

## *Interview with the Management*

Focusing on developing distinctive products amid harsh management conditions

**Q:** *In the term under review, the housing industry saw a bigger than expected drop, suffering from the accumulated effects of a hike in the consumption tax rate in April 1997 and growing economic uncertainty caused by the collapse of major financial institutions. How did you cope with these difficult conditions?*

**A:** The slump in spending after the hike in the consumption tax included housing demand entering a downward trend. The number of new housing starts during the term was 1,340,000, down 18% from the previous year. Further, general construction was sluggish, reflecting the still cautious attitude toward capital investment in many sectors. As a result, consolidated net sales fell 10.0% from the previous period, to ¥1,069,789 million (US\$8,104 million), income before income taxes and translation adjustment was down 42.5% to ¥48,643 million (US\$369 million), and net income fell 52.0% to ¥20,373 million (US\$154 million), all of which are less than satisfactory results. We, the management, take these results very seriously, and we will pour all our energies into efforts to strengthen our corporate structure so that it can win through in an era of competition.

**Q:** *Sluggish demand for housing is likely to lead to even fiercer competition within the industry. What measures have been taken as a strategy to distinguish Daiwa House from its competitors?*

**A:** The Company will push forward with developing products on the premise that the main features of housing should reflect the four concepts of health, comfort, safety, and peace of mind. We believe that quality and environmental awareness will be major turning points in the coming battle for sales. Therefore in March 1998 we implemented measures against volatile organic compounds emitted from building materials in all our single-family housing and apartment building products. We are the one of the first in the industry to take this stand, and we are convinced that this will have a large influence on customer choice.

On the sales front we focused our energies on supplying a wide range of products and plans that offer a great deal of variety in order to accurately respond to diverse customer needs. Among the term's new products, "Le Grand Cher," a 2-story house that offers quality at an affordable price, was chosen as a Good Design Product by the Ministry of International Trade and Industry. We also launched "Le Grand

Sylphe," a 2-story free-design house that allows customers to choose from a copious array of exteriors, interiors, and fittings. Further, we responded speedily to deregulation, under which 3-story apartment buildings can be freely erected, even in large cities, if they meet fire-prevention standards, by improving the fireproofing of our 3-story apartment building "High Camour ST," which has thus become the first product in the prefabricated housing industry to be certified as a quasi-fireproof construction.

Promoting high-quality management that pays attention to the environment from product development to the production site

**Q:** *With 12 of the Company's domestic plants receiving ISO9002 certification for quality assurance and quality control, Daiwa House is taking a lead in the industry. What progress was seen in quality assurance and production systems during the term under review?*

**A:** In November 1997 our technical development divisions obtained ISO9001 certification for quality assurance. This means that everything from the Company's research and development to its production divisions is recognized as being of world-class quality. Daiwa House is committed not to merely achieving quality in line



Nobuo Ishibashi (Center)  
Representative Director &  
Senior Adviser  
Keiichi Uemura (Left)  
Representative Director &  
Chairman of the Board  
Nobuyasu Ishibashi (Right)  
Representative Director &  
President

with domestic and international standards, but to creating its own customer-oriented standards by doing the utmost to do business from the customer's point of view. Turning to supply systems, work was completed on the Okayama Plant, which is to act as central manufacturing base for prefabricated housing components, and it began shipping components to nearby plants and construction sites in October 1997. It will create an efficient production system and further strengthen operational capabilities.

**Q: In November 1997 the Company launched an environmental policy under the theme of "aiming to be an even more fruitful 'comprehensive life-related enterprise' by pressing ahead with the 'industrialization' of construction while being in harmony with the environment." Could you elaborate on this?**

**A:** As an enterprise involved in the manufacturing and construction

of housing, we believe that it is necessary for the Company not only to set up its own environmental standards, but also to offer products that meet standards in areas such as environmental friendliness, low energy consumption, health and safety, and creating a barrier-free environment. The Environmental Technology Division, which was established in October, carries out environmental appraisals on any given material, and sets its own appraisal standards. In concrete terms, our goal is to bring about what we call "Century Housing," easy-maintenance, high-performance housing that can be recycled or reused and can last a hundred years.

Furthermore, we are vigorously expanding our environmental activities of reducing consumption of resources and energy across the whole company, including at head office, the plants, branch offices, display sites, and construction sites. Over the medium to long term, we have a policy that calls for the complete elimination of emissions and waste products

from production and other corporate activities. As part of this, in April 1998 the Mie Plant was granted ISO14001 certification for environmental management and inspection. Preparations are underway to achieve this certification at the other 12 plants at the earliest opportunity.

#### Home center operations — on track for substantial growth

**Q: What trends were seen in home center operations, which is to become a major core business in the future, and resort operations, which center on the Daiwa Royal Hotels?**

**A:** Our home center operations are growing year by year, and it is a business area that holds a great deal of future promise. We opened 3 new branches during the term under review, bringing the total number of stores to 35 nationwide. Each store is trying to increase its appeal to customers not only by offering a plentiful assortment of lifestyle and housing

related goods, but also with various other measures, including developing store complexes together with retailers in other sectors, and offering house remodeling seminars.

Looking at resort operations during the term, we opened the Yatsugatake Royal Hotel in Yamanashi Prefecture and the Tonami Royal Hotel in Toyama Prefecture, bringing the total number of resort hotels to 29. With the opening of the Kushimoto Royal Hotel in Wakayama Prefecture in April 1998, we have achieved our preliminary goal of creating a nationwide chain of 30 hotels. We will strive to maintain stable earnings by accelerating the expansion of home centers across the country and strengthening the marketing capabilities of our resort operations by, for example, attracting corporate training sessions and conventions.

**Pushing forcefully ahead with strengthening marketing capabilities and responding to environmental concerns, based on a new corporate structure that will allow us to win out against the competition**

**Q: In closing, could you tell us about the Company's business directions for the years ahead?**

**A:** Although the government's comprehensive stimulus measures are expected to buoy the economy, a real recovery in

housing investment is still likely to be some way off, and the economic environment will probably remain harsh throughout the current term. Faced with such severe conditions, we have made expanding sales to beat the competition our top priority. Thus we are pushing ahead with enhancing our marketing capabilities, based on our business division system, which was partially revised in April 1998, and with rationalizing and strengthening our corporate structure so that we can respond promptly to customer needs.

In residential housing, we are working to develop sales and product strategies that are tailored to the customer, such as initial acquisition, rebuilding, and moving house, by carefully studying with local needs. In addition, we are involved in expanding the extension and remodeling business, a market with future growth potential. In April 1998 we launched a new 2-story house, which features high levels in areas such as the control of volatile organic compounds, environmental conservation, reducing energy consumption, and creating a barrier-free environment. It is a truly pioneering product in environmentally friendly housing, and as such it is gaining a great deal of attention in the industry.

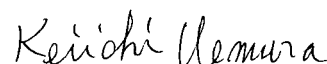
In home center operations, we have established our own standards in all areas such as products, store development, store

facilities, and store management, under the concept of being friendly to people and the environment, and we opened a model store that offers the customer the latest in comfort.

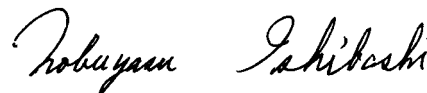
We intend to pour our efforts into improving results and maximizing earnings by expanding sales and further strengthening our competitive power across all business activities, while at the same time further strengthening our systems for dealing with environmental issues ahead of the competition.



Nobuo Ishibashi  
*Representative Director &  
Senior Adviser*



Keiichi Uemura  
*Representative Director &  
Chairman of the Board*



Nobuyasu Ishibashi  
*Representative Director &  
President*