience at a group company of the same manufacturer. The Company expects that she will supervise management of the Company and make proposals from an independent standpoint by utilizing her abundant knowledge based on her career in order to continuously improve the corporate value of the Group.

Note: Figures in parentheses are the ages as of April 2024

Roundtable discussion with outside directors

Stronger management systems to realize Our Hopes for the Future



Yukinori Kuwano
Outside director



Yukiko Yabu
Outside director*



Yuji Yamada
Managing executive officer

CV and role at Daiwa House

Yamada: I would like to hear from you two, mainly around the theme of building management systems to realize Our Hopes for the Future. Could you first please touch on your roles at our Company?

Kuwano: Sometime around 2000, when I was still president of Sanyo Electric, I had the opportunity to spend time with then Daiwa House president Takeo Higuchi at a business gathering. When I retired from running Sanyo Electric, I was asked to join Daiwa House as a member of the Audit and Supervisory Board, an offer I accepted in 2008. Drawing on my experience as a scientist specializing in new technologies, energy issues, IT, and AI, I continue to provide management advice on the future of the housing and construction sector.

Yabu: I became an outside director in 2016, the year after Japan instituted its Corporate Governance Code. I accepted the position on the view that my experience in product development and marketing—which included consumer research—at a consumer electronics manufacturer would prove useful to the Group given its range of businesses. I believe the value the Company provides, including its effective ESG

* Retired at 85th ordinary general meeting of shareholders on June 27, 2024, upon expiry of term (term: June 2016–June 2024)

management, is growing ever more important, and as an outside director cognizant of that, I feel I've been able to contribute positively.

Kuwano: When I was appointed, outside directors were seen in the electronics industry, but Daiwa House had not adopted this approach yet. I pointed out the importance of outside directors and the need for female outside directors, as house builders are intimately connected with people's domestic lifestyles and lives. I'd like to continue helping improve Daiwa House Industry's corporate value by offering ideas and suggestions from an outsider's perspective that reflect contemporary societal needs.

Yabu: I have not held back on providing opinions the Company may find uncomfortable at the Corporate Governance Committee and Board of Directors, especially when it comes to diversity and empowering women. In 2017, I proposed boosting promotions of female executives, and in 2020 I made another proposal on developing and promoting female directors at the Company and have since had frank exchanges of opinions with senior management on these issues.

Role of outside directors and Group governance structure

Yabu: I think the Board of Directors always approach

their discussions seriously and engage earnestly with those on the executive side. A board where one can proffer forthright opinions that may sound harsh to executives, but in my opinion it is sound. The Corporate Governance Committee is made up of outside directors, outside auditors, full-time auditors, and representative directors, and discusses management issues honestly and constructively from a wide perspective. This is a unique kind of committee, not seen outside our Group, with agendas decided upon which all offer opinions on. The committee chair allocates agenda items pertaining to management issues to individual outside directors, asking for their suggestions. I myself visited a variety of departments and worksites to get a realistic feel for what was happening around the Company before making my suggestions. I was impressed by the attitude of the president and other senior managers as they took my ideas seriously and incorporated them into management swiftly.

Kuwano: The Audit and Supervisory Board has an extremely important role in governance. When I was appointed to it in 2008, a renowned lawyer, Kohei Nakabo, had in place a robust auditing system unseen elsewhere, including on-site inspections. When I succeeded him as outside auditor, he explained that it was important for those in this role to be forthright

and speak out, even when what they had to say might be unpleasant to hear. I've followed that advice to this day, and I believe the Audit and Supervisory Board will continue to maintain this approach as well.

Positioning of Corporate Governance Committee

Yamada: What are your thoughts on—your ideal for—the crucial Corporate Governance Committee in its function of strengthening governance?

Kuwano: I think the fundamental significance of corporate governance is to lead Daiwa House in a better direction through exchanges of opinion between outside and inside directors on corporate strategy. Raising issues pertinent to overall management is important, and to date our discussions have gone beyond merely ensuring compliance with legal and regulatory frameworks. We have addressed numerous themes from Daiwa House's longer term corporate vision to its business division-based system, cost of capital-conscious management, employee engagement, and even digital transformation.

Yamada: Shareholders and institutional investors often ask whether outside directors are doing their jobs and express a desire to have us oversee business execution more from their perspective. In this regard, we

have established twice yearly opportunities for the IR Department and General Affairs Department to report to outside directors. Based on these reports, we get our outside directors to consider items they would like to discuss at the Corporate Governance Committee and receive suggestions.

Kuwano: One feature of Daiwa House's governance is that suggestions to the executive team from Corporate Governance Committee members, based on their knowledge of the concerns of shareholders and institutional investors, function adequately. In light of external views, the Corporate Governance Committee holds several preparatory meetings, and on the day before all the members dine together, holding freewheeling discussions to collect members' opinions and maintain their influence on the executive team through their suggestions.

Yabu: As the outside directors advise as a team, I feel that our setup enables constructive and fair opinions to be debated with a view to longer term growth. I believe a system whereby outside directors complement each other's expert standpoints is very logical.

Yamada: Partly at the behest of the Tokyo Stock Exchange, awareness of capital costs and the share price is mounting. Since April 2023, when our division heads report on business execution, they disclose

divisional ROIC as part of the monitoring function of the Board of Directors. What about discussions about directors' remuneration?

Kuwano: The Corporate Governance Committee has discussed managing with integrated financial and non-financial aspects, and adopting environmental indicators as KPIs was one important step.

Yabu: Raising the proportion of stock-based compensation to 20% was also very well received by the Remuneration Advisory Committee. I eagerly await further discussions of the right format for compensation incentives through social value creation (ESG management) aligned with our Purpose.

Kuwano: Personally, I think that in light of the rising share of overseas sales, in the future our director remuneration structure should be closer to global standards. This would, of course, require shareholder approval.

Challenges in strengthening governance

Yabu: I understand that outside directors have crucial duties in different circumstances: those required of us when there is some untoward incident, and contributions to improving corporate value during normal times. We need to learn from these lessons and strive to strengthen management arrangements so that such scandals will not occur again. Our outside director count

came to six from June 2024, which I think will further strengthen monitoring capabilities. Overall Group management has changed dramatically with moves such as the adoption of a business division-based system, so enhanced global governance is important with a view to overseas business development. Initiatives regarding human capital and intellectual capital will also exert a major influence on our Group's competitiveness.

Kuwano: Looking at the Company's moves toward increased growth rates and margins from a long-term perspective, our unique business model, that spans services from sales and planning through construction and maintenance, has proved a source of differentiation from other companies and competitive advantage, in my opinion. We have sowed the seeds for new businesses through measures such as the corporate venture capital (CVC) fund, and the future looks bright for our aspirations to achieve ¥10 trillion in sales. For that reason, we are making Group-wide systematic moves to prevent latent risks from recurring to boost our chances of realizing Our Hopes for the Future.

■ Skill Matrix for the Board of Directors and Audit and Supervisory Board

The Company's basic policy is to enhance corporate value by creating value for shareholders, customers, employees, business partners, and society through the provision of products and services essential to society. In addition, "Our Hopes for the Future" (Purpose) lays out our commitment to "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." In light of the above basic policy and in order that we may achieve "Our Hopes for the Future" (Purpose), we have established the following skill matrix to ensure the sound and sustainable growth of the Company and to establish a high-quality corporate governance system that can live up to the social trust in the Company, through the highly effective performance of the Board of Directors and audits of the execution of duties by the directors and executive officers by the Audit and Supervisory Board.

Name	Position	Corporate Management	Finance/Accounting	Legal/ Risk Management	Technology/ R&D	International Experience	DX/IT	Environment	Social	Corporate Governance
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 Senior Managing Executive Officer	●		●		●		●	●	
Kazuhito Dekura	Director and Managing Executive Officer	●		●						
Yoshinori Ariyoshi	Director and Managing Executive Officer			●	●					
Toshiya Nagase	Director and Managing Executive Officer	●		●				●		
Yukinori Kuwano	Outside Director	●			●		●	●		●
Miwa Seki	Outside Director	●	●			●			●	●
Kazuhiro Yoshizawa	Outside Director	●			●		●		●	●
Yujiro Ito	Outside Director	●	●	●					●	●
Tomokazu Nanbu	Outside Director	●	●			●	●			●
Tomomi Fukumoto	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	●		●					●	●

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

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
Environment	To have experience or expertise in the environmental department of the Company or other companies and to promote environmental management, including the achievement of carbon neutrality
Social	To have experience or expertise in human capital development and social improvement, including DE&I, and to promote sustainable management
Corporate Governance	To have extensive knowledge of corporate governance and to enhance the corporate governance system based on diverse and long-term perspectives for the sustainable enhancement of corporate value

Policy on cross-shareholdings

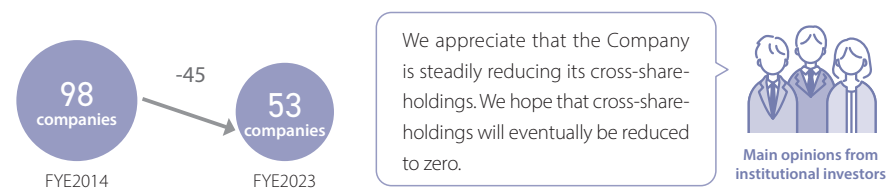
Each year, the Board of Directors reviews the medium-to-long-term economic rationality of the company's various cross-shareholdings and presents the results. An effort is being made to reduce cross-shareholdings by selling those shareholdings that are deemed to be no longer necessary. At the end of fiscal 2023, the market value of the Company's holdings was ¥77.4 billion (listed stocks: ¥73.3 billion, unlisted stocks: ¥4 billion), accounting for 3.1% of consolidated net assets (excluding listed REIT of the Daiwa House Group). We intend to further reduce cross-shareholdings 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).

The number of cross-shareholdings has fallen from 98 at the end of fiscal 2014 to 53 at the end of fiscal 2023. 12 cross-shareholdings were sold in fiscal 2023 (including partial sales). We will continue to review and reduce our cross-shareholdings on an ongoing basis.

Actual reduction of cross-shareholdings



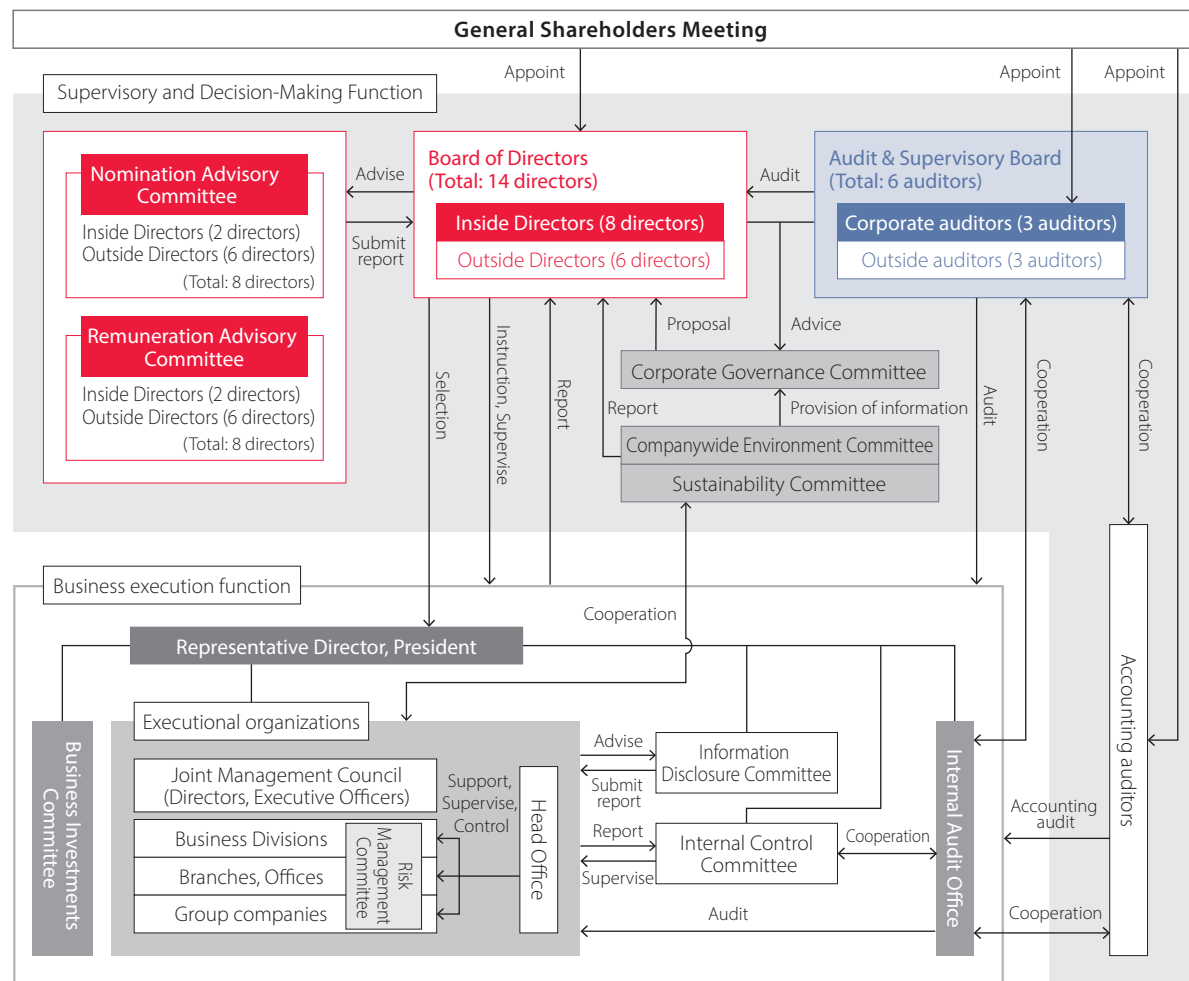
■ Corporate Governance System

The Company pursues corporate governance that better suits society and the global management environment, in order to continue to be a corporate group indispensable to society.

In order to enhance corporate value, 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 these needs, and 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 will 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 2023:
 - Appointment of directors

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., discusses 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.

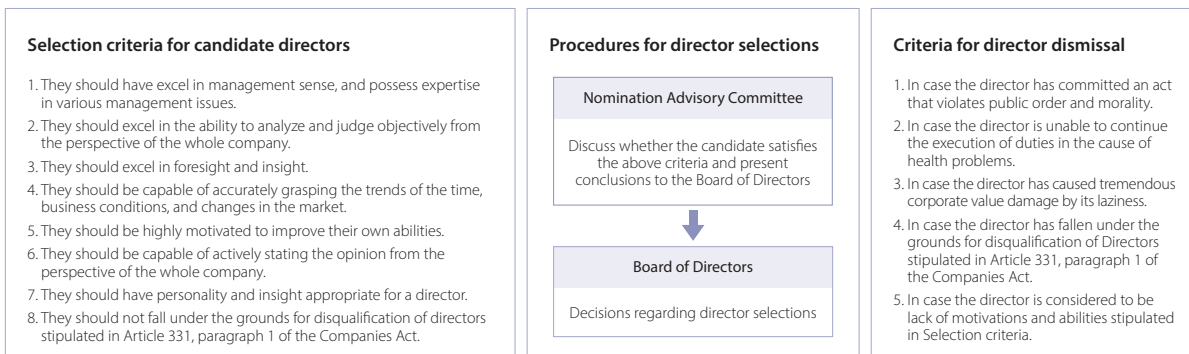
- Chair: an independent outside director
- Meeting frequency: once a year in principle
- Matters discussed and deliberated by the Board of Directors in fiscal 2023:
 - Total amount of bonuses paid to directors and amounts paid to individual directors for the 84th fiscal year

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 2023:
 - Implementation status of the Corporate Governance Guidelines and proposed amendments
 - Issues related to management indicators
 - The current status and issues of the Company according to the engagement survey



■ 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. In order to ensure the independence and neutrality of the audit system, the Audit and Supervisory Board is composed of six members, of whom three are Standing Audit & Supervisory Board members and three are outside Audit & Supervisory Board members.

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 holds regular meetings to improve the quality of audits and realize more efficient audits.

Audit system by Audit & Supervisory Board members

The Audit and 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 important meetings, including meetings of the Corporate Governance Committee, Internal Control Committee and the Business Investments Committee, and regularly exchange opinions with representative directors as well as accounting auditors. 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.

■ 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. Met four times in fiscal 2023.

- Chair: Representative Director, President
- Matters discussed and deliberated by the Board of Directors in fiscal 2023:
 - On portfolio management, initiatives of the Central Research Laboratory, 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 2023, 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 2023, the Committee met 18 times.

- Chair: Representative Director, President

Information Disclosure Committee

To build long-term relations built on trust with all shareholders, investors, and other stakeholders, we have established 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 monthly and that for Audit & Supervisory Board members shall be 18 million yen monthly. 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.

(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.

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

(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)

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)

In the 7th Plan, the ratio of stock-based compensation was increased to 20% (from the previous 12%), and environmental indicators were introduced as KPIs to promote ESG management. In order to further accelerate ESG management, the scope of recipients will be expanded in fiscal 2023 to include executive officers.

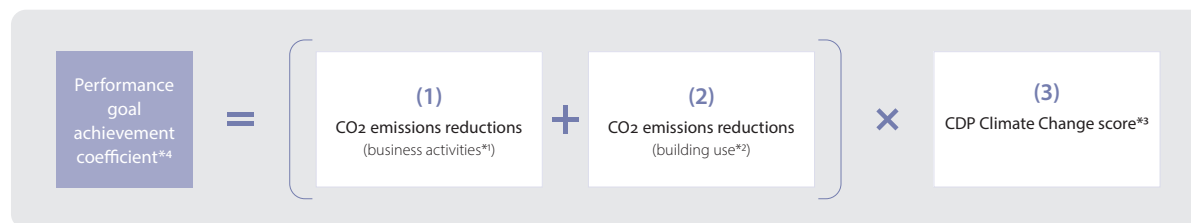
Fixed remuneration		Stock compensation Approx. 20%	
Basic remuneration Approx. 45% (not more than 70 million yen monthly)	Annual incentive bonus Approx. 35% (not more than 1.5 billion yen annually)	Restricted stock compensation with post- issuance type transfer restrictions (fixed remuneration) 50%	Transfer-restricted stock remuneration KPI: Environmental Indicators (evaluated annually) 50%

Note 1: The percentage indicates the ratio of each type of remuneration to the whole remuneration for directors. (Calculated based on past results, etc., and may be subject to change in the future.)
 Note 2: Stock-based compensation is based on the assumption that all performance indicators related to such compensation have been achieved.

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

The “CO2 emissions reductions (vs. 2015)” and “CDP Climate Change score” environmental indicators specified in the 7th Plan will be used as the performance targets. These are defined in (1) to (3) below and the degree of target achievement will be calculated using the following formula based on data obtained for the performance assessment period.

Calculation formula



*1 CO2 emissions at Group offices, plants, construction sites, and business facilities. (Scopes 1 and 2)

*2 CO2 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	FY2023 (Targets)	FY2023 (Results)
(1)	Reduction of greenhouse gas emissions in business activities (vs FY2015)	-50%	+26.3%
(2)	Reduction of greenhouse gas emissions in building use (vs FY2015)	-45%	-52.2%

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 2023 CDP Climate Change score.

In fiscal 2023, the performance goal achievement was 0%* for (1) and 100% or more for (2). Accordingly, the achievement coefficient for fiscal 2023 was 0.6.

* This was because GHG emissions increased from the base year due to the addition of the Hibikinada Thermal Power Station to the scope of coverage in fiscal 2023.

Calculation method

Achievement of (1): +26.3% (FY2023 result) / -50% (FY2023 goal) = 0%.
 Achievement of (2): -52.2% (FY2023 result) / -45% (FY2023 goal) = 116%.
 2023 CDP Climate Change score of (3): A
 FY2023 performance goal achievement coefficient: (0 + 0.5) × 1.2 = 0.6

■ 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

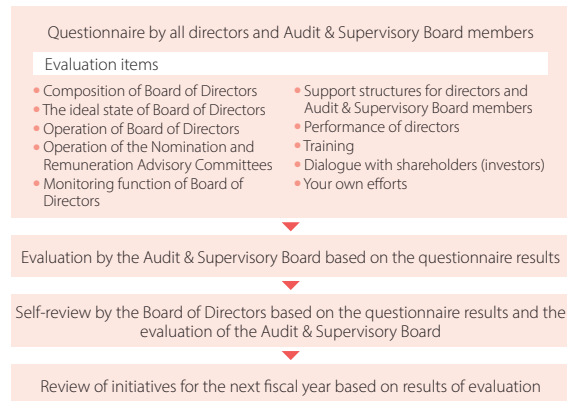
Directors of Group companies*2: In principle to own 2,000 or more company shares within 3 years of appointment

*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 2023 survey, with responses being provided directly to the external agency to ensure anonymity.

Evaluation process



Evaluation results for FY 2023

Based on the status of each evaluation item, the effectiveness of the Board of Directors was evaluated as being satisfactory. However, issues were also highlighted, and the Company will continue to work to improve the effectiveness of the Board of Directors through a variety of initiatives.

News release: Notice Concerning Outline of the Results of the Evaluation of the Effectiveness of Board of Directors

Status of efforts to address issues identified in the results of the evaluation of effectiveness

Theme 1 Composition of the Board of Directors	
<p>Evaluation by the Board of Directors (issue) In order to further enhance monitoring functions, the composition of the Board of Directors and the ratio of the number of internal directors to outside directors should be reviewed on a continuous basis.</p>	<p>Initiatives</p> <ul style="list-style-type: none"> • As a result of discussions on the optimal composition of the Board of Directors, the ratio of outside directors, and the optimal institutional design for the Company to enhance its monitoring functions, making use of the Corporate Governance Committee and other forums outside the Board of Directors, the Company has decided to increase the number of outside directors following the General Meeting of Shareholders in June 2024. (Ratio of outside directors: from 38.5% to 42.9%) • In addition, the Nomination Advisory Committee discussed and revised some of the items in the directors' skill matrix to ensure that the Board of Directors can be more effective.
<p>Evaluation by the Audit & Supervisory Board (issue) The number of directors and other factors should also be reviewed to further enhance monitoring functions.</p>	<p>Going deeper</p> <p>Evaluation by the Board of Directors (issue) We will continue to deliberate on the composition of the Board of Directors in order to further enhance its monitoring functions.</p> <p>Evaluation by the Audit & Supervisory Board (issue) There is a need to continuously enhance the monitoring functions of the Group as a whole.</p>
Theme 2 Improving the effectiveness of the Board of Directors	
<p>Evaluation by the Board of Directors (issue) The Board of Directors needs to further enhance discussions on medium- to long-term management issues, including management strategy and human capital.</p>	<p>Initiatives</p> <p>In order to further deepen discussions on medium- to long-term management issues, the Company has reviewed the criteria for submission of proposals to the Board of Directors and transferred authority to the executive side, thereby ensuring more time for discussion.</p>
	<p>Going deeper</p> <p>Evaluation by the Board of Directors (issue) In order to deepen discussions on management strategies, etc. at the Board of Directors meetings, the Company will consider the establishment of a new meeting body to make resolutions on the executive side, with the aim of transferring authority to the executive side.</p> <p>Evaluation by the Audit & Supervisory Board (issue) Further discussion is needed on the review of medium- to long-term management strategies and Group-wide portfolio strategies.</p>
Theme 3 Further deepening discussions on ESG and other non-financial issues	
<p>Evaluation by the Board of Directors (issue) Discussion on non-financial issues such as ESG needs to be enhanced further.</p>	<p>Initiatives</p> <p>The Company is considering initiatives to further deepen discussions on ESG, utilizing forums other than meetings of the Board of Directors, such as meetings of the Sustainability Committee and the Corporate Governance Committee.</p>
	<p>Going deeper</p> <p>Evaluation by the Audit & Supervisory Board (issue) Discussions on non-financial information should be further deepened through such measures as providing opportunities for the free exchange of opinions among external executive officers and between external officers and internal directors to enhance mutual communication.</p>

2 Foster next generation of business managers

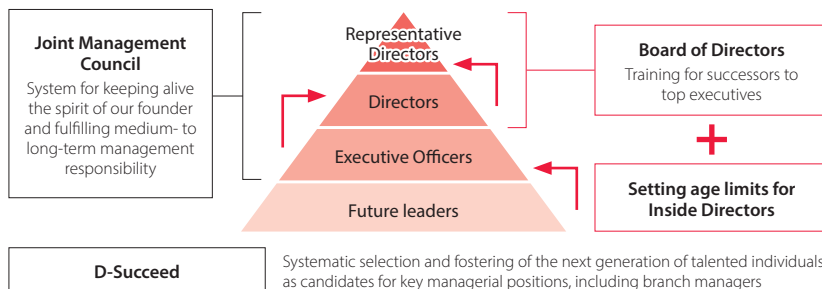
A succession process for directors and executive officers was established to help develop a deeper pool of future business managers

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 the transition from one generation to 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. In addition to a series of ecosystems from selection, evaluation, training, and promotion of management candidates, we also dispatch them to outside training programs to provide opportunities to see other ways of doing things, leading to the continuous production of management talent who will lead the next generation. We also set up a program for nurturing managerial personnel active on the global stage as a human resources development system to support our overseas businesses.

A program to nurture the next generation



■ The Daiwa House succession plan “D-Succeed”

- 1 Establishment of human resource requirements**

Key positions that are the gateway for management personnel to be covered by the succession plan
At the time of its adoption, the succession plan initially only covered the position of branch manager. However, from fiscal 2023, the scope of the plan has been expanded to cover a variety of key positions in sales, engineering, and management to ensure the diversity of future management personnel.
- 2 Selection of successor candidates**

Forming a pool of human resources in two tiers: “Next Generation” and “NEXT”
Next Generation Select management candidates, mainly in their 40s, to be “next in line” for key management positions
NEXT Select candidates for future management positions, mainly in their 30s
- 3 Systematic development**

Human resources development is carried out systematically through the training and enhancement candidates program, the next generation training program, and the NEXT training program (the NEXT generation in particular undergoes a three-year training program)
- 4 Promotion to key positions**

Through various assessments and interviews with top management, we will visualize each person’s abilities, characteristics, aspirations, human qualities, and other qualities, and make systematic and strategic appointments and assignments

■ Management human resource development through an in-house entrepreneurship program



The Company established the in-house entrepreneurship program Daiwa Future 100 to develop human resources who will lead the Group in the future and foster an organizational culture that encourages the taking of challenges. Business ideas will be solicited from approximately 50,000 Group employees* of all ages and positions, from new hires to veteran employees and executives. Business verification will be conducted in collaboration with external partners. If a business proposal has been adopted after three rounds of screening, including by outside experts, the proposer will become the president of the company to promote the commercialization and growth of the business. Through the introduction of this program, we hope to foster an organizational culture that fosters the creation of innovation without fear of failure, and to discover and develop management personnel who will lead the Daiwa House Group in the future, as well as to create business groups that will lead the charge on our goal of making Daiwa House Group a ¥10 trillion enterprise by our centennial year. *Regular employees, excluding part-time employees, are eligible.

Summary

- Proposal domains: No restrictions in particular on industry, theme, etc. (areas that do not deviate from our management philosophy and policies)
- Total budget: up to ¥30 billion (cumulative)
- Schedule: Applications opened in June 2024, and decisions will be made in January 2025 on which projects to adopt

3 Improve system of business execution

■ Business division-based system and branch management

Under the business division-based system, business division heads implement management decisions in a timely and meticulous manner and are comprehensively responsible for the “offensive” aspects of business growth and performance management while also pursuing synergies with the Group companies, as well as for the “defensive” aspects of controlling business-specific risks.

From April 2024, Daiwa Lease, Fujita, and Daiwa LifeNext, which were under the Other Businesses Division, have been placed under the Commercial Construction Business Division, General Construction Business Division, and Condominiums Business Division, respectively, to achieve greater Group synergy and governance than before.

On the other hand, even under the business division-based system, domestic operations are managed by area blocks, with entire areas under the jurisdiction of the block manager. In addition, our structure is designed for an area-oriented approach to governance and community-based business development, with an office in charge of head office functions in each area and branches under its umbrella, which encourages collaboration among businesses, such as the promotion of mixed-use development across businesses, and maintains our strengths.

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.

■ Status of initiatives to strengthen governance in our overseas business

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. As for the question of management indicators for overseas businesses, we completed the redevelopment of risk analysis items at the time of business review in fiscal 2023. In order to improve the accuracy of risk analysis, especially in terms of construction technology, a technical department has been established within the overseas headquarters to thoroughly examine business based on management indicators. We will continue to develop management indicators for corporate management after participation in the project.

[Regional headquarters type]

In the Americas, Oceania, and Europe, since business development is centered on M&A subsidiaries and unmanned joint ventures, the local regional headquarters assumes the RC functions and works closely with the subsidiaries to manage and supervise risks and business strategies.

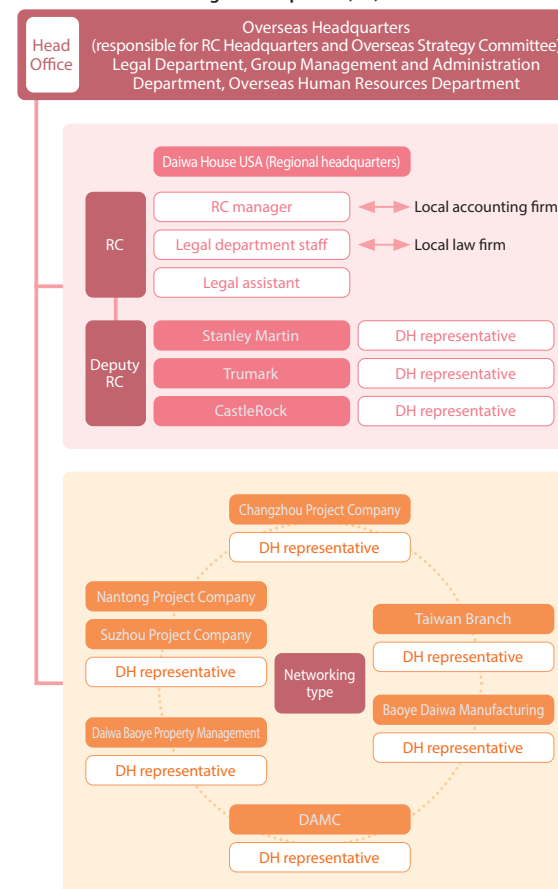
[Networking type]

In East Asia (China and Taiwan), since each project has its own manned subsidiary to develop a business and management know-how is separately accumulated by each company, the overseas headquarters has set up a liaison conference for RC collaboration to share information among project companies as quickly as possible and to supervise their management.

[Two-layer cross-border type]

In ASEAN and South Asia, as the Company operates in multiple countries and regulations and customs differ by country, DH Asia Investment Pte. Ltd. in Singapore assumes the RC functions while establishing Deputy RCs for each country to build a management system that is adapted to the characteristics of each country.

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.

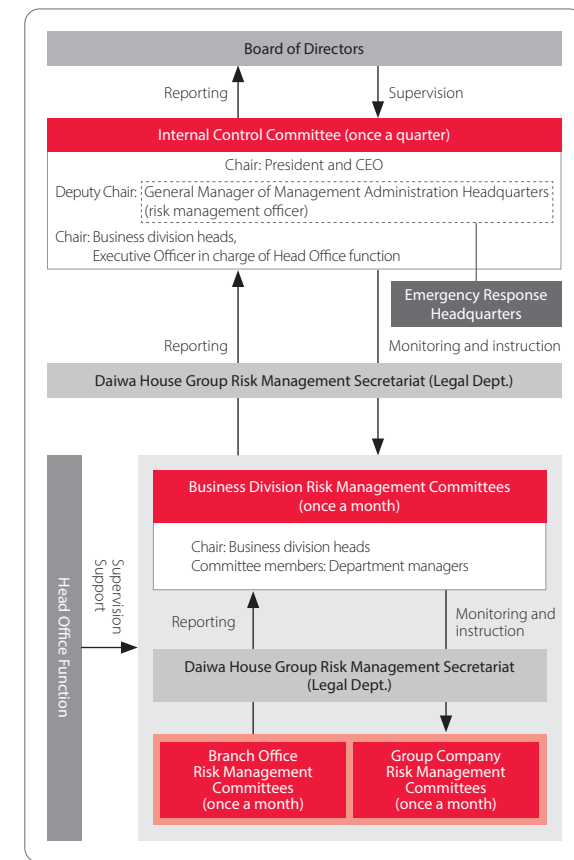
Structure in emergencies

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

■ Establishment and operation of internal control systems

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.

Risk Management System



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 Committees 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 the sustainable growth of the Group, we have established and operated various whistleblower systems both inside and outside the Company, accepting not only reports from within Japan but also those from overseas bases in their local languages.

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, in order to ensure that the proper response is taken to reported cases, a rule has been established to the effect that persons with an interest in the case in question may not be selected as persons in charge of investigations, etc. 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 a 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.

4. Compliance training

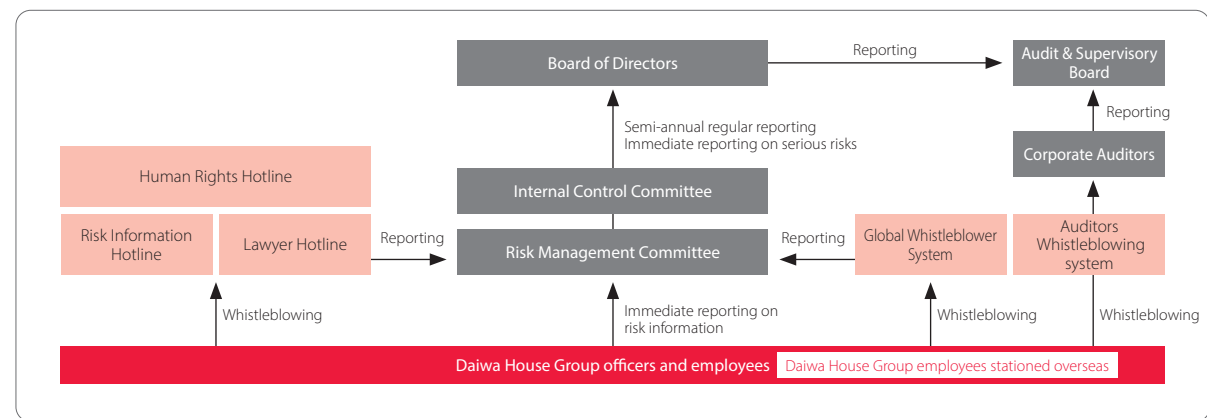
We proactively conduct compliance training with a view to enabling

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

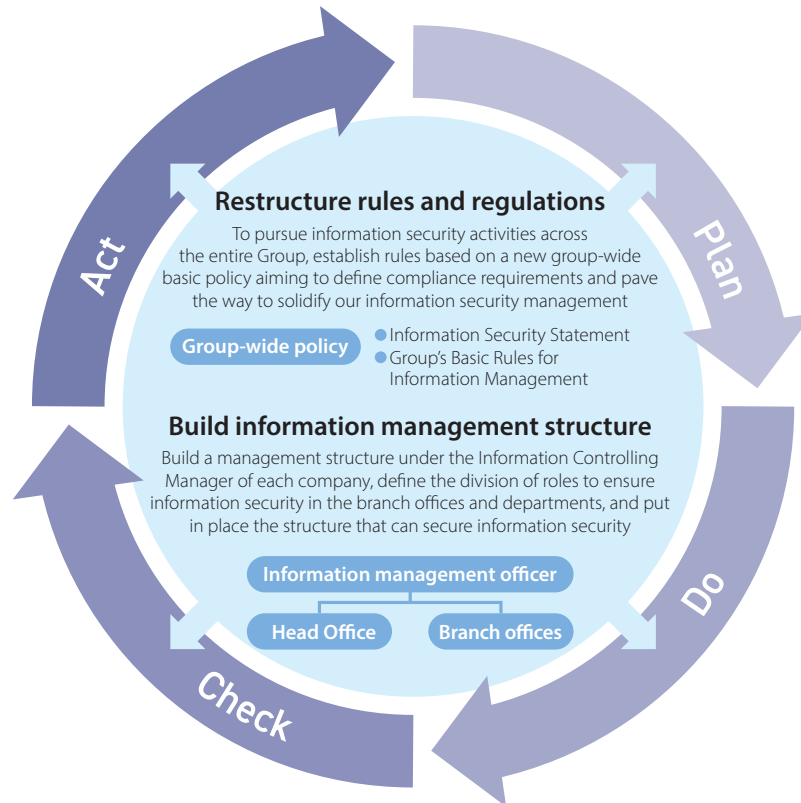
The Internal Audit Department is a department specializing in internal audits, and verifies and evaluates whether operations comply with laws and corporate rules by conducting internal audits of branch offices and Group companies and reports the results to the Board of Directors, Audit and Supervisory Board, and Internal Control Committee. Based on the results of the audits, the department requests the submission of an improvement plan for such problems from the business sites and Group companies in question, as well as progress reports on the improvement plan.

Risk information communication flowchart



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	<p>Formulate annual plans</p> <p>Plan for the current year's information security activities based on the previous year's activity results and improvements</p>
D	<p>IT security measures</p> <p>To respond 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</p>
C	<p>Employee training</p> <p>Regular training sessions to equip employees with general knowledge on information security. New employees are required to complete an e-learning program on information security basics when they join the Company</p>
A	<p>Activities to secure information security (assessment, audits, and improvements)</p> <p>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</p>
A	<p>Review and improve our activities</p> <p>Review information security activities every year, reexamine the rules, regulations and information management structures, and optimize them regularly to match our actual situation</p>