

Message from the CFO



The financial reforms that we instituted in fiscal 2002 enabled us to record a strong operating performance in fiscal 2003. The rates of growth we achieve in both sales and profit outpaced the average for listed companies*¹ and we raised ROE to more than 7% for the first time in seven years. These achievements came despite the fact that the construction and real estate industry continued to suffer from a high reliance on debt, as construction costs rose, although the Japanese economy entered its third recovery since the bursting of the economic bubble. The price of shares in our parent company was double the level recorded at the end of the previous term, and we increased our annual dividend by ¥5 to ¥15, giving us a payout ratio of 25.6%. As the CFO of the Daiwa House group, I would like to express my sincere gratitude for the consistent support our shareholders have shown us.

In fiscal 2003, we further strengthened our balance sheet and posted a one-time loss of ¥11,327 million, mainly reflecting a reexamination of real estate held for sale, the early application of impairment loss evaluation on fixed assets, the disposal of certain home centers and the reduction of deferred tax assets related to the revaluation of lands. As a result, shareholders' equity ratio rose 1.1 percentage points from the previous term, to 45.3%, well above the 30.2% average for fiscal 2003 for Japanese companies closing their books between January and March.

*1: 1,382 Japanese companies listed on the Tokyo Stock Exchange, consolidated basis: Sales +1.8%, Operating income +14.5%

*2: Resolution at the general meeting of shareholders on the settlement of accounts for fiscal 2003.

Our consolidated financial statements at a glance

Consolidated statement of operations			Millions of yen
Account title	2004	Yoy Change	
Net sales	1,224,648	40,104	
Operating income	59,661	14,389	
Other income	8,236	208,665	
Amortization of actuarial gain (loss) for employees' retirement benefits	15,460	20,385	
Income before income taxes	67,897	223,054	
Net income	37,257	128,645	

Consolidated statement of cash flows			Millions of yen
Account title	2004	Yoy Change	
Income before income taxes	67,897	223,054	
Depreciation	15,165	(6,221)	
Provision for employees' retirement benefits, net of payments	(30,067)	(115,069)	
Net cash provided by operating activities	69,659	29,200	
Net cash used in investing activities	(25,937)	1,379	
Net cash used in financing activities	(6,126)	51,587	

Consolidated balance sheets			Millions of yen
Account title	2004	Yoy Change	
Current assets	496,291	27,995	
Property, plant and equipment	344,268	(5,378)	
Investments and other assets	247,099	(29,400)	
Investment securities	45,801	19,813	
Investments in and advances to associated companies*	46,921	21,021	
Total	1,087,658	(6,783)	
Current liabilities	279,453	10,642	
Long-term liabilities	295,762	(23,427)	
Liability for employees' retirement benefits	103,237	(33,243)	
Shareholders' equity	493,050	9,366	
Retained earnings	313,215	23,375	
Net unrealized gain on available-for-sale securities	12,958	12,181	
Total	1,087,658	(6,783)	

- ① Increase in operating income with a reduction of depreciation expenses
- ② Increase in net cash provided by operating activities through an increase in profit
- ③ Decrease in liability for employees' retirement benefits with a good performance on pension investment and a lump-sum payment of contribution to welfare pension fund
- ④ Enhancement of capital through a V-shaped recovery of profit
- ⑤ Expansion of capital with the increase in the market value of stockholdings

* Investments in associated companies amount to ¥30,289 million.

We also made a lump-sum contribution of approximately ¥25 billion to our welfare pension fund, the public portion of which we returned to the government, to compensate for the shortfall in the reserve. We plan to make an additional contribution in September 2004 to ensure that our pension financing is sound.

With respect to capital strategy, we revised the Articles of Incorporation*² to make decisions on the purchase of our own shares subject only to resolutions of the Board of Directors. This will enable us to make decisions more flexibly, especially in the context of mergers and acquisitions, from a group management perspective.

The Daiwa House group will work towards its aim of a bright future based on the group management structure. I will promote financial strategies that emphasize cash flow based on a sound debt-free balance sheet and will strive to increase value for shareholders over the long term, using as an indicator profitability that is on a par with that of the world's leading companies, notably an ROE of about 15%.

Tetsuji Ogawa
Executive Vice President and CFO