Chapter 1 The Story of the Group's Value Creation

1 The Group's value-creation process

We solve social problems by operating a cyclic relationship between "developing our businesses," which are of service to the public, and "strengthening our bases."

By reinforcing this virtuous cycle, we aim to realize both a sustainable society and continuous growth for the Daiwa House Group.

Business resources that help us generate value (Inputs) Social and Relationship Capital [Base/Business]

Long-term relationships of trust with our stakeholders

.....approx. 360 thousand Customers*..... Community residents, cooperative business partners

Corporate brand

* Total number of Daiwa Family Club members, rental housing owners and members of clubs for landowners in our commercial facilities business

[Base]

The human resources that support our continued evolution along the lines laid down by our founder

Number of employees (consolidated) approx. 47,000

Financial Capital

[Business]

Firm financial base

Debt-equity ratio.. ...approx. 0.5 times

Intellectual Capital

[Base]

Operational know-how built up over many years Knowledge management/ Proposal-based marketing/

LOC System/ Patents/ Intellectual property rights

Manufactured Capital

A wide variety of construction methods and styles, born of the "industrialization of construction"

Factories	9
R&D centers	2

Natural Capital (FY2019 results)

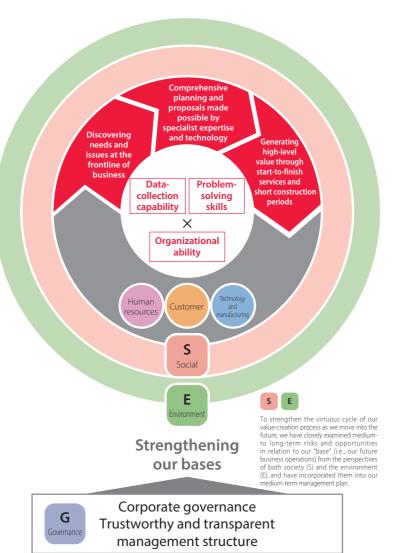
Zero environmental impact products, manufacturing, and procurement systems

.. 8,866,000 GJ Energy consumption Water consumption9.841.000 m³

(as of March 31, 2020)

The Starting Point Pursue businesses that are of service to people

Developing our businesses



By "developing our businesses," we mean employing the technologies and know-how that we have developed to address needs and problems at the frontline of our business, as well as new concepts, to draw up multi-functional plans and make proposals to our customers, and to generate valuable, high-quality products with short construction periods. By developing our businesses in this way, we will maintain our long-term relationships with our customers, our manufacturing expertise (monozukuri), through which we pursue safe, high-quality products, and the nurturing of qualified human resources, and will strengthen our three core bases, which generate value. We aim to leverage these strong bases to create new business opportunities and continually generate new value.

The Group's operating environment—both the natural environment and the social environment—is undergoing rapid change. I believe that it will be difficult to continually create value if we do not constantly anticipate the results of such changes and identify the risks and opportunities for the Group's management posed by them. To enable us to contribute to realizing a sustainable society and to achieve sustained growth for the Group, we continue to employ effective governance to simultaneously minimize risks and maximize opportunities.

Contributing to society through business (Outputs)

Developing our businesses

<Creating economic value/Generating cash flows> (FY2019 results)

Net sales¥4,380.2 billion Operating income ¥381.1 billion ROE..

Number of housing units sold (domestic)..... Retail and wholesale facilities constructed Development site area of logistics facilities (cumulative figures) approx. 8,140,000 m²

Housing units under management 966.706 Number of renovations.....approx. 53,000 Leasing floorspace of sublease areas within commercial facilities

Strengthening our bases

<Enhancing enterprise value/ Strengthening our bases> (FY2019 results)

Providing businesses that help the environment ZEH sales rate*1

E	ZEB sales rate*2
	Strengthening our environmental management foundation
	Number of those who acquired the Eco Test certification
	*1 Single-family houses (units) *2 offices, factories, warehouses (floor space)

41.0%

Human resources base

Steps to improve job satisfaction Training female managers

Reducing overtime hours Overtime hours 30.2 hours (5.0 fewer hours per month on average compared to FY2014) Improving rate of obtainment of paid holidays......68.2%

Customer base

Steps to enhance branding Strengthening customer satisfaction system

Technology and manufacturing base

Using IT and BIM at building sites for higher productivity Strengthening safety management system

Positive effects on society, and sustained enhancement of our enterprise value

(Outcomes)

Social and Relationship Capital Solid relationships of trust with

our customers

Repeat order rate

(rental housing)....

Ratio of housing sales by referral

(overall satisfaction rate)............79.1%

Solid relationships of trust with

Survey of business partners

our business partners

Solid corporate brand

 Communities where people can reside for a long period Safe & secure daily life

- Long-lasting quality housing ratio Diverse lifestyles to suit different
- stages of life Better health and leisure

[Business]

- Establishment of urban infrastructure
- for changing industrial structures • Greater convenience in daily life

 Motivating our employees Self-reported motivation rate...

 System for training and retaining young staff Retention rate of employees (all age groups)..... System for translating diversity into results

Number/percentage of female staff promoted to managerial grade (percentage of all employees in same grade).....

Financial Capital [Base] Generating shareholder value

Earnings per share (EPS).....37.3%

Intellectual Capital [Base]

• Real estate development system for realizing social inclusion Solid system for generating innovation

• Technology revolution through new products and new technology

Number of patents....

Manufactured Capital [Base] High-productivity factories and building sites

Number of days off per annum for factory workers... Ensuring effective safety management system Frequency of accidents at building sites...

Natural Capital

[Business] Slowing and adapting to climate change Contribution to GHG reduction

.....4.968 million t Power generation using renewable energy sources......457 GWh

Harmony with the natural environment Urban greening......706,000 m²

from business operations GHG emissions..... Waste emissions (Final disposal) 51.000 t Release and transfer of PRTR-listed substances 92.0 t VOC emissions......557.3 t

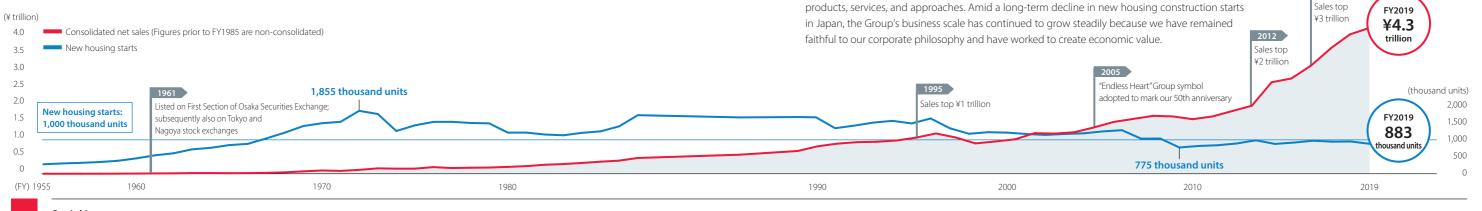
Minimizing environmental impact

(FY2019 results)

Daiwa House Group Integrated Report 2020 Daiwa House Group Integrated Report 2020 2 The history of the Daiwa House Group

"Doing things because they will be of service to society"—this is our guiding motto, and with these words always in our minds, we have responded to changing social issues by launching many new products and services onto the market, thereby constantly generating economic value.

Consolidated net sales and new housing starts



Social issues 1955

Postwar housing and materials shortage

1970s

Progressive motorization of Japanese society

1980s

Extensive land-use database, relationships with customers

Preparing for advent of aging population

2000s

Retailing revolution with advent of Internet dominated society

Countermeasures against global warming and natural disasters

2010s Diversification of real estate investment methods

Solutions through our businesses

Industrial construction

Solving the postwar materials



1955—the Pipe House, our first product Mr. Ishibashi conceived the idea of a steelpipe structure, and this led to Daiwa House becoming a pioneer in the industrialization of construction, which revolutionized Japan's onstruction industry.

Solution to housing space shortage caused by rising birthrate



1959—Midget House developed The sounds of children at play gave Mr. Ishibashi the idea for the Midget House, which could be erected in only three hours and used as a children's study room. This proved immensely popular, laying the groundwork for Japan's prefabricated housing industry.

1962





1976—The birth of the LOC System In our retail & wholesale facilities business we began matching landowners who wished nerate revenue from hitherto idle plots with prospective corporate tenants in the wholesale and retail sectors, and a whole new market was born

Providing a safe and secure housing environment for senior citizens



This was a unique research institution dedicated to market surveys and analysis of problems relating to medical and nursing care facilities. This was an example of our expansion into the business of linking construction proposals with facility-management proposals.

1989—Silver Age Research Center

Real estate development

Development of large-scale logistics facilities



2003—Start-up of "D Project" We began offering a one-stop service encompassing everything from selection, purchase and preparation of site, through design and construction of facilities, to start-tofinish management support. We thus became an indispensable part of the logistics sector, and the public's standard of living.

Helping address global environmental issues



housing with a short construction period, constituting a revolution in the construction industry of Japan. Since then, following our founder's quiding principle of "doing things because they will be of service to society," we at Daiwa House have employed a flexible mindset to invent and launch a stream of new

> 2007—Entered wind power electricity business Recognizing the importance of environmental issues, we expanded our sphere of operations through a fully-fledged entry into the field of generation of electric power using renewable energy sources such as solar power and wind

Real estate securitization



2012—Daiwa House REIT Investment Anticipating an acceleration in real estate investment, we devised stronger exit

Corporation listed on REIT market strategies. By developing high-quality we contributed to the growth of the J-REIT

absence system enabling staff to take care of training program to produce the next

elderly relatives or engage in baby care) to help generation of top managers

2008

Popularizing natural disaster-resistant housing



2014—I aunched the yevoΣ We helped popularize long-lasting, high

quality homes that can resist damage from earthquakes and that offer high ceilings and

1955

We adopted "Developing people through business" as our Company Philosophy (Corporate Creed)

Corporate pension plan introduced to improve employee benefits program 1963

First edition published of "The Future of the Daiwa House Group," a training manual that serves as a signpost for our employees.

We devised Japan's first residential mortgage loan system to address the issue of home-seekers difficulty in securing funds to buy their own homes

To enhance our after-sales service system, we direct control of the head of each business office.

We strengthened our long-term relationships with land owners by establishing clubs for the owners of rental housings

2007

We supplied thirty percent of the total amount of Great Hanshin Earthquake of 1995.

Introduction of support system (leave-of-

employees achieve a good work-life balance

1962

We set up a joint occupational training center within our Sakai Plant to improve our business partners' training systems for technical staff and strengthen their on-site construction systems.

1965

We built Japan's first plant for the production of prefabricated housing, making it possible to mass-produce prefabricated houses.

1980

We established the Central Research Laboratory and commenced research on the central theme of living in harmony with the natural environment. This research would lead to the adoption of our catchphrase Asu Fukaketsuno.

2013

"Daiwa House Juku" commenced—a

Second-tier general-construction contractor Fujita joins the Group, helping speed up our While anticipating people's future needs, we will strengthen and expand our value chain so as to evolve a business model focused on addressing social issues. In this way, we aim to capture more new business opportunities.

Diverse value chain Flow business Stock business Land selection & Real estate development Management & operation acquisition Planning & Design & Value enhancement estate **Proposals** for development construction Buy and resell securitization Construction the use of idle land **Single-Family Houses** Daiwa House Industry, Stanley-Martin Communities, Rawson Group **Rental Housing** Daiwa House Industry Daiwa Living COMPANIES Daiwa House Industry, Cosmos Initia Condominiums Daiwa LifeNext Seize growth opportunities Expand business spectrum **Existing Homes Commercial Facilities** Daiwa House Industry, Daiwa Lease Daiwa Royal, Daiwa Information Service Daiwa House Industry, Fujita, Daiwa Lease Corporate Facilities Royal Home Center, Daiwa Logistics, DesignArc Construction support Daiwa House Industry, Daiwa Energy, Eneserve Corporation Daiwa Resort, Sports Club NAS Health and leisure Daiwa House Parking

Examples of our multi-purpose developments, made possible by our wide business spectrum



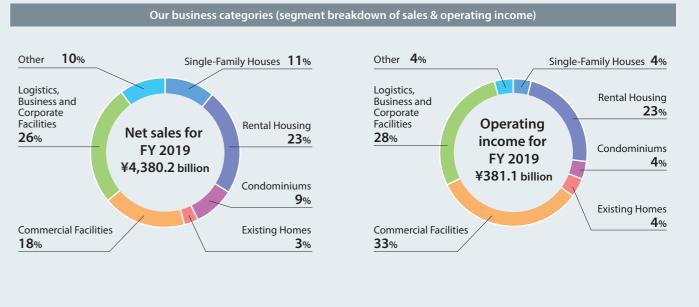
Takao SAKULa City (Tokyo) Single-Family Houses, Condominiums, Commercial Facilities, Parking

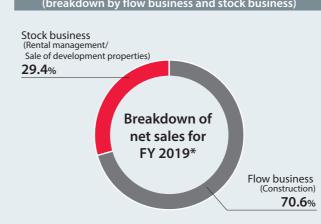


GRANODE Hiroshima Offices, Commercial Facilities, Hotels, Parking

The business in which the Group is engaged began with construction contracting based on the industrialization of construction. Since that start, we have diversified into a wide range of business schemes. These include making optimal use of land holdings by leveraging our accumulated store of land-usage data and our relationships with our customers, as well as real estate development. In these ways, we have expanded the variety of our construction formats by addressing a large number of pressing social issues. We simultaneously engage in flow business and stock business. These two business categories operate on differing cycles, and this helps expand our value chain, which in turn lets us capture a wide range of new business opportunities. Currently, real estate development is steadily growing into a more important revenue-earner compared with the situation back when Daiwa House began doing business.

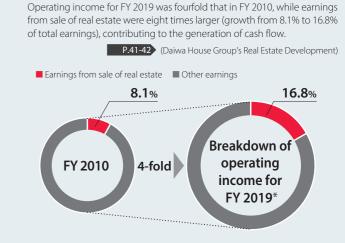
Going forward, by strengthening our capabilities in the field of multi-purpose developments—made possible by our abundance of different business categories—and by leveraging our extensive customer relationships to expand our Livness business and speeding up the development of our operations overseas through geographical expansion of our business, we will create new value for people all over the world in many different areas of life.





Our value chain





Changes in earnings from sale of real estate

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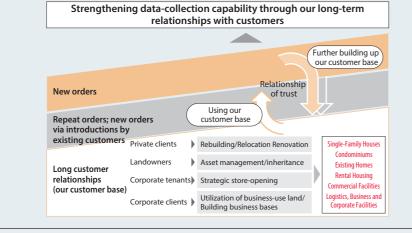
^{*} excluding other businesses

The source and origin of our value creation consists of our three "bases"—human resources base, customer base, and technology and manufacturing base—as well as our two strengths—data-collection capability and problem-solving skills, the organizational ability that we derive from the three-in-one matrix formed by our offices and branches, our business divisions, and our Group-member subsidiaries and affiliates.

The Starting Point Pursue businesses that are of service to people Three bases A company that develops people The spirit of our founder through business Preparing an environment for employees to grow in Our leadership Human resources Bottom-up approach/ Positive attitude base A company with highly motivated staff Human resources able to Highly motivated that has imbibed the human resources solve social problems Reassurance that encourages challenge attitude to business of our founder Work style reforms Strengthening Diversity and Initiatives on priority issues for P.47 (Strengthening human resource the human resources base the Human Resources Base and recruiting

Customer base
created by many years of close relationships with our customers

P.48 (Strengthening



Technology and manufacturing base which embody the value our customers seek

and Manufacturing Base)



Manufacturing Platform

Our human resources base has inherited the business stance of the founder of Daiwa House, and has been the main driving force behind the Group's continual evolution. Our solid customer base is the product of close long-term relationships with our customers. And our technology and manufacturing base is what has enabled us to incorporate the value desired by customers into our products and services. Finally, our two "strengths"—our data-collection capability and our problem-solving skills—which are derived from the three bases, have been built up over many years of business operation, and constitute the Group's most important intangible asset.

At the same time, the Group's organizational ability—the fruit of our measures to strengthen and expand our value chain, and to expand the variety of different businesses in which we engage—is born of our branches and offices (which are intended to practice a "front-line-centered business style" and speedy operation), our business divisions (which optimally leverage our unique set of specialist skills, such as proprietary technology and knowhow), and Group-member subsidiaries and affiliates (which deploy the unique characteristics of their business fields, and work in close collaboration). We are currently working to restructure our business execution system—which takes into account the unique characteristics of each business and geographical region—as a means of further strengthening the comprehensive power of our three-in-one matrix.

The combination of these important intangible assets and strong organizational ability forms to driving force for value-creation, which supports the process of "evolving our businesses." By utilizing as our greatest strength our ability to make effective multi-purpose project proposals—which have come into being as a result of the elements described above—we will be able to offer a full start-to-finish service that will contribute to society through urban development.

Data-collection Extensive information on the status and usage of land holdings, obtained from our nationwide network of offices

Our extensive collection and analysis capability relating to data on land holdings and potential tenant companies has been built up over many years of close relationships with our customers, and constitutes an important intangible asset.

Our marketing staff, who are stationed at each of our places of business around Japan, work to build up and maintain a relationship of trust with land owners and tenant companies, and this creates the Group's data collection and analysis capability. Because of this, we are able to match up land owners who want to make more effective use of their holdings with business corporations that are looking to construct new retail outlets, offices, or logistics facilities in order to expand their operations. It makes it possible for us to devise ideal solutions for our customers.

Land-use data
Data on tenant companies

—Our greatest strength —

Comprehensive

business proposal

capability that

contributes to

society from

start to finish

Data-collection capability

made possible by our long-term relationships with customers Problem-Solving skills

honed by meeting customer needs

Two strengths

X

Organizational ability

Branches & offices, enabling speed and a bottom-up approach

76
places of business*1

Business divisions, which enhance and leverage specialization

8 divisions*2

Group companies, which create synergy

360

Large-scale complex development

1 as of April 1, 2020

*2 This report shows Daiwa House Industry's eight business divisions (Single-Family Houses, Rental Housing, Condominiums, Livness, Commercial Facilities, Logistics, Business and Corporate Facilities, Environment and energy, Overseas).

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Strengthening our B

Bases

age from the CF

Data Section

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We will continue flexibly adapting to social changes and addressing social issues. We will expand our sphere of business to pursue further continuous growth, will co-create value "for individuals, communities, and people's lifestyles" so as to lead the way to a brighter future, and will work to realize our management vision.

Our founder, Nobuo Ishibashi, believed that we should become an enterprise that is essential to a sustainable society, and expressed a strong desire to make a major contribution to solving society's problems. As part of this, he passed down to us the dream of achieving ¥10 trillion in net annual sales by the Company's 100th anniversary in 2055.

We aim to achieve the dream expressed within our corporate vision —"to realize society where people can live truly fulfilling lives"—in order to continuously enhance the Group's enterprise value going forward by grappling with materially important issues and creating a continuous virtuous cycle through the two processes of "developing our businesses" and "strengthening our bases." In addition, we will contribute to the achievement of sustainable development goals (SDGs), centered on our catchphrase "Asu Fukaketsuno" (Indispensable for Tomorrow), which we see as our key issue going forward.



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