

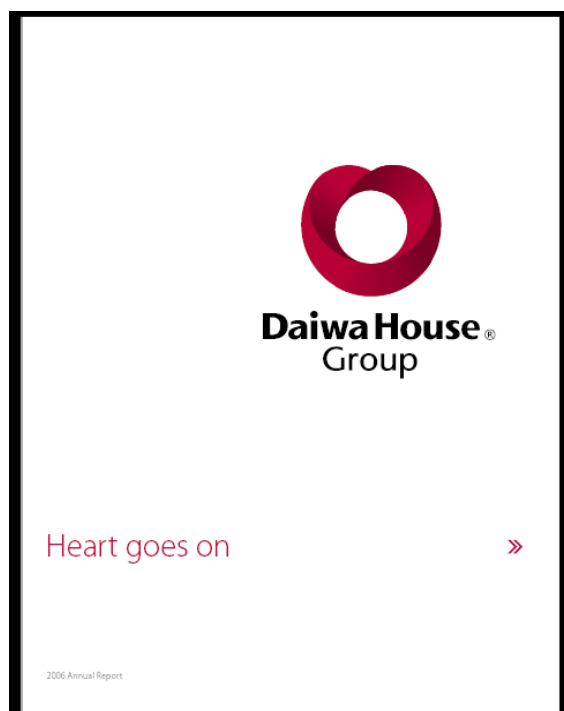
Report of the Month

ReportWatch e.com

April 2007

Daiwa House

Osaka, Japan



Report Facts

Company name: Daiwa House Industry Co., Ltd.

Fiscal year end: March 31, 2006

Report title: *Heart goes on*

Chairman and CEO: Takeo Higuchi

Number of reports (Received): 1

Volume: 150

Auditors: Deloitte Touche Tohmatsu

Designers: Corporate Branding Office, Daiwa House; Nippon Arts; and D & Join

E-mail: zaimu@daiwahouse.jp

Report Rating: ★★★(★)

(Rating scale overleaf)

Profile (Excerpts, as defined in the annual report)

For the past fifty years the Daiwa House has worked closely together with its customers and society as a whole to create more enjoyable, more fulfilling living environments... Co-creating value for individuals, communities and people's lifestyles, the Daiwa House has three main business domains: Housing, Business and Life. The Endless Heart symbol is shared by our five main... businesses: Housing, Commercial Construction, Resort Hotel and Sports Life, Home Centers, and Other Businesses.

Revenues: Yen 1,528,983 million

Net income: Yen 45,184 million

Earnings per share: Yen 81.88

Return on equity: 8.21%

Return on assets: 3.19%

(Source: annual report 2006 only –figures not found through a report scan are considered NA. All figures for fiscal year 2006)

Report Rating: ★★★(★)

Strongest

- > Four messages from the top: one statement from the Chairman to all “*Stakeholders*”, one from the CEO, one from the COO, and one from the CFO.
- > A number of annuals feature a CFO statement or an endorsement that goes further than post-enronish Sox lip service. This one goes beyond: a standing CFO explains the links between the statements and the rationale behind year-on-year changes on numerous statements’ items. The same CFO concludes in his shirtsleeves (see **Selected Page** below) that *he “will be completely committed to cash flow management and will aim to reach a 9% ROE.”* Daring, not only by Japanese standards, but also compared with the fearful behavior now prevailing across the boards.
- > Cleverly put: the *Business Portfolio* comparing sales and market growth rates; and the relations between statements.

Good too

- > A real thread in a document designed with style and laid out with a concern for readability. Strikes a good balance between visuals, texts, numbers, charts, tables, pictures.
- > Charts and graphs put many figures in perspective, also for macroeconomic indicators.
- > *Future through Personal Pledges* made as a portrayed message board.

Buts

- > Although investor and shareholder information is not bad (see e.g. changes in foreign shareholdings over time, compared with other Japanese listed companies), it still lacks a number of indicators and comments.
- > The MD&A doesn’t go deeply enough.
- > Corporate governance spreads over less than two pages.
- > Etc.

To qualify for the Report of the Month, a report must deliver ★★★(★) minimum. The rating scale is:

★★★★: World-class - ★★★(★): First-rate - ★★★★★: Excellent - ★★★(★): Fine - ★★*: Average

★★(★): Uneven - ★*: Ordinary - ★(★): Deficient - *: Unsatisfactory - (★): Uncompetitive

The rating is based on ReportWatch internal desk research and does not take into account the independent Rating Panel’s judgment.

*How does the company report in key areas? What are the main report pluses and minuses?
The **Report Scan** gives an overview of strengths and weaknesses, and scores each item.*

Contact e.com@reportwatch.net

Aiming to Further Enhance the Group's Value through Cash Flow Management

We can take the risks required for growth only when we have a sound financial foundation.

In fiscal 2005, under the Medium-Term Management Plan "Challenge 2005," the Daiwa House Group invested a total of around ¥100 billion in commercial facilities and other real-estate development business, to generate future cash flows, and in M&A and alliances, which will bring synergy to the existing operations.

Despite negative free cash flow for fiscal 2005 of ¥17.3 billion, our balance sheet shows that we are maintaining a sound financial position. The equity ratio was 39.1%. This was far above the average of the construction industry (25.8%) and that of the real-estate industry (28.1%), which are heavily dependent on loans.

The Bank of Japan lifted the zero-interest-rate policy after an interval of five years, and the Japanese economy is returning to normal. This is very good news for us. Now our real managerial capabilities are being called into question.

To improve cash flows provided by operating activities, it is important to develop competitive segments through comprehensive portfolio-based management and concerted efforts to promote a strategy to improve efficiency as a Group. The share exchange arrangements in August 2006 between Daiwa House Industry and three Group companies, Daiwa Koshu Lease, Daiwa Rakuda Industry, and Daiwa Logistics, turning them into wholly-owned subsidiaries of Daiwa House Industry, will ensure the effectiveness of an efficiency strategy for procurement, production, and distribution. I believe the merger will help improve cash flows provided by operating activities.

We are aggressively investing not only in tangible assets but also in intangible assets such as brands, technologies and design capabilities, which will help create corporate characters and become a source of value creation. We thus continue to build strength for the future.

Under the new "Endless Heart" brand, I will improve the Group's management structure and maintain sound financial conditions. At the same time, I will try to further improve our corporate value through comprehensive cash flow management, taking the effect of financial leverage into consideration.

Tetsuji Ogawa
Executive Vice President and CFO



I will be completely committed to cash flow management and will aim to reach a 10% ROE.
