

The Sekisui House Group Medium-term Management Vision

October 6, 2004, Sekisui House announced the Sekisui House Group Medium-term Management vision.

Since the establishment of Sekisui House Group we have aimed to create homes and environments with individuality and warmth, as a leading producer of housing in Japan. Providing first class product quality and technical skills is essential, and we aim every day to reflect our philosophy of 'love of humanity' by creating houses that bring satisfaction to our customers.

Our latest medium term business plan, called *S-Project*, has been produced to guide our development into a strong corporate group that is capable of responding to the sharp changes in the economic and business environment.

S-Project

CS: Customer Satisfaction

SS: Shareholder Satisfaction

ES: Employee Satisfaction

Through *S-Project* the Sekisui House Group aims to create a new stage of growth, while increasing customer satisfaction and improving the value of our customers' housing assets.

1. Aims and Objectives

Sekisui House Group has, since the collapse of Japan's "bubble economy" of the '80s, worked constantly to improve management structure, increase profit ratios and strengthen the financial position of the Group. We have achieved our immediate aims with the recent announcement of the early application of accounting for impairment of fixed assets, and are now moving towards a style of management with a renewed emphasis on growth.

The *S-Project* is not merely a vision of sales and profit growth. It is a basic element of CSR-driven management through which we aim to fulfill our corporate responsibilities to all stakeholders, in combination with our dedication to improving the three inter-related aspects of CS, SS and ES in a manner that reflects our leading position in the housing industry.

Our management objective is to boost group sales to ¥2 trillion by the end of January 2009, with operating income and recurring income of ¥200 billion. We aim to achieve this target by expanding our core businesses, via forward-looking operating investment such as intensive allocation of personnel, and raising the competitiveness of our products. We also intend to reorganize and augment our group structure, with measures that include the decision to make the six Sekiwa Real Estate companies wholly owned subsidiaries and the corporate separation of our remodeling business, as announced today. In addition to this we are entering what for us is a new business area with our *MAST* brand of built-for-sale houses with completely new specifications.



2. Initiatives

<Group Reorganization>

Making wholly owned subsidiaries of six Sekiwa Real Estate companies

The six Sekiwa Real Estate companies have developed as strong businesses and made steady improvements in profitability through positive and forward-looking management of their respective operations in Japan and have been publicly listed with the exception of one company. Block lease guarantees for leasehold property and leased property operation systems conducted by Sekiwa Real Estate companies will be essential components in expanding the core rental housing business of Sekisui House, and a strong basis for the future growth of the Sekisui House Group.

We have decided to make the six Sekiwa Real Estate companies wholly owned Group subsidiaries and intend to maintain the regional characteristics and independence of each company while at the same time maximizing synergies available under a group structure and growing overall corporate value.

The revised structure is part of a comprehensive, growth-oriented management strategy that will amongst other things facilitate the appropriate allocation throughout the Group of time, personnel and other management resources.

The Sekiwa Real Estate companies have developed close regional ties through their respective operations, and the new structure will allow the companies to be managed from a longer-term perspective in terms of investment and the overall development of the Group without being subject to undue short-term performance pressure. As such the companies will assume greater importance within the Group. The new organization should help establish a more powerful framework for the growth of the Group, in addition to offering cost savings such as those resulting from delisting.

Furthermore, Sekisui House intends to make effective use of the information networks of each Sekiwa Real Estate company as assets for the entire Group. In particular, it will become easier to coordinate activities of Sekiwa Real Estate companies with rental-housing operations of Sekisui House (one of core business *Sha-Maison*), and the resulting synergies are expected to contribute significantly to the growth of these businesses.

Separating and strengthening remodeling operations

The remodeling industry in Japan is expected to grow as Japanese society moves toward the longer-term use of real estate assets, and in reflection of this the remodeling operations of Sekisui House will be separated out into a wholly owned subsidiary.

Through providing comprehensive support to the approximately 700,000 households we have built homes for, we aim for the further improvement customer satisfaction in closely customer support service.

The remodeling business differs from other core businesses of Sekisui House in terms of sales



systems, work processes and profit structure, and this requires a different management structure. We have decided that transferring these operations into a subsidiary is the best way to facilitate this process, and under the new company will be working to expand operations.

The new company will hire contract employees, and will seek to improve operational efficiency while pursuing a more comprehensive sales approach. The initial target is to double the current annual sales of ¥50 billion.

New Projects

Under *S-Project* we plan to enter new business areas.

In line with our group reorganization, we are launching a new built-for-sale housing business under the brand name *MAST*, and positioning this as a new added core business of the Sekiwa Real Estate Group.

On a volume basis it is clear that the supply of relatively small, affordable housing to first-time urban buyers in the younger generation has been the mainstay of the market for owner-occupied homes in Japan, and forms an extremely large market. As the market leader we aim to make a social contribution at all levels of Japanese housing, so in order to penetrate this substantial market we have launched the new brand *MAST*, through which we aim to respond to a broader range of customer needs.

We aim to secure profits and improve competitiveness to efficiently purchase superior sites, and increasing the turnover of assets for sale. The main measures are making use of regional information gained through Sekiwa Real Estate companies' *Sha-Maison* operations in block lease guarantees for leasehold property and leased property management systems and working with cooperating companies.

<Core Business Expansion>

Our three core businesses are steel-framed housing, *Sha-Wood* (wood framed housing), and *Sha-Maison* rental housing, and expanding these operations is a fundamental part of achieving our medium term-management vision. Under *S-Project* we aim to expand these core businesses by 30%.

Comprehensive product policy

Our industry-leading performance standards in areas such as earthquake resistance and heat insulation are already standard specifications on our entire range of housing products. Based on our high-quality consulting sales model we are further strengthened our services to the mid- and high-level market, and contributing to the creation of a high-quality housing environment in Japan. Building on this, we are making advances with the total customization of our steel framed housing products, centered on "*Be free*" and "*Be Dyne's*". Through this process we are working to change the perception among some consumers that "prefabricated housing = standardized housing", at the same time as introducing concept products that will appeal to a new market.

We aim to update and improve the traditional Japanese construction methods used in our



Sha-Wood housing, and while combining high technical performance with the warmth and ambiance of wood, also plan to respond to changes in lifestyles. Regarding *Sha-Maison* lines, the price range will be widened with the introduction of new products to flexibly to regional differences in rents.

Expanding the sales force and increasing the proportion of females engaged in marketing

In order to expand sales of residential homes we believe that as well taking steps to improve sales efficiency it is necessary to introduce more sales people. Under *S-Project* we plan to add approximately 2,000 sales representatives to our organization. Male employees have until recently been the conventional focus of new graduate recruitment. Under our revised policy we are aiming to increase the proportion of female employees in our sales force to approximately 10 percent over the next four years.

Women have long played a key role in home purchasing decisions, but in the Japanese housing industry itself a number of factors—including outmoded working environments and particular sales practices—have largely prevented women from participating at the front line in the marketing of houses. In recent years working environments and attitudes have changed, and we expect women to contribute significantly to our performance going forward. In support of this we are changing our workplaces to encourage and facilitate more participation by female employees in the marketing of our housing products, and taking steps such as adapting our internal training systems and changing our reemployment policy.

Developments in each business area

Detached Houses Business – Steel framed

We have been integrating certain display home sites and withdrawing from others. In the future we plan to open new display sites as we expand our sales forces, carefully matching our overall marketing approach to the characteristics of each region. We will pursue our regional product strategy, which has been facilitated by the introduction of *Be Free* and *Be Dyne's*.

Detached Houses Business – Wood framed (Sha-Wood)

We expect to achieve our goal of annual sales of ¥100 billion during the current year, and to achieve further growth we will increase sales staff and expand the number of sales locations. Through strengthening our sales and marketing capability we are pursuing new annual sales target of ¥200 billion.

Rental Housing business –Sha-Maison

The block building lease guarantee and leased building administration systems of the Sekiwa Real Estate Group are an essential part of Sekisui House's *Sha-Maison* business, and our tie-up with the Sekiwa Real Estate Group is critical to the ongoing success of this business. Through making the Sekiwa Real Estate companies wholly owned subsidiaries we will not only achieve a more efficient utilization of land for our customers through forging much closer links with the companies but also expand sales of top quality investment properties, a market that is expected to show strong growth.



<Real Estate for Sale business>

As a result of our efforts since previous year to strengthen our real estate business through the purchase of prime residential housing land, we are forecasting a 25% year-on-year increase in sales for this business in this fiscal year.

We will continue strengthening our information network throughout the regions, seeking to raise the turnover of our Real Estate for Sale business, improve asset efficiency and so grow profits. Our target is to increase sales to ¥350 billion, 35% above our forecast for the current fiscal year.

<Real Estate Investment business>

Although major urban development projects have been stagnant since the bursting of the bubble in Japan's asset markets, investment for real estate and such funds markets are changing and recovering. We aim to respond to this by selecting and participating in quality projects.

While strengthening our sales capability and using new methods such as securitization we aim to increase returns by efficiently taking on appropriate levels of risk. For the time being our aim is to invest from ¥50 billion to ¥100 billion in this business.

3. Measures for Shareholders

Through implementing the above measures we aim to maximize our corporate value through the stable, efficient and able management of the business, while at the appropriate time taking further steps to return profit to shareholders through increased dividends and share buybacks.

In addition, for the year ending January 2006—which effectively will be the first year of our medium-term management vision—we plan an increase in the annual dividend of ¥2 yen per share to ¥20 per share.

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For further information, please contact:

Mr. Hidehiro Yamaguchi
Head of Public Relations Department
Sekisui House, Ltd.
Tel: 06-6440-3021 Fax: 06-6440-3331
Email: info-ir@qz.sekisuihouse.co.jp