

At a Cabinet meeting in January 1999, as part of its medium-to-long-term measures to revitalize the Japanese economy, the government adopted a “Strategic Plan for Doubling Living Space” aimed at improving the standard of living of the population. The target for housing construction starts in fiscal 2000 has been raised to 1,300,000 units, and the government has announced that housing will be assigned priority in the national budget over the next five years. In October 1998, the mortgage rate charged by Housing Loan Corporation reached a historical low of 2%, and since January 1999, home buyers taking out a mortgage have been eligible for tax relief. In this way, the authorities have positioned housing policies at the core of their overall economic stimulus measures. Daiwa House does not intend to let this golden opportunity slip from its grasp. We are not only exerting our full efforts to expand the volume of orders received, we are also strengthening our marketing power and product range, and have adopted a unique strategy with the aim of obtaining the No. 1 share in the housing market.

Achieving cost savings of over ¥30 billion thanks to rationalization measures

Q: The number of new housing starts in fiscal 1999 fell below the 1,200,000 mark for the first time in 15 years, to 1,170,000 units, leading to unfavorable accounts settlements for all the home builders. Could you first of all give us your evaluation of your business results in the term under review?

As the number of new housing starts in the previous term was 1,340,000 units, the fiscal 1999 figure represents a decline of approximately 13%. Even in the field of general construction, there was no recovery in demand, in spite of the increase in public works resulting from the government’s economic stimulus measures, owing to a sharp fall in private-sector capital investment. As a result, consolidated net sales fell 16.2% from the previous year, to ¥896,006 million (US\$7,405 million), income before income taxes declined 56.1% to ¥21,351 million (US\$176 million), and net income was down 18.0% to ¥16,699 million (US\$138 million).

These results are very regrettable, and we are making determined efforts to significantly improve the Company’s management efficiency and cost competitiveness. In particular, we have been quick to initiate streamlining measures, and we are confident that the cost reduction of over ¥30,000 million achieved during the term under review will contribute to strengthening the Company’s earnings from here onward.

Full-fledged entry into home renovation business via a product strategy that distinguishes Daiwa House from its competitors

Q: What measures have you adopted and implemented to deal with deteriorating market conditions?

It is becoming increasingly important to speedily pinpoint changes in the business environment and in market needs, and rapidly take the appropriate countermeasures. With the goal of bolstering our marketing capabilities, we launched a new business division system in April 1998, and in July 1998 we became the first major home builder to adopt an executive officer system. Specifically, we reduced the number of directors from 26 to 10. The new, smaller board of directors is able to make decisions much more swiftly.

The crucial element in product development is the extent to which we can satisfy our customers more fully than our competitors. For this reason, in fiscal 1999, Daiwa House became the first company in the industry to adopt “Healthy Housing Specifications,” in which the use of formaldehyde has been eliminated not only from finishing materials such as wall coverings, but also from backing materials for floors and walls, as the standard specifications for all housing products. This distinguished our products still more from those of our rivals.

Among the housing products to which these new health specifications have been applied are “Le Grand Socie,” launched in September 1998. This house model, which has proved very popular, comes in a wide variety of exterior designs, is priced in a



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reasonable range, and can be adapted to the climatic conditions of different parts of Japan, thus meeting the most exacting customer requirements.

We also developed a “21st century-type” solar power housing product, the “Whole-Roof Solar Energy System”—the first in the industry to utilize amorphous materials, which are more environmentally friendly than conventional materials—and launched single-family houses featuring this system.

Home renovation service also begun at home centers

Q: Daiwa House’s strength is that, as well as its housing operations, it possesses additional earnings bases in its home centers and resort operations. How do you see the current trends and future prospects of these divisions?

Sales by other operations, notably home centers, increased 8.9% in fiscal 1999 over the previous year. In the home center business, which we started up in 1980, three new outlets were opened in fiscal 1999, bringing the total to 37 outlets at term-end. Moreover, to add an extra dimension to these operations, and in response to customer demands in the field of home renovation, we started a “Renovation Support System.” I believe that we can look forward to considerable future growth through cooperation between the Company’s residential home operations and its home centers. We aim to stress those features that distinguish our outlets from those of the competition, namely, our specialization in home renovation, do-it-yourself goods, gardening products and similar items.

Turning to the Company’s resort operations, the Kushimoto Royal Hotel, our 30th hotel, was opened in April 1998. With this, we have attained our projected target, and can look forward to maintaining or even increasing earnings from this source. At the same time, we aim to strengthen our marketing by emphasizing the special features of our membership-type resort hotels.

Fail-safe measures to solve the Y2K problem

Q: The Year 2000 (Y2K) Problem is an issue of worldwide concern. What progress are you making in your Y2K countermeasures, and what are your cost projections?

We began reconstructing our information systems in 1994, and we have been taking countermeasures against the Y2K problem in parallel with this. Work on our core system was completed in March 1999, and we plan to complete confirmation tests on all other in-house information systems and dispersed systems, including PCs, by September 1999. We are receiving progress reports on Y2K compliance work from our principal affiliated companies, and on the basis of the information we have received, we do not expect the occurrence of any problem sufficiently serious to disrupt business operations.

Because much of the cost of work to achieve Y2K compliance was contained in the budget for reconstructing our information systems, we are unable to accurately calculate costs attributable solely to Y2K compliance. We do not anticipate that Y2K-related expenditure will have a significant impact on our business operations or results. We will continue to conduct risk analysis, and to create a crisis management system capable of coping with any contingency.

Aiming at top market share by cementing good relationship with customers

Q: What are your forecasts for business results in the current term?

We expect the government's implementation of tax relief measures for home buyers taking out a mortgage to trigger an upsurge in demand. In fact, thanks to the lowering of Housing Loan Corporation's mortgage rate and the mortgage-linked tax relief, we have seen definite signs of a revival in demand since the start of this business term. We at Daiwa House see this as an ideal chance to expand our share of the market, and we are exhorting all our staff to conduct aggressive marketing. We project this term's net consolidated sales at ¥980,000 million (US\$8,099 million) and net income at ¥36,000 million (US\$298 million).

Q: There seems little cause for hope of a large increase in new housing starts over the medium-to-long term. In these circumstances, how do you intend to go about expanding sales and income?

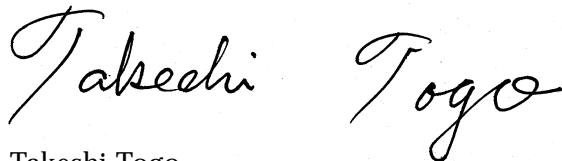
The decline in housing demand is not due solely to economic conditions, but is tied to the fact that the total number of dwellings in Japan already exceeds the number of families.

The only ray of light amid this overall slump in housing demand is the growth in demand for house expansion and renovation. We expect home owners from here on to constantly seek to increase the value of their real estate assets through extension and renovation. Although there will probably be sluggish growth in the number of first-time buyers, the development of the replacement market is likely to become our main business approach in the future.

Q: Could you tell us something about your marketing strategy regarding the replacement market, and your overall business strategy?

During the second half of the term under review, we split up our residential homes operations into three specialized divisions—general housing, subdivision housing, and housing renovation. With the goal of securing the top market share for each of these divisions, we will be strengthening our sales organization. I have ordered the Company's marketing staff to clarify the customer categories to be targeted by each of these new divisions, and to focus their sales efforts on these categories. For this purpose, we must reinforce our relationship with our customers by putting in place a thorough system of regular checks and long-term diagnosis. In my view, it is vitally important to create a lifelong relationship between Daiwa House and its customers in this manner.

Regarding our "Other Operations," too, our basic policy is to concentrate management resources on our areas of particular competence without allowing ourselves to be shackled by traditional values or concepts, and to capture new markets by the development of techniques and services that make Daiwa House stand out from the herd. The Company and its group intend to join forces and boldly confront the challenges posed by the current severe business environment and emerge a victor from the stiff competition.



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