

INTERVIEW WITH THE MANAGEMENT

Daiwa House is active across a wider field of operations than any of its competitors, encompassing housing, general construction, resort operations, and home centers. Making full use of its comprehensive capabilities, the Company boasts a superior competitiveness thanks to its speedy decision making and creativity, leaving other companies far behind.

Boosting Sales and Income through Effective Marketing and an Improved Product Lineup

Q: Daiwa House registered a 6.1% increase in sales to ¥951,073 million (US\$8,972 million) on a consolidated basis in the term ended March 31, 2000, while operating income rose 18.1% to ¥47,497 million (US\$448 million) and net income was up 4.5% at ¥17,450 million (US\$165 million). How do you evaluate these figures?

Thanks to additional tax reductions on housing loans, among other factors, the number of new housing starts in the term increased to 1,220,000 from 1,170,000 in the previous term, but the absolute level remains low. General construction, too, failed to recover, largely because public works investment fell below the previous year's level. In view of these circumstances, we feel that we succeeded in keeping pace with demand and came reasonably close to our targets. The Company's income, however, was affected by the registration of a ¥12.6 billion appraisal loss on real estate. On the other hand, as we repaid all bank loans at the time of the interim accounts settlement, our financial position is extremely good.

Q: Could you describe the principal measures implemented during the term under review and their results?

To cope with the rapidly changing environment and maintain the popularity of our product lineup, Daiwa House reinforced its regionally customized marketing structure. For example, in the Tokyo area, which up to now has been covered by one branch office, we established a second branch and divided up the marketing area between them to implement a differentiated marketing strategy. This proved very successful. We also expanded our product lineup to take advantage of changes in the market brought about by the increasing proportion of aged people in the population and the introduction of the fixed-period real estate leasing contract system. These new products incorporate proposals for new types of living environments, such as bungalows for elderly people, and houses for joint use either by two generations of the same family or by the owner and a tenant. This expansion of our product lineup has been made with the proliferating needs of customers in mind, as well as the unique features of different geographical regions. We are also putting great effort into the design of housing that takes account of the need to reduce the global environmental burden and contribute to the health of residents.

Improving the Synergy among the Company's Divisions

Q: What is your analysis of trends in the housing market? Please also describe your position and strategy in this market.

We do not expect any rapid recovery in the housing market for the time being, but that does not mean we take a pessimistic view of future prospects. Prefabricated housing starts still account for a mere 15~16% of all housing starts in Japan, but taking into account the implementation of the Housing Quality Assurance Act from April 2000, the enforcement by the Housing Loan Corporation of stricter quality conditions for the application of the standard mortgage rate, and the need for housing companies to satisfy a growing range of customer requirements, there is no doubt that the market share of prefabricated housing will expand. This is because the employment of mass-production methods facilitates the supply of high-quality housing to the market. We believe that the ratio of prefabricated housing starts could reach 20~30% of total housing starts within the next 5~10 years.

Within the prefabricated housing industry, Daiwa House Industry's share now stands at approximately 15% in single-family houses and 26% in apartment buildings. We have developed a number of environment-friendly housing products in response to customers' rising environmental awareness — notably the "Kankyo Kobo" single-family house and the "Kankyo Shubo" apartment building. Simultaneously, we are working to raise our corporate brand image by reinforcing our reputation as a reliable company backed up by high-level technology. This includes such means as improving quality levels, implementing thorough after-sales service, and offering long-term guarantees based on the detailed accumulation of data. We are confident that these efforts will enable us to raise our market shares in both single-family houses and apartment buildings to the 20~30% level.

Moreover, the fields of interior renovation, extension and partial rebuilding of existing housing also promise to be profitable markets in the future. Daiwa House has already set up a specialist renovation division capable of catering to all conceivable customer needs. In this way, the Company has considerable potential for further growth even if the scale of the total new housing market remains unchanged.



Nobuo Ishibashi
Senior Adviser



Takeshi Togo
President

Q: How is business progressing in Daiwa House's non-construction divisions, such as Resort Operations?

The key to the success of our Resort Operations is to raise earnings from our nationwide hotel and golf course chains. To this end, we need to carry out aggressive public relations campaigns targeted not only at existing members of our Daiwa Royal Hotels Club and golf clubs, but also at our home owners and corporate customers, particularly for corporate use of our hotel facilities for conventions and welfare purposes.

We are also bolstering the competitiveness of our home centers by specializing in the fields of home renovation and gardening. We intend to establish our corporate image among all our customers by implementing reinforced liaison between all our divisions and carrying out vigorous PR activities to raise our corporate profile as a "comprehensive life-enhancement company."

Proposing Wide Range of New-Type Residences for the 21st Century

Q: The Housing Quality Assurance Act, which aims to protect the health of the public, was decided by the Cabinet in June 1999, and came into force in April 2000. The enforcement of this law entails the introduction of a 10-year housing guarantee system, as well as the mandatory indication of housing quality standards and features such as energy conservation. What effect do you anticipate this will have on your business?

The enforcement of this law is strengthening customers' insistence on long-term guarantees of housing quality, and this element is becoming an important factor in the choice of housing products. Naturally, Daiwa House Industry has already taken steps to ensure that all its products carry a 10-year guarantee, but to further ensure that buyers of our houses enjoy a comfortable home life, from this July we will be introducing a regular maintenance service governed by a

40-year or longer guarantee, called the "21st Century Support System." Daiwa House Industry is a technology-driven company that boasts a 40-year history as a pioneer in the industrialization of housing construction. Thanks to this, our mass-produced housing materials generally have a useful life of 40 years, and this is why we can confidently give a 40-year guarantee on our products.

Regarding the system of indication of housing quality standards and features, the introduction of materials performance standards is essential to the proper working of the Revised Building Standard Law, and will probably exacerbate competition in the field of performance. Regarding thermal insulation performance and energy-conservation performance, which are crucial to housing performance, during the term ended March 2000, we put on sale three new housing products — "Statement With E," "Statement With G," and "Statement With C" — all of which feature standard specifications that conform to the highest-quality "Next-Generation Energy Conservation Standards." Our other products also come with optional energy conservation features, allowing us to respond flexibly to a wide range of customer needs. In addition, to avoid the so-called "sick house syndrome," which arises from the use of volatile organic compounds (VOCs), we have adopted the industry's strictest health-related specifications for all our products. In this way, the Company has set high performance standards for its whole product range, and we are thus well-placed to face the intensified performance-related competition that will result from the introduction of the Housing Performance Indication System.

Apart from the indication categories stipulated under the new system, we are considering the voluntary indication of thermal insulation "Q Value" (thermal loss coefficient), hermetic performance value, and the concentration of formaldehyde in the air. This is all part of our commitment to providing a comprehensive service that can win the full confidence of customers.

We aim not only to improve the quality of our housing, but to communicate the significance of these improvements clearly to our customers, and thereby boost sales.

Q: In what ways are you tackling the need to provide new types of housing to meet the needs of the new century, particularly in the areas of the graying of society and environmental problems?

In response to the graying of society, we are developing new housing products that incorporate the findings of our special research center on housing for the elderly, as well as our general know-how in the field of housing. Specifically, we recommend two-generation family houses for elderly people who are generally well enough to look after themselves, while for elderly people suffering from diminished awareness and in need of care, we offer “group homes.” These group homes are said to be effective in retarding the progress of diminished awareness, and in recognition of this, the Ministry of Health and Welfare widened its subsidy framework with the aim of increasing the number of such facilities from approximately 100 at the end of 1998 to 3,200 by the end of 2004. In addition, the Company, together with two of our group companies — Royal Home Center and Daiwa Kosho Lease Co., Ltd. — has formed a business tie-up with Nippon Care Supply Co., Ltd., Japan’s largest welfare equipment wholesaler and leasing company. From now on, we aim to engage in home renovation for senior citizens through the marketing assistance of Nippon Care Supply’s 1,200 authorized dealers and subcontractors.

As far as environmental issues are concerned, we already have many achievements to our credit. As a comprehensive environmentally friendly product, in April this year we launched the “Kankyo Kobo” model, which features a solar-powered photovoltaic electricity generation system, a special toilet system that uses processed and recycled flushing water or rainwater, and an organic garbage processor. On top of the environmental contribution of our individual products, we also take a variety of measures to reduce environmental harm, including the recycling of waste materials generated during the construction process. For further details, please see the section “Environmental Measures” on page 5~7.

Strengthening Group Power and Improving Earnings Potential by Establishing a New Management Structure

Q: What is your forecast for the business performance of Daiwa House for fiscal 2000?

As we said before, there is little likelihood of a rapid recovery in the housing market, and severe competition for market share is expected to continue. In these circumstances, the Company will focus its efforts on the marketing of products that are strongly distinguished from those of our rivals, notably the environmentally friendly “Kankyo Kobo” house model. At the same time, we will press ahead with the development of systems allowing us to produce a wide range of models in small lots so as to be able to meet the wide variety of customer preferences. We have divided Japan into 8 marketing areas, and will work as one to expand our share through even more vigorous marketing activities closely tailored to the needs of each area. We are currently applying ourselves to the creation

of a supply chain management system that allows us to swiftly and efficiently supply just the right product to each customer while also reducing construction time and cutting costs.

Q: Could you tell us something about your plans for management reorganization and the strengthening of group management?

To achieve a more effective management system, we introduced an executive officer system in June 1999, and in April of this year we instituted a major reform of the Company’s executive structure, including an increase in the number of directors. The purpose of these changes is to strengthen management from a group perspective, leading to higher productivity and lower costs at each group company. At the same time, we aim to utilize the synergistic effect of group operations to reinforce our evolution into a comprehensive life enhancement company with the goal of regaining the ¥1 trillion level in annual sales as soon as possible.

Q: In conclusion, please outline your long-term vision and your plans to enhance relations with your shareholders and investors.

As the Japanese housing market is rapidly maturing, it is essential for us to be constantly aware of customer needs and to speedily produce new ideas and specific products to meet those needs. With this concept in mind, we commenced a new medium-to-long-term management plan from this term focused on strengthening our sales force, improving product appeal, and invigorating our technological development so as to enhance our lineup of high value-added, cost-competitive products. Daiwa House is committed to living up to the expectations of its shareholders and all investors by becoming the top company in the housing industry in terms of management strength and earnings. At the same time, we are determined to maintain a high level of management transparency through the full disclosure of corporate data.



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