

# **Corporate Governance Guidelines**

Formulated May 27, 2015

Daiwa House Industry Co., Ltd.

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## <Attachment>

Corporate Governance System

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## Notes:

- 1) The numbers attached to the provisions in these guidelines display corresponding relationship with those in the individual provisions of Japan's Corporate Governance Code in the Tokyo Stock Exchange Listing Regulations.
- 2) Items in this Guidelines that are outlined with a dotted-line box are to be automatically updated subject to revisions and changes to the various principles and standards.

## Chapter I      General Provisions

### **(Purpose)**

Article 1 The purpose of these guidelines is to enhance the enterprise value of Daiwa House Industry Co., Ltd. (hereinafter, “Daiwa House” or the “Company”) based on its founding spirit by realizing the “Corporate Philosophy (Our Business Creed)” and “Management Vision (Connecting Hearts)” defined below, establishing Daiwa House as a corporate group that is necessary to society, in the aim of realizing corporate governance that is optimal for society and the global management environment. {2.1}

2. The Company has formulated its “Principles of Corporate Ethics” based on a philosophical construct comprise its Corporate Philosophy, Management Vision and Employees’ Charter. Executives and employees pursue these principles as the core action principles. {2.2}

#### <<Corporate Philosophy (Our Business Creed) >>

- Develop people through business.
- A company’s progress depends directly on ensuring a good living environment for its employees.
- Products created in good faith by honest labor through modern facilities will contribute to the public at large.
- Our Company will develop solely thanks to the complete solidarity and tireless efforts of all executives and employees.
- Through mutual trust and cooperation, by always reflecting deeply on past mistakes, valuing responsibility, and actively engaging in mutual criticism, we will advance along the road to growth and success.

#### <<Management Vision>>

##### **Connecting Hearts**

The Daiwa House aims to create, use and enhance new values together with its customers as “a group that co-creates value for individuals, communities and people’s lifestyles.” In doing so, we hope to realize a society in which people can live fulfilled lives. In addition, we cherish our ties with each and every customer, and continue to strive to build life-long trust as a partner in experiencing the joys of a lifetime.

#### <<Employees’ Charter>>

As employees of “a group that co-creates value for individuals, communities, and people’s lifestyles,” we pledge the following:

- Strive to improve quality, skill and communications to provide safe, reliable products that are in harmony with the environment, and to help create comfortable, relaxing living spaces

for our customers.

- Serve our customers in good faith, and share their excitement and joy.
- Work to improve society's evaluation of our company and increase its corporate value by conducting ourselves fairly according to society's expectations and rules.
- Aim to grow and develop with our business partners by never forgetting our gratitude to them and dealing with them fairly.
- Pursue our own growth and happiness through our work.
- Help people gain fulfillment in their lives and build a better society, with co-creation of a brighter future as our basic aim.

### **(Basic Views on Corporate Governance)**

Article 2 To remain a company that is trusted by society, based on the principles of respecting the rights of shareholders, ensuring management fairness and transparency, and maintaining self-discipline centered on the Board of Directors, the Company sufficiently fulfills its duties of fiduciary responsibility and accountability to shareholders. At the same time, the Company positions corporate governance as a high-priority management issue for realizing its management vision and has as its basic policy firmly establishing a corporate governance system based on diverse perspectives and long-term objectives, constructing and maintaining a system of speedy and accurate decision-making and execution of operations, as well as an appropriate system of supervision and monitoring. {3.1 ii}

2. By providing products and services that are essential to society, the Company strives to enhance enterprise value through value creation for shareholders, customers, employees, business partners and society. To achieve this objective, the Company strives to meet society's needs as "a group that co-creates value for individuals, communities, and people's lifestyles" through business developments in a wide range of fields, proactive innovation and the cultivation of new fields <<Social Responsibility>>; as a publicly listed company, to generate economic value that stably exceeds the medium- to long-term cost of capital <<Shareholder Value Creation>>; to pursue excellent corporate governance that maintains or enhances the high level of the both aspects; and contributes to their ongoing fulfillment.

### **(The Role of These Guidelines)**

Article 3 Of these guidelines, this chapter (Chapter I) sets forth fundamental items that remain constant for the Company. Following chapters (Chapter II through Chapter V) describe areas from a corporate governance perspective on which the Company's response evolves to constantly engage with society in line with changes in the management environment.

<<Corporate governance perspective>>

Chapter II Shareholder Relations

Chapter III Corporate Governance System

Chapter IV Creating Sustainable Corporate Value

Chapter V Disclosure and Communication

2. Through practicing the provisions established in these guidelines, Daiwa House aims to cultivate the trust of shareholders and other stakeholders and progress as a sound and sustainable company that is necessary to society.
3. These guidelines, presupposing the laws and the articles of incorporation, are principles to implement a governance organization with higher effectiveness.

## Chapter II Shareholder Relations

### (Fiduciary Responsibility)

Article 4 Directors and audit & supervisory members recognize their fiduciary responsibility to shareholders, ensure appropriate cooperation with stakeholders, and act in the interests of the Company and the common interests of its shareholders. {4.5}

2. The Board of Directors, which has a management mandate from shareholders, works to ensure the Company's sustained growth and augment medium- and long-term shareholder value. When establishing business strategy and business plans, the Board of Directors, with an accurate understanding of the Company's cost of capital, sets and declares targets for profitability and capital productivity, and dedicates itself to their achievement. {5.2}

### (Capital Policy)

Article 5 Because capital policy may have a significant effect on shareholder returns, the Company has formulated the basic strategy for capital policy outlined below. {1.3}

#### <<Basic Strategy for Capital Policy>>

Considering sustained growth necessary to achieving increases in shareholder value over the medium to long term, the Company recognizes the need to maintain a level of shareholders' equity that allows for investment in growth and a tolerance for risk. Considering return on equity (ROE) to be one of its topmost management priorities, the Company discloses its targets. To effectively deploy shareholders' equity and ensure a robust financial base that allows for the raising of funds for investment in stable growth, the Company discloses its target D/E ratio and other measures for financial soundness and works to create the optimal capital structure for reaching these targets.

2. The Company maintains cross-shareholdings with the aim of fostering relations and strengthening ties with other companies. Each year, the Board of Directors examines the medium- to long-term economic rationale of each of its cross-shareholdings, and discloses the result of this examination. Furthermore, the Board of Directors strives to reduce cross-shareholdings by, among other efforts, selling shares deemed to no longer be necessary to hold. If an owner of the Company's shares in a cross-shareholding expresses its intention to sell the said shares, the Company will take no action seeking to interfere with the intended sale of the shares, by means such as indicating the possibility of reducing transactions with the shareholder. {1.4}
3. When exercising voting rights on its cross-shareholdings, the Company decides whether to back or oppose proposals after studying them individually based on standards for exercising voting rights that include whether they contribute to the increased value of that company and whether such proposals would be detrimental to the Company's enterprise value. {1.4}

### **(Shareholder Returns)**

Article 6 The Company has established the following Basic Policy on Shareholder Returns, including the dividend of surplus. {1.3}

#### <<Basic Policy on Shareholder Returns>>

To return to shareholders the value it has created through its business activities, the Company's basic policy on shareholder returns is to enhance shareholder value by maximizing corporate value over the medium to long term. To achieve this, the Company invests in growth areas such as real estate development, the expansion of overseas business, M&A, research and development and production facilities in a bid to augment earnings per share (EPS).

The Company aims to maintain stable dividends and return profits to shareholders in line with business performance through a dividend payout ratio of 30% or more of net income attributable to owners of the parent.

The Company also purchases its own shares when the timing is appropriate, taking such factors as the market environment and capital efficiency into consideration.

### **(General Shareholders Meeting)**

Article 7 The General Shareholders Meeting is the topmost decision-making body, composed of shareholders with voting rights. The Board of Directors analyzes the acceptance or opposition of each proposal, giving adequate consideration to shareholders' intentions. {1.1.1}

2. To foster a relationship of trust with shareholders, directors provide adequate explanations at the General Shareholders Meeting and take part in a question-and-answer session.

### **(Respect for Voting Rights)**

Article 8 Shareholders have the right to exercise voting rights at the General Shareholders Meeting. The Company endeavors to provide information accurately to shareholders to facilitate appropriate decision-making with regard to shareholders' exercise of voting rights. {1.2.1}

2. To enable shareholders to exercise voting rights appropriately, the Company sends out convening notices for General Shareholders Meeting, reference documents, etc., approximately three weeks prior to the General Shareholders Meeting to give shareholders sufficient time to consider their proposals. Information contained in the convening notice is disclosed through electronic means during the period between Board of Directors approval of convening the General Shareholders Meeting and sending the convening notice. {1.2.2}
3. To ensure the appropriate exercise of voting rights by all shareholders, the Company provides an infrastructure for the exercise of voting rights, such as employing an electronic voting platform and providing English editions of the convening notice. {1.2.4}

### **(Protecting the Rights of Shareholders)**

Article 9 In the event of a capital increase and others that results in the change of control or in significant dilution, from the perspective of the fiduciary responsibility of directors and audit & supervisory board members to shareholders, the Company carefully examines the necessity and rationale, and ensures appropriate procedures and provides sufficient explanation. {1.6}

2. The Company has not introduced anti-takeover measures. In the event of the receipt of a tender offer for the Company's shares, the Board of Directors will sufficiently explain their perspective to shareholders and ensure appropriate procedures. {1.5}

### **(Securing the Equal Treatment of Shareholders)**

Article 10 The Company treats all shareholders equally in accordance with class and number of shares.

2. The Company does not provide special benefits to specific shareholders.

### **(Preventing Transactions That Harm Shareholders' Interests)**

Article 11 To protect the interests of shareholders, the Company has formulated standards and discloses the general outline of Voluntary Transaction Guidelines, etc. to prevent transactions that harm shareholder interests through the abuse of positions by directors, audit & supervisory board members and other related parties to the Company, as well as major shareholders. {1.7}

2. Directors and audit & supervisory board members do not participate in conflict-of-interest transactions or competing transactions that are not approved by the Board of Directors based on the Companies Act.
3. To prevent insider trading by the Company's related parties, the Company has formulated and strictly upholds Regulations on Insider Transactions with regard to the handling of undisclosed material facts.

### **(Respecting Shareholder Interests)**

Article 12 To promote an awareness of the common interests of shareholders and encourage behavior that respects shareholder interests, the Company encourages its executives and employees to own the Company's shares, such as through the shareholders association.



## Chapter III Corporate Governance System

### (Structure of the Board of Directors, Audit & Supervisory Board and Various Committees)

Article 13 The Company has selected the company with Audit & Supervisory Board as its form of organization, and audit & supervisory board members and Audit & Supervisory Board audit the execution of duties of directors and executive officers.

2. To clarify the management decision-making and monitoring functions and the execution function, the Company employs a system of executive officers. The Board of Directors and its constituent directors are in charge of decision-making and the monitoring functions, while the business execution function is handled by the executive officers.
3. The Company sets the retirement age for directors and audit & supervisory board members excluding outside executives in order to facilitate the generational changes of management human resources. When representative directors reach the age of 69 and when directors and audit & supervisory board members reach the age of 67, the Company shall consider as retirement age of said directors and audit & supervisory board members the expiration date of their terms of office.
4. The Board of Directors is composed of directors having specialist knowledge and experience from diverse backgrounds. To ensure the effective and efficient operations of Board of Directors functions, the board has fewer than 20 members. {4.11.1}
5. The Board of Directors appoints one-third or more outside directors who are independent and neutral on the board. {4.8}
6. To ensure its independence, outside audit & supervisory board members constitute the majority of members of the Audit & Supervisory Board, and at least one audit & supervisory board member is designated an independent auditor as prescribed by the stock exchange.
7. Outside audit & supervisory board members are appointed as specialists in such areas as finance and accounting, law and management. Full-time audit & supervisory board members are appointed from people with extensive experience at the Company, and one or more full-time audit & supervisory board members are who possess considerable expertise in finance and accounting. {4.11}
8. The Company has in place a Nomination Advisory Committee and Remuneration Advisory Committee that act as advisory bodies to the Board of Directors, enhancing independence and objectivity in nominating directors and functions related to remuneration. In addition, the Board of Directors establishes other internal committees (Board Committee), as necessary. {4.10.1}
9. Outside directors make up the majority of Nomination Advisory Committee and Remuneration Advisory Committee members, and these committees are chaired by outside directors.
10. In the aim of sustained growth and corporate value creation over the medium to long term, the Company has established a Corporate Governance Committee, which deliberates on topics such as the Company's vision pertaining to overall management, including corporate

governance, and the Company's strategies that include initiatives related to SDGs and ESG. This committee is chaired by outside directors. In order to deliberate from a more professional viewpoint, the Corporate Governance Committee will be provided with information from the Companywide Environment Committee and the Sustainability Committee as necessary.

11. The Board of Directors appoints a chief executive officer (CEO), who holds topmost authority with regard to decision-making functions and monitoring functions, from among the directors.
12. The Board of Directors appoints a chief operating officer (COO), who holds topmost authority for the business execution function, from among the directors.
13. The Board of Directors appoints a chief financial officer (CFO) from among the directors to supervise and instruct management from the corporate finance perspective.

#### **(Business Division-Based System Related to Execution of Operations)**

Article 14 In order to improve mobility in the execution of operations, the Company establishes business divisions for each major business management unit, including Group companies, and establishes a self-contained system to create value in a wide range of business fields in response to social needs, with each business division.

2. The Board of Directors appoints the head of each business division from among the directors or executive officers, who are in charge of the entire supply chain, including matters related to business performance, risk management and compliance in the business for which they are responsible.
3. The Company's head office functions provide active cooperation and support to each business division from the perspective of their respective field of responsibilities, as well as supervise and control them.

#### **(Committee Structure Related to Execution of Operations)**

Article 15 The Company establishes the following committees related to the execution of operations in order to contribute to the execution of operations by executive officers and to execute accurately and swiftly decisions determined by the Board of Directors.

2. To enable the Board of Directors and the executive officers to fulfill their responsibilities for the operations and encourage mutual communications, as well as to appropriately execute decisions determined by the Board of Directors, the Company establishes a joint panel of directors and executive officers (Joint Management Council). This council is chaired by the CEO.
3. The Board of Directors establishes an Internal Control Committee as an organization to enhance the functioning of internal controls. This committee is chaired by the CEO.
4. The Board of Directors establishes a Risk Management Committee as the organization to prevent risks from being actualized, discover risks and reduce the amount of damage as they become apparent.

5. To contribute to the rational and effective decisions on capital investments in real estate development business and other businesses, the Board of Directors establishes a Business Investments Committee to assess their feasibility and evaluate risks. The scope of delegation of this decision-making to directors is in line with Board of Directors Regulations. This committee is chaired by the CEO.
6. The Board of Directors establishes an Information Disclosure Committee as an organization to deliberate the necessity of disclosing information in a timely and appropriate manner. The committee is chaired by the head of Management Administration.

### **(Board of Directors Duties)**

Article 16 Through an optimal corporate governance system, the Board of Directors aims to realize the Company's Corporate Philosophy, carry out the monitoring functions and perform the best possible decision-making based on fair judgment.

2. The Board of Directors makes decisions on important items such as those prescribed by law, the articles of incorporation, Board of Directors Regulations, and supervises the execution of duties by directors. {4.1.1}
3. To augment maneuverability and flexibility in the execution of operations and maximize management dynamism, the Board of Directors appoints directors to handle decision-making on the execution of operations other than those defined by law, the articles of incorporation and the items described in the paragraph above. {4.1.1}
4. To realize the Corporate Philosophy and strive to enhance enterprise value and the common interests of the shareholders over the medium to long term, after multifaceted and sufficient consideration the Board of Directors is responsible for judging fairly and taking action with regard to acts that could impair these interests. {4}
5. Recognizing that medium-term management plans constitute a commitment to shareholders, the Board of Directors explains to shareholders the foundations for and backgrounds of such plans, the operating environment and other items, and does its best to achieve the objectives of these plans. In the event that performance targets are not reached, the Board of Directors adequately analyzes and explains the reasons for this situation and its own responses, and reflects the results of this analysis in future plan. {4.1.2}
6. To achieve performance targets, the Board of Directors confirms and investigates the state of progress, formulates countermeasures if necessary and conducts appropriate disclosure.
7. The Board of Directors evaluates the success of investment projects, such as investments in real estate development and M&A activities and verifies the appropriateness of investment selection standards regularly.
8. The Board of Directors formulates an internal control structure and cooperates with the Internal Control Committee to supervise its effective operation. {4.3.4}
9. Recognizing that financial auditors fill an important role for shareholders and stakeholders, the Board of Directors ensures appropriate time is available for conducting high-quality audits

and ensures a response structure. {3.2.2}

10. Having a responsibility for future management, the Board of Directors shares succession plans for the CEO, the COO and the CFO. {4.1.3}

11. The Board of Directors supervises the execution of operations by executive officers through their reports on the status of their execution of duties by utilizing meetings such as those held by the Board of Directors and the Joint Management Council.

12. Under the keywords of “stability and safety, speed and stock, welfare, environment, health, communications and agriculture,” in order to contribute toward the development and provision of products and services that contribute to society, the Board of Directors promotes an internal culture oriented toward innovation, realizes the Management Vision and goes beyond structural and departmental boundaries, as well as supports management resources in order to contribute toward the development and provision of products and services that contribute to society.

### **(Board of Directors Operation)**

Article 17 The Board of Directors fosters a climate where free, open and constructive discussions and exchanges of views take place, including the raising of concerns by outside directors. The board’s operation is defined in the Board of Directors Regulations. To also enhance the effectiveness of outside directors, prior to each scheduled board meeting the Board of Directors Secretariat provides explanations of the background to proposals on the agenda, their objectives, and all relevant detailed information, as well as providing sufficient other information as is necessary. {4.12.1}

### **(Board of Directors Evaluation)**

Article 18 Each year, the Board of Directors analyzes and evaluates its effectiveness as a whole, taking into consideration the relevant matters, including the self-evaluations of each director. A summary of the results is disclosed. {4.11.3}

2. The CEO is responsible for conducting Board of Directors evaluations, which is performed by the head of Management Administration.

3. Each year, the Audit & Supervisory Board analyzes, evaluates and provides its opinion on the effectiveness of the overall Board of Directors with regard to its monitoring of functions and business execution function, including aspects related to business, governance and risk management. When performing this evaluation, the Audit & Supervisory Board conducts hearings of outside directors and offers constructive opinions about the status of the Board of Directors.

### **(Directors)**

Article 19 Each year, directors are appointed to one-year terms of office by the General Shareholders Meeting.

2. Directors have the duty of care of a good manager and the fiduciary duty of loyalty.
3. Directors collect sufficient information in order to fulfill their duties, request explanations from the Board of Directors, proactively express their opinions in mutual deliberations and exercise voting rights. {4.13}
4. Directors exercise their rights to propose Board of Directors agenda items and rights to request the convening of Board of Directors meetings in a timely and appropriate manner in an effort to resolve the Company's management issues.
5. Directors execute their duties as directors in accordance with the trust placed in them by shareholders by exercising their capabilities and spending adequate time in line with expectations.
6. Selection/dismissal criteria of Director candidates and Directors' rights, responsibilities and others are prescribed separately in the Directors Regulations formulated by the Board of Directors. {3.1.iv}

**(Outside Directors)**

Article 20 Outside directors supervise the management of the Company from an independent and objective viewpoint, with a view to achieving the Company's sustainable growth and enhancing its corporate value over the medium to long term.

2. In addition to outside directors who meet the requirements for outside directors as prescribed in the Companies Act, in principle outside directors are appointed who also satisfy the Determination Criteria of Independence for Outside Directors formulated by the Nomination Advisory Committee. {4.9}
3. Outside directors take the initiative to increase the level of fairness of judgments and activities by the Board of Directors and each Board Committee and realize the best possible level of corporate governance.
4. Information is provided to outside directors by the Board of Directors Secretariat on an ongoing basis on the state of the Company's Corporate Philosophy, corporate culture, management environment, initiatives related to SDGs and ESG, and other items. {4.13.3}
5. Outside directors take part in an annual meeting comprising only independent directors covering the Company's corporate governance, as well as business-related and other items, and participate freely in discussion. {4.8.1}
6. Outside directors select a "lead independent outside director" from among themselves to communicate and coordinate with senior management and establish a framework for cooperation with the audit & supervisory board members and Audit & Supervisory Board. {4.8.2}
7. Outside directors request from the Board of Directors Secretariat any additional information necessary to perform their roles and responsibilities effectively. In addition, they may seek advice from external specialists at Company expense, where they deem it necessary. {4.13.1}{4.13.2}

### **(Audit & Supervisory Board)**

Article 21 The Audit & Supervisory Board audits the execution of duties of directors and executive officers, determines the content of proposals for submission to the General Shareholders Meeting on the appointment or dismissal of financial auditors or against the reappointment of financial auditors, and conducts other items prescribed by accounting auditing and other laws.

2. The Audit & Supervisory Board receives in a timely and appropriate manner reports from directors, employees and financial auditors on items necessary for auditing the execution of duties by directors. Additionally, the Audit & Supervisory Board shares necessary information with the financial auditors, Internal Audit Office and outside directors in an effort to improve auditing quality and perform audits efficiently. {3.2.2}
3. The Audit & Supervisory Board states the basic policies, procedures and other items necessary for executing their duties in the Audit & Supervisory Board Regulations, and the status of the audit system, audit standards and action guidelines in the Auditing Standards for the Audit & Supervisory Board Members and fulfills these responsibilities.
4. To ensure auditing objectivity, the audit & supervisory board members' office, acting upon Audit & Supervisory Board resolutions and performing duties on the basis of audit & supervisory board members' instructions, is guaranteed independence from the directors in terms of operational chain of command, personnel evaluations and other items. {4.13.3}
5. The Audit & Supervisory Board secures cooperation with outside directors so that such directors can strengthen their capacity to collect information without having their independence jeopardized. {4.4.1}

### **(Audit & Supervisory Board Members)**

Article 22 Having received a mandate from shareholders as independent entities to audit execution of duties of directors and executive officers, audit & supervisory board members fulfill their duty to ensure healthy and sustained corporate growth and establish a high-quality corporate governance system worthy of society's trust.

2. In light of the characteristics of their full-time position, full-time audit & supervisory board members work proactively to put in place audit environments and collect information. In addition, they routinely monitor and verify the status of internal control system construction and operation.
3. Full-time audit & supervisory board members share the information gained in performing their duties with other audit & supervisory board members and work to enhance the ability of outside directors to collect information. {4.4.1}

### **(Outside Audit & Supervisory Board Members)**

Article 23 Outside audit & supervisory board members express their opinions frankly, being that

they are appointed as part of a legal requirement for augmenting the independence and neutrality of the audit structure and taking into consideration the reason for their appointment, and recognizing that they are expected to express their audit opinions neutrally and objectively.

2. Outside audit & supervisory board members who are designated as independent auditors perform fair and impartial management decision-making, taking into account the interests of general shareholders and the interests of the Company, in cooperation with other independent directors/auditors, and exchange information with governing departments on exchanges of views with general shareholders and other items and state their opinions, also considering general shareholder interests.

### **(Chief Executive Officer (CEO))**

Article 24 The CEO has topmost authority over the Board of Directors decision-making function and the monitoring functions.

2. The CEO is responsible for realizing the Company's Corporate Philosophy, performing decision-making on the optimal execution of operations in order to augment enterprise value and enhance the common interests of the shareholders over the long term, and taking responsibility about supervising the execution of operations based on decision-making.
3. The CEO provides adequate explanation to the Board of Directors on the supervisory status of the execution of operations. The CEO chairs the Board of Directors.
4. By making appropriate use of the outside director and Audit & Supervisory Board functions, the CEO strives to create the management foundations to support the healthy and sustained growth of the Company and provides support to maximize the success of the COO in the execution of operations.

### **(Chief Operating Officer (COO))**

Article 25 The COO operates under the control of the Board of Directors and the CEO, with the topmost authority for the business execution function.

2. The COO is responsible for overseeing and supervising the execution of operations related to business activities to fulfill management plans in accordance with the strategies and management policies determined by the Board of Directors.
3. The COO may determine the scope of control of individual executive officers related to the execution of operations and delegate authority to them.
4. The COO forms a structure for the execution of operations and supervises and instructs other executive officers in their execution of duties.

### **(Chief Financial Officer (CFO))**

Article 26 The CFO supervises and directs management decision-making, supervision and the

- execution of operations functions from the corporate finance perspective.
2. The CFO assists the CEO in sound decision-making and supervision and, to enable the COO to conduct management proactively, takes charge of companywide capital efficiency and balancing corporate strength against risk. The CFO forms a core management trinity, along with the CEO and COO.
  3. The CFO is accountable for medium- to long-term management strategy to shareholders and other providers of financial capital, and enacts a structure for ensuring management that delivers high capital productivity.

### **(Executive Officers)**

Article 27 Executive officers are appointed each year to a one-year term of office, and are appointed by the Board of Directors from among candidates recommended by the CEO.

2. Executive officers who are concurrently directors have a supervisory responsibility for overall company management as directors, as well as the responsibility for the execution of duties in the specific area to which they are assigned as executive officers.
3. Executive officers have the important responsibilities of realizing the Company's Corporate Philosophy and executing operations in order to augment enterprise value and enhance the common interests of the shareholders over the long term. Authority is delegated to executive officers by the CEO and COO for the specific execution of operations for their assigned operations and areas. Executive officers are responsible for taking responsibility for achieving goals and for cultivating excellent human resources who will take over the Company's management in the future.
4. The number of executive officers is a number of people appropriate for handling the execution of operations function based on Board of Directors decisions and that allows for the most effective and efficient execution of those duties.

### **(Nomination Advisory Committee)**

Article 28 The Nomination Advisory Committee receives explanations from directors or executive officers, in charge of the human resources, on General Shareholders Meeting proposals regarding the appointment or dismissal of directors and states its opinion. {4.10.1}

2. The Nomination Advisory Committee receives explanations from directors or executive officers, in charge of the human resources, on the evaluation of individual directors, discusses their appropriateness and states its opinion. {4.3}
3. The Nomination Advisory Committee formulates and declares Determination Criteria of Independence for Outside Directors on the appointment of independent and neutral outside directors. {4.9}
4. The Nomination Advisory Committee formulates the basic policy, regulations, procedures for dismissal of CEO, and other items necessary for the execution of these duties. {4.3.3}



### **(Remuneration Advisory Committee)**

Article 29 The Remuneration Advisory Committee receives advice on the policies for determining the remuneration of directors, as well as the content of remuneration to be proposed at the General Shareholders Meeting, and states its opinion. {4.10.1}

2. When stating its opinion regarding the remuneration of directors, in order to ensure objectivity the Remuneration Advisory Committee proactively seeks out external research and other data, examines the appropriateness of the process for determining remuneration, and states its opinion.
3. The Remuneration Advisory Committee formulates the basic policy, regulations, procedures and other items necessary for the execution of these duties.

### **(Remuneration of Directors and Executive Officers)**

Article 30 Director remuneration is determined appropriately, after receiving a report from the Remuneration Advisory Committee with regard to fairness and high transparency in accordance with the provisions in the preceding article.

2. Director remuneration is appropriate for directors capable of adequately performing the management supervisory function.
3. Executive officer remuneration is providing a strong incentive to executive officers to execute their duties and taking operating performance into consideration.
4. The Company provides an incentive plan as an investment system for the senior management linked to operating performance and shareholder value over the medium to long term, to provide an incentive for sustained increases in corporate value. {4.2.1}

### **(Corporate Governance Committee)**

Article 31 The Corporate Governance Committee is composed of outside directors, outside audit & supervisory board members and full-time audit & supervisory board members, the CEO, COO and CFO and representative directors. This committee conducts exchanges of views on vision, strategies and other items related to corporate governance and overall Company management from diverse perspectives and based on a long-term viewpoint.

2. By incorporating into corporate management the full extent of the knowledge and wisdom of outside directors and outside audit & supervisory board members, the Corporate Governance Committee aims to create a “better company,” convening with the principal purpose of contributing to corporate value creation over the medium to long term.
3. Prior to meetings of the Corporate Governance Committee, outside directors and audit & supervisory board members, in cooperation with each other, exchange information with governing departments on exchanges of views with general shareholders and other items and state their opinions, also considering general shareholder interests.

4. The Corporate Governance Committee receives information, as necessary, from the Companywide Environment Committee and the Sustainability Committee that govern environmental and social initiatives, and exchanges opinions regarding topics such as specifying management policies, strategies, and high-priority issues from a medium- to long-term perspective to succeed in contributing to creating a sustainable society.

#### **(Companywide Environment Committee)**

Article 32 The Company establishes a Companywide Environment Committee to realize the Company's social responsibility and roles related to nature capital, in line with the Environmental Vision.

2. The Companywide Environment Committee, for which the CEO acts as the supervisory manager and the officer in charge of the environment serves as the chairperson, deliberates and decides basic matters regarding environmental activities appropriate for the Company's participation while providing companywide instruction and management on environmental activities.
3. In order to improve the effectiveness of the visions and strategies designed to improve corporate value over the medium to long term, the Companywide Environment Committee will provide information to the Corporate Governance Committee and report to the Board of Directors, as necessary, regarding important matters concerning the Company's initiatives related to SDGs and ESG, particularly those related to the environment.

#### **(Sustainability Committee)**

Article 33 The Company established the Sustainability Committee to stay up to date with and make improvements in response to high-priority issues among ESG issues such as the Company's relationship with employees and business partners, and particularly those related to society.

2. The chairman of the Sustainability Committee is the head of Management Administration. The Sustainability Committee deliberates and determines how to make improvements in relation to high-priority issues, particularly those related to society that the Company should address. The Sustainability Committee also directs and supervises companywide initiatives related to said determinations.
3. In order to improve the effectiveness of the visions and strategies designed to improve corporate value over the medium to long term, the Sustainability Committee will provide information to the Corporate Governance Committee and report to the Board of Directors, as necessary, regarding important matters concerning the Company's initiatives related to SDGs and ESG, particularly those related to society.

#### **(Internal Control)**

Article 34 Recognizing the enhancement of internal control throughout the Daiwa House Group as

a matter of priority for gaining the trust of shareholders, based on the Companies Act the Board of Directors formulates and puts into effect a Basic Policy on Construction of the Internal Control System. This system ensures that the execution of duties by directors conforms with laws and the articles of incorporation and ensures the appropriateness of other joint-stock companies' operations and activities by the corporate Group comprising the company concerned and its subsidiaries.

2. The Board of Directors establishes an Internal Control Committee to implement internal controls in accordance with the Basic Policy on Construction of the Internal Control System formulated as described in the preceding paragraph, and requests reports on the system's operational status and provides supervision. {4.3.4}

### **(Whistleblowing)**

Article 35 The Company establishes several points of contact for whistleblowing, including an external hotline, and ensures a framework for whistleblowing such that employees can report illegal or inappropriate behavior, disclosure, or any other serious concerns without fear of suffering from disadvantageous treatment. Also, the framework allows for an objective assessment and appropriate response to the reported issues. {2.5}

2. The details of information received through the hotline established by the preceding paragraph is investigated and discussed with the relevant departments. Depending on content, important issues are reported to the Board of Directors, Audit & Supervisory Board or other bodies.

### **(Financial Auditors)**

Article 36 The Company recognizes that financial auditors have a duty to ensure the reliability of financial reports and play an important role in realizing optimal corporate governance. Accordingly, the Company cooperates with financial auditors to ensure appropriate audits.

2. Financial auditors must ensure their independence from the Company.
3. Financial auditors must conduct organizational operations in a manner that controls audit quality.
4. The Audit & Supervisory Board formulates standards on the independence of financial auditors and the appropriate evaluation of organizational operations for controlling audit quality and confirm that these standards are met. {3.2.1}

## Chapter IV Creating Sustainable Corporate Value

### (Management for Corporate Value Creation)

Article 37 The directors, to whom management is delegated by the shareholders who are the Company's owners, fulfills its fiduciary responsibility to maximize shareholder value. In addition, they balance the needs of other stakeholders and strive to maximize corporate value.

2. The directors recognize the creation of enterprise value by obtaining a rate of return (return on shareholders' equity) that exceeds the expected rate of return on capital provided by shareholders (cost of shareholders' equity).
3. To realize corporate value creation over the medium to long term, the Company formulates and publicizes medium-and-long-term management plans that contain plans related to the management foundations and business strategies necessary to future corporate growth. {3.1.i}
4. The Company verifies what it perceives to be its primary corporate value (the value of "Endless Heart"), including intangible assets, and strives to augment sustained corporate value through sound growth of its primary value through the ability to obtain potential and sustained cash flows.
5. The Company is well aware that the creation of a sustainable society is integral to its pursuit of sustainable improvements to corporate value. As such, it will take an earnest approach to social issues such as SDGs, and strive to address social issues as a part of its business.

### (Cultivating Management Personnel)

Article 38 When directors and audit & supervisory board members including outside directors and outside audit & supervisory board members assume their positions, the Company ensures that they are given the opportunity to acquire necessary knowledge on the Company's business, finances, organization and other matters. The Company also provides opportunities to enhance their understanding of laws related to the Companies act, as well as of corporate governance and corporate finance so that they can fulfill shareholders' mandate and the role required of directors and audit & supervisory board members (fiduciary responsibility) and legal and other obligations. Also, the Company provides opportunities for ongoing updates, as needed. {4.14.1}

2. Executive officers undergo training in overall Company management to ensure that they fulfill the important duty of corporate value creation management by executing operations in a highly productive manner.
3. To cultivate the next generation of members of the Daiwa House Group's senior management, the Company operates the "Daiwa House Juku" for training future managers, and the "D - Succeed Leadership Enhancement Program" for training the next-generation candidates for branch and office managers (management personnel). With these programs,

the Company strives to expand and enhance the quality of the human resource pool.

4. To carry forward the Company's founding spirit, the Company's senior management undergoes training to ensure they have sufficient knowledge and qualities to discharge the items prescribed in Article 4 (Fiduciary Responsibility) and Article 37 (Management for Corporate Value Creation) of these guidelines in accordance with plans prescribed by the Board of Directors.
5. The Company establishes and discloses its policy for training the senior management, as outlined above. {4.14.2}

### **(Human Resource Diversity)**

Article 39 The Company considers the existence of diverse perspectives and value reflecting a variety of experiences, skills and characteristics a strength that supports the sustained growth, and promotes human resource diversity accordingly.

2. The Company establishes an organization dedicated to promoting diversity, including the participation of women, in order to enhance diversity in managerial decision-making and to bring diverse perspectives to its business processes. The organization strives to enhance educational programs and internal systems based on the identification of issues through factual surveys and analyses on diversity, the progress of which will be measured and visualized. {2-4}

### **(Positive and Smooth Relations with Stakeholders)**

Article 40 The Company believes that measures to address sustainability issues, including social and environmental matters, are an important element of enhancing enterprise value over the medium to long term. The Company endeavors to maintain positive and smooth relations with shareholders and customers, business partners, creditors, employees, local communities and other stakeholders and proactively discloses information on the status of its value creation initiatives. {2.3.1}

2. With regard to relations with stakeholders as described in the preceding paragraph, the Corporate Governance Committee monitors the key items and external evaluations indicated below to evaluate and supervise the status of initiatives and processes for the intangible assets that are a source of future value creation. It also takes the leadership in augmenting the Company's primary corporate value (the value of "Endless Heart").

#### <<Customer Value>>

- (1) To "serve our customers in good faith, and share their excitement and joy," the Company's Code of Conduct prescribes a "customer orientation (attempting to look at things from each customer's unique perspective)." On this basis, the Company conducts initiatives to increase the precision of quality assurance, after-sales services and other activities and strives to further enhance customer satisfaction.

- (2) The Company has established a Customer Satisfaction Division at its head office and customer satisfaction committees at the head office and all other places of business. These organizations aggregate customer opinions and wishes so that they can be reflected toward companywide improvement activities and to the creation of frameworks to ensure long-term trust-based relationships with customers.
- (3) The Company has established a Quality Assurance Department and personnel from that department are assigned to the Company's office. The Quality Assurance Department rigorously enforces quality control to ensure uniform quality levels and provide customers with high-quality products and services that are safe and secure.
- (4) The Company's engineering departments cooperate with Internal Audit Office to augment the soundness of individual business processes ranging from design to maintenance which are performed at places of business, so that the Company ensures legal compliance and QCDMSE (quality, cost, delivery period, morals, safety and the environment).
- (5) The Company has established a Quality Improvement Committee at its head office, and quality control meetings and information exchange meetings that involve four parties at places of business, and executes ongoing quality improvement.

<< Mutual Prosperity with Business Partners and Suppliers >>

- (1) To ensure a stable supply of materials of appropriate quality and at appropriate prices, the Company has built up a supply chain network consisting of partner companies engaged in construction and installation, and suppliers of materials and equipment.
- (2) To enhance the technical skills of its partner companies, the Company has established the Confederation of Partner Companies to facilitate mutual study and friendly relations. In addition, the Company organizes the "Trillion Club" and the "Setsuwa Club" to reinforce mutually prosperous relations with business partners and suppliers.
- (3) The Company cooperates with partner companies on health and safety activities and training in the aim of preventing accidents at construction sites, and for the maintenance and improvement of a healthy working environment.
- (4) The Company's supply chain network comprising suppliers of materials extends to Daiwa House's Group companies and is also used for overseas business and new business.

<<Employee Value>>

- (1) To realize its corporate philosophy of "developing people through business," the Company promotes forward-looking initiatives to nurture self-reliant employees who can make a contribution to society. In addition, the Company proactively promotes diversity to better reflect in its business operations the broad spectrum of values and viewpoints in society at large and enable it to bring new insights to bear on the search for solutions to social issues.

- (2) To respond flexibly to the needs of employees with diverse characteristics and backgrounds and provide a system that encourages diverse human resources to work for long periods, the Company works to enhance work-life balance programs and promote their use. {2.4}
- (3) To provide a safe and healthy working environment and enhance employees' individual characteristics and capabilities, the Company provides educational programs for each employee level and supports their efforts to acquire qualifications.

#### <<Harmony with the Environment>>

- (1) The Company works to realize "a society in which people can live rich and truly fulfilling lives in harmony with the natural environment." The Company does this through environmental protection activities under four headings: Mitigating climate change and adapting to it (prevention of global warming and energy related initiatives), maintaining harmony with the natural environment (including the preservation of biodiversity), conservation of natural resources (extension of resource longevity, waste reduction, and protection of water resources), and prevention of chemical pollution.
- (2) The Company's Environmental Vision encompasses its environmental principles, priority environmental activity themes, and environmental behavioral guidelines. The Company has also set medium-and-long-term targets and realizes the objectives of its Environmental Vision.
- (3) Based on "a preventive approach" to environmental issues, the Company promotes environmental activities on a number of fronts and works to achieve ongoing improvements in environmental management.

#### <<Harmony with Local Communities >>

- (1) Having construction as its core business and strong relationships with local communities the sustained development of local communities contributes to the Company's business expansion. Based on this premise, the Company seeks to earn the trust from society through regional social contributions.
- (2) The Company collaborates with local communities to foster mutually sustained development by engaging in activities in three areas: environmental protection, assistance for welfare facilities and fostering the next generation. The Company proactively involves itself in regional social contributions in these categories as it works to resolve issues in society.

#### **(IT and Information Capital)**

Article 41 Through the proactive application of information technology, the Company works to enhance products and services and create new business models, leading to increased competitiveness and value creation that contributes to people's lifestyles.

2. The Company considers databases of information accumulated through its business activities to be important assets and sources of value creation. Therefore, the Company establishes frameworks to appropriately analyze and utilize such information.
3. As “a group that co-creates value for individuals, communities, and people’s lifestyles” seeking to realize a society in which people can live fulfilled lives, the Company is actively taking part in initiatives to utilize IT in smart communities.

### **(Engineering Foundation)**

Article 42 The Company has established a strong engineering foundation that supports the expansion of operations by promoting the use and development of technology that increases productivity and promoting efficiency and labor saving through ICT, as well as by transforming to a flexible system that has high adaptability to change.

2. To train, support, and secure engineers that are able to go the extra mile, the Company strives to create new value through technology by putting in place internal certification systems, etc. related to technology for design, construction, etc., and by cultivating a climate of multi-cultural exchange that brings about change.
3. In order to thoroughly comply with laws and regulations related to building laws such as the Building Standards Act, the Company has established the “Compliance and Quality Assurance Headquarters” to ensure compliance with laws and regulations and to maintain a system which allows the Company to provide high-quality products.

### **(Manufacturing Capital)**

Article 43 As a pioneer in prefabricated construction, the Company promotes production automation and efficiency and creates production systems that result in safe and high-quality products.

2. By developing and enhancing “*monozukuri* capabilities” founded on product development, design, production, purchasing, logistics and construction, the Company strives to create construction systems that increase productivity and provide high added value to customers, society and the environment.
3. By cooperating with Group companies, the Company creates a framework for increasing *monozukuri* productivity and workability.

### **(Intellectual Property)**

Article 44 The Company operates on the principle that intellectual property is a vital source of corporate competitiveness. Accordingly, the Company has constructed a framework to fortify intellectual property, directed at securing competitive superiority, maintaining competitive order and making full use of intellectual property.

2. The Company has established its Central Research Laboratory as the center for research and development activities leading to the creation of value for society and enabling people to



live better lives. The laboratory also engages in research and development aimed at resolving the issues society faces.

3. The Company has established the Intellectual Property Office, which oversees the acquisition and establishment of intellectual property rights and the management of such rights. The office responds appropriately and promptly to lawsuits and out-of-court disputes with other parties relating to infringements of intellectual property rights.
4. The Company has in place the Inventions Committee, chaired by the head of the Technology Department, which is responsible for making decisions on matters involving the establishment and maintenance of rights relating to all intellectual property possessed by the Company, as well as licensing with respect to the said rights.

### **(Corporate Brand Value)**

Article 45 The Company believes that its corporate brand boosts the competitive advantage of its businesses and is an important management resource that is linked to sustained value creation. Accordingly, the Company has created systems for the effective implementation of brand strategies both internally and externally.

2. “Endless Heart,” the symbol for the Daiwa House Group, expresses the Company’s ties to customers as well as a sense of connectedness throughout the Group. Through the introduction of this symbol, the Company cultivates brand value toward maximization.
3. Sharing the thoughts behind “Endless Heart,” which embodies the Company’s management philosophy and spirit, among the Daiwa House Group’s executives and employees and all other stakeholders helps to cultivate the brand’s uniqueness and increases the value of intangible assets, which are a source of value creation.
4. The Company establishes and manages trademark rights in order to prevent damage to the brand value of the Company and the Daiwa House Group. The Company also responds appropriately and promptly to lawsuits and out-of-court disputes with other parties relating to infringements of trademark rights.

### **(Aiming to Be a Sustainable Company)**

Article 46 By promoting the initiatives outlined in Article 37 through Article 45 of these guidelines, the Company aims to clarify how it intends to enhance its ability to acquire future cash flows and further augment it through ongoing initiatives based on a collective consciousness, including at Group companies, to grow as a sound and sustainable company that is necessary to society.

## Chapter V Disclosure and Communication

### (Disclosure and Transparency)

Article 47 To forge long-term trust-based relationships with shareholders, investors and all other stakeholders in Japan and overseas, the Company disclose IR information according to the Disclosure Policy. The Company's disclosure extends beyond the statutory minimums to include information about management policies, financial data and business initiatives, as well as other information on business factors and the management environment needed for making investment decisions. The Company's policy is to disclose such information promptly, accurately and in a fair and impartial manner. {3.1.1}

2. The Company contributes to dialogue with its shareholders by disclosing the following information.
  - (1) Medium- to long-term strategic scenarios, business models and policies on corporate value creation
  - (2) Financial management indicators that are important from a managerial perspective
  - (3) Risk information
  - (4) Information concerning initiatives related primarily to SDGs and ESG
3. The Company strives to provide easy-to-understand information and disclose it in various manners that are easy for shareholders to access.
4. Where reasonably possible, the Company discloses information in English to increase its standing in global capital markets and contribute to corporate value creation on a global level by fostering dialogue. {3.1.2}

### (Communication with Shareholders)

Article 48 Based on the spirit of "co-creating a brighter future" described in its Management Vision, the Company seeks to enhance bilateral communication by fostering objective-oriented dialogue with shareholders.

2. The Company has established the IR Department as a point of contact for enhancing communication with shareholders and cultivates trust-based relationships with shareholders. {5-2}
3. The Company has formulated and put into practice the following Policy on Promoting Constructive Dialogue with Shareholders. {5-1}

<<Policy on Promoting Constructive Dialogue (Engagement) with Shareholders >>

The Company does the following to engage in constructive dialogue with shareholders, contributing to the sustained growth of the company and increases in corporate value over the medium to long term.

- (1) Taking the requests and interests of shareholders into consideration, to the extent reasonable, the directors, including outside directors, and senior management have a basic position to engage in dialogue (management meetings) with shareholders
- (2) The director in charge of IR cooperates with departments within the Company to facilitate constructive dialogue.
- (3) The Company strives for disclosure that enables judgments on corporate value over the medium to long term, augmenting corporate value through dialog (engagement) with shareholders.
- (4) In addition to individual meetings, the director in charge of IR arranges management briefing sessions, facility tours and other activities to enhance IR activities.
- (5) Through dialogue with shareholders, the director in charge of IR communicates Company perspectives, provides feedback about shareholder opinions and requests to directors and senior management and provides feedback in timely and appropriate manner to outside executives, sharing an awareness of any issues from an independent and objective standpoint.
- (6) To prevent external leaks of important undisclosed internal information (insider information), the director in charge of IR cooperates with the person responsible for information management to manage information thoroughly based on Regulations on Insider Transactions.

## Chapter VI Other

### **(Self-Review)**

Article 49 Each year, the Board of Directors conducts a self-review of its execution of duties in accordance with these guidelines to increase the effectiveness of corporate performance.

{4.11.3}

### **(Exemptions)**

Article 50 In the event that exemptions from these guidelines become necessary, the Board of Directors must clarify the reason for the situation and clarify that appropriate measures are being taken within the general essence of these guidelines.

### **(Revisions)**

Article 51 These guidelines are to be revised by resolution of the Board of Directors.

## Supplementary Provision

Article 1 These guidelines are in force from June 1, 2015.

Article 2 These guidelines have been partially revised and are in force from February 9, 2017.

Article 3 These guidelines have been partially revised and are in force from February 9, 2018.

Article 4 These guidelines have been partially revised and are in force from June 28, 2018.

Article 5 These guidelines have been partially revised and are in force from June 25, 2019.

Article 6 These guidelines have been partially revised and are in force from February 13, 2020.

Article 7 These guidelines have been partially revised and are in force from October 1, 2020.

Article 8 These guidelines have been partially revised and are in force from February 9, 2021.

Article 9 These guidelines have been partially revised and are in force from April 1, 2021.

Article 10 These guidelines have been partially revised and are in force from February 10, 2022.

Formulated May 27, 2015

[Corporate Governance System]

