

Implementation Report

Governance

CHAPTER

03

Contents

109	Corporate governance
113	Internal control
114	Risk management
119	Anti-corruption
121	Internal audits

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

Our Board of Directors deliberates and decides how to materialize societal needs into business activities in order to enhance corporate value. The agenda includes not only resolutions and reports but also deliberation items, where medium- to long-term issues such as the medium-term management plan are discussed.

Our Board of Directors consists of seven executive directors and seven 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.

The Board of Directors believes that solving social issues

through business activities is a crucial element for enhancing medium- and long-term corporate value, and it also oversees ESG (Environmental, Social, and Governance) initiatives.

As part of this effort, the Board of Directors requests reports from the Sustainability Committee and regularly reviews the progress of environmental and social goals and strategies, providing necessary directives.

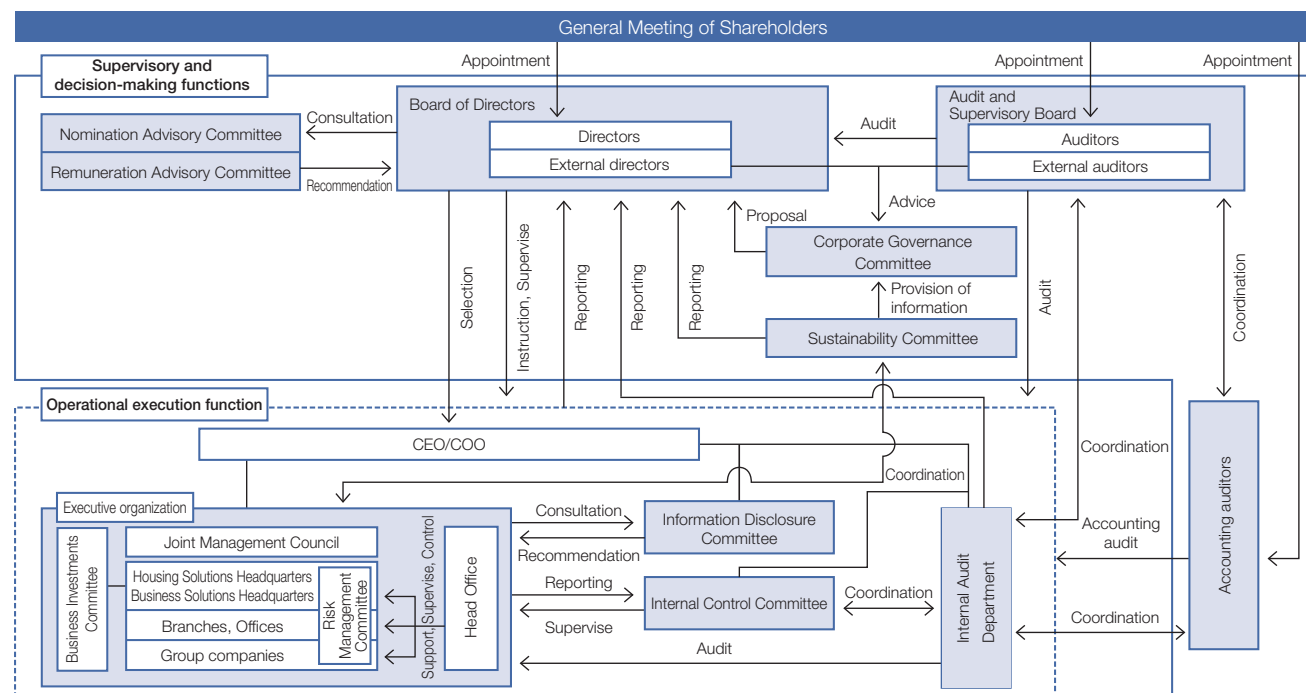
Regarding the nomination of directors and officers and remuneration, to enhance independence and objectivity, we have the Nomination Advisory Committee and the Remuneration Advisory Committee, the majority of whose respective members are independent external directors headed also by an independent external 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. We discuss the information provided by the Sustainability Committee and make recommendations to the Board of Directors as necessary.

From fiscal 2025, in order to strengthen and streamline the functions of the business headquarters and further enhance governance, we reorganized the previous seven business headquarters into two major headquarters. Additionally, to streamline and strengthen the organization and operations at the head office, we reorganized under three corporate divisions.

[Corporate Governance System](#)
[P011 Environmental management](#)
[P182 Governance Data](#)

Corporate governance system



Governance

Corporate governance

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.

Additionally, regarding the development of successors, we operate a system that nurtures and pools a wide range of management talent candidates, regardless of their job type or gender.



➤ Views on the Appropriate Balance, Diversity and Size, etc. of the Board of Directors as a Whole



P077 Fostering successor candidates

Evaluation of Board of Directors

Daiwa House Industry evaluates the effectiveness of the Board of Directors annually since fiscal 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.

<Applicable period>

January 2024 to November 2024

* In 2024, the period during which the survey would be conducted was moved forward by one month to allow time for analysis of the results and selection of issues. As a result, the applicable period was 11 months.

<Evaluation results>

Based on the status of each assessment item, we have determined that the effectiveness of our Board of Directors was ensured. At the same time, the issues raised in the survey have been shared with the Board of Director and, going forward, we will work to improve the effectiveness of the Board of Directors through various initiatives.

<Issues identified from the results of the 2024 evaluation and future initiatives>

· Composition of the Board of Directors

(Issue)

To further enhance monitoring functions, it is necessary to continually examine how best the Board of Directors should function in response to changes in the environment.

(Details of Initiatives)

While keeping in mind the separation of supervisory and executive functions, we will consider appointing human resources from a more diverse pool and with the knowledge necessary to ensure the success of the Company in the future. In addition, we will continue to examine the management structure of the Company, including in terms of organizational design.

· Enhance discussion of management strategies, non-financial information, etc.

(Issue)

Continued efforts are needed to set agendas and ensure time for discussion.

(Details of Initiatives)

We will aim to enhance discussions on management strategies and non-financial information, etc., while utilizing platforms other than meetings of the Board of Directors, including meetings of the Sustainability Committee and the Corporate Governance Committee.

· Internal control

(Issue)

Fuller discussions are needed on risk management and compliance from the perspective of defensive governance.

(Details of Initiatives)

We will aim to enhance discussions and strengthen supervision regarding the status of internal controls, including those of Group companies, and improvements and monitoring relating to incidents of risk. If necessary, we will discuss a review of the basic policy and system development.

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



➤ Notice Concerning Outline of the Results of the Evaluation of the Effectiveness of Board of Directors

■ Governance

Corporate governance

Audit and Supervisory Board

The Audit and Supervisory Board is composed of a majority of external auditors for the purpose of securing independence of the Board. 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.

In addition, necessary information is shared with accounting auditors, the internal audit department, and external directors, with regular meetings held as part of efforts to improve the quality of audits and realize more efficient audits.

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, 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 is disclosed in our Securities Report.



➤ [Securities Reports and Quarterly Reports](#)

➤ [Corporate Governance Guidelines](#)

Selection of auditors and accounting auditors

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 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 abovementioned "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 consecutive accounting periods, and the leading executive member of the company may not participate in the audit of the company for more than five consecutive accounting periods.
2. Executive members of the company shall not be allowed to participate in the audit of the company for five accounting periods after his/her replacement. In addition, the leading executive member of the company may not ever participate again in the audit of the company.



➤ [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. From fiscal 2023, executive officers who do not concurrently serve as directors are also included. External directors receive only "fixed remuneration" in the form of monetary remuneration.

■ Governance

Corporate governance

· 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.

(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).



P012 Reflect achievements in environmental activities in business performance assessment and executive remuneration

· 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.

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 2024 Ordinary General Meeting of Shareholders

The Notice of the Fiscal 2024 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

The Group distributes a booklet, “The Future of the Daiwa House Group: Daiwa House Group employees - Think this Way and Forge Ahead,” written by founder Nobuo Ishibashi, to all employees when they join the Company. This booklet details the outlook, philosophy, and approach to work of the Group and its employees. The booklet is constantly circulated among all employees so as to ensure that the founder’s spirit is carried through. The founder’s spirit of “Don’t do things because they will make a profit, but because they will be of service to society,” a key phrase in the booklet, informs much of how the Group conducts its business.

In April 2004, the Group established the Daiwa House Group Principles of Corporate Ethics and Code of Conduct to help realize the spirit of our founder. These ethics underpin the unified set of values that inform how the entire Daiwa House Group works to ensure the performance of internal controls.

 P067 The Daiwa House Group Principles of Corporate Ethics and Code of Conduct

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 Chairman and CEO of the Group as a chairman, the Representative Director and President and the General Manager of Management Administration Headquarters as vice-chairmen, and directors in charge of respective business divisions and departments as members. The operational status of the Internal Control Committee, particularly in terms of risk management activities, 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, head office functions and Group companies are required by the Internal Control Committee to formulate annual plans on the status of construction and implementation of the internal control system, and to report the implementation status of activities based on these same plans at the end of each fiscal year, which, in so doing, allows the company to grasp the situation with regard to the operational status of the internal control system throughout the Group.

As a function of the internal control system, the Group has established a system for the early collating and centralized management of risk information. Specifically, for use in situations where an employee of the company is confronted with information pertaining to serious risk, including with regard to violations of laws and regulations, the company has established a rule that such information should be immediately collated and provided to the Risk Management Secretariat (Legal Department of the company). The Whistleblowing System is also in place for use when the regular reporting line does not work as it should. This system ensures that the Group is able to properly understand the status of its internal control system from the perspective of risk information.

In addition, the Internal Audit Department audits the status of compliance with laws and internal rules of the company and Group companies, and reports the results of which to the Internal Control Committee, so that these assessment results can also be used to identify the actual status of the internal control system in a way that is independent from the executive departments.

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.

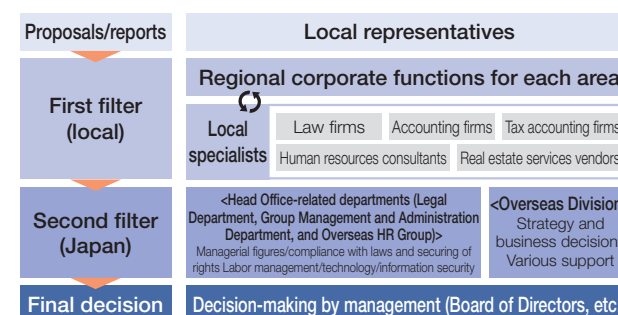
We have also instituted Regulations for Group Management as part of our efforts to promote internal control. These regulations stipulate that each company of our Group is required to report to and seek approval from Daiwa House Industry concerning priority items. By having the Head Office-related departments (Legal Department, Group Management and Administration Department, and Overseas HR Group) bearing the Group Head Office function cooperate with the RC function, as set forth in the regulations. To enhance the regional corporate (RC) function, we will continue, in particular, to focus on adding and nurturing local administrative human resources and strengthen relations with local specialists outside the company. In addition, we aim to minimize risk through a dual-filter system of risk monitoring. When risks do emerge, we have a system that prioritizes speed and responds based on cooperation between Japan and overseas.

In fiscal 2024, risk management training was provided to overseas business personnel in the head office departments and to employees stationed in our businesses around the world. In addition, we promoted a range of training initiatives for employees, including national staff, led by the area RC function to help nurture our human resources.

In addition, in order to reduce the number of audits conducted by the the Head Office departments on site, we are taking stock of the contents of such audits and making adjustments to improve operational efficiency.

Dual monitoring structure for business operations and risks

Monitoring flow



Major associated companies of the Group



P116 Investment Management Guidelines for overseas operations

Governance

Risk management

Concept and Policy

The Group has established the Risk Management Regulations and put in place a system based on common rules to prevent the manifestation of risks, to detect risks, and to minimize losses, for use in normal times and in emergencies.

We consider that risk management will contribute to protect rights and interests of not only the Group but also the many stakeholders who are involved in our business.

Management

Establishing risk management system

• 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.

• Structure in emergencies

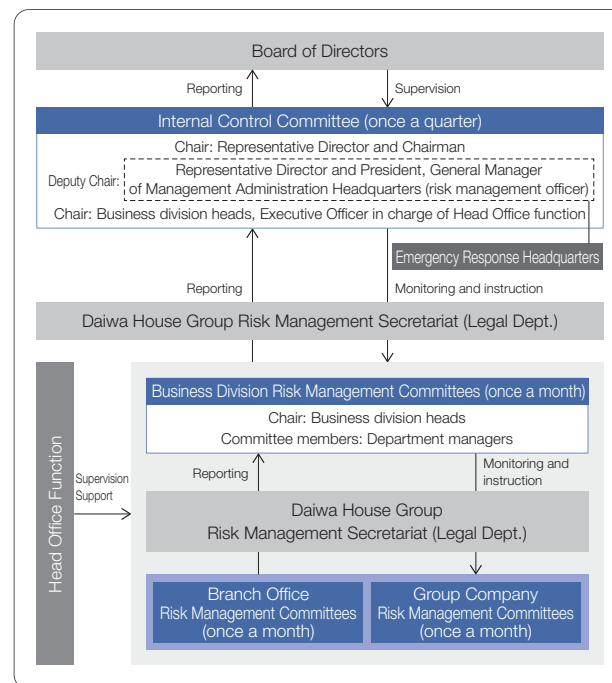
At the Company, among manifested risks, those that may have particularly serious impact on the Group or its stakeholders are addressed by the established headquarters that studies and promotes measures to deal with them or prevent their recurrence, as stipulated in the Risk Management Regulations. Criteria 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. Furthermore, a system has been put in place for quickly establishing an emergency headquarters and to help minimize the risk of a negative impact on earnings. Information relating to risk management

collected through these respective systems 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.

In the event of a natural disaster, a framework is in place to establish a BCM Subcommittee incorporating different departments, to respond to the situation.

 P116 Business continuity management (BCM)

■ Reporting on risk information (regular reporting line)



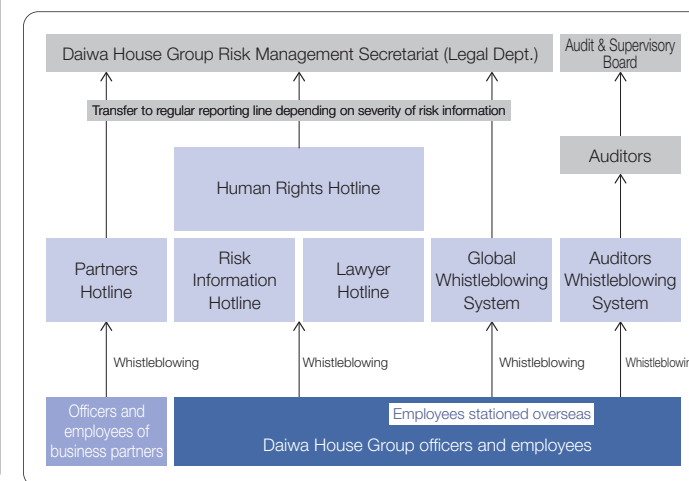
Reporting on risk information

In order to ensure timely and appropriate risk management, the Group has established a reporting line for use when faced with risk information. In addition, a mechanism has been put in place for escalating risk information to higher levels of the organization based on severity, ensuring that such information is properly circulated.

For cases where the regular reporting line does not work, several whistleblowing systems have been put in place for use according to the function and attributes of the whistleblowers themselves.

If the information obtained through the whistleblowing systems pertains to a serious risk, the whistleblower receives protection and, depending on the severity of the information, the information is transferred to the regular reporting line as appropriate, thereby ensuring appropriate risk management.

■ Reporting on risk information (whistleblowing)



■ Governance

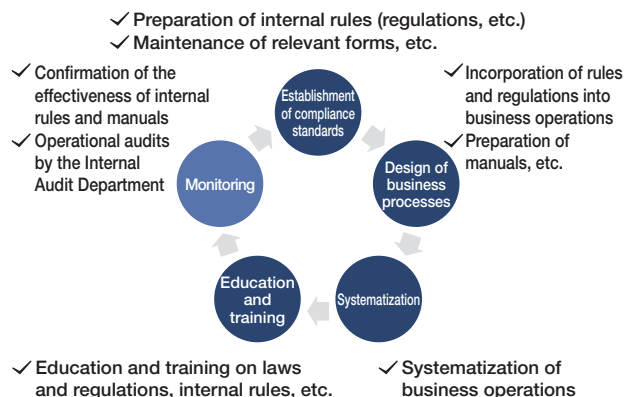
Risk management

Promoting compliance

We define compliance broadly as adherence to laws, regulations, rules, and other social norms, as well as the Daiwa House Group Principles of Corporate Ethics and Code of Conduct, and internal standards, and regard it as the highest priority in risk management.

To ensure that a uniform approach is taken throughout the Company, we have established a set of compliance rules, which oblige business division heads and the heads of Head Office functions, who are the risk owners, to establish a system with five components.

■ Five components of the compliance system



Monitoring activities

Of these five components of our compliance system, we place much of our focus on monitoring.

Monitoring is conducted after the fact to confirm that risk management and the compliance rules established by the risk owners themselves are functioning effectively and as intended.

This approach enhances the effectiveness of the rules and helps ensure that any inadequacies or shortcomings in the rules can be remedied at an early stage.

In addition to monitoring by risk owners, we also encourage our branch offices and worksites, where compliance is vital, to voluntarily check the status of rule implementation, thereby ensuring that the rules themselves become firmly embedded.

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.

Furthermore, with the aim of reducing post-completion CO₂ emissions from the real estate for investment we develop and build, and accelerating the decarbonization of buildings and community development, we have introduced an ICP* system. In fiscal 2024, two buildings were selected for investment using this ICP system.

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

■ Governance

Risk management

■ 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.



P048 Preventing the spread of soil contamination accompanying land transactions and construction



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

M&A investments

When engaging in M&A (corporate mergers and acquisitions), the Company undertakes a comprehensive investigation from multiple standpoints, primarily financial, taxation, legal, and business to weigh up and assess risk. In addition to the investigation set out above, we also assess the target companies or target businesses based on factors such as business risk and potential synergies with reference to their competitive advantages and qualitative characteristics. This is conducted by means of an investigation into their ESG credentials, which covers the following: 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 target 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 to pass on that particular M&A.

In addition, during post merger integration (PMI)—a process to maximize the integration after an M&A—the department in charge of the merger within our company will, in principle, serve as the lead division for the merged company for a period of

three years and follow up on ensuring the implementation of governance initiatives enacted by our company, including the development of internal control systems.

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.

From July 2024, a check sheet that consolidates past knowledge on investment management has been prepared by Head Office-related departments such as the Overseas Division, Legal Department, and Group Management and Administration Department, and deployed through RC for use by local subsidiaries. This ensures that comprehensive checks are performed in accordance with the Investment Management Guidelines, thereby reducing risk and curtailing the individualization of work.

Business continuity management (BCM)

Under the assumption that a serious disaster can occur at any time, the Company has established a basic policy and action guidelines for use with respect to BCP. In addition, the Company has formed a BCM Subcommittee incorporating different departments to formulate BCP rules with regard to the issue of business continuity in the event of a natural disaster for use by Head Office and branch offices and worksites. 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.

■ BCP basic policy

Our aim is to be a “disaster-resistant company” that, in the event of a major disaster or other type of crisis that causes extensive damage, will still be able to fulfill its corporate social responsibility, including being able to continue providing important operations that support business activities and that will strive to ensure early recovery in the event of an interruption. We will also contribute to local communities by promptly carrying out relief and recovery activities in regions hit by disasters.

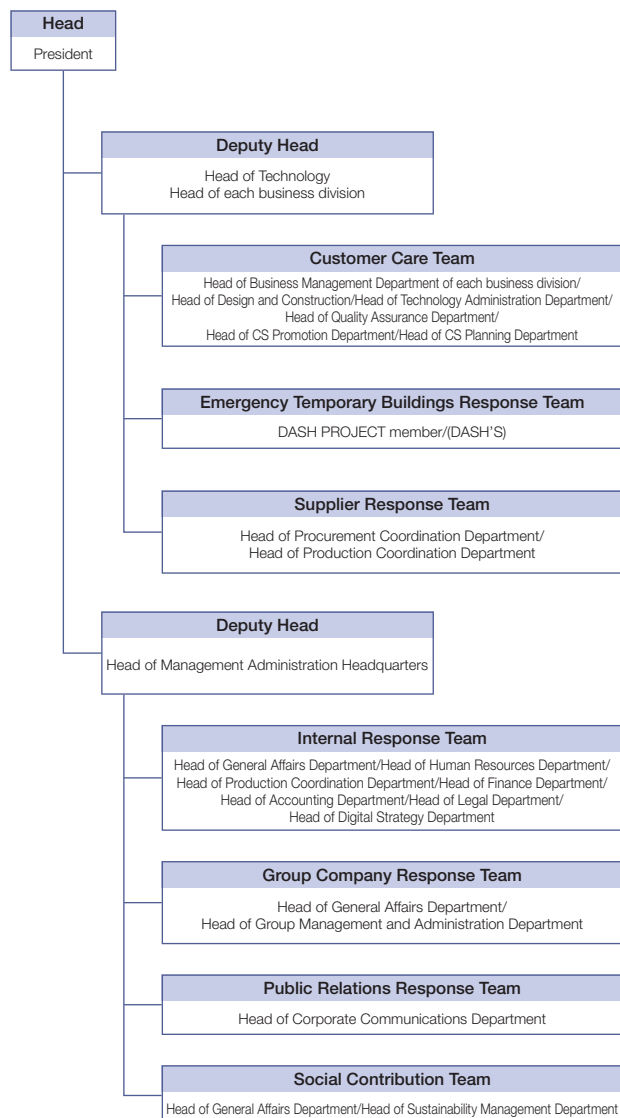
■ Action guidelines

- Ensure the safety of employees and their families.
- Ensure the establishment of a prevention and recovery system that enables the continuation of important operations that support business activities.
- Establish a support system to ensure that relief and recovery activities can be delivered quickly in affected regions.
- Constantly review and improve the business continuity plan to ensure that we become a disaster-resistant company.

Governance

Risk management

Disaster Countermeasures Headquarters organization map



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

To confirm the safety of employees using the system, 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.

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.

Business continuity management in factories

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.

In preparation for emergencies, we have prepared various manuals detailing our response during natural disasters. Once a year, we have all employees of the Company conduct drills

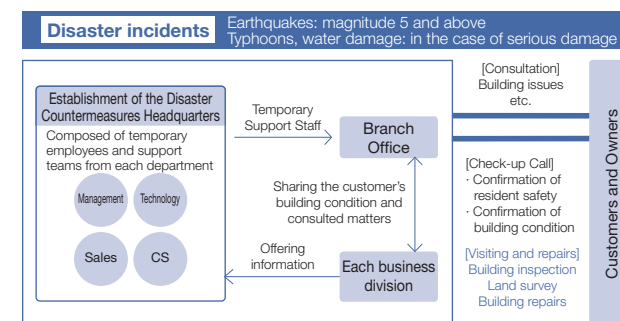
to ensure that they are able to act in accordance with these manuals. The manuals are revised as necessary with the aim of minimizing damage.

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

In preparation for natural disasters such as earthquakes, we have established the Rules Concerning Business Continuity in the Event of a Natural Disaster and implemented a system to establish the Disaster Countermeasures Headquarters, as well as providing employee training and periodic drills. Furthermore, 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 for each of the aforementioned disaster types. We also have put ourselves in a position to deliver relief supplies to affected areas through various routes including our Group companies.

In fiscal 2024, based on the experience of the 2024 Noto Peninsula Earthquake, we revised the manual to enable more accurate decision-making and action regarding information communications during the initial response stage.

Structure for response to customers in event of disasters



Governance

Risk management

Information security

Recognizing the importance of protecting, managing, and properly utilizing information held by the Group, including trade secrets and personal information, we have established the Declaration of Information Security (Basic Policy), Group Basic IT Regulations, Group IT Security Standards, and Group IT Business Continuity Management Standards. In order to properly handle, manage, protect, and maintain information, we have appointed a Chief Information Management Officer to accurately assess the status of information security throughout the Company and promptly implement the necessary measures.

• Appointment of information managers

We have appointed branch managers, plant managers, or department directors as information managers, and have appointed persons to be in charge of promoting information security initiatives to assist them.

Information managers lead the stocktaking of information stored in their department, sales office, or section. For information that is not classified in the information handling manual, information managers determine the importance of the information and classify it as either “strictly confidential information” or “confidential information.” They then manage the information and provide guidance and support concerning its handling.

• Information Security Action Plan

The Information Management Rules stipulate that the Company shall establish an annual plan for information security activities with the aim of autonomously implementing the PDCA cycle for information security activities. In fiscal 2024, there was an incident involving the loss of certain information devices and documents due to them being misplaced. Therefore, we have set a priority target of “zero accidents involving the loss of information devices and documents due to misplacement” for fiscal 2025, and have ensured that all factories, branch offices, and business worksites in Japan submit a plan to achieve this goal.

• Implementation of information security self-checks

We ensure that all employees undertake a monthly information security self-check. The purpose of these checks is to ensure that each and every employee handles all information assets held by the Company in an appropriate manner and to raise awareness of information security matters. The results of these checks are fed back to branch offices and worksites.



➤ [Declaration of Information Security](#)

➤ [DX Annual Report](#)
[Strengthening information security measures](#)
(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 for 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 2024

Implementation period	Themes
September 12, 2024	Sustainability management and corporate value enhancement
December 5, 2024	Global management: Aiming for further growth of the Daiwa House Group
February 13, 2025	Potential human rights risks within the Daiwa House Group

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). In addition, we properly make expenditures on political fundraising party tickets within the scope of the restrictions specified in Article 22-8, Paragraph 3 of the Political Funds Control Act. In addition, we properly make expenditures on lobbying activities pursuant to the corporate compliance principles.

■ Governance

Anti-corruption

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 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 2024, we received no report on any cases of convictions or administrative penalties owing to corrupt practices including bribery, with respect to our businesses.

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, which is then used in the risk assessment. If, as a result of the assessment, a transaction suspected of money laundering is identified, it is reported to the Ministry of Land, Infrastructure, Transport and Tourism in accordance with the Act on Prevention of Transfer of Criminal Proceeds.

Prevention of insider trading

Daiwa House Industry improves its system 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. In order to prevent insider trading, 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) appointed by each company and obtain his or her approval before trading the Company shares. Furthermore, 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.

In order to ensure that knowledge of insider trading and the Company's rules are widely understood, we raise the awareness of the Group's employees 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.

Governance

Internal audits

Concept and Policy

In order to achieve the best possible corporate governance, the Daiwa House Group conducts internal audits to assess the adequacy and effectiveness of governance processes, risk management and controls in the performance of management duties at Group companies. These audits also advise and recommend the most effective improvements from the perspective of the development of the Group and support the implementation of such improvements.

Management

Structure and function of internal audits

The Company has established an Internal Audit Department (comprising 44 employees as of April 1, 2025), which reports directly to the President. This department conducts internal audits in accordance with the annual audit plan, which is formulated based on our risk approach. The aim of these audits is to contribute to the preservation of company assets, help ensure the smooth operation of management duties, promote operational improvements, improve management efficiency, and help ensure the healthy development of our businesses.

Implementation status of internal audits, etc.

When formulating an audit plan, we select which sites are to be audited and the items to be assessed in accordance with the results of the annual risk assessment of each Group site (company departments/divisions, branch offices, business worksites, factories, and domestic and overseas Group companies) with reference to the Medium-Term Management Plan and medium- to long-term issues raised through prior audits.

All audit results are reported to the President, while the results of audits pertaining to specific departments/divisions and worksites are reported to the Executive Officer in charge of the said department/division or worksite. Summaries of the audit results are periodically reported to the Board of Directors,

the Audit and Supervisory Board, and the Internal Control Committee.

In fiscal 2024, we audited 79 worksites (sum total of the Company's Head Office departments/divisions, branch offices, business worksites, factories, and domestic and overseas Group companies). Issues identified during these audits are notified to the audited worksites and the relevant departments, and the status of improvements are subject to later checks to ensure their implementation.

We also conduct quality assessments (internal and external) of the effectiveness and efficiency of our internal audits to continually improve the quality of the audits. We undergo external assessments periodically (at least once every five years) conducted by a qualified and independent external assessor. The most recent external assessment was conducted in fiscal 2021.

The Internal Audit Department is responsible for assessment practices relating to the reporting by management of internal controls pertaining to financial reporting (J-SOX). The status of internal controls of the Company and its consolidated subsidiaries, including compliance systems, are assessed in cooperation with the respective internal audit departments of the subsidiaries subject to assessment. We also cooperate with accounting auditors on these assessments by means of internal control audits, etc.