



Supplementary Material for Support for TCFD Recommendations and First SBTi Certification in J-REITs

This supplementary material is based on the contents disclosed in the press release “Notice Concerning Support for TCFD Recommendations and First SBTi Certification in J-REITs” dated today and summarizes the related information. This material includes forward-looking information that reflects the plans and expectations of Daiwa House REIT Investment Corporation (“DHR”) and Daiwa House Asset Management Co., Ltd. (the “Asset Manager”) to which DHR entrusts the management of its assets. Such forward-looking information is based on certain assumptions and beliefs of DHR and the Asset Manager in light of the information currently available. Actual figures may fluctuate and DHR and the Asset Manager cannot guarantee the forecasted figures.

1. Support for TCFD Recommendations and Obtainment of SBTi Certification

Support for TCFD Recommendations

Support for TCFD Recommendations and Joining TCFD Consortium

Task Force on Climate-related Financial Disclosures (TCFD)

- ◆ The Asset Manager expressed its support for the TCFD recommendations
- ◆ Also joined the TCFD Consortium

About TCFD

TCFD is an international initiative established by the Financial Stability Board (FSB) to examine how climate-related information should be disclosed and how financial institutions should respond. TCFD publishes recommendations for companies to disclose their "Governance", "Strategy", "Risk Management" and "Metrics and Targets" for climate change-related risks and opportunities.



About TCFD Consortium

The Japan TCFD Consortium was convened with the aim of furthering discussion on effective reporting of climate-related information by companies and facilitating appropriate investment decisions by financial institutions based on the risks and opportunities disclosed.



GHG Reduction Targets Certified by SBTi

First SBTi Certification in J-REITs

First initiative in J-REITs

Science Based Targets (SBT)

- ◆ DHR obtained certification by Science Based Targets initiative (SBTi)^(Note) as the first J-REIT

Certified targets

Our GHG emissions reduction targets by FY2030 were certified as science-based targets consistent with the standards required by the Paris Agreement which aims to keep the global average temperature well below 2°C above pre-industrial levels and pursue efforts to limit global warming to 1.5°C.

Item	Coverage	Base FY	Target FY	GHG emissions reduction target
Scope 1+2	All properties	2020	2030	Reduce total emissions by 42%
Scope 3	Properties with data available	2020	2030	Calculate and reduce total emissions



(Note) An international initiative which certifies GHG emissions reduction targets by companies as science-based targets.

2. Information Disclosure Based on TCFD Recommendations

Information Disclosure Based on TCFD Recommendations

- The Asset Manager supports the recommendations of TCFD established by the Financial Stability Board (FSB), promotes risk management and initiatives related to climate change and discloses information based on the recommendations.

Item	Contents	
Governance	<p>The Asset Manager, as an asset manager of DHR, established the “Regulations Concerning the System for Promoting Sustainability” and rules on topics such as internal framework, collaboration with stakeholders and information disclosure policy to secure an appropriate system for promoting sustainability. Remuneration structure was changed to link asset management fees to the Asset Manager, remuneration for Executive Director of DHR and remuneration for directors of the Asset Manager to sustainability indices including GHG emissions reduction ratio, GRESB evaluation and CDP evaluation.</p> <p>For governance → Page 5</p>	<p>The Sustainability Committee deliberates on sustainability strategies such as addressing climate-related issues and formulates annual business plans and operational action plans based on the strategies. The Committee also examines the progress of execution of the plans including budgets and reflects it in the strategy planning for the next fiscal year. The President and CEO of the Asset Manager, as the Chief Executive of the Sustainability Committee, provides final approval of various climate-related goals and measures, evaluates the status of efforts and gives instructions for review. The President and CEO is also responsible for climate-related issues at the Board of Directors.</p>
Strategy	<p>Understanding the risks and opportunities for DHR in the future due to unusual weather caused by climate change and increasing social demands for climate change measures, the Asset Manager verified and analyzed the effectiveness of the current climate change measures.</p> <p>For scenario analysis → Pages 6-7</p>	<p>In accordance with the TCFD recommendations, the Asset Manager conducted analysis based on multiple scenarios of below 2°C scenario and 4°C scenario and formulated a roadmap for achieving the targets certified by SBTi.</p> <p>For roadmap → Page 8</p>
Risk Management	<p>While recognizing climate change risk as one of the risks that could pose a significant impact on business in the medium to long term, the Asset Manager sees such risk as areas of potential and manages the risk by incorporating it in our overall risk management process. The Asset Manager has established the “Risk Management Regulations” and “Risk Management Implementation Guidelines” as internal regulations in order to accurately identify risks and opportunities inherent in business, develop a system for appropriately managing potential losses and profits when the identified risks and opportunities are realized, ensure the soundness of management and operate business in a fair manner.</p> <p>For risk management → Page 9</p>	<p>The Board of Directors shall oversee the development of an appropriate risk management system based on the “Risk Management Policy” after considering where and what the risk is based on the strategic goals set separately by the Board of Directors. The President and CEO shall be responsible for all risks in accordance with the provisions of the “Daiwa House Group Risk Management Regulations”, develop an appropriate risk management system and be responsible for promoting and implementing risk management. The Compliance Officer, who is responsible for risk management, shall establish methods including measurement, monitoring and management based on the type of risk along with the risk management policy and shall develop internal regulations to ensure the effectiveness of these methods.</p>
Metrics and Targets	<p>DHR set <u>targets of reducing total GHG emissions by 42% in FY2030 compared to FY2020</u> as the first J-REIT certified by SBTi for its SBT 1.5°C targets. In addition, DHR set <u>long-term targets of net zero emissions in FY2050</u>. <u>Internal carbon price is set at 10,000 yen / t-CO₂</u> and used as an incentive for low-carbon promotion works, guidelines for investment decision making and a reference index to identify risks of rising costs.</p> <p>For metrics and targets → Page 10</p>	<p>We are promoting the acquisition of third-party external certifications and evaluations to increase the objectivity and reliability of our sustainability initiatives at portfolio properties and improve the asset value over the medium to long term. Our policy is to <u>increase the percentage of properties with environmental certification (based on gross floor area) to 70% or more by FY2030</u>.</p>

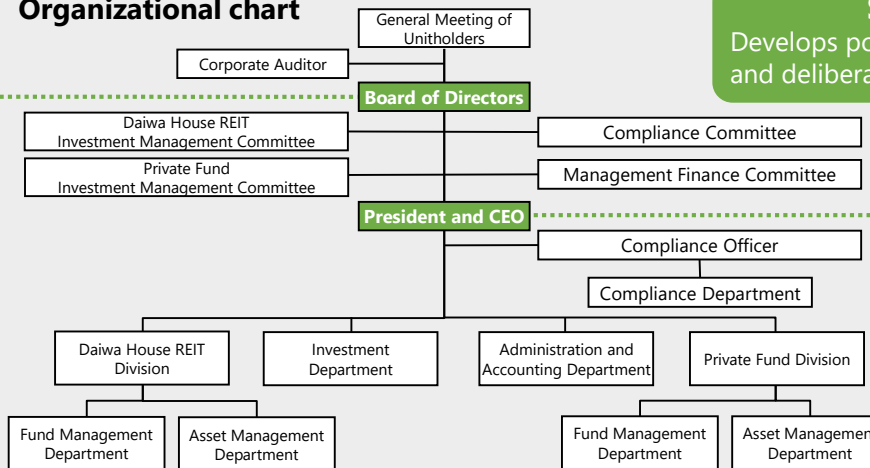
Sustainability Promotion System and Role of Each Position / Committee

- The Asset Manager established the “Regulations Concerning the System for Promoting Sustainability” and rules on topics such as internal framework, collaboration with stakeholders and information disclosure policy to secure an appropriate system for promoting sustainability. The Sustainability Committee is held at least once every three months in principle to examine and achieve various goals and measures related to sustainability. The Chief Executive of the Sustainability Committee directs the Committee annually in principle to assess the status of all sustainability initiatives and review them as necessary.

Board of Directors

Receives reports from the Sustainability Committee on the progress toward tackling climate-related issues and monitors to address these issues proactively

Organizational chart



Sustainability Committee

Develops policies and strategies related to sustainability and deliberates and resolves on the execution

President and CEO

As the Chief Executive related to climate issues at Board of Directors and the Chief Executive of the Sustainability Committee, provides final approval of various climate-related goals and measures, evaluates the status of efforts and gives instructions for review

<Sustainability Promotion System Regulations>

- The Sustainability Committee recognizes that addressing sustainability issues such as consideration for global environmental issues including climate change, respect for human rights, consideration for health, working environment and appropriate treatment of employees, fair and appropriate transactions with business partners, crisis management for natural disasters, is an important management issue that reduces risks and contributes to increasing revenue. The Committee recognizes the importance of actively tackling these issues to improve corporate value over the medium to long term and reports on such issues to the Board of Directors as appropriate.

Remuneration for Executive Director of DHR and Directors of the Asset Manager

- In November 2021, **DHR introduced a provision to fluctuate the amount of asset management fees to the Asset Manager in conjunction with the sustainability indices as the first initiative in J-REITs.**
- Sustainability indexed-linked fees, which are the sum of indexed GHG emissions reduction ratio, GRESB evaluation and CDP evaluation multiplied by the total assets of DHR, are aimed at strengthening the commitment to ESG issues and improving governance.
- In addition, remuneration for Executive Director of DHR and remuneration for directors of the Asset Manager are now linked to sustainability indices including GHG emission reduction ratio, GRESB evaluation and CDP evaluation.**

Process of Scenario Analysis

- We evaluate impact on business under several scenarios (see table below) and conduct scenario analysis according to the following steps to assess strategic resilience to climate-related risks and opportunities.

Defined as scenarios

Below 2°C scenario

The scenario that assumes policies and regulations to realize a carbon-free society are implemented and the global warming from pre-industrial levels will stay below 2°C. While the transition risk is high, the physical risk is low compared to the 4°C scenario.

4°C scenario

The scenario that assumes announced goals such as national goals under the Paris Agreement will be achieved. No new policies or regulations will be introduced, and global energy-derived CO₂ emissions will continue to increase. While the transition risk is low, the physical risk is high.

Flow of scenario analysis

Step 1

Identify material climate-related risks and opportunities and set parameters

- Extract climate-related risks and opportunities
- Assess material risks and opportunities
- Set parameters related to material risks and opportunities

Step 2

Set climate-related scenarios

- Identify relevant scenarios among existing scenarios based on the information in Step 1
- Set climate-related scenarios (social image)

Step 3

Evaluate impact on business in each scenario

- Analyze the impact on business in each scenario based on each scenario set in Step 2 and the material climate-related risks and opportunities together with related parameters identified in Step 1

Step 4

Evaluate strategic resilience to climate-related risks and opportunities and consider additional measures

- Assess the resilience of our strategy for climate-related risks and opportunities
- Consider additional measures

Material Climate-related Risks and Opportunities

- We have identified the risks and opportunities for DHR in the future due to unusual weather caused by climate change and increasing social demands for climate change measures.

Category	Type	Contents
Risks	Transition risk	Policy and regulation Increased costs due to introduction of a carbon tax and expansion of emissions trading system, increased procurement costs for construction materials
		Technology Increased installation and maintenance costs due to installation of solar power generation equipment
		Market Decrease in rent income due to changes in tenant demand (declining needs for properties not responding to climate change)
	Reputation Increased funding costs due to growing stakeholder concerns or negative feedback by delayed response to climate change risks	
Physical risk	Acute Loss of business opportunities and increased repair costs and non-life insurance premiums due to inundation of buildings caused by increased torrential rain, typhoons / floods, landslides and storms	
	Chronic Increased utility charges due to rising average temperature	
Opportunities	Products and services Increase in rent income (high occupancy, high rent) by providing low-carbon emission equipment and services to tenants	

Impact on Business and Response to Climate-related Risks and Opportunities

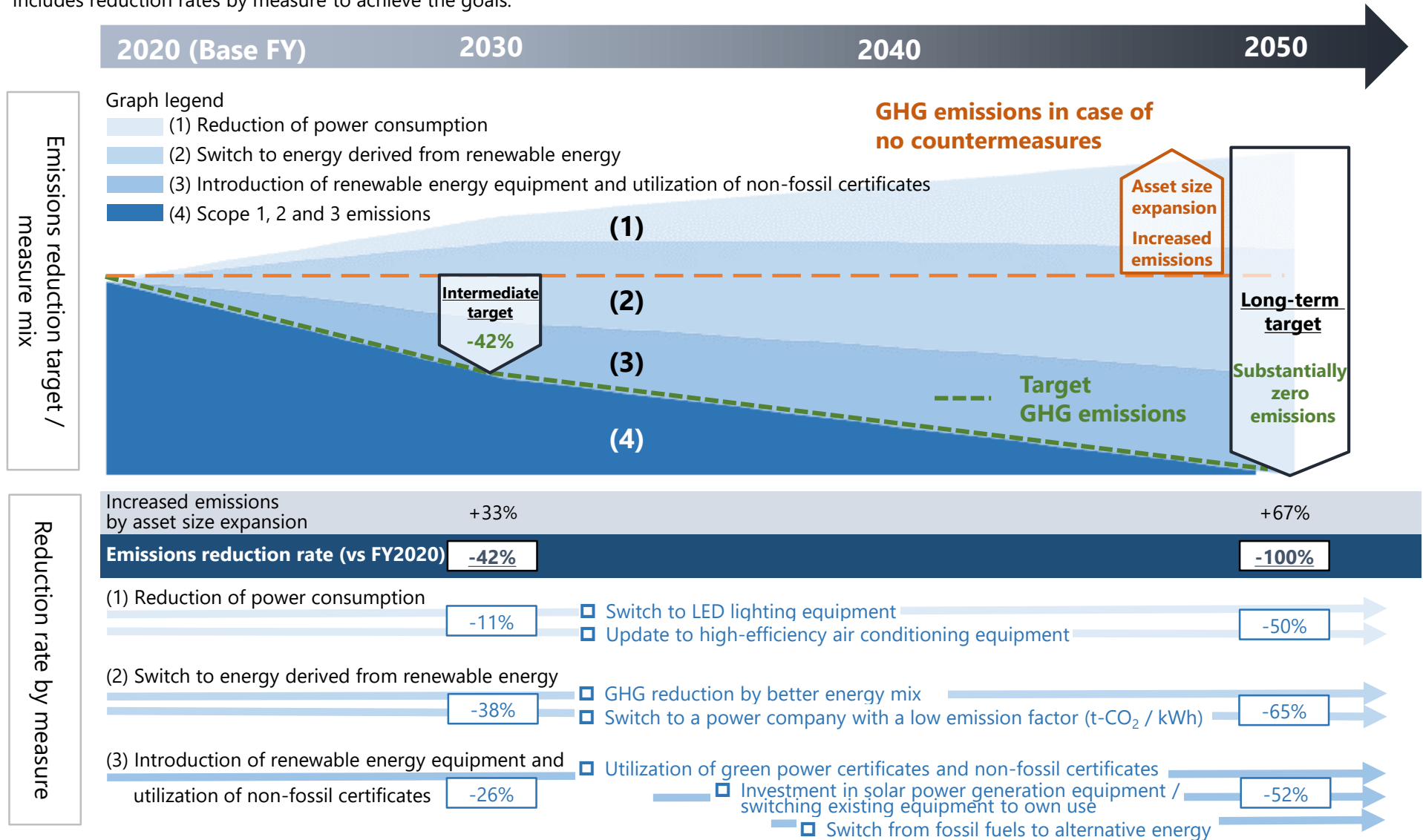
Assuming 2030, we analyzed the impact of climate-related risks and opportunities on the business of DHR and formulated countermeasures and resilience.

Category	Summary of scenario analysis results	Impact on business ^(Note)		Response / Resilience of DHR
		Below 2°C scenario	4°C scenario	
Transition risk	Policy and regulation Indirect costs increase related to GHG emissions in business activities due to introduction of a carbon tax	35 mil yen	29 mil yen	<ul style="list-style-type: none"> Increase renewable energy (including green power procurement) ratio Introduce energy-saving equipment and energy management system Set energy consumption / GHG emissions targets (SBT) for portfolio properties Promote GHG emissions reduction by introducing internal carbon pricing
	Technology Service purchase costs indirectly increase related to GHG emissions in repairs and renovation work due to introduction of a carbon tax	94 mil yen	42 mil yen	Same as above
	Market Installation and maintenance costs increase due to installation of solar power generation equipment	798 mil yen	798 mil yen	<ul style="list-style-type: none"> Implement planned renovation work Acquire new properties with new technology introduced
	Reputation Rent income decreases if the acquisition of environmental certification does not proceed as planned	914 mil yen	914 mil yen	<ul style="list-style-type: none"> Obtain green building certification for portfolio properties Disclose information on environmental performance
	Reputation Investment unit prices fall and funding costs increase due to delays in ESG compliance	48 mil yen	48 mil yen	<ul style="list-style-type: none"> Improve ESG ratings Implement sustainable finance
Physical risk	Acute Building repair costs increase due to increased natural disasters such as floods	427 mil yen	854 mil yen	<ul style="list-style-type: none"> Take appropriate measures such as insurance coverage based on risk assessment Perform waterproofing, exterior wall and sealing work ahead of schedule Own or replace properties with high resilience by using the check system for climate change, etc. Install sandbags, water stop plates and tide plates
	Chronic Rent income decreases due to increased risk of flooding of buildings	42-1,000 mil yen	84-2,000 mil yen	Same as above
	Chronic Non-life insurance premiums increase due to increased risk of water damage	22 mil yen	45 mil yen	Same as above
Chronic	Water charges and power charges for tenants increase due to rising average temperature	Increase in water charges 42 mil yen Increase in power charges 271 mil yen	Increase in water charges 42 mil yen Increase in power charges 27 mil yen	<ul style="list-style-type: none"> Introduce energy-saving equipment and energy management system Introduce irrigation equipment and water-saving equipment Choose native plants for planting Promote energy conservation activities in collaboration with tenants Promote green leases

(Note) The figures shown are the annual amount of impact estimated by the Asset Manager based on the past results and other factors with reference to the parameters general disclosed; therefore, accuracy of the figures are not guaranteed.

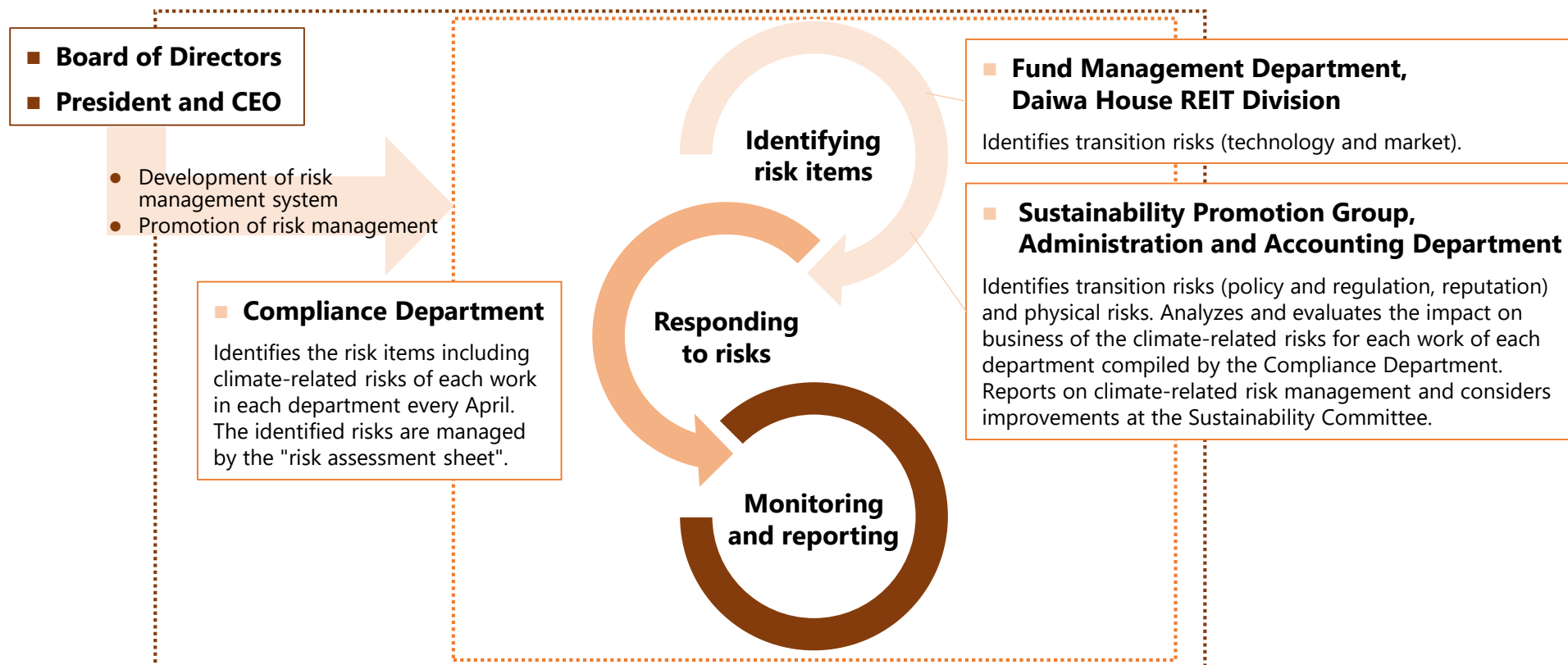
Roadmap for Reduction of Emissions and Achievement of Targets Certified by SBTi

- DHR has set long-term targets of reducing total GHG emissions by 50% in FY2030 compared to FY2020 and net zero in FY2050 and formulated a roadmap that includes reduction rates by measure to achieve the goals.



Risk Management System

- While recognizing climate change risk as one of the risks that could pose a significant impact in the medium to long term, the Asset Manager sees such risk as areas of potential and manages the risk by incorporating it in our overall risk management process. The Asset Manager has established the "Risk Management Regulations" and "Risk Management Implementation Guidelines" as internal regulations in order to accurately identify risks and opportunities inherent in business, develop a system for appropriately managing potential losses and profits when the identified risks and opportunities are realized, ensure the soundness of management and operate business in a fair manner.
- The Board of Directors shall oversee the development of an appropriate risk management system based on the "Risk Management Policy" after considering where and what the risk is in accordance with the strategic goals set separately by the Board of Directors. The President and CEO shall be fully responsible for all risks in accordance with the provisions of the "Daiwa House Group Risk Management Regulations", develop an appropriate risk management system and be responsible for promoting and implementing risk management. In addition, the Compliance Officer, who is responsible for risk management, shall establish methods including measurement, monitoring and management based on the type of risk along with the risk management policy and shall develop internal regulations to ensure the effectiveness of these methods.

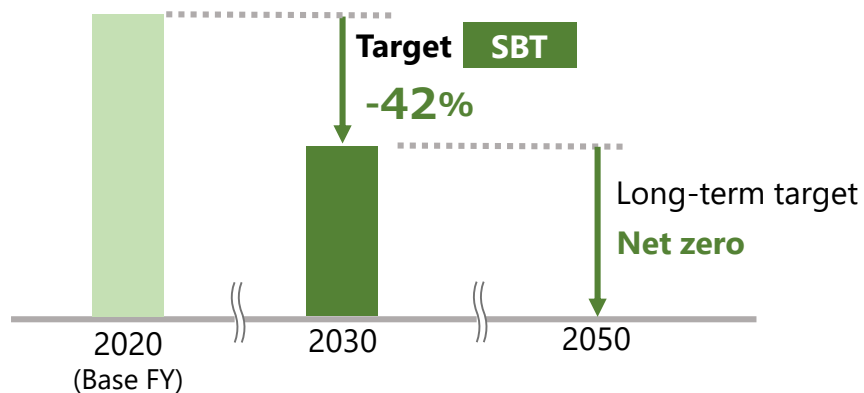


Metrics and Targets

Targets

- DHR set targets of reducing total GHG emissions by 42% in FY2030 compared to FY2020, as the first J-REIT certified by SBTi for its SBT 1.5 °C targets. DHR also set long-term targets of net zero emissions in FY2050.

Item	Coverage	Base FY	Target FY	GHG emissions reduction target
Scope 1+2	All properties	2020	2030	Reduce total emissions by 42% SBT
		-	2050	Net zero
Scope 3	Properties with data available	2020	2030	Calculate and reduce total emissions SBT
		-	2050	Net zero



Scope 1, 2 and 3 GHG Emissions of Portfolio Properties

- GHG emissions of the properties owned by DHR are ascertained as below.

Item	FY2018	FY2019	FY2020
Number of properties	152	190	202
Scope 1+2 (t-CO ₂)		84,808	91,873
		6,661	6,822
Scope 3 (t-CO ₂)	38,449	78,147	85,051
	7,508		
	30,941		

(Note) This table shows GHG emissions of the properties for which data of emissions by tenants were obtained among the properties owned by DHR. Increase in emissions in FY2019 and FY2020 is mainly due to the increase in the number of properties for which emissions data were obtained.

Internal Carbon Pricing

We have set the internal carbon price at 10,000 yen / t-CO₂ and use it as an incentive for low-carbon promotion works, guidelines for investment decision making and a reference index to identify risks of rising costs.

- Incentives for low-carbon promotion works
If it is possible to calculate GHG emissions expected to be reduced by LED lighting and air conditioning renewal, we apply the internal carbon price and use the data as a reference to decide whether to perform construction work.
- Guidelines for investment decision making
After calculating the profit and loss by applying the internal carbon price to the GHG emissions of the target property, we use the data as a reference for investment decisions (when emissions can be calculated).
- Identifying risks of rising costs in the future
By selecting suppliers with low emissions, we aim to reduce the risk of increased procurement costs when a carbon tax is introduced in the future.