

Implementation Report

Governance

CHAPTER

03

Contents

096	Corporate governance
101	Internal control
102	Risk management
106	Anti-corruption

Governance

Corporate governance

Concept and Policy

The Daiwa House Group considers corporate governance a priority issue in our business management in order to remain a corporation trusted by society. As such, our basic approach is to establish and maintain a swift and accurate decision-making and business execution system, an optimal supervisory and auditing structure, and a corporate governance system incorporating diverse and long-term perspectives.

Operating on these systems, we pursue, and continue to improve, our corporate governance in the best possible manner, so that we may maintain both our contribution to society and value creation for our shareholders at high levels: the former through our business activities in a broad range of fields fulfilling society's needs and advancing proactive innovation and exploration of new areas; and the latter as a publicly listed corporation that creates stable economic value surpassing capital cost on a medium- to long-term basis.

Management

Corporate governance system

To increase our corporate value, the senior management in charge of business execution should always explore social needs based on a bottom-up approach, and the Board of Directors should deliberate and determine how we concretize the social needs as a business.

Our Board of Directors consists of eight executive directors and six independent external directors. 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 external directors, we increase the level of objectivity and soundness of our business management. Furthermore, the Board of Directors is further audited by auditors and the Audit and Supervisory Board that are independent of the Board of Directors.

Regarding the nomination of directors and officers and remuneration, to enhance independence and objectivity, we have the Nomination Advisory Committee and the Remuneration

Advisory Committee, the majority of whose respective members are independent external directors headed also by an independent external director. We also have the Corporate Governance Committee to discuss overall management visions, strategies including efforts toward achieving the SDGs (the UN's Sustainable Development Goals) and ESG, and other subjects, so as to sufficiently incorporate the knowledge of external directors into the company's medium- to long-term managerial issues for the sustainable growth of our company.

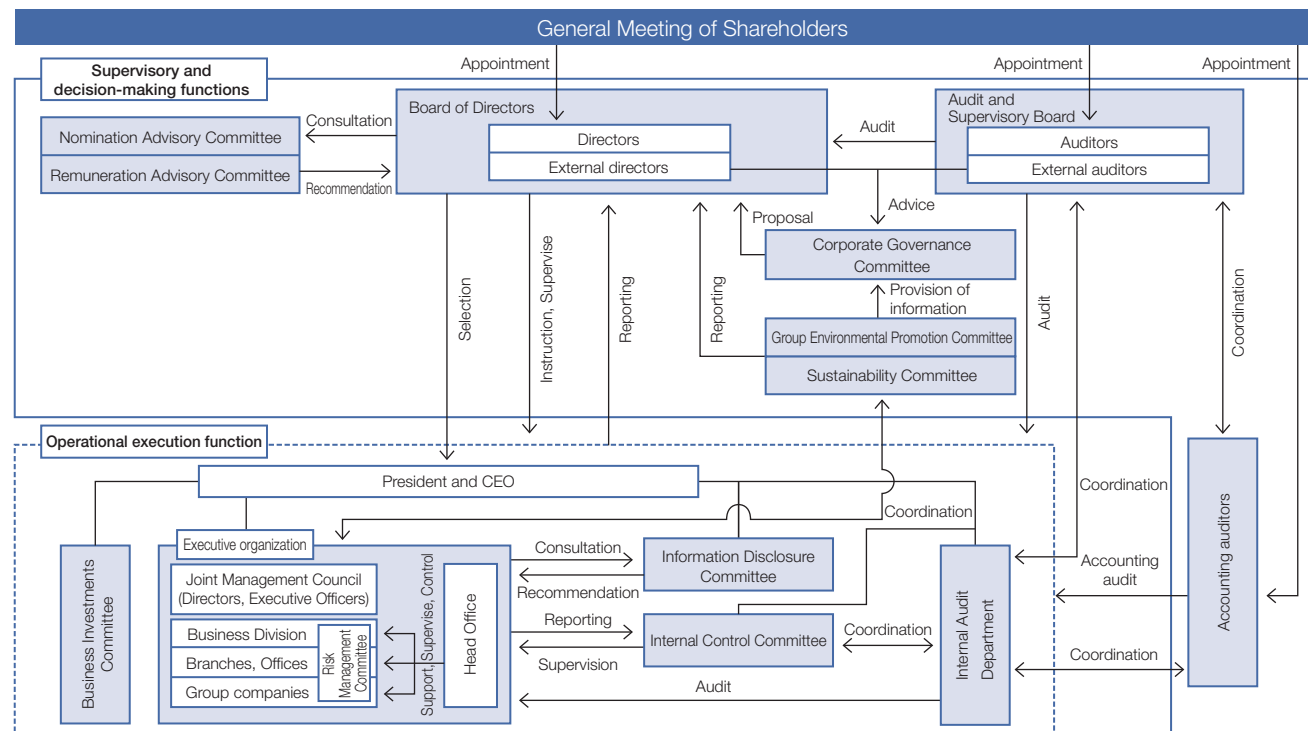
In fiscal year 2021, the Company shifted the business execution system to a business division-based system to enable quicker response to changes in society. The governance

structure has been revised by delegating authority to the general managers of business divisions (directors in charge of businesses), establishing value chains and supply chains including subsidiaries for each business, strengthening risk management, improving performance evaluation and personnel evaluation systems, and adopting ROIC (return on invested capital) as a management indicator.

 [Corporate Governance System](#)

 [P163 Governance Data](#)

Corporate governance system




Governance

Corporate governance

Revision of the “Rules and Regulations of the Business Execution System”

In the “Daiwa House Group Governance Enhancement Measures” announced in November 2019, the Company shifted to a business division-based system in April 2021 in order to create a responsibility system in which the director in charge of each business is responsible for overseeing the performance and risk management of the business as a whole. In light of the start of this new business execution system, the Company has revised the Rules and Regulations of the Business Execution System to clarify where responsibilities lie and to ensure the organized and smooth execution of business execution activities by defining the basic roles and duties to be performed by each organization of the Company as segregation of duties.

-  [Implementation Status of “Governance Reinforcement Measures of the Daiwa House Group” \(Japanese text only\)](#)
- [Nov.11,2019 Daiwa House Group Governance Enhancement Measures](#)

Selection of directors


Our company’s Article of Incorporation stipulates that the term of office of directors as one year, and the Regulations of Directors set by the Board of Directors stipulates the procedures and standards for selecting directors.

Standards for selection of directors

1. Having good managerial sense and a mastery of wide-ranging managerial issues
2. Having an excellent company-wide perspective and abilities to analyze and judge subjectively
3. Having outstanding foresight and insight
4. Capable of accurately grasping the trend of the times, managerial environment and changes in the markets
5. Highly motivated to improve his or her own quality
6. Capable of proactively expressing his or her opinion from a company-wide perspective
7. Possess character and insight appropriate to the position of director
8. Not fall under any of the disqualifications for directors set forth in Article 331, Paragraph 1 of the Companies Act

Diversity amongst directors

The Board of Directors of our company is consisted of various directors who have different backgrounds of expertise, experience and so on. And it’s basically composed of 20 persons or less, as it is the adequate number of directors for the Board of Directors to fulfill its functions most effectively and efficiently. Ratio of external directors with independency and neutrality is basically one-third or more of the Board members.

-  [Information Disclosure in accordance to the Corporate Governance Code](#)
[Views on the Appropriate Balance, Diversity and Size, etc. of the Board of Directors as a whole](#)

Operation of the Board of Directors

For sustainable operation of the board meetings, we improved networking environment and promoted paperless operation. In giving a briefing to external directors prior to the meetings, an environment was established so that they can get the briefing irrespective of their location.

We revised our board meetings rules by newly establishing “items to be discussed” in addition to issues for resolution and matters to be reported, with the intent to enable discussion of mid- to long-term issues such as the Medium-Term Management Plan.

Fostering successor candidates

For continuous business development under a rapidly changing operating environment, the Company has set age limits for Inside Directors (Representative Directors: sixty-nine; Directors: sixty-seven). At the same time, we are fostering the next generation of excellent human resources and promoting smooth transition from one generation of top management to the next.

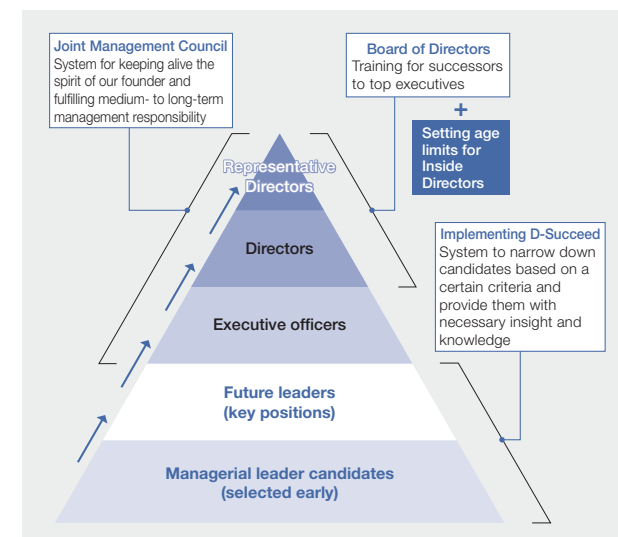
In fostering successor candidates, the Joint Management Council participated by directors, auditors and executive officers serves as a venue to recognize how to pass on the spirit of our founder, and which roles must be played by successors for fulfilling management responsibility, by sharing necessary management information and discussing relevant issues.

Additionally, in fiscal 2020 we adopted D-Succeed as a succession planning program for the next generation of top-

level managers. We have consolidated the plan with the Daiwa House Juku, which was launched in 2008 for the purpose of nurturing candidate executives, and upgraded the system for fostering successor candidates who are tackling managerial issues for the entire Daiwa House Group, as we aim for the expansion and qualitative improvement of managerial human resources. When we initially introduced D-Succeed, we positioned branch managers as a key position with a view to their future promotions to the executive class, but in fiscal 2023 we expanded the scope to include heads of technological departments in charge of each area, plant managers, head office managers, and the like. We have begun operating it as a framework for nurturing and pooling wide-ranging managerial candidates, regardless of occupation type or gender.

Moreover, we are developing human resources to support our overseas business by dispatching selected human resources to external courses where managerial candidates from a variety of companies come together and setting up a unique program for nurturing managerial personnel active on the global stage.

Framework for fostering successor candidates



■ Governance

Corporate governance

Evaluation of Board of Directors

Daiwa House Industry evaluates the effectiveness of the Board of Directors annually since 2015 based on the Corporate Governance Guidelines established to realize sustainable growth and medium- to long-term corporate value enhancement.

The Audit and Supervisory Board and the Board of Directors analyze and evaluate the Board of Directors on the basis of answers to a self-assessment questionnaire completed by the directors. The evaluation period is from January through December.

1) Details of initiatives taken in 2023 based on the 2022 evaluation

■ Issues shared with the Board of Directors in the 2022 effectiveness evaluation

- Continue consideration of the optimal composition of the Board of Directors and the ratio of external directors
- Need to further enhance discussions on medium- and long-term management issues, including management strategy and human capital

■ Actions taken in 2023 to respond to issues

- In order to utilize settings beyond the Board of Directors, such as the Corporate Governance Committee, and enhance monitoring functions, discussed the optimal composition for the company's Board of Directors and ratio of external directors as well as the optimal organizational design
- To further deepen discussions on medium- and long-term management issues, transferred authority to executives by reviewing the criteria for matters to be discussed by the Board of Directors and secured time for discussions

2) Details of initiatives to be taken in 2024 in light of 2023 evaluation results

In 2023, as in 2022, we conducted a questionnaire survey in cooperation with an external organization, with anonymity assured by having replies made directly to the external organization. Taking into consideration a report on the aggregate results from the external organization, we have confirmed the composition of the Board of Directors, its decision-making process, administration status of the Board of Directors including performance management, status of support to external directors, and status of the execution of duties of the directors. As a result of the above, we have determined that the effectiveness of our Board of Directors was ensured again in 2023.

■ Issues shared with the Board of Directors in the 2023 effectiveness evaluation

- To further enhance monitoring functions, continue consideration of the optimal composition of the Board of Directors and the ratio of inside directors to external directors
- Need to further enhance discussions about ESG and other non-financial matters

The Audit and Supervisory Board also considers that the effectiveness of the Board of Directors is being secured, but also evaluated it as needing to further deepen discussions about medium- and long-term management strategy and to review the portfolio strategy for the Daiwa House Group overall.

■ Initiatives to be taken in 2024 in light of evaluation and issues

- In order to further improve monitoring functions, increase external directors (percentage of external directors: 42.9%)
- Revise skill matrix* for Directors, including breaking down ESG-related skills, in light of discussions by the Nomination Advisory Committee to ensure the Board of Directors can demonstrate even greater effectiveness
- In order to further enhance discussions on ESG and other matters, utilize settings beyond the Board of Directors, such as the Sustainability Committee and the Corporate Governance Committee, while also considering initiatives to further deepen discussions

Going forward, we will work to improve the effectiveness of the Board of Directors through various initiatives.

* Contained in Integrated Report published at end-August 2024

Supervision of the Board of Directors concerning SDGs and ESG

Daiwa House Industry considers efforts to find solutions to social issues through its businesses as key for the medium- and long-term enhancement of corporate value, and thus the Board of Directors oversees the status of ESG initiatives.

As part of this, the Board of Directors requests reports by the Group Environmental Promotion Committee. On a regular basis, it carefully scrutinizes progress with targets and strategy and gives direction on necessary measures.

In order to implement even greater ESG management, the Corporate Governance Committee, which is comprised partly of external directors and external auditors, engages in debates from diverse and long-term perspectives based on information provided by the Group Environmental Promotion Committee and Sustainability Committee, and when necessary, gives advice to the Board of Directors.

 P010 Environmental management

Audit and Supervisory Board

The Audit and Supervisory Board operates independently of the Board of Directors. It audits the execution of duties by the company's Directors and Executive Officers, determines the contents of proposal items regarding the appointment and dismissal, or non-reappointment, of the accounting auditor that will be submitted to the General Meeting of Shareholders, and performs accounting audits and other matters prescribed by the laws and regulations. Additionally, procedures for the appropriate operation of the Audit and Supervisory Board are set out in Audit and Supervisory Board Regulations, while standards and guiding principles for audits by auditors are determined by the Regulations of Auditors. 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.

As an independent body entrusted by shareholders, auditors ensure the sustainable growth of the company by auditing the directors' performance of their duties and work to establish a high-quality corporate governance framework that lives up to society's trust. In addition, necessary information is

Governance

Corporate governance

shared with accounting auditors, the internal audit department, and external directors, with regular meetings held to improve the quality of audits and realize more efficient audits.

In addition, the company established an Audit and Supervisory Board Member's Office to accomplish tasks based on resolutions of the Audit and Supervisory Board and instructions of the auditors and assigned several employees to the Office. To secure objectivity of audits, the employees assigned to the Audit and Supervisory Board Member's Office are ensured to be independent from directors regarding operational orders and personnel evaluation.

The status of auditors' audit and auditors' remuneration is disclosed in our Securities Report.



➔ [Securities Reports and Quarterly Reports \(Japanese text only\)](#)

➔ [Corporate Governance Code](#)

Selection of auditors and accounting auditors

Our company's Article of Incorporation stipulates that the term of office of auditors as four years. On top of our company's Article of Incorporation, the Corporate Governance Guidelines and the Regulations of Auditors set by the Audit and Supervisory Board stipulate the procedures and standards for selecting auditors. Our concept of the composition of auditors is as follows.

1. Audit and Supervisory Board shall be composed of a majority of external auditors for the purpose of securing of independence of the Board, and one or more members shall be designated as independent officer set forth by stock exchanges.
2. External auditors shall be selected among professionals of finance, accounting, law, business management and other expertise.
3. Fulltime auditors shall be selected among those who have rich experiences in our company, and one or more of them shall be selected among those who are considerably versed in finance and accounting.

With respect to the accounting auditor, the company has clearly defined its policy on the appointment, dismissal, and non-reappointment of the accounting auditor in the above-mentioned "Regulations of Auditors" and regularly (every fiscal year) reviews the suitability of reappointing the accounting auditor to ensure that the most appropriate accounting auditor for the company is selected. Most recently, the company

changed its accounting auditor in fiscal 2020.

Furthermore, in order to ensure the independence of the audit by the accounting auditor, the following rules are applied to the auditors engaged in our company's auditing work, in accordance with various regulations based on the "Certified Public Accountants Act" and other laws and regulations, as well as the auditor's rotation rules set by the accounting auditor.

1. Executive members of the company may not participate in the audit of the company for more than seven accounting periods, and the leading executive member of the company may not participate in the audit of the company for more than five accounting periods.
2. Executive members of the company shall not be allowed to participate in the audit of the company for two accounting periods after his/her replacement, and the leading executive member of the company shall not be allowed to participate in the audit of the company for five accounting periods after his/her replacement.



➔ [Items related to organizational composition, organizational operation, etc. \[Auditor-related\] \(Japanese text only\)](#)

➔ [Information Disclosure in accordance to the Corporate Governance Code Policies and Procedures for the Appointment](#)

Incentive system for medium- to long-term corporate value enhancement

• Remuneration policy

Our remuneration system for directors is designed to compensate those who share the Group's "Our Hopes for the Future" (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 to create 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 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. External directors receive only "fixed remuneration" in the form of monetary remuneration.

• Details

The remuneration shall be as follows.

(1) 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 auditors, 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 auditors shall be 18 million yen per month. The company does not provide retirement benefits for directors and auditors.

(2) Annual incentive bonus

Directors (excluding external 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. Based on the resolution at the General Meeting of Shareholders, the maximum annual incentive bonus for directors shall be 1.5 billion yen.

(3) Stock compensation

The following two types of stock-based compensation will be paid to directors (excluding external 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.

■ Governance

Corporate governance

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

The company provides 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

The company provides 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)

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



P011 Reflect achievements in environmental activities in business performance assessment

• Determination process

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

Stock compensation system for Executive Officers

In fiscal 2023, the company adopted a service-based restricted stock compensation system and a performance-linked restricted stock compensation system for executive officers not serving as company directors (KPI: environmental metrics outlined in the Seventh Medium-Term Management Plan) based on the period of a fiscal year (from April 1 through March 31 of the following year). The purpose of the systems is to provide incentives to pursue sustainable improvements in our corporate

value and to ensure shared value with shareholders.



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

Directors' stock ownership

To foster benefit-sharing awareness with our shareholders and contribute to actions respecting shareholder return, the Company encourages its executives and employees to acquire treasury stock through its employment stock ownership program, etc.

Especially, Stock Ownership Guidelines are prepared for executives and executive candidates, who are supposed to play an important role in the company's sustainable growth and the improvement of medium- to long-term corporate value. As a general rule, they are required to own more than a prescribed number of treasury stock.

Stock Ownership Guidelines

Executive Directors:

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 the Group companies:

In principle to own 2,000 or more company shares within 3 years of appointment

Notice of the Fiscal 2023 Ordinary General Meeting of Shareholders

The Notice of the Fiscal 2023 Ordinary General Meeting of Shareholders was posted three weeks prior to the date of the meeting. Electronic provision measures were taken ahead of the notice being posted including via the Daiwa House Industry official website.

Governance

Internal control

Concept and Policy

Under a business division-based system, the head of each division of the company has responsibility for ensuring corporate ethics and compliance. Specifically, to prevent the manifestation of risk and respond to manifested risk, the Risk Management Committee is established in each business division and the division takes the lead in collecting and analyzing data and for formulating and operating systems for preventing recurrence.

Additionally, the Internal Control Committee has been established as the entity above individual division Risk Management Committees, resulting in a structure whereby the building and operation of systems by individual divisions is managed and overseen from a company-wide perspective.

Management

Implementation of internal control system

In the implementation of its internal control system, the Daiwa House Group refers to the Principles for Preventing Corporate Scandals announced by Japan Exchange Regulation. Our system is structured as below.

· Internal Control Committee

The Internal Control Committee was established as an organization to receive reports on the internal control situations within the entire Group with an aim to verify and correct any internal control defects. It consists of the President as a chairman, the General Manager of Management Administration Headquarters as a vice-chairman, and directors in charge of respective business divisions and departments as members. The operational status of the Internal Control 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.

· Identifying the actual operational status of the internal control system

In the construction and implementation of its internal control system, the Daiwa House Group refers to the standard framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The company's business divisions and departments and Group companies are required to report regularly on the status of construction and implementation of the internal control system, and the contents of which are reported to the Internal Control Committee. Each of the business divisions and departments and Group companies conducts a self-evaluation of the status of efforts based on the plan at the end of each fiscal year and formulates an annual plan for the next fiscal year in light of the status of efforts.

Risk information such as potential legal violations is reported immediately by rule to a director of the risk management (Head of Management Administration Headquarters) and each business division via Risk Management Secretariat (Legal Department of the company) once such information is found. In case that the regular reporting line does not work, the Whistleblowing System is also in place to identify the defects in the internal control system. In addition, Internal Audit Department independent from business operation organizations audits the status of compliance with laws and internal rules of the company and Group companies in an effort to identify the actual operational status of the internal control system.

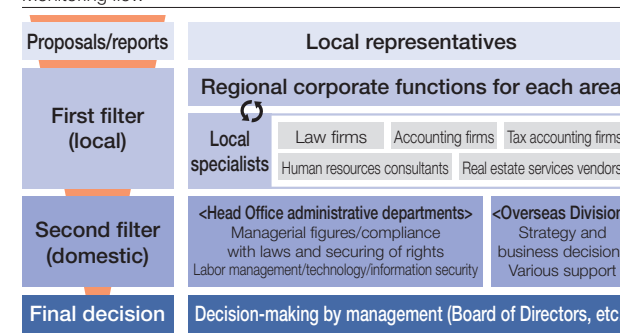
Promotion of internal control system overseas

Whereas business management is conducted by individual business divisions in accordance with the business division-based system policy, overseas, we have established a governance structure whereby regional business is managed by overseas headquarters. The system of regional business management by overseas headquarters involves specialist human resources from the corporate department of the Head Office allocated to each area and is built on regional corporate (RC) functions. With RC functions, we are building a management structure based on each region's characteristics, including culture, customs, and business customs. The operation of RC functions as regional governance systems enhances governance of each region, and that of the entire overseas business in an integrated fashion.

We have also instituted Regulations for Group Management as part of our efforts to promote internal control. These regulations stipulate that each company of our Group is required to report to and seek approval from Daiwa House Industry concerning priority items. By having each division bearing the Group Head Office function cooperate with the RC function, as set forth in the regulations.

■ Dual monitoring structure for business operations and risks

Monitoring flow



- To enhance regional corporate functions, we will continue, in particular, to focus on adding and nurturing local administrative human resources and strengthen relations with local specialists outside the company
- We have been able to minimize risks through the dual-filter monitoring system. When risks do emerge, we prioritize speed and respond in tandem in Japan and overseas

[Major associated companies of the Group](#)

Governance

Risk management

Concept and Policy

The Daiwa House Group identifies risks associated with the compliance, environments, quality, information security, human rights and others, then prevents and control these risks and minimize the loss caused by them. We consider that such risk management will contribute to protect rights and interests of not only the Group but also our stakeholders who are involved in our business.

Management

Establishing risk management system

The company stipulated the Risk Management Regulations in which risks are defined as “events that may cause damage to the Daiwa House Group,” and risk response structures in normal times and in emergencies are documented. Specific systems are as shown below.

• Structure in normal times

We have appointed the General Manager of Management Administration Headquarters as a director of the risk management responsible for building, operating and supervising the risk management system of the entire Group. Under his supervision, Risk Management Committees are established for each business division (Business Division Risk Management Committees) as organizations 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 Representative Director and President, with General Manager of Management Administration Headquarters (risk management officer) serving as a deputy chairman.

• Structure in emergencies

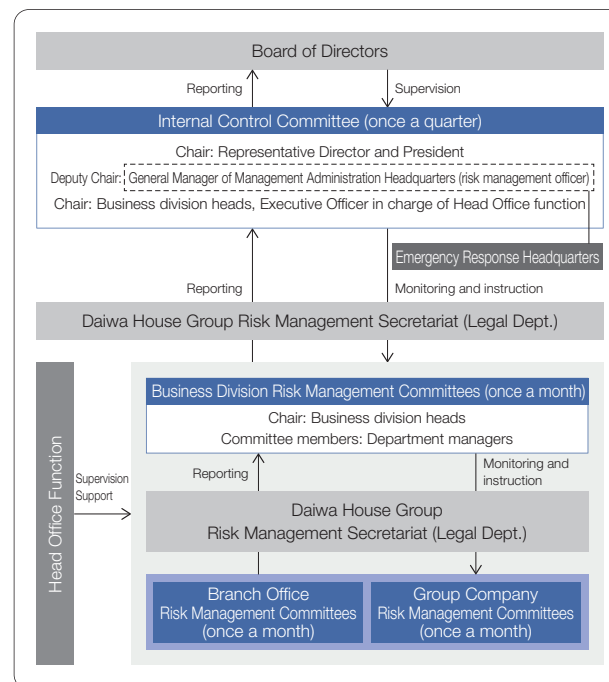
At the company, among manifested risks, those that may have particularly serious impact on the Group or its stakeholders are addressed by the established headquarters that studies

and promotes measures to deal with them or prevent their recurrence, as stipulated in the Risk Management Regulations. Criteria for setting up emergency 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 headquarters and appropriate response to the risks, in turn minimizing risk of a negative

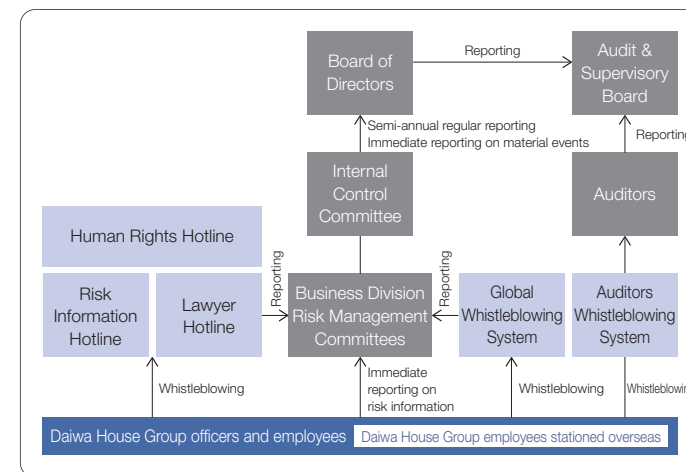
impact on earnings.

Information relating to risk management collected through the above system is reported to the Board of Directors periodically or as needed through the Risk Management Committee and Internal Control Committee. The Board of Directors supervises management of these matters.

Risk Management System



Risk information communication flowchart



Governance

Risk management

Establishing policy and regarding taxation

The Daiwa House Group Principles of Corporate Ethics and Code of Conduct stipulates compliance with laws and regulations. In all countries where we do business, we comply not only with tax laws but the spirit of the law, and pay appropriate and fair taxes. While this is the social responsibility of a corporation, we also believe it contributes to local communities. Therefore, we do not engage in arbitrary tax evasion using tax havens, and instead we make it our policy to pay taxes with consideration to a balance between improving our corporate value and providing a return to areas where we engage in business operations.

· Company system relating to taxation

The Daiwa House Group does not adopt a consolidated tax payment system. Each company handles affairs relating to tax payment, while our Accounting Department reporting to CFO controls and supports overall tax affairs for the entire Group. For proper tax filing and payment, the Accounting Department is working to obtain necessary legal knowledge as well as building a system that enables it to correctly aggregate information on transactions within the Group. For transactions where the tax interpretations are unclear, we receive advice from outside experts, and make advance inquiries to the tax authorities with regard to important transactions to ensure appropriate tax payment.

· Approach to international taxation

The Daiwa House Group understands the importance of international initiatives such as the Base Erosion Profit Shifting (BEPS) project by the Organization for Economic Co-operation and Development (OECD) to ensure tax transparency and prevent international tax evasion. Accordingly, we comply with the tax laws of each nation and perform tax management based on the principles of the BEPS project and other such initiatives. For international transactions between Group companies, we have set up rules based on OECD transfer pricing guidelines to follow.

Deliberation by Business Investments Committee

The Business Investments Committee evaluates and deliberates the feasibility and risk of the real estate development projects and other business investments that are significant for the company. For real estate development projects, a hurdle rate is set to IRR (internal rate of return). At the same time, the Committee conducts multidimensional risk assessment (27 items), including ESG, and makes investment decisions after deliberation. So even if an investment project clears the condition in the economic viewpoint, such investment is not approved if the execution of this investment differs substantially from what we aspire to be, or our vision, exerts great influence on the environment or in other cases. We also conduct periodic revisions to risk assessment items.

Faced with an uncertain financial environment and risk of rising interest rates, we tightened our IRR investment-grade criteria in February 2023. To alleviate the stricter IRR, in April of the same year, we were the first in Japan to adopt ICP* in investment decision criteria for real estate investment. By leveraging ICP, we are reducing post-completion CO₂ emissions from the real estate for investment we develop and build, thereby accelerating decarbonization of buildings and community development.

* ICP (Internal Carbon Pricing): A system for setting the company's own carbon price in order to promote decarbonization.

Risk assessment for investment decision

[Economic risk assessment]

- Setting of hurdle rate to IRR*

* Set based on the WACC (weighted average of shareholder's equity cost and liability cost) standard with risk premium and other factors added

+

[Multidimensional risk assessment (27 items)]

- Consistency with management philosophy, management strategy and brand image
- Legal risk
- Impact on the environment, including soil/underground water contamination, ground risks, disaster risks (flooding, other) and environmental problems.
- Appropriateness of construction cost, etc.



Japan's first investment decision criteria for real estate investment using internal carbon pricing (Japanese text only)

M&A investments

Due diligence when engaging in M&A (corporate mergers and acquisitions) is in principle conducted for the target company or target business, and we undertake a comprehensive investigation from multiple standpoints, such as financial, taxation, legal, and business, and weigh up and assess risk.

This due diligence assesses factors such as business risks and potential synergies with the target company's competitive advantages and qualitative characteristics. This is done by means of an investigation of the target's business that covers its corporate culture and business model as well as its financial, tax and legal aspects, and also investigations of ESG matters by various external specialists that covers: Environment: Action on environmental problems, Social: Working environment and labor management, and Governance: Internal controls and risk management systems and compliance levels. If, as a result of these evaluations, we determine that the subject company or business has no long-term future, or if we judge that it does not satisfy the level of risk we are willing to bear, we will choose not to make the investment.

Furthermore, due diligence and the post-merger integration (PMI) are undertaken as a seamless process that incorporates action on ESG considerations.



P057 Preventing the spread of soil contamination accompanying land transactions and construction

Governance

Risk management

Investment Management Guidelines for overseas operations

The Group compiles investment management guidelines for business investments in its overseas business, which stipulate items to check and points to note, including local laws and regulations and customs, in each phase of investments from preliminary survey to planning, execution and operation. The guidelines include an organizational structure incorporating governance for allocation of local employees as well as monitoring of joint ventures. Additionally, we are strengthening governance by increasing opportunities for considering risk partly through consultation by the Overseas Strategy Committee for overseas projects ahead of decision-making by the Board of Directors. We are further reducing risk through use of check sheets that allow those responsible to confirm whether these guidelines are being adhered to starting from April 2024.

Business continuity management (BCM)

Under the assumption that a serious disaster can occur at any time, the Company has formed a BCM Subcommittee incorporating different departments to formulate BCP rules for Head Office and the worksites and build BCM systems. In times of disaster, we will establish the Disaster Countermeasures Headquarters and the Local Disaster Countermeasures Headquarters, headed by Representative Director and President. We have laid out a backup framework for our call centers and factories when they are hit by a disaster, and for earthquakes and other natural disasters, pandemics and bomb warnings, we have formulated responses and an action manual, setting out what should be done promptly and properly at the site. In cases where the Head Office in Osaka is affected, Tokyo Head Office and Central Research Laboratory (Nara Prefecture) are specified as substitute Head Offices and continue with the business of our company.

Framework to ensure safety and peace of mind of employees in times of disaster

To confirm the safety of employees, the company will confirm their safety post-disaster based on residential and work area information and get a handle on the state of disaster. As part of everyday training, we also conduct disaster response drills at all our worksites once every six months.

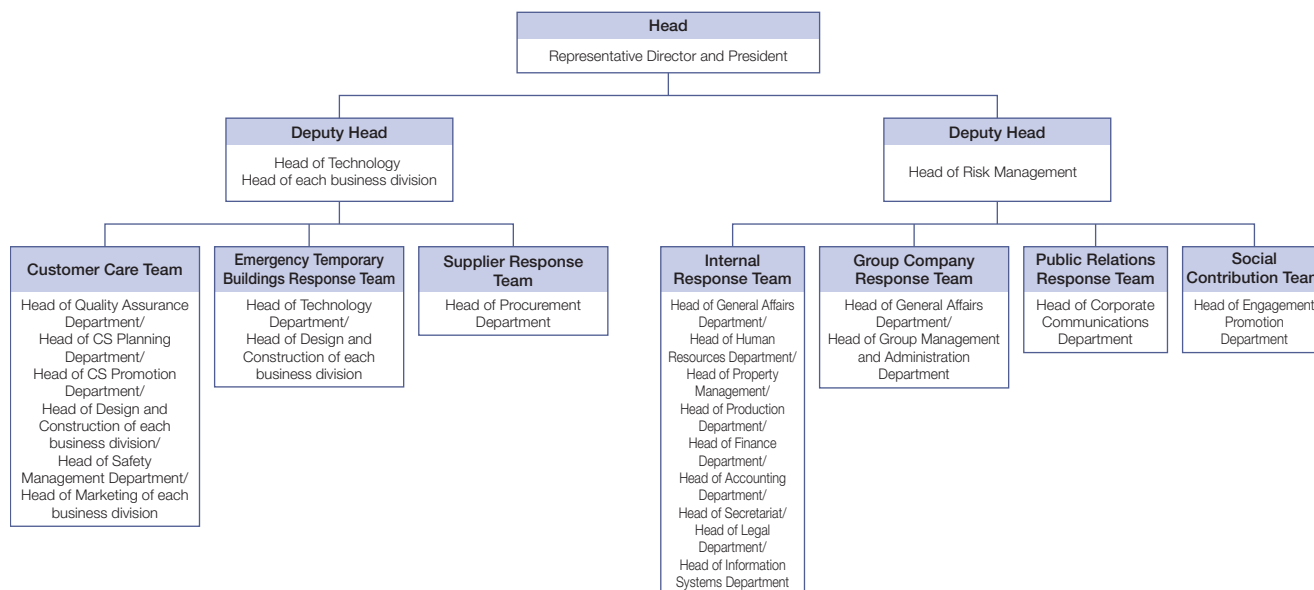
With the 2024 earthquake that struck the Noto Peninsula, the challenges with methods of confirming safety during long vacation periods was evident. We will work to develop a framework designed to more accurately gauge information about safety with greater speed, including discussions by the BCM Subcommittee and revisions to manuals.

Formulation of business continuity plans (BCP) in the supply chain

To prepare for a situation where the supply of materials from suppliers may stop due to major disasters, we have formulated a business continuity plan for our supply chain, based on which we promote measures, such as procuring materials from multiple suppliers and manufacturing sites, to minimize the risk of operations being suspended. Procedures for responding to disasters are set out to immediately ascertain the level of damage, and set up alternative systems if necessary.

In addition to disaster risks, there is a supply failure risk attributable to suppliers. To mitigate this risk, we monitor their financial standing, legal compliance, and so forth.

Disaster Countermeasures Headquarters organization map



Business continuity management in factories

In coordination with the Head Office Production Department, the factories collect information on weather conditions and monitor multiple sensors installed within factories. They prepare for natural disasters by implementing measures (wastewater inspections, protection of materials and products, inspections of shutters and doors, etc.) according to the anticipated damages. To ensure safety of our employees, we take care of commuters who have difficulty returning home, give instructions to go home early, and consult with managers of our business partners regarding the production system for the following day. An emergency contact system is also established including our business partners to minimize damage in case of emergency and to achieve a quick recovery.

Governance

Risk management

Structure for response to customers in event of disaster, etc.

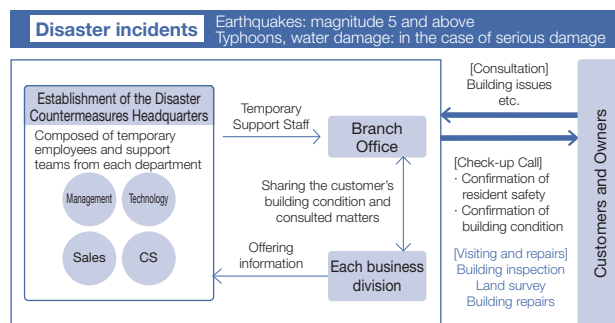
To prepare for disasters, etc., pursuant to our Business Continuity Regulations, we implement education and periodic training for employees. Additionally, we have formulated the Disaster Response Manual, which stipulates initial systems in times of natural disasters. In the event of earthquakes, typhoons and special alerts (heavy rain, strong winds, high tides, heavy snow, blizzards) or their possibility, the manual sets out criteria and action to be taken by breaking down into the three stages of initial response, early response and recovery response. We also have put ourselves in a position to deliver relief supplies to affected areas through various routes including our Group companies.

In fiscal 2023, we established the Disaster Countermeasures Headquarters for the 2024 Noto Peninsula Earthquake in line with the manual and provided a local response. Because of such challenges with information distribution not occurring as expected during the initial response in the earthquake, we will build on this experience and revise the manual to ensure clearer determinations and actions.



P083 Construction of emergency temporary housing

Structure for response to customers in event of disasters



Measures to protect privacy

Daiwa House Industry fully recognizes the importance of protecting personal information and believes that the proper use and protection of this information not only forms the basis of our business activities, but also represents a key area of our social responsibility. From this perspective, we have established our Privacy Policy and disclose it inside and outside the company. In accordance with the Privacy Policy, we have built a secure organizational and personal information management system such as by formulating internal rules and assigning a personal information manager, and all employees participate in training when they join the company to ensure compliance with this privacy policy and internal rules. In addition, we recognize the greatest importance of personal information and the importance of protecting it when using information technologies; therefore, we have implemented a user authentication system, access restrictions, and operational log controls. We also take measures at various levels, including hard disk drive encryption and the detection of illegal external access.

In addition, we are reviewing our information management system. This includes not merely personal information but all information assets in our possession. We have appointed an employee with responsibility for information management, have established rules governing the handling of information depending on their importance, and are conducting employee training. In fiscal 2023, we received no administrative guidance, advice, recommendations or orders from competent authorities.



[Privacy Policy \(Japanese text only\)](#)

[DX Annual Report \(Japanese text only\)](#)

Voluntary restrictions in marketing and communications

In addition to complying with legal and industry regulations, Daiwa House Industry has imposed various self-restrictions on advertising that include human rights considerations. We are promoting the use of "D-Workplace", an advertising production system for creating and utilizing templates for advertising materials, to reduce the risk of improper expression in the advertisement creation phase. Additionally, we ensure that all advertising matter is checked by an internal special department before being sent out.

Main approach

Conducting study sessions by management

Every year, we invite outside experts to hold study sessions on potential risks and ESG management for directors and executive officers, including non-executive officers, on a regular basis.

Study session results for fiscal 2023

Implementation period	Themes
April 13, 2023	Duties and responsibilities of directors
August 7, 2023	Status of carbon neutral initiatives
December 7, 2023	Qualities of management generating corporate value
February 9, 2024	Fresh evaluations of qualifications from viewpoint of astronaut screenings

Sanction measures due to a violation of law and litigation (including ESG-related issues)

The company may be led to make an estimate at the year-end for payment of fines or settlements highly likely to occur in the future due to an event that took place in the previous fiscal year or earlier, and book these under provision for warranties for completed construction. Details of these are contained in securities reports.

At the end of fiscal 2023, there were no significant provisions.



P012 Penalties for breach of environment laws and regulations in fiscal 2023



[Securities Reports and Quarterly Reports \(Japanese text only\)](#)

Governance

Anti-corruption

Concept and Policy

The Daiwa House Group endeavors to prevent and detect any corrupt practices under the supervision of Directors by developing internal monitoring systems such as the internal audit system and the whistleblower system. We have also formulated Anti-Bribery Regulations and Identification Regulations to build a system to strictly prohibit and prevent bribery, money laundering, misappropriation and other corrupt practices contravening the law. In addition, the Daiwa House Group prohibits acts that are considered to promote corruption and are ethically unacceptable, in accordance with various policies and regulations, including the Daiwa House Group Principles of Corporate Ethics and Code of Conduct, even if such acts are not in violation of any laws or regulations. By doing so, the Group stipulates that transactions should be conducted in a manner that ensures transparency and fairness in business operations.



Daiwa House Group Principles of Corporate Ethics and Code of Conduct

• Basic policies on prevention of bribery

The Daiwa House Group Principles of Corporate Ethics and Code of Conduct sets forth our policy on prohibition of bribery.

The Daiwa House Group signed the United Nations Global Compact, which stipulates that “businesses should work against corruption in all its forms, including extortion and bribery,” and participates in meetings of the Anti-Corruption Subcommittee. We are committed to preventing all forms of corrupt practices, including bribing public officials, giving and receiving excessive gifts and hospitality, collusion, embezzlement and breach of trust.

Additionally, under the Business Principles for Countering Bribery of Transparency International, the Guidelines for the Prevention of Bribery of Foreign Public Officials of the Ministry of Economy, Trade and Industry of Japan, and the Guidance on Prevention of Foreign Bribery of the Japan Federation of Bar Associations, the Group has developed the Basic Policies on Prevention of Offers of Bribes based on resolution of the Board of Directors, and stated that it prohibits any bribery because it hinders fair competition and aggravates social

corruption.

Additionally, for our business partners, our Supply Chain Sustainability Guidelines stipulates anti-corruption and encourages them to observe it, through which the entire supply chain works to prevent corruption.

• Establishment of Anti-Bribery Regulations and Anti-Bribery Bylaws

On the basis of the Basic Policies on Prevention of Offers of Bribes, we have established the Anti-Bribery Regulations and Anti-Bribery Bylaws in order to set forth the system, prohibited matters, procedures, etc., required to prevent our executives and employees from being involved in offers of bribes to public officials or deemed public officials throughout the Group. The contents of the regulations are subject to review as appropriate.

Our rules prohibit in principle the provision of cash and other benefits (offering entertainment or gifts, paying for the expense that public officials should bear themselves, giving donations, subsidies, or other rewards) to public officials or deemed public officials. Offers of benefits are exceptionally allowed only when certain conditions are met, such as obtaining prior approval of the chief legal officer. The rules also include stipulations concerning the identification and assessment of bribery risks. For methods of identifying and assessing such risk, we adopt a process in which employees collect information relating to laws and regulations as well as practices involving bribery, and the responsible director (General Manager of Management Administration Headquarters) conducts surveys on bribery risks and aggregates the information in relevant departments.

• Basic policy on fair trade

The Group has clearly stated its policy on fair trade in the Daiwa House Group Principles of Corporate Ethics and Code of Conduct to share the awareness among all executives and employees to strictly observe the Anti-monopoly Act (Act on Prohibition of Private Monopolization and Maintenance of Fair Trade) and subcontracting law (Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors).

• Guidelines for Transactions with Company for Own Interests of Directors, etc.

From the viewpoint of protecting the interests of shareholders, Article 11 of the Corporate Governance Guidelines sets forth the standards such as the Guidelines for Transactions with Company for Own Interests of Directors, etc. This is to prevent the persons related to our company, such as Directors and Auditors, and its major shareholders from conducting any transactions that may conflict with the interests of our Group or its shareholders through abuses of their positions.

• Policy regarding political contributions

The Group has complied with the Political Funds Control Act. We never make any political donations to individual politicians, which is prohibited under the law. Also, we do not make donations, in principle, to specific political parties or political fund-managing organizations. However, if we consider making contributions, we will make sure that such donations do not conflict with the restrictions specified in Article 22-3, Paragraph 1 of the Political Funds Control Act (restrictions on donations made by companies subsidized by the government). With regard to the purchase of fund-raising party tickets, as set forth in Article 8-2 of the Act, we have made purchases in a legitimate manner. In addition, we properly make expenditures on lobbying activities pursuant to the corporate compliance principles.

Management

Establishing a corruption prevention system

The Daiwa House Group emphasizes the prohibition of bribery in the Daiwa House Group Principles of Corporate Ethics and Code of Conduct, and endeavor to improve awareness of executives and employees through educating them in an effort to prevent any corrupt practices. We have also formulated and implemented the Anti-Bribery Regulations and Anti-Bribery Bylaws. In addition, we have established a structure that strictly prohibits and prevents any corrupt practices, such as bribery and money laundering, through providing an internal notice and seminars to the effect that any acts infringing the principle of fair

■ Governance

Anti-corruption

competition, such as an illegal price-fixing agreement and any acts considered bribery, are strictly prohibited. We also reviewed the threshold amount of expenses that requires prior approval by the chief legal officer for each country. In addition, the Group prohibits acts that are considered to promote corruption and are ethically unacceptable, in accordance with various policies and regulations, including the Daiwa House Group Principles of Corporate Ethics and Code of Conduct, even if such acts are not in violation of any laws or regulations. By doing so, the Group stipulates that transactions should be conducted in a manner that ensures transparency and fairness in business operations.

When signing agreements with agents and other third parties from countries considered high risk based on the Corruption Perceptions Index published by Transparency International, we take a more cautious stance and adopt a risk-based approach, whereby prior approval of the responsible director (General Manager of Management Administration Headquarters) is required for signing the agreement.

In fiscal 2023, we received no report on any cases of convictions or administrative penalties owing to corrupt practices including bribery, with respect to our businesses.

Enforcement of anti-corruption with internal audits

As part of internal audits, including those undertaken overseas, periodic audits are performed by the Internal Audit Department; and internal control activities over financial reporting are evaluated by each department in charge, based on an annual plan. When an incident that should be corrected is identified, we notify the office about the audit result and have it submit an improvement plan to check the compliance and risk status. The progress of improvements is checked six months after the submission.

Additionally, in order to nip corruption risks in the bud, we have established risk reporting rules and a whistleblowing system, with each department promptly implementing corruption risk assessments. Moreover, extraordinary audits are conducted as appropriate by the Internal Audit Department, thereby ensuring that business departments, administrative departments, and the Internal Audit Department play their own respective roles in preventing corruption, applying the three lines of defense model.

Prevention of money laundering

For the purpose of ensuring the safety and peace of people's lives and preventing any money laundering in accordance with the objective of the Act on Prevention of Transfer of Criminal Proceeds that contributes to the sound development of economic activities, we have laid down the Identification Regulations, which are the rules to verify identifiable elements of customers, transaction record keeping, notification of suspicious transactions and other matters, and kept our employees informed about them. We also drew up the Questions and Answers about the Act on Prevention of Transfer of Criminal Proceeds, which are designed to explain the contents of the Act and the Identification Regulations in an easily understandable way. We provide internal trainings using this guideline and have the Internal Audit Department audit as appropriate the implementation status of these rules in light of laws and regulations so as to ensure appropriate business operations.

Additionally, we have created the Risk Assessment concerning Transfer of Criminal Proceeds as a document to be prepared by a Specified Business Operator, etc. as specified in Article 32 of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds. In the written Risk Assessment, we clearly state our policy and method for assessing money laundering risks.

In fiscal 2023, we received no report on any cases of convictions or administrative penalties owing to problems related to accounting, including those based on the Act on Prevention of Transfer of Criminal Proceeds, a law to prevent money laundering.

Prevention of insider trading

Daiwa House Industry improves its system and implements a training program for preventing insider trading across the Group. The General Manager of Management Administration Headquarters is the person responsible for controlling insider information. Generated insider information shall be immediately reported to the General Manager of Management Administration Headquarters. We have built a system in which any of the Company employees and senior management of the Group companies shall notify the General Manager of Management Administration Headquarters and obtain his or her approval

before trading the Company shares. By the same token, employees of the Group companies shall notify the Information Controlling Manager (President of each company) appointed by each company and obtain his or her approval before trading the Company shares. An applicant for such approval shall check by themselves whether they have any insider information, which is subject to a double check by their superior (person in charge of controlling information). In this way, we have structures in place to prevent any insider trading.

For new employees straight out of school and mid-career hires, we raise their awareness about the prevention of insider trading through onboarding programs.

Complete prevention of connection with antisocial forces

The Daiwa House Group declares complete prevention of connection with anti-social forces in the Daiwa House Group Principles of Corporate Ethics and Code of Conduct. Daiwa House Industry has built a system for taking organized measures by establishing the Regulations for Responding to Anti-Social Forces, and appointing the department and director (General Manager of General Affairs Department of head office) comprehensively controlling practical measures under the direction of General Manager of Management Administration Headquarters, who is a Representative Director. In addition, it has built a communication and cooperation system in case of any troubles by maintaining close cooperation with external organizations such as the police and the prefectural centers for removal of criminal organizations.

Each Group company also endeavors to build a system for excluding anti-social forces (such as development of rules, appointment of a responsible director and cooperation with external organizations). In addition, the Group promotes combined efforts such as building a database on anti-social forces shared by all Group companies.