

ESG Report

2020/11/10



INDEX

● Value-creation Story of KATITAS.....	3
● Materiality (Critical Challenges)	4
● Initiatives for ESG Materiality	5
I. To reduce the “environmental load” through promoting distribution of second-hand residential houses	
II. To resolve the “vacant house issues” through provision of the fourth option	
III. To promote “regional revitalization” through life of local living and working	
IV. “Enhanced governance” for sustainable growth	
V. Highly transparent accounting process and attitude for proactive dialogs	
● Other Non-financial Information of KATITAS.....	18
No. 1 in the single-family detached house purchase and resale ranking	
“Ecosystem” that is organically connected	
Recognition of KATITAS in “rural communities”	
Highly acclaimed by an external rating agency	
● Reference for the KATITAS disclosure on respective ESG posting items.....	23

Providing the Doors to the Future

**For regions and customers through
“adding [TAS] values [KATI] to houses”**

Through the initiatives to “add [TAS] values [KATI] to houses,” we provide as many “doors to the future” as possible to local areas and the life of the people living there. In addition, we continue to support the regional revitalization and development by proposing a new way of living in which existing houses are remodeled for another cycle of living, replacing the traditional Japanese living in which new-built houses are preferred supposing property development.
























Stakeholders	Values KATITAS offers
Buying customers	To provide second-hand residential houses that satisfy both outstanding and underlying needs and make new owners feel secure
Selling customers	Identifying house values from a different perspective than our contenders' to realize easy-to-handle, comfortable purchases with quick response
Brokerage firms	To become partners that mutually complements purchases and sales by leveraging the strengths of each other
Construction companies	To become partners for mutually better performance by stabilizing the business management through orders of high frequency and accuracy
Our employees	To provide an environment in which they can develop themselves depending on their motivation and performance by handling comprehensive jobs from initial purchase to resale in succession
Our shareholders	To deliver what they expected through investments by achieving both social contribution and earnings through conduct of business to realize stable growth

To “add values” differently for people we interact with through the business, we will be creating the “KATITAS standards” with which products, services and satisfaction of a grade that is not just “as expected” but even “exceeding the expectations” are offered.

Materiality (Critical Challenges)

We believe that resolving the societal challenges while growing business is critical.

In line with the belief, we are committed to working to grow our business, resolve the societal challenges and realize a society of sustainable growth by defining our materiality as follows.

Materiality		Specific activities	SDGs
E	I. To reduce the “environmental load” through promoting distribution of second-hand residential houses	I-1. Farewell to the Scrap & Build that is based on the new-built house supremacism	  
		I-2. To achieve the circular economy	 
S	II. To resolve the “vacant house issues” through provision of the fourth option	II-1. Resolution of the “vacant house issues” by “adding values” to “regional x detached x old houses”	 
	III. To promote “regional revitalization” through life of local living and working	III-1. Affordable housing (reasonably priced houses) offers	  
		III-2. Organizing a workplace environment that drives job satisfaction	 
		III-3. Promotion of female participation and career advancement	
		III-4. Mutual growth through collaboration with local, partner builders	
G	IV. “Enhanced governance” for sustainable growth	IV-1. Improved structure and effectiveness of the corporate board	
		IV-2. Thorough monitoring of the business operations	
		IV-3. Enhanced governance through the reward system	 
		IV-4. Development of intra-company compliance awareness	
	V. Highly transparent accounting process and attitude for proactive dialogs	V-1. Simple and visible accounting process centered on the accounting linked to cash and deposits	
		V-2. Attitude for proactive dialogs with investors through the IR activities	

I. To reduce the “environmental load” through promoting distribution of second-hand residential houses

I-1. Farewell to the Scrap & Build that is based on the new-built house supremacism



To resolve the serious housing shortage after World War II, the government implemented a housing policy to promote new-built houses for massive supply. During the high-growth period that followed, we had seen an environment that went so far as “Houses will sell if you only build them” in which the scrap & build that demolishes the second-hand residential policy for new-built became the mainstream supply of housing in Japan.

Though such trend still persists today, we are convinced, in this slow but declining demographic phase of Japan, that housing for another cycle through remodeling of second-hand residential houses, instead of building new ones, should make “the new way of living” with less environmental load and more earth-consciousness.

KATITAS business of second-hand residential house renewals



New-built houses by scrap & build



CO2 emission and lumber consumption versus the new-built

Compared to the new-built, second-hand residential houses emit about 1/4 of CO2 with about 1/7 use of lumber.

While area of the world’s forested land shrinks and global warming from the CO2 emission progresses, people can live in an earth-conscious property just by choosing a KATITAS property instead of a new-built one.

CO2 emission *1



Lumber consumption



*1 Source: “Forest and Forestry in Japan, 2011” by the Ministry of Agriculture, Forestry and Fisheries of Japan

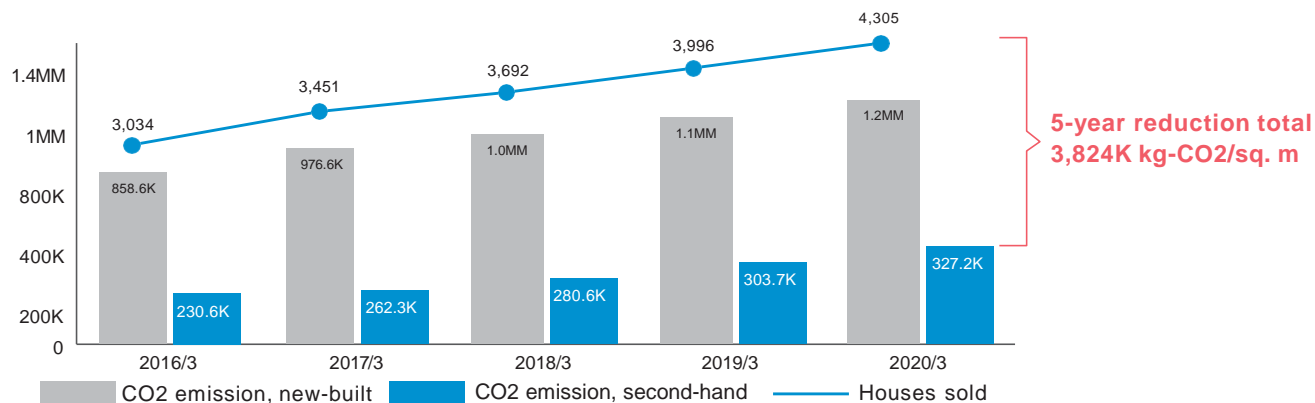
*2 Source: “Use of Wood Resources for Making Forestry a Growing Industry” by the All Japan Wood-recycle Association, an authorized NPO;
P. 17 “Lumber usage percentage for different elements per wood-framed house”

*3 Source: Record of our standard remodeling performed in December 2018

Cumulative total of reduced carbon emissions achieved by growth of KATITAS

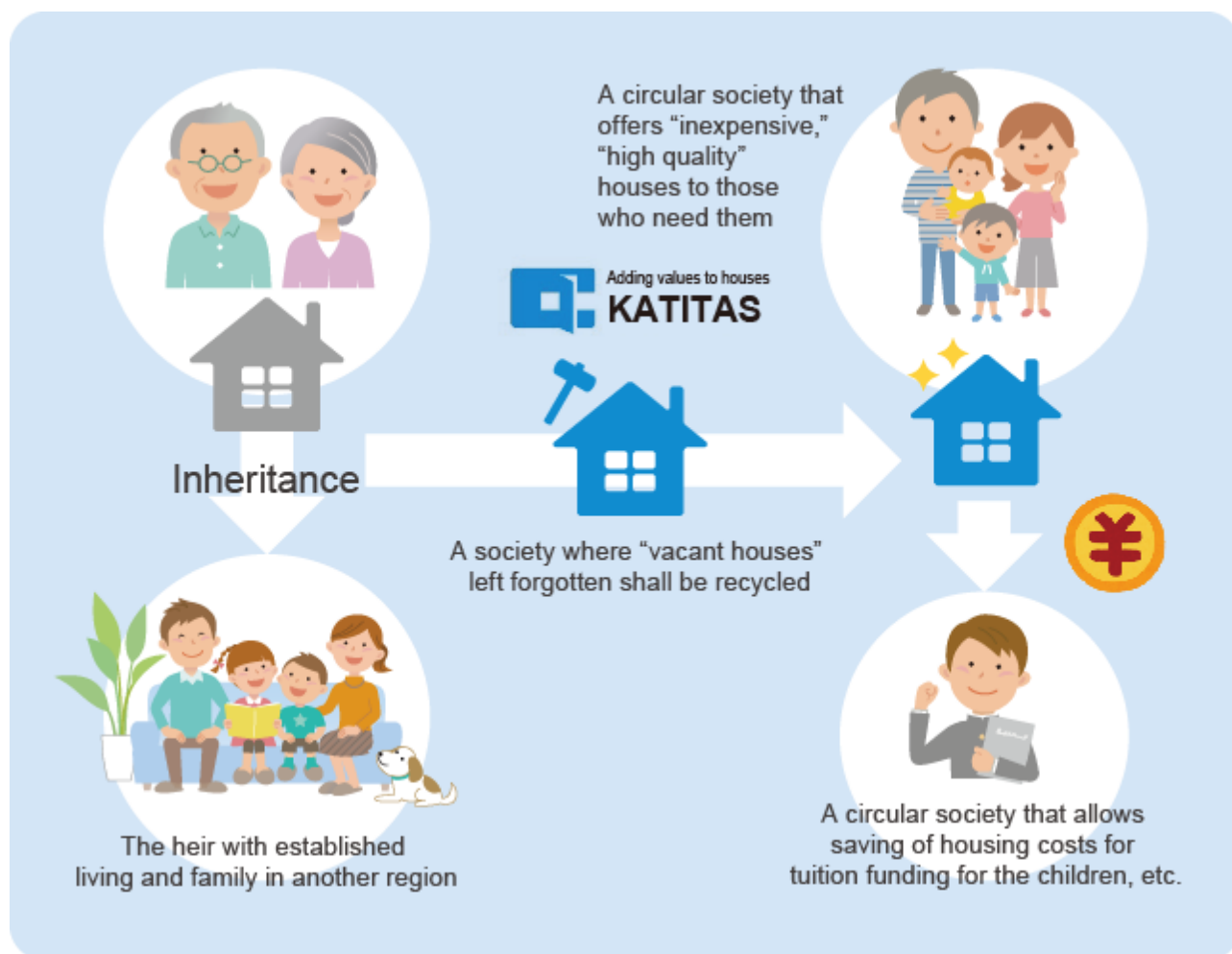
Thanks to the KATITAS home purchases, we have been successful in reducing CO2 emission by 3,824K kg-CO2/sq. m as a five-year cumulative total.

Since one 40-year-old Japanese cedar tree can absorb about 2.4kg of CO2 per year, the reduction is equivalent to about 1.6 million of them. (Approx. 4,000 acres of forest = around 342 Tokyo Domes)



Source: The Forestry Agency "Q1: How do you calculate the forest absorption?"

I-2. To achieve the circular economy



II. To resolve the “vacant house issues” through provision of the fourth option

II-1. Resolution of the “vacant house issues” by “adding values” to “rural x detached x old houses”



Under the corporate credo of “Providing the Doors to the Future. For regions and customers through ‘adding values to houses.’,” we are researching and purchasing second-hand residential houses as inventory for ourselves, remodeling them, and reselling them in succession to provide “secure, clean and practical” second-hand residential houses utilizing 100+, locally routed operation bases.

There are under-utilized houses that are left forgotten in the regions as well as those going to be vacant because of the difficulty to sell in a regular second-hand residential housing market. Even with such houses, through the initiatives to “add values to houses,” we provide as many “doors to the future” as possible to local areas and the life of the people living there. In addition, we continue to support the regional revitalization and development by proposing a new way of living in which existing houses are remodeled for another cycle of living, replacing the traditional Japanese living in which newly built houses are preferred.

Provision of the fourth option substituting new-built, second-hand residential or for rent

The average unit price of the houses we sell is as inexpensive as 14 million yen. Being inexpensive indeed, since we undertake the bargainer responsibility by once purchasing the second-hand residential, unlike regular real-estate brokerage transactions, we offer them as high quality “KATTITAS Properties” after our own research and remodeling as inventory in a responsible manner.

We are offering and advocating the “fourth option for housing choice,” that is, “a remodeled and renewed second-hand residential house”, not “new-built,” not “second-hand residential and as is,” and not “for rent.”



Social significance: Resolution of Japan’s societal challenges

- In the Japanese society facing a shrinking population, leveraging existing real estate stock is our societal challenge.
- We will contribute to development of local distribution economics through utilization of the continually increasing vacant houses.

Resolution to the vacant
house issues

Regional
revitalization

Ecology

Resolution to the vacant house issues

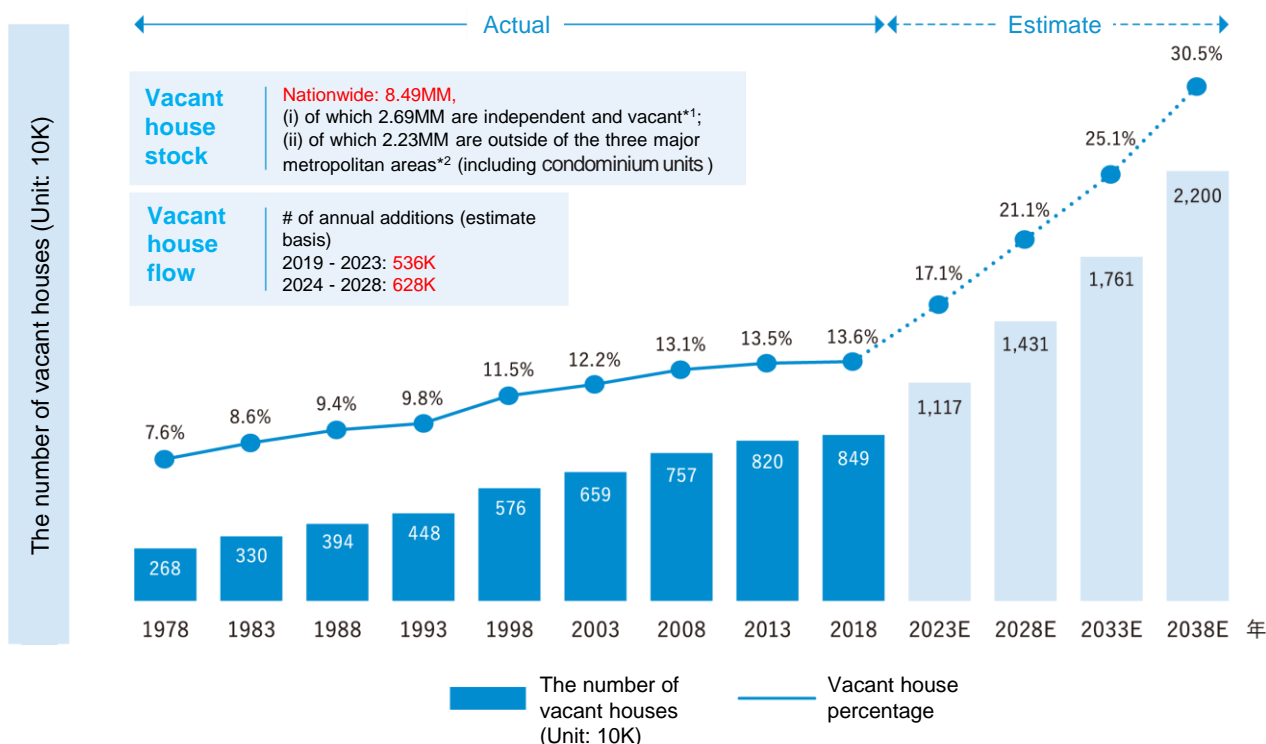
Vacant houses are increasing nationwide in Japan every year and the number as of 2018 stood at 8.49MM (with a vacant ratio of 13.6% of the total houses in Japan), which has become a societal challenge.

KATITAS mainly deals with rural x old x detached houses, many of which are inherited but left unused. Against the urban x newer x condominium units focus in the common second-hand residential house distribution, we are resolving the vacant house issues of detached houses in rural communities that are continually increasing in Japan.

We are committed to continued resolution of the societal issues through our business activities to enable the way of living that “economically remodels houses for another cycle of living to care for the regions.”



Forecast of the number/percentage of the vacant houses



*1: Vacant houses include houses for secondary use and for rent.

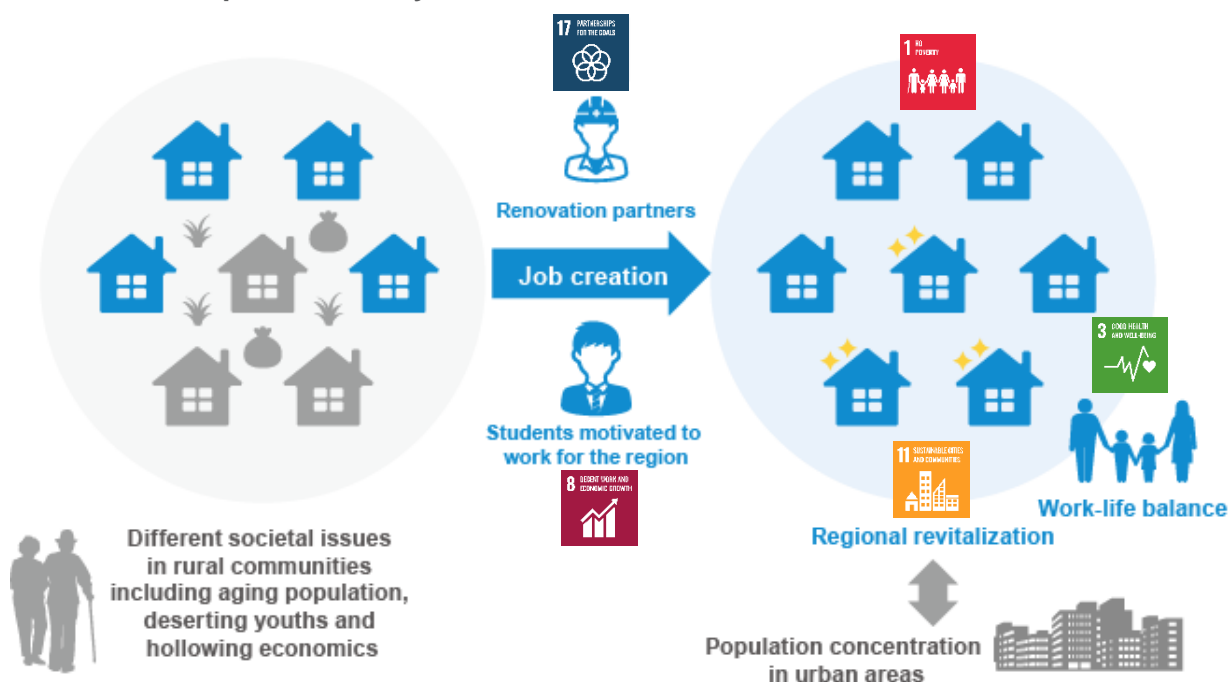
*2: Three major metropolitan areas (by definition of the Ministry of Internal Affairs and Communications (MIIC)): Tokyo area refers to Saitama, Chiba, Tokyo and Kanagawa. Nagoya area refers to Gifu, Aichi and Mie. Osaka area refers to Kyoto, Osaka, Hyogo and Nara.

Source: Actual data are from the MIIC documentation “First Estimate, Land and House Survey 2018” while estimates are from <Scenario 1: Demolition rate returning to the 2008-2012 level> in the “Housing Market and Challenges in 2040 - Analysis of Long-range Outlook and Short-term Impacts of COVID-19” by Nomura Research Institute, Ltd.

III. To promote “regional revitalization” through life of local living and working

8.49MM vacant houses nationwide, a significant societal issue

Vacant houses compromising scenic view and public security



With the excess concentration in the Tokyo Metropolitan area, issues such as declining birthrate and aging population or vacant houses are accelerating in rural communities versus urban areas. One of the major causes is the “less job opportunity” issue in rural communities.

To resolve this issue, KATITAS is conducting local recruitment of students “motivated to work to help the regions” from the local universities, and hiring and assigning them locally.

Meanwhile, we place our remodeling orders with local partner builders, from which additional jobs are being created among them.

Through the jobs that go around rural communities in a circle, the “regional revitalization” is being secured.

Because houses we offer are inexpensive compared with the new-built houses in urban areas, the buyers can save the housing costs for more “tuition funding,” “dining” or “entertainment” expenditures, which can help fulfill their work-life balance.

With “vacant houses” being recognized as a societal issue, we are not just resolving that, but also contributing to promotion of the regional revitalization by running the business of “adding” “value” to second-hand residential houses.

III-1. Affordable housing (reasonably priced houses) offers

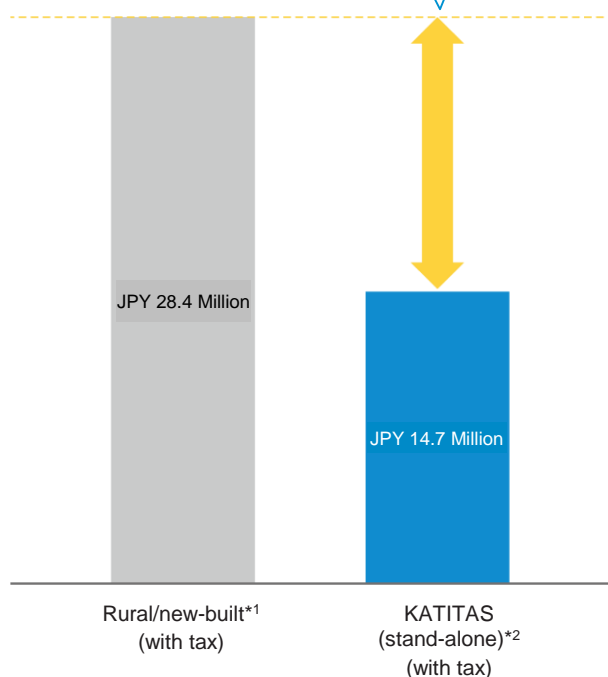


Annual household incomes of about 70% of the buyers of KATITAS homes are between 2 and 5 million yen.

A household concerned about the future due to stagnant average wage growth in Japan can afford to live in a secure, clean and practical detached house through purchase of a KATITAS home at a comparable payment to the amount paid as monthly rent.

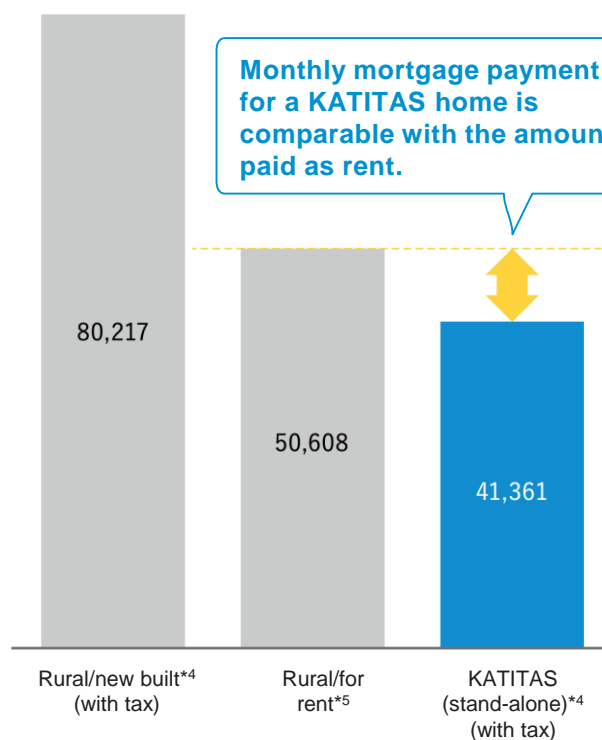
Comparison with the average transaction price of new-built single-family detached houses

KATITAS homes priced almost half of the market price of the new-built properties



Comparison with house rents*3

Monthly mortgage payment for a KATITAS home is comparable with the amount paid as rent.



Transactions: April 2016 to March 2017

Constructions: 2016 and on

Real estate type: Residential land (land and building)

Total floor area: Between 50 sq. m and 200 sq. m

House usage: Home

*1: Properties were retrieved from the Land General Information System by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) using the filtering available. The numbers are average unit price of them (with tax).

*2: KATITAS numbers are the average transaction prices of the properties completed between April 2019 and March 2020.

*3: Rents are the amount paid monthly. Single-person households are excluded.

*4: The amounts of rural/new-built and KATITAS (stand-alone) are calculated assuming a full mortgage with no down payment, 30-year term, at 1.0%-fixed interest rate, and no additional bonus repayment.

*5: Source: MIIC documentation "Latest Estimate, Land and House Survey 2018"

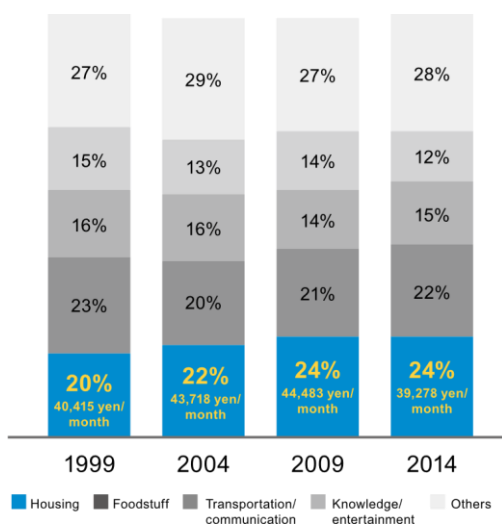
Side benefit that can be expected:

May work for the declining birthrate through reduced financial strain

We believe that KATITAS homes, if they become “ubiquitous,” may have a side benefit to the declining birthrate issue, helping reduce the housing cost burden on the household budgets.

Behind the situation in 2019 with the number of births being the lowest ever at 865 thousand with a fertility rate of 1.36, there is a reason that the housing cost burden is outstanding in the young adult generations up to 39 years old. Women up to 39 years old gave “financial situations” as a reason for less planned number of children than their ideal. We believe that affordable housing offers made available by KATITAS may have a side benefit to the declining birthrate issue.

Breakdown of monthly expenditures of single-person households under 39 years old



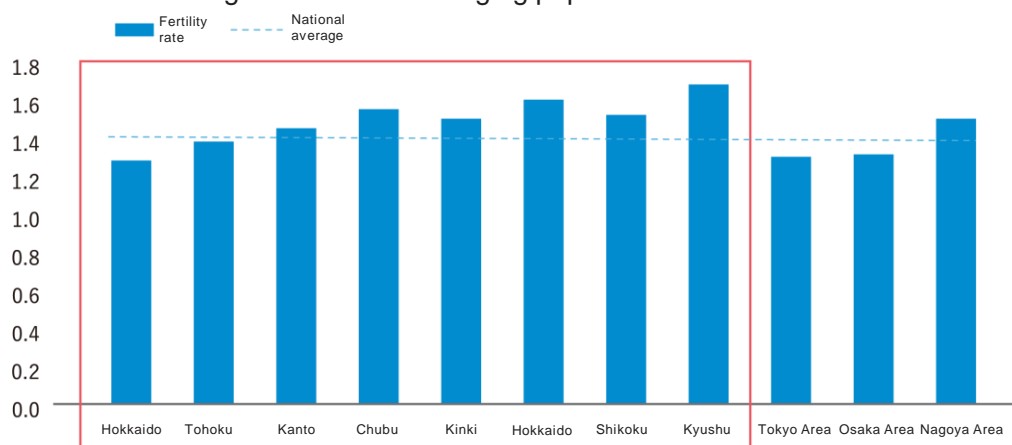
Source: MIIC's "National Survey of Family Income and Expenditure" with recalculation at KATITAS Single-person household/under 30 and 30 through 39 averaged/simple average of male/female amount of consumption

The number of planned children being fewer than ideal		Ideal: One Planned: None	Ideal: Two Planned: One	Ideal: Three Planned: Two	
Reasons for not having the ideal number of children	Financial	Significant rearing/education costs	15.6	43.8	69.8
		Affects my current job and career.	6.5	11.8	18.7
		Our home is not big enough.	1.3	6.1	16.1
	Age/ physical	Old enough to be reluctant.	39.0	42.4	38.1
		Trying, but just not coming.	74.0	34.8	9.8
		Health concerns	24.7	17.5	14.7
	Child-rearing burden	Cannot bear more burden.	9.1	14.1	21.0
	Attributable to husbands	Attributable to husbands	2.6	11.6	9.6
		Hoping the youngest to reach adulthood before retirement	2.6	6.5	8.3
		My husband doesn't want more.	3.9	9.4	7.7
Others	Social environment	6.5	5.7	6.1	
	Caring more about their marital life	9.1	4.9	6.3	

Source: MLIT's "Situations concerning residents in Japan" The National Fertility Survey (2015) by National Institute of Population and Social Security Research

In the regions we run our business, the fertility rates are transitioning at higher levels than the three major metropolitan areas.

Assuming lower share of housing expenses in the total cost of living than in the three major metropolitan areas as a contributor, we believe higher fertility rates coming from rural communities should resolve the declining birthrate and the aging population.



Source: MHLW's "Vital Statistics (2018)" with recalculation at KATITAS

*1 Tohoku refers to Aomori, Iwate, Miyagi, Akita, Yamagata and Fukushima. Kanto refers to Ibaraki, Tochigi and Gunma. Chubu refers to Niigata, Toyama, Ishikawa, Fukui, Yamanashi, Nagano and Shizuoka. Kinki refers to Shiga and Wakayama. Chugoku refers to Tottori, Shimane, Okayama, Hiroshima and Yamaguchi. Shikoku refers to Tokushima, Kagawa, Ehime and Kochi. Kyushu refers to Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima and Okinawa.

*2: Three major metropolitan areas (by definition of the Ministry of Internal Affairs and Communications (MIIC)): Tokyo area refers to Saitama, Chiba, Tokyo and Kanagawa. Nagoya area refers to Gifu, Aichi and Mie. Osaka area refers to Kyoto, Osaka, Hyogo and Nara.

III-2. Organizing a workplace environment that drives job satisfaction



Even if the local university graduates wish to work for the region, they are increasingly working away from the local area due to the conditions.

We are conducting locally routed recruitment, resolving the challenges that talented students who are “motivated to work to help the regions” face such as:

- less potential employer candidates in rural communities; or
 - hard to find opportunities to leverage on their “regional reinvention,” “resolution to vacant house issues” or “regional revitalization” learnings at school,
- thus offering creation of jobs and development of job satisfaction.

Designing a system for solid recognition of the hard work and efforts

KATITAS implements an ‘Awarding system’ to recognize the teams/individuals with outstanding achievements for the “Year,” “Quarters” and “Months.”

We pay incentives depending on the level of goal achievement, job results and contribution to the business performance. The incentives are designed to link with the “team,” “area” and “corporate” goals to avoid egoistic individualism.

We also present the “KATITAS Recognition of Remodeling Idea Award” to the involved employees and the case when an excellent renovation is planned and a house that won the customer satisfaction is offered.

Practicing flexible job rotations and relocations

Our sales operation network expands to over 100 locations, respectively run by four to five employees. Because of the location management in a small group, bad chemistry may develop between them from time to time. For such problems, we work for the right staff assignments, conducting quarterly job rotations and relocations flexibly.

We sometimes hear an expert store manager say, “I wish to return to a member job because I love the KATITAS work itself rather than the store management.” By flexibly addressing such request, a KATITAS culture has been established in which employees can return to a member job to perform and deliver as just a single player.

Implementing a survey for motivation monitoring

The KATITAS Group has implemented the MOTIVATION CLOUD offered by Link and Motivation Inc. and is monitoring motivation of our employees, conducting semiannual surveys.

We are committed to continued efforts to better drive job satisfaction of our employees who are “motivated to work to help the region,” enhancing their motivation through the periodic monitoring.

Locally routed recruitment

KATITAS is mainly conducting recruitment of students who are motivated to “work to help the regions” or “contribute to the regional revitalization.” Instead of hiring in the metropolitan areas such as Tokyo or Kansai Areas and assigning locally, students are hired and assigned in the same region as their hometown or university, which constitutes around 80% of the job assignments at KATITAS. We even conduct a survey prior to their joining for management of their motivation so they may work in a region that can drive job satisfaction.



III-3. Promotion of female participation and career advancement

Out of KATITAS sales representatives, women accounts for 40.7%. In 112 KATITAS stores, 22 women that account for 17.4% are working as the store managers (as of April 1, 2020).

We receive more job application entries from women and as a result, the trend that about half of our new employees are women is retained.

Selling residential houses, female employees are well performing partly thanks to their ability to plan out remodeling, keeping the housekeeper's perspective and traffic patterns in mind.

Annual purchase/selling ranking of sales personnel (FY2020, March closing actual)



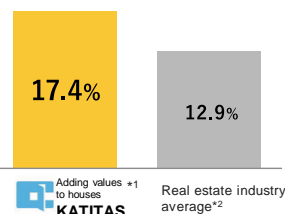
60% (12 reps) of our 20 top sales reps are women.



Ratio of female managers (As of April 2020)



High ratio of female managers



Ratio of female employees (As of April 1, 2020)



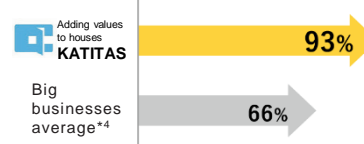
Female employees interested in remodeling/housing enrolled (40.7%)



Comparison of the average years of service, female to male (As of July 1, 2020)*3



Less average service year difference between male and female workers

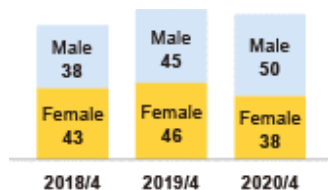


Male/female ration of new graduate employees



High female ratio in our new graduate employees.

(Unit: headcount)



Addition to the MSCI Japan Empowering Women Index

2020 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

THE INCLUSION OF KATITAS Co., Ltd. IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF KATITAS Co., Ltd. BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.

*1 Source: Stats of the KATITAS Area Managers and Store Managers

*2 Source: TEIKOKU DATABANK, LTD., "Survey of Corporate Attitudes Towards Promotion of Women (2019)"

*3 Average service years of female employees divided by that of male employees (in percentage)

*4 Source: MHLW, "2019 Basic Survey on Wage Structure"

III-4. Mutual growth through collaboration with local, partner builders



At KATITAS, we request our local partner builders for remodeling of the inventory properties. Compared with urban areas, fewer projects of public works, new constructions or large building/condominium constructions are available in rural communities, which in turn reduces orders with the builders there. In such an environment, we are creating jobs of house remodeling in those local areas.

Hosting the KRP Meeting aimed at mutual growth with regional partner builders

Once a month, we invite 10 to 20 builder companies from respective regions to host the “KATITAS Remodeling Partners (KRP) Meeting.”

Programs including “Introduction of the KATITAS Business Direction,” “Right/wrong Knowledge Sharing,” “Builder Recognition Awarding” and “Get-together Party” are conducted at the KRP Meetings.

Since many of our younger sales reps are hired as new graduates, they work on remodeling planning through advice from the partner builders on construction knowledge and insights. Because of that, we believe that our relationship and partnership with the partner builders are indispensable to the growth of our business.

We are committed to continuing this initiative because we believe setting up opportunities for our CEO and the leadership team to directly communicate with the partner builders is critical in order to secure mutual understanding as partners.

*Though the meetings were suspended between February and July 2020 due to the COVID-19 pandemic, it has been resumed as video conferences after this August.

Scene from a KATITAS Remodeling Partners Meeting



Awarding the Partner Builder Recognition



IV. “Enhanced governance” for sustainable growth

IV-1. Improved structure and effectiveness of the corporate board



Proactive appointment of outside board members

The outside board of directors at KATITAS is composed of three outside directors including two independent outside directors, allowing a higher standard of operation with three out of total eight (37.5%) board members coming from outside.

Comprising the outside directors by appointing members with diversified experience and expertise including corporate managers of business companies and experts of corporate governance promotion, KATITAS is pursuing highly transparent business operations.

Enhanced effectiveness of the corporate board

The BOD meetings are effectively working as a place of monthly business operation monitoring and discussions.

They are managed in an atmosphere of unfettered and free exchange of opinions, receiving frequent questions from outside directors concerning business performance monitoring. The KATITAS BOD meetings are therefore managed with solid awareness of dialogs with the investors.

In addition, advice based on the insights of outside directors are often provided, which helps the business operations in a timely manner.

Questions from the outside directors that were not answered or marked as tasks at BOD meetings are worked through to possibly follow up by the next monthly meeting.

Meanwhile, we are conducting assessment of the corporate board’s effectiveness for the purpose of its enhancement. Honest opinions are provided, on which we will base our continuous improvement for better corporate board quality.

Details about the assessment of the corporate board effectiveness are available [here](#).

Excerpt of comments from assessment of the corporate board effectiveness

Survey item	5-level assessment	Free comment
Agenda item coverage	Quite pleased	Sufficiently covered and discussed from the governance aspect.
Agenda item coverage	Pleased	Better if the mid-term management strategies are further discussed.
Agenda item coverage	Pleased	The wider coverage with additional external environment analyses and mid-to-long-term management plan should be appreciated.
Preparation of the reference materials for resolutions	Frustrated	Reference materials for some matters are received just on the previous date of the resolution, causing difficulty to practically review them. Need to be improved.
Preparation of the report materials	Quite pleased	Quite pleased as they always include on-the-point comments (summaries).
Preparation of the report materials	Fair	Though generally pleased with reports on the numbers, efforts such as organizing the KPIs in a logic tree format are necessary.
Composition of the board members (Diversity)	Fair	Actually lacking balance with no inclusion of foreigners and women. Yet, the policy to give posts to those meeting the requirements is good enough, with no need to assign them, constrained with the diversity focus.
Expertise/experience/capability of the board members	Pleased	Seems to be a well-balanced composition with corporate governance experts, managers with experience from the YASURAGI days of KATITAS, retail business managers and former fund professionals.
Unfettered atmosphere of the discussions	Fair	Opinions mostly coming from the CEO and outside board members, it would be better if more reports come from the internal members who are closer to the business executions.
Response to existing, homework issues	Quite pleased	Worth a high score as we are always getting feedbacks on them.

IV-2. Thorough monitoring of the business operations



Sensible monitoring conducted through the Business Update Meetings

The Business Update Meetings are called for on every Monday by the division/group managers to monitor such factors as the business conditions, complaint cases and remodeling delays.

For understanding of the business conditions, we perform sensible monitoring through reviews including reasons for low-profitability properties and properties with revised unit price.

To confirm the complaint details, we review causes of the complaints and the future incident potential to further build on the expertise from our transaction record of 50,000 properties in total. If a complaint can potentially propagate across other properties, it is reflected in the checklist or announced in the Morning Video Sessions as leverage for improvement of the product quality.

Morning Video Sessions facilitating management/field staff communication

As our sales operation network expands to over 100 locations, we currently have less opportunities of direct communication between the management and store staff. Meanwhile, because communication of the management message through the organizational layers often causes misunderstanding and delay of reach, we offer opportunities for direct messaging.

Having staff of all stores suspend their work to participate in the Morning Video Session for an hour from 9 a.m. every Thursday, we are working for the direct and timely delivery of management messages.

Additionally, to avoid one-way communication of the Morning Video Sessions, we are conducting survey and collection, including a check on the degree of understanding, improvement proposals from the field staff perspective and requests from the stores, to ensure the meeting facilitates bilateral communication. Update of response to the questions and requests raised in the survey is also reviewed at aforementioned Business Update Meetings to monitor how the voices from the field are responded to as well.

IV-3. Enhanced governance through the reward system



A wage system helping long-term service of employees based on the compensation package with fixed pay focus

We run our business in a very unique, “old,” “rural” and “detached” house sector. As what we do as a business is house remodeling with a high individuality and challenge level, “accumulated expertise from long-term service of employees” becomes critical.

On the other hand, the rural communities we work for constitute a market in which individual sales reps would have a tough time delivering stable monthly results. Understanding that excessive incentives in such environment could lead to inducing irregular sales activities and promotions, we implement a compensation package with fixed pay focus.

Compensation package

Fixed pay and allowances
80%

Incentives
20%

Clarified decision process of executive compensation

Executive compensation is determined upon discussion in the Appointing/Compensation Advisory Committee optionally organized by internal and outside directors.

IV-4. Development of intra-company compliance awareness



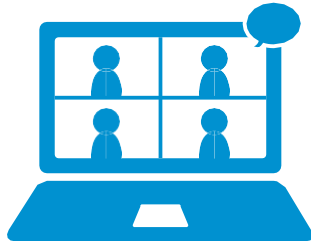
Enhanced compliance awareness through the Morning Video Sessions

We work to cultivate compliance awareness by weekly communicating without exception to all employees, “1. Report problems immediately,” “2. Report negative things first” and “3. Do not lie” as the “Three reporting principles” in the aforementioned Morning Video Sessions.

We are also working to enhance the compliance awareness by reminding at the Sessions that all employees must know the rules, referring to the violations caused by unsecured or limited knowledge of the rules.

Weekly video conference connecting stores nationwide

- ✓ Communication includes failure cases and compliance matters



Three reporting principles

- ✓ Assured intra-company notification of the compliance awareness

1. Report problems promptly
2. Report negative things first
3. Do not lie

Holding monthly Compliance Committee meetings

Particularly critical incidents of the violations caused by unsecured or limited knowledge of the rules are discussed at the Compliance Committee meetings.

The Compliance Committee is so composed to incorporate the perspectives of outside expert members and women, inviting female members as well.

Decisions made at the Compliance Committee meetings are published through the Morning Video Sessions and periodically reported in the corporate board meetings as a regular reporting item.

Respect for human rights

For knowledge of the human rights issues existing in the regions and to avoid development of nationality or race discrimination, training materials concerning the human rights are monthly distributed to all stores. In addition, the material circulation sheets are collected to monitor the training implementation, for secured understanding.

V. Highly transparent accounting process and attitude for proactive dialogs

V-1. Simple and visible accounting processes centered on the accounting linked to cash and deposits



Accounting process linked to cash and deposits

Revenue and inventory of KATITAS are recorded through an accounting process that links them to the cash and deposits account activities.

For example, at the point of sale, about 80% of the buyers leverage housing loans to purchase the KATITAS properties. Payment of the amount of property purchase is directly remitted from the loaner bank of the buyer to KATITAS. The remittance in turn is recorded as revenue, linked to the cash and deposits account, with which a visible accounting process is secured. Because we have no credit risk burden, the accounting process involves fewer account items used for the accounting estimates.

Recording valuation loss as provision for slow-moving inventory

Real estate held for resale occupies a major part of Assets in our balance sheet. Because our real estate held for resale is distributed in rural communities with smaller land price volatility, the level of value volatility risks from slow moving is lower than in urban areas.

However, we record allowance of 10% for real estate held for resale not moving over a year in inventory as valuation loss. Through recording allowance for slow-moving inventory of real estate held for resale as well, we work for better visibility of our accounting process.

V-2. Attitude for proactive dialogs with investors through the IR activities



Assigning dedicated IR personnel, our IR efforts are focused on dialogs with investors.

Thanks to the KATITAS model that is simple yet profound, running its business in regional markets less familiar to most of our investors, we are convinced that a widespread understanding of the business model through dialogs with investors is important.

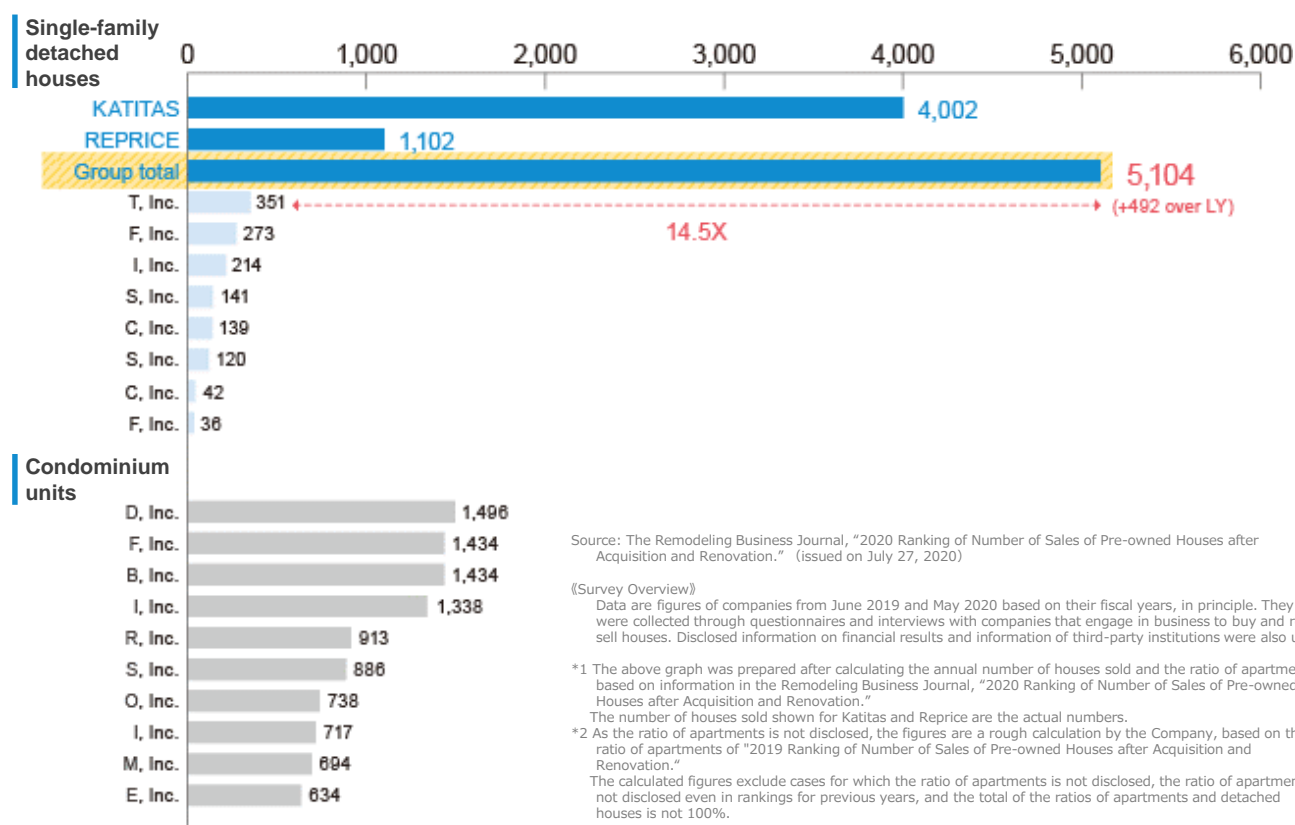
Additionally, by providing regular opportunities for feedback of the investors' voices through the IR activities from the IR personnel to the leadership team, we work to leverage our business operations on the voices from investors.

Hosting regular briefings for individual investors	KATITAS is hosting results briefings using branch offices of securities companies and other places (so far once during FY2020 closing in March).
Hosting regular briefings for analysts and institutional investors	We host briefings following the term-end and second quarter earnings announcement.
Hosting regular briefings for overseas investors	Our CEO travels to North America, Europe and Asia to conduct global IR activities, hosting briefings on earnings and business strategies (NA: May 2019; EU: Nov 2019; Asia (HK/Singapore): Nov 2019).
Website publication of the IR materials	<ul style="list-style-type: none"> On the KATITAS website, notice of ordinary general meeting of shareholders and its resolutions, earnings summary, earnings briefing materials, securities report, and press release materials are published in a timely manner. Documentation such as earnings summary, earnings briefing materials, narrowly-defined notice of ordinary general meeting of shareholders, and critical, timely disclosure materials are translated into English for disclosure to overseas investors.
Setup of IR-related division (personnel)	Assigning IR personnel in the Corporate Planning Division, we have set up a dedicated contact window (via email). During April 2019 and March 2020, we performed 200 1-on-1 meetings, conducting proactive interactions with investors.
Others	<ul style="list-style-type: none"> For promotion of understanding of the KATITAS Group businesses, we are regularly hosting property tours primarily for institutional investors (six times during FY2020 closing in March). We also attend investor conferences hosted by securities companies (four times during FY2020 closing in March).

Other Non-financial Information of KATITAS

No. 1 in the single-family detached house purchase and resale ranking

Ranking by the number of houses sold in the second-hand residential house purchase and resale business



"Second-hand residential house purchase and resale" can be segmented into two sectors, "detached houses" and "condominium units."

In the second-hand resale distribution of "detached houses," KATITAS and REPRICE together comprise a dominant No. 1. With a 14.5-times gap with the follower T, Inc. in 2019 growing from 12.8-times and 11.9-times respectively in 2018 and 2017, we are expanding the lead year by year.

On the other hand, in the second-hand resale distribution of "condominium units," there is a sea of companies trading as many as 1,000 units annually, constituting a heavily intense competition.

In "detached houses", risks unique to themselves such as "termites", "leaning," "right issues" and "assessment of highly individual properties" exist. Accommodating these particular risks, we perform initial purchases and remodeling, exploiting all available expertise built on track record transactions of an accumulated total of over five million houses.

With our efforts of running our business as community-based and by setting "secure, clean and practical" as our corporate credo, we are committed to reselling our properties, resolving those concerns about second-hand residential houses.

“Ecosystem” that is organically connected



We conduct business in local cities of 50 to 300 thousand population as the primary areas of business. With less scalability of the house trades on our own, relationship with outside stakeholders has become a critical growth factor.

We began the initiatives of renewal business of second-hand residential houses in 1998 and implemented speedy, nationwide expansion from then on. Establishment of the store network and relationship with outside stakeholders as well as numerous failure cases have become the first-mover advantages and are shaping the entry barriers to our contenders.

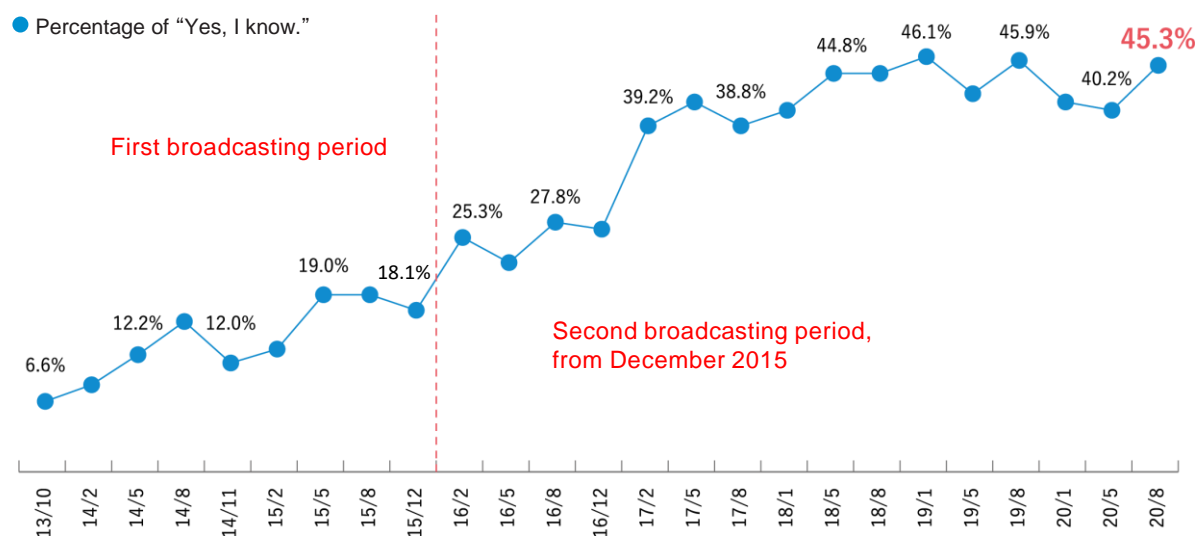
Not built overnight, the organically tied “ecosystem” formed around KATITAS has helped us secure the sweeping leader positioning in the “resale business of second-hand residential houses.”

Recognition of KATITAS in “rural communities”

Our TV commercials are broadcast in areas other than the three major metropolitan areas.

Through implementation of the TV commercials in a comical rhythm with ear-friendly sounds, we have been successful in continuously gaining high-level recognition in the TV commercials reach areas for the “Choose KATITAS when you buy a house in rural communities” branding. (Watch the TV commercials here: “There goes Kaitori birdy (15 sec.)” and “But why? (15 sec.)”)

Q. Do you know a company called KATITAS? (Stats of the TV commercials reach areas)

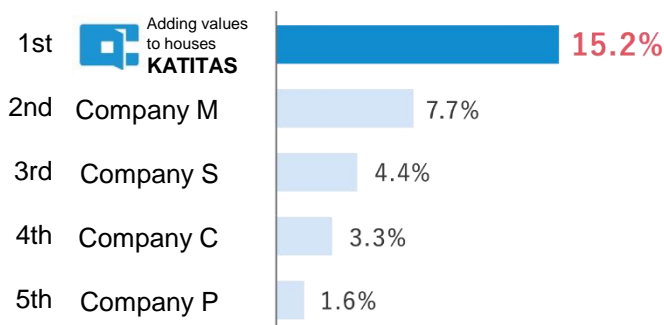


Using the “Kaitori (purchasing), Kaitori, Kaitori, Kaitori KATITAS” phrase in the TV commercials, we have implemented a purchase-focused branding. As a result, we have gained as strong recognition as getting KATITAS recalled first as the “company you would sell your house to” through an unaided recall survey.

Recognition survey results ^{*4}

Q. Which company does “A company you would sell your house to” remind you?

(Conducted in Jun 2020. Stats from the KATITAS TV commercials reach areas.
Responses to a no-choice, unaided recall question.)



“There goes Kaitori birdy (15 sec.)”



“But why? (15 sec.)”

Source: Web survey outsourced to Search Light K.K. (Out of the 1,100-parameter each time in 10 prefectures as rotational target. Above chart represents stats in the TV commercial reach areas.)

Highly acclaimed by an external rating agency

Winner of the METI Minister Award for advanced remodeling companies (2015)



- Establishing a mechanism to enhance customer satisfaction, including minimized remodeling costs for second-hand houses, the company is running the resale business of second-hand residential houses focused on detached houses in rural communities.
- In addition to addressing the vacant home issues, the company is contributing to enhanced health of the second-hand residential house distribution market setting **unique building and quality standards** as the top runner.



Winner of the Porter Prize (2017)



Check the reason for awarding by double-clicking on the URL below or the icons above.
<https://www.porterprize.org/english/pastwinner/2017/12/05174615.html>



- “The Porter Prize” is an award focused on **“implementation of outstanding competitive strategies.”**
- The Porter Prize bestows recognition on companies that have **achieved and maintained superior profitability** in a particular industry by implementing **unique strategies** based on innovations in products, processes, and ways of managing.
- Factors that have contributed to the awarding are reselling the houses at a reasonable monthly repayment of the mortgage comparable with the amount paid as rent for an apartment, and providing good-quality homes in areas of declining population where there is a limited supply of newly built homes.

Reference for the KATITAS disclosure on respective ESG posting items

SASB

Social	Social Capital	Human Rights & Community Relations	P. 17
		Customer Privacy	KATITAS website
		Data Security	KATITAS website
		Access & Affordability	P. 10
		Product Quality & Safety	KATITAS website
		Customer Welfare	P. 10
		Selling Practices & Product Labeling	P. 21
	Human Capital	Labor Practices	P. 12
		Employee Health & Safety	P. 12
		Employee Engagement, Diversity & Inclusion	P. 12, 13
	Business Model & Innovation	Product Design & Lifecycle Management	P. 5, 6
		Business Model Resilience	P. 7
		Supply Chain Management	P. 14
		Materials Sourcing & Efficiency	P. 20
		Physical Impacts of Climate Change	P. 5, 6
Environmental	Climate Change	GHG Emissions	P. 5, 6
		Air Quality	P. 5, 6
		Energy Management	P. 5, 6
		Water and Wastewater Management	N/A
		Waste and Hazardous Materials Management	P. 5, 6
		Ecological Impacts	P. 5, 6
Corporate governance	Leadership & Governance	Business Ethics	P. 3, 15 - 17
		Competitive Behavior	P. 14, 19, 20
		Management of the Legal and Regulatory Environment	P. 15 - 17
		Critical Incident Risk Management	P. 15 - 17
		Systemic Risk Management	P. 15 - 17

Value-creation
Story of KATITAS

Materiality
(Critical Challenges)

Initiatives for
ESG Materiality

Other Non-financial
Information of KATITAS

Reference in the KATITAS disclosure
corresponding to ESG-related items

Social	Human capital	Labor Management	P. 12
		Health and Safety	P. 12
		Human Capital Development	P. 12, 13
		Supply Chain Labor Standards	P. 12 - 14, 20
	Product liability	Product Safety and Quality	KATITAS website
		Chemical Safety	N/A
		Financial Product Safety	N/A
		Privacy and Data Security	KATITAS website
		Responsible Investment	P. 7, 8
		Health and Demographic Risk	P. 11
	Stakeholder opposition	Controversial Sourcing	N/A
	Social opportunities	Access to Communications	P. 10
		Access to Finance	N/A
		Access to Healthcare	N/A
		Opportunities in Health and Nutrition	P. 9, 11
Environmental	Climate Change	Carbon Emissions	P. 5, 6
		Product Carbon Footprint	P. 5, 6
		Financing Environmental Impact	N/A
		Climate Change Vulnerability	P. 5, 6
	Natural resources	Water Stress	N/A
		Biodiversity and Land Use	P. 5, 6
		Raw Material Sourcing	P. 20
	Pollution and waste	Toxic Emissions and Waste	P. 5, 6
		Packaging Material & Waste	N/A
		Electronic Waste	N/A
	Environmental opportunities	Opportunities in Clean Tech	N/A
		Opportunities in Green Building	P. 5, 6
		Opportunities in Renewable Energy	P. 6
Corporate governance	Corporate governance	Board Diversity and Executive Pay	P. 15 - 17
		Ownership and Control	P. 15 - 17
		Accounting	P. 18
	Corporate behavior	Business Ethics	P. 3, 15 - 17
		Anti Competitive Practices	P. 14, 19, 20
		Corruption and Instability	P. 15 - 17
		Financial System Instability	P. 18
		Tax Transparency	P. 18

33 themes from the GRI Standards

Social	Employment	P. 12, 13
	Labor/Management Relations	P. 12, 13, 16, 17
	Occupational Health and Safety	P. 12, 13
	Training and Education	P. 12, 17
	Diversity and Equal Opportunity	P. 12, 13
	Non-discrimination	P. 17
	Freedom of Association and Collective Bargaining	N/A
	Child Labor	N/A
	Forced or Compulsory Labor	N/A
	Security Practices	N/A
	Rights of Indigenous Peoples	N/A
	Human Rights Assessment	P. 17
	Local Communities	P. 9, 14, 20, 21
	Supplier Social Assessment	P. 14, 20
	Public Policy	P. 8, 9, 22
	Customer Health and Safety	P. 9, 10
	Marketing and Labeling	P. 21
	Customer Privacy	KATITAS website
	Socioeconomic Compliance	P. 8, 9, 15 - 17
Environmental	Materials	P. 20
	Energy	P. 5, 6
	Water and Effluents	N/A
	Biodiversity	P. 5, 6
	Emissions	P. 5, 6
	Effluents and Waste	P. 5, 6
	Environmental Compliance	P. 5, 6
	Supplier Environmental Assessment	N/A
Corporate governance	Economic Performance	P. 15, 19
	Market Presence	P. 19
	Indirect Economic Impacts	P. 7, 8, 11
	Procurement Practices	P. 14, 20
	Anti-corruption	P. 15 - 17
	Anti-competitive Behavior	P. 14, 19, 20

Value-creation
Story of KATITAS

Materiality
(Critical Challenges)

Initiatives for
ESG Materiality

Other Non-financial
Information of KATITAS

Reference in the KATITAS disclosure
corresponding to ESG-related items