

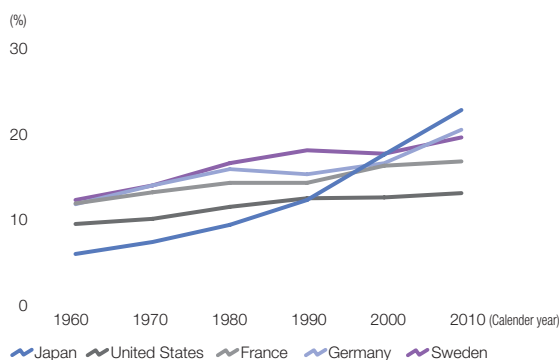
FuKaKeTsu – The Byword for Growth in New Markets

From the time of its founding, Daiwa House has consistently identified ways to achieve growth in every area of housing. Our sources of growth are an innovative spirit that generates ideas and a willingness to invest our resources in creating demand for these ideas. We believe that the key word for exploring new markets and achieving growth in the future Japanese market is *FuKaKeTsu* (meaning “essential”).

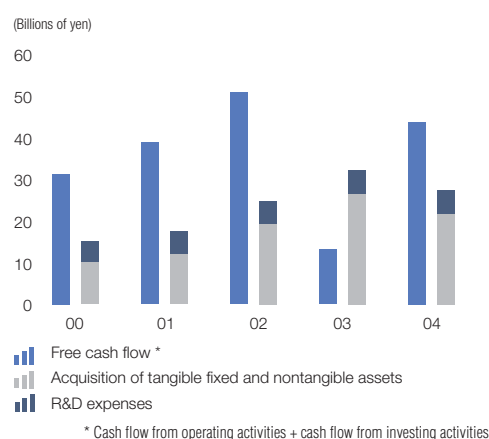
The first syllable *Fu* stands for *Fukushi*, denoting medicine and welfare. We have an excellent track record in this area, having completed 970 healthcare projects, ranging from facilities for the elderly to cutting-edge multifunction nursing homes under the auspices of the Daiwa House Silver Age Research Center, which plays a leading role in the nursing and healthcare construction segment. We aim to dominate the medical care and welfare market on the strength of the advanced consulting capability we have developed in the construction and management of nursing and healthcare-related facilities.

The second syllable *Ka* is for *Kankyo*, the environment, a field where great technological development is expected. We will seek to find and take advantage of opportunities for new environmental businesses by promoting technological research in cooperation with other industries, governments or universities. This research will focus on reducing the burden on the environment with longer building life, developing wind and solar-generated electricity, recycling waste building materials, and offering rooftop gardening.

Global comparison of aging populations



In-house capital investment





The third syllable *Ke* stands for *Kenko*, healthcare. We will bolster our competitive edge through research into next-generation facilities enable people to manage their health in the home. Our products will also incorporate developments related to the housing environment, such as air ventilation, air quality, natural lighting and illumination.

The last syllable *Tsu* represents *Tsuushin*, namely information and communication technology (ICT) and telecommunications. With more than 30% of Japanese households now enjoying broadband access, we are experimenting with practical applications of ICT in the home by incorporating an internal network into a model house.

We will strengthen the function of our Central Research Laboratory and vigorously invest in intellectual property. We plan to bolster research and development expenses 12% from the previous term, to ¥6.3 billion in fiscal 2004, and we will expand this budget to ¥20 billion in the future, to ensure that sales of the Daiwa House group reach ¥10 trillion.

Main Improvements Made in FY2001–2003

New Group Management Structure

	FY2001-2002	FY2003
Management	<ul style="list-style-type: none"> • Directors' term of office cut from 2 years to 1 year • Middle management workforce reduced by 50% • Risk management bolstered • Change from division-based to branch-based organization • Introduction of performance-linked pay system for branch managers • Reduced number of companies for more customer-focused management • Introduction of points system to calculation for lump-sum payment at employees' retirement • Establishment of risk management committee • Online disclosure of invitations to shareholders' meetings (Japanese/English); online execution of voting rights (Japanese only) 	<ul style="list-style-type: none"> • Introduction of in-house entrepreneur system • 1 corporate auditor (outside) added, making 5 corporate auditors • Pressing ahead with reinforced initiatives in the field of CSR • Support for purchase of low-emission vehicles by employees (cars owned by staff who visit clients and used both for work and private use)
Operations	<ul style="list-style-type: none"> • Aggregate housing sales pass 1-million unit mark • First prefabricated house featuring earthquake-dampening system launched • Insulation method for outer walls adopted • Launch of wooden house series • ISO14001 certification acquired by factories and purchasing divisions • Seven local sales companies established • Marketing, design, product development functions reorganized along regional lines • Renovation & rebuilding services expanded • Voluntary Environmental Action Plan drawn up • All 13 factories reach zero-emission targets 	<ul style="list-style-type: none"> • Earthquake-dampening system improved and costs reduced • Crime-prevention specifications installed as standard equipment • Meeting standards stipulated in the revised Building Standard Law to prevent the sick house phenomenon • New construction method for wooden houses developed • Companies specializing in housing loans and renovation established • Resort hotel business returns to profitability
Financial position	<ul style="list-style-type: none"> • Interest-bearing debt reduced by ¥80.1 billion • An unrealized loss of ¥59.9 billion recorded on land revaluation • SG&A expenses reduced • Changes in accounting policies for retirement benefits • Total elimination of unrealized loss on land • Debt-free management achieved on a non-consolidated basis • Termination of agency service for government-run employee pension fund • Loss recognized on liquidation of affiliates • Extraordinary depreciation of property exceeding about ¥75 billion 	<ul style="list-style-type: none"> • Early application of impairment loss evaluation for fixed assets • Recommencement of shareholder special benefit plan • Contribution of about ¥25 billion to the welfare pension fund • Disclosure of quarterly results begin

From traditional value standards

Toward a brighter future