

Enhanced governance and compliance, the cornerstone of our growth strategy
Facing social issues head on to generate new opportunities for growth



Keiichi Yoshii
President, CEO and COO

On behalf of the Daiwa House Group, I would first like to express our appreciation for the understanding and support shown by all of our shareholders and investors.

First of all, I sincerely apologize for the anxiety caused to our stakeholders by the series of improprieties that came to light during the fiscal 2019 business year. We have taken the occurrence of this series of improprieties very seriously, and in addition to redesigning our compliance system, in November last year we announced a number of measures to enhance governance. We consider it the mission of top management to steadily execute these measures, and to provide ongoing updates in line with our process toward growth.

What I would like to emphasize here is that enhancing governance is an initiative critical to building a foundation for future growth. Together with ensuring that all employees, from top management downward, are fully acquainted with this point, in the event that a violation of compliance occurs we will squarely

face this issue, that is to say, we will confront the matter head on and deal with it appropriately. We will firmly adhere to this stance throughout the Group, and ingrain "maintaining a good balance between vigorous growth and stability."

**New appointment of two outside directors
Expectations for the Board of Directors'
enhanced diversity and effectiveness**

Following the June 2020 General Meeting of Shareholders, we added two new outside directors to the Board. The first was Mr. Yukinori Kuwano. Rising up from the technical field and possessing management experience, Mr. Kuwano is a former outside auditor of the Company. The other is Ms. Miwa Seki, who brings to the Company her international experience and currently serves as a university associate professor. In addition, Mr. Nobuya Ichiki, formerly a managing executive officer with international experience

and who got his start at a trading company, was appointed as director in charge of Overseas Business. By enhancing the Board of Directors with such human resources who offer experience we previously did not possess, we expect that the Board of Directors will reach new levels of diversity and effectiveness. Moreover, by setting age limits for inside directors, the nurturing of management talent will become an increasingly important issue, and in this way we will continue to strengthen our approach to such matters.

Introduction of a business division system to balance strengthened "stability" with fast-paced "growth"

The basic stance we have with regard to the measures to enhance governance announced last November is that reinforcing governance is a vital foundation upon which we will realize future growth. Back when the Group's net sales exceeded the ¥1 trillion mark, the management at that time announced their goal as "maintaining a good balance between vigorous growth and stability." This is the foundation we have built to achieve our growth to date.

Today, as we expand both our range of businesses and the number of Group companies, we humbly admit that our governance system is not keeping pace with our rapid operational growth, and understand the importance of looking back to "maintaining a good balance between vigorous growth and stability." We will share the concept of "stability also leads to growth" with all, from top management downward, and will make concerted efforts to enhance governance.

From this April we shifted our structure of business execution to

a business division-based system. This transformation represents an enormous reform as we look toward our long-term vision for our centennial anniversary. Our founder, Nobuo Ishibashi, told of "speed as the ultimate service," and at every opportunity the Company has seized upon this strength to continue the growth that we enjoy today. Going forward as well, this is a strength that we must pass along to the future. It is for this very reason that we shifted to a new business execution structure, namely a business division-based system, with the intent to move forward on business operations that emphasize swift action at each respective business site. Full-fledged operations are set to commence from fiscal 2021, although given the enormous impact on the business environment exerted by the spread of COVID-19, we are conducting trials of the business division system to see whether or not it functions properly. Based on the new organizational structure, we will produce results through the efforts of all executives and employees. In this way, the Board of Directors have a firm hand on management and supervisory functions.

Fiscal 2019 sees new record high net sales and operating income, driven by steady growth in Business Segment and property sales, in line with sustained, enhanced real estate investments

Until the third quarter of fiscal 2019, the first year of the Sixth Medium-Term Management Plan, the housing business field was in the midst of a severe market environment on account of the impact exerted by the increase to the consumption tax, and from the fourth quarter, the COVID-19 pandemic cast a shadow over the entirety of business operations. However, owing to brisk

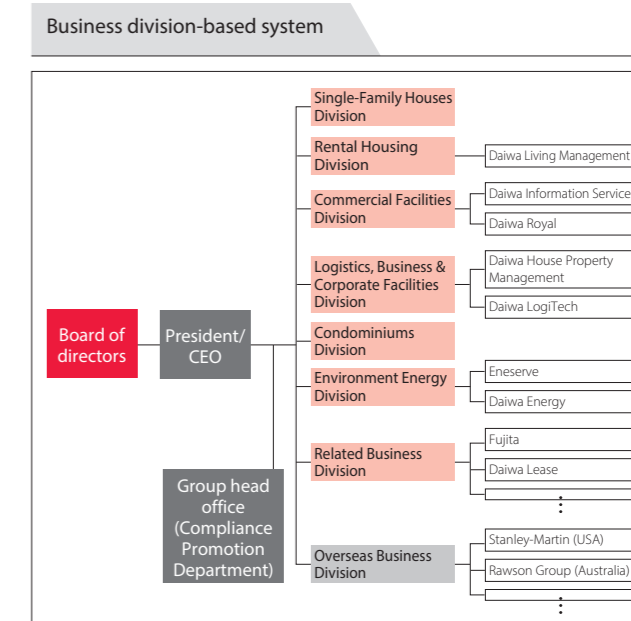
Basic policy: Governance Materiality ⑦: Enhancing corporate governance

Revision of management and oversight systems, such as proposed appointment of outside directors to ratio of one-third or more of the Board

Action-item details based on the basic policy on measures to enhance governance (March 31, 2020)

- 1. Review management structure and state of management and supervision**
 - Drafting of proposal to appoint outside directors to one-third or more of seats on the Board
 - Establish upper age limits on inside directors
 - Restructure standards for risk reporting to Board of Directors
- 2. Enhance agile business execution and risk response structure**
 - Adopt a business division-based system to the business execution structure in Japan
 - Establishment of the Compliance Promotion Department to respond to risk compliance requirements and improve the business environment
- 3. Strengthen risk information gathering and sharing**
 - Clarify risk reporting standards
 - Establish new external whistleblowing hotline
 - Reorganize incident response management flow
- 4. Strengthen environment for supporting sustainability and implementation**
 - Continue risk and compliance training for directors and employees
 - Strengthening the Group's internal audit system and risk approach

Determination made to introduce a business division-based system set to start from fiscal 2021



business in Commercial Facilities and Logistics, Business and Corporate Facilities Businesses, and as we moved development property sales along in line with the basic policy for continued and enhanced real estate investment, the result was fiscal 2019 net sales that amounted to ¥4,380.2 billion, and operating income stood at ¥381.1 billion, representing new record highs.

At the start of the year, I gave my attention to reform, transformation and innovation. Today, having been directly confronted with the impact of the COVID-19 pandemic, I am again reminded of the importance of taking action with regard to these three tenets.

We leverage Commercial Facilities and the Logistics, Business and Corporate Facilities Businesses, which currently account for approximately 40% of our net sales, to the maximum extent possible by spreading their business horizontally throughout the Group, while we aggressively work to grow our urban redevelopment business at a range of locations. However, in addition to our housing and commercial facilities, in the future we would like to expand to new possibilities by also becoming involved with multi-purpose development set for logistics facilities as well.

In our overseas business, we are moving along with the development of logistics facilities in Southeast Asia, and our business scale is expanding overall by working on logistics facilities that meet local needs for “cold chain” logistics, whereby both fresh food and frozen food are transported at pre-determined temperatures from producing areas to the locations where they are consumed. Nonetheless, whatever the area, and that means America and Australia as well, in fiscal 2020 the impact of the COVID-19 pandemic is inescapable. Based on our medium to long-term vision, we are ascertaining the needs of each specific area, and while supplementing human resources, we are working to accelerate the pace of business expansion.

Against a backdrop of firm demand in logistics facilities, we are making ongoing and concerted efforts at real estate development

We are currently working to put together a portfolio able to secure revenue streams from a variety of sources, keeping an eye on the balance between flow and stock businesses, while also taking into account our response to the impact of the COVID-19 pandemic. In addition to the contract-based flow business, we believe that development of a stable stock business, namely real estate development, will become increasingly important. Every year the real estate development projects the Group is engaged in increase in scale, not to mention the rising opportunities associated with queries by new customers, leading to business growth. We will not rest on our laurels with regard to the current situation, but will earnestly address the needs of customers.

In addition, while we are undertaking nationwide development of multi-tenant logistics facilities that can meet the logistics needs of a variety of customers, those properties that have been completed over a year ago are entirely occupied. We will focus our efforts on multi-tenant logistics facilities where needs continue to be high.

Sales of the developed logistics facilities are proceeding steadily, and results for fiscal 2019 were net sales of ¥140.6 billion and operating income of ¥50.0 billion. For fiscal 2020, we project net sales of ¥146.3 billion and operating income of ¥44.0 billion.

Seeking to achieve new growth in the Housing Segment, we are working to without delay grasp changes in ways people work and live

The Rental Housing Business, which accounts for 23% of net sales, is continuing to face a severe business environment due

to the apartment loan regulations recently put in place by financial institutions, and other factors. We are working to shore up this situation by basing our contract business strategy on area attributes and through such efforts as introducing new products that both property owners and residents will find appealing. Our management operations business maintains an extremely high-level occupancy rate of 97%, a strength of the Company. As a response to the impact of the spread of COVID-19, so as to give even a small comfort to both tenants and owners, we have initiated a measure whereby those tenants who experience income instability are allowed to defer payment of their rent by up to three months, with repayment that can be spread out over a maximum of two years. We will continue to move forward on reinforcing our rental housing business from the perspectives of both construction and rental management.

In Single-Family Houses Business, our flagship brand “xevo” earns high praise, but one issue for us is to enhance the lineup. In November of last year, we launched our “Lifegenic” products which offer a website-based home designing experience. Given that in-person sales activities are limited due to the COVID-19 pandemic, these products have been hugely well received and have generated an enthusiastic response. There has also been an increasing number of customers who hope for living spaces that can accommodate working from home. We will be taking the initiative to make new proposals and develop products that are quick off the mark in addressing the transformation of working and living styles of people following containment of the COVID-19 pandemic.

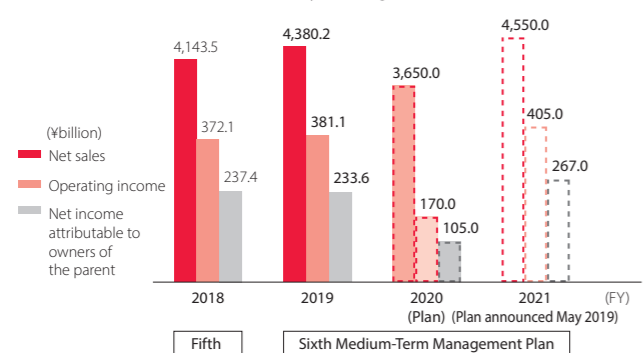
In addition, we are promoting the business development of “Livness,” which was launched in 2018 as a new stock business

brand, in recognition of it being trusted as a Groupwide “housing removal expert.” The housing stock business currently makes up only 3% of overall net sales, however, by being engaged in not only the housing field, but also areas such as renovation in the commercial facilities and business facilities fields, we aim for even further business growth in the future.

Moreover, while working to expand our business operations under the Livness brand name, we believe that these operations will play an important role in addressing the various social issues of concern in cities across Japan, namely, a falling birthrate with a declining, increasingly elderly population. Specific examples include the Livness Town Project, in which we tackle the redevelopment of suburban housing developments. Currently, such housing developments include sites in the municipality of Miki in Hyogo Prefecture, as well as the major city of Yokohama. These locations, which were long ago developed by Daiwa House, vary widely in type and are of an experimental nature, and are intended to raise the appeal of their communities while facilitating the relocation of people to these areas. Going forward, as teleworking becomes more commonplace, we expect that such a change to working styles will have the knock-on effect of altering the way people live. For people who are rearing children, in particular, it is conceivable that they may relocate from homes concentrated in convenient city centers or in close proximity to railway stations to single-family houses or new housing developments in the suburbs where workspace can be secured. Looking toward the day when the advantages of suburban living are reassessed, we at Daiwa House will continue to propose, and endeavor to create, residential communities that meet these needs.

Results

- New records set in fiscal 2019 for net sales, operating income, and ordinary income
- As for fiscal 2020 earnings, we calculate our business forecasts based on the assumption that the impact of the COVID-19 pandemic on operations and results will have mostly tapered off by around the end of September 2020, but that some businesses such as hotels will continue to be affected even after the pandemic has been contained.
- Business forecasts for fiscal 2021, the final year of the plan, are scheduled to be announced in the next fiscal year in light of conditions in fiscal 2020.



Basic policy of the Sixth Medium-Term Management Plan

Category	Developing our businesses	
	Business	Investment
Strengthening our bases	<ul style="list-style-type: none"> Expanding operations in the field of Business (Commercial Facilities, Logistics, Business and Corporate Facilities) Achieving new growth in the field of Housing (Single-Family Houses, Rental Housing) Accelerating our overseas expansion Enhancing value-added of customers' assets 	<ul style="list-style-type: none"> Investments into real estate development as well as building of management base
	<ul style="list-style-type: none"> Maintaining management efficiency and financial soundness 	<ul style="list-style-type: none"> Pursuing energy conservation, new energy creation, and reduction of CO₂ emissions to meet the targets set by the SBT, EP100, and RE100
Strengthening our bases	<ul style="list-style-type: none"> Building a management base that anticipates social changes, and strengthening relations with our stakeholders 	<ul style="list-style-type: none"> Review management structure and state of management and supervision Enhance agile business execution and risk response structure Strengthen risk information gathering and sharing Strengthen environment for supporting sustainability and implementation

- Basic policy: Investment
- Materiality ①: Expand business opportunities based on social issues
- ②: Balance of flow businesses and stock businesses
- ③: Constructing a portfolio of businesses with differing life cycles

Strengthening multi-use and large-scale project development

Aggressively develop multi-use/large-scale projects leveraging the width of our business domain

Development results



The Large-scale commercial facility with an aquarium in Okinawa Toyosaki

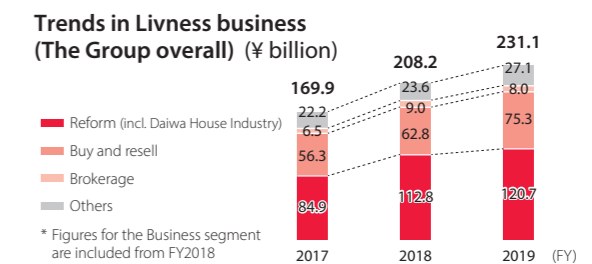


The largest earthquake-resistant multi-tenant logistics facility in Shizuoka Prefecture with a nursery center DPL Shin-Fuji II (completed in April 2020)

Business expansion leveraging our customer base and stock of existing properties

Enhancing value-added of customers' assets (Livness business)

Livness business



Livness Town Project

Activities in Kamigo Neopolis

We opened a community center with an attached convenience store run by residents, and began operation of resident-organized mobile sales vehicles that make rounds in the complex. We also plan to introduce “Daiwa House Energy” from fiscal 2020.



We will build a more robust business portfolio by seizing the chance to achieve management innovation in fiscal 2020

The management environment in fiscal 2020, needless to say, is going to be incredibly harsh. That said, however, in light of all the things that we have experienced up until now, we will steadily carry out those actions that should be completed in fiscal 2020, and we are prepared to move our business forward.

As a matter of course, a positive management environment will nurture business growth. However, we should not merely accept a situation in which performance declines when things deteriorate, but rather, it is important that we review a variety of management scenarios and take the stance that will propel business forward. We must seize upon business opportunities, whether they come in a management environment of fair weather or turbulent storms; endeavoring to raise corporate value is a task that will remain unchanged. Fiscal 2020, without doubt a time of sobering management challenges, is at the forefront of my mind as a year that will test the genuine worth of the Group.

The Group has a history of looking to the future and seeking out new routes to success, no matter how severe the times, giving rise to opportunities for new growth. This time will be no different. This confrontation with crisis has spurred an array of insights, and to continue our growth, we believe that we will need to revise our portfolio from a variety of perspectives, making it ever more robust. Given this, as senior management, I will not hesitate to drive business forward by taking the proper actions.

Basic policy: Environment **Materiality ⑤: Lowering environmental impacts while reaping corporate profits**

	FY2019 Results	FY2021 Targets
Environment	Greenhouse gas emissions per sales unit from the FY 2015 levels 32% reduction	35% reduction



"DREAM Wind Ehime Seijo," capable of producing energy equivalent to that used by approximately 8,000 households (16MW)



Funabashi Grand Oasis, large-scale mixed purpose development with 100% renewable energy

P. 51-52 (Efforts at Environment)

With the addition of the environmental energy business, we will create communities across the nation by bringing together the comprehensive strengths of the Group

As a new initiative, we plan to create communities interlaced with elements of the environment business. Named *Ko "Re" kara City*, this project for community development flies the banner of our "3 Rs" catchphrase, namely, "Reality," "Renewables," and "Resilience." We believe that in addition to our Environmental Energy business, creating communities through start-to-finish services that leverage our wide-ranging business portfolio will lead to the generation of new value.

A prime example is Funabashi Grand Oasis, a large-scale multi-purpose development started up in July 2019 in the city of Funabashi in Chiba Prefecture. This is the first urban development project in Japan to use electric power generated entirely from renewable sources, right from the start of construction up to post-completion residence. The Daiwa House Group is mobilizing all its resources to provide everything from the construction of buildings to the environmental energy business that supplies electric power generated from renewable sources to the entire development.

The challenge here is to make dreams come true, and bring the future to reality. Not only will we absolutely make this project a success, but we will make those "dreams" that have come true even more appealing as we take the project nationwide and cultivate new possibilities for the Group.

Basic policy: Social **Materiality ⑥: Form management base, strengthen relations with stakeholders**

	FY2019 Results	FY2021 Targets
Human resources base	Improvement in "motivation" of entire workforce 65%	80%

* Calculated based on question about "motivation" on a sustainability survey.
P. 47 (Strengthening the Human Resources Base)

	FY2019 Results	FY2021 Targets
Customer base	Interbrand Japan's Best Domestic Brand Brand monetary value is 700 million USD	1,000 million USD

P. 48 (Strengthening the Customer Base)

	FY2019 Results	FY2021 Targets
Technology and manufacturing base	Number of days off per annum for construction site workers 88 days* (6 days-off for every 4 weeks)	112 days (8 days-off for every 4 weeks)

* Results for fiscal 2019 construction site target days off of 88 days are unconfirmed. For fiscal 2018, 93% of partners had obtained the 77 target days off (from questionnaire survey for business partners 2019)
P. 49 (Strengthening the Technology and Manufacturing Base)

Seriously confronting the risk of climate change, and nurturing environment-friendly businesses

Many institutional investors have positioned the impact brought about by climate change as a major risk factor. At Daiwa House, however, we consider "lowering environmental impacts while reaping corporate profits" as one part of materiality.

The basic idea underlying this is to leverage our knowhow in the fields of energy conservation and the generation of energy from renewable sources—acquired in our business operations—to create new business opportunities. The Group is participating in international initiatives such as the EP100, RE100, and SBT (Science-Based Targets), under which we are improving energy conservation measures at existing facilities and building new "net zero energy" facilities. Additionally, we have taken the decision to generate in-house from renewable sources all the electric power we consume by the target year of 2040. While this is a high bar to clear, we are steadily working toward a target that has been calculated by working backward from vision of the Company we want to become in the future. At the same time, with respect to our products, we are accelerating our initiatives, such as the application of ZEH (net zero energy house) specifications to all single-family houses from April of this year. Going forward, we will promote ZEH and ZEB (net zero energy buildings), will expand the scope of our environmental energy business, and will develop the *Ko "Re" kara City* and Livness Town Projects. By facilitating collaboration among these various efforts, we will focus on expanding our environment-friendly business operations.

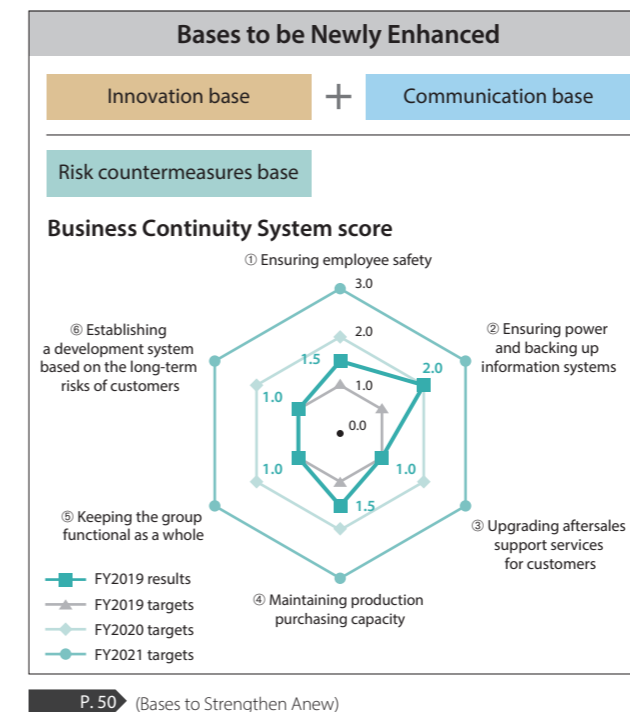
Continuing to pass along our founding spirit, and sharing the Company's long-term vision with stakeholders

The concept of stakeholder capitalism, which since last year has become a topic at Business Roundtable, comprised of CEOs at major U.S. companies, as well as the conference at Davos, appears to be becoming more prevalent, and now more than ever I feel like the society in which we operate is taking on a long-term perspective. Daiwa House also has a long-term perspective, being that of our founder, which is "to become a corporate group with net sales of ¥10 trillion in our 100th anniversary year of 2055." That said, our path to reaching that objective remains unclear. We currently announce a medium-term management plan every three years, but we should probably let our employees and all our stakeholders know about the road the Group will take over a somewhat longer span, like a decade or so, and based on that, think about and present how we should face the three-year period to reach that goal.

The Group places the concept of materiality at the top of the list of areas in which we plan to expand business opportunities deriving from social issues. This is at the root of all the operations we have single-mindedly pursued for the sixty-five years of our corporate existence. Now, as the global economy reels under the COVID-19 pandemic, we must once again take to heart the spirit of our founder and tackle the problems of society head-on. On the basis of these efforts, we are resolved to achieve growth over the medium and long term. I would like to pass the baton of management to the next generation in even better condition.

In conclusion, I would like the Group to continue to seriously address all of our stakeholders. We value opportunities to have dialogue with all of our shareholders and investors, and will demonstrate management that is highly reliable and transparent. While promoting work-style reform for our employees, we will put in place a structure whereby they can all feel that they are achieving growth. We will continue to recover the trust of our customers, and to work with our business partners in the spirit of coexistence and coprosperity. Moreover, we will always continue to consider what we can do to contribute to regional society.

We will continue to look further ahead into the future, and will work with sincerity to enhance our corporate value through business operations that help solve social issues. As we do so, I hope that we will continue to receive your unwavering support.



Our response to and impact of COVID-19

Recognizing the COVID-19 pandemic as a material risk, we take prompt and appropriate measures

The Company established the Daiwa House Group Risk Management Regulations, in which risks are defined as “events that may cause harm to the Group, those that may affect its management, or other events that may affect its future earnings.” Based on this definition, we set out response to be taken during normal times and in emergency situations and have in place necessary organizations.

For emergency conditions, we define risks that may significantly affect the management of the Group as “material risks” in the Detailed Rules for Establishing and Operating Emergency Headquarters, which are subordinate rules of the Regulations. These rules stipulate the establishment flow of emergency headquarters in cases where a material risk is manifested, as well as members and operations of the headquarters, whereby a system is in place to take prompt and appropriate actions.

Having deemed the current COVID-19 pandemic to be a “material risk,” we set up an emergency headquarters in an effort to minimize the adverse effect to our business operations.

Our response to COVID-19

Date (2020)	Details
January 23	Raised an internal alert following the World Health Organization (WHO)'s announcement on the novel coronavirus disease that emerged in Wuhan, China.
January 31	In light of the WHO's emergency declaration, provided employees with infection prevention measures and instructions on how to act if they or those around them are infected.
February 26	Set up a COVID-19 response HQ led by Head of Management Administration Headquarters.
March 2	Based on various responses to COVID-19 that had been internally directed, established Guidelines on Response to COVID-19 and ensured that employees are fully aware of them.
April 8	Temporarily closed 26 offices located in Tokyo, as well as seven prefectures of Kanagawa, Saitama, Chiba, Osaka, Hyogo and Fukuoka, in response to the state of emergency declarations in these areas.
April 15	Decided temporary shutdowns of construction sites nationwide for a two-week period from April 20 to May 10 in principle in order to prevent the spread of COVID-19, regardless of whether the state of emergency had been declared in each area.
April 18	In light of the state of emergency declaration that had been extended throughout the nation, closed all sales sites, including domestic offices and the 229 model house exhibitions we operate in Japan, and adopted telecommuting. Temporarily closed also facilities where people gather, such as commercial facilities, hotels and sports clubs that we own and operate.
May 9	Gradually resumed operations after having implemented infection prevention measures in line with instructions and orders outlined by the government and local municipalities, in areas other than those designated as “specified warning 13 prefectures” (Hokkaido, Ibaraki, Tokyo, Kanagawa, Saitama, Chiba, Ishikawa, Gifu, Aichi, Kyoto, Osaka, Hyogo and Fukuoka). Resumed in steps operations of the offices located in the “specified warning prefectures” in the same manner.
May 11	Gradually reopened construction sites whose operations had been suspended.
May 25	With the lifting of the emergency declaration nationwide, reviewed our infection prevention measures, including avoiding 3Cs (Closed spaces, Crowded places and Close-contact settings), as a “new working style” in anticipation of an upcoming second wave. Had those measures shared among business sites nationwide and requested their adherence.
July 14	With Tokyo reporting over 100 infection cases for consecutive days, prohibited transfers and trips between Tokyo/Saitama and other prefectures to prevent the spread of infections.

Infection clusters occurred at construction sites of other companies. Given the situation, gave instructions to take thorough measures to prevent infections at our own sites as well as to install COCOA, a COVID-19 contact-confirming app on each one's devices. In order to entrench telecommuting, established a work-style reform project in July that prepares necessary working environment.

We prioritize protecting the lives and health of all our stakeholders, including our customers, business partners, employees and their families.

For the three bases that are vital to the Group, we have taken the following measures prioritizing protection of the lives and health of all our stakeholders, including our customers, business partners, employees and their families. Additionally, as consideration to local communities, we give attention to the residents close to our construction sites and offer accommodations to support healthcare workers.

Our future tasks include personnel evaluation and other systems adapted to teleworking, as well as investigations on our suppliers' manufacturing sites that form our components supply chains. Based on this current view, we are taking steps to resolve these issues.

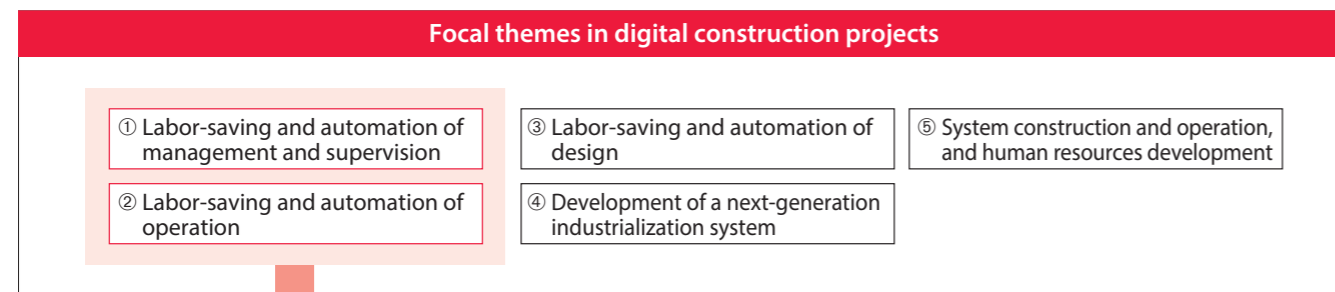
Measures for three bases against COVID-19

Base	Measures taken	Supplementary information
Human resources base (Safety of employees)	<ul style="list-style-type: none"> Established local response HQ. Closed offices under the state of emergency declaration (76 offices nationwide) Promoted telecommuting Adopted staggered commuting to avoid congestion in public transportation Quarantined those had been in close contact with infected people, or those equivalent thereto (defined internally as “surrounding persons”) Distributed masks and sanitizers to employees and workers at construction sites and plants 	<p>The following measures are additionally taken for employees needing special consideration.</p> <ul style="list-style-type: none"> “Special leave” system available for employees who need to take care of their children of 6th graders or lower at elementary school (including preschoolers) due to school closures. Placing utmost priority on considering pregnant employees Response to foreign workers wishing to return home
Customer base (Consideration and proposals to customers)	<ul style="list-style-type: none"> Temporarily closed model house exhibitions and showrooms under the state of emergency declaration Provided repairs and replacement services at no cost to customers whose products' warranty or retroactive guarantee periods had expired due to suspension of periodic inspections Gave a grace period for payment of rent (up to a maximum of three months' worth) to tenants of rental housing whose income had significantly fell Launched housing products suitable for teleworking Proposed makeshift medical facilities 	<p>In order to secure safety of both customers and employees, model house exhibitions and showrooms resumed operations by taking thorough measures to prevent infections, such as accepting only one group at a time and taking visitors' temperatures at the entrance.</p> <p>In marketing activities aimed at corporate customers, we use various means of communication, including telephone, e-mail and websites to cater to an increase in the companies adopting telecommuting.</p>
Technology and manufacturing base (Consideration to business partners and construction sites)	<ul style="list-style-type: none"> Temporarily shut down construction sites nationwide (from April 20 to May 10, 2020) (approx. 3,500 sites) Paid compensation to business partners for the construction works scheduled during the closure 	<p>(An excerpt from April 2020 internal notification)</p> <p>Under the current critical conditions, what we must prioritize before everything is people's lives. The Company has a responsibility to protect the lives of employees and their families, as well as onsite workers and their families. Thankfully, no one within the Company has died from COVID-19 up to this time; however, if by any possibility we were to lose a precious life of someone at the Company, we must scale down or halt our business operations. In order for us to pre-empt such a situation, the management has thoroughly deliberated on actions that can be taken proactively as a corporate entity. As a result of this discussion, we decided to temporarily shut down the construction sites nationwide for a certain period of time. We also decided as follows the payment of compensation to our business partners supporting the Company for the construction works that are scheduled during the closure.</p> <ol style="list-style-type: none"> Compensate for a decrease in piecework wage resulting from construction site closure Pay off-work compensations for on-site workers and others

Accelerating initiatives for digital construction to reform the way of working at construction sites, in anticipation of a post-corona era

For Daiwa House Industry, a construction company doubling as a house builder and general contractor, technical innovation is one of the priority themes. As such, we allocate a budget of ¥100 billion in reforming working practices and reinforcing technology base in the Sixth Medium-Term Management Plan.

The Company launched digital construction projects last year to consider such themes as redesigning construction sites, securing health and safety of skilled workers, and addressing labor shortages in the future. In response to the COVID-19 pandemic, we are accelerating initiatives to reform the way of working at construction sites, including innovation in our technologies.



Initiatives we accelerate in anticipation of a post-corona era

① Labor-saving and automation of management and supervision

- **Visualize construction sites**
Centralize on-site information and share it with relevant parties by using Properties Portal Site and Dashboard
 - **Open a Smart Control Center (remote control room)**
Accumulate data to realize automation at construction sites
- Establish technologies to reduce manpower for, or automate quality inspection, safety control, process management and budget management with the goal of achieving labor-saving on-site management and automation of related operations.



② Labor-saving and automation of operation

- **Utilize IoT devices**
Optimize the number of workers at site, increase accuracy and record quality automatically
 - **Increase the use of prefabrication method**
Shorten construction period with reduced operations
- Promote labor-saving of construction sites and automation of unskilled work by pursuing further industrialization of construction, based on robotics technology, supportive technology and increased use of prefabrication method.

Under the other three focal themes, initiatives are in progress to increase efficiency and proposal capability in design work with the use of BIM and digital technologies. Also, by putting laws and bylaws into a database, we work to reduce the time required to check the conformance to laws, thereby facilitating elimination of legal violations. We will establish AI-driven automatic design technology and optimize environment for design work to achieve labor-saving in the design phase and automation of related operations.



Daiwa House Group New Training Center (tentative name) featuring the Group's advanced technologies (architectural rendering; completion scheduled in June 2021)

Impacts on each business in fiscal 2020 (announced in May 2020)

We calculated as below the impacts of the COVID-19 pandemic on our business operations and performance in fiscal 2020, assuming that the pandemic will be largely contained by the end of September 2020, despite lingering effects on some businesses such as hotel business even after the containment.

Impacts of COVID-19 (¥ billion)

Segments	Impacts	Net sales	Operating income
Single-Family Houses	Impacts on sales activities Temporary closure of model house exhibitions Refrain from business meetings with customers and visits to owners	-130.0	-20.0
	Impacts on construction period Suspension of operation at construction sites		
Rental Housing	Impacts on sales activities Cancellation of seminars and site visits for customers Postponement of business meetings with land owners	-153.0	-41.0
	Impacts on construction period Suspension of operation at construction sites		
	Impacts on rental housing management Possible decline in occupancy rates		
Condominiums	Impacts on sales activities Temporary closure of showrooms for condominiums, postponement of the sale of new properties	-85.0	-14.0
Existing Homes	Impacts on sales activities Refrain from periodic inspections for existing owners, and from new sales activities	-37.0	-11.0
	Impacts on construction period Suspension of operation at construction sites		
Commercial Facilities	Impacts on sales activities Postponement of business meetings with land owners Postponement/cancellation of store openings by tenant companies and requests for rent discount	-113.0	-42.0
	Impacts on construction period Suspension of operation at construction sites		
	Impacts on facility operation Temporary closure of the facilities managed and operated by the Group, suspension of tenants' operation, postponement of new openings of commercial facilities		
	Impacts on city hotels Substantial decrease in guests, temporary closure of business hotels		
Logistics, Business and Corporate Facilities	Impacts on sales activities Postponement of business meetings with client companies, postponement/cancellation of capital investment plans, such as plant construction	-220.0	-31.0
	Impacts on construction period Suspension of operation at construction sites		
Other Businesses	Construction support Shorten opening hours/set fixed holidays of home centers	-92.0	-36.0
	Health and leisure Substantial decrease in guests at resort hotels, temporary closure Temporary closure of sports clubs		
Total		-830.0	-190.0

Risks associated with infectious diseases

If there is a large-scale epidemic of an infectious disease that causes serious health problems, the Company may need to suspend its business activities and operation of construction sites from the perspective of preventing the spread of infections. Also, the Company's businesses, such as real estate acquisition and development, may be negatively affected by deterioration in the real estate market conditions. Likewise, the Group companies may also need to suspend their operations, among which their hotel business and sports club management business may confront substantial declines in customers.

All these are attributed to external factors, and it is therefore difficult to reasonably estimate the degree of possibility that these risks would be materialized, or the extent of their impacts on our business performance. In cases where the risks are materialized, the Group will, as its policy, place utmost priority on minimizing the health damage to its stakeholders. In order to prevent the spread of infections, the Group is currently taking measures including the prohibition of travel to countries and areas with a high risk of infection, closure of its business offices and adoption of telework.

Risks and opportunities

To further strengthen the virtuous cycle of our value-creation process, we respond to risks appropriately and seize opportunities aggressively



Major risks and opportunities

<p>Risks associated with legal regulations</p> <ul style="list-style-type: none"> The risk of revision or abolition of existing laws and regulations, or the creation of new laws. Risks associated with legal violations The risk of penalties, punishment, or other sanctions, or defamation of social credibility or image. 	<p>[Countermeasures] Focal theme (base) ⑨</p> <p>Diverse laws and regulations pertain to the widespread business operations of the Daiwa House Group. As such, we have a system in place to monitor in advance the trends in regulations to adapt to or take measures against the revision or abolition of applicable laws and regulations, or creation of new laws. We also prevent actualization of the risks by developing a groupwide risk management system. For employees, we actively offer trainings on knowledge of relevant laws and regulations and have them informed, and promote creation of various manuals and checklists.</p>
<p>Risks associated with competitive activities</p> <ul style="list-style-type: none"> The risk that the Group may fail to demonstrate an advantage over competitors in one or more of its business areas in respect of product quality or price, the nature of its services, or the effectiveness of its marketing activities. 	<p>[Countermeasures] Focal theme (base) ⑤⑥⑦⑧</p> <p>In order to maintain and develop the business model of the Daiwa House Group, we engage in policies and investment to strengthen our bases. This enhances our comprehensive business proposal capability and heightens our superiority over rivals. We see resolving social issues as one of the Company's objectives. Based on a belief that delivering values to its stakeholders will lead to strengthened competitiveness over the medium-to-long term, we enhance our systems to enable business and real estate development to keep pace with the times, while creating new added value in our business.</p>
<p>Risks associated with business and Group strategies</p> <ul style="list-style-type: none"> The risk that the Group may fail to achieve projected earnings in its business strategies as a result of the acquisition of companies or businesses, reorganization and other plans that fail to go as expected, leading to the synergy between Group companies failing to gain the anticipated business result. 	<p>[Countermeasures] Focal theme (base) ⑩</p> <p>The Daiwa House Group's basic policy is to expand into new business fields where we can put to use the competitive superiority that we have built up and the know-how that we have acquired in business fields peripheral to our existing businesses. Our first step is to consider what we have to offer and what sort of partner would best help us achieve that. Our priority is to respect the other company's history and human resources while enabling the sharing of our mindset and corporate philosophy. In cases in which the Group intends to move into a business field in which it has comparatively little experience, it is our policy firstly to form joint ventures with other companies, to invest in venture companies, and/or to engage in joint research, so as to build up sufficient knowledge relating to the new field in question, and to examine the feasibility of the proposed project.</p>
<p>Risks associated with overseas business operations</p> <ul style="list-style-type: none"> The risk of delays or inability in the conduct of business or collection of receivables, or restrictions in remittance due to sudden inflation, exchange rate fluctuations, conflict caused by political and economic uncertainties, disturbances, the risk of litigation, deteriorating diplomatic relations, legal restrictions, etc. The risk attributable to external factors, such as a decline in consumers' willingness to purchase as a result of tightened policies on real estate and other revisions in legal systems and government policies. The possibility of a violation of local laws or wrongful business practices occurring, or delayed discovery of a risk due to geographical remoteness. 	<p>[Countermeasures] Focal theme (base) ⑨</p> <p>We formulated guidelines in order to be better prepared for the risks associated with investments in overseas businesses. The flow of the invest management is as follows: 1. Confirm prerequisites to the business investment (conduct preliminary investigations, formulate strategies, develop organizations); 2. Examine investment and business plans (study and formulate concrete plans); 3. Make a decision (consult with Overseas Strategy Committee, make a decision at Real Estate Investment Committee or the Board of Directors, or via collective decision-making); and 4. Develop a business structure. To prepare for the case where a joint venture partner is a prerequisite for tapping into a certain region, we clearly define items to be confirmed before reaching an agreement on terms and conditions. Once the business is launched, we manage risks in the daily business operation under a system based on business investment management (managing progress against plans, judging whether to continue business investment) and operational management (corporate management, financial and tax affairs, compliance, information system security).</p>
<p>Business opportunities deriving from social issues</p> <ul style="list-style-type: none"> Capture changes in the market and link them to business opportunities based on our capabilities to cope with unforeseen circumstances and to innovate new trends, which are the key to growth 	<p>[Countermeasures] Focal theme (business) ①④⑤</p> <p>In the face of the COVID-19 pandemic—one example of an unforeseen circumstance, we capture changes in the market and promote our business by constantly focusing on what we can offer to the society, based on our capabilities to cope with contingencies and to innovate new trends.</p> <p>Housing segment</p> <ul style="list-style-type: none"> Changes in lifestyles caused by increasingly diverse working styles such as telecommuting Invigoration of the existing homes (stock) market driven by anxiety about income Rental housing owners shifting to centralized property management and warranty <p>Business segment</p> <ul style="list-style-type: none"> Expansion of the logistics-related market with the rising demand for e-commerce Growing appetite for capital investment among companies not affected by the COVID-19 pandemic, like those in the food, medical and drugs sectors Expansion of demand for the "cold chain" market, such as freezer and refrigerated warehouses

To resolve materiality, the Daiwa House Group is conducting business operations in accordance with the focal themes of the Group's Sixth Medium-Term Management Plan. Issues that may possibly impact our business as a whole and our management base involve a variety of risks and opportunities. Below, we lay out the main risks (issues to be addressed) and opportunities that may have the greatest impacts on the Group.

Major risks and opportunities

<p>Risks associated with climate change</p> <ul style="list-style-type: none"> The risk of greater workloads and costs for the houses and buildings we offer due to stronger regulations of the Building Energy Efficiency Act or carbon tax hikes and expansion of emissions trading affecting more business operations and properties. The risk of higher maximum temperatures in summer causing lower quality and efficiency on construction worksites or increased worksite accidents. 	<p>[Countermeasures] Focal theme (base) ①</p> <p>In expectation of higher operating costs due to tougher regulations, we are taking the policy of "maximizing sales increase and minimizing profit decrease with early development of ZEH and ZEB, and cost reduction pushed forward." Work on construction sites will be minimized by increasing the proportion of prefabricated components, while thoroughgoing measures against heatstroke will be taken.</p>
<p>Risks associated with human resources base</p> <ul style="list-style-type: none"> The risk that the Group may lose new business opportunities due to its diverse human resources being unable to fully utilize their abilities The risk that the Group may lack vibrancy as an enterprise and lose competitiveness due to not having in place a personnel system and working environment attuned to changing times 	<p>[Countermeasures] Focal theme (base) ⑤</p> <p>Responding agilely to changes in society and employees' awareness, we actively develop and offer a personnel system and working environment whereby our group-wide workforce of approximately 47,000 employees can fully demonstrate their abilities. We improve their motivation by enhancing their trust in the Company, solidarity with each other and pride in their work, in order to build a solid human resources base.</p>
<p>Risks associated with technology and manufacturing base</p> <ul style="list-style-type: none"> The risk of poor operational management due to a shortage of site supervisors caused by the shrinking workforce in Japan The risk that a trouble in one part of our supply chain may significantly affect the entire business performance 	<p>[Countermeasures] Focal theme (base) ⑦</p> <p>By keeping close relationships with business partners, we work to thoroughly manage this risk in terms of safety, quality and compliance. Particularly, with active utilization of ICTs, we earnestly strive to eliminate worksite accidents, while managing supply chains appropriately in each phase of procurement, production and operation.</p>
<p>Risks associated with natural disasters</p> <ul style="list-style-type: none"> Direct damages to employees, facilities and equipment The risk that the Group may be damaged indirectly by an interruption or disruption in information systems, communication networks, and logistics/supply networks The risk that the Group may incur expenses to recover from damages, losses due to suspension of business activities, and expenditures to provide inspections and temporary repairs to customers' properties 	<p>[Countermeasures] Focal theme (base) ⑨</p> <p>As it is difficult to estimate the likelihood of the risks of natural disasters, or the severity of their impact to our performance, we implement proactive measures that would allow us to take proper and quick actions in the case of disasters. For this purpose, we developed regulations and manuals regarding business continuity management (BCM). One such example is the drills we conduct to confirm the safety of our employees, communications between sites, and recovery of our core system.</p>
<p>Opportunities associated with climate change</p> <ul style="list-style-type: none"> Increase in demand for houses and building with low greenhouse gas emissions Expansion of environmental energy business due to rising demand for renewable energy 	<p>[Countermeasures] Focal theme (base) ①</p> <p>The Japanese government has indicated a policy target to achieve net-zero energy for new houses (ZEHs) and buildings (ZEBs) by 2030, and should incentives to support achievement of this target be continued and expanded, it is possible that demand for ZEHs and ZEBs, which have high unit prices per building, will increase. In view of this, we are enhancing our product lineup that supports ZEHs and ZEBs.</p>
<p>Opportunities associated with building of a management base</p> <ul style="list-style-type: none"> Increase in operational efficiency and productivity through building a management base to keep pace with the times 	<p>[Countermeasures] Focal theme (base) ⑤⑥⑦⑧⑨</p> <p>In light of a society coexisting with the COVID-19, we are developing a management base that can adapt to new ways of working and living. We aim for sustained growth by accelerating reforms in our business and management base.</p> <p>Increase operational efficiency and productivity</p> <ul style="list-style-type: none"> Increase efficiency by telecommuting freed from the constraints of time and place Review personnel evaluation systems to adapt to new working styles Develop new forms of marketing, such as online business meeting and virtual reality (VR) Further promote industrialization of construction Increase on-site productivity by labor-saving and automation of operations

Reference (Japanese only) Securities report: Business risks P.16-19 Sustainability Report 2020: Response to the Task Force on Climate-related Financial Disclosures (TCFD) P.44-46 Human resources base P.95-97 Technology and manufacturing base P.109-111 Risk countermeasures base P.137-139, P.141-142