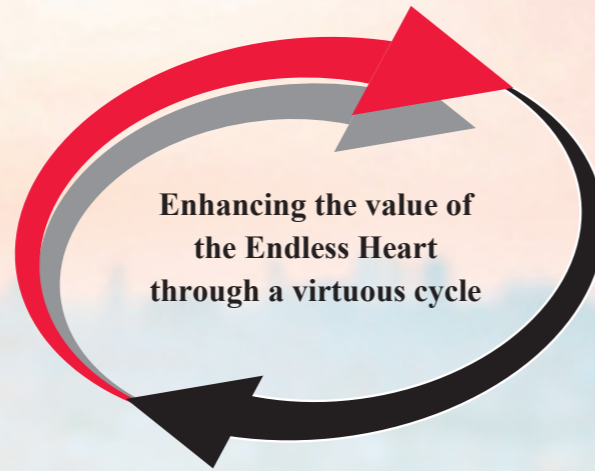


Our ESG engagement

With the promotion of ESG, we work to accelerate a virtuous cycle that drives the process in which we create value

To strengthen the virtuous cycle of our value-creation process as we move into the future, we have closely examined medium-to long-term risks and opportunities in relation to our bases (i.e., our future business operations) from the perspectives of both the environment (E) and society (S), and have incorporated them into our medium-term management plan. With the promotion of ESG, we create opportunities for generating cash flows and lower risk to ensure corporate viability, thereby aiming to raise the Group's corporate value.



Environment, social and governance initiatives in the Sixth Medium-Term Management Plan

E Environment Lowering environmental impacts while reaping corporate profits Action Plan for the Environment (Endless Green Program 2021)

Our long-term environmental vision, "Challenge ZERO 2055," offers up the goal of realizing "zero environmental impact." Based on the Action Plan for the Environment (Endless Green Program 2021), a three-year plan that commenced in fiscal 2019, we are accelerating the "promotion of environmental management that integrates the Group's global supply chain," and within this, move forward on initiatives with an emphasis on decarbonization.

Our approach is characterized by the promotion of "carbon-free" initiatives undertaken at offices, factories, and other various facilities of the Group. We leverage our knowhow acquired through these efforts to develop new products and services, create business opportunities, and enhance our competitiveness.

Temperature rise and weather disasters caused by climate change may have an impact on our supply chains. We work to lower this risk by cooperating with suppliers in the promotion of decarbonization so as to help realize a sustainable society.

From the investment perspective as well, we are aware that the Group is keenly anticipated to minimize its environmental impact and make contributions to achieving a carbon-free society. We are therefore actively engaged in businesses designed to reduce environmental impact, such as development of environment-conscious facilities and community development with 100% renewable energy financed by green bonds.

	Key policies	Main key goal indicators
Mitigating and adapting to climate change	Promoting "carbon-free" in the fields of products and business activities for achieving SBT, EP100, and RE100	Greenhouse gas emissions Energy efficiency, Renewable energy utilization rate ZEH sales rate, ZEB sales rate
Reducing environmental risks in supply chains	Promoting win-win cooperation for reducing environmental risks in supply chains	Assessment result of procured timber (Ratio of S-ranked timber, Ratio of C-ranked timber)
Popularizing environmentally conscious products	Promoting the development and dissemination of environmentally conscious products and services for boosting business competitiveness	Sales of environmental businesses
Improving environmental brand	Advancing strategic eco communication for improving environmental brand and ESG assessment	Improving ESG assessment
Promoting Environmental Management	Enhancing integrated environmental management within the Group and globally for advancing environmental management	Number of those who acquired the Eco Test certification

S Social Form management base, strengthen relations with stakeholders Social Medium-Term Plan (Endless Social Program 2021)

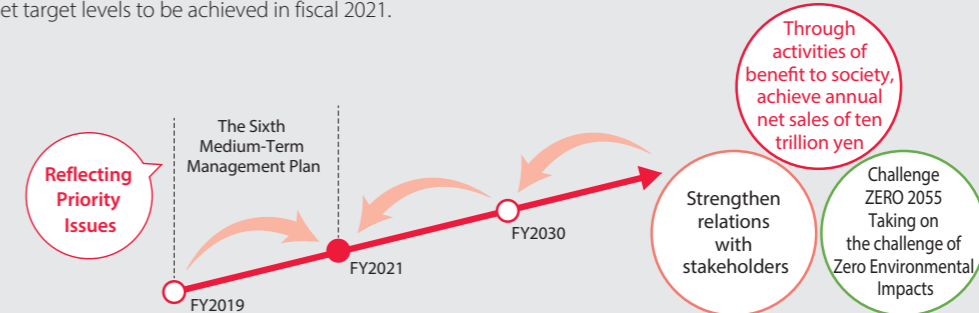
The Social Medium-Term Plan (Endless Social Program 2021) is underway as a program to form management base and strengthen relations with stakeholders. Taking a long-term perspective in anticipating a transformation that society will undergo, we have focused on the three bases as the source of value creation over the last three years in particular, while identifying bases to strengthen for the future.

	Key policies	Main key goal indicators
Human resources base	Build an organization with a diversified motivated workforce that retains the young people it develops	Improvement in "motivation" of entire workforce
Customer base	Build long-term relations with customers and establish corporate brands that bring in new customers	Brand monetary value
Technology and manufacturing base	Enhance productivity and promote responsible procurement together with business partners, on the premise of ensuring construction site safety and quality	Annual holidays on a worksite

Bases to strengthen anew	The three bases to strengthen anew are the innovation base to continue to create innovative businesses to solve social issues, the communication base to ensure proper communication with our stakeholders, and the risk countermeasures base to thoroughly implement internal controls and foster corporate ethics among executives and employees. We will promote efforts along these lines.	
Innovation base	Strengthen systems to promote business and real-estate development that helps solve social issues	Percentage developed of large projects based on Community Development Guidelines and large-scale construction by our divisions
Communication base	Upgrade both financial and nonfinancial corporate communications and train the workforce for the information age	Establish a system and practices for financial and nonfinancial communications, and promote understanding that these are fully integrated
Risk countermeasures base	Hone business continuity plans for natural disasters, etc., and establish corporate ethics, human rights and compliance rules for overseas bases	Business continuity plan score

Setting Goals by Backcasting

Keeping in mind the vision of what the Daiwa House Group should be over the long term leading up to 2030 and 2055 with regard to the priority issues for social (S) and environment (E) matters, we have identified issues to be addressed over the next three years, and through backcasting, subsequently set target levels to be achieved in fiscal 2021.



G Governance Strengthening corporate governance

- Optimization of management structure
- Improve system of business execution
- Foster next generation of business managers
- Entrench risk management structure

Daiwa House Industry is enhancing its governance to construct a system of accurate and timely decision making and business execution, as well as a framework of appropriate oversight and supervision to keep pace with its business expansion and changing operating environment.

By continuously updating the four steps above, namely, optimizing our management structure, fostering the next generation of business managers, improving our system of business execution, and entrenching a risk management structure, we are enhancing a structure for governance based on diverse viewpoints and long-term perspectives.

Message from the CEO
The Story of the Group's Value Creation
Message from the CFO
Messages from the heads of business divisions
Developing our Businesses
Strengthening our Bases
Financial Results, Corporate Information

E Efforts at Environment

The Daiwa House Group tries to make zero environmental impacts within our Group, globally, and through supply chains, with the aim of realizing a sustainable society.

Four themes

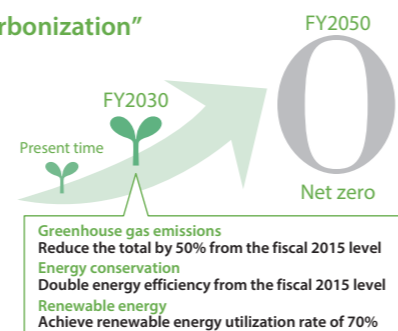
- Mitigating and adapting to climate change
- Harmony with the natural environment
- Closed-loop resource sourcing and conservation of aquatic environments
- Prevention of chemical pollution

Three Phases



Topics Revising the long-term environmental vision to speed up "decarbonization"

In October 2020, the government of Japan declared that Japan would aim to reduce nationwide greenhouse gas emissions to net-zero to realize a carbon-neutral society by 2050 (Carbon Neutrality in 2050), which was then broken down into concrete actions called the Green Growth Strategy by the Ministry of Economy, Trade and Industry in December. In light of this trend, the Group resolved at its Board meeting to revise the mid- to long-term targets for mitigating and adapting to climate change set out in "Challenge ZERO 2055," our long-term environmental vision that looks toward the centenary of the Daiwa House Industry's foundation. We will accelerate our efforts by setting even higher goals to be achieved by 2030 for greenhouse gas emissions, energy conservation and renewable energy.



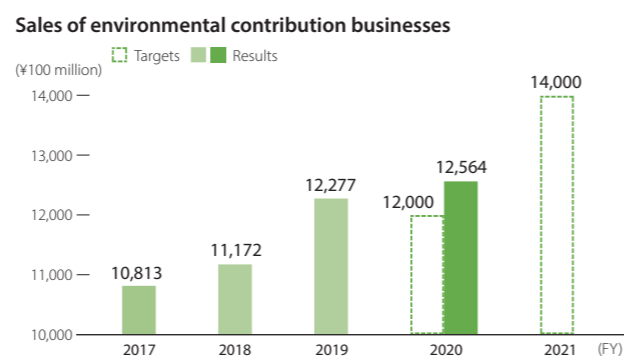
Efforts at Action Plan for the Environment

General

1 Development and dissemination of environmentally conscious products and services

Viewing environment as a future business opportunity, we designated sales of environmental contribution business as a key management indicator, to clearly and quantitatively publish our stance that we contribute to the environment through our business and make environmental stewardship an added value to our businesses. We are taking action to achieve our target of expanding growth in environmental contribution business sales at a pace greater than that of the business as a whole. In fiscal 2020, we took initiatives such as enhancing the lineup of ZEH standardization products in the housing business as eco-friendly buildings became more prevalent, and we expanded the scale of the environmental energy business primarily through the design and construction of photovoltaic generation facilities. As a result, net sales in the environmental contribution business rose 2.3% from fiscal 2019 and achieved the target.

Key goals and progress



Mitigating and adapting to climate change

2 Reduction of greenhouse gas emissions in business activities, enhancing energy efficiency

We acquired SBT certification, an international initiative for greenhouse gas emissions reduction, to be consistent with the target for keeping global temperature increase well below 2°C, as required by the Paris Agreement. In addition, we joined EP100 and RE100, international initiatives that seek to raise energy efficiency and to increase renewable energy use, respectively, as the world's first-ever construction industry company, and have been accelerating activities in terms of a medium- to long-term vision. In principle, we will pursue ZEB for our newly constructed facilities, and along with that, we are working to raise energy efficiency by systematically investing in energy conservation measures at our existing facilities. In fiscal 2020, we were certified as "ZEB Ready" and "Nearly ZEB" for the newly constructed commercial facilities, "Royal Home Center Toda Park" and "Royal Home Center Fujisawa Namikidai," respectively. As a result of thoroughly implementing measures to improve operations such as by utilizing a proprietary check sheet for energy conservation at our existing facilities, greenhouse gas emissions (total) fell 24% from fiscal 2015 levels, and similarly, energy efficiency rose to 1.46 times, both achieving the targets.

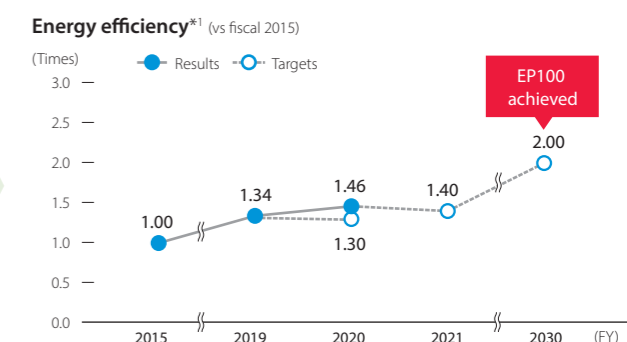
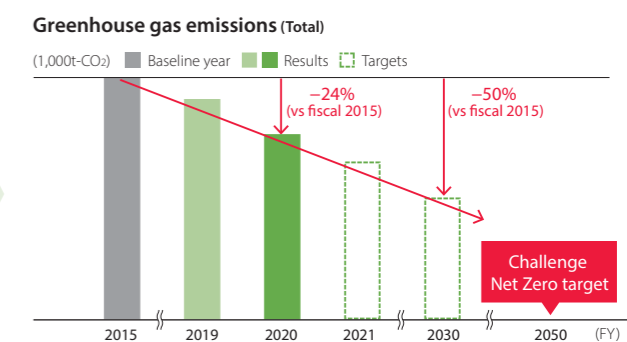
3 Development of renewable energy and expansion of its use

The Group is working to achieve "self-sufficiency in renewable energy" to fully cover the power it uses in its business operations with self-generated renewable energy. Accelerating the development of renewable energy power plants and obtaining certificates for the renewable energy value of the electricity generated, we are working to raise utilization rate of renewable energy. In fiscal 2020, the 49 new renewable energy power plants were put into operation, making the number of renewable energy power plants operated by the Group 377 sites across Japan for 427MW of power (including power consumed internally). As a result, the Group achieved a renewable energy generation rate of 133%, exceeding the power it consumes internally for the first time. Renewable energy utilization rates of the Company on a non-consolidated basis and of the entire Group came to 30% and 8.5%, respectively, also achieving targets.

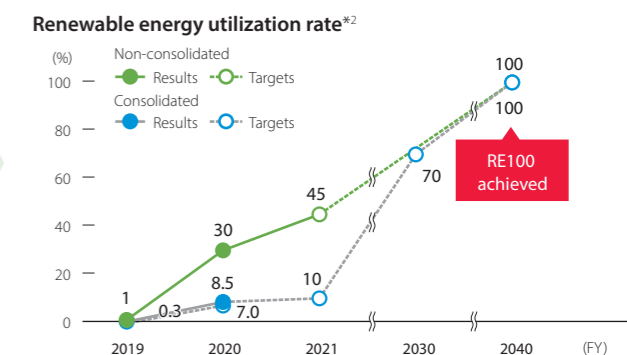
4 Reducing greenhouse gas emissions from use of products

In our Group, greenhouse gas emissions derived from our business activities are as low as 1.2% for Scopes 1 and 2 and our Scope 3 emissions (indirect emissions from sources other than our company) account for the majority of 98.8%. In particular, greenhouse gas emissions generated in the "habitation and usage stage" of houses and buildings which tend to be used over a long period of time account for about 60%. It is for this reason that we focus our efforts on popularizing environmentally conscious products. In fiscal 2020, while improvements progressed for some applications, as the ratio of buildings with high energy use applications increased, we were unable to achieve our target for greenhouse gas emissions (per floor area unit), with a year-on-year decrease of only 4.7%. We will improve the energy-saving performances of buildings used as stores and offices, striving to provide buildings that are both comfortable and energy efficient.

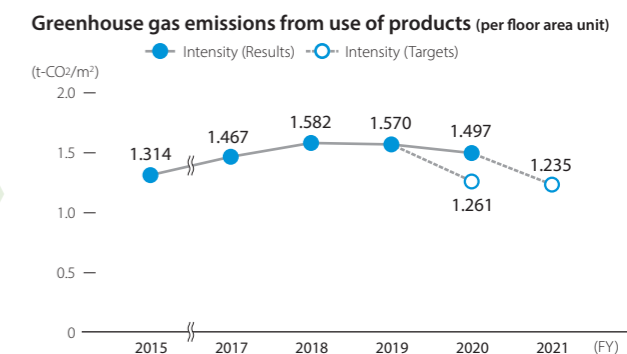
Key goals and progress



*1 Energy efficiency = Consolidated net sales ÷ Energy consumption



*2 Renewable energy utilization rate = renewable energy utilization ÷ electricity consumption



Message from the CEO
The Story of the Group's Value Creation
Message from the CFO
Messages from the heads of business divisions
Developing our Businesses
Strengthening our Bases
Financial Results, Corporate Information

Efforts at Action Plan for the Environment

5 Developing and popularizing energy-zero housing and buildings

The Group works to develop and popularize energy-zero housing and buildings. In fiscal 2020, we enhanced the lineup of ZEH standardization products by launching xevo ADVANCE and skye3. We also strengthened our in-company system to promote ZEH proposals by providing inhouse training and developing tools to propose ZEH. As a result, we achieved our target for fiscal 2020.

In terms of ZEB sales rate, we enhanced our ZEB proposals by offering trainings for employees in sales and technical posts and online ZEB seminars for people outside the company. These efforts led to a higher ZEB rate in the large-scale logistics facilities we sold in fiscal 2020, achieving the target.

Harmony with the Natural Environment / Preservation of Biodiversity

6 Sustainable timber procurement

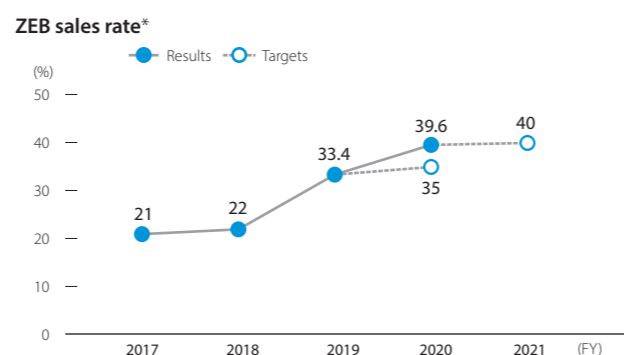
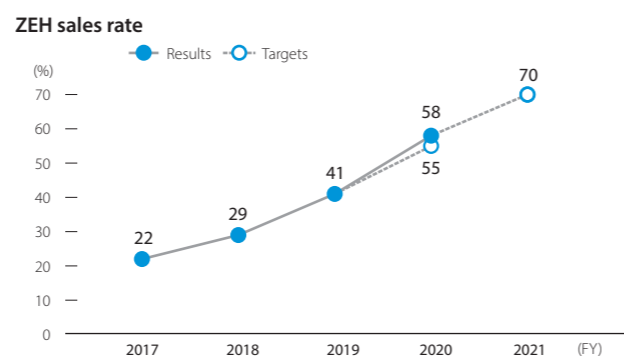
The structural materials and interior materials the Group utilizes for houses and buildings involve the consumption of large quantities of lumber sourced from countries of origin located around the world. In an effort to minimize global deforestation, we are encouraging the use of timber that is obtained legally and sustainably through our supply chain. For timber deemed in the previous year's survey to have a "C" rank and timber that we were unable to sufficiently confirm traceability back to its source area, our response was to change sources of procurement, among others, in our aim to conduct timber procurement that paid consideration to sustainability. As a result, in fiscal 2020, the rate of S-ranked timber was up 0.8 percentage points year on year to 95.1%, although falling short of the target, and the rate of C-ranked timber fell to 0.5%, an improvement that helped us reach our target.

Note: The Group evaluates and categorizes procured timber into four ranks of S, A, B, and C, according to the evaluation flow of survey results.

7 Promote the preservation and creation of green spaces in projects and community development

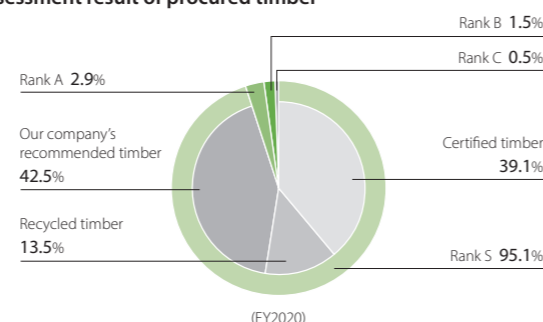
The Daiwa House Group, acknowledging the importance of contributing to the creation of a rich network of ecosystems, remains committed to minimizing its impact on biodiversity through its construction of large-scale real estate developments, housing and buildings in urban areas. We are therefore engaged in projects and community development in keeping with our voluntary standards. All applicable projects in fiscal 2020 complied with the voluntary standards and met the target.

Key goals and progress

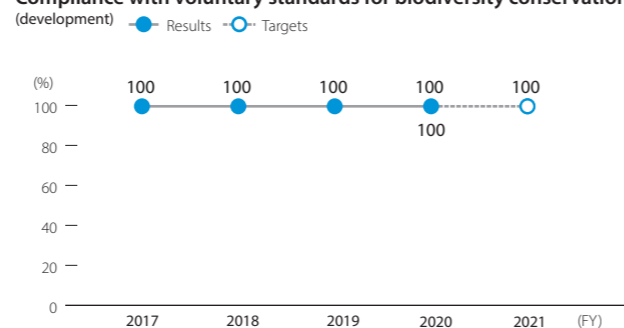


* Purposes of use are offices, plants and warehouses only

Assessment result of procured timber



Compliance with voluntary standards for biodiversity conservation (development)



Closed-loop Resource Sourcing and Conservation of Aquatic Environments

8 Promote 3R activities with construction waste

The Group has established and operates mechanisms for properly managing and recycling the construction waste discharged from the tens of thousands of construction sites created every year. By doing so, we work to mitigate the risk of improper handling of waste, reduce waste emissions and improve the recycling rate. In fiscal 2020, the production division encouraged the effective use of end materials, which contributed to decreased waste emissions intensity and helped us achieve the target. At new construction sites, however, we were unable to attain our targets due to increased waste emissions intensity associated with specification changes, despite our efforts to reduce waste of roofing materials used in single-family houses. Meanwhile, we were able to achieve our target of recycling rate for construction waste with 97.7%.

9 Reduce water consumption

Our Group promotes water consumption reduction activities with a Groupwide target set for the reduction. During fiscal 2020, we achieved our target for reducing water consumption as water usage plummeted along with guest numbers at resorts, sports facilities, and hotels amid restrictions to suppress the spread of COVID-19.

Prevention of chemical pollution

10 Reduce the use of toxic chemicals in production stages

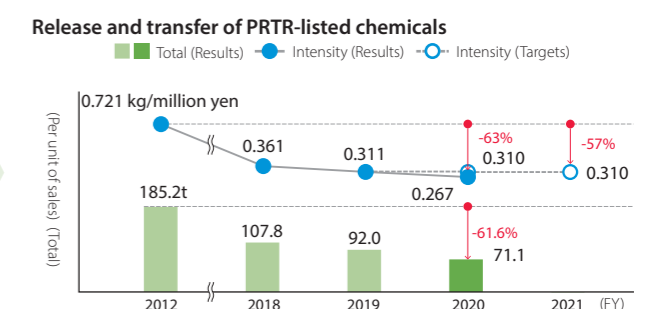
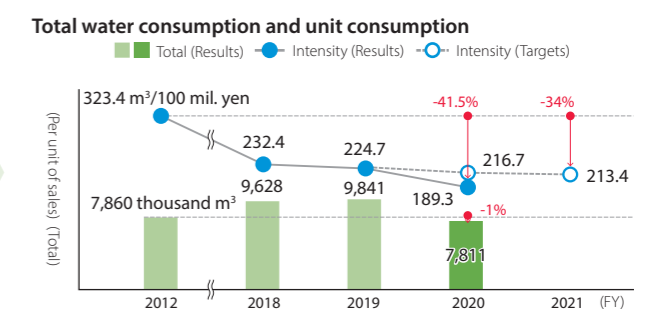
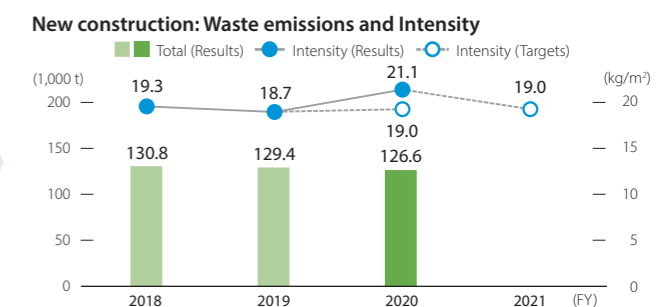
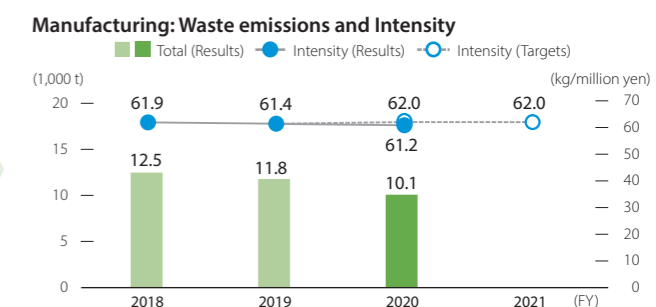
The plants and construction sites of the Daiwa House Group utilize various chemical substances. For this reason, we undertake thorough and appropriate management of chemical substances and minimize their impact by seeking to reduce their use or by adopting substitutes for hazardous chemical substances. In fiscal 2020, we changed some internal work processes, including the scope of coating conducted at our housing factories and welding methods adopted at our construction-related plants. As a result, we achieved our target for release and transfer of PRTR-listed substances.

Environmental management

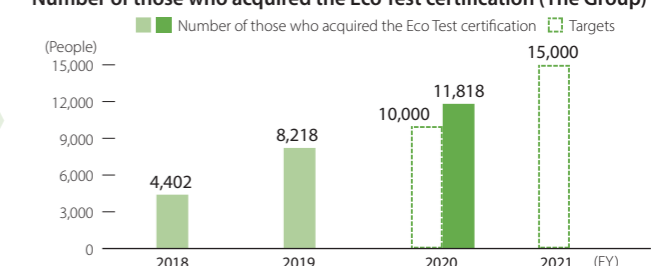
11 Develop human resources for environmental management

Eco Test certification is a good way to acquire basic knowledge regarding varied and complex environmental issues. We encourage our employees to take the test as part of our efforts to raise environmental awareness. The number of those who acquired the Eco Test certification in fiscal 2020 came to 11,818, achieving the target.

Key goals and progress



Number of those who acquired the Eco Test certification (The Group)



Message from the CEO
The Story of the Group's Value Creation
Message from the CFO
Messages from the heads of business divisions
Developing our Businesses
Strengthening our Bases
Financial Results Corporate Information

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



Supporting the TCFD Recommendations and Enhancing Disclosure

The impact of climate change is becoming more severe every year, and the frequent occurrence of extreme weather, natural disasters, and other events, for which climate change is thought to be a cause, threatens the safety and security of homes and living, which form the foundation for the value that the Daiwa House Group offers. Meanwhile, since the adoption of the Paris Agreement, nations and governments around the world have taken a sharp turn toward “decarbonization,” and expectations of the role that the private sector should play are changing significantly. Nevertheless, because the changes in the external environment accompanying climate change are highly uncertain, it is important to hypothesize multiple scenarios and respond to the risks appropriately while recognizing the business opportunities at the same time.

Therefore, in addition to utilizing the framework of items recommended for disclosures by TCFD as a tool for verifying the rationality of our initiatives on climate change, Daiwa House Industry intends to actively disclose information in line with the TCFD recommendations, paving the way to constructive dialogue with investors and others.

Governance

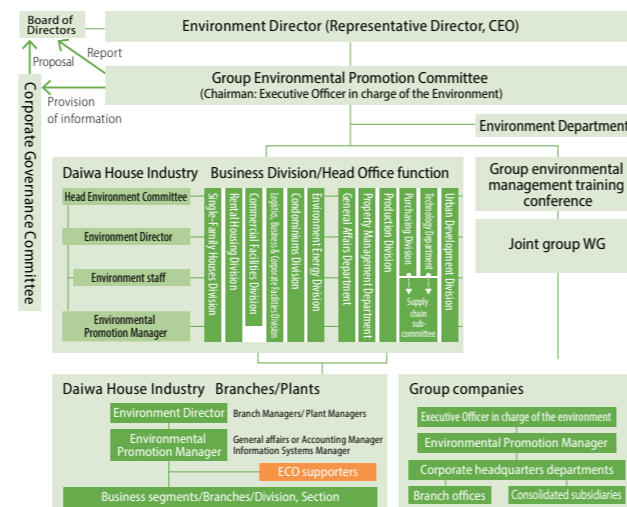
The Daiwa House Group has positioned mitigating and adapting to climate change as one of its key management issues and has appointed an Executive Officer in charge of the Environment with responsibility for implementing climate change strategy. We have established the Group Environmental Promotion Committee, which is chaired by the Executive Officer in charge of the Environment. The Committee, which meets biannually, deliberates and make decisions on fundamental matters related to the Group’s environmental activities, including climate change, as well as risks and opportunities related to the environment, and supervises Group-wide environmental activities.

In addition, the Endless Green Program, the environmental action plan formulated every three years alongside the Medium- Term Management Plan, contains the Group-wide strategy, performance targets, plans, and risk management policy on climate change issues, and important matters are reported to the Board of Directors following discussion by the Corporate Governance Committee. During the term of the program, the Executive Officer in charge of the Environment reports on progress to the Board of Directors once a year in time with the compilation of results for each of the management metrics and conducts a timely review of strategy, targets, and plans.

TCFD Recommended Disclosures

Governance	The organization’s governance around climate-related risks and opportunities The Board of Directors’ oversight of risks and opportunities and management’s role in assessing and managing climate-related risks and opportunities
Strategy	The impacts on the organization’s businesses, strategy, and financial planning Risks and opportunities over the short, medium, and long term, their impact on business, strategy, and financial planning, and resilience of strategy taking into consideration climate-related scenarios
Risk Management	The processes used to identify, assess, and manage climate-related risks Processes for identifying and assessing risks, processes for managing risks, and their integration into the organization’s overall risk management
Metrics and Targets	The metrics and targets used to assess and manage relevant climate-related risks and opportunities Metrics used by the organization in line with its strategy and risk management process, targets used to manage risks and opportunities and performance against targets

Environmental management system



Organs and committees for the environment

Conference body	Principal members	Principal roles in handling climate change	Conference frequencies
Board of Directors	Director, External Director	Supervision of climate change strategy	Monthly
Corporate Governance Committee	Representative Director, External Director, Auditor, External Auditor	Discussing and reporting important items about climate change strategy to the board of directors	Biannually
Group Environmental Promotion Committee	Executive Officer in charge of the environment, Environment Director (Business division), Head of Head Office function	Drafting and examining climate change strategy and adopting the final text, managing the progress of the Group management metrics	Biannually
Group environmental management training seminar	Group companies Executive Officer in charge of the Environment	Promoting climate change strategy across the Group	Biannually
Environment Committee (Business division)	Division heads, Environment Director, Environmental Promotion Manager	Implementing climate change strategy, managing the progress of individual management metrics	Biannually

Strategy

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

Moreover, in order to formulate a business strategy that can adapt flexibly to future changes in the external environment based on these risks and opportunities, we evaluated the impact on business using several scenarios. In conducting the scenario analysis, we referred to the Nationally Determined Contribution (NDC) as the scenario for “transitions” and Representative Concentration Pathways (RCP) 8.5 (high-emissions scenario) as the scenario for extreme “physical change” to verify the rationality of our business strategies.

In the recently conducted simplified scenario analysis, demand for the net-zero energy houses and buildings provided by Daiwa House Industry as well as its environmental energy business are expected to expand under any scenario, and we confirmed that the revenue growth is likely to exceed any negative financial impact, reaffirming the rationality of our response to risk and the importance of recognizing business opportunities more proactively.

Main Risks and Opportunities Related to Climate Change

Short-term (0-3 years), mid-term (3-10 years), and long-term (10-30 years)

Type	Details	Period of impact	Level of financial impact		
Risks	Transitions	Policy, laws and regulations	Increased costs on account of specification changes in line with strengthening of Japan’s Building Energy Efficiency Act	Short term	Medium
	Physical changes	Chronic	Rising operational costs due to expansion of carbon tax or emissions trading system	Medium term	Small
		Acute	Higher maximum summer temperatures lead to increased risk of heat stroke at construction sites	Short term	Small
	Opportunities	Transitions	Products and services	Damage to our facilities due to meteorological disasters and increase in insurance premiums	Medium term
Products and services			Impact on supply chain due to meteorological disasters	Short term	Medium
Physical changes		Products and services	Increase in demand for houses and building with low greenhouse gas emissions	Present time	Large
		Products and services	Generation of carbon credits through provision of low-carbon houses and buildings	Long term	Medium

Sustainability Report 2021: Response to the Task Force on Climate-related Financial Disclosures (TCFD) P.39-41

Summary of Scenario Analysis Results

External Scenario	Reason for selection	Result of analysis	Reflection in policies and strategies
Nationally Determined Contribution (NDC)	This scenario is the most viable as the future vision for Japan, which accounts for the majority of our business, and it is a highly precise scenario.	An increase in operational costs due to strengthening of regulations is expected, which can be covered by revenue growth due to increased sales of ZEHs and ZEBs.	We have decided on a policy of “maximizing sales growth and minimizing profit decline with early development of ZEHs and ZEBs, and cost reductions pushed forward.” We monitor progress using the sales rates for ZEHs and ZEBs as key management metrics and reflect the results in our business strategies.
Representative Concentration Pathway (RCP 8.5)	The scenario with the biggest physical impact was selected to hypothesize the most extreme situation.	Additional costs could arise due to suppliers transport being cut off and asset impairment due to damage to our facilities caused by heavy rain and heavy snow, and construction delay damages as extremely hot days will increase, which can be covered by sales growth of products to mitigate and adapt to climate change.	We have decided on policies of “Thoroughgoing measures against heatstroke at construction sites” and “Development and popularization of products with low GHG emissions and products adapted to physical changes.” We monitor progress using the number of heatstroke cases, GHG emissions per unit of floor space through provision of products, and sales rates for ZEHs and ZEBs as key management metrics and reflect the results in our business strategies.

Sustainability Report 2021: Mitigating and adapting to climate change P.31-41

Risk Management

We recognize that climate change risk is one of the risks with a significant impact in the medium- and long-term, and we have integrated this risk into the Group-wide risk management process. We identify and assess risks and opportunities in order to conduct a careful analysis roughly every three years, which we apply to the identification of priority issues for the Medium-Term Management Plan and Action Plan for the Environment which are formulated every three years, with these issues reflected in the major policies and targets of these plans.

Metrics and Targets

Aiming to minimize the risks and maximize the opportunities associated with climate change, we have established short-, medium-, and long-term targets for the promotion of initiatives. We have established these targets as a set of metrics for the 6th Medium-Term Management Plan. We have also established more detailed management metrics and targets in our Endless Green Program, the action plan for the environment formulated to align with the period covered by the Medium-Term Management Plan, in order to accelerate our initiatives with the aim of striking a balance between earnings and environmental sustainability.

Key results and targets of the Action Plan for the Environment (Endless Green Program 2021) P.88

S Social **Efforts at Social**
Strengthening the Human Resources Base

Develop human resources that contribute to society, and create a motivational workplace that employees are proud of, through a thorough “bottom-up approach” and “positive attitude.”



Efforts at Social Medium-Term Plan

1 Work style reform for employees

Going beyond merely endeavoring to reduce working hours, we concentrate on identifying problems in current methods and exploring new ways of working conducive to making work gratifying and a source of joy. Efforts focus on fostering three major outcomes: work environments conducive to trust in the Company, pride in work, and solidarity with colleagues. For example, we examine how benchmarks they are happy with are assessed and the scheme for assessing contributions to achieving organizational goals based on the results of employee survey. In fiscal 2021, we will be applying the issues we have looked into so far to our project proposals, from planning to program design.

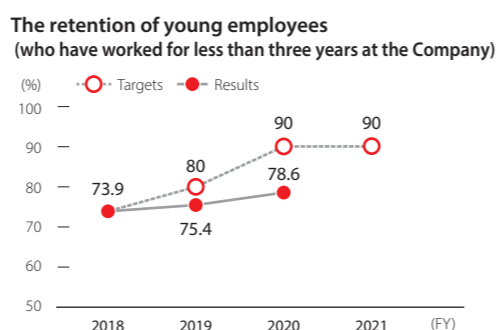
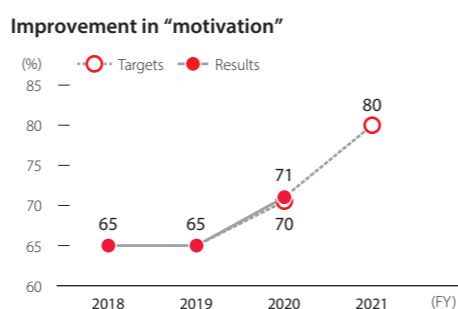
2 Upgrade human resource development and recruitment

We undertook a number of initiatives to enhance human resources development and recruitment. To be better able to find the talent we need, we proactively participated in recruiting events to increase contact with college students, a main source of new hires, and raise the profile of our corporate brand among them, as well as working to support them through our recruiters more effectively. We also launched a project studying ways to enhance young-employee retention, advancing it to the program design and proposal development stage. From fiscal 2021, we started specified employment of new graduates by business division and job type. Creating a system where they can be assigned duties they wish, we seek to retain young employees. And in personnel training, we introduced a succession planning named D-Succeed for branch and equivalent managers along with continuing the Daiwa House Juku for nurturing future managerial personnel.

3 Promote diversity and inclusion

We are working to improve the diversity and inclusion (D&I) situation at the organization level. In fiscal 2020, we introduced a teleworking system to offer diverse working style options. Training initiatives during the year included a seminar to increase the level of employees understanding of D&I, a training for women moving into managerial positions, district-level meetings of and forums with the Working Group of Women Active in Business of the Daiwa House Group’s Construction Technology Committee, and unconscious bias training for newly appointed managers, male as well as female. In fiscal 2021 we will be stepping up our initiatives to increase flexibility in work styles, while continuing the training programs mentioned above. We will also improve office diversity scores which are D&I composite scores introduced in fiscal 2019 and business division diversity scores to be introduced in fiscal 2021, through analyzing our achievements.

Key goal indicators and progress



General indices for diversity and inclusion (%)

	FY2018 results	FY2019 results	FY2020 results	FY2020 targets	FY2021 targets
Female managers	3.6	4.1	4.5	4.5	5
Line leaders amongst female managers	24.1	25	21.5	35	40
Female engineers	4.6	4.9	4.9	5.5	6
Female sales reps	9.9	10.2	9.9	12	13
Female amongst recruits	27.2	24.8	23.5	30	30

Sustainability Report 2021: Human resources base P.88-101

Foster human resources who create new value together with society (human resources for value co-creation)

The founder of Daiwa House Industry, Nobuo Ishibashi, believed that we should “conceive businesses and products that are of service to people.” Guided by his management philosophy, we at the Group have sought to anticipate future trends to offer new products and services demanded by society ever since its founding.

In order for the Group to remain essential to society in these volatile, uncertain, complex and ambiguous times and beyond, it is vital to foster human resources for value co-creation who are capable of creating new value hand in hand with various stakeholders. Based on a deeper appreciation on a broader range of views as never before, they are to create innovative value in the spirit of greater harmony—as indicated by the name of the Company. Based on this belief, in the autumn of 2021, the Company opens the Daiwa House Group MIRAI KACHI KYOSO Center, a new facility for developing human resources, in Nara Prefecture, the place of birth of the founder.

The center is intended to serve not only as a training facility for the Group employees both in Japan and abroad, but also a gathering

place for locals including children, students, and adults to learn and create new values together. Through such activities, the Company seeks to remain “a public organ of society” to foster human resources who will build a future.



Panoramic view of MIRAI KACHI KYOSO Center

Efforts to provide rewarding workplaces

We introduced a flextime program with no core hours in fiscal 2021 with the exception of a few divisions. Verifying the effect of the introduction, we will develop initiatives to establish and better exploit the program, in a bid to realize workplaces where diverse human resources can flexibly choose their preferred work styles appropriate to their circumstances.

In line with the business division-based system fully introduced in April 2021, we are currently reviewing our systems for personnel evaluations. In addition to evaluations at each worksite,

we are introducing evaluation systems considering the characteristics of each business division. Performance is evaluated based on business division-specific systems at each branch, while items other than performance, such as legal compliance, are continued to be evaluated at each office. Going forward, we will introduce evaluation systems for individual employees according to the business models of each business division, as well as those compatible with teleworking and other new working styles, so as to improve motivation of employees.

Human rights due diligence

In accordance with the “Daiwa House Group Human Rights Policy” instituted in 2018, the Company implements human rights due diligence and respects the human rights of its stakeholders. Striving to fulfill our commitment of contributing through our business to the realization of a society where human rights are respected, we stipulate respect for human rights as one of the Business Partner Code of Conduct. In this way, we are responding to human rights issues that occur in our supply chain in a responsible manner.

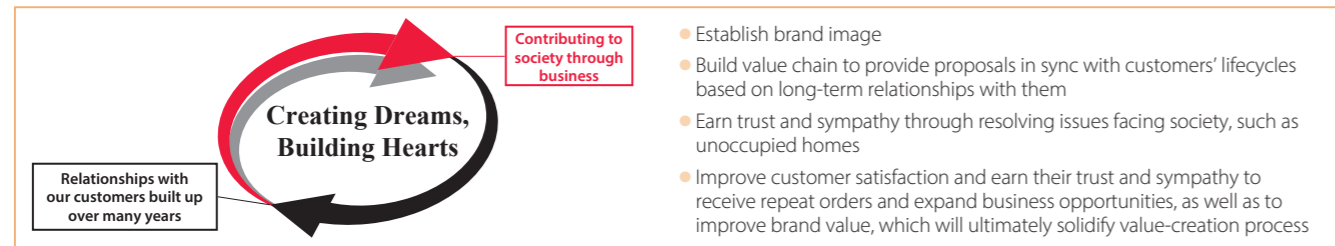
Specifically, we request all tier 1 suppliers to prohibit compulsory labor, child labor and harassment. On the procurement front as well, we ensure that no timber is sourced through illegal logging or procured from areas where the violation of the rights of indigenous people has been pointed out.

The Company develops its overseas business based on the technology and expertise it has accumulated in Japan to date, desiring to contribute to the growth of the local economy. We are therefore deeply concerned about the current situation in Myanmar, viewing the military coup as a regrettable incident. Paying utmost attention to the safety of the citizens of the country and those who involved in our business, the Company intends to proceed with its operation in a prudent manner through discussions with related parties. Aspiring to contribute through our business to the democratic development of Myanmar, and to conduct the business in a way that is beneficial to the will and interests of citizens of the country, we will continue a dialog with all those concerned based on our Human Rights Policy.

S Social Efforts at Social

Strengthening the Customer Base

We are sincere in our communication with customers, and put our full efforts into offering high-quality products and services. We do our best to satisfy our customers and win their trust.



Efforts at Social Medium-Term Plan

1 Upgrade corporate communications

With "Grow a new Life" as a unified theme for corporate communications in fiscal 2020, we have engaged in advertising and promotional activities. As a group that co-creates value for individuals, communities and people's lifestyles, we develop businesses to offer new value to customers' living and their lifestyles. In the year where society was dominated by the COVID-19 pandemic, the Company embarked on developing new businesses, products and services for adapting to New Normal, and Livness Town Project that embodies the value of a sustainable lifestyle by redeveloping existing housing complexes. Through these and other initiatives, we pressed forward on active communications that put a spotlight on voices of customers and other stakeholders, seeking to establish the image of our company that is be of service to society. In addition, we engage in cherry tree preservation activities on the slopes of Mt. Yoshino in Nara Prefecture, the region where our founder was born and raised. We have positioned this "Daiwa Sakura Aid" as an activity that brings our corporate philosophy to life. By increasing opportunities to interact with our stakeholders, we strive to demonstrate the Company's corporate stance to society.

In fiscal 2020, brand value survey, which is a key goal indicator, improved slightly but failed to achieve the target. In fiscal 2021, together with ongoing enhancement of governance system, we will work to spread our corporate philosophy so as to foster among customers the idea that the behavior of each and every employee represents the Daiwa House Group brand.

2 Promote customer support to maintain long-term relationships

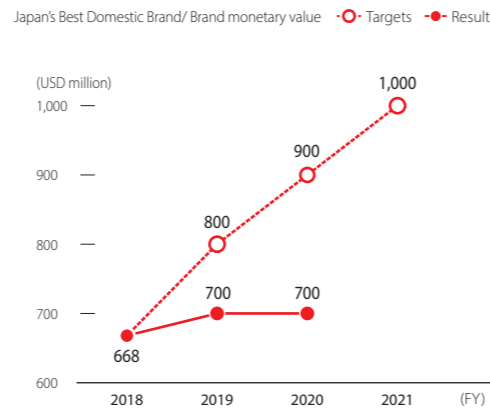
Fiscal 2020 was a year in which regular inspections and impromptu visits were postponed in order to prevent the spread and proliferation of infections, which elicited the question of what new form of relationship will we have with customers. In providing inspections to customers who were stricken by the earthquake off the coast of Fukushima, an aftershock to the Great East Japan Earthquake, we partially used remote tools to support the operation. We will explore a framework further to maintain relationships based on digital technologies and ways to connect with each customer digitally.

While taking these customer satisfaction (CS) initiatives, we also took action for our Livness business, which is a business that starts with customers with whom we have existing relationships. In this way, we are building a framework that makes it easy for customers to contact the Company.

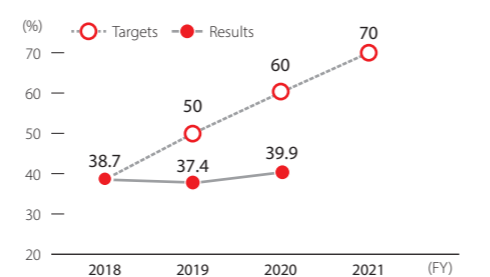
Sustainability Report 2021: Customer base P.115-120

Key goal indicators and progress

Brand Value, Perception Survey Results



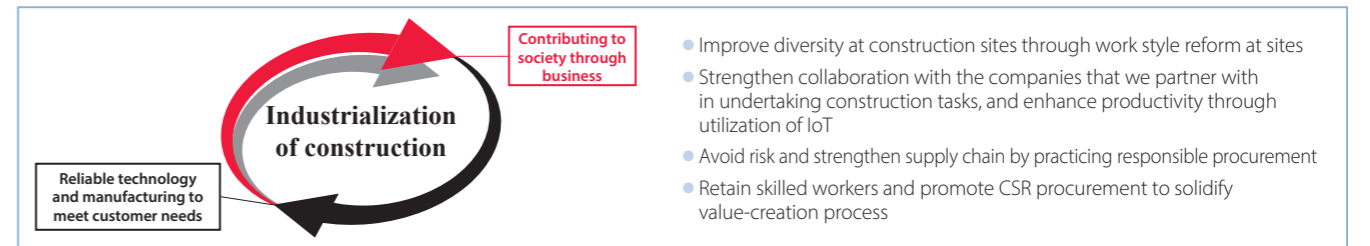
Order rate using our customer base



S Social Efforts at Social

Strengthening the Technology and Manufacturing Base

We foster distinctive technologies that match customer needs to create both value for customers and value for society.



Efforts at Social Medium-Term Plan

1 Enforce safety/security at construction sites

We revised our educational methods and undertook efforts to strengthen our management system in order to enhance the safety and health of skilled workers on site (employees of our business partners). Safety education includes the adoption of interactive VR teaching materials, non-verbal videos for foreign workers, creation of signs in foreign languages, and special training for fall prevention devices (full harness type). For our safety management system, we held remote meetings and various Community Councils, provided training, and supervised construction sites remotely via ITV (industrial TV) on an ongoing basis for the sake of greater operational efficiency based on ICT and prevention of the infections. As a result, we achieved our target for the frequency rate for worksite industrial accidents for fiscal 2020 at 0.16. Fiscal 2021 will see our continued efforts to prevent the spread of COVID-19 and develop new teaching materials for safety.

2 Improve productivity in manufacturing operations with the cooperation of business partners

We trialed in three locations a remote support initiative for information on construction with partner subcontractors, to improve productivity at sites, and along with this, have promoted digital construction projects. A total of 11 projects involving automation are to be implemented by fiscal 2021 in our plants, of which five (including concentrated welding lines for pillars and processing of surface elements) have already completed. In addition, under the Certification System for Skilled Engineers and Technicians, partner subcontractors certified as excellent or senior technicians were provided with financial support for their wages as part of an effort to develop human resources. Through these efforts, we have made scheduled holidays known to all plants and construction sites, and as a result, we largely achieved our plans for annual holidays in fiscal 2020. In fiscal 2021 as well, we will proceed with the verification and adoption of technologies, such as ICT and the IoT, and raise the skills and motivation of our partners' employees to ensure quality and reduce working hours.

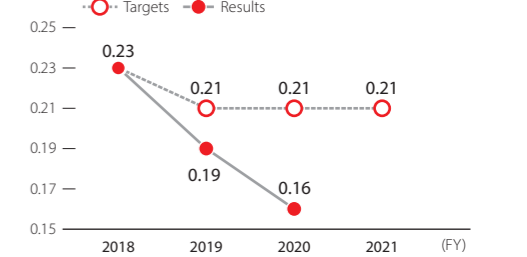
3 Promote and improve the efficiency of CSR procurement across the Group

We are taking steps to make our CSR Procurement Guidelines known among our business partners and share our thinking. Letters of consent to the CSR Procurement Guidelines have been once again collected since fiscal 2019, following the institution of the guidelines in fiscal 2015, reaching 93.4% in submission rate (5,074 out of 5,432 companies). Online self-assessments were also implemented as a way to confirm how far our partners are engaged in initiatives and building systems for CSR procurement. We also continue distribution of an Ethics Card for Partner Employees. Our intention is to continue dialogs with our business partners in order to promote CSR procurement.

Sustainability Report 2021: Technology and manufacturing base P.102-114

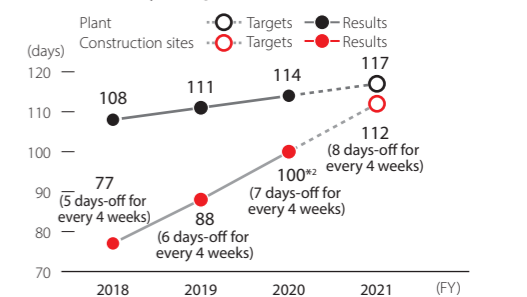
Key goal indicators and progress

Frequency of worksite industrial accidents*1



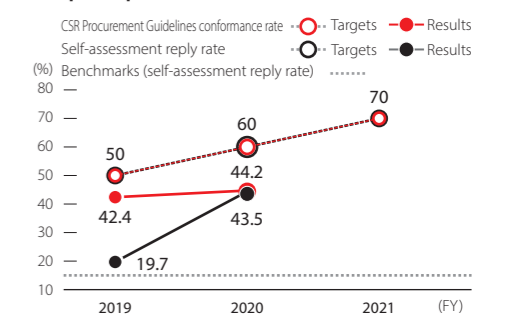
*1 The number of industrial accidents that have occurred involving worker injury or death per one million hours worked (injuries requiring 4 or more days-off).

Number of days off per annum



*2 Total of sites adopting a face recognition access control system. Approx. 80% of sites on average took holidays as scheduled.

Group CSR procurement



Message from the CEO
The Story of the Group's Value Creation
Message from the CFO
Messages from the heads of business divisions
Developing our Businesses
Strengthening our Bases
Financial Results, Corporate Information

S Social Efforts at Social

We strengthen systems to promote business and real estate development that help solve social issues, while establishing corporate ethics, human rights and compliance rules including overseas bases.

Bases to Strengthen Anew

Innovation base Sustainability Report 2021: Innovation base P.77-87

Base	Policy	Priority issues	Key goal indicators (FY 2021Targets)
Continuously comes up with innovative solutions to social issues Innovation base	Strengthen systems to promote business and real estate development that helps solve social issues	(1) Build platforms for innovating solutions to social issues	Cooperative innovation creation for new business ventures or joint research projects
		(2) Promote social inclusion in real estate development	Percentage developed of large projects based on Community Development Guidelines and large-scale construction by our divisions

70%

Initiatives toward priority issues, and issues with regard to achieving goals

As part of our business development activities, at Open Innovation Base "Xport" sponsored by the Osaka Chamber of Commerce and Osaka Institute of Technology, we conducted programs themed on "future housing powered by digital technologies" in our pursuit of collaboration with corporate partners. Our Open Innovation Program is also soliciting ideas to accelerate the Livness Town Project currently underway. We will continue to offer up innovating solutions to social issues in fiscal 2021.

In real estate development, we are constructing a management framework geared toward instilling inclusion design in real estate development. It is made possible by the collaboration between the Sustainable Community Development Promotion Committee and Business Investments Committee that deliberates feasibility of investments in businesses. Now that a dedicated unit Livness Town Business Promotion Department was set up in fiscal 2021, it will redefine the appeal of existing towns by re-tilling them, while promoting social inclusion with new development projects.

Communication base Sustainability Report 2021: Communication base P.121-128

Base	Policy	Priority issues	Key goal indicators (FY 2021Targets)
Multi-channel communications with stakeholders Communication base	As a company, upgrade both financial and non-financial corporate communications and train the workforce for the information age	(1) Integrate and upgrade financial and non-financial communications	Establish a system and practices for financial and non-financial communications, and promote understanding that these are fully integrated
		(2) Keep pace with rapidly evolving communication environments	Establish communications platforms to ready the workforce for the information age

Initiatives toward priority issues, and issues with regard to achieving goals

We continued to enhance our ESG engagement activities in fiscal 2020. Our efforts included ESG small group meetings held in December, where the CFO, executive officers responsible for IR and managers of ESG divisions spoke about our integrated thinking-based business strategy. We will disclose integrated financial and nonfinancial information in our securities reports, and engage in other programs for shareholder relations. To realize constructive dialogues with our shareholders and investors, we work to enhance mutual communication.

In addition, to revamp our information systems as part of our communications reform, we introduced Microsoft365 to Group companies' offices to make best use of internal information. For further gains in workflow efficiency based on effective communication, we started sharing information among companies using Teams, a communications tool, in fiscal 2020. In fiscal 2021, we will study frameworks for information sharing with individual customers.

Dialogue with Shareholders and Investors (FY 2020 Results)

General meeting of shareholders (June 29, 2021)

- Shareholder attendance **147**
- Percentage of voting rights exercised **85.65%**

Communication with institutional investors and analysts
Total **820** companies

Face-to-face and telephone interviews with Japanese and overseas institutional investors	As needed	292 companies
Financial results briefing session via teleconferencing	4 times	245 companies
Briefing sessions from top management	Twice	110 companies
Business briefing sessions for institutional investors	4 times	126 companies
Dialogue on ESG	As needed	47 companies

Communication with individual shareholders and investors
Total **644** investors

Online explanatory sessions for individual investors Once 644 investors

Feedback on shareholder and investor opinions and requests obtained through IR activities

Reports on IR activities at Board meetings	Annually
Reports on IR activities to outside directors	Semi-annually
Opinions on business performance and market trends exchanged with business divisions	Quarterly

Risk countermeasures base Sustainability Report 2021: Risk countermeasures base P.129-145

Base	Policy	Priority issues	Key goal indicators (FY 2021Targets)
Effective internal control and executives/all employee leadership in corporate ethics Risk countermeasures base (being complete in small things)	Hone business continuity plans for natural disasters, etc., and establish corporate ethics, human rights and compliance rules including overseas bases	(1) Prepare business continuity plans on the premise of natural disasters/extreme weather	Business Continuity Plan score 100 pts/100 pts <small>(Score based on initiatives for employee safety, backup for information systems and securing power, customer support systems, production purchasing system, maintaining overall group functioning, development systems, etc.)</small>
		(2) Establish due diligence for human rights at plants	Establish a process of due diligence for human rights at plants
		(3) Establish corporate ethics and compliance rules	Internal control system attainment score 15% improvement from the FY 2017 levels
		(4) Build management base for global business development from a long-term perspective	Improved score on CSR awareness surveys at overseas bases

Initiatives toward priority issues, and issues with regard to achieving goals

Promoting telework given the COVID-19 pandemic in fiscal 2020 resultantly improved business continuity plans in case of emergency, including the formulation of work rules enabling employees to work safely even in the face of natural disasters or pandemics. Given the shift to the business division-based system, Risk Management Committees were established for each business division, thereby each business division takes charge of information collection and analysis, and building and operation of recurrence prevention systems.

An economic downturn expected in fiscal 2021 may lead to

deterioration of working environment for the employees of our partner subcontractors. Leveraging on-site and company-wide monitoring systems, we will continue our efforts to establish human rights due diligence at our plants. For overseas business, in order to strengthen the medium- to long-term management base, we set up our Overseas Business Division, preparing to construct an administrative framework for each region. Corporate functions are now ready to be put in place starting with North America. We will continue to move forward to address such priority issues in fiscal 2021.

Assisting civic life in time of disasters

Upon developing multi-tenant logistics facilities*, the Company signs agreements with local governments for providing assistance to civic life in time of disasters, whereby the facilities built by the Company can be served as temporary evacuation shelters or storage of relief supplies.

Major agreements signed in fiscal 2020

Name of local governments (Prefecture)	Contents of agreements
Kitakami City (Iwate)	Agreement on cooperation for storage of emergency provisions during earthquakes and other disasters
Tosu City (Saga)	Agreement on support for civic life during earthquakes and other disasters
Nagareyama City (Chiba)	Agreement on the use as a temporary evacuation shelter during disasters

* Logistics facilities designed to cater for a multiple number of tenant companies



Perspective view of multi-tenant logistics facility DPL Iwate Kitakami III

G Governance **Management Structure**

The Daiwa House Group positions enhancing its structure of governance as a priority issue for management so that we may continue to be a company that earns the trust of society. We take the basic stance of working to construct a system of accurate and timely decision making and business execution, as well as a framework of appropriate oversight and supervision.

Along with transforming our vision in tune with expanding business operations and the management environment, we are building a more resilient structure for governance based on diverse viewpoints and long-term perspectives.

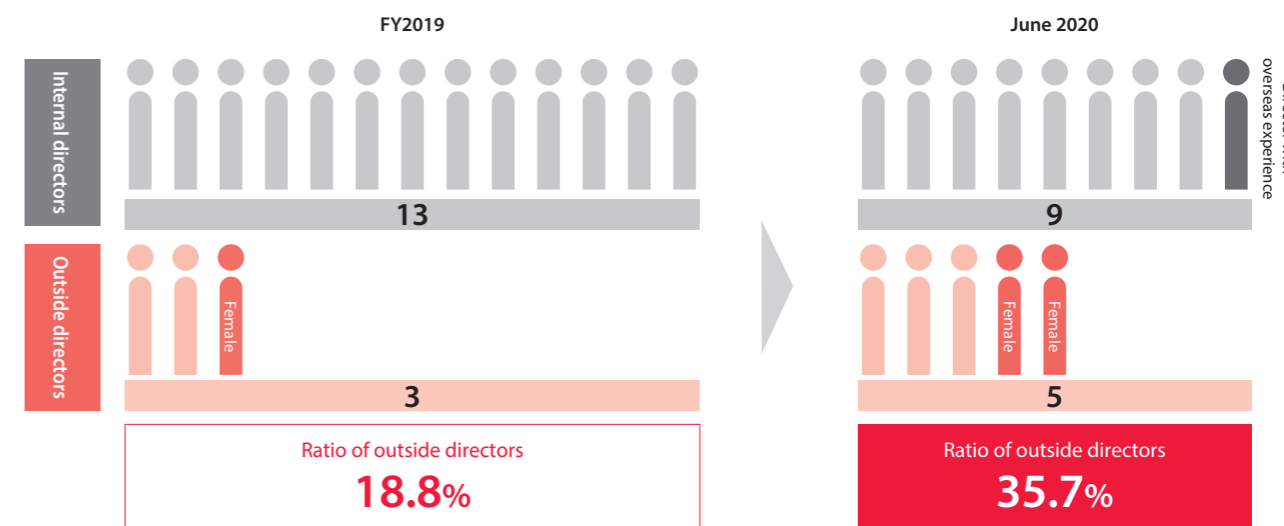
	Fifth Medium-Term Management Plan	Sixth Medium-Term Management Plan
	2016-	2019- (FY)
Board of Directors/ Audit & Supervisory Board	<ul style="list-style-type: none"> • Appointment of female outside director (2016) • Evaluation of effectiveness of Board of Directors (2015-) 	<ul style="list-style-type: none"> • Setting age limits for inside directors (2019) • The ratio of outside directors to one-third or more (2020)
Board Committees/ Management Committees	<ul style="list-style-type: none"> • Establishment of the Nomination Advisory Committee (2015) • Establishment of the Remuneration Advisory Committee (2015) • Establishment of the Internal Control Committee (2015) 	<ul style="list-style-type: none"> • Establishment of the Sustainability Committee (2017)
Other systems, measures, etc.	<ul style="list-style-type: none"> • Issuance of performance-based stock options for value (2013/2016) • Corporate Governance Guidelines established (2015) • Introduction of stock compensation plan (2016) • Introduction of employee stock ownership plan (2016) • Introduction of corporate auditors' whistle-blowing system (2016) 	<ul style="list-style-type: none"> • Newly established Legal Compliance and Quality Assurance Promotion Division, and Compliance Promotion Department (2019) • Established an internal reporting (whistle-blower) system with an external law office (2019) • Developing a system to promote SDGs and ESG (2018)

Measures to enhance governance

Basic policies	Main actions up to the fiscal 2020	Future initiatives
Review management structure and state of management and supervision	<ul style="list-style-type: none"> • Revise the ratio of outside directors to one-third or more • Establish upper age limits on inside directors • Restructure standards for risk reporting to Board of Directors 	<ul style="list-style-type: none"> • Continuously strengthening and reviewing medium- and long-term management strategies and supervisory functions to raise the Group's corporate value
Enhance agile business execution and risk response structure	<ul style="list-style-type: none"> • Adopt a business division-based system to the business execution structure • Establishment of the Compliance Promotion Department to respond to risk compliance requirements and improve the business environment • While establishing a risk compliance organization in each business division to promote preventive practices, we also established a business division risk management committee in each business division to handle general risk management throughout the business supply chain. • Provide education related to business division-based system for directors and employees • Start examination by top management of growth strategies from the Seventh Medium-Term Management Plan. 	<ul style="list-style-type: none"> • Review and transition of management reporting systems and processes in each business • Continuous improvement of organizations and functions for overlapping businesses within the Group • Continual improvement of the Group's head office functions and optimal allocation of human resources
Strengthen risk information gathering and sharing	<ul style="list-style-type: none"> • Clarify risk reporting standards • Establish new external whistleblowing hotline • Reorganize incident response management flow • Build structures and systems to share overall risk information with business division risk management committees 	<ul style="list-style-type: none"> • Operation and continuous improvement of risk information coordination systems and its operation
Strengthen environment for supporting sustainability and implementation	<ul style="list-style-type: none"> • Continue risk and compliance training for directors and employees • Strengthen the Group's internal audit system and risk approach, implement audits based on them • Improve the searchability of internal rules relating to risks and compliance • Implement the revision and automation of operational processes relating to serious risks in phases 	<ul style="list-style-type: none"> • Continuously strengthening the efficient business operating base to sustain risk management and compliance activities

Improvements to management structure

We have increased the number of outside directors in order to enhance the Board of Directors' supervisory function. We are also heightening diversity by appointing a female director and a director with experience of being stationed outside of Japan.



Messages from Outside Directors



Pressing on with vigorous debate at board meetings, ensuring that the Company is indispensable to society

Kazuyoshi Kimura
Outside Director

During my 45 years working at a securities house, I spent much time with numerous investors and analysts using the capital markets to gain an understanding of corporate value. In my current capacity as an outside director at an investment manager and as someone who runs a listed company as well, I believe a company's fair value is the corporate value capital markets assign it, and I believe that my duty as an outside director is to monitor and advise about how to sustainably maximize that fair value. Markets don't care much about past performance, but reflecting the certainty and size of investors' expectations, they are a frank yet fair barometer of companies' growth prospects and future competitiveness. And since the matters markets pay attention to and the yardsticks they use to gauge a company's fitness shift with the times, I believe a crucial element of corporate governance is maintaining an organization that innovatively and agilely adapts to business environment changes by focusing on the same matters and

using the same benchmarks as contemporary markets do.

Meetings of Daiwa House Industry's Board of Directors are characterized by reality- and fact-grounded discussions, and board members' uncompromisingly serious approach to the issues we face means they have been growing livelier and more candid with each passing year. We cover topics from formulation of business portfolio strategies conducive to sustainable growth and how the organization should be shaped and run, to progress on initiatives and making sure they are delivering the desired outcomes. Times of turbulent change demand debate for keeping business strategy flexible and fluid, and crucial to such debate is diversity. Since I believe that a diversity of perspectives expressed by directors with a diversity of skills is essential for enhancing an organization's ability to function, I would like to emphasize a highly transparent, diversity-conscious process for deciding Board of Directors makeup.

Daiwa House Industry has always honored the founder's exhortation to be a company indispensable to society. I am committed to extending that corporate culture, translating his aspiration into practice by continuously pursuing revenue growth (creating economic value) and providing solutions to society's problems (creating social value) in optimal proportion.

Message from the CEO
The Story of the Group's Value Creation
Message from the CFO
Messages from the heads of business divisions
Developing our Businesses
Strengthening our Bases
Financial Results Corporate Information

Messages from Outside Directors



We will keep taking on the challenge of being a company investors trust

Yutaka Shigemori
Outside Director

I believe that a corporation that wants investors to trust it must go beyond merely complying with legal frameworks. I believe it is crucial that it also continue taking on challenges for achieving sustainable future growth and achieve results while being profitable. The essential here are reliability, ability to learn, funding, and—for as long as it stays in business—addressing challenges.

We are currently pushing ahead with several initiatives that draw on two of Daiwa House Industry's strengths—speed and momentum—while working to further bolster governance. In today's drastically changing world, developing the Company's overseas businesses is another crucial focus for achieving ¥10 trillion in annual turnover. Working closing with local companies and people through locally rooted cooperation will be key to success particularly in Southeast Asia.

I believe that staying in constant contact with "fresh eyes" like those typical of venture enterprises can lead to further development in our current principal businesses. As for digital investment, another undertaking we are focusing resources on, the difference it makes and real substantial results in productivity gains are now just beginning to manifest.

I would like to see ESG initiatives expanded as I believe action on ESG issues is good for corporate value in the long run. It will not only benefit the Company directly but be positive for the environment and society as well. And to earn the long-term trust of customers, investors, and the public and be a company they hold in high regard, I believe we still have mountains of work to do, from providing a favorable environment for all who work for the company—trading partners as well as employees, to contributing positively to local communities.



Foster diverse human resources, contribute to sustainable growth and generating social value

Yukiko Yabu
Outside Director

Our wide-ranging business portfolio is closely connected with individuals, communities, and people's lifestyles. In this era of rapid change and uncertainty, the value we offer, including effective ESG management, is becoming increasingly important. Drawing on my experience in product development and consumer research at a consumer electronics company, I am eager to help our company grow sustainably and provide social value in my role as an outside director.

Diverse expert opinions, enhanced further by last year's appointment of more outside directors, have made our Board of Directors a forum to debate business risks and opportunities in an increasingly frank manner. However, we need deeper discussions on longer term initiatives where our group should take the lead—transforming our businesses to accommodate decarbonization and innovation

in community development. We must redouble our efforts going forward.

In April 2021, we restructured our organization, reworking it into business division-based system. We hope this will speed up customer-centric business development across the group, and from a risk perspective, strengthen internal controls and governance. Boosting employee engagement under new working arrangements is another important issue as the COVID-19 pandemic has altered their mindsets considerably. Our company's HR training approach stands out in the housebuilding and construction industry, which has tended to lag behind other sectors in this respect, with enthusiastic, persistent efforts to train younger employees and to open up a wider range of managerial and professional positions to women. I feel that we are fostering a positive corporate culture that values self-reliance and is fair and proactive.

It is vital for your board to work even harder to keep on top of developments, solve issues from a longer term perspective, and improve corporate value, and I will do my utmost as a director.



Actively embracing New Normal trends to help Daiwa House grow

Yukinori Kuwano
Outside Director

I was appointed an outside director last year after serving for 12 years as an outside auditor for Daiwa House. In my previous career, I was involved in new technology development and company management in the electronics industry. One of my roles as auditor was to chair an external investigation committee looking into the cause of compliance issues—namely the use of off-specification components in our single-family houses and rental housing business and qualifications acquired by employees with inadequate work experience—and recommend measures to prevent their recurrence. These were very serious issues for Daiwa House, and I and the entire company must do everything in our power to ensure that similar events do not ever happen again.

The current era is on the cusp of major changes, embodied in global movements such as SDGs, ESG, and DX, which call for a response from

us as well. In the context of SDGs and ESG management to address environmental issues, I have been involved in solar power generation for many years, and am delighted that the world is at last making great strides in these areas. At the behest of our founder, Nobuo Ishibashi, we tackled wind and solar generation at an early stage and have nurtured new businesses in the field into significant entities, and are an environmental leader. We have also made solid progress in international initiatives such as SBT, EP100, and RE100. We aim to continue to fulfil our corporate social responsibilities going forward.

Companies must significantly transform their business models to keep pace with the rapidly advancing digital (DX) era. In my previous position, I was in charge of digital product development, and am eager to play a role in helping the company take on board emerging trends and build a highly efficient business model where we can be most useful to our customers.

I will do my very best to help Daiwa House grow strongly and contribute to our shareholders.



ESG is crucial for sustainable corporate value enhancement. We will walk hand-in-hand to make the world a better place

Miwa Seki
Outside Director

The world's population is set to break through the 9 billion mark by 2050 as 100-year lifespans become a reality. While the number of people living in extreme poverty is steadily declining due to advances in healthcare and technology, the world's resources are being depleted and climate change is making life difficult for the world's most vulnerable. I feel that corporate social responsibility is becoming increasingly important.

I think Daiwa House Group is a rare entity that has not only inherited the DNA of its founder, Nobuo Ishibashi, but has grown profit while giving back to society. I am impressed that the ideals embedded in ESG and SDGs—buzzwords these days—have been our goals from our very inception. Daiwa House has been practicing ESG concepts on the understanding that they are not merely our contribution to

society but an essential element of sustainable corporate and economic growth.

Consideration for the environment, contributing to society, and sound corporate governance are neither charity nor fashion. They are essential in enabling us to adapt to all that awaits us as we open up new business growth opportunities, nip risks in the bud, and create the future.

While we may not notice small changes or feel progress, a long view of history shows us that the world is becoming a better place. The number of people living in extreme poverty and dying in disasters is declining, while lifespans are lengthening. Daiwa House can do many things to improve the world. I am very grateful for the opportunity to help create that future with everyone else on the Board.

Concept of Board of Directors structure

Based on a long-cherished concept from the day of founding to promote a business that “will be useful to people and that will make them happy,” the Company’s Board of Directors upholds this concept in its management vision of being a group that co-creates value for individuals, communities, and people’s lifestyles. The Board’s mission is to embody the statement and to develop human resources that will carry on this mission into the future.

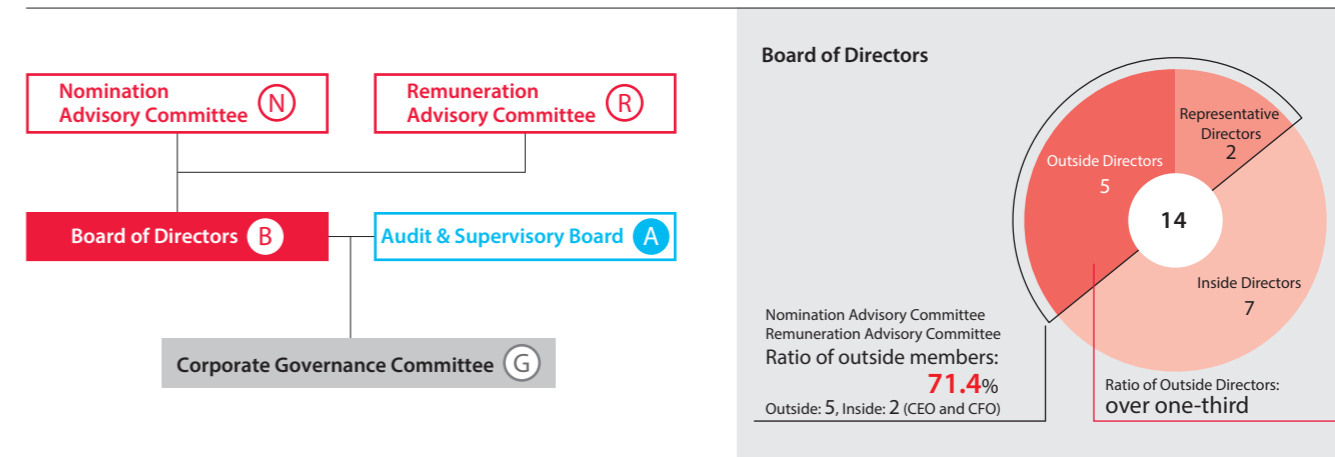
To realize the management vision, executive management must always explore the needs of society based on the attitude of a bottom-up approach while the Board of Directors deliberates and decides how to embody such needs as a business, and quickly grasps reported risks regarding business execution to control and oversee

these risks.

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

In FY2020, in addition to matters for resolution and reporting, we have set new matters for deliberation, revising rules to allow free discussions on issues over the medium and long term. We have developed network and paperless environments to allow the Board of Directors to continue meeting despite COVID-19. Advance briefings are provided to outside officers, and steps are taken to allow the meetings to be held wherever the officers are.

Structure of Committee for strengthening monitoring function of Board of Directors



Corporate Auditors	Outside Auditors							
 Tomoyuki Nakazato (A) (G)	 Tadatoshi Maeda (A) (G)	 Shonosuke Oda (A) (G)	 Akihisa Watanabe (A) (G)	 Tatsuji Kishimoto (A) (G)				
Outside Directors								
 Kazuyoshi Kimura (B) (N) (R) (G)	 Yutaka Shigemori (B) (N) (R) (G)	 Yukiko Yabu (B) (N) (R) (G)	 Yukinori Kuwano (B) (N) (R) (G)	 Miwa Seki (B) (N) (R) (G)				
Representative Directors		Executive Directors						
 Keiichi Yoshii (62) President, CEO (B) (N) (R) (G)	 Takeshi Kosokabe (63) Executive Vice President, CFO Head of Management Administration (B) (N) (R) (G)	 Yoshiyuki Murata (66) Vice President Head of Technology Headquarters (B)	 Hirotosugu Otomo (61) Managing Executive Officer Head of Housing (B)	 Kazuhiro Dekura (59) Managing Executive Officer Head of Rental Apartment Building (B)	 Keisuke Shimonishi (62) Managing Executive Officer Head of Commercial Construction (B)	 Tatsuya Urakawa (60) Managing Executive Officer Head of General Construction (B)	 Nobuya Ichiki (64) Managing Executive Officer Head of Overseas Business (B)	 Yoshinori Ariyoshi (62) Managing Executive Officer Head of Compliance / Quality Assurance (B)

Note: Figures in parentheses are the ages as of April 2021

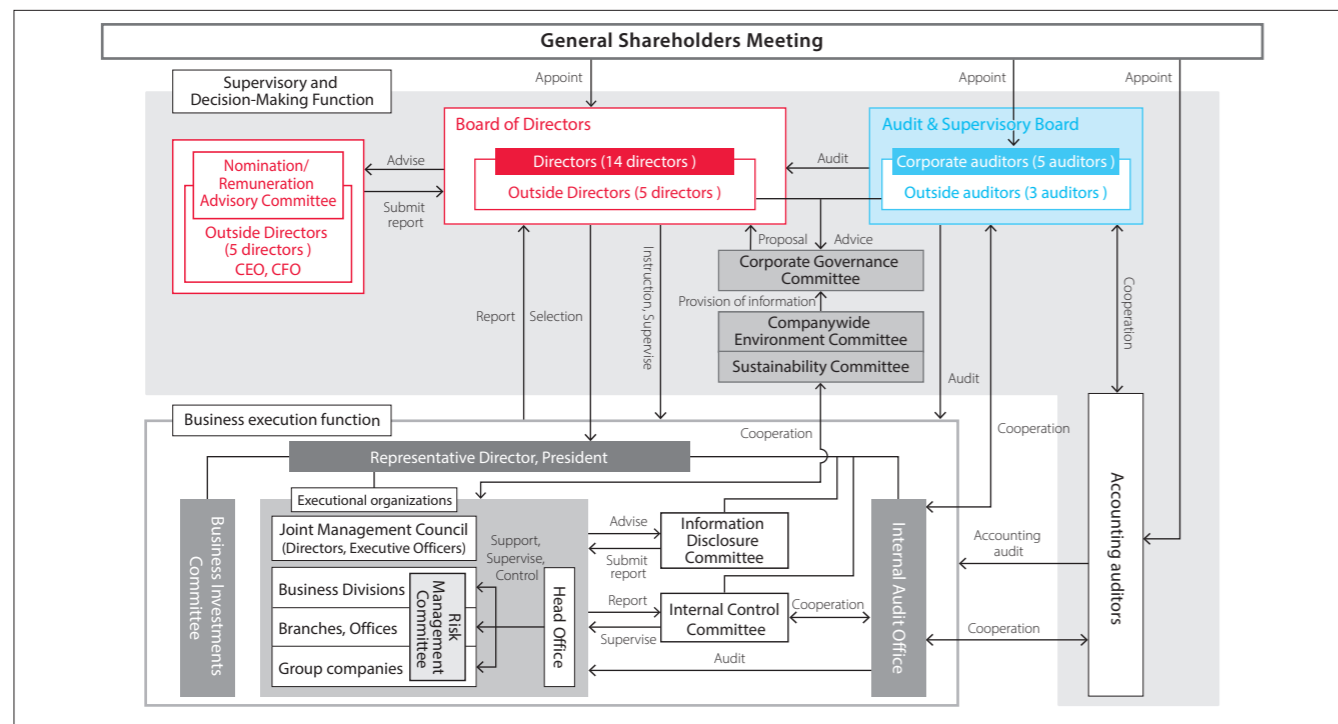
Expertise, experience of Directors (Skill Matrix)

Name	Position	Corporate Management	Finance/Accounting	Legal/ Risk Management	Technology/ R&D	Overseas Business	ESG
Keiichi Yoshii	Representative Director and President, CEO	●		●		●	●
Takeshi Kosokabe	Representative Director and Executive Vice President, CFO	●	●	●			●
Yoshiyuki Murata	Director and Executive Vice President	●		●	●		●
Hirotosugu Otomo	Director and Managing Executive Officer	●		●			
Tatsuya Urakawa	Director and Managing Executive Officer	●		●			
Kazuhiro Dekura	Director and Managing Executive Officer	●		●			
Yoshinori Ariyoshi	Director and Managing Executive Officer			●	●		
Keisuke Shimonishi	Director and Managing Executive Officer	●		●			
Nobuya Ichiki	Director and Managing Executive Officer	●		●		●	
Kazuyoshi Kimura	Outside Director	●	●				●
Yutaka Shigemori	Outside Director	●					●
Yukiko Yabu	Outside Director				●		●
Yukinori Kuwano	Outside Director	●			●		●
Miwa Seki	Outside Director	●	●			●	●

Note: The above displays those elements of knowledge held by directors for which we hold particular expectations. For the Legal/Risk Management item, with the full-scale operation of the business division-based system, we have particularly high expectations that risk management of business will be appropriately implemented by all inside directors, including business division heads, beyond just sales and marketing areas.

Message from the CEO
 the Story of the Group's Value Creation
 Message from the CFO
 Message from the heads of business divisions
 Developing our Businesses
 Strengthening our Bases
 Financial Results, Corporate Information

Corporate Governance System



Advisory Committees of Board of Directors (Board Committees)

Nomination Advisory Committee

Receives information from directors or executive officers in charge of human resources on individual director assessments and on proposals at the General Meeting of Shareholders relating to the appointment of directors, discusses the appropriateness of these, and presents an opinion, in order to ensure objectivity in the nomination of directors. (Chair: an independent outside director; Meeting frequency: once a year in principle) / (Major past agenda) Draft of candidates for directors to be proposed at the General Meeting of Shareholders, etc.

Remuneration Advisory Committee

Receives advice on policy for decisions concerning director remuneration and details of individual remuneration, etc., and presents an opinion to ensure objectivity in the function concerning director remuneration. In addition, deliberates appropriateness of the decision-making process of remuneration by actively using external investigation data, etc. (Chair: an independent outside director; Meeting frequency: once a year in principle) / (Major past agenda) Officers' remuneration system, etc.

Corporate Governance Committee

Meets for the primary goal of contributing to the medium- and long-term growth in corporate value. Exchanges views on vision, strategies, and other items pertaining to corporate governance and overall management, considering diverse viewpoints and taking a long-term perspective. Aims to make the company better by fully incorporating into management the knowledge and expertise possessed by Outside Directors and Outside Auditors. (Chair: an independent outside director; Meeting frequency: twice a year in principle)

In addition, the Committee exchanges views on the initiatives for SDGs and ESG upon having informed of important matters by the Companywide Environment Committee and Sustainability Committee. (Major past agenda) Measures to enhance governance of the Daiwa House Group, etc.

Committees concerning operational execution (Management Committees)

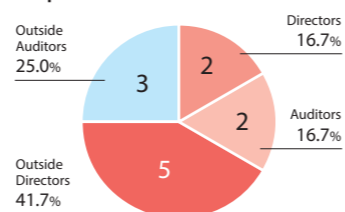
Joint Management Council

The Joint Management Council is established for appropriately executing the decisions made by the Board of Directors through having the Board of Directors and executive officers fulfill their respective duties and communicate each other. Deliberates and reports on important matters relating to business execution and evaluates internal control and risk management systems. (Chair: President; Meeting frequency: four times a year in principle) / (Major past agenda) Report on progress of each business, report on progress in product development and research divisions, etc.

Information Disclosure Committee

To build long-term relations built on trust with all shareholders, investors, and other stakeholders, we establish the committee tasked with announcing information pursuant to the basic policy for information disclosure (disclosure policy). (Chair: Head of Management Administration Headquarters)

Members of Corporate Governance Committee



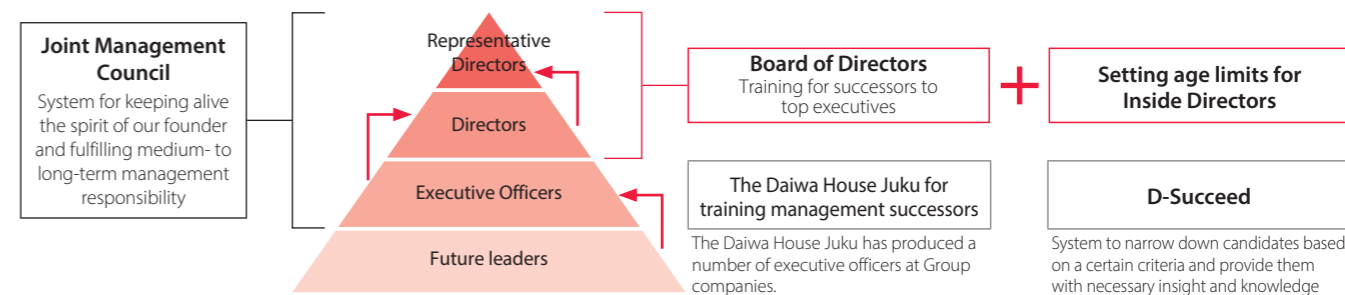
Putting in place a program to nurture the next generation

To ensure further business growth under a rapidly changing operating environment, the Company has set age limits for Inside Directors (Representative Directors: sixty-nine; Directors: sixty-seven), thereby promoting smooth transition from one generation of top management to the next.

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

our founder and recognize roles to fulfill management responsibility.

Last year we have organized our selection method for future leaders (primarily branch office managers) and instituted a program (D-Succeed) to narrow down candidates based on a certain criteria and provide them with necessary insight and knowledge, thereby providing stable development of human resources. We have also developed a system to support human resources development in overseas businesses by launching a global management human resources program.



Procedures for director selections and proposed dismissal

The procedures for director selections and proposed dismissal are determined on the basis of Principle 3.1 of the Corporate Governance Code.

When a director selections is made, the matter is discussed by a Nomination Advisory Committee made up of five outside directors and two inside directors to ensure independence and objectivity, and the decision is made by the Board of Directors with reference to the outcomes of this discussion.

When the dismissal of a director is proposed, the matter is decided by the Board of Directors.

[Procedure for CEO dismissal]

The procedures for CEO dismissal are determined on the basis of Supplementary Principle 4.3.3 of the Corporate Governance Code. The Nomination Advisory Committee meets and deliberates, considering quantitative assessments of financial performance targets and other circumstances, and debates whether a proposal to dismiss should be put before the Board of Directors. When the proposal is subsequently put before the Board of Directors, the CEO shall be dismissed if a majority vote to do so. The CEO shall not take part in any of these deliberations or decisions.

- Selection criteria for candidate directors**
1. They should have excel in management sense, and possess expertise in various management issues.
 2. They should excel in the ability to analyze and judge objectively from the perspective of the whole company.
 3. They should excel in foresight and insight.
 4. They should be capable of accurately grasping the trends of the time, business conditions, and changes in the market.
 5. They should be highly motivated to improve their own abilities.
 6. They should be capable of actively stating the opinion from the perspective of the whole company.
 7. They should have personality and insight appropriate for a director.
 8. They should not fall under the grounds for disqualification of directors stipulated in Article 331, paragraph 1 of the Companies Act.

- Criteria for director dismissal**
1. In case the director has committed an act that violates public order and morality.
 2. In case the director is unable to continue the execution of duties in the cause of health problems.
 3. In case the director has caused tremendous corporate value damage by its laziness.
 4. In case the director has fallen under the grounds for disqualification of Directors stipulated in Article 331, paragraph 1 of the Companies Act.
 5. In case the director is considered to be lack of motivations and abilities stipulated in Selection criteria.



Sale of cross-shareholdings

The Company owns cross-shareholdings to strengthen its relationships and collaboration with partner companies. The Board of Directors conducts an annual comprehensive review of each cross-shareholding in terms of the risks and benefits of maintaining it, based on conditions of trade, financial statements, external ratings and the required profit figure for cross-shareholding calculated from the WACC (weighted average cost of capital). As a result, the number of cross-shareholdings has fallen from 98 at the end of fiscal 2014 to 64 at the end of fiscal 2020.

[Criteria for sale of cross-shareholdings]
The purposes for which the shares are held are categorized into "increasing sales", "relationship building (with suppliers, etc.)", "business collaborations", and "other reasons", and the reasons for continuing to hold cross-shareholdings are reviewed once a year with reference to current dealings with the company concerned. Shareholdings are sold if there are no longer good reasons for holding them.

Actual sales of cross-shareholdings over past three financial years

FY	Number of shareholdings sold
2018	6 companies (sale of entire holding), 1 company (partial sale of holding)
2019	4 companies (sale of entire holding), 4 companies (partial sale of holding), 1 newly listed company
2020	2 companies (sale of entire holding), 4 companies (partial sale of holding)

Message from the CEO
The Story of the Group's Value Creation
Message from the CEO
Message from the CEO
Message from the CEO
Developing our Businesses
Strengthening our Bases
Financial Results Corporate Information

Policy on Remuneration and Evaluation on Effectiveness of Board of Directors

Remuneration policies

Our basic policy regarding remuneration for directors is to build a remuneration system that maintains a good balance against the responsibilities that directors fulfill for the sustainable growth of the Company. It consists of monetary remuneration (fixed remuneration and annual incentive bonus), and performance-based stock remuneration (a stock issuance trust and transfer-restricted stock remuneration).

Details

The remuneration shall be as follows.

(i) Fixed remuneration

Fixed remuneration shall be paid in cash as compensation for fulfilling job responsibilities, to all Directors and Audit & Supervisory Board Members. By resolution of the General Meeting of Shareholders, the limit on remuneration for Directors is 70 million yen per month, and for Audit & Supervisory Board Members 18 million yen per month.

(ii) Annual incentive bonus

Directors (excluding Outside Directors) will be paid in cash as performance-based remuneration within 0.5% of consolidated ordinary income for "generating profits and fostering the Company's growth and development." (KPI: consolidated ordinary income)

(iii) Stock compensation

Directors (excluding Outside Directors) will be paid two types of stock compensation as follows as performance-based remuneration in shares. The aim of this is to increase still further the connection to shareholders' profits, and to heighten incentives to raise corporate value over the medium to long term.

(1) Performance-based remuneration of transfer-restricted stocks (hereinafter "Transfer-restricted stock remuneration")

This is paid to encourage commitment to achieving medium-term performance targets and raising shareholder value. This is a system to grant company shares with restrictions on transfer up to retirement from the said position, at the start of the Medium-Term Management Plan, and according to attainment of consolidated operating income each fiscal year in the Medium-Term Management Plan. (KPI: consolidated operating income in the Medium-term Management Plan period)

(2) Stock issuance trust

This is paid as compensation for long-term shareholder value creation.

This system puts cash in trust and acquires company shares to the limit decided at the General Meeting of Shareholders, to grant shares to Directors, according to attainment of ROE (return on equity). (KPI: ROE for each fiscal year)

Regarding the amount to be paid, in principle efforts will be made to secure approximately 10% as stock remuneration to act as an incentive to raise corporate value in the medium and long term.

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 outside director and has outside directors making up more than half of its members.

And also to ensure that the annual incentive bonus amount provided to Directors in relation to operating performance in the subject fiscal year is in accordance with the will of the shareholders, this amount is tabled as a proposal at the annual General Meeting of Shareholders.

Initiatives to further share value with our shareholders

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

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

<Shareholding Guidelines>

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

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

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

* Only for Directors of 100% subsidiaries.

Directors' remuneration structure

Period	Type of remuneration	KPI
Short-term (monetary)	Fixed remuneration	Not more than 70 million yen per month
	Annual incentive bonus	Consolidated ordinary income (paid within 0.5%)
Medium- and long-term (share)	Transfer-restricted stock remuneration	Performance targets of the Medium-Term Management Plan Operating income for the three-year period under the Sixth Medium-Term Management Plan (FY2019: 378.0 billion yen FY2020: 390.0 billion yen FY2021: 405.0 billion yen)
	Stock issuance trust	The number of shares issued changes according to actual ROE figures ROE: 13% or higher = 1, 8% or higher but less than 13% = 0.5 Less than 8% = 0

Remuneration structure (excluding outside directors)

Fixed remuneration		Performance-based remuneration	
Basic remuneration Approx. 45% (not more than 70 million yen per month)	Annual incentive bonus Approx. 43%	Stock compensation Approx. 12%	
		Transfer-restricted stock remuneration	Stock issuance trust
	(KPI: Consolidated ordinary income)	(KPI: Consolidated operating income)	(KPI: ROE)

Note 1. The percentage indicates the ratio of each type of remuneration to the whole remuneration for directors. (This is subject to change as it is calculated based on past performance.)
2. Stock remuneration is conditional on meeting all the performance-based indicators relating to the said remuneration.

Remuneration paid (excluding outside directors)

Director remuneration	FY2018	FY2019	FY2020
Directors' fixed remuneration	742 (16 directors)	710 (13 directors)	500 (14 directors)
Directors' annual incentive bonus	836 (16 directors)	798 (13 directors)	415 (14 directors)
Stock compensation	145 (16 directors)	175 (13 directors)	67 (14 directors)

Note: Consolidated operating income in FY2020 fell under the targets of the Sixth Medium-Term Management Plan, hence no transfer-restricted stock remuneration is to be provided.
As a result, the amount of stock remuneration for the current fiscal year is solely expenses incurred for the stock issuance trust.

Overview of evaluation on effectiveness of Board of Directors

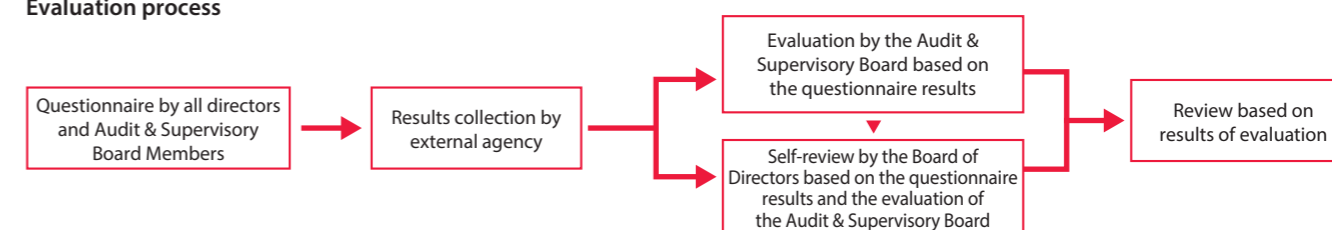
Based on the Corporate Governance Guidelines, the Company has, since 2015, conducted evaluations of the effectiveness of the Board of Directors with the aims of improving the functions and effectiveness of the Board of Directors.

Questionnaire-based surveys of directors and Audit & Supervisory Board members are conducted, and the effectiveness evaluations are

made on the basis of the results of these together with the evaluation of the Board of Directors made by the Audit & Supervisory Board.

While question selection and results collation were undertaken by the Company in 2015 and 2016, an external agency has been engaged to conduct the survey since 2017, with responses being provided directly to the external agency to ensure anonymity.

Evaluation process



Evaluation items

The survey was made up of 38 multiple-choice questions and 11 questions requiring written answers about items on the right.

The multiple-choice questions asked for rankings on a one-to-five scale (where 5 = highest ranking, 1 = lowest ranking).

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

Evaluation items	Average score
Composition of Board of Directors	4.4
Operation of Board of Directors	4.3
Monitoring function of Board of Directors	4.4
Performance of inside directors	4.3
Performance of outside directors	4.6
Support structures for directors and Audit & Supervisory Board members	4.3
Training	4.1
Dialogue with shareholders	4.3
Attitude of directors and Audit & Supervisory Board members to their duties	4.3
Evaluation of the Board of Directors as a whole	4.5

Summary of evaluation results for 2020

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

At the same time, we shared issues such as strengthening group governance inclusive of subsidiaries. We also acknowledged the need for broad discussions on management issues for the medium to long term.

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

Introduction of a Business Division-based System

To enhance our agile business execution and risk response structure for further growth, we shifted to a full-scale business division-based system from April 2021.

This change to our organizational structure shifts responsibilities and authority that had been concentrated in top management to the business divisions, while placing group companies highly related to each business under the business divisions. The business division heads are comprehensively responsible for the performance and risk management of their businesses, including the group companies, both to promote growth by pursuing synergy and to deal with business-specific risks. This allows the business divisions to take rapid management decisions with finesse, and at the same time enables top management to concentrate on monitoring overall strategy and execution. The Compliance Promotion Department was established in 2019 to support compliance activities in the business divisions, and promotes precautionary measures groupwide regarding compliance issues.

Under the business division-based system, there are block managers, branch managers and branch office managers that take charge of designated areas to maintain our strengths while promoting collaboration between businesses such as interorganizational multi-purpose developments.

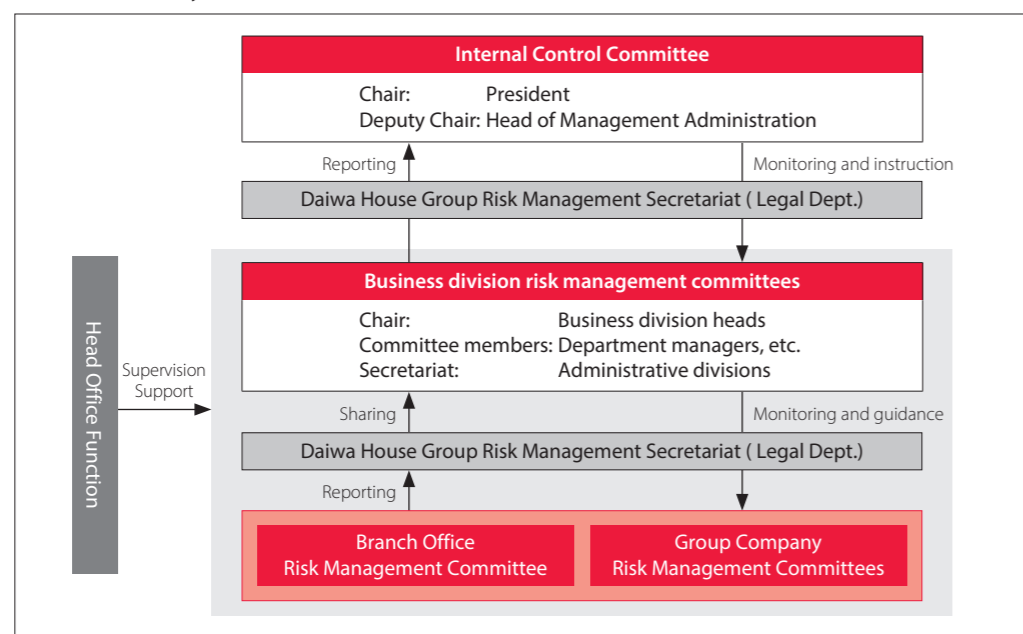
Structuring and Operating the Internal Control System

To ensure that all officers and employees conduct efficient work performance in compliance with laws and regulations and that the Daiwa House Group can achieve sustainable growth, the Company has created the system as described below, under the authority of the Internal Control Committee.

Operating the Internal Control Committee

We have established the Internal Control Committee as an organ that aims and functions to receive reports on the status of internal controls of the entire Daiwa House Group, and to assess and promote correction of flaws or deficiencies thereof. This Committee meets once a quarter.

Internal control system



Compliance and risk management structure system

1. Collecting and utilizing risk information

We have made it mandatory to report any risk information identified by the Head Office, worksites, or Group companies (including those outside Japan) immediately to Risk Management Officer (the Head of Management Administration) and the members of the business division risk management committees. Reported risk information is forwarded to the business division risk management committees for discussion and instructions on measures to deal with the risks

and prevent them occurring again. Particularly important risk information is forwarded to the Internal Control Committee and the Board of Directors.

Risk management committees also meet once a month in the worksites and group companies to discuss and give instructions relating to measures to deal with and prevent the recurrence of the risks revealed based on deliberations by the business division risk management committees.

2. Whistleblower system

For the purpose of early detection and correction of events that may inhibit sustainable growth of the Group, we have established and operated various whistleblower systems both inside and outside the Company, which receive reporting not only from domestic sites but also from overseas offices in the languages of each region.

Not to discourage whistleblowers from reporting in fear of retaliation and detrimental treatment, we formulated rules to keep names of whistleblowers and the content of their reports strictly confidential, and to prohibit discriminatory treatment of them. Also, we make it mandatory to appoint a person who has no interests with the reported cases as an investigator to ensure that the reported events are properly processed.

3. Response in cases where a material risk is manifested

In cases where a material risk is manifested, emergency headquarters are established as a structure to minimize the adverse effect to our business operations. The Detailed Rules for Establishing and Operating Emergency Headquarters specify standards for establishing emergency headquarters, their members, operating procedures and tasks, as well as response and recurrence prevention measures for the material risks deliberated and implemented in an appropriate manner after the swift launch of the emergency headquarters.

4. Compliance training

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

5. Internal audits

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

Group management system

Since the institution of the Group Management Rules in 2007, we have adopted a rule under which the Group companies are requested to ask for the Company's approval of important matters and to report them to the Company while maintaining the basic policy calling for Group companies to achieve business development with a spirit of independence and autonomy.

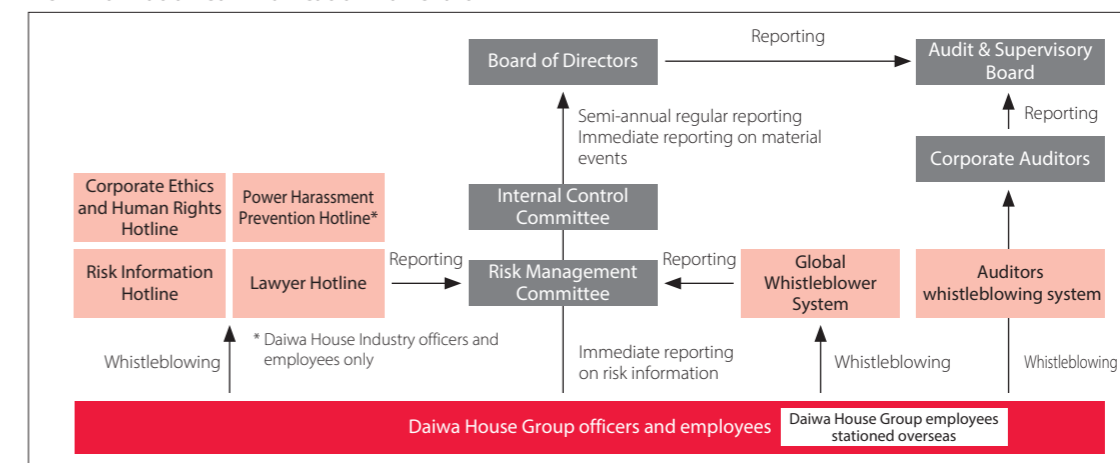
Following the full-scale shift to the business division-based system, the management of group companies is centralized vertically under the leadership of the business divisions. Based on the Group Management Rules, the departments of the Daiwa House Industry Head Office fulfill horizontal management functions within the purview of their respective operations.

For our overseas businesses, the Overseas Business Division has a regional control structure centered on corporate functions connecting head office departments and overseas offices in units of individual regions.

Audit system by Audit & Supervisory Board Members

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

Risk information communication flowchart



Message from the CEO
The Story of the Group's Value Creation
Message from the CFO
Message from the heads of business divisions
Developing our Businesses
Strengthening our Bases
Financial Results Corporate Information

Status of Recurrence Prevention Initiatives in Fiscal 2020

This section describes the status of initiatives in fiscal 2020 for preventing the recurrence of misconducts.

Case 1: Accounting irregularities in a Daiwa House affiliate in the People's Republic of China

As a measure to prevent recurrence, we are committed to enhancing our Group governance. In fiscal 2020, we established an Overseas Business Division and implemented the transition to a region management system overseas, in accordance with the policies formulated in fiscal 2019. For the building of management systems for respective regions (regional corporate functions), the Americas areas will be the first to begin operation in October 2021.

Amid the significant impact of the COVID-19 pandemic, in fiscal 2020 we developed remote environments and built a system to efficiently monitor from Japan, including internal audits remotely conducted by the Audit Department.

Case 2: Off-specification components in single-family houses and rental housing properties

1. We rebuilt the legal compliance system and strengthened functions for communication of risk information and internal auditing functions.

Led by the Legal Compliance and Quality Assurance Division established in August 2019, we are progressively strengthening functions for communication of risk information and auditing functions for design and construction work.

In February 2021, we established risk management regulations, which specify the location of responsibility relating to violations of technology-related laws, the establishment and operation of a liaison committee for technology-related legal risks, and the establishment of a hotline to accept information relating to legal or quality risks (started operation in October 2019). Through these, we seek to prevent, discover, and respond to legal risks and risks of defective products and services. In fiscal 2020, the Conformance in Specifications Department under the Legal Compliance and Quality Assurance Division conducted audits for 588 buildings to confirm design documents conformed to types and relevant laws. It also checked for all buildings on the operational status of the checklists used to ensure compliance with the type certification at the time of design.

2. We started operation of an internal qualification system to optimally assign personnel in charge of design.

Since August 2019, we have been conducting internal qualification tests related to the system of type-certified specifications and have appropriately assigned personnel in charge of design based on the results of the tests. The internal qualification tests are held annually in January. At the end of the test in January 2021, 1,066 personnel in charge of design had acquired qualifications to engage in design work using all the type-certified specifications.

3. We engaged in strengthening the sharing of information between the head office and business offices, and reiteration of training.

We review the legal compliance trainings on a company-wide basis, and offer the opportunity to exchange opinions, whereby enhancing the communication between the head office and business offices. In addition to type specification training for 140 employees in their second or third year in the Company (fiscal 2020 results), we also incorporated details on type specifications in new recruit training and legal compliance training.

4. We are progressively strengthening internal check functions with BIM.

We have constructed and operated a system allowing legal conformity checks online. In addition, we are developing a design system featuring functions that support legal conformity checks, aiming at starting trial operation in fiscal 2021 and expanding its functions.

Case 3: Inadequate work experience criteria for qualifications tests

1. We established and began operating a systematic qualifications acquisition model plan.

We will utilize training sessions to show new employees for fiscal 2021 (Technology Division: 235 employees) a career enhancement model through acquiring the Qualifications they need to obtain in work linked with their academic background. With this, we will aim to encourage employees to acquire the appropriate qualifications on a planned basis.

2. We constructed and started operating a system allowing confirmation of work experience.

In July 2020, we established a department that manages the work experience criteria within the Technology Department, set a new rule that requires the head office to check the application for the tests, and started its operation. We constructed a work experience management system for engineers allowing both candidates for the tests and the department managing the requirements to confirm at a glance a candidate's academic background and work experience, and put it into operation in November 2020. Based on information in this system, we started confirming the work experience requirements for the candidates for fiscal 2021 (applications for first-class building operation and electrical work operation management engineers began to be accepted from January 29, 2021).

Financial Results, Corporate Information

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

[MD&A summary]

- I. The financial health for sustaining growth remained at the target level. <Financial position> P.80
- II. The ability to generate cash steadily improved as free cash flows turned positive despite strong investment opportunities. <Cash flows> P.81
- III. Ensuring the effective utilization of capital led to improvement of the turnover rate and profit margin, and the ROE was at a high level. <Profits and losses> P.82
- IV. From the perspective of growth potential and profitability, we are building an optimal portfolio. <Business results by segment> P.83
- V. We are actively engaged in investment to expand our revenue opportunities and to strengthen the business foundation. <Investments> P.84

Note: This section analyzes the financial position and results of operations during the ten fiscal years from fiscal 2011 to fiscal 2020. For the list of financial data, see "Financial Highlights" on pages 85 and 86.

I. Financial position

Financial condition Figure 1

Total assets as of the end of fiscal 2020 increased by ¥425.6 billion from the end of the previous fiscal year to ¥5,053 billion. This was mainly due to the increase in property, plant and equipment resulting from the acquisition of investment properties, and the increase in inventories following the purchase of real estate for sale.

Total liabilities increased by ¥305.5 billion from the end of the previous fiscal year to ¥3,159.5 billion. This was mainly due to fund raising through borrowing and bond issuance for the purpose of acquiring inventories and investment properties, despite reduction of trade payables.

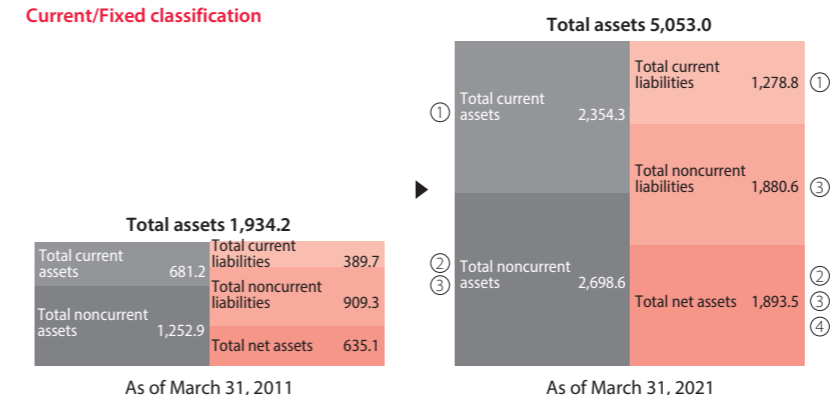
Total net assets increased by ¥120.1 billion from the end of the previous fiscal year to ¥1,893.5 billion. This was mainly because a net income attributable to owners of the parent of ¥195.0 billion

was recorded, which offset the dividends paid to shareholders and the acquisition of treasury stock.

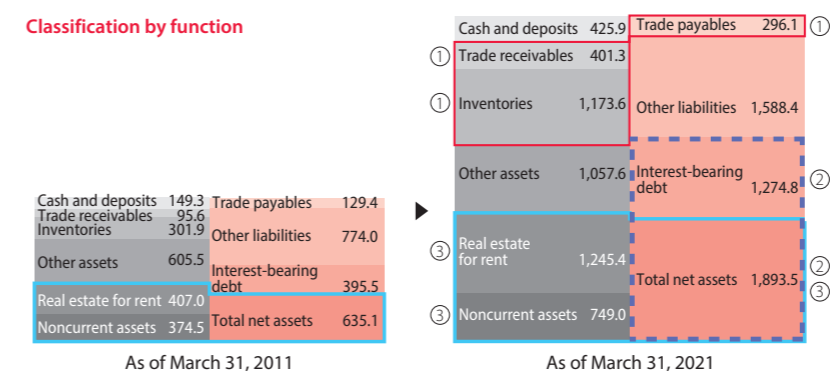
The balance of interest-bearing debt (excluding lease obligations) increased by ¥231.4 billion from the end of the previous fiscal year to ¥1,274.8 billion. Thanks to internal reserves and the fiscal 2013 capital increases, the debt-equity ratio improved for a time from 0.62 at the start of fiscal 2011, but at the end of fiscal 2020 had risen to 0.69. This was mainly due to the balance of real estate for rent being ¥1,245.4 billion, accounting for a large share in recent years. As assets are expected to grow in the future due to the acquisition of real estate for development and other factors, we will seek to maintain financial health by verifying the optimal capital structure.

Figure 1 Comparison of balance sheets (¥ billion)

Current/Fixed classification



Classification by function



- ① The current ratio increased from 174% to 184%.
- ② The fixed ratio dropped from 197% to 147%.
- ③ The ratio of fixed assets to long-term capital dropped from 81% to 72%.
- ④ Net assets excluding non-controlling interests grew from ¥634.1 billion to ¥1,835.1 billion.

- ① Working capital (Trade receivables + Inventories - Trade payables) increased from ¥268.2 billion to ¥1,278.7 billion.
- ② Interest-bearing debt (excluding lease obligations) increased from ¥395.5 billion to ¥1,274.8 billion. As a result, the debt-equity ratio increased from 0.62 to 0.69.
- ③ The ratio of real estate for rent and noncurrent assets to net assets excluding non-controlling interests fell from 1.23 to 1.08 while real estate for rent increased.